



## Chairman's address

AGM 2012

Ladies and gentlemen, I am pleased to welcome you to our Annual General Meeting today – our 55th as a listed company.

In what is Queen Elizabeth II's Silver Jubilee year, Stockland also celebrates a diamond anniversary of its own. It is 60 years since our business was established in 1952. From humble beginnings, Stockland has grown to be a substantial group and one of Australia's largest diversified property companies.

Throughout our six decades we have seen business cycles come and go, and each has presented its own special challenges and opportunities. Today is no different. We face a number of challenges in the current business cycle, but Stockland has many strengths, built over our long corporate history, which will see us come through this cycle as business conditions improve, as we believe they will, in good shape in the 2014 financial year and 2015 financial year. The present reality is, however, that a combination of factors including low consumer and business confidence, anxiety about global economic conditions and fear of unemployment have combined to produce headwinds which have impacted our profit performance in the year just past and will continue to do so in the current 2013 financial year when, I regret to report, we expect our profit to decline further.

Last year Stockland delivered a reasonable but nevertheless disappointing result in a difficult market environment. Our FY12 underlying Profit was \$676 million, down 7 per cent on the prior

year, largely due to a sluggish new home market which saw profit in our Residential business fall by 15 per cent.

We did, however, increase our distributions slightly last year to 24 cents per security. We distributed 80 per cent of Underlying Profit, in line with our stated policy to distribute 75 to 85 per cent of Underlying Profit or 100 per cent of Trust Taxable Income, whichever is higher.

We responded to the challenging business environment last year with prudent capital management so that we could produce the best possible returns for our investors. We maintained a strong balance sheet and low gearing, and took steps to reduce overhead costs significantly, including reorganising our operations to achieve greater efficiency.

During the year we sold around \$960 million of non-core office and industrial assets at average prices above book value and re-invested the proceeds in several major retail developments which we expect to provide good future returns and a number of new residential and retirement projects, as well as funding our security buyback program.

Under this program we bought back some 7.5 per cent of our issued capital. This represented good value for continuing investors because we bought our securities at an average price of \$3.04 per security when the net tangible asset backing was around \$3.70. This equates to buying quality property assets at a discount of almost 20 per cent. The benefits of the buyback will be to improve our earnings per security in the current financial year and into the future.

Three key examples of how we reinvested for growth are our major shopping centre projects: Stockland Merrylands, Stockland Townsville and Stockland Shellharbour.

The final stage of our five-year, \$400 million Merrylands redevelopment in western Sydney was officially opened by Premier O'Farrell on 5 October. First opened in 1972, Merrylands was one of Stockland's earliest major shopping centres and is located just six kilometres from our first ever development project – a 19 home residential estate at Sefton. This is the Merrylands centre's second redevelopment over the past 40 years. We have increased the centre's retail space by nearly two and a half times its previous size. The response from retailers and shoppers has been tremendous and we are confident this project will enable Merrylands to remain a valued asset for this western Sydney community for the next 40 years and beyond.

Next week we will open a major upgrade of our shopping centre in Townsville in North Queensland. Following an investment of some \$180 million, this is now the largest centre in the Townsville region and brings to that community some 20 retailers that have never before had a presence in this growing city.

Our third major retail project of 2012 is the \$330 million upgrade of Stockland Shellharbour, about half of which is now open and trading very well. The completed centre is expected to open in July 2013. This will be the only major regional shopping centre in a trade area that extends from Sydney's southern suburbs, south to Batemans Bay and west to the Southern Highlands.

These are but three assets in a retail portfolio which is now 41 centres strong and has a total value of more than \$5 billion. When completed, these three centres will have a combined value in excess of \$1.5 billion. This figure is close to the value of Stockland's total assets 12 years ago when Matthew Quinn was appointed Managing Director.

As I am sure you are all aware, in July we announced that Matthew had given us notice of his intention to retire as Managing Director by early next year. As only our third Managing Director in 60 years, he has made a transforming contribution to this company and I would like to pay tribute to him today for his numerous achievements.

Matthew joined Stockland in 1999 and was appointed Managing Director succeeding Peter Daly in October 2000. He oversaw a period of significant growth through a number of mergers and acquisitions including AMP Diversified, retirement village operator Aevum, and the \$825 million Lensworth acquisition which cemented our position as Australia's largest residential property developer. He also achieved growth through the completion of many industry-leading developments ranging from masterplanned residential communities to innovative green office buildings and major shopping centres.

Under Matthew's leadership Stockland built a strong capability and reputation in sustainable development and community creation and has led to Stockland being recognised as one of the most sustainable property companies in Australia and globally by groups such as the Dow Jones Sustainability Index.

Matthew also steered the company successfully through the 2008 financial crisis which took such a toll on less well managed property groups. Throughout his term Matthew has provided strong and values-based leadership to our people and to our executive team, and been a voice for improved public policy to make quality housing more affordable for families and retirees.

Matthew, I will propose a final vote of appreciation later in the meeting today but now, on behalf of the Board and of all of our investors, I want to thank you for your hard work, dedication and leadership over the past 12 years. You have enjoyed, but also earned, the respect of your

colleagues on the Board, our management team and the broader investment community for the integrity, clarity and intelligence with which you have served as our chief executive officer. On behalf of us all, I would like to thank you most sincerely for your contribution to Stockland.

Our search for Stockland's next Managing Director is progressing well. Following Matthew's decision, we appointed a board sub-committee to progress the internal and external search process, and appointed a leading international executive search firm to review both local and offshore candidates. I won't detail here the specific skills and competencies we are looking for, but needless to say Stockland's next Managing Director will be an outstanding individual capable of providing strategic leadership in an increasingly complex investment, market and regulatory environment, coupled with all the skills you would expect to find in terms of operational management, people management, business judgement and stakeholder relations appropriate to a top 50 listed company.

We look forward to announcing the appointment of our new Managing Director in due course. In terms of day to day operations, we are pleased we have in place a strong management team who will ensure that our business maintains momentum and achieves a smooth leadership transition.

I will now make a few final comments before handing over to Matthew to present his final report.

I encourage all investors to read Stockland's 2012 Annual Review. This is a new document which brings together our financial and non-financial performance in one publication. It sets out not only the highlights of our business performance, but also our contribution to the wider community and our approach to sustainability.

This year Stockland has again received high honours for our sustainability initiatives at group level and across our different asset classes. These are initiatives designed to improve the long-term success of our business. For example, we have piloted a study across three residential projects to identify, rank and benchmark the key factors that our residents believe contribute to their quality of life and sense of community. This study is now informing other major projects where we will bring together our residential, retail and retirement capabilities.

I would now like to thank my Board and executive colleagues for their hard work during the past year. One area of special focus for the Board this past year was executive remuneration, and I thank my colleagues for their contribution to the review of our remuneration policies and practices which we undertook. The results are set out in detail in our Remuneration Report. Peter Scott, Chairman of our Board Human Resources Committee, will say more on this topic when we come to the resolution to adopt this year's Remuneration Report later in the meeting.

In the past year we also undertook a tender for the company's audit services. I thank the Chairman and members of the Audit Committee and our executives for the considerable work involved in this process. It is good governance for boards to test the market for audit services periodically, but it is no small exercise. As you will be aware, PricewaterhouseCoopers won the tender and we are asking securityholders to approve their appointment at this meeting. In doing so, I want to thank most sincerely our outgoing auditor, KPMG and their leadership team, for their dedicated and professional service over more than 40 years as Stockland's auditors.

Ladies and gentlemen, I said in our Annual Report two months ago that all the indications are that we are in for another very tough year. So far we see no reason to depart from that outlook. Then and now, we have been clear about the challenges we face. There is no doubt, however, that the best way forward in the market circumstances we face continues to be the course we

have set: robust capital management, improved cost efficiency and considered investment in future growth aligned to deep customer insights and delivered with prudent debt levels.

We are confident, therefore, that our business is in good shape to deliver improved returns from FY14 as market conditions improve, as our three major retail developments come on line and as we launch new residential projects. Our decision to hold our distribution at 24 cents, despite our expectation of a materially reduced profit this year, reflects our confidence in our ability to improve earnings beyond FY13.

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