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.