Managing Director’s address

AGM 2012

This is my twelfth AGM address as Stockland’s Managing Director and it is my pleasure to present to securityholders, one final time, my report on our performance, an update on market conditions and our current outlook. I will also address how we are responding to these conditions to create securityholder value, now and in the future.

As Graham has already noted, financial year 2012 presented a challenging market environment. This was characterised by economic uncertainty and low consumer confidence which, despite low interest rates and unemployment, impacted on both home buying and retail spending. In addition, there has been a softening in demand for CBD office space.

In times like this there is always a big focus on our Residential business, but it’s important to remind our securityholders that the majority of our assets are investment properties where the profits are very predictable from secure, rental-backed contracts. And pleasingly, this rent generating portfolio of properties continues to perform well.

Our $5 billion shopping centre portfolio consistently achieves above industry average sales, giving us confidence that our long-term reweighting from Office and Industrial assets to high quality Retail assets in targeted regional and metropolitan areas will deliver growing future returns. Indeed, our 3.8% comparable net operating income[1] growth last financial year was above our peers and, despite continued subdued consumer spending, we expect to achieve 2-3% growth in FY13.

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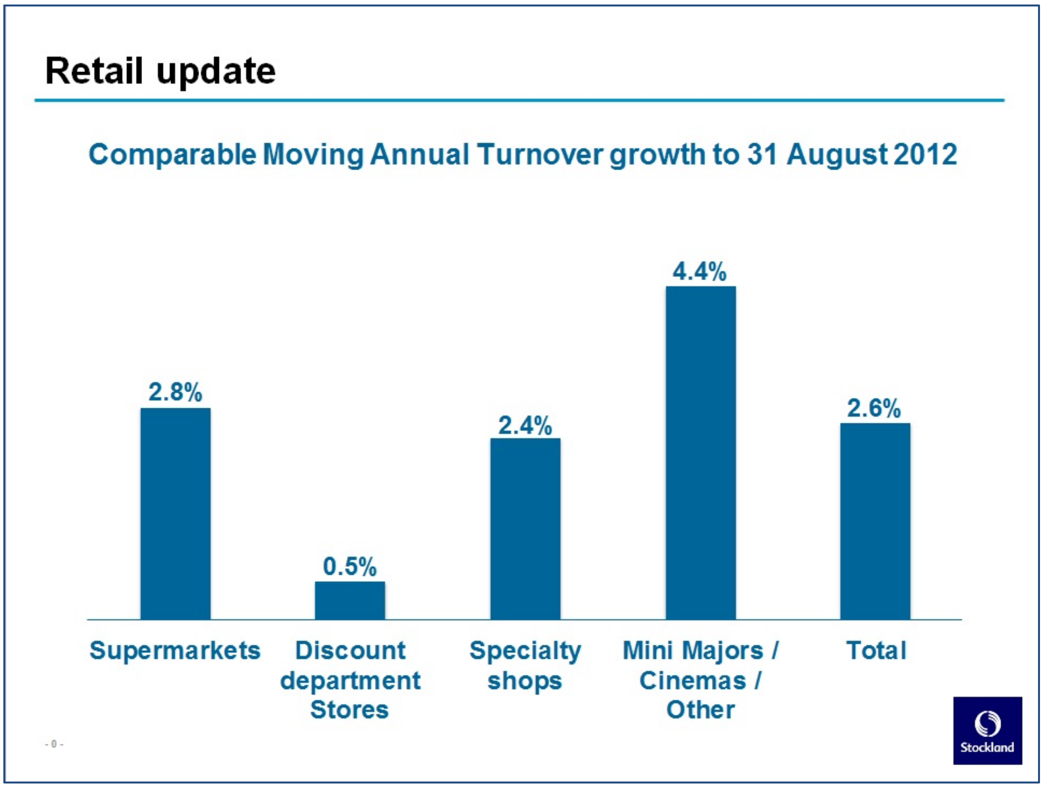
[1] Post-AIFRS



You can see from this graph that while this is clearly a challenging consumer environment, sales in our centres are continuing to grow. In the 12 months to 31 August, shops in our centres achieved total comparable sales growth of 2.6%.

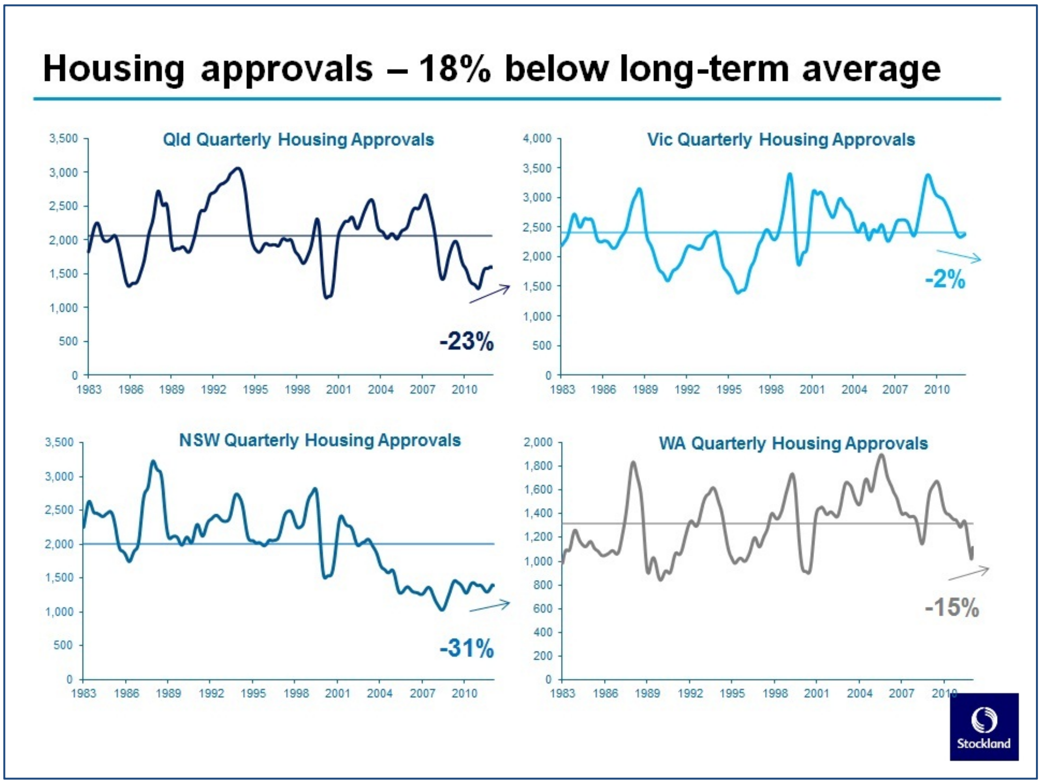
Profit from our $2.7 billion Office and Industrial portfolio will be down overall in FY13 reflecting the income lost from assets we have sold. We do, however, expect to improve our comparable net operating income through the active management and leasing of our assets. For example, in the first quarter we have improved the leasing profile of our portfolio with four major new leases in our Sydney CBD assets, reducing our overall office vacancy rate from 5.5% to 4.4%.

Taking all these factors into account, including asset sales made last year and planned this year, our Commercial Property operating profit in FY13 will be lower than FY12.

Our Residential business faces a high degree of uncertainty given current buyer caution. There have been some signs of improvement in the housing market, particularly in Perth and we have recently been bolstered by first home buyer stimulus targeted at the new housing market in Queensland and NSW.

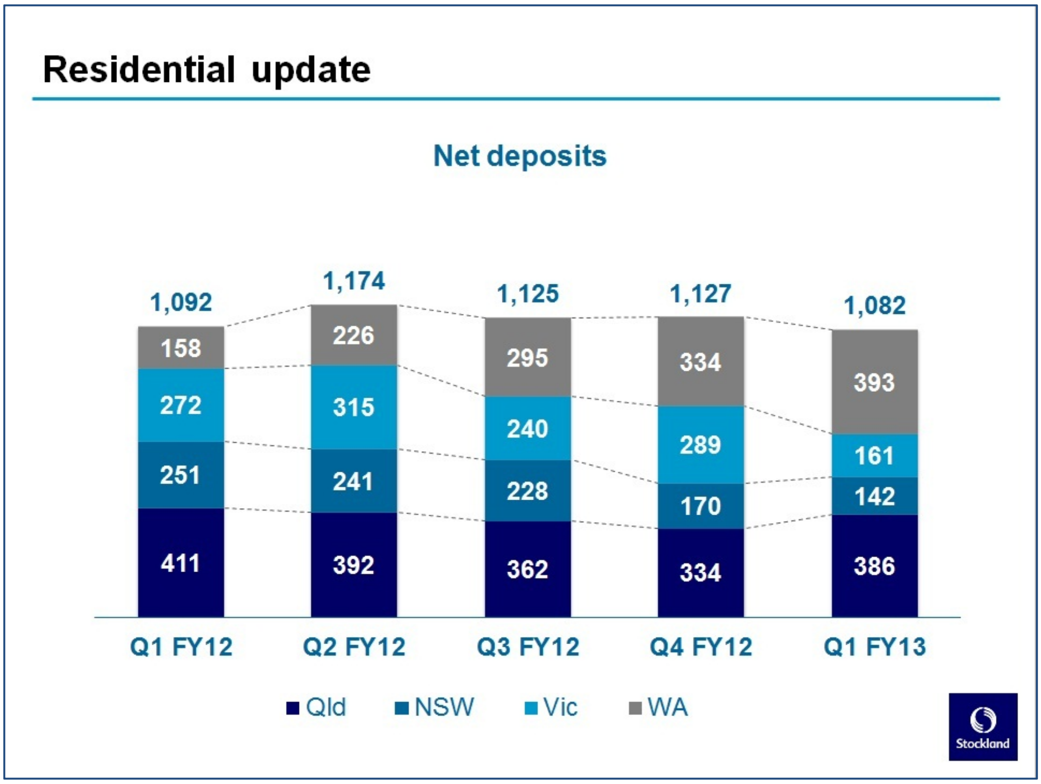
The reality, though, is that conditions are very tough in Victoria where the company's most profitable projects are located.

When I provided my update at our full year results presentation in August I said we were experiencing the worst new housing market I had seen in more than 20 years in the industry. This is not only because sales are at a cyclical low, but because this has persisted despite conditions that would normally stimulate activity – low unemployment, low interest rates, undersupply of housing and low rental vacancy rate.



There is no doubt that the housing market is at a cyclical low. You can see from this chart that in every state where we operate housing approvals are tracking well below the long-term average, and nationally the market is 18% below historical averages. Housing approvals is a lag indicator and these figures don't yet reflect the recent downturn in Victoria which we expect to show through sharply in coming months.

The good news is that population growth remains strong and this cycle will turn, but the question is 'when'. We need to see a trigger for improvement – a sense that the market is moving, so cautious consumers become more concerned about acting too late than acting too soon. Interest rates are normally a driver of this, but in this cycle home owners are just paying off their mortgages more quickly rather than taking on more debt. In the long term this is a good thing, but it's painful while we go through this process.



And this is clearly showing in the volume of deposits we are achieving. We started the year with around 700 fewer contracts on hand than the previous year, reflecting the sluggish market in FY12, and so far we are not seeing any improvement. Our deposits held fairly steady through FY12 and the first quarter of FY13 at a rate well below the 1,800 deposits we achieved two years ago, in the first quarter of FY11.

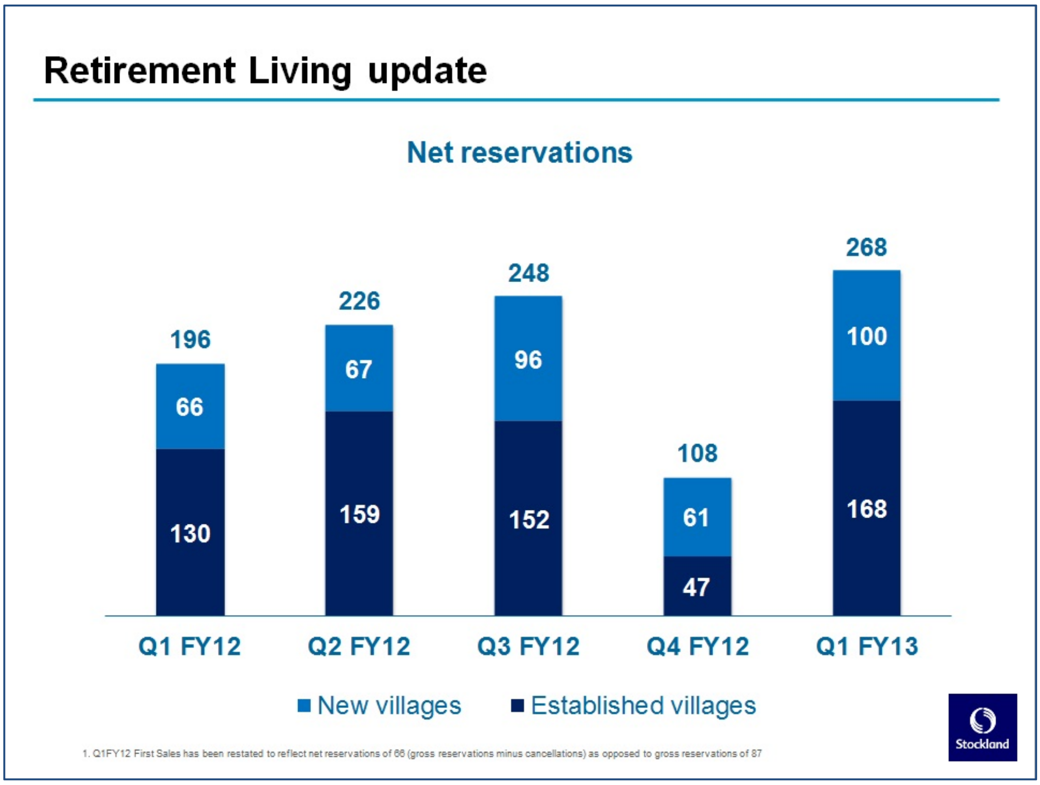
In addition to this, the downward pressure on margins that we saw in the second half of last financial year has continued. We have been unable to achieve any meaningful growth in prices to counter the natural growth in costs. Indeed, in Melbourne, after the expiry of government stimulus, land prices are falling with aggressive discounting required to clear stock.

Despite these discounts our margins in Victoria are still healthy, which means the shift in volume we are seeing from these higher margin projects in Victoria to lower margin projects in NSW is compounding the pressure on our margins. In fact we will see a peak of settlements from our impaired and low-margin NSW projects in the first half of FY13 as we capitalise on the relatively strong NSW market to work through these projects and capture revenue to reinvest in higher returning projects.

Overall we expect our Residential Operating Profit margins for FY13 to be in the range of 12-14% depending on the performance of our Victorian projects. Margins in the first half will be even lower as we reach the bottom of our portfolio transition through our lower margin projects. While we do expect margins to improve in FY14 as profitable new projects come on line, we will also need to see two to three years of good volume and price growth to restore our margins back to historical levels.

All in all we are expecting the FY13 profit in our Residential business to be around $50 million lower than last year with potential downside of a further $30 million if conditions in Victoria don't improve. Furthermore, while it is normal for our business to see a skew in profit to the second half, this year this skew will be larger than usual – around a 30/70 split.

We continue to regularly assess the carrying value of our projects as a going concern and remain comfortable that our carrying values are appropriate at this time. It is our normal practice to rigorously review all of our projects twice a year and we will do so again before our first half results announcement.



Finally, our Retirement Living business, where demand for our products is strong with high reservations in the first quarter after a very challenging final quarter in FY12. Settlements, however, are being impacted as our customers struggle to sell their homes in this soft market, particularly in Victoria. This business is expected to deliver modest profit growth this year and, like Residential, it will have a skew to the second half.

I said in August that without a significant improvement in the residential market in the first quarter, our earnings per share in FY13 will be lower than last year. Unfortunately, it is now clear that this will be the case and FY13 EPS is likely to be around 10% below last year and could be up to a further 5% lower if conditions don't improve in Victoria, where our profit per lot is significantly higher than the rest of our portfolio.

I want to assure to you that, while we are weathering market and broader economic storms through prudent cost and capital management, Stockland is not a company that is standing still and waiting for better times. Important progress was made last year - and more since - that is guarding our returns through this cycle and strengthening our position when things inevitably recover.

Our disciplined approach to capital management includes a concerted effort to reduce our working capital through effective project phasing. We are also recycling capital out of our non-core commercial property assets to selectively invest in Retail, Residential and Retirement Living projects that will underpin our growing future returns and our security buyback.

Our prudent allocation of this capital will provide the foundation for growth from FY14 and beyond. For example, we have invested significantly in our shopping centre redevelopments at Merrylands, Townsville and Shellharbour. These centres are great examples of Stockland's retail strategy – community hubs with a strong focus on value and convenience that are ideally placed to thrive, even in the face of low consumer sentiment and growing online competition. All are on track to be fully leased when opened and will start contributing significantly to our profit from next financial year.

In Residential we are activating our land bank and expect to commence up to 16 new communities within the next three years. Among these is Caloundra South in Queensland, the largest greenfield development in Australia.

In FY14 we will see our first sales from two major new projects in Sydney – East Leppington and Marsden Park – both located in growing corridors and acquired on capital-efficient terms. These projects will contribute to our margin improvement and profit growth, particularly in the second half of FY14 and give us confidence in strong future returns, quite apart from any market improvement.

In these future projects, and our current communities, we are responding to the consumer desire for lower household debt by increasing our supply of smaller lots and working with builders to offer more affordable house and land packages. This year we have offered house and land packages for under $300,000 in all states.

Retirement Living also has a strong pipeline – and this year we expect to develop and settle a record number of new units. This business has shown steady growth over the last three years and is in good shape to continue this trend with 11 active developments underway in four states.

All of this gives us confidence that our business is well placed to deliver strong earnings per share growth in FY14 and to potentially recoup the FY13 decline.

Our confidence in this rebound in earnings is demonstrated by our decision to maintain our 24 cent dividend in FY13, even though this will likely require a payout ratio around 90-95% of Underlying Profit. This is higher than our target ratio but is justified given our positive outlook for FY14, mainly due to our major new Residential projects and recently completed Retail projects coming on line next financial year.

I would like to finish by thanking the Board, my executive colleagues, our employees and you, our investors, for your support, encouragement, and guidance over the years.

Companies don't get to be around for 60 years by not changing with the times. You have to predict, respond and adapt. Stockland has done exactly that for over six decades, and more than ever through the fast-changing years of my tenure.

It has been an enormous pleasure to lead the company and I will watch on with pride as it prospers over the coming years.

Thank you.