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ASX/Media Release

STOCKLAND ANNOUNCES HALF-YEAR RESULTS

Stockland today reported its results for the half year to 31 December 2012. Underlying Profit[1] was $255 million, down 26% on the previous corresponding period, reflecting persistent challenging conditions in the new housing market, the impact of asset sales and a change in approach to capitalised interest.

Statutory Loss for the first half was $147 million, down 148%, largely due to an impairment of the residential book including a number of non-core residential projects that have been identified for wholesale disposal, and unrealised fair value changes to other assets.

Stockland's first half distribution is 12 cents per security and the group confirmed its full year distribution will be 24 cents per security. Underlying EPS was 11.6 cents, down 20% from 14.5 cents in the first half of FY12.

Stockland Managing Director and CEO Mark Steinert said: "Stockland's disappointing first half result reflected the difficult operating conditions we faced and the impact of the group's portfolio transition.

"In this challenging environment we remain focused on optimising our performance and positioning the business for future growth.

"To support this we've made some difficult decisions that will help strengthen the business for more stable long-term returns.

"Firstly, having completed the detailed review of capitalised interest we announced late last year, we have changed the way we apply capitalised interest on our residential projects, effective 1 July 2012. We will now allocate a share of incurred and future interest to each lot sold rather than just a share of interest incurred to date. While this will negatively impact our Underlying Profit in the medium term, it will ultimately ensure our residential projects deliver more consistent returns over time.

"We have also now conducted our regular residential portfolio review and have identified 13 residential projects that do not meet our hurdles and have impaired them for wholesale disposal rather than continuing to develop them out. I am confident this is the right thing to do to ensure our capital is put to best use, given expected returns and the additional $500 million of expenditure required over a number of years to trade them out.

"In addition, we have reviewed the balance of our portfolio against more conservative assumptions about the future performance of the housing market, resulting in the impairment of seven trading residential communities, which we believe is prudent in the current environment. The total residential impairment represents 9% of total lots owned and under option and reduced Net Tangible Assets by 14 cents per security."

Commenting on the first half result, Mr Steinert, who commenced in his role on 14 January 2013, said: "The team has managed the business well given the conditions, maintaining a conservative balance sheet, tightly managing capital and focusing on meeting the needs of customers who continue to be cautious.

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1. Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined. Refer to the Interim Statutory Accounts for the complete definition.

“The new housing market remains very soft and this has significantly impacted our Residential business result. It is a credit to the team that they achieved 2,085 lot settlements in these conditions, only 6% below 1H12.

“Pleasingly our Retail business, which represents around 60% of our earnings, performed well despite the challenging consumer environment. On a comparable basis the Commercial Property business achieved a solid result with Net Operating Income[2] up 3.2% on 1H12, although the overall result was down as we work through the lag in earnings created by the sale of non-core assets and timing of retail redevelopments.

“Our Retirement Living business delivered a solid operating result, despite feeling some impact from the soft housing market, with a record number of new units sold.”

FINANCIAL MANAGEMENT

Gearing: 27.6%
Weighted average debt maturity: 5.2 years

Stockland CFO Tim Foster noted that the group had continued its prudent approach to managing the balance sheet and while gearing was higher, due to lower operating cashflow from Residential, it remained within the target range.

“We have also continued to manage our overheads tightly, achieving a reduction of 8%, and have improved capital efficiency through a focus on reducing the amount of finished goods we have on hand and improving our development processes including how we stage delivery and production times,” Mr Foster said.

Mr Foster said Stockland was also assessing the allocation of capital between the Trust and Corporation following the recent Residential impairments.

“While overall the group’s capital position remains strong, following these impairments we will need to move capital between the Trust and Corporation. We anticipate we will ask for securityholder support at our AGM to reallocate around $500 million of capital from the Trust to the Corporation to better position the Corporation for future growth.”

Buyback
Stockland will cease its on-market security buyback effective immediately. In the current environment, it is deemed a better use of capital to invest in the core businesses and is consistent with the slow-down of the commercial property asset sales program while the strategic review is completed.

OPERATING RESULTS

Residential

EBIT: $76 million, Operating Profit: $28 million

In our Residential business our EBIT margin was down from 27% to 19% as we saw a peak in settlements from lower margin projects in NSW and a reduced contribution from higher margin Victorian projects. In addition to this, the soft market meant there was no price growth to offset normal increases in costs.

[2] Post-AIFRS

Operating profit in the half was also impacted by the change to how we apply capitalised interest which resulted in more interest being expensed in the period. This is non-cash and will reverse over time.

We continue to actively manage the business through the down cycle with the delivery of affordable products that meet our customers' needs and capital management improvements, including now having around 29% of total lots owned and under option on capital-efficient terms (compared to around 15% in 2009) and reducing aged inventory. Pleasingly, core residential projects, while impacted by weak markets, are typically outselling competitor projects.

Portfolio review
We undertook a rigorous review of our residential portfolio, applying more conservative assumptions about the future performance of the housing market. As a result we have recognised an impairment on seven trading residential communities totalling $53 million and two apartments projects totalling $7 million.

In addition, we determined that 13 non-core residential projects, one apartments project and two industrial land parcels are now more suited to wholesale disposal rather than long-term trade out and will require an impairment of $234 million, $3 million and $9 million respectively. We do not capitalise interest on inactive projects and as such we have stopped capitalising interest from 1 January 2013 on those projects where active development has ceased.

The residential communities projects we have impaired represent 9% of our total lots owned and under option, and the majority were acquired in 2003/4. These projects, which are predominantly lifestyle projects, are non-core and would not pass the acquisition filters we have had in place since 2009. We're confident in the future strength of our core portfolio with projects launching in FY14/15 set to deliver a significantly higher EBIT margin than those we are finishing or disposing.

Commercial Property

Retail Net Operating Income[2] (NOI)*: $159 million*

Our Retail business achieved sales growth in a challenging environment demonstrating the resilience of our portfolio. Total Moving Annual Turnover at 31 December 2012 was up 4.7% and NOI was up 5%. Our strategy is to create in each trade area the number one centre or the number two centre with a clear point of difference, and this continues to prove effective. We maintained high occupancy at 99.4% and increased tenant retention on lease expiry to 78%. During the first half we opened two major redevelopments at Merrylands in Sydney and Townsville in Far North Queensland, significantly improving their quality and position in their trade areas.

Office Net Operating Income[2]*: $60 million*

We have made good progress in our office portfolio achieving improved occupancy and weighted average lease expiry. While our overall NOI reflected the reduced number of assets in the portfolio, on a comparable basis we achieved solid NOI growth of 6.2% in the first half. We continue to actively manage the portfolio, executing 33,000 sqm of leases in the first half and improving occupancy and the lease expiry profile.

[2] Post-AIFRS

Industrial Net Operating Income[2]: $32 million

Industrial NOI was down in the first half due to one asset sale and re-letting activity, particularly at Yennora. Re-letting is progressing well with 127,000 sqm of leases executed in the half and more in negotiation. This will improve occupancy and profit from our Industrial portfolio in FY14.

Retirement Living

Operating Profit: $12 million

Our Retirement Living business achieved a solid first half profit underpinned by strong growth in new unit settlements and steady established unit settlements. The development pipeline is progressing well, with new initiatives such as the project home builder partnership strategy improving both product quality and construction efficiency, as demonstrated at the very successful stage one launch at Selandra Rise in Victoria.

As at 31 December 2012 the net accumulated Deferred Management Fee (DMF) revaluation gain on our retirement village portfolio was $177 million. The DMF asset declined over the six months by $69 million, due to a reduction in unit prices and changes to forecast growth in unit prices for the remainder of FY13 and FY14, reflecting the soft housing market conditions.

OUTLOOK

FY13 remains challenging with any recovery in the detached new housing market likely to be patchy and slow, and as the business continues to experience the earnings lag created by previous asset sales and the timing of retail redevelopments.

In our Residential business we expect to see the usual skew in volumes to the second half and a smaller proportion of low margin NSW settlements. Market conditions however, are expected to remain challenging with ongoing weakness in Victoria and uncertainty in Queensland where we will watch closely to monitor any impact on already weak consumer sentiment following the recent floods.

Our Retail and Retirement Living businesses remain well placed to deliver full year returns above the prior year, while income from our Office and Industrial portfolios will be lower due to asset disposals. The performance of our business will also be impacted by our decision to dispose of a number of non-core residential projects resulting in the interest on those projects being expensed rather than capitalised.

As previously indicated, FY13 is expected to be a low point in earnings. Before taking into account the change to capitalised interest and the more conservative housing market growth forecasts, the group was on track to achieve its previous guidance of EPS at the lower end of 10-15% below FY12. Following the changes we have announced, we now expect FY13 EPS will be 20-25% lower than FY12, with the change to capitalised interest being the main driver.

We remain confident earnings will begin to improve from FY14 as we see the benefit of major new retail and residential projects coming on line. For this reason the Board has reaffirmed the FY13 distribution of 24 cents per security, notwithstanding the impact of the changes we have announced today.

Mr Steinert said Stockland is committed to delivering sustainable growing shareholder returns over time and his key priority over the coming months is completing a detailed strategic review of the business.

"Today we've announced some important steps that will help strengthen the business for the future. We are now focusing on completing a detailed review of the business to ensure we maximise shareholder returns within an acceptable level of risk. This involves reviewing our assets and capabilities, and our capital management and capital partnering opportunities, with a continuing commitment to sustainability and employee engagement. During this review period we will slow down the commercial property asset sales program to maintain flexibility. We expect to provide an update on our strategic review at our third quarter investor briefing in May."

Stockland's first half FY13 results presentation will be webcast via www.stockland.com.au on Wednesday 13 February 2013 at 11.30am (AEDST).

KEY METRICS

	1H13		1H12
Statutory (Loss) / Profit	$(147.1)m	▼ 148%	$307.6m
Statutory Earnings per Security	(6.7) cents	▼ 151%	13.1 cents
Underlying Profit[1]	$255.0m[2]	▼ 26%	$342.3m[3]
Underlying Earnings per Security	11.6 cents	▼ 20%	14.5 cents[4]
Distribution per Security	12.0 cents	-	12.0 cents
Net Tangible Assets per Security	$3.49	▼ 5%	$3.69
Gearing (D/TTA)	27.6%		23.0%
Return on Equity[5]	7.5%		8.2%

1. Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors, the ongoing operating activities of Stockland in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined. Refer to the Interim Statutory Accounts for the complete definition
2. The basis for determining the capitalised interest release to the income statement for the Residential Business has been amended from previous periods due to a change in estimates. This change has been applied prospectively from 1 July 2012 impacting 1H13 by $17m. For comparison purposes, a $13m expense would have been incurred if this change had been applied from 1 July 2011 (not included in 1H results shown above)
3. The basis for determining Underlying Profit for the Retirement Living business has been amended from previous periods to be more closely aligned to realised cash profits. The change in recognition basis has been applied retrospectively. As a result, the 1H12 Underlying Profit has been reduced by $12m
4. 1H12 EPS would be 14.9 cents, using the previous method for Retirement Living accounting
5. Return on Equity is a measure that accumulates individual business Return on Assets and incorporates the cash interest paid and average drawn debt for the period, 1H13 represents rolling 12 months to 31 December 2012; the comparative represents the rolling 12 month to 30 June 2012

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