Facing the challenges

Matthew Quinn and Graham Bradley discuss the difficult financial year and future opportunities

The big questions

Our response to the challenges we face

Stockland

Half year review

31 DECEMBER 2008

Facing the challenges

Matthew Quinn and Graham Bradley

We will take advantage of opportunities created by the current market turmoil to position our company for an even more profitable future.

Operating profit*

$127.9m

1H09	$127.9m
1H08	$324.6m

Total assets

$15.2b

1H09	$15.2b
1H08	$15.1b

Earnings per security*

8.5c

1H09	8.5c
1H08	22.4c

Dividend/ distribution

17.0c

1H09	17.0c
1H08	22.6c

Gearing ratio

31.0%

1H09	31.0%
1H08	28.5%

Dear investors,

The last six months have been extremely challenging. Like all property companies, we have faced difficult operating conditions as a result of the global economic crisis. Our half year financial results reflect these challenges.

Financial results

Our operating profit* before inventory write-downs for the six months ended 31 December 2008 was $287 million. This result is 12 per cent below the corresponding period last year, reflecting a general slowdown across all markets. We have made write-downs of $159 million net of tax on properties in our Australian Residential business and in the UK, giving us an operating profit* after inventory write-downs of $128 million for the half year.

Our statutory accounts recorded a net loss after tax of $726 million. This included a range of unrealised gains and losses and various non-cash items which move from year to year and do not reflect the performance of our operating businesses. For this reason we report our operating profit as the best measure of our business performance, even when it is lower than our statutory accounting result.

We are pleased to report that we have maintained our sound financial position. Our gearing ratio is 31% with an average weighted debt maturity of 5.8 years. Our ratio of total liabilities to total tangible assets is 38.1%, leaving a good buffer of $1.6 billion above the level required by our debt covenants.

Operational results

Our Commercial Property business performed well in the half year with good rental growth despite deteriorating market conditions. The performance of our Office and Industrial business is underpinned by sound leasing arrangements and good quality tenants with over 50% government and ASX200 companies.

Our Retail portfolio remains relatively well positioned for the current market with our shopping centres weighted towards non-discretionary food and general merchandise sales.

As we foreshadowed last year, our Residential Property business has suffered reduced sales and profits as a result of the tough operating environment. We have, however, taken full advantage of the Federal Government's First Home Owners Boost and recent interest rate cuts with a major focus on the first home owner market. This has resulted in strong sales in this segment and good momentum carried forward into the second half.

Retirement Living continues to perform well with solid price growth from existing villages and good pre-sales of units under construction. This business remains a key growth platform for us. Our Apartments business performed below expectations, impacted by deterioration in the high-end residential market.

Our UK business has suffered as a result of extremely tough conditions in that market, and regrettably we have now written-down our UK investment by some 90%. We are now focused on de-risking our UK projects and will not invest any new capital in the short term.

Dividend/distribution

Our dividend and distribution policy is to pay out effectively 100% of Trust operating income and 90% of Corporation operating profits. Based on this policy we will pay an interim dividend/distribution of 17 cents per security – half of our estimated FY09 dividend/distribution of 34 cents per security.

We are currently reviewing our policy for FY10 and beyond, and expect to more closely align our future distributions with our operating cash flow. We will keep you fully informed of any changes we decide to make.

Outlook

We are facing the challenges created by the global financial crisis and economic slowdown head on with a range of measures designed to see us through the immediate pressures and position us for the upturn.

We have reviewed our development pipeline and any uncommitted development expenditure in Commercial Property and the Apartments business has been deferred until markets improve.

We have managed our debt refinancing risk by completing all necessary refinancing for FY09 and the next debt to mature is $200 million (5% of our net debt), due in June 2010.

In the second half of FY09, operating earnings in our Commercial Property business will continue to be supported by strong lease rental contracts. We do however, expect a continuing deterioration in commercial property markets as 2009 progresses and we are actively managing for these conditions.

In our Residential Communities business we expect a greater contribution from single lot sales, but anticipate that sales of large lots may be lower than we had hoped with a possible shortfall of up to $50 million in planned profit in the second half.

While we continue to manage our business prudently through the downturn, we will also take advantage of opportunities created by the current market turmoil to position our company for an even more profitable future.

Yours sincerely,

Graham Bradley

Graham Bradley
Chairman

Mara Cl

Matthew Quinn
Managing Director

* Before certain significant items
Cover image: Rylands Retirement Living Hawthorn, Victoria.

The big questions

What are we doing to respond to the challenges we face and opportunities that emerge?

Economic slowdown

> Deferring capital expenditure until conditions warrant investment

> Focusing on efficiency and cost reduction

> Going back to basics with a strong focus on asset management and customer relationship management

Federal Government stimulus package

> Capitalising on the First Home Owners Boost – with high quality, affordable product

> Working with government and banks to optimise the use of the Australian Business Investment Partnership and other stimulus measures

Challenging debt and equity markets

> Reducing debt through asset sales and the deferral of capital expenditure

> Strengthening the balance sheet through recent share placements and underwriting the Dividend Reinvestment Plan

> Renegotiating debt facilities and extending terms

Strong relative position in the A-REIT sector

> Acquiring or gaining access to good quality assets at attractive prices – we will take a measured approach and manage risk

Key dates

2009

27 February 2009	Dividend/Distribution Payment
19 June 2009	Announcement of Estimated Dividend/Distribution
24 June 2009	Ex-Dividend/Distribution Date
30 June 2009	Record Date for Dividend/Distribution
12 August 2009	Announcement of Full Year Results and Dividend/Distribution
31 August 2009	Dividend/Distribution Payment
20 October 2009	Annual General Meeting (2.30pm)
18 December 2009	Announcement of Estimated Dividend/Distribution
23 December 2009	Ex-Dividend/Distribution Date
31 December 2009	Record Date for Dividend/Distribution

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