

## Chairman's Letter



THE QUALITY OF STOCKLAND'S ASSET PORTFOLIO WILL CONTINUE TO UNDERPIN OUR PERFORMANCE AS AUSTRALIA MOVES CLOSER TO ECONOMIC RECOVERY.

GRAHAM BRADLEY  
CHAIRMAN

**W**HEN I REPORTED TO YOU IN AUGUST last year, it was clear the outlook for the property sector was challenging.

Accordingly, we prepared Stockland for a downturn. We streamlined our organisation, sold non-core properties, and husbanded our capital resources with care. Nothing we did, however, could insulate us from the financial crisis that occurred.

As this global financial crisis spilt over to world economies, we saw steep falls in share markets, rising unemployment and a sharp downturn in consumer confidence. These economic conditions endured through most of FY09. Property values around the world were inevitably pulled down by these factors, with the value of quality commercial property in Australia falling 20-30 per cent. Stockland's results for FY09 must be viewed against the backdrop of these extraordinary events.

### OUR RESPONSE

Stockland's management responded decisively to the market conditions that emerged last year. We moved fast to adjust our residential projects to offer more affordable house sites to appeal to first home buyers. We did well; we sold more lots in FY09 than we did in FY08, and we ended the year with more residential contracts on hand than ever before. We continued to dispose of non-core commercial property – with sales totalling \$592 million during the past year. We reduced our operating costs by managing discretionary spending tightly, reducing full-time headcount by 11 per cent and maintaining for a second year our freeze on executive remuneration.

We also undertook capital raisings to strengthen our balance sheet and be prepared should attractive acquisition opportunities emerge. In all, we raised about \$2.7 billion through new share issues and placements during FY09.

### OUR RESULTS

Helped by our quick response to difficult market conditions, our underlying profit for FY09 was \$631.4 million, down 6 per cent from \$674.0 million last year. In the circumstances, this was a creditable result. Underlying profit measures profit from ongoing operations adjusted for non-recurring and significant items such as inventory impairments, goodwill impairments, investment property revaluations and other non-cash accounting items charged to our income statement.

It is disappointing, however, to report substantial impairments of our Residential Communities and Apartment inventories and our UK property portfolios during the past year – impairments totalling \$461.9 million after tax – resulting from declining valuations and changed market outlook.

Our statutory net result was a loss of \$1,801.9 million. This result takes into account inventory impairments, the substantial but unrealised decrease in the value of our investment properties of \$1,126.1 million and other significant items fully set out in the Directors' Report.

## Chairman's Letter (continued)

### **DISTRIBUTION POLICY**

Our underlying profit per security\* in FY09 was 38.8 cents. The Group has declared a final distribution and dividend totalling 17.0 cents, bringing total distributions and dividends for the year to 34.0 cents per security.

Following a Board review, in April we announced that we have adopted a more conservative distribution policy. From FY10, Stockland will distribute the greater of our trust taxable income or 80 per cent of our adjusted funds from operations.

### **CORPORATE RESPONSIBILITY AND SUSTAINABILITY**

Despite the difficulties of the past year, the Group remains steadfastly committed to meeting the highest standards of governance, corporate responsibility and sustainability. In 2008, we were one of the first major property groups to discontinue all political donations at all levels of government. We have continued to strive for leadership in our sustainability policies, and to balance environmental, social and economic outcomes in all our projects.

Our leadership was recognised, once again, by our inclusion in the Dow Jones Sustainability Index which recognises corporate leaders in sustainability around the world.

### **BOARD AND MANAGEMENT**

I would like to thank my Board colleagues for their hard work during FY09 in overseeing so closely the company's strategic decisions. The Board and its committees met more than 40 times over the year. In December, Lyn Gearing retired from the Board, and we thank her for her contribution. In March, Carolyn Hewson joined the Board, bringing to us a wealth of experience in the financial sector and as a public company director. We look forward to her contribution.

On behalf of all securityholders, I would like to thank our Managing Director, Matthew Quinn, and his executive team for their dedication this year. It has been a tough year for all our employees, and their efforts have been greatly appreciated.

### **THE YEAR AHEAD**

As I write this report in August 2009, there are encouraging signs pointing to economic recovery. Financial markets have stabilised, world equity markets have rebounded and consumer confidence has lifted strongly. It looks like Australia may emerge more quickly from the recessionary cycle than many expected.

The property sector, however, remains fragile. Office vacancies are rising and we expect a further decline in commercial property values in FY10. While residential sales in Australia have been recovering, it is not yet clear that this will be sustained.

The Board believes, however, that the quality of Stockland's asset portfolio has been clearly demonstrated during the downturn of the past two years and this will continue to underpin our performance as Australia moves closer to economic recovery.

**GRAHAM BRADLEY**  
CHAIRMAN

\* Before accounting adjustment