

Appendix 4D

For the half year ended 31 December 2016
(previous corresponding period being the half year ended 31 December 2015)

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 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*.

| | | 31 December 2016 \$M |
|---|------------|----------------------------|
| Revenue from ordinary activities | Up 9.8% to | 1,169 |
| Net profit after tax attributable to securityholders | Up 0.7% to | 702 |
| Funds from operations attributable to securityholders | Up 7.8% to | 369 |

Dividends and distributions

| Half year ended 31 December 2016 | Amount per security | Franked amount per security | Record date | Payment date |
|----------------------------------|---------------------|-----------------------------|------------------|------------------|
| Interim dividend/distribution | 12.6 ¢ | – ¢ | 30 December 2016 | 28 February 2017 |

On 15 December 2016, Stockland announced that the DRP would operate for the interim distribution to 31 December 2016 and that investors participating in the DRP will be entitled to receive a full distribution.

The DRP security price was determined to be \$4.38 being the average of the daily volume weighted averages of the selling price over the 15-day trading period immediately preceding Friday 17 February 2017, with a discount of 1.0% on the securities acquired under the DRP.

Other information

| Half year ended 31 December | 2016 | 2015 |
|----------------------------------|--------|--------|
| Net tangible assets per security | \$4.00 | \$3.87 |

This report is based on the 31 December 2016 Consolidated Interim Report which has been reviewed.

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



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*Results built on
strong fundamentals*



Stockland

INTERIM FINANCIAL REPORT
31 December 2016

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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

Capitalised terms and acronyms used in this Report are defined in the Glossary.

Letter from our Chairman and Managing Director and CEO



TOM POCKETT
Chairman



MARK STEINERT
Managing Director and CEO

Dear Securityholders

We're pleased to deliver another strong first half result driven by our focus on creating thriving, vibrant communities.

For the half year ending 31 December 2016, we made a statutory profit of \$702 million and generated Funds from Operations (FFO) of \$369 million, an increase of 7.8% on the previous corresponding period.

We're continuing to create a more diversified property company that is stable and resilient and more responsive to both market opportunities and our customers' needs.

The implementation of our strategy to reshape our portfolio is proving effective, growing our asset returns and our customer base, which has enabled us to increase our distribution.

As foreshadowed, the distribution for the half year is 12.6 cents per security, supporting our target full year distribution of 25.5 cents per security, assuming no material decline in market conditions.

Good returns across all businesses

Our Commercial Property business continued to deliver solid growth with comparable FFO up 3.7% across the portfolio; up 3.5% in Retail, 2.9% in Logistics and Business Parks, and 6.6% in Office.

Our Retail result was supported by high, stable retail occupancy and solid rental growth.

Retail sales were stable in the first half and the all-important Christmas trading period. Our strategy to continuously improve our shopping centre portfolio and actively remix our retail around food, health, services, lifestyle, leisure and technology to match customer demographic changes and trends, has helped to drive specialty sales productivity growth.

The completion of our \$228 million redevelopment of Stockland Wetherill Park in Sydney, ahead of schedule and before Christmas 2016, is an excellent example of how we are reshaping our portfolio. The redevelopment has been enthusiastically supported by the local community and has achieved returns above our target levels. Our latest major project, the \$412 million redevelopment of Stockland Green Hills in the Hunter Valley, is progressing well.

Our Logistics and Business Parks business performed well in the first half following strong leasing activity. We continue to expand the portfolio through acquisition and development with good progress made on our \$400 million development pipeline.

Our Residential business profit increased by 1.4% to \$100 million driven by our ongoing strategy to expand customer reach and continued strong price growth on the eastern seaboard. The business is strongly positioned for the full year.

We remain focused on delivering high quality communities and maximising the number of projects and lots in active development. We've positioned our business to take advantage of positive market conditions with a number of significant new projects launched over the last 12 months, including two of Australia's largest ever masterplanned new cities; Aura on the Sunshine Coast and Cloverton in Melbourne.

We've once again delivered strong growth in our Retirement Living business with operating profit up 43.8% largely due to the timing of superlot and asset sales.

In July we sold five small, low return on asset villages in Western Australia to recycle the capital into more accretive opportunities within our Retirement Living portfolio.

We are planning to replicate the success we have achieved on the redevelopment of our Cardinal Freeman Village in Sydney by redeveloping a number of middle ring villages creating well-designed, high quality homes and enhanced community facilities.

Capital strength

We have maintained our strong balance sheet and A-/Stable credit rating with gearing at 23.9%, well within our target range of 20 - 30%. During the first half we continued to diversify our funding sources lowering our weighted average cost of debt and maintaining our weighted average debt maturity.

We've also either fixed or hedged 96% of our period end debt, up from 82% in the previous corresponding period, lowering the cost of our debt and providing a reasonable buffer against any possible short to medium term increases in interest rates.

Operational excellence

Stockland has once again been identified as a global leader for our sustainability credentials. We were again named the Global Real Estate Sector Leader on the S&P Dow Jones Sustainability Indices (DJSI). We also achieved Global Sector Leader status in the 2016 Global Real Estate Sustainability Benchmark (GRESB) survey in the category Diversified - Retail/Office, and included in the CDP A List for our climate action.

As part of our continued investment in the efficiency of our operations, we have made good progress on improving our systems capabilities including the commitment to implement SAP and Salesforce as core systems with progressive deployment over the next two years.

Outlook

We have tightened our full year guidance to 6-7% FFO growth reflecting the strong half. We are on track to deliver our full year distribution of 25.5 cents per Ordinary Stapled Security, assuming no material decline in market conditions.

We expect the favourable economic conditions to continue and interest rates to remain relatively low. We've made excellent progress over the last few years, broadening our business and we are well positioned to take advantage of future opportunities.

For more detailed insight on our half year performance and outlook we encourage you to visit our investor centre www.stockland.com.au/investor-centre.htm

Tom Pockett

Mark Steinert

Directors' Report

Half year ended 31 December 2016

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 2016 and the Independent Auditor's 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 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 is one of the largest diversified property groups in Australia with more than \$16.1 billion of real estate assets. We own, manage and develop shopping centres, logistics centres and business parks, office assets, residential communities, and retirement living villages.

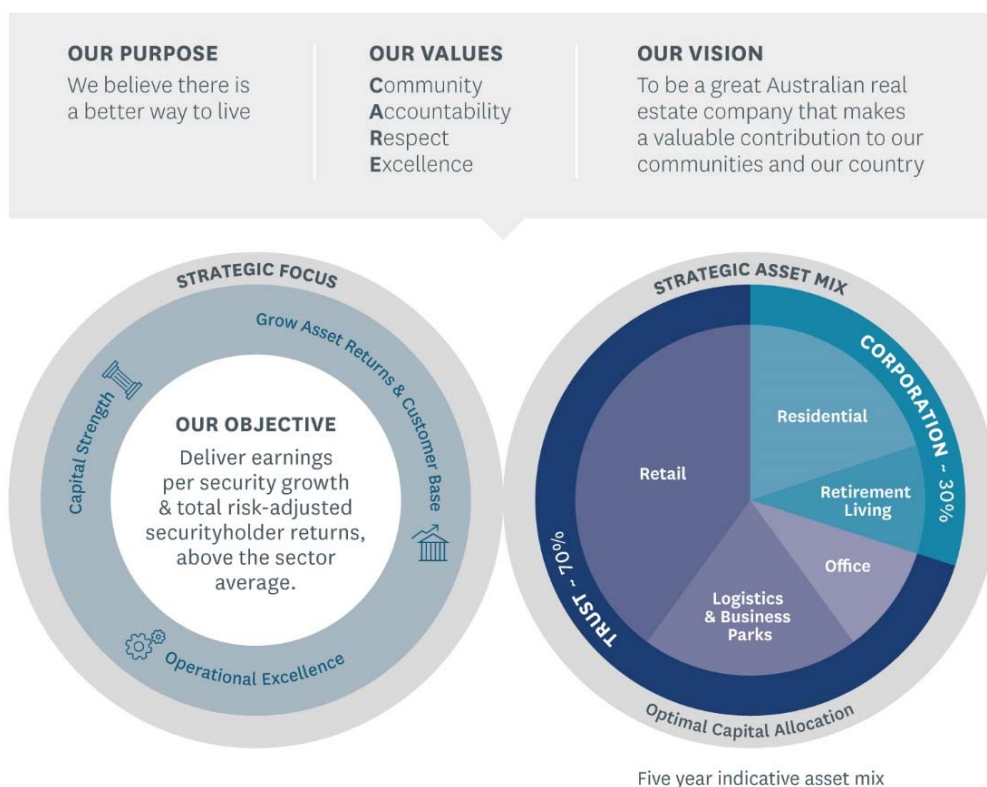
Founded in 1952, today Stockland leverages its diversified model to help create thriving communities where people live, shop and work. Our vision is to be a great Australian real estate company that makes a valuable contribution to our communities and our country.

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).

Our primary objective is 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 unit in Stockland Trust and a share in Stockland Corporation 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.

Our strategy



Directors' Report

Half year ended 31 December 2016

We focus on three strategic priorities:

- Grow asset returns and our customer base – driving returns in our core businesses
- Operational excellence – improving the way we operate across the Group to drive efficiencies and effectiveness
- Capital strength – actively managing our balance sheet to maintain diverse funding sources and an efficient cost of capital

Our progress in 1H17 against these priorities is set out below:

| Strategic priorities | 1H17 progress |
|---|--|
| Grow asset returns and our customer base | <ul style="list-style-type: none"> • 3.7% growth in comparable FFO in our Commercial Property portfolio • \$442 million Retail development under construction and a pipeline of \$1.0 billion • \$228 million Stockland Wetherill Park development completed with incremental IRR of 15.8%, above our 10% - 14% target range • Ranked 1st for retail tenant satisfaction (Monash University TenSAT survey) • Improved occupancy to 96.1% in our Logistics and Business Parks business • Over 5,800 contracts on hand in our Residential business • Maintained high residential customer satisfaction score of 84% (Stockland Liveability Survey) • Improvement in Retirement Living cash return on assets (ROA) to 6.4% • Maintained high resident satisfaction score of 85% (Stockland Residents' Survey) |
| Operational excellence | <ul style="list-style-type: none"> • Recognised as Global Real Estate Sector Leader on the Dow Jones Sustainability Index (DJSI) for 2016-17, the second consecutive year • Global Sector Leader on 2016 Global Real Estate Sustainability Benchmark (GRESB) for Diversified – Office/Retail sector • Received Employer of Choice for Gender Equality citation from WGEA three years in a row • Salesforce launched in our Residential business |
| Capital strength | <ul style="list-style-type: none"> • Maintained A-/Stable credit rating for over ten years and gearing remains within our target range • Continued to reduce our average cost of debt |

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.

There are various risks that could impact our business. The nature and potential impact of these risks change over time. These 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 • focus on retaining a strong balance sheet with appropriate gearing • use diverse funding sources • concentrate on efficiency and cost management • maintain a prudent approach to provisioning • replenish our land and asset pipeline • 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 |
| | Delays or changes to the delivery of infrastructure and amenities affect customer satisfaction | Continue to: <ul style="list-style-type: none"> • use our proprietary Liveability Index research to understand priorities of residents in our communities and drive property management and development decisions • focus on stakeholder engagement plans for all projects that minimise obstacles to infrastructure and amenity delivery and provide appropriate communication with all stakeholders about these matters • improve our project delivery through enhanced supply chain management |

Directors' Report

Half year ended 31 December 2016

| Risk | Our response |
|--|--|
| Housing affordability is increasingly challenging in Australia | <p>Stockland's Residential business is influenced by the dynamics of the Australian residential market. Housing affordability remains of key concern for Australians as the price of housing and rental properties continues to increase. We will continue to:</p> <ul style="list-style-type: none"> • seek opportunities to provide market leading sustainable communities and 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 • engage with government to seek effective solutions on land supply issues |
| Systems enhancements affect business process efficiency | <p>As part of our continued investment in the efficiency of our operations, we have made significant progress on improving the Group's systems capabilities including the commitment to implement SAP and Salesforce as core systems. With progressive deployment over the next two years, we will continue to maintain two-way engagement with employees across the business to enable a smooth transition.</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 |
| Longer term – changing marketplace | <p>Community resilience to evolving security and safety risks</p> <p>Continue to:</p> <ul style="list-style-type: none"> • train our employees and increase their risk awareness • undertake regular scenario testing • engage with peers and across industry • invest in asset upgrades |
| | <p>Capital market volatility impacts our ability to access suitable capital</p> <p>Stockland's 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. 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 diverse funding sources • maintain our prudent capital management policies |
| Ability to develop products that meet anticipated future customer and societal demands | <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 and platforms such as Stockland Exchange (our online research community) and Quantum (which provides customer transactional data to inform how we view markets and opportunities) • focus on creating sustainable and liveable communities and assets • enhance our design excellence, providing greater functionality and value for money |
| Digital disruption affects customer behaviour and transforms the market | <p>Continue to:</p> <ul style="list-style-type: none"> • identify, develop and integrate technical enhancements across our business, including online residential and retirement living engagement opportunities • support Stockland retail centres as thriving community hubs by delivering quality services and community spaces that are e-enabled • promote employee innovation and collaboration through Ideas@Stockland to further enable us to take advantage of new opportunities |

Directors' Report

Half year ended 31 December 2016

Stockland results and outlook

Key metrics:

- Half year distribution was 12.6 cents per security
- Statutory profit was \$702 million, up 0.7% on 1H16
- Statutory EPS was 29.3 cents, down 0.3% on 1H16
- Funds from Operations (FFO) was \$369 million, up 7.8% on 1H16
- FFO per security was 15.4 cents, up 6.2% on 1H16
- Gearing was 23.9%
- Return on Equity¹ was 11.0%, excluding workout assets

Stockland has achieved good growth across the diversified property portfolio, delivering a strong result for the half year to 31 December 2016. We made a statutory profit of \$702 million and generated Funds from Operations (FFO) of \$369 million, an increase of 7.8% on the previous corresponding period (refer to FFO reconciliation on page 6).

The strong result has been driven by our ability to create thriving, vibrant communities. We're implementing our strategy to reshape our portfolio and it is proving effective, growing our asset returns and customer base, which has enabled us to increase our distribution to investors. We're continuing to create a more diversified property company that is more stable and resilient, and more responsive to both market opportunities and our customers' needs.

Overall we improved our Return on Equity by 70 basis points to 11.0%, excluding workout assets. FFO per security was 15.4 cents, a 6.2% increase on 1H16. Distribution for the half year was 12.6 cents per Ordinary Stapled Security, supporting our target full year distribution of 25.5 cents per Ordinary Stapled Security, assuming no material decline in market conditions.

Our Commercial Property business accounts for around 70% of our assets and remains a key component of our stable earnings growth. The business continued to deliver solid growth with a 3.7% increase in comparable FFO to \$312 million supported by high occupancy and strong leasing activity.

Our Residential business achieved 2,853 settlements in the December 2016 half and enters 2017 with a record 5,807 contracts on hand. The positive results are being driven by the ongoing strategy to create liveable, desirable communities, growing market share and continued favourable market conditions. Residential operating profit margin was 14.1% in 1H17, reflecting project timing, with the full year operating profit margin expected to be 15-16%. The business is benefiting from continued strong price growth on the eastern seaboard and is strongly positioned for the full year.

Our Retirement Living business increased its operating profit by 43.8% to \$26 million, which reflected a 1H17 skew largely due to the timing of superlot and asset sales.

Stockland has once again been identified as a global leader for our sustainability credentials. We were named the S&P Dow Jones Sustainability Indices (DJSI) Global Real Estate Sector Leader for the second consecutive year and achieved Global Sector and Regional Sector Leader status in the 2016 GRESB (Global Real Estate Sustainability Benchmark) survey in the category Diversified - Retail/Office. We were also recognised by CDP² with a position on the Climate A List.

Outlook

We expect favourable economic conditions to continue and interest rates to remain relatively low. We've made excellent progress over the last few years broadening our business and are well positioned to take advantage of future opportunities.

We have tightened our FY17 guidance to 6-7% FFO growth, which is at the higher end of our previous guidance of 5-7%, reflecting the strong half, and we're on track to deliver a full year distribution of 25.5 cents per Ordinary Stapled Security, assuming no material decline in market conditions.

¹ Return on Equity accumulates individual business Return on Assets and incorporates cash interest paid and average drawn debt for the 12 month period. Excludes residential communities workout projects.

² Leading sustainable ratings agency, formerly known as Carbon Disclosure Project.

Directors' Report

Half year ended 31 December 2016

Funds from Operations (FFO)

FFO has replaced underlying profit as our primary reporting measure from FY17. FFO has been determined with reference to the Property Council of Australia's voluntary disclosure guidelines to help investors and analysts compare Australian real estate organisations. It is designed to present the results of the ongoing operating activities of Stockland in a way that appropriately reflects our underlying performance. FFO is the basis on which the distributions and dividends are determined.

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

FFO and statutory profit reconciliation

| Half year ended 31 December | 2016 | | | 2015 | | |
|--|------------|---------------------------------|-----------------------------|------------|---------------------------------|-----------------------------|
| | FFO \$M | Statutory adjustments \$M | Statutory results \$M | FFO \$M | Statutory adjustments \$M | Statutory results \$M |
| Revenue | 1,182 | (13) | 1,169 | 1,076 | (11) | 1,065 |
| Cost of property developments sold: | | | | | | |
| Land and development | (556) | – | (556) | (454) | – | (454) |
| Capitalised interest | (76) | – | (76) | (59) | – | (59) |
| Utilisation of provision for write-down of inventories | 96 | – | 96 | 30 | – | 30 |
| Investment property expenses | (117) | (6) | (123) | (113) | (6) | (119) |
| Share of profits of equity-accounted investments | 15 | 29 | 44 | 16 | 51 | 67 |
| Management, administration, marketing and selling expenses | (143) | – | (143) | (126) | – | (126) |
| Net change in fair value of investment properties: | | | | | | |
| Commercial Property | – | 167 | 167 | – | 382 | 382 |
| Retirement Living | 8 | 48 | 56 | 9 | 48 | 57 |
| Net change in fair value of Retirement Living resident obligations | – | (37) | (37) | – | (57) | (57) |
| Net gain on other financial assets | – | – | – | – | 7 | 7 |
| Net loss on sale of other non-current assets | – | (2) | (2) | – | – | – |
| Finance income | 2 | 126 | 128 | 3 | – | 3 |
| Finance expense | (42) | – | (42) | (40) | (45) | (85) |
| Profit before income tax | 369 | 312 | 681 | 342 | 369 | 711 |
| Income tax benefit/(expense) | – | 21 | 21 | – | (15) | (15) |
| Profit for the period | 369 | 333 | 702 | 342 | 354 | 696 |

Statutory profit increased marginally to \$702 million in the half year ended 31 December 2016 underpinned by the strong FFO performance and growth in our business.

The adjustments excluded from FFO include valuation movements on investment property, primarily due to continued capitalisation rate compression, income growth across the Commercial Property portfolio and valuation uplift from completed Retail developments (primarily Wetherill Park).

Marked to market derivatives and financial instruments also resulted in a fair value gain of \$126 million in 1H17 compared to a fair value loss of \$45 million in 1H16. The net credit derivative gain reflects the increase in market interest rates compared to where we have fixed our interest rates resulting in interest rate hedge benefits. This is offset by currency marked to market adjustments.

Directors' Report

Half year ended 31 December 2016

Capital management

Financial position

We maintained our focus on prudent balance sheet management, continuing to utilise diverse funding sources throughout the half year. Our gearing level increased marginally to 23.9% at 31 December 2016 (June 2016: 23.8%), as continued reinvestment into our businesses was largely offset by the impact of revaluation gains across the commercial property portfolio. This remains within our target range of 20–30% and we continue to retain our A-/Stable credit rating.

The fixed/hedged ratio of 96% at 31 December 2016 remains in line with 30 June 2016 (June 2016: 96%) as we continue to take advantage of low fixed interest rates. The weighted average cost of debt for the period has decreased to 5.6% (June 2016: 5.8%).

Interest cover has increased to 4.7:1 (June 2016: 4.5:1) due to stronger underlying earnings across the business.

Balance Sheet

| (\$ million) | December 2016 | June 2016 | Change % |
|---------------------------------------|---------------|---------------|----------|
| Cash | 282 | 208 | ↑35.6% |
| Real estate assets ³ : | | | |
| Commercial Property | 9,980 | 9,706 | ↑2.8% |
| Residential | 2,495 | 2,517 | ↓0.9% |
| Retirement Living | 3,702 | 3,589 | ↑3.1% |
| Other assets | 973 | 922 | ↑5.5% |
| Total assets | 17,432 | 16,942 | |
| Interest bearing loans and borrowings | 3,916 | 3,800 | ↑3.1% |
| Resident loan obligations | 2,484 | 2,427 | ↑2.3% |
| Other liabilities | 1,270 | 1,461 | ↓13.1% |
| Total liabilities | 7,670 | 7,688 | |
| Net assets/total equity | 9,762 | 9,254 | |

The Commercial Property investment portfolio has increased by \$274 million to \$9,980 million primarily due to net valuation uplift across all three asset classes (up \$196 million including equity-accounted investments) and capital and development expenditure of \$151 million.

The Retail portfolio benefited from income growth and capitalisation rate compression, including the following centres in NSW: Wetherill Park (\$44 million), Shellharbour (\$30 million), and Glendale (\$23 million). Our Office portfolio recorded a net valuation gain of \$31 million largely due to an uplift at 135 King Street, NSW (\$27 million), while Logistics and Business Parks similarly delivered valuation gains of \$10 million during the period. Valuation gains across the portfolio saw our weighted average capitalisation rate reduce marginally from 6.4% to 6.3%.

The increase in capital and development expenditure predominantly reflects the continued investment in the Retail development pipeline including the redevelopment of Greenhills, NSW.

Residential assets, which represent mainly land under development, decreased slightly to \$2,495 million at 31 December 2016. Strong settlement volumes in 1H17 (up 3% on prior period) and the sale of some previously impaired land led to a reduction in inventory. Finished goods levels remain appropriate. Land acquisitions reflect our focus on acquiring land on capital efficient terms.

The value of the Retirement Living assets, net of resident loan obligations, was \$1,218 million, an increase of \$56 million from June 2016. This primarily reflects capital expenditure on the development pipeline including the redevelopment of Cardinal Freeman, NSW, fair value uplift on the investment property portfolio, partly offset by an increase in resident loan obligations created on first sales of development units.

Total debt increased by \$116 million to \$3,916 million at 31 December 2016 as a result of increased operating activity funded by the issuance of four US Private Placements, partly offset by the repayment of a Domestic Medium Term note and maturity of a US Private Placement note and includes the fair value movements on the debt. Movements in other assets and liabilities mainly reflect the changes in value of the Group's financial instruments, equity accounted investments and intangibles.

³ Includes non-current assets held for sale, inventory, investment properties, equity-accounted investments and certain other assets.

Directors' Report

Half year ended 31 December 2016

Cash flows

| \$ million | 1H17 | 1H16 | Change % |
|--|-----------|------------|----------------|
| Operating cash flows | 315 | 302 | ↑ 4.3% |
| Investing cash flows | (174) | (94) | ↑ 85.1% |
| Financing cash flows | (67) | (99) | ↓ 32.3% |
| Net change in cash and cash equivalents | 74 | 109 | ↓ 32.1% |
| Cash at the end of the period | 282 | 279 | ↑ 1.1% |

Operating cash flows are up marginally on the prior year, primarily as a result of increased FFO combined with lower land acquisitions, offset by an increase in development expenditure in Residential as we accelerated production during the period to take advantage of strong market conditions.

Net cash outflows from investing activities have increased significantly on prior year, reflecting lower proceeds from the sale of investment properties and investments in the current period. The current period includes the proceeds from the sale of three Commercial Property assets (Garden Square, Qld, Jimboomba, Qld and Vincentia, NSW) and five Retirement Living assets in WA. The prior year includes disposal proceeds from the sale of Waterfront Place, Qld. The net cash payments in relation to Commercial Property and Retirement Living capital and development expenditure are in line with the prior year.

Net financing cash outflows reflect the net proceeds from borrowings to fund acquisitions and development expenditure. The prior year included payments to terminate derivatives (\$119 million), with no payments on terminations in the current period.

Equity

Distribution/Dividend Reinvestment Plan

On 15 December 2016, Stockland announced that the DRP would operate for the interim distribution to 31 December 2016. We achieved a take-up rate of 19.3%.

The DRP security price of \$4.38 was determined by the average of the daily volume weighted averages of the selling price over a 15-day trading period immediately preceding 17 February 2017, with a discount of 1.0% on the securities acquired under the DRP.

Distributions

The dividend and distribution payable for the half year ended 31 December 2016 is 12.6 cents per Ordinary Stapled Security, with a targeted full year distribution of 25.5 cents for 30 June 2017, assuming no material decline in market conditions. Our distribution policy is to pay the higher of 100% of Trust taxable income or 75–85% of FFO.

The distribution for the half year comprises:

| Stockland | 1H17 Cents | 1H16 Cents |
|-------------------------------------|---------------|---------------|
| Trust distribution | 12.6 | 12.2 |
| Corporation dividend, fully franked | – | – |
| Total dividend/distribution | 12.6 | 12.2 |

Registers closed at 5.00pm on 30 December 2016 to determine entitlement to the interim dividend/distribution, which will be paid on 28 February 2017.

Directors' Report

Half year ended 31 December 2016

Business unit performance and priorities

Commercial Property

Our Commercial Property business comprises retail centres, logistics and business parks, and office assets.

We are one of the largest retail property owners, developers and managers in Australia. Our 40 retail centres accommodate more than 3,500 retailers. The Logistics and Business Parks portfolio comprises 27 properties, with 1.3 million square metres of building area. These properties are strategically positioned in key locations for logistics, infrastructure and employment. The Office portfolio comprises eight assets, mostly in Sydney.

| Portfolio at 31 December 2016 | Approximate value* |
|--------------------------------------|----------------------|
| 40 retail centres | \$7.0 billion |
| 27 logistics and business parks | \$2.0 billion |
| 8 office buildings | \$0.7 billion |
| 75 Commercial Property assets | \$9.7 billion |

*Stockland's ownership interest

| Commercial Property (\$m, unless otherwise stated) | Funds from operations | | | Comparable growth |
|---|-----------------------|------------|--------------|----------------------|
| | 1H17 | 1H16 | Change | |
| • Retail | 207 | 197 | ↑5.2% | ↑3.5% |
| • Logistics and Business Parks | 72 | 66 | ↑8.7% | ↑2.9% |
| • Office | 34 | 36 | ↓6.6% | ↑6.6% |
| Trading profit | 5 | - | | |
| Net overheads | (6) | (8) | | |
| Total Commercial Property | 312 | 291 | ↑7.3% | ↑3.7% |
| ROA | 8.2% | 8.4% | | |

Our Commercial Property business continued to deliver solid growth with a 3.7% increase in comparable FFO to \$312 million. We maintain our guidance for FY17 comparable FFO growth in the 2 – 3% range.

Retail

In Retail, comparable FFO was up 3.5% on 1H16. This result was supported by high stable retail occupancy levels of 99.5% and blended average rental growth on lease renewals and new leases of 2.7% in the stable portfolio. Comparable FFO excludes approximately 25% of our centres by total annual sales, which have been recently redeveloped, or currently under construction. Total FFO grew by 5.2%, which includes all centres in our Retail portfolio.

Retail sales were stable in the first half and the all-important Christmas trading period. Our strategy to continuously improve our shopping centre portfolio and actively remix our retail around food, health, services, lifestyle, leisure and technology to match customer demographic changes and trends has helped to drive specialty sales productivity growth of 2.0% to \$9,025 per square metre, exceeding the Urbis sub-regional average by 7.7%.

The strongest specialty categories in our centres were retail services, up 7.8%, fast casual dining and food catering, up 6.6%, and communication and technology, up 3.6% on a comparable basis.

The rapid stabilisation of Wetherill Park, NSW, following the completion of our \$228 million redevelopment well ahead of schedule and before Christmas 2016, is an excellent example of how we are reshaping our portfolio. It achieved a development yield of 7.3% and a strong 15.8% incremental IRR in 1H17, ahead of our 10 – 14% target range.

Our \$412 million redevelopment and expansion of Green Hills in the Hunter Valley, NSW, is progressing well and, in addition to the forthcoming opening of the first new format David Jones and JB Hi-Fi Home stores in the Hunter Valley, we will also be introducing a new Hoyts cinema to enhance the leisure and entertainment experience we provide to our customers.

Directors' Report

Half year ended 31 December 2016

Retail strategic priorities

The Retail business maintains its focus on creating market leading centres, redeveloping its most productive assets to create community and entertainment hubs and maximise trade area market share. We have \$442 million at cost, of retail development under construction and a future pipeline of \$1.0 billion, targeting incremental IRRs of 10–14%⁴ and stabilised FFO yields of 7–8% from this activity.

Our retail mix continues to evolve, underpinned by supermarkets, mini majors, food catering, fast casual dining, speciality food, theatre, targeted apparel, health and retail services.

We will continue to focus on tailoring our offering to each specific trade area, cultivating retailer relationships and long-term sustainable rent, and invest in industry research and technology to adapt to an evolving retail landscape.

Logistics and Business Parks

Our Logistics and Business Parks business achieved comparable FFO growth of 2.9% in 1H17 following strong leasing activity. Total FFO growth of 8.7% was largely due to acquisitions and completion and leasing of new developments.

Portfolio occupancy increased from 94.6% in 1H16 to 96.1% in 1H17 and portfolio WALE increased marginally to 4.6 years. Average rents on total lease deals decreased by 2.5% during the period, reflecting negative rental reversions in some western Melbourne assets. Importantly, achieved rents were 2.9% above valuation assumed rents.

We continue to expand the portfolio through acquisition and development with our ownership interests now valued at more than \$2.0 billion. We are making good progress on our \$400 million development pipeline, completing projects at Ingleburn and Erskine Park in Sydney and Oakleigh (Stage 1) in Melbourne in 1H17. We are actively developing sites at Warwick Farm and Waterside in Sydney and Oakleigh (Stage 2). We have also submitted Development Applications for Ingleburn (Stage 2), Willawong in Brisbane, and Balcatta in Perth.

Leasing in our newest developments at Oakleigh, Erskine Park and Ingleburn has been successful. In total, we executed leases on 160,000 square metres in 1H17 and have reached heads of agreements on a further 152,000 square metres.

Logistics and Business Parks strategic priorities

Our focus is on growing a quality portfolio of logistics centres, industrial and business parks. We will leverage our existing assets and land, strong tenant relationships and asset management skills to become a scale player in this market.

Office

Office comparable FFO was up 6.6% on 1H16. The result reflects strong leasing activity and a full period of high occupancy, with the majority of assets held in the high demand Sydney market. The slight reduction in total FFO is primarily due to a reduction in rental income following the sale of Waterfront Place and Eagle Street Pier in Brisbane in FY16.

We continue to assess development opportunities to add value to our portfolio in Sydney. We expect some deterioration in comparable FFO for Office in 2H17 as we work through the expiry and renewal of leases in our only remaining Perth asset.

Office strategic priorities

In Office we continue to focus on optimising returns. We intend to retain the majority of our residual office portfolio (strongly weighted to Sydney) whilst we maximise returns and highest and best use potential over time. Joint ventures (or part sales) will also be considered as appropriate.

⁴ Unlevered 10 year IRR on incremental development from completion.

Directors' Report

Half year ended 31 December 2016

Residential

Stockland is the largest residential land developer in Australia. The business has 53 communities across New South Wales, Queensland, Victoria and Western Australia. We are focused on delivering a range of masterplanned communities and medium density housing in growth areas across the country. We hold 72,600 lots in our portfolio, with a total end value of approximately \$18.2 billion⁵.

Performance

| Residential Communities (\$m, unless otherwise stated) | 1H17 | 1H16 | Change |
|---|-------|-------|--------|
| Lots settled (lots) | 2,853 | 2,771 | ↑3.0% |
| Revenue – Retail | 647 | 596 | ↑8.5% |
| – Superlots | 61 | 61 | ↑0.5% |
| EBIT (before interest in COGS) | 176 | 157 | ↑11.5% |
| EBIT margin | 24.8% | 24.0% | ↑ |
| Operating profit (funds from operations) | 100 | 98 | ↑1.4% |
| Operating profit margin | 14.1% | 14.9% | ↓ |
| ROA – total portfolio | 11.6% | 12.9% | ↓ |
| ROA – core portfolio ⁶ | 19.2% | 18.0% | ↑ |

Residential operating profit increased by 1.4% on 1H16, with a positive skew in profit to 2H17 as previously highlighted. Core ROA increased by 120 basis points to 19.2%.

Sales volumes increased in the first half, with 2,853 lots settled, representing a 3.0% increase on the corresponding period. Contracts on hand at the start of January 2017 totalled 5,807, a new record for Stockland and an increase of 1,698 on the prior corresponding period. We accelerated production and increased settlements in 1H17, which will reduce the previously anticipated skew in settlements and profit in 2H17. We remain on track to meet our FY17 target of more than 6,000 lot settlements.

We have positioned the business to take advantage of positive conditions, particularly in Sydney, Melbourne and the strengthening south east Queensland market, and continue to have more than 90% of our net funds employed in projects that are actively selling.

Over the last 12 months we have launched a number of significant new projects, including two of Australia's largest ever masterplanned new cities at Aura on the Sunshine Coast and Cloverton in the northern suburbs of Melbourne, and we have so far sold more than 600 lots at each respective community.

We have also seen strong demand for our other new communities at Newport on Moreton Bay; Pallara in south west Brisbane; Altrove at Schofields in north west Sydney. All of these projects are performing well, making a significant contribution to settlements and allowing us to maintain our brand presence as we trade out of some of our more established communities in each region.

We are maintaining our disciplined approach to acquisitions, restocking our pipeline in priority metropolitan growth corridors that are close to transport. For example, in December 2016 we agreed to acquire the 114 hectare Minta Farm property in Berwick, south east Melbourne, which will yield around 1,700 lots.

Throughout the first half we have continued to broaden and strengthen our Residential business by ramping up the production of new townhouses in our communities and at standalone sites. Our disciplined re-entry into apartments, with a focus on the Sydney market, will further diversify our earnings.

We have maintained guidance for our Residential operating profit margin at 15-16% for FY17. With continuing favourable market conditions, we are targeting our Residential operating profit margin to remain above 15% over the short to medium term.

Residential strategic priorities

The Residential business is making good progress on its plans to make the portfolio more resilient and profitable in the future by continuing to focus on:

- (1) Reshaping the portfolio – actively manage the portfolio to improve returns and achieve and maintain an optimal pipeline with a preference to acquire land on capital efficient terms. We continue to make good progress in activating our land through the launch of new projects and working through low margin and impaired stock.
- (2) Delivering revenue growth – increase revenue by creating a better community value proposition that drives high customer referrals and broaden market reach through a medium density/built form offering.
- (3) Improving efficiency – continue to manage costs. Project management has been embedded into the business and is driving significant cost savings.

⁵ Excluding value on projects identified for disposal and assuming no material change in market conditions.

⁶ Core excludes workout projects.

Directors' Report

Half year ended 31 December 2016

Retirement Living

Stockland is a top three retirement living operator within Australia, with over 9,400 established units in 65 established villages across five states and the Australian Capital Territory. The portfolio includes a development pipeline of over 3,100 units.

Performance

| Retirement Living (\$m, unless otherwise stated) | 1H17 | 1H16 | Change |
|---|--------|--------|--------|
| EBIT | 28 | 20 | ↑36.0% |
| Operating profit (funds from operations) | 26 | 18 | ↑43.8% |
| Occupancy | 94.6% | 93.9% | ↑ |
| Cash ROA | 6.4% | 5.2% | ↑ |
| Established | | | |
| Established settlements (units) | 325 | 317 | ↑2.5% |
| Average re-sale price | \$325k | \$325k | - |
| Turnover cash margin | 26.9% | 25.0% | ↑ |
| Reservations on hand (units) | 184 | 168 | ↑9.5% |
| Development | | | |
| Average price per unit | \$449k | \$427k | ↑5.0% |
| Average margin – excludes DMF | 18.0% | 15.9% | ↑ |
| Development settlements (units) | 102 | 126 | ↓19.0% |
| Reservations on hand (units) | 125 | 150 | ↓16.7% |

Our Retirement Living business performed well in the first half with operating profit up 43.8% and cash ROA up 6.4% on 1H16, reflecting the timing of superlot and asset sales.

The business generated a significant improvement in profit margin, which increased by around 200 basis points for established and newly developed homes. The increase in operating profit margin reflects the product mix and timing of sales during 1H17.

We are planning to replicate the success we have achieved on the redevelopment of our Cardinal Freeman Village at Ashfield in Sydney's inner west and to redevelop a number of other older villages. We sold five small, low ROA villages in WA in July 2016 to recycle the capital into more accretive opportunities within our Retirement Living portfolio.

Our plans to redevelop some of our older villages will reduce reservations and sales within those villages in the short term, however, we are confident the strategy will help to position the business for long term growth as we meet the changing needs and expectations of Australia's ageing population.

We are reshaping our portfolio, producing well-designed, high quality new homes and enhanced community facilities. This is creating better places and a better way to live for our residents.

Retirement Living strategic priorities

The business remains focused on being a preferred operator and developer of Retirement Living villages. The business has a clear strategy to continue to improve its return on assets by:

- (1) Actively managing the portfolio;
- (2) Growing development volumes; and
- (3) Differentiating the customer experience through access to a range of resident care and other services.

Directors' Report

Half year ended 31 December 2016

Directors

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

Non-Executive Directors

Mr Tom Pockett Chairman (appointed 26 October 2016)

Mr Graham Bradley Chairman (resigned 26 October 2016)

Ms Carolyn Hewson

Mr Barry Neil

Mr Stephen Newton

Dr Nora Scheinkestel

Ms Carol Schwartz

Mr Peter Scott (resigned 16 August 2016)

Executive Director

Mr Mark Steinert Managing Director and Chief Executive Officer ('CEO')

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

The external auditor's independence declaration is set out on page 14 and forms part of the Directors' Report for the half year ended 31 December 2016.

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 Financial Report and Directors' Report 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

Dated at Sydney, 22 February 2017

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

Half year ended 31 December 2016



Auditor's Independence Declaration

As lead auditor for the review of Stockland Corporation Limited and Stockland Trust for the half year ended 31 December 2016, 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 black ink that reads 'S Hadfield'.

S J Hadfield
Partner
PricewaterhouseCoopers

Sydney
22 February 2017

Consolidated Statements of Profit or Loss and Other Comprehensive Income

Half year ended 31 December 2016

| Half year ended 31 December | Section | Stockland | | Trust | |
|--|---------|-------------|-------------|-------------|-------------|
| | | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Revenue | B1 | 1,169 | 1,065 | 383 | 370 |
| Cost of property developments sold: | | | | | |
| • Land and development | | (556) | (454) | – | – |
| • Capitalised interest | | (76) | (59) | – | – |
| • Utilisation of provision for write-down of inventories | | 96 | 30 | – | – |
| Investment property expenses | | (123) | (119) | (118) | (115) |
| Share of profits of equity-accounted investments | E1 | 44 | 67 | 44 | 67 |
| Management, administration, marketing and selling expenses | | (143) | (126) | (20) | (12) |
| Net change in fair value of investment properties: | | | | | |
| • Commercial Property | C1b | 167 | 382 | 132 | 346 |
| • Retirement Living | B2c | 56 | 57 | – | – |
| Net change in fair value of Retirement Living resident obligations | B2c | (37) | (57) | – | – |
| Net gain on other financial assets | | – | 7 | – | 7 |
| Net loss on sale of other non-current assets | | (2) | – | – | – |
| Finance income | D1 | 128 | 3 | 262 | 150 |
| Finance expense | D1 | (42) | (85) | (96) | (143) |
| Profit before income tax | | 681 | 711 | 587 | 670 |
| Income tax benefit/(expense) | | 21 | (15) | – | – |
| Profit for the period | | 702 | 696 | 587 | 670 |
| Items that are or may be reclassified to profit or loss, net of tax | | | | | |
| Available for sale financial assets – net change in fair value | D3 | 64 | – | – | – |
| Cash flow hedges – net change in fair value of effective portion | | (10) | 23 | (10) | 23 |
| Cash flow hedges – reclassified to profit or loss | | (1) | 5 | (1) | 5 |
| Other comprehensive income, net of tax | | 53 | 28 | (11) | 28 |
| Total comprehensive income for the period | | 755 | 724 | 576 | 698 |
| Basic earnings per security (cents) | F1 | 29.3 | 29.4 | 24.5 | 28.3 |
| Diluted earnings per security (cents) | F1 | 29.2 | 29.4 | 24.4 | 28.2 |

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 2016

| Section | Stockland | | Trust | |
|---|-------------------------|---------------------|-------------------------|---------------------|
| | 31 December 2016 \$M | 30 June 2016 \$M | 31 December 2016 \$M | 30 June 2016 \$M |
| Current assets | | | | |
| Cash and cash equivalents | 282 | 208 | 165 | 97 |
| Trade and other receivables | 154 | 134 | 20 | 18 |
| Inventories | C1a | 885 | 802 | – |
| Other financial assets | D3, D4 | 167 | 79 | 79 |
| Other assets | | 107 | 91 | 80 |
| | | 1,595 | 1,314 | 344 |
| Non-current assets held for sale | C1d | – | 97 | – |
| Total current assets | | 1,595 | 1,411 | 344 |
| Non-current assets | | | | |
| Trade and other receivables | | 85 | 100 | 3,530 |
| Inventories | C1a | 1,614 | 1,713 | – |
| Investment properties – Commercial Property | C1b | 9,119 | 8,800 | 9,008 |
| Investment properties – Retirement Living | C1c | 3,699 | 3,576 | – |
| Equity-accounted investments | E1 | 549 | 524 | 532 |
| Other financial assets | D3, D4 | 368 | 468 | 359 |
| Property, plant and equipment | | 53 | 53 | – |
| Intangible assets | | 140 | 122 | – |
| Deferred tax assets | B3 | 52 | 27 | – |
| Other assets | | 158 | 148 | 161 |
| Total non-current assets | | 15,837 | 15,531 | 13,590 |
| Total assets | | 17,432 | 16,942 | 13,934 |
| Current liabilities | | | | |
| Trade and other payables | | 602 | 643 | 400 |
| Interest-bearing loans and borrowings | D2 | 302 | 481 | 302 |
| Retirement Living resident obligations | C1c | 2,292 | 2,205 | – |
| Development provisions | | 227 | 284 | – |
| Other financial liabilities | D4 | 30 | 19 | 30 |
| Other liabilities | | 116 | 82 | 50 |
| Total current liabilities | | 3,569 | 3,714 | 782 |
| Non-current liabilities | | | | |
| Interest-bearing loans and borrowings | D2 | 3,614 | 3,319 | 3,614 |
| Retirement Living resident obligations | C1c | 192 | 222 | – |
| Development provisions | | 115 | 113 | – |
| Other financial liabilities | D4 | 158 | 297 | 158 |
| Other liabilities | | 22 | 23 | – |
| Total non-current liabilities | | 4,101 | 3,974 | 3,772 |
| Total liabilities | | 7,670 | 7,688 | 4,554 |
| Net assets | | 9,762 | 9,254 | 9,380 |
| Securityholders' funds | | | | |
| Issued capital | D5 | 8,737 | 8,681 | 7,429 |
| Reserves | | 179 | 126 | 92 |
| Retained earnings/undistributed income | | 846 | 447 | 1,859 |
| Total securityholders' funds | | 9,762 | 9,254 | 9,380 |

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 2016

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 | Foreign currency translation \$M | | |
| Opening balance as at 1 July 2015 | 8,560 | 35 | 36 | 13 | – | 143 | 8,787 |
| Profit for the year | – | – | – | – | – | 889 | 889 |
| Other comprehensive income, net of tax | – | – | 27 | 7 | – | – | 34 |
| Total comprehensive income | – | – | 27 | 7 | – | 889 | 923 |
| Dividends and distributions | D6 | – | – | – | – | (585) | (585) |
| Securities issued under DRP | D5a | 125 | – | – | – | – | 125 |
| Expense relating to Share Plans, net of tax | | – | 13 | – | – | – | 13 |
| Acquisition of treasury securities | D5b | (9) | – | – | – | – | (9) |
| Securities vested under Share Plans | D5b | 5 | (5) | – | – | – | – |
| Total of other movements | 121 | 8 | – | – | – | (585) | (456) |
| Balance as at 30 June 2016 | 8,681 | 43 | 63 | 20 | – | 447 | 9,254 |
| Profit for the period | – | – | – | – | – | 702 | 702 |
| Other comprehensive income, net of tax | – | – | (11) | 64 | – | – | 53 |
| Total comprehensive income | – | – | (11) | 64 | – | 702 | 755 |
| Dividends and distributions | D6 | – | – | – | – | (303) | (303) |
| Securities issued under DRP | D5a | 63 | – | – | – | – | 63 |
| Expense relating to Share Plans, net of tax | | – | 9 | – | – | – | 9 |
| Acquisition of treasury securities | D5b | (16) | – | – | – | – | (16) |
| Securities vested under Share Plans | D5b | 9 | (9) | – | – | – | – |
| Total of other movements | 56 | – | – | – | – | (303) | (247) |
| Balance as at 31 December 2016 | 8,737 | 43 | 52 | 84 | – | 846 | 9,762 |

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 2016

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 2015 | | 7,255 | 32 | 36 | 1,328 | 8,651 |
| Profit for the year | | – | – | – | 832 | 832 |
| Other comprehensive income | | – | – | 27 | – | 27 |
| Total comprehensive income | | – | – | 27 | 832 | 859 |
| Distributions | D6 | – | – | – | (585) | (585) |
| Securities issued under DRP | D5a | 123 | – | – | – | 123 |
| Expense relating to Share Plans, net of tax | | – | 13 | – | – | 13 |
| Acquisition of treasury securities | D5b | (9) | – | – | – | (9) |
| Securities vested under Share Plans | D5b | 5 | (5) | – | – | – |
| Total of other movements | | 119 | 8 | – | (585) | (458) |
| Balance as at 30 June 2016 | | 7,374 | 40 | 63 | 1,575 | 9,052 |
| Profit for the period | | – | – | – | 587 | 587 |
| Other comprehensive income | | – | – | (11) | – | (11) |
| Total comprehensive income | | – | – | (11) | 587 | 576 |
| Distributions | D6 | – | – | – | (303) | (303) |
| Securities issued under DRP | D5a | 62 | – | – | – | 62 |
| Expense relating to Share Plans, net of tax | | – | 9 | – | – | 9 |
| Acquisition of treasury securities | D5b | (16) | – | – | – | (16) |
| Securities vested under Share Plans | D5b | 9 | (9) | – | – | – |
| Total of other movements | | 55 | – | – | (303) | (248) |
| Balance as at 31 December 2016 | | 7,429 | 40 | 52 | 1,859 | 9,380 |

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 2016

| Half year ended 31 December | Section | Stockland | | Trust | |
|--|---------|--------------|-------------|--------------|--------------|
| | | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Cash flows from operating activities | | | | | |
| Cash receipts in the course of operations (including GST) | | 1,323 | 1,139 | 442 | 422 |
| Cash payments in the course of operations (including GST) | | (922) | (734) | (197) | (178) |
| Payments for land | | (70) | (90) | – | – |
| Distributions received from equity-accounted investments | | 17 | 22 | 17 | 20 |
| Receipts from Retirement Living residents | | 148 | 147 | – | – |
| Payments to Retirement Living residents, net of DMF | | (80) | (81) | – | – |
| Interest received | | 1 | 3 | 135 | 150 |
| Interest paid | | (102) | (104) | (102) | (103) |
| Net cash flow from operating activities | F2 | 315 | 302 | 295 | 311 |
| Cash flows from investing activities | | | | | |
| Proceeds from sale of investment properties | | 74 | – | 72 | 10 |
| Payments for and development of investment properties: | | | | | |
| • Commercial Property | | (186) | (197) | (221) | (228) |
| • Retirement Living | | (60) | (74) | – | – |
| Payments for plant and equipment and software | | (19) | (10) | – | – |
| Proceeds from sale/capital returns from investments | | 18 | 220 | (1) | 218 |
| Payments for investments, including equity-accounted investments | | (1) | (33) | – | (4) |
| Net cash flow used in investing activities | | (174) | (94) | (150) | (4) |
| Cash flows from financing activities | | | | | |
| Payment for securities under Share Plans | D5b | (16) | (6) | (16) | (6) |
| Proceeds from borrowings | | 868 | 1,644 | 868 | 1,644 |
| Repayment of borrowings | | (688) | (1,400) | (688) | (1,400) |
| Loans to related entities | | – | – | (10) | (157) |
| Payments for termination and restructuring of derivatives | D1 | – | (119) | – | (119) |
| Dividends and distributions paid (net of DRP) | | (231) | (218) | (231) | (218) |
| Net cash flow used in financing activities | | (67) | (99) | (77) | (256) |
| Net increase in cash and cash equivalents | | 74 | 109 | 68 | 51 |
| Cash and cash equivalents at the beginning of the period | | 208 | 170 | 97 | 89 |
| Cash and cash equivalents at the end of the period | | 282 | 279 | 165 | 140 |

The above consolidated cash flow statements should be read in conjunction with the accompanying notes.

Consolidated Notes

Half year ended 31 December 2016

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Consolidated Notes

Half year ended 31 December 2016

(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 2016.

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

Stockland represents the combination or stapling 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, formed and domiciled in Australia.

The constitutions of Stockland Corporation Limited and Stockland Trust ensure 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 the Stockland Trust must at all times act in the best interest of Stockland. The stapling arrangement will cease upon the earliest of either the winding up of Stockland Corporation Limited or Stockland Trust or either entity terminating the stapling arrangement.

The interim financial statements as at and for the half year ended 31 December 2016 were authorised for issue by the Directors on 22 February 2017.

(i) Statement of compliance

The interim financial statements have been prepared in accordance with *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do 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 2016.

(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, derivative financial instruments, certain financial assets and liabilities which are stated at their fair value; and
- non-current assets classified as held for sale which are stated at the lower of carrying amount and fair value less costs to sell.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the 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.

Change to the Group's primary reporting measure

From 1 July 2016, FFO has replaced underlying profit as the Group's primary reporting measure. This change recognises the importance of FFO in managing our business and the use of FFO as a comparable performance measurement tool in the Australian property industry.

Following this change, Stockland has revised the operating segment information presented in section B2 to present profit indicators on an FFO basis. Comparative disclosures have been restated to ensure consistency between the periods.

Consolidated Notes

Half year ended 31 December 2016

(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 2016.

Based on the profits and net operating cash inflows in the period and the forecast for the next 12 months, Stockland and the Trust will be able to pay their debts as and when they become due and payable. Undrawn bank facilities of \$780 million (refer to section D2c) are also available should they need to be drawn down.

The deficiency in the Trust primarily arises due to the requirement under Accounting Standards to classify the 'at call' intercompany loan receivable from Corporation as a non-current asset.

In relation to Stockland, a number of liabilities are classified as current under Accounting Standards that are not expected to actually result in net cash outflows within the next 12 months (in particular Retirement Living resident obligations). Similarly, some assets held as non-current will generate cash income in the next 12 months (including Retirement Living DMF included within Investment Properties – Retirement Living, development work in progress and vacant stock).

In addition, current inventory is held on the balance sheet at the lower of cost and net realisable value, whereas this is expected to generate cash inflows above the carrying value.

In relation to Retirement Living resident obligations for existing residents (December 2016: \$2,290 million; June 2016: \$2,202 million), approximately 8% of residents are estimated to leave 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 12 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 Accounting Standards as the majority are not expected to be realised within 12 months.

(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 2016.

(iv) New and amended Accounting Standards

The accounting policies applied in these interim financial statements are the same as those applied in the Group's financial statements as at and for the year ended 30 June 2016.

There have been no new or revised accounting standards or interpretations which are effective from the periods beginning on or after 1 July 2016 that impact the interim financial results.

Consolidated Notes

Half year ended 31 December 2016

(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:

- (c) Accounting policies that are relevant for understanding the items recognised in the financial statements; and
- (d) Analysis of the result for the period by reference to key areas, including revenue, results by operating segment and income tax.

(B1) Revenue

Revenue recognised in statutory profit during the period is set out below:

| Half year ended 31 December | Stockland | | Trust | |
|---------------------------------|--------------|--------------|-------------|-------------|
| | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Property development sales | 728 | 650 | – | – |
| Rent from investment properties | 375 | 362 | 373 | 362 |
| DMF revenue | 50 | 39 | – | – |
| Dividends and distributions | – | 4 | – | 4 |
| Other revenue | 16 | 10 | 10 | 4 |
| Total revenue | 1,169 | 1,065 | 383 | 370 |

Rent from investment properties includes \$3 million (December 2015: \$2 million) contingent rent billed to tenants. Contingent rent represents 1% (December 2015: 1%) of gross lease income.

(B2) Operating segments

KEEPING IT SIMPLE...

This section shows a reconciliation from FFO to statutory profit. From 1 July 2016, FFO has replaced underlying profit as the Group's key profit measure. This reflects the way the business is managed and how the Directors and Executive Committee assess performance.

Both FFO and segment operating profit are presented on a proportionate consolidation basis within the segment report, whereby earnings from equity-accounted investments are grossed up and included in segment EBIT based on Stockland's proportionate ownership interest.

FFO is a non-IFRS measure that is designed to present, in the opinion of the CODM, the results from ongoing operating activities of Stockland in a way that appropriately reflects the Group's underlying performance. FFO is the basis on which distributions and dividends are determined and 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.

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Managing Director and the Executive Committee, who are the CODM.

Stockland has four reportable segments, as listed below:

- Commercial Property – invests in, develops and manages retail, office and logistic & business park properties;
- Residential – delivers a range of master planned and mixed use residential communities in growth areas and townhouses and apartments in general metropolitan areas;
- Retirement Living – designs, develops and manages communities for 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.

Consolidated Notes

Half year ended 31 December 2016

(B2) Operating Segments (continued)

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.

(B2a) Funds From Operations

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

Stockland

| Half year ended 31 December 2016 | Commercial Property \$M | Residential \$M | Retirement Living \$M | Other \$M | Consolidated \$M |
|---|----------------------------|--------------------|--------------------------|--------------|---------------------|
| External segment revenue | 429 ² | 712 | 41 ³ | – | 1,182 |
| Total external segment revenue | 429 | 712 | 41 | – | 1,182 |
| Segment EBIT | 280 | 176 | 28 | – | 484 |
| Amortisation of lease incentives and fees | 35 | – | – | – | 35 |
| Straight-line rent adjustments | (3) | – | – | – | (3) |
| Interest expense in cost of sales | – | (76) | (2) | – | (78) |
| Share of interest expense in joint ventures | – | – | – | – | – |
| Segment operating profit¹ | 312 | 100 | 26 | – | 438 |
| Interest income | | | | | 2 |
| Interest expense | | | | | (42) |
| Unallocated corporate and other expenses | | | | | (29) |
| FFO for the period | | | | | 369 |

| Half year ended 31 December 2015 | Commercial Property \$M | Residential \$M | Retirement Living \$M | Other \$M | Consolidated \$M |
|---|----------------------------|--------------------|--------------------------|--------------|---------------------|
| External segment revenue | 395 ² | 652 | 29 ³ | – | 1,076 |
| Total external segment revenue | 395 | 652 | 29 | – | 1,076 |
| Segment EBIT | 264 | 157 | 20 | – | 441 |
| Amortisation of lease incentives and fees | 33 | – | – | – | 33 |
| Straight-line rent adjustments | (6) | – | – | – | (6) |
| Interest expense in cost of sales | – | (59) | (2) | – | (61) |
| Share of interest expense in joint ventures | (1) | – | – | – | (1) |
| Segment operating profit¹ | 290 | 98 | 18 | – | 406 |
| Interest income | | | | | 3 |
| Interest expense | | | | | (40) |
| Unallocated corporate and other expenses | | | | | (27) |
| FFO for the period | | | | | 342 |

1 Includes profits from equity-accounted investments of \$15 million (December 2015: \$15 million) in Commercial Property and nil (December 2015: \$1 million) in Residential.

2 External segment revenue adds back \$29 million (December 2015: \$27 million) of amortisation of leases incentives and excludes \$3 million (December 2015: \$6 million) of straight-line rent adjustments.

3 External segment revenue excludes \$13 million (December 2015: \$10 million) of unrealised DMF revenue.

Consolidated Notes

Half year ended 31 December 2016

(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 our core ongoing business activities.

Stockland

| Half year ended 31 December | Note | 2016 | | | 2015 | | |
|--|------|------------|---------------------------------|-----------------------------|------------|---------------------------------|-----------------------------|
| | | FFO \$M | Statutory adjustments \$M | Statutory results \$M | FFO \$M | Statutory adjustments \$M | Statutory results \$M |
| Revenue | A, B | 1,182 | (13) | 1,169 | 1,076 | (11) | 1,065 |
| Cost of property developments sold: | | | | | | | |
| • Land and development | | (556) | – | (556) | (454) | – | (454) |
| • Capitalised interest | | (76) | – | (76) | (59) | – | (59) |
| • Utilisation of provision for write-down of inventories | | 96 | – | 96 | 30 | – | 30 |
| Investment property expenses | C | (117) | (6) | (123) | (113) | (6) | (119) |
| Share of profits of equity-accounted investments | D | 15 | 29 | 44 | 16 | 51 | 67 |
| Management, administration, marketing and selling expenses | | (143) | – | (143) | (126) | – | (126) |
| Net change in fair value of investment properties: | | | | | | | |
| • Commercial Property | D | – | 167 | 167 | – | 382 | 382 |
| • Retirement Living | D | 8 | 48 | 56 | 9 | 48 | 57 |
| Net change in fair value of Retirement Living resident obligations | D | – | (37) | (37) | – | (57) | (57) |
| Net gain on other financial assets | | – | – | – | – | 7 | 7 |
| Net loss on sale of other non-current assets | E | – | (2) | (2) | – | – | – |
| Finance income | F | 2 | 126 | 128 | 3 | – | 3 |
| Finance expense | F | (42) | – | (42) | (40) | (45) | (85) |
| Profit before income tax | | 369 | 312 | 681 | 342 | 369 | 711 |
| Income tax benefit/(expense) | | – | 21 | 21 | – | (15) | (15) |
| Profit for the period | | 369 | 333 | 702 | 342 | 354 | 696 |

Consolidated Notes

Half year ended 31 December 2016

(B2b) Reconciliation of FFO to statutory profit (continued)

Trust

| Half year ended 31 December | Note | 2016 | | | 2015 | | |
|--|------|------------|---------------------------------|-----------------------------|------------|---------------------------------|-----------------------------|
| | | FFO \$M | Statutory adjustments \$M | Statutory results \$M | FFO \$M | Statutory adjustments \$M | Statutory results \$M |
| Revenue | B | 409 | (26) | 383 | 391 | (21) | 370 |
| Investment property expenses | C | (112) | (6) | (118) | (109) | (6) | (115) |
| Share of profits of equity-accounted investments | D | 15 | 29 | 44 | 15 | 52 | 67 |
| Management, administration, marketing and selling expenses | | (20) | – | (20) | (12) | – | (12) |
| Net change in fair value of Commercial Property | D | – | 132 | 132 | – | 346 | 346 |
| Net gain on other financial assets | | – | – | – | – | 7 | 7 |
| Finance income | F | 136 | 126 | 262 | 150 | – | 150 |
| Finance expense | F | (96) | – | (96) | (98) | (45) | (143) |
| Profit before income tax | | 332 | 255 | 587 | 337 | 333 | 670 |
| Income tax benefit/(expense) | | – | – | – | – | – | – |
| Profit for the period | | 332 | 255 | 587 | 337 | 333 | 670 |

Explanation of statutory adjustments

A DMF revenue of \$13 million (December 2015: \$10 million) has been excluded from FFO until it is realised in cash. Refer to section B2c.

B Amortisation of lease incentives of \$29 million (December 2015: \$27 million) offset by \$3 million (December 2015: \$6 million) of straight-line rent adjustments are excluded from FFO.

C Amortisation of lease fees are excluded from FFO.

D FFO excludes the net change in fair value of investment properties for properties held by Stockland both directly and indirectly through equity-accounted investments. Similarly, the net change in fair value of Retirement Living resident obligations is excluded from FFO. Refer to section C1b for further information on fair value adjustments for the Commercial Properties and C1c for Retirement Living.

E Net loss on sale of other non-current assets predominantly relate to the loss on the sale of investment properties.

F Net change in fair value of financial instruments and foreign exchange movements, classified as finance income/expenses, are excluded from FFO. Refer to section D1.

(B2c) Retirement Living segment result

KEEPING IT SIMPLE ...

As accounting for Retirement Living assets is not straight forward we have included a section specifically in relation to it.

Retirement Living residents generally lend Stockland an amount equivalent to the value of the unit in exchange for a lease to live in the unit and access to community facilities. This loan is recorded as a resident obligation liability.

During the resident's tenure, Stockland earns DMF revenue which is calculated based on the individual resident contract. There are various contractual arrangements, however a standard contract will typically provide for DMF to be earned at a rate of 8% in the first year and 3% in subsequent years, capped at 35%, with Stockland and the resident sharing in any net capital gain when the unit is re-leased to the next resident. The DMF on an individual unit covers, 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 allow the resident to pay for these at the end of their tenancy, instead of the start. The DMF revenue is included in the Retirement Living FFO when Stockland receives the accumulated DMF in cash when a resident leaves and a new resident enters the unit.

The Retirement Living segment result also includes the settled development margin. This settled development 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.

Refer to section C1c for further information on the fair value measurement and valuation technique used for Retirement Living investment properties and resident obligations.

Consolidated Notes

Half year ended 31 December 2016

(B2c) Retirement Living segment result (continued)

Reconciliation of Retirement Living statutory profit to segment results

| Half year ended 31 December | Note | 2016 | | | 2015 | | |
|--|------|------------|---------------------------------|-----------------------------|------------|---------------------------------|-----------------------------|
| | | FFO \$M | Statutory adjustments \$M | Statutory results \$M | FFO \$M | Statutory adjustments \$M | Statutory results \$M |
| Total realised revenue | | 37 | – | 37 | 29 | – | 29 |
| Net DMF base fees earned, unrealised | A | – | 13 | 13 | – | 10 | 10 |
| DMF Revenue | | 37 | 13 | 50 | 29 | 10 | 39 |
| Net change in fair value of investment properties: | | | | | | | |
| • settled development margin | | 8 | – | 8 | 9 | – | 9 |
| • operating villages and villages under development | B | – | 48 | 48 | – | 48 | 48 |
| Total net change in fair value of investment properties | | 8 | 48 | 56 | 9 | 48 | 57 |
| Net change in fair value of Retirement Living resident obligations | B | – | (37) | (37) | – | (57) | (57) |
| Management, administration, marketing and selling expenses | | (19) | – | (19) | (16) | – | (16) |
| Other income/(expenses) | | – | – | – | (4) | – | (4) |
| Retirement Living profit/(loss) | | 26 | 24 | 50 | 18 | 1 | 19 |

Explanation of statutory adjustments

A DMF base fees earned comprise DMF which is calculated on the entry price of a unit. For statutory profit these fees are accrued progressively as Stockland becomes entitled to the fee but is not recognised in FFO until the DMF accrued is realised in cash.

B FFO excludes the net change in fair value for operating villages, villages under development and Retirement Living resident obligations. Refer to section C1c.

(B2d) Balance sheet by operating segment

Stockland

| 31 December 2016 | Commercial Property \$M | Residential \$M | Retirement Living \$M | Other \$M | Unallocated \$M | Consolidated \$M |
|---|-------------------------------|--------------------|-----------------------------|--------------|--------------------|---------------------|
| Assets | | | | | | |
| Cash | – | – | – | – | 282 | 282 |
| Real estate related assets ¹ | 9,942 | 2,495 | 3,702 | – | 38 | 16,177 |
| Intangibles | – | – | 76 | – | 64 | 140 |
| Other financial assets | – | – | – | – | 535 | 535 |
| Other assets | 62 | 143 | 22 | – | 71 | 298 |
| Total assets | 10,004 | 2,638 | 3,800 | – | 990 | 17,432 |
| Liabilities | | | | | | |
| Interest-bearing liabilities | – | – | – | – | 3,916 | 3,916 |
| Retirement Living resident obligations | – | – | 2,484 | – | – | 2,484 |
| Other financial liabilities | – | – | – | – | 188 | 188 |
| Other liabilities | 89 | 510 | 11 | – | 472 | 1,082 |
| Total liabilities | 89 | 510 | 2,495 | – | 4,576 | 7,670 |
| Net assets/(liabilities) | 9,915 | 2,128 | 1,305 | – | (3,586) | 9,762 |
| Other items | | | | | | |
| Acquisition of investment properties | 9 | – | – | – | – | 9 |

Consolidated Notes

Half year ended 31 December 2016

(B2d) Balance sheet by operating segments (continued)

| 30 June 2016 | Commercial Property \$M | Residential \$M | Retirement Living \$M | Other \$M | Unallocated \$M | Consolidated \$M |
|---|-------------------------------|--------------------|-----------------------------|--------------|--------------------|---------------------|
| Assets | | | | | | |
| Cash | – | – | – | – | 208 | 208 |
| Real estate related assets ¹ | 9,668 | 2,517 | 3,589 | – | 38 | 15,812 |
| Intangibles | – | – | 76 | – | 46 | 122 |
| Other financial assets | – | – | – | – | 547 | 547 |
| Other assets | 50 | 151 | 15 | – | 37 | 253 |
| Total assets | 9,718 | 2,668 | 3,680 | – | 876 | 16,942 |
| Liabilities | | | | | | |
| Interest-bearing liabilities | – | – | – | – | 3,800 | 3,800 |
| Retirement Living resident obligations | – | – | 2,427 | – | – | 2,427 |
| Other financial liabilities | – | – | – | – | 316 | 316 |
| Other liabilities | 115 | 549 | 14 | – | 467 | 1,145 |
| Total liabilities | 115 | 549 | 2,441 | – | 4,583 | 7,688 |
| Net assets/(liabilities) | 9,603 | 2,119 | 1,239 | – | (3,707) | 9,254 |
| Other items | | | | | | |
| Acquisition of investment properties | 222 | – | – | – | – | 222 |

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

(B3) Taxation

Stockland

The Group recorded a net tax benefit of \$21 million for the half year ended 31 December 2016. The net tax benefit includes a tax expense on statutory profit of \$28 million and tax benefit on foreign exchange adjustments of \$49 million, as confirmed with the ATO.

Recoverability of deferred tax assets

An assessment of the recoverability of the net deferred tax asset has been made to determine if the carrying value should be reduced or more tax losses should be recognised with reference to the latest available profit forecasts, to determine the availability of suitable taxable profits or taxable temporary differences. The assessment for the current period determined that the deferred tax asset was considered to be recoverable with sufficient certainty and accordingly no additional deferred tax asset write off and no additional tax losses were required to be recognised.

At each reporting period, the net deferred tax asset and unrecognised tax losses will be assessed for recoverability and recognition, respectively. This may lead to the partial or full recognition of this unrecognised tax benefit in future reporting periods.

Stockland has \$139 million (June 2016: \$139 million) of unrecognised deferred tax assets. This balance consists of \$133 million (June 2016: \$133 million) Australian income tax losses and \$6 million (June 2016: \$6 million) Australian capital losses. The losses were largely attributable to difficult trading conditions encountered in the Global Financial Crisis when the Corporation accumulated tax losses which have not yet been fully absorbed by current taxable earnings.

Trust

There are no deferred tax assets or liabilities in the Trust. As the Trust limits its activities to deriving income from renting commercial property, and distributes all of its taxable income each year to its investors, the Trust is not subject to tax. However, all of the annual taxable income is subject to tax in the hands of Stockland's investors.

Consolidated Notes

Half year ended 31 December 2016

(C) Operating assets and liabilities

IN THIS SECTION

This section shows the real estate assets used to generate the Group's trading performance and the liabilities incurred as a result. Information on other assets and liabilities are in the following sections:

- Section B – Deferred tax assets and liabilities
- Section D – Financing activities
- Section E – Equity-accounted investments

(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 the profit or loss for the half year ended 31 December 2016 (June 2016: Nil).

The composition of inventory is presented in the table below:

| | 31 December 2016 | | | 30 June 2016 | | |
|---|------------------|------------------------|--------------|----------------|------------------------|--------------|
| | Current \$M | Non- current \$M | Total \$M | Current \$M | Non- current \$M | Total \$M |
| Finished development stock held for sale¹ | | | | | | |
| • cost of acquisition | 46 | – | 46 | 103 | – | 103 |
| • development and other costs | 162 | – | 162 | 196 | – | 196 |
| • interest capitalised | 27 | – | 27 | 40 | – | 40 |
| • impairment provision | (6) | – | (6) | (31) | – | (31) |
| Total finished stock held for sale | 229 | – | 229 | 308 | – | 308 |
| Development work in progress | | | | | | |
| Residential communities under development | | | | | | |
| • cost of acquisition | 400 | 973 | 1,373 | 350 | 1,099 | 1,449 |
| • development and other costs | 181 | 435 | 616 | 125 | 419 | 544 |
| • interest capitalised | 64 | 334 | 398 | 75 | 334 | 409 |
| • impairment provision | (27) | (151) | (178) | (85) | (164) | (249) |
| Total residential communities under development | 618 | 1,591 | 2,209 | 465 | 1,688 | 2,153 |
| Apartments | | | | | | |
| • cost of acquisition | – | – | – | – | – | – |
| • development and other costs | – | 5 | 5 | 2 | 2 | 4 |
| • interest capitalised | – | – | – | – | – | – |
| • impairment provision | – | – | – | – | – | – |
| Total apartments | – | 5 | 5 | 2 | 2 | 4 |
| Logistics & business parks projects | | | | | | |
| • cost of acquisition | 35 | 12 | 47 | 25 | 26 | 51 |
| • development and other costs | 25 | 3 | 28 | 16 | 6 | 22 |
| • interest capitalised | 8 | – | 8 | 7 | – | 7 |
| • impairment provision | (30) | – | (30) | (21) | (9) | (30) |
| Total logistics & business parks projects | 38 | 15 | 53 | 27 | 23 | 50 |
| Age exclusive villages | | | | | | |
| • cost of acquisition | – | – | – | – | – | – |
| • development and other costs | – | 3 | 3 | – | – | – |
| • interest capitalised | – | – | – | – | – | – |
| • impairment provision | – | – | – | – | – | – |
| Total age exclusive villages | – | 3 | 3 | – | – | – |
| Total inventory | 885 | 1,614 | 2,499 | 802 | 1,713 | 2,515 |

1 Included within current finished development stock held for sale are logistics and business parks of \$5 million (June 2016: \$7 million).

Consolidated Notes

Half year ended 31 December 2016

(C1a) Inventories (continued)

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

| | Residential communities \$M | Apartments \$M | Logistics & business parks \$M | Age exclusive villages \$M | Total \$M |
|---------------------------------------|--------------------------------|-------------------|-----------------------------------|-------------------------------|--------------|
| Opening balance as at 1 July 2016 | 280 | – | 30 | – | 310 |
| Amounts utilised | (96) | – | – | – | (96) |
| Balance as at 31 December 2016 | 184 | – | 30 | – | 214 |

(C1b) 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 2016 \$M | 30 June 2016 \$M | 31 December 2016 \$M | 30 June 2016 \$M |
| Retail | 6,858 | 6,660 | 6,802 | 6,609 |
| Logistics & Business Parks | 1,998 | 1,962 | 1,998 | 1,962 |
| Office | 839 | 845 | 823 | 829 |
| Capital works in progress and sundry properties | 265 | 202 | 190 | 130 |
| Book value of commercial properties | 9,960 | 9,669 | 9,813 | 9,530 |
| Less amounts classified as: | | | | |
| • Property, plant and equipment | (43) | (44) | – | – |
| • Non-current assets held for sale | – | (67) | – | (61) |
| • Other assets (including lease incentives and lease fees) | (208) | (200) | (212) | (205) |
| • Other assets (including lease incentives and lease fees) attributable to equity-accounted investments | (9) | (10) | (9) | (10) |
| • Other receivables (straight-lining of operating lease rental income) | (65) | (61) | (68) | (65) |
| • Other receivables (straight-lining of operating lease rental income) attributable to equity-accounted investments | (13) | (13) | (13) | (13) |
| Total investment properties (including share of investment properties held by equity-accounted investments) | 9,622 | 9,274 | 9,511 | 9,176 |
| Less: Stockland's share of investment properties held by equity-accounted investments | (503) | (474) | (503) | (474) |
| Total investment properties | 9,119 | 8,800 | 9,008 | 8,702 |
| Investment property reconciliation | | | | |
| Direct investments and controlled entities | | | | |
| Carrying amount at the beginning of the financial period/year | 8,800 | 7,917 | 8,702 | 7,840 |
| Acquisitions | 9 | 222 | 9 | 222 |
| Transfers from equity-accounted investments ¹ | – | 70 | – | 70 |
| Expenditure capitalised | 151 | 287 | 173 | 345 |
| Transfers to non-current assets held for sale | – | (67) | – | (61) |
| Disposals | (8) | (2) | (8) | (43) |
| Net change in fair value of investment properties | 167 | 373 | 132 | 329 |
| Balance at the end of the financial period/year | 9,119 | 8,800 | 9,008 | 8,702 |

¹ Transfer of 50% of Stockland Bundaberg. In the prior year, Stockland acquired the remaining 50% of the trust that holds Stockland Bundaberg.

Consolidated Notes

Half year ended 31 December 2016

(C1b) Commercial Properties (continued)

| Description | Independent valuation | | Independent Cap rate ¹ % | | Book value (\$M) | |
|---|-----------------------|-----|-------------------------------------|--------------|------------------|--------------|
| | Date | \$M | 31 December 2016 | 30 June 2016 | 31 December 2016 | 30 June 2016 |
| Retail | | | | | | |
| Directly owned | | | | | | |
| Stockland Shellharbour, Shellharbour NSW ⁶ | Dec 2016 | 740 | 5.50 | 5.75 | 748 | 700 |
| Stockland Wetherill Park, Western Sydney NSW | Dec 2016 | 740 | 5.50 | 6.75 | 740 | 685 |
| Stockland Merrylands, Merrylands NSW | Dec 2015 | 540 | 5.75 | 5.75 | 537 | 537 |
| Stockland Rockhampton, Rockhampton QLD | Dec 2016 | 419 | 5.75 | 6.00 | 419 | 406 |
| Stockland Green Hills, East Maitland NSW | Dec 2015 | 354 | 5.75 | 5.75 | 359 | 354 |
| Stockland Glendale, Newcastle NSW | Dec 2016 | 324 | 6.00 | 6.25 | 324 | 301 |
| Stockland Point Cook, Point Cook VIC | Dec 2015 | 230 | 6.25 | 6.25 | 231 | 230 |
| Stockland Townsville, Townsville QLD (50%) ² | Dec 2015 | 229 | 6.00-6.75 | 6.00-6.75 | 227 | 227 |
| Stockland Cairns, Cairns QLD | Dec 2016 | 223 | 6.25 | 6.00 | 223 | 235 |
| Stockland Baldivis, Baldivis WA | Dec 2015 | 200 | 6.00 | 6.00 | 203 | 200 |
| Stockland Hervey Bay, Hervey Bay QLD | Jun 2015 | 195 | 6.25 | 6.25 | 196 | 195 |
| Stockland Burleigh Heads, Burleigh Heads QLD | Dec 2015 | 190 | 6.75-7.50 | 6.75-7.50 | 192 | 191 |
| Stockland The Pines, Doncaster East VIC | Dec 2015 | 170 | 6.25 | 6.25 | 172 | 170 |
| Stockland Forster, Forster NSW | Dec 2016 | 172 | 6.25 | 6.50 | 172 | 167 |
| Stockland Balgowlah, Balgowlah NSW | Dec 2016 | 162 | 5.75 | 6.00 | 162 | 148 |
| Stockland Jesmond, Newcastle NSW | Dec 2015 | 160 | 6.50 | 6.50 | 161 | 161 |
| Stockland Wendouree, Wendouree VIC | Dec 2015 | 148 | 6.50 | 6.50 | 149 | 149 |
| Stockland Baulkham Hills, Baulkham Hills NSW | Dec 2015 | 145 | 6.25 | 6.25 | 147 | 145 |
| Stockland Gladstone, Gladstone QLD | Dec 2016 | 147 | 6.50 | 7.00 | 147 | 142 |
| Stockland Bundaberg, Bundaberg QLD | Jun 2016 | 139 | 6.50 | 6.50 | 141 | 139 |
| Stockland Caloundra, Caloundra QLD | Dec 2016 | 140 | 5.96 | 6.50 | 140 | 127 |
| Stockland Nowra, Nowra NSW ⁶ | Dec 2015 | 116 | 6.50 | 6.50 | 118 | 117 |
| Stockland Cleveland, Cleveland QLD | Dec 2016 | 112 | 6.25 | 6.75 | 112 | 103 |
| Stockland Traralgon, Traralgon VIC | Dec 2015 | 107 | 6.75 | 6.75 | 108 | 108 |
| Stockland Bull Creek, Bull Creek WA | Dec 2016 | 107 | 6.25 | 6.50 | 107 | 103 |
| Stockland Bathurst, Bathurst NSW | Dec 2015 | 94 | 6.75 | 6.75 | 95 | 95 |
| Stockland Wallsend, Wallsend NSW | Dec 2016 | 79 | 6.75 | 7.00 | 79 | 71 |
| Stockland Corrimal, Corrimal NSW | Dec 2016 | 72 | 6.75 | 6.75 | 72 | 75 |
| Stockland Tooronga, Tooronga VIC | Dec 2016 | 70 | 5.75 | 6.00 | 70 | 63 |
| Stockland Harrisdale Complex, Harrisdale WA ⁷ | Dec 2016 | 55 | 6.25 | – | 55 | 48 |
| Shellharbour Retail Park, Shellharbour NSW | Dec 2016 | 54 | 7.75 | 7.75 | 54 | 53 |
| Stockland Cammeray, Cammeray NSW | Dec 2016 | 49 | 6.00 | 6.25 | 49 | 45 |
| Stockland Highlands, Craigieburn VIC ³ | Dec 2016 | 39 | 6.00 | 6.50 | 39 | 34 |
| North Shore Townsville, Townsville QLD | Dec 2016 | 23 | 6.50 | 6.75 | 23 | 23 |
| Stockland Merrylands Court, Merrylands NSW ³ | Dec 2014 | 10 | 7.50 | 7.50 | 10 | 10 |
| Woolworths Toowong, Toowong QLD ^{3,4} | Dec 2015 | 6 | n/a | n/a | 7 | 7 |
| Stockland Townsville Kingsvale Sunvale, QLD (50%) ^{2,5} | Dec 2014 | 5 | n/a | n/a | 3 | 2 |
| Stockland Jimboomba Village Shopping Centre, Jimboomba QLD (50%) ^{2,8} | – | – | – | 8.00 | – | 14 |
| Stockland Vincentia Shopping Centre, Vincentia NSW ⁸ | – | – | – | 8.25 | – | 11 |
| Owned through equity-accounted investments | | | | | | |
| Stockland Riverton, Riverton WA (50%) | Dec 2016 | 66 | 6.25 | 6.50 | 66 | 64 |
| Total Retail⁹ | | | | | 6,858 | 6,660 |

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

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

3 Property is not held by the Trust.

4 Property is valued as land.

5 Independent valuation based on 100% ownership.

6 Independent valuation excludes the adjacent property owned by Stockland.

7 The values adopted in the comparative period are a result of a Directors' valuation.

8 Property was disposed of during the period.

9 Totals may not add due to rounding.

Consolidated Notes

Half year ended 31 December 2016

(C1b) Commercial Properties (continued)

| Description | Independent valuation | | Independent Cap rate ¹ % | | Book value (\$M) | |
|--|-----------------------|-----|-------------------------------------|--------------|------------------|--------------|
| | Date | \$M | 31 December 2016 | 30 June 2016 | 31 December 2016 | 30 June 2016 |
| Logistics & Business Parks | | | | | | |
| Directly owned | | | | | | |
| Yennora Distribution Centre, Yennora NSW | Dec 2015 | 381 | 7.00 | 7.00 | 387 | 384 |
| Trinity Business Campus, North Ryde NSW | Dec 2015 | 178 | 7.00 | 7.00 | 175 | 176 |
| Ingleburn Distribution Centre, Ingleburn NSW ⁶ | Dec 2016 | 105 | 6.75 | – | 105 | 78 |
| Port Adelaide Distribution Centre, Port Adelaide SA | Dec 2016 | 98 | 8.75 | 9.00 | 98 | 101 |
| 60-66 Waterloo Road, Macquarie Park NSW | Dec 2015 | 95 | 6.50-7.00 | 6.50-7.00 | 98 | 97 |
| Stockland Mulgrave, Mulgrave VIC ⁶ | Dec 2016 | 92 | 7.00 | – | 92 | 93 |
| Hendra Distribution Centre, Brisbane QLD | Jun 2016 | 88 | 8.25 | 8.25 | 89 | 88 |
| Brooklyn Estate, Brooklyn VIC | Dec 2015 | 83 | 8.00 | 8.00 | 82 | 82 |
| Forrester Distribution Centre, St Marys NSW | Dec 2015 | 81 | 7.25 | 7.25 | 81 | 81 |
| Macquarie Technology Centre, Macquarie Park NSW | Dec 2016 | 56 | 6.98 | 7.00-8.25 | 56 | 54 |
| 9-11a Ferndell Street, Granville NSW | Dec 2015 | 56 | 7.25-9.00 | 7.25-9.00 | 55 | 54 |
| Balcatta Distribution Centre, Balcatta WA ¹⁰ | Dec 2016 | 48 | 6.75 | 7.00 | 52 | 59 |
| Toll Business Park, Altona VIC | Dec 2015 - Jun 2016 | 50 | 6.75-7.50 | 6.75-7.50 | 52 | 50 |
| 20-50 & 76-82 Fillo Drive and 10 Stubb Street, Somerton VIC | Dec 2016 | 51 | 7.56 | 8.25 | 51 | 45 |
| 16 Giffnock Avenue, Macquarie Park NSW | Dec 2015 | 42 | 7.75 | 7.75 | 43 | 43 |
| 1090-1124 Centre Road, Oakleigh VIC ⁸ | Dec 2012 | 32 | 9.25 | 9.25 | 40 | 40 |
| 23 Wonderland Drive, Eastern Creek NSW ⁶ | Dec 2016 | 37 | 6.75 | – | 37 | 36 |
| 72-76 Cherry Lane, Laverton North VIC | Dec 2015 | 32 | 7.00 | 7.00 | 32 | 32 |
| Altona Distribution Centre, Altona VIC | Dec 2015 | 30 | 8.25 | 8.25 | 31 | 31 |
| 2 Davis Road, Wetherill Park NSW | Jun 2016 | 26 | 7.25 | 7.25 | 26 | 26 |
| 2-8 Baker Street, Botany NSW | Dec 2015 | 23 | 6.25 | 6.25 | 25 | 24 |
| Erskine Park, Erskine Park NSW ⁶ | Dec 2016 | 22 | 6.00 | – | 22 | 19 |
| Coopers Paddock, Warwick Farm NSW ⁵ | – | – | – | – | 19 | 19 |
| Export Park, 9-13 Viola Place, Brisbane Airport QLD ⁴ | Dec 2015 | 9 | 9.29 | 9.29 | 9 | 9 |
| 40 Scanlon Drive, Epping VIC | Dec 2015 | 9 | 7.50 | 7.50 | 9 | 9 |
| M1 Yatala Enterprise Park, Yatala QLD | Jun 2016 | 7 | n/a | n/a | 7 | 7 |
| Owned through equity-accounted investments | | | | | | |
| Optus Centre, Macquarie Park NSW (51%) | Mar 2016 | 227 | 6.75 | 6.75 | 227 | 227 |
| Total Logistics & Business Parks¹² | | | | | 1,998 | 1,962 |
| Office | | | | | | |
| Directly owned | | | | | | |
| Stockland Piccadilly, 133-145 Castlereagh Street, Sydney NSW (50%) ^{2, 3, 4, 7} | Dec 2015 | 242 | 6.00-7.00 | 6.00-7.00 | 232 | 232 |
| Durack Centre, 263 Adelaide Terrace, Perth WA ⁴ | Jun 2016 | 116 | 8.00 | 8.00 | 115 | 116 |
| 601 Pacific Highway, St Leonards NSW | Dec 2015 | 98 | 7.00 | 7.00 | 96 | 97 |
| 77 Pacific Highway, North Sydney NSW | Dec 2016 | 73 | 6.50 | 7.00 | 73 | 69 |
| 40 Cameron Avenue, Belconnen ACT ⁴ | Dec 2015 | 33 | 11.00 | 11.00 | 33 | 33 |
| 110 Walker Street, North Sydney NSW | Dec 2015 | 30 | 7.25 | 7.25 | 30 | 30 |
| 80-88 Jephson Street, Toowong QLD ⁹ | Dec 2015 | 20 | 8.75 | 8.75 | 22 | 22 |
| 23-29 High Street, Toowong QLD ⁹ | Dec 2015 | 6 | 7.50 | 7.50 | 6 | 6 |
| Garden Square, Mt Gravatt QLD ¹¹ | – | – | – | 9.25 | – | 35 |
| Owned through equity-accounted investments | | | | | | |
| 135 King Street, Sydney NSW (50%) ³ | Dec 2016 | 232 | 4.63-5.63 | 4.75-6.00 | 232 | 206 |
| Total Office¹² | | | | | 839 | 845 |

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

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

3 Book value includes the retail component of the property.

4 Property is a leasehold property.

5 The values adopted above are a result of a Directors' valuations.

6 The values adopted in the comparative period are a result of a Directors' valuation.

7 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.

8 Property is currently undergoing redevelopment. An external valuation will be obtained on completion of the redevelopment.

9 Property is not held by the Trust.

10 Independent valuation excludes the adjacent property owned by Stockland.

11 Property was disposed of during the period.

12 Totals may not add due to rounding.

Consolidated Notes

Half year ended 31 December 2016

(C1b) Commercial Properties (continued)

Fair value measurement, valuation techniques and inputs

The techniques used to fair value the Group's commercial properties have not changed since 30 June 2016. For further explanation of the techniques used and inputs applied, refer to the 30 June 2016 financial statements.

(C1c) Retirement Living

For information on results of the Retirement Living business refer to section B2c.

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 independent living units, serviced apartments, community facilities and integral plant and equipment.

Stockland

| | 31 December 2016 \$M | 30 June 2016 \$M |
|---|----------------------------|------------------------|
| Net investment in Retirement Living | | |
| Operating villages | 3,471 | 3,368 |
| Villages under development | 228 | 208 |
| Total Retirement Living investment properties | 3,699 | 3,576 |
| Existing resident obligations | (2,472) | (2,414) |
| Net carrying value of Retirement Living villages | 1,227 | 1,162 |
| Retirement Living net carrying value movement during the period/year | | |
| Balance at the beginning of the financial period/year | 1,162 | 1,137 |
| Expenditure capitalised | 68 | 168 |
| Transferred to assets held for sale | – | (12) |
| Realised fair value movements | 8 | 26 |
| Cash received on first sales | (46) | (152) |
| Change in fair value of investment properties | 31 | (20) |
| Other movements | 4 | 15 |
| Balance at the end of the financial period/year | 1,227 | 1,162 |

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 2016. For further explanation of the techniques used and inputs applied, refer to the 30 June 2016 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 8% of residents are estimated to leave 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 because residents have the right to terminate their occupancy contract with immediate effect, and Stockland has no unconditional contractual right to defer settlement for at least 12 months.

Consolidated Notes

Half year ended 31 December 2016

(C1c) Retirement Living (continued)

Non-current resident obligations

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

| | Current \$M | Non-Current \$M | Total \$M |
|-----------------------------------|----------------|--------------------|--------------|
| 31 December 2016 | | | |
| Existing resident obligations | 2,290 | 182 | 2,472 |
| Former resident obligations | 2 | 10 | 12 |
| Total resident obligations | 2,292 | 192 | 2,484 |
| 30 June 2016 | | | |
| Existing resident obligations | 2,202 | 212 | 2,414 |
| Former resident obligations | 3 | 10 | 13 |
| Total resident obligations | 2,205 | 222 | 2,427 |

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 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 2016 | 30 June 2016 |
| Discount rate | 12.5% – 14.5% (Average: 12.9%) | 12.5% – 14.0% (Average: 12.9%) |
| Average 20 year growth rate | 3.6% | 3.7% |
| Average length of stay of existing and future residents | 10.6 years | 10.6 years |
| Current market value of unit | \$0.1 million – \$1.3 million | \$0.1 million – \$1.3 million |
| Renovation/Reinstatement cost | \$5k – \$80k | \$5k – \$80k |
| 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 gain or loss arising on the unit.

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 2016. For further explanation of the techniques used and inputs applied, refer to the 30 June 2016 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 2016 \$M | 30 June 2016 \$M | 31 December 2016 \$M | 30 June 2016 \$M |
| Current market value | 10% | 156 | 150 | (156) | (150) |

Current market value is the only input that will significantly impact the fair value of the resident obligation since this impacts the amount of any capital gain that will be shared between Stockland and the resident upon exit.

Consolidated Notes

Half year ended 31 December 2016

(C1d) Non-current assets held for sale

The following assets have been classified as held for sale:

| | Stockland | | Trust | |
|--|----------------------------|------------------------|----------------------------|------------------------|
| | 31 December 2016 \$M | 30 June 2016 \$M | 31 December 2016 \$M | 30 June 2016 \$M |
| Investment properties transferred from Commercial Property | – | 67 | – | 61 |
| Investment properties transferred from Retirement Living | – | 12 | – | – |
| Eagle Street Pier Pty Limited | – | 18 | – | – |
| Total non-current assets held for sale | – | 97 | – | 61 |

During the current period, Stockland completed the sale of investment properties previously classified as non-current assets held for sale at 30 June 2016. In the prior year, these properties were revalued to their sale value.

During the current period, the final proceeds from the sale of the Eagle Street Pier property were distributed by the joint venture to Stockland and its joint venture partner.

Consolidated Notes

Half year ended 31 December 2016

(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 shareholders (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.

The Board considers the Group's capital structure and its dividend and distribution policy at least twice a year ahead of announcing results, in the context of its ability to continue as a going concern, to execute the strategy and to deliver its business plan. During 2016, Stockland's credit rating remained unchanged at A-/Stable, and the Board continued to focus on improving 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 derivatives 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 note 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 2016 and 31 December 2016. The value at period end is not necessarily the same as the value at which they will be settled at maturity.

Net financing costs can be analysed as follows:

| | Stockland | | Trust | |
|---|-------------|-------------|-------------|-------------|
| | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Half year ended 31 December | | | | |
| Interest income from related parties | – | – | 135 | 149 |
| Interest income from other parties | 2 | 3 | 1 | 1 |
| Interest income | 2 | 3 | 136 | 150 |
| Net gain on fair value hedges | 14 | – | 14 | – |
| Net gain on derivatives | 112 | – | 112 | – |
| Total gain on debt and derivatives | 126 | – | 126 | – |
| Finance income | 128 | 3 | 262 | 150 |
| Interest expense relating to interest-bearing financial liabilities | 100 | 100 | 100 | 100 |
| Interest paid or payable on other financial liabilities at amortised cost | 5 | 6 | – | – |
| Less interest capitalised to inventories | (57) | (60) | – | – |
| Less interest capitalised to investment properties | (6) | (6) | (4) | (2) |
| Interest expense | 42 | 40 | 96 | 98 |
| Net loss on fair value hedges | – | 11 | – | 11 |
| Net loss on derivatives | – | 34 | – | 34 |
| Total loss on debt and derivatives | – | 45 | – | 45 |
| Total finance expense | 42 | 85 | 96 | 143 |

The interest expense relating to interest-bearing financial liabilities includes \$41 million (December 2015: \$47 million) related to interest on financial liabilities carried at amortised cost.

Consolidated Notes

Half year ended 31 December 2016

(D1) Net Financing Costs (continued)

The table below shows the composition of gains/losses on derivatives, including those eligible and ineligible for hedge accounting:

| | Stockland | | Trust | |
|---|-------------|-------------|-------------|-------------|
| | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Half year ended 31 December | | | | |
| Net gain/(loss) on fair value hedges | | | | |
| Gain/(Loss) on net change in fair value of derivatives | (65) | 95 | (65) | 95 |
| Gain/(Loss) on net change in fair value of interest-bearing liabilities | 79 | (106) | 79 | (106) |
| Net gain/(loss) on fair value hedges | 14 | (11) | 14 | (11) |
| Net gain/(loss) on derivatives | | | | |
| Gain/(Loss) on foreign exchange movement | (18) | (38) | (18) | (38) |
| Gain/(Loss) on fair value movement | 130 | 4 | 130 | 4 |
| Net gain/(loss) on derivatives | 112 | (34) | 112 | (34) |

During the period, financial instruments were closed out by the Group for nil consideration. The following table shows the cash and profit or loss impact of closing out these instruments:

| | Stockland | | Trust | |
|--|-------------|-------------|-------------|-------------|
| | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Half year ended 31 December | | | | |
| Cash costs of closing out financial instruments | – | (119) | – | (119) |
| Cumulative fair value loss previously recognised | – | 112 | – | 112 |
| Loss realised during the period | – | (7) | – | (7) |

(D2) Interest-bearing loans and borrowings

KEEPING IT SIMPLE ...

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

The interest expense on these instruments are shown in section D1.

Stockland and Trust

Interest-bearing loans and borrowings are carried at amortised cost. The table below shows the fair value of each of these instruments, which is the amount required to replicate at balance date the principal and duration of these notes based on current market interest rates and conditions.

| | Section | Carrying value | | | Fair value \$M |
|----------------------------|---------|----------------|------------------------|--------------|-------------------|
| | | Current \$M | Non- Current \$M | Total \$M | |
| 31 December 2016 | | | | | |
| Foreign medium term notes | (D2a) | 302 | 2,918 | 3,220 | 3,489 |
| Domestic medium term notes | (D2b) | – | 556 | 556 | 603 |
| Bank facilities | (D2c) | – | 140 | 140 | 140 |
| Total | | 302 | 3,614 | 3,916 | 4,232 |
| 30 June 2016 | | | | | |
| Foreign medium term notes | (D2a) | 331 | 2,644 | 2,975 | 3,257 |
| Domestic medium term notes | (D2b) | 150 | 555 | 705 | 764 |
| Bank facilities | (D2c) | – | 120 | 120 | 120 |
| Total | | 481 | 3,319 | 3,800 | 4,141 |

The difference of \$316 million (June 2016: \$341 million) between the carrying amount and fair value of the domestic and foreign medium term notes is due to notes being carried at amortised cost under AASB 139 *Financial Instruments: Recognition and Measurement*, 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 2016

(D2a) Foreign medium term notes

US private placement

The Trust has issued fixed coupon notes in the US private placement market. Generally, notes are issued in USD and converted back to AUD principal and AUD floating coupons through CCIRS.

In the current period, the Trust settled new US private placement debt which was transacted in the prior year. The debt is equivalent to \$398 million and comprises of four tranches denominated in either US or Australian dollars with terms of between 10 and 15 years. During the current period, the Trust also repaid USD 66 million (\$89 million) of its notes that were issued in the US private placement market and matured in July 2016 and October 2016.

The fair value of the US private placements as at 31 December 2016 is \$2,751 million (June 2016: \$2,482 million).

Asian and European private placement

The Trust has issued medium term notes into the Asian and European private placement markets with face values of HKD 470 million (\$62 million), HKD 400 million (\$55 million), HKD 540 million (\$100 million) and EUR 300 million (\$433 million).

All notes are issued at a fixed coupon payable in HKD and EUR and converted back to AUD floating coupons through cross currency principal and interest rate swaps.

The fair value of the notes as at 31 December 2016 is \$738 million (June 2016: \$775 million).

(D2b) Domestic medium term notes

Medium term notes have been issued at either face value, or at a discount or premium 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.

In the current period, the Trust repaid \$150 million of its medium term domestic notes that matured in July 2016.

The fair value of the notes as at 31 December 2016 is \$603 million (June 2016: \$764 million).

(D2c) Bank facilities

Stockland and the 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 2016 | | 30 June 2016 | |
|---------------|------------------|-----------------------|-----------------|-----------------------|
| | Utilised \$M | Facility Limit \$M | Utilised \$M | Facility Limit \$M |
| July 2017 | – | 100 | – | 100 |
| December 2017 | – | 200 | – | 200 |
| August 2018 | – | 120 | – | 120 |
| January 2019 | – | – | – | 250 |
| January 2020 | – | 250 | – | – |
| February 2020 | – | – | 20 | 150 |
| November 2020 | – | – | 100 | 100 |
| February 2021 | 40 | 150 | – | – |
| November 2021 | 100 | 100 | – | – |
| | 140 | 920 | 120 | 920 |

Consolidated Notes

Half year ended 31 December 2016

(D3) Other financial assets and liabilities

KEEPING IT SIMPLE ...

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables such as exchange rates or interest rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure. The Group uses derivatives to manage exposure to foreign exchange and interest rate risk.

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.

Investment in BGP Holdings, Plc ('BGP')

Stockland holds a 12.4% non-transferrable, non-tradable investment in BGP. BGP is a European (predominantly Euro currency denominated) real estate investment company, which Stockland acquired via an in specie distribution through its previous investment in The GPT Group. This investment is held as an available for sale investment, in current Other Financial Assets.

BGP is not a listed company and as such there is limited financial information provided to investors.

During the period, BGP successfully completed the sale of their property portfolio and have advised their intention to distribute the proceeds and wind-up the BGP group of companies. BGP has indicated that total cash of approximately €567 million (\$825 million based on the spot rate at the end of the period) will be returned to shareholders (after deducting for transaction costs and warranty provisions) through a combination of distributions and returns of capital, equating to a prime facie value of \$102 million for Stockland's share of the investment.

At 31 December 2016, Stockland have recognised a fair value of \$88 million (\$84 million after tax) for this investment. The fair value is based on an expected cash flow model after adjusting for risks of further potential delays and liquidation costs. An increment of 5% to these risk adjusted cash flows would result in a decrease of \$1 million in the fair value of this investment. Similarly, a decrement of 5% would result in an increase of \$1 million in the fair value.

The assessment of the fair value at 31 December 2016 has resulted in an increase of \$64 million in the value of the BGP investment (after tax) which has been recognised through other comprehensive income during the current period.

Subsequent to 31 December, Stockland received \$71 million being the first of the distributions from BGP. There is uncertainty around the timing of when the remaining distribution will be received.

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

The CARE Foundation is a charitable trust set up by Stockland. Under accounting standards, the CARE Foundation is considered a subsidiary that forms part of Stockland's consolidated group. Included in other financial assets is \$8 million (June 2016: \$8 million) of donations made by Stockland Trust to the CARE Foundation in the prior years which the foundation has invested to fund its ongoing charitable projects.

Consolidated Notes

Half year ended 31 December 2016

(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 methods 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 derivative financial instruments, including domestic and foreign 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. Whilst 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 Stockland or the derivative counterparties current credit worthiness.

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 below 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 C1c.

Stockland

| | Level 1 \$M | Level 2 \$M | Level 3 \$M | Total \$M |
|--|----------------|----------------|----------------|----------------|
| 31 December 2016 | | | | |
| Financial assets carried at fair value | | | | |
| Derivative assets | – | 430 | – | 430 |
| Securities in unlisted entities | – | – | 97 | 97 |
| Other investments | 8 | – | – | 8 |
| Total financial assets carried at fair value | 8 | 430 | 97 | 535 |
| Financial liabilities carried at fair value | | | | |
| Derivative liabilities | – | (188) | – | (188) |
| Retirement Living resident obligations | – | – | (2,484) | (2,484) |
| Total financial liabilities carried at fair value | – | (188) | (2,484) | (2,672) |
| Net position | 8 | 242 | (2,387) | (2,137) |
| 30 June 2016 | | | | |
| Financial assets carried at fair value | | | | |
| Derivative assets | – | 503 | – | 503 |
| Securities in unlisted entities | – | – | 36 | 36 |
| Other investments | 8 | – | – | 8 |
| Total financial assets carried at fair value | 8 | 503 | 36 | 547 |
| Financial liabilities carried at fair value | | | | |
| Derivative liabilities | – | (316) | – | (316) |
| Retirement Living resident obligations | – | – | (2,427) | (2,427) |
| Total financial liabilities carried at fair value | – | (316) | (2,427) | (2,743) |
| Net position | 8 | 187 | (2,391) | (2,196) |

Consolidated Notes

Half year ended 31 December 2016

(D4) Fair value hierarchy (continued)

Trust

| | Level 1 \$M | Level 2 \$M | Level 3 \$M | Total \$M |
|--|----------------|----------------|----------------|--------------|
| 31 December 2016 | | | | |
| Financial assets carried at fair value | | | | |
| Derivative assets | – | 430 | – | 430 |
| Securities in unlisted entities | – | – | 8 | 8 |
| Total financial assets carried at fair value | – | 430 | 8 | 438 |
| Financial liabilities carried at fair value | | | | |
| Derivative liabilities | – | (188) | – | (188) |
| Total financial liabilities carried at fair value | – | (188) | – | (188) |
| Net position | – | 242 | 8 | 250 |
| 30 June 2016 | | | | |
| Financial assets carried at fair value | | | | |
| Derivative assets | – | 503 | – | 503 |
| Securities in unlisted entities | – | – | 8 | 8 |
| Total financial assets carried at fair value | – | 503 | 8 | 511 |
| Financial liabilities carried at fair value | | | | |
| Derivative liabilities | – | (316) | – | (316) |
| Total financial liabilities carried at fair value | – | (316) | – | (316) |
| Net position | – | 187 | 8 | 195 |

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

| | Units in unlisted entities \$M | Derivatives \$M | Retirement Living resident obligations \$M | Total \$M |
|--|---|--------------------|--|----------------|
| Opening balance as at 1 July 2015 | 24 | (13) | (2,211) | (2,200) |
| Total gains and losses recognised in: | | | | |
| • profit or loss | 3 | – | (3) | – |
| • other comprehensive income | 9 | – | – | 9 |
| Net cash settled on resident turnover | – | – | (213) | (213) |
| Disposed / Settled | – | 13 | – | 13 |
| Balance as at 30 June 2016 | 36 | – | (2,427) | (2,391) |
| Total gains and losses recognised in: | | | | |
| • profit or loss | – | – | 13 | 13 |
| • other comprehensive income | 61 | – | – | 61 |
| Net cash settled on resident turnover | – | – | (70) | (70) |
| Balance as at 31 December 2016 | 97 | – | (2,484) | (2,387) |

Consolidated Notes

Half year ended 31 December 2016

(D4) Fair value hierarchy (continued)

Trust

| | Units in unlisted entities \$M | Derivatives \$M | Total \$M |
|--|--------------------------------------|--------------------|--------------|
| Opening balance as at 1 July 2015 | 5 | (13) | (8) |
| Total gains and losses recognised in: | | | |
| • profit or loss | 3 | – | 3 |
| Disposed / Settled | – | 13 | 13 |
| Balance as at 30 June 2016 | 8 | – | 8 |
| Total gains and losses recognised in: | | | |
| • profit or loss | – | – | – |
| Balance as at 31 December 2016 | 8 | – | 8 |

(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 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 Stockland remains jointly quoted, the number of shares in Stockland Corporation Limited and the number of units in the Stockland Trust shall be equal and the securityholders 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 2016 | Number of securities 30 June 2016 | 31 December 2016 \$M | 30 June 2016 \$M | 31 December 2016 \$M | 30 June 2016 \$M |
| Ordinary securities on issue | | | | | | |
| Issued and fully paid | 2,405,037,771 | 2,392,042,302 | 8,759 | 8,696 | 7,451 | 7,389 |
| Other equity securities | | | | | | |
| Treasury securities | (6,169,409) | (3,878,867) | (22) | (15) | (22) | (15) |
| Total Issued Capital | 2,398,868,362 | 2,388,163,435 | 8,737 | 8,681 | 7,429 | 7,374 |

(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 2015 | 2,361,717,862 | 8,571 | 7,266 |
| Securities issued under the DRP | 30,324,440 | 125 | 123 |
| Balance as at 30 June 2016 | 2,392,042,302 | 8,696 | 7,389 |
| Securities issued under the DRP | 12,995,469 | 63 | 62 |
| Balance as at 31 December 2016 | 2,405,037,771 | 8,759 | 7,451 |

Consolidated Notes

Half year ended 31 December 2016

(D5a) Ordinary securities (continued)

DRP

On 15 December 2016, Stockland announced that the DRP would operate for the interim distribution to 31 December 2016 and that investors participating in the DRP will be entitled to receive a full distribution.

The DRP security price was determined to be \$4.38 being the average of the daily volume weighted averages of the selling price over the 15-day trading period immediately preceding Friday 17 February 2017, with a discount of 1.0% on the securities acquired under the DRP.

(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 distributions and dividends.

Movement of other equity securities

| Details | Stockland and Trust Number of securities | Stockland \$M | Trust \$M |
|--|---|------------------|--------------|
| Opening balance as at 1 July 2016 | 3,878,867 | (15) | (15) |
| Securities acquired | 3,937,661 | (16) | (16) |
| Securities transferred to employees on vesting | (1,647,119) | 9 | 9 |
| Balance as at 31 December 2016 | 6,169,409 | (22) | (22) |

Securities acquired

During the period, 3,937,661 securities were acquired on market for the purpose of issuing securities under the Share Plans.

Securities transferred to employees on vesting

During the period, 1,647,119 securities vested and were transferred to employees under the Share Plans.

At 31 December 2016, the Stockland Employee Securities Plan Trust is holding 6,169,409 securities, including 2,893,313 securities which have already vested and which employees are entitled to transfer out of the plan.

(D6) Dividends and distributions

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

Stockland Trust

| | Cents per security | Total amount \$M | Record Date | Date of payment |
|--|-----------------------|---------------------|------------------|------------------|
| Interim distribution: 31 December 2016 | 12.6 | 303 | 30 December 2016 | 28 February 2017 |
| Interim distribution: 31 December 2015 | 12.2 | 290 | 31 December 2015 | 29 February 2016 |

The tax preferred percentage will be determined at year end.

Stockland Corporation Limited

There was no dividend from Stockland Corporation Limited during the current, or previous, financial period.

The dividend franking account balance as at 31 December 2016 is \$13 million based on a 30% tax rate (June 2016: \$13 million). For the current period, the interim distribution is paid solely out of the Trust and therefore the franking percentage is not relevant.

Consolidated Notes

Half year ended 31 December 2016

(E) Group structure

IN THIS SECTION

This section provides information on changes to the Group structure. 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 2016 or 30 June 2016.

| | Stockland | | Trust | |
|---|----------------------------|------------------------|----------------------------|------------------------|
| | 31 December 2016 \$M | 30 June 2016 \$M | 31 December 2016 \$M | 30 June 2016 \$M |
| Aggregate carrying amount of individually immaterial joint venture entities | 549 | 524 | 532 | 505 |

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

| | Stockland | | Trust | |
|--|--------------------------|----------------------|--------------------------|----------------------|
| | 31 December 2016 % | 30 June 2016 % | 31 December 2016 % | 30 June 2016 % |
| Investment in joint ventures: | | | | |
| Brisbane Casino Towers | 50 | 50 | – | – |
| Compam Property Management Pty Limited | 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 | 50 | 50 | 50 | 50 |
| Willeri Drive Trust | 50 | 50 | 50 | 50 |

| | Stockland | | Trust | |
|------------------------------------|-------------|-------------|-------------|-------------|
| | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Half year ended 31 December | | | | |
| Aggregate share of: | | | | |
| Profit from continuing operations | 44 | 67 | 44 | 67 |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income | 44 | 67 | 44 | 67 |

Consolidated Notes

Half year ended 31 December 2016

(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*.

(F1) Earnings per security

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 outstanding. This 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 options, that could be converted into ordinary securities.

Basic FFO per security is disclosed in the Directors' Report on page 5 and more directly reflects underlying income performance of the portfolio.

| Half year ended 31 December | Stockland | | Trust | |
|------------------------------|------------|------------|------------|------------|
| | 2016 cents | 2015 cents | 2016 cents | 2015 cents |
| Basic and diluted EPS | | | | |
| Basic EPS | 29.3 | 29.4 | 24.5 | 28.3 |
| Diluted EPS | 29.2 | 29.4 | 24.4 | 28.2 |

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

Reconciliations of earnings used in calculating EPS

| Half year ended 31 December | Stockland | | Trust | |
|--|-----------|----------|----------|----------|
| | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Basic and diluted earnings | | | | |
| Profit attributable to securityholders | 702 | 696 | 587 | 670 |

Weighted average number of securities used as the denominator

| Half year ended 31 December | Stockland and Trust | |
|--|----------------------|----------------------|
| | 2016 No. | 2015 No. |
| Weighted average number of securities (basic) | | |
| Weighted average number of securities | 2,394,631,719 | 2,368,328,381 |
| Weighted average number of securities (diluted) | | |
| Weighted average number of securities (basic) | 2,394,631,719 | 2,368,328,381 |
| Effect of rights and securities granted under Share Plans | 6,169,409 | 3,994,556 |
| Weighted average number of securities/units (diluted) | 2,400,801,128 | 2,372,322,937 |

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

Consolidated Notes

Half year ended 31 December 2016

(F2) Notes to cash flow statements

| | Stockland | | Trust | |
|--|-------------|-------------|-------------|-------------|
| | 2016 \$M | 2015 \$M | 2016 \$M | 2015 \$M |
| Half year ended 31 December | | | | |
| Reconciliation of profit to net cash flow from operating activities | | | | |
| Profit for the period | 702 | 696 | 587 | 670 |
| Add/(less) items classified as investing/financing activities: | | | | |
| Net (gain)/loss on fair value hedges | (14) | 11 | (14) | 11 |
| Net (gain)/loss on derivatives | (112) | 34 | (112) | 34 |
| Interest capitalised to investment properties | (6) | (6) | (4) | (2) |
| Net loss on sale of non-current assets | 2 | – | – | – |
| Net gain on other financial assets | – | (7) | – | (7) |
| Dividends and distributions income | – | (4) | – | – |
| Add/(less) non-cash items: | | | | |
| DMF base fee earned, unrealised | (13) | (10) | – | – |
| Depreciation | 7 | 6 | – | – |
| Straight-line rent adjustment | (3) | (6) | (3) | (6) |
| Net change in fair value of investment properties (including equity-accounted investments) | (244) | (481) | (161) | (398) |
| Share of profits of equity-accounted investments, net of distributions received | 2 | 1 | 2 | 2 |
| Equity-settled share based payments | 9 | 6 | – | – |
| Other items | (11) | (8) | 4 | 2 |
| Net cash flow from operating activities before change in assets and liabilities | 319 | 232 | 299 | 306 |
| (Increase)/Decrease in receivables | 1 | (26) | (5) | 1 |
| (Increase)/Decrease in other assets | (23) | (22) | (15) | (22) |
| (Increase)/Decrease in inventories | 26 | (25) | – | – |
| Increase/(Decrease) in deferred tax assets | (29) | 14 | – | – |
| Increase/(Decrease) in payables and other liabilities | 27 | (19) | 16 | 26 |
| Increase in resident obligations | 57 | 105 | – | – |
| Increase/(Decrease) in other provisions | (63) | 43 | – | – |
| Net cash flow from operating activities | 315 | 302 | 295 | 311 |

Consolidated Notes

Half year ended 31 December 2016

(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.

There has been no material change in the Group's contingent liabilities since 30 June 2016 and the disclosures in the annual financial statements remain appropriate at 31 December 2016.

No deficiencies of assets exist in relation to any of the companies to which bank guarantees apply.

(F4) Commitments

Capital expenditure commitments

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

| | Stockland | | Trust | |
|--|---------------------|-----------------|---------------------|-----------------|
| | 31 December 2016 | 30 June 2016 | 31 December 2016 | 30 June 2016 |
| | \$M | \$M | \$M | \$M |
| Inventory commitments | 262 | 283 | – | – |
| Investment property commitments | 324 | 298 | 177 | 240 |
| Total capital expenditure commitments | 586 | 581 | 177 | 240 |

Operating lease commitments

Commitments for the operating lease expenditure not recognised in the financial statements at balance date:

| | | | | |
|---|-----------|-----------|----------|----------|
| Within one year | 8 | 9 | – | – |
| Later than one year but not later than five years | 27 | 24 | – | – |
| Later than five years | 14 | 14 | – | – |
| Total operating lease commitments | 49 | 47 | – | – |

During the period, \$4 million was recognised as an expense in Stockland's profit or loss in respect of operating leases (December 2015: \$4 million).

(F5) Related party disclosures

The Trust pays Responsible Entity fees to Stockland Trust Management Limited, calculated as a percentage of gross assets of the Trust less intercompany loans. From 1 July 2016, the Responsible Entity fee increased to 0.3% - 0.35% to align to the latest market benchmarks which have been externally validated (June 2016: 0.2%).

A development management deed was executed between Stockland Trust and Stockland Development Pty Limited (a controlled entity of the Stockland Corporation Limited) effective 1 July 2012 in relation to a management fee in respect of Retail developments. The fees are paid by Stockland Trust to Stockland Development Pty Limited and represents remuneration for the Corporation's property development expertise.

For developments approved before 30 June 2016 the fee is calculated as 50.0% of the total valuation gain or loss on the completion of a development. For development approved after 1 July 2016, the fee is calculated based on a fixed 4.0% of total development costs in line with recent changes to benchmark methodologies.

Other than the above changes, there have been no significant changes to the nature of related parties that were disclosed in the annual financial statements for the year ended 30 June 2016.

(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.

Directors' Declaration

Half year ended 31 December 2016

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 ('the Trust'), set out on pages 15 to 47, 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 2016 and of their performance, for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- (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, 22 February 2017

Independent Auditor's Report



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

Report on the Half Year Financial Report

We have reviewed the accompanying half year financial report which comprises:

- the Consolidated Balance Sheet as at 31 December 2016, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement 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 Note A to the half year financial report, 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 2016, the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement 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 half year financial report

The directors of Stockland Corporation Limited and the directors of Stockland Trust Management Limited, the Responsible Entity for Stockland Trust (collectively referred to as "the directors") are responsible for the preparation of the half year financial report that gives 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 half year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report 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 half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Stockland and Stockland Trust Group's financial position as at 31 December 2016 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, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report



A review of a half year financial report 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.

Independence

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

Auditor's opinion

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

1. the financial report of Stockland and the Stockland Trust Group is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date;
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'S Hadfield'.

S J Hadfield
Partner

A handwritten signature in black ink that reads 'N R McConnell'.

N R McConnell
Partner

Sydney
22 February 2017

Glossary

| | |
|--------------------------------------|---|
| ASIC | The Australian Securities Investment Commission |
| AASB | Australian accounting standards as issued by the Australian Accounting Standards Board |
| A-REIT | Australian Real Estate Investment Trust |
| ASX | Australian Securities Exchange |
| CCIRS | Cross-currency interest rate swap |
| CODM | Chief Operating Decision Makers as defined by AASB8 <i>Operating Segments</i> |
| DCF | Discounted cash flow |
| DMF | Deferred Management Fees earned from Residents' within the Retirement Living business |
| DRP | Distribution/Dividend Reinvestment Plan |
| DSTI | Deferred Short Term Incentives |
| EBIT | Earnings before interest and income tax |
| EPS | Earnings per share |
| FFO | Funds from operations |
| GST | Goods and services tax |
| IRR | Internal Rate of Return |
| KPI | Key Performance Indicators |
| LTI | Long Term Incentives |
| MAT | Moving Annual Turnover |
| NED | Non-Executive Director |
| NRV | Net Realisable Value |
| Report | This Stockland 2017 Interim Financial Report |
| ROA | Return on Assets |
| ROE | Return on Equity |
| SCPL | Stockland Capital Partners Limited |
| SDRT No. 1 | Stockland Direct Retail Trust No. 1 |
| Security | A stapled security in Stockland comprising one share in Stockland Corporation and one unit in Stockland Trust |
| Share Plans | Employee share plans which comprises the LTI, DSTI and \$1,000 employee plans |
| SREEF No. 1 | Stockland Residential Estates Equity Fund No. 1 |
| Statutory Profit | Profit as defined by Australian accounting standards |
| STI | Short Term Incentives |
| STML | Stockland Trust Management Limited (ACN 001 900 741, AFSL 241190), the Responsible Entity of Stockland Trust |
| Stockland Corporation or the Company | Stockland Corporation Limited (ACN 000 181 733) |
| Stockland Corporation Group | Stockland Corporation Limited and its controlled entities |
| Stockland or Group | The stapled entity, comprising of the combination of Stockland Corporation Group and Stockland Trust Group |
| Stockland Trust | Stockland Trust (ARSN 092 897 348) |
| Stockland Trust Group or Trust | Stockland Trust and its controlled entities |
| TSR | Total Securityholder Return |
| Underlying Profit | A non-IFRS measure used to measure the Group's underlying performance. From 1 July 2016, this measure has been replaced by FFO. |
| WALE | Weighted average lease expiry |

Stockland Corporation Ltd

ACN 000 181 733

**Stockland Trust
Management Limited**

ACN 001 900 741; AFSL 241190

**As responsible entity
for Stockland Trust**

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