



11 August 2010

ASX/Media Release

STOCKLAND FY10 RESULTS

- Underlying Profit \$692.3 million¹, up 10% on FY09
- Underlying EPS 29.1 cents², down 20% on FY09 due to the higher number of shares on issue
- Distribution per security 21.8 cents
- Statutory profit \$478.4 million
- Gearing (Net Debt / Total Tangible Assets) 18%
- FY11 guidance – EPS growth of 7% from FY10

Managing Director Matthew Quinn said: “Today’s announcement of a 10 per cent increase in Underlying Profit is a solid result in line with our guidance. We delivered consistent growth in our operating businesses and maintained our strong capital position.

“Our customer insight and product innovation in Residential Communities enabled us to increase sales in all market segments and achieve record settlements. We’re in a very strong position for FY11, with record contracts on hand.

“We remain focused on creating a large scale, national Retirement Living business. We have six new projects underway and last week we announced a cash offer to acquire Aevum which, if successful, would almost double the size of the retirement business.

“Commercial Property asset values are stabilising and through our internal asset management, leasing and development capability we delivered steady returns in a challenging market. We have started a number of substantial retail development projects which will enhance the quality and security of earnings over coming years.

“Stockland is in good shape; we have a clear growth strategy, good earnings momentum and a strong balance sheet,” Mr Quinn said.

¹ Underlying Profit reflects statutory profit as adjusted to reflect the Directors’ assessment of the result for the ongoing business activities of Stockland, in accordance with the AICD/Finsia principles for reporting underlying profit.

² Prior period EPS per security has been adjusted for the dilutionary impact of the Equity Raising announced on 13 May 2009 as required by accounting standards, and also excludes inventory write-downs.

OPERATING RESULTS

Residential

Residential Communities: EBIT \$274 million³, operating profit⁴ \$213 million

- Record retail lot settlements – 5,236 lots, up 22% on FY09
- EBIT margin 27%, up 2% on FY09; operating profit margin⁴ stable at 21%
- Record contracts on hand at 30 June 2010 – 2,249 lots, \$481 million of future revenue

The strong FY10 Residential Communities performance was driven by a combination of volume growth, with increased settlements in all states, and higher productivity, with a 12% increase in the average sale price per square metre.

Residential Communities sales were underpinned by significant increases in both upgraders, who now account for the majority of leads, and investors driven by strong rental demand and low vacancies. Investor sales more than doubled during FY10 and are now back within the target range of 15% to 25% of sales.

The end of the First Home Owner Boost saw first home buyers return to Stockland's target range of 20% to 30% of sales, but they still remain particularly active in Victoria where the state government grant has been extended to June 2011.

Residential continued to extend its footprint into new growth corridors with the acquisition of seven residential land parcels in FY10/FY11 to date for a total of \$380 million, several on deferred payment terms. These projects will deliver almost 10,000 lots, generating around \$2.2 billion of future revenue. First settlements are expected in FY11, demonstrating the Group's focus on increasing speed to market.

FY11 EBIT margins are expected to remain in the middle of the Group's 25% to 30% target range. The FY11 result is likely to be skewed to the second half due to high production levels, which are still lagging sales.

The Residential Communities business enters FY11 as a clear market leader with scale, geographic reach and market insight providing a significant competitive advantage.

Apartments: EBIT \$40 million, operating profit⁴ \$11 million

- 315 apartments settled
- Trade-out of existing projects and disposal of undeveloped sites progressing well

Apartments projects currently under development will be progressively completed releasing around \$480 million of net cash flow to be reinvested in the Residential Communities business. The disposal of undeveloped Apartments sites is progressing as planned, with a further \$90 million of expected sale proceeds to be realised over coming years.

³ Excludes net profit of \$1.6m from sales of impaired projects.

⁴ Including interest in COGS.

Retirement Living

Retirement Living: operating profit \$36 million

- Operating profit up 13% to \$36 million (up 20% pre AASB 140 changes)
- 177 new units settled and 253 established units turned over
- Six projects under construction in three states

Retirement Living achieved a good increase in operating profit, reflecting higher settlement volumes, solid price growth and stable overheads.

Established villages performed well, with 97% occupancy⁵ and 8% average price growth. Cash coverage⁶ of earnings increased from 34% to 38% due to increased settlements in both established and development villages.

Retirement Living is one of Stockland's key strategic growth platforms, leveraging our experience in residential development and appealing to Australia's growing retirement-age population.

Stockland has a \$1.1 billion development pipeline which will deliver good organic growth over coming years. Demand at new villages is strong and first stage releases at North Lakes (Qld) and Highlands (Vic) quickly sold out.

Aevum would be a very good strategic fit for the business, creating a national platform and enhancing the cash flow profile through a more mature village portfolio.

Commercial Property

Commercial Property: net operating income (NOI) \$534 million

Stockland's Commercial Property business reported a 1.4% decrease in NOI due to the reduction in income caused by non-core asset sales during FY09 and FY10 totalling \$770 million. Proceeds from asset sales are being recycled into the substantial retail development pipeline but there is a timing gap of two to three years between asset disposal and the opening of the new space.

On a comparable basis overall Commercial Property NOI was up 1%.

Retail: NOI \$266 million

- Comparable NOI growth of 4%
- High portfolio occupancy of over 99%
- Specialty occupancy costs at a sustainable 13.4% of specialty shop moving annual turnover (MAT)

Growth in retail rents continues to be underpinned by population growth, with quality retail space still attracting robust tenant demand. Some 500 specialty lease transactions were completed in FY10, achieving 5% average rental growth.

⁵ Includes newly completed but as yet unsold units.

⁶ Cash coverage is a measure of pre-tax cash earnings (including DMF cash received less DMF cash accrual) as a proportion of Operating Profit.

Comparable MAT growth was a modest 2%, reflecting the ongoing impact of interest rate rises and increasing utility charges on consumer spending.

Around 300 specialty lease transactions are due to be completed in FY11 and rental growth is expected to be similar to the 5% achieved in FY10.

Retail development pipeline

The \$2.5 billion retail development pipeline underpins the Commercial Property growth strategy and will substantially enhance the quality of the retail asset base:

- Balgowlah (NSW) and Riverton (WA) were completed in FY10
- Rockhampton and North Shore (Qld), and Tooronga (Vic) are close to completion
- Merrylands (NSW) and Townsville (Qld) are due for completion in FY13, creating significant regional shopping centres in key trade areas
- Another four projects are expected to commence in the next 18 months, including substantial expansions of Shellharbour and Wetherill Park (NSW).

Office and Industrial: NOI Office \$193 million, Industrial \$75 million

- Portfolio occupancy 97% in Office (92% including space under refurbishment), 95% in Industrial
- 260,000m² of Office and Industrial space leased in FY10
- Weighted Average Lease Expiry: Office 4.6 years, Industrial 3.4 years

Stockland recorded a decline in comparable NOI of 1% in Office and 3% in Industrial due to high lease incentives and longer lead times to lease vacant space.

National office vacancies across Australia are expected to peak in FY11 and Stockland's recent leasing success has significantly de-risked the FY11 and FY12 lease expiry profile.

Revaluations

Commercial Property capitalisation rates remained steady in the second half, following the independent valuation of 97%⁷ of Stockland's assets during FY10.

UK

UK: operating profit \$1.2 million

Stockland continued its orderly workout program in the UK, selling assets with a book value of around \$40 million⁸ at a slight premium. The remaining book value of approximately \$260 million is expected to be realised by FY12 and will be reinvested in the Australian business. A break-even operating result is expected over this period.

CAPITAL MANAGEMENT

- Gearing (Net Debt / Total Tangible Assets) 18%
- Weighted average debt maturity 6.2 years
- \$1.9 billion of cash and undrawn facilities

⁷ Excludes assets under development.

⁸ \$2m profit on sale of impaired projects excluded from Underlying Profit.

Stockland remains below its target gearing range of 25% to 35% and will progressively move towards the lower end of the range to fund growth opportunities in Residential Communities, Retirement Living and Retail development.

The Group also has an estimated \$830 million of net cash flow to come from the wind down of Apartments and the UK to fund growth and ensure a strong capital position.

STRATEGY AND OUTLOOK

Stockland has a clear focus on leveraging its diversified business model to deliver growth via its 3-R strategy: Residential Communities, Retirement Living and Retail development.

Following a rapid recovery in 2009, the residential market is now coming under pressure with recent interest rate rises impacting affordability. Further increases in bank variable mortgage rates remain the most significant threat to a sustained recovery. However, Stockland's ability to offer a variety of value for money products that cater to a range of buyer segments provides flexibility to meet this challenge.

The Residential business will continue to enhance its market-leading position and grow market share by acquiring new land above replenishment levels in key growth corridors across the country.

The Retirement Living development pipeline will add significant scale over the next few years and this would be further enhanced through the proposed Aevum acquisition.

Stockland's Commercial Property business will significantly enhance the quality of its assets through recycling capital from the sale of non-core Office and Industrial assets into its Retail development pipeline.

The Group will continue to undertake a disciplined assessment of growth opportunities in line with its stated long-term strategic weightings of 60-80% recurring income and 20-40% trading profit.

Strategic stakes

Stockland holds stakes in GPT, FKP and Aevum which were acquired to provide optionality to diversify and grow its core businesses.

The 13.1% GPT stake is held via an efficient off-balance sheet financing structure which expires in May 2011. Stockland owns 14.9% of FKP, Australia's second-largest retirement living operator, and retains an ongoing first right of refusal over FKP's retirement living assets.

Stockland's stake in Aevum is 15.9%, following the acquisition of an additional 5.8% interest post balance date.

Distribution policy

Stockland's policy is to have a high distribution payout ratio reflecting the predictability of profits while retaining some earnings to fund growth. In FY09 Stockland moved to a payout ratio of the greater of its Trust Taxable Income or 80% of Adjusted Funds from Operations (AFFO). However, a review of this policy has shown that a distribution based on AFFO is overly complex.

Stockland's distribution policy is therefore being changed and simplified to the greater of 75% of Underlying Profit or Trust Taxable Income. The final FY10 distribution will be paid under this new policy, which lifts the full year payment to 21.8c per security, compared with guidance of 21.6c per security. This equates to a total payout of \$520 million (\$674 million in FY09).

Sustainability

Stockland recognises the importance of sustainability to its long-term success and ability to deliver ongoing value to its customers, tenants, investors and business partners.

Stockland was ranked 24th of the Global 100 Most Sustainable Corporations in the World at the 2010 World Economic Forum in Davos, Switzerland. The Group was one of only eight Australian companies to make the list and was named top diversified property company in the world.

Stockland continues to focus on employee engagement and well-being, with the recent employee engagement score of 82% above the Towers Watson Australian National Norm and Global High Performing Companies Norm. The Group's focus on gender diversity and flexible work practices is delivering business benefits, with the proportion of employees returning from parental leave increasing from 69% to 82% during FY10 resulting in improved productivity.

Outlook

Mr Quinn said: "The hard work of the last two years is paying off and our business enters FY11 in a strong position, well prepared for any further market volatility.

"While we will maintain our conservative and disciplined approach to capital management, we are also looking to capitalise on growth opportunities.

"Our strong, diversified business model and sound property expertise will enable us to deliver increased securityholder returns," Mr Quinn said.

Stockland expects to achieve FY11 EPS growth of 7% from FY10.

Stockland's 2010 full year results presentation will be webcast via www.stockland.com.au on Wednesday 11 August 2010 at 11.30am (AEDST).

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FACT SHEET - STOCKLAND FY10 FULL YEAR RESULTS

	FY10	FY09
Statutory profit/(loss)	\$478m	(\$1,802m)
Underlying Profit ⁹	\$692m	\$631m
Underlying earnings per security ¹⁰	29.1c	36.5c
AFFO per security ¹⁰	26.2c	29.4c
Distributions per security	21.8c	34.0c
NTA per security	\$3.59	\$3.61

OPERATIONAL RESULTS

Residential

Communities	FY10	FY09
EBIT (before interest in COGS) ¹¹	\$274m	\$222m
Operating profit (incl. interest in COGS) ^{11,12}	\$213m	\$184m
Lots settled	5,236	4,303
EBIT margin (before interest in COGS)	27%	25%
Operating profit margin (incl. interest in COGS)	21%	21%
Contracts on hand ¹³ - number	2,249	1,215
- dollar value	\$481m	\$205m
Apartments	FY10	FY09
EBIT (before interest in COGS)	\$40m	\$10m
Operating profit/(loss) (incl. interest in COGS) ¹²	\$11m	(\$9m)
Apartments settled	315	175
EBIT margin (before interest in COGS)	14.5%	4.5%
Operating profit margin (incl. interest in COGS) ¹²	3.8%	(4%)
Contracts on hand - number	539	310
- dollar value	\$471m	\$330m

⁹ Underlying Profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of Stockland, in accordance with the AICD/Finsia principles for reporting Underlying Profit.

¹⁰ Prior period EPS and AFFO per security have been adjusted for the dilutionary impact of the Equity Raising announced on 13 May 2009 as required by accounting standards, and also exclude inventory write-downs.

¹¹ Excludes net profit on settlements from impaired projects.

¹² Pre-tax.

¹³ 2,225 contracts on hand due to settle in FY11 (~70% in 1H11), 24 due to settle in FY12.

Retirement Living

	FY10	FY09
Operating profit ¹⁴	\$36m	\$32m
New units settled	177	163
- Average price	\$377k	\$313k
- Development margin (pre-overhead)	16%	19%
Established unit turnovers	253	217
Occupancy	97%	96%

Commercial Property

<i>Retail</i>	FY10	FY09
Net operating income	\$266m	\$255m
Asset revaluations ¹⁵	(\$216m)	(\$387m)
Comparable net operating income growth	4%	7%
Occupancy	99%	99%

<i>Office and Industrial</i>	FY10	FY09
Net operating income	\$268m	\$287m
Asset revaluations	(\$155m)	(\$733m)
Office comparable net operating income growth	-1%	6%
Industrial comparable net operating income growth	-3%	4%
Office occupancy ¹⁶	97%	97%
Industrial occupancy	95%	96%

Stockland UK

	FY10	FY09
Operating profit/(loss)	\$1.2m	(\$0.7m)

¹⁴ FY09 adjusted for comparative purposes to reflect changes to the Australian accounting standard AASB 140, FY09 results have not been restated in the statutory accounts. AASB 140 changes were \$6m in FY10 and \$7m in FY09.

¹⁵ Includes the impact of \$9.4m of site remediation costs.

¹⁶ Office occupancy 92% including space under refurbishment.