ASX/Media Release

10 February 2016

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STOCKLAND DELIVERS STRONG 1H16 RESULTS

Key points

- Statutory Profit of $696 million, up 50.6% on 1H15
- Funds from Operations (FFO)[1] of $342 million, up 11.3%
- FFO per security of 14.5 cents, up 9.9%
- Underlying Profit of $313 million, up 8.1%
- Underlying earnings per security (EPS) of 13.2 cents, up 6.7%
- Successful implementation of strategy: growing asset returns and customer base, delivering operational excellence and capital strength
- Tightened FY16 guidance for EPS growth to 6.5 - 7.5% above FY15 and FFO per security growth to 9 - 10%, assuming no material decline in market conditions

Stockland has achieved strong growth for the half year to 31 December 2015, with underlying profit up 8.1% on the previous corresponding period to $313 million. The result was underpinned by continued growth in all businesses, including a solid contribution from Residential, which delivered operating profit growth of 45.5% on 1H15. Commercial Property operating profit was up 3.8% and Retirement Living achieved operating profit growth of 9.2% on 1H15.

Statutory profit for the half was $696 million and statutory EPS was 29.4 cents. Return on equity increased 70 basis points to 10.3%, excluding workout assets.

FFO per security was 14.5 cents with growth at 9.9%. Underlying EPS was 13.2 cents, which is a 6.7% increase on 1H15. Distribution for the half year will be 12.2 cents per security, supporting our target full year distribution of 24.5 cents per security.

Stockland Managing Director and CEO, Mark Steinert, said: “This strong result demonstrates that our focus on the disciplined implementation of our strategy is working. We have maintained our balance sheet strength and continued to improve our operational effectiveness. We continue to grow asset returns through active asset management and project commencements and we’re growing our customer base with more diverse products across all asset classes.

[1] FFO has been determined with reference to the Property Council of Australia’s voluntary disclosure guidelines to help investors and analysts compare Australian real estate organisations. FFO is calculated by adding back tenant incentive amortisation and non-cash tax benefit/expense to underlying profit and deducting straight line rent from underlying profit.

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“In our Residential business we capitalised on favourable market conditions in Sydney and Melbourne, ending the half with a record number of contracts on hand. We’ve activated a high proportion of our residential land bank and we have sufficient depth to our projects in high demand corridors to underpin future organic growth.

“Our Commercial Property business delivered solid growth in recurring income. We achieved comparable FFO growth of 4.5% and comparable underlying profit growth of 3.3% across the portfolio. Total retail sales exceeded $6.6 billion in 2015.

“In Retirement Living, we continue to make good progress growing return on assets and we are on track at the half way mark of our five year plan. Operating profit was up 9.2% on the prior corresponding period and we ended the half with record reservations on hand. Development continues to underpin our growth with 470 homes now under construction or ready for sale.

“Stockland continues to demonstrate leadership in sustainability, diversity and employee engagement, providing long term benefits to our customers, the communities in which we operate and our shareholders,” Mr Steinert said.

Stockland has been recognised by the S&P Dow Jones Sustainability Index (DJSI) as the global real estate sector leader for 2015-16, and the Regional Sector Leader for Listed, Australian, Diversified Property Companies in the 2015 GRESB Report.

FINANCIAL MANAGEMENT

Gearing: 23.1%
Weighted average debt maturity: 5.7 years

Chief Financial Officer, Tiernan O’Rourke, said the Group had maintained its strong balance sheet and A-/Stable credit rating with gearing at 23.1%, well within its target range of 20 - 30%. During the first half, Stockland continued to lower its weighted average cost of debt.

“During the half we terminated high cost interest rate swaps at a cost of $119 million, funded from gains on asset sales, which will result in a lower weighted average cost of debt in future years,” Mr O’Rourke said.

Stockland’s Dividend Reinvestment Plan remained active for 1H16, achieving a take-up rate of 20%.

“We have made significant progress on improving the Group’s systems capabilities, including the commitment to implement SAP as our core enterprise resource planning system, with deployment to take place during the next two years. The deployment is subject to the completion of an appropriate implementation plan.”

COMMERCIAL PROPERTY

Retail Funds from Operations (FFO)[1]: \$197 million
Retail Net Operating Income* (NOI)[2]*: \$183 million

In Retail, comparable FFO was up 3.3% and comparable underlying NOI increased by 3.5% on 1H15. This result was supported by high stable retail occupancy levels of 99.5% and blended average rental growth on lease renewals and new leases of 2.6% in the stable portfolio. Within the portfolio, 94% of specialty shop leases have fixed 4-5% annual rent increases. The sustainability of Stockland's stable rental growth is underpinned by below average specialty occupancy costs of 14.6% and specialty sales of \$9,042 per square metre, exceeding Urbis averages.

Commercial Property CEO, John Schroder, said: "We continued to achieve stronger sales growth across our portfolio. Comparable speciality shop MAT grew by 4.1%, with the strongest specialty categories being: communication and technology up 20.9%; retail services up 6.6%; homewares up 5.2% and fast casual dining and food catering up 4.7% on an MAT basis."

"We also saw a resurgence in department stores and discount department stores with sales growing 1.9% for the half and the pace picking up with 2.1% growth in the December quarter. Apparel sales MAT per square metre also improved, growing 5% during the year, a direct reflection of remixing to more productive fashion retailers."

In the retail projects pipeline, the second stage of the \$228 million redevelopment and expansion of Stockland Wetherill Park in western Sydney officially opened on 10 December, three months ahead of schedule. The centre recorded more than 721,000 unique customer visits in December alone, representing a 42 per cent increase on the corresponding trading period of the previous year. The entire redevelopment will be completed by June 2016 and returns are expected to be above our hurdle rates.

"In the first half, we completed three major retail redevelopments on or ahead of schedule and feasibility at Baldivis in WA; Glasshouse in the Sydney CBD, now occupied by H&M and Zara Home; and Point Cook in Melbourne," said Mr Schroder.

"Our next major project is now underway with the \$372 million redevelopment and expansion of Stockland Green Hills in the Lower Hunter Valley, due for completion in 2018. Stockland Green Hills is the best performing centre of its size in Australia for specialty MAT per square metre[3]. We will create a leading lifestyle and leisure precinct, and have already executed agreements for lease with David Jones, Target, JB Hi-Fi Home and Dan Murphy's.

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[2] Net Operating Income is post-IFRS
[3] Shopping Centre News 2015 little Guns Survey: Stockland Green Hills recorded specialty MAT per square metre of \$14,275

"Across our retail projects we're targeting incremental IRRs of 11-14% and stabilised yields of 7-8%."

Logistics and Business Parks FFO: $66 million, NOI: $60 million

Logistics and Business Parks achieved comparable FFO growth of 3.8% relative to 1H15. Comparable underlying NOI grew by 0.3% in 1H16, with the relatively low figure due to non-cash IFRS adjustments from prior leasing activity.

Stockland continues to grow the portfolio through acquisition and development with its ownership interests now valued at more than $1.8 billion. Average rental growth of 2.2% was achieved on total lease deals in the half, with occupancy at 94.6% and a portfolio WALE of 4.5 years.

Mr Schroder said: "We made good progress on our development pipeline during the first half, with the commencement of works at Ingleburn in Sydney and Oakleigh in Melbourne. We've also continued to achieve positive leasing results, with 233,000 square metres of leases executed or underway."

Office FFO: $36 million, NOI: $29 million

Office comparable FFO was up 11.1% and comparable underlying NOI was up 8.6% on 1H15. The strong result reflects improved occupancy at 95.4%, following good leasing momentum in the Sydney market where the majority of Stockland's office assets are now held.

RESIDENTIAL

Operating Profit: $98 million

Residential operating profit increased by 45.5% on 1H15, as a result of Stockland's growth strategy and supportive conditions in key markets. Core ROA was 18% for 1H16.

Volumes and operating profit margin were both stronger in the half, with 2,771 lots settled, marginally higher than 1H15. Contracts on hand at the start of January 2016 totalled 4,109, an increase of 377 over January 2015. Stockland's Residential business is tracking marginally above the top end of its target through the cycle settlements range of 5,000 - 6,000 lots, allowing for some production constraints on recently commenced projects.

Residential CEO, Andrew Whitson, said: "Our significant increase in operating profit margin to 14.9%, reflected a number of factors including selling a higher proportion of superlots, selling more higher margin lots and achieving stronger than expected price growth in Sydney and Melbourne projects.

"We are well positioned for the second half with the market expected to remain solid in Sydney, Melbourne and south east Queensland, more than offsetting the continued weakening in Perth.

“During the first half we made significant progress reshaping our landbank, with more than 80% of our Residential capital employed in projects either actively selling or under development. This includes two of our largest ever projects: Aura on the Sunshine Coast and Cloverton in Melbourne.

“We will also launch four additional projects in 2H16 at Schofields and Macarthur Gardens in Sydney and Newport and Pallara in Brisbane, which will continue to reshape our portfolio and drive further ROA improvements. We’ve made good progress on our strategy to broaden our customer reach with seven medium density developments now underway across four states.

“We are also progressing well with our apartments strategy with an initial focus on opportunities at existing assets in our portfolio. We are documenting DAs for new apartment projects at Merrylands Court in Sydney and Toowong in Brisbane and have an interest in two other projects in Brisbane, which are under construction and largely derisked.”

RETIREMENT LIVING

Operating Profit: $18 million

The Retirement Living business performed well in the first half with operating profit up 9.2% on 1H15. It remains on track to deliver return on asset targets, driven by improved volumes in our established portfolio, developments and ongoing improvements in efficiency. The business had a record number of reservations on hand at the end of the December half.

Retirement Living CEO, Stephen Bull, said: “Retirement Living operating profit will be strongly skewed to the second half, due to the timing of development completions and the normal seasonality of sales in this asset class. The June half will see the first settlements from Willowdale and The Residences, Cardinal Freeman, in Sydney’s inner west.

“We’re focused on organic growth and currently have development projects underway at ten villages across five states. By appropriately scaling and resourcing our in-house development capabilities, we will continue to effectively manage peaks in production, enhancing the quality of our villages and maintaining our speed to market on all opportunities.

“We continue to explore opportunities to reshape the portfolio via selective asset sales, potential capital partnerships and site acquisitions and we will remain very disciplined in our approach.

“Our strategy to increasingly offer a continuum of care, enabling more residents to age in place has been well received and we now have five sites within our portfolio that are either under contract or agreed for sale to Opal Aged Care.”

OUTLOOK

Mr Steinert said: “While there is clearly some uncertainty about the economic outlook, conditions should remain generally supportive with sustained low interest rates and modest economic growth.

“We are well placed to continue growing returns from our core asset base, further supported by a very active development pipeline across key asset classes.

“We are on track to achieve our guidance range, and have tightened this to 6.5 – 7.5% EPS growth in FY16, with FFO growth at 9 - 10%, and we are targeting a full year distribution of 24.5 cents per security, assuming no material decline in market conditions.”

Stockland’s 1H16 results presentation will be webcast via www.stockland.com.au on Wednesday 10 February 2015 at 11.30am (AEDST).

KEY METRICS

	1H16	**1H15**	**Change**
Statutory Profit	$696m	$462m	50.6%▲
Statutory Earnings per security	29.4 cents	19.8 cents	48.9%▲
Funds from Operations (FFO)[2]	$342m	$307m	11.3%▲
FFO per Security	14.5 cents	13.1 cents	9.9%▲
Underlying Profit[1]	$313m	$290m	8.1%▲
Underlying Earnings per security	13.2 cents	12.4 cents	6.7%▲
Distribution per security	12.2 cents	12.0 cents	1.6%▲
Net Tangible Assets per security	$3.87	$3.60	7.5%▲
Gearing (D/TTA)	23.1%	22.1%	
Return on Equity[3]	10.3%	9.6%	

1. Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors and Management, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined. Refer to Annual Financial Report for the complete definition
2. FFO has been determined with reference to the Property Council of Australia’s voluntary disclosure guidelines to help investors and analysts compare Australian real estate organisations. FFO is calculated by adding back tenant incentive amortisation and non-cash tax benefit/expense to underlying profit and deducting straight line rent from underlying profit.
3. Return on Equity accumulates individual business Return on Assets and incorporates the cash interest paid and average drawn debt for the 12 month period. Excludes workout and other.