AGM 2010

Managing Director's address

Thank you Graham and good afternoon ladies and gentlemen.

Our business performance in FY10 was pleasing, with our efforts to build on our core property strengths and refine our strategic approach during the downturn serving us well. We delivered consistent growth in our operating businesses and are now very well positioned for the future.

This afternoon I would like to provide you with a brief overview of the performance of each of our operating businesses in FY10; update you on the housing market and our residential sales this financial year; and outline our strategy and outlook for the future.

Our Residential business achieved record lot settlements and a strong operating profit of $213 million in FY10, thanks to our continuing focus on customer insight and product innovation. We also delivered a two percentage point improvement in our EBIT margin to 27 per cent.

The ability to respond quickly and adapt our product offering as more upgraders and investors entered the market helped us increase sales in all market segments.

We continued our withdrawal from the Apartments business and this is progressing well. The cash generated is being reinvested in Residential Communities acquisitions.

Retirement Living continued to perform well, achieving an operating profit of $36 million, reflecting a good increase in settlement volumes, solid price growth and stable overheads. Our established villages achieved occupancy of 97 per cent and we maintained high resident satisfaction with 89 per cent of residents in our villages telling us they are happy living in a Stockland retirement village.

New developments also progressed well in FY10 with good demand at our new villages. For example, the first stage of our releases at North Lakes in Queensland and Highlands in Victoria sold out very quickly. I encourage you to view our Retirement Living display at the back of this room after the meeting to see for yourself the quality of our retirement living developments.

Our Commercial Property business delivered a steady performance achieving net operating income of $534 million, despite persistently difficult market conditions. This result was slightly down on last year due to the sale of $770 million of non-core assets over the last two years, which meant we had a smaller portfolio generating income.

The funds we raised from these sales are being redeployed into our substantial retail development pipeline which will ultimately deliver better long-term returns. This work is progressing well; last year we completed two developments and have five more already underway.

Looking forward, we have a clear strategy for growth, which we've called the 3-Rs – Residential Communities, Retirement Living and Retail development. These core businesses have attractive fundamentals, underpinned by population growth and demographic changes. And our strengths in customer insight, product development and building communities create a strong competitive advantage for us. We are now actively investing the funds we raised during the economic downturn to grow these businesses, while maintaining our disciplined approach to capital management.

In our Residential Communities business we aim to extend our market-leading position by using geographic and product diversity to further grow our market share. This, of course, requires us to acquire more residential land to replenish the land we are selling and provide for further growth. Pleasingly we have acquired more than 12,000 lots in our targeted areas in the last 16 months, some of which we will bring to market this financial year.

It is important to acknowledge that, following a rapid recovery in 2009, the residential market is now coming under pressure with interest rate rises impacting affordability. Further increases in bank variable mortgage rates remain the most significant threat to a sustained recovery and have led to concern about a downturn in the housing market.

I am confident that our demonstrated ability to offer a variety of value-for-money products that cater for a range of buyer segments gives us the necessary flexibility to meet this challenge.

We started FY11 with a record number of 2,249 contracts on hand. And already this financial year, we have achieved 1,767 net deposits, which is an extremely strong result and a record quarter for our business, driven in part by a very successful national marketing campaign in September.

While Stockland is certainly not immune from challenges in the housing market, this graph demonstrates that our strategy to focus on affordable, value for money product is allowing us to outperform the broader market. As you can see from this graph, our net deposits have grown at a stronger rate than national building approvals over the last couple of years. Having said that, we do expect broader residential market conditions to continue to soften and our sales results are not expected to continue throughout FY11 at the record levels of the first quarter, particularly if mortgage rates increase further.

We will have a high number of contracts on hand for some time, as we face production constraints due to wet weather in a number of States and registration delays with local councils. This is impacting on our ability to achieve titles and settle lots.

Turning to Retirement Living, this remains one of our key growth businesses with a $1.1 billion development pipeline, including six villages already underway. This includes our first village in New South Wales at Macarthur Gardens near Campbelltown. We are also experiencing production delays in our Retirement Living business for the same reasons as Residential Communities.

I am also pleased to report that we are significantly accelerating the growth of this key business with the acquisition of retirement village operator Aevum. This move will nearly double the size of our Retirement Living business and provide us with a strong national presence. Aevum and Stockland are a good cultural fit, with a similar focus on resident wellbeing and quality developments, and we look forward to welcoming Aevum residents and employees to Stockland. We currently own over 78 per cent and are aiming to get to compulsory acquisition as quickly as possible.

In our Retail business we are focused on enhancing the quality of our assets to create shopping centres that are leaders in their trade areas. We've mapped out an ambitious yet achievable redevelopment program which includes three centres due to be completed this financial year and six more to follow. Our display at the back of the room showcases three of our redevelopments – Green Hills in the Hunter region, Townsville in Far North Queensland and Merrylands in western Sydney. I encourage you to take some time to view these displays at the end of our meeting.

In delivering our 3-Rs strategy we have an excellent opportunity to leverage our diversified business model for the best outcomes for our whole business. A good example of this is our ability to embark on retail developments in our Residential Communities before those centres would be viable on a standalone basis. For Stockland, doing the right thing and putting in the retail early allows us to generate additional sales in our Residential Communities, and to achieve better engagement with those communities and the people who live in them. One such example is North Shore at Townsville, a masterplanned community that will have around 5,000 lots and where we started work on the retail centre earlier this year. Our residential sales have seen a sizeable increase as a result. In time, we will also be able to grow what will initially be a neighbourhood retail centre into a larger, sub-regional centre. The initially low return we receive from the retail space is more than outweighed by improved residential returns, delivering a better overall result for our business.

Before I close, I would like to thank our management team and employees who have been integral in delivering our strategy over the last 12 months. We have worked hard to ensure we have the right capabilities to grow our business, with a clear focus on developing talent from within the company. This, together with our commitment to employee diversity and flexible work practices, is delivering real business benefits by improving employee engagement and retention.

Ladies and gentlemen, while it has been a difficult few years for our shareholders, we are now in a good position from which to grow your returns. We are on track to achieve our stated FY11

EPS growth of 7 per cent. As previously flagged, we expect a second half earnings skew from our Residential business because of the current production lag and this will also apply for our Retirement Living business, excluding the expected positive contribution from Aevum. However, we do expect to achieve EPS growth in the first half of FY11 compared with the previous corresponding period.

In the year ahead we will maintain our conservative and disciplined approach to capital management, while looking to maximise growth opportunities. We have a clear growth strategy, good earnings momentum and a strong balance sheet, meaning we are well placed to cope with any further market volatility and to capitalise on opportunities that arise.

Thank you for your attendance today and your continued support of Stockland.