

Appendix 4D

For the half year ended 31 December 2018
(previous corresponding period being the half year ended 31 December 2017)

Results for announcement to the market

STAPLING ARRANGEMENT

Stockland was established for the purpose of facilitating a joint quotation of Stockland Corporation Limited (ABN 43 000 181 733) and its controlled entities, and Stockland Trust (ARSN 092 897 348) and its controlled entities on the Australian Stock Exchange. Stockland Trust Management Limited (ABN 86 001 900 741) is the Responsible Entity of Stockland Trust.

The Interim Financial Report has been prepared based upon a business combination of the parent entity, Stockland Corporation Limited and its controlled entities, and Stockland Trust and its controlled entities, in accordance with AASB 3 *Business Combinations*.

Half year ended 31 December 2018		\$M
Revenue from ordinary activities	Down 15.7% to	1,127
Net profit after tax attributable to securityholders	Down 56.2% to	300
Funds from operations attributable to securityholders	Down 6.7% to	407

Dividends and distributions

Half year ended 31 December 2018	Amount per security	Franked amount per security	Record date	Payment date
Interim dividend/distribution	13.5 ¢	– ¢	31 December 2018	28 February 2019

On 23 August 2018 we announced the termination of the Dividend/distribution Reinvestment Plan.

Other information

	31 December 2018	31 December 2017
Net tangible assets per security	\$4.19	\$4.18

This report is based on the Stockland Interim Financial Report 2019 which has been reviewed by PwC.

The remainder of information requiring disclosure to comply with listing rule 4.3A is contained in the Stockland Interim Financial Report 2019 that follows.



Creating Sustainable Communities

INTERIM FINANCIAL REPORT
31 December 2018



Stockland

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KEEPING IT SIMPLE...

The aim of the text in 'Keeping it simple' boxes is to explain more complex sections in plain English.

Notes to the financial statements provide information required by law, accounting standards or ASX Listing Rules to explain a particular feature of the financial statements. The notes to the financial statements will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

GLOSSARY

A glossary containing acronyms and defined terms is included at the back of this Report.

Letter from our Chairman and Managing Director and CEO



TOM POCKETT
CHAIRMAN



MARK STEINERT
MANAGING DIRECTOR AND CEO

Dear Securityholders,

We are pleased to report Stockland's results for the half year ended 31 December 2018, which were generally in line with our expectations, with lower first half profit primarily due to a second half residential profit skew in FY19 versus an atypical first half skew in FY18, and the impact of retail remixing. Weak housing markets and ongoing headwinds in the retail sector will likely see our full year results at the lower end of our guidance range for Funds from Operations (FFO) per security growth of 5-7 per cent.

The team have taken a highly proactive approach to these challenges, and focused on positioning our business to mitigate downside risk. We remain intensely focused on executing our strategy to create sustainable communities, own and manage leading retail town centres and grow our workplace and logistics asset base, and we have accelerated the rate at which our key strategic priorities are being executed.

For the half year, we generated FFO of \$407 million, a decrease of \$29 million compared to 1H18.

Our statutory profit was \$300 million for the first half, 56.2 per cent lower than 1H18, reflecting losses on financial instruments, reduced Commercial Property valuation increases relative to 1H18, Retirement Living fair value changes and a tax expense (1H18 included a tax benefit).

Commercial Property valuation results were mixed, with a \$200 million uplift in our Workplace and Logistics business and a \$173 million decline in retail town centre valuations.

The retail town centre valuation declines reflect lower forecast rental growth, placemaking and upgrading capital expenditure, rent reductions associated with remixing and capitalisation rate increases reflecting transactional evidence from the broader market.

As previously announced, the distribution for the half is 13.5 cents per security, reflecting 3.8 per cent growth on 1H18. Our estimated full year distribution is 27.6 cents per security, up 4 per cent on FY18, assuming no material deterioration in the current market conditions.

STRATEGY UPDATE

During the half, we renewed our leadership team and undertook a detailed review of our assets, refining our strategy to position our business for sustainable growth. This new team has accelerated the execution of our strategy and increased the scope of capital release from commercial property asset sales, as we drive further improvement in the quality of our portfolio and improve income resilience.

We have achieved \$113 million of retail town centre divestments (Stockland Bathurst and Stockland South Caloundra), and are on track to achieve our target of \$400 million of divestments in the next 18 months. Beyond this, we will look at further non-core retail divestments up to \$600 million in a disciplined way to progress our targeted re-weighting to Workplace and Logistics.

We are actively pursuing capital partnerships across all sectors represented in our business to expand our access to capital. We have executed \$115 million of our \$350 million buy-back of Stockland securities in the first half, which has delivered accretion of 0.1 cents to EPS, a prudent use of capital at this point in the cycle which will help support the resilience of securityholder returns in the future.

COMMERCIAL PROPERTY

The Commercial Property business has delivered stable results with comparable FFO growth up 1.7 per cent for the first half, with continued challenges in the retail sector, offset by the strength of the workplace and logistics markets.

Under Louise Mason's leadership, we have implemented a number of changes to re-shape our Commercial Property portfolio to improve overall quality. This includes taking a firm view on our core and non-core assets incorporating recent trading patterns, trade area fundamentals, forecast tenant demand and a further assessment of capital expenditure requirements. Core assets reflect leading town centres with strong and growing trade areas with limited competition, and where we have the opportunity to enhance the asset to generate sustainable income growth over time.

We have also reviewed our development pipeline, which shows an increased investment in development projects in our Workplace and Logistics pipeline at or above our hurdle rates, while the retail town centre pipeline has been reduced by around 50 per cent as our development focus shifts to smaller, curated retail town centre enhancements.

While retail comparable FFO of -1.1 per cent was down on the last half due to remixing-related rent adjustments and higher outgoings, we maintained high occupancy across our retail town centres and a 4.8 per cent increase in comparable specialty sales per square metre to \$9,295. Foot traffic was also up 4 per cent over the past 12 months.

Our portfolio is focused on providing convenient, everyday shopping for the surrounding communities, with non-discretionary spend making up around 70 per cent of total sales, providing some protection from the challenging retail environment and the growth in online retail. The strategy of remixing and increasing our focus on services, lifestyle, health, dining and entertainment is helping to drive foot traffic into our retail town centres. We have delivered comparable specialty sales per square metre growth of 5.7 per cent in our café/restaurants and 3.0 per cent in food catering for the year, reflecting the success of our remixing approach.

Our Workplace and Logistics portfolio continues to perform very well. We have a strong and experienced team in place who have a clear plan to grow the business in the future, leveraging opportunities within our extensive land bank and capitalising on other opportunities where we see value.

High occupancy, strong leasing activity and solid rental growth combined to deliver comparable FFO growth of 4.5 per cent in Logistics for the half with positive leasing results. The value of our Logistics portfolio has grown to around \$2.5 billion, up \$0.3 billion from 30 June 2018, including two new logistics developments at Ingleburn in Sydney and Willawong in Brisbane. We are focused on continuing to grow this using our \$740 million development pipeline on land we already control, primarily in the strong Sydney and Melbourne markets.

Before the end of the first half, we announced that we will develop the first stage of the new Melbourne Business Park in Melbourne's western suburbs, the fastest growing logistics precinct in the State, with Mount Atkinson Holdings. This land is adjacent to our Mount Atkinson residential community, in close proximity to road and rail infrastructure, and part of a growing precinct which is projected to provide 18,000 future jobs. This transaction

clearly demonstrates our ability to extend our capital partnerships and the synergies created by the diversified Stockland business.

The Workplace portfolio saw comparable FFO growth of 10.5 per cent reflecting strong leasing demand, improved occupancy and demonstrating the quality of our assets which are predominantly located in the Sydney market. We are progressing development opportunities for our Sydney office assets, including the Piccadilly Centre in the central business district and 110 Walker Street in North Sydney. These are well-located assets for workplace and mixed use development, leveraging our master planning and development expertise.

COMMUNITIES

Our Residential business achieved a good performance in a challenging market, with 2,460 settlements for the half in line with expectations. We are in a good position for the next half, with over 5,900 contracts on hand including around 3,600 due to settle in 2H19 and the majority of the balance to settle in FY20.

We are the leading creator of liveable, affordable and connected communities in the country. This means we are uniquely positioned to leverage our scale, brand and understanding of our customers' needs, to drive sales in a challenging environment. This has been demonstrated by the growth in our market share¹ from 14.1 per cent to 15.6 per cent over the past six months.

The housing market has moderated overall and we expect this to continue in the year ahead. Conditions in our sub markets are varied, we have seen declines in south-west and north-west Sydney land markets, and land markets in Melbourne. Despite this, we are still experiencing solid demand for our well-located projects, including the recently launched Minta Farm community in Melbourne's south-east and our Aura community on the Sunshine Coast.

Around 50 per cent of our residential customers are first home buyers and around 87 per cent are owner-occupiers, which places us in a good position in the current residential lending and policy environment.

In Retirement Living, operating profit was up 8.3 per cent, as we made a number of changes to drive increased returns from this part of our business. We are progressing a capital partnership for our retirement living business, with advisers appointed and due diligence underway. Initial interest from investors has been good, reflecting the quality and strength

of our operations and the annuity income stream.

We have enhanced our product offering and relative pricing in development villages which delivered 140 sales for the first half, a 57 per cent improvement on the prior corresponding period. These results demonstrate our ability to leverage our brand, sales capability and development expertise to improve overall performance.

Established village settlements are down 10.3 per cent for the half, reflecting the correlation of this business to the broader housing market, but the reduction is substantially less, demonstrating the lower volatility in the retirement living sector.

We remain committed to meeting customer needs in this market, by providing clarity and transparency about our offering. We've maintained strong customer satisfaction levels of over 85 per cent and we are driving sales from referrals.

As part of our focus on improving returns, we have undertaken a detailed review of our portfolio to determine core and non-core assets. We have appointed agents to begin the process of selling non-core villages where there is limited scope to deliver our customer value proposition to drive demand.

CAPITAL MANAGEMENT

Over the half, we've sustained disciplined capital management and made a conscious decision to raise our gearing to 26.4 per cent, reflecting the timing of asset sales, and the skew of pre-sold development settlement timings to the second half. We expect gearing to be maintained around this level for the full year, which is within our 20 – 30 per cent target range as we continue to execute on our strategic priorities over the next few years. We have completed the renegotiation of our debt documentation including the update of terms and conditions to be consistent with the market and our peers.

As a result, the Total Liability to Total Tangible Assets covenant definition has been replaced by Financial Indebtedness to Total Tangible Assets, and the limit increased to 50 per cent (from 45 per cent) across all markets making up our total debt portfolio.

This shift from a total liabilities to a financial indebtedness methodology and the limit increase have combined to improve our borrowing capacity by over \$2 billion to around \$3 billion of headroom.

The maintenance of our A/-stable credit rating from Standard and Poor's and A3 credit rating from Moody's demonstrates the resilience of

our balance sheet and provides access to a broader range of debt markets on competitive terms, placing us in a strong position for the future.

SUSTAINABILITY & INNOVATION

We are proud of our leadership and ongoing commitment to excellence in sustainability. During the first half, we were once again recognised as the most sustainable real estate company in the world by the Dow Jones Sustainability Index, we received Global Sector Leader status for Listed Diversified Office/Retail respondents from the Global Real Estate Sustainability Benchmark, and we were the only Australian real estate company included in the 2018 CDP Climate A-List.

We have continued to focus on innovation and technology to position our business for the future. This includes launching LAB-52, an internal innovation space which has facilitated the rollout of digital customer initiatives like map tables in our sales centres, and Artificial Intelligence driving customer journey assessment. We also launched Stockland 'PropTech' Accelerator powered by BlueChilli which is being used to identify solutions to our emerging customer needs. On the technology front, we are expanding our data analytics and cyber security capability.

Our culture is central to how we operate and we continue to focus on ensuring a compliant, risk aware and customer centric approach to business which reflects our values of Community, Accountability, Respect and Excellence and our purpose of creating a better way to live.

OUTLOOK

Current market conditions are mixed, with sound economic fundamentals including continued employment growth, low interest rates and a bi-partisan commitment to infrastructure investment being offset by the deterioration in the housing market, reduced credit availability, investor tax policy uncertainty and weak consumer sentiment.

We expect further price declines in residential land of around five percent for this calendar year, concentrated in Sydney and Melbourne.

In line with guidance, over 6,000 residential settlements are expected for FY19. The profit from the sale of The Grove community will be released over FY19-21 in line with the settlement timing of the various parcels sold. FY19 profit will be unaffected by this transaction, as the profit recognised equals the previously forecast FFO from land settlements on this project during the second half of the year. We expect our Commercial Property

¹ National Land Survey, December 2018.
June 2018 market share rebased.

business to maintain moderate growth in returns, with comparable FFO growth of 2-3 per cent reflecting continued challenges in the retail market, and continued strength in the Workplace and Logistics markets.

Assuming no material deterioration in the current market conditions, we remain on track to achieve growth in FFO per security of around 5 per cent, at the lower end of our 5-7 per cent guidance range, reflecting weaker market conditions and a full year distribution of 27.6 cents per security, representing growth of 4 per cent.

A disciplined approach to the execution of our strategy will continue to be our key focus as we enter into a different phase of the property cycle, with our new leadership team committed to improving the overall quality of our portfolio and delivering securityholder value into the future.



TOM POCKETT

CHAIRMAN



MARK STEINERT

MANAGING DIRECTOR AND CEO

Directors' Report

Half year ended 31 December 2018

The Directors of Stockland Corporation Limited (ACN 000 181 733) and the Directors of Stockland Trust Management Limited (ACN 001 900 741, AFSL 241190), the Responsible Entity of Stockland Trust (ARSN 092 897 348), present their report together with the Financial Report of Stockland and the Financial Report of the Trust for the half year ended 31 December 2018 and the Independent Auditor's Review Report thereon.

The Financial Report of Stockland comprises the consolidated Financial Report of Stockland Corporation Limited and its controlled entities, including Stockland Trust and its controlled entities, (collectively referred to as 'Stockland' or 'Group'). The Financial Report of the Trust comprises the consolidated Financial Report of the Trust and its controlled entities ('Stockland Trust Group' or 'the Trust').

Operating and Financial Review

About Stockland

Stockland (ASX: SGP) is one of the largest diversified property groups in Australia – owning, developing and managing a large portfolio of retail town centres, workplace and logistics assets, residential communities and retirement living villages.

Founded in 1952, today Stockland leverages its diversified model to help create sustainable communities where people live, shop and work. Our vision is to be a great Australian real estate company that makes a valuable contribution to our communities and our country.

This approach is underpinned by our purpose – “we believe there is a better way to live” – and is brought to life by our employees who are guided by Stockland's values of Community, Accountability, Respect, and Excellence (CARE).

Stockland was recognised in September 2018 as the most sustainable real estate company in the world by the Dow Jones Sustainability Index (DJSI) and as a Global Sector Leader by the Global Real Estate Sustainability Benchmark.

Our primary objective is to maximise returns through community creation and strong customer focus. We strive to deliver earnings per security growth and total risk-adjusted securityholder returns above the Australian Real Estate Investment Trust index average, by creating quality communities and property assets and delivering great customer experiences.

To optimise value to securityholders we are structured as a stapled security: a combination of a share in Stockland Corporation and a unit in Stockland Trust that are together traded as one security on the Australian Securities Exchange. This stapled structure allows Stockland to efficiently undertake property investment, property management and property development activities to create sustainable risk/reward outcomes.

Strategy

During the half, we renewed our leadership team and undertook a detailed review of our assets and refined our strategy in order to increase our portfolio quality and resilience and deliver sustainable growth. Our strategy is to deliver sustainable and growing returns by owning and managing leading retail town centres, growing our workplace and logistics asset base in Sydney, Melbourne and Brisbane; and developing sustainable communities.

To achieve this we are focussed on three strategic priorities

1. Accelerate improvement in the quality of our Retail Town Centre portfolio, through operational improvements and non-core divestments;
2. Broaden capital partnering initiatives across the whole portfolio; and
3. Increase Workplace and Logistics weighting.

We are making good progress on these strategic priorities as evidenced by:

- Achieved \$113 million of retail town centre divestments (Stockland Bathurst and Stockland South Caloundra). We are on track to achieve our target of \$400 million of divestments in the next 18 months and beyond this, we will look at further non-core retail divestments up to \$600 million in a disciplined way to progress our targeted re-weighting to Workplace and Logistics.
- Increased our weighting to Logistics, which now makes up around 16 per cent of our portfolio, an increase in assets of 18 per cent since 1H18, and we are on track to achieve a 25-35 per cent weighting for Workplace & Logistics in the next five years (weighting is currently 21 per cent).
- Successful sale of The Grove community in Melbourne at a 59 per cent premium to book value. This demonstrates the overall quality and value of our residential landbank and reaffirms our commitment to recycling capital released from divestments into accretive investments, including our securities buy-back.
- Made a number of improvements to our retirement living portfolio, completing development projects providing FFO growth this half and identifying a number of non-core villages for divestment as we continue to improve the overall quality of the portfolio.
- Progressing a capital partnership for the retirement living business, with advisers appointed and due diligence underway. Initial interest from investors has been good, reflecting the quality and strength of our operations and the annuity income stream.
- We are also actively progressing capital partnering opportunities across all other sectors represented in our business, with ongoing engagement with a range of potential domestic and international partners.
- Executed \$115 million of our \$350 million buy-back of Stockland securities, which delivered accretion of 0.1 cents to EPS for the half, a prudent use of capital at this point in the cycle which will help support the resilience of securityholder returns into the future.

Directors' Report

Half year ended 31 December 2018

Risks and opportunities

Stockland adopts a rigorous approach to understanding and proactively managing the risks faced in the business. We recognise that making business decisions that involve calculated risks, and managing these risks within sensible tolerances, is fundamental to creating long term value for securityholders and meeting commitments to our employees, tenants, customers, business partners, consultants and the communities in which we do business. More information on Stockland's risk management policy is available at stockland.com.au/corporate-governance.

There are various risks that could impact our business. The nature and potential impact of these risks change over time. For example, future climate change impacts will place greater demands on our assets and communities and influence the actions and behaviours of our stakeholders. Climate change risks and opportunities are reflected in several risks listed below: extreme weather events, changing regulation, and the ability to develop products that meet anticipated future demand. For more information on our climate change action, including governance, strategy, performance and sustainability targets, refer to our response to the Task Force on Climate-related Financial Disclosure's recommendations online.

Our risks include but are not limited to:

	Risk	Our response
Short term – strategy execution	Increased competition and changing market conditions impact our opportunities for growth	Continue to: <ul style="list-style-type: none">• maintain a diversified business model at scale in each sector• reinvest in our assets to meet changing customer needs• focus on retaining a strong balance sheet with appropriate gearing• use diverse funding sources including capital partnering• concentrate on efficiency and cost management• maintain a prudent approach to provisioning and forecasting• proactively replenish our land and asset pipelines• maintain discipline and agility in our investment decision making• use a rigorous whole of business approach informed by detailed research to drive our capital allocation process
	Systems enhancements affect business process efficiency	As part of our continued investment in the efficiency of our operations, we continue to drive progress in relation to the Group's systems capabilities. We have released a series of upgrades to Salesforce and SAP SuccessFactors. We continue to maintain two-way engagement with employees to enable a smooth transition, as well as find additional ways to use technology to enhance our risk management processes.
	Housing affordability is increasingly challenging in Australia	Our Residential business is influenced by the dynamics of the Australian housing market. Even as markets moderate, housing affordability remains of key concern for Australians. We believe a suite of measures is required to unlock housing supply and address affordability. These include early planning and delivery of infrastructure and simplified development controls to enable housing diversity. Our affordability initiatives have given first home buyers priority to purchase land and get a foothold in the market with around 50 per cent of sales to this segment. We will also continue to: <ul style="list-style-type: none">• partner with government and industry to drive solutions including innovative construction processes to lower costs• provide a broader mix of value for money housing options including house and land packages, completed housing, medium density and apartments• balance the demand from home owners and investors so that our residential communities remain attractive to future buyers
	Extreme weather, security risks and price shocks impact business continuity and community resilience	Continue to: <ul style="list-style-type: none">• train our employees and increase their risk awareness• undertake regular scenario testing• engage with peers and across industries• invest in asset upgrades and adapt community design to improve resilience• assess and implement wholesale energy strategies and renewable energy installations

Directors' Report

Half year ended 31 December 2018

Risk	Our response	
Change within the retail sector impacts rental growth	<p>The retail landscape is undergoing structural change. Within the last 10 years the sector has seen a convergence of technological advances, in particular e-commerce, changes in underlying consumer behaviour, and the entry of new, international retailers. These changes have challenged some of our retailers.</p> <p>We have been proactive and have pre-empted many of the changes. We continue to:</p> <ul style="list-style-type: none">• focus on experiential retail, health, services and food catering• redevelop our assets to create diverse, walkable town centres that form the social hub of the community• leverage deep customer insights and analytics to inform our tenant remixing	
Ability to dispose of non-core assets	<p>Completed independent valuations on 86 per cent of the commercial property portfolio over the last nine months and adopted a disciplined approach to the disposal program for individual assets in consultation with external agents</p>	
Regulatory changes impact our business and customers	<p>Continue to:</p> <ul style="list-style-type: none">• engage with industry and government on policy areas including taxation and planning reform• develop in areas where governments support growth• focus on good practice to remain well positioned in the market and prepared for potential regulatory changes	
Increasing expectation on corporates	<p>Standards for interaction with customers have been under intense scrutiny in Australia in recent months. A number of Australian industries have compromised their interaction with their customers by engaging in unacceptable commercial behaviour. It is incumbent on all businesses to engage with their customers in an ethical and considered manner. At Stockland we have prioritised the focus on customer engagement including through the use of regular customers surveys, the implementation of a customer feedback framework including reporting to our Board and Committees and training for our customer-facing employees.</p>	
Continued negative retirement living media coverage impacts sector performance	<p>Continue to:</p> <ul style="list-style-type: none">• have an open and respectful approach to our Retirement Living residents, and remain committed to being transparent and up-front about costs associated with living in our retirement villages• proactively engage with residents to maintain high satisfaction levels and standards of care• focus on health and wellbeing and our approach to care• demonstrate industry leadership and work with our peers to lift industry standards• review product and contract choice to meet changing customer preferences• consider implications of the Royal Commission into Aged Care for the Retirement Living sector	
Longer term – changing marketplace	<p>Ability to develop products that meet anticipated future customer and societal demands</p>	<p>Continue to:</p> <ul style="list-style-type: none">• foster a culture of innovation where we remain flexible, and identify and take advantage of opportunities to leverage movements in stakeholder preferences• evolve our market leading product innovation and deepen our customer insights using our proprietary Liveability Index research, Stockland Exchange (our online research community), Quantum (which provides data-driven customer insights to inform how we view markets and opportunities) and other data sources• focus on creating sustainable and liveable communities and assets, resilient to changes in climate• enhance our design excellence, providing greater functionality and value for money that meet the demands of Australia's changing demographics, including an aging population and more socially conscious millennials
	<p>Our ability to harness opportunities arising from digital disruption</p>	<p>Continue to:</p> <ul style="list-style-type: none">• identify, develop and integrate technological enhancements across our business, including online residential and retirement living engagement opportunities• support Stockland retail town centres as thriving community hubs by delivering quality services and community spaces that are e-enabled

Directors' Report

Half year ended 31 December 2018

Risk	Our response
Capital market volatility impacts our ability to access suitable capital	<p>Our long term growth is dependent on our ability to access capital at the appropriate time and cost even as capital markets fluctuate in response to domestic and global economic shifts. Variable economic activity and changing capitalisation rates may impact the valuation of our assets.</p> <p>So that we are able to continue to raise sufficient capital to fund growth, we will continue to:</p> <ul style="list-style-type: none">• focus on retaining a strong balance sheet at appropriate levels of gearing• maintain and increase access to diverse funding sources• maintain our prudent capital management policies
Ability to adapt our operating model to meet the changing nature of the workforce	<p>Physical and organisational boundaries are becoming increasingly blurred as new technology enables greater workplace flexibility, including when and where employees work and encouraging creative and adaptive teamwork. We have released a series of upgrades to Salesforce and SAP SuccessFactors to improve collaboration and flexible working. We will continue to:</p> <ul style="list-style-type: none">• encourage flexible work practices supported by our new collaboration platforms• train our senior leaders to be more agile and resilient through programs such as our Stockland Leadership Experience

Directors' Report

Half year ended 31 December 2018

Headline Earnings

- Statutory profit of \$300 million, down 56.2% on 1H18
- Statutory EPS was 12.4 cents, down 56.2% on 1H18
- Funds from operations (FFO) was \$407 million, down 6.7% on 1H18
- FFO per security of 16.8 cents, down 6.7% on 1H18
- Half year distribution was 13.5 cents per security, up 3.8% from 1H18
- Gearing was 26.4% per cent compared to 22.2% in FY18
- Return on equity (ROE) of 10.6%, down 60 basis points on FY18 (excluding workout projects)

Our results for the half were generally in line with our expectations, with lower first half profit primarily due to a second half residential profit skew in FY19 versus an atypical first half skew in FY18, and the impact of retail remixing. Weak housing markets and ongoing headwinds in the retail sector will likely see our full year results at the lower end of our guidance range for FFO per security growth of 5-7 per cent.

We have been highly proactive in our approach to these market challenges, and focused on positioning our business to mitigate downside risk.

Our residential settlements were in line with expectations, as the strength of our brand, community offering and focus on owner occupiers provided resilience in a moderating market. As previously flagged, a skew of residential settlements to the second half has contributed lower growth for this period. Second half settlements will increase as significant levels of inventory production are completed in the second half.

In spite of reduced credit availability and investor tax policy uncertainty, factors such as growth in underlying owner occupier demand, government policy support for first home buyers, generally balanced supply and resilient economic conditions support confidence in the master planned community market which is around 85 per cent of our business. In the first half, owner occupiers represented around 87 per cent of our buyers, our profit margins are stable and cancellation rates remain below the long term average.

The retail market continued to experience a number of challenges including ongoing administrations, reduced credit availability to franchisees and increased statutory and operating costs. Our Retail portfolio results were impacted by these factors, as we continue to undertake proactive remixing with a focus on services, lifestyle, health, dining and entertainment to respond to these trends. Our Workplace and Logistics portfolio performed very well, with strong leasing and development activity setting the portfolio up to deliver good returns this financial year and into the future.

During the half we renewed our leadership team, undertook a detailed review of our assets and refined our strategy to position our business for sustainable growth. This new team has accelerated the execution of our strategy and increased the scope of capital release from Commercial Property asset sales, and we are driving further improvement in the quality of our portfolio, and improving our income resilience.

While we will remain focused on executing our strategy to create sustainable communities, own and manage leading retail town centres and grow our workplace and logistics asset base, we have increased the rate at which a number of our priorities are being executed in order to improve the quality of our portfolio and the resilience of our income. At the same time, we are extremely active in broadening our capital base via a range of active capital partnership discussions.

Directors' Report

Half year ended 31 December 2018

Adjusted Funds from Operations (AFFO)

AFFO is an alternative, secondary, non-IFRS measure used by the CODM to assist in the assessment of the underlying performance of the Group. AFFO is calculated by deducting maintenance capital expenditure and incentive and leasing costs from FFO.

Reconciliation of FFO to AFFO

Half year ended 31 December	2018 \$M	2017 \$M	Change %
FFO for the half year	407	436	6.7 ↓
Maintenance capital expenditure	(17)	(21)	19.2 ↓
Incentives and leasing costs	(38)	(37)	2.1 ↑
AFFO for the half year	352	378	6.9 ↓
AFFO per security (cents)	14.6	15.6	6.4 ↓

The AFFO decrease is primarily driven by the FFO decrease versus the comparative period. Maintenance capital expenditure includes \$2 million (2017: \$2 million) of Retirement Living maintenance capital expenditure.

Capital management

Financial position

We maintained our focus on prudent balance sheet management, including obtaining new funding from the Asian capital markets during the half year, further diversifying our sources of debt capital. During the current period Stockland repaid USD 176 million (\$269 million) of notes that were issued in the US private placement market fifteen years ago, replacing it from other debt markets to enhance diversity. Our gearing level increased to 26.4 per cent at 31 December 2018 (June 2018: 22.2 per cent), reflecting the skew of pre-sold development settlement timing to the second half and the timing of asset sales. Gearing remains within our target range of 20 – 30 per cent and we retained our A-/Stable credit rating from S&P and A3 rating from Moody's (equivalent to S&P's A-) in the period. Finally, we have completed the renegotiation of our debt documentation including the update of terms and conditions to be consistent with the market and our peers. As a result the Total Liabilities to Total Tangible Assets covenant definition has been replaced by Financial Indebtedness to Total Tangible Assets and the limit increased to 50 per cent (from 45 per cent) across all markets making our total debt portfolio. This shift from a total liabilities to a financial indebtedness methodology and the limit increase have combined to increase our borrowing capacity by over \$2 billion to around \$3 billion of headroom.

We manage our exposure to financial markets, including movements in foreign exchange rates and interest rates, through the use of derivative financial instruments in order to provide greater certainty over future financing costs, taking advantage in particular of the current historically low interest rate environment. The fixed/hedged ratio represents the proportion of debt that has a fixed interest rate based on drawn debt at 31 December 2018. In line with our hedging policy target range, the fixed/hedge ratio was 75 per cent at 31 December 2018 (June 2018: 95 per cent) as we increased our drawn debt position and managed the amount of fixed debt used. Hedge rates remain supportive to Stockland's hedging strategy of covering the majority of risk of fluctuating interest rates. The weighted average cost of debt for the period has decreased to 4.4 per cent (June 2018: 5.2 per cent) per annum as we focus on our mix of debt sources and older, higher cost hedges continue to expire.

Interest cover has slightly decreased to 4.6:1 (June 2018: 4.8:1) but remains well above covenants.

Directors' Report

Half year ended 31 December 2018

Balance Sheet

	December 2018 \$M	June 2018 \$M	Change %
Cash and cash equivalents	178	333	46.5 ↓
Real estate assets ² :			
Commercial Property	10,657	10,599	0.5 ↑
Residential	3,606	3,432	5.1 ↑
Retirement Living	4,227	4,167	1.4 ↑
Other assets	866	760	13.9 ↑
Total assets	19,534	19,291	1.3 ↑
Interest-bearing loans and borrowings	4,692	3,938	19.1 ↑
Retirement Living resident obligations	2,745	2,741	0.1 ↑
Other liabilities	1,834	2,236	18.0 ↓
Total liabilities	9,271	8,915	4.0 ↑
Net assets/total securityholders' equity	10,263	10,376	1.1 ↓

Commercial Property assets have increased by \$58 million to \$10,657 million primarily due to capital and development expenditure of \$169 million, principally from the completion of the Green Hills development in Maitland, (NSW), partially offset by asset sales.

The Retail Town Centres portfolio value decreased by \$173 million during the period primarily as a result of lower forecast rental growth, placemaking and upgrading capital expenditure, rent reductions associated with remixing and capitalisation rate increases reflecting transactional evidence from the broader market.

The Workplace portfolio value increased by \$58 million and the Logistics portfolio value increased by \$142 million as these quality portfolios enjoy supportive market conditions.

The valuation increase in Logistics was primarily driven by development completions at Stennett Road Ingleburn and Yennora as well as capitalisation rate compression and land value growth at Trinit Business Campus in Macquarie Park. Valuations across the portfolio saw our weighted average capitalisation rate decrease from 6.7 per cent to 6.4 per cent.

The valuation increment on the Workplace portfolio predominantly stemmed from market rental growth and leasing successes. Valuations across the portfolio saw our weighted average capitalisation rate decrease from 6.3 per cent to 5.9 per cent.

Residential real estate assets, which represent mainly land under development, increased to \$3.6 billion at 31 December 2018 primarily driven by net development expenditure and interest capitalised during the period to support residential settlements skewed toward the second half of the year. We maintained a disciplined approach to development expenditure as market conditions change and finished goods levels remain appropriate.

The value of the Retirement Living real estate related assets, net of resident obligations, was \$1,482 million, an increase of \$56 million from June 2018. This primarily reflects capital expenditure on the development pipeline at Newport (Qld), The Residences - Cardinal Freeman (NSW) and Willowdale (NSW), fair value decrements on the Retirement Living portfolio due to some pricing rebasing to reflect the impact of the current residential market price levels, partly offset by a decrease in resident loan obligations created on first sales of development units.

Total debt increased by \$754 million to \$4,692 million at 31 December 2018 as a result of increased operating activity during the half year to support the second half development settlement skew funded by the drawing down of bank facilities and commercial paper. The permanent maturity of our first 15 year USD private placement notes of USD176 million reduced debt by \$269 million in the first half.

² Includes non-current assets held for sale, inventories, investment properties, equity-accounted investments and certain other assets.

Directors' Report

Half year ended 31 December 2018

Cash flows

Half year ended 31 December	2018 \$M	2017 \$M	Change %
Operating cash flows (excluding payments for land)	186	570	67.4 ↓
Payments for land	(322)	(392)	17.9 ↓
Investing cash flows	(101)	(286)	64.7 ↓
Financing cash flows	82	44	86.4 ↑
Net change in cash and cash equivalents	(155)	(64)	142.2 ↑
Cash and cash equivalents at the end of the period	178	174	2.3 ↑

Net operating cash inflows (excluding payments for land) decreased primarily as a result of a \$215 million decrease in property development sales, driven by a decline of 750 residential lots settled compared to 1H18 and \$132 million increase in cash payments in line with development expenditures and operating expenses particularly relating to the residential settlement skew to the second half of this financial year.

Payments for land have decreased by \$70 million, driven by no recent restocking activity in land markets as 98 per cent of current period payments relate to deferred settlement payments for acquisitions made in previous periods.

Net cash outflows from investing activities have decreased significantly against 1H18, driven mainly by development expenditure of \$103 million (1H18: \$198 million) and capital expenditure of \$55 million (1H18: \$57 million) across our Commercial Property assets. Development expenditure and capital expenditure within the Retirement Living business is \$67million (1H18: \$67 million) and \$19 million (1H18: \$24 million) respectively. On a full year basis investing cash flows are expected to be consistent with the prior year.

Net financing cash inflows reflect the net proceeds from borrowings to fund acquisitions and development expenditure, offset by dividends and distributions paid and the on-market buy-back during the period.

Equity

Securities Buy-Back

On 6 September 2018, we announced the intention to initiate an on-market buy-back for up to \$350 million of Stockland securities on issue as part of our active approach to capital management over a period of up to 24 months. At 31 December 2018, we had bought back 29,231,131 stapled securities equating to a value of \$115 million.

Distributions

The dividend and distribution payable for the half year ended 31 December 2018 is 13.5 cents per security, with a forecast full year distribution of 27.6 cents for the year to 30 June 2019, assuming no material deterioration in the current market conditions. Our distribution policy is to pay the higher of 100 per cent of Trust taxable income or 75 – 85 per cent of FFO.

The distribution per security for the half year comprises:

Stockland	1H19 Cents	1H18 Cents
Stockland Corporation dividend, fully franked	—	—
Trust distribution	13.5	13.0
Total dividend/distribution	13.5	13.0

Registers closed at 5.00pm on 31 December 2018 to determine entitlement to the interim dividend/distribution, which will be paid on 28 February 2019.

Directors' Report

Half year ended 31 December 2018

Business unit performance and priorities

Commercial Property

Portfolio at 31 December 2018	Approximate value*
37 retail town centres	\$7.2 billion
5 workplaces	\$0.8 billion
29 logistics centres	\$2.5 billion
71 Commercial Property assets	\$10.5 billion

* Stockland's ownership interest excluding capital works in progress and sundry properties.

Commercial Property (\$M, unless otherwise stated)	Funds from operations				Comparable growth
	1H19	1H18	Change		
Retail Town Centres	218	209	4.3%	↑	1.1% ↓
Workplace	24	26	6.9%	↓	10.5% ↑
Logistics	81	74	9.5%	↑	4.5% ↑
Trading profit	—	1			
Net overheads	(9)	(8)			
Total Commercial Property	314	302	3.8%	↑	1.7% ↑
ROA	7.8%	7.7%			

Stockland's Commercial Property business delivered stable results, with comparable FFO growth up 1.7 per cent, with continued challenges in the retail sector offset by the strength of the workplace and logistics markets.

There has been a structural shift in the retail sector and consumer needs. Under Louise Mason's leadership, we have undertaken a detailed and disciplined review of our commercial property business with a strong emphasis on sustainability of income and future growth potential.

The Commercial Property team have implemented a number of changes to re-shape our Commercial Property portfolio to improve overall quality, and are actively changing the tenant mix in our retail town centres for long term resilience of lease income, and completing non-core divestments.

This includes taking a firm view on our core and non-core retail assets, with core assets reflecting leading town centres with strong and growing trade areas with limited competition, and our ability to enhance the assets to generate sustainable income growth over time.

We have reviewed our development pipeline, which shows an increased investment in development projects in our Workplace and Logistics pipeline at or above our hurdle rates, while the retail town centre pipeline has been reduced by around 50 per cent as our development focus shifts to smaller, curated retail town centre enhancements.

Retail Town Centres

While comparable FFO of -1.1 per cent was down on the last half due to remixing related rent adjustments and higher outgoings, we maintained high occupancy across our Retail Town Centres in 1H19 and reported a 4.8 per cent increase in comparable specialty sales per square metre to \$9,295. Foot traffic was also up 4 per cent over the past 12 months.

Our centres are focused on providing convenient, everyday shopping for our communities, with non-discretionary spend making up almost 70 per cent of our total sales, giving us some protection from the challenging retail environment and the growth in online retail.

Our strategy of remixing and increasing our focus on services, lifestyle, health, dining and entertainment are helping to drive foot traffic into our centres. We have a deliberate strategy to re-mix out of apparel into food and lifestyle categories, which are generally underserved in our main trade areas. We have delivered comparable specialty sales per square metre growth of 5.7 per cent in cafés/restaurants and 3 per cent in food catering for the half, reflecting the success of this remixing approach.

Our approach to placemaking and introducing curated, community focused-initiatives will be critical to the future resilience of our retail town centre portfolio.

Directors' Report

Half year ended 31 December 2018

Workplace and Logistics

Stockland's workplace and logistics business continues to perform very well, delivering high occupancy, strong leasing activity and solid rental growth. We achieved comparable FFO growth of 4.5 per cent in Logistics for the half from positive leasing results.

Our strategy to significantly grow this part of our business is well progressed and we have a strong and experienced team in place focused on improving portfolio quality. We also have a plan to grow the business in the future, leveraging opportunities within our extensive landbank and capitalising on other opportunities where we see value.

The Logistics market continues to be supported by ongoing investment in infrastructure and the growth in online retail. Our assets are predominantly based in the strongly performing Sydney and Melbourne markets, and we continue to pursue opportunities in these markets.

The value of our Logistics portfolio has grown to around \$2.5 billion, up \$0.3 billion from 30 June 2018, including two new logistics developments at Ingleburn in Sydney and Willawong in Brisbane at risk adjusted IRR's above 10 per cent and FFO yields above 7 per cent.

Our development program has delivered \$99 million of new projects, with a further \$56 million of projects under construction and an additional development pipeline of over \$740 million, targeting 6-7 per cent FFO yields and centred on eastern seaboard capital cities.

Before the end of the half, we announced that we will develop the first stage of the new Melbourne Business Park in the western suburbs, the fastest growing industrial park in the State, with Mount Atkinson Holdings. This land is adjacent to our Mount Atkinson residential community, in close proximity to road and rail infrastructure, and part of a growing precinct which is projected to provide 18,000 future jobs. This transaction clearly demonstrates our ability to extend our capital partnerships and the synergies created by the diversified Stockland business.

We have achieved strong returns from our Workplace portfolio, with comparable FFO up 10.5 per cent, reflecting the quality of our assets, predominantly located in the Sydney market. We are progressing development opportunities for our Sydney office assets, including the Piccadilly Centre in the CBD and 110 Walker Street in North Sydney. These are well-located assets for workplace and mixed use development, leveraging our master planning and development expertise.

Commercial Property strategic priorities:

- Increased focus on improving operational performance
- Concentrated exposure across higher quality assets
- Increase scale through capital partnering across Commercial Property
- Increase Workplace and Logistics asset allocation funded by non-core Retail divestments

Directors' Report

Half year ended 31 December 2018

Communities

Residential

Residential (\$M, unless otherwise stated)	1H19	1H18	Change
Total lots settled (lots)	2,460	3,210	23.4% ↓
Total revenue	658	870	24.4% ↓
• including superlot revenue	18	22	16.1% ↓
EBIT (before interest in cost of goods sold)	170	232	26.7% ↓
EBIT margin	25.9%	26.7%	↓
Operating profit (FFO)	142	182	21.8% ↓
Operating profit margin	21.6%	20.9%	↑
ROA – total portfolio	16.8%	22.5%	↓
ROA – core portfolio ³	18.5%	24.7%	↑

Our Residential business has achieved a good performance in a challenging market, with 2,460 settlements for the half in line with expectations, with a more typical skew to the second half of the financial year. We are in a good position for the next half, with over 5,900 contracts on hand, including around 3,600 due to settle in 2H19 and the majority of the balance to settle in FY20.

We are the leading creator of liveable, affordable and connected communities in the country. This means we are uniquely positioned to leverage our scale, brand and understanding of our customers' needs, to drive sales in a moderating environment. This has been demonstrated by the growth in our market share from 14.1 per cent to 15.6 per cent over the past six months.

Our development model has significant flexibility to accommodate market conditions like those we are currently experiencing with our ongoing focus on pre-sales, low overall inventory levels, capital efficient restocking approach and the geographically diverse majority-active projects all providing support for resilient returns.

The housing market has moderated overall and we expect this to continue in the year ahead. Conditions in our sub markets are varied, we have seen declines in south west and north west Sydney land markets, and land markets in Melbourne. Despite this, we are still experiencing solid demand for our well-located projects, including the recently launched Minta Farm community in Melbourne's south east and our Aura community on the Sunshine Coast, Queensland.

The vast majority of our communities are in key growth corridors within close proximity to rail and transport links, in markets that continue to be driven by structural undersupply. Around 50 per cent of our residential customers are first home buyers and around 87 per cent are owner-occupiers, which places us in a good position in the current residential lending and policy environment.

Stockland expects operating profit margins of above 18 per cent in FY19, and around 17 per cent for the medium term before normalising to around 14 per cent over the long term, subject to no material deterioration in the current market conditions.

³ Core excludes workout projects.

Directors' Report

Half year ended 31 December 2018

Retirement Living

Retirement Living (\$M, unless otherwise stated)	1H19	1H18	Change
EBIT	22	19	14.1% ↑
Operating profit (FFO)	20	18	8.3% ↑
Occupancy	94.1%	94.7%	↓
Cash ROA	4.5%	5.3%	↓
Established			
Established settlements (units)	244	272	10.3% ↓
Withheld settlements (units)	14	23	39.1% ↓
Total sales volumes (units)	258	295	12.5% ↓
Average resale price	\$378k	\$347k	8.9% ↑
Turnover cash margin	26.1%	26.2%	↓
Reservations on hand (units)	160	157	1.9% ↑
Development			
Average price per unit	\$617k	\$469k	31.6% ↑
Average margin – excludes DMF	19.4%	19.5%	↓
Development settlements (units)	115	66	74.2% ↑
Reservations on hand (units)	123	87	41.4% ↑

We have made a number of changes across our retirement living portfolio to drive increased returns from this part of our business. We have enhanced our product offer and relative pricing is driving improved development reservations and settlements for the half, with 140 sales, a 57 per cent improvement on the prior corresponding period.

This has been achieved by making changes to product and pricing at these projects. These results demonstrate our ability to leverage our brand and development expertise to improve overall performance.

Established village settlements are down 10.3 per cent for the half, reflecting the correlation of this business to the broader housing market but the reduction is substantially less, demonstrating the lower volatility in the retirement living sector.

As part of our focus on improving returns, we have undertaken a detailed review of our portfolio to determine core and non-core assets. We have appointed agents to begin the process of selling non-core villages where there is limited scope to deliver our customer value proposition to drive demand.

We remain committed to meeting customer needs in this market, by providing clarity and transparency about our offering and focusing on customer satisfaction. We have maintained strong customer Resident satisfaction levels over 85 per cent driving sales from referrals, and in response to customer preferences we have an increased focus on health and wellbeing initiatives for our residents, and improving our services and facilities.

Communities' strategic priorities:

- Continued focus on creating liveable, affordable and connected communities
- Reshape Retirement Living portfolio through non-core village disposals
- Seeking a capital partner for Retirement Living
- Counter cyclical acquisitions

Directors' Report

Half year ended 31 December 2018

Outlook

Current market conditions are mixed, with sound economic fundamentals including continued employment growth, low interest rate and a bi-partisan commitment to infrastructure investment being offset by the deterioration in the housing market, reduced credit availability, investor tax policy uncertainty and weak consumer sentiment.

We expect further price declines in residential land of about 5 per cent in this calendar year, concentrated in Sydney and Melbourne.

In line with guidance, over 6,000 residential settlements are expected for FY19. The profit from the sale of The Grove community will be released over FY19-21 in line with the settlement timing of the various parcels sold. FY19 profit will be unaffected by this transaction, as the profit recognised equals the previously forecast FFO from land settlements on this project during the second half of the year.

We expect our Commercial Property business to maintain moderate growth in returns, with comparable FFO growth of 2 – 3 per cent reflecting continued challenges in the retail market and strength in the workplace and logistics markets.

Assuming no material deterioration in the current market conditions, we remain on track to achieve growth in FFO per security of around 5 per cent, at the lower end of the 5-7 per cent range, reflecting weaker market conditions and a full year distribution of 27.6 cents per security, representing growth of 4 per cent.

A disciplined approach to the execution of our strategy will continue to be our key focus as we enter into a different part of the cycle, with our new leadership team committed to improving the overall quality of our portfolio and delivering securityholder value into the future.

Directors' Report

Half year ended 31 December 2018

Directors

The Directors of the Company and of the Responsible Entity at any time during or since the end of the half year (collectively referred to as the Directors) were:

Non-Executive Directors

Mr Tom Pockett	Chairman
Ms Melinda Conrad	
Ms Carolyn Hewson	(resigned 24 October 2018)
Mr Barry Neil	
Mr Stephen Newton	
Ms Christine O'Reilly	(appointed 23 August 2018)
Ms Carol Schwartz	
Mr Andrew Stevens	

Executive Director

Mr Mark Steinert	Managing Director and Chief Executive Officer
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Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 18 and forms part of the Directors' Report for the half year ended 31 December 2018.

Rounding off

Stockland is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the Directors' Report and Financial Statements have been rounded to the nearest million dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



Tom Pockett
Chairman



Mark Steinert
Managing Director and Chief Executive Officer

Dated at Sydney, 20 February 2019

Lead Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

Half year ended 31 December 2018



Auditor's Independence Declaration

As lead auditor for the review of Stockland Corporation Limited and Stockland Trust for the half year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Stockland Corporation Limited and the entities it controlled during the period and Stockland Trust and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'S J Hadfield'.

S J Hadfield
Partner
PricewaterhouseCoopers

Sydney
20 February 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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Consolidated Statements of Profit or Loss and Other Comprehensive Income

Half year ended 31 December 2018

Half year ended 31 December	Section	Stockland		Trust	
		2018 \$M	2017 \$M	2018 \$M	2017 \$M
Revenue	(B1)	1,127	1,337	399	385
Cost of property developments sold:					
• land and development		(436)	(595)	–	–
• capitalised interest		(28)	(57)	–	–
• utilisation of provision for impairment of inventories		6	24	–	–
Investment property expenses		(134)	(131)	(129)	(125)
Share of profits of equity-accounted investments	(E1)	46	12	29	12
Management, administration, marketing and selling expenses		(157)	(142)	(21)	(17)
Net change in fair value of investment properties:					
• Commercial Property	(C1c)	7	130	(1)	103
• Retirement Living		(35)	111	–	–
Net change in fair value of Retirement Living resident obligations	(C1b)	19	(72)	–	–
Impairment of intangibles		(10)	–	–	–
Net gain on other financial assets		–	26	–	–
Net loss on sale of other non-current assets		(10)	(2)	(9)	(2)
Finance income	(D1)	2	1	139	128
Finance expense	(D1)	(39)	(37)	(91)	(91)
Net (loss)/gain on financial instruments	(D1)	(40)	5	(40)	5
Profit before income tax		318	610	276	398
Income tax (expense)/benefit	(B3)	(18)	74	–	–
Profit for the period		300	684	276	398
Items that are or may be reclassified to profit or loss, net of tax					
Available for sale financial assets – net change in fair value		–	2	–	–
Available for sale financial assets – reclassified to profit or loss		–	(17)	–	–
Cash flow hedges – net change in fair value of effective portion		32	6	32	6
Cash flow hedges – reclassified to profit or loss		–	(1)	–	(1)
Other comprehensive income, net of tax		32	(10)	32	5
Total comprehensive income for the period		332	674	308	403
Basic earnings per security (cents)	(F1)	12.4	28.3	11.4	16.4
Diluted earnings per security (cents)	(F1)	12.4	28.2	11.4	16.4

The above Consolidated Statements of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheets

As at 31 December 2018

Section	Stockland		Trust	
	31 December 2018 \$M	30 June 2018 \$M	31 December 2018 \$M	30 June 2018 \$M
Current assets				
Cash and cash equivalents	178	333	95	215
Trade and other receivables	97	98	28	22
Inventories (C1a)	936	715	–	–
Other financial assets (D3), (D4)	24	12	24	12
Other assets	117	103	88	80
	1,352	1,261	235	329
Non-current assets held for sale (C1d)	23	65	23	22
Total current assets	1,375	1,326	258	351
Non-current assets				
Trade and other receivables	101	99	3,762	3,363
Inventories (C1a)	2,746	2,750	–	–
Investment properties – Commercial Property (C1c)	9,598	9,563	9,573	9,487
Investment properties – Retirement Living (C1b)	4,187	4,120	–	–
Equity-accounted investments (E1)	606	613	608	595
Other financial assets (D3), (D4)	383	282	373	272
Property, plant and equipment	53	53	–	–
Intangible assets	192	194	–	–
Deferred tax assets (B3)	70	88	–	–
Other assets	223	203	223	207
Total non-current assets	18,159	17,965	14,539	13,924
Total assets	19,534	19,291	14,797	14,275
Current liabilities				
Trade and other payables	741	810	432	462
Interest-bearing loans and borrowings (D2)	619	240	619	240
Retirement Living resident obligations (C1b)	2,589	2,577	–	–
Development provisions	395	567	–	–
Other financial liabilities (D4)	2	33	2	33
Other liabilities	126	107	73	43
Total current liabilities	4,472	4,334	1,126	778
Non-current liabilities				
Trade and other payables	164	173	–	–
Interest-bearing loans and borrowings (D2)	4,073	3,698	4,073	3,698
Retirement Living resident obligations (C1b)	156	164	–	–
Development provisions	278	356	–	–
Other financial liabilities (D4)	101	163	101	163
Other liabilities	27	27	–	–
Total non-current liabilities	4,799	4,581	4,174	3,861
Total liabilities	9,271	8,915	5,300	4,639
Net assets	10,263	10,376	9,497	9,636
Securityholders' equity				
Issued capital (D5)	8,734	8,850	7,430	7,538
Reserves	124	101	122	98
Retained earnings/undistributed income	1,405	1,425	1,945	2,000
Total securityholders' equity	10,263	10,376	9,497	9,636

The above Consolidated Balance Sheets should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

Half year ended 31 December 2018

Attributable to securityholders of Stockland

Section	Issued capital \$M	Executive remuneration \$M	Reserves			Retained earnings \$M	Total equity \$M
			Cash flow hedge \$M	Fair value \$M			
Opening balance as at 1 July 2017	8,790	40	38	15		1,044	9,927
Profit for the period	—	—	—	—		684	684
Other comprehensive income, net of tax	—	—	5	(15)		—	(10)
Total comprehensive income for the period	—	—	5	(15)		684	674
Dividends and distributions (D6)	—	—	—	—		(316)	(316)
Securities issued under DRP (D5a)	67	—	—	—		—	67
Expense relating to Share Plans, net of tax	—	8	—	—		—	8
Acquisition of treasury securities	(20)	—	—	—		—	(20)
Securities vested under Share Plans	12	(12)	—	—		—	—
Total of other movements	59	(4)	—	—		(316)	(261)
Balance as at 31 December 2017	8,849	36	43	—		1,412	10,340
Closing balance as at 30 June 2018	8,850	41	60	—		1,425	10,376
Change in accounting policies (F7)	—	—	—	—		3	3
Opening balance as at 1 July 2018	8,850	41	60	—		1,428	10,379
Profit for the period	—	—	—	—		300	300
Other comprehensive income, net of tax	—	—	32	—		—	32
Total comprehensive income for the period	—	—	32	—		300	332
Dividends and distributions (D6)	—	—	—	—		(325)	(325)
Securities issued under DRP (D5a)	—	—	—	—		—	—
Expense relating to Share Plans, net of tax	—	6	—	—		—	6
Acquisition of treasury securities (D5b)	(14)	—	—	—		—	(14)
Securities vested under Share Plans (D5b)	13	(13)	—	—		—	—
Securities lapsed under Security Plans	—	(2)	—	—		2	—
Securities buy-back (D5a)	(115)	—	—	—		—	(115)
Total of other movements	(116)	(9)	—	—		(323)	(448)
Balance as at 31 December 2018	8,734	32	92	—		1,405	10,263

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

Half year ended 31 December 2018

Attributable to securityholders of Trust

Section	Reserves			Undistributed income \$M	Total equity \$M
	Issued capital \$M	Executive remuneration \$M	Cash flow hedge \$M		
Opening balance as at 1 July 2017	7,480	37	38	1,932	9,487
Profit for the period	–	–	–	398	398
Other comprehensive income	–	–	5	–	5
Total comprehensive income for the period	–	–	5	398	403
Distributions (D6)	–	–	–	(316)	(316)
Securities issued under DRP (D5a)	64	–	–	–	64
Expense relating to Share Plans, net of tax	–	8	–	–	8
Acquisition of treasury securities	(19)	–	–	–	(19)
Securities vested under Share Plans	12	(12)	–	–	–
Total of other movements	57	(4)	–	(316)	(263)
Balance as at 31 December 2017	7,537	33	43	2,014	9,627
Opening balance as at 1 July 2018	7,538	38	60	2,000	9,636
Change in accounting policies (F7)	–	–	–	(8)	(8)
Opening balance as at 1 July 2018	7,538	38	60	1,992	9,628
Profit for the period	–	–	–	276	276
Other comprehensive income	–	–	32	–	32
Total comprehensive income for the period	–	–	32	276	308
Distributions (D6)	–	–	–	(325)	(325)
Securities issued under DRP (D5a)	–	–	–	–	–
Expense relating to Share Plans, net of tax	–	6	–	–	6
Acquisition of treasury securities (D5b)	(13)	–	–	–	(13)
Securities vested under Share Plans (D5b)	12	(12)	–	–	–
Securities lapsed under Security Plans	–	(2)	–	2	–
Securities buy-back (D5a)	(107)	–	–	–	(107)
Total of other movements	(108)	(8)	–	(323)	(439)
Balance as at 31 December 2018	7,430	30	92	1,945	9,497

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statements

Half year ended 31 December 2018

Half year ended 31 December	Section	Stockland		Trust	
		2018 \$M	2017 \$M	2018 \$M	2017 \$M
Cash flows from operating activities					
Cash receipts in the course of operations (including GST)		1,235	1,510	454	444
Cash payments in the course of operations (including GST)		(1,032)	(900)	(223)	(175)
Payments for land		(322)	(392)	–	–
Distributions received from equity-accounted investments		26	16	16	16
Receipts from Retirement Living residents		137	115	–	–
Payments to Retirement Living residents, net of DMF		(84)	(74)	–	–
Interest received		2	1	139	128
Interest paid		(98)	(98)	(98)	(98)
Net cash (outflows)/inflows from operating activities	(F2a)	(136)	178	288	315
Cash flows from investing activities					
Proceeds from sale of investment properties		155	77	113	68
Payments for and development of investment properties:					
• Commercial Property		(168)	(262)	(213)	(280)
• Retirement Living		(86)	(96)	–	–
Payments for plant and equipment and software		(27)	(32)	–	–
Proceeds from sale of investments		–	27	–	–
Proceeds from investments, including equity-accounted investments		25	–	–	–
Loans to related entities		–	–	(399)	(184)
Net cash outflows from investing activities		(101)	(286)	(499)	(396)
Cash flows from financing activities					
On-market buy-back	(D5a)	(115)	–	(107)	–
Payments for securities under Share Plans	(D5b)	(14)	(20)	(13)	(19)
Proceeds from borrowings	(F2b)	1,201	990	1,201	990
Repayments of borrowings	(F2b)	(614)	(681)	(614)	(681)
Payments for derivatives and financial instruments		(47)	–	(47)	–
Dividends and distributions paid (net of DRP)		(329)	(245)	(329)	(245)
Net cash inflows from financing activities		82	44	91	45
Net decrease in cash and cash equivalents		(155)	(64)	(120)	(36)
Cash and cash equivalents at the beginning of the period		333	238	215	117
Cash and cash equivalents at the end of the period		178	174	95	81

The above Consolidated Cash Flow Statements should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

Half year ended 31 December 2018

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Consolidated Notes

Half year ended 31 December 2018

(A) Basis of preparation

IN THIS SECTION

This section sets out the basis upon which the Group's financial statements are prepared as a whole. All specific accounting policies applied by Stockland and the Trust in the interim financial statements are the same as those applied in the annual financial statements as at and for the year ended 30 June 2018 with the exception of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* and other new and amended standards and interpretations commencing 1 July 2018 which have been adopted where applicable.

The impact of the adoption of these standards is disclosed in section (F7) and the new accounting policies are disclosed in section (F8).

A glossary containing acronyms and defined terms is included at the back of this Report.

Stockland represents the consolidation of Stockland Corporation Limited and its controlled entities and Stockland Trust and its controlled entities. Stockland Corporation Limited and Stockland Trust are both for-profit entities that were incorporated or formed and are domiciled in Australia.

Stockland is structured as a stapled entity: a combination of a share in Stockland Corporation and a unit in Stockland Trust that are together traded as one security on the ASX. The constitutions of Stockland Corporation Limited and Stockland Trust provide that, for so long as the two entities remain jointly quoted, the number of shares in Stockland Corporation Limited and the number of units in Stockland Trust shall be equal and that the shareholders and unitholders be identical. Both Stockland Corporation Limited and the Responsible Entity of Stockland Trust must at all times act in the best interest of Stockland. The stapling arrangement will cease upon the earlier of either the winding up of Stockland Corporation Limited or Stockland Trust or either entity terminating the stapling arrangement.

The Interim Financial Report as at and for the half year ended 31 December 2018 was authorised for issue by the Directors on 20 February 2019.

(i) Statement of compliance

The Interim Financial Report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The Interim Financial Report does not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial statements of Stockland as at and for the year ended 30 June 2018.

(ii) Basis of preparation

As permitted by Class Order 13/1050, issued by ASIC, these financial statements are combined financial statements that present the financial statements and accompanying notes of both Stockland and the Trust.

The financial statements are presented in Australian dollars, which is Stockland Corporation Limited's and Stockland Trust's functional currency and the functional currency of the majority of Stockland and the Trust.

The financial statements have been prepared on a going concern basis using historical cost conventions, except for investment properties (including non-current assets held for sale), derivative financial instruments and certain financial assets and liabilities which are stated at their fair value.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Interim Financial Report have been rounded to the nearest million dollars, unless otherwise stated.

Certain comparative amounts have been restated to conform with the current period's presentation.

Consolidated Notes

Half year ended 31 December 2018

(ii) Basis of preparation (continued)

Stockland and Trust net current asset deficiency position

Stockland and the Trust have a net current asset deficiency at 31 December 2018.

Based on the profits and net cash inflows from operating activities in the period and the forecast for the next twelve months, Stockland and the Trust will be able to pay their debts as and when they become due and payable. Undrawn bank facilities of \$545 million (refer to section (D2c)) are also available should they need to be drawn down.

Stockland

In relation to Stockland, a number of liabilities are classified as current under Accounting Standards that are not expected to result in actual net cash outflows within the next twelve months (in particular Retirement Living resident obligations). Similarly, some assets held as non-current will generate cash income in the next twelve months (including Retirement Living DMF included within Retirement Living investment properties, development work in progress and vacant stock). In addition, Stockland has the ability to refinance the existing borrowings and raise new external debt if required.

Furthermore, current inventories are held on the balance sheet at the lower of cost and net realisable value, whereas some of these are expected to generate cash inflows above the carrying value.

In relation to current Retirement Living resident obligations for existing residents (December 2018: \$2,581 million; June 2018: \$2,567 million), approximately 7% of residents are estimated to depart their dwelling each year and therefore it is not expected that the majority of the obligations to residents will fall due within one year. In the vast majority of transactions involving the turnover of units, the resident obligations will be repaid from receipts from incoming residents. However, resident obligations are classified as current under the definitions in the Accounting Standards as there is no unconditional contractual right to defer settlement for at least twelve months (residents may give notice of their intention to vacate their unit with immediate effect). In contrast, the corresponding Retirement Living assets are classified as non-current under the Accounting Standards as the majority are not expected to be realised within twelve months.

Trust

The deficiency in the Trust primarily arises due to the intergroup loan receivable from the Company which is classified as a non-current asset. The Trust generated cash inflows from operating activities of \$288 million during the period. The Trust has the ability to refinance the existing borrowings and raise new external debt if required.

(iii) Critical accounting estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual financial statements as at and for the year ended 30 June 2018.

(iv) New and amended Accounting Standards

New and amended standards adopted by the Group

The Group has adopted AASB 9 and AASB 15 at 1 July 2018. AASB 9 addresses the recognition, classification and measurement of financial assets and liabilities; derecognition of financial instruments; impairment of assets; and hedge accounting. AASB 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time and over time.

There have been no significant changes to the Group's financial performance and position as a result of the adoption of new and amended accounting standards and interpretations.

The impact of the adoption of these standards is disclosed in section (F7) and the new accounting policies are disclosed in section (F8).

Consolidated Notes

Half year ended 31 December 2018

(B) Results for the period

IN THIS SECTION

This section explains the results and performance of the Group.

This section provides additional information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the entity, including:

- accounting policies that are relevant for understanding the items recognised in the financial statements; and
- analysis of the result for the period by reference to key areas, including revenue, results by operating segment and taxation.

(B1) Revenue

Revenue recognised during the period can be disaggregated as follows:

Half year ended 31 December 2018	Residential \$M	Retirement Living \$M	Communities sub-total \$M	Commercial Property \$M	Other \$M	Stockland \$M	Trust \$M
Rental income ¹	–	–	–	356	–	356	356
Outgoings recoveries ²	–	–	–	40	–	40	40
Rent from investment properties	–	–	–	396	–	396	396
Property development sales ³	658	19	677	–	–	677	–
DMF revenue ¹	–	44	44	–	–	44	–
Other revenue	3	–	3	6	1	10	3
Statutory revenue	661	63	724	402	1	1,127	399
Amortisation of lease incentives	–	–	–	32	–	32	32
Straight-lining of lease revenue	–	–	–	(2)	–	(2)	(2)
Unrealised DMF revenue ¹	–	(17)	(17)	–	–	(17)	–
Segment revenue	661	46	707	432	1	1,140	429

Half year ended 31 December 2017	Residential \$M	Retirement Living \$M	Communities sub-total \$M	Commercial Property \$M	Other \$M	Stockland \$M	Trust \$M
Rental income ¹	–	–	–	346	–	346	345
Outgoings recoveries ²	–	–	–	39	–	39	39
Rent from investment properties	–	–	–	385	–	385	384
Property development sales ³	870	–	870	22	–	892	–
DMF revenue ¹	–	52	52	–	–	52	–
Other revenue	3	–	3	4	1	8	1
Statutory revenue	873	52	925	411	1	1,337	385
Amortisation of lease incentives	–	–	–	29	–	29	29
Straight-lining of lease revenue	–	–	–	(2)	–	(2)	(2)
Unrealised DMF revenue ¹	–	(18)	(18)	–	–	(18)	–
Segment revenue	873	34	907	438	1	1,346	412

¹ Commercial Property rental income and Retirement Living DMF revenue continue to meet the definition of a lease arrangement and fall outside the scope of AASB 15.

² Revenue related to recovery of costs is recognised under AASB 15 over time in the accounting period in which the related services are rendered.

³ Property development sales revenue is recognised under AASB 15 at a point in time when the legal title passes to the customer.

Rent from investment properties includes \$2 million (December 2017: \$2 million) contingent rents billed to tenants. Contingent rents are derived from the tenants' revenues and represent 1% (December 2017: 1%) of gross lease income.

Consolidated Notes

Half year ended 31 December 2018

(B2) Operating segments

KEEPING IT SIMPLE ...

This section shows a reconciliation from FFO to statutory profit. FFO is the Group's key profit measure, which reflects the way the business is managed and how the CODM assess performance.

FFO is a non-IFRS measure that is designed to present, in the opinion of the CODM, the results from ongoing operating activities in a way that appropriately reflects the Group's underlying performance. FFO is the primary basis on which dividends and distributions are determined and together with expected capital returns and AFFO impacts, reflects the way the business is managed and how the CODM assess the performance of the Group. It excludes costs of a capital nature and profit or loss made from realised transactions occurring infrequently and those that are outside the course of Stockland's core ongoing business activities. FFO also excludes income tax items that do not represent cash payments. Profit or loss items excluded from FFO are outlined and explained in section (B2b).

AFFO is an alternative, secondary, non-IFRS measure used by the CODM to assist in the assessment of the underlying performance of the Group. AFFO is calculated by deducting maintenance capital expenditure and incentive and leasing costs from FFO.

The Group's reportable segments are as follows:

- Commercial Property – invests in, develops and manages retail town centre, logistics and workplace properties. Previously, logistics was known as 'logistics and business parks' and workplace was known as 'office'. There have been no changes to the overall composition of the Commercial Property segment;
- Residential – delivers a range of masterplanned and mixed use residential communities in growth areas and townhouses and apartments in general metropolitan areas;
- Retirement Living – designs, develops and manages communities for over 55s and retirees; and
- Other – dividends/distributions from strategic investments and other items which are not able to be classified within any of the other defined segments.

Together, Residential and Retirement Living represent Stockland's Communities business.

The Trust has one reportable segment in which it operates, being Commercial Property. Therefore no separate segment note has been prepared.

There is no customer who accounts for more than 10% of the gross revenues of Stockland or the Trust.

Consolidated Notes

Half year ended 31 December 2018

(B2a) Funds from operations (FFO)

The following table shows the contribution to FFO by each reportable segment:

Stockland

Half year ended 31 December 2018	Residential \$M	Retirement Living \$M	Communities sub-total \$M	Commercial Property \$M	Other \$M	Stockland \$M
External segment revenue	661	46	707 ²	432 ¹	1	1,140
Total external segment revenue	661	46	707	432	1	1,140
Segment EBIT	170	22	192²	277³	–	469
Amortisation of lease incentives and fees	–	–	–	39	–	39
Straight-line rent adjustments	–	–	–	(2)	–	(2)
Interest expense in cost of sales	(28)	(2)	(30)	–	–	(30)
Segment FFO³	142	20	162	314	–	476
Finance income						2
Finance expense						(39)
Unallocated corporate and other expenses						(32)
FFO for the period						407

Half year ended 31 December 2017	Residential \$M	Retirement Living \$M	Communities sub-total \$M	Commercial Property \$M	Other \$M	Stockland \$M
External segment revenue	873	34	907 ²	438 ¹	1	1,346
Total external segment revenue	873	34	907	438	1	1,346
Segment EBIT	232	18	250²	275³	–	525
Amortisation of lease incentives and fees	–	–	–	36	–	36
Straight-line rent adjustments	–	–	–	(2)	–	(2)
Interest expense in cost of sales	(50)	–	(50)	(7)	–	(57)
Segment FFO³	182	18	200	302	–	502
Finance income						1
Finance expense						(37)
Unallocated corporate and other expenses						(30)
FFO for the period						436

¹ External segment revenue adds back \$32 million (December 2017: \$29 million) of amortisation of lease incentives and excludes \$2 million (December 2017: \$2 million) of straight-line rent adjustments.

² External segment revenue and segment EBIT exclude \$17 million (December 2017: \$18 million) of unrealised DMF revenue.

³ Segment FFO includes share of profits from equity-accounted investments of \$15 million (December 2017: \$15 million) in Commercial Property.

Consolidated Notes

Half year ended 31 December 2018

(B2b) Reconciliation of FFO to statutory profit

FFO excludes adjustments such as unrealised fair value gains/losses, realised transactions occurring infrequently and those that are outside the course of the Group's core ongoing business activities.

Stockland

Half year ended 31 December	Note	2018			2017		
		FFO \$M	Statutory adjustments \$M	Statutory results \$M	FFO \$M	Statutory adjustments \$M	Statutory results \$M
Revenue	A, B	1,140	(13)	1,127	1,346	(9)	1,337
Cost of property developments sold:							
• land and development		(436)	–	(436)	(595)	–	(595)
• capitalised interest		(28)	–	(28)	(57)	–	(57)
• utilisation of provision for impairment of inventories		6	–	6	23	1	24
Investment property expenses	C	(127)	(7)	(134)	(124)	(7)	(131)
Share of profits of equity-accounted investments	D	31	15	46	15	(3)	12
Management, administration, marketing and selling expenses	E	(153)	(4)	(157)	(142)	–	(142)
Net change in fair value of investment properties:							
• Commercial Property	D	–	7	7	–	130	130
• Retirement Living	F	11	(46)	(35)	6	105	111
Net change in fair value of Retirement Living resident obligations	F	–	19	19	–	(72)	(72)
Impairment of intangibles	G	–	(10)	(10)	–	–	–
Net gain on other financial assets		–	–	–	–	26	26
Net loss on sale of other non-current assets		–	(10)	(10)	–	(2)	(2)
Net finance expense		(37)	–	(37)	(36)	–	(36)
Net (loss)/gain on financial instruments	H	–	(40)	(40)	–	5	5
Profit/FFO before income tax		407	(89)	318	436	174	610
Income tax (expense)/benefit	I	–	(18)	(18)	–	74	74
Profit/FFO for the period		407	(107)	300	436	248	684

Trust

Half year ended 31 December	Note	2018			2017		
		FFO \$M	Statutory adjustments \$M	Statutory results \$M	FFO \$M	Statutory adjustments \$M	Statutory results \$M
Revenue	B	429	(30)	399	412	(27)	385
Investment property expenses	C	(122)	(7)	(129)	(119)	(6)	(125)
Share of profits of equity-accounted investments	D	14	15	29	15	(3)	12
Management, administration, marketing and selling expenses		(21)	–	(21)	(17)	–	(17)
Net change in fair value of Commercial Property	D	–	(1)	(1)	–	103	103
Net loss on other financial assets		–	(9)	(9)	–	(2)	(2)
Net finance income		48	–	48	37	–	37
Net (loss)/gain on financial instruments	H	–	(40)	(40)	–	5	5
Profit/FFO before income tax		348	(72)	276	328	70	398
Income tax		–	–	–	–	–	–
Profit/FFO for the period		348	(72)	276	328	70	398

Explanation of statutory adjustments (Stockland and Trust)

A DMF revenue of \$17 million (December 2017: \$18 million) has been excluded from FFO until it is realised in cash.

B Straight-line rent adjustments \$2 million (December 2017: \$2 million) are excluded from FFO, offset by amortisation of lease incentives of \$32 million (December 2017: \$29 million).

C Amortisation of lease fees is excluded from FFO.

D FFO excludes the net change in fair value of Commercial Property investment properties held by Stockland both directly and indirectly through equity-accounted investments. Refer to Note (C1c) for further information on fair value adjustments.

E Excluding one-off restructuring cost associated with the significant August 2018 Executive reorganisation to improve operational efficiencies and position the business for sustainable growth in the future.

F FFO excludes the unrealised net change in fair value of Retirement Living investment properties. Similarly, the net change in fair value of Retirement Living resident obligations is excluded from FFO.

G FFO excludes impairment of intangibles which comprises of write-down of goodwill associated with historic Retirement Living acquisitions.

H Net change in fair value of financial instruments and foreign exchange movements are excluded from FFO. Refer to Note (D1).

I FFO excludes income tax expenses or benefits that do not represent a cash settlement.

Consolidated Notes

Half year ended 31 December 2018

(B2c) Balance sheet by operating segment

Stockland

31 December 2018	Residential \$M	Retirement Living \$M	Communities sub-total \$M	Commercial Property \$M	Unallocated \$M	Consolidated \$M
Assets						
Cash and cash equivalents	—	—	—	—	178	178
Real estate related assets ^{1, 2}	3,606	4,227	7,833	10,621	36	18,490
Intangible assets	—	66	66	—	126	192
Other financial assets	—	—	—	—	407	407
Other assets	90	22	112	60	95	267
Total assets	3,696	4,315	8,011	10,681	842	19,534
Liabilities						
Interest-bearing loans and borrowings	—	—	—	—	4,692	4,692
Retirement Living resident obligations	—	2,745	2,745	—	—	2,745
Other financial liabilities	—	—	—	—	103	103
Other liabilities	1,052	10	1,062	190	479	1,731
Total liabilities	1,052	2,755	3,807	190	5,274	9,271
Net assets/(liabilities)	2,644	1,560	4,204	10,491	(4,432)	10,263

30 June 2018	Residential \$M	Retirement Living \$M	Communities sub-total \$M	Commercial Property \$M	Unallocated \$M	Consolidated \$M
Assets						
Cash and cash equivalents	—	—	—	—	333	333
Real estate related assets ^{1, 2}	3,432	4,167	7,599	10,562	37	18,198
Intangible assets	—	76	76	—	118	194
Other financial assets	—	—	—	—	294	294
Other assets	102	17	119	46	107	272
Total assets	3,534	4,260	7,794	10,608	889	19,291
Liabilities						
Interest-bearing loans and borrowings	—	—	—	—	3,938	3,938
Retirement Living resident obligations	—	2,741	2,741	—	—	2,741
Other financial liabilities	—	—	—	—	196	196
Other liabilities	1,385	11	1,396	148	496	2,040
Total liabilities	1,385	2,752	4,137	148	4,630	8,915
Net assets/(liabilities)	2,149	1,508	3,657	10,460	(3,741)	10,376

¹ Includes non-current assets held for sale, inventories, investment properties, equity-accounted investments and certain other assets.

² Includes equity-accounted investments for \$601 million (June 2018: \$588 million) in Commercial Property and \$5 million (June 2018: \$25 million) in Residential at 31 December 2018.

Consolidated Notes

Half year ended 31 December 2018

(B3) Taxation

Income tax (expense)/benefit

Half year ended 31 December	Stockland	
	2018 \$M	2017 \$M
Current tax benefit		
Current tax benefit ¹	–	–
Total current tax benefit	–	–
Deferred tax benefit/(expense)		
Tax losses recognised during the period	–	139
Tax losses generated/(utilised) during the period ¹	28	(22)
Origination and reversal of temporary differences	(46)	(43)
Total deferred tax (expense)/benefit	(18)	74
Total income tax (expense)/benefit	(18)	74

¹ There is no current tax expense for the half year ended 31 December 2018 as the Group is in tax losses for the period.

Reconciliation of statutory profit before income tax to income tax (expense)/benefit

Half year ended 31 December	Stockland	
	2018 \$M	2017 \$M
Profit before income tax	318	610
Less: Trust profit before income tax	(276)	(398)
Less: intergroup eliminations	5	3
Profit before income tax of Stockland Corporation Group	47	215
Prima facie income tax expense calculated at 30%	(14)	(65)
Tax effect of amounts which are not (deductible)/taxable in calculating taxable income:		
Other non-assessable expense	(4)	–
Tax losses recognised during the period	–	139
Income tax (expense)/benefit	(18)	74
Effective tax (expense)/benefit rate	(38%)	34%
Effective tax expense rate (excluding tax losses recognised)	(38%)	(30%)

Income tax relating to items of other comprehensive income

Half year ended 31 December	Stockland	
	2018 \$M	2017 \$M
Fair value reserve	–	(6)
Income tax expense relating to items of other comprehensive income	–	(6)

(C) Operating assets and liabilities

IN THIS SECTION

This section shows the real estate and other operating assets used to generate the Group's trading performance and the liabilities incurred as a result.

(C1) Real estate assets and liabilities

(C1a) Inventories

Each reporting period, key estimates are reviewed including the costs of completion, dates of completion and revenue escalations. As a result of this review, no net impairment provisions have been recognised in profit or loss for the half year ended 31 December 2018 (December 2017: \$nil).

Consolidated Notes

Half year ended 31 December 2018

(C1b) Inventories (continued)

The composition of inventories is presented in the table below.

Stockland

	31 December 2018			30 June 2018		
	Current \$M	Non- current \$M	Total \$M	Current \$M	Non- current \$M	Total \$M
Finished development stock held for sale¹						
• cost of acquisition	52	–	52	38	–	38
• development and other costs	222	–	222	115	–	115
• interest capitalised	24	–	24	21	–	21
• impairment provision	(1)	–	(1)	(2)	–	(2)
Total finished development stock held for sale	297	–	297	172	–	172
Development work in progress						
Residential communities under development:						
• cost of acquisition	353	1,878	2,231	326	1,957	2,283
• development and other costs	185	508	693	156	475	631
• interest capitalised	69	332	401	49	350	399
• impairment provision	(38)	(120)	(158)	(16)	(147)	(163)
Total residential communities under development	569	2,598	3,167	515	2,635	3,150
Apartments:						
• cost of acquisition	51	86	137	–	65	65
• development and other costs	8	3	11	–	10	10
• interest capitalised	1	–	1	–	1	1
• impairment provision	–	–	–	–	–	–
Total apartments	60	89	149	–	76	76
Logistics projects:						
• cost of acquisition	–	55	55	10	19	29
• development and other costs	2	3	5	–	4	4
• interest capitalised	1	1	2	1	1	2
• impairment provision	–	(9)	(9)	–	(9)	(9)
Total logistics projects	3	50	53	11	15	26
Aspire villages:						
• cost of acquisition	3	4	7	4	7	11
• development and other costs	3	4	7	12	16	28
• interest capitalised	1	1	2	1	1	2
• impairment provision	–	–	–	–	–	–
Total Aspire villages	7	9	16	17	24	41
Total development work in progress	639	2,748	3,385	543	2,750	3,293
Total inventories	936	2,746	3,682	715	2,750	3,465

¹ Mainly comprises residential communities. Included within finished development stock held for sale are logistics projects of \$3 million (June 2018: \$2 million) and Aspire villages of \$24 million (June 2018: \$5 million). There are no apartments included in finished development stock held for sale (June 2018: \$nil).

The following impairment provisions are included in the inventory balance with movements for the period recognised in profit or loss:

	Residential communities \$M	Apartments \$M	Logistics \$M	Total \$M
Opening balance as at 1 July 2018	165	–	9	174
Amounts utilised	(6)	–	–	(6)
Balance as at 31 December 2018	159	–	9	168

Consolidated Notes

Half year ended 31 December 2018

(C1b) Retirement Living

KEEPING IT SIMPLE ...

Stockland offers a range of independent living Retirement Living products to best meet the needs of the Group's customers. Customers have a choice of dwelling type and contractual arrangement, depending on their individual preferences, personal circumstances, and the services and support that they require.

Historically, all Retirement Living contracts were under the deferred management fee (DMF) model which allows residents to access the full lifestyle offering of a village today and pay for this when they leave the village. Each state has extensive laws and regulations which are designed to protect resident interests which Stockland complies with. Generally, DMF contracts are affordable as they sell at a lower price than the freehold properties in the area. In 2017, Stockland broadened its offering by launching a non-DMF village product called Aspire villages.

DMF contracts

Retirement Living residents lend Stockland an amount equivalent to the value of the dwelling in exchange for a lease to reside in the village and to access community facilities, which are Stockland owned and maintained for as long as the resident wants. Stockland records this loan as a resident obligation liability.

During the resident's tenure, Stockland earns DMF revenue which is calculated based on the individual resident contract and depends on the dwelling type, location and specific terms within the agreement. The contract will specify the DMF rate charged each year, and the maximum DMF that will be charged across the life of the contract. The DMF provides customers with the ability to free up equity (usually from the sale of their previous home), giving them extra capital that they can access to fund their retirement lifestyle.

The DMF for an individual resident contract covers the right to reside in the dwelling and, to a significant extent, the resident's share of up-front capital costs of building the common infrastructure of the village, which typically includes amenities such as a pool, bowling green and community hall, and allows the resident to pay for these at the end of their tenancy, instead of the start. DMF revenue is included in the Retirement Living FFO when Stockland receives the accumulated DMF in cash after a resident leaves and either a new resident enters the dwelling, or when it is withheld under an approved investment proposal for development.

The contracts determine how Stockland and the resident will share any net capital gain or loss when the dwelling is re-leased to the next resident. This can range from 0 - 100%; for the majority of existing contracts the capital gain or loss and refurbishment costs are shared equally.

The Retirement Living segment result also includes the settled development margin associated with new villages and village expansions or redevelopments. This margin represents the unit price realised on first lease less the cost of development and is recognised in FFO on settlement of a newly developed unit.

Unrealised fair value gains and losses from revaluations of investment property and resident obligations are excluded from FFO. Further information on the fair value measurement and valuation technique used for Retirement Living investment properties and resident obligations is provided below.

New contract choices

Stockland has continued to improve the Groups' customer offer with Benefits Plus home care partnerships and up-front contract choices, 'Capital Share' and 'Peace of Mind', which caps the DMF and secures the exit value for incoming residents.

The Capital Share contract offers the opportunity to offset the resident's DMF by paying the resident 50% of any capital gain earned when the home is resold or after a maximum of eighteen months after the resident leaves the village.

The Peace of Mind contract offers certainty by ensuring the residents know what exit repayment will be when they leave the village. It also guarantees that they will be repaid after a maximum of six months from their departure even if their unit hasn't yet been sold.

Non-DMF product (Aspire villages)

Under these agreements, residents purchase their dwelling outright. There is no DMF associated with these sales as the dwelling is no longer owned or maintained by Stockland. Stockland recognises property development sales revenue with an associated cost of property developments sold.

Consolidated Notes

Half year ended 31 December 2018

(C1b) Retirement Living (continued)

Stockland	31 December 2018 \$M	30 June 2018 \$M
Net investment in Retirement Living		
Operating villages	3,780	3,756
Villages under development	407	364
Total Retirement Living investment properties	4,187	4,120
Existing resident obligations	(2,732)	(2,724)
Net carrying value of Retirement Living villages	1,455	1,396
Retirement Living net carrying value movement during the period/year		
Balance at the beginning of the financial period/year	1,396	1,208
Expenditure capitalised	93	249
Realised fair value movements	10	16
Cash received on first sales	(53)	(73)
Other movements	9	(4)
Balance at the end of the financial period/year	1,455	1,396

Investment properties

Retirement Living investment properties comprise retirement villages (both operating villages and villages under development) held to earn revenue and capital appreciation over the long term. Retirement villages comprise ILUs, SAs, community facilities and integral plant and equipment.

Fair value measurement, valuation techniques and inputs

The fair value of Retirement Living investment properties (including villages under development) is the value of the Retirement Living assets and the future cash flows associated with the contracts. Changes in fair value of investment properties are recognised in profit or loss.

The techniques used to fair value the Group's Retirement Living assets have not changed since 30 June 2018. For further explanation of the techniques used and inputs applied, refer to the 30 June 2018 annual financial statements.

Resident obligations

Resident obligations represent the net amount owed by Stockland to current and former residents. Resident obligations are non-interest bearing and recognised at fair value.

Current resident obligations

Based on actuarial turnover calculations, approximately 7% of residents are estimated to depart their dwelling each year and therefore it is not expected that the full obligation to residents will fall due within one year. In the vast majority of cases, the resident obligations are able to be repaid from receipts from incoming residents.

Accounting Standards require that resident obligations are classified as current, unless Stockland has an unconditional contractual right to defer settlement for at least twelve months, because residents have the right to terminate their occupancy contract with immediate effect.

Non-current resident obligations

The non-current resident obligations relate to certain legacy contracts that give Stockland a right to defer settlement for up to eight years.

Consolidated Notes

Half year ended 31 December 2018

(C1b) Retirement Living (continued)

	Current \$M	Non-current \$M	Total \$M
31 December 2018			
Existing resident obligations	2,581	151	2,732
Former resident obligations	8	5	13
Total resident obligations	2,589	156	2,745
30 June 2018			
Existing resident obligations	2,567	157	2,724
Former resident obligations	10	7	17
Total resident obligations	2,577	164	2,741

Fair value measurement, valuation techniques and inputs

The fair value of the resident obligations is the amount payable on demand to residents and comprises the initial loan amount plus the resident's share of any capital gains or losses in accordance with their contracts less DMF earned to date. Changes in fair value of resident obligations are recognised in profit or loss.

The following inputs are used to measure the fair value of the investment property and resident obligations:

Inputs	Range of unobservable inputs	
	31 December 2018	30 June 2018
Discount rate (p.a.)	12.5 – 14.8% (average: 13.0%)	12.5 – 14.75% (average: 13.0%)
Average 20 year growth rate (p.a.)	3.2%	3.1%
Average length of stay of existing and future residents	11.0 years	10.9 years
Current market value of unit	\$0.1 – 2.2 million	\$0.1 – 2.2 million
Renovation/reinstatement cost	\$1k – 120k	\$5k – 90k
Renovation recoupment from residents	0 – 100%	0 – 100%

Both the investment properties and resident obligations are considered to be level 3 in the fair value hierarchy. Refer to section (D4).

Valuation process

Resident obligations are calculated each reporting period based on the initial loan amount paid by the resident adjusted for DMF and their share of capital gains or losses arising on the unit depending on the contract type.

It is impractical to have the resident obligations valued externally; therefore these are valued every six months by the Directors. Key assumptions used in these valuations are externally reviewed and assessed for reasonableness each reporting period.

The techniques used to fair value the Group's resident obligations have not changed since 30 June 2018. For further explanation of the techniques used and inputs applied, refer to the 30 June 2018 annual financial statements.

Sensitivity information

As the resident obligations are a financial liability, a quantitative sensitivity analysis has been disclosed. Sensitivity of the resident obligations to changes in the assumptions are shown in the table below:

Significant input	Change in assumption	Increase/(decrease) in resident obligations			
		Increase in input		Decrease in input	
		31 December 2018 \$M	30 June 2018 \$M	31 December 2018 \$M	30 June 2018 \$M
Current market value	10%	175	177	(175)	(177)

For most contracts, the resident shares capital gains or losses with Stockland upon exit; therefore, current market value is the only input that significantly impacts the fair value of the resident obligation.

Consolidated Notes

Half year ended 31 December 2018

(C1c) Commercial properties

Commercial properties comprise investment interests in land and buildings including integral plant and equipment held for the purpose of producing rental income, capital appreciation, or both.

Commercial properties including Stockland's share of property held by equity-accounted investments

	Stockland		Trust	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
	\$M	\$M	\$M	\$M
Retail Town Centres	7,103	7,282	7,103	7,233
Logistics	2,469	2,229	2,469	2,229
Workplace	880	867	910	871
Retirement Living ¹	10	10	–	–
Capital works in progress and sundry properties	162	208	84	111
Book value of commercial properties	10,624	10,596	10,566	10,444
Less: amounts classified as:				
• property, plant and equipment	(43)	(43)	–	–
• non-current assets held for sale	(23)	(65)	(23)	(22)
• other assets (including lease incentives and fees)	(283)	(263)	(288)	(270)
• other assets (including lease incentives and fees) attributable to equity-accounted investments	(5)	(6)	(5)	(6)
• other receivables (straight-lining of operating lease rental income)	(74)	(72)	(79)	(75)
• other receivables (straight-lining of operating lease rental income) attributable to equity-accounted investments	(10)	(11)	(10)	(11)
Total investment properties (including Stockland's share of investment properties held by equity-accounted investments)	10,186	10,136	10,161	10,060
Less: Stockland's share of investment properties held by equity-accounted investments	(588)	(573)	(588)	(573)
Total investment properties	9,598	9,563	9,573	9,487
Investment property reconciliation				
Direct investments and controlled entities				
Balance at the beginning of the financial period/year	9,563	9,285	9,487	9,186
Acquisitions	10	7	10	7
Expenditure capitalised	169	421	199	415
Transfers to non-current assets held for sale	(23)	(64)	(23)	(22)
Transfers to inventories	(28)	(10)	–	–
Disposals	(100)	(172)	(99)	(167)
Net change in fair value of investment properties	7	96	(1)	68
Balance at the end of the financial period/year	9,598	9,563	9,573	9,487

¹ The investment property balance at 31 December 2018 includes \$10 million of healthcare centre commercial properties held by the Retirement Living business (June 2018: \$10 million) to be leased to tenants under commercial leases.

Consolidated Notes

Half year ended 31 December 2018

(C1c) Commercial properties (continued)

Stockland Description	Independent valuation		Independent valuer's cap rate ² %		Book value \$M	
	Date	\$M	31 December 2018	30 June 2018	31 December 2018	30 June 2018
Retail Town Centres						
Directly owned						
Stockland Green Hills, East Maitland NSW	Dec 2018	841	5.25	5.75	841	807
Stockland Shellharbour, Shellharbour NSW ¹	Dec 2018	758	5.50	5.50	758	776
Stockland Wetherill Park, Western Sydney NSW	Dec 2018	755	5.25	5.25	755	768
Stockland Merrylands, Merrylands NSW	Dec 2017	574	5.50	5.50	580	578
Stockland Rockhampton, Rockhampton Qld	Dec 2018	376	6.00	6.00	376	383
Stockland Glendale, Newcastle NSW	Jun 2017	336	5.75	5.75	343	339
Stockland Point Cook, Point Cook Vic	Dec 2018	243	6.25	6.25	243	254
Stockland Burleigh Heads, Burleigh Heads Qld ²	Jun 2018	215	6.50 – 7.00	6.50 – 7.00	220	215
Stockland Baldivis, Baldivis WA	Dec 2018	196	6.25	5.88	196	204
Stockland Cairns, Cairns Qld	Jun 2018	194	6.50	6.50	195	194
Stockland Hervey Bay, Hervey Bay Qld	Jun 2018	189	6.50	6.50	194	189
Stockland Townsville, Townsville Qld (50%) ^{2, 3}	Dec 2018	186	5.75 – 6.50	5.75 – 6.50	186	191
Stockland The Pines, Doncaster East Vic	Dec 2018	180	6.25	6.00	180	184
Stockland Wendouree, Wendouree Vic	Dec 2018	180	6.50	6.50	180	182
Stockland Forster, Forster NSW	Jun 2018	173	6.25	6.25	172	173
Stockland Balgowlah, Balgowlah NSW	Jun 2017	170	5.50	5.50	170	170
Stockland Baulkham Hills, Baulkham Hills NSW	Jun 2017	158	6.00	6.00	161	160
Stockland Bundaberg, Bundaberg Qld	Jun 2018	151	6.50	6.50	151	151
Stockland Gladstone, Gladstone Qld	Dec 2017	135	6.75	6.75	138	137
Stockland Caloundra, Caloundra Qld ⁴	Dec 2018	132	6.25	5.75	132	146
Stockland Jesmond, Newcastle NSW	Dec 2018	130	7.25	7.00	130	140
Stockland Nowra, Nowra NSW ³	Dec 2018	125	6.25	6.00	125	130
Stockland Cleveland, Cleveland Qld	Dec 2018	105	6.25	6.00	105	120
Stockland Traralgon, Traralgon Vic	Dec 2018	95	7.00	6.50	95	102
Stockland Bull Creek, Bull Creek WA	Dec 2018	92	6.75	6.50	92	99
Stockland Tooronga, Tooronga Vic	Jun 2018	62	6.00	6.00	62	62
Stockland Harrisdale Complex, Harrisdale WA	Dec 2018	58	6.50	6.25	58	57
Shellharbour Retail Park, Shellharbour NSW	Dec 2017	56	7.00	7.00	56	56
Stockland Birtinya, Qld ⁵	–	–	–	–	56	–
Stockland Cammeray, Cammeray NSW	Dec 2018	43	6.25	6.00	43	49
Stockland Kensington, Kensington Qld	Dec 2018	26	7.00	6.25	26	31
North Shore Townsville, Townsville Qld	Jun 2018	20	6.50	6.50	20	20
Stockland Bathurst, Bathurst NSW ⁶	–	–	–	6.75	–	98
Stockland Highlands, Craigieburn Vic ^{6, 7}	–	–	–	6.00	–	43
Woolworths Toowong, Toowong Qld ⁸	–	–	–	n/a	–	6
Stockland Townsville Kingsvale Sunvale, Aitkenvale Qld (50%) ^{3, 9}	Dec 2018	5	n/a	–	2	2
Owned through equity-accounted investments						
Stockland Riverton, Riverton WA (50%)	Dec 2018	62	6.50	6.25	62	66
Total Retail Town Centres¹⁰					7,103	7,282

¹ Independent valuation excludes the adjacent property owned by Stockland.

² A range of cap rates is disclosed for a complex comprising of a number of properties.

³ Stockland's share of this property is held through a direct interest in the asset.

⁴ Stockland South, Caloundra Qld was transferred to non-current assets held for sale during the period.

⁵ Property is currently under construction. An external valuation will be obtained in June 2019.

⁶ Property was disposed of during the period.

⁷ Property is not held by the Trust.

⁸ Asset has been reclassified to inventories.

⁹ Independent valuation based on 100% ownership.

¹⁰ Totals may not add due to rounding.

Consolidated Notes

Half year ended 31 December 2018

(C1c) Commercial properties (continued)

Stockland	Independent valuation		Independent valuer's cap rate¹ %		Book value \$M	
Description	Date	\$M	31 December 2018	30 June 2018	31 December 2018	30 June 2018
Logistics						
Directly owned						
Yennora Distribution Centre, Yennora NSW	Dec 2018	458	6.25	6.50	458	402
Trinity Business Park (previously Trinity Business Campus), North Ryde NSW	Dec 2018	212	6.13	6.50	212	198
Ingleburn Logistics Park (previously Ingleburn Distribution Centre), Ingleburn NSW	Dec 2018	184	5.75	6.50	184	104
60-66 Waterloo Road, Macquarie Park NSW ¹	Dec 2018	117	6.00 – 6.37	6.25 – 6.75	117	107
Brooklyn Distribution Centre (previously Brooklyn Estate), Brooklyn Vic	Dec 2018	110	6.50	6.75	110	106
Hendra Distribution Centre, Brisbane Qld	Dec 2018	108	6.75	7.50	108	98
Coopers Paddock, Warwick Farm NSW	Dec 2018	102	5.50	5.75	102	97
Mulgrave Corporate Park (previously Stockland Mulgrave), Mulgrave Vic	Dec 2018	93	7.00	7.00	93	94
Port Adelaide Distribution Centre, Port Adelaide SA	Dec 2018	80	9.50	9.25	80	85
Forrester Distribution Centre, St Marys NSW	Dec 2018	76	7.00	6.75	76	81
Granville Industrial Estate (previously 9-11a Ferndell Street), Granville NSW ¹	Dec 2018	73	6.25 – 6.75	6.50 – 7.00	73	67
Oakleigh Industrial Estate (previously 1090-1124 Centre Road), Oakleigh South Vic	Dec 2018	68	5.75	6.25	68	62
Somerton Distribution Centre (previously 20-50 and 76-82 Fillo Drive and 10 Stubb Street), Somerton Vic ¹	Jun 2018	61	6.75 – 7.25	6.75 – 7.25	61	62
Macquarie Technology Business Park (previously Macquarie Technology Centre), Macquarie Park NSW ¹	Jun 2018	59	6.63 – 7.50	6.63 – 7.50	59	59
Balcatta Distribution Centre, Balcatta WA	Dec 2018	56	6.75	6.75	56	55
Altona Distribution Centre (previously Toll Business Park), Altona Vic ¹	Dec 2018	56	6.25 – 6.50	6.25 – 7.25	56	55
16 Giffnock Avenue, Macquarie Park NSW	Jun 2018	55	6.75	6.75	54	55
Altona Industrial Estate (previously Altona Distribution Centre), Altona Vic	Dec 2018	47	6.25	7.50	47	37
23 Wonderland Drive, Eastern Creek NSW	Jun 2018	42	6.25	6.25	42	42
Willawong Industrial Estate, Qld	Dec 2018	38	6.75	–	38	–
72-76 Cherry Lane, Laverton North Vic	Dec 2018	34	6.25	6.50	34	32
Wetherill Park Distribution Centre (previously 2 Davis Road), Wetherill Park NSW	Dec 2018	33	6.25	6.50	33	29
Smeg Distribution Centre (previously 2-8 Baker Street), Botany NSW	Dec 2018	32	5.00	5.50	32	28
Erskine Park, Erskine Park NSW	Dec 2018	25	5.75	5.75	25	24
40 Scanlon Drive, Epping Vic	Dec 2017	10	7.00	7.00	10	10
Export Distribution Centre (previously Export Park, 9-13 Viola Place), Brisbane Airport Qld ²	Jun 2018	6	11.20	11.20	6	7
M1 Yatala Enterprise Park, Yatala Qld	Jun 2018	6	n/a	n/a	6	6
Owned through equity-accounted investments						
Optus Centre, Macquarie Park NSW (51%)	Jun 2018	230	6.50	6.50	229	230
Total Logistics³					2,469	2,229

¹ A range of cap rates are disclosed for a complex comprising of a number of properties.

² Property is a leasehold property.

³ Totals may not add due to rounding.

Consolidated Notes

Half year ended 31 December 2018

(C1c) Commercial properties (continued)

Stockland	Independent valuation		Independent valuer's cap rate¹ %		Book value \$M	
	Date	\$M	31 December 2018	30 June 2018	31 December 2018	30 June 2018
Workplace						
Directly owned						
Stockland Piccadilly, 133-145 Castlereagh Street, Sydney NSW (50%) ^{1, 2, 3, 4, 5}	Dec 2018	327	5.25 – 6.00	5.50 – 6.00	296	280
601 Pacific Highway, St Leonards NSW	Dec 2018	119	6.00	6.50	119	103
Durack Centre, 263 Adelaide Terrace, Perth WA ²	Jun 2018	108	8.00	8.00	107	108
110 Walker Street, North Sydney NSW	Dec 2018	45	5.75	6.25	45	37
40 Cameron Avenue, Belconnen ACT ^{2, 6}	–	–	–	11.75	–	22
80-88 Jephson Street, Toowong Qld ^{7, 8}	–	–	–	6.50 – 8.00	–	17
23-29 High Street, Toowong Qld ^{7, 8}	–	–	–	6.50 – 8.00	–	7
Owned through equity-accounted investments						
135 King Street, Sydney NSW (50%) ^{1, 4}	Dec 2018	313	4.00 – 5.00	4.00 – 5.00	313	295
Total Workplace⁹					880	867

1 A range of cap rates is disclosed for a complex comprising of a number of properties.

2 Property is a leasehold property.

3 Stockland's share of this property is held through a direct interest in the asset.

4 Book value includes the retail component of the property.

5 The book value excludes the revaluation relating to the area occupied by Stockland. This owner-occupied area is classified as property, plant and equipment and is recognised at historical cost.

6 Property was disposed of during the period.

7 Property is not held by the Trust.

8 Assets have been reclassified to inventories.

9 Totals may not add due to rounding.

Fair value measurement, valuation techniques and inputs

The techniques used to fair value the Group's commercial properties have not changed since 30 June 2018. For further explanation of the techniques used and inputs applied, refer to the 30 June 2018 annual financial statements.

(C1d) Non-current assets held for sale

The following assets have been classified as held for sale:

	Stockland		Trust	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
	\$M	\$M	\$M	\$M
Investment properties transferred from Commercial Property	23	65	23	22
Total non-current assets held for sale	23	65	23	22

Investment property held for sale at 31 December 2018 represents Stockland South, Caloundra Qld. This property was sold on 23 January 2019 following the half year end.

During the current period, Stockland completed the sale of Stockland Highlands, Craigieburn Vic and 40 Cameron Avenue, Belconnen ACT. These assets were previously revalued to their expected sale value and classified as non-current assets held for sale at 30 June 2018.

Consolidated Notes

Half year ended 31 December 2018

(D) Capital structure and financing costs

IN THIS SECTION

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Board determines the appropriate capital structure of the Group; specifically, how much is raised from securityholders (equity) and how much is borrowed from financial institutions and capital markets (debt), in order to finance the Group's activities both now and in the future. Consistent with this, is Stockland's maintenance of its strong investment grade credit rating from S&P and Moody's of A- and A3 respectively. There has been no change to these rating during FY18.

The Board considers the Group's capital structure and its dividend and distribution policy at least twice a year ahead of announcing the Group's results, in the context of its ability to continue as a going concern, to execute the strategy and to deliver its business plan. The Board continued to focus on maintaining the efficiency of the balance sheet.

The Group is exposed to changes in interest rates on its net borrowings and to changes in foreign exchange rates on its foreign currency transactions and net assets. In accordance with risk management policies, the Group uses derivative instruments to hedge these underlying exposures.

(D1) Net financing costs

KEEPING IT SIMPLE ...

This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial assets and liabilities. The presentation of the net financing costs in this section reflects income and expenses according to the classification of the financial instruments.

Mark to market movements reflect the change in value of the Group's derivative instruments between the later of inception or 1 July 2018 and 31 December 2018. The value at period end is not necessarily the same as the value at which the instruments will be settled at maturity.

Net financing costs can be analysed as follows:

	Stockland		Trust	
Half year ended 31 December	2018 \$M	2017 \$M	2018 \$M	2017 \$M
Interest income from related parties	–	–	138	127
Interest income from other parties	2	1	1	1
Total finance income	2	1	139	128
Interest expense relating to interest-bearing financial liabilities	(93)	(97)	(93)	(97)
Interest paid or payable on other financial liabilities at amortised cost	(23)	(11)	–	–
Less: interest capitalised to inventories	71	62	–	–
Less: interest capitalised to investment properties	6	9	2	6
Total finance expense	(39)	(37)	(91)	(91)
Net (loss)/gain on fair value hedges	(12)	1	(12)	1
Net (loss)/gain on debt and derivatives	(28)	4	(28)	4
Total net (loss)/gain on financial instruments	(40)	5	(40)	5

The interest expense relating to interest-bearing financial liabilities includes \$28 million (December 2017: \$33 million) related to interest on financial liabilities carried at amortised cost, and not designated in a fair value hedge relationship.

Consolidated Notes

Half year ended 31 December 2018

(D1) Net financing costs (continued)

The table below shows the composition of gains and losses on interest-bearing liabilities, including those eligible and ineligible for hedge accounting:

	Stockland		Trust	
	2018 \$M	2017 \$M	2018 \$M	2017 \$M
Half year ended 31 December				
Net (loss)/gain on fair value hedges				
Gain/(loss) on net change in fair value of derivatives	105	(37)	105	(37)
(Loss)/gain on net change in fair value of interest-bearing financial liabilities	(117)	38	(117)	38
Net (loss)/gain on fair value hedges	(12)	1	(12)	1
Net (loss)/gain on debt and derivatives				
(Loss)/gain on foreign exchange movements	(12)	6	(12)	6
Loss on fair value movement	(16)	(2)	(16)	(2)
Net (loss)/gain on debt and derivatives	(28)	4	(28)	4

(D2) Interest-bearing loans and borrowings

KEEPING IT SIMPLE ...

The Trust borrows money from financial institutions and global debt investors in the form of notes and other financial instruments. The Trust's notes generally have fixed interest rates and are for a fixed term.

The interest expense on these instruments is shown in section (D1).

Stockland and Trust

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs and subsequently are stated at amortised cost. Any difference between cost and redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. However, where an effective fair value hedge is in place, borrowings are carried at fair value and changes in the fair value are recognised in profit or loss.

The table below shows the fair value of each of these instruments. Fair value reflects the principal amount and remaining duration of the notes based on current market interest rates and conditions at balance date.

		Carrying value			Fair value \$M
	Section	Current \$M	Non-current \$M	Total \$M	
31 December 2018					
Offshore medium term notes	(D2a)	78	3,201	3,279	3,654
Domestic medium term notes	(D2b)	150	407	557	590
Bank facilities	(D2c)	210	465	675	675
Commercial paper		181	–	181	181
Total		619	4,073	4,692	5,100
30 June 2018					
Offshore medium term notes	(D2a)	240	3,141	3,381	3,728
Domestic medium term notes	(D2b)	–	557	557	595
Bank facilities	(D2c)	–	–	–	–
Total		240	3,698	3,938	4,323

The difference of \$408 million (June 2018: \$385 million) between the carrying amount and fair value of the offshore and domestic medium term notes is due to notes being carried at amortised cost under AASB 9 while the fair value represents the amount required to replicate at balance date the principal and duration of these notes based on current market interest rates and conditions.

Consolidated Notes

Half year ended 31 December 2018

(D2) Interest-bearing loans and borrowings (continued)

(D2a) Offshore medium term notes

US private placements

The Trust has issued fixed coupon notes in the US private placement market. Generally, notes are issued in United States dollars (USD) and converted back to Australian dollars (AUD or \$) principal and AUD floating coupons through CCIRS.

During the current half year, the Trust repaid USD 176 million (\$269 million) of its notes that were issued in the US private placement market and matured in October 2018.

The fair value of the US private placements as at 31 December 2018 is \$2,281 million (June 2018: \$2,412 million).

Asian and European medium term notes

The Trust has issued medium term notes into the Asian and European capital markets with face values of Hong Kong dollars (HKD) 470 million (\$62 million), HKD 400 million (\$55 million), HKD 540 million (\$100 million), HKD 300 million (\$51 million), Euros (EUR) 300 million (\$433 million) and EUR 300 million (\$478 million).

All notes are issued at a fixed coupon payable in HKD and EUR and converted back to AUD floating coupons through CCIRS.

The fair value of the Asian and European medium term notes as at 31 December 2018 is \$1,373 million (June 2018: \$1,316 million).

(D2b) Domestic medium term notes

Domestic medium term notes have been issued at either face value or at a discount to face value and are carried at amortised cost. The discount or premium is amortised to finance costs over the term of the notes. The medium term notes are issued on either fixed or floating interest rate terms.

The fair value of the notes as at 31 December 2018 is \$590 million (June 2018: \$595 million).

(D2c) Bank facilities

Stockland and Trust

The bank facilities are multi-use facilities which may be used partially for bank guarantees. Bank facilities are unsecured and held at amortised cost. Details of maturity dates and security for facilities, excluding bank guarantee facilities (refer to section (F3)), are set out below:

Maturity date	31 December 2018		30 June 2018	
	Utilised \$M	Facility limit \$M	Utilised \$M	Facility limit \$M
December 2018	—	—	—	100
June 2019	—	300	—	—
July 2019	100	100	—	100
August 2019	10	120	—	120
December 2019	100	200	—	100
January 2021	215	250	—	250
February 2022	150	150	—	150
November 2022	100	100	—	100
	675	1,220	—	920

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Half year ended 31 December 2018

(D3) Other financial assets and liabilities

KEEPING IT SIMPLE ...

Investments in other financial assets are managed in accordance with the Group's documented risk policy. Based on the nature of the asset and its purpose, movements in the fair value of other financial assets are recognised either through profit or loss or other comprehensive income.

(D3a) Investments made by Stockland CARE Foundation (CARE Foundation)

The CARE Foundation is a charitable trust set up by Stockland. Under the Accounting Standards, the CARE Foundation is considered a subsidiary of Stockland. Included in other financial assets is \$10 million of CARE Foundation investments (June 2018: \$10 million) measured at Level 1 of the fair value hierarchy. This is comprised of an \$8 million initial donation made by Stockland Trust in the prior years which the CARE Foundation has invested to fund its ongoing charitable projects.

(D4) Fair value hierarchy

KEEPING IT SIMPLE ...

The financial instruments included on the balance sheet are measured at either fair value or amortised cost. The measurement of fair value may in some cases be subjective and may depend on the inputs used in the calculations. The Group generally uses external valuations based on market inputs or market values (e.g. external share prices). The different valuation inputs are called hierarchies and are described below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value

The fair value of financial instruments, including offshore and domestic medium term notes, interest rate derivatives and CCIRS, is determined in accordance with generally accepted pricing models by discounting the expected future cash flows using assumptions supported by observable market rates. While certain derivatives are not quoted in an active market, Stockland has determined the fair value of these derivatives using quoted market inputs (e.g. interest rates, volatility and exchange rates) adjusted for specific features of the instruments and debit or credit value adjustments based on the current credit worthiness of Stockland or the derivative counterparty.

The fair value of forward exchange contracts is the quoted market price of the derivative at balance date, being the present value of the quoted forward price. The table overleaf sets out the financial instruments included on the balance sheet at fair value.

Quantitative sensitivities required under AASB 13 *Fair Value Measurement* in relation to the Retirement Living resident obligations have been disclosed in section (C1b).

Consolidated Notes

Half year ended 31 December 2018

(D4) Fair value hierarchy (continued)

Stockland

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
31 December 2018				
Financial assets carried at fair value				
Derivative assets	–	389	–	389
Securities in unlisted entities	–	–	8	8
Other investments	10	–	–	10
Total financial assets carried at fair value	10	389	8	407
Financial liabilities carried at fair value				
Derivative liabilities	–	(103)	–	(103)
Retirement Living resident obligations	–	–	(2,745)	(2,745)
Total financial liabilities carried at fair value	–	(103)	(2,745)	(2,848)
Net position	10	286	(2,737)	(2,441)
30 June 2018				
Financial assets carried at fair value				
Derivative assets	–	276	–	276
Securities in unlisted entities	–	–	8	8
Other investments	10	–	–	10
Total financial assets carried at fair value	10	276	8	294
Financial liabilities carried at fair value				
Derivative liabilities	–	(196)	–	(196)
Retirement Living resident obligations	–	–	(2,741)	(2,741)
Total financial liabilities carried at fair value	–	(196)	(2,741)	(2,937)
Net position	10	80	(2,733)	(2,643)

Trust

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
31 December 2018				
Financial assets carried at fair value				
Derivative assets	–	389	–	389
Securities in unlisted entities	–	–	8	8
Total financial assets carried at fair value	–	389	8	397
Financial liabilities carried at fair value				
Derivative liabilities	–	(103)	–	(103)
Total financial liabilities carried at fair value	–	(103)	–	(103)
Net position	–	286	8	294
30 June 2018				
Financial assets carried at fair value				
Derivative assets	–	276	–	276
Securities in unlisted entities	–	–	8	8
Total financial assets carried at fair value	–	276	8	284
Financial liabilities carried at fair value				
Derivative liabilities	–	(196)	–	(196)
Total financial liabilities carried at fair value	–	(196)	–	(196)
Net position	–	80	8	88

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Half year ended 31 December 2018

(D4) Fair value hierarchy (continued)

Derivative financial assets and liabilities are not offset in the balance sheet as under agreements held with derivative counterparties, the Group does not have a legally enforceable right to set off the position payable/receivable to a single counterparty.

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

Stockland

	Securities in unlisted entities \$M	Retirement Living resident obligations \$M	Total \$M
Opening balance as at 1 July 2018	8	(2,741)	(2,733)
Total gains/(losses) recognised in:			
• profit or loss	–	49	49
• other comprehensive income	–	–	–
Cash receipts from incoming residents on turnover	–	(137)	(137)
Cash payments to outgoing residents on turnover, net of DMF	–	84	84
Return of capital	–	–	–
Balance as at 31 December 2018	8	(2,745)	(2,737)
Opening balance as at 1 July 2017	32	(2,629)	(2,597)
Total (losses)/gains recognised in:			
• profit or loss	–	(23)	(23)
• other comprehensive income	2	–	2
Cash receipts from incoming residents on turnover	–	(115)	(115)
Cash payments to outgoing residents on turnover, net of DMF	–	74	74
Return of capital	(25)	–	(25)
Balance as at 31 December 2017	(9)	(2,693)	(2,684)

Trust

	Securities in unlisted entities \$M	Total \$M
Opening balance as at 1 July 2018	8	8
Total gains/(losses) recognised in:		
• profit or loss	–	–
Balance as at 31 December 2018	8	8
Opening balance as at 1 July 2017	9	9
Total gains/(losses) recognised in:		
• profit or loss	–	–
Balance as at 31 December 2017	9	9

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Half year ended 31 December 2018

(D5) Issued capital

KEEPING IT SIMPLE ...

This section explains material movements recorded in issued capital that are not explained elsewhere in the financial statements. The movements in equity of the Group and the balances are presented in the Consolidated Statements of Changes in Equity.

Issued capital represents the amount of consideration received for stapled securities issued by the Group. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

For so long as the Company and the Trust remains jointly quoted, the number of shares in Stockland Corporation Limited and the number of units in Stockland Trust shall be equal and the shareholders and unitholders shall be identical. Unitholders of Stockland Trust are only entitled to distributions and voting rights upon stapling.

The following table provides details of securities issued by the Group:

Details	Stockland and Trust		Stockland		Trust	
	Number of securities 31 December 2018	Number of securities 30 June 2018	31 December 2018 \$M	30 June 2018 \$M	31 December 2018 \$M	30 June 2018 \$M
Ordinary securities on issue						
Issued and fully paid	2,405,238,145	2,434,469,276	8,769	8,884	7,464	7,571
Other equity securities						
Treasury securities	(7,363,122)	(7,786,666)	(35)	(34)	(34)	(33)
Total issued capital	2,397,875,023	2,426,682,610	8,734	8,850	7,430	7,538

(D5a) Ordinary securities

The following table provides details of movements in securities issued:

Details	Stockland and Trust Number of securities	Stockland \$M	Trust \$M
Movement of securities issued			
Opening balance as at 1 July 2018	2,434,469,276	8,884	7,571
Securities buy-back	(29,231,131)	(115)	(107)
Securities issued under DRP	—	—	—
Balance as at 31 December 2018	2,405,238,145	8,769	7,464
Opening balance as at 1 July 2017	2,418,400,142	8,817	7,507
Securities issued under DRP	16,069,134	67	64
Balance as at 31 December 2017	2,434,469,276	8,884	7,571

Securities buy-back

On 6 September 2018, Stockland announced the intention to initiate an on-market buy-back for up to \$350 million of Stockland securities on issue as part of its active approach to capital management, over up to 24 months. A total of 29,231,131 stapled securities have been bought back on market and cancelled since the commencement of the buy-back on 24 September 2018.

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(D5b) Other equity securities

Treasury securities

Treasury securities are securities in Stockland that are held by the Stockland Employee Securities Plan Trust. Securities are held until the end of the vesting period affixed to the securities. As the securities are held on behalf of eligible employees, the employees are entitled to the dividends and distributions.

Movement of other equity securities

Details	Stockland and Trust Number of securities	Stockland \$M	Trust \$M
Opening balance as at 1 July 2018	7,786,666	(34)	(33)
Securities acquired	3,355,854	(14)	(13)
Securities transferred to employees on vesting	(3,779,398)	13	12
Balance as at 31 December 2018	7,363,122	(35)	(34)

Securities acquired

During the period, 3,355,854 securities were acquired on-market for the purpose of issuing securities under the Share Plans.

Securities transferred to employees on vesting

During the period, 3,779,398 securities vested and were transferred to employees under the Share Plans.

At 31 December 2018, the Stockland Employee Securities Plan Trust is holding 7,363,122 securities.

(D6) Dividends and distributions

Dividends and distributions recognised in the financial period by the Group are detailed below:

Stockland Corporation

There were no dividends from Stockland Corporation Limited during the current, or previous, financial period.

The dividend franking account balance as at 31 December 2018 is \$14 million based on a 30% tax rate (June 2018: \$14 million). For the current period, the interim distribution is paid solely out of the Trust and therefore the franking percentage is not relevant.

Stockland Trust

	Cents per security	Total amount \$M	Record date	Date of payment
Interim distribution: 31 December 2018	13.5	325	31 December 2018	28 February 2019
Interim distribution: 31 December 2017	13.0	316	29 December 2017	28 February 2018

The tax preferred percentage will be determined at year end.

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Half year ended 31 December 2018

(E) Group structure

IN THIS SECTION

This section provides information on the structure of the Group. The Group includes entities that are classified as joint ventures, joint operations, associates and structured entities.

Joint ventures and associates are accounted for using the equity method, while joint operations are proportionately consolidated and structured entities are recorded as investments at cost.

(E1) Equity-accounted investments

Stockland and the Trust have interests in a number of individually immaterial joint ventures that are accounted for using the equity method. The Group did not have investments in associates at 31 December 2018 or 30 June 2018.

	Stockland		Trust	
	31 December 2018 \$M	30 June 2018 \$M	31 December 2018 \$M	30 June 2018 \$M
Aggregate carrying amount of individually immaterial joint ventures	606	613	608	595

The ownership interest in each of these immaterial entities is presented below:

	Stockland		Trust	
	31 December 2018 %	30 June 2018 %	31 December 2018 %	30 June 2018 %
Investment in joint ventures:				
• Brisbane Casino Towers	50	50	—	—
• Compam Property Management Pty Limited ¹	50	50	50	50
• Eagle Street Pier Pty Limited	50	50	—	—
• Macquarie Park Trust	51	51	51	51
• Riverton Forum Pty Limited	50	50	50	50
• The King Trust ²	50	50	50	50
• Willeri Drive Trust ³	50	50	50	50

¹ Manager for The King Trust.

² Owns 50% of the 135 King Street, Sydney NSW.

³ Owns 50% of the Stockland Riverton, Riverton WA.

	Stockland		Trust	
Half year ended 31 December	2018 \$M	2017 \$M	2018 \$M	2017 \$M
Aggregate share of:				
• profit from continuing operations	46	12	29	12
• other comprehensive income	—	—	—	—
Total comprehensive income	46	12	29	12

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(F) Other items

IN THIS SECTION

This section includes information about the financial performance and position of the Group, that must be disclosed to comply with the Accounting Standards, the *Corporations Act 2001* or the *Corporations Regulations 2001*.

(F1) Earnings per security (EPS)

KEEPING IT SIMPLE ...

EPS is the amount of post-tax profit attributable to each security.

Basic EPS is calculated on the Group's statutory profit for the period divided by the weighted average number of securities. Statutory profit is highly variable as it includes unrealised fair value movements in investment properties and financial instruments.

Diluted EPS adjusts the basic EPS for the dilutive effect of any instruments, such as Share Plan rights, that could be converted into securities.

Basic FFO per security is disclosed in the Directors' Report on page 8 and more directly reflects the underlying income performance of the Group.

	Stockland		Trust	
	2018 cents	2017 cents	2018 cents	2017 cents
Half year ended 31 December				
Basic and diluted EPS				
Basic EPS	12.4	28.3	11.4	16.4
Diluted EPS	12.4	28.2	11.4	16.4

The calculation of basic EPS has been based on the following profit attributable to ordinary securityholders and weighted average number of ordinary securities outstanding:

Reconciliation of earnings used in calculating EPS

	Stockland		Trust	
	2018 \$M	2017 \$M	2018 \$M	2017 \$M
Half year ended 31 December				
Basic and diluted earnings				
Profit attributable to securityholders	300	684	276	398

Weighted average number of securities used as the denominator

	Stockland and Trust	
	2018 Number of securities	2017 Number of securities
Half year ended 31 December		
Weighted average number of securities (basic)		
Weighted average number of securities	2,414,887,227	2,421,829,448
Weighted average number of securities (diluted)		
Weighted average number of securities (basic)	2,414,887,227	2,421,829,448
Effect of rights and securities granted under Share Plans	5,314,238	7,762,324
Weighted average number of securities (diluted)	2,420,201,465	2,429,591,772

Rights and securities granted under Share Plans are only included in diluted EPS where Stockland is meeting performance hurdles for contingently issuable share based payment rights.

Consolidated Notes

Half year ended 31 December 2018

(F2) Notes to Consolidated Cash Flow Statements

(F2a) Reconciliation of profit for the period to net cash (outflows)/inflows from operating activities

	Stockland		Trust	
Half year ended 31 December	2018 \$M	2017 \$M	2018 \$M	2017 \$M
Profit for the period	300	684	276	398
Add/(less): items classified as investing/financing activities:				
Net loss/(gain) on fair value hedges	12	(1)	12	(1)
Net loss/(gain) on debt and derivatives	28	(4)	28	(4)
Interest capitalised to investment properties	(6)	(9)	(2)	(6)
Net loss on sale of other non-current assets	10	2	9	2
Net gain on other financial assets	—	(26)	—	—
Add/(less): non-cash items:				
DMF base fees earned, unrealised	(17)	(18)	—	—
Depreciation	6	9	—	—
Straight-line rent adjustments	(4)	(3)	(5)	(3)
Impairment of intangibles	10	—	—	—
Net change in fair value of investment properties (including equity-accounted investments)	25	(214)	(12)	(101)
Share of profits of equity-accounted investments, net of distributions received	(6)	(3)	1	(3)
Equity-settled share based payments	6	8	—	—
Other items	2	4	3	5
Net cash inflows from operating activities before change in assets and liabilities	366	429	310	287
(Increase)/decrease in receivables	(1)	49	(14)	(4)
Increase in other assets	(16)	(17)	(4)	(14)
Increase in inventories	(190)	(913)	—	—
Decrease/(increase) in deferred tax assets	18	(74)	—	—
(Decrease)/increase in payables and other liabilities	(44)	212	(4)	46
Increase in Retirement Living resident obligations	4	64	—	—
(Decrease)/increase in other provisions	(273)	428	—	—
Net cash (outflows)/inflows from operating activities	(136)	178	288	315

(F2b) Reconciliation of movement in financial liabilities arising from financing activities

Stockland and Trust

	Opening balance 1 July \$M	Net cash flows \$M	Non-cash movements		Balance 31 December \$M
			Foreign exchange movements \$M	Fair value changes \$M	
2018					
Interest-bearing loans and borrowings					
Offshore medium term notes	3,381	(269)	10	157	3,279
Domestic medium term notes	557	—	—	—	557
Bank facilities and commercial paper	—	856	—	—	856
Total	3,938	587	10	157	4,692
2017					
Interest-bearing loans and borrowings					
Offshore medium term notes	2,842	(61)	(6)	(38)	2,737
Domestic medium term notes	557	—	—	—	557
Bank facilities	130	370	—	—	500
Total	3,529	309	(6)	(38)	3,794

Consolidated Notes

Half year ended 31 December 2018

(F3) Contingent liabilities

KEEPING IT SIMPLE ...

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision where uncertainty may exist regarding the outcome of future events.

Contingent liabilities at 31 December 2018 comprise bank guarantees, letters of credit and insurance bonds:

	Stockland and Trust	
	31 December 2018	30 June 2018
	\$M	\$M
Guarantees		
Bank guarantees, letters of credit and insurance bonds issued to local government and other authorities against performance contracts, maximum facility \$750 million (June 2018: \$610 million)	471	421

(F4) Commitments

Capital expenditure commitments

Commitments for acquisition of land and future development costs not recognised in the financial statements at balance date are as follows:

	Stockland		Trust	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
	\$M	\$M	\$M	\$M
Inventory commitments	446	363	—	—
Investment property commitments	164	218	51	36
Total capital expenditure commitments	610	581	51	36

Operating lease commitments

Operating lease commitments not recognised in the financial statements at balance date are as follows:

• within one year	9	9	—	—
• later than one year but not later than five years	31	31	—	—
• later than five years	4	8	—	—
Total operating lease commitments	44	48	—	—

During the period, \$4 million was recognised as an expense in Stockland's profit or loss in respect of operating leases (December 2017: \$4 million) which primarily relates to Head Office and State Office rental expenditure. No operating lease expense was recognised in the Trust's profit or loss.

(F5) Related party disclosures

There have been no significant changes to the nature of related parties that were disclosed in the 30 June 2018 annual financial statements.

(F6) Events subsequent to the end of the period

Stockland and Trust

Other than disclosed elsewhere in this report, there has not arisen in the interval between the end of the current period and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations, the results of operations, or the state of the affairs in future years of Stockland and the Trust.

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(F7) Changes in accounting policies

(F7a) AASB 9 Financial Instruments

The Group has adopted AASB 9 as issued in December 2014. The accounting policies were updated to comply with AASB 9. AASB 9 replaces the provisions of AASB 139 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. AASB 7 *Financial Instruments: Disclosures* was also amended to incorporate more extensive qualitative and quantitative disclosure requirement relating to AASB 9.

Adoption of AASB 9 has resulted in a change in accounting policies and adjustments to certain amounts recognised in the financial statements. The new accounting policies apply to the period commenced 1 July 2018 and the policies in the 30 June 2018 annual financial statements apply to the comparative periods.

Impact of first time adoption of AASB 9

The Group has adopted AASB 9 using the modified retrospective approach, with the effect of initially applying the standard recognised as a transition adjustment to the opening balance sheet and retained earnings at the date of initial application of 1 July 2018. Comparatives for the 2018 financial year have therefore not been restated.

The adoption of AASB 9 resulted in the following classification changes on initial application at 1 July 2018:

	Former classification under AASB 139	New classification under AASB 9
Financial assets		
Trade receivables	Loans and receivables	Financial assets subsequently measured at amortised costs
Other receivables	Loans and receivables	Financial assets subsequently measured at amortised costs
Other assets	Loans and receivables	Financial assets subsequently measured at amortised costs
Available for sale financial assets	Available for sale financial assets	Financial assets subsequently measured at fair value through profit or loss or other comprehensive income

For trade receivables, Stockland and the Trust apply the simplified approach to measuring expected credit losses as prescribed by AASB 9, which provides for the use of the lifetime expected loss provision for all trade receivables. There was an immaterial impact to Stockland's financial asset provisions on adoption of AASB 9.

The Trust has applied the new expected credit losses impairment model to the \$3,288 million unsecured intergroup loan receivable from Stockland Corporation Limited which is repayable in 2023. While there has been no history of defaults, and the loan is considered to be low credit risk, an impairment provision determined as twelve months expected credit losses of \$8 million has been recorded in retained earnings on adoption as follows. This loan eliminates on consolidation so there is no impact on Stockland.

Stockland Trust

	Amount under AASB 139 30 June 2018 \$M	Amount under AASB 9 1 July 2018 \$M	Decrease \$M
Consolidated Balance Sheet			
Trade and other receivables			
Non-current assets			
Receivables due from related companies	3,288	3,280	(8)
Retained earnings	2,000	1,992	(8)

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(F7b) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

The core principle of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or service passes to the customer. It requires the identification of discrete performance obligations within a transaction and allocating an associated transaction price to these obligations. The Group adopted AASB 15 with effect from 1 July 2018.

Adoption of AASB 15 has resulted in a change in accounting policies and adjustments to certain amounts recognised in the financial statements as noted below. The new accounting policies apply to the period commenced 1 July 2018 and the policies in the 30 June 2018 annual financial statements apply to the comparative periods.

Impact of first time adoption of AASB 15

There has been no change in the timing of recognition of revenue on adoption of this standard for property development sales and outgoings recoveries. Commercial Property rental income and Retirement Living DMF revenue continue to meet the definition of a lease arrangement and fall outside of the scope of AASB 15.

AASB 15 requires incremental costs which are directly attributable to obtaining a contract (e.g. a sales commission) to be deferred and recognised as a contract asset on balance sheet. This treatment is optional under AASB 15 where the related benefit (revenue) is expected to flow within one year or less of incurring the commission cost, which is the case for the majority of Residential land and Retirement Living sales.

On adoption of AASB 15, a \$4 million contract asset has been recorded at 1 July 2018, with a corresponding increase in retained earnings, in relation to Medium Density sales commissions incurred where settlements are not forecast to occur within one year. There will be an immaterial impact on the timing of the recognition of the commission expense in future periods.

Consolidated Statements of Profit or Loss and Other Comprehensive Income Year ended 30 June 2018	Amount under AASB 118 30 June 2018 \$M	Amount under AASB 15 1 July 2018 \$M	Increase/ (decrease) \$M
Total management, administration, marketing and selling expenses:			
• residential sales commissions	5	—	(5)
• amortisation expense (contract asset)	—	6	6
Total expense	5	6	1

Consolidated Balance Sheet	Amount under AASB 118 30 June 2018 \$M	Amount under AASB 15 1 July 2018 \$M	Increase \$M
Non-current assets			
Contract asset	—	4	4
Non-current liabilities			
Deferred tax liability	—	1	1
Retained earnings	—	3	3

In addition to revenue generated directly from leases, which are accounted for in accordance with AASB 117 *Leases*, rent from investment properties includes non-lease revenue earned from tenants, predominantly in relation to recovery of asset operating costs (known as 'outgoings'). This outgoings revenue is within the scope of AASB 15 and therefore recognised and measured under that standard. The outgoings recoveries element of external segment revenue is disclosed in section (B1).

The Group has adopted AASB 15 prospectively from 1 July 2018, as permitted under the specific transition provisions in the standard. Comparatives for FY18 have therefore not been restated.

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(F8) New accounting policies

(F8a) Investments and other financial assets

Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases/sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase/sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or been transferred and the Group has transferred substantially all the risks and rewards.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into three measurement categories:

- **amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest method. Any gain/loss arising on derecognition is recognised directly in profit or loss together with foreign exchange gains/losses;
- **fair value through other comprehensive income (FVOCI):** Assets that are held for both collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss; and
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade and lease receivables, the Group applies the simplified approach permitted by AASB 9, which requires lifetime expected credit losses to be recognised from initial recognition of the receivables.

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Half year ended 31 December 2018

(F8b) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at each balance date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking its hedge transactions.

Fair value hedges

A fair value hedge is a hedge of the exposure to changes in fair value of recognised assets or liabilities or a firm commitment that is attributable to a particular risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or highly probable forecast transaction that could affect profit or loss.

The effective portion of changes in the fair value of cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Where the hedged item subsequently results in the recognition of a non-financial asset, the gains and losses previously recognised in the cash flow hedge reserve are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss.

The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

(F8c) Revenue

Property development sales

Revenue from land and property sales is recognised when control over the property has been transferred to the customer. The properties have generally no alternative use for the Group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at a point in time when the legal title has passed to the customer.

Rent from investment properties

Rent from investment properties includes lease revenue and outgoing recoveries associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements.

Lease revenue is recognised on a straight-line basis over the lease term, net of any incentives.

Revenue related to outgoing recoveries is recognised over time in the accounting period in which the related services are rendered.

Consolidated Notes

Half year ended 31 December 2018

(F8c) Revenue (continued)

Deferred management fee (DMF) revenue

The DMF is recognised over the tenancy period and includes both fixed fees recognised on a straight-line basis and contingent fees recognised when earned.

The DMF calculated on the entry price of the unit is recognised each period; however, fees are only realised in cash at the end of the residents tenure.

The DMF calculated on the exit price of the unit is recognised and realised in cash at the end of the resident's tenure.

Dividends and distributions

Revenue from dividends and distributions are recognised in profit or loss on the date they are declared by the relevant entity.

Directors' Declaration

Half year ended 31 December 2018

In the opinion of the Directors of Stockland Corporation Limited, and the Directors of the Responsible Entity of Stockland Trust, Stockland Trust Management Limited (collectively referred to as the Directors):

- (a) the financial statements and notes of Stockland Corporation Limited and its controlled entities, including Stockland Trust and its controlled entities (Stockland) and Stockland Trust and its controlled entities (Trust), set out on pages 19 to 57, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of Stockland's and the Trust's financial position as at 31 December 2018 and of their performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that both Stockland and the Trust will be able to pay their debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Tom Pockett
Chairman



Mark Steinert
Managing Director

Dated at Sydney, 20 February 2019

Independent Auditor's Review Report



Independent auditor's review report to the stapled securityholders of Stockland and unitholders of Stockland Trust Group

Report on the Interim Financial Statements

We have reviewed the accompanying interim financial statements which comprise:

- the Consolidated Balance Sheet as at 31 December 2018, the Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Consolidated Statement of Profit or Loss and Other Comprehensive income for the half year ended on that date, selected explanatory notes and the directors' declaration for Stockland, being the consolidated stapled entity ("Stockland"). The consolidated stapled entity, as described in section (A) to the interim financial statements, comprises Stockland Corporation Limited and the entities it controlled during that half year, including Stockland Trust and the entities it controlled during that half year; and
- the Consolidated Balance Sheet as at 31 December 2018, the Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Consolidated Statement of Profit or Loss and Other Comprehensive income for the half year ended on that date, selected explanatory notes and the directors' declaration for Stockland Trust Group, being the consolidated entity ("Stockland Trust Group"). The consolidated entity comprises Stockland Trust and the entities it controlled during that half year.

Directors' responsibility for the interim financial statements

The directors of the Stockland Corporation Limited and the directors of Stockland Trust Management Limited, the Responsible Entity of Stockland Trust (collectively referred to as "the directors") are responsible for the preparation of the interim financial statements that give a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial statements is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated Stockland and Stockland Trust Group's financial position as at 31 December 2018 and their performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Stockland and Stockland Trust Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independent Auditor's Review Report



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial statements of Stockland and Stockland Trust Group is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Stockland and Stockland Trust Group's financial position as at 31 December 2018 and of their performance for the half year ended on that date; and
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

SJ Hadfield

S J Hadfield
Partner

N R McConnell

N R McConnell
Partner

Sydney
20 February 2019

Glossary

AASBs or Accounting Standards	Australian Accounting Standards as issued by the Australian Accounting Standards Board
AFFO	Adjusted FFO
A-REIT	Australian Real Estate Investment Trust
ASIC	Australian Securities and Investments Commission
Aspire villages	Non-DMF product and a purpose-built neighbourhood exclusively for people aged over 55 years
ASX	Australian Securities Exchange
CCIRS	Cross currency interest rate swaps
CODM	Chief Operating Decision Maker as defined by AASB 8 <i>Operating Segments</i>
DCF	Discounted cash flow
D-Life	Project development lifecycle
DMF	Deferred management fee earned from residents within the Retirement Living business
DRP	Dividend/distribution reinvestment plan
DSTI	Deferred STI
EBIT	Earnings before interest and tax
EPS	Earnings per security
Executive Director	Mark Steinert, the Managing Director and Chief Executive Officer of Stockland
FFO	Funds from operations
GST	Goods and services tax
IFRS	International Financial Reporting Standards as issued by the International Financial Reporting Standards Board
ILU	Independent living unit
IRR	Internal rate of return
KPI	Key performance indicators
LTI	Long term incentives
MAT	Moving annual turnover
NRV	Net realisable value
Report	This Stockland Interim Financial Report 2019
ROA	Return on assets
ROE	Return on equity
SA	Serviced apartment
SCPL	Stockland Capital Partners Limited
SDRT No. 1	Stockland Direct Retail Trust No. 1
Security	An ordinary stapled security in Stockland, comprising of one share in Stockland Corporation and one unit in Stockland Trust
Share Plans	Employee share plans which comprise the LTI, DSTI and \$1,000 employee plans
Statutory profit	Profit as defined by Accounting Standards
STI	Short term incentives
STML	Stockland Trust Management Limited (ACN 001 900 741, AFSL 241190), the Responsible Entity of Stockland Trust
Stockland or Group	The consolidation of Stockland Corporation Group and Stockland Trust Group
Stockland Corporation or Company	Stockland Corporation Limited (ACN 000 181 733)
Stockland Corporation Group	Stockland Corporation and its controlled entities
Stockland Trust	Stockland Trust (ARSN 092 897 348)
Stockland Trust Group or Trust	Stockland Trust and its controlled entities
TSR	Total securityholder return
WALE	Weighted average lease expiry

