Appendix 4E

For the year ended 30 June 2018
(previous corresponding period being the year ended 30 June 2017)

Results for announcement to the market

STAPLING ARRANGEMENT

Stockland was established for the purpose of facilitating a joint quotation of Stockland Corporation Limited (ABN 43 000 181 733) and its controlled entities, and Stockland Trust (ARSN 092 897 348) and its controlled entities on the Australian Stock Exchange. Stockland Trust Management Limited (ABN 86 001 900 741) is the Responsible Entity of Stockland Trust.

The Financial Report has been prepared based upon a business combination of the parent entity, Stockland Corporation Limited and its controlled entities, and Stockland Trust and its controlled entities, in accordance with AASB 3 *Business Combinations*.

		2018 $M
Revenue from ordinary activities	**Up 1.1% to**	**2,775**
Net profit after tax attributable to securityholders	**Down 14.2% to**	**1,025**
Funds from operations attributable to securityholders	**Up 7.5% to**	**863**

Dividends and distributions

Year ended 30 June 2018	Amount per security	Franked amount per security	Record date	Payment date
Interim dividend/distribution	**13.0 ¢**	**– ¢**	**29 December 2017**	**28 February 2018**
Final dividend/distribution	**13.5 ¢**	**– ¢**	**29 June 2018**	**31 August 2018**

On 21 February 2018 we announced the suspension of the DRP in respect of the half year distribution for the six months ended 31 December 2017. On 22 May 2018 we announced the continued suspension of the DRP in respect of the 30 June 2018 distribution. On 23 August 2018 we announced the termination of the DRP.

Other information

Year ended 30 June	2018	2017
Net tangible assets per security	**$4.18**	**$4.04**

This report is based on accounts which have been audited.

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

Stockland

Creating sustainable communities

30 June 2018

Annual Report 2018

Contents

KEEPING IT SIMPLE…

The aim of the text in 'Keeping it simple' boxes is to explain more complex sections in plain English.

Notes to the financial statements provide information required by law, accounting standards or ASX Listing Rules to explain a particular feature of the financial statements. The notes to the financial statements will also provide explanations and additional disclosure to assist readers' understanding and interpretation of the financial statements.

GLOSSARY

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

Front cover features our Elara masterplanned community in North-West Sydney

Letter from the Chairman

Our strategy to maximise value from community creation, coupled with a disciplined approach to capital management, continues to deliver strong results.

TOM POCKETT
CHAIRMAN

Dear Securityholders,

It is my pleasure to report another strong year of performance for Stockland. The overall results demonstrate the resilience of our diversified business in this variable trading environment.

The execution of our strategy over the last five years has yielded some outstanding outcomes for communities across Australia.

In this time, we have delivered sustainable and competitive profit growth with 10.8 per cent per annum compound earnings per security growth.

In driving our vision to create sustainable communities we have built an exemplar residential portfolio which has grown its return on assets from 8.7 per cent in FY13 to 22.0 per cent in FY18, and is delivering impressive operating profit margins of 18 per cent. We have also extended our capabilities through the creation of a built-form business, tripling our townhome volumes.

Close to $1.3 billion of capital has been recycled over the last five years to fund the redevelopment of market leading retail town centres and to renew our retirement communities with a concentrated focus on enhancing customer choice and services. The success of these initiatives is demonstrated by 90 per cent customer satisfaction in our retirement communities and specialty retail sales 10 per cent above national benchmarks in our retail town centres. Our major redevelopments, including Green Hills and Wetherill Park in New South Wales, are prime examples of our strategic direction as we remix our portfolio and create high quality shopping experiences with dining, lifestyle, services and entertainment options tailored to the communities we serve.

Our Logistics portfolio has also grown strongly, supported by well-timed acquisitions and accretive development. Logistics now represent 15 per cent of our portfolio, up from 12 per cent five years ago.

We are proud of our position as the leading creator of liveable and affordable communities and the important role we play in bringing communities together at our retail town centres and workplaces across Australia.

STRONG PERFORMANCE

Our strategy to maximise value from community creation, coupled with a disciplined approach to capital management, continues to deliver strong results.

Funds from operations (FFO) grew by 7.5 per cent to $863 million and FFO per security grew 6.6 per cent in FY18 to 35.6 cents per security, reflecting our community building capabilities. Statutory profit was $1,025 million, down 14.2 per cent, largely due to lower unrealised gains from asset revaluations and financial instruments.

The residential portfolio delivered a stand-out performance with profit growth up 24.3 per cent on FY17, underpinned by solid demand from owner occupiers. Our focus on owner occupiers and a broad range of housing and land options will position us well in this environment, as illustrated by our increase in market share over the year.

We expect to achieve FFO growth of 5 – 7 per cent for the full year and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18.

TOM POCKETT
CHAIRMAN

Our Retirement Living portfolio had a challenging year largely due to negative sector media coverage earlier in the year. We are starting to see some positive sales momentum underpinned by our ongoing commitment to deliver contract choice, renew our villages and provide valuable services to residents. It is pleasing to note that we already complied with the majority of recommendations coming from the Greiner Review Report which examined and provided recommendations for improvements in the New South Wales retirement living sector.

The Commercial Property business achieved another solid result with comparable FFO growth of 2.3 per cent on FY17. Our Workplace and Logistics portfolio (previously Office, Logistics and Business Parks) continued to perform well with 6.0 per cent comparable FFO growth in logistics, high occupancy, strong leasing and good progress on our development pipeline.

We are confident in our diversified business model with high recurrent earnings and conservative leverage. This enables us to create high quality masterplanned communities and retail town centres and remain focussed on a disciplined approach to executing on our strategic priorities in the year ahead.

CORPORATE CULTURE

Last year I observed how a strong culture delivers benefits to both employees and securityholders. This year the importance of culture has become front of mind for all boards across Australia as corporate culture dominates media headlines.

The governance of corporate behaviour is an essential part of business and our expectations as a Board are high. We remain focussed, together with the Leadership Team, on promoting a strong culture; one concentrated on our customers and ensuring employees are a strong first line of defence for risk management.

We continue to enjoy a high level of employee engagement, above the Australian National Norm as measured by the annual, independently conducted employee engagement survey. We also recently conducted an internal review of our culture which has identified key strengths that we want to preserve, such as respect, customer focus and engagement, as well as areas for further focus and improvement including encouraging diversity of thought.

Importantly, all our businesses receive high customer satisfaction ratings, with very strong 90 per cent satisfaction results in our residential and retirement living communities and at our logistics assets. Our retail tenants rated us as top two in the industry, however our overall score decreased in line with our peers to 72 per cent, largely due to the challenging retail sales environment.

We have retained our global sustainability leadership credentials, upholding our listing on the World Dow Jones Sustainability Index for a decade. These credentials reflect our focus on managing non-financial risk and finding the right balance of social, environmental and economic outcomes for our business, investors, customers and the community. To further our commitment to transparency and sustainability, this year we were amongst the first Australian corporates to disclose our climate-related risks with our financial reporting.

BOARD RENEWAL

In maintaining and enhancing the right mix of skills on our board, we welcomed Melinda Conrad to the Board in May 2018 and Christine O'Reilly will be joining us on 23 August. Both are highly regarded directors and bring extensive executive expertise across the retail, utilities and infrastructure sectors. Ms Conrad and Ms O'Reilly will further complement and strengthen the Board's experience and I look forward to their contribution.

As required by the Stockland Constitution, Ms Conrad and Ms O'Reilly will offer themselves for election by securityholders at the 2018 Annual General Meeting on 24 October 2018.

DISTRIBUTION

As forecast, our full year distribution was 26.5 cents per security, representing a payout ratio of 75 per cent of funds from operations.

We expect to achieve FFO growth of 5 – 7 per cent for the full year and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18, assuming no material change in market conditions.

CONCLUSION

Thank you to my Board colleagues and our employees for their continued enthusiasm and dedication to delivering exceptional outcomes for communities across Australia. The Board and I are confident the business is well positioned for the future and look forward to discussing these results with you at our Annual General Meeting in October.

TOM POCKETT
CHAIRMAN

Letter from the Managing Director and CEO

Our FY18 result has been driven by our focus on executing our key strategic priorities; delivering the best masterplanned communities across Australia, increasing the resilience of our retail town centres, growing our logistics portfolio and enhancing customer experience.

MARK STEINERT
MANAGING DIRECTOR AND CEO

Dear Securityholders,

Over the last five years the management team and I have updated the strategy to focus on our areas of strength, to drive sustainable profit growth. Since that time, we have extended our position as the leading creator of communities across Australia, grown our logistics weighting and increased the resilience of our retail town centre portfolio in this fast-moving environment.

We have successfully repositioned our business by recycling assets to create a strong core business and will continue to do this over the next two years. We have streamlined our executive management team and integrated our retirement and residential business to improve operational efficiency and position the business for sustainable growth into the future.

These initiatives will save $8 million in costs from FY20. We are also making clear progress on our journey to becoming a more innovative and customer-centric organisation with customer satisfaction over 81 per cent.

We are well placed for long-term sustainable growth in the future given our leverage to key demand drivers including population growth, urbanisation, infrastructure improvement, ageing population and a growing focus on health and wellbeing. Our strong balance sheet also ensures that we are well positioned to take advantage of opportunities that may arise in this changing environment.

REPOSITIONING OUR BUSINESS FOR FUTURE GROWTH

Our FY18 result has been driven by our focus on executing our key strategic priorities; delivering the best masterplanned communities across Australia, increasing the resilience of our retail town centres, growing our logistics portfolio and enhancing customer experience.

FFO growth for the Group was 6.6 per cent per security, slightly above our guidance range of 5.5 – 6.5 per cent. Net tangible assets (NTA) per security was up 3.5 per cent to $4.18 and our return on equity was 11.2 per cent.

We remain the leading creator of communities in Australia with our Residential and Retirement Living businesses providing customers with whole-of-life housing options in liveable locations with close proximity to transport, schools and employment. In light of these synergies we combined our Residential and Retirement Living businesses into one integrated business, Stockland Communities, to be led by Andrew Whitson.

The **Communities** business delivered strong profit growth in Residential, up 24.3 per cent from FY17, with solid volumes of net deposits providing high profit visibility for the year ahead.

We recorded Residential settlements of 6,438 lots, with a number of successful project launches in Victoria and Queensland and the success of our existing communities in Sydney and Melbourne, contributing solid sales.

We remain well positioned in the deepest part of the lending market, with over 75 per cent of our product now sold to owner occupiers and continued demand for our range of affordable house and land and townhome product, despite a slowdown in the broader housing market. We anticipate residential profit margins to remain above 17 per cent for the medium term and around 18 per cent in FY19.

Importantly, our focus on the creation of liveable, affordable and connected communities is driving increased market share, up 3.1 per cent, increased velocity of capital and higher profit margins.

Operating profit for our Retirement Living portfolio was down 16.7% on FY17, with sales volumes impacted by adverse sector media coverage and reduced settlements due to the timing of development completions. We expect improvement in Retirement Living market conditions in 1H19 given improving customer sentiment and sales velocity.

Our overall results demonstrate the resilience of the portfolio in a variable trading environment, with the business well-positioned to deliver sustainably into the future, leveraging our customer experience to increase market share.

Commercial Property remains the largest portion of our portfolio. In June, we welcomed our new CEO of Commercial Property, Louise Mason, who has close to 30 years of experience in retail town centres, workplace, and logistics. Results across the asset classes remain solid, with signs of improvement in retail sales despite challenging market conditions. Importantly, specialty sales per square metre were up 4.2 per cent and 81 per cent of our centres have specialty sales above the national benchmark.

Our focus on the creation of liveable, affordable and connected communities is driving increased market share and higher profit margins.

MARK STEINERT
MANAGING DIRECTOR AND CEO

We delivered comparable growth in funds from operations of 2.3 per cent across the portfolio, with 1.3 per cent in Retail Town Centres, 6.0 per cent in Logistics and a decrease in Workplace of 2.0 per cent, reflecting ongoing vacancy in our Perth asset.

Retail Town Centre income growth was adversely impacted by increases in government charges, higher electricity costs, and our tenant remixing and upgrading strategy to future proof our centres.

There was an overall net $133 million change in the valuation of our portfolio, with positive valuations on a number of assets offset by negative revaluations at some of our non-metropolitan retail town centres. These negative revaluations were concentrated in central and north Queensland centres where economic conditions are weak and tenant remixing has reset income to more sustainable levels.

Our remixing strategy continues to attract more customers into our retail town centres with foot traffic up 2.5 per cent, helping ensure income resilience into the future. Income from growth categories including food, dining, leisure, cinemas and services now represents 41 per cent of our specialty store income.

During the year, we celebrated the launch of our $421 million redevelopment of Stockland Green Hills; the largest retail redevelopment ever undertaken by Stockland. The centre brings together the best in on trend retail, entertainment, innovation and sustainability and is a prime example of our ability to successfully upgrade and reposition our retail town centres, to deliver outstanding customer outcomes and accretive returns. The redevelopment is expected to achieve an incremental IRR of around 12 per cent in the ten years post-completion and an incremental, stabilised FFO yield of around seven per cent.

In line with our commitment to reshape our retail assets and re-weight our commercial property portfolio, we continued to execute our retail divestments strategy and are targeting up to an additional $400 million of divestments over the next 12 – 24 months.

We are accelerating our strategy to improve the quality and growth potential of our portfolio. This will be achieved by reducing our Retail Town Centre weighting to focus on leading centres in their trade area and continuing to upgrade and grow our combined Workplace and Logistics portfolio (previously Office, Logistics and Business Parks) to greater than 25 per cent of our total assets.

The growth of this portfolio will primarily be through delivery of our existing development pipeline, on land we already control, as we reinvest proceeds from the sale of non-core assets.

STRONG CAPITAL MANAGEMENT

We are in a strong capital management position, maintaining our S&P A- Stable credit rating for the past 17 years and Moody's A3 rating obtained in August 2017. This reflects the ongoing strength of our balance sheet and cash flows which have enabled us to continue to broaden our funding sources at competitive pricing despite volatile market conditions.

Optimising the allocation of capital within each of our business units remains a key focus with a continued emphasis on capital efficient land acquisitions in our Communities business to reduce our capital needs. Close to 80 per cent of land acquisitions have been purchased on capital efficient terms since FY13.

We have continued to actively manage our debt program, which has seen our weighted average cost of debt fall from 5.5 per cent in FY17, to 5.2 per cent in FY18, and is expected to fall further to around 4.8 per cent in FY19. Gearing remains at the lower end of our 20 – 30 per cent target range, 22.2 per cent at the end of FY18.

Overall, we are in a very good position with operating cash flow and liquidity improving due to disciplined management and leveraging the timing, source and size of debt refinancing.

OPERATIONAL EXCELLENCE

One of the major issues facing all large corporations is the increased pace of innovation and its ability to disrupt growth. We are embracing this challenge and have appointed a new executive committee position to focus specifically on our technology and innovation capabilities.

In addition to progressing the development of our CORE Systems Program, which will provide digital-ready platforms to increase efficiency and our ability respond to digital opportunities, this role will also focus on enhancing our ability to progress commercial outcomes from innovation projects.

Sustainability also continues to be a key part of our competitive advantage. Throughout the year we have enjoyed a positive response from the community on our $30 million investment in solar systems, delivering in excess of a 10 per cent rate of return.

I am also pleased to confirm our continued support of the United Nations Global Compact with whom we partner to promote responsible business practices and sustainable development.

OUTLOOK

Economic conditions remain generally positive and overall fundamentals continue to be largely supportive for our business, with strong population growth, solid employment growth, low inflation and low interest rates.

The land and housing market is clearly moderating, driven by a range of factors including finance availability. Our focus on differentiated masterplanned community creation and housing affordability leaves us well placed in this environment. We have high volumes of residential contracts on hand providing good visibility into the future as markets moderate, in line with our expectations.

We expect to achieve FFO per security growth of 5 – 7 per cent for the full year, and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18, assuming no material change in market conditions.

We have a clear vision to deliver into the future, and we are well positioned to benefit from the continued population growth and demographic trends being experienced in Australia, as we deliver liveable, affordable and connected residential and retirement living communities, thriving workplace and logistic properties and vibrant retail town centres.

I am proud of the contribution we continue to make to communities across Australia. It is this contribution that will underpin our financial success in the future and the delivery of our purpose to create a better way to live.

MARK STEINERT
MANAGING DIRECTOR AND CEO

The Directors of Stockland Corporation Limited (ACN 000 181 733) and the Directors of Stockland Trust Management Limited (ACN 001 900 741, AFSL 241190), the Responsible Entity of Stockland Trust (ARSN 092 897 348), present their report together with the Financial Report of Stockland and the Financial Report of the Trust for the year ended 30 June 2018 and the Independent Auditor's Report thereon.

The Financial Report of Stockland comprises the consolidated Financial Report of Stockland Corporation Limited and its controlled entities, including Stockland Trust and its controlled entities, (collectively referred to as 'Stockland' or 'Group'). The Financial Report of Stockland Trust comprises the consolidated Financial Report of the Trust and its controlled entities ('Stockland Trust Group' or 'the Trust').

Operating and Financial Review

About Stockland

Stockland is one of the largest diversified real estate groups in Australia with $18.2 billion of real estate assets. We are Australia's largest community creator covering whole of life housing solutions. We own, manage and develop retail town centres, workplace and logistics assets, residential and retirement living communities.

Our vision is to be a great Australian real estate company that makes a valuable contribution to our communities and our country. Founded in 1952, today we leverage our diversified model to help create thriving communities with dynamic town centres where people live, shop and work.

This approach is underpinned by our purpose – "we believe there is a better way to live" – and is brought to life by our employees who are guided by Stockland's values of Community, Accountability, Respect, and Excellence (CARE).

Our primary objective is to deliver earnings per security growth and total risk-adjusted securityholder returns above the Australian Real Estate Investment Trust index average, by creating quality communities and real estate assets and delivering great customer experiences.

To optimise value to securityholders we are structured as a stapled security: a combination of a unit in Stockland Trust and a share in Stockland Corporation that are together traded as one security on the Australian Securities Exchange. This stapled structure allows Stockland to efficiently undertake property investment, property management and property development activities to create sustainable risk/reward outcomes.

Our strategy

We have three strategic focus areas:

- grow asset returns and provide great customer experiences – 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 organically
- operational excellence – improving the way we operate across the Group to drive efficiencies, compliance, sustainability and employee engagement
- capital strength – actively managing our balance sheet to maintain diverse funding sources and an efficient cost of capital.

Our FY18 progress (1 July 2017 to 30 June 2018) against these priorities is set out below:

Strategic priorities	FY18 progress
Grow asset returns and our customer base	*Communities (comprising Residential and Retirement Living)* • 24.3 per cent growth in Residential operating profit and 18.3 per cent net operating profit margin • 93 per cent Residential resident satisfaction score – Stockland Liveability Survey • 5,478 Residential contracts on hand • Retirement Living operating profit down 16.7% on FY17 • Retirement Living sales momentum improving, Q4 sales up 14.9 per cent on the comparable quarter last year • 90 per cent resident satisfaction score in Retirement Living villages *Commercial Property* • 2.3 per cent growth in comparable FFO across Commercial Property business • 1.3 per cent growth in comparable FFO across Retail Town Centre portfolio • 4.2 per cent increase in comparable specialty sales to $9,378 per square metre, above the Urbis benchmark • Completed around $200 million of retail town centre divestments • Opening of Stockland Green Hills in March 2018 with total like for like MAT up 5.7 per cent • 6.0 per cent growth in comparable FFO across Logistics portfolio • 98.7 per cent occupancy across Logistics portfolio • 89 per cent customer satisfaction across Workplace and Logistics business • Completed $77 million Coopers Paddock Logistics Centre in Warwick Farm with 23.7 per cent increase in valuation on completion • Around $600 million future Workplace and Logistics development pipeline
Operational excellence	• Management streamlining to result in $8 million gross savings per annum from FY20 • Appointed Chief Technology and Innovation Officer • Successful implementation of Salesforce and SAP SuccessFactors • 83 per cent employee engagement score, consistently above the Australian norm • Global Sector Leader on Global Real Estate Sustainability Benchmark (GRESB) for Listed Diversified – Office/Retail sector • Rated in top five real estate most sustainable companies globally on the World Dow Jones Sustainability Index (DJSI) for eight consecutive years. • Only Australian company recognised by CDP with a position on the Climate A list for leading global climate performance • Received Employer of Choice for Gender Equality citation from WGEA four years in a row, Top Employer for Working Dads and Top 100 Graduate Employer of Choice • Return on equity (excluding workout assets) stable at 11.2 per cent
Capital strength	• Maintained S&P A-/stable credit rating for over 17 years and Moody's credit rating of A3 • 22.2 per cent gearing remains within our target range of 20 – 30 per cent • Reduced weighted average cost of debt to 5.2 per cent for FY18 • Increased our access to diverse funding sources • 66 per cent of land payments made relating to land purchased on capital efficient terms

Risks and opportunities

Stockland adopts a rigorous approach to understanding and proactively managing the risks faced in the business. We recognise that making business decisions that involve calculated risks, and managing these risks within sensible tolerances, is fundamental to creating long-term value for securityholders and meeting commitments to our employees, tenants, customers, business partners, consultants and the communities in which we do business. More information on Stockland's risk management policy is available at www.stockland.com.au/about-stockland/corporate-governance.

There are various risks that could impact our business. The nature and potential impact of these risks change over time. Our risks include but are not limited to:

	Risk	Our response
Short term – strategy execution	Change within the retail sector impacts retail operating models	The retail landscape is constantly evolving. Within the last 10 years the sector has seen a convergence of technological advances, in particular e-commerce, the entry of new, international retailers and changes in underlying consumer behaviour. These changes have challenged some of our retailers. We have been proactive and have pre-empted many of the changes and will continue to: • remix our assets with a focus on experiential retail, food catering and retail services including beauty and health service providers • redevelop our assets to create diverse, walkable town centres that form the social hub of the community • leverage deep customer insights and analytics to inform our tenant remixing and centre design • divest non-core assets subject to market conditions.
	Housing affordability continues to impact the dynamics of the Australian housing market	Our Residential business is influenced by the dynamics of the Australian housing market. Housing affordability remains of key concern for Australians. We consider a suite of measures is required to unlock housing supply and address affordability, including early planning and delivery of infrastructure, and simplified development controls to enable housing diversity. To address affordability, we will continue to: • partner with government and industry to drive solutions • provide a broader mix of value for money housing options including house and land packages, completed housing and medium density • balance the demand from home owners and investors so that our residential communities remain attractive to future buyers • improve efficiency across the business and manage costs while investigating alternative building methods and build-to-rent models • address what our customers want by providing a strong community value proposition.
	Regulatory and policy changes impact our business and customers	Substantial policy reform presents both opportunities and potential impacts for our business and customers. Planning, infrastructure and tax reform remain key policy areas where we will continue to engage with industry and government. We will also continue to: • focus our development activity in areas where governments support growth • drive leadership in areas including the retirement living sector, housing affordability and energy policy through proactive initiatives and engagement • create developments in line with best practices to garner support from governments and community and prepare for potential regulatory changes.
	Ability to harness digital business opportunities to remain competitive	There are a myriad of challenges and opportunities that arise from digital disruption, including changes to the way we use digital technology. To remain competitive, we must continually assess and leverage digital innovation. This includes facilitating a connected and agile workforce, more efficient business and supply chain processes, and digital lead nurturing and customer-centric innovation. In March 2018, the executive level position, Chief Technology and Innovation Officer, was created to enhance our ability to progress commercial outcomes from innovation projects. It will also position us to use technology to further improve the mobility and flexibility of our workforce, enhancing customer service and the competitive advantage of our business. To remain competitive, we will also continue to execute our Information Technology strategy with a focus on long-term strategic investment, and the identification and integration of technical enhancements across the business. This includes developing online residential and retirement living engagement opportunities, improved development and management processes and e-enabled retail town centres.

	Risk	Our response
	Security risks and unexpected market events impact business continuity and community resilience	The safety of our customers and employees is a key priority. Managing their safety and the resilience of the communities in which we operate is becoming increasingly complex. This includes safety and security risks associated with terrorism, cyber threats and extreme weather events. To make our business more resilient we will continue to: • train our employees and increase their risk awareness • undertake regular scenario testing • engage with peers and across industries • invest in asset upgrades and adapt community design to improve resilience • actively manage our corporate insurance program • We also have strategies in place for unexpected market events that may impact business continuity such as potential volatility within our supply chain and energy price shocks.
Longer term – changing marketplace	Climate change impacts our assets, operations and the broader community	Extreme weather and other climate change related events 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 • evolve our scenario analysis over time. • To further demonstrate our commitment to climate action and best practice disclosure we were an early adopter of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our response is detailed on pages 19 to 23 of this report.
	Ability to develop products and deliver experiences that meet future customer and societal demands	Our ability to develop products that meet anticipated future customer and societal demands is crucial to the sustainability of our business, particularly considering Australia's changing demographics, including an ageing population and more socially conscious millennials. To continue to meet and exceed the expectations of our customers and the community, we will remain focused on: • customer choice including diverse housing products and offering retirement living contract options • evolving our market leading product innovation and deepen our customer insights using our proprietary Liveability Index research, Stockland Exchange (our online research community), Quantium (which provides data-driven customer insights to inform how we view markets and opportunities) and other data sources • enhancing our design excellence, providing greater functionality and value for money that meets the demands of Australia's changing demographics • creating sustainable and liveable communities and assets, resilient to changes in climate.
	Capital market volatility impacts our ability to transact and access suitable capital	Our long-term growth is dependent on our ability to access capital at the appropriate time and cost as capital markets fluctuate in response to domestic and global economic shifts. Variable economic activity and changing capitalisation rates may impact the valuation of our assets and our ability to access capital. So that we can continue 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 • maintain our prudent capital management policies • recycle capital from divested non-core assets.
	Increasing expectations on organisations from the community	Community expectations on the social and behavioural operations of a "good corporate" are changing. Corporates are increasingly expected to work in partnership with the community and government on societal issues. Corporate leaders are also expected to create a positive corporate culture by shaping business outcomes through a system of beliefs, values and behaviours and a focus on customers. We are well placed to meet these expectations and have a strong reputation for sustainability leadership and community development. We use a variety of tools to assess the health of our culture including our annual employee engagement survey to capture employee feedback and our Stockland Leadership Experience to build leaders that align with our values.

Risk	Our response
Ability to meet the changing nature of workforce to attract, engage and retain employees	The ability to attract, engage and retain our employees is critical to our overall business performance. Similar to customer experience, employee experience is becoming increasingly important. Employees expect a work environment that enables greater flexibility in both where and how they work. We are focused on how we actively set employees up for success and will continue to: • improve our systems and processes to provide more efficient ways to work • encourage flexible work practices supported by our new collaboration platforms • train our senior leaders to be more agile and resilient through programs such as our Stockland Leadership Experience.

Stockland results and outlook

Key metrics:

- Full year distribution was 26.5 cents per security, up 3.9 per cent on FY17
- Statutory profit was $1,025 million, down 14.2 per cent on FY17, reflecting lower unrealised gains from asset revaluations and financial instruments
- Statutory earnings per security was 42.3 cents, down 15.1 per cent on FY17
- Funds from operations (FFO) was $863 million, up 7.5 per cent on FY17
- FFO per security was 35.6 cents, up 6.6 per cent on FY17
- Adjusted funds from operations (AFFO)[1] per security was 31.2 cents up 9.1 per cent on FY17
- Gearing was 22.2 per cent
- Return on equity[2] was 11.2 per cent, excluding workout assets
- Net tangible assets (NTA) per security of $4.18 was up 3.5 per cent on FY17

Stockland delivered a strong performance for FY18, with FFO up 7.5 per cent to $863 million reflecting the resilience of our business and our community building capabilities. Statutory profit was $1,025 million, down 14.2 per cent, primarily reflecting lower mark to market gains on financial instruments and smaller revaluation gains.

We continue to deliver on our key strategic priorities this year; delivering the best masterplanned communities across Australia, increasing the resilience of our retail town centres, growing our logistics portfolio and enhancing customer experience.

We have a proud track record of delivering sustainable, long-term growth for our securityholders. We have a clear vision to deliver into the future, and we are well positioned to benefit from the continued population growth and demographic trends being experienced in Australia, particularly given our focus on liveability, affordability and the owner occupier market.

This result highlights that our community-building strategy is unlocking the potential of Stockland for our securityholders.

In August 2018, we announced the streamlining of our Executive Committee, combining our Residential and Retirement Living businesses into one integrated business, Stockland Communities, to be led by Andrew Whitson.

We are proud of our position as the leading creator of liveable and affordable residential and retirement living communities across Australia. These changes will ensure we continue to execute on our communities strategy, taking advantage of our integrated model and leverage capabilities across the group.

The Chief Operating Officer function has also been restructured with these responsibilities reallocated across the Executive Committee. These changes are effective 10 September 2018, and combined with other organisational changes, will deliver cost savings of $8 million per annum from FY20, some of which will be reinvested in innovation and technology.

[1] AFFO has been determined with reference to the Property Council of Australia's voluntary disclosure guidelines to help investors and analysts compare Australian real estate organisations. For Stockland, the key differences between FFO and AFFO relate to cash paid for incentives and leasing costs, and maintenance capital expenditure. These items are deducted from FFO to determine AFFO.

[2] Return on Equity accumulates individual business Return on Assets and adjusts for cash interest paid and average drawn debt for the 12 month period. Excludes residential community workout projects.

Louise Mason was appointed Group Executive and CEO of Commercial Property in June 2018. Under her leadership we will progress our strategy to improve the quality and growth potential of our portfolio. This will be achieved by reducing our retail town centre weighting and continuing to upgrade and grow our combined Workplace and Logistics portfolio given strong market fundamentals (previously Office, Logistics and Business Parks) to greater than 25 per cent of our total assets.

We pride ourselves on being close to our customers and placing them at the centre of everything we do. The results of this commitment are evident - customer referrals continue to be our biggest sales driver, putting us in a strong position with 87 per cent of Residential customers believing that the community has met or exceeded their expectations and 91 per cent are likely to recommend Stockland to others.

Retirement Living customer satisfaction also remains strong with eight out of 10 residents satisfied with Stockland, and sentiment continuing to improve for the industry as a whole. Our Workplace and Logistics customers rate their satisfaction with Stockland at 89 per cent.

We are in a strong capital management position, maintaining our S&P A- Stable credit rating for over the past 17 years and Moody's A3 credit rating obtained in August 2017. This reflects the ongoing strength of our balance sheet and cash flows – this has enabled us to continue to broaden our funding sources with a $478 million Euro bond and a $51 million Asian bond executed in the year to replace maturing US private placement USPP facilities, at competitive pricing.

We have maintained our focus on optimising the allocation of capital within each of our business units. The emphasis we place on acquiring land efficiently in our Communities business continues to reduce our capital needs, with 66 per cent of land payments made in FY18 relating to land acquired on capital efficient terms. This has improved the velocity of capital within the business by shortening the duration between cash outflows and settlement inflows in that business.

We continue to actively manage our debt program, which has seen weighted average cost of debt decline from 5.5 per cent in FY17, to 5.2 per cent in FY18, and expected to fall further to around 4.8 per cent in FY19. We have increased our weighted average debt maturity to 6.2 years, and our interest rate fixed hedge ratio is within target range at 95 per cent.

Gearing at the end of FY18 was 22.2 per cent, at the lower end of our 20 – 30 per cent target range, due to disciplined capital management and higher operating cash flows. Operating cash flows pre-land acquisitions were higher than last year reflecting higher development margins, positive Residential operating fundamentals and tight control of costs.

Whilst some retail town centre assets recorded downward valuations, the portfolio overall saw a net $133 million increase, contributing to a 3.5 per cent increase in NTA to $4.18. The reduced valuations were primarily for assets located in central and north Queensland, reflecting weak economic activity and proactive tenant remixing.

We've deliberately focussed on remixing toward new growth categories such as food, services, health, and experience and away from apparel and jewellery, to create more sustainable income and future growth potential.

Overall, we are in a very good position, with operating cash flow and liquidity improving, due to disciplined management and leveraging the timing, source and size of debt refinancing. Our strong balance sheet also ensures that we are well positioned to take advantage of opportunities that may arise in this changing environment.

Outlook

Economic conditions remain generally positive and overall real estate fundamentals continue to be largely supportive for our business, with strong population growth, solid employment growth, low inflation and low interest rates.

The land and housing market is clearly moderating, driven by a range of factors including finance availability. Our focus on differentiated masterplanned community creation and housing affordability leaves us well placed in this environment.

We expect to achieve FFO growth of 5 – 7 per cent for the full year and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18, assuming no material change in market conditions.

We are confident in our diversified business model which enables us to create high quality masterplanned communities and remain focussed on a disciplined approach to executing on our strategic priorities in the year ahead.

Our business has very strong operational leverage to the key demand drivers of population growth, urbanisation, infrastructure improvement, ageing and a growing focus on health and wellbeing.

We will continue to deliver liveable, affordable and connected communities, grow our workplace and logistics portfolio and create vibrant retail town centres across the country – this will underpin our success in the future.

Funds from Operations (FFO)

FFO is our primary reporting measure. FFO has been determined with reference to the Property Council of Australia's voluntary disclosure guidelines to help investors and analysts compare Australian real estate organisations. It is designed to present the results of the ongoing operating activities of Stockland in a way that reflects our 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.

FFO 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. Stockland also excludes income tax items that do not represent cash payments, due to a $1.8 billion build-up of tax losses which are recognised in deferred tax assets.

Reconciliation of FFO to statutory profit

	2018			2017		
Year ended 30 June	**FFO $M**	**Statutory adjustments $M**	**Statutory profit $M**	**FFO $M**	**Statutory adjustments $M**	**Statutory profit $M**
Revenue	**2,801**	**(26)**	**2,775**	2,695	49	2,744
Cost of property developments sold:						
• land and development	**(1,263)**	**–**	**(1,263)**	(1,292)	–	(1,292)
• capitalised interest	**(106)**	**–**	**(106)**	(142)	–	(142)
• utilisation of provision for impairment of inventories	**29**	**1**	**30**	103	–	103
Net write-back of inventory impairment provision	**–**	**–**	**–**	–	3	3
Investment property expenses	**(250)**	**(14)**	**(264)**	(236)	(12)	(248)
Share of profits of equity-accounted investments	**29**	**40**	**69**	29	55	84
Management, administration, marketing and selling expenses	**(318)**	**–**	**(318)**	(304)	–	(304)
Net change in fair value of investment properties:						
• Commercial Property	**–**	**96**	**96**	–	209	209
• Retirement Living	**15**	**44**	**59**	28	59	87
Net change in fair value of Retirement Living resident obligations	**–**	**(73)**	**(73)**	–	(82)	(82)
Net gain on other financial assets	**–**	**26**	**26**	–	1	1
Net gain/(loss) on sale of other non-current assets	**–**	**16**	**16**	–	(1)	(1)
Finance income	**3**	**5**	**8**	4	118	122
Finance expense	**(77)**	**(12)**	**(89)**	(83)	–	(83)
Profit before income tax	**863**	**103**	**966**	802	399	1,201
Income tax benefit /(expense)	**–**	**59**	**59**	–	(6)	(6)
Profit for the year	**863**	**162**	**1,025**	802	393	1,195
Earnings per security (cents)	**35.6**		**42.3**	33.4		49.8

FFO per security growth was strong at 6.6 per cent. Statutory profit decreased to $1,025 million, largely due to lower net fair value gains on investment properties, and lower finance income, as 2017 included a $118 million fair value gain on mark to market of derivatives and financial instruments.

The adjustments excluded from FFO include valuation movements on investment property, primarily due to rental growth and capitalisation rate compression across our Workplace and Logistics portfolio, valuation uplift from our retail town centre redevelopment at Green Hills (NSW) offset by devaluations at other regional assets mainly in central and north Queensland, price growth for Retirement Living dwellings and movements in derivative and financial instrument market values compared to book value.

The net gain on other financial assets relates primarily to the $25 million return of capital received from our investment in BGP Holdings Plc (BGP) which is excluded from FFO as a one-off item (2017: Revenue included a final dividend of $71 million from BGP which was also excluded from FFO).

The net income tax benefit in the current year is due to the recognition of previously unbooked tax losses, resulting in an increase in our deferred tax assets.

Adjusted Funds from Operations (AFFO)

AFFO is an alternative, secondary, non-IFRS measure used by the Board of Directors and the Executive Committee, who are the Chief Operating Decision Makers (CODM), to assist in the assessment of the underlying performance of the Group. AFFO is calculated by deducting maintenance capital expenditure and incentive and leasing costs from FFO.

Reconciliation of FFO to AFFO

Year ended 30 June	2018 $M	2017 $M	Change %
FFO for the year	**863**	802	↑7.5%
Maintenance capital expenditure	**(51)**	(53)	
Incentives and leasing costs	**(56)**	(62)	
AFFO for the year	**756**	687	↑9.9%
AFFO per security (cents)	**31.2**	28.6	↑9.1%

AFFO growth driven by strong FFO growth for the year. Maintenance capital expenditure includes $7 million (2017: $9 million) of Retirement Living maintenance capital expenditure.

Capital management

Financial position

We maintained our focus on prudent balance sheet management, continuing to utilise diverse funding sources throughout the year. During the current year Stockland repaid USD 204 million ($311 million) of notes that were issued in the US private placement market. In January 2018 new US private placement notes equivalent to $286 million were issued with tranches of between 10 and 15 years. In addition, a $478 million Euro bond and a $51 million Asian bond were executed in the year to replace maturing US private placement facilities. The new notes were issued at a competitive rate and demonstrate continued strong support from debt investors and acknowledgement of our robust credit profile. Our gearing level decreased marginally to 22.2 per cent at 30 June 2018 (FY17: 22.7 per cent). Gearing remains within our target range of 20 – 30 per cent and we retained our A-/Stable credit rating from S&P and obtained an A3 rating from Moody's (equivalent to S&P's A-).

We manage our exposure to financial markets, including movements in foreign exchange rates and interest rates, through the use of derivative financial instruments in order to provide greater certainty over future financing costs, taking advantage in particular of the current historically low interest rate environment. Through actively managing our debt portfolio and hedging positions, the fixed/hedge ratio is now back within our target range at 95% (June 2017: 109%) and we continue to look for opportunitiess to lock in favourable rates for the Group going forward. The weighted average cost of debt for the year has decreased to 5.2 per cent (FY17: 5.5 per cent) as we draw down on new lower cost debt and older, higher cost hedges continue to expire. We have extended our weighted average debt maturity further to 6.2 years (from 5.5 years as at 30 June 2017) as we continue to take advantage of our ability to source longer dated funding across a variety of debt capital markets.

Interest cover has remained stable at 4.8 : 1 (30 June 2017: 4.8 : 1).

Balance Sheet

	June 2018 $M	June 2017 $M	Change %
Cash	**333**	238	↑39.9%
Real estate assets[1]:			
• Commercial Property	**10,599**	10,255	↑3.4%
• Residential	**3,432**	2,453	↑39.9%
• Retirement Living	**4,167**	3,848	↑8.3%
Other assets	**760**	701	↑8.4%
Total assets	**19,291**	17,495	
Interest bearing loans and borrowings	**3,938**	3,529	↑11.6%
Retirement Living resident obligations	**2,741**	2,629	↑4.3%
Other liabilities	**2,236**	1,410	↑58.6%
Total liabilities	**8,915**	7,568	
Net assets/total equity	**10,376**	9,927	4.5%

The value of the Commercial Property investment portfolio has increased by $344 million to $10,599 million primarily due to net valuation uplift (up $143 million including equity-accounted joint venture investments) and capital and development expenditure of $421 million, partially offset by the $172 million disposals including 77 Pacific Highway (NSW) and Stockland Wallsend (NSW).

Valuations for the Retail Town Centre portfolio were mixed, with a net $61 million reduction. This is primarily due to more conservative rental growth assumptions and capitalisation rate expansion at some of our non-metropolitan retail town centres, particularly in central and north Queensland where economic conditions remain soft. Our Logistics and Workplace portfolios delivered valuation gains of $117 million and $83 million respectively during the period driven by rental growth and continued capitalisation rate compression across several assets. Valuation gains across the portfolio saw our weighted average capitalisation rate reduce marginally from 6.2 per cent to 6.0 per cent.

The increase in capital and development expenditure predominantly reflects continued investment in the Logistics development pipeline including the redevelopment of Willawong (Qld), Ingleburn (NSW) and Yennora (NSW).

Residential assets, which represent mainly land under development, increased to $3,432 million at 30 June 2018 as we successfully re-stocked our portfolio through land acquisitions including land previously acquired on capital efficient terms settled during the year and new capital efficient acquisitions entered into during the year.

New capital efficient acquisitions in FY18 were made through put and call options, whereby an asset and a corresponding liability included within other liabilities, relating to future payments for this land which results in a nil Net Funds Employed impact until some future point if and when the options are exercised. By way of example, the 2018 operating cash flows include cash payments for land acquisitions 66 per cent of which had been bought under capital efficient terms, in locations which have seen strong capital appreciation in the time since the original contract was signed. In the same way, a large portion of the options booked this year relate to the Sydney market, which remains fundamentally undersupplied for new housing land. This includes a contract for land at Marsden Park (NSW) signed in December 2017, payments for which will only commence in 2020 and under the option agreement extend out as far as 2024.

We maintained a disciplined approach to development expenditure and finished goods levels remain appropriate. Excluding acquisitions, the underlying asset value of Residential has fallen, because of the significant settlements of 6,438 recorded during the year.

The value of the Retirement Living real estate related assets, net of resident obligations, was $1,426 million, an increase of $207 million from June 2017. This primarily reflects capital expenditure on the development pipeline at Birtinya (Qld), The Residences - Cardinal Freeman (NSW) and Willowdale (NSW), fair value uplift on the Retirement Living portfolio, partly offset by an increase in resident loan obligations created on first sales of development units.

Total debt increased by $409 million to $3,938 million at 30 June 2018 as a result of increased operating activity during the year funded by the drawing down of bank debt. New US private placement notes equivalent to $286 million were issued with tranches of between 10 and 15 years. In addition, a $478 million Euro bond and a $51 million Asian bond

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

were executed in the year to replace maturing US private placement facilities. The new notes which broaden our funding sources were issued at a competitive rate and demonstrate continued strong support from debt investors and acknowledgement of our robust credit profile. During the year, Stockland repaid USD 204 million ($311 million) US private placement notes on maturity.

Cash flows

	FY18 $M	FY17 $M	Change %
Operating cash flows (excluding payments for land)	**1,224**	1,204	↑1.7%
Payments for land	**(496)**	(283)	↑75.3%
Investing cash flows	**(426)**	(380)	↑12.1%
Financing cash flows	**(207)**	(511)	↓59.5%
Net change in cash and cash equivalents	**95**	30	
Cash at the end of the year	**333**	238	

Net operating cash inflows (excluding payments for land) increased as a result of $81 million higher property development sales revenue. Despite 166 fewer residential lots settled compared to FY17, the average price per lot increased due to a change in product mix to NSW and Qld. In addition, $50 million was received relating to deferred settlements, offset by $91 million lower net receipts from Retirement Living residents due to lower turnover events.

Payments for land have increased significantly driven by deferred settlement payments for acquisitions made in previous years and a number of payments relating to strategic acquisitions to restock the portfolio. These capital efficient purchases are expected to deliver strong profit margins given capital growth since contract signing.

Net cash outflows from investing activities reflect our continued commitment to growing our asset base and mainly comprises payments for and development of Commercial Property investment property assets of $463 million, with the largest individual contribution relating to development at Green Hills. Investment in Retirement Living totalled $213 million with main villages including Cardinal Freeman (NSW), Willowdale (NSW) and Birtinya (Qld). Investing cash inflows includes $25 million return of capital received from our investment in BGP (FY17: $71 million final dividend from BGP) together with proceeds from sale of investment properties of $278 million (FY17: $74 million). A further $65 million of contracted investment property sales is due to complete post year end.

Net financing cash flows reflect the net proceeds from borrowings to fund acquisitions and development expenditure, offset by dividends and distributions paid during the year.

Equity

Distribution/Dividend Reinvestment Plan (DRP)

In the current year, Stockland issued 16,069,134 securities (FY17: 26,357,840) under the DRP. The DRP security price for the 30 June 2017 distribution was determined by the average of the daily volume weighted averages over a 15-day trading period and applying a 1.0% discount.

On 21 February 2018 we announced the suspension of the DRP in respect of the half year distribution for the six months ended 31 December 2017. On 22 May 2018 we announced the continued suspension of the DRP in respect of the 30 June 2018 distribution. On 23 August 2018 we announced the termination of the DRP.

Distributions

The dividend and distribution payable for the year ended 30 June 2018 is 26.5 cents per security. Our distribution policy is to pay the higher of 100 per cent of Trust taxable income or 75 – 85 per cent of FFO.

The distribution for the year comprises:

Stockland	FY18 Cents	FY17 Cents
Stockland Corporation dividend, fully franked	**–**	–
Trust distribution	**26.5**	25.5
Total dividend/distribution	**26.5**	25.5

Registers closed at 5.00pm (AEST) on 29 June 2018 to determine entitlement to the year end dividend/distribution, which will be paid on 31 August 2018.

Business unit performance and priorities

Commercial Property

Our Commercial Property business comprises retail town centres, workplace and logistics assets. We are one of the largest retail property owners, developers and managers in Australia. Our 39 retail town centres accommodate more than 3,600 retailers. The logistics portfolio comprises 27 properties, encompassing 1.3 million square metres of building area. These properties are strategically positioned in key locations for logistics, infrastructure and employment. The workplace portfolio comprises seven assets, mostly in Sydney, NSW.

Portfolio at 30 June 2018	Approximate value*
39 retail town centres	$7.4 billion
27 logistics centres	$2.2 billion
7 workplaces	$0.8 billion
73 Commercial Property assets	**$10.4 billion**

*Stockland's ownership interest

Performance

Commercial Property ($M, unless otherwise stated)	Funds from operations FY18	FY17	Change	Comparable growth
• Retail Town Centres	**428**	419	↑2.2%	↑1.3%
• Logistics	**152**	143	↑6.2%	↑6.0%
• Workplace	**54**	59	↓9.6%	↓2.0%
Trading profit	**1**	5		
Net overheads	**(21)**	(18)		
Total Commercial Property	**614**	608	↑0.9%	↑2.3%
Return on Asset (ROA)	**7.8%**	8.1%		

Our Commercial Property business continued to deliver solid recurrent earnings with a 2.3 per cent increase in comparable FFO to $614 million, with strongest growth from our logistics assets. We expect our Commercial Property business to maintain moderate growth in returns, with comparable FFO growth of 2 – 3 per cent as we continue to remix the retail town centre portfolio and divest non-core properties. Workplace and Logistics fundamentals for our portfolio are expected to remain strong.

Retail Town Centres

The Retail Town Centre business saw some positive improvements in FY18 with comparable specialty sales up by 4.2 per cent, to $9,378 per square metre and total MAT up by 3.4 per cent with strong growth in resilient categories such as retail services.

Comparable Retail Town Centre FFO growth was 1.3 per cent over the year, impacted by higher outgoings and retail remixing. The overall success of our remixing strategy is beginning to be reflected in higher retail sales growth, which has continued to improve over the year.

This precinct remixing strategy continues to attract more customers into our centres with foot traffic up 2.5 per cent and will help ensure income resilience into the future. Income from growth categories including food, dining, leisure, cinemas and services now represents 41 per cent of our specialty store income.

We continue to focus on improving customer experience to ensure that our Retail Town Centres provide the services and lifestyle options customers are seeking in this changing retail environment.

The $421 million redevelopment and launch of the new Stockland Green Hills (NSW) retail town centre is a prime example of our ability to successfully upgrade and reposition our assets, to future proof them and deliver accretive returns.

Following the official opening of Stockland Green Hills in March this year, total like for like MAT is up 5.7 per cent. The stabilised initial yield on development is estimated to be 7 per cent and the IRR around 12 per cent.

We also completed the $37 million redevelopment of Stockland Wendouree (Vic) in June, targeting an IRR of 13.8 per cent and stabilised FFO yield of 7.2 plus per cent, and continue on schedule with the first stage of the $86 million Stockland Birtinya greenfield town centre development on the Sunshine Coast, part of our $830 million Oceanside masterplanned community.

Retail town centre strategic priorities

The Retail business maintains its focus on creating market leading town centres by providing the services and lifestyle options to enhance the customer experience at our centres. We continue to remix our centres to create leading community and entertainment hubs and maximise trade area market share.

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

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

We have completed around $200 million of divestments and are targeting up to an additional $400 million of divestments over the next 12 – 24 months.

Workplace and Logistics

High occupancy was maintained across the logistics portfolio, with a robust leasing performance in Sydney and Melbourne, overall 324,400 square metres of space was leased over the period.

Our workplace assets are largely located in the strongly performing Sydney market. Post balance date, we completed the sale of our non-core Canberra office asset for consideration of $24 million.

Our logistics developments continues to progress very well. The successful delivery of the $77 million Coopers Paddock Logistics Centre in Warwick Farm this period, which is fully leased and saw an 23.7 per cent increase in valuation on completion, reflects the success of our focus on growing this portfolio. This project has achieved an initial yield of 7.3 per cent and is expected to reflect an IRR of 10.7 per cent.

We are focussed on executing the $600 million development program on land we control and have lodged a development approval to redevelop Macquarie Technology Park, Sydney, with a masterplan vision for a $500 million state-of-the-art technology hub to cater to workers of the future.

Workplace and Logistics strategic priorities

Our focus is on growing and developing a market leading portfolio of logistics and workplace properties to greater than 25 per cent of our total assets. The growth of this portfolio will primarily be through delivery of our existing development pipeline, on land we already control, targeting incremental IRRs of 9 plus per cent and stabilised FFO yields of 7 plus per cent.

We are developing a market leading portfolio of logistics centres by leveraging our existing communities and land, strong tenant relationships and asset management skills to become a scale player in this market.

We will continue to focus on optimising the returns of our workplace portfolio. Our portfolio is now predominantly located in Sydney and we will continue to assess development opportunities.

Communities

Residential

Stockland is the largest masterplanned community developer in Australia. The business has 60 communities across New South Wales, Queensland, Victoria and Western Australia. We are focused on delivering a range of masterplanned communities and medium density housing in growth areas across the country. We hold 82,000 lots in our portfolio, with a total end value of approximately $22.2 billion[1].

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

Performance

Residential Communities ($M, unless otherwise stated)	FY18	FY17	Change
Lots settled (lots)	**6,438**	6,604	↓2.5%
Revenue	**$1,830m**	$1,767m	↑3.5%
– Including superlot revenue[1]	**$58m**	$91m	↓36.6%
EBIT (before interest in COGS)	**$435m**	$412m	↑5.6%
EBIT margin	**23.8%**	23.3%	↑
Operating profit (FFO)[2]	**$336m**	$270m	↑24.3%
Operating profit margin	**18.3%**	15.3%	↑
ROA – core portfolio[3]	**22.0%**	20.8%	↑
ROA – total portfolio	**20.4%**	15.2%	↑

The Residential business delivered strong profit growth, up 24.3 per cent from FY17, with solid volumes of net deposits from high margin Sydney and Melbourne projects providing high profit visibility for the year ahead.

We recorded settlements of 6,438 lots, with a number of successful project launches in Victoria and Queensland – Grandview, Mt Atkinson, Waterlea, Promenade and Kalina – and the success of our existing communities at locations like Willowdale and Elara in Sydney, and Highlands and Cloverton in Victoria, contributing solid sales.

This result and the strong position we are in for FY19 and beyond reflects good sales levels despite moderating overall market conditions with 5,478 contacts on hand as at 30 June 2018. The quality of our masterplanned communities which offer high amenity, affordability and strong connections, with many close to heavy rail, is driving increased market share, up over 3 per cent to 14.5 per cent, and velocity of sales.

We are the leading creator of communities in Australia with our Residential and Retirement Living businesses providing customers with whole-of-life housing options in liveable locations with close proximity to transport, retail and services, education and employment.

We remain well positioned in the deepest part of the lending market, with over 75 per cent of our product now sold to owner occupiers and continued demand for our range of affordable house and land and townhome product.

Finance availability has had a moderating effect on the housing market, but our focus on differentiated masterplanned community creation and housing affordability leaves us well placed in this environment. We have strong pre-sales, low cancellation rates and a continued focus on delivering product to a majority owner occupier market at affordable price points.

In FY19, we expect to deliver over 6,000 residential settlements with future profit growth to be delivered through more townhome settlements and strong operating profit margins, subject to market conditions. We anticipate residential profit margins to remain around 18 per cent in FY19 and 17 per cent over the medium term.

Our business will continue to benefit from price growth realised in the Sydney and Melbourne markets over recent years, affordability, strong housing demand and supply fundamentals and increasing medium density settlements.

Residential strategic priorities

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

(1) Reshaping the portfolio – actively manage the portfolio to increase the velocity of capital, improve returns and maintain an optimal pipeline with a preference to acquire land on capital efficient terms. We continue to make good progress in activating our land through the launch of new projects.

(2) Broaden our market reach – increase revenue by creating a better community value proposition that drives high customer referrals and broaden market reach through a medium density/built form offering.

(3) Improving efficiency – continue to manage costs by maintaining strong contractor relationships and closely managing tender processes.

[1] 30 superlot settlements in FY18; 44 superlot settlements in FY17.
[2] Operating profit is equal to FFO for the Residential business.
[3] Core excludes impaired projects.

Retirement Living

Stockland is a top three retirement living operator within Australia, with over 9,600 established units in 65 established villages across five states and the ACT. The portfolio includes a development pipeline of over 3,000 units.

Performance

Retirement Living ($M, unless otherwise stated)	FY18	FY17	Change
EBIT	**56**	**69**	↓19.4%
Operating profit (FFO)[1]	**53**	**63**	↓16.7%
Occupancy	**95.0%**	**95.0%**	
Cash ROA	**4.6%**	**6.2%**	↓
Established			
– Established settlements (units)	**618**	**731**	↓15.5%
– Withheld settlements (units)[2]	**73**	**49**	↑49.0%
Total settlements (units)	**691**	**780**	↓11.4%
Average re-sale price	**$356k**	**$339k**	↑4.9%
Turnover cash per unit	**$89k**	**$86k**	↑3.6%
Turnover cash margin	**25.1%**	**25.4%**	↓
Reservations on hand (units)	**121**	**128**	↓5.5%
Development			
Average price per unit	**$504k**	**$539k**	↓6.3%
Average margin – excludes Deferred Management Fee (DMF)	**20.2%**	**19.1%**	↑
Development settlements (units)	**163**	**270**	↓39.6%
Reservations on hand (units)	**98**	**58**	↑69.0%

Operating profit in Retirement Living was down 16.7 per cent on FY17, with sales volumes impacted by adverse sector media coverage and reduced settlements due to the timing of development completions. We are seeing some positive sales momentum in our Retirement Living business. Q4 sales are up 14.9 per cent on the FY17 corresponding quarter, underpinned by our ongoing commitment to improve contract choice, village quality and providing broader services to our residents.

The retiree market is responding well to investment in our existing villages and new developments in master-planned communities, like Mernda Retirement Village in Melbourne and Willowdale in Sydney.

We've continued to improve our customer offer with Benefits Plus home care partnerships and the rollout of new contract choices, 'Capital Share' and 'Peace of Mind', with the latter placing a cap on the deferred management fee and secures the exit value for incoming residents. We have also had success with 'Aspire', a new product for downsizing Australians who purchase their home and land outright under community title.

We finished FY18 by entering a project development agreement for a new vertical village in Epping, Sydney, and we continue to explore opportunities to sell non-core assets to recycle capital in our development pipeline, which is on track to deliver a number of completions before the end of the year.

We expect improvement in retirement living market conditions in 1H19 given improving customer sentiment and sales velocity.

Retirement Living strategic priorities

The business remains focused on being a preferred operator and developer of retirement living villages by creating high quality retirement villages in Australia. The business has a clear strategy to continue to improve its return on assets by:

(1) differentiating the customer experience through access to a range of resident care and other services
(2) actively managing the portfolio
(3) growing development volumes
(4) divesting non-core villages

[1] Operating profit is equal to FFO for the Retirement Living business.
[2] Typically associated with brownfield developments like Cardinal Freeman

Climate-related Financial Disclosures

KEEPING IT SIMPLE …

This section summarises Stockland's approach to climate change issues management in a format aligned with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (Task Force). The Task Force recommendations were published in 2017 with the objective to develop voluntary, consistent climate-related financial disclosures that would be useful to investors, lenders, and insurance underwriters in understanding material risks. Further information on the recommendations is available at www.fsb-tcfd.org

Stockland has long recognised the risks and opportunities presented by climate change, and has responded to these issues in accordance with its Climate Change Action Plan (commenced in 2006) and detailed Climate Adaptation Strategy (commenced in 2011). We understand that extreme weather and other physical climate risks impact our assets and communities now, and may continue to do so into the future. We have also acknowledged the potential for financial impacts resulting from carbon emissions regulation, particularly in the context of Australia's ratification of the 2015 Paris Agreement to limit global temperature increases to below 2ºC. We manage these climate risks and capitalise on climate opportunities by developing and operating energy efficient, climate resilient assets and communities; and through our leadership in the transition to lower-carbon energy sources at our assets.

Governance

The Board and Board Committees (including the Risk Committee, Audit Committee, Sustainability Committee and Human Resources Committee) provide oversight of our risk management framework. The Risk Committee meets at least four times per year and receives quarterly reports on our enterprise risk register, which includes climate change as a key risk. All directors of the Board are members of the Sustainability Committee, which meets at least twice per year and considers our approach to carbon mitigation (including emissions reduction targets), our methods for building climate and community resilience, and emerging climate regulation (Sustainability Committee Charter).

Every member of our Executive Committee has specific responsibilities relating to our sustainability performance, including targets and objectives related to climate change risks and opportunities.

Our Chief Operating Officer chairs our internal Sustainability Steering Committee, which is composed of senior management from various organisational departments including Strategy and Stakeholder Relations, Project Management and Procurement, Human Resources, Operations, Development and Sustainability. From FY19, following an organisational restructure, this committee will be chaired by the Chief Financial Officer. The committee meets at least three times per year and its key responsibilities include:

- informing our sustainability strategy and supporting delivery of sustainability targets, including those related to climate change mitigation and adaptation
- investigating and reporting on environmental, social, and governance risks and opportunities across our current and planned operations
- guiding compliance with our environmental and social policies, guidelines, and agreed initiatives, including those related to carbon emissions reduction.

Strategy

For over a decade, Stockland has identified risks and opportunities related to both the physical impacts of climate change (physical risk) and a global transition to lower-carbon energy sources (transition risk). Our response to these risks and opportunities has been guided by our Climate Change Action Plan, our detailed Climate Adaptation Strategy, and our business unit sustainability strategies.

We recognise that climate-related risks will persist for the foreseeable future. The precise nature of these risks, however, is uncertain as it depends on complex factors such as policy change, technology development, market forces, and the links between these factors and climatic conditions. To accommodate this uncertainty, we incorporate scenario analysis into our climate risk assessment process to understand how climate-related risks and opportunities may evolve and impact the business over time. Scenario analysis is a well-established method for enhancing resilience to a range of future conditions and our process aligns with Task Force recommendations.

We acknowledge that physical risks associated with climate change can result in negative financial impacts, such as increased maintenance costs or decreased revenues from disrupted operations. In recognition of these potential impacts, we are committed to creating climate resilient assets and communities with a greater ability to endure severe weather impacts and operate with minimal disruption.

We use climate and community resilience assessments to understand how to minimise negative impacts and create opportunities from building and maintaining resilient assets in the long term. Opportunities associated with prioritising the development of resilient assets include decreased operational costs (e.g. maintenance, insurance premiums, exposure to litigation) and increased revenues from increasing consumer preferences for climate-resilient products.

With regard to transition risk, we acknowledge that Australia has agreed to the objective of limiting global warming to below 2°C. Pursuing this objective implies a general movement away from fossil fuel energy and increased deployment of low/zero carbon energy sources and energy-efficient technology. Our scenario analysis process informs the business on how transition risks may evolve over time. We acknowledge that carbon emissions regulation and climate-related land development regulations are important considerations for our business. They have the potential to impact our business through the pricing of energy required to develop and operate our assets and through influencing the revenue we are able to obtain from land that we develop.

In recognition of our capacity to contribute to a low-carbon future and to mitigate risks associated with emissions regulations, our business has been guided by emission intensity reduction targets since 2006. Since then, we have prioritised the delivery of energy efficiency enhancements and renewable energy installations across our portfolio. These initiatives involve short term capital investments that result in positive financial impact on the business in the long term. An example of such an initiative is our industry leading $30 million investment in rooftop solar photovoltaic (PV) infrastructure, expected to both reduce our carbon emissions and deliver in excess of a 10 per cent rate of return over the next 10 years.

More detail on our climate change management approach and performance, including details of our scenario analysis will be available in our annual sustainability reporting to be released on 21 September 2018.

Risk management

All areas of the business, including the Executive Committee, are responsible for managing risk through the identification, assessment, and treatment of risks. This includes implementation of risk management initiatives, active management of risks, and compliance with appropriate processes, procedures, checklists and other controls. Teams are also responsible for monitoring these controls to ensure they remain effective, and for reporting on risk management achievements or concerns appropriately.

Leaders from across the business convene annually for risk workshops to consolidate their understanding of emerging risks, including climate risks. Business units analyse and evaluate these risks and consolidate findings into a risk profile for each business unit and for the Group.

Teams assess asset class portfolios annually for risks and opportunities, including climate-related issues. Climate-related risks and opportunities that may impact assets are prioritised for action based on:

- impact on communities and the environment in which the asset is operating
- overall potential impact on asset performance
- financial impact to the business in managing the risk or opportunity.

Across our portfolio, climate-related risks and opportunities are prioritised for action based on:

- geographical areas of highest risk
- design attributes of the asset which affect climate resilience
- climate change scenarios for the medium and long-term
- overall impact on business-wide emissions reductions
- impact on local communities and environment (relative to where we operate)
- overall risk to portfolio value and revenue.

We include climate and community resilience assessments in the asset-level risk management process. These assessments focus on the capacity of assets and associated communities to withstand severe weather impacts and minimise any disruption. Where we identify a high exposure to extreme weather events, such as cyclones in North Queensland, we supplement our resilience assessments with a detailed assessment of the roof structure and building envelope's capacity to withstand cyclonic winds. When considering strategies to improve the resilience of an asset, we use an opportunities matrix which looks beyond the traditional risk matrices based on likelihood and consequence ratings. For example, we use the opportunities matrix to identify the value of discretionary climate resilience initiatives such as shade sails in carparks and cool roof covenants in residential communities.

Management of climate-related risks and opportunities are integrated into annual asset management plans that include risk mitigation actions (for operational assets).

For assets under development, management of climate-related risks and opportunities is integrated into our project development lifecycle, known as D-Life. Each stage of the D-Life process requires the delivery of specific sustainability objectives, including climate-related risk assessments at defined approval gates.

Existing and emerging regulatory requirements related to climate change are incorporated into overall risk management and into our risk register as appropriate. Our Group Risk team is responsible for developing our risk management framework and adapting it to accommodate physical and regulatory changes which may impact our social and environmental performance. Our Government Relations, Risk, Legal and Sustainability teams keep the Executive Committee and Board informed on existing or emerging climate regulation that may impact on the business.

Our approach to risk management is guided by Australia/New Zealand Risk Management Standard (AS/NZS ISO 31000:2009), the Australian Securities Exchange Corporate Governance Principles and Recommendations and other applicable regulatory standards. Our Risk Management Framework includes supporting guidelines, procedures, and tools to help manage risk consistently across the business. These include methods for assessing climate and community resilience across our portfolio.

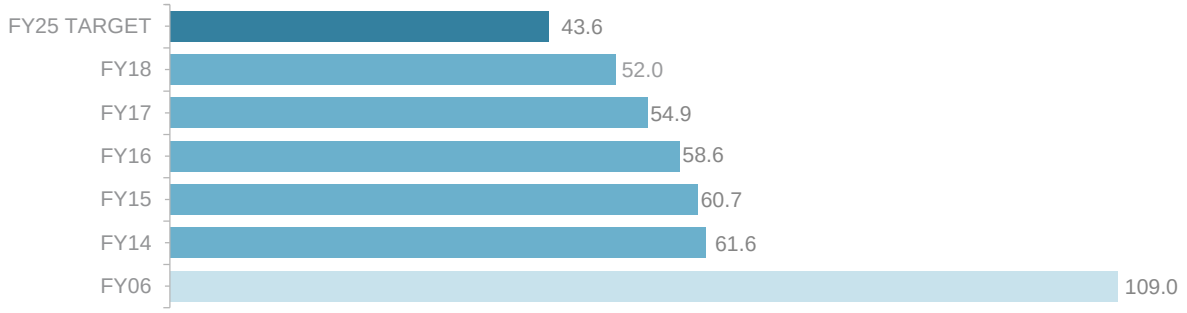
Metrics, Targets, and Results

Metrics provided are for the year ended 30 June 2018.

In 2006, in recognition of our capacity to contribute to a low-carbon future, we began setting targets to reduce the greenhouse gas (GHG) emissions intensity of our portfolio. Emissions intensity is an established metric for evaluating the energy and emissions efficiency of real estate portfolios, and is calculated by dividing absolute emissions (kilograms of carbon dioxide equivalent) by floor area (square metre). Since 2006, we have achieved a reduction of 44 per cent and 56 per cent in emissions intensities across our retail town centre portfolio and workplace and Business Parks assets, respectively. As a result of emissions reduction initiatives, we have saved over $90 million in avoided electricity costs over the same timeframe.

Our carbon emissions intensity reductions to date contribute to our target reduction of 60 per cent by 2025 (2006 baseline). The bar chart below shows the reduction in carbon emissions intensity across our Commercial Property (Workplace, Business Parks and Retail) portfolio since FY06. All figures are in $kgCO_2$-e per square metre (kgCO2-e/sqm).

Commercial Property GHG emissions intensity (kgCO2-e/sqm))



At 30 June 2018 we have installed 4.36 MW of solar PV capacity across five of our shopping centres, including our largest installation of 1.85 MW at Stockland Green Hills (NSW) and our most recent 250 kW installation at Stockland Caloundra (Qld).

In FY19 we will complete the installation of an additional 12.0 MW of solar PV capacity installed across eleven retail town centres. The installations will bring the total investment in renewable energy to over $30 million providing a total of 16.36 MW of generating capacity and producing 20,000,000 kWh of renewable energy annually.

The table below shows the renewable energy generated, as well as the capacity installed, since FY14:

Renewable energy

	FY14	FY15	FY16	FY17	FY18	Target FY19
Solar power generated (kWh)	175,374	292,124	1,940,689	2,387,168	3,274,463	
Solar PV capacity installed (at period end) (kW)	50	1,360	1,360	2,260	4,360	16,360 kW*

* Target relates to total capacity installed following completion of committed projects

KEEPING IT SIMPLE …

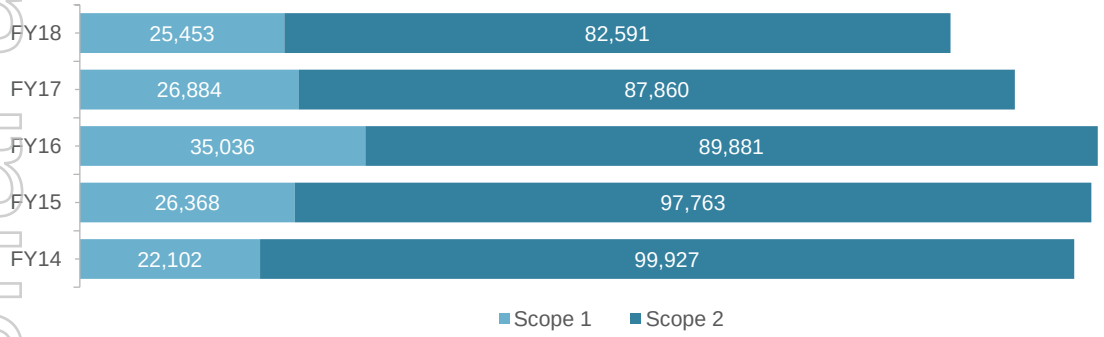
Scope 1 emissions are direct emissions from fuels that are combusted on site, such as gas consumption in our buildings or natural gas, diesel and petrol from fleet, as well as refrigerant leakage.

Scope 2 emissions result from the consumption of electricity only (indirect emissions from fuels combusted off site).

We report our Scope 1 and Scope 2 emissions according to our operational control boundary under the National Greenhouse and Energy Reporting Act 2007. Tenant electricity usage is not included except where we are the tenant. We voluntarily report select Scope 3 emissions in accordance with the GHG Protocol Corporate Standard. Our annual sustainability reporting contains further information on our Scope 1, Scope 2, and Scope 3 emissions.

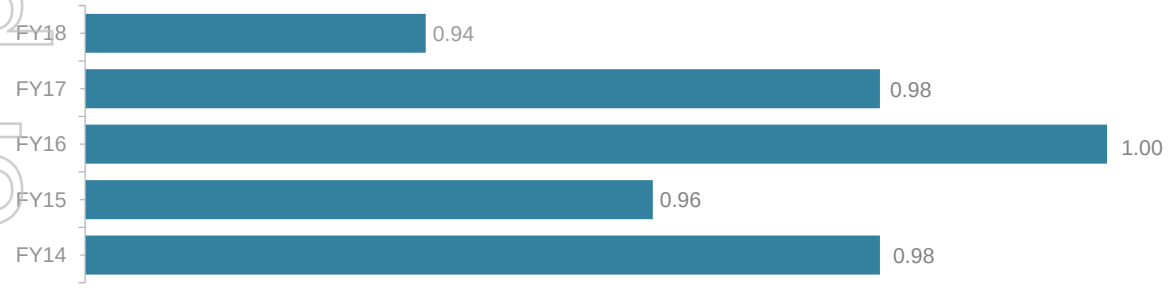
The following chart provides absolute Scope 1 and Scope 2 greenhouse gas emissions totals (in $kgCO_2$-e) since FY14. Our Residential business constitutes the majority of our Scope 1 emissions, the levels of which vary each year in accordance with civil contractor construction activity. Commercial Property constitutes the majority of our Scope 2 emissions, which have been decreasing over time because of our energy efficiency and renewable energy initiatives.

Total Scope 1 and Scope 2 GHG emissions (kgCO2-e)



We set targets for water intensity reduction (kilolitres per square metre (kL/sqm)) in our Commercial Property business in recognition of the need to both conserve water and enhance the efficiency of our portfolio. We are currently committed to a five per cent reduction in water intensity by FY20, against the FY17 benchmark. Water use by our Residential and Retirement Living businesses is largely the result of construction activity by contractors and varies year to year due to activities unique to each development (such as the presence of large lakes or landscaping requirements set by local council). The chart below shows the water intensity result for our Commercial Property portfolio (Workplace, Business Parks and Retail) since FY14.

Commercial Property water intensity (kL/sqm)



We target green certification of our assets as an important mechanism for us to manage climate-related risks and opportunities, and communicate the management of these issues to stakeholders. We obtain NABERS[1] Energy and NABERS Water ratings on eligible Commercial Property assets as a means of benchmarking energy and water efficiency and setting targets for improvement.

[1] NABERS is the National Australian Built Environment Rating Scheme – more information is available at nabers.gov.au.

We target a minimum of 4 Star Green Star for all new retail town centres (Green Star – Design & As Built), workplace and logistics (Green Star – Design & As Built), and residential (Green Star – Communities) developments. We completed a Green Star – Performance rating for our workplace and Business Parks and have also maintained a Green Star – Performance rating for our retail town centre portfolio, with targets to improve the performance ratings of the portfolio and extend the rating to other asset classes.

NABERS and Green Star certifications across our portfolio

4.18 stars	NABERS Energy Retail Town Centre portfolio average
3.18 stars	NABERS Water Retail Town Centre portfolio average
4.35 stars	NABERS Energy Workplace and Business Parks portfolio average
3.57 stars	NABERS Water Workplace and Business Parks portfolio average
42 centres	Green Star Performance rated Retail Town Centres, Workplaces and Business Parks
27 assets	Green Star Design & As Built, Communities and Retirement Living rated assets

Our targets and metrics are incorporated into annual asset-level business planning and reporting procedures. All staff are required to develop key performance indicators related to sustainability objectives, which include climate-related risks and opportunities where relevant. Performance against these indicators is then used to inform individual staff remuneration.

Our sustainability targets and performance metrics incorporate a broad range of climate-related risks and opportunities, and the entirety of these targets and metrics is provided in our annual sustainability reporting to be released on 21 September 2018 (available at stockland.com.au/about-stockland/sustainability/downloads).

Directors

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

Current Directors

Tom Pockett

BComm, FCA
(Non-Executive)

Mr Pockett was appointed to the Board on 1 September 2014 and became Non-Executive Chairman on 26 October 2016. He is the Chairman of Autosports Group Limited (appointed 26 October 2016) and a Non-Executive Director of Insurance Australia Group Limited (appointed 1 January 2015), O'Connell Street Associates Limited (appointed 1 November 2014) and Sunnyfield, a not-for-profit disability services provider in New South Wales. Mr Pockett was Chief Financial Officer of Woolworths Limited from August 2002 to February 2014. He was an Executive Director of Woolworths Limited from November 2006 to 1 July 2014. He previously held the position of Deputy Chief Financial Officer at the Commonwealth Bank of Australia and prior to that held several senior finance roles within the Lend Lease Group following a successful career with Deloitte. Mr Pockett was formerly Chairman of The Quantium Group Holdings Pty Limited (September 2014 to February 2016), and a Director of ALH Group Pty Ltd (September 2014 to February 2016) and Hydrox Holdings Pty Ltd (September 2014 to December 2015). Mr Pockett was a member of the Financial Reporting Council from March 2003 to March 2006 and National President of G100 from August 2000 to January 2003. Mr Pockett is a member of the Stockland Human Resources Committee and Chairman of the Stockland Sustainability Committee. Mr Pockett is former Chair of the Stockland Audit Committee and the Stockland Capital Partners Limited Audit Committee, and a former member of the Stockland Risk Committee. Mr Pockett is a Chartered Accountant.

Former Directorships of listed entities in last three years
None.

Melinda Conrad

BA, MBA, FAICD
(Non-Executive)

Melinda Conrad was appointed to the Board on 18 May 2018.*

Ms Conrad has more than 25 years of expertise in consumer-related industries, including as a retail entrepreneur and CEO, and roles at Colgate-Palmolive and Harvard Business School.

Ms Conrad is currently a Director of ASX Limited, Caltex Australia Limited and OFX Group Limited. Ms Conrad will retire as a Director of OFX Group Limited on 28 September 2018 as announced to ASX on 7 August 2018. She is also a non-executive Director of The George Institute for Global Health, The Centre for Independent Studies, and is a member of the ASIC Director Advisory Panel and the AICD Corporate Governance Committee.

Ms Conrad has an MBA from Harvard Business School, a Bachelor of Arts from Wellesley College and is a Fellow of the AICD. Ms Conrad is a member of the Stockland Sustainability Committee and Human Resources Committee.

Former Directorships of listed entities in last three years
Ms Conrad was a Director of The Reject Shop Limited from 19 August 2011 to 30 June 2017.

* *As required by the Stockland Constitution, Ms Conrad will offer herself for election by securityholders at the 2018 Annual General Meeting to be held on 24 October 2018.*

Carolyn Hewson

BEc (Hons), MA (Ec), FAICD
(Non-Executive)

Ms Hewson was appointed to the Board on 1 March 2009. She has over thirty years' experience in the financial sector, with extensive financial markets, risk management and investment management expertise. Ms Hewson is a Non-Executive Director of BHP Billiton (appointed March 2010) and is on the Board of Trustees for Westpac Foundation. She is also a member of the Australian Advisory Board on Impact Investing and an ambassador of Impact 100 South Australia. Ms Hewson previously served as a Director on the Boards of the Australian Gas Light Company, AGL Energy Limited, AMP, CSR Limited, BT Investment Management, South Australia Water, the Economic Development Board of South Australia and Westpac Banking Corporation. Ms Hewson is Chair of the Human Resources Committee and a member of the Sustainability Committee and former Chair of the Risk Committee.

Former Directorships of listed entities in last three years
None.

Barry Neil

BE (Civil)
(Non-Executive)

Mr Neil was appointed to the Board on 23 October 2007 and has over forty years' experience in property, both in Australia and overseas. He is Chairman of Keneco Pty Limited and Bitumen Importers Australia Pty Limited, a Director of Terrace Tower Group Pty Ltd and was previously Director of Property for Woolworths Limited. He also served as Chief Executive Officer, Investment Division (1999 to 2004), and Executive Director (1987 to 2004) of Mirvac Limited. Mr Neil is Chair of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and a member of the Stockland Audit and Sustainability Committees.

Former Directorships of listed entities in last three years
None.

Stephen Newton

BA (Ec and Acc), M.Com, MICAA, MAICD
(Non-Executive)

Mr Newton was appointed to the Board on 20 June 2016. Mr Newton is currently a Director of BAI Communications Group, Gateway Lifestyle Residential Parks Group and Viva Energy REIT Group. He is also an Advisory Board Member, representing Alberta Investment Management Corp (Canada), of the Forestry Investment Trust, Chairman of the Finance Council for the Catholic Archdiocese of Sydney and Director of Sydney Catholic Schools Ltd. He is a former Director of Campus Living Funds Management Limited, Australand Property Group, University of Notre Dame Australia and Newcastle Airport Limited.

Mr Newton has extensive experience across real estate investment, development and management and infrastructure investment and management. He is a Principal of Arcadia Funds Management Limited, a real estate investment management and capital advisory business he established in 2002. Prior to this, Mr Newton was the Chief Executive Officer – Asia/Pacific for the real estate investment management arm of Lend Lease Corporation and a member of the global senior executive management group. His career at Lend Lease spanning almost 23 years included experience across residential development, retail shopping centres, and commercial and industrial property as well as real estate investment management in Australia and overseas.

Mr Newton is a Member of the Institute of Chartered Accountants in Australia. Mr Newton is the Chair of the Stockland Audit Committee and a member of the Stockland Risk and Sustainability Committees. He is a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and the Chair of the Stockland Capital Partners Limited Audit Committee.

Former Directorships of listed entities in last three years
None.

Christine O'Reilly

BBus
(Non-Executive)

Christine O'Reilly was appointed to the Board on 23 August 2018.*

Ms O'Reilly is currently a director of CSL Limited, Transurban Limited and Medibank Private Limited.

Ms O'Reilly's executive career included 30 years' experience in both financial and operational entities both domestically and off shore. Following an early career in chartered accounting and investment banking, she was appointed CEO and Director of the GasNet Australia Group (ASX200) in 2001, and led the company for five years. From 2007 until 2012, she was Co-Head of Unlisted Infrastructure Investments at Colonial First State Global Asset Management.

Former Directorships of listed entities in last three years
Ms O'Reilly was a Director of EnergyAustralia Holdings Limited from October 2012 to August 2018.

* *As required by the Stockland Constitution, Ms O'Reilly will offer herself for election by securityholders at the Annual General Meeting to be held on 24 October 2018.*

Carol Schwartz

BA, LLB, MBA, FAICD
(Non-Executive)

Ms Schwartz was appointed to the Board on 1 July 2010. She has extensive experience in business, property and community organisations. Ms Schwartz is a Director of the Reserve Bank of Australia and is on the Board of a number of organisations including Qualitas Property Partners and the Australian Chamber Orchestra. Her other appointments include Chair of Our Community and Creative Partnerships Australia, and Chair of Women's Leadership Institute Australia. Ms Schwartz is also the former Chair of Temple and Webster. Ms Schwartz serves on the Risk, Human Resources and Sustainability Committees.

Former Directorships of listed entities in last three years
Ms Schwartz was Chair of Temple and Webster from 10 December 2015 to 25 October 2016.

Mark Steinert

BAppSc, G Dip App Fin & Inv (Sec Inst), F Fin, AAPI
(Managing Director)

Mr Steinert was appointed Managing Director and Chief Executive Officer of Stockland on 29 January 2013. Mr Steinert was also appointed to the Board on 29 January 2013. Mr Steinert has over twenty-six years of experience in property and financial services including eight years in direct property primarily with Jones Lang LaSalle and ten years in listed real estate with UBS. Mr Steinert was appointed as Head of Australasian Equities at UBS in 2004 and as Global Head of Research in New York in late 2005. In 2012 he was appointed as Global Head of Product Development and Management for Global Asset Management at UBS, a $559 billion Global Fund Manager. Mr Steinert is a member of the Stockland Sustainability Committee and a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted property funds. He is the immediate past President and current Director of the Property Council of Australia, and also served as a Director of the Green Building Council of Australia until 30 June 2016.

Former Directorships of listed entities in last three years
None.

Andrew Stevens

BComm, MComm, FCA, MAICD
(Non-Executive)

Andrew Stevens was appointed to the Board on 1 July 2017.

Mr Stevens is currently a Non-Executive Director of MYOB Group Limited and Thorn Group Limited. He is also Chairman of Advanced Manufacturing Growth Centre Limited (AMGC), Director of Committee for Economic Development Australia (CEDA), and a Board Member of the Greater Western Sydney Giants.

Mr Stevens has some 30 years' experience in business and technology, most notably holding senior leadership roles at IBM for 12 years. As the Managing Director, Australia and New Zealand at IBM from 2011 to 2014, Mr Stevens led the transformation of the business to become a leader in cloud-based computing, helping blue chip clients to derive business benefits from new and emerging technologies. Prior to this, Mr Stevens was the COO of PwC Consulting in Asia Pacific.

Mr Stevens is also a member of the Advisory Board of the Australian School of Business at the University of New South Wales, a Member of the Professional Conduct Oversight Committee of Chartered Accountants Australia and New Zealand, a Member of the Chief of Defence's Gender Equity Advisory Board and a Member of the Male Champions of Change.

Mr Stevens is a Fellow of the Institute of Chartered Accountants and Member of the Australian Institute of Chartered Accountants. Mr Stevens is a member of the Stockland Audit and Sustainability Committees.

Former Directorships of listed entities in last three years
None.

Former Director

Dr Nora Scheinkestel is a former Director of the Company and the Responsible Entity:

Dr Nora Scheinkestel

LLB (Hons), PhD, FAICD
(Non-Executive)

Dr Scheinkestel was appointed to the Board on 19 August 2015 and retired from the Board on 20 March 2018. She is an experienced company director, having served for over 20 years as a non-executive chairman and director of companies in a wide range of industry sectors and in the public, government and private spheres. She is currently Chairman of Atlas Arteria Limited (appointed 28 August 2014) as well as a Director of its stapled entity, Atlas Arteria International Limited (appointed 17 April 2015) and of Telstra Corporation Limited (appointed 12 August 2010), Ausnet Services Limited, Oceanagold Corporation (appointed 1 April 2018) and the Victorian Arts Centre Trust. Dr Scheinkestel is also an Associate Professor at the Melbourne Business School (MBS) at Melbourne University and a former member of the Takeovers Panel.

In 2003, she was awarded a Centenary Medal for services to Australian society in business leadership. Dr Scheinkestel was Chair of the Risk Committee and a member of the Stockland Audit and Sustainability Committees.

Former Directorships of listed entities in last three years
Dr Scheinkestel was a Director of Orica Limited from August 2006 to December 2015.

External Independent Committee Members and Independent Directors of Stockland

Anthony Sherlock

BEc, FCA, MAICD

Mr Sherlock was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. Mr Sherlock passed away on 7 December 2017.

He was a Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock was a non-executive Director of Invigor Group Limited, Equatorial Mining Limited, Kerrygold Limited. He was the former Chairman of Australian Wool Corporation Limited and The Woolmark Company Pty Ltd, a former Non-Executive Director of Austral Coal Limited, Sydney Attractions Group Limited, IBA Health Limited and Export Finance Insurance Corporation Limited and has acted on a number of committees for both Federal and State Governments. He was a member of the Stockland Capital Partners Audit Committee. Mr Sherlock was also a member of the Stockland and the Stockland Capital Partners Financial Services Compliance Committees prior to the incorporation of these committees into the Stockland Audit Committee and Stockland Capital Partners Audit Committee respectively.

Terry Williamson

BEc, MBA, FCA, FCPA, FGIA, MACS, MIIA, FAICD

Mr Williamson was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, on 9 April 2018. He is also a member of the Stockland Capital Partners Limited Audit Committee.

Mr Williamson was a former Director of the Company and the Responsible Entity from April 2003 to October 2015. He is a Director of Avant Insurance Limited and Avant Group Holdings Limited. Mr Williamson is also a member of the Building and Estates Committee, a sub-committee of the Senate of the University of Sydney. Mr Williamson was previously the Chief Financial Officer of Bankers Trust Australia Limited/BT Financial Group Pty Limited from 1997 to 2002 and prior to that was a partner of Price Waterhouse (now PricewaterhouseCoopers) for 17 years. Mr Williamson was former Chair of the Stockland Audit Committee, Stockland Financial Services Compliance Committee and Stockland Capital Partners Financial Services Compliance Committee, and a former member of the Stockland Sustainability Committee.

Company Secretary

Katherine Grace

BA (Hons), LLB (Hons 1st Class), MPP, MAICD
(Company Secretary)

Ms Grace was appointed as General Counsel and Company Secretary in August 2014. Ms Grace has over 15 years' experience specialising in the property sector. Before joining Stockland, Ms Grace was General Counsel and Company Secretary for Westfield Retail Trust. She has extensive experience in corporate, property, debt and capital market transactions. She has previously held positions in legal private practice (where she acted for a variety of corporations and financial institutions in relation to landmark developments across Australia and overseas) and at Multiplex Limited, Pacific Capital Partners and Valad Property Group.

Ms Grace reports directly to the Managing Director and also has accountability directly to the Board of Directors, through the Chairman, on all governance matters.

Directors' meetings

Stockland (Stockland Corporation Limited and Stockland Trust Management Limited)

	Scheduled Board		Audit Committee		Human Resources Committee		Sustainability Committee		Risk Committee	
	A	B	A	B	A	B	A	B	A	B
Director										
Ms M Conrad[1]	1	1	-	-	-	-	-	-	-	-
Ms C Hewson[2]	8	11	-	-	4	4	1	1	-	-
Mr B Neil	11	11	9	9	-	-	-	1	-	-
Mr S Newton	11	11	9	9	-	-	1	1	3	3
Mr T Pockett	11	11	-	-	4	4	1	1	-	-
Ms C Schwartz	10	11	-	-	3	4	1	1	3	3
Mr M Steinert	11	11	-	-	-	-	1	1	-	-
Mr A Stevens[3]	11	11	9	9	-	-	1	1	-	-
Former Director										
Dr N Scheinkestel[4]	9	9	6	6	-	-	1	1	3	3

A – Meetings attended / **B** – Meetings eligible to attend
1 Appointed to the Board on 18 May 2018
2 Due to prior commitments Ms Hewson was unable to attend two ad hoc Board meetings in 2018 however she participated in a separate briefings with the Chairman prior to the Board discussion being held. In addition Ms Hewson was unable to attend a scheduled Board meeting due to family illness but again participated in a separate briefings with the Chairman prior to the Board discussion being held.
3 Appointed to the Board on 1 July 2017
4 Retired from the Board on 20 March 2018

Stockland Capital Partners

	Scheduled Board		Audit Committee	
	A	B	A	B
Director				
Mr B Neil	4	4	-	-
Mr S Newton[1]	2	2	4	4
Mr A Sherlock[2]	2	2	2	2
Mr M Steinert	4	4	-	-
Mr T Williamson[3]	1	1	1	1

A – Meetings attended / **B** – Meetings eligible to attend
1 Appointed to the SCPL Board on 18 December 2017
2 Passed away on 7 December 2017
3 Appointed to the SCPL Board on 9 April 2018

Corporate Governance

The Board takes its governance responsibilities very seriously and believes it has the necessary mix of experience and skills to oversee the high standard of corporate governance, integrity and accountability required of a professional and ethical organisation. The Board has approved this corporate governance report, and believes that Stockland's governance accords fully with the principles and recommendations of the ASX Corporate Governance Council as summarised in the Appendix 4G lodged with ASX on 23 August 2018.

Role of the Board

The Board is accountable to Securityholders, ensuring that the operations of Stockland are being effectively managed in a manner that is properly focussed on its economic, social and community objectives. The Board has overall responsibility for the good governance of Stockland. As set out in the Board Charter, the Board:

- oversees the development and implementation of Stockland's corporate strategy, operational performance objectives and management policies with a view to creating sustainable long-term value for securityholders
- oversees the development and implementation of Stockland's overall framework of governance, risk management, internal control and compliance which underpins the integrity of management information systems, financial reporting and fosters high ethical standards throughout Stockland
- appoints the Managing Director, approves the appointment of the Company Secretary and Senior Executives reporting to the Managing Director and determines the level of authority delegated to the Managing Director
- sets Executive remuneration policy, monitors Senior Executive performance and approves the performance objectives and remuneration of the Managing Director and his or her direct reports and reviews Senior Executive and Board succession planning and Board performance
- approves and monitors the annual budget, business plans, financial statements, financial policies and financial reporting and major capital expenditure, acquisitions and divestitures
- determines and adopts dividend and distribution policies for Stockland
- oversees compliance with laws and regulations which apply to Stockland and its businesses
- appoints and monitors the independence of Stockland's external auditors

The Board has delegated certain responsibilities to standing Committees which operate in accordance with the Charters approved by the Board. The majority of members of each Committee of the Board are required to be independent Non-Executive Directors. All Non-Executive Directors may attend any meeting of a Committee. The Board and Committees may meet with external advisors with, or in the absence of management.

The Board has delegated the day to day management of the business of Stockland to management through the Managing Director and Chief Financial Officer subject to authority limits applicable to the Senior Executives. The Board has, however, reserved certain matters for the Board of a strategic, sensitive or extraordinary nature or which exceeds the thresholds set in the delegation of authorities framework to management pursuant to which it has control.

The Company Secretary is directly accountable to the Board through the Chairman on all governance matters.

The Board aims to ensure that its securityholders are kept well-informed of all major developments and business events that are likely to materially affect Stockland's operations and financial standing and the market price of its securities. Further information in relation to communication with Stockland's securityholders is located on the Stockland website at www.stockland.com.au/about-stockland/corporate-governance.

Stockland's Directors, Senior Executives and employees are required to maintain high ethical standards of conduct. Stockland's Code of Conduct (the 'Code') is periodically reviewed and endorsed by the Board and covers dealings with both external parties and internal operations. Further information in relation to the Code together with key policies including in relation to whistleblowers, fraud and corruption, securities trading, government relations and privacy are located on the Stockland website at www.stockland.com.au/about-stockland/corporate-governance.

Role of Stockland Trust Management Limited as Responsible Entity for Stockland Trust

Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, is responsible for the operation of the Trust. The Responsible Entity must exercise its powers and perform its obligations under the Stockland Trust Constitution and the *Corporations Act 2001* in the best interests of unitholders to ensure that the activities of the Trust are conducted in a proper and efficient manner. The major activities of the Responsible Entity include:

- ongoing selection and management of property investments
- management of the Trust's property portfolio
- maintenance of the accounting and statutory records of the Trust
- management of equity and debt raisings and making distributions to unitholders
- preparation of notices and reports issued to unitholders

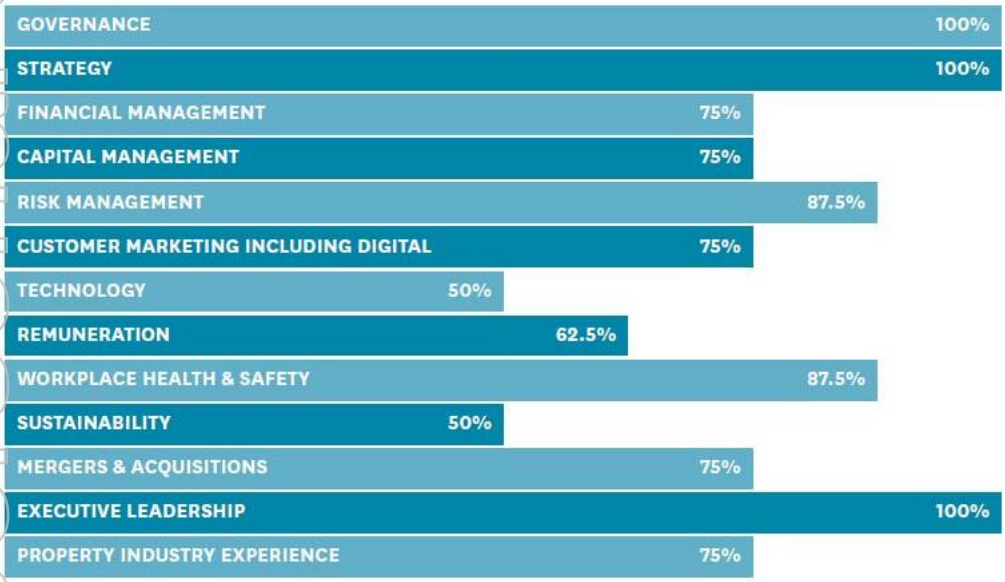
Composition and diversity of the Board

Stockland is committed to having a Board whose members have the capacity to act independently of management, and have the collective skills and diversity of experience necessary to optimise the long-term financial performance of Stockland so as to deliver long term sustainable profitable returns to securityholders.

As at the date of this report, the Board comprised one Executive Director and seven Non-Executive Directors. The Boards of Stockland Corporation Limited and Stockland Trust Management Limited have the same Directors. Directors' details are listed on pages 24 to 28, including details of their other listed company Directorships and experience.

The Board recognises the advantage of having a mix of relevant business, executive and professional experience on the Board, the importance of cultural and ethical values, and the benefits of diversity, including gender diversity. The Board has identified a range of core skills and experience that will assist the Board collectively to fulfil its oversight role effectively. These include experience with property investment and management, property and community development, construction and project management, retailing and consumer marketing, technology (including digital), industrial supply chain logistics, funds management, banking and finance, government and regulatory relations and environmental, social and governance matters. It is also advantageous for some Board members to have experience in the audit and risk management field, capital management, mergers and acquisitions, people management and executive remuneration. The Board believes that the core skills of importance to Stockland are well represented among the current Directors. In addition, most Directors have occupied senior executive management positions in large corporations both in Australia and globally, including CEO and CFO positions, covering a wide range of industry sectors or have held senior positions in relevant finance and accounting disciplines.

Diversity of Board Skills and Experience



The Board also believes that it is important to maintain a range of director tenures to facilitate orderly Board renewal while maintaining valuable continuity and corporate knowledge among Directors. As at 30 June 2018, of the eight Directors, including the Managing Director, five had tenure of less than six years, one had tenure of between six and nine years and two had served for more than nine years. In March 2018, Dr Nora Scheinkestel retired from the Board. Melinda Conrad joined the Board on 18 May 2018 and on 31 May 2018 Stockland announced that Christine O'Reilly would join the Board on 23 August 2018.

In defining the Board's requirements for new Directors, consideration is given to the skills, professional experience, and educational backgrounds of continuing members of the Board, the organisation's strategy and any identified skills required to supplement the Board's capabilities as the organisation's strategy evolves. Criteria used includes the value of gender diversity on the Board.

The Human Resources Committee oversees the Director nomination process, and will from time to time engage external search firms to ensure that a wide range of candidates are considered. Ultimately, the full Board determines who is invited to fill a casual vacancy after extensive one-on-one and collective interviews with candidates and thorough due diligence and reference checking. Directors coming up for re-election are also reviewed by the Human Resources Committee and, in the Director's absence, the Board considers whether to support their re-election. It is the Board's policy that Directors offer themselves for re-election only with the agreement of the Board.

Stockland has for many years had a focus on actively encouraging gender diversity at all levels within the organisation and a culture that supports workplace diversity and inclusion. As part of this focus, gender diversity targets are set by management and regularly reviewed and endorsed by the Human Resources Committee. In 2013, we reached our original 2017 target for women in our management levels of 40% and we have now revised this target to 50% by 2020. We also set annual progress targets for both Women in Management (48.6% for FY19) and Women in Senior Management (40.8% for FY19). These two groups represent approximately 34% and 11% of all employees respectively. To ensure a focus on gender pay equity we have a target of a ratio of 100% between male and female fixed pay for all like for like roles.

In addition, we have been recognised as one of the Workplace Gender Equity Agency's Employer of Choice for Gender Equality for the past four years while our Managing Director and CEO, Mark Steinert is a founding member of the Property Male Champions of Change group which focuses on industry wide improvements in gender equality.

In addition, we have a formal Diversity and Inclusion Policy which is available on the Stockland website at www.stockland.com.au/about-stockland/corporate-governance. Further details of this policy and our achievements, including measurable objectives for achieving gender diversity, are set out in the 2018 Remuneration Report on pages 39 to 53 within the Directors' Report as well as on the Stockland website at www.stockland.com.au/about-stockland/sustainability.

Board Independence

Stockland recognises that having a majority of independent Non-Executive Directors provides assurance that the Board is structured properly to fulfil its role in holding management accountable for Stockland's performance. The Board will continue to have a majority of independent Non-Executive Directors, that the positions of Chairman and Managing Director must be separate, and that the Chairman should be an independent Non-Executive Director.

Stockland has developed criteria for determining the independence of its Board members. A Director is considered to be independent if that Director:

- is not a substantial securityholder of Stockland or of a company holding more than 5% of Stockland's voting securities, or an officer of, or directly or indirectly associated with a securityholder holding more than 5% of Stockland's voting securities
- is not and has not within the last three years been an employee of Stockland
- is not a principal of a material professional advisor to Stockland
- is not a material supplier or customer of Stockland or an officer of, or directly or indirectly associated with a significant supplier or customer
- has no material contractual relationship with Stockland or any of its associates other than as a Director of Stockland
- has no other interest or relationship that could interfere with the Director's ability to act in the best interests of Stockland and independently of management.

In this context, the Board considers that any Director-related business relationship that is or is likely in the future to be more than 10% of the Director-related business's revenue to be material. All Directors are expected to act in the best interests of Stockland at all times.

Having considered carefully the above criteria, the Board has determined that all of Stockland's Non-Executive Directors are independent Directors for the 2018 financial year.

In making this determination, the Board considered the transactions between Stockland and entities with which Stockland Directors are associated as Directors or advisors. The Board concluded that none of these transactions rendered these entities significant suppliers to, or customers of, Stockland when the relative size of the transactions was compared to the total revenues or business of those entities. Further, in none of these transactions did Stockland Directors receive direct financial benefits as principals, partners, or substantial shareholders of the entities concerned.

Board meetings

The Board currently holds 9 scheduled meetings each financial year. Additional meetings are convened as required. During the 2018 financial year, the Board held 11 formal meetings and a considerable number of additional unscheduled informal briefings and discussions.

The Board's practice is for Non-Executive Directors to meet prior to the full Board meeting in the absence of management and the Non-Executive Directors meet privately on other occasions from time to time.

Board and Director performance

The Board has instituted a formal process to review the performance and effectiveness of the Board, the Board Committees and individual Directors. The Human Resources Committee oversees this process.

On a regular basis an external review is also conducted. An external consultant was engaged to facilitate a review of Board performance in late 2017. As part of the external review, each Director completed an interview with the external consultant relating to the Board's role, composition, procedures, practices and behaviour. Members of the Executive Committee also participated in feedback with the external consultant and observations and recommendations from the review were presented to and discussed with the Board with various action items identified and implemented during FY18.

The Chairman also meets one-on-one with each Director annually to discuss their individual contribution, their views on the Board's performance and their suggestions for improvement in Board processes or procedures. Following these sessions, the Chairman provides feedback to individual Directors as necessary.

Director remuneration and securities ownership

Non-Executive Directors receive fees for their services, being an all-inclusive fee including statutory and elected superannuation contributions.

To underpin the alignment of Directors and securityholder interests, the Board believes that Directors should hold a meaningful number of Stockland securities. In August 2015 the Board revised its existing policy to increase the minimum number of securities each Non-Executive Director is required to acquire from 10,000 to 40,000 securities within a reasonable time of becoming a Director. The increased minimum roughly equates to one year's base Board fees. All new directors will have a period of three years to comply with this policy. Stockland also has a policy regarding the minimum securityholdings for Senior Executives as set out in the Remuneration Report. Both these policies are intended to align the personal financial interests of Directors and Senior Executives with those of securityholders.

Board Committees

Four permanent Board Committees have been established to assist in the execution of the Board's responsibilities as described below. These are the:

(1) Human Resources Committee;

(2) Audit Committee;

(3) Risk Committee; and

(4) Sustainability Committee.

The Board's policy is that a majority of the members of each Board Committee should be independent Directors. The Audit Committee, Risk Committee and the Human Resources Committee comprise only independent Directors and the Sustainability Committee is chaired by an independent Director and has a majority of independent Directors.

The Board reviews the composition of each Committee periodically, balancing the benefits of rotation with those of maintaining continuity of experience and knowledge, and to ensure Committee members have skills appropriate to their roles. Each Committee has its own written charter which it reviews annually and recommends any appropriate changes to the Board.

All Non-Executive Directors may attend any Board Committee meeting. Committees may meet with external advisors in the absence of management. Each Board Committee works in conjunction with other Board Committees to assist the Board in fulfilling its responsibilities for ensuring Stockland has adopted and maintains appropriate corporate governance procedures. The membership and the procedures for the Committee meetings are set out in the charters for each Board Committee located on the Stockland website at www.stockland.com.au/about-stockland/corporate-governance.

Human Resources Committee

The Human Resources Committee incorporates the functions of two Board Committees recommended by the ASX Guidelines: a Nominations Committee and a Remuneration Committee.

A copy of the charter for the Human Resources Committee is located at the Stockland website at www.stockland.com.au/about-stockland/corporate-governance. The Human Resources Committee seeks to ensure that there is a strong link between employee reward, Stockland's performance and ultimately securityholder returns. The Human Resources Committee also seeks to ensure that remuneration for Non-Executive Directors is designed to attract and retain talented and experienced individuals. Refer to the Remuneration Report on pages 39 to 53 for further information.

Members of the Human Resources Committee during or since the end of the financial year were:

(1) Ms C Hewson (Chair) – Non-Executive Director
(2) Ms M Conrad – Non-Executive Director (appointed 1 July 2018)
(3) Ms C Schwartz – Non-Executive Director
(4) Mr T Pockett – Non-Executive Director

The Human Resources Committee meets as frequently as required and held four meetings during the 2018 financial year.

Audit Committee

The Board has delegated oversight for the preparation of Stockland's Financial Reports and the maintenance of a sound financial reporting control environment to the Audit Committee.

The purpose of the Audit Committee is to assist the Board to discharge its responsibilities for:

- the integrity of Stockland's Financial Reports and external audit
- the appropriateness of Stockland's accounting policies and processes
- the effectiveness of Stockland's financial reporting controls and procedures
- the effectiveness of Stockland's internal control environment
- compliance with its Australian Financial Services Licence and Compliance Plan
- compliance with relevant laws and regulations including any prudential supervision procedures

The Audit Committee works in conjunction with the Sustainability Committee, Human Resources Committee and Risk Committee to assist the Board in fulfilling its responsibilities for ensuring Stockland has adopted and maintains appropriate corporate governance procedures.

A copy of the charter for the Audit Committee is located on the Stockland website at www.stockland.com.au/about-stockland/corporate-governance.

The external auditor provides a declaration of independence each reporting period, consistent with the requirements of the *Corporations Act 2001*. The Audit Committee also adopts safeguards to maintain audit independence as follows:

- designating the types of services that may be and may not be performed by the external auditor;
- ensuring management retains responsibility for decision making on all Non-Audit Services provided by the external auditor; and
- reviewing and approving the external auditor's process for the rotation and succession of audit and review partners including the approach to managing the transition.

In addition, Stockland has an internal audit function which also regularly reviews and independently assesses the effectiveness and efficiency of the control frame work, risk management framework and periodic reporting.

Audit Committee meetings are held at least quarterly and are attended by Stockland's external auditor and, where appropriate, by the Managing Director, the Chief Financial Officer and, as required, other Stockland Executives and external advisors. The Committee meets with the external auditor and internal auditor in the absence of management at least twice a year.

The Committee has at least three independent Non-Executive members with the majority being independent Directors. The Chairman of the Audit Committee will not also be the Chairman of the Board.

At least one member of the Audit Committee has relevant accounting qualifications and experience and all members have a good understanding of financial reporting.

The members of the Audit Committee during or since the end of the financial year were:

(1) Mr S Newton (Chair) – Non-Executive Director
(2) Mr B Neil – Non-Executive Director
(3) Ms C O'Reilly – Non-Executive Director (appointed August 2018)
(4) Dr N Scheinkestel – Non-Executive Director (retired March 2018)
(5) Mr A Stevens – Non-Executive Director (appointed July 2017)

The Audit Committee met nine times during the 2018 financial year.

Tax Strategy – Our Approach to Tax

Stockland's tax strategy is to conduct all its tax affairs in a transparent, equitable and commercially responsible manner, whilst having full regard to all relevant tax laws, regulations and tax governance processes, to demonstrate good corporate citizenship.

Consistent with the Board approved low tax risk appetite, Stockland maintains a low tax risk profile to ensure we remain a sustainable business and an attractive investment proposition, in both the short and long term.

Tax Control and Governance Policy Framework

Stockland maintains a Tax Control and Governance Framework (TCGF), reviewed and approved by our Board Audit Committee, which outlines the principles governing Stockland's tax strategy and risk management policy.

Our Tax Control and Governance Framework is consistent with the guidelines published by the Australian Taxation Office (ATO) regarding tax risk management and governance processes for large business taxpayers.

We undertake periodic reviews of the TCGF to test the robustness of the design of the framework against ATO benchmarks and to demonstrate the operating effectiveness of internal controls to stakeholders.

The key principles of our TCGF are summarised as follows:

- A tax strategy that ensures all tax affairs are conducted in a transparent, equitable and commercially responsible manner, whilst having full regard to all relevant tax laws, regulations and tax governance processes, to demonstrate good corporate citizenship;
- A balanced tax risk appetite which is consistent with the Board approved risk appetite, to ensure Stockland remains a sustainable business and a reputable and attractive investment proposition;
- A commitment to engage and maintain relationships with tax authorities which are open, transparent and co-operative, consistent with Stockland's Code of Conduct and Ethical Behaviour policy; and
- An operating and trading business based in Australia, with no strategic intentions of engaging in any tax planning involving the use of offshore entities or low tax jurisdictions.

Voluntary Tax Transparency Code

As part of Stockland's commitment to tax transparency and demonstrating good corporate citizenship, Stockland has adopted the Australian Federal Government's Voluntary Tax Transparency Code (TTC), which provides a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information.

Tax Disclosures & Information

For information and detailed reconciliations of Stockland's tax expense, effective tax rate and deferred tax balances please refer to section (B3) in the 2018 Financial Report.

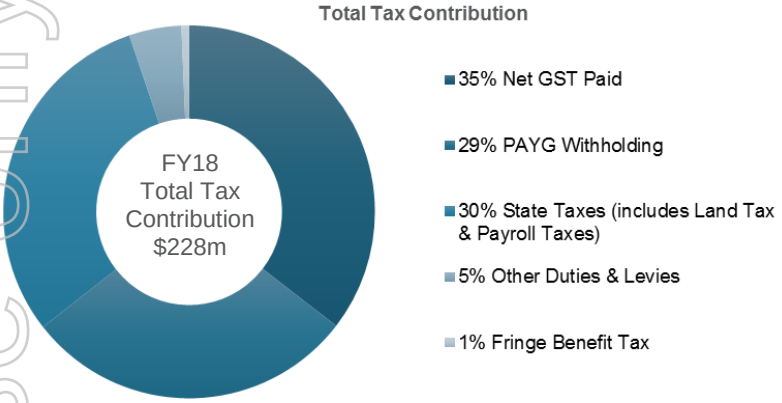
Tax Contribution Summary

As Australia's largest diversified property group, which owns, develops and manages commercial property assets, residential and retirement living communities, Stockland contributes to the Australia economy, through the various taxes levied at the federal, state and local government level.

For 2018 these taxes totalled more than $228 million, and were either borne by Stockland as a cost of our business or collected and remitted as part of our broader contribution to the Australian tax system.

The chart below illustrates the types of taxes which contributed to the taxes paid and/or collected and remitted for the 2018 year:

Total Tax Contribution



Risk Committee

The Board is responsible for establishing a framework of risk management across Stockland.

The purpose of the Risk Committee is to assess the effectiveness of Stockland's overall risk management framework and support a prudent and risk aware approach to business decisions across Stockland. The Risk Committee reviews Stockland's risk management framework on an annual basis including in the 2018 financial year to satisfy itself that it continues to be sound and any material changes are reviewed and resolved at Board level. Further information about risk management at Stockland is available at www.stockland.com.au/about-stockland/corporate-governance.

The members of the Risk Committee during or since the end of the financial year were:

(1) Dr N Scheinkestel (Chair) – Non-Executive Director (Retired March 2018)

(2) Ms C Schwartz – Non-Executive Director (Chair from April 2018)

(3) Ms C O'Reilly – Non-Executive Director (appointed August 2018)

(4) Mr S Newton – Non-Executive Director

The Chair has participated as a member of the Risk Committee during the period of transition of Board appointments.

A copy of the charter for the Risk Committee is located on the Stockland website at www.stockland.com.au/about-stockland/corporate-governance.

The Risk Committee met three times during the 2018 financial year with the fourth meeting rescheduled from June 2018, due to Director availability and Board changes and was held early July 2018.

Sustainability Committee

Stockland recognises that a sustainable future for its business depends upon the sustainability of the communities, economy and society in which it operates.

The purpose of the Sustainability Committee is to:

- consider the sustainability impacts of Stockland's business activities including social, environmental and ethical impacts
- consider major corporate responsibility and sustainability initiatives and changes in policy
- approve specific external stakeholder communications about Stockland's corporate responsibility in the form of the Sustainability Report, Annual Report and NGER report and sustainability auditor statements
- approve external sustainability policies
- approval of publicly disclosed targets and policies

A copy of the charter for the Sustainability Committee is located on the Stockland website under the heading Corporate Governance at www.stockland.com.au/about-stockland/corporate-governance.

The Board has charged Executive management with responsibility for managing Stockland's business operations to a high standard of ethical business practice, corporate citizenship and environmental responsibility.

With regard to environmental regulation, Stockland is committed to achieving high standards of environmental performance. The Sustainability Committee regularly considers issues associated with the environmental impact of Stockland's operations and, together with management, monitors Stockland's compliance with relevant statutory requirements as well as published policies and guidelines.

Stockland's operations are subject to various environmental regulations under both Commonwealth and State legislation, particularly in relation to its property development activities. Stockland undertakes an environmental due diligence and risk assessment of all properties it acquires. The Sustainability Committee monitors environmental performance by setting objectives, monitoring progress against these objectives and identifying remedial action where required.

The Committee comprises the whole Board, and met once during the 2018 financial year with two sub-committee meetings also held during this period. A Sustainability Committee meeting was rescheduled from June 2018, due to Director availability and Board changes and was held in early July 2018.

Stockland Capital Partners

Stockland Capital Partners ('Capital Partners') was established in 2005 to offer unlisted property investment opportunities for both small and large investors, provide new sources of capital, facilitate asset growth and generate additional sustainable income. A wholly-owned entity, Stockland Capital Partners Limited (SCPL) operates this business, with a separate Board of Directors ('SCPL Board').

SCPL acts as the Responsible Entity or Manager of Stockland's unlisted funds.

Since the Capital Partners business has dealings with and may acquire assets from Stockland, the SCPL Board has one external independent Non-Executive Director who is not a member of the Stockland Board. The independent Director must approve each transaction SCPL enters into with Stockland and must be satisfied that such transactions are on arm's length commercial terms.

In order to protect the unitholders in the event there is a dispute or default by Stockland under the terms of any agreement, the SCPL Board has resolved that the consent of the independent Director must be obtained as to any related party contract with Stockland.

We would like to take this opportunity to recognise the service of Mr Anthony Sherlock who sadly passed away in December 2017.

The members of the SCPL Board during or since the end of the financial year were:

(1) Mr B Neil (Chair) – Non-Executive Director
(2) Mr S Newton – Non-Executive Director (appointed 18 December 2017)
(3) Mr A Sherlock – External Independent Non-Executive Director (passed away 7 December 2017)
(4) Mr M Steinert – Managing Director
(5) Mr T Williamson – External Independent Non-Executive Director (appointed 9 April 2018)

The SCPL Board met four times during the 2018 financial year.

The Stockland Capital Partners Audit Committee is responsible for:

- the integrity of Stockland Capital Partner's financial reports and external audit
- the appropriateness of Stockland Capital Partner's accounting policies and processes
- the effectiveness of Stockland Capital Partner's financial reporting controls and procedures
- the effectiveness of Stockland Capital Partner's internal control environment
- compliance with Stockland Capital Partner's Australian Financial Services Licences and Compliance Plans
- compliance with relevant laws and regulations including any prudential supervision procedures.

Mr S Newton is the Chair of the Stockland Capital Partners Audit Committee. Mr Sherlock was a member of the Committee until 7 December 2017 and Mr Williamson was appointed on 9 April 2018. Further information about these committees and SCPL generally is located on the Stockland website at www.stockland.com.au/investor-centre/unlisted-property-funds.

Executive confirmations

In accordance with Stockland's legal obligations, the Managing Director and the Chief Financial Officer have declared in writing to the Board that, for the year ended 30 June 2018, in their opinion:

With regard to Stockland's Financial Reports:

(1) Stockland's financial records have been properly maintained in accordance with section 286 of the *Corporations Act 2001*; and

(2) Stockland's financial statements give a true and fair view of the Stockland's financial condition and operational results and comply with relevant Australian Accounting Standards and the Corporations Regulations 2001.

With regard to risk management and internal compliance and control systems of Stockland:

(1) the statements made with respect to the integrity of Stockland's Financial Reports are founded on a sound system of risk management and internal compliance and control systems which in all material respects implement the policies adopted by the Board either directly or through delegation to Senior Executives; and

(2) the risk management and internal compliance and control systems, based on the risk management model adopted by the Board, were operating effectively and efficiently in all material respects throughout the period.

Since 30 June 2018, nothing has come to the attention of the Managing Director and the Chief Financial Officer that would indicate any material change to any of the statements made above.

Associates and joint ventures, which Stockland does not control, are not covered for the purposes of this statement or declaration given under S295A of the *Corporations Act 2001.*

Whilst these statements are comprehensive in nature, they provide a reasonable but not absolute level of assurance about risk management, internal compliance and control systems. They do not imply a guarantee against adverse events or more volatile outcomes occurring in the future.

Remuneration Report – Audited

The Board is pleased to present this Remuneration Report for Stockland for the year ended 30 June 2018 (FY18), which forms part of the Directors' Report and has been audited in accordance with section 308(3C) of the *Corporations Act 2001*. The Remuneration Report covers Stockland and the Trust.

At Stockland, the Human Resources Committee is responsible for recommending Senior Executive remuneration policies to the Board for its approval and is charged with reviewing Stockland's remuneration policies each year to ensure that they remain fair and competitive when compared with those of companies of similar size, business mix and complexity in the property industry in Australia. There were no changes to the remuneration framework during FY18.

We remain committed to an executive remuneration framework that supports Stockland's objectives to deliver growth in EPS and total risk-adjusted securityholder returns above the average Australian Real Estate Investment Trust index, to create quality property assets, to deliver value for our customers and aligns with the delivery of our strategic priorities.

1. Executive summary

Grow asset returns and our customer base

Strategic priorities

Provide great customer experiences, actively manage our portfolio and develop new assets

FY18 Financial highlights

- Annual Growth in Funds from operations of 7.5% to $863m
- FFO per security of 35.6cps growth of 6.6%

Operational Excellence

Strategic priorities

Improve the way we operate across the Group to drive efficiencies, compliance, sustainability and employee engagement

FY18 Financial highlights

- ROE of 11.2%
- NTA per security of $4.18
- Distribution of 26.5 cps

Capital strength

Strategic priorities

Actively manage our balance sheet to maintain diverse funding sources and an efficient cost of capital

FY18 Financial highlights

- TSR over 3 yrs of 16.0%
- CAGR in EPS over 3 yrs of 5.2%

What did our executives receive?

- In FY18, there was no increase in the Fixed Pay for the Managing Director as the current level of Fixed Pay remains appropriate relative to market benchmarks. The Managing Director's Fixed Pay has remained unchanged for the prior five years.
- The Fixed Pay for one Senior Executive was increased to reflect their increased scope of responsibilities and market relativities. The average increase in Fixed Pay for the Senior Executives was less than 1%.
- Our considered approach to remuneration will continue in FY19 with no increases planned for the Fixed Pay of the Managing Director or the majority of our Senior Executives
- A range of STIs against target was awarded to the Managing Director and Senior Executives this year and awards are set out in section 3.3. The STIs awarded reflected a mixed performance against the Corporate Balanced Scorecard. Any individual STI awarded above target takes the form of Stockland securities which vest in future years, subject to continued service by those executives and to Stockland's clawback policy.
- Three year underlying profit per security CAGR of 5.2% was above the minimum vesting threshold of 4.5% set in FY16. Accordingly 70.1% of the EPS component of the FY16 LTI award has vested. TSR over the three year performance period of 16.0% which was below the performance benchmark (the ASX AREIT 200 index excluding Stockland) of 30.9% and accordingly none of the TSR component of the FY16 LTI awards has vested. These combined outcomes resulted in the vesting of 35.05% of FY16 LTI awards.

2. Remuneration Framework

Stockland is committed to an executive remuneration framework that supports Stockland's objectives to deliver growth in EPS and total risk-adjusted securityholder returns above the average Australian Real Estate Investment Trust Index, to create quality property assets and to deliver value for our customers.

2.1 Framework

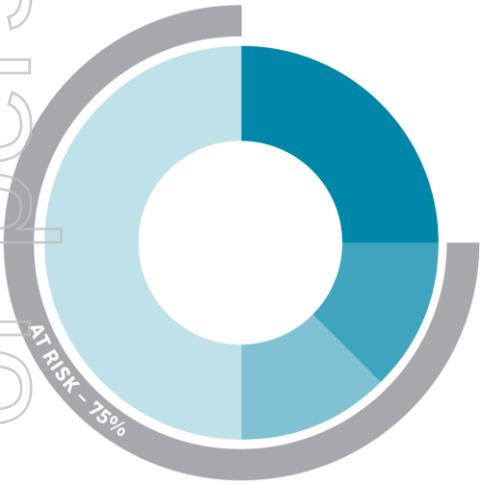
Stockland's remuneration policies are framed around several key principles, including:

- Fixed Pay should be fair, competitive and regularly benchmarked against market practice
- A significant portion of executive remuneration should be 'at risk'; that is awarded only if clear performance criteria set in advance are achieved
- 'At risk' or variable pay should be aligned to securityholder interests
- Variable pay as a portion of total remuneration should be higher for more Senior Executives
- STIs must be affordable and funded from annual earnings
- STI awards should be based on a mix of individual and company performance measures that reflect performance against a Balanced Scorecard
- A portion of performance-based pay for Executives should be awarded as Stockland securities with deferred vesting with any above target performance for Senior Executives awarded fully as securities
- Vesting of LTI should be dependent on exceeding long term performance hurdles
- LTI should not only help motivate and retain key Executives but also build a sense of ownership of business performance that benefits all stakeholders
- Remuneration policies and decisions must reflect prudent risk and capital management considerations
- Unvested equity awards should be forfeited if employees resign during the applicable vesting period and should be subject to a broadly framed clawback policy which give the Board discretion to adjust or forfeit these awards in certain circumstances.

2.2 Remuneration mix

Stockland has not changed its remuneration mix in FY18. The number of LTI rights awarded is based on the Volume Weighted Average Price of Stockland securities for the ten working days post 30 June (face value methodology), which is consistent with the approach for determining the number of Deferred STI awards. Variable pay (STI and LTI) is a key component of remuneration for our Senior Executives. Generally, Stockland's Senior Executives have a greater proportion of remuneration at risk than their counterparts in comparable companies.

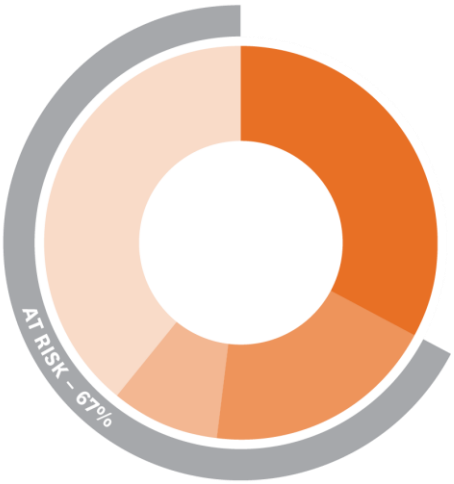
Managing Director & CEO



- 25% Fixed Pay
- 12.5% Cash STI
- 12.5% Deferred STI
- 50% LTI

At risk

Other Senior Executives



- 33% Fixed Pay
- 19% Cash STI
- 9% Deferred STI
- 39% LTI

At risk

The table below provides a summary of Stockland's framework and how each component is determined.

Principles and Philosophy	Remuneration component	Measure	At Risk Weighting
Fixed Remuneration should be fair, competitive and regularly benchmarked to relevant market levels	**Fixed Pay (FP)** Salary and other benefits (including statutory superannuation)	External benchmarking based on surveys sourced from a number of organisations including EY, AON Hewitt and Mercer	
A significant portion of remuneration should be 'at risk' and fairly reward executives if pre-set objectives and hurdles are achieved and/or exceeded and Build a sense of business ownership and alignment which benefits all securityholders interests	**Short term Incentive (STI)** 50% awarded as cash for performance up to target for Managing Director & CEO (two-thirds as cash for other Senior Executives) 50% awarded in deferred securities for performance up to target for Managing Director & CEO (one-third for Senior Executives) and 100% awarded as deferred securities for any performance above target Any deferred securities vest equally subject to continued service after 1 and 2 years	Depends on company and individual performance reflecting progress against a Balanced Scorecard of Key Performance Indicators (KPIs) based on: • Business/Financial outcomes • Customer/Stakeholder and Sustainability performance • Leadership and People Management • Operational Excellence and Risk Management	**Target** 100% of FP (Managing Director & CEO) 80 – 90% of FP (Other Senior Executives) **Maximum** 150% of Target
	Long Term Incentive (LTI) Delivered as Performance Rights measured against performance hurdles over a three year performance period Any rights then convert to deferred securities if performance hurdles are exceeded which vest equally subject to continued service after 3 and 4 years The number of LTI rights granted is based on the face value of Stockland's securities at the time of the grant	**Earnings per security (EPS)** • Compound Average Growth Rate in Funds From Operations (FFO) with maximum vesting if CAGR is 5% or more above the applicable target (50% weighting) and **Total Shareholder Return (TSR)** • Based on a composite index reflecting A-REIT 200 competitors with maximum vesting occurring if Stockland's TSR is 10% or more above this index (50% weighting) • Our competitor index excludes Stockland and includes A-REIT 200 large caps equally weighted at 13.33% each (Dexus, Goodman, GPT, Mirvac, Scentre and Vicinity) and A-REIT 200 smaller caps equally weighted at 2.22% (Abacus, BWP Trust, Charter Hall Group, Charter Hall Retail REIT, Cromwell Property, Growthpoint, Investa Office Fund, National Storage REIT and Shopping Centres Australasia Property Group)	Managing Director & CEO 200% of FP Other Senior Executives 120% of FP
	Minimum securityholding requirement	The Managing Director & CEO is required to maintain a minimum holding of Stockland securities equivalent to at least two times fixed pay (one times fixed pay for other Senior Executives) for any securities granted after 1 July 2010	

3. Remuneration Outcomes

3.1 Financial performance over the past 5 years

Underlying profit, FFO, EPS and other key financial performance measures over the last five years are set out below.

	FY14	FY15	FY16	FY17	FY18
Underlying profit[1] ($M)	555	608	660	696	**731**
FFO[2] ($M)	573	657	740	802	**863**
AFFO[3] ($M)	452	531	624	687	**756**
Statutory profit ($M)	527	903	889	1,195	**1,025**
Security price as at 30 June[4] ($)	3.88	4.10	4.71	4.38	**3.97**
Distributions/Dividends per security (cents)	24.0	24.0	24.5	25.5	**26.5**
Underlying EPS (cents)	24.0	25.9	27.8	29.0	**30.2**
FFO per security (cents)	24.8	28.0	31.1	33.4	**35.6**
AFFO per security (cents)	19.6	22.6	26.3	28.6	**31.2**
Statutory EPS (cents)	22.8	38.5	37.4	49.8	**42.3**
Stockland TSR – 1 year (%)	20.5	12.3	16.4	7.1	**(7.0)**
A-REIT 200 TSR (excluding SGP) – 1 year (%)	11.3	24.2	21.1	(6.7)	**11.5**
Tailored index TSR[5]	–	–	–	–	**7.2**

1 Underlying profit was the non-IFRS performance measure used in determining the EPS component of LTI remuneration for periods up to and including 30 June 2016. Performance against this benchmark is set out in section 3.4.
2 FFO is a non-IFRS measure which replaced underlying profit as Stockland's primary reporting measure from FY17. This change recognises the importance of FFO in managing our business and the use of FFO as a comparable performance measurement tool in the Australian property industry. The reconciliation of FFO to statutory profit is provided on page 11 of the Operating and Financial Review.
3 AFFO is stated exclusive of derivative close out costs and inclusive of Commercial Property and Retirement Living maintenance capex.
4 FY13 closing security price was $3.48.
5 Tailored AREIT 200 index comprised of 6 large companies forming 80% and 9 smaller companies forming 20% as detailed in section 2.2. Measured from FY17.

3.2 Fixed Pay

Fixed Pay includes salary, superannuation and other employee benefits. Annual reviews of Fixed Pay take into account each individual's skills and experience relevant to their roles, internal and external benchmarks and the importance of a considered approach to pay. Our policy is to review Senior Executives' Fixed Pay each year against independently provided external data sources and market benchmarks from a group of ASX50 companies and larger property firms, ensuring that our Fixed Pay remains competitive with companies of comparable size and complexity in our industry.

For the 2018 financial year, Fixed Pay did not increase for our Managing Director and CEO or for the majority of our Senior Executives. The average increase across all key management personnel (KMP) in FY18 was less than 1%.

3.3 STI

STI rewards the annual progress towards long-term objectives. All permanent employees employed at 30 June of the applicable financial year and who have greater than 3 months service are eligible to be considered for a STI award.

(a) STI pool

STI awards are dependent on Group, business unit and individual performance measures based on a Balanced Scorecard approach which the Board uses to set financial and non-financial Key Performance Indicators (KPIs) that are aligned to overall business strategy and key priorities. The Corporate Balanced Scorecard is used by the Board to determine the size of the overall STI pool.

The Board's assessment of performance against the Corporate Balanced Scorecard in FY18 is provided in the following table.

Corporate Balanced Scorecard

Strategic Priority	KPI	Commentary	Overall Rating
Business and Financial Performance (75%)			
Group and Business Unit performance			
	Group performance • Funds from Operations per security (FFOps) guidance of 5.0 – 6.5% • Return on Equity[1] (ROE) of 10.5 – 11%	• FFOps growth was 6.6% to 35.6 cps • ROE[1] was 11.2%	Above Target
	Business Performance • Operating Business financial performance in line with plan	Business unit financial performance was mixed: • Commercial Property FFO of $614 million was in line with FY17 and in line with plan • Residential Operating Profit of $336 million was well up on FY17 and above plan • Retirement Living profit of $53 million was down on FY17 and below plan	On Target Above Target Below Target
	• Maintain conservative debt profile and remain within policy limits for gearing, interest cover, asset mix, credit rating and debt profile • Credit rating maintain A- rating • Debt maturity profile >5 years • Liquidity buffer 10% above committed and undrawn facilities • Gearing within range 20 – 30%	• Average Debt Maturity was over 5 years and Credit Rating and liquidity buffer maintained with gearing and interest cover all within guidelines	Above or On Target
	• Deliver against Key Business Priorities	• Mixed progress against our key business and strategic priorities	On or Below Target
Customer, Stakeholder and Sustainability			
	• Achieve independent customer satisfaction ratings goals for each business unit	• The customer satisfaction scores were above target for Residential, on target for Retirement Living and mixed for Commercial Property with Logistics above and Retail slightly below target	On Target
	• Embed sustainable business practices across Stockland and make good progress towards environment improvement goals	• Recognised as a leading Global Real Estate firm in DJSI Sustainability Survey. Continued progress across our GHG measures and other sustainability targets	Above or On Target
Organisational Performance (25%)			
People Management			
	• Maintain employee-initiated turnover (employees rated good and above) to 12.0% or less	• Turnover reduced from FY17 and was 10.9%	Above Target
	• Achieve employee engagement target – 80%	• Employee engagement score increased on FY17 and was 83%	Above Target
	• Increase women as percentage of total management at 47.3% or better • Increase women as percentage of total senior management to 39% or better • Increase female General Managers to 36.4% or better	• Women in management was 45.1% • Women in senior management was 38.9% • 34.5% of General Managers were females	Below Target On Target Below Target
	• Progress longer term diversity and inclusiveness objectives	• Good progress made including again being recognised as a WGEA Employer of Choice for Gender Equality for fourth consecutive year	On Target

Strategic Priority	KPI	Commentary	Overall Rating
Operational Excellence & Risk Management			
	• Continued Process Improvement and enhanced innovation	• Whilst a number of deliverables such as new HR, Sales and Marketing systems were implemented in line with project milestones, the majority of other deliverables have been delayed	Below Target
	• Embed strong risk compliance and safety management practices	• Excellent safety record with reduced Lost Time Injuries with continued embedding of the risk and compliance framework	On Target

1 Excluding Residential workout projects. ROE was 11.0% including these projects.

The approved STI pool for all employees in FY18 was $33.2 million of which $6.6 million (or 20% of the pool) was awarded in Stockland securities with deferred vesting and is subject to the risk of forfeiture until vesting dates at the end of FY19 and FY20.

$M	FY14	FY15	FY16	FY17	FY18
Underlying profit	555	608	660	696	**731**
FFO	573	657	740	802	**863**
Cash STI[1]	21.4	24.0	28.1	28.4	**26.6**
DSTI	6.0	9.0	8.9	9.5	**6.6**
Total STI pool	**27.4**	**33.0**	**37.0**	**37.9**	**33.2**

1 Includes applicable superannuation.

(b) STI outcomes – Managing Director and CEO and other Senior Executives

The table below sets out the STI awards for FY18. STI incentives are awarded in both cash and Stockland securities with deferred vesting. For amounts up to the Target STI awarded, the Managing Director and CEO receives one-half of STI in cash and one-half in deferred securities and Senior Executives receive two-thirds of STI in cash and one-third in deferred securities. Any STI above target is awarded as securities with deferred vesting. Half of the deferred STI securities vest 12 months after award with the remaining half vesting 24 months after award, provided employment continues to the applicable vesting date.

	Target STI (as % of Fixed Pay)	Maximum STI (as % of Fixed Pay)	STI awarded (as % of Target)	STI awarded (as % of Maximum STI)	STI paid in cash[1]		STI deferred into equity[2]		DSTIs granted[3]
	%	%		%	$	%	$	%	
Managing Director									
Mark Steinert	100	150	94	62	702,000	50	702,000	50	173,330
Senior Executives									
Stephen Bull	90	135	71	48	300,000	67	150,000	33	37,037
Robyn Elliott[4]	80	120	107	71	68,400	62	41,600	38	10,272
Katherine Grace	80	120	101	67	320,000	66	165,000	34	40,740
Louise Mason[5]	90	135	–	–	–	–	–	–	–
Tiernan O'Rourke	80	120	90	60	420,000	67	210,000	33	51,851
Darren Rehn	90	135	100	67	450,000	67	225,000	33	55,555
Michael Rosmarin	80	120	88	58	280,000	67	140,000	33	34,568
John Schroder[6]	90	135	63	42	600,000	100	–	0	–
Simon Shakesheff	80	120	92	61	293,333	67	146,667	33	36,214
Andrew Whitson	90	135	121	81	450,000	55	370,000	45	91,356

1 The portion of STI awarded for the FY18 performance year which is paid as cash.
2 The portion of STI awarded for FY18 performance that is deferred into Stockland securities which will vest over the next two years.
3 The number of securities granted for deferred STI is based on the Volume Weighted Average Price for the ten business days after 30 June 2018. This price was $4.0501.
4 Appointed 26 March 2018. STI shown has been pro-rata for the year.
5 Appointed 4 June 2018. Not eligible for STI during FY18.
6 Ceased employment 2 July 2018. 100% of STI awarded paid in cash.

3.4 LTI

Our LTI plan aims to align executive remuneration with securityholder returns and help retain our key talent. LTI awards are issued as performance rights granted under the Stockland Performance Rights Plan. Half of the LTI allocated to Senior Executives is linked to Stockland's performance against underlying EPS growth targets with the remaining half linked to a TSR performance hurdle.

The tables below show Stockland's performance against the respective underlying EPS and TSR performance hurdles for the three years to 30 June 2018.

Hurdle	Target/ benchmark performance	Actual performance	Out/(Under) performance	% Vested	Weight	Vesting outcome
EPS for FY16 – 18[1]						
Compound Average Growth Rate EPS[1]	4.5%	5.2%	0.7%	70.1%	50%	35.05%
TSR for FY16 – 18[2]						
Relative TSR FY16 – FY18[2]	30.9%	16.0%	(14.9%)	0.0%	50%	0.0%
Total Vesting						**35.05%**

1 Based on underlying profit. For LTI awards made in FY17 and future years, the Earnings (EPS) performance benchmark is FFO per security.
2 Benchmark based on ASX AREIT 200 Index excluding Stockland. For LTI awards made in FY17 and future years, the TSR performance benchmark is a tailored index comprised of 6 large companies forming 80% and 9 smaller companies forming 20%.

(a) LTI awarded for FY18

The performance rights that were awarded to the Managing Director and CEO and other Senior Executives under the Performance Rights Plan in FY18 are outlined in the table below. These awards are subject to a three year performance period (FY18 – FY20) with the awards measured against two performance hurdles: Relative TSR and FFO Growth.

As advised at the October 2017 AGM, the maximum vesting hurdle based on the Compound Annual Growth Rate for FFO for LTI awards granted during FY18 was 6.2% (40.0 cps) for the three years from 1 July 2017 to 30 June 2020, with the threshold or minimum vesting hurdle being 4.5% (38.1 cps).

	Grant date	Vesting date[1]	LTIs Granted[2]	Fair value per LTI	Fair Value of LTI[3]
Executive Director				$	$
Mark Steinert	27/10/2017	30/06/2020	351,083	1.71	599,474
	27/10/2017	30/06/2021	351,083	1.71	599,474
			702,166		**1,198,948**
Senior Executives[4]					
Stephen Bull	27/09/2017	30/06/2020	98,304	1.64	161,464
	27/09/2017	30/06/2021	98,303	1.64	161,463
			196,607		**322,927**
Katherine Grace	27/09/2017	30/06/2020	84,260	1.64	138,397
	27/09/2017	30/06/2021	84,260	1.64	138,397
			168,520		**276,794**
Tiernan O'Rourke	27/09/2017	30/06/2020	122,879	1.64	201,829
	27/09/2017	30/06/2021	122,879	1.64	201,829
			245,758		**403,658**
Darren Rehn	27/09/2017	30/06/2020	105,325	1.64	172,996
	27/09/2017	30/06/2021	105,325	1.64	172,996
			210,650		**345,992**
Michael Rosmarin	27/09/2017	30/06/2020	84,260	1.64	138,397
	27/09/2017	30/06/2021	84,260	1.64	138,397
			168,520		**276,794**

	Grant date	Vesting date[1]	LTIs Granted[2]	Fair value per LTI	Fair Value of LTI[3]
John Schroder[5]	27/09/2017	30/06/2020	147,455	1.64	242,195
	27/09/2017	30/06/2021	147,455	1.64	242,195
			294,910		**484,390**
Simon Shakesheff	27/09/2017	30/06/2020	84,260	1.64	138,397
	27/09/2017	30/06/2021	84,260	1.64	138,397
			168,520		**276,794**
Andrew Whitson	27/09/2017	30/06/2020	105,325	1.64	172,996
	27/09/2017	30/06/2021	105,325	1.64	172,996
			210,650		**345,992**

1 Vesting date refers to the date at which the performance and service conditions are met. The rights convert to securities subject to the three year performance period to 30 June 2020. Any rights which convert to securities then vest at the dates shown. The securities remain in holding lock until the 10th anniversary of the grant date except at Board discretion.
2 The number of rights granted is based on the Volume Weighted Average Price for the ten business days after 30 June 2017. The price was $4.2725.
3 Fair value is determined using a Monte Carlo simulation (TSR hurdle) and the Black-Scholes option pricing model (EPS hurdle). Details of the assumptions made in determining fair value are discussed in section D7 of the financial statements.
4 Robyn Elliot and Louise Mason were not eligible for LTI awards during the year.
5 John Schroder ceased employment 2 July 2018 and a portion of the LTI awarded will be forfeited as explained in section 5.4.

3.5 Executive Remuneration for FY18

Executives received a mix of remuneration during FY18 including Fixed Pay, STI awarded as cash and deferred securities and LTI awarded as performance rights.

The table below outlines the cash remuneration that was received in relation to FY18 which includes Fixed Pay and the non-deferred portion of any FY18 STI. The table also includes the value of DSTI awards from FY16 and FY17 which vested during FY18 and LTI awards from FY16 which vested during FY18. This information differs from that provided in the remuneration for executives set out in section 3.5(b) which was calculated in accordance with statutory rules and applicable Accounting Standards.

(a) Executive remuneration (non-statutory presentation)

		Fixed pay[1] $	STI awarded and received as cash $	Total Cash payments in relation to financial year $	Previous years' DSTI which were realised[3] $	Previous years' LTI which were realised[3] $	Total Remuneration (received and/or realised) $	Awards which lapsed or were forfeited[4] $
Executive Director								
Mark Steinert	**2018**	**1,500,000**	**702,000[2]**	**2,202,000**	**1,014,208**	**1,326,726**	**4,542,934**	**1,711,320**
Managing Director and CEO	2017	1,500,000	750,000[2]	2,250,000	1,080,721	1,889,970	5,220,691	1,776,090
Senior Executives								
Stephen Bull	**2018**	**700,000**	**300,000**	**1,000,000**	**313,888**	**355,525**	**1,669,413**	**479,171**
Group Executive and CEO, Retirement Living	2017	700,000	420,000	1,120,000	307,708	491,655	1,919,363	462,090
Robyn Elliot[5]	**2018**	**128,250**	**68,400**	**196,650**	**–**	**–**	**196,650**	**–**
Chief Technology and Innovation Officer	2017	–	–	–	–	–	–	–
Katherine Grace	**2018**	**600,000**	**320,000**	**920,000**	**198,286**	**266,141**	**1,384,427**	**342,266**
General Counsel and Company Secretary	2017	550,000	293,333	843,333	176,426	178,485	1,198,244	356,970
Louise Mason[6]	**2018**	**75,000**	**–**	**75,000**	**–**	**–**	**75,000**	**–**
Group Executive and CEO, Commercial Property	2017	–	–	–	–	–	–	–
Tiernan O'Rourke	**2018**	**875,000**	**420,000**	**1,295,000**	**314,229**	**451,345**	**2,060,574**	**581,847**
Chief Financial Officer	2017	875,000	466,667	1,341,667	323,700	643,860	2,309,227	604,440
Darren Rehn	**2018**	**750,000**	**450,000**	**1,200,000**	**361,262**	**382,831**	**1,944,093**	**513,396**
Group Executive and Chief Investment Officer	2017	750,000	450,000	1,200,000	362,664	499,320	2,061,984	499,320
Michael Rosmarin	**2018**	**600,000**	**280,000**	**880,000**	**228,124**	**318,771**	**1,426,895**	**410,716**
Chief Operating Officer	2017	600,000	320,000	920,000	214,235	454,425	1,588,660	427,050
John Schroder[7]	**2018**	**1,050,000**	**600,000**	**1,650,000**	**590,978**	**557,602**	**2,798,580**	**1,896,056**
Group Executive and CEO, Commercial Property	2017	1,050,000	630,000	1,680,000	430,664	794,970	2,905,634	746,790
Simon Shakesheff	**2018**	**600,000**	**293,333**	**893,333**	**241,543**	**318,771**	**1,453,647**	**410,716**
Group Executive, Strategy and Stakeholder Relations	2017	600,000	320,000	920,000	244,763	434,715	1,599,478	427,050
Andrew Whitson	**2018**	**750,000**	**450,000**	**1,200,000**	**379,846**	**382,831**	**1,962,677**	**513,396**
Group Executive and CEO, Residential	2017	750,000	450,000	1,200,000	362,664	531,075	2,093,739	499,320

1 Fixed Pay includes salary, superannuation and salary sacrificed items.
2 For Mark Steinert this is 50% (two thirds for Senior Executives) of his STI awards. The remaining 50% of his STI (one third for Senior Executives) was deferred in Stockland securities which vests over two years following the performance year, 50% after year 1 and 50% after year 2 subject to continued employment.
3 This represents the value of all prior years' deferred STI and LTI which vested during FY18 using the 30 June 2018 closing security price of $3.97
4 The value shown represents the value of any previous years' equity awards which lapsed or were forfeited during the financial year. The FY18 values are based on the closing 30 June 2018 security price of $3.97 (FY17: $4.38)
5 Robyn Elliot was appointed 26 March 2018
6 Louise Mason was appointed 4 June 2018
7 John Schroder ceased employment 2 July 2018. In addition to the above, post year end John received a termination benefit payment as set out in table (b) below.

(b) Executive remuneration (statutory presentation)

		Short-term					Post-employment		Other long-term	Shared-based payments		Total	Performance related	
		Salary[1] $	Non-monetary benefits[2] $	Other payments $	Cash STI[3] $	Total short-term $	Super-annuation benefits $	Termination benefits $	Long service leave[4] $	DSTI $	LTI $	Total $	(STI + LTI) Percent of Total %	(DSTI + LTI) Percent of Total %
Executive Director														
Mark Steinert	**2018**	**1,494,694**	**–**	**943**	**702,000**	**2,197,637**	**19,278**	**–**	**19,824**	**985,000**	**1,216,893**	**4,438,632**	**65.4**	**49.6**
Managing Director and CEO	2017	1,510,074	–	–	750,000	2,260,074	19,616	–	11,544	1,150,000	1,353,794	4,795,028	67.9	52.2
Senior Executives														
Stephen Bull	**2018**	**633,299**	**12,422**	**–**	**300,000**	**945,721**	**19,278**	**–**	**21,985**	**273,933**	**352,114**	**1,613,031**	**57.4**	**38.8**
Group Executive and CEO, Retirement Living	2017	698,335	12,422	–	420,000	1,130,757	19,616	–	16,338	346,083	359,768	1,872,562	60.1	37.7
Robyn Elliott[5]	**2018**	**132,197**	**–**	**–**	**68,400**	**200,597**	**5,398**	**–**	**–**	**17,333**	**–**	**223,328**	**38.4**	**7.8**
Chief Technology and Innovation Officer	2017	–	–	–	–	–	–	–	–	–	–	–	–	–
Katherine Grace	**2018**	**575,407**	**–**	**–**	**320,000**	**895,407**	**19,278**	**–**	**6,350**	**206,917**	**274,870**	**1,402,822**	**57.2**	**34.3**
General Counsel & Company Secretary	2017	541,711	–	–	293,333	835,044	19,616	–	2,307	215,099	239,505	1,311,571	57.0	34.7
Louise Mason[6]	**2018**	**78,994**	**956**	**205,479**	**–**	**285,429**	**–**	**–**	**–**	**125,000**	**–**	**410,429**	**30.5**	**30.5**
Group Executive and CEO, Commercial Property	2017	–	–	–	–	–	–	–	–	–	–	–	–	–
Tiernan O'Rourke	**2018**	**848,993**	**–**	**–**	**420,000**	**1,268,993**	**19,278**	**–**	**10,749**	**301,883**	**438,740**	**2,039,643**	**56.9**	**36.3**
Chief Financial officer	2017	890,878	–	–	466,667	1,357,545	19,616	–	5,308	352,694	454,345	2,189,508	58.2	36.9
Darren Rehn	**2018**	**736,492**	**–**	**943**	**450,000**	**1,187,435**	**19,278**	**–**	**9,205**	**342,667**	**377,667**	**1,936,252**	**60.4**	**37.2**
Group Executive and Chief Investment Officer	2017	737,040	–	–	450,000	1,187,040	19,616	–	5,772	403,625	381,511	1,997,564	61.8	39.3
Michael Rosmarin	**2018**	**568,300**	**12,422**	**–**	**280,000**	**860,722**	**19,278**	**–**	**27,721**	**219,183**	**304,764**	**1,431,668**	**56.2**	**36.6**
Chief Operating Officer	2017	580,477	12,422	–	320,000	912,899	19,616	–	10,045	251,917	318,161	1,512,638	58.8	37.7
John Schroder[7]	**2018**	**1,034,760**	**–**	**–**	**600,000**	**1,634,760**	**19,278**	**1,050,000**	**40,921**	**332,150**	**533,285**	**3,610,394**	**40.6**	**24.0**
Group Executive and CEO, Commercial Property	2017	1,012,438	8,217	–	630,000	1,650,655	19,616	–	24,508	439,750	556,660	2,691,189	60.4	37.0
Simon Shakesheff	**2018**	**588,571**	**–**	**–**	**293,333**	**881,904**	**18,892**	**–**	**8,029**	**226,278**	**304,764**	**1,439,867**	**57.3**	**36.9**
Group Executive, Strategy & Stakeholder Relations	2017	557,967	–	–	320,000	877,967	19,616	–	3,535	270,000	314,898	1,486,016	60.9	39.4
Andrew Whitson	**2018**	**712,532**	**12,422**	**1,887**	**450,000**	**1,176,841**	**19,278**	**–**	**27,345**	**419,750**	**377,667**	**2,020,881**	**61.7**	**39.5**
Group Executive and CEO, Residential	2017	743,859	12,422	–	450,000	1,206,281	19,616	–	27,759	420,292	386,767	2,060,715	61.0	39.2
Total consolidated remuneration	**2018**	**7,404,239**	**38,222**	**209,252**	**3,883,733**	**11,535,446**	**178,514**	**1,050,000**	**172,129**	**3,450,094**	**4,180,764**	**20,566,947**	**56.0**	**37.1**
	2017	7,272,779	45,483	–	4,100,000	11,418,262	176,544	–	107,116	3,849,460	4,365,409	19,916,791	61.8	41.2

1 Includes any change in accruals for annual leave.
2 Comprises salary packaged benefits, including motor vehicle costs, car parking, other salary sacrificed items and FBT payable on these items.
3 Cash STIs are earned in the financial year to which they relate and are paid in August/September of the following financial year.
4 Includes any change in accruals for long service leave.
5 Robyn Elliot was appointed 26 March 2018.
6 Louise Mason was appointed 4 June 2018. Other payments include payment on commencement to compensate for incentives forfeited on ceasing previous employment to join Stockland.
7 John Schroder ceased employment 2 July 2018. Termination payment in accordance with policy as set out in section 5.4 of this report.

4. Non-Executive Director Remuneration

4.1 Directors' Fees

Stockland's remuneration policy for Non-Executive Directors aims to ensure Stockland can attract and retain suitably skilled, experienced and committed individuals to serve on the Board and remunerate them appropriately for their time and expertise and for their responsibilities and liabilities as public company directors.

The Human Resources Committee is responsible for reviewing and recommending to the Board any changes to Board and Committee remuneration, taking into account the size and scope of Stockland's activities, the responsibilities and liabilities of directors and the demands placed upon them. In developing its recommendations, the Committee may take advice from external consultants.

With the exception of the Chairman, Non-Executive Directors receive additional fees for their work on Board committees. Where a special purpose Board committee is established by the Board, committee members may receive a fee in line with those paid for existing Board committees. Non-Executive Directors do not receive performance-related remuneration or termination benefits other than accumulated superannuation.

In FY18, there were no changes in the base fees for the Chairman, Non-Executive Directors or any of the Board Committee. The Board decided to cease the Financial Services Compliance Committee as well as the Stockland Capital Partners Limited Financial Services Compliance Committee given the oversight and responsibilities of the Audit and Risk Committees.

In FY19, in line with our considered approach to remuneration, there will be no changes in the base fees for the Chairman and Non-Executive Directors or for Board committee fees.

		FY19	FY18
Stockland Board			
Chairman		$500,000	$500,000
Non-Executive Director		$175,000	$175,000
Stockland Board Committees			
Audit	Chair	$40,000	$40,000
	Member	$20,000	$20,000
Risk	Chair	$35,000	$35,000
	Member	$17,500	$17,500
Human Resources	Chair	$35,000	$35,000
	Member	$17,500	$17,500
SCPL Board			
Chairman		$32,700	$32,700
Non-Executive Director		$32,700	$32,700
Independent Non-Executive Director[1]		$30,000	$30,000
SCPL Board Committees			
Audit	Chair	$15,260	$15,260
	Member	$8,720	$8,720

1 Independent Non-Executive Directors of SCPL are those who are not on the Stockland Board.

Total remuneration available to Non-Executive Directors is approved by securityholders and is currently $2,500,000 (including superannuation payments) as approved at the 2007 Annual General Meeting. No increase in the total fee pool is proposed for FY19.

Total fees of $1,800,330 (72% of the approved limit) were paid to Non-Executive Directors in FY18. This amount was 2.9% higher than the total fees paid in FY17 due to the timing of new Non-Executive Directors being appointed and the retirement of former Non-Executive Directors. There was no changes to the base fees for Non-Executive Directors and Chairman or the respective Board Committees.

The nature and amount of each element of remuneration for each Non-Executive Director is detailed below:

		Short-term		Post-employment	
		Board and Committee Fees	Non-monetary benefits	Superannuation contributions	Total[1]
		$	$	$	$
Non-Executive Directors					
Tom Pockett	**2018**	**479,951**	**–**	**20,049**	**500,000**
	2017	395,619	–	14,712	410,331
Melinda Conrad[2]	**2018**	**19,266**	**–**	**1,830**	**21,096**
	2017	–	–	–	–
Carolyn Hewson	**2018**	**191,781**	**–**	**18,219**	**210,000**
	2017	195,987	–	14,013	210,000
Barry Neil	**2018**	**207,945**	**–**	**19,755**	**227,700**
	2017	212,988	–	14,712	227,700
Stephen Newton	**2018**	**243,985**	**–**	**20,049**	**264,034**
	2017	218,745	–	14,712	233,457
Carol Schwartz	**2018**	**191,781**	**–**	**18,219**	**210,000**
	2017	195,987	–	14,013	210,000
Andrew Stevens[3]	**2018**	**178,082**	**–**	**16,918**	**195,000**
	2017	–	–	–	–
Former Non-Executive Directors					
Nora Scheinkestel[4]	**2018**	**157,534**	**–**	**14,966**	**172,500**
	2017	219,891	–	14,712	234,603
Graham Bradley[5]	**2018**	**–**	**–**	**–**	**–**
	2017	186,252	–	4,904	191,156
Peter Scott[6]	**2018**	**–**	**–**	**–**	**–**
	2017	25,220	4,293	2,396	31,909
Total consolidated remuneration	**2018**	**1,670,325**	**–**	**130,005**	**1,800,330**
	2017	1,650,689	4,293	94,174	1,749,156

1 The fees for each Director are paid on a total cost basis which includes any applicable compulsory superannuation (the amount of superannuation included in the total fees will vary depending on the timing of payments and in line with applicable legislation).
2 Melinda Conrad was appointed on 18 May 2018.
3 Andrew Stevens was appointed on 1 July 2017.
4 Nora Scheinkestel retired 20 March 2018.
5 Graham Bradley retired 26 October 2016.
6 Peter Scott retired 16 August 2016.

4.2 Directors' security holdings

To align our Directors with securityholder interests, the Board believes that Directors should hold a meaningful number of Stockland securities. Each Non-Executive Director is required to acquire 40,000 securities within a reasonable time after becoming a Director. This minimum equates to approximately one year's base Board fees. All new directors have a period of three years to comply with this policy and Directors holding less than 40,000 securities had until 30 June 2018 to comply. Stockland also has a policy regarding the minimum securityholding for Senior Executives as set out in the Remuneration Report. Both these policies are intended to align the personal financial interests of Directors and Senior Executives with those of securityholders.

The relevant interest of each Director in Stockland securities, as notified by the Directors to the ASX in accordance with S205G(1) of the *Corporations Act 2001*, at the date of this Report are as follows:

	Stockland	
	2018	**2017**
Non-Executive Directors		
Tom Pockett	**40,000**	40,000
Melinda Conrad[1]	**–**	–
Carolyn Hewson	**40,000**	36,778
Barry Neil	**76,718**	61,718
Stephen Newton	**40,000**	20,000
Christine O'Reilly[2]	**50,000**	–
Carol Schwartz	**40,000**	40,000
Andrew Stevens[3]	**20,000**	–
Executive Director		
Mark Steinert[4]	**2,654,856**	2,062,200

1 Melinda Conrad was appointed 18 May 2018.
2 Christine O'Reilly was appointed 23 August 2018.
3 Andrew Stevens was appointed 1 July 2017.
4 Includes vested DSTI securities and vested LTI rights held by the Executive Director. Excludes unvested DSTI and LTI rights as detailed in section 5.3 of this Report.

5. Other remuneration information

5.1 Remuneration governance

The Human Resources Committee assists the Board to exercise sound governance of its responsibility for the appointment, performance and remuneration of the Managing Director and CEO and Senior Executives.

The Committee also oversees all employment and remuneration policies to ensure that, at all levels in the organisation, fairness and balance are maintained between reward, cost and value to Stockland.

The Committee approves the remuneration framework for all employees, including risk and financial control personnel and employees whose total remuneration includes a significant variable component.

The Committee comprises of four independent Non-Executive Directors: Carolyn Hewson (Chair), Carol Schwartz, Melinda Conrad and Tom Pockett.

The roles and responsibilities of the Committee are outlined in the Committee's charter which is available on Stockland's website.

5.2 Use of remuneration consultants during the year

Stockland seeks relevant benchmarking and commentary on a number of remuneration issues from a variety of consultants including EY. Stockland also subscribes to a number of independent salary and remuneration surveys, including property sector specific surveys run by AON Hewitt and Mercer. During FY18, no remuneration recommendations in relation to key management personnel, as defined by Division 1 of Part 1.2 of Chapter 1 of the *Corporations Act 2001*, were made by these or other consultants.

5.3 Stockland Equity held by key management personnel

The table below outlines the number of vested and ordinary holdings (personal) and unvested equity (DSTI and LTI) held by the Managing Director, other Senior Executives and Non-Executive Directors as at the end of FY18. This table highlights the direct exposure that each executive has to the Stockland security price.

Employee	Holding[1]	Balance 1 July 2017	Acquired/ (Disposed) or Granted	Equity Incentives which lapsed	Equity Incentives which vested[2]	Balance 30 June 2018	Maximum value yet to vest[3]
Executive Director							$
Mark Steinert	Securities	2,062,200	3,000	–	589,656	**2,654,856**	–
	DSTI	399,413	173,330	–	(255,468)	**317,275**	614,500
	LTI	1,572,329	702,166	(431,063)	(334,188)	**1,509,244**	1,497,053
Senior Executives							
Stephen Bull	Securities	340,780	(100,000)	–	168,618	**409,398**	–
	DSTI	122,131	37,037	–	(79,065)	**80,103**	148,833
	LTI	436,233	196,607	(120,698)	(89,553)	**422,589**	424,146
Robyn Elliott	Securities	–	–	–	–	**–**	–
	DSTI	–	10,272	–	–	**10,272**	24,267
	LTI	–	–	–	–	**–**	–
Katherine Grace	Securities	100,933	(13,500)	–	116,984	**204,417**	–
	DSTI	79,516	40,740	–	(49,946)	**70,310**	138,361
	LTI	327,058	168,520	(86,213)	(67,038)	**342,327**	346,221
Louise Mason	Securities	–	–	–	–	**–**	–
	DSTI	–	74,072	–	–	**74,072**	175,000
	LTI	–	–	–	–	**–**	–
Tiernan O'Rourke	Securities	364,766	(75,000)	–	192,840	**482,606**	–
	DSTI	123,661	51,851	–	(79,151)	**96,361**	185,889
	LTI	540,853	245,758	(146,561)	(113,689)	**526,361**	528,484
Darren Rehn	Securities	447,691	–	–	187,429	**635,120**	–
	DSTI	143,426	55,555	–	(90,998)	**107,983**	205,917
	LTI	467,874	210,650	(129,319)	(96,431)	**452,774**	454,441
Michael Rosmarin	Securities	296,735	–	–	137,757	**434,492**	–
	DSTI	92,454	34,568	–	(57,462)	**69,560**	131,500
	LTI	377,449	168,520	(103,455)	(80,295)	**362,219**	363,553
John Schroder[4]	Securities	859,914	(131,518)	–	289,315	**1,017,711**	–
	DSTI	148,861	–	–	(148,861)	**–**	–
	LTI	660,474	294,910	(477,596)	(140,454)	**337,334**	–
Simon Shakesheff	Securities	325,263	(72,912)	–	141,137	**393,488**	–
	DSTI	95,249	36,214	–	(60,842)	**70,621**	134,556
	LTI	377,449	168,520	(103,455)	(80,295)	**362,219**	363,553
Andrew Whitson	Securities	305,433	(100,000)	–	192,110	**397,543**	–
	DSTI	152,788	91,356	–	(95,679)	**148,465**	297,167
	LTI	467,874	210,650	(129,319)	(96,431)	**452,774**	454,441
Non-Executive Directors							
Tom Pockett	Securities	40,000	–	–	–	**40,000**	–
Melinda Conrad	Securities	–	–	–	–	**–**	–
Carolyn Hewson	Securities	36,778	3,222	–	–	**40,000**	–
Barry Neil	Securities	61,718	15,000	–	–	**76,718**	–
Stephen Newton	Securities	20,000	20,000	–	–	**40,000**	–
Carol Schwartz	Securities	40,000	–	–	–	**40,000**	–
Andrew Stevens	Securities	–	20,000	–	–	**20,000**	–

1 The DSTI awards are subject to either 1 or 2 years of continued service, and vest once this condition has been met, and are forfeited only if employment ceases. No DSTI awards were forfeited during the year.
2 The LTI and DSTI which have vested at 30 June 2018 are yet to be exercised and converted to securities.
3 The maximum value of the LTI and DSTI yet to vest has been determined as the amount of the fair value of the rights that is yet to be expensed over the remaining vesting period. The minimum value of LTI and DSTI yet to vest is nil, as the securities are subject to performance hurdles being met and the risk of forfeiture until vesting dates.
4 Due to John Schroder ceasing employment on 2 July 2018, DSTI awards from prior years were accelerated and vested in full on termination. LTI were forfeited in proportion with the vesting period that had not yet been served. For example, for the FY18 Awards granted, for which one year has been served, Mr Schroder retains a third of the 3 year portion of the award and a quarter of the 4 year LTI rights granted. These will only vest if applicable EPS and/or TSR hurdles are exceed in future years. In total, 52.7% of the unvested LTI awards were forfeited. All these equity awards remain subject to clawback provision.

5.4 Senior Executives' employment and termination arrangements

The Managing Director and CEO and other Senior Executives are on rolling contracts until notice of termination is given by either Stockland or the Senior Executive. The notice period for the Managing Director and CEO and other Senior Executives is six and three months, respectively. In appropriate circumstances, payment may be made in lieu of notice. Where Stockland initiates termination, including mutually agreed resignation, the Executive would receive a termination payment of up to twelve months' Fixed Pay (including applicable notice) and be considered for a year to termination STI award based on performance.

Where the termination occurs as a result of misconduct or a serious or persistent breach of contract (termination for cause), Stockland may terminate employment immediately without notice, payment in lieu of notice or any other termination payment.

In cases of termination for cause or resignation, all unvested employee securities or rights lapse. In other circumstances, the Board has the discretion to adjust the vesting conditions. Typically, this discretion is applied as outlined below.

Death or Total and Permanent Disablement	Full vesting of any unvested equity awards.
For termination other than for cause or resignation	For unvested DSTI, full vesting in the year of termination. For LTI, unvested rights are vested prorated based on service to the date of termination. Any applicable prorated hurdled rights remain subject to the applicable performance hurdles over the full performance period. Any applicable restricted rights vest on 30 June in the year of termination. Other unvested LTI awards are forfeited.

5.5 Key management personnel

Individuals who were KMPs of Stockland at any time during the financial year are as follows:

Non-Executive Directors

Mr Tom Pockett
Ms Melinda Conrad (appointed 18 May 2018)
Ms Carolyn Hewson
Mr Barry Neil
Mr Stephen Newton
Dr Nora Scheinkestel (retired 20 March 2018)
Ms Carol Schwartz
Mr Andrew Stevens (appointed 1 July 2017)

Executive Director

Mr Mark Steinert Managing Director and Chief Executive Officer

Senior Executives

Mr Stephen Bull Group Executive and CEO Retirement Living
Ms Robyn Elliott Group Executive and Chief Technology and Innovation Officer (appointed 26 March 2018)
Ms Katherine Grace Group Executive and General Counsel and Company Secretary
Ms Louise Mason Group Executive and CEO Commercial Property (appointed 4 June 2018)
Mr Tiernan O'Rourke Group Executive and Chief Financial Officer
Mr Darren Rehn Group Executive and Chief Investment Officer
Mr Michael Rosmarin Group Executive and Chief Operating Officer
Mr John Schroder Group Executive and CEO Commercial Property (ceased employment 2 July 2018)
Mr Simon Shakesheff Group Executive and Strategy, Stakeholder Relations and Research
Mr Andrew Whitson Group Executive and CEO Residential

Indemnities and insurance of officers and auditor

Since the end of the prior year, the Group has not indemnified or agreed to indemnify any person who is or has been an officer or an auditor of Stockland against any liability.

Since the end of the prior year, the Group has paid insurance premiums in respect of Directors' and Officers' liability insurance contracts, for Directors, Executive Directors, Company Secretaries and Officers. Such insurance contracts insure against certain liabilities (subject to specified exclusions) for persons who are or have been Directors and Officers of Stockland.

Premiums are also paid for Fidelity insurance and Professional Indemnity insurance policies to cover certain risks for a broad range of employees, including Directors and Executives.

Non-audit services

During the financial year the Group's auditor, PwC provided certain other services to the Group in addition to their statutory duties as auditor.

The Board has considered the non-audit services provided during the financial year by the auditor and is satisfied that the provision of those services is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- the non-audit services were for taxation, regulatory, other advisory and assurance-related work closely linked to the Group's audit, and none of this work created any conflicts with the auditor's statutory responsibilities;
- the Audit Committee resolved that the provision of non-audit services during the financial year by PwC as auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001*;
- the Board's own review conducted in conjunction with the Audit Committee, having regard to the Board policy set out in this Report, concluded that it is satisfied the non-audit services did not impact the integrity and objectivity of the auditor; and
- the declaration of independence provided by PwC, as auditor of Stockland.

Details of the amounts paid to the auditor of the Group, PwC, and its related practices for audit and non-audit services provided during the financial year are set out in section F9 of the accompanying financial statements.

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

The external auditor's independence declaration is set out on page 55 and forms part of the Directors' Report for the year ended 30 June 2018.

Rounding off

Stockland is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) instrument 2016/191 and in accordance with that Instrument, amounts in the Financial Report and Directors' Report have been rounded to the nearest million dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:

Tom Pockett
Chairman

Mark Steinert
Managing Director

Dated at Sydney, 23 August 2018

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

Auditor's Independence Declaration

As lead auditor for the audit of Stockland Corporation Limited and Stockland Trust for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Stockland Corporation Limited and the entities it controlled during the year and Stockland Trust and the entities it controlled during the year.

S J Hadfield
Partner
PricewaterhouseCoopers

Sydney
23 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au.

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

Year ended 30 June	Section	Stockland 2018 $M	Stockland 2017 $M	Trust 2018 $M	Trust 2017 $M
Revenue	B1	**2,775**	2,744	**781**	762
Cost of property developments sold:					
• land and development		**(1,263)**	(1,292)	**–**	–
• capitalised interest		**(106)**	(142)	**–**	–
• utilisation of provision for impairment of inventories		**30**	103	**–**	–
Net write-back of inventory impairment provision	C1a	**–**	3	**–**	–
Investment property expenses		**(264)**	(248)	**(252)**	(237)
Share of profits of equity-accounted investments	E1a	**69**	84	**69**	84
Management, administration, marketing and selling expenses		**(318)**	(304)	**(38)**	(39)
Net change in fair value of investment properties:					
• Commercial Property	C1b	**96**	209	**68**	184
• Retirement Living	B2c	**59**	87	**–**	–
Net change in fair value of Retirement Living resident obligations	B2c	**(73)**	(82)	**–**	–
Net gain/(loss) on other financial assets	D4	**26**	1	**(1)**	1
Net gain/(loss) on sale of other non-current assets		**16**	(1)	**16**	1
Finance income	D1	**8**	122	**273**	391
Finance expense	D1	**(89)**	(83)	**(204)**	(192)
Profit before income tax		**966**	1,201	**712**	955
Income tax benefit/(expense)	B3a	**59**	(6)	**–**	–
Profit for the year		**1,025**	1,195	**712**	955
Items that are or may be reclassified to profit or loss, net of tax					
Available for sale financial assets – net change in fair value	D4	**2**	66	**–**	–
Available for sale financial assets – reclassified to profit or loss	D4	**(17)**	(71)	**–**	–
Cash flow hedges – net change in fair value of effective portion		**23**	(21)	**23**	(21)
Cash flow hedges – reclassified to profit or loss		**(1)**	(4)	**(1)**	(4)
Other comprehensive income, net of tax		**7**	(30)	**22**	(25)
Total comprehensive income for the year		**1,032**	1,165	**734**	930
Basic earnings per security (cents)	F2	**42.3**	49.8	**29.4**	39.8
Diluted earnings per security (cents)	F2	**42.2**	49.6	**29.3**	39.6

The above Consolidated Statements of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheets

AS AT 30 JUNE 2018

As at 30 June	Section	Stockland 2018 $M	Stockland 2017 $M	Trust 2018 $M	Trust 2017 $M
Current assets					
Cash and cash equivalents	D2	**333**	238	**215**	117
Trade and other receivables	C2a	**98**	139	**22**	22
Inventories	C1a	**715**	756	**–**	–
Other financial assets	D4	**12**	23	**12**	–
Other assets		**103**	96	**80**	71
		1,261	1,252	**329**	210
Non-current assets held for sale	C3b	**65**	71	**22**	69
Total current assets		**1,326**	1,323	**351**	279
Non-current assets					
Trade and other receivables	C2a	**99**	83	**3,363**	3,252
Inventories	C1a	**2,750**	1,725	**–**	–
Investment properties – Commercial Property	C1b	**9,563**	9,285	**9,487**	9,186
Investment properties – Retirement Living	C1c	**4,120**	3,824	**–**	–
Equity-accounted investments	E1a	**613**	574	**595**	556
Other financial assets	D4	**282**	286	**272**	278
Property, plant and equipment		**53**	51	**–**	–
Intangible assets	C3a	**194**	156	**–**	–
Deferred tax assets	B3b	**88**	22	**–**	–
Other assets		**203**	166	**207**	170
Total non-current assets		**17,965**	16,172	**13,924**	13,442
Total assets		**19,291**	17,495	**14,275**	13,721
Current liabilities					
Trade and other payables	C2b	**810**	585	**462**	410
Interest-bearing loans and borrowings	D3	**240**	267	**240**	267
Retirement Living resident obligations	C1c	**2,577**	2,444	**–**	–
Development provisions	C1a	**567**	319	**–**	–
Other financial liabilities	D4	**33**	38	**33**	38
Other liabilities		**107**	125	**43**	54
Total current liabilities		**4,334**	3,778	**778**	769
Non-current liabilities					
Trade and other payables	C2b	**173**	10	**–**	–
Interest-bearing loans and borrowings	D3	**3,698**	3,262	**3,698**	3,262
Retirement Living resident obligations	C1c	**164**	185	**–**	–
Development provisions	C1a	**356**	109	**–**	–
Other financial liabilities	D4	**163**	203	**163**	203
Other liabilities		**27**	21	**–**	–
Total non-current liabilities		**4,581**	3,790	**3,861**	3,465
Total liabilities		**8,915**	7,568	**4,639**	4,234
Net assets		**10,376**	9,927	**9,636**	9,487
Securityholders' equity					
Issued capital	D7	**8,850**	8,790	**7,538**	7,480
Reserves		**101**	93	**98**	75
Retained earnings/undistributed income		**1,425**	1,044	**2,000**	1,932
Total securityholders' equity		**10,376**	9,927	**9,636**	9,487

The above Consolidated Balance Sheets should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

Attributable to securityholders of Stockland

			Reserves				
	Section	Issued capital $M	Executive remuneration $M	Cash flow hedge $M	Fair value $M	Retained earnings $M	Total equity $M
Opening balance as at 1 July 2016		8,681	43	63	20	447	9,254
Profit for the year		–	–	–	–	1,195	1,195
Other comprehensive income, net of tax		–	–	(25)	(5)	–	(30)
Total comprehensive income		–	–	(25)	(5)	1,195	1,165
Dividends and distributions	D8	–	–	–	–	(615)	(615)
Securities issued under DRP	D7a	121	–	–	–	–	121
Expense relating to Security Plans, net of tax	F7	–	18	–	–	–	18
Acquisition of treasury securities	D7b	(16)	–	–	–	–	(16)
Securities vested under Security Plans	D7b	4	(4)	–	–	–	–
Transfer of lapsed securities under Security Plans		–	(17)	–	–	17	–
Total of other movements		109	(3)	–	–	(598)	(492)
Balance as at 30 June 2017		8,790	40	38	15	1,044	9,927
Opening balance as at 1 July 2017		**8,790**	**40**	**38**	**15**	**1,044**	**9,927**
Profit for the year		**–**	**–**	**–**	**–**	**1,025**	**1,025**
Other comprehensive income, net of tax		**–**	**–**	**22**	**(15)**	**–**	**7**
Total comprehensive income		**–**	**–**	**22**	**(15)**	**1,025**	**1,032**
Dividends and distributions	D8	**–**	**–**	**–**	**–**	**(645)**	**(645)**
Securities issued under DRP	D7a	**67**	**–**	**–**	**–**	**–**	**67**
Expense relating to Security Plans, net of tax	F7	**–**	**15**	**–**	**–**	**–**	**15**
Acquisition of treasury securities	D7b	**(20)**	**–**	**–**	**–**	**–**	**(20)**
Securities vested under Security Plans	D7b	**13**	**(13)**	**–**	**–**	**–**	**–**
Transfer of lapsed securities under Security Plans		**–**	**(1)**	**–**	**–**	**1**	**–**
Total of other movements		**60**	**1**	**–**	**–**	**(644)**	**(583)**
Balance as at 30 June 2018		**8,850**	**41**	**60**	**–**	**1,425**	**10,376**

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statements of Changes in Equity

Attributable to securityholders of Trust

	Section	Issued capital $M	Reserves: Executive remuneration $M	Reserves: Cash flow hedge $M	Undistributed income $M	Total equity $M
Opening balance as at 1 July 2016		7,374	40	63	1,575	9,052
Profit for the year		–	–	–	955	955
Other comprehensive income		–	–	(25)	–	(25)
Total comprehensive income		–	–	(25)	955	930
Distributions	D8	–	–	–	(615)	(615)
Securities issued under DRP	D7a	118	–	–	–	118
Expense relating to Security Plans, net of tax	F7	–	18	–	–	18
Acquisition of treasury securities	D7b	(16)	–	–	–	(16)
Securities vested under Security Plans	D7b	4	(4)	–	–	–
Transfer of lapsed securities under Security Plans		–	(17)	–	17	–
Total of other movements		106	(3)	–	(598)	(495)
Balance as at 30 June 2017		7,480	37	38	1,932	9,487
Balance as at 1 July 2017		**7,480**	**37**	**38**	**1,932**	**9,487**
Profit for the year		**–**	**–**	**–**	**712**	**712**
Other comprehensive income		**–**	**–**	**22**	**–**	**22**
Total comprehensive income		**–**	**–**	**22**	**712**	**734**
Distributions	D8	**–**	**–**	**–**	**(645)**	**(645)**
Securities issued under DRP	D7a	**64**	**–**	**–**	**–**	**64**
Expense relating to Security Plans, net of tax	F7	**–**	**15**	**–**	**–**	**15**
Acquisition of treasury securities	D7b	**(19)**	**–**	**–**	**–**	**(19)**
Securities vested under Security Plans	D7b	**13**	**(13)**	**–**	**–**	**–**
Transfer of lapsed securities under Security Plans		**–**	**(1)**	**–**	**1**	**–**
Total of other movements		**58**	**1**	**–**	**(644)**	**(585)**
Balance as at 30 June 2018		**7,538**	**38**	**60**	**2,000**	**9,636**

The above Consolidated Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statements

Year ended 30 June	Section	Stockland 2018 $M	Stockland 2017 $M	Trust 2018 $M	Trust 2017 $M
Cash flows from operating activities					
Cash receipts in the course of operations (including GST)		**3,055**	3,004	**917**	879
Cash payments in the course of operations (including GST)		**(1,785)**	(1,847)	**(415)**	(403)
Payments for land		**(496)**	(283)	**–**	–
Distributions received from equity-accounted investments		**30**	33	**30**	33
Receipts from Retirement Living residents		**272**	378	**–**	–
Payments to Retirement Living residents, net of DMF		**(150)**	(165)	**–**	–
Interest received		**3**	3	**268**	273
Interest paid		**(201)**	(202)	**(201)**	(202)
Net cash inflows from operating activities	F3	**728**	921	**599**	580
Cash flows from investing activities					
Proceeds from sale of investment properties		**278**	74	**260**	72
Payments for and development of investment properties:					
• Commercial Property		**(463)**	(374)	**(464)**	(399)
• Retirement Living		**(213)**	(133)	**–**	–
Payments for plant and equipment and software		**(58)**	(38)	**–**	–
Proceeds from sale of/capital returns from investments		**29**	20	**–**	–
Payments for investments, including equity-accounted investments		**–**	(1)	**–**	(1)
Distributions received from other entities		**1**	72	**1**	1
Net cash outflows from investing activities		**(426)**	(380)	**(203)**	(327)
Cash flows from financing activities					
Payment for treasury securities under Security Plans	D7b	**(20)**	(16)	**(19)**	(16)
Proceeds from borrowings		**2,510**	1,563	**2,510**	1,563
Repayment of borrowings		**(2,136)**	(1,582)	**(2,136)**	(1,582)
Loans to related entities		**–**	–	**(92)**	278
Dividends and distributions paid (net of DRP)		**(561)**	(476)	**(561)**	(476)
Net cash outflows from financing activities		**(207)**	(511)	**(298)**	(233)
Net increase in cash and cash equivalents		**95**	30	**98**	20
Cash and cash equivalents at the beginning of the year		**238**	208	**117**	97
Cash and cash equivalents at the end of the year		**333**	238	**215**	117

The above Consolidated Cash Flow Statements should be read in conjunction with the accompanying notes.

(A) Basis of preparation

IN THIS SECTION

This section sets out the basis upon which the Group's financial statements are prepared as a whole. Specific accounting policies are described in the section to which they relate.

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

Stockland represents the consolidation of Stockland Corporation Limited and its controlled entities and Stockland Trust and its controlled entities. Stockland Corporation Limited and Stockland Trust are both for-profit entities that were incorporated or formed and are 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 Australian Securities Exchange. 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.

The Financial Report as at and for the year ended 30 June 2018 was authorised for issue by the Directors on 23 August 2018.

(i) Statement of compliance

The financial statements are general purpose financial reports which have been prepared in accordance with the requirements of the *Corporations Act 2001*, AASB's issued by the Australian Accounting Standards Board and International Financial Reporting Standards adopted by the International Accounting Standard Board.

(ii) Basis of preparation

As permitted by Class Order 13/1050, issued by ASIC, these financial statements are combined financial statements that present the financial statements and accompanying notes of both Stockland and the Trust.

The financial statements are presented in Australian dollars, which is Stockland Corporation Limited's and Stockland Trust's functional currency and the functional currency of the majority of Stockland and the Trust.

The financial statements have been prepared on a going concern basis using historical cost conventions, except for investment properties (including non-current assets held for sale), derivative financial instruments, certain financial assets and liabilities which are stated at their fair value.

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, amounts in the Financial Report have been rounded to the nearest million dollars, unless otherwise stated.

Certain comparative amounts have been restated to conform with the current year's presentation.

(ii) Basis of preparation (continued)

Stockland and Trust net current asset deficiency position

Stockland and the Trust have net current asset deficiencies at 30 June 2018 of $3,008 million and $427 million respectively (2017: Stockland $2,455 million, Trust $490 million).

Based on the profits and net cash inflows from operating activities in the period and forecast for the next 12 months Stockland and the Trust will be able to pay their debts as and when they become due and payable. Undrawn bank facilities of $920 million (refer to section D3c) are also available should they need to be drawn down.

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, development work in progress and vacant stock).

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

In relation to current Retirement Living resident obligations for existing residents (2018: $2,567 million; 2017: $2,439 million), approximately 7% (2017: 8%) of residents are estimated to depart their dwellings each year and therefore it is not expected that the majority of the obligations to residents will fall due within one year. In the vast majority of transactions involving the turnover of units, the resident obligations will be repaid from receipts from incoming residents. However, resident obligations are classified as current under the definitions in the Accounting Standards as there is no unconditional contractual right to defer settlement for at least 12 months (residents may give notice of their intention to vacate their unit with immediate effect). In contrast, the corresponding Retirement Living assets are classified as non-current under Accounting Standards as the majority are not expected to be realised within 12 months.

Stockland generated positive cash flows from operations of $728 million during the year and had $920 million of undrawn facilities available at the balance date. The timing of cash flows related to assets and liabilities, including those items noted above, has been considered within Stockland detailed cash flow and liquidity forecasts.

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. The Trust generated cash inflows from operating activities of $599 million during the year. The Trust has the ability to refinance the existing borrowings and raise new external debt if required.

(iii) Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Assumptions underlying management's estimates of fair value and recoverability can be found in the following sections to the financial statements:

Area of Estimation	Section
Tax losses – assumptions underlying recognition and recoverability	B3b
Inventories – assumptions underlying net realisable value and profit margin recognition and Whole of Life (WOL) accounting	C1a
Commercial properties – assumptions underlying fair value	C1b
Retirement Living – assumptions underlying fair value	C1c
Goodwill – assumptions underlying recoverable value	C3a
Software – assumptions underlying recoverable value	C3a
Fair value of derivatives – assumptions underlying fair value	D4
Valuation of share based payments – assumptions underlying fair value	D7c

(B) Results for the year

IN THIS SECTION

This section explains the results and performance of the Group.

This section provides additional information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the Group, including:

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

(B1) Revenue

Revenue is recognised at the fair value of the consideration received or receivable, net of the amount of GST levied.

Property development sales

Revenue from land and property sales is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue can be reliably measured.

Rent from investment properties

Rent is recognised on a straight-line basis over the lease term, net of any incentives.

Rent from investment properties includes $5 million (2017: $6 million) of contingent rents (also known as turnover rents) billed to tenants. Contingent rents are derived from the tenants' revenues and represent 1% (2017: 1%) of gross lease income.

Deferred Management Fee (DMF) revenue

DMF is recognised over the tenancy period and includes both fixed fees recognised on a straight-line basis and contingent fees recognised when earned.

DMF calculated on the entry price of the unit are recognised each period, however fees are only realised in cash at the end of the residents tenure.

DMF calculated on the exit price of the unit are recognised and realised in cash at the end of the resident's tenure.

Accounting for DMF is further explained in section B2c.

Dividends and distributions

Revenue from dividends and distributions are recognised in profit or loss on the date they are declared by the relevant entity.

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

	Stockland		Trust	
	2018 $M	**2017 $M**	**2018 $M**	**2017 $M**
Property development sales	**1,868**	1,787	**–**	–
Rent from investment properties	**780**	752	**776**	749
DMF revenue	**107**	107	**–**	–
Dividends and distributions	**–**	71	**–**	–
Other revenue	**20**	27	**5**	13
Total revenue	**2,775**	2,744	**781**	762

(B2) Operating segments

KEEPING IT SIMPLE…

This section shows a reconciliation from FFO to statutory profit. FFO is the Group's primary profit measure, which reflects the way the business is managed and how the Board of Directors and the Executive Committee assess performance.

FFO is a non-IFRS measure that is designed to present, in the opinion of the Chief Operating Decision Makers (CODM), the results from ongoing operating activities in a way that appropriately reflects the Group'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 assess the performance of the Group. It excludes costs of a capital nature and profit or loss made from realised transactions occurring infrequently and those that are outside the course of Stockland's core ongoing business activities. FFO also excludes income tax items that do not represent cash payments. Profit or loss items excluded from FFO are outlined and explained in section B2b.

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

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

Stockland has four reportable segments, as listed below:

- Commercial Property – invests in, develops and manages retail town centre, logistics and workplace properties. Previously, logistics was known as 'logistics and business parks' and workplace was known as 'office'. There have been no changes to the overall composition of the Commercial Property segment.
- Residential – delivers a range of masterplanned and mixed use residential communities in growth areas and townhouses and apartments in general metropolitan areas;
- Retirement Living – designs, develops and manages communities for retirees; and
- Other – dividends/distributions from strategic investments and other items which are not able to be classified within any of the other defined segments.

The Trust has one reportable segment in which it operates, being Commercial Property, therefore no separate segment note has been prepared.

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

(B2a) Funds From Operations (FFO)

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

Stockland

Year ended 30 June 2018	Commercial Property $M	Residential $M	Retirement Living $M	Other $M	Consolidated $M
External segment revenue	870[1]	1,838	92[2]	1	2,801
Total external segment revenue	**870**	**1,838**	**92**	**1**	**2,801**
Segment EBIT	**550[1, 3]**	**435**	**56[2]**	**–**	**1,041**
Amortisation of lease incentives and fees	76	–	–	–	76
Straight-line rent adjustments	(5)	–	–	–	(5)
Interest expense in cost of sales	(7)	(99)	(3)	–	(109)
Segment FFO[3]	**614**	**336**	**53**	**–**	**1,003**
Interest income					3
Interest expense					(77)
Unallocated corporate and other expenses					(66)
FFO for the year					**863**
Maintenance capital expenditure[4]					(51)
Incentives and leasing costs[5]					(56)
AFFO for the year					**756**

Trust

Year ended 30 June 2017	Commercial Property $M	Residential $M	Retirement Living $M	Other $M	Consolidated $M
External segment revenue	840[1]	1,773	82[2]	–	2,695
Total external segment revenue	840	1,773	82	–	2,695
Segment EBIT	545[1, 3]	412	69[2]	–	1,026
Amortisation of lease incentives and fees	69	–	–	–	69
Straight-line rent adjustments	(6)	–	–	–	(6)
Interest expense in cost of sales	–	(142)	(6)	–	(148)
Segment FFO[3]	608	270	63	–	941
Interest income					4
Interest expense					(83)
Unallocated corporate and other expenses					(60)
FFO for the year					802
Maintenance capital expenditure[4]					(53)
Incentives and leasing costs[5]					(62)
AFFO for the year					**687**

1 External segment revenue adds back $62 million (2017: $56 million) of amortisation of leases incentives and excludes $5 million (2017: $6 million) of straight-line rent adjustments.
2 External segment revenue and segment EBIT exclude $31 million (2017: $31 million) of unrealised DMF revenue.
3 Segment FFO includes share of profits from equity-accounted investments of $29 million (2017: $29 million) in Commercial Property.
4 Maintenance capital expenditure includes $7 million (2017: $9 million) of Retirement Living maintenance capital expenditure.
5 Excludes development centres.

(B2b) Reconciliation of FFO to statutory profit

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

Stockland

		2018			2017		
Year ended 30 June	**Note**	**FFO $M**	**Statutory adjustments $M**	**Statutory results $M**	**FFO $M**	**Statutory adjustments $M**	**Statutory results $M**
Revenue	A, B, C	**2,801**	**(26)**	**2,775**	2,695	49	2,744
Cost of property developments sold:							
• land and development		**(1,263)**	**–**	**(1,263)**	(1,292)	–	(1,292)
• capitalised interest		**(106)**	**–**	**(106)**	(142)	–	(142)
• utilisation of provision for impairment of inventories		**29**	**1**	**30**	103	–	103
Net write-back of inventories impairment provision		**–**	**–**	**–**	–	3	3
Investment property expenses	D	**(250)**	**(14)**	**(264)**	(236)	(12)	(248)
Share of profits of equity-accounted investments	E	**29**	**40**	**69**	29	55	84
Management, administration, marketing and selling expenses		**(318)**	**–**	**(318)**	(304)	–	(304)
Net change in fair value of investment properties:							
• Commercial Property	E	**–**	**96**	**96**	–	209	209
• Retirement Living	E	**15**	**44**	**59**	28	59	87
Net change in fair value of Retirement Living resident obligations	E	**–**	**(73)**	**(73)**	–	(82)	(82)
Net gain on other financial assets		**–**	**26**	**26**	–	1	1
Net gain/(loss) on sale of other non-current assets	F	**–**	**16**	**16**	–	(1)	(1)
Finance income	G	**3**	**5**	**8**	4	118	122
Finance expense	G	**(77)**	**(12)**	**(89)**	(83)	–	(83)
Profit before income tax		**863**	**103**	**966**	802	399	1,201
Income tax benefit/(expense)	H	**–**	**59**	**59**	–	(6)	(6)
Profit for the year		**863**	**162**	**1,025**	802	393	1,195

Trust

		2018			2017		
Year ended 30 June	**Note**	**FFO $M**	**Statutory adjustments $M**	**Statutory results $M**	**FFO $M**	**Statutory adjustments $M**	**Statutory results $M**
Revenue	B	**838**	**(57)**	**781**	813	(51)	762
Investment property expenses	D	**(238)**	**(14)**	**(252)**	(225)	(12)	(237)
Share of profits of equity-accounted investments	E	**29**	**40**	**69**	29	55	84
Management, administration, marketing and selling expenses		**(38)**	**–**	**(38)**	(39)	–	(39)
Net change in fair value of Commercial Property	E	**–**	**68**	**68**	–	184	184
Net (loss)/gain on other financial assets		**–**	**(1)**	**(1)**	–	1	1
Net gain on sale of other non-current assets	F	**–**	**16**	**16**	–	1	1
Finance income	G	**268**	**5**	**273**	273	118	391
Finance expense	G	**(192)**	**(12)**	**(204)**	(192)	–	(192)
Profit before income tax		**667**	**45**	**712**	659	296	955
Income tax benefit/(expense)		**–**	**–**	**–**	–	–	–
Profit for the year		**667**	**45**	**712**	659	296	955

Explanation of statutory adjustments (Stockland and Trust)

A DMF revenue of $31 million (2017: $29 million) has been excluded from FFO until it is realised in cash. Refer to section B2c.
B Straight-line rent adjustments $5 million (2017: $6 million) are excluded from FFO, offset by amortisation of lease incentives of $62 million (2017: $57 million).
C In the prior year non-recurring distribution revenue of $71 million relating to the BGP strategic investment was excluded from FFO.
D Amortisation of lease fees are excluded from FFO.
E FFO excludes the net change in fair value of Commercial Property investment properties held by Stockland both directly and indirectly through equity-accounted investments. Similarly, the net change in fair value of Retirement Living resident obligations is excluded from FFO. Refer to section C1b for further information on fair value adjustments for the Commercial Properties and section C1c for Retirement Living.
F Net gain/(loss) on sale of other non-current assets predominantly relate to the gain/(loss) on the sale of investment properties.
G Net change in fair value of financial instruments and foreign exchange movements, classified as finance income/expenses, are excluded from FFO. Refer to section D1.
H FFO excludes income tax expenses or benefits that do not represent a cash settlement.

(B2c) Retirement Living segment result

KEEPING IT SIMPLE …

Stockland offers a range of independent living Retirement Living products to best meet the needs of our 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 offer 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 fully comply with. Generally, DMF contracts are affordable as they sell at a lower price than the freehold properties in the area. In 2017, Stockland broadened its offering by launching a non-DMF village product called Aspire villages.

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 record 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, to a significant extent, the resident's share of up-front capital costs of building the common infrastructure of the village, which typically includes amenities such as a pool, bowling green and community hall, and 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 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 – 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 and losses from revaluations of investment property and resident obligations are excluded from FFO. Refer to section C1c for further information on the fair value measurement and valuation technique used for Retirement Living investment properties and resident obligations.

New Contract Choices

We've continued to improve our customer offer with Benefits Plus home care partnerships and upfront contract choices, 'Capital Share' and 'Peace of Mind', which caps the Deferred Management Fee and secures the exit value for incoming residents.

Non-DMF product (Aspire villages)

Under these 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 recognise Property development sales revenue with an associated cost of property developments sold.

(B2c) Retirement Living segment result (continued)

Reconciliation of Retirement Living segment results to statutory profit

		2018			2017		
Year ended 30 June	**Note**	**FFO $M**	**Statutory adjustments $M**	**Statutory results $M**	**FFO $M**	**Statutory adjustments $M**	**Statutory results $M**
Total realised revenue		**76**	**–**	**76**	78	–	78
Net DMF base fees earned, unrealised	A	**–**	**31**	**31**	–	29	29
DMF Revenue		**76**	**31**	**107**	78	29	107
Property development sales	D	**16**	**–**	**16**	–	–	–
Total Revenue		**92**	**31**	**123**	78	29	107
Net change in fair value of Retirement Living investment properties:							
• settled development margin		**15**	**–**	**15**	28	–	28
• operating villages and villages under development	B	**–**	**44**	**44**	–	59	59
Total net change in fair value of Retirement Living investment properties		**15**	**44**	**59**	28	59	87
Net change in fair value of commercial investment properties	C	**–**	**4**	**4**	–	–	–
Net change in fair value of Retirement Living resident obligations	B	**–**	**(73)**	**(73)**	–	(82)	(82)
Management, administration, marketing and selling expenses		**(38)**	**–**	**(38)**	(39)	–	(39)
Cost of property developments sold		**(9)**	**–**	**(9)**	–	–	–
Other net expenses		**(7)**	**–**	**(7)**	(4)	–	(4)
Retirement Living profit		**53**	**6**	**59**	63	6	69

Explanation of statutory adjustments

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

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

C The Retirement Living segment includes certain healthcare centres typically located adjacent to Retirement Living villages held to be rented out under commercial leases.

D The Retirement Living segment result includes property development sales relating to the non-DMF product (Aspire villages). There were no settlements during FY17.

(B2d) Balance sheet by operating segment

Stockland

30 June 2018	Commercial Property $M	Residential $M	Retirement Living $M	Other $M	Unallocated $M	Consolidated $M
Assets						
Cash and cash equivalents	–	–	–	–	333	333
Real estate related assets[1]	10,562	3,432	4,167	–	37	18,198
Intangible assets	–	–	76	–	118	194
Other financial assets	–	–	–	–	294	294
Other assets	46	102	17	–	107	272
Total assets	10,608	3,534	4,260	–	889	19,291
Liabilities						
Interest-bearing liabilities	–	–	–	–	3,938	3,938
Retirement Living resident obligations	–	–	2,741	–	–	2,741
Other financial liabilities	–	–	–	–	196	196
Other liabilities	148	1,385	11	–	496	2,040
Total liabilities	148	1,385	2,752	–	4,630	8,915
Net assets/(liabilities)	10,460	2,149	1,508	–	(3,741)	10,376

Trust

30 June 2017	Commercial Property $M	Residential $M	Retirement Living $M	Other $M	Unallocated $M	Consolidated $M
Assets						
Cash and cash equivalents	–	–	–	–	238	238
Real estate related assets[1]	10,218	2,453	3,848	–	37	16,556
Intangible assets	–	–	76	–	80	156
Other financial assets	–	–	–	–	310	310
Other assets	42	135	18	–	40	235
Total assets	10,260	2,588	3,942	–	705	17,495
Liabilities						
Interest-bearing liabilities	–	–	–	–	3,529	3,529
Retirement Living resident obligations	–	–	2,629	–	–	2,629
Other financial liabilities	–	–	–	–	242	242
Other liabilities	117	569	15	–	467	1,168
Total liabilities	117	569	2,644	–	4,238	7,568
Net assets/(liabilities)	10,143	2,019	1,298	–	(3,533)	9,927

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

(B3) Taxation

KEEPING IT SIMPLE…

This section sets out Stockland's tax accounting policies and provides an analysis of the income tax expense/benefit and deferred tax balances, including a reconciliation of tax expense to accounting profit.

Accounting income is not always the same as taxable income, creating temporary differences. These differences usually reverse over time. Until they reverse a deferred asset or liability must be recognised on the balance sheet, to the extent that it is probable that a reversal will take place. This is known as the balance sheet liability method.

Stockland

Accounting for income tax

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income (OCI) or directly in equity. Income tax expense is calculated at the applicable corporate tax rate of 30%, and is comprised of current and deferred tax expense.

Current tax expense represents the expense relating to the expected taxable income at the applicable tax rate for the financial year. Deferred tax expense represents the tax expense in respect of the future tax consequences of recovering or settling the carrying amount of an asset or liability.

Tax consolidation

Stockland Corporation Limited is head of the tax consolidated group which includes its wholly-owned Australian resident subsidiaries. As a consequence, all members of the tax consolidated group are taxed as a single entity.

Members of the tax consolidated group have entered into a tax funding arrangement as provided for under the tax act. The arrangement requires that Stockland Corporation Limited assumes the current tax liabilities and deferred tax assets arising from unused tax losses, with payments to or from subsidiaries settled via intergroup loan. Any subsequent period adjustments are recognised by Stockland Corporation Limited only and do not result in further amounts being payable or receivable under the tax funding arrangement. The tax liabilities of the entities included in the tax consolidated group will be governed by the tax sharing agreement should Stockland Corporation Limited default on its tax obligations.

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.

(B3a) Income tax benefit/(expense)

Year ended 30 June	Stockland 2018 $M	Stockland 2017 $M
Current tax benefit		
Current year benefit	**–**	27
Adjustments for prior years	**–**	–
Total current tax benefit	–	27
Deferred tax expense benefit/(expense)		
Tax losses recognised during the year[1]	**139**	–
Tax losses utilised during the year[2]	**(25)**	–
Origination and reversal of temporary differences	**(55)**	(33)
Total deferred tax benefit/(expense)	**59**	(33)
Total income tax benefit/(expense)	**59**	**(6)**

1 Unrecognised tax losses are now fully recoverable based on the profitability of Stockland Corporation Group during the year and the latest available profit forecasts. Refer to note B3b for further information.
2 There is no current tax expense for the year ended 30 June 2018 because tax losses of $25 million (net) have been utilised to offset the Group's taxable income for the year.

Reconciliation of profit before income tax to income tax benefit/(expense)

Year ended 30 June	Stockland 2018 Statutory profit $M	Stockland 2017 Statutory profit $M
Profit before income tax	**966**	1,201
Less: Trust profit before income tax	**(712)**	(955)
Adjust for: Intergroup eliminations	**9**	8
Profit before income tax of Stockland Corporation Group	**263**	254
Prima facie income tax expense calculated at 30%	**(79)**	(76)
Increase/(decrease) in income tax benefit/(expense) due to:		
Non-assessable dividend income	**–**	21
Tax losses recognised during the year	**139**	49
Underprovided in prior years	**(1)**	–
Income tax benefit/(expense)	**59**	(6)
Effective tax rate (benefit)/expense	**(22%)**	2%
Effective tax rate (excluding tax losses recognised)	**30%**	22%

Tax benefit relating to items of other comprehensive income

Year ended 30 June	Stockland 2018 $M	Stockland 2017 $M
Fair value reserve	**7**	1
Tax benefit relating to items of other comprehensive income	**7**	1

(B3b) Deferred tax

Stockland

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed for recoverability at each balance date and the recognised amount is adjusted as required. This is a key area of accounting estimation and judgement for the Group.

Deferred tax is based upon the expected manner of realisation or settlement of the carrying amount of assets and liabilities using the applicable tax rates.

Deferred tax arises due to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- initial recognition of goodwill;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (for example acquisition of customer lists); and
- differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
As at 30 June	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Inventories	**65**	93	**(144)**	(177)	**(79)**	(84)
Investment properties	**11**	10	**(438)**	(382)	**(427)**	(372)
Property, plant and equipment	**4**	6	**–**	–	**4**	6
Other financial assets	**–**	–	**–**	(7)	**–**	(7)
Trade and other payables	**13**	13	**–**	–	**13**	13
Retirement Living resident obligations	**19**	22	**–**	–	**19**	22
Provisions	**5**	5	**–**	–	**5**	5
Reserves	**9**	9	**–**	–	**9**	9
Tax losses carried forward	**544**	569	**–**	–	**544**	569
Tax assets/(liabilities)	**670**	727	**(582)**	(566)	**88**	161
Less: Tax losses not recognised	**–**	(139)	**–**	–	**–**	(139)
Recognised tax assets/(liabilities)	**670**	588	**(582)**	(566)	**88**	22
Set-off of deferred tax liabilities	**(582)**	(566)	**582**	566	**–**	–
Net tax asset	**88**	22	**–**	–	**88**	22

(B3b) Deferred tax (continued)

Movement in temporary differences during the financial year

		Recognised in			Recognised in		
	1 July 2016 $M	Profit or Loss $M	OCI $M	2017 $M	Profit or Loss $M	OCI $M	2018 $M
Inventories	(54)	(30)	–	(84)	**5**	**–**	**(79)**
Investment properties	(328)	(44)	–	(372)	**(55)**	**–**	**(427)**
Other financial assets	(8)	–	1	(7)	**–**	**7**	**–**
Property, plant and equipment	7	(1)	–	6	**(2)**	**–**	**4**
Trade and other payables	15	(2)	–	13	**–**	**–**	**13**
Retirement Living resident obligations	27	(5)	–	22	**(3)**	**–**	**19**
Provisions	5	–	–	5	**–**	**–**	**5**
Reserves	9	–	–	9	**–**	**–**	**9**
Recognised tax losses carried forward	354	76	–	430	**114**	**–**	**544**
Total temporary differences	**27**	**(6)**	**1**	**22**	**59**	**7**	**88**

Recoverability of deferred tax assets

An assessment of the recoverability of the net deferred tax asset has been made to determine if the carrying value should be reduced with reference to the latest available profit forecasts, to determine the availability of suitable taxable profits or taxable temporary differences.

The assessment for the current year determined that there is convincing evidence, based upon the profitability of Stockland Corporation Group during the year and latest available profit forecasts, that $139 million of previously unrecognised tax losses are now fully recoverable; hence, these losses have been recognised as a deferred tax asset.

Following this recognition, Stockland has no unrecognised deferred tax assets in relation to carry forward tax losses as at 30 June 2018 (2017: $139 million unrecognised asset relating to $463 million of tax losses).

At each reporting period end, the net deferred tax asset will be assessed for recoverability.

Trust

There are no deferred tax assets or liabilities in the Trust. As the Trust limits its activities to deriving income from renting commercial property, and attributes all of its taxable income each year to its investors, the Trust is not subject to tax. However, all of the annual taxable income is subject to tax in the hands of Stockland's investors. The Trust is liable to pay tax on any earnings below its taxable income that remain undistributed.

(C) 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.

(C1) Real estate assets and liabilities

(C1a) Inventories

Properties held for development and resale are stated at the lower of cost and net realisable value. Cost includes the costs of acquisition, development and holding costs such as borrowing costs, rates and taxes. Holding costs incurred after completion of development activities are expensed.

KEEPING IT SIMPLE…

Whole of Life (WOL)

A Whole of Life (WOL) methodology is applied to calculate the margin percentage for 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 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 our project forecasts across the reporting period to ensure these estimates reflect market conditions through the cycle.

Cost of acquisition

The cost of acquisition comprises the purchase price of the land, including land under option, along with any direct costs incurred as part of the acquisition including legal, valuation and stamp duty costs.

Land under options

Stockland has a number of arrangements with third parties primarily relating to the purchase of land on capital efficient terms, through call or put and call option arrangements.

Where the arrangement uses call options only, the decision to proceed with a purchase is controlled by Stockland. A future obligation under a call option is only triggered if Stockland exercises the option. No asset or liability for the land under option is recognised on the balance sheet until the option has been exercised. The call option is not disclosed as a capital commitment as there is no commitment to purchase until the option is exercised.

Where Stockland enters into put and call options, it is with a fixed exercise price. Where such an arrangement exists, the put option requires Stockland to purchase the land at the discretion of the seller, creating a present obligation once the option is exercised by the holder. If Stockland also presently exhibits control over the future economic benefits of the asset such as via a presently exercisable call option or physical control of the asset, the land is recognised in inventories with a corresponding liability recognised in provisions for development costs at the exercise price of the option.

For both put and call options, any costs incurred in relation to the options including option fees are included in inventories.

Development and other costs

Cost includes variable and fixed costs directly related to specific contracts, costs related to general contract activity which can be allocated to specific projects on a reasonable basis, and other costs specifically chargeable under the contract including under rectification provisions.

Interest capitalised

Financing costs on qualifying assets are also included in the cost of inventories. Finance costs were capitalised at interest rates ranging from 5.0 to 5.6% during the financial year (2017: 5.2 to 5.6%). Capitalised finance costs are further disclosed in section D1.

Allocation of inventories to cost of sales

A Whole of Life (WOL) methodology is applied to calculate the margin percentage for 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 cost forecasts are updated to reflect changing market conditions not previously forecasted.

(C1a) Inventories (continued)

Impairment provision

The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and costs to sell. Net realisable value is based on the most reliable evidence available at the time of the amount the inventories are expected to be realised (using estimates such as revenue escalations) and the estimate of total costs (including costs to complete). These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. This is a key area of accounting estimation and judgement for the Group.

Each reporting period, key estimates are reviewed including the costs of completion, dates of completion and revenue escalations. For the year ended 30 June 2018, no adjustments were made as a result of this review. In the prior year, a net write-back of $3 million of impairment provisions was recognised in profit or loss.

Development cost provisions

The provision for development costs relates to obligated future costs including land acquired on capital efficient deferred terms. This includes present obligations that are recognised in relation to put options.

The development provision is recorded as a separate liability in the balance sheet with a corresponding asset recognised in inventories as a cost of acquisition.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The composition of inventories is presented in the table below:

Stockland

	2018			2017		
	Current $M	Non-current $M	Total $M	Current $M	Non-current $M	Total $M
Finished development stock held for sale[1]						
• cost of acquisition	**38**	**–**	**38**	40	–	40
• development and other costs	**115**	**–**	**115**	150	–	150
• interest capitalised	**21**	**–**	**21**	25	–	25
• impairment provision	**(2)**	**–**	**(2)**	(1)	–	(1)
Total finished development stock held for sale	**172**	**–**	**172**	214	–	214
Development work in progress						
Residential communities under development:						
• cost of acquisition	**326**	**1,957**	**2,283**	277	1,052	1,329
• development and other costs	**156**	**475**	**631**	204	430	634
• interest capitalised	**49**	**350**	**399**	64	328	392
• impairment provision	**(16)**	**(147)**	**(163)**	(27)	(146)	(173)
Total residential communities under development	**515**	**2,635**	**3,150**	518	1,664	2,182
Apartments:						
• cost of acquisition	**–**	**65**	**65**	–	–	–
• development and other costs	**–**	**10**	**10**	–	7	7
• interest capitalised	**–**	**1**	**1**	–	–	–
• impairment provision	**–**	**–**	**–**	–	–	–
Total apartments	**–**	**76**	**76**	–	7	7
Logistics projects:						
• cost of acquisition	**10**	**19**	**29**	12	32	44
• development and other costs	**–**	**4**	**4**	26	8	34
• interest capitalised	**1**	**1**	**2**	7	–	7
• impairment provision	**–**	**(9)**	**(9)**	(21)	(9)	(30)
Total logistics projects	**11**	**15**	**26**	24	31	55
Aspire villages:						
• cost of acquisition	**4**	**7**	**11**	–	12	12
• development and other costs	**12**	**16**	**28**	–	10	10
• interest capitalised	**1**	**1**	**2**	–	1	1
• impairment provision	**–**	**–**	**–**	–	–	–
Total Aspire villages	**17**	**24**	**41**	–	23	23
Total development work in progress	**543**	**2,750**	**3,293**	542	1,725	2,267
Total inventories	**715**	**2,750**	**3,465**	756	1,725	2,481

1 Mainly comprises residential communities. Included within current finished development stock held for sale are logistics projects of $2 million (2017: $5 million) and Aspire villages of $5 million (2017: $nil). There are no apartments included in finished development stock held for sale (2017: $nil).

(C1a) Inventories (continued)

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

	Residential communities $M	Apartments $M	Logistics $M	Total $M
Opening balance as at 1 July 2017	174	–	30	204
Amounts utilised	**(9)**	**–**	**(21)**[1]	**(30)**
Balance as at 30 June 2018	**165**	**–**	**9**	**174**

1 Relates primarily to land sold at Waterside Corporate Park, NSW (first acquired in 2005), the balance relates to North Lakes Enterprise Park.

Development cost provisions

The following development provisions are recorded as a separate liability on the balance sheet with a corresponding asset recognised in inventories:

As at 30 June	2018 $M	2017 $M
Current	**567**	319
Non-current	**356**	109
Total development cost provisions	**923**	428

Movement in development cost provisions

	$M
Opening balance as at 1 July 2017	428
Additional provisions recognised	**809**
Amounts used during the financial year	**(314)**
Balance as at 30 June 2018	**923**

(C1b) Commercial properties

Commercial properties comprise investment interests in land and buildings including integral plant and equipment held for the purpose of producing rental income, capital appreciation, or both.

Commercial properties are initially recognised at cost including any acquisition costs and subsequently stated at fair value at each balance date. Fair value is based on the latest independent valuation adjusting for capital expenditure and capitalisation and amortisation of lease incentives since the date of the independent valuation report. Any gain or loss arising from a change in fair value is recognised in the profit or loss in the period. The valuation of Commercial properties is a key area of accounting estimation and judgement for the Group.

Commercial properties under development are classified as investment properties and stated at fair value at each balance date. Fair value is assessed with reference to reliable estimates of future cash flows, status of the development and the associated risk profile. Finance costs incurred on properties undergoing development or redevelopment are included in the cost of the development.

As at 30 June 2018, fair value for commercial properties in development has been assessed by the Directors after considering the latest valuations and subsequent capital works-in-progress. An independent valuation of the property will be undertaken upon completion of the works.

A property interest under a financing lease is classified and accounted for as an investment property on a property-by-property basis when Stockland holds it to earn rentals or for capital appreciation or both. Any such property interest under a financing lease classified as an investment property is carried at fair value.

Subsequent costs

Stockland recognises in the carrying amount of an investment property the cost of replacing part of that investment property if it is probable that the future economic benefits embodied within the item will flow to Stockland and the cost can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.

(C1b) Commercial properties (continued)

Lease incentives

Lease incentives provided by Stockland to lessees, and rental guarantees which may be received by Stockland from third parties (arising from the acquisition of investment properties) are included in the measurement of fair value of investment property and are treated as separate assets. Such assets are amortised over the respective periods to which the lease incentives and rental guarantees apply using a straight-line basis.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is recognised in the profit or loss in the year of disposal.

Commercial properties including Stockland's share of property held by equity-accounted investments

	Stockland		Trust	
	2018 $M	**2017 $M**	**2018 $M**	**2017 $M**
Retail Town Centres	**7,282**	7,017	**7,233**	6,961
Logistics	**2,229**	2,035	**2,229**	2,035
Workplace	**867**	868	**871**	865
Retirement Living[1]	**10**	–	**–**	–
Capital works in progress and sundry properties	**208**	312	**111**	238
Book value of commercial properties	**10,596**	10,232	**10,444**	10,099
Less amounts classified as:				
• property, plant and equipment	**(43)**	(43)	**–**	–
• non-current assets held for sale	**(65)**	(71)	**(22)**	(69)
• other assets (including lease incentives and fees)	**(263)**	(216)	**(270)**	(223)
• other assets (including lease incentives and fees) attributable to equity-accounted investments	**(6)**	(8)	**(6)**	(8)
• other receivables (straight-lining of operating lease rental income)	**(72)**	(67)	**(75)**	(71)
• other receivables (straight-lining of operating lease rental income) attributable to equity-accounted investments	**(11)**	(13)	**(11)**	(13)
Total investment properties (including Stockland's share of investment properties held by equity-accounted investments)	**10,136**	9,814	**10,060**	9,715
Less: Stockland's share of investment properties held by equity-accounted investments	**(573)**	(529)	**(573)**	(529)
Total investment properties	**9,563**	9,285	**9,487**	9,186
Investment property reconciliation				
Direct investments and controlled entities				
Carrying amount at the beginning of the financial year	**9,285**	8,800	**9,186**	8,702
Acquisitions	**7**	20	**7**	20
Expenditure capitalised	**421**	335	**415**	357
Transfers to non-current assets held for sale	**(64)**	(71)	**(22)**	(69)
Transfers to inventories	**(10)**	–	**–**	–
Disposals	**(172)**	(8)	**(167)**	(8)
Net change in fair value of investment properties	**96**	209	**68**	184
Balance at the end of the financial year	**9,563**	9,285	**9,487**	9,186

1 The investment property balance at 30 June 2018 includes $10 million of healthcare centre commercial properties held by the Retirement Living business (2017: $nil) to be leased to tenants under commercial leases.

(C1b) Commercial properties (continued)

Stockland

Description	Independent valuation Date	Independent valuation $M	Independent valuers' cap rate % 2018	Independent valuers' cap rate % 2017	Book value ($M) 2018	Book value ($M) 2017
Retail Town Centres						
Directly owned						
Stockland Green Hills, East Maitland NSW[1]	Dec 2015	354	**5.75**	5.75	**807**	398
Stockland Shellharbour, Shellharbour NSW[2]	Dec 2017	765	**5.50**	5.50	**776**	758
Stockland Wetherill Park, Western Sydney NSW	Dec 2017	765	**5.25**	5.50	**768**	742
Stockland Merrylands, Merrylands NSW	Dec 2017	574	**5.50**	5.50	**578**	555
Stockland Rockhampton, Rockhampton Qld	Jun 2018	383	**6.00**	5.75	**383**	426
Stockland Glendale, Newcastle NSW	Jun 2017	336	**5.75**	5.75	**339**	336
Stockland Point Cook, Point Cook Vic	Dec 2017	252	**6.25**	6.25	**254**	234
Stockland Burleigh Heads, Burleigh Heads Qld[3]	Jun 2018	215	**6.50 – 7.00**	6.50 – 7.25	**215**	206
Stockland Baldivis, Baldivis WA	Dec 2017	204	**5.88**	6.00	**204**	204
Stockland Cairns, Cairns Qld	Jun 2018	194	**6.50**	6.25	**194**	211
Stockland Townsville, Townsville Qld (50%)[3, 4]	Jun 2018	191	**5.75 – 6.50**	6.00 – 6.75	**191**	227
Stockland Hervey Bay, Hervey Bay Qld	Jun 2018	189	**6.50**	6.25	**189**	185
Stockland The Pines, Doncaster East Vic	Jun 2017	182	**6.00**	6.00	**184**	182
Stockland Wendouree, Wendouree Vic[1]	Dec 2015	148	**6.50**	6.50	**182**	150
Stockland Forster, Forster NSW	Jun 2018	173	**6.25**	6.25	**173**	173
Stockland Balgowlah, Balgowlah NSW	Jun 2017	170	**5.50**	5.50	**170**	170
Stockland Baulkham Hills, Baulkham Hills NSW	Jun 2017	158	**6.00**	6.00	**160**	158
Stockland Bundaberg, Bundaberg Qld	Jun 2018	151	**6.50**	6.50	**151**	143
Stockland Caloundra, Caloundra Qld	Dec 2017	145	**5.75**	5.96	**146**	141
Stockland Jesmond, Newcastle NSW	Jun 2018	140	**7.00**	6.25	**140**	168
Stockland Gladstone, Gladstone Qld	Dec 2017	135	**6.75**	6.50	**137**	149
Stockland Nowra, Nowra NSW[4]	Jun 2017	128	**6.00**	6.00	**130**	129
Stockland Cleveland, Cleveland Qld	Dec 2017	118	**6.00**	6.25	**120**	113
Stockland Traralgon, Traralgon Vic	Jun 2017	100	**6.50**	6.50	**102**	100
Stockland Bull Creek, Bull Creek WA	Dec 2017	99	**6.50**	6.25	**99**	107
Stockland Bathurst, Bathurst NSW	Dec 2017	97	**6.75**	6.75	**98**	96
Stockland Tooronga, Tooronga Vic	Jun 2018	62	**6.00**	5.75	**62**	71
Stockland Harrisdale Complex, Harrisdale WA	Dec 2016	55	**6.25**	6.25	**57**	55
Shellharbour Retail Park, Shellharbour NSW	Dec 2017	56	**7.00**	7.75	**56**	54
Stockland Cammeray, Cammeray NSW	Dec 2016	49	**6.00**	6.00	**49**	49
Stockland Highlands, Craigieburn Vic[5, 6]	Dec 2016	39	**6.00**	6.00	**43**	39
Stockland Kensington, Kensington Qld	Jun 2018	31	**6.25**	6.00	**31**	31
North Shore Townsville, Townsville Qld	Jun 2018	20	**6.50**	6.50	**20**	23
Stockland Merrylands Court, Merrylands NSW[5, 7]	Dec 2014	–	**–**	7.50	**–**	10
Woolworths Toowong, Toowong Qld[5, 8]	Jun 2018	6	**n/a**	n/a	**6**	7
Stockland Townsville Kingsvale Sunvale, Aitkenvale Qld (50%)[4, 9]	Dec 2017	2	**–**	n/a	**2**	3
Stockland Corrimal, Corrimal NSW[10]	–	–	**–**	7.00	**–**	69
Stockland Wallsend, Wallsend NSW[10]	–	–	**–**	6.75	**–**	80
Owned through equity-accounted investments						
Stockland Riverton, Riverton WA (50%)	Dec 2017	65	**6.25**	6.25	**66**	67
Total Retail Town Centres[9]					**7,282**	7,017

1 Property is currently undergoing redevelopment. An external valuation will be obtained on completion of the redevelopment.
2 Independent valuation excludes the adjacent property owned by Stockland.
3 A range of cap rates are disclosed for a complex comprising of a number of properties.
4 Stockland's share of this property is held through a direct interest in the asset.
5 Property is not held by the Trust.
6 Asset held for sale at year end.
7 Asset has been reclassified to inventories.
8 Property is valued as land.
9 Independent valuation based on 100% ownership.
10 Property was disposed of during the period.
11 Totals may not add due to rounding.

(C1b) Commercial properties (continued)

Stockland

Descriptions	Independent valuation Date	Independent valuation $M	Independent valuers' cap rate % 2018	Independent valuers' cap rate % 2017	Book value ($M) 2018	Book value ($M) 2017
Logistics						
Directly owned						
Yennora Distribution Centre, Yennora NSW	Dec 2017	400	**6.50**	7.00	**402**	390
Triniti Business Park (previously Triniti Business Campus), North Ryde NSW	Dec 2017	198	**6.50**	7.00	**198**	180
60-66 Waterloo Road, Macquarie Park NSW[1]	Dec 2017	108	**6.25 – 6.75**	6.50 – 7.00	**107**	99
Brooklyn Distribution Centre (previously Brooklyn Estate), Brooklyn Vic	Jun 2018	106	**6.75**	8.00	**106**	82
Ingleburn Logistics Park (previously Ingleburn Distribution Centre), Ingleburn NSW[2]	Dec 2016	105	**6.50**	6.75	**104**	105
Hendra Distribution Centre, Brisbane Qld	Jun 2018	98	**7.50**	7.75	**98**	93
Coopers Paddock, Warwick Farm NSW[2]	Jun 2018	97	**5.75**	–	**97**	19
Mulgrave Corporate Park (previously Stockland Mulgrave), Mulgrave Vic	Dec 2016	92	**7.00**	7.00	**94**	93
Port Adelaide Distribution Centre, Port Adelaide SA	Dec 2017	85	**9.25**	9.00	**85**	92
Forrester Distribution Centre, St Marys NSW	Dec 2015	81	**6.75**	7.25	**81**	81
Granville Industrial Estate (previously 9-11a Ferndell Street), Granville NSW[1]	Jun 2018	67	**6.50 – 7.00**	7.25 – 9.00	**67**	56
Oakleigh Industrial Estate (previously 1090-1124 Centre Road), Oakleigh South Vic[2]	Dec 2017	62	**6.25**	6.75	**62**	53
Somerton Distribution Centre (previously 20-50 & 76-82 Fillo Drive and 10 Stubb Street), Somerton Vic[1]	Jun 2018	62	**6.75 – 7.25**	7.56	**62**	52
Macquarie Technology Business Park (previously Macquarie Technology Centre), Macquarie Park NSW[1]	Jun 2018	59	**6.63 – 7.50**	6.98	**59**	57
Balcatta Distribution Centre, Balcatta WA	Dec 2016	52	**6.75**	6.75	**55**	52
Altona Distribution Centre (previously Toll Business Park, Altona Vic[1]	Jun 2018	55	**6.25 – 7.25**	6.25 – 7.25	**55**	53
16 Giffnock Avenue, Macquarie Park NSW	Jun 2018	55	**6.75**	7.12	**55**	51
23 Wonderland Drive, Eastern Creek NSW	Jun 2018	42	**6.25**	6.75	**42**	37
Altona Industrial Estate (previously Altona Distribution Centre), Altona Vic	Jun 2017	36	**7.50**	7.50	**37**	36
72-76 Cherry Lane, Laverton North Vic	Dec 2017	32	**6.50**	7.00	**32**	32
Wetherill Park Distribution Centre (previously 2 Davis Road), Wetherill Park NSW	Jun 2018	29	**6.50**	7.25	**29**	26
Smeg Distribution Centre (previously 2-8 Baker Street), Botany NSW	Dec 2017	28	**5.50**	6.25	**28**	25
Erskine Park, Erskine Park NSW	Jun 2018	24	**5.75**	6.00	**24**	23
40 Scanlon Drive, Epping Vic	Dec 2017	10	**7.00**	7.50	**10**	9
Export Distribution Centre (previously Export Park, 9-13 Viola Place), Brisbane Airport Qld[4]	Jun 2018	7	**11.20**	10.44	**7**	6
M1 Yatala Enterprise Park, Yatala Qld	Jun 2018	6	**n/a**	n/a	**6**	6
Owned through equity-accounted investments						
Optus Centre, Macquarie Park NSW (51%)	Jun 2018	230	**6.50**	6.75	**230**	227
Total Logistics[5]					**2,229**	2,035

1 A range of cap rates are disclosed for a complex comprising of a number of properties.
2 Property is currently undergoing redevelopment. An external valuation will be obtained on completion of the redevelopment.
3 Property is a leasehold property.
4 Totals may not add due to rounding.

(C1b) Commercial properties (continued)

Stockland

Descriptions	Independent valuation Date	Independent valuation $M	Independent valuers' cap rate % 2018	Independent valuers' cap rate % 2017	Book value ($M) 2018	Book value ($M) 2017
Workplace						
Directly owned						
Stockland Piccadilly, 133-145 Castlereagh Street, Sydney NSW (50%)[1, 2, 3, 4, 5]	Jun 2018	307	**5.50 – 6.00**	5.50 – 6.00	**280**	259
Durack Centre, 263 Adelaide Terrace, Perth WA[2]	Jun 2018	108	**8.00**	8.00	**108**	106
601 Pacific Highway, St Leonards NSW	Dec 2017	104	**6.50**	7.00	**103**	95
110 Walker Street, North Sydney NSW	Dec 2017	36	**6.25**	7.25	**37**	30
40 Cameron Avenue, Belconnen ACT[2, 10]	Jun 2018	22	**11.75**	10.50	**22**	25
80-88 Jephson Street, Toowong Qld[6, 7]	Jun 2018	17	**6.50 – 8.00**	8.00	**17**	17
23-29 High Street, Toowong Qld[6, 7]	Jun 2018	7	**6.50 – 8.00**	7.00	**7**	7
77 Pacific Highway, North Sydney NSW[9]	–	–	**–**	6.50	**–**	73
Owned through equity-accounted investments						
135 King Street, Sydney NSW (50%)[1, 4]	Jun 2018	295	**4.00 – 5.00**	4.50 – 5.38	**295**	256
Total Workplace[8]					**867**	868

1 A range of cap rates are disclosed for a complex comprising of a number of properties.
2 Property is a leasehold property.
3 Stockland's share of this property is held through a direct interest in the asset.
4 Book value includes the retail component of the property.
5 The book value excludes the revaluation relating to the area occupied by Stockland. This owner-occupied area is classified as property, plant and equipment and is recognised at historical cost.
6 Property is not held by the Trust.
7 Property is currently undergoing redevelopment. An external valuation will be obtained on completion of the redevelopment.
8 Totals may not add due to rounding.
9 Property was disposed of during the period.
10 Asset held for sale at year end.

(C1b) Commercial properties (continued)

Fair value measurement, valuation techniques and inputs

The adopted valuations (both internal and external) for investment properties in the Retail Town Centres, Logistics and Workplace portfolios are a combination of the valuations determined using the Discounted Cash Flow (DCF) method and the income capitalisation method.

The adopted value of properties in the properties under development portfolio is based on an internal tolerance check performed by the Directors at each reporting date. The tolerance check takes into account the expected cost of completion, the stage of completion, the risk associated with the project, expected underlying income and applying the income capitalisation method.

The following table shows the valuation techniques used in measuring the fair value of commercial properties excluding assets held for sale, as well as significant unobservable inputs used.

Class of property	Fair value hierarchy	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs 2018	Range of unobservable inputs 2017
Retail Town Centres	Level 3	DCF and income capitalisation method	Net market rent (per sqm p.a.)	$197 – 794	$188 – 794
			10 year average specialty market rental growth	3.1 – 3.9%	2.9 – 3.9%
			Adopted capitalisation rate	4.0 – 7.0%	4.5 – 7.3%
			Adopted terminal yield	4.3 – 7.8%	4.8 – 7.5%
			Adopted discount rate	6.8 – 8.3%	6.8 – 8.5%
Logistics	Level 3	DCF and income capitalisation method	Net market rent (per sqm p.a.)	$54 – 456	$56 – 429
			10 year average market rental growth	2.4 – 3.9%	2.3 – 3.7%
			Adopted capitalisation rate	5.5 – 11.2%	6.0 – 10.4%
			Adopted terminal yield	5.5 – 13.7%	6.5 – 12.0%
			Adopted discount rate	7.0 – 9.5%	7.3 – 9.3%
Workplace	Level 3	DCF and income capitalisation method	Net market rent (per sqm p.a.)	$364 – 889	$304 – 796
			10 year average market rental growth	2.7 – 4.0%	2.7 – 4.1%
			Adopted capitalisation rate	5.0 – 8.0%	5.4 – 10.5%
			Adopted terminal yield	5.4 – 8.5%	5.6 – 11.3%
			Adopted discount rate	6.6 – 7.5%	7.0 – 11.8%
Properties under development	Level 3	Income capitalisation method	Net market rent (per sqm p.a.)	$96 – 731	$117 – 725
			Adopted capitalisation rate	5.5 – 7%	5.5 – 6.7%

Both the DCF and income capitalisation methods use inputs which are not frequently observable, in determining fair value, as per the table above.

The table below explains the key inputs used to measure fair value for commercial properties:

DCF method	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, with allowances for capital expenditure reversions.
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
10 year average specialty market rental growth	An average of a 10 year period of forecast annual percentage growth rates in Retail specialty tenancy rents. Specialty tenants are those tenancies with a gross lettable area of less than 400 square metres (excludes ATMs and kiosks).
10 year average market rental growth	The expected annual rate of change in market rent over a 10 year forecast period in alignment with expected market movements.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.
Adopted terminal yield	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out the DCF method. The rate is determined with regards to market evidence and the prior external valuation.
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.

(C1b) Commercial properties (continued)

Valuation process

The Commercial Property valuation team are responsible for managing the bi-annual valuation process across Stockland's balance sheet investment portfolio. The aim of the valuation process is to ensure that assets are held at fair value in Stockland's accounts and facilitate compliance with applicable regulations (for example the *Corporations Act 2001* and ASIC regulations) and the STML Responsible Entity Constitution and Compliance Plan.

Stockland's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued. Internal tolerance checks have been performed by Stockland's internal valuers who hold recognised relevant professional qualifications.

Internal tolerance check

An internal tolerance check is performed every six months with the exception of those properties being independently valued during the current reporting period. Stockland's internal valuers perform tolerance checks by utilising the information from a combination of asset plans and forecasting tools prepared by the asset management teams. For the Retail Town Centres, Logistics and Workplace classes, appropriate capitalisation rates, terminal yields and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation and DCF valuation. The internal tolerance check is generally weighted equally between the capitalisation value (50% weighting) and the DCF valuation (50% weighting).

The current book value, which is the value per the asset's most recent external valuation plus any capital expenditure since the valuation date, is compared to the internal tolerance check.

- If the internal tolerance check is within 5.0% of the current book value, then the current book value is retained, and judgement is taken that this remains the fair value of the property.
- If the internal tolerance check varies by more than 5.0% to the current book value (higher or lower), then an external independent valuation will be undertaken and adopted after assessment by the Commercial Property valuation team to provide an appropriate level of evidence to support fair value.

The internal tolerance checks are reviewed by Commercial Property senior management who recommend the adopted valuation to the Audit Committee and Board in accordance with Stockland's internal valuation protocol above.

A development feasibility is prepared for each commercial property under development. The feasibility includes an estimated valuation upon project completion based on the income capitalisation method. During the development period, fair value is assessed by reference to the value of the property when complete, less deductions for costs required to complete the project and appropriate adjustments for profit and risk. The fair value is compared to the current book value.

- If the internal tolerance check is within 5.0% of the current book value, then the current book value is retained, and judgement is taken that this remains the fair value of the property under development.
- If the internal tolerance check varies by more than 5.0% to the current book value (higher or lower), then an internal valuation will be adopted with an external valuation obtained on completion of the development.

(C1b) Commercial properties (continued)

External Valuations

The STML Responsible Entity Compliance Plan requires that each asset in the portfolio must be valued by an independent external valuer at least once every three years.

In practice, assets are generally independently valued more than once every three years primarily as a result of:

- A variation between book value and internal tolerance check. Refer to the internal tolerance check section on the previous page.
- The asset is undergoing major development or significant capital expenditure on a property.
- An opportunity to undertake a valuation in line with a joint owners' valuation.
- Ensuring an appropriate cross-section of assets are externally assessed at each reporting period.

Sensitivity information

Significant input	Impact on fair value of an increase in input	Impact on fair value of a decrease in input
Net market rent	Increase	Decrease
10 year specialty market rental growth	Increase	Decrease
10 year average market rental growth	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase

Generally, a change in the assumption made for the adopted capitalisation rate is accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the income capitalisation approach and the adopted terminal yield forms part of the DCF method.

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When assessing a DCF valuation, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to the fair value.

Non-cancellable operating lease receivable from investment property tenants

Annual rent receivable by the Group under current leases from tenants is from property held by the Commercial Property business.

Non-cancellable operating lease receivable not recognised in the financial statements at balance date:

	Stockland		Trust	
As at 30 June	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Within one year	**638**	608	**639**	610
Later than one year but not later than five years	**1,693**	1,588	**1,706**	1,602
Later than five years	**1,034**	1,039	**1,026**	1,038
Total non-cancellable operating lease receivable	**3,365**	3,235	**3,371**	3,250

(C1c) Retirement Living

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

Investment properties

Retirement Living investment properties comprise retirement villages (both operating villages and villages under development) held to earn revenue and capital appreciation over the long-term. Retirement villages comprise Independent Living Units, Serviced Apartments, community facilities and integral plant and equipment.

Stockland

As at 30 June	2018 $M	2017 $M
Net investment in Retirement Living		
Operating villages	**3,756**	3,622
Villages under development	**364**	202
Total Retirement Living investment properties	**4,120**	3,824
Existing resident obligations	**(2,724)**	(2,616)
Net carrying value of Retirement Living villages	**1,396**	1,208
Retirement Living net carrying value movement during the year		
Balance at the beginning of the financial year	**1,208**	1,162
Expenditure capitalised	**249**	162
Realised fair value movements	**16**	28
Cash received on first sales	**(73)**	(146)
Change in fair value of investment properties	**(1)**	17
Other movements	**(3)**	(15)
Balance at the end of the financial year	**1,396**	1,208

Disposals

During the year, Stockland disposed of one village in Victoria for proceeds of $5 million. During the prior year, Stockland disposed of five villages located in Western Australia for total proceeds of $12 million.

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 fair value is determined by the Directors using a DCF methodology. The valuation of Retirement Living investment properties and resident obligations is a key area of accounting estimation and judgement for the Group.

Both the investment properties and resident obligations are considered to be level 3 in the Fair Value Hierarchy. Refer to section D5.

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

	Range of unobservable inputs	
Inputs	**2018**	**2017**
Discount rate[1]	**12.5 – 14.75% (Average: 13.0%)**	12.5 – 14.5% (Average: 13.0%)
Average 20 year growth rate	**3.1%**	3.6%
Average length of stay of existing and future residents	**10.9 years**	10.8 years
Current market value of unit	**$0.1 – 2.2 million**	$0.1 – 2.1 million
Renovation/Reinstatement cost	**$5 – 90k**	$5 – 80k
Renovation recoupment	**0 – 100%**	0 – 100%

1 Discount rate includes a premium to allow for future village-wide capital expenditure.

(C1c) Retirement Living (continued)

The DCF methodology uses unobservable inputs as shown in the table above. These are further explained below:

Item	Description
DCF method	Under the DCF method, an asset or liability's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows the property asset will generate. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the income stream associated with the real property.
Discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the external valuations performed.
20 year growth rate	This is the rate that it is expected the unit will increase in value over 20 years. Growth rates from the external valuation reports are taken as a base to estimate the 20 year rate on a semi-annual basis.
Average length of stay of existing and future residents	Assumptions on future resident gender and entry age based upon analysis of historical entrant profiles are used to estimate average length of stay.
Current market value	Market values are generally reviewed semi-annually by the sales and operational teams, and approved by the National Sales Manager and CEO Retirement Living.
Renovation/Reinstatement cost	The cost that is required to maintain the independent living units and serviced apartments to the appropriate condition.
Renovation recoupment	The percentage of renovation costs that will be recouped from the residents based on contractual terms.

Valuation process

The Retirement Living finance team are responsible for managing the bi-annual valuation process across Stockland's Retirement Living portfolio. The aim of the valuation process is to confirm that assets are held at fair value on Stockland's balance sheet.

Operating villages

Internal valuations are completed every six months using valuation models with reference to external market data. An independent professionally qualified valuer who holds a recognised relevant professional qualification and has specialised expertise in the investment properties valued provides assurance on the key assumptions used. The most recent independent assessment was obtained at 30 April 2018. Independent valuations are also obtained from time to time.

Villages under construction

Villages under construction are carried at fair value. There are two elements to the value of villages under construction: the value of land and other development expenditure and the value of discounted future DMF revenue. The land and other development expenditure is made up of costs incurred to date plus a development margin. Development margin is recognised on a percentage of completion basis and is based on an internally certified level of completion of the stage. Development margin recognition is also described in section (B2c). The DMF asset is recognised on a percentage of completion basis.

Units are transferred from villages under construction to established villages once they have been leased for the first time. This transfer is at the cost of the unit plus development profit recognised during construction.

Sensitivity information

Significant input	Impact on fair value of an increase in input	Impact on fair value of a decrease in input
Discount rate	Decrease	Increase
20 year growth rate	Increase	Decrease
Average length of stay of existing and future residents[1]	Decrease	Increase
Current market value of unit	Increase	Decrease
Renovation cost	Decrease	Increase
Renovation recoupment	Increase	Decrease

1 This is dependent on the length of stay as the majority of contracts have maximum DMF periods.

(C1c) Retirement Living (continued)

When assessing a DCF valuation, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

In theory, an increase (softening) in the discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the discount rate and the adopted terminal yield could potentially magnify the impact to the fair value.

Resident obligations

Resident obligations represent the net amount owed by Stockland to current and former residents. Resident obligations are non-interest bearing and 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 7% (2017: 8%) 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.

Accounting Standards require that resident obligations are classified as current, unless Stockland has an unconditional contractual right to defer settlement for at least 12 months, because residents have the right to terminate their occupancy contract with immediate effect.

Non-current resident obligations

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

As at 30 June	Current $M	Non-Current $M	Total $M
2018			
Existing resident obligations	**2,567**	**157**	**2,724**
Former resident obligations	**10**	**7**	**17**
Total resident obligations	**2,577**	**164**	**2,741**
2017			
Existing resident obligations	2,439	177	2,616
Former resident obligations	5	8	13
Total resident obligations	2,444	185	2,629

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 above for a detailed description of the inputs used.

Valuation process

Resident obligations are calculated each reporting period based on the initial loan amount paid by the resident adjusted for DMF and their share of capital gains or losses arising on the unit depending on the contract type.

It is impractical to have the resident obligations valued externally, therefore these are valued every six months by the Directors as described above. Key assumptions used in these valuations are externally reviewed and assessed for reasonableness each reporting period.

(C1c) Retirement Living (continued)

Sensitivity information

As the resident obligations are a financial liability, a quantitative sensitivity analysis has been disclosed. Sensitivity of the resident obligations to changes in the assumptions are shown in the table below:

		Increase/(decrease) in resident obligations			
		Increase in input		Decrease in input	
Significant input	**Change in assumption**	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Current market value	10%	**177**	167	**(177)**	(167)

For the majority of existing contracts, the resident shares capital gains or losses with Stockland upon exit; therefore, current market value is the only input that significantly impacts the fair value of the resident obligation.

(C2) Financial assets and liabilities

KEEPING IT SIMPLE …

This section shows the financial assets and liabilities Stockland generates through its trading activity.

Careful management of working capital enables the Group to meet its trading and financing obligations within its ordinary operating cycle. Cash and cash equivalents are disclosed in section D2.

(C2a) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis and at balance date, specific impairment losses are recorded for any doubtful accounts.

	Stockland		Trust	
As at 30 June	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Current				
Trade receivables	**44**	45	**2**	4
Provision for impairment	**(1)**	(1)	**(1)**	(1)
Net trade receivables	**43**	44	**1**	3
Other receivables	**55**	95	**21**	19
Total current trade and other receivables	**98**	139	**22**	22
Non-current				
Straight-lining of rental income	**72**	67	**75**	71
Other receivables	**27**	16	**–**	–
Receivables due from related companies	**–**	–	**3,288**	3,181
Total non-current trade and other receivables	**99**	83	**3,363**	3,252

(C2b) Trade and other payables

Trade and other payables are initially recognised at fair value less transaction costs and subsequently carried at amortised cost.

As at 30 June	Section	Stockland 2018 $M	Stockland 2017 $M	Trust 2018 $M	Trust 2017 $M
Current					
Trade payables and accruals		**273**	237	**134**	100
Land purchases		**157**	10	**–**	–
Distributions payable	D8	**329**	312	**329**	312
GST payable/(receivable)		**51**	26	**(1)**	(2)
Total current trade and other payables		**810**	585	**462**	410
Non-current					
Land purchases		**173**	10	**–**	–
Total non-current trade and other payables		**173**	10	**–**	–

The carrying values of trade receivables and payables at balance date represent a reasonable approximation of their fair values.

(C3) Other non-financial assets and liabilities

(C3a) Intangible assets

Intangible assets are an identifiable non-monetary asset without physical substance. Stockland has two types of intangible assets: goodwill and software. There are no intangible assets held in the Trust.

Stockland

	Goodwill $M	Software $M	Total $M
Cost			
Opening balance as at 1 July 2016	117	113	230
Additions	–	44	44
Balance as at 30 June 2017	117	157	274
Additions	**–**	**46**	**46**
Balance as at 30 June 2018	**117**	**203**	**320**
Accumulated amortisation and impairment losses			
Opening balance as at 1 July 2016	(41)	(67)	(108)
Amortisation charge	–	(10)	(10)
Impairment charge	–	–	–
Balance as at 30 June 2017	(41)	(77)	(118)
Amortisation charge	**–**	**(8)**	**(8)**
Impairment charge	**–**	**–**	**–**
Balance as at 30 June 2018	**(41)**	**(85)**	**(126)**
Carrying amounts			
As at 30 June 2017	76	80	156
As at 30 June 2018	**76**	**118**	**194**

(C3a) Intangible assets (continued)

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 that has an indefinite useful life is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The determination of the recoverability of goodwill is a key area of accounting estimation and judgement for the Group.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which goodwill is monitored for internal management purposes and allocated to cash-generating units (CGU). The allocation is made to each CGU or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

Goodwill arose on the acquisition of the Retirement Living division of Australian Retirement Communities on 28 February 2007, the acquisition of the Rylands Retirement Living business on 17 July 2008 and the acquisition of Aevum Limited on 31 October 2010.

Impairment Test

An impairment test was performed with no impairment recognised in the current year (2017: $nil).

The goodwill impairment test is based upon the value in use method using cash flow projections for Retirement Living unrecognised development profits. Unrecognised development profits comprises of cash flows from both the development pipeline and deferred repayment contracts which are considered to benefit from the acquisitions.

Deferred Repayment (DR) Contracts

The Australian Retirement Communities portfolio acquired in 2007 included a number of DR contracts. These DR contracts were entered into prior to the Stockland acquisition at a wholesale price on development, and therefore were expected to result in higher conversion profit upon next settlement when they are priced at retail value and converted to Stockland target contracts.

The cash flows are discounted over their forecast maturity at 13.0% (2017: 13.0%) and cash flows beyond the five year period have been determined by applying a growth rate of 3.1% p.a. (2017: 3.6% p.a.). The growth rate applied does not exceed the long-term average rate for the Australian retirement living property market.

Development Pipeline

Future development cash flows are based on formal budgets approved by management expected to commence in the next five year period and future development pipeline assumptions. The cash flows incorporate projections for development costs, selling price and associated DMF for the Retirement Living Communities in the development pipeline.

Future cash flows are discounted at 15.0% (2017: 15.0%). Cash flows beyond the five year period have been determined by applying a growth rate of 3.5% p.a. (2017: 3.6% p.a.). The growth rate applied does not exceed the long-term average rate for the Australian Retirement Living property market.

Management believe that due to the extended time it takes to develop a village and the general long-term nature of Retirement Living Communities, where Stockland has the ability to manage assets over that extended period, it is reasonable to use a cash flow period of greater than five years.

(C3a) Intangible assets (continued)

Software

Software is stated at cost less accumulated amortisation and impairment losses. Amounts incurred in design and testing of software are capitalised, including employee costs and an appropriate part of directly attributable overhead costs, where the software will generate probable future economic benefits. This is a key area of accounting estimation and judgement for the Group.

Costs associated with maintaining software are recognised as an expense as incurred.

All software is currently amortised based on the straight-line method and using rates between 10 – 33% (2017: 20 – 33% from the point at which the asset is ready for use. Amortisation is recognised in profit or loss. The range of amortisation rates has been updated to reflect new enterprise resource planning software, a part of which commenced amortisation during the year.

The residual value, the useful life and the amortisation method applied to an asset are reviewed at least annually.

Impairment Test

No impairment has been recognised in the current year (2017: $nil).

(C3b) Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Investment property held for sale will continue to be carried at fair value. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property, plant and equipment are not depreciated once classified as held for sale.

	Stockland		Trust	
	2018 $M	**2017 $M**	**2018 $M**	**2017 $M**
Investment properties transferred from Commercial Property	**65**	71	**22**	69
Total non-current assets held for sale	**65**	71	**22**	69

Investment properties held for sale at 30 June 2018 include Stockland Highlands, Craigieburn Vic and 40 Cameron Avenue, Belconnen ACT. These property were sold on 13 July 2018 and 31 July 2018 respectively following the year end.

During the current year, Stockland completed the sale of Corrimal, NSW and certain sundry properties previously classified as non-current assets held for sale at 30 June 2017. In the prior year, these properties were revalued to their expected sale value.

(D) Capital structure and financing costs

IN THIS SECTION

This section outlines how the Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The Board determines the appropriate capital structure of the Group; specifically, how much is raised from securityholders (equity) and how much is borrowed from financial institutions and capital markets (debt), in order to finance the Group's activities both now and in the future.

The Board considers the Group's capital structure and its dividend and distribution policy at least twice a year ahead of announcing results, in the context of its ability to continue as a going concern, to execute the strategy and to deliver its business plan. During the year Stockland's S&P credit rating remained unchanged at A-/stable. A comparable A3 Moody's credit rating was obtained in August 2017. The Board continued to monitor the Group's capital structure through the gearing ratio and maintain a capital structure to minimise the cost of capital.

The Group is exposed to changes in interest rates on its net borrowings and to changes in foreign exchange rates on its foreign currency transactions and net assets. In accordance with risk management policies, the Group uses derivatives to hedge these underlying exposures.

(D1) Net financing costs

KEEPING IT SIMPLE …

This section details the interest income generated on the Group's cash and other financial assets and the interest expense incurred on borrowings and other financial assets and liabilities. The presentation of the net financing costs in this note reflects income and expenses according to the classification of the financial instruments.

Mark to market movements reflect the change in market value of the Group's derivative instruments between the later of inception or 1 July 2017 and 30 June 2018. The market value at year end is not necessarily the same as the value at which they will be settled at maturity.

Finance income includes interest receivable on funds invested, any net gains on fair value movement of effective and ineffective hedged items, financial instruments and any net foreign exchange gains recognised in profit or loss.

Interest income is recognised in profit or loss as it accrues using the effective interest method and if not received at balance date, is reflected in the balance sheet as a receivable.

Finance costs include interest payable on short-term and long-term borrowings calculated using the effective interest method, payments on derivatives, losses on hedging instruments that are recognised in profit or loss and amortisation of ancillary costs incurred in connection with arrangement of borrowings.

Finance costs are expensed as incurred except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset such as investment properties or inventories. Qualifying assets are assets that necessarily take a substantial period of time to reach the stage of their intended use or sale.

In these circumstances, borrowing costs are capitalised to the cost of the assets whilst in active development until the assets are ready for their intended use or sale. Total interest capitalised must not exceed the net interest expense in any period. Project carrying values, including all capitalised interest attributable to projects, must continue to be recoverable based on the latest project feasibilities. In the event that development is suspended for an extended period of time or the decision is taken to dispose of the asset, the capitalisation of borrowing costs is also suspended.

The rate at which interest has been capitalised to qualifying assets is disclosed in section C1.

Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate applied to the expenditures on the asset excluding specific borrowings.

The fair value of derivatives is discussed further in section D5.

(D1) Net financing costs (continued)

Net financing costs can be analysed as follows:

	Stockland		Trust	
	2018 $M	2017 $M	2018 $M	2017 $M
Finance income				
Interest income from related parties	**–**	–	**266**	272
Interest income from other parties	**3**	4	**2**	1
Interest income	**3**	4	**268**	273
Net gain on fair value hedges	**–**	26	**–**	26
Net gain on derivatives	**5**	92	**5**	92
Total net gain on hedges, debt and derivatives	**5**	118	**5**	118
Total finance income	**8**	122	**273**	391
Finance expense				
Interest expense relating to interest-bearing financial liabilities	**202**	200	**202**	200
Interest paid or payable on other financial liabilities at amortised cost	**34**	9	**–**	–
Less: interest capitalised to inventories	**(142)**	(113)	**–**	–
Less: interest capitalised to investment properties	**(17)**	(13)	**(10)**	(8)
Interest expense	**77**	83	**192**	192
Net loss on fair value hedges	**12**	–	**12**	–
Net loss on derivatives	**–**	–	**–**	–
Total net loss on hedges, debt and derivatives	**12**	–	**12**	–
Total finance expense	**89**	83	**204**	192

The interest expense relating to interest-bearing financial liabilities includes $67 million (2017: $82 million) related to interest on financial liabilities carried at amortised cost, and not designated in a fair value hedge relationship.

The table below shows the composition of gains and losses on interest-bearing liabilities, including those eligible and ineligible for hedge accounting:

	Stockland		Trust	
	2018 $M	2017 $M	2018 $M	2017 $M
Net (loss)/gain on fair value hedges				
(Loss) on net change in fair value of derivatives	**(24)**	(137)	**(24)**	(137)
Gain on net change in fair value of interest-bearing liabilities	**12**	163	**12**	163
Net (loss)/gain on fair value hedges	**(12)**	26	**(12)**	26
Net (loss)/gain on debt and derivatives				
(Loss)/gain on foreign exchange movement	**(19)**	22	**(19)**	22
Gain on fair value movement	**24**	70	**24**	70
Net gain on debt and derivatives	**5**	92	**5**	92

(D2) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits. Bank overdrafts that are repayable on demand form an integral part of Stockland's cash management and are included as a component of cash and cash equivalents for the purpose of the Consolidated Cash Flow Statements. As at 30 June 2018, Stockland does not have any bank overdrafts.

Included in the cash and cash equivalents balance is $92 million (2017: $110 million) in cash that is relating to joint ventures and/or held to satisfy real estate and financial services licensing requirements, and is not immediately available for use by the Group.

(D3) Interest-bearing loans and borrowings

KEEPING IT SIMPLE …

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

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

Stockland and Trust

Interest-bearing loans and borrowings are 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 carried at fair value and changes in the fair value are recognised in profit or loss.

The table below shows 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.

		Carrying value			
	Section	Current $M	Non-current $M	Total $M	Fair value $M
2018					
Foreign medium term notes	D3a	**240**	**3,141**	**3,381**	**3,728**
Domestic medium term notes	D3b	**–**	**557**	**557**	**595**
Bank facilities	D3c	**–**	**–**	**–**	**–**
Total		**240**	**3,698**	**3,938**	**4,323**
2017					
Foreign medium term notes	D3a	267	2,575	2,842	3,119
Domestic medium term notes	D3b	–	557	557	608
Bank facilities	D3c	–	130	130	130
Total		267	3,262	3,529	3,857

The difference of $385 million (2017: $328 million) between the carrying amount and fair value of the foreign and domestic medium term notes is due to notes being carried at amortised cost under AASB 139 *Financial Instruments: Recognition and Measurement*, while the fair value represents the amount required to replicate at balance date the principal and duration of these notes based on current market interest rates and conditions.

(D3a) Foreign medium term notes

Stockland and Trust

US private placement

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 Australian dollars (AUD or $) principal and AUD floating coupons through Cross Currency Interest Rate Swaps (CCIRS).

During the current year, the Trust repaid USD 204 million ($311 million) of its notes that were issued in the US private placement market and matured in October 2017 and June 2018.

(D3a) Foreign medium term notes (continued)

In December 2017, the Trust contracted for new US private placement debt equivalent to AUD 286 million which comprises five tranches denominated in either USD or AUD. The debt was settled in January 2018 with terms of between 10 and 15 years.

The fair value of the US private placements as at 30 June 2018 is $2,412 million (2017: $2,384 million). Details of the foreign medium term notes on issue in the US private placement market are set out below:

			Face value[1]		Carrying amount	
Maturity date	**Fixed rate coupon**	**Floating CCIRS[2]**	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
October 2017	5.96%	0.76%	**–**	61	**–**	53
June 2018	5.98%	0.25%	**–**	250	**–**	214
October 2018	6.01%	0.73 – 0.65%	**269**	269	**240**	239
July 2019	5.19%	0.85 – 0.83%	**71**	71	**75**	72
July 2020	5.24%	0.87 – 0.86%	**90**	90	**96**	93
September 2021	4.32%	2.44 – 2.48%	**176**	176	**246**	245
June 2022	6.15%	1.00%	**28**	28	**39**	39
August 2022	3.99 / 6.80%	2.93 – 3.08%	**105**	105	**98**	102
August 2024	4.14%	2.99%	**50**	50	**46**	49
August 2025	3.75%	1.62%	**156**	156	**162**	163
December 2025	5.09%	–	**100**	100	**100**	100
August 2026	3.09%	–	**200**	200	**188**	239
June 2027	6.28%	0.87%	**20**	20	**31**	31
August 2027	3.85%	1.63%	**131**	131	**135**	137
January 2028	3.63%	1.65%	**47**	–	**48**	–
August 2028	3.19 / 4.35%	2.23%	**139**	139	**131**	81
February 2029	4.67%	1.40%	**141**	141	**180**	182
January 2030	3.73 /4.42%	1.75 /1.78%	**106**	–	**108**	–
August 2030	4.00%	1.69%	**72**	72	**75**	77
August 2031	3.34%	2.27%	**59**	59	**52**	53
January 2033	3.88 /4.66%	1.90 /1.91%	**133**	–	**134**	–
Total			**2,093**	2,118	**2,184**	2,169
Less: attributable transaction costs					**(6)**	(5)
Total balance sheet carrying amount					**2,178**	2,164

1 Face value of the notes in AUD after the effect of the CCIRS.
2 Variable interest rate margin above the 90 day bank bill rate. The 90 day bank bill rate as at 30 June 2018 was 2.1105% (2017: 1.705%)

(D3a) Foreign medium term notes (continued)

Asian and European private placement

The Trust issued medium term notes into the European and Asian private placement markets with face values of Euros (EUR) 300 million ($478 million) and Hong Kong dollars (HKD) 300 million ($51 million) in April and May 2018 respectively. The total balance outstanding includes medium term notes issued in prior years with face values of EUR 300 million ($433 million), HKD 470 million ($62 million), HKD 400 million ($55 million) and HKD 540 million ($100 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 notes as at 30 June 2018 is $1,316 million (2017: $735 million). Details of the foreign medium term notes on issue in the Asian and European private placement market are set out below:

		CCIRS		Face value[1]		Carrying amount	
Maturity date	Fixed rate coupon	Type	Rate[2]	2018 $M	2017 $M	2018 $M	2017 $M
November 2021	1.50%	Floating	1.48%	**433**	433	**446**	445
May 2025	3.37%	Floating	1.89%	**62**	62	**77**	78
October 2025	4.00%	Floating	1.62%	**55**	55	**71**	73
January 2026	3.38%	Fixed	4.90%	**100**	100	**84**	86
April 2026	1.63%	Floating	1.70%	**478**	–	**480**	–
May 2028	3.70%	Floating	1.53%	**51**	–	**52**	–
Total				**1,179**	650	**1,210**	682
Less: attributable transaction costs						**(7)**	(3)
Total balance sheet carrying amount						**1,203**	679

1 Face value of the notes in Australian dollars after the effect of the CCIRS.
2 Variable interest rate margin above the 90 day bank bill rate. The 90 day bank bill rate as at 30 June 2018 was 2.1105% (2017: 1.705%).

(D3b) Domestic medium term notes

Stockland and Trust

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 is amortised to finance costs over the term of the notes. The medium term notes are issued on fixed interest rate terms.

The fair value of the notes as at 30 June 2018 is $595 million (2017: $608 million). Details of unsecured domestic medium term notes on issue are set out below:

Maturity date	Fixed rate coupon	2018 $M	2017 $M
September 2019	5.50%	**150**	150
November 2020	8.25%	**160**	160
November 2022	4.50%	**250**	250
Total		**560**	560
Less: attributable transaction costs		**(3)**	(3)
Total balance sheet carrying amount at amortised cost		**557**	557

(D3c) Bank facilities

Stockland and Trust

The bank facilities are multi-use facilities which may be used partially for bank guarantees. Bank facilities are unsecured and held at amortised cost. Details of maturity dates, excluding bank guarantee facilities (refer to section F4), are set out below:

	2018		2017	
Maturity date	Utilised $M	Facility Limit $M	Utilised $M	Facility Limit $M
December 2017	**–**	**–**	–	100
July 2018	**–**	**–**	–	100
December 2018	**–**	**100**	–	100
July 2019	**–**	**100**	–	–
August 2019	**–**	**120**	–	120
December 2019	**–**	**100**	–	–
January 2020	**–**	**–**	–	250
January 2021	**–**	**250**	–	–
February 2021	**–**	**–**	30	150
November 2021	**–**	**–**	100	100
February 2022	**–**	**150**	–	–
November 2022	**–**	**100**	–	–
	–	**920**	130	920

(D4) Other financial assets and liabilities

KEEPING IT SIMPLE …

Investments in other financial assets are managed in accordance with the Group's documented risk policy. Based on the nature of the asset and its purpose, movements in the fair value of other financial assets are recognised either through profit or loss or other comprehensive income.

Investments in other entities

The fair value of 'Securities in listed entities' is determined by reference to the quoted bid price of the entity at balance date.

The fair value of 'Units in unlisted entities' is determined by reference to the net assets of the underlying investments at balance date.

These investments are included in 'non-current assets – other financial assets' unless the Group intends to dispose of the investment within 12 months of balance date in which case the investment is classified as 'current assets – other financial assets'.

An investment is derecognised when the Group has transferred the contractual rights to receive cash flows from the investment and substantially all the risks and rewards of ownership of the investment to a third party. If an investment does not qualify for derecognition, the investment will continue to be recognised and a liability recognised for the consideration received. If the investment will qualify for derecognition within 12 months of balance date, the liability is recorded as 'current liabilities – other liabilities'.

Return on capital from BGP Holdings Plc (BGP)

BGP is a European (predominantly EUR denominated) real estate investment company. Stockland holds a 12.4% non-transferable, non-tradable investment in BGP. Stockland recognised this as an available for sale investment, in current other financial assets.

During the prior year, BGP successfully completed the sale of its underlying property portfolio and advised shareholders of its intention to wind up the BGP group of companies and distribute the proceeds to shareholders. In the prior year, Stockland received $71 million being the first tranche of proceeds from BGP.

(D4) Other financial assets and liabilities (continued)

In November 2017, Stockland received a $25 million return of capital from BGP. No further material distributions are expected from BGP, and the investment is held at $nil.

Stockland has recognised a $25 million gain ($17 million net of tax) in profit or loss, including $23 million ($15 million net of tax) gain previously recognised in equity reserves recycled through profit or loss in the current year.

Reconciliation from opening balance to closing balance for the fair value of the investment in BGP

Stockland	$M
Opening balance as at 1 July 2017	23
Net gain recognised in other comprehensive income	**2**
Return of capital reclassified to profit or loss	**(25)**
Balance as at 30 June 2018	**–**

Investments made by Stockland CARE Foundation (CARE Foundation)

The CARE Foundation is a charitable trust set up by Stockland. Under the Accounting Standards, the CARE Foundation is considered a subsidiary of Stockland. Included in other financial assets is $10 million of CARE Foundation investments (2017: $9 million) measured at Level 1 of the fair value hierarchy. This is comprised of an $8 million initial donation made by Stockland Trust in the prior years which the CARE Foundation has invested to fund its ongoing charitable projects. Investments gains of $1 million, net of donations made to charity partners, have been recognised in profit or loss.

KEEPING IT SIMPLE …

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

Derivative financial instruments

Stockland holds a number of derivative instruments including interest rate swaps, foreign exchange contracts and Cross Currency Interest Rate Swaps (CCIRS).

Derivative financial instruments are recognised initially at fair value and remeasured at each balance date. The valuation of derivatives is a key area of accounting estimation and judgement for the Group.

The fair value of interest rate swaps is the estimated amount that Stockland would receive or pay to transfer the swap at the reporting date, taking into account current interest rates and the current creditworthiness of swap counterparties.

The fair value of forward foreign exchange contracts is determined by using the difference between the contract exchange rate and the quoted forward exchange rate at the reporting date.

Third party valuations are used to determine the fair value of Stockland's derivatives. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

The gain or loss on re-measurement to fair value is recognised in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged, refer below.

Stockland enters into ISDA Master Agreements with its derivative counterparties. Under the terms of these arrangements, where certain credit events occur, the net position owing/receivable to a single counterparty in relation to all outstanding derivatives with that counterparty, will be taken as owing/receivable and all the relevant arrangements terminated. As Stockland does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet. In the event a credit event occurred, the ISDA Master Agreement would have the effect of netting, allowing a reduction to derivative assets and derivative liabilities of the same amount of $136 million (2017: $134 million).

(D4) Other financial assets and liabilities (continued)

Derivatives that qualify for hedge accounting

Stockland uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. At the inception of the transaction, Stockland designates and documents these derivative instruments into a hedging relationship with the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

Stockland documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Hedge accounting is discontinued when the hedging instrument matures or is sold, terminated or exercised, no longer qualifies for hedge accounting, or when Stockland revokes designation. Any adjustment between the carrying amount and the face value of a hedged financial instrument is amortised to profit or loss using the effective interest rate method. Amortisation begins when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or highly probable forecast transaction that could affect profit or loss.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within finance income or expense.

Amounts in the cash flow hedge reserve are recognised in profit or loss in the periods when the hedged item is recognised in profit or loss.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in the cash flow hedge reserve are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument matures or is sold, terminated or exercised, no longer qualifies for hedge accounting, or when Stockland revokes designation. Any cumulative gain or loss recognised in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is recognised immediately in profit or loss.

(D4) Other financial assets and liabilities (continued)

The following table shows the fair value of financial instruments analysed by type of instrument:

Stockland

	Other financial assets		Other financial liabilities	
	2018 $M	2017 $M	2018 $M	2017 $M
Current				
Other financial instruments				
Fair value hedges	**–**	–	**(29)**	(8)
CCIRS – through profit or loss	**12**	–	**–**	(28)
Interest rate derivatives – through profit or loss	**–**	–	**(4)**	(2)
Securities in unlisted entities	**–**	23	**–**	–
Total current other financial instruments	**12**	23	**(33)**	(38)
Non-current				
Investments in other entities				
Securities in unlisted entities	**8**	9	**–**	–
Other investments	**10**	8	**–**	–
Total non-current investments in other entities	**18**	17	**–**	–
Other financial instruments				
Fair value hedges	**156**	168	**(25)**	(44)
Cash flow hedges	**66**	36	**(38)**	(27)
CCIRS – through profit or loss	**25**	39	**–**	–
Interest rate derivatives – through profit or loss	**17**	26	**(100)**	(132)
Total non-current other financial instruments	**264**	269	**(163)**	(203)
Total non-current	**282**	286	**(163)**	(203)

Trust

	Other financial assets		Other financial liabilities	
	2018 $M	2017 $M	2018 $M	2017 $M
Current				
Other financial instruments				
Fair value hedges	**–**	–	**(29)**	(8)
CCIRS – through profit or loss	**12**	–	**–**	(28)
Interest rate derivatives – through profit or loss	**–**	–	**(4)**	(2)
Total current other financial instruments	**12**	–	**(33)**	(38)
Non-current				
Investments in other entities				
Securities in unlisted entities	**8**	9	**–**	–
Total non-current investments in other entities	**8**	9	**–**	–
Other financial instruments				
Fair value hedges	**156**	168	**(25)**	(44)
Cash flow hedges	**66**	36	**(38)**	(27)
CCIRS – through profit or loss	**25**	39	**–**	–
Interest rate derivatives – through profit or loss	**17**	26	**(100)**	(132)
Total non-current other financial instruments	**264**	269	**(163)**	(203)
Total non-current	**272**	278	**(163)**	(203)

(D5) Fair value hierarchy

KEEPING IT SIMPLE …

The financial instruments included on the balance sheet are measured at either fair value or amortised cost. The measurement of fair value may in some cases be subjective and may depend on the inputs used in the calculations. The Group generally uses external valuations based on market inputs or market values (e.g. external share prices). The different valuation methods are called hierarchies and are described below:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value

The fair value of derivative financial instruments, including domestic and foreign medium term notes, interest rate derivatives and CCIRS, is determined in accordance with generally accepted pricing models by discounting the expected future cash flows using assumptions supported by observable market rates. Whilst certain derivatives are not quoted in an active market, Stockland has determined the fair value of these derivatives using quoted market inputs (e.g. interest rates, volatility, and exchange rates) adjusted for specific features of the instruments and debit or credit value adjustments based on 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 below sets out the financial instruments included on the balance sheet at fair value.

Quantitative sensitivities required under AASB 13 *Fair Value Measurement* in relation to the Retirement Living resident obligations have been disclosed in section C1c.

Stockland

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2018				
Financial assets carried at fair value				
Derivative assets	**–**	**276**	**–**	**276**
Securities in unlisted entities	**–**	**–**	**8**	**8**
Other investments	**10**	**–**	**–**	**10**
Total financial assets carried at fair value	**10**	**276**	**8**	**294**
Financial liabilities carried at fair value				
Derivative liabilities	**–**	**(196)**	**–**	**(196)**
Retirement Living resident obligations	**–**	**–**	**(2,741)**	**(2,741)**
Total financial liabilities carried at fair value	**–**	**(196)**	**(2,741)**	**(2,937)**
Net position	**10**	**80**	**(2,733)**	**(2,643)**
2017				
Financial assets carried at fair value				
Derivative assets	–	269	–	269
Securities in unlisted entities	–	–	32	32
Other investments	8	–	–	8
Total financial assets carried at fair value	8	269	32	309
Financial liabilities carried at fair value				
Derivative liabilities	–	(241)	–	(241)
Retirement Living resident obligations	–	–	(2,629)	(2,629)
Total financial liabilities carried at fair value	–	(241)	(2,629)	(2,870)
Net position	8	28	(2,597)	(2,561)

(D5) Fair value hierarchy (continued)

Trust

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
2018				
Financial assets carried at fair value				
Derivative assets	**–**	**276**	**–**	**276**
Securities in unlisted entities	**–**	**–**	**8**	**8**
Total financial assets carried at fair value	**–**	**276**	**8**	**284**
Financial liabilities carried at fair value				
Derivative liabilities	**–**	**(196)**	**–**	**(196)**
Total financial liabilities carried at fair value	**–**	**(196)**	**–**	**(196)**
Net position	**–**	**80**	**8**	**88**
2017				
Financial assets carried at fair value				
Derivative assets	–	269	–	269
Securities in unlisted entities	–	–	9	9
Total financial assets carried at fair value	–	269	9	278
Financial liabilities carried at fair value				
Derivative liabilities	–	(241)	–	(241)
Total financial liabilities carried at fair value	–	(241)	–	(241)
Net position	–	28	9	37

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

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy:

Stockland

	Securities in unlisted entities $M	Derivatives $M	Retirement Living resident obligations $M	Total $M
Opening balance as at 1 July 2017	**32**	**–**	**(2,629)**	**(2,597)**
Total gains and losses recognised in:				
• profit or loss	**(1)**	**–**	**10**	**9**
• other comprehensive income	**2**	**–**	**–**	**2**
• Cash receipts from incoming residents on turnover	**–**	**–**	**(272)**	**(272)**
• Cash payments to outgoing residents on turnover, net of DMF	**–**	**–**	**150**	**150**
Return of capital	**(25)**	**–**	**–**	**(25)**
Balance as at 30 June 2018	**8**	**–**	**(2,741)**	**(2,733)**
Opening balance as at 1 July 2016	36	–	(2,427)	(2,391)
Total gains and losses recognised in:				
• profit or loss	(70)	–	12	(58)
• other comprehensive income	66	–	–	66
Cash receipts from incoming residents on turnover	–	–	(377)	(377)
Cash payments to outgoing residents on turnover, net of DMF	–	–	163	163
Balance as at 30 June 2017	32	–	(2,629)	(2,597)

(D5) Fair value hierarchy (continued)

Trust

	Securities in unlisted entities $M	Total $M
Opening balance as at 1 July 2017	**9**	**9**
Total gains and losses recognised in:		
• profit or loss	**(1)**	**(1)**
Balance as at 30 June 2018	**8**	**8**
Opening balance as at 1 July 2016	8	8
Total gains and losses recognised in:		
• profit or loss	1	1
Balance as at 30 June 2017	9	9

(D6) Financial risk factors

KEEPING IT SIMPLE …

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

The Group uses derivative financial instruments within its policies described below as hedges to manage certain risk exposures.

Financial risk and capital management is carried out by a central treasury department. The Board reviews and approves written principles of overall risk management, as well as written policies covering specific areas such as managing capital, mitigating interest rates, liquidity, foreign exchange and credit risks, use of derivative financial instruments and investing excess liquidity. The Audit Committee assists the Board in monitoring the implementation of these treasury policies.

The sensitivity analysis included in this section shows the impact that a shift in the financial risks would have on the financial statements at year-end, but is not a forecast or prediction. In addition, it does not include any management action that might take place to mitigate these risks, were they to occur.

(D6a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect Stockland's financial performance or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

(D6a)(i) Foreign exchange risk

Foreign exchange risk arises when anticipated transactions or recognised assets and liabilities are denominated in a currency that is not Stockland's functional currency, being Australian dollars (AUD). Stockland has currency exposures to the Euro (EUR), Hong Kong dollar (HKD) and US dollar (USD).

The Group manages its foreign exchange exposure by using CCIRS and forward exchange contracts.

The Group's foreign medium term notes create both an interest rate and a foreign currency risk exposure. The Group's policy is to minimise its exposure to both interest rate and exchange rate movements. Accordingly, the Group has entered into a series of CCIRS which cover 100% of the US, UK, European and Asian private placement principals outstanding and are timed to expire when each private placement loan matures. These swaps also swap the obligation to pay fixed interest to floating interest. When swaps held are no longer effective in hedging the interest rate and foreign currency risk exposure, management will reassess the value in continuing to hold the swap.

(D6a) Market risk (continued)

In accordance with the accounting policy, these CCIRS have been designated as fair value and cash flow hedges with the movements in fair value recognised whilst they are still in effective hedge relationships.

The following table provides a summary of the face values of the Group's foreign exchange risk exposures together with the derivatives which have been entered into to manage these exposures.

	Stockland			Trust		
	EUR €M	HKD $M	USD $M	EUR €M	HKD $M	USD $M
2018						
Borrowings	**(600)**	**(1,710)**	**(1,394)**	**(600)**	**(1,710)**	**(1,394)**
CCIRS	**600**	**1,710**	**1,394**	**600**	**1,710**	**1,394**
Foreign exchange contracts	**–**	**–**	**–**	**–**	**–**	**–**
Total exposure	**–**	**–**	**–**	**–**	**–**	**–**
2017						
Borrowings	(300)	(1,410)	(1,493)	(300)	(1,410)	(1,493)
Other net assets	18	–	–	–	–	–
CCIRS	300	1,410	1,493	300	1,410	1,493
Foreign exchange contracts	(2)	–	–	–	–	–
Total exposure	16	–	–	–	–	–

Sensitivity analysis – foreign exchange risk

The following sensitivity analysis shows the impact on the profit or loss and equity if there was an increase/decrease in AUD exchange rates of 10% at balance date with all other variables held constant.

Stockland

	Profit or loss		Equity	
	Increase $M	Decrease $M	Increase $M	Decrease $M
2018				
EUR	**–**	**–**	**(54)**	**54**
HKD	**–**	**–**	**(9)**	**11**
USD	**(1)**	**2**	**(23)**	**28**
Total impact	**(1)**	**2**	**(86)**	**93**
2017				
EUR	(3)	4	(46)	46
HKD	–	–	(9)	12
USD	(3)	4	(20)	27
Total impact	(6)	8	(75)	85

(D6a) Market risk (continued)

Trust

	Profit or loss		Equity	
	Increase $M	Decrease $M	Increase $M	Decrease $M
2018				
EUR	**–**	**–**	**(54)**	**54**
HKD	**–**	**–**	**(9)**	**11**
USD	**(1)**	**2**	**(23)**	**28**
Total impact	**(1)**	**2**	**(86)**	**93**
2017				
EUR	–	–	(46)	46
HKD	–	–	(9)	12
USD	(3)	4	(20)	27
Total impact	(3)	4	(75)	85

(D6a)(ii) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate due to changes in market interest rates.

The Trust's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. Borrowings issued at fixed rates expose the Trust to fair value interest rate risk. The Group's treasury policy allows it to enter into a variety of approved derivative instruments to manage the risk profile of the total debt portfolio to achieve an appropriate mix of fixed and floating interest rate exposures. The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Trust manages its fair value interest rate risk through CCIRS and fixed-to-floating interest rate swaps.

These derivatives have been recorded on the balance sheet at their fair value in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. These derivatives have not been designated as hedges for accounting purposes, nevertheless management believe the hedges are effective economically. As a result movements in the fair value of these instruments are recognised in profit or loss.

The table below provides a summary of the Group's interest rate risk exposure on interest-bearing loans and borrowings after the effect of the interest rate derivatives.

Stockland and Trust

	Net exposure (after the effect of derivatives)	
As at 30 June	**2018 $M**	**2017 $M**
Fixed rate interest-bearing loans and borrowings[1]	**3,655**	3,755
Floating rate interest-bearing loans and borrowings[1]	**177**	(297)
Total interest-bearing loans and borrowings	**3,832**	3,458

1 Notional principal amounts

(D6a) Market risk (continued)

Sensitivity analysis – interest rate risk

The following sensitivity analysis shows the impact on profit or loss and equity if market interest rates at balance date had been 100 basis points higher/lower (2017: 100 basis points) with all other variables held constant.

Stockland

	2018		2017	
As at 30 June	**100bp higher $M**	**100bp lower $M**	**100bp higher $M**	**100bp lower $M**
Impact on profit or loss				
Impact on interest income/(expense)	**3**	**(3)**	2	(2)
Impact on net gain/(loss) on derivatives – through profit or loss	**102**	**(106)**	130	(137)
Total impact on profit or loss	**105**	**(109)**	132	(139)
Impact on equity				
Total impact on equity	**30**	**(31)**	33	(35)

Trust

	2018		2017	
As at 30 June	**100bp higher $M**	**100bp lower $M**	**100bp higher $M**	**100bp lower $M**
Impact on profit or loss				
Impact on interest income/(expense)	**35**	**(35)**	35	(35)
Impact on net gain/(loss) on derivatives – through profit or loss	**102**	**(106)**	130	(137)
Total impact on profit or loss	**137**	**(141)**	165	(172)
Impact on equity				
Total impact on equity	**30**	**(31)**	33	(35)

(D6a)(iii) Equity price risk

Equity price risk is the risk that the fair value of investments in listed/unlisted entities fluctuate due to changes in the underlying security price. The Group's equity price risk arises from investments in listed securities and units in unlisted funds. These investments are classified as financial assets carried at fair value, with any resultant gain or loss recognised in profit or loss.

Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board.

Sensitivity analysis – equity price risk

The following sensitivity analysis shows the impact on profit or loss and equity if the market price of the underlying equity securities/units at balance date had been 10% higher/lower with all other variables held constant.

	2018		2017	
As at 30 June	**10% higher $M**	**10% lower $M**	**10% higher $M**	**10% lower $M**
Stockland				
Total impact on profit or loss	**2**	**(2)**	2	(2)
Total impact on equity	**–**	**–**	–	–
Trust				
Total impact on profit or loss	**–**	**–**	–	–
Total impact on equity	**–**	**–**	–	–

(D6b) Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations resulting in a financial loss to the Group.

The Group has no significant concentrations of credit risk to any single counterparty and has policies to review the aggregate exposure of tenancies across its portfolio. The Group also has policies to ensure that sales of properties and development services are made to customers with an appropriate credit history.

Derivative counterparties and cash deposits are currently limited to financial institutions approved by the Audit Committee. There are also policies that limit the amount of credit risk exposure to any one of the approved financial institutions based on their credit rating and country of origin.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

As at 30 June 2018, these financial institutions had an Investment Grade rating (greater than BBB-) provided by S&P.

Bank guarantees and mortgages over land are held as security over certain trade and other receivables balances.

As at 30 June 2018 and 30 June 2017, there were no significant financial assets that were past due.

(D6c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping sufficient cash and cash equivalents and/or committed credit lines available whilst maintaining a low cost of holding these facilities. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The Group manages liquidity risk through monitoring the maturity of its debt portfolio. The Group also manages liquidity risk by maintaining a liquidity buffer of cash and cash equivalents and undrawn credit facilities. The current weighted average debt maturity is 6.2 years (2017: 5.7 years).

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The table below analyses the Group's financial liabilities including derivatives into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), and therefore may not reconcile with the amounts disclosed on the balance sheet.

As derivative assets have been excluded from these tables, refer to section D5 for the fair value of the derivative assets to provide a meaningful analysis of Stockland and Trust total derivatives.

Stockland

	Carrying amount $M	Contractual cash flows $M	1 year or less $M	1 – 2 years $M	2 – 5 years $M	Over 5 years $M
2018						
Non-derivative financial liabilities						
Trade and other payables (excl. GST)	(603)	(647)	(435)	(50)	(110)	(52)
Dividends and distributions payable	(329)	(329)	(329)	–	–	–
Interest-bearing loans and borrowings	(3,938)	(5,020)	(396)	(366)	(1,703)	(2,555)
Retirement Living resident obligations	(2,741)	(2,742)	(2,577)	(4)	(1)	(160)
Derivative financial liabilities						
Interest rate derivatives	(104)	(116)	(40)	(30)	(34)	(12)
CCIRS:	(92)					
• inflow		1,815	279	34	103	1,399
• outflow		(2,011)	(322)	(50)	(159)	(1,480)
Total financial liabilities	(7,807)	(9,050)	(3,820)	(466)	(1,904)	(2,860)

(D6c) Liquidity risk (continued)

	Carrying amount $M	Contractual cash flows $M	1 year or less $M	1 – 2 years $M	2 – 5 years $M	Over 5 years $M
2017						
Non-derivative financial liabilities						
Trade and other payables (excl. GST)	(257)	(257)	(247)	(10)	–	–
Dividends and distributions payable	(312)	(312)	(312)	–	–	–
Interest-bearing loans and borrowings	(3,529)	(4,279)	(418)	(357)	(1,622)	(1,882)
Retirement Living resident obligations	(2,629)	(2,629)	(2,444)	(4)	(3)	(178)
Derivative financial liabilities						
Interest rate derivatives	(134)	(148)	(61)	(41)	(46)	–
CCIRS:	(107)					
• inflow		646	296	239	9	102
• outflow		(798)	(332)	(281)	(29)	(156)
Total financial liabilities	(6,969)	(7,777)	(3,518)	(454)	(1,691)	(2,114)

Retirement Living resident obligations are classified as current under Accounting Standards, however, it is not expected to result in actual net cash outflows within the next 12 months. In the vast majority of cases, settlement of Retirement Living resident obligations are able to be repaid from receipts from incoming residents. As at 30 June 2018, $2,724 million (2017: $2,616 million) existing resident obligations do not represent an anticipated net cash outflow as they are expected to be covered by receipts from incoming residents. Refer to section (C1c) for further details on Retirement Living resident obligations.

Trust

	Carrying amount $M	Contractual cash flows $M	1 year or less $M	1 – 2 years $M	2 – 5 years $M	Over 5 years $M
2018						
Non-derivative financial liabilities						
Trade and other payables (excl. GST)	**(134)**	**(134)**	**(134)**	**–**	**–**	**–**
Distributions payable	**(329)**	**(329)**	**(329)**	**–**	**–**	**–**
Interest-bearing loans and borrowings	**(3,938)**	**(5,020)**	**(396)**	**(366)**	**(1,703)**	**(2,555)**
Derivative financial liabilities						
Interest rate derivatives	**(104)**	**(116)**	**(40)**	**(30)**	**(34)**	**(12)**
CCIRS:	**(92)**					
• inflow		**1,815**	**279**	**34**	**103**	**1,399**
• outflow		**(2,011)**	**(322)**	**(50)**	**(159)**	**(1,480)**
Total financial liabilities	**(4,597)**	**(5,795)**	**(942)**	**(412)**	**(1,793)**	**(2,648)**
2017						
Non-derivative financial liabilities						
Trade and other payables (excl. GST)	(100)	(100)	(100)	–	–	–
Distributions payable	(312)	(312)	(312)	–	–	–
Interest-bearing loans and borrowings	(3,529)	(4,279)	(418)	(357)	(1,622)	(1,882)
Derivative financial liabilities						
Interest rate derivatives	(134)	(148)	(61)	(41)	(46)	–
CCIRS:	(107)					
• inflow		646	296	239	9	102
• outflow		(798)	(332)	(281)	(29)	(156)
Total financial liabilities	(4,182)	(4,991)	(927)	(440)	(1,688)	(1,936)

(D7) Issued capital

KEEPING IT SIMPLE …

This section explains material movements recorded in issued capital that are not explained elsewhere in the financial statements. The movements in equity of the Group and the balances are presented in the Consolidated Statements of Changes in Equity.

Issued capital represents the amount of consideration received for securities issued by the Group. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

For so long as Stockland remains jointly quoted, the number of shares in Stockland Corporation Limited and the number of units in the Stockland Trust shall be equal and the securityholders and unitholders shall be identical. Unitholders of Stockland Trust are only entitled to distributions and voting rights upon stapling.

Holders of stapled securities are entitled to receive dividends and distributions as declared from time to time and are entitled to one vote per stapled security at securityholder meetings. The liability of a member is limited to the amount, if any, remaining unpaid in relation to a member's subscription for securities. A member is entitled to receive a distribution following termination of the stapling arrangement (for whatever reason). The net proceeds of realisation must be distributed to members, after making an allowance for payment of all liabilities (actual and anticipated) and meeting any actual or anticipated expenses of termination.

The following table provides details of securities issued by the Group:

	Stockland and Trust		Stockland		Trust	
Details	**Number of securities 2018**	**Number of securities 2017**	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Ordinary securities on issue						
Issued and fully paid	**2,434,469,276**	2,418,400,142	**8,884**	8,817	**7,571**	7,507
Other equity securities						
Treasury securities	**(7,786,666)**	(6,002,501)	**(34)**	(27)	**(33)**	(27)
Total Issued Capital	**2,426,682,610**	2,412,397,641	**8,850**	8,790	**7,538**	7,480

(D7a) Ordinary securities

The following table provides details of movements in securities issued:

Details	**Stockland and Trust Number of securities**	**Stockland $M**	**Trust $M**
Movement of securities issued			
Opening balance as at 1 July 2017	**2,418,400,142**	**8,817**	**7,507**
Securities issued under the DRP	**16,069,134**	**67**	**64**
Balance as at 30 June 2018	**2,434,469,276**	**8,884**	**7,571**
Opening balance as at 1 July 2016	2,392,042,302	8,696	7,389
Securities issued under DRP	26,357,840	121	118
Balance as at 30 June 2017	2,418,400,142	8,817	7,507

Dividend/Distribution Reinvestment Plan (DRP)

In the current year, Stockland issued 16,069,134 securities (2017: 26,357,840) under the DRP. The DRP security price for the 30 June 2017 distribution was determined by the average of the daily volume weighted averages over a 15-day trading period and applying a 1.0% discount.

On 21 February 2018 we announced the suspension of the DRP in respect of the half year distribution for the six months ended 31 December 2017. On 22 May 2018 we announced the continued suspension of the DRP in respect of the 30 June 2018 distribution. On 23 August 2018 we announced the termination of the DRP.

(D7b) Other equity securities

Treasury securities

Treasury securities are securities in Stockland that are held by the Stockland Employee Securities Plan Trust. Securities are held until the end of the vesting period affixed to the securities. As the securities are held on behalf of eligible employees, the employees are entitled to the dividends and distributions.

Movement of other equity securities

Details	Stockland and Trust Number of securities	Stockland $M	Trust $M
Opening balance as at 1 July 2017	6,002,501	(27)	(27)
Securities acquired	**4,674,128**	**(20)**	**(19)**
Securities transferred to employees on vesting	**(2,889,963)**	**13**	**13**
Balance as at 30 June 2018	**7,786,666**	**(34)**	**(33)**

Securities acquired

During the year, 4,674,128 securities (2017: 3,937,661) were acquired on market at an average price of $4.37 (2017: $4.89) for the purpose of issuing securities under the Security Plans.

Securities transferred to employees on vesting

During the year, 2,889,963 securities (2017: 1,814,027) vested and were transferred to employees under the Security Plans.

At 30 June 2018, the Stockland Employee Securities Plan Trust is holding 7,786,666 securities, including 3,983,448 securities which have already vested and which employees are entitled to transfer out of the plan.

(D7c) Share based payments

KEEPING IT SIMPLE …

Stockland operates three Security Plans for eligible employees which are described below:

Long term incentives (LTI)
Under the LTI, employees have the right to acquire Stockland securities at nil consideration when certain performance conditions are met. Each grant will comprise two equal tranches, each of which vest based on separate performance hurdles (being underlying EPS growth and/or relative TSR) and has a three year vesting period. Eligibility is by invitation of the Board and is reviewed annually.

Deferred short term incentives (DSTI)
For Executives and Senior Management there is a compulsory deferral of at least one third of STI incentives into Stockland securities to further align remuneration outcomes with securityholders. Half of the awarded DSTI securities will vest 12 months after award with the remaining half vesting 24 months after award, provided employment continues to the applicable vesting date.

$1,000 Plan
Under this plan, eligible employees receive up to $1,000 worth of Stockland securities.

The security options granted under the three Security Plans are held at fair value. The valuation of security options is a key area of accounting estimation and judgement for the Group.

The number and weighted average fair value of LTI rights and DSTI securities under the Security Plans are as follows:

	Weighted average price per right/security		Number of rights/securities	
Details	2018	2017	2018	2017
Rights/securities outstanding at the beginning of the year	**$3.04**	$2.40	**11,551,934**	11,783,499
Rights/securities granted during the year	**$2.93**	$3.42	**5,951,652**	5,897,525
Rights/securities forfeited and lapsed during the year	**$2.30**	$2.19	**(2,524,555)**	(2,071,939)
Rights converted to vested Stockland stapled securities	**$3.51**	$3.26	**(3,956,365)**	(4,057,151)
Rights/securities outstanding at the end of the year	**$2.97**	$3.04	**11,022,666**	11,551,934

(D7c) Share based payments (continued)

LTI

The fair value of LTI rights is measured at grant date using the Black-Scholes and Monte Carlo Simulation option pricing models taking into account the terms and conditions upon which the rights were granted. The fair value is expensed on a straight-line basis over the vesting period, the period over which the rights are subject to performance and service conditions, with a corresponding increase in reserves.

Where the individual forfeits the rights due to failure to meet a service or performance condition, the cumulative expense is reversed through profit or loss in the current year. The cumulative expenditure for rights forfeited due to market conditions are not reversed.

Where amendments are made to the terms and conditions subsequent to the grant, the value of the grant immediately prior to and following the modification is determined. This occurs upon resignation or termination where the amendment relates to rights becoming vested in terms of beneficial ownership, which would otherwise have been forfeited due to the failure to meet future service conditions. In this situation, the value that would have been recognised in future periods in respect of the rights not forfeited is recognised in the period that the rights vest.

The number of rights granted to employees under the plan for the year ended 30 June 2018 was 3,916,652 (2017: 3,426,525). The number of LTI rights awarded is based on the Volume Weighted Average Price of Stockland securities for the ten working days post 30 June (face value methodology), this is consistent with the approach for determining number of Deferred STI awards.

Assumptions made in determining the fair value of rights granted under the security plans are detailed below:

Details	2018	2017
Grant date	**27 September 2017**	28 September 2016
Fair value of rights granted under plan	**$2.55**	$2.04
Securities spot price at grant date	**$4.27**	$4.71
Exercise price	**–**	–
Distribution yield	**6.0%**	5.7%
Risk-free rate at grant date	**2.0%**	1.6%
Expected remaining life at grant date	**2.8 years**	2.8 years
Volatility of Stockland	**19.0%**	19.0%
Volatility of Index price	**17.0%**	16.0%

The LTI rights of 7,865,999 (2017: 8,180,154) are outstanding as at 30 June 2018, which have fair values ranging from $1.50 to $2.04 (2017: $1.50 to $2.04) per right and a weighted average restricted period remaining of 1.5 years (2017: 1.5 years).

During the year, 1,997,042 rights (2017: 2,216,821) vested and will convert to securities with a weighted average fair value of $2.52 (2017: $2.25).

DSTI

The fair value of securities granted under the DSTI has been calculated based on the 10 day volume weighted average price post 30 June 2018 of $4.05 (2017: $4.27).

The DSTI outstanding as at 30 June 2018, included in the table above, are 3,156,676 (2017: 3,366,075). The DSTI outstanding have fair values ranging from $4.00 to $4.84 (2017: $4.27 to $4.84) per security.

$1,000 Plan

Stockland securities issued to eligible employees under the Tax Exempt Employee Security Plan ($1,000 Plan) are recognised as an expense with a corresponding increase in issued capital. The value recognised is the market price of the securities granted at grant date.

(D8) Dividends and distributions

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

Stockland Corporation Limited

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

The dividend franking account balance as at 30 June 2018 is $14 million based on a 30% tax rate (2017: $14 million). For the current year, the interim and final distributions are paid solely out of the Trust and therefore the franking percentage is not relevant.

Stockland Trust

	Cents per security	Total amount $M	Date of payment	Non-attributable %
2018				
Interim distribution	**13.0**	**316**	**28 February 2018**	**21.9**
Final distribution	**13.5**	**329**	**31 August 2018**	**21.9**
Total distribution	**26.5**	**645**		
2017				
Interim distribution	12.6	303	28 February 2017	27.6
Final distribution	12.9	312	31 August 2017	27.6
Total distribution	25.5	615		

The non-attributable component represents the amount distributed in excess of the Stockland Trust's taxable income (disregarding any Capital Gains Tax discount applied to any capital gains derived by Stockland Trust in the year).

(E) Group structure

IN THIS SECTION

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole. The Group includes entities that are classified as joint ventures, joint operations, associates and structured entities.

Joint ventures and associates are accounted for using the equity method, while joint operations are proportionately consolidated and structured entities are recorded as investments at cost.

In this section of the notes there is information about:

(1) Interests in joint operations;

(2) Transactions with non-controlling interests; and

(3) Changes to the structure that occurred during the year as a result of business combinations or the disposal of a discontinued operation.

(E1) Equity-accounted investments

Stockland and the Trust have interests in a number of individually immaterial joint ventures that are accounted for using the equity method. The Group did not have investments in associates at 30 June 2018 or 30 June 2017.

(E1a) Investments in joint ventures

A joint venture is either a venture or operation over whose activities the Group has joint control, established by contractual agreement. Investments in joint venture entities are accounted for on an equity-accounted basis. Investments in joint ventures are assessed for impairment when indicators of impairment are present and if required, written down to the recoverable amount.

The Group's share of the joint venture's profit or loss and other comprehensive income is from the date joint control commences until the date joint control ceases.

If the Group's share of losses exceeds its interest in a joint venture, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Transactions with the joint venture are eliminated to the extent of the Group's interest in the joint venture until such time as they are realised by the joint venture on consumption or sale.

The following table analyses, in aggregate, the carrying amount and share of profit or loss and other comprehensive income of these joint venture entities.

	Stockland		Trust	
	2018 $M	**2017 $M**	**2018 $M**	**2017 $M**
Aggregate carrying amount of individually immaterial joint venture entities	**613**	574	**595**	556
Aggregate share of:				
• profit from continuing operations	**69**	84	**69**	84
• other comprehensive income	**–**	–	**–**	–
Total comprehensive income	**69**	84	**69**	84

(E1a) Investments in joint ventures (continued)

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

	Stockland		Trust	
	2018 %	2017 %	2018 %	2017 %
Investment in joint ventures:				
• Brisbane Casino Towers	**50**	50	**–**	–
• Compam Property Management Pty Limited	**50**	50	**50**	50
• Eagle Street Pier Pty Limited	**50**	50	**–**	–
• Macquarie Park Trust	**51**	51	**51**	51
• Riverton Forum Pty Limited	**50**	50	**50**	50
• The King Trust	**50**	50	**50**	50
• Willeri Drive Trust	**50**	50	**50**	50

Changes to Joint Ventures

There have been no changes to the above listed investments in joint ventures during the financial year.

(E2) Other arrangements

(E2a) Investments in unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The Group considers all Retail Funds in which it currently holds an investment, and from which it currently earns fee income, to be structured entities.

The Group holds an interest in a closed-end, unlisted property fund that invests in real estate assets in Australia for the purpose of generating investment income and for capital appreciation. The fund finances their operations through unitholder contributions and also through external banking facilities. The fund has been determined to meet the definition of a structured entity.

SDRT No.1

As at 30 June 2018, Stockland held a 19.9% interest in SDRT No.1 (2017: 19.9%), valued at $8 million (2017: $9 million). The Group's interest in this fund is included in the 'Other Financial Assets' line item on the balance sheet.

The maximum exposure to risk for SDRT No.1 is the carrying value of its investment in the Fund.

(E2b) Joint operations

Interests in unincorporated joint operations are consolidated by recognising the Group's proportionate share of the joint operations' assets, liabilities, revenues and expenses and the joint operation's revenue from the sale of their share of goods or services on a line-by-line basis, from the date joint control commences to the date joint control ceases and are not included in the above table.

(E3) Controlled entities

The following entities were 100% controlled during the current and prior years:

Controlled entities of Stockland Corporation Limited

Albert & Co Pty Ltd[1]	Stockland Highlands Retirement Village Pty Limited
ARC Joint Ventures Pty. Ltd.[1]	Stockland Holding Trust No. 3
Bayview Road Property Trust	Stockland Holding Trust No. 4
Bellevue Gardens Trust	Stockland Holding Trust No. 5
Endeavour (No. 2) Unit Trust	Stockland Holding Trust No. 6
IOR Friendly Society Pty Limited[1]	Stockland Holdings Limited[3]
Jimboomba Trust	Stockland IOR Group Pty Limited[1]
JT Bid Co No. 1 Pty Limited[2]	Stockland Kawana Waters Pty Limited[1]
JT Bid Co No. 2 Pty Limited[2]	Stockland Knox Village Pty Limited[1]
Knowles Property Management Unit Trust	Stockland Lake Doonella Pty Limited[1]
Knox Unit Trust	Stockland Lensworth Glenmore Park Limited[1]
Mayflower Investments Pty Ltd	Stockland Lincoln Gardens Pty Limited
Merrylands Court Pty Limited	Stockland Long Island Village Pty Limited[1]
Northpoint No. 1 Trust	Stockland Management Limited
Northpoint No. 2 Trust	Stockland Maybrook Manor Pty Limited
Northpoint No. 3 Trust	Stockland Mernda Retirement Village Pty Limited
Northpoint No. 4 Trust	Stockland Miami (Fund) Unit Trust
Northpoint No. 5 Trust	Stockland Miami (Non-Fund) Unit Trust
Northpoint No. 6 Trust	Stockland Miami (QLD) Pty Limited[1]
Nowra Property Unit Trust	Stockland Midlands Terrace Adult Community Pty Limited[1]
Patterson Lakes Unit Trust	Stockland Newport Retirement Village Pty Limited[4]
Retirement Living Acquisition Trust	Stockland North Lakes Development Pty Limited[1]
Retirement Living Holding Trust No. 1	Stockland North Lakes Pty Limited[1]
Retirement Living Holding Trust No. 2	Stockland Oak Grange Pty Limited[1]
Retirement Living Holding Trust No. 3	Stockland Ormeau Trust
Retirement Living Holding Trust No. 4	Stockland Patterson Village Pty Limited[1]
Retirement Living Holding Trust No. 5	Stockland Pine Lake Management Services Pty Limited
Retirement Living Holding Trust No. 6	Stockland Pine Lake Village Pty Limited
Retirement Living Unit Trust No. 1	Stockland PR1 Trust
Retirement Living Unit Trust No. 2	Stockland PR2 Trust
Rogan's Hill Retirement Village Trust	Stockland PR3 Trust
SDRT 2 Property 1 Trust	Stockland PR4 Trust
SDRT 2 Property 2 Trust	Stockland Property Holdings Limited[3]
SDRT 2 Property 3 Trust	Stockland Property Management Pty Ltd[1]
SDRT 2 Property 4 Trust	Stockland Property Services Pty Limited[1]
Stockland (Billingham) Limited[3]	Stockland Queenslake Village Pty Limited
Stockland (Boardwalk Sub2) Pty Limited	Stockland Retail Services Pty Limited[1]
Stockland (IH) No. 1 Pty Limited[3]	Stockland Retirement Pty Limited[1]
Stockland (NSW) No. 1 Pty Limited[3]	Stockland Richmond Retirement Village Pty Limited[2]
Stockland (NSW) No. 2 Pty Limited[3]	Stockland Ridgecrest Village Management Services Pty Limited
Stockland (Queensland) Pty. Limited[1]	Stockland Ridgecrest Village Pty Limited
Stockland (Russell Street) Pty Limited[1]	Stockland RRV Pty Limited[1, 5]
Stockland (UK) Limited[3]	Stockland RVG (Queensland) Pty Limited
Stockland A.C.N 116 788 713 Pty Limited[1]	Stockland Salford Living Pty Limited[1]
Stockland Aevum Limited[1]	Stockland Scrip Holdings Pty Limited
Stockland Aevum SPV Finance No. 1 Pty Limited	Stockland Selandra Rise Retirement Village Pty Limited
Stockland Affinity Retirement Village Pty Limited	Stockland Services (UK) Limited[3]
Stockland Bellevue Gardens Pty Limited	Stockland Services Pty Limited[1]
Stockland Bells Creek Pty Limited[1]	Stockland Singapore Pte Ltd

(E3) Controlled entities (continued)

Controlled entities of Stockland Corporation Limited (continued)

Stockland Birtinya Retirement Village Pty Limited[1]	Stockland South Beach Pty Limited[1]
Stockland Buddina Pty Limited[1]	Stockland Syndicate No. 1 Trust
Stockland Caboolture Waters Pty Limited[1]	Stockland Templestowe Retirement Village Pty Limited[1]
Stockland Caloundra Downs Pty Limited[1]	Stockland The Grove Retirement Village Pty Limited[2, 6]
Stockland Capital Partners Limited	Stockland The Hastings Valley Parklands Village Pty Limited
Stockland Care Foundation Pty Limited	Stockland The Pines Retirement Village Pty Limited[1]
Stockland Care Foundation Trust	Stockland Trust Management Limited
Stockland Castlehaven Pty Limited	Stockland Vermont Retirement Village Pty Limited[1]
Stockland Castleridge Pty Limited	Stockland WA (Estates) Pty Limited[1]
Stockland Catering Pty Limited	Stockland WA Development (Realty) Pty Limited[1]
Stockland Development (Holdings No. 1) Pty Limited [1, 3]	Stockland WA Development (Sub 6) Pty Limited[3]
Stockland Development (Holdings) Pty Limited[1]	Stockland WA Development (Vertu Sub 1) Pty Limited
Stockland Development (NAPA NSW) Pty Limited[1]	Stockland WA Development Pty Limited[1]
Stockland Development (NAPA QLD) Pty Limited[1]	Stockland Wallarah Peninsula Management Pty Limited[1]
Stockland Development (NAPA VIC) Pty Limited[1]	Stockland Wallarah Peninsula Pty Limited[1]
Stockland Development (PHH) Pty Limited[1]	Stockland Wantirna Village Pty Limited[1]
Stockland Development (PR1) Pty Limited	Stockland Willowdale Retirement Village Pty Limited
Stockland Development (PR2) Pty Limited	Stockland Willows Retirement Village Services Pty Limited
Stockland Development (PR3) Pty Limited	Templestowe Unit Trust
Stockland Development (PR4) Pty Limited	The Mount Gravatt Retirement Village Unit Trust
Stockland Development (Sub3) Pty Limited	The Pine Lake Management Services Unit Trust
Stockland Financial Services Pty Limited[1]	Toowong Place Pty Limited
Stockland Golden Ponds Forster Pty Limited	Vermont Unit Trust
Stockland Greenleaves Management Services Pty Limited	
Stockland Greenleaves Village Pty Limited	
Stockland Hibernian Investment Company Pty Limited[1]	
Stockland Highlands Pty Limited[1]	

1 These entities are parties to the Deed of Cross Guarantee and members of the Closed Group as at 30 June 2018.
2 These entities were formed/incorporated or acquired in the current financial year.
3 These entities were sold or liquidated in the current financial year.
4 This entity was incorporated on 13 July 2018 after the end of the financial year.
5 This entity changed its name during the current financial year from Stockland Rosebud Village Pty Limited. The change was effective from 27 April 2018.
6 This entity changed its name after the end of the financial year from Stockland The Pines Retirement Village Pty Limited. The change was effective from 12 July 2018.

(E3) Controlled entities (continued)

Controlled entities of Stockland Trust

9 Castlereagh Street Unit Trust	Stockland Harrisdale Trust
ADP Trust	Stockland Industrial No. 1 Property 1 Trust
Advance Property Fund	Stockland Industrial No. 1 Property 4 Trust
Capricornia Property Trust	Stockland Industrial No. 1 Property 5 Trust
Endeavour (No. 1) Unit Trust	Stockland Industrial No. 1 Property 6 Trust
Flinders Industrial Property Trust	Stockland Industrial No. 1 Property 7 Trust
Flinders Industrial Property Subtrust (No. 1)	Stockland Industrial No. 1 Property 8 Trust
Hervey Bay Holding Trust	Stockland Industrial No. 1 Property 9 Trust
Hervey Bay Sub Trust	Stockland Industrial No. 1 Property 11 Trust
Industrial Property Trust	Stockland Marrickville Unit Trust
Jimboomba Village Shopping Centre and Tavern Trust	Stockland Mornington Unit Trust
SDOT 4 Property # 1 Trust	Stockland Mulgrave Unit Trust
SDOT 4 Property # 2 Trust	Stockland North Ryde Unit Trust
SDOT 4 Property # 3 Trust	Stockland Padstow Unit Trust
SDRT 1 Property # 3 Trust	Stockland Parkinson Unit Trust
SDRT 3 Property # 1 Trust	Stockland Quarry Road Trust
SDRT 3 Property # 2 Trust	Stockland Retail Holding Sub-Trust No. 1
SDRT 3 Property # 3 Trust	Stockland Retail Holding Trust No. 1
Shellharbour Property Trust	Sugarland Shopping Centre Trust
Stockland Baringa Shopping Centre Trust[2]	Stockland Wholesale Office Trust No. 1
Stockland Bayswater Unit Trust	Stockland Wholesale Office Trust No. 2
Stockland Birtinya Shopping Centre Trust[2]	Stockland Richlands Unit Trust
Stockland Bundaberg Trust	Stockland St Marys Unit Trust
Stockland Brooklyn Industrial Trust[2]	Stockland Tingalpa Unit Trust
Stockland Castlereagh Street Trust	Stockland Truganina Industrial Trust[2]
Stockland Direct Diversified Fund	Stockland Willawong Industrial Trust
Stockland Direct Office Trust No. 4	Stockland Wonderland Drive Property Trust
Stockland Direct Retail Trust No. 3	SWOT2 Sub Trust No. 1
Stockland Eastern Creek Trust	SWOT2 Sub Trust No. 2
Stockland Finance Holdings Pty Limited[1]	SWOT2 Sub Trust No. 3
Stockland Finance Pty Limited[1]	

1 These entities are parties to the Deed of Cross Guarantee (Finance) as at 30 June 2018.
2 These entities were formed/incorporated or acquired in the current financial year.

All Stockland entities were formed/incorporated in Australia with the exception of Stockland Singapore Pte. Ltd. which is incorporated in Singapore and all UK subsidiaries identified as being incorporated in the UK.

Stockland owns all the issued shares/units of the respective controlled entities (unless otherwise stated) and such shares/units carry the voting, dividend/distribution and equitable rights.

(E4) Deed of Cross Guarantee

Stockland Corporation Limited and certain wholly-owned companies (the Closed Group), identified in section E3, are parties to a Deed of Cross Guarantee (the Deed). The effect of the Deed is that the members of the Closed Group guarantee to each creditor, payment in full of any debt, in the event of winding up of any of the members under certain provisions of the *Corporations Act 2001*.

ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 provides relief to parties to the Deed from the *Corporations Act 2001* requirements for preparation, audit and lodgement of Financial Reports and Directors' reports, subject to certain conditions as set out therein.

Pursuant to the requirements of this instrument, a summarised Consolidated Statement of Comprehensive Income for the year ended 30 June 2018 and Consolidated Balance Sheet as at 30 June 2018, comprising the members of the Closed Group after eliminating all transactions between members, are set out on the following pages.

	Closed Group	
Balance sheet	**2018 $M**	**2017 $M**
Current assets		
Cash and cash equivalents	**90**	95
Trade and other receivables	**58**	104
Inventories	**707**	751
Other assets	**22**	26
	877	976
Non-current assets held for sale	**43**	1
Total current assets	**920**	977
Non-current assets		
Trade and other receivables	**15**	4
Inventories	**2,749**	1,725
Investment properties	**2,234**	2,031
Equity-accounted investments	**25**	25
Other financial assets	**38**	38
Property, plant and equipment	**27**	23
Intangible assets	**119**	80
Deferred tax assets	**88**	22
Total non-current assets	**5,295**	3,948
Total assets	**6,215**	4,925
Current liabilities		
Trade and other payables	**638**	389
Retirement Living resident obligations	**1,207**	1,147
Provisions	**575**	331
Other liabilities	**33**	43
Total current liabilities	**2,453**	1,910
Non-current liabilities		
Trade and other payables	**173**	10
Interest-bearing loans and borrowings	**2,770**	2,657
Retirement Living resident obligations	**38**	38
Provisions	**383**	130
Total non-current liabilities	**3,364**	2,835
Total liabilities	**5,817**	4,745
Net assets	**398**	180
Equity		
Issued capital	**1,313**	1,310
Reserves	**2**	3
Accumulated losses	**(917)**	(1,133)
Total equity	**398**	180

(E4) Deed of Cross Guarantee (continued)

	Closed Group	
	2018 $M	2017 $M
Summarised Statement of Comprehensive Income		
Profit before income tax benefit	**157**	76
Income tax benefit/(expense)	**59**	(6)
Profit for the year	**216**	**70**
Other comprehensive income	**(1)**	–
Total comprehensive income	**215**	70

Summary of movements in accumulated losses		
Accumulated losses at 1 July	**(1,133)**	(1,195)
Adjustment for entities removed from the Closed Group during the prior year	**–**	(8)
Profit for the year	**216**	70
Accumulated losses at 30 June	**(917)**	(1,133)

(E5) Parent entity disclosures

The financial information of the parent entities of Stockland and the Trust has been prepared on the same basis as the consolidated financial report.

The parent entity of Stockland and the Trust was Stockland Corporation Limited and Stockland Trust, respectively.

	Stockland Corporation Limited		Stockland Trust	
	2018 $M	2017 $M	2018 $M	2017 $M
Results for the year ended 30 June				
Profit for the year	**310**	253	**686**	950
Other comprehensive income	**(1)**	–	**22**	(21)
Total comprehensive income for the year	**309**	253	**708**	929
Financial position as at 30 June				
Current assets	**4,436**	4,167	**549**	607
Total assets[1]	**4,617**	4,305	**21,684**	20,076
Current liabilities	**–**	–	**8,762**	7,960
Total liabilities	**3,831**	3,831	**12,130**	10,672
Net assets	**786**	474	**9,554**	9,404
Issued capital	**1,313**	1,310	**7,538**	7,480
Reserves	**2**	3	**96**	70
(Accumulated losses)/retained earnings	**(529)**	(839)	**1,920**	1,854
Total equity	**786**	474	**9,554**	9,404

1 There were no intangible assets as at 30 June 2018 (2017: $nil).

Parent entity contingencies

There are no contingencies within either parent entity as at 30 June 2018 (2017: $nil).

Parent entity capital commitments

Neither parent entity has entered into any capital commitments as at 30 June 2018 (2017: $nil).

ASIC Deed of Cross Guarantee

Stockland Corporation Limited has entered into a Deed of Cross Guarantee with the effect that it has guaranteed debts in respect of its subsidiaries. Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed are disclosed in section E4.

(F) Other items

IN THIS SECTION

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

(F1) Accounting policies

KEEPING IT SIMPLE …

Accounting policies that apply to a specific category in the profit or loss or balance sheet have been included within the relevant notes.

The accounting policies listed below are those that apply across a number of the Group's profit or loss and balance sheet categories and are not specific to a single category.

Principles of consolidation

Controlled entities

The consolidated financial statements of the Group incorporate the assets, liabilities and results of all controlled entities.

Controlled entities are all entities over which the parent entities Stockland or the Trust has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Stockland or the Trust controls another entity.

Intergroup transactions, balances and unrealised gains on transactions between controlled entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Foreign currency

Transactions

Foreign currency transactions are translated into the entity's functional currency at the exchange rate on the transaction date.

Assets and liabilities denominated in foreign currencies are translated to Australian dollars at balance date using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Monetary assets and liabilities	Balance date
Non-monetary assets and liabilities measured at historical cost	Date of transaction
Non-monetary assets and liabilities measured at fair value	Date fair value is determined

Foreign exchange differences arising on translation are recognised in the profit or loss.

Translation of financial reports of foreign operations

Financial reports of foreign operations are translated to Australian dollars using the following applicable exchange rates:

Foreign currency amount	Applicable exchange rate
Revenues and expenses of foreign operations	Date of transaction
Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation	Balance date
Equity items	Historical rates

(F1) Accounting policies (continued)

The following foreign exchange differences are recognised directly in the foreign currency translation reserve, a separate component of equity:

- foreign currency differences arising on translation of foreign operations;
- exchange differences arising from the translation of the net investment in foreign entities and of related hedges (which are recycled into profit or loss upon disposal); and
- foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future (which are monetary items considered to form part of the net investment in a foreign operation).

Reserves

Executive remuneration reserve

The executive remuneration reserve arises due to the rights and deferred securities awarded under the LTI and DSTI being accounted for as share based payments. The fair value of the rights and deferred securities is recognised as an employee expense in profit or loss with a corresponding increase in the reserve over the vesting period. On vesting, the LTI and DSTI awards are settled by allocating treasury securities to the rights holder, the cost to acquire the treasury securities is recognised in the executive remuneration reserve by a transfer from treasury securities. Where rights are forfeited due to failure to satisfy a service or performance condition, the cumulative expense is reversed through profit or loss in the current year. The cumulative expenditure for rights which lapse due to failure to satisfy a market condition are transferred to retained earnings on expiry.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges, refer to section D4.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available for sale financial assets until the assets are derecognised or impaired.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and from derivatives used to hedge operations/funding.

(i) New and amended Accounting Standards

Mandatory in future years

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2018. Stockland's assessment of the impact of these new standards and interpretations is set out below:

AASB 9* Financial Instruments *(effective for annual reporting periods beginning on or after 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018.

The key changes to the standard are the classification and measurement of financial assets, the introduction of an expected credit loss model for impairment of financial assets and amended rules for hedge accounting.

A modified classification has been established for equity instruments which are strategic in nature and that are not expected to be sold. This removes the profit or loss impact of changes in value of these strategic investments, as fair value gains and losses are recorded as an increase or reduction in equity through other comprehensive income. On maturity or disposal, these gains or losses are no longer recycled through profit or loss.

Under the new standard, Stockland does not raise a provision solely for past due loans and debtors balances, instead a forward looking estimate that reflects current and forecast credit conditions is raised at inception and considered annually.

Amendments to the standard focus on aligning hedge accounting to Stockland's risk management strategy. This will expand the range of eligible hedging instruments, ease restrictions on layered items and allow for a portfolio management approach to hedge accounting.

When adopted, the standard will affect in particular Stockland's accounting for its available for sale financial assets under the new classification for equity instruments, but no impact is expected on Stockland's financial liabilities.

Based on an assessment performed during the year, Stockland assessed the impact of these changes to be immaterial.

(F1) Accounting policies (continued)

Under AASB 9, the Trust is required to apply the new impairment model to assess the $3,288 million unsecured intergroup loan receivable from Stockland Corporation Limited which is repayable in 2023. While there has been no history of defaults, and the loan is considered to be low credit risk, an impairment provision determined as 12 months expected credit losses of approximately 0.2% of the loan balance will be recorded.

AASB 15* Revenue from Contracts with Customers *(effective for annual reporting periods beginning on or after 1 January 2018)

AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018. Stockland intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 July 2018 with no restatement of comparatives.

The core principle of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or service passes to the customer. It requires the identification of discrete performance obligations within a transaction and allocating an associated transaction price to these obligations.

Residential property development sales and sales of Retirement Living Aspire products fall within the scope of this standard.

Stockland currently recognises revenue from land and property sales when the risks and rewards of ownership are transferred to the buyer and the amount of revenue can be reliably measured. Based on our assessment, this is consistent with the point in time that control of the goods or service passes to the customer and, as such, no material impact is expected from the application of the new standard.

Commercial Property rental income and Retirement Living DMF Revenue have been assessed as meeting the definition of a lease and therefore are within the scope of AASB 16 *Leases*. The measurement of other revenue streams in the Commercial Property and Retirement Living businesses which fall within scope of AASB 15 will not be materially impacted by application the new standard.

AASB 15 requires incremental costs which are directly attributable to obtaining a contract (for example, a sales commission) to be deferred and recognised as a contract asset on balance sheet. This treatment is optional under AASB 15 where the related benefit (revenue) is expected to flow within one year or less of incurring the commission cost, which is the case for the majority of Residential land and Retirement Living sales.

A contract asset will be recorded at 30 June 2018 in relation to Apartment and Medium Density sales commissions incurred where settlements are not forecast to occur within 1 year. Net Assets will increase by less than 0.1%. There will be an immaterial impact on the timing of the recognition of the commission expense in future periods.

AASB 16* Leases *(effective for annual reporting periods beginning on or after 1 January 2019)

AASB 16 *Leases* replaces existing guidance, including AASB 117 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019.

The revised lease standard sets out a comprehensive model for identifying lease arrangements and subsequent measurement. Under the new standard, the lessee is required to recognise all right-of-use assets and corresponding lease liabilities on the balance sheet, with the exception of short term and low value leases. The right-of-use asset reflects the lease liability, direct costs and any adjustments for lease incentives or restoration.

The lease liability is the net present value of future lease payments for the lease term, which incorporates any options reasonably expected to be exercised. The contracted cash flows are separated into principal repayments and interest components, using the effective interest rate method. Depreciation expense on the right-of-use asset and interest expense on the lease liability will now be recognised instead of a rental expense.

An assessment has been performed based on each operating lease arrangement that exists in the current reporting period. The assessment confirmed that the new standard will not have a material impact on Stockland or the Trust. Based on the assessment performed, if AASB 16 had been adopted for the year ended 30 June 2018, a right-of-use asset and a lease liability would have been recognised on the balance sheet, while straight line rent liabilities would have been derecognised. Total Assets and Total Liabilities would have increased by less than 1%, Net Assets would decrease by less than 0.1%. Statutory profit and FFO would decrease by less than 0.2%.

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.

(F2) Earnings per security (EPS)

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

Basic EPS is calculated on the Group's statutory profit for the year 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 on page 9 and more directly reflects underlying income performance of the portfolio.

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

	Stockland		Trust	
Year ended 30 June	**2018 cents**	**2017 cents**	**2018 cents**	**2017 cents**
Basic and diluted EPS				
Basic EPS	**42.3**	49.8	**29.4**	39.8
Diluted EPS	**42.2**	49.6	**29.3**	39.6

Reconciliations of earnings used in calculating EPS

	Stockland		Trust	
Year ended 30 June	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Basic and diluted earnings				
Profit attributable to securityholders	**1,025**	1,195	**712**	955

Weighted average number of securities used as the denominator

	Stockland and Trust	
As at 30 June	**2018 No.**	**2017 No.**
Weighted average number of securities (basic)		
Weighted average number of securities	**2,424,182,812**	2,401,240,450
Weighted average number of securities (diluted)		
Weighted average number of securities (basic)	**2,424,182,812**	2,401,240,450
Effect of rights and securities granted under Security Plans	**5,371,202**	7,963,712
Weighted average number of securities (diluted)	**2,429,554,014**	2,409,204,162

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

(F3) Notes to consolidated cash flow statements

(F3a) Reconciliation of profit to net cash inflows from operating activities

	Stockland		Trust	
	2018 $M	2017 $M	2018 $M	2017 $M
Profit for the year	**1,025**	1,195	**712**	955
Add/(less) items classified as investing/financing activities:				
Net loss/(gain) on fair value hedges	**12**	(26)	**12**	(26)
Net gain on derivatives	**(5)**	(92)	**(5)**	(92)
Interest capitalised to investment properties	**(17)**	(13)	**(10)**	(8)
Net gain on sale of non-current assets	**(16)**	–	**–**	–
Net gain on other financial assets	**(26)**	–	**(16)**	(1)
Dividends and distributions income	**–**	(71)	**–**	–
Add/(less) non-cash items:				
DMF base fee earned, unrealised	**(31)**	(29)	**–**	–
Net write-back of inventories impairment provision	**–**	(3)	**–**	–
Depreciation	**16**	14	**–**	–
Straight-line rent adjustments	**(6)**	(8)	**(6)**	(8)
Net change in fair value of investment properties (including equity-accounted investments)	**(180)**	(295)	**(109)**	(239)
Share of profits of equity-accounted investments, net of distributions received	**1**	4	**1**	4
Equity-settled share based payments	**15**	18	**–**	–
Other items	**(9)**	(9)	**1**	4
Net cash inflows from operating activities before change in assets and liabilities	**779**	685	**580**	589
Decrease/(increase) in receivables	**18**	6	**(5)**	(6)
Decrease/(increase) in other assets	**14**	(20)	**10**	(4)
(Increase)/decrease in inventories	**(974)**	34	**–**	–
(Increase)/decrease in deferred tax assets	**(61)**	1	**–**	–
Increase/(decrease) in payables and other liabilities	**337**	(10)	**14**	1
Increase in resident obligations	**112**	202	**–**	–
Increase in other provisions	**503**	23	**–**	–
Net cash inflows from operating activities	**728**	921	**599**	580

(F3b) Reconciliation of movement in financial liabilities arising from financing activities

Stockland and Trust

	Opening balance 1 July $M	Net cash flows $M	Non-cash movements: Foreign exchange movements $M	Non-cash movements: Fair value changes $M	Balance 30 June $M
2018					
Interest-bearing loans and borrowings					
Foreign medium term notes	**2,842**	**504**	**40**	**(5)**	**3,381**
Domestic medium term notes	**557**	**–**	**–**	**–**	**557**
Bank facilities	**130**	**(130)**	**–**	**–**	**–**
Total	**3,529**	**374**	**40**	**(5)**	**3,938**
2017					
Interest-bearing loans and borrowings					
Foreign medium term notes	2,975	119	(74)	(178)	2,842
Domestic medium term notes	705	(148)	–	–	557
Bank facilities	120	10	–	–	130
Total	3,800	(19)	(74)	(178)	3,529

(F4) Contingent liabilities

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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 30 June 2018 comprise bank guarantees, letters of credit and insurance bonds.

	Stockland and Trust 2018 $M	Stockland and Trust 2017 $M
Guarantees		
Bank guarantees, letters of credit and insurance bonds issued to semi and local government and other authorities against performance contracts, maximum facility $610 million (2017: $560 million)	**421**	413

(F5) Commitments

Capital expenditure commitments

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

	Stockland		Trust	
	2018 $M	2017 $M	2018 $M	2017 $M
Inventory commitments	**363**	301	**–**	–
Investment property commitments	**218**	283	**36**	239
Total capital expenditure commitments	**581**	584	**36**	239

Operating lease commitments

Operating lease commitments not recognised in the financial statements at balance date are as follows:

• within one year	**9**	9	**–**	–
• later than one year but not later than five years	**31**	28	**–**	–
• later than five years	**8**	12	**–**	–
Total operating lease commitments	**48**	49	**–**	–

During the current financial year, $9 million was recognised as an expense in Stockland's profit or loss in respect of operating leases (2017: $9 million). No operating lease expense was recognised in the Trust's profit or loss.

(F6) Related party disclosures

Details of arrangements with Stockland and the Trust related party entities are set out below:

	Stockland		Trust	
	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
Revenue				
Responsible Entity fees	**576**	551	**–**	–
Management and service fee	**77**	75	**–**	–
Property management, tenancy design and leasing fees	**2,098**	2,224	**–**	–
Rental income	**–**	–	**5,125**	4,709
Finance income	**–**	–	**266,448**	271,487
Total revenue from related parties	**2,751**	2,850	**271,573**	276,196
Expenses				
Responsible Entity fees	**–**	–	**37,583**	35,457
Property management, tenancy design and leasing fees	**–**	–	**28,567**	25,927
Recoupment of expenses	**–**	–	**66,382**	64,103
Development management fee capitalised to investment property	**–**	–	**23,657**	30,952
Total expenses to related parties	**–**	–	**156,189**	156,439

Responsible Entity and other management fees

Stockland received Responsible Entity and other Management Fees from the unlisted property funds managed by Stockland during the financial year.

The Trust pays Responsible Entity fees to Stockland Trust Management Limited, calculated at 0.3% to 0.35% of gross assets of the Trust less intergroup loans (2017: 0.3 – 0.35%).

Property management expenses and tenancy design fees were paid by the Trust to Stockland Trust Management Limited (the Responsible Entity) or its related parties provided in the normal course of business and on normal terms and conditions.

Rental income

Rent was paid by Stockland Corporation Limited, a related party of the Responsible Entity to Stockland Trust in the normal course of business and on normal terms and conditions.

(F6) Related party disclosures (continued)

Finance income

The Trust has an unsecured loan to Stockland Corporation Limited of $3,303 million (2017: $3,198 million) repayable in 2023. Interest on the loan is payable monthly in arrears at interest rates within the range of 7.7% to 8.1% during the year ended 30 June 2018 (2017: 7.8% to 7.9%).

Interest was paid by Stockland Corporation Limited to Stockland Trust, a related party of the Responsible Entity provided in the normal course of business and on normal terms and conditions.

Development Management Fee

A development management deed was executed between Stockland Trust and Stockland Development Pty Limited (a controlled entity of the Stockland Corporation Limited) effective 1 July 2012 in relation to a management fee in respect of Retail developments. The fee represents remuneration for the Corporation's property development expertise and for developments which commenced after 1 July 2016 is calculated based on a fixed 4.0% of total development costs in line with recent changes to benchmark methodologies (for developments which commenced prior to 1 July 2016, the fee is calculated as 50.0% of the total valuation gain or loss on the completion of a development). Fees are paid by Stockland Trust to Stockland Development Pty Limited.

Stockland has trade receivables of $379 thousand (2017: $861 thousand) due from the unlisted property funds.

As at 30 June 2018, the carrying amount of Stockland's investment in the unlisted property funds was $8,203 thousand (2017: $8,747 thousand).

(F7) Personnel expenses

Personnel expenses comprised of the following:

	Stockland		Trust	
Year ended 30 June	**2018 $M**	**2017 $M**	**2018 $M**	**2017 $M**
Wages and salaries (including on-costs)	**214**	198	**–**	–
Equity-settled share based payment transactions	**15**	18	**–**	–
Contributions to defined contribution plans	**12**	13	**–**	–
Increase in annual and long service leave provisions	**5**	2	**–**	–
Redundancy provision	**6**	2	**–**	–
Total personnel expenses	**252**	233	**–**	–

This disclosure note includes the accounting policies for all items related to personnel expenses. This includes the treatment of balance sheet items that relate to personnel expenses such as provision for employee benefits, which are included in Other Liabilities on the balance sheet.

Personnel expenses

The total personnel expenses for the year was $252 million (2017: $233 million), which includes $15,472 thousand of equity-settled share based payment transactions (2017: $18,304 thousand).

Annual leave

Accrued annual leave of $12 million (2017: $9 million) is presented in current liabilities, since Stockland does not have an unconditional right to defer settlement for any of these obligations. Based on past experience, Stockland expects all employees to take the full amount of accrued leave within the next 12 months.

Long service leave

The current portion of long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances.

The liability for long service leave expected to be settled more than 12 months from the balance date is recognised in the provision for employee benefits and measured as the present value of expected payments to be made in respect of services provided by employees up to the balance date.

Consideration is given to expected future wage and salary levels, past experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance date on corporate bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(F7) Personnel expenses (continued)

Bonus entitlements

A liability is recognised in current trade and other payables for employee benefits in the form of employee bonus entitlements where there is a contractual obligation or where there is a past practice that has created a constructive obligation. Liabilities for employee bonus entitlements are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Superannuation plan

Stockland contributes to several defined contribution superannuation plans. Contributions are recognised as a personnel expense as they are incurred. The annual expense was $12,403 thousand (2017: $13,063 thousand).

(F8) Key management personnel disclosures

Key management personnel compensation comprised of the following:

Year ended 30 June	2018 $'000s	2017 $'000s
Short term employee benefits	**13,205**	12,972
Post-employment benefits	**309**	270
Other long term benefits	**172**	107
Termination benefits	**1,050**	–
Share based payments	**7,631**	8,215
Total key management personnel compensation	**22,367**	21,564

Information regarding individual Directors' and Executives' remuneration is provided in the Remuneration Report on pages 39 to 53 of the Directors' Report.

Other transactions with key management personnel

There are transactions between the Group and entities with which key management personnel have an association. These transactions do not meet the definition of related parties since the key management personnel as individuals are not considered to have control or significant influence over the financial or operating activities of the respective non-Stockland entities. Furthermore, the terms and conditions of those transactions were no more favourable than those available, or might reasonably be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

From time to time key management personnel acquire Residential land lots from the Group. These purchases are at market rates and on an arm's length basis. This amounted to $nil (2017: $279 thousand), however, deposits totalling $58 thousand were received from key management personnel during 2018 for land where settlement is expected to occur in 2019.

(F9) Auditor's remuneration

	Stockland		Trust	
	2018 $'000s	2017 $'000s	2018 $'000s	2017 $'000s
Auditor of Stockland – PricewaterhouseCoopers Australia				
Audit services				
Audit and review of the Financial Report	**1,669**	1,583	**565**	536
Audit of Unlisted Property Fund Financial Reports	**108**	119	**–**	–
Regulatory audit and assurance services	**847**	724	**587**	479
Other audit and assurance services	**–**	9	**–**	–
Total remuneration in relation to audit services	**2,624**	2,435	**1,152**	1,015
Other non-audit related services				
Other non-audit services	**98**	466	–	–
Total remuneration in relation to non-audit services	**98**	466	**–**	–
Total auditor remuneration	**2,722**	2,901	**1,152**	1,015

Auditor's fees are paid by Stockland Development Pty Limited on behalf of the Group.

(F10) Events subsequent to the end of the year

Stockland and Trust

Other than disclosed elsewhere in this report, there has not arisen in the interval between the end of the current financial year and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations, the results of operations, or the state of the affairs in future years of Stockland and the Trust.

Directors' Declaration

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

(a) the financial statements and notes of Stockland Corporation Limited and its controlled entities, including Stockland Trust and its controlled entities (Stockland) and Stockland Trust and its controlled entities (Trust), set out on pages 56 to 129, 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 30 June 2018 and of their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) there are reasonable grounds to believe that both Stockland and the Trust will be able to pay their debts as and when they become due and payable.

(2) There are reasonable grounds to believe that Stockland Corporation Limited and the Stockland entities identified in section E3 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between those Group entities pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

(3) Stockland Trust has operated during the year ended 30 June 2018 in accordance with the provisions of the Trust Constitution of 24 October 2006, as amended.

(4) The Register of Unitholders has, during the year ended 30 June 2018, been properly drawn up and maintained so as to give a true account of the unitholders of the Stockland Trust.

(5) The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the year ended 30 June 2018.

(6) The Directors draw attention to section A to the financial statements, which includes a Statement of Compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Tom Pockett
Chairman

Mark Steinert
Managing Director

Dated at Sydney, 23 August 2018

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Independent auditor's report

To the stapled securityholders of Stockland and the unitholders of Stockland Trust Group

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial reports of Stockland, being the consolidated stapled entity ('Stockland'), which comprises Stockland Corporation Limited and its controlled entities, and Stockland Trust and its controlled entities (together the Stockland Trust Group or the Trust) are in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the financial positions of Stockland and the Stockland Trust Group as at 30 June 2018 and of their financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial reports of Stockland and the Stockland Trust Group (the financial report) comprise:

- the consolidated balance sheets as at 30 June 2018
- the consolidated statements of changes in equity for the year then ended
- the consolidated cash flow statements for the year then ended
- the consolidated statements of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Stockland and the Stockland Trust Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

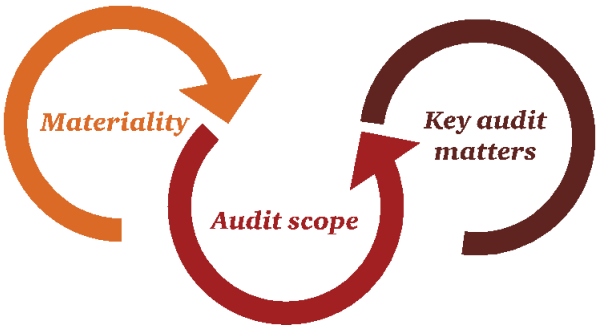
PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au.

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of Stockland and the Trust, their accounting processes and controls and the industry in which it operates.



Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit of Stockland and the Stockland Trust Group, we used overall materiality of $43.1 million and $33.4 million, respectively, which represents approximately 5% of Funds from Operations. The metric is defined in note B2 of the financial report. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Funds from Operations because, in our view, it is the primary metric against which the performance of Stockland and the Stockland Trust Group is most commonly measured in the industry. • We chose 5% based on our professional judgement, noting that it is within the common range relative to profit-based benchmarks.	• Our audit focused on where Stockland and the Stockland Trust Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The audit of Stockland and the Stockland Trust Group was performed by a team primarily based in Sydney. We ensured that the audit team possessed the appropriate skills and competencies needed for the audits, and this included industry expertise in real estate, as well as IT specialists, valuation, tax and treasury professionals.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: – Valuation of Investment properties – Commercial Property – Valuation of Investment properties - Retirement Living – Carrying value of inventory and costs of goods sold – Recoverability of deferred tax assets • These are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period and were determined separately for Stockland and the Trust. Relevant amounts listed for each part of the stapled group represent balances as they were presented in the financial report and should not be aggregated. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	***How our audit addressed the key audit matter***
Valuation of Investment properties – Commercial Property *(Refer to Note C1b)* **Stockland** - *$9,563 million* **Stockland Trust Group** - *$9,487 million*	
Stockland and the Trust's Commercial Property portfolio ("Commercial Property") is primarily comprised of retail town centres, logistics, and workplace investment properties, as well as properties under development. Commercial Properties are valued at fair value as at reporting date using a combination of the income capitalisation method and the discounted cash flow method. The value of Commercial Properties is dependent on the valuation methodology adopted and the inputs into the valuation model. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property, directly impact fair values. Amongst others, the following assumptions are key in establishing fair value: • net market rent • average market rental growth • capitalisation rate • discount rate • terminal yield. At the end of each reporting period the directors determine the fair value of the Commercial Properties in accordance with their valuation policy. The policy requires all properties to be externally valued by an independent valuation expert at least once every 3 years. If a property is not externally valued at balance date, the fair value adopted is supported by an internal tolerance check. If this internal tolerance check differs from the book value (most recent external valuation plus capital expenditure incurred) by 5% or more, an independent valuation is required for the current period. We focused on this matter because of the: • relative size of the Commercial Property portfolio to net assets and related valuation movements • inherent subjectivity of the key assumptions that underpin the valuations.	We obtained a sample of publicly available independent property market reports to obtain an understanding of the prevailing market conditions and trends in the markets in which Stockland and the Trust invest, and we compared those factors against current year valuations. We met with management and discussed the specifics of selected individual properties including, amongst other things, any significant new leases entered into during the year, lease expiries, expectations for future leases, capital expenditure and vacancy rates. For a sample of leases we agreed the underlying lease terms to the tenancy schedule and, for a sample of properties, we compared the rental income used in the independent valuation and internal tolerance check models to the tenancy schedule. We found that the data used in the samples tested was consistent with tenant leases. We discussed with management the rationale supporting the key assumptions adopted in the valuations, and compared them to benchmark market data. **Independent valuations** For a sample of independent valuations we also: • evaluated the competence and capabilities of the relevant independent valuer • read the valuers' terms of engagement - we did not identify any terms that might have affected their objectivity or imposed limitations on their work relevant to their valuation • inspected the final valuation reports and compared the valuations to the fair value listed in the accounting records of Stockland and the Trust. **Internal tolerance checks** We verified that the capitalisation and discounted cash flow models used for the internal tolerance checks were consistent with market practice. Stockland and the Trust used an off-the-shelf software package for the internal tolerance checks. We assessed the design of the key controls over the valuation system, and for a sample of valuations we tested the mathematical accuracy of the system's calculations noting no material exceptions.

Key audit matter	*How our audit addressed the key audit matter*

Valuation of Investment properties - Retirement Living

(Refer to note C1c)

Stockland - *$4,120 million*

Stockland Trust Group - *the KAM is not applicable as the Trust does not invest in Retirement Living assets*

Stockland's Retirement Living portfolio ("Retirement Living") comprises retirement village investment properties, as well as properties under development.

Retirement Living investment properties are valued at fair value at the reporting date using a discounted cash flow analysis. The value of investment properties in this segment is dependent on the terms of the residents' contracts and the inputs to the valuation model. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property directly impact fair values. Amongst others, the following assumptions are key in establishing fair value:

- discount rates
- growth rates
- average length of stay of existing and future residents
- current market value of units
- renovation / reinstatement costs
- renovation recoupment.

The Stockland valuation policy requires that all key valuation assumptions be externally appraised by an independent valuation expert each reporting period. In addition, at each reporting period a selection of properties are individually valued by an independent valuation expert.

We focused on this matter because of the:

- relative size of the Retirement Living portfolio to net assets and related valuation movements
- inherent subjectivity of the key assumptions that underpin the valuations.

We have held discussions with management and our valuation expert, and read market research and reports to obtain an understanding of the prevailing market conditions and trends in the markets which Stockland invests, and we compared those factors against current year valuations.

We met with management and discussed the specifics of selected individual properties including, amongst other things, vacancy rates, growth rates, discount rates, unit values, and capital expenditure.

For a sample of resident contracts across the portfolio, we compared the terms used in the valuations to underlying contracts. We found that the data used in the samples tested was materially consistent with the sampled resident contracts.

We discussed with management the rationale supporting the key assumptions adopted in the valuations, and compared them to benchmark market data.

Independent review of assumptions

For the independent review of key valuation assumptions obtained by management, we:

- Assessed the competency and capabilities of the relevant independent expert.
- Read the expert's terms of engagement - we did not identify any terms that might affect their objectivity or impose limitations on their work relevant to their valuation assessment.
- Inspected the final valuation assessment and compared the assumptions to those used in Stockland's valuation model.

Property valuations

For a sample of Retirement Living property valuations we:

- Compared the resident information used in the valuation model to a sample of resident contracts.
- Assessed the design of the controls over the valuation model and the associated key assumptions used by Stockland to satisfy ourselves that the model was operating effectively.
- Examined independent property valuations undertaken by management's expert and compared them with the outputs from the valuation model.

Key audit matter	*How our audit addressed the key audit matter*
Carrying value of inventory and costs of goods sold *(Refer to note C1a)* **Stockland** - *$3,465 million* **Stockland Trust Group** – *the KAM is not applicable as the Trust does not hold inventory assets*	
(a) Carrying value of inventory Stockland has a portfolio of residential development projects that it develops for future sale, which are classified as inventory. Stockland's inventory is accounted for at the lower of the cost and net realisable value for each inventory project, as assessed at each reporting date. The cost of the inventory is calculated using actual land acquisition costs, construction costs, development related costs and interest capitalised for eligible projects. Net realisable value is calculated based on the estimated selling price of the inventory, less the estimated costs of completion, including forecast capitalised interest, and associated selling costs. Each of these factors is impacted by expected future market and economic conditions which include sales prices, sales rates, interest rates and construction costs. Where an inventory project's net realisable value is lower than its cost, the inventory project is written down (impaired) to its net realisable value under Australian accounting standards. ***(b) Cost of goods sold*** When inventory is sold by Stockland the carrying amount of the relevant inventory is recognised as an expense in the same period that the sale is recognised. The expense recognised is based directly upon the forecast profit margin for the relevant project as a whole, and results in the recognition of a profit margin in the period the inventory is sold. To the extent that expected future costs exceed expected future revenues the inventory is written down to its net realisable value. We focused on these matters because of the: • size of the inventory balance • inherent subjectivity of the key assumptions that underpin net realisable value and the related assessments of whether a project is impaired, and the profit margin recognised.	We obtained a sample of the publicly available independent property market reports to obtain an understanding of the prevailing market conditions and trends in the markets in which Stockland invests, and we compared those factors against the assumptions adopted in the current year's assessment of net realisable value of inventory. For each project we discussed with management matters such as the overall project strategy and forecast profitability. Using the information gained from these discussions and our existing knowledge of the business, we used a risk-based approach to select a sample of projects on which to perform further procedures over the net realisable value and margin recognition. For the sample of projects selected we: • Further discussed with management the life cycle of the project, key project risks, changes to project strategy, current and future estimated sales prices, construction progress and costs and any new and previous write downs. • Obtained Stockland's model of the project's forecast future returns, known as feasibility models, and tested the mathematical accuracy of the model to satisfy ourselves that it was operating effectively. • Compared the estimated selling prices to market sales data in similar locations or, where available, to recent sales in the project. • Compared the forecast costs to complete the project to the relevant construction contracts (if applicable) or the construction contract proposals. • Compared the carrying value to the project's net realisable value (NRV). In addition we: • Traced a sample of additions to the cost of the project (e.g. construction costs) to invoices and verified that they were valid costs that could be capitalised. • Checked that interest was capitalised for qualifying assets and recalculated the interest capitalised during the period. • Traced a sample of sales recorded to the underlying sale documents and the receipt of cash. • Recalculated the cost of goods sold recognised for the sample of sales recorded based on the relevant project's forecast profit margin.

Key audit matter	*How our audit addressed the key audit matter*
Recoverability of deferred tax assets *(Refer to note B3b)* **Stockland -** *$88 million* **Stockland Trust Group** – *the KAM is not applicable as while the Trust generates taxable profits each year, this Trust income is distributed each year in full and is taxed in the hands of the unitholders as a Trust Distribution.*	
Stockland recognised a net deferred tax asset ("DTA") of $88 million at 30 June 2018, comprising a deferred tax asset of $670 million and a deferred tax liability of $582 million. The availability of tax losses is dependent on the satisfaction of either the continuity of ownership test ("COT") or, where this fails, the same business test ("SBT") under the Income Tax Assessment Act 1997. Where either of these tests is satisfied, a DTA is recognised to the extent there is an offsetting deferred tax liability ("DTL"), and tax losses in addition to the offsetting DTL are recognised to the extent that there is convincing evidence that the generation of future taxable profit against which the unused tax losses can be utilised is considered probable. Stockland estimates the likely forecast taxable profits each year based on current and approved Board strategies to assess the utilisation period of recognised tax losses. We focused on this matter because of the: • size of the gross DTA and DTL and the recognition of previously unrecognised tax losses during the year.	The recoverability of the DTA and carried forward tax losses, and the period over which they will be used, depends upon the forecast profitability of the Stockland Corporation Limited tax consolidated group ("SCL"). Our audit work focussed on the review of the Board approved forecast which support the strategic and operational plans of Stockland, including SCL. We then examined SCL's taxable profit forecasts to assess whether key assumptions were consistent with Stockland's board approved forecast. In addition, we used our internal tax experts to assist in our consideration of Stockland's assessment that tax losses would be available for the relevant periods.

Other information

The directors' of Stockland Corporation Limited and the directors of Stockland Trust Management Limited, the Responsible Entity for Stockland Trust (collectively referred to as "the directors"), are responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 30 June 2018, including the Letter from the Chairman, Letter from the Managing Director and CEO, the Directors' Report, Security Information and Key Dates, and the Glossary, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors' are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors' determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors' are responsible for assessing the ability of Stockland and the Stockland Trust Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors' either intend to liquidate Stockland and the Stockland Trust Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 39 to 53 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the remuneration report of Stockland and the Stockland Trust Group for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors' are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

S J Hadfield
Partner

N R McConnell
Partner

Sydney
23 August 2018

Security Information and Key Dates

Securityholders

As at 31 July 2018, there were 2,434,469,276 Securities on issue and the top 20 securityholders as at 31 July 2018 is as set out in the table below.

Top 20 securityholders as at 31 July 2018	Number of Securities held	Percentage (%) of total Securities
HSBC Custody Nominees (Australia) Limited	895,615,516	36.79
J P Morgan Nominees Australia Limited	489,531,750	20.11
Citicorp Nominees Pty Limited	252,510,986	10.37
National Nominees Limited	185,350,973	7.61
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	73,526,244	3.02
BNP Paribas Nominees Pty Ltd <DRP>	34,602,190	1.42
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	28,648,231	1.18
AMP Life Limited	15,070,194	0.62
HSBC Custody Nominees (Australia) Limited-GSCO ECA	12,782,617	0.53
IOOF Investment Management Limited <IPS SUPER A/C>	12,574,727	0.52
HSBC Custody Nominees (Australia) Limited <NT-COMNWLTH SUPER CORP A/C>	12,416,424	0.51
E G Holdings Pty Limited	6,411,632	0.26
Bond Street Custodians Limited <ENH Property Securities A/C>	6,007,896	0.25
CPU Share Plans Pty Ltd <SGP STI CONTROL ACCOUNT>	5,199,699	0.21
Netwealth Investments Limited <Wrap Services A/C>	4,476,558	0.18
UBS Nominees Pty Ltd	4,437,951	0.18
BNP Paribas Noms (NZ) Ltd <DRP>	4,099,161	0.17
National Nominees Limited <N A/C>	4,000,000	0.16
Peter & Lyndy White Foundation Pty Ltd <P & L White Foundation A/C>	3,755,093	0.15
Milton Corporation Limited	3,589,940	0.15

Distribution of securityholders as at 31 July 2018	Number of securityholders	Number of Securities	Percentage (%) of total securityholders
1 – 1,000	11,621	5,320,376	0.22
1,001 – 5,000	24,226	66,409,836	2.73
5,001 – 10,000	9,838	71,316,492	2.93
10,001 – 100,000	7,162	146,943,534	6.04
100,001 – over	207	2,144,479,038	88.09

There were 1,958 securityholders holding less than a marketable parcel (121) at close of trading on 31 July 2018.

Substantial securityholders as at 31 July 2018	Number of Securities held
Vanguard Investments Australia Limited/Vanguard Group Inc.	219,630,399
BlackRock Group (BlackRock Inc. and subsidiaries)	209,276,672
State Street Corporate and subsidiaries	136,943,104

Attribution Managed Investment Trust Member annual Statement

After the announcement of the Group's full year results each year, you will receive a comprehensive attribution managed investment trust member annual statement. This statement summarises the distributions and dividends paid to you during the year, and includes information required to complete your tax return.

Securityholder Review and Annual Report

Members have a choice of whether they receive:

- a printed copy of the Securityholder Review only;
- a printed copy of this Report only;
- printed copies of the Securityholder Review and this Report; or
- electronic versions of the Securityholder Review and this Report.

Registry

Computershare Investor Services Pty Limited operates a freecall number on behalf of Stockland.
Contact Computershare on 1800 804 985 for:

- change of address details;
- request to receive communications online;
- request to have payments made directly to a bank account;
- provision of tax file numbers; or
- general queries about your securityholding.

Dividend/Distribution Periods

1 July – 31 December

1 January – 30 June

Key Dates

24 October 2018

Annual General Meeting
The Westin Sydney, 1 Martin Place, Sydney, NSW 2000 at 2.30pm

31 December 2018

Record date

20 February 2019

Half-year results announcement

28 June 2019

Record date

21 August 2019

Full-year results announcement

Head Office

Level 25, 133 Castlereagh Street
Sydney NSW 2000
Toll free: 1800 251 813
Telephone: (61 2) 9035 2000

Stockland Entities

Stockland Corporation Limited
ACN 000 181 733

Stockland Trust Management Limited
ACN 001 900 741
AFSL 241190

As responsible entity for Stockland Trust
ARSN 092 897 348

Custodian

The Trust Company Limited
ACN 004 027 749
Level 13, 123 Pitt Street
Sydney NSW 2000

Directors

Non-Executive

Tom Pockett – Chairman
Barry Neil
Melinda Conrad[1]
Carolyn Hewson
Stephen Newton
Christine O'Reilly[2]
Carol Schwartz
Andrew Stevens[3]

Executive

Mark Steinert – Managing Director

Company Secretary

Katherine Grace

Share/Unit registry

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000

Freecall: 1800 804 985
Telephone: (61 3) 9415 4000
Email: stockland@computershare.com.au

Auditor

PricewaterhouseCoopers

Your securityholding

If you would like to update your personal details or change the way you receive communications from Stockland, please contact Computershare on the detail provided. Computershare will also be able to provide you with information on your holding.

Further information

For more information about Stockland, including the latest financial information, announcements, property news and corporate governance information, visit our website at **www.stockland.com.au**

1 Melinda Conrad was appointed on 18 May 2018.
2 Christine O'Reilly was appointed on 23 August 2018.
3 Andrew Stevens was appointed on 1 July 2017.

Glossary

AASBs or Accounting Standards	Australian Accounting Standards as issued by the Australian Accounting Standards Board
AFFO	Adjusted funds from operations
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 Makers as defined by AASB 8 *Operating Segments*
D-Life	Project development lifecycle
DCF	Discounted cash flow
DMF	Deferred management fees earned from residents within the Retirement Living business
DRP	Dividend/distribution reinvestment plan
DSTI	Deferred short term incentives
EBIT	Earnings before interest and tax
EPS	Earnings per security
Executive Committee	Comprises the Executive Director and the Executive team of Stockland
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
IRR	Internal rate of return
KMP	Key management personnel
KPI	Key performance indicators
LTI	Long term incentives
MAT	Moving annual turnover
NRV	Net realisable value
Report	This Stockland Annual Report 2018
ROA	Return on assets
ROE	Return on equity
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
Security plans	Employee security 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

Stockland Corporation Ltd
ACN 000 181 733

Stockland Trust Management Limited
ACN 001 900 741; AFSL 241190

As responsible entity for Stockland Trust
ARSN 092 897 348

Head Office
Level 25, 133 Castlereagh Street
Sydney NSW 2000

Sydney
Telephone 02 9035 2000

Melbourne
Telephone 03 9095 5000

Brisbane
Telephone 07 3305 8600

Perth
Telephone 08 9368 9222

www.stockland.com.au