Chairman's address

AGM 2011

I will now present my report on Stockland's performance in the 2011 financial year and our Managing Director Matthew Quinn will then provide an update on our operations.

It is pleasing to report that Stockland delivered solid results for the 2011 financial year, despite uncertain global economic conditions and the impact of natural disasters that adversely affected the Australian economy. Our Underlying Profit of $752.4 million was our highest ever, and was an increase of 8.7 per cent on the previous year. This result was underpinned by growth in all our core businesses, and a particularly strong performance by our Residential business.

As securityholders know, we believe that Underlying Profit is the most meaningful indicator of our operating performance since it measures results undistorted by non-recurring and sometimes volatile items such as investment property valuations.

As it turns out, because property values were relatively stable in FY11, our Statutory Profit was almost the same as our Underlying Profit this year – $755 million, an increase of 58 percent on last year's statutory result.

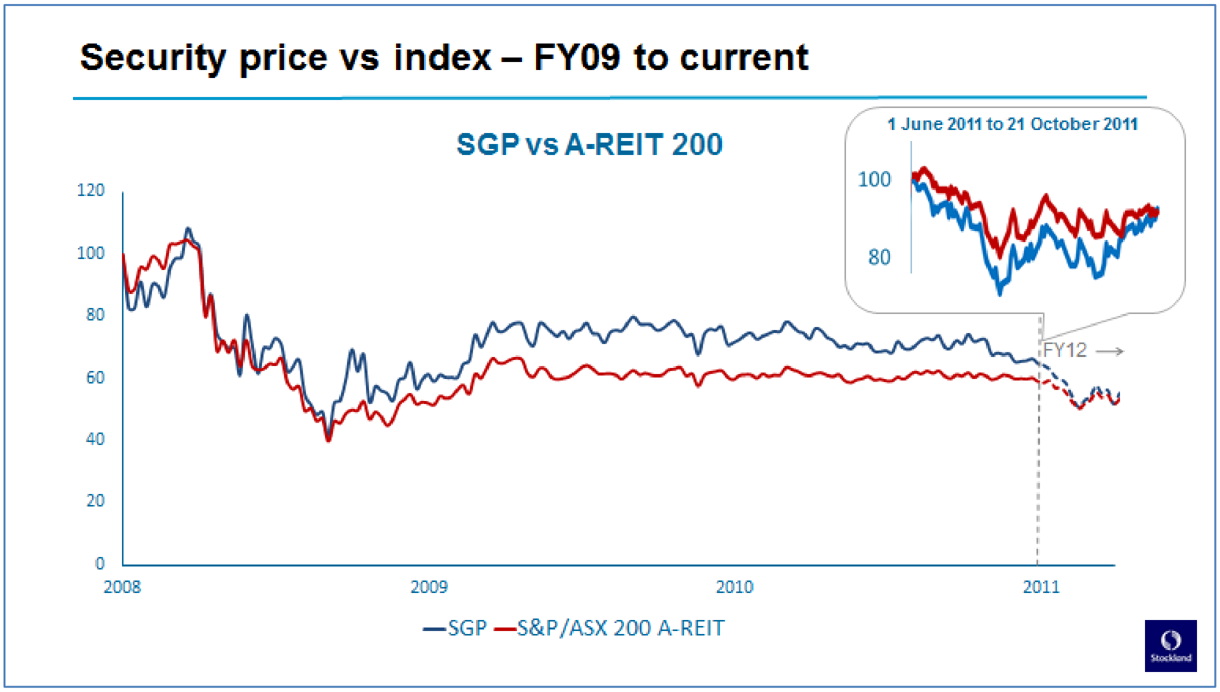
Our solid profit result enabled us to increase distributions to securityholders to 23.7 cents per security, an increase of 8.7 per cent on last year. In line with our distribution policy, we distributed 75 per cent of Underlying Profit back to our securityholders.

Stockland achieved this profit growth while maintaining a conservative balance sheet policy with low gearing and ample cash reserves, appropriate in the face of problematic global financial markets.

During the year we made a number of capital-efficient acquisitions including several major new residential projects, two subregional shopping centres (at Hervey Bay in Queensland and Point Cook in Victoria) and the Aevum retirement village group which almost doubled the size of our business in this sector. We also continued our investment in redeveloping retail centres in locations with strong population and retail trade growth profiles.

Pleasingly, in FY11 we continued to demonstrate our strong commitment to creating communities and properties that meet the highest environmental and social standards. As a result Stockland was recognised as the most sustainable property company in the world in the 2011/12 Dow Jones Sustainability index rankings. We are proud of this acknowledgement as we believe sustainability is a key brand value for Stockland. I invite you to read about our sustainability achievements in our Corporate Responsibility and Sustainability Report on the Stockland website.

As I recount all these positive results for the year, I am, however, very aware that the price performance of our securities has been disappointing. Investor concerns about Australian consumer confidence and the residential property market have weighed heavily, as have the sovereign debt and deficit crises in Europe and USA which has negatively affected confidence on share markets worldwide.



This graph shows the movement of our security price over the last three financial years and also shows the A-REIT index. As you can see we outperformed our peers, represented by the A-REIT index, throughout that period. In the May-September period, however, our security price fell below the A-REIT Index and we also fell below the net asset backing of our securities. Concerns about issues such as Australian house prices, consumer confidence and the possible future impact of online shopping on retail asset returns all contributed to this fall. We believe that these concerns have been overstated. As our Managing Director Matthew Quinn will demonstrate in his address – our business is in good shape. I am pleased to see, however, that over the past month our security price has risen 15 per cent against an index rise of about 5 per cent, bringing our price back to the index.

The recent decline did, however, take our security price to a level that your Board believes does not reflect the underlying value of our assets, our business capability and our strong capital position. For this reason, in August we announced an on-market buyback of up to 5 per cent of issued Stockland securities. This buy-back will be value accretive for our securityholders. As at 24 October, we have bought back some 45.9 million securities at an average of $2.86, for a total consideration of $131.6 million.

I would now like to address the issue of executive remuneration which understandably receives considerable attention from investors at times like these. Investors are particularly concerned to ensure that remuneration is being managed appropriately.

Your Board has always viewed managing executive remuneration as one of our most important responsibilities. Our Board Human Resources Committee, chaired by Peter Scott and with Carolyn Hewson and myself as members, meets regularly to oversee our remuneration policies which are set out in considerable detail in our Remuneration Report.

As I outlined in my letter to investors with the Notice of Meeting last month, the Board regularly reviews Stockland's remuneration policies to ensure that they meet best market practice. We have been undertaking a comprehensive review over the past few months and we will announce the full outcomes once is the review is complete. We have, however, already announced some early decisions and I would like to take this opportunity to explain our pay philosophy and the changes we are making.

Most importantly, our approach to remuneration – both fixed pay and incentive pay – has long been underpinned by rigorous external benchmarking by independent remuneration consultants and seeks to closely link pay and business outcomes. Our executives must achieve stretching goals – which are goals set above the level we are confident of achieving – in order to earn short and long-term incentives.

The fixed pay our executives receive is set with reference to external market benchmarks and competitive market conditions. Over recent years our approach to fixed pay has been one of restraint. For example, the Managing Director has had no increase in fixed pay for the past four years. Indeed, although during that time our external advice has been that increases in Mr Quinn's fixed pay may have been justified by market comparisons, Mr Quinn has not sought any increases and asked the Committee not to recommend any increases to the Board. Pay rises for our top team last year were mainly to recognise promotion or enlarged job responsibilities, and there have been no fixed pay rises awarded to any of our top executives for the current financial year.

As I outlined at the start of my address, the Group's performance in the last financial year was strong. Our earnings per security growth of 8.6 per cent was well above our stretch target of 7.0 per cent, and our executives also scored well against other important performance objectives. Accordingly, short-term incentives reflected these achievements and were higher than in the previous year. Our executives need to produce strong results to earn their bonuses; if they don't perform they will not.

Our executives' pay arrangements also include long-term incentives in the form of rights to earn Stockland securities based on two objectives which must be achieved over a three year period. The first objective is a stretch earnings per security cumulative growth target which must be exceeded before any incentive is earned and the second is a total securityholder return objective which requires our securityholder returns to exceed those of our peer companies before any part of the incentive is paid.

The way these long-term incentives must be reported in our Remuneration Report is often misunderstood by investors and by journalists. The statutory accounting remuneration table must reflect the applicable long-term incentive expense of all current unvested grants, even though they are conditional on meeting hurdles three years later and may never be paid at all if the hurdles are not met.

For the past three years, including FY11, 50 per cent of our long-term incentives due in that year have been forfeited by our executives because in one difficult year, FY09, our earnings performance fell disappointingly short of the target which had been set by the Board, partly because of global factors beyond the control of our management. We do not change our targets during the year when global or local market conditions change, even dramatically.

While we did achieve total securityholder returns well above other property groups over the last three year period, which resulted in the 50 per cent of long-term incentive which did vest, we are now behind on this measure for the three-year period in respect of which our 2009 long-term incentives will be judged. Stockland will have to achieve a substantial improvement in relative security price performance to clear this hurdle in 2012.

I believe these outcomes clearly demonstrate that our long-term incentives are genuinely “at risk”, are broadly aligned to our securityholders’ returns and provide a strong incentive to executives to deliver the best possible business performance.

This year, we are taking steps to bring our pay policies into even greater alignment with value created for our investors to respond to feedback we have received from our investors. We have announced the earnings per security target we have set for incentive purposes. At 6.0 per cent, this target is well above our market guidance and represents a genuine stretch. We believe that given the headwinds our sector faces, this target will be challenging for our executives to achieve. Reaching it would be a very good outcome for securityholders.

In addition, we announced earlier this month a significant change to the structure of our short-term incentives for the current financial year. Executives will now receive a portion of these incentives, if earned, in securities and this portion will not be paid immediately but will be deferred until future years, further strengthening alignment with our securityholders. Executives will forfeit these deferred securities if they leave the company before they vest.

You may also have noted that at this year's meeting there is no resolution seeking a long-term incentive allocation of performance rights to the Managing Director in FY12. Mr Quinn already has a substantial personal holding of Stockland securities and, in the Board's view, adequate 'at risk' performance rights allocated in prior periods to provide a strong incentive to strive for improved security price performance. This decision was initially proposed by Mr Quinn and subsequently was agreed by the Board and Mr Quinn being appropriate in the current market circumstances. This change represents a significant reduction in Mr Quinn's potential total reward over the next three years.

Awarding security-based incentives rather than cash incentives is designed to motivate executives by ensuring they are directly affected by rises and falls in security price that investors experience. To further support this, in 2010 the Board adopted a policy that requires executives to retain Stockland securities awarded to them under our incentive programs until they have accumulated and continue to hold Stockland securities equal in value to their base pay and twice base pay in the case of the Managing Director. This further ensures that our executives have real "skin in the game" as they work to increase securityholder value.

Ladies and gentlemen, I have covered this topic at some length because it is important that you appreciate how seriously the Board approaches its responsibility to align our executive pay policies with the interests of our investors and to strike the right balance between market competitiveness, incentive for performance and the creation of value for investors.

Let me now conclude my report by thanking my Board and executive colleagues for their engagement and hard work throughout the past year. I believe Stockland investors are well served by a very diligent Board which provides the right degree of oversight, challenge and support for our capable management team. Each member of the Board brings considerable professional skill and experience to the table and works with a spirit of collaboration and a sense of responsibility for guiding the direction of the company and its management.

Thank you.

I would now like to invite Matthew Quinn, your Managing Director, to provide an update on the company's operations.