Stockland

Appendix 4D

For the half year ended 31 December 2019

(Previous corresponding period being the half year ended 31 December 2018)

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 Interim 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*.

		$M
Revenue from ordinary activities	Up 10.0% to	**1,239**
Net profit after tax attributable to securityholders	Up 68.1% to	**504**
Funds from operations attributable to securityholders	Down 5.6% to	**384**

Dividends and distributions

	Amount per security	Franked amount per security	Record date	Payment date
Interim dividend/distribution	**13.5 ¢**	**– ¢**	**31 December 2019**	**28 February 2020**

Other information

	2019	2018
Net tangible assets per security	**$4.12**	$4.19

This report is based on the Stockland Interim Financial Report 2020 which has been reviewed by PwC.

The remainder of information requiring disclosure to comply with listing rule 4.3A is contained in the Stockland Interim Financial Report 2020 that follows.

This announcement is authorised for release to the market by Ms Katherine Grace, Stockland's Company Secretary.

Stockland

Interim Financial Report 2020

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.

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 Interim Financial Report of Stockland and the Interim Financial Report of the Trust for the six months ended 31 December 2019 and the Independent Auditor's Report thereon.

The Interim 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 Stockland Trust comprises the consolidated Financial report of the Trust and its controlled entities ('Stockland Trust Group' or 'the Trust').

Half year performance

Results on track for full year guidance

Six months to 31 December 2019 (1H20)

Statutory profit
$504 million
up 68.1% on 1H19

Statutory profit per security
21.2 cents
up 71.0% on 1H19

Funds from operations (FFO)
$384 million
down 5.6% on 1H19 due to expected second half skew

FFO per security
16.1 cents
down 4.2% on 1H19

Adjusted FFO (AFFO)
$338 million
down 4.2% on 1H19

AFFO per security
14.2 cents
down 2.7% on 1H19

Net tangible asset (NTA) per security
$4.12
up 2.0% on 30 June 2019

Distribution per security
13.5 cents
distribution payout ratio of 84%

Gearing
26.1%
within target range 20% to 30%

Commercial Property valuations
$199 million
net uplift

Letter from our Chairman and Managing Director & CEO

Mark Steinert, Managing Director & CEO and Tom Pockett, Chairman

Dear Securityholders

We have entered the new decade amid Australia's worst ever bushfire season and crippling drought. Yet with this devastation, we have witnessed countless acts of selflessness and the remarkable strength and spirit of Australian communities.

We are particularly proud of our employees who helped to protect our residents, customers and assets during the weeks of crisis, many of whom were personally impacted by the fires.

In these challenging times, we reflect on the importance of our role in protecting and supporting our residents, customers and assets across Australia, and our responsibility to create connected, sustainable and climate resilient communities for the future.

Driving resilient returns

We are pleased to report that our results in the first half of the 2020 financial year are in line with our full year guidance and reflect the profit skew to the second half.

Our funds from operations for the half were $384 million, down 5.6 per cent on the prior corresponding period and our statutory profit rose strongly by 68.1 per cent to $504 million, reflecting $199 million of net positive valuation uplift.

As forecast, our distribution for the half is 13.5 cents per security, representing a payout ratio of 84 per cent.

As a scale creator of property assets, we have a clear strategy to leverage our diversified business model to maximise securityholder returns through community creation. We are achieving this by setting and delivering on challenging strategic priorities including increasing our workplace and logistics weighting, improving portfolio quality, accelerating growth opportunities in our Communities business, and broadening our capital base.

We remain focused on increasing our built form capability and restocking our residential development pipeline in this early phase of the cycle. We will continue to grow our workplace and logistics portfolio, leveraging our vertically integrated capabilities to create new core real estate assets at scale.

Over the next five years, we will continue to actively reweight the portfolio to balance our exposure to communities, workplace and logistics and retail town centres, which will deliver more resilient and sustainable returns. We have the necessary capabilities to deliver on our strategic objectives and a culture that is aligned with providing excellent customer experience while improving securityholder returns.

Commercial Property

Our Commercial Property business delivered a result that builds on the improved quality of the portfolio. On a comparable basis, FFO was up 2.0 per cent across the portfolio; 3.9 per cent in logistics, 6.1 per cent in workplace and 0.7 per cent in retail town centres.

Our workplace and logistics portfolio continues to grow and now represents 26 per cent of our portfolio by asset value. Over the last six months, we have doubled our development pipeline to $4.3[1] billion through acquisitions of strategically located assets.

We also secured important development approvals for our key logistics projects at M_Park and Optus Campus in Sydney and Melbourne Business Park in Victoria, and we are progressing our development plans for major workplace assets in Sydney.

Logistics valuations up $219 million, driven by development activity and successful lease extensions demonstrating the quality of our assets and continued tenant demand for high quality, well positioned supply chain assets.

In October 2019, we entered into a strategic joint venture with Fife Group consolidating 71 hectares of land at Kemps Creek, NSW, with a development pipeline opportunity of $1.1 billion[2] and purchasing two logistics assets in Brisbane. Kemps Creek will build on the eight existing logistics assets we have in Western Sydney, further positioning us to leverage the opportunities generated by the development of the Western Sydney Aerotropolis.

The logistics market continues to be supported by ongoing investment in infrastructure and imports and online retail growth. We have a clear strategy focused on providing our customers with flexible, efficient and cost-effective facilities.

Retail conditions remain challenging with weaker spending, rising costs and increased competition from global and online retailers. Over the last six months, store closures and voluntary administrations have increased above long term averages.

We are not immune to these challenges, but the impact has been reduced by our active repositioning of the portfolio over the last two years towards convenience, services and experience and our proactive resetting of rents. Specialty store remixing, upweighting to food and services categories and improving major store performance have underpinned solid comparable specialty sales growth of 2.7 per cent.

In the last six months, our retail town centre valuations and capitalisation rates have remained broadly stable, reflecting rebased rents in prior period valuations. We continue to strengthen our centres through remixing towards non-discretionary categories and by enhancing the curation and convenience of our centres.

Communities

Our residential business has delivered profit in line with expectations with an anticipated profit skew to the second half, and we're well placed to take advantage of the strengthening residential market and deliver our forecast full year result. Importantly, we have seen a more than 38 per cent lift in sales compared to the second half of FY19.

We continue to see improved market conditions with emerging price growth in Sydney and Melbourne, and lending conditions remain favourable for owner occupiers as access to credit improves. Pleasingly, default rates declined, reducing to normalised levels of 3.5 per cent in the December 2019 quarter.

We continue to extend our position as the leading creator of sustainable communities in Australia, leveraging the strength of our brand and quality of our offering to increase our market share to 16 per cent, four times our nearest competitor[3].

In December 2019, we announced the acquisition of a site in Donnybrook, Melbourne, comprising approximately 1,500 lots, and have fast-tracked the project launch to capitalise on improving conditions, with the first sales release expected this calendar year.

Our strong pipeline of active projects means we are well positioned to meet increasing demand, and with over 4,200 contracts on hand we have good visibility of settlement volumes in FY20.

Strong sales results and a normalised default rate are expected to drive residential settlements to the top of our through the cycle range with current expectations of around 5,800 lots in FY21.

Retirement living FFO declined $3 million reflecting a change in our development settlement mix and an expected profit skew in the second half due to settlement timings and non core village disposal profit. Importantly, established sales volumes grew over 12 per cent as demand increased in line with broader market conditions and operational improvements.

We continue to leverage our existing land bank to drive growth through development and are actively progressing our pipeline of land lease communities.

[1] Stockland share of expected incremental development spend, excluding land cost and subject to planning approval.
[2] Estimated end value, represent 100 per cent interest of which Stockland has 50 per cent interest.
[3] National Land Survey, December 2019, Research4 – annual market share 1H20 (Greater Sydney, Melbourne, Perth and South East Qld).

Delivering an exceptional value proposition for our customers and residents remains our priority, as we continue to focus on driving portfolio quality improvement and reducing overheads to position us for sustainable growth in the sector.

Capital management

We have maintained a balance sheet which is supportive of growth, with an A-/Stable (S&P) credit rating and gearing at 26.1 per cent, within our target range of 20 to 30 per cent. Our weighted average cost of debt of 4.4 per cent was stable, supporting the effective management of our diversified debt portfolio.

Our prudent approach to capital management continues to provide us with the flexibility to strategically allocate capital across our diversified portfolio in response to changing market cycles.

Over the past 18 months, we have decreased our weighting to retail town centres by seven per cent and increased our weighting to workplace and logistics by seven per cent.

We are moving towards our goal of a balanced capital allocation between communities, retail town centres and workplace and logistics over the next five years.

We are also executing on our strategy to introduce capital partners to invest in large-scale projects across our portfolio. In July 2019, we established a strategic capital partnership when Capital Property Group invested a 50 per cent interest in our largest masterplanned community, Aura, on the Sunshine Coast at a 30 per cent premium to book value. Our Fife Group and Melbourne Business Park partnerships are further examples of delivering on this strategic priority within our logistics portfolio.

Operational excellence

We continue to be a global sustainability leader and recently signed an agreement with the Australian Government's Clean Energy Finance Corporation for a $75 million senior debt facility, which will help finance sustainability initiatives aligned with our 2030 net-zero emissions target across our commercial property, retirement living and corporate head offices.

We continue to invest in technology, innovation and data capability so that we can turn disruption into business opportunities and drive additional income streams. Importantly, we achieved our goal of adding one per cent to FFO through business innovation initiatives in FY19 and are targeting two per cent for FY20.

With the impacts of climate change being felt across Australia, successful companies of the future will need to excel in delivering sustainable outcomes which both reduce environmental impact and provide customers with liveable and resilient communities.

As a global sustainability leader, we are proud to have championed industry change in many areas, including being the only Australian company to be consistently recognised amongst leading global companies for climate action and disclosure on the CDP Climate A-List. We are also cited as one of the most sustainable companies in the world by the Dow Jones Sustainability Index (DJSI), and as a Global Sector Leader by the Global Real Estate Sustainability Benchmark (GRESB).

Outlook

Economic conditions remain mixed, with consumer confidence remaining low, modest wages growth and increased global uncertainty. Broader market fundamentals remain supportive for our business, with a continued low interest rate environment, strong population growth, increased infrastructure investment and low unemployment.

Assuming no material change in market conditions, we remain on track to deliver approximately one per cent comparable FFO growth across our Commercial Property business, with retail FFO impacted by retailer administrations and workplace and logistics FFO to grow moderately in FY20.

Our Communities business is on track to deliver over 5,200 residential lot settlements, including around 500 townhomes, and more than 850 settlements across retirement living for the full year. Once again, we expect a significant residential profit skew to the second half of FY20.

We expect FFO per security for FY20 to be 37.4 cents and are targeting a full year distribution of 27.6 cents per security, assuming no material change to market conditions.

Tom Pockett
Chairman

Mark Steinert
Managing Director & CEO

Directors' report

Operating and financial review

About Stockland

Stockland is one of the largest diversified property groups in Australia with $15.4 billion of real estate assets including workplace and logistics assets, retail town centres, residential and retirement living communities

HOW WE MAKE A DIFFERENCE

We believe there is a better way to live and our goal is to create communities that thrive by building and maintaining leading residential and retirement communities, retail town centres and workplace and logistics assets.

OUR STRUCTURE

We are a listed entity on the Australian Securities Exchange. To optimise value to our securityholders we are structured as a stapled security, a combination of a unit in Stockland Trust and a share in Stockland Corporation. This allows us to efficiently undertake property investment, property management and property development activities.

OUR VALUES

The Stockland CARE values were developed by our people and guide our actions:

- **C**ommunity - work together to create better places and experiences for everyone
- **A**ccountability - take responsibility for ourselves, our work and our team's and Stockland's success
- **R**espect - we value each other's points of view and differences
- **E**xcellence - strive to be the best in what we do and what we deliver.

Our strategy

We maximise returns through community creation, a growing workplace and logistics portfolio, and leading convenience-based retail town centres.

GROW ASSET RETURNS AND CUSTOMER BASE

We are driving returns in our core businesses by creating liveable, affordable and connected communities, future proofing our retail town centres and retirement villages, and growing our workplace and logistics portfolio. Our strategic priority is to rebalance and improve the quality of our portfolio, increase our workplace and logistics portfolio weighting and accelerate growth opportunities in the Communities business.

CAPITAL MANAGEMENT

We are actively managing our balance sheet to maintain diverse funding sources and an efficient cost of capital. Our strategic priority is to broaden our capital partnering initiatives across all sectors.

OPERATIONAL EXCELLENCE

We are improving the way we operate across the business to drive efficiencies, compliance, sustainability and employee engagement. Our strategic priority is to scale new business initiatives and growth opportunities.

Grow asset returns and customer base

COMMERCIAL PROPERTY

Clear and focused plan to improve portfolio quality and returns

Portfolio at 31 December 2019	Approximate value[1]
29 logistics centres	$2.8 billion
6 workplaces	$1.0 billion
32 retail town centres	$6.6 billion
67 Commercial Property assets	**$10.4 billion**

1 Stockland's ownership interest excluding capital works in progress and sundry properties.

Key metrics	FFO	FFO comparable change	Occupancy	WALE[1]	WACR[2]
Logistics	$81m	3.9%	98.3%	5.4 yrs	5.7%
Workplace	$26m	6.1%	94.1%	3.6 yrs	5.9%
Retail town centres	$209m	0.7%	99.4%	6.0 yrs	5.9%
Net overheads	$(8)m				
Total	**$308m**	**2.0%**			**5.9%**

1 Weighted average lease expiry.
2 Weighted average capitalisation rate.

The Commercial Property business delivered FFO of $308 million, down 1.7 per cent as we divested non core retail town centre properties and reweighted the portfolio towards workplace and logistics. Our comparable growth of 2.0 per cent reflected a solid overall operating performance, with positive net revaluations and strong occupancy levels.

Improving portfolio quality and returns remain our focus. We will continue to actively reposition and downweight the retail town centre portfolio over the next five years as the sector continues to experience structural change.

WORKPLACE AND LOGISTICS

We doubled our workplace and logistics development pipeline during the half to $4.3 billion[4] and we are building our capabilities to deliver these large-scale projects over the coming years. Workplace and logistics assets now make up 26 per cent of our total portfolio by asset value, and we will continue to increase this weighting in the years to come.

We have gained important development approvals for our key business park assets, M_Park and Optus Campus in Sydney and Melbourne Business Park, Victoria, and our development plans are progressing for the Piccadilly Centre in Sydney and the Walker Street sites in North Sydney.

The $230 million valuation uplift for the workplace and logistics portfolio has been primarily driven by the successful 12 year lease extension at Optus Campus in Macquarie Park, Sydney. Our recently completed development at KeyWest Distribution Centre in Truganina, Victoria, also contributed, being fully leased to tenants JB Hi-Fi and BrandLink, demonstrating the quality of our assets and strength in tenant demand for high quality, well-positioned supply chain assets.

During the period, we also entered into a conditional agreement with Fife Group to consolidate a 71 hectare land holding at Kemps Creek, Sydney, with an end value of approximately $1.1 billion[5], and acquired two properties in Brisbane's prime industrial zone on an initial yield of around six per cent.

4 Stockland share of expected incremental development spend, excluding land cost and subject to planning approval.
5 Estimated end value, represents 100 per cent interest of which Stockland has 50 per cent interest.

RETAIL TOWN CENTRES

Valuations remained broadly stable across the retail portfolio reflecting the proactive rebasing of rents, stable capital expenditure and remixing. We have continued to improve our online resilience, through remixing from fashion and jewellery to food, services and experiences.

We have had a solid sales performance for the half, with comparable specialty sales growth of 2.7 per cent, and we've continued to improve our online resilience, through remixing from fashion and jewellery to food, services and experiences via our placemaking initiatives. Administrations are above long term averages, but we have active re-leasing plans in place, and our overall occupancy remains high as we rebased rents.

We are also enhancing the convenience of our centres through increased accessibility and last mile initiatives, and a focus on technology and innovation will deliver a seamless shopping experience for customers and retailers in the rapidly changing retail environment.

We will continue to execute a further $500 million of retail town centre non-core divestments over time in a disciplined way which will minimise the impact on FFO and provides a source of capital to fund the workplace and logistics development pipeline.

COMMERCIAL PROPERTY STRATEGIC PRIORITIES

- Grow our workplace and logistics asset allocation partially funded by retail town centre non-core divestments
- Strengthen our retail town centre portfolio through strategic remixing, placemaking and improved convenience
- Increase scale through capital partnering

COMMUNITIES

Create liveable, affordable and connected communities

Portfolio at 31 December 2019	Book value
55 residential communities	$3.3 billion[1]
63 retirement living villages	$1.4 billion

1 Includes the value of land held on capital efficient terms

RESIDENTIAL

Key metrics	FFO	Operating profit margin	Return on assets	Total lots settled
	$134m	**17.2%**	**19.3%**	**2,158**

Our residential business has delivered a strong profit result, with a profit skew to the second half in line with expectations, and we're well placed to take advantage of the strengthening residential market and deliver our forecast full year result. Importantly, we are well positioned to take advantage of the improving market conditions with a more than 38 per cent uplift in sales relative to the second half of FY19.

The strength of our brand and quality of our offering has seen us maintain and increase our strong market share over the year, increasing from 15 per cent to 16 per cent over the 12 months to 31 December 2019.

We continue to see improved market conditions with emerging price growth in Sydney and Melbourne, and lending conditions remain favourable for owner occupiers as access to credit improves. We achieved 1,350 net sales for the December 2019 quarter, up 60 per cent on the 846 we achieved in the June 2019 quarter. Default rates declined, reducing to normalised levels of 3.5 per cent in the December 2019 quarter.

In December 2019, we announced the acquisition of a site in Donnybrook, Victoria, and have fast-tracked the launch of that project to capitalise on improving conditions, with the first sales release expected in the middle of this calendar year.

RETIREMENT LIVING

Key metrics	FFO	Occupancy	Return on assets	Total units settled
	$17m	93.3%	4.5%	412

Retirement living FFO declined $3 million, reflecting a change in our development settlement mix and an expected profit skew in the second half due to settlement timings and non core village disposal profit.

Improving market conditions and operational improvements have driven a 12.4 per cent increase in sales at established villages. We continue to leverage our existing land bank to drive growth through development, and we are actively progressing our pipeline of land lease communities with two development applications lodged in the half.

We continue to focus on driving portfolio quality improvement and reducing overheads, and returns are expected to improve as the market recovers and the business is streamlined.

COMMUNITIES STRATEGIC PRIORITIES

- Continue to focus on creating liveable, affordable and connected communities
- Reshape retirement living portfolio through non core village disposals
- Continue to explore capital partner opportunities for retirement living
- Counter cyclical acquisitions

Capital management

Stockland has a prudent approach to capital management, which provides us with the flexibility to strategically allocate capital across our diversified portfolio, in response to changing market cycles.

Our balance sheet and capital management position are supported by our investment grade credit ratings of A-/Stable (S&P) and A3/Stable (Moody's), and enables us to continue diversifying our funding sources across global capital markets on competitive terms and tenors.

We continue to actively manage our debt portfolio, which has seen the weighted average cost of debt stabilise at 4.4 per cent at 31 December 2019 (30 June 2019: 4.4 per cent). We expect the cost of debt to fall further to around 4.0 per cent by 30 June 2020, subject to no material change in market conditions. Our weighted average debt maturity is within our target range at 5.4 years.

Our gearing level is 26.1 per cent, compared to 26.7 per cent at 30 June 2019, due to a net $199 million revaluation uplift and better operating cashflows. We expect to remain within our target range of 20 to 30 per cent in the medium term as we continue to execute on our strategic priorities.

We have strong operating cash flows covering our distributions and funding growth. This has strengthened on the back of strong residential revenue, lower land payments in this period and lower residential development expenditure due to the early activation of our major projects during FY19 in readiness for this market recovery. Over 60 per cent of our land acquisitions have been made on capital efficient terms.

Net tangible assets

As at	31 December 2019 $M	30 June 2019 $M	Change %
Cash and cash equivalents	**245**	140	74.7%
Real estate assets			
• Commercial Property	**10,519**	10,323	1.9%
• Residential	**3,322**	3,411	-2.6%
• Retirement Living	**1,405**	1,452	-3.2%
• Other assets	**132**	36	266.7%
Retirement Living gross up	**2,630**	2,585	1.7%
Other financial assets	**497**	534	-6.9%
Other assets	**337**	325	2.8%
Total tangible assets	**19,087**	18,806	1.5%
Borrowing	**4,745**	4,704	0.9%
Retirement Living resident obligations	**2,642**	2,597	1.7%
Other financial liabilities	**199**	220	-9.3%
Other liabilities	**1,682**	1,650	1.8%
Total liabilities	**9,268**	9,171	1.0%
Net tangible assets	**9,819**	9,635	2.0%
Number of securities on issue	**2,384,351,503**	2,384,351,503	
NTA per security	**4.12**	4.04	2.0%

Capital allocation

We closely manage our capital to target an optimal allocation across our diversified portfolio. Over the past 18 months, we have decreased our weighting to retail town centres by seven per cent and increased our weighting to workplace and logistics by seven per cent. Our current allocation of 26 per cent in workplace and logistics means we are now within the target exposure range of circa 30 per cent in this category, in line with our strategy.

Revaluations

We have taken a prudent approach to revaluing our Commercial Property assets, completing independent revaluations on 49 per cent of our portfolio by value over the last six months resulting in an overall net valuation uplift of $199 million for the period. This included a

$230 million uplift for our workplace and logistics portfolio, and a $31 million decline in retail town centre valuations. The main driver of the retail devaluation was additional capital expenditure allowance across some assets.

Importantly, our proactive approach to resetting rents in recent years has resulted in a more sustainable portfolio income.

We have deliberately focused on changing the tenant mix in our retail town centres away from apparel and towards services, lifestyle, health, dining and entertainment categories, where we see the greatest potential growth in the future.

Capital partnering

Capital partnerships help strengthen our balance sheet and enable us to invest in growth opportunities across our diversified portfolio, including accelerating our workplace and logistics development pipeline and additional residential community acquisitions.

We are executing on a clear strategy to bring in capital partners to invest alongside us to deliver large-scale projects. In July 2019, we announced a strategic capital partnership in our residential portfolio with Capital Property Group (CPG) investing a 50 per cent interest in our largest masterplanned community, Aura, on the Sunshine Coast at approximately 30 per cent premium to book value.

Continuing with our strategy to execute on more capital partnering opportunities and increase our portfolio weighting in logistics, during 1H20 we entered into a joint venture with Fife Group to develop and operate logistics facilities at adjoining sites in Kemps Creek, NSW, with an estimated end value of $1.1 billion[6].

Equity

SECURITIES BUY-BACK

On 6 September 2018, Stockland announced the intention to initiate an on-market buy-back programme for up to $350 million of Stockland securities on issue as part of our active approach to capital management over a period of up to 24 months. A total of 50.1 million stapled securities have been bought back on-market and cancelled since the commencement of the on market buy-back program on 24 September 2018.

On 14 November 2019, Stockland announced the termination of the on-market-buy-back programme due to the prevailing price of Stockland securities and the related inactivity in the buy-back of securities since May 2019.

DISTRIBUTIONS

The distribution payable for the six months ended 31 December 2019 is 13.5 cents per security, in line with the distribution made for the period ended 31 December 2018. The payout ratio of 84 per cent is at the higher end of our target range and in line with FFO. This allows us to provide capital to the business for further growth and ensures that our distributions remain closely linked to the movements in FFO growth.

The distribution per security for the half year comprises:

Stockland	1H20 Cents	1H19 Cents
Stockland Corporation dividend, fully franked	**–**	–
Trust distribution	**13.5**	13.5
Total dividend/distribution	**13.5**	13.5

Registers closed at 5.00pm on 31 December 2019 to determine entitlement to the interim distribution, which will be paid on 28 February 2020.

[6] Estimated end value, represents 100 per cent interest of which Stockland has a 50 per cent interest.

Operational excellence

To deliver on our strategy we need to continually improve the way we operate to drive efficiencies and manage risk and opportunities for the long term

System and cost efficiencies

The Core Systems Program continues to progressively release software that increases business efficiency and our ability to respond to digital opportunities. This financial year we anticipate that we will go live with the remainder of our full end to end SAP enterprise system. Together with our existing Salesforce and SAP SuccessFactors systems this new platform will drive significant efficiencies for our employees and customers.

In 1H20 we reduced unallocated corporate overheads toward our $8 million target for FY20.

People and culture

Regular meetings with investors have given us the opportunity to hear their concerns, and this feedback has been invaluable in evolving our governance framework.

We have also used investor feedback to inform a review of our remuneration structures to ensure they are appropriate to deliver on our strategic priorities. Given the unique complexities of our diversified business model it is also critical that our remuneration structure appropriately solves for talent attraction, retention and reward. We have appointed an external party to undertake a review and find the right balance for our remuneration structure.

Building our people capability is a critical enabler for our growth agenda and we have focused on supporting leaders with change skills through the Strengthening Stockland program.

Strengthening Stockland is an integrated program of work to enhance and maintain an innovative and effective culture. Workstreams on leadership, structure, capability, processes and systems are well advanced.

Sustainability leadership

We are one step closer to achieving our 2030 target for net zero carbon emissions across our logistics centres, retirement living villages and corporate head offices, thanks to initiatives which will draw on finance from a $75 million senior debt facility from the Australian Government's Clean Energy Finance Corporation (CEFC).

The finance provided by the CEFC will support a portfolio-wide energy efficiency renewal program, as well as market-leading Green Star design and as-built standards for retirement living new-builds which will target a 35 per cent reduction in emissions levels, compared with the requirements of the current building code.

Companies that successfully deliver long-term value to their stakeholders need to be able to address climate change issues and integrate sustainability into everyday business considerations. As a global sustainability leader, we are proud to have championed industry change in many areas, including being the only Australian company to be consistently recognised amongst leading global companies for climate action and disclosure on the CDP Climate A-List. We are also cited as one of the most sustainable companies in the world by the Dow Jones Sustainability Index (DJSI), and as a Global Sector Leader by the Global Real Estate Sustainability Benchmark (GRESB).

Risks and opportunities

We adopt a rigorous approach to understanding and proactively managing the risks faced in the business

We recognise that making business decisions which involve calculated risks, and managing these risks within sensible tolerances is fundamental to creating long-term value for securityholders and meeting the expectations of our stakeholders.

Our risk appetite is the degree to which we are prepared to accept risk in pursuit of our strategic priorities. The Board has determined that Stockland will maintain a balanced risk profile so that we remain a sustainable business and an attractive investment proposition, in both the short and long terms. As part of our approach to integrated reporting, we adopt a rigorous approach to understanding and proactively managing the material risks and opportunities we face in our business.

	Risk	How we are responding
Short term - strategy execution	Ability to deliver on our strategic priorities in challenging market conditions.	We will continue to deliver sustainable and growing returns by focusing on: • concentrating our exposure across higher quality assets • broadening our capital partnering initiatives across the whole portfolio • increasing our weighting in workplace and logistics and reducing our exposure to retail • bringing new business initiatives to scale.
	Increased competition and changing market conditions may impact our opportunities for growth.	To respond to changing market conditions and competition we will: • maintain a diversified business model at scale in each sector • reinvest in our assets to meet changing customer needs including agile redevelopment of our properties to capture value add opportunities • focus on retaining a strong balance sheet with appropriate gearing and use diverse funding sources including capital partnering and asset recycling • concentrate on efficiency and cost management • proactively replenish our land and asset pipelines using a rigorous whole-of-business approach informed by detailed research to drive our capital allocation process • maintain discipline and agility in our investment decision making • include a focus on governance and compliance to provide a stable environment for growth • support innovative culture to improve our customer experience and identify further growth opportunities. This is being facilitated through our digital platform LAB-52, which is designed to assess and accelerate investment in potential growth areas.
	Systems enhancements impact business process efficiency.	As part of our continued focus on operational efficiency, we continue to improve our systems capabilities. This financial year we anticipate that we will go live with the remainder of our full end-to-end SAP enterprise system. Together with our existing Salesforce and SAP SuccessFactors systems this new platform will drive significant efficiencies for our employees and customers.
	Increasing expectations on organisations from the community.	Standards for interaction with customers have been under intense scrutiny in Australia for some time. It is important that we engage with our customers in an ethical and considered manner. At Stockland we have prioritised our focus on customer engagement including regular customer surveys, extra training for our customer-facing employees, and the implementation of a customer feedback framework with reporting through to our Board and Committees.
	Housing affordability continues to impact the dynamics of the Australian Housing market.	To help address affordability we will continue to: • partner with government and industry to drive solutions including innovative construction processes to lower costs • provide a broader mix of value for money housing options including house and land packages, completed housing, medium density and apartments • balance the demand from homeowners and investors so that our residential communities remain attractive to future buyers.

Risk	How we are responding
Extreme weather, security risks and energy price shocks impact business continuity and community resilience.	To make our business more resilient we continue to: • train our employees and increase their risk awareness including undertaking regular scenario testing • invest in asset upgrades and adapt community design • work with our communities to build awareness of climate risks including through bushfire awareness plans • assess and implement wholesale energy strategies and renewable energy installations, to provide alternative sources of energy to mitigate the risk of price shocks • be vigilant in protecting and managing data threats from cyber attacks • actively manage our corporate insurance program to provide adequate protection against insurable risks.
Change within the retail sector impacts rental growth.	Over the past 10 years, the retail landscape has undergone significant structural change and seen a convergence of technological advances, in particular e-commerce, changes in underlying consumer behaviour, and the entry of new international retailers. These changes have challenged many retailers. We have been proactive and pre-empted many changes. We will continue to: • rebase rents to sustainable levels • remix our tenancies with a focus on experiential retail, technology, health, services and food catering • apply our placemaking strategy across our assets to create convenient, curated communities that form the social hub • leverage deep customer insights and analytics to inform our tenant remixing.
Regulatory and policy changes impact our business and customers.	We will continue to: • implement forward-looking practices to remain well positioned for regulatory change. In the first half we have focused on a number of key policy and governance matters including whistleblowing, modern slavery and privacy and data security • engage with industry and government on policy areas including taxation and planning reform. As part of our commitment to tax transparency and demonstrating good corporate citizenship, we have adopted the Australian Federal Government's Voluntary Tax Transparency Code, which provides a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information • focus our development activity in areas where governments support growth.
Retirement living residents have high expectations about value and fairness.	In the half we signed up to the Retirement Living Code of Conduct to promote and protect the interests of current and future residents and promote trust and confidence in the Retirement Living sector. We will continue to: • have an open and respectful relationship with our residents, and continue our commitment to being transparent and up-front about costs associated with living in our retirement villages • proactively engage with residents to maintain high satisfaction levels and standards of care • focus on health and wellbeing and our approach to care • demonstrate industry leadership and work with our peers to lift industry standards • review product and contract choice to meet changing customer preferences. For example, we now provide contract choice to provide more certainty for our residents.

	Risk	How we are responding
Longer term – changing marketplace	Climate change impacts our assets, operations and the broader community	Physical and transition climate change risks have the potential to damage our assets, disrupt operations and impact the health and wellbeing of our customers and communities. We are committed to creating climate resilient assets that operate with minimal disruption in the event of increased climate events, as well as building strong communities that are equipped to adapt to climate change risks and opportunities. To do this, we will continue to: • assess our portfolio for climate and community resilience and implement action plans • embed climate resilience within our standard asset risk assessments • continue to incorporate scenario analysis into our climate risk process to understand how physical and transition climate-related risks and opportunities may evolve over time. For more information please refer to our response to the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) recommendations in our ***Annual Report 2019*** - page 39 to 48.
	Anticipating changing customer and community expectations to meet future demand.	We will continue to: • foster a culture of innovation to 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, Stockland Exchange (our online research community) and other data sources • create sustainable and liveable communities and assets, resilient to changes in climate • enhance our design excellence, providing greater functionality and value for money that meet the demands of Australia's changing demographics, including an ageing population and more socially conscious millennials.
	Our ability to harness opportunities arising from digital disruption.	We will continue to: • identify, develop and integrate technological enhancements across our business, including online residential, retirement living engagement opportunities and the LAB-52 platform • support Stockland retail town centres as thriving communities by delivering quality services and spaces that are e-enabled.
	Capital market volatility impacts our ability to transact and access suitable capital.	So that we remain able to raise sufficient capital to fund growth, we will continue to: • focus on retaining a strong balance sheet at appropriate levels of gearing • maintain and increase access to diverse funding sources across global capital markets • maintain our prudent capital management policies including a target gearing range of 20 to 30 per cent • retain favourable investment grade ratings across multiple credit agencies to demonstrate our strong credit value proposition • regularly update existing and potential debt and equity investors to inform them about the business.
	Ability to adapt our operating model to meet the changing nature of the workforce.	The ability to attract, engage and retain our employees is critical. Physical and organisational boundaries are becoming increasingly blurred as new technology enables greater workplace flexibility, including when and where employees work and encouraging creative and adaptive teamwork. We have successfully deployed Office365, Salesforce and SAP SuccessFactors to improve collaboration and flexible working with the implementation of the remainder of our full end-to-end SAP enterprise system scheduled this financial year. We have upgraded our Melbourne and Brisbane office to encourage more flexible and collaborative working styles with each office receiving a gold WELL rating. We are focused on how we actively set employees up for success and will continue to: • maintain a focus on fostering a positive culture to deliver value to all stakeholders • encourage flexible work practices supported by our new collaboration platforms • train our senior leaders to be more agile and resilient through Stockland leadership programs • provide employees with technology devices that increase their mobility and flexibility and facilitate improved productivity in a balanced way.

Directors

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

Non-Executive Directors	
Mr Tom Pockett	Chairman
Ms Melinda Conrad	
Ms Kate McKenzie	(appointed 2 December 2019)
Mr Barry Neil	
Mr Stephen Newton	
Ms Christine O'Reilly	
Ms Carol Schwartz	(retired 21 October 2019)
Mr Andrew Stevens	
Executive Director	
Mr Mark Steinert	Managing Director and Chief Executive Officer

Lead auditor's independence declaration

Under section 307C of the *Corporations Act 2001* (Cth)

The lead auditor's independence declaration is set out on page 19 and forms part of the Directors' Report for the six months ended 31 December 2019.

Lead auditor's independence declaration

Auditor's Independence Declaration

As lead auditor for the review of Stockland Corporation Limited and Stockland Trust for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- 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.

N R McConnell
Partner
PricewaterhouseCoopers

Sydney
19 February 2020

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Interim financial report

Consolidated statement of comprehensive income

Half year ended 31 December		Stockland		Trust	
$M	Note	2019	2018	2019	2018
Revenue	1	**1,239**	1,127	**386**	399
Cost of property developments sold:					
• land and development		**(523)**	(436)	**–**	–
• capitalised interest		**(74)**	(28)	**–**	–
• utilisation of provision for impairment of inventories		**15**	6	**–**	–
Investment property expenses		**(131)**	(134)	**(126)**	(129)
Share of profits of equity-accounted investments	14	**60**	46	**60**	29
Management, administration, marketing and selling expenses		**(146)**	(157)	**(20)**	(21)
Net change in fair value of investment properties:					
• Commercial Property	8	**153**	7	**154**	(1)
• Retirement Living	9	**(39)**	(35)	**–**	–
• Retirement Living resident obligations	9	**15**	19	**–**	–
Impairment of Retirement Living goodwill		**(21)**	(10)	**–**	–
Net loss on other financial assets		**(1)**	–	**(2)**	–
Net gain/(loss) on sale of other non-current assets		**11**	(10)	**11**	(9)
Finance income		**1**	2	**122**	139
Finance expense		**(49)**	(39)	**(92)**	(91)
Net gain/(loss) on financial instruments		**6**	(40)	**6**	(40)
Profit before tax		**516**	318	**499**	276
Income tax expense	5	**(12)**	(18)	**–**	–
Profit after tax		**504**	300	**499**	276
Items that are or may be reclassified to profit or loss, net of tax					
Cash flow hedges – net change in fair value of effective portion		**(10)**	32	**(10)**	32
Other comprehensive income		**(10)**	32	**(10)**	32
Total comprehensive income		**494**	332	**489**	308
Basic earnings per security (cents)	3	**21.2**	12.4	**21.0**	11.4
Diluted earnings per security (cents)	3	**21.2**	12.4	**21.0**	11.4

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at		Stockland		Trust	
$M	Note	31 December 2019	30 June 2019	31 December 2019	30 June 2019
Cash and cash equivalents		**245**	140	**117**	63
Receivables		**190**	208	**32**	41
Inventories	7	**951**	1,005	**–**	–
Other financial assets	12	**18**	9	**18**	9
Other assets		**110**	95	**90**	81
		1,514	1,457	**257**	194
Non-current assets held for sale	10	**–**	171	**–**	171
Current assets		**1,514**	1,628	**257**	365
Receivables		**104**	94	**3,523**	3,580
Inventories	7	**2,516**	2,500	**–**	–
Investment properties – Commercial Property	8	**9,728**	9,145	**9,829**	9,133
Investment properties – Retirement Living	9	**3,986**	3,990	**–**	–
Equity-accounted investments	14	**355**	612	**362**	620
Other financial assets	12	**479**	525	**469**	515
Property, plant and equipment		**155**	57	**–**	–
Intangible assets		**174**	193	**–**	–
Deferred tax assets		**28**	40	**–**	–
Other assets		**222**	215	**211**	217
Non-current assets		**17,747**	17,371	**14,394**	14,065
Assets		**19,261**	18,999	**14,651**	14,430
Payables		**689**	696	**449**	455
Borrowings	11	**509**	343	**509**	343
Retirement Living resident obligations	9	**2,541**	2,496	**–**	–
Development provisions		**382**	343	**–**	–
Other financial liabilities	12	**–**	2	**–**	2
Other liabilities		**80**	68	**37**	29
Current liabilities		**4,201**	3,948	**995**	829
Payables		**201**	147	**–**	–
Borrowings	11	**4,236**	4,361	**4,236**	4,361
Retirement Living resident obligations	9	**101**	101	**–**	–
Development provisions		**262**	370	**–**	–
Other financial liabilities	12	**199**	218	**199**	218
Other liabilities		**68**	26	**37**	–
Non-current liabilities		**5,067**	5,223	**4,472**	4,579
Liabilities		**9,268**	9,171	**5,467**	5,408
Net assets		**9,993**	9,828	**9,184**	9,022
Issued capital		**8,657**	8,657	**7,359**	7,359
Reserves		**74**	91	**72**	88
Retained earnings/undistributed income		**1,262**	1,080	**1,753**	1,575
Securityholders' equity		**9,993**	9,828	**9,184**	9,022

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

Attributable to securityholders of Stockland

			Reserves			
$M	Note	Issued capital	Security based payments	Hedging	Retained earnings	Equity
Balance at 1 July 2018		8,850	41	60	1,428	10,379
Profit for the period		–	–	–	300	300
Other comprehensive income, net of tax		–	–	32	–	32
Total comprehensive income		–	–	32	300	332
Dividends and distributions	4	–	–	–	(325)	(325)
Security based payment expense		–	6	–	–	6
Acquisition of treasury securities		(14)	–	–	–	(14)
Securities vested under Security Plans		13	(13)	–	–	–
Securities lapsed under Security Plans		–	(2)	–	2	–
Securities buy-back	13	(115)	–	–	–	(115)
Other movements		(116)	(9)	–	(323)	(448)
Balance at 31 December 2018		8,734	32	92	1,405	10,263
Balance at 30 June 2019		8,657	37	54	1,080	9,828
Change in accounting policies	18	**–**	**–**	**–**	**(2)**	**(2)**
Balance at 1 July 2019		8,657	37	54	1,078	9,826
Profit for the period		**–**	**–**	**–**	**504**	**504**
Other comprehensive income, net of tax		**–**	**–**	**(10)**	**–**	**(10)**
Total comprehensive income		**–**	**–**	**(10)**	**504**	**494**
Dividends and distributions	4	**–**	**–**	**–**	**(321)**	**(321)**
Security based payment expense		**–**	**6**	**–**	**–**	**6**
Acquisition of treasury securities		**(12)**	**–**	**–**	**–**	**(12)**
Securities vested under Security Plans		**12**	**(12)**	**–**	**–**	**–**
Securities lapsed under Security Plans		**–**	**(1)**	**–**	**1**	**–**
Other movements		**–**	**(7)**	**–**	**(320)**	**(327)**
Balance at 31 December 2019		**8,657**	**30**	**44**	**1,262**	**9,993**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

Attributable to securityholders of Trust

			Reserves			
$M	Note	Issued capital	Security based payments	Hedging	Undistributed income	Equity
Balance at 1 July 2018		7,538	38	60	1,992	9,628
Profit for the period		–	–	–	276	276
Other comprehensive income, net of tax		–	–	32	–	32
Total comprehensive income		–	–	32	276	308
Dividends and distributions	4	–	–	–	(325)	(325)
Security based payment expense		–	6	–	–	6
Acquisition of treasury securities		(13)	–	–	–	(13)
Securities vested under Security Plans		12	(12)	–	–	–
Securities lapsed under Security Plans		–	(2)	–	2	–
Securities buy-back	13	(107)	–	–	–	(107)
Other movements		(108)	(8)	–	(323)	(439)
Balance at 31 December 2018		7,430	30	92	1,945	9,497
Balance at 30 June 2019		7,359	34	54	1,575	9,022
Change in accounting policies	18	**–**	**–**	**–**	**(1)**	**(1)**
Balance at 1 July 2019		7,359	34	54	1,574	9,021
Profit for the period		**–**	**–**	**–**	**499**	**499**
Other comprehensive income, net of tax		**–**	**–**	**(10)**	**–**	**(10)**
Total comprehensive income		**–**	**–**	**(10)**	**499**	**489**
Dividends and distributions	4	**–**	**–**	**–**	**(321)**	**(321)**
Security based payment expense		**–**	**6**	**–**	**–**	**6**
Acquisition of treasury securities		**(11)**	**–**	**–**	**–**	**(11)**
Securities vested under Security Plans		**11**	**(11)**	**–**	**–**	**–**
Securities lapsed under Security Plans		**–**	**(1)**	**–**	**1**	**–**
Other movements		**–**	**(6)**	**–**	**(320)**	**(326)**
Balance at 31 December 2019		**7,359**	**28**	**44**	**1,753**	**9,184**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

Half year ended 31 December		Stockland		Trust	
$M	Note	2019	2018	2019	2018
Receipts in the course of operations (including GST)		**1,365**	1,235	**455**	454
Payments in the course of operations (including GST)		**(805)**	(1,032)	**(210)**	(223)
Payments for land		**(123)**	(322)	**–**	–
Distributions received from equity-accounted investments		**14**	26	**14**	16
Receipts from Retirement Living residents		**163**	137	**–**	–
Payments to Retirement Living residents, net of DMF		**(72)**	(84)	**–**	–
Interest received		**1**	2	**122**	139
Interest paid		**(97)**	(98)	**(96)**	(98)
Net cash flow from operating activities		**446**	(136)	**285**	288
Proceeds from sale of investment properties		**331**	155	**331**	113
Payments for and development of investment properties:					
• Commercial Property		**(548)**	(168)	**(558)**	(213)
• Retirement Living		**(31)**	(86)	**–**	–
Payments for plant and equipment and software		**(119)**	(27)	**–**	–
Proceeds from sale of/capital returns from investments		**331**	25	**331**	–
Payments for investments (including equity-accounted)		**(8)**	–	**(8)**	–
Distributions received from other entities		**1**	–	**1**	–
Loans to related entities		**–**	–	**(31)**	(399)
Net cash flows from investing activities		**(43)**	(101)	**66**	(499)
On-market buy-back	13	**–**	(115)	**–**	(107)
Payment for treasury securities under Security Plans		**(12)**	(14)	**(11)**	(13)
Proceeds from borrowings		**744**	1,201	**744**	1,201
Repayment of borrowings		**(691)**	(614)	**(691)**	(614)
Payments for derivatives and financial instruments		**(3)**	(47)	**(3)**	(47)
Dividends and distributions paid		**(336)**	(329)	**(336)**	(329)
Net cash flows from financing activities		**(298)**	82	**(297)**	91
Net movement in cash and cash equivalents		**105**	(155)	**54**	(120)
Cash and cash equivalents at the beginning of the period		**140**	333	**63**	215
Cash and cash equivalents at the end of the period		**245**	178	**117**	95

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the interim financial report

Contents

Basis of preparation

IN THIS SECTION

This section sets out the basis upon which the Group's financial report are prepared as a whole.

A glossary containing acronyms and defined terms is included at the back of this report.

STAPLING ARRANGEMENT

Stockland represents the consolidation of Stockland Corporation Limited and Stockland Trust and their respective controlled entities. Stockland Corporation Limited and Stockland Trust are both incorporated or formed and domiciled in Australia.

Stockland is structured as a stapled entity: a combination of a share in Stockland Corporation and a unit in Stockland Trust that are together traded as one security on the ASX. The constitutions of Stockland Corporation Limited and Stockland Trust provide 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 Stockland Trust must at all times act in the best interest of Stockland. The stapling arrangement will cease upon the earlier of either the winding up of Stockland Corporation Limited or Stockland Trust or either entity terminating the stapling arrangement.

As permitted by Class Order 13/1050, issued by ASIC, this financial report is a combined financial report that presents the financial statements and accompanying notes of both Stockland and the Trust.

A. Statement of compliance

This financial report has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. It does not include all of the notes normally included in the annual financial report, and should be read in conjunction with the annual financial report of Stockland as at and for the year ended 30 June 2019.

All specific accounting policies applied by Stockland and the Trust in the interim financial report are the same as those applied in the annual financial report as at and for the year ended 30 June 2019, with the exception of the adoption of AASB 16 *Leases* and other new and amended standards and interpretations commencing 1 July 2019 which have been adopted where applicable. The impact of the adoption of these standards is disclosed in note 18.

B. Net current asset deficiency position

Stockland and the Trust generated positive cash flows from operations of $446 million and $285 million respectively during the half year. Undrawn bank facilities of $850 million (refer to note 11) are also available should they need to be drawn. In addition, Stockland and the Trust have the ability to refinance their existing external borrowings and raise new external debt if required. Based on the cash flow 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. Accordingly, the financial report has been prepared on a going concern basis.

Stockland and the Trust have prima facie net current asset deficiencies of $2,687 million and $738 million respectively at 31 December 2019 (30 June 2019: Stockland $2,320 million, Trust $464 million).

STOCKLAND

In relation to Stockland, a number of liabilities are classified as current under Accounting Standards that are not expected to result in actual 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 Retirement Living investment properties, residential development work in progress and vacant stock).

Furthermore, current inventories are held on the balance sheet at the lower of cost and net realisable value, whereas most of these are expected to generate cash inflows above the carrying value.

In relation to current Retirement Living resident obligations for existing residents (31 December 2019: $2,535 million; 30 June 2019: $2,490 million), approximately 8% (30 June 2019: 6%) of residents are estimated to depart their dwelling 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 Accounting Standards as Stockland does not hold an 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 the Accounting Standards as the majority are not expected to be realised within 12 months.

TRUST

The deficiency in the Trust primarily arises due to the intergroup loan receivable from the Company which is classified as a non-current asset.

C. 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 Directors' report and financial report have been rounded to the nearest million dollars, unless otherwise stated.

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 report that the Directors consider most relevant in the context of the operations of the entity, including:

- accounting policies that are relevant for understanding the items recognised in the financial report; and
- analysis of the results for the period by reference to key areas, including revenue, results by operating segment and taxation.

1. REVENUE

Half year ended $M	Residential	Retirement Living	Communities sub-total	Commercial Property	Other	Stockland	Trust
31 December 2019							
Rental income[1]	–	**1**	**1**	**345**	–	**346**	**347**
Outgoings recoveries[2]	–	–	–	**38**	–	**38**	**38**
Rent from investment properties	–	**1**	**1**	**383**	–	**384**	**385**
Property development sales[3]	**779**	**19**	**798**	–	–	**798**	–
DMF revenue[1]	–	**41**	**41**	–	–	**41**	–
Other revenue	**11**	**1**	**12**	**3**	**1**	**16**	**1**
Statutory revenue	**790**	**62**	**852**	**386**	**1**	**1,239**	**386**
Amortisation of lease incentives	–	–	–	**36**	–	**36**	**36**
Straight-line rent	–	–	–	**(1)**	–	**(1)**	**(1)**
Unrealised DMF revenue[1]	–	**(16)**	**(16)**	–	–	**(16)**	–
Segment revenue	**790**	**46**	**836**	**421**	**1**	**1,258**	**421**
31 December 2018							
Rental income[1]	–	–	–	356	–	356	356
Outgoings recoveries[2]	–	–	–	40	–	40	40
Rent from investment properties	–	–	–	396	–	396	396
Property development sales[3]	658	19	677	–	–	677	–
DMF revenue[1]	–	44	44	–	–	44	–
Other revenue	3	–	3	6	1	10	3
Statutory revenue	661	63	724	402	1	1,127	399
Amortisation of lease incentives	–	–	–	32	–	32	32
Straight-line rent	–	–	–	(2)	–	(2)	(2)
Unrealised DMF revenue[1]	–	(17)	(17)	–	–	(17)	–
Segment revenue	661	46	707	432	1	1,140	429

1 Commercial Property rental income and Retirement Living DMF revenue continue to meet the definition of a lease arrangement and fall outside the scope of AASB 15 Revenue from Contracts with Customers and are therefore accounted for in accordance with AASB 16 Leases.
2 Revenue related to outgoings recoveries is recognised under AASB 15 over time in the accounting period in which the performance obligations are met.
3 Property development sales revenue is recognised under AASB 15 at a point in time when control of the asset passes to the customer. Property development sales includes the revenue recognised from the disposals of 50% of Aura, Qld.

Rent from investment properties includes $1 million (2018: $2 million) contingent rents billed to tenants. Contingent rents are derived from the tenants' revenues and represent 0.4% (2018: 1%) of gross lease income.

1A. Breakdown of revenue from property development sales

Residential revenue from property development by major product and geographical area is broken down as follows:

Half year ended $M	NSW	QLD	VIC	WA	Residential
31 December 2019					
Residential communities	**114**	**308**	**165**	**70**	**657**
Townhomes	**23**	**37**	**57**	**5**	**122**
Apartments	**–**	**–**	**–**	**–**	**–**
Property development sales	**137**	**345**	**222**	**75**	**779**
31 December 2018					
Residential communities	124	157	192	69	542
Townhomes	89	11	14	2	116
Apartments	–	–	–	–	–
Property development sales	213	168	206	71	658

2. OPERATING SEGMENTS

STOCKLAND

Stockland has four reportable segments, as listed below:

- Commercial Property – invests in, develops and manages retail town centres, logistics and workplace properties;
- Residential – delivers a range of masterplanned and mixed use residential communities in growth areas and townhomes and apartments in general metropolitan areas;
- Retirement Living – designs, develops and manages communities for over 55s and 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.

Together, Residential and Retirement Living represent Stockland's Communities business.

Measurement of segment results

FFO is a non-IFRS measure that is designed to present, in the opinion of the Chief Operating Decision Maker (CODM), the results from ongoing operating activities in a way that appropriately reflects Stockland's underlying performance. FFO is the primary basis on which dividends and distributions are determined, and together with expected capital returns and AFFO impacts, reflects the way the business is managed and how the CODM assesses the performance of Stockland. 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. FFO also excludes income tax items that do not represent cash payments.

A reconciliation from FFO to profit after tax is presented in note 2B.

AFFO is an alternative, secondary, non-IFRS measure used by the CODM to assist in the assessment of the underlying performance of Stockland. AFFO is calculated by deducting maintenance capital expenditure and incentives and leasing costs from FFO.

There is no customer who accounts for more than 10% of the gross revenue of Stockland.

TRUST

The Trust has one reportable segment in which it operates, being Commercial Property. Therefore, no separate segment note has been prepared. The CODM monitors the performance of the Trust in a manner consistent with that of the financial report. Refer to the consolidated statement of comprehensive income for the segment financial performance and the consolidated balance sheet for the assets and liabilities.

There is no customer who accounts for more than 10% of the gross revenue of the Trust.

2A. FFO and AFFO

The contribution of each reportable segment to FFO and AFFO is summarised as follows:

Half year ended $M	Residential	Retirement Living	Communities sub-total	Commercial Property	Other	Stockland
31 December 2019						
Segment revenue[1,2]	**790**	**46**	**836**	**421**	**1**	**1,258**
Segment EBIT[1,2]	**208**	**20**	**228**	**301**	**–**	**529**
Amortisation of lease fees	**–**	**–**	**–**	**7**	**–**	**7**
Interest expense in cost of sales	**(74)**	**(3)**	**(77)**	**–**	**–**	**(77)**
Segment FFO[3]	**134**	**17**	**151**	**308**	**–**	**459**
Finance income						**1**
Finance expense						**(49)**
Unallocated corporate and other expenses						**(27)**
FFO						**384**
Maintenance capital expenditure[4]						**(13)**
Incentives and leasing costs[5]						**(33)**
AFFO						**338**
31 December 2018						
Segment revenue[1,2]	661	46	707	432	1	1,140
Segment EBIT[1,2]	170	22	192	307	–	499
Amortisation of lease fees	–	–	–	7	–	7
Interest expense in cost of sales	(28)	(2)	(30)	–	–	(30)
Segment FFO[3]	142	20	162	314	–	476
Finance income						2
Finance expense						(39)
Unallocated corporate and other expenses						(32)
FFO						407
Maintenance capital expenditure[4]						(17)
Incentives and leasing costs[5]						(38)
AFFO						352

1 Commercial Property segment revenue and EBIT add back $36 million (2018: $32 million) of amortisation of lease incentives and excludes $1 million (2018: $2 million) of straight-line rent adjustments.
2 Retirement Living segment revenue and EBIT exclude $16 million (2018: $17 million) of unrealised DMF revenue.
3 Commercial Property segment FFO includes share of profits from equity-accounted investments of $14 million (2018: $15 million).
4 Maintenance capital expenditure includes $2 million (2018: $2 million) of Retirement Living maintenance capital expenditure.
5 Excludes centres under development.

2B. Reconciliation of FFO to profit after tax

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

Half year ended 31 December $M	2019	2018
FFO	**384**	407
Adjust for:		
Amortisation of lease incentives and lease fees	**(43)**	(39)
Straight–line rent	**1**	2
Net unrealised change in fair value of Commercial Property investment properties[1]	**198**	22
Net unrealised change in fair value of Retirement Living investment properties & obligations	**(33)**	(27)
Unrealised DMF revenue	**16**	17
Net gain/(loss) on financial instruments	**6**	(40)
Net loss other financial assets	**(1)**	–
Net gain/(loss) on sale of other non–current assets	**11**	(10)
Impairment of Retirement Living goodwill[2]	**(21)**	(10)
Restructuring cost[3]	**(2)**	(4)
Income tax – non–cash	**(12)**	(18)
Profit after tax	**504**	300

1 Includes Stockland's share of revaluation relating to properties held through joint ventures (2019: $45 million gain; 2018: $15 million gain) and fair value unwinding of ground leases recognised under AASB 16 (2019: $1 million; 2018: $nil).
2 Write–down of goodwill associated with historic Retirement Living acquisitions.
3 Restructuring cost associated with reorganisation during the period to improve operational efficiencies and position the business for sustainable growth in the future.

2C. Balance sheet by operating segment

As at $M	Residential	Retirement Living	Communities sub-total	Commercial Property	Unallocated	Stockland
31 December 2019						
Real estate related assets[1,2]	**3,322**	**4,035**	**7,357**	**10,519**	**132**	**18,008**
Other assets	**154**	**64**	**218**	**66**	**969**	**1,253**
Assets	**3,476**	**4,099**	**7,575**	**10,585**	**1,101**	**19,261**
Retirement Living resident obligations	**–**	**2,642**	**2,642**	**–**	**–**	**2,642**
Borrowings	**–**	**–**	**–**	**–**	**4,745**	**4,745**
Other liabilities	**991**	**15**	**1,006**	**210**	**665**	**1,881**
Liabilities	**991**	**2,657**	**3,648**	**210**	**5,410**	**9,268**
Net assets/(liabilities)	**2,485**	**1,442**	**3,927**	**10,375**	**(4,309)**	**9,993**
30 June 2019						
Real estate related assets[1,2]	3,411	4,037	7,448	10,323	36	17,807
Other assets	164	85	249	57	886	1,192
Assets	3,575	4,122	7,697	10,380	922	18,999
Retirement Living resident obligations	–	2,597	2,597	–	–	2,597
Borrowings	–	–	–	–	4,704	4,704
Other liabilities	951	20	971	157	742	1,870
Liabilities	951	2,617	3,568	157	5,446	9,171
Net assets/(liabilities)	2,624	1,505	4,129	10,223	(4,524)	9,828

1 Includes non-current assets held for sale, inventories, investment properties, equity-accounted investments and certain other assets.
2 Includes equity-accounted investments of $355 million (30 June 2019: $612 million) in Commercial Property and $nil (30 June 2019: $nil) in Residential.

3. EPS

KEEPING IT SIMPLE

EPS is the amount of post-tax profit attributable to each security.

Basic EPS is calculated as 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 Security Plan rights, that could be converted into securities.

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

3A. Basic and diluted EPS

Half year ended 31 December	Stockland		Trust	
cents	2019	2018	2019	2018
Basic EPS	**21.2**	12.4	**21.0**	11.4
Diluted EPS	**21.2**	12.4	**21.0**	11.4

3B. Earnings used in calculating EPS

Half year ended 31 December	Stockland		Trust	
$M	2019	2018	2019	2018
Profit after tax attributable to securityholders	**504**	300	**499**	276

3C. Weighted average number of securities used as the denominator

	Stockland and Trust	
As at 31 December	2019	2018
Weighted average number of securities used as the denominator in calculating basic EPS	**2,378,255,593**	2,414,887,227
Effect of rights and securities granted under Security Plans	**2,406,795**	5,314,238
Weighted average number of securities used as the denominator in calculating diluted EPS	**2,380,662,388**	2,420,201,465

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

4. DIVIDENDS AND DISTRIBUTIONS

STOCKLAND CORPORATION

There were no dividends from Stockland Corporation during the current, or previous, financial period. The dividend franking account balance as at 31 December 2019 is $14 million based on a 30% tax rate (30 June 2019: $14 million).

STOCKLAND TRUST

For the current period, the interim distribution is paid solely out of the Trust and therefore the franking percentage is not relevant.

	Date of payment		Cents per security		Amount ($M)	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Interim distribution	**28 February 2020**	28 February 2019	**13.5**	13.5	**321**	325

BASIS FOR DISTRIBUTION

Stockland's distribution policy is to pay the higher of 100% of Trust taxable income or 75 to 85% of FFO over time.

The payout ratio for the current and comparative periods is summarised as follows:

Half year ended 31 December cents	2019	2018
FFO per security[1]	**16.1**	16.8
Distribution per security	**13.5**	13.5
Payout ratio	**84%**	80%

1 FFO is a non-IFRS measure. A reconciliation from FFO to statutory profit after tax is presented in note 2B.

5. INCOME TAX

STOCKLAND CORPORATION GROUP

Stockland Corporation Group's effective tax rate for the six month period ended 31 December 2019 was 70% (2018: 38%), which was mainly driven by the impairment of Retirement Living goodwill of $21 million which is not tax deductible. Excluding the goodwill impairment, the effective tax rate for the six month period ended 31 December 2019 was 33%.

STOCKLAND TRUST

Under current Australian income tax legislation, Stockland Trust and its sub-trusts are not liable for income tax on their taxable income (including any assessable component of capital gains), provided that the unitholders are attributed the taxable income of the Trust. Securityholders are liable to pay tax at their effective tax rate on the amounts attributed.

6. EVENTS SUBSEQUENT TO THE END OF THE PERIOD

Subsequent to the end of the period, the Trust secured new medium term notes (MTN) with a face value of Hong Kong dollars (HKD) 800 million ($150 million) which will be settled in February 2020 with a 10 year term. All the notes were converted back to Australian dollars (AUD) principal and AUD floating coupons through CCIRS.

Other than the new MTNs and what has been disclosed elsewhere in this report, in the interval between the end of the current reporting period and the date of this report there has not arisen 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.

Operating assets and liabilities

IN THIS SECTION

This section shows the real estate and other operating assets used to generate the Group's trading performance and the liabilities incurred as a result.

7. INVENTORIES

KEEPING IT SIMPLE

A Whole of Life (WOL) methodology is applied to calculate the margin percentage over the life of each project. All costs, including those costs spent to date and those forecast in the future, are allocated proportionally in line with net revenue for each lot to achieve a WOL margin percentage. The WOL margin percentage and therefore allocation of costs can change as revenue and costs forecast are updated to reflect market conditions not previously forecasted, and as projects reach completion.

The determination of the WOL margin percentage requires significant judgement in estimating future revenues and costs. The WOL margin percentages are regularly reviewed and updated in project forecasts across the reporting period to ensure these estimates reflect market conditions through the cycle.

The composition of inventories is presented in the table below:

As at	Stockland					
	31 December 2019			30 June 2019		
$M	Current	Non-current	Total	Current	Non-current	Total
Cost of acquisition	**52**	**–**	**52**	95	–	95
Development and other costs	**184**	**–**	**184**	291	–	291
Interest capitalised	**26**	**–**	**26**	37	–	37
Impairment provision	**(4)**	**–**	**(4)**	(12)	–	(12)
Finished development stock held for sale[1]	**258**	**–**	**258**	411	–	411
Cost of acquisition	**406**	**1,636**	**2,042**	354	1,665	2,019
Development and other costs	**187**	**506**	**693**	137	486	623
Interest capitalised	**76**	**278**	**354**	93	290	383
Impairment provision	**(12)**	**(109)**	**(121)**	(21)	(107)	(128)
Residential communities	**657**	**2,311**	**2,968**	563	2,334	2,897
Cost of acquisition	**10**	**101**	**111**	10	101	111
Development and other costs	**6**	**5**	**11**	6	4	10
Interest capitalised	**1**	**1**	**2**	1	1	2
Impairment provision	**–**	**–**	**–**	–	–	–
Apartments	**17**	**107**	**124**	17	106	123
Cost of acquisition	**–**	**93**	**93**	5	54	59
Development and other costs	**–**	**1**	**1**	1	6	7
Interest capitalised	**–**	**1**	**1**	1	1	2
Impairment provision	**–**	**(9)**	**(9)**	–	(9)	(9)
Logistics	**–**	**86**	**86**	7	52	59
Cost of acquisition	**3**	**3**	**6**	2	3	5
Development and other costs	**15**	**9**	**24**	5	5	10
Interest capitalised	**1**	**–**	**1**	–	–	–
Impairment provision	**–**	**–**	**–**	–	–	–
Aspire villages	**19**	**12**	**31**	7	8	15
Development work in progress	**693**	**2,516**	**3,209**	594	2,500	3,094
Inventories	**951**	**2,516**	**3,467**	1,005	2,500	3,505

1 Mainly comprises residential communities. Current finished development stock held for sale includes Logistics projects of $nil (30 June 2019: $3 million) and Aspire villages of $14 million (30 June 2019: $30 million). No apartments are included in finished development stock held for sale (30 June 2019: $nil).

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

$M	Residential communities	Apartments	Logistics	Aspire villages	Total
Balance at 1 July 2019	140	–	9	–	149
Amounts utilised	**(15)**	**–**	**–**	**–**	**(15)**
Reversal of provisions previously recognised	**–**	**–**	**–**	**–**	**–**
Additional provisions created	**–**	**–**	**–**	**–**	**–**
Balance at 31 December 2019	**125**	**–**	**9**	**–**	**134**

8. COMMERCIAL PROPERTIES

As at	Stockland		Trust	
$M	31 December 2019	30 June 2019	31 December 2019	30 June 2019
Retail Town Centres	**6,547**	6,726	**6,547**	6,724
Logistics	**2,779**	2,537	**2,779**	2,537
Workplace	**1,097**	891	**1,141**	925
Retirement Living[1]	**24**	20	**–**	–
Capital works in progress and sundry properties	**155**	190	**105**	133
Book value of commercial properties	**10,602**	10,364	**10,572**	10,319
Less amounts classified as:				
• cost to complete provision	**(39)**	(42)	**(39)**	(42)
• property, plant and equipment	**(130)**[2]	(43)	**–**	–
• non-current assets held for sale	**–**	(171)	**–**	(171)
• other assets (including lease incentives and fees)	**(275)**	(273)	**(274)**	(280)
• other assets (including lease incentives and fees) attributable to equity-accounted investments	**(1)**	(5)	**(1)**	(5)
• other receivables (straight-lining of rental income)	**(66)**	(74)	**(66)**	(77)
• other receivables (straight-lining of rental income) attributable to equity-accounted investments	**(15)**	(10)	**(15)**	(10)
Investment properties (including Stockland's share of investment properties held by equity-accounted investments)	**10,076**	9,746	**10,177**	9,734
Less: share of investment properties held by equity-accounted investments	**(348)**	(601)	**(348)**	(601)
Investment properties	**9,728**	9,145	**9,829**	9,133
Net carrying value movements				
Balance at 1 July	**9,145**	9,563	**9,133**	9,487
Acquisitions	**560**	17	**559**	10
Expenditure capitalised	**309**	260	**421**	309
Transfers to non-current assets held for sale	**–**	(171)	**–**	(171)
Ground leases of investment properties (refer to note 18A)	**36**	–	**36**	–
Transfers to inventories	**–**	(29)	**–**	–
Disposals	**(475)**	(267)	**(474)**	(266)
Net change in fair value	**153**	(228)	**154**	(236)
Balance at the end of the period	**9,728**	9,145	**9,829**	9,133

1 The investment property balance at 31 December 2019 includes $24 million of healthcare and childcare centre commercial properties held by the Retirement Living business (30 June 2019: $20 million) to be leased to tenants under commercial leases.

2 Increase in property, plant and equipment is driven by the acquisition of Stockland Piccadilly.

8A. Fair value measurement, valuation techniques and inputs

The techniques used to fair value the Group's commercial properties have not changed since 30 June 2019. For further explanation of the techniques used and inputs applied, refer to the 30 June 2019 annual financial report.

The following significant unobservable inputs are used to measure the fair value of the investment properties:

	Stockland					
	31 December 2019			30 June 2019		
	Fair value	Capitalisation rate (%)		Fair value	Capitalisation rate (%)	
	$M	Range	Weighted average	$M	Range	Weighted average
Retail Town Centres	**6,547**	**5.25 – 7.00**	**5.9**	6,726	4.00 – 7.50	5.9
Logistics	**2,779**	**4.75 – 10.42**	**5.7**	2,537	5.00 – 10.30	6.2
Workplace	**1,097**	**5.00 – 9.00**	**5.9**	891	5.00 – 8.10	5.8
Commercial properties	**10,423**		**5.9**	10,154		6.0

9. RETIREMENT LIVING

KEEPING IT SIMPLE

Stockland offers a range of independent living retirement products to meet the needs of Stockland's customers. Customers have a choice of dwelling type and contractual arrangement, depending on their individual preferences, personal circumstances, and the services and support that they require.

Historically, all Retirement Living contracts were under the deferred management fee (DMF) model which allows residents to access the full lifestyle offering of a village today and pay for this when they leave the village. Each state has extensive laws and regulations which are designed to protect resident interests which Stockland complies with. DMF contracts are generally affordable as they sell at a lower price than the non-retirement freehold properties in the area. In 2017, Stockland broadened its offering by launching a non-DMF village product called Aspire villages offering freehold title rather than a DMF.

Looking further to the future, Stockland has identified a future development pipeline to develop Land Lease Communities (LLC) further broadening its offering. LLC, commonly referred to as manufactured, mobile or relocatable homes, are typically built on site and are engineered to be relocated. Residents pay an initial purchase price for the home and also ongoing site rental costs (without departure costs), and are entitled to the total capital gain or loss upon sale of the relocatable home. Stockland will typically operate and retain the residential land and common amenity at each community. LLC broadens the customer reach of Stockland's existing communities to a growing demographic under a more attractive model. It provides a potential for improved land sale velocity, attractive yield and future divestment options.

DMF contracts

Retirement Living residents lend Stockland an amount equivalent to the value of the dwelling in exchange for a lease to reside in the village and to access community facilities, which are Stockland owned and maintained, for as long as the resident wants. Stockland records this loan as a resident obligation liability.

During the resident's tenure, Stockland earns DMF revenue which is calculated based on the individual resident contract and depends on the dwelling type, location and specific terms within the agreement. The contract will specify the DMF rate charged each year, and the maximum DMF that will be charged across the life of the contract. The DMF provides customers with the ability to free up equity (usually from the sale of their previous home), giving them extra capital that they can access to fund their retirement lifestyle.

The DMF for an individual resident contract covers the right to reside in the dwelling and 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 allows the resident to pay for these at the end of their tenancy, instead of the start. DMF revenue is included in the Retirement Living FFO when Stockland receives the accumulated DMF in cash after a resident leaves and either a new resident enters the dwelling, or when it is withheld under an approved investment proposal for development. The accrued portion of DMF forms part of statutory profit only.

The contracts determine how Stockland and the resident will share any net capital gain or loss when the dwelling is re-leased to the next resident. This can range from 0 to 100%; for the majority of existing contracts, the capital gain or loss and refurbishment costs are shared equally.

The Retirement Living segment result also includes the settled development margin associated with new villages and village expansions or redevelopments. This 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.

Unrealised fair value gains or losses from revaluations of investment property and resident obligations are excluded from FFO.

Contract choices

Stockland continues to improve its customer offerings with Benefits Plus home care partnerships and up-front contract choices, 'Capital Share' and 'Peace of Mind'.

The Capital Share contract offers the opportunity to offset the resident's DMF by paying the resident 50% of any capital gain earned after deducting 50% of any capital expenditures, when the home is resold or after a maximum of 18 months after the resident leaves the village. DMF is calculated at 5% per annum, capped at 35%.

The Peace of Mind contract offers certainty by ensuring the residents know what the exit repayment will be when they leave the village. It also guarantees that they will be repaid after a maximum of six months from their departure even if their unit has not yet been sold. DMF is calculated at 5% per annum, capped at 25%, and there is no capital expenditure obligation or share in capital gains or losses.

Non-DMF product (Aspire villages)

Under the agreements, residents purchase their dwelling outright. There is no DMF associated with these sales as the dwelling is no longer owned or maintained by Stockland. Stockland recognises profit based on property development sales revenue net of associated cost of property developments sold.

9A. Net carrying value

As at	Stockland	
$M	31 December 2019	30 June 2019
Operating villages	**3,680**	3,623
Villages under development	**306**	367
Retirement Living investment properties	**3,986**	3,990
Existing resident obligations	**(2,630)**	(2,585)
Net carrying value of Retirement Living villages	**1,356**	1,405
Net carrying value movement during the period		
Balance at 1 July	**1,405**	1,396
Expenditure capitalised	**31**	143
Cash received on first sales	**(66)**	(114)
Realised investment properties fair value movement	**9**	23
Unrealised investment properties fair value movement	**(48)**	(95)
Unrealised Retirement Living resident obligations fair value movement	**15**	19
Other movements	**10**	33
Balance at the end of the period	**1,356**	1,405

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 ILUs, SAs, community facilities and integral plant and equipment.

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 2019. For further explanation of the techniques used and inputs applied, refer to the 30 June 2019 annual financial report.

The following significant unobservable inputs are used to measure the fair value of the investment properties:

Inputs used to measure fair value	31 December 2019	30 June 2019
Discount rate[1]	**12.5 – 14.75% (average: 13.0%)**	12.5 – 14.75% (average: 13.0%)
Average 20 year growth rate[2]	**3.20%**	3.30%
Average length of stay of existing and future residents	**11 years**	11 years
Current market value of unit	**$0.1 – 2.2 million**	$0.1 – 2.2 million
Renovation/reinstatement cost	**$25 – 75 thousand**	$3 – 75 thousand
Renovation recoupment	**0 – 100%**	0 – 100%

1 Discount rate includes a premium to allow for future village-wide capital expenditure.
2 This is the average of the 20 year growth rates adopted across the portfolio. The maximum growth rate adopted was capped at 4%.

RESIDENT OBLIGATIONS

Resident obligations represent the net amount owed by Stockland to current and former residents. Resident obligations are non-interest bearing and net movements are recognised at fair value through profit or loss as the Retirement Living portfolio is measured and assessed by Stockland on a net basis.

Current resident obligations

Based on actuarial turnover calculations, approximately 8% (30 June 2019: 6%) of residents are estimated to depart their dwelling 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.

However, resident obligations are classified as current under the Accounting Standards as Stockland does not hold an 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).

Non-current resident obligations

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

As at	Stockland					
	31 December 2019			30 June 2019		
$M	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Existing resident obligations	**2,535**	**95**	**2,630**	2,490	95	2,585
Former resident obligations	**6**	**6**	**12**	6	6	12
Resident obligations	**2,541**	**101**	**2,642**	2,496	101	2,597

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 or losses in accordance with their contracts less DMF earned to date. Changes in fair value of resident obligations are recognised in profit or loss.

Inputs used in relation to the resident obligations are identical to those used for investment properties. Refer to the previous page for a detailed description of the inputs used.

Both the investment properties and resident obligations are considered to be Level 3 in the fair value hierarchy.

The following table shows a reconciliation from the opening to the closing Retirement Living resident obligation balances :

	Stockland	
$M	**2019**	**2018**
Balance at 1 July	**(2,597)**	(2,741)
Realised movement recognised in profit or loss	**31**	30
Unrealised movement recognised in profit or loss	**15**	19
Cash receipts from incoming residents on turnover	**(163)**	(137)
Cash payments to outgoing residents on turnover, net of DMF	**72**	84
Balance at 31 December	**(2,642)**	(2,745)

Valuation process

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 Stockland's resident obligations have not changed since 30 June 2019. For further explanation of the techniques used and inputs applied, refer to the 30 June 2019 annual financial report.

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 is shown below:

		Increase/(decrease) in resident obligations ($M)			
		Increase in input		Decrease in input	
Significant input	**Change in assumption**	**31 December 2019**	**30 June 2019**	**31 December 2019**	**30 June 2019**
Current market value	10%	**161**	163	**(161)**	(163)

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of Stockland's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill arose on the acquisition of the Retirement Living division of Australian Retirement Communities on 28 February 2007 and the acquisition of Aevum Limited on 31 October 2010. Goodwill recognised in intangibles relating to Retirement Living was $17 million at 31 December 2019 (30 June 2019: $38 million).

Goodwill is tested for impairment in line with the methodology outlined in note 11 to the 30 June 2019 annual financial report. In the six months to 31 December 2019, $21 million of impairment was booked in relation to the Retirement Living goodwill balance (2018: $10 million). Forecast cash flows are considered to be sufficient to support the carrying value of goodwill at 31 December 2019.

10. NON-CURRENT ASSETS HELD FOR SALE

There is no investment property held for sale at 31 December 2019. The following assets were classified as held for sale at 30 June 2019:

	Stockland		Trust	
As at $M	**31 December 2019**	**30 June 2019**	**31 December 2019**	**30 June 2019**
Investment properties transferred from Commercial Property	–	171	–	171
Non-current assets held for sale	–	171	–	171

During the current period, Stockland completed the sale of Stockland Tooronga, Tooronga Vic; 40 Scanlon Drive, Epping Vic; Toll Drive, Altona Vic; and Port Adelaide Distribution Centre, Port Adelaide SA, which were classified as non-current assets held for sale at 30 June 2019.

Capital structure

IN THIS SECTION

This section outlines how Stockland 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 Stockland; specifically, how much is raised from securityholders (equity) and how much is borrowed from financial institutions and capital markets (debt), in order to finance Stockland's activities both now and in the future.

The Board considers Stockland'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 the period, Stockland's credit rating remained unchanged at A-/stable and A3/stable by S&P and Moody's respectively. The Board continued to monitor Stockland's capital structure through its gearing ratio and maintains a capital structure to optimise the cost of capital. Stockland has a stated target gearing ratio range of 20% to 30%.

In addition, Stockland 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, Stockland uses derivatives to appropriately hedge these underlying exposures.

11. BORROWINGS

KEEPING IT SIMPLE

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

Interest bearing loans and borrowings are recognised initially at fair value less attributable transaction costs and subsequently are stated at amortised cost. Any difference between amortised cost and redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. However, where an effective fair value hedge is in place, borrowings are stated at the carrying amount adjusted for changes of fair value of the hedged risk. The changes are recognised in profit or loss.

The table below shows the fair value of each of these instruments measured at Level 2 in the fair value hierarchy. Fair value reflects the principal amount and remaining duration of these notes based on current market interest rates and conditions at balance date.

	Stockland and Trust							
	31 December 2019				30 June 2019			
As at $M	Current	Non-current	Carrying value	Fair value	Current	Non-current	Carrying value	Fair value
Offshore medium term notes	**100**	**3,588**	**3,688**	**4,095**	78	3,694	3,772	4,215
Domestic medium term notes	**160**	**448**	**608**	**644**	150	607	757	801
Bank debt facilities	**–**	**200**	**200**	**200**	115	60	175	175
Commercial paper	**249**	**–**	**249**	**249**	–	–	–	–
Borrowings	**509**	**4,236**	**4,745**	**5,188**	343	4,361	4,704	5,191

The difference of $443 million (30 June 2019: $487 million) between the carrying amount and fair value of the offshore and domestic medium term notes is due to notes being carried at amortised cost under AASB 9 *Financial Instruments* while the fair value represents the amount required at balance date to replicate the principal and duration of these notes based on current market interest rates and conditions.

11A. Offshore medium term notes

US PRIVATE PLACEMENTS

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

During the current half year, the Trust repaid USD 55 million ($71 million) of its notes that were issued in the US private placement market and matured in July 2019.

The fair value of the US private placements as at 31 December 2019 is $2,727 million (30 June 2019: $2,816 million).

ASIAN AND EUROPEAN MEDIUM TERM NOTES

The Trust has issued medium term notes into the Asian and European capital markets with face values of HKD 470 million ($62 million), HKD 400 million ($55 million), HKD 540 million ($100 million), HKD 300 million ($51 million), Euros (EUR) 300 million ($433 million) and EUR 300 million ($478 million).

All notes are issued at a fixed coupon payable in HKD and EUR and converted back to AUD floating coupons through CCIRS.

The fair value of the Asian and European medium term notes as at 31 December 2019 is $1,368 million (30 June 2019: $1,399 million).

DOMESTIC MEDIUM TERM NOTES

Domestic medium term notes have been issued at either face value or at a discount 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.

11B. Bank facilities

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 are set out below:

	Stockland and Trust			
As at ($M)	**31 December 2019**		**30 June 2019**	
Maturity date	**Utilised**	**Facility limit**	**Utilised**	**Facility limit**
August 2019	–	–	15	120
December 2019	–	–	100	200
August 2020	–	**75**	–	–
July 2021	**100**	**100**	60	100
January 2022	–	**250**	–	250
February 2022	–	**150**	–	150
November 2022	–	**100**	–	100
December 2022	**100**	**200**	–	–
December 2023	–	**100**	–	–
December 2026	–	**75**	–	–
Bank facilities	**200**	**1,050**	175	920

12. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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. Stockland 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).

The fair value of financial instruments, including offshore and domestic 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. While 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 the current credit worthiness of Stockland or the derivative counterparty.

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 overleaf 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 note 9A together with a reconciliation of the movement during the period. There were no transfers between levels during the period.

Stockland								
As at	**31 December 2019**				**30 June 2019**			
$M	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	**–**	**480**	**–**	**480**	–	516	–	516
Securities in unlisted entities	**–**	**–**	**7**	**7**	–	–	8	8
Other investments	**10**	**–**	**–**	**10**	10	–	–	10
Financial assets carried at fair value	**10**	**480**	**7**	**497**	10	516	8	534
Derivative liabilities	**–**	**(199)**	**–**	**(199)**	–	(220)	–	(220)
Retirement Living resident obligations	**–**	**–**	**(2,642)**	**(2,642)**	–	–	(2,597)	(2,597)
Financial liabilities carried at fair value	**–**	**(199)**	**(2,642)**	**(2,841)**	–	(220)	(2,597)	(2,817)
Net position	**10**	**281**	**(2,635)**	**(2,344)**	10	296	(2,589)	(2,283)

Trust								
As at	**31 December 2019**				**30 June 2019**			
$M	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative assets	**–**	**480**	**–**	**480**	–	516	–	516
Securities in unlisted entities	**–**	**–**	**7**	**7**	–	–	8	8
Financial assets carried at fair value	**–**	**480**	**7**	**487**	–	516	8	524
Derivative liabilities	**–**	**(199)**	**–**	**(199)**	–	(220)	–	(220)
Financial liabilities carried at fair value	**–**	**(199)**	**–**	**(199)**	–	(220)	–	(220)
Net position	**–**	**281**	**7**	**288**	–	296	8	304

Derivative financial assets and liabilities are not offset in the balance sheet as under agreements held with derivative counterparties, Stockland does not have a legally enforceable right to set off the position payable to/receivable from a single counterparty.

13. ISSUED CAPITAL

KEEPING IT SIMPLE

This note explains material movements recorded in issued capital that are not explained elsewhere in the financial report. The movements in equity and the balances of Stockland are presented in the consolidated statement of changes in equity.

Issued capital represents the amount of consideration received for securities issued by Stockland. 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 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.

13A. Movements in ordinary securities

	Stockland and Trust		Stockland		Trust	
	Number of securities		$M		$M	
As at	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Balance at 1 July	**2,384,351,503**	2,434,469,276	**8,692**	8,884	**7,393**	7,571
Securities buy-back	–	(29,231,131)	–	(115)	–	(107)
Issued capital[1]	**2,384,351,503**	2,405,238,145	**8,692**	8,769	**7,393**	7,464

1 The issued capital balance is presented net of treasury securities of $35 million.

On 6 September 2018, Stockland announced the intention to initiate an on-market buy-back programme for up to $350 million of Stockland securities on issue as part of its active approach to capital management, over and up to 24 months. A total of 50,117,773 stapled securities have been bought back on market and cancelled since the commencement of the buy-back on 24 September 2018.

On 14 November 2019, Stockland announced the termination of the on-market buy-back programme due to the prevailing price of Stockland securities and the related inactivity in the buy-back of securities since May 2019.

Other items

IN THIS SECTION

This section includes information about the financial performance and position of Stockland, that must be disclosed to comply with the Accounting Standards, the *Corporations Act 2001* or the *Corporations Regulations 2001*.

14. 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:

	Stockland		Trust	
Half year ended 31 December $M	**2019**	**2018**	**2019**	**2018**
Aggregate share of:				
• profit from continuing operations	**60**	46	**60**	29
Total comprehensive income	**60**	46	**60**	29
Aggregate carrying amount of individually immaterial joint ventures[1]	**355**	612[2]	**362**	620[2]

1 The decrease in carrying amount is due to the disposal of The King Trust.
2 Carrying amount as at 30 June 2019.

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

	Stockland		Trust	
As at %	**31 December 2019**	**30 June 2019**	**31 December 2019**	**30 June 2019**
Brisbane Casino Towers	**50**	50	**–**	–
Compam Property Management Pty Limited[1]	**100**	50	**100**	50
Eagle Street Pier Pty Limited	**50**	50	**–**	–
Fife Kemps Creek Trust	**50**	–	**50**	–
Macquarie Park Trust	**51**	51	**51**	51
Riverton Forum Pty Limited	**50**	50	**50**	50
The King Trust[2]	**–**	50	**–**	50
Willeri Drive Trust[3]	**50**	50	**50**	50

1 Manager for The King Trust.
2 Owner of the 135 King Street, Sydney NSW and Glasshouse, Sydney NSW. Stockland disposed of the investment in The King Trust during the period.
3 Owner of Stockland Riverton, Riverton WA.

15. COMMITMENTS

Commitments for acquisition of land and future development costs not recognised on balance sheet at reporting date are as follows:

	Stockland		Trust	
As at $M	**31 December 2019**	**30 June 2019**	**31 December 2019**	**30 June 2019**
Inventories	**414**	395	**–**	–
Investment properties	**39**	106	**23**	30
Capital expenditure commitments	**453**	501	**23**	30

16. 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.

Contingent liabilities at 31 December 2019 comprise bank guarantees, letters of credit, property indemnities and insurance bonds:

	Stockland and Trust	
As at **$M**	**31 December 2019**	**30 June 2019**
Bank guarantees, letters of credit, property indemnities and insurance bonds issued to local government and other authorities against performance contracts, maximum facility $750 million (30 June 2019: $750 million)	**423**	443

17. RELATED PARTY DISCLOSURES

There have been no significant changes to the nature of related parties that were disclosed in the 30 June 2019 annual financial report.

18. ADOPTION OF NEW ACCOUNTING STANDARDS

18A. AASB 16 Leases

Stockland has adopted AASB 16 retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. Lessor accounting remains largely unchanged, and hence there is no material impact on accounting for income from Stockland's Retirement Living and Commercial Property businesses.

Payments associated with lease terms of 12 months or less and leases of low value assets are recognised in profit or loss.

Lease liabilities are initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease. If that rate cannot be determined, Stockland's incremental borrowing rate is used.

Lease liabilities are subsequently measured by increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications.

Interest on the lease liability and any variable lease payments not included in the measurement of the lease liability are recognised in profit or loss in the period in which they relate.

Right-of-use assets are measured at cost less depreciation and impairment and adjusted for any remeasurement of the lease liability. The cost of the asset includes the amount of the initial measurement of lease liability; any lease payments made at or before the commencement date less any lease incentives received; any initial direct costs; and restoration cost.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term, unless they meet the definition of an investment property. Right-of-use assets which meet the definition of an investment property form part of the investment property balance and are measured at fair value in accordance with AASB 140 *Investment Property* (refer to note 8 and below section on ground leases).

Stockland determines the lease term as the non-cancellable period of a lease together with both the periods covered by an option to extend the lease if it is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Management considers all the facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. This assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. No lease terms were revised during the period.

Stockland tests right-of-use assets for impairment where there is an indicator that the asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Stockland's right-of-use assets are all property leases.

GROUND LEASES

On adoption of AASB 16 on 1 July 2019, a lease liability reflecting the leasehold arrangements of investment properties needs to be separately disclosed in the balance sheet and the carrying value of the investment properties adjusted (i.e. grossed up) so that the net of these two amounts equals the fair value of the investment properties. The lease liabilities are calculated as the net present value of the future lease payments discounted at the incremental borrowing rate. The weighted average incremental borrowing rate as of 1 July 2019 was 4.9% per annum.

At 1 July 2019, $42 million of lease liabilities for ground leases at Durack Centre, 263 Adelaide Terrace, Perth WA and Export Distribution Centre, Brisbane Airport Qld were recognised in the balance sheet.

ADJUSTMENTS RECOGNISED ON ADOPTION OF AASB 16

On adoption of AASB 16, Stockland recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using Stockland's incremental borrowing rate as of 1 July 2019. Stockland's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.9% per annum.

The difference between the operating lease commitments disclosed at 30 June 2019 discounted using the incremental borrowing rate at 1 July 2019 and the balance of the lease liabilities recognised at 1 July 2019 reflects:

- the exclusion of leases committed to but for which the term had not yet commenced; and
- adjustments as a result of different treatment of extension and termination options.

The impact of the adoption of AASB 16 on the financial report as at 1 July 2019 is summarised as follows:

	Trust	Corporation	
$M	Ground leases	Other leases	Stockland
Right-of-use assets			
Investment properties (non-current)	36	–	**36**
Other assets (non-current)	–	5	**5**
Lease liabilities			
Other liabilities (current lease liabilities)	–	(1)	**(1)**
Other liabilities (non-current lease liabilities)	(42)	(5)	**(47)**
Other liabilities (straight-line rent)	5	–	**5**
Net assets	(1)	(1)	**(2)**
Retained earnings (equity)	1	1	**2**

PRACTICAL EXPEDIENTS APPLIED

In applying AASB 16 for the first time, Stockland used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases,
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- for leases previously classified as an operating lease under AASB 117, the right-of-use asset was measured as if the Standard has been applied since the commencement date, but was discounted using Stockland's incremental borrowing rate at the date of initial application.

Stockland also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date Stockland relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

18B. Accounting standards issued but not yet in effect

A number of accounting standards have been issued but are not yet in effect for the current reporting period. Stockland has not elected to early adopt any accounting standards during the period. The expected future impact upon adoption is outlined below.

AASB 2019-1 AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – REFERENCES TO THE CONCEPTUAL FRAMEWORK

AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework* is an update to the Conceptual Framework. Changes are applicable to annual reporting periods beginning on or after 1 January 2020. Key changes include revising the definitions of an asset and a liability.

Stockland has assessed the revised definitions and has determined that there will be no material impact from the changes in the definitions. Stockland has also assessed the other changes to the Conceptual Framework and determined there will be no material impact upon adoption.

Directors' declaration

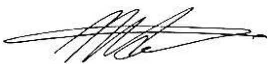
In the opinion of the Directors of Stockland Corporation Limited, and the Directors of the Responsible Entity of Stockland Trust, Stockland Trust Management Limited (collectively referred to as the Directors):

1. the financial report and notes of the consolidated stapled entity, comprising Stockland Corporation Limited and its controlled entities, including Stockland Trust and its controlled entities (Stockland), and Stockland Trust and its controlled entities (Trust), set out on pages 21 to 50, 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 2019 and of their performance for the period ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
2. 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, 19 February 2020

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Interim financial report
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Glossary

Independent auditor's report

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

Report on the interim financial report

We have reviewed the accompanying financial report which comprises:

- the Consolidated Balance Sheet as at 31 December 2019, the Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Consolidated Statement of Comprehensive income 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 the Basis of Preparation note to the interim 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 2019, the Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Consolidated Statement of Comprehensive income 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 interim financial report

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

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Auditor's responsibility

Our responsibility is to express a conclusion on the interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated Stockland and Stockland Trust Group's financial position as at 31 December 2019 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 and Stockland Trust Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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*.

Conclusion

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

1. giving a true and fair view of the Stockland and Stockland Trust Group's financial position as at 31 December 2019 and of their performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

N R Mc Connell
Partner

Sydney
19 February 2020

Glossary

AASBs or Accounting Standards	Australian Accounting Standards as issued by the Australian Accounting Standards Board
AFFO	Adjusted FFO
A-REIT	Australian Real Estate Investment Trust
ASIC	Australian Securities and Investments Commission
Aspire villages	Non–DMF product and a purpose–built neighbourhood exclusively for people aged over 55 years
ASX	Australian Securities Exchange
CCIRS	Cross currency interest rate swaps
CODM	Chief Operating Decision Maker as defined by AASB 8 *Operating Segments*
DCF	Discounted cash flow
D-Life	Project development lifecycle
DMF	Deferred management fee earned from residents within the Retirement Living business
DRP	Dividend/distribution reinvestment plan
DSTI	Deferred STI
EBIT	Earnings before interest and tax
EPS	Earnings per security
Executive Director	Mark Steinert, the Managing Director and Chief Executive Officer of Stockland
FFO	Funds from operations
GST	Goods and services tax
IFRS	International Financial Reporting Standards as issued by the International Financial Reporting Standards Board
ILU	Independent living unit
IRR	Internal rate of return
KPI	Key performance indicators
LTI	Long term incentives
MAT	Moving annual turnover
NRV	Net realisable value
Report	This Stockland Interim Report 2020
ROA	Return on assets
ROE	Return on equity
SA	Serviced apartment
SCPL	Stockland Capital Partners Limited
SDRT No. 1	Stockland Direct Retail Trust No. 1
Security	An ordinary stapled security in Stockland, comprising of one share in Stockland Corporation and one unit in Stockland Trust
Securities Plans	Employee securities plans which comprise the LTI, DSTI and $1,000 employee plans
Statutory profit	Profit as defined by Accounting Standards
STI	Short term incentives
STML	Stockland Trust Management Limited (ACN 001 900 741, AFSL 241190), the Responsible Entity of Stockland Trust

Stockland or Group	The consolidation of Stockland Corporation Group and Stockland Trust Group
Stockland Corporation or Company	Stockland Corporation Limited (ACN 000 181 733)
Stockland Corporation Group	Stockland Corporation and its controlled entities
Stockland Trust	Stockland Trust (ARSN 092 897 348)
Stockland Trust Group or Trust	Stockland Trust and its controlled entities
TSR	Total securityholder return
WALE	Weighted average lease expiry

IMPORTANT NOTICE

This report may contain forward-looking statements, including statements regarding future earnings and distributions that are based on information and assumptions available to Stockland as at the date of this report. Actual results, performance or achievements could be significantly different from those expressed in, or implied by these forward looking statements. These forward-looking statements are subject to market conditions and are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this report.

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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