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ASX/Media Release

STOCKLAND AGM MARKET UPDATE

Stockland will update securityholders on its current performance and outlook at its Annual General Meeting in Sydney today.

Stockland CEO, Mark Steinert, reconfirmed that earning per share growth in FY14 is expected to be 4-6% above FY13, assuming no material decline in market conditions. As usual, there will be a profit skew to the second half, driven primarily by the timing of residential settlements.

Mr Steinert, presenting his first AGM address as Stockland CEO, said that following a detailed strategic review he was confident that the company had re-established strong foundations from which to deliver growing and predictable returns for securityholders.

"We have maintained a strong balance sheet with low gearing and A-/stable credit rating and are putting our new strategic plan into action," Mr Steinert said.

"In particular we are making our residential business more resilient and profitable by reshaping our portfolio, improving capital and operating efficiency and growing revenue. We are progressing the sale of impaired projects and bringing higher margin projects to market.

"There is now clear evidence that the new housing market is improving. The uplift in volumes, which we first noted in the third quarter of last year, has been sustained. In the first quarter of FY14 we have achieved 1,438 deposits, the highest number in any quarter for three years.

"Our largest ever project in NSW, Willowdale in south-west Sydney, launched last month with the first three tranches of lots selling out each day they were released. Our community at Marsden Park in north-west Sydney is also on track to launch in 2014 following its rezoning earlier this month. Our newest Western Australian project Calleya, in south-west Perth, is progressing well, with earthworks set to commence next month.

"While this is a positive sign, in the short to medium term profits in our Residential business will be moderated as we continue to trade through low margin and impaired projects."

Mr Steinert said Commercial Property, Stockland's largest business, accounting for 70% of assets, continues to deliver solid and reliable recurring income. Shopping centres make up the bulk of the portfolio. The shopping centre strategy is focused on having a high proportion of non-discretionary and service-based retailers in the shopping centres and maintaining sustainable tenant occupancy costs, which is particularly effective during periods of subdued retail spending.

"At 30 September total moving annual turnover growth in our centres was 6% largely due to the contribution of recently redeveloped centres coming on line. Moving annual

turnover growth in comparable centres was 1%, reflecting the general softness in consumer spending," Mr Steinert said.

"We have recently commenced our next two Retail projects: a $116 million redevelopment at Hervey Bay in Queensland and a $222 million upgrade of Stockland Wetherill Park in NSW. These are two of a number of projects earmarked for redevelopment in the medium term and expected to deliver, an average total return of 12-14% and incremental stabilised yields of 7-8% pre-IFRS."

Stockland continues to optimise the performance of its industrial assets. It executed leases on 288,000 square metres of space during FY13, and a further 76,000 square metres (8% of the total lettable area) in the first quarter, and positioning the portfolio for income growth in FY14.

Stockland remains committed to its Retirement Living business with a strategy to continue to grow returns by improving scale and efficiency. "So far this year we have continued to see steady demand with net reservations remaining around the same level as the previous quarter. Our ability to grow this business is largely in our control, with a strong development pipeline at sites we already own, efficiency improvements underway and a commitment to maintain high customer satisfaction levels," Mr Steinert said.

"Having assessed the business and put our revised strategy into action, I am confident we will see a steady improvement in Stockland's earnings from FY14 as new Retail, Residential and Retirement Living projects begin to contribute, and as recent industrial letting, rental growth and cost reduction initiatives come through."

Stockland Chairman, Graham Bradley said the Board was confident that the right plan was in place to improve returns for securityholders as the property market recovers.

Mr Bradley said: "In FY13 we paid a distribution of 24 cents per security. We took the decision to maintain our dividend at this level, which was above our target range, because we believe that FY13 was a trough year in earnings. It is our intention to again hold our distribution at 24 cents in FY14, in the absence of a major market downturn, and this is a mark of the Board's confidence that our earnings should improve steadily from FY14."

Stockland

Stockland (ASX: SGP) was founded in 1952 and has grown to become Australia's largest diversified property group – owning, developing and managing a large portfolio of shopping centres, residential communities, retirement living villages, office and industrial assets. Stockland was recognised by the S&P Dow Jones Sustainability Indicies (DJSI) as the Australian Real Estate Industry Group Leader for 2013 – 14 and was also named one of the Global 100 Most Sustainable Corporations in the World at the World Economic Forum in Davos, Switzerland in 2013, for the fourth consecutive year.

For media enquiries		For investor enquiries	
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Chairman's remarks

AGM | Tuesday 29 October 2013

Ladies and gentlemen, I will now present a brief report on Stockland's performance in the past year and then it will be my pleasure to introduce Mark Steinert who will discuss our strategy and our near-term outlook.

For Stockland, the past year was one of transition. In January, we appointed Mark as our new Managing Director, following the retirement of our long-serving Managing Director, Matthew Quinn. We have also refreshed our senior executive team over the past six months with new appointments from both within and outside the Company. We have reviewed and adjusted our strategy for future growth to better build on our key strengths, while also retaining the ability to respond to market opportunities with greater agility and discipline. We have rebased our Residential business by adopting more conservative project valuations and revised our approach to capitalised interest to deliver more consistent returns over time from our Residential projects. We raised $400 million in equity capital to help fund our value-accretive Retail development pipeline and to grow our industrial asset portfolio while maintaining low gearing to reduce the volatility of future earnings.

The Board is confident that we have in place the right plan to improve returns for securityholders as the property market recovers, and the right leadership team to achieve that plan.

Our results in FY13 were disappointing, largely reflecting the prolonged downturn in the Australian residential land market and the project value impairments that resulted from our more conservative view on future price growth and profit margins. While earnings in our Residential business were hit hard, our Retirement Living business performed well in difficult market conditions and our Retail shopping centre business performed particularly well.

In FY13 we substantially completed three major shopping centre projects – Merrylands, Shellharbour and Townsville – in which we have invested a total of

some $900 million. These projects are now earning rents that will support our continued profit growth in FY14.

Our underlying profit in FY13 was $495 million, down from $676 million in FY12. Underlying earnings per share was 22.4 cents, 24 per cent lower than in FY12.

Our statutory profit was $105 million, and was negatively impacted by the Residential project impairment provisions we took in FY13. The majority of the impaired projects were acquired prior to the Global Financial Crisis, and many were “lifestyle projects” for which the market has declined steeply in recent years. We plan to trade out or sell these impaired projects as soon as market conditions permit so as to return cash to reinvest for stronger returns in other areas.

In FY13 we paid a distribution of 24 cents per security. We took the decision to maintain our dividend at this level, which was above our target payout range, because we believe that FY13 was a trough year in earnings. It is our intention to again hold our distribution at 24 cents in FY14, in the absence of a major market downturn, and this is a mark of the Board’s confidence that our earnings should improve steadily from FY14.

We maintained our prudent balance sheet management in FY13, retained our A-/stable credit rating and reduced our gearing to 22.7 per cent as at 30 June 2013. While the Group’s overall financial position is strong, the recent Residential impairment provisions make it sensible to move $510 million of capital from the Stockland Trust to the Corporation to better position our development businesses for future growth. We seek securityholder approval for this later at this meeting.

Our new CEO, Mark Steinert, commenced in January 2013. Mark has 25 years of experience in property and financial services, and came with a strong reputation for his analytical and strategic approach, together with his experience in fostering an engaging work environment for employees.

We have made a number of further changes to our senior management team to give us the right mix of skills and experience to lead the business in the years to come.

Pleasingly, two of these senior appointments were made from within the Group (Andrew Whitson – Head of Residential, and Stephen Bull – Head of Retirement Living). These appointments reflect the success of our internal talent development and succession planning. Simon Shakesheff – Strategy and Stakeholder Relations, and Tiernan O'Rourke – Chief Financial Officer, bring to us valuable expertise from other organisations.

I would like to comment now on our commitment to operating our business in a sustainable way. Stockland has embedded sustainability in all aspects of our business over many years. Both our employees and the Board take great pride in working for a group with a deep commitment to being a diverse, socially concerned and environmentally responsible organisation.

In FY13, Stockland again achieved international recognition for its leadership in sustainable management with our continued listing on several global indexes, including being ranked second globally for real estate companies on the well-regarded Dow Jones Sustainability Index. I am particularly pleased to note that in FY14 Stockland was ranked <u>first</u> among global real estate companies by the DJSI. This high recognition is the result of a great deal of work by many people across our Company over many years.

An important aspect of sustainable operations is having in place responsible remuneration policies. I will comment in more detail on remuneration matters when we get to the related resolutions later in the meeting.

I conclude by thanking my board colleagues, especially the chairs of our committees, for their dedication and hard work during a year which presented many challenges. On behalf of all securityholders, I would also like to thank our dedicated employees for their steadfast commitment during a year of change, of challenge and also of achievement.

I now invite Mark to provide his update on our current performance and outlook in his first AGM address.

Stockland

Managing Director's remarks

AGM | Tuesday 29 October 2013

Good afternoon ladies and gentlemen.

It is a privilege to join you today to present my first AGM address as Managing Director and CEO of Stockland.

I was honoured to be invited by the Board last December to lead the management team of this company that I have respected and followed closely for over 20 years. And my experiences since joining in January of this year have confirmed my long-held views. Having visited dozens of our assets and the people who operate them, I have seen first-hand what sets our business apart – quality assets, a strong and ethical corporate culture and people with a passion for creating great places to live, shop and work.

Clearly the business has faced performance headwinds in recent years. I am, however, confident that we have re-established strong foundations from which to deliver growing and predictable returns for our securityholders.

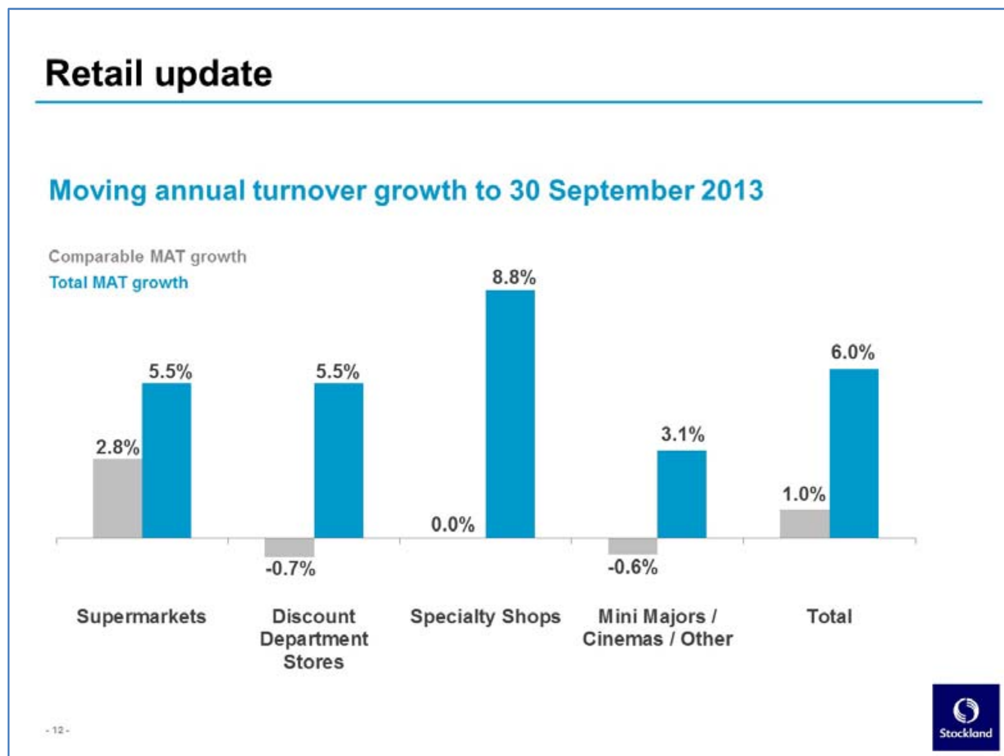
In order to achieve this one of my first priorities was to conduct a detailed strategic review and to put our revised plan quickly into action. In defining our strategy we set a clear objective in relation to our securityholders: to deliver earnings per share growth and total risk-adjusted returns above the sector average.

To achieve this we have identified optimal target weightings for each asset class in our portfolio to guide our allocation of capital within a disciplined risk/return framework. We are executing plans to maximise returns from our existing assets, and we have restructured the business to improve our efficiency. Unchanged in the strategy is a firm commitment to prudently managing our balance sheet, retaining our A- credit rating and managing our gearing within our target range, ensuring we are able to fund our growth plans.

Complementing this overarching strategy, are clear plans for each of our operating businesses. I would like to provide you with a brief update on how each of these businesses is performing and our key focus areas for the year ahead.
Turning first to our largest business, Commercial Property.

Our Commercial Property business accounts for around 70 per cent of our assets, and it continues to deliver a solid and reliable stream of recurring income for the Group.

Shopping centres make up the largest part of our Commercial Property portfolio. I'm pleased to report we achieved a five per cent increase in our Retail business net operating income in FY13, thanks to the contribution of our newly developed centres and the particularly resilient nature of the assets in our portfolio. For some years we have pursued a retail strategy focused on providing a relatively high proportion of non-discretionary and service-based retailers in our centres, and have maintained sustainable tenant occupancy costs. This approach has proven effective, even during periods of subdued retail spending like we are currently experiencing.



In the first quarter of FY14 the general softness in consumer spending has clearly persisted. At 30 September total moving annual turnover growth in our centres was 6%, largely due to the contribution of recently redeveloped centres coming on line. Moving annual turnover growth in comparable centres was 1% with supermarkets the strongest performers reflecting the resilience of non-discretionary spending.

The key to achieving ongoing growth in our retail business is our targeted and disciplined approach to redevelopment. We have a strong pipeline of centres in our portfolio which are well-suited to being upgraded and expanded. We have recently commenced our next two projects: a $116 million redevelopment at Hervey Bay in Queensland and a $222 million upgrade of Stockland Wetherill Park in NSW. These are two of a number of projects earmarked for redevelopment in the medium term and are expected to deliver an average total return of 12 to 14 per cent and incremental stabilised yields of between 7 and 8 per cent[1]. We regularly assess this pipeline to ensure we invest in the right assets at the right time to optimise our returns.

Our portfolio of Office assets is around $1.6 billion, or 20% of our Commercial Property portfolio. In FY13, by tightly managing our office assets we lifted our comparable net operating income, which measures like-for-like assets, by two per cent and improved occupancy and weighted average lease expiry.
Our strategy is to optimise the performance of our assets to maximise returns, while lowering our total weighting to Office when we view market conditions as being right.

Our strategic review confirmed that industrial assets are an important part of our diversified portfolio and accordingly we intend to grow our exposure to this sector over time. We are optimising the performance of our existing assets and assessing growth opportunities within and outside our existing portfolio.

In FY13 net operating income in our Industrial business decreased 18 per cent from the previous year, mainly due to asset sales in FY12 and a high number of leases expiring in FY13. Pleasingly we executed leases on 288,000 square metres of space

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[1] Pre-IFRS

during the year, and a further 76,000 square metres in the first quarter. This means in the first quarter alone we have leased around 8% of the lettable area in the portfolio, positioning it well for income growth in FY14.

Turning now to our Residential business, which has received considerable focus over the past year. As you know, the performance of the Residential business in FY13 was significantly impacted by market softness which affected both volume and prices and led to impairment of non-core land holdings.

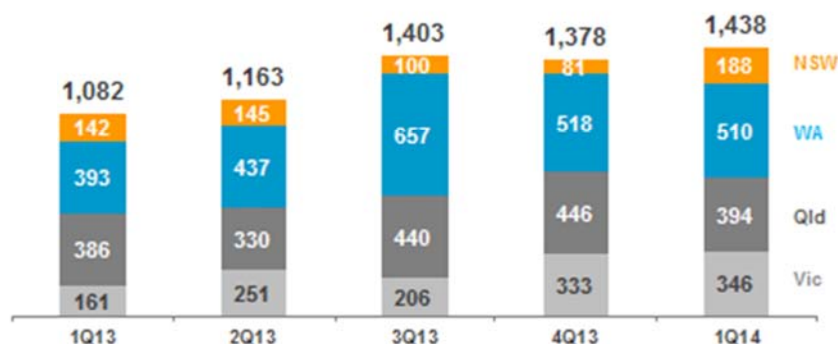
The profit decline in this business in FY13 also reflected the shift in sales mix we experienced, with a lower proportion of our sales coming from Victoria where we have some of our higher margin projects. In addition we adopted a more conservative approach to interest capitalisation which further impacted profit but in the medium-term should enable us to deliver more consistent returns over time. Our aim is always to manage our business to create growing value for securityholders over the long term.

Overall, Residential operating profit declined to $60 million in FY13, with the change in interest approach I just described accounting for $34 million of the decrease.

We have acted decisively to ensure this result is not repeated. We are executing a plan to make our Residential business more resilient and profitable in the future. We are progressing the sale of impaired projects and bringing higher margin projects to market. We have restructured our business to reduce costs and identified opportunities to apply our project management and procurement capabilities to greater advantage. We have also identified Residential projects in our portfolio where we can increase revenue and broaden market reach by expanding our medium density offering.

Residential update

Net deposits to 30 September 2013

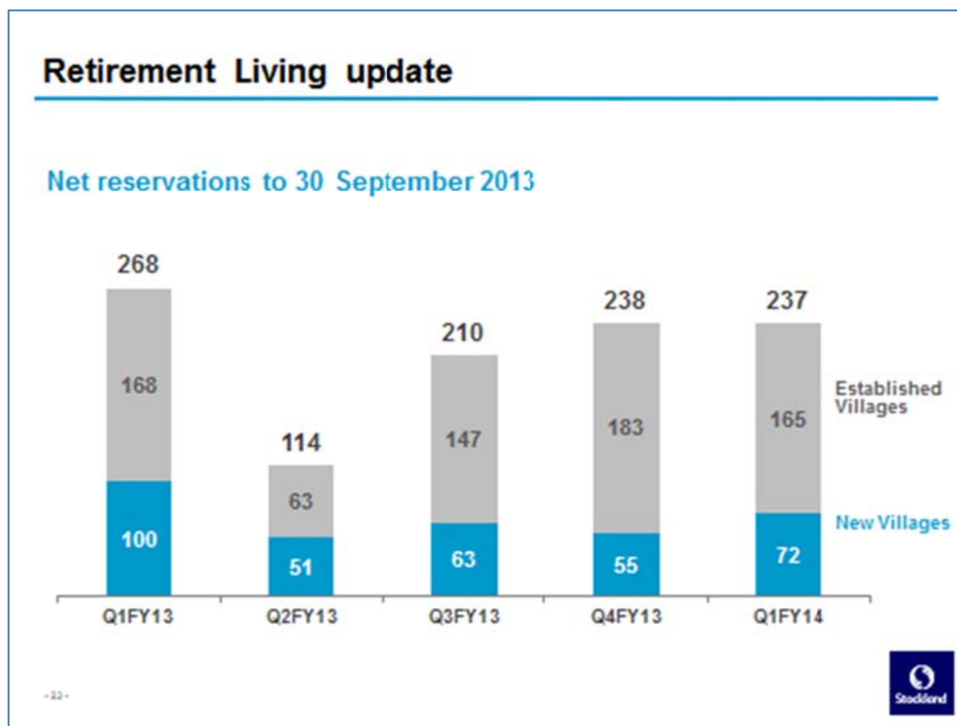


And I am pleased to report that there is now clear evidence that the new housing market is improving. The uplift in volumes, which we first noted in the third quarter of last year, has been sustained. In the first quarter of FY14 we have achieved the highest number of deposits for three years. While this is definitely a positive sign, it is important to remember that in the short to medium term, profits in our Residential business will be moderated by the low margin and impaired projects we continue to trade through.

In the first quarter, taking advantage of the improved residential market outlook, we have also made progress selling our non-core projects and bringing key new projects to market. We have now sold two of the 15 projects earmarked for wholesale disposal, with another two exchanged and a number in due diligence.

Our largest ever project in NSW, Willowdale in south-west Sydney, launched last month with the first three tranches of lots selling out each day they were released. Our community at Marsden Park in north-west Sydney is also on track to launch in 2014 following its rezoning earlier this month, and our newest Western Australian project Calleya, in south-west Perth, is progressing well with earthworks set to commence next month.

Finally, we turn to our Retirement Living business. From time to time this business has been misunderstood so I would like to be very clear about our strategy for it. Relatively speaking, this is a business in its infancy. We are strong believers in the retirement living market – the demographic fundamentals and undersupply are clear. However, we must demonstrate that the business can mature to deliver acceptable cash returns to complement the sound total returns. We have a strategy and a timeline for this and we are monitoring our progress closely.



In FY13 the Retirement Living business continued to deliver against its strategy with a solid result despite the soft residential market. Operating profit was up six per cent on the previous year and return on assets also rose, thanks to a record number of settlements. So far this year we have continued to see steady demand with net reservations remaining around the same level as the previous quarter.

Our strategy is to continue to grow returns by improving scale and efficiency. Our ability to grow is largely in our control, with a strong development pipeline at sites we already own, efficiency improvements well in train, and a commitment to maintain consistently high customer satisfaction.

I trust this update has conveyed our firm focus on delivering reliable and growing returns and the clear plan we are following to achieve this.

Having assessed the business and put our revised strategy into action, I am confident we will see a steady improvement in Stockland's earnings from FY14 as new Retail, Residential and Retirement Living projects begin to contribute, and as recent Industrial letting, rental growth and cost reduction initiatives begin to come through.

I do caution, however, that while we are seeing improvement in the residential market, Residential earnings will be constrained as we continue to trade through impaired and low margin projects. It will also take some time to see the full benefits of our new strategic priorities, particularly in Industrial and medium density housing development.

Taking all this into account, I reconfirm our expectation for FY14 earnings per share of four to six per cent above FY13, assuming there is no material decline in market conditions. As usual, there will be a profit skew to the second half, driven primarily by the timing of residential settlements.

I am confident that the strategic direction we have set, the new leadership appointments we have made and the actions we have taken this year will position us well to deliver sustainable, competitive and growing returns into the future. In this way, we will fulfil our vision to be a great Australian diversified property company that delivers value for all stakeholders and helps create a better way to live.

Thank you.

Stockland

Remuneration remarks

AGM | Tuesday 29 October 2013

We now turn to the resolution to approve Stockland's FY13 Remuneration Report. An important responsibility of the Board is to ensure that Stockland's executive remuneration policies are fair, responsible and competitive. We communicate our remuneration arrangements with full transparency in our Remuneration Report which we today put before investors for their approval. Our remuneration policies are scrutinised by the Human Resources Committee of the Board and key decisions, such as the Managing Director's arrangements, are approved by the full board.

There were no material changes to our remuneration policies during the past year following the significant review which we carried out last year, and which was well supported by investors, as evidenced by the strong vote in favour at last year's AGM.

With the appointment of a new Managing Director and other senior executive changes, however, we have taken the opportunity to reduce the fixed pay packages for several executive roles, and we continue to require a significant proportion (a minimum of 50 per cent in the case of the Managing Director) of all annual bonuses up to target to be awarded in the form of Stockland securities with vesting deferred over two years. Any bonuses above target are 100 per cent awarded in securities with deferred vesting.

The total of short-term incentives paid to employees across the whole Group were significantly down on the previous year, an outcome which reflects the Board's assessment of the performance measures that we set at the start of the financial year. The relevant measures are outlined in our Corporate Scorecard which is set out in the Remuneration Report, together with the Board's assessment of whether management achieved above target, at target or below target ratings on these measures. No scores above target were achieved this past year.

I should also add that base fees for our non-executive directors were not increased in FY13, and will not increase in FY14. Total fees paid to non-executive directors reduced by three per cent in FY13, and as a percentage of the fee pool last approved by securityholders in 2007 were 71 per cent compared to 73 per cent in FY12.

With regard to our long-term incentive plans for our senior executives, rights to acquire Stockland securities vest only if our two targets are met: an earnings per share growth target (50 per cent) and a relative total shareholder return target (50 per cent). There was zero vesting of long-term incentives in FY13 because neither of these targets were met. This is the fifth year in which no vesting has occurred in respect of the EPS portion of our long-term incentive plan and the second year in which no vesting has occurred in respect of the Total Shareholder Return portion.

These outcomes reflect the fact that Stockland's remuneration incentives are closely aligned with securityholder experience and with the overall performance of the Company. If we don't perform, our executives do not earn their incentives.

As part of the remuneration policies review we undertook in FY12, the Board sets each year a three-year target for compound annual growth rate of our earnings per security as one of the two hurdles required for vesting to occur under our long-term incentive plans. Last year, in view of the headwinds which we faced in the Residential business, we set this three-year target at 3.5 per cent per year for the years from 1 July 2012 to 30 June 2015. Due to our decline in earnings per security growth in FY13, our executives are well behind on this measure.

After careful consideration of the Company's growth prospects over the next three years, and the continuing challenges faced by our Residential business, the Board has set for LTI awards granted in FY14 a minimum compound annual growth target for earnings per security for the three years from 1 July 2013 to 30 June 2016 of 5.0 per cent, an increase of around 40 per cent in the target growth rate set last year. Our market guidance of EPS growth for FY14 is a range of 4-6 per cent, assuming no material market deterioration, but we are conscious that our economy still faces headwinds.

I would point out that, in order to earn 100 per cent of the long-term incentive based on the EPS hurdle, our EPS growth will need to be 6.5 per cent compounded over the three years from 1 July this year, a growth rate ahead of our “through-the-cycle expectation of 5-6 per cent. In the current circumstances, the Board believes that this uplift in our three-year EPS hurdle is appropriate.

Before moving to the resolution, are there any questions or comments on our Remuneration Report?