

Managing Director's Review



WHILE OUR RESULTS CLEARLY SHOW THE IMPACT OF FALLING ASSET PRICES AND TRADING CONDITIONS, WE ENDED THE YEAR WITH OUR OPERATING BUSINESS IN GOOD SHAPE.

MATTHEW QUINN
MANAGING DIRECTOR

IT GOES WITHOUT SAYING that last year presented challenges for businesses around the globe, and Stockland was not immune from this.

While our results clearly show the impact of falling asset prices and tough trading conditions, I'm pleased to report that we ended the year in a very strong financial position and with our key operating businesses in good shape. In this review I'd like to provide you with the background behind the numbers and our plans for the future.

RESIDENTIAL

Our Residential Communities business delivered an operating profit of \$184 million, down 33 per cent from last year. We had a slow first half reflecting the very soft market conditions following a period of rising interest rates, and although the second half was much better it didn't bridge the gap. Slightly higher sales volumes for the year were offset by lower average prices as we reconfigured our product to capitalise on the strong first homeowner segment. Our revenue was down as a result, but we did achieve a pleasing margin of 21 per cent.

Our Apartments business did not perform well recording an operating loss of \$9 million. This business faces the challenge of being capital intensive and it has historically produced returns below our hurdle rates. This is partly due to our poor execution and partly a reflection of the significant barriers to development that various levels of government place against urban consolidation. We have therefore decided to finish the projects underway and then review the viability of projects not yet commenced. We will only proceed with development if we can achieve the required returns and capital is available – if not we'll sell the sites.

Impairment

We conducted a thorough review of our Residential Communities and Apartments inventory carrying values in light of the market downturn, unfortunately resulting in pre-tax impairment of \$425 million. The problems occurred in two sections of our business – NSW where the market was particularly soft and projects pitched at the high end of the market where prices have fallen. While this is very disappointing and had a substantial impact on our headline profit, we have been thorough

in our approach and we expect no further impairments unless market conditions materially deteriorate.

RETIREMENT LIVING

Retirement Living continued to perform well delivering an operating profit of \$43 million, consistent with last year. In order to provide a stronger focus on this business we have recently restructured our reporting lines to create a separate Retirement Living business unit. This will improve our focus on providing high quality villages to cater for the growing ageing demographic and provide greater transparency and accountability for the business. Our new villages under development are selling well and we will accelerate growth of this business over the next year.

COMMERCIAL PROPERTY

Our Commercial Property business performed well delivering an operating profit of \$541 million, and comparable income growth of a healthy 5.9 per cent. Our retail assets performed better than expected and vacancies have not materially increased.

Managing Director's Review (continued)

Our strong focus on leasing and risk management in our office and industrial portfolio means we are in good shape to get through this challenging cycle, with minimal expiry risk in FY10.

As expected there were significant downward revaluations in our commercial property portfolio and we expect further softening in FY10 before the market stabilises.

UK

UK market conditions are still tough and our business achieved a break even operating result. We also had significant impairment of inventory values and goodwill.

We will not invest material new capital in the UK as we move towards an orderly sell down of our remaining properties over the next two to three years. Following this, our strategy is to remain solely Australia-focused.

STRATEGY AND GROWTH

We continue to focus on managing, leasing and developing our diverse property portfolio for the best returns. This year we have achieved cost and operational efficiencies through new management structures and enhanced customer insight capability.

Growing our business is high on our agenda but in assessing this we will always put strategy first and opportunity second. We will pursue a disciplined assessment of opportunities that enhance value for our securityholders, are in line with strategy, and maintain our strong capital position.

ORGANISATIONAL WELLBEING

Our people, led by a strong executive team, faced the year's challenges head on and we maintained high employee engagement as measured by our annual employee survey. We made some substantial structural changes in our business and this resulted in significant impacts on our workforce. I thank all of our employees for their continued hard work and enthusiasm during this time.

OUTLOOK

Our balance sheet and operating businesses are in good shape. Our gearing is a low 16.0 per cent with a weighted average debt maturity of 6.6 years. Our Residential Communities business finished the year stronger than it started, with a record level of contracts on hand, Retirement Living is poised for growth, and Commercial Property has managed lease expiries for the year ahead, significantly reducing the risk of increases in vacancy rates.

While we remain cautious about the economic outlook, we're confident we've taken the right steps to get our business in a strong position to face ongoing challenges and capitalise on opportunities in line with our strategy.

MATTHEW QUINN

MANAGING DIRECTOR