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Stockland

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# ASX/Media Release

## STOCKLAND ANNOUNCES FY12 RESULTS

Stockland today reported its results for the year ended 30 June 2012. Statutory Profit was $487.0 million, down 35% on the prior year, due to a combination of factors, predominantly unrealised mark to market adjustments on financial instruments.

Underlying Profit was $676.1 million, down 7% on FY11, and Underlying Earnings per Security was 29.3 cents, down 4%. Stockland's Distribution per Security rose 1% to 24.0 cents.

### Key metrics

- Statutory Profit: $487.0 million
- Statutory Earnings per Security: 21.1 cents
- Underlying Profit[1]: $676.1 million
- Underlying Earnings per Security: 29.3 cents
- Distribution per Security: 24.0 cents
- Gearing (Net Debt / Total Tangible assets): 25.8%
- Return on Equity[2]: 8.2%

Managing Director Matthew Quinn said: "This is a reasonable result in what continues to be a very challenging operating environment.

"We have managed prudently in response to the current environment with conservative balance sheet management, sharpened focus on understanding our customers, delivering innovative products that meet their needs and executing our strategy to position our business for future growth.

"We have retained relatively low gearing and tight control of costs, and have undertaken significant restructuring to improve our efficiency in FY13.

"We have maintained our focus on improving returns through active capital management – investing the capital we release from non-core asset sales to keep our debt low, buy back shares and invest in growing our core businesses.

"Our strategy of delivering high quality and affordable residential, shopping and retirement living for middle Australia continues to prove sound in the current market, with solid results in our Retail and Retirement Living businesses and strong Residential sales volumes in a very soft market.

"A highlight of this result was the solid performance of our Retail business reflecting its focus on providing value and convenience and the skew towards growing regional areas.

[1] Underlying Profit is a non-IFRS measure that presents, in the opinion of the Directors, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit excludes items such as unrealised fair value gains/losses, unrealised provision gains/losses and adjustments arising from the effect of revaluing assets/liabilities, such as derivatives, financial instruments and investment property. Other Underlying Profit adjustments are made for realised transactions occurring infrequently and those that are outside the course of Stockland's core ongoing business activities. Underlying Profit is also the basis on which distributions are determined. The reconciliation between Statutory Profit and Underlying Profit is set out in the Financial Report.

[2] Return on Equity is a measure that accumulates individual business ROAs and incorporates the cash interest paid and average drawn debt for the period. Refer to Results Pack slide 17 for a detailed breakdown of methodology.

"While our Residential business still achieved a record number of settlements for the year, margins came under pressure in the soft market conditions. Our ability to increase sales volumes in this environment reflects the appeal of our affordable product and our strategy of operating in targeted growth corridors.

"Our Retirement Living business achieved a significant lift in profit with strong sales of both existing and new units driven by our high quality offering that is affordable to enter and affordable to live in.

"Each of these core businesses is well positioned for the future with a secure pipeline of projects and strong market fundamentals, including population growth, creating demand for our products."

## OPERATING RESULTS

### Retail

***Profit (Net Operating Income): $310 million***

- Net Income growth 8%; Comparable Net Income[3] growth of 3.8%
- Comparable moving annual turnover growth of 2.9%
- Portfolio occupancy of 99.4%
- Return on Assets[4]: 8.0%

The performance of our Retail centres demonstrates the effectiveness of our focus on creating community hubs with a clear value and convenience offering. This strategy helps insulate us from the threat of online shopping.

We continue to invest in our development pipeline to ensure our centres are more resilient and to grow our returns. We currently have three major projects under construction – Merrylands, Townsville and Shellharbour – each on track to open on time and substantially leased.

### Office and Industrial

***Profit (Net Operating Income): $142 million in Office; $77 million in Industrial***

- NOI down 16% due to asset sales and weak demand; Comparable NOI: Office flat and Industrial up 4%
- Portfolio occupancy of 94.5% in Office; 97.3% in Industrial
- Return on Assets[4]: 7.8%

We also remain very focused on optimising the performance of our remaining assets. We have outsourced day-to-day property management to a specialist provider to achieve cost savings, while retaining internal control of strategic asset management to focus on maximising returns.

We continued to reweight our Commercial Property portfolio with the sale of $964 million of Office and Industrial assets in FY12 at prices on average slightly above book value.

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[3] Post-AIFRS

[4] Return on Assets is cash profit returns (excluding the impact of non-cash elements such as capitalised interest, impairment release, lease incentive amortisation) divided by average cash invested for each asset class. Refer to Results Pack slide 17 for a detailed breakdown of methodology.

## Residential Communities

***EBIT $270 million, Operating Profit (incl. interest in COGS) $198 million***

- Lots settled: 5,388, up 6% on FY11
- Contracts on hand at 30 June 2012: 1,561, around 700 lower than last year
- EBIT Margin 25%, at the low end of our target range
- Return on Assets[4]: 11.3%

We achieved a record number of settlements in FY12, despite the residential market being at a deep cyclical low, but pressure on our margins impacted our profit result.

Interest rate cuts have not stimulated activity in the way they have in the past and new home buyers remain cautious. Our ability to bring affordable product to the market has been central to maintaining our high market share in our chosen corridors in this challenging environment.

We are well placed to achieve strong future growth with the launch of 16 new projects in the next three years including Marsden Park and East Leppington in NSW, Caloundra South in Queensland and Lockerbie in Victoria.

## Retirement Living

***Operating Profit: $36 million***

- Operating Profit up $20 million from FY11
- Record number of sales: 519 existing units and 268 new units
- Return on Assets[4]: 4.2%

Our Retirement Living business progressed well in FY13, achieving operational efficiencies and increased revenue. We enter FY13 in a strong position with 200 reservations on hand and on track to deliver a record number of sales including over 300 new unit sales, with 12 active developments in four states.

Cash returns from this business are growing steadily (ROA up from 2.9% in FY11) and we continue to focus on lifting these further through development of new product, increased efficiency in our development process and as village maturity increases.

## Other businesses: UK and Apartments

***UK: Operating Profit $17 million, Apartments: Nil Operating Profit***

Our exit from these businesses is on track and no further meaningful profit contribution is expected from UK and Apartments.

## FINANCIAL MANAGEMENT

- Gearing: Net Debt / Total Tangible assets 25.8%
- Weighted average debt maturity 5.3 years

We have continued to manage our business prudently and conservatively, given ongoing uncertainty in global credit markets. Our balance sheet remains strong with relatively low gearing, comfortably within our target range of 20-30%.

Cash flow has been impacted by a range of factors including a lower contribution from Residential and accretive acquisitions. We expect to better balance our cash flows in FY13 with continued asset sales, less acquisitions, selective re-investment and stronger operating cash flow.

### Buyback

We have acquired through our buyback 179.5 million securities (7.5% of issued capital) at an average price of $3.04. The total EPS accretion in FY12 was 0.3 cents (1%), and the impact for a full year should be over 2%. We plan to continue our security buyback up to 10% of issued capital, managed prudently taking into account the progress of our asset sales.

## OUTLOOK

FY13 will be a difficult year with ongoing residential market headwinds and the impact of the transition of our business as we position it for growth in FY14 and beyond.

While our Retail and Retirement Living businesses remain well placed to deliver increased returns in FY13, there will be no contribution from UK and Apartments and income from our Office portfolio will be lower due to asset sales. We are also anticipating lower Residential margins due to less sales of high margin lots in Victoria as the market slows, and increased sales of low margin or impaired lots in NSW.

The major uncertainty in our outlook is the state of the residential market. The new housing market remains soft and lower mortgage rates are not yet having the same positive impact as occurred in previous cycles. As a result, the short-term earnings outlook remains highly uncertain and, unless residential market conditions improve significantly within the next few months, FY13 EPS is likely to be lower than FY12. The extent will depend on the timing and strength of recovery in the affordable end of the housing market and we will provide a further update at our AGM in October following our first quarter of trading.

We are confident that EPS will improve in FY14 as major new Residential and Retail projects come on line. Given the transitional nature of FY13 and our improved outlook for FY14, the Board expects to maintain Stockland's distribution at 24 cents in FY13, even if above our target 75-85% payout ratio.

Stockland's FY12 results presentation will be webcast via *www.stockland.com.au* on Wednesday 8 August 2012 at 11.30am (AEST).

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