

# Annual Review 2018







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# About this report

*Welcome to Stockland's 2018 Annual Review – reporting on our financial, social and environmental performance for the financial year, 1 July 2017 – 30 June 2018.*

*This is our seventh integrated report. We continue to evolve our approach to Integrated Reporting across our corporate reporting suite. Our reporting approach and materiality are discussed on page 63.*

*For Stockland, integrated reporting is a journey toward more meaningful corporate reporting and is a process of continuous improvement, one that we believe will provide great benefit to both our organisation and our stakeholders.*

## Our full corporate reporting suite for 2018 includes:

<b>Annual Review</b> (online only)	Our integrated report focused on strategy, governance, and our financial, social and environmental performance.
<b>Annual Report</b>	A detailed account of our FY18 financial performance, including our response to the Financial Stability Board's Taskforce on Climate-related Financial Disclosure recommendations.
<b>Property Portfolio</b>	Details on each of the assets within our portfolio, updated every six months.
<b>Sustainability Reporting</b> (online only)	Our in-depth sustainability Deep Dives reported in accordance with GRI Standards "comprehensive". <a href="http://www.stockland.com.au/sustainability">www.stockland.com.au/sustainability</a>
<b>Securityholder Review</b>	A concise version of the Annual Review sent to our securityholders.



Copies of all reports are available online at:  
[www.stockland.com.au/corporate-reporting](http://www.stockland.com.au/corporate-reporting)



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Stockland is a signatory to the United Nations Global Compact (UNGC) and supports the Ten Principles of the Global Compact on human rights, labour, environment and anti-corruption and the Sustainable Development Goal of the UNGC. Stockland's Sustainability Reporting also serves as its UNGC Communication on Progress.



WE SUPPORT

## FEEDBACK

We welcome your questions and value your feedback about our reporting approach. Please contact us at [reporting@stockland.com.au](mailto:reporting@stockland.com.au).



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# Letter from the Chairman



*Our strategy to maximise value from community creation, coupled with a disciplined approach to capital management, continues to deliver strong results.*

**TOM POCKETT**  
CHAIRMAN

## Dear Securityholders,

It is my pleasure to report another strong year of performance for Stockland. The overall results demonstrate the resilience of our diversified business in this variable trading environment.

The execution of our strategy over the last five years has yielded some outstanding outcomes for communities across Australia.

In this time, we have delivered sustainable and competitive profit growth with 10.8 per cent per annum compound earnings per security growth.

In driving our vision to create sustainable communities we have built an exemplar residential portfolio which has grown its return on assets from 8.7 per cent in FY13 to 22.0 per cent in FY18, and is delivering impressive operating profit margins of 18 per cent. We have also extended our capabilities through the creation of a built-form business, tripling our townhome volumes.

Close to \$1.3 billion of capital has been recycled over the last five years to fund the redevelopment of market leading retail town centres and to renew our retirement communities with a concentrated focus on enhancing customer choice and services. The success of these initiatives is demonstrated by 90 per cent customer satisfaction in our retirement communities and specialty retail sales 10 per cent above national benchmarks in our retail town centres. Our major redevelopments, including Green Hills and Wetherill Park in New South Wales, are prime examples of our strategic direction as we remix our portfolio and create high quality shopping experiences with dining, lifestyle, services and entertainment options tailored to the communities we serve.

Our Logistics portfolio has also grown strongly, supported by well-timed acquisitions and accretive development. Logistics now represent 15 per cent of our portfolio, up from 12 per cent five years ago.

We are proud of our position as the leading creator of liveable and affordable communities and the important role we play in bringing communities together at our retail town centres and workplaces across Australia.

## STRONG PERFORMANCE

Our strategy to maximise value from community creation, coupled with a disciplined approach to capital management, continues to deliver strong results.

Funds from operations (FFO) grew by 7.5 per cent to \$863 million and FFO per security grew 6.6 per cent in FY18 to 35.6 cents per security, reflecting our community building capabilities. Statutory profit was \$1,025 million, down 14.2 per cent, largely due to lower unrealised gains from asset revaluations and financial instruments.

The residential portfolio delivered a standout performance with profit growth up 24.3 per cent on FY17, underpinned by solid demand from owner occupiers. Our focus on owner occupiers and a broad range of housing and land options will position us well in this environment, as illustrated by our increase in market share over the year.

*We expect to achieve FFO growth of 5–7 per cent for the full year and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18.*

Our Retirement Living portfolio had a challenging year largely due to negative sector media coverage earlier in the year. We are starting to see some positive sales momentum underpinned by our ongoing commitment to deliver contract choice, renew our villages and provide valuable services to residents. It is pleasing to note that we already complied with the majority of recommendations coming from the Greiner Review Report which examined and provided recommendations for improvements in the New South Wales retirement living sector.

The Commercial Property business achieved another solid result with comparable FFO growth of 2.3 per cent on FY17. Our Workplace and Logistics portfolio (previously Office, Logistics and Business Parks) continued to perform well with 6.0 per cent comparable FFO growth in logistics, high occupancy, strong leasing and good progress on our development pipeline.

We are confident in our diversified business model with high recurrent earnings and conservative leverage. This enables us to create high quality masterplanned communities and retail town centres and remain focused on a disciplined approach to executing on our strategic priorities in the year ahead.

## CORPORATE CULTURE

Last year I observed how a strong culture delivers benefits to both employees and securityholders. This year the importance of culture has become front of mind for all boards across Australia as corporate culture dominates media headlines.

The governance of corporate behaviour is an essential part of business and our expectations as a Board are high. We remain focused, together with the Leadership Team, on promoting a strong culture; one concentrated on our customers and ensuring employees are a strong first line of defence for risk management.

We continue to enjoy a high level of employee engagement, above the Australian National Norm as measured by the annual, independently conducted employee engagement survey. We also recently conducted an internal review of our culture which has identified key strengths that we want to preserve, such as respect, customer focus and engagement, as well as areas for further focus and improvement including encouraging diversity of thought.

Importantly, all our businesses receive high customer satisfaction ratings, with very strong 90 per cent satisfaction results in our residential and retirement living communities and at our logistics assets. Our retail tenants rated us as top two in the industry, however our overall score decreased in line with our peers to 72 per cent, largely due to the challenging retail sales environment.

We have retained our global sustainability leadership credentials, upholding our listing on the World Dow Jones Sustainability Index for a decade. These credentials reflect our focus on managing non-financial risk and finding the right balance of social, environmental and economic outcomes for our business, investors, customers and the community. To further our commitment to transparency and sustainability, this year we were amongst the first Australian corporates to disclose our climate-related risks with our financial reporting.

## BOARD RENEWAL

In maintaining and enhancing the right mix of skills on our board, we welcomed Melinda Conrad to the Board in May 2018 and Christine O'Reilly will be joining us on 23 August. Both are highly regarded directors and bring extensive executive expertise across the retail, utilities and infrastructure sectors. Ms Conrad and Ms O'Reilly will further complement and strengthen the Board's experience and I look forward to their contribution.

As required by the Stockland Constitution, Ms Conrad and Ms O'Reilly will offer themselves for election by securityholders at the 2018 Annual General Meeting on 24 October 2018.

## DISTRIBUTION

As forecast, our full year distribution was 26.5 cents per security, representing a payout ratio of 75 per cent of funds from operations.

We expect to achieve FFO growth of 5–7 per cent for the full year and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18, assuming no material change in market conditions.

## CONCLUSION

Thank you to my Board colleagues and our employees for their continued enthusiasm and dedication to delivering exceptional outcomes for communities across Australia. The Board and I are confident the business is well positioned for the future and look forward to discussing these results with you at our Annual General Meeting in October.



**TOM POCKETT**  
CHAIRMAN

# Letter from the Managing Director and CEO



*Our FY18 result has been driven by our focus on executing our key strategic priorities; delivering the best masterplanned communities across Australia, increasing the resilience of our retail town centres, growing our logistics portfolio and enhancing customer experience.*

MARK STEINERT  
MANAGING DIRECTOR AND CEO

## Dear Securityholders,

Over the last five years the management team and I have updated the strategy to focus on our areas of strength, to drive sustainable profit growth. Since that time, we have extended our position as the leading creator of communities across Australia, grown our logistics weighting and increased the resilience of our retail town centre portfolio in this fast-moving environment.

We have successfully repositioned our business by recycling assets to create a strong core business and will continue to do this over the next two years. We have streamlined our executive management team and integrated our retirement and residential businesses to improve operational efficiency and position the business for sustainable growth into the future.

These initiatives will save \$8 million in costs from FY20. We are also making clear progress on our journey to becoming

a more innovative and customer-centric organisation with customer satisfaction over 81 per cent.

We are well placed for long-term sustainable growth in the future given our leverage to key demand drivers including population growth, urbanisation, infrastructure improvement, ageing population and a growing focus on health and wellbeing. Our strong balance sheet also ensures that we are well positioned to take advantage of opportunities that may arise in this changing environment.

### REPOSITIONING OUR BUSINESS FOR FUTURE GROWTH

Our FY18 result has been driven by our focus on executing our key strategic priorities; delivering the best masterplanned communities across Australia, increasing the resilience of our retail town centres, growing our logistics portfolio and enhancing customer experience.

FFO growth for the Group was 6.6 per cent per security, slightly above our guidance range of 5.5–6.5 per cent. Net tangible assets (NTA) per security was up 3.5 per cent to \$4.18 and our return on equity was 11.2 per cent.

We remain the leading creator of communities in Australia with our Residential and Retirement Living businesses providing customers with whole-of-life housing options in liveable locations with close proximity to transport, schools and employment. In light of these synergies we combined our Residential and Retirement Living businesses into one integrated business, Stockland Communities, to be led by Andrew Whitson.

The **Communities** business delivered strong profit growth in Residential, up 24.3 per cent from FY17, with solid volumes of net deposits providing high profit visibility for the year ahead.

We recorded Residential settlements of 6,438 lots, with a number of successful project launches in Victoria and Queensland and the success of our existing communities in Sydney and Melbourne, contributing solid sales.

We remain well positioned in the deepest part of the lending market, with over 75 per cent of our product now sold to owner occupiers and continued demand for our range of affordable house and land and townhome product, despite a slowdown in the broader housing market. We anticipate residential profit margins to remain above 17 per cent for the medium term and around 18 per cent in FY19.

Importantly, our focus on the creation of liveable, affordable and connected communities is driving increased market share, up 3.1 per cent, increased velocity of capital and higher profit margins.

Operating profit for our Retirement Living portfolio was down 16.7 per cent on FY17, with sales volumes impacted by adverse sector media coverage and reduced settlements due to the timing of development completions. We expect improvement in Retirement Living market conditions in 1H19 given improving customer sentiment and sales velocity.

Our overall results demonstrate the resilience of the portfolio in a variable trading environment, with the business well-positioned to deliver sustainably into the future, leveraging our customer experience to increase market share.

**Commercial Property** remains the largest portion of our portfolio. In June, we welcomed our new CEO of Commercial Property, Louise Mason, who has close to 30 years of experience in retail town centres, workplace, and logistics. Results across the asset classes remain solid, with signs of improvement in retail sales despite challenging market

conditions. Importantly, specialty sales per square metre were up 4.2 per cent and 81 per cent of our centres have specialty sales above the national benchmark.

We delivered comparable growth in funds from operations of 2.3 per cent across the portfolio, with 1.3 per cent in Retail Town Centres, 6.0 per cent in Logistics and a decrease in Workplace of 2.0 per cent, reflecting ongoing vacancy in our Perth asset.

Retail Town Centre income growth was adversely impacted by increases in government charges, higher electricity costs, and our tenant remixing and upgrading strategy to future proof our centres.

There was an overall net \$133 million change in the valuation of our portfolio, with positive valuations on a number of assets offset by negative revaluations at some of our non-metropolitan retail town centres. These negative revaluations were concentrated in central and north Queensland centres where economic conditions are weak and tenant remixing has reset income to more sustainable levels.

Our remixing strategy continues to attract more customers into our retail town centres with foot traffic up 2.5 per cent, helping ensure income resilience into the future. Income from growth categories including food, dining, leisure, cinemas and services now represents 41 per cent of our specialty store income.

During the year, we celebrated the launch of our \$421 million redevelopment of Stockland Green Hills; the largest retail redevelopment ever undertaken by Stockland. The centre brings together the best in on trend retail, entertainment, innovation and sustainability and is a prime example of our ability to successfully upgrade and reposition our retail town centres, to deliver outstanding customer outcomes and accretive returns. The redevelopment is expected to achieve an incremental IRR of around 12 per cent in the 10 years post-completion and an incremental, stabilised FFO yield of around seven per cent.

In line with our commitment to reshape our retail assets and re-weight our commercial property portfolio, we continued to execute our retail divestments strategy and are targeting up to an additional \$400 million of divestments over the next 12–24 months.

We are accelerating our strategy to improve the quality and growth potential of our portfolio. This will be achieved by reducing

our Retail Town Centre weighting to focus on leading centres in their trade area and continuing to upgrade and grow our combined Workplace and Logistics portfolio (previously Office, Logistics and Business Parks) to greater than 25 per cent of our total assets.

The growth of this portfolio will primarily be through delivery of our existing development pipeline, on land we already control, as we reinvest proceeds from the sale of non-core assets.

### **STRONG CAPITAL MANAGEMENT**

We are in a strong capital management position, maintaining our S&P A- Stable credit rating for the past 17 years and Moody's A3 rating obtained in August 2017. This reflects the ongoing strength of our balance sheet and cash flows which have enabled us to continue to broaden our funding sources at competitive pricing despite volatile market conditions.

Optimising the allocation of capital within each of our business units remains a key focus with a continued emphasis on capital efficient land acquisitions in our Communities business to reduce our capital needs. Close to 80 per cent of land acquisitions have been purchased on capital efficient terms since FY13.

We have continued to actively manage our debt program, which has seen our weighted average cost of debt fall from 5.5 per cent in FY17, to 5.2 per cent in FY18, and is expected to fall further to around 4.8 per cent in FY19. Gearing remains at the lower end of our 20–30 per cent target range, 22.2 per cent at the end of FY18.

Overall, we are in a very good position with operating cash flow and liquidity improving due to disciplined management and leveraging the timing, source and size of debt refinancing.

### **OPERATIONAL EXCELLENCE**

One of the major issues facing all large corporations is the increased pace of innovation and its ability to disrupt growth. We are embracing this challenge and have appointed a new executive committee position to focus specifically on our technology and innovation capabilities.

In addition to progressing the development of our CORE Systems Program, which will provide digital-ready platforms to increase efficiency and our ability respond to digital opportunities, this role will also focus on enhancing our ability to progress commercial outcomes from innovation projects.

Sustainability also continues to be a key part of our competitive advantage. Throughout the year we have enjoyed a positive response from the community to our \$30 million investment in solar systems, delivering in excess of a 10 per cent rate of return.

I am also pleased to confirm our continued support of the United Nations Global Compact, with whom we partner to promote responsible business practices and sustainable development.

### **OUTLOOK**

Economic conditions remain generally positive and overall fundamentals continue to be largely supportive for our business, with strong population growth, solid employment growth, low inflation and low interest rates.

The land and housing market is clearly moderating, driven by a range of factors including finance availability. Our focus on differentiated masterplanned community creation and housing affordability leaves us well placed in this environment. We have high volumes of residential contracts on hand providing good visibility into the future as markets moderate, in line with our expectations.

We expect to achieve FFO per security growth of 5–7 per cent for the full year, and are targeting a distribution per security of 27.6 cents, representing 4 per cent growth on FY18, assuming no material change in market conditions.

We have a clear vision to deliver into the future, and we are well positioned to benefit from the continued population growth and demographic trends being experienced in Australia, as we deliver liveable, affordable and connected residential and retirement living communities, thriving workplace and logistic properties and vibrant retail town centres.

I am proud of the contribution we continue to make to communities across Australia. It is this contribution that will underpin our financial success in the future and the delivery of our purpose to create a better way to live.



**MARK STEINERT**  
Managing Director and CEO

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# Our performance



# Our key financial metrics

## STATUTORY PROFIT (\$M)

# \$1,025m

FY18	1,025
FY17	1,195
FY16	889
FY15	903
FY14	527

Our statutory profit was \$1,025 million, down 14.2 per cent, primarily reflecting lower mark to market gains on financial instruments and smaller revaluation gains.

## FUNDS FROM OPERATIONS (FFO) (\$M)

# \$863m

FY18	863
FY17	802
FY16	740
FY15	657
FY14	573

FFO has been determined with reference to the Property Council of Australia's guidelines. It excludes adjustments such as unrealised fair value gains/losses, realised transactions occurring infrequently and those that are outside the course of our core ongoing business activities.

## DISTRIBUTION PER SECURITY (¢)

# 26.5¢

FY18	26.5
FY17	25.5
FY16	24.5
FY15	24.0
FY14	24.0

The distribution payable for the full year ended 30 June 2018 is 26.5 cents per ordinary stapled security. Our distribution policy is to pay the higher of 100% of Trust taxable income or 75–85% of FFO.

## FFO PER SECURITY (¢)

# 35.6¢

FY18	35.6
FY17	33.4
FY16	31.1
FY15	28.0
FY14	24.8

FFO per security was 35.6 cents, up 6.6 per cent on FY17.

## NET TANGIBLE ASSETS (NTA) PER SECURITY (\$)

# \$4.18

FY18	4.18
FY17	4.04
FY16	3.82
FY15	3.68
FY14	3.53

While some retail town centre assets recorded downward valuations, the overall portfolio saw a net \$139 million increase, contributing to a 3.5 per cent increase in NTA.

## ADJUSTED FUNDS FROM OPERATIONS (AFFO)

# \$756m

↑9.9% on FY17

## AFFO PER SECURITY (¢)

# 31.2¢

↑9.1% on FY17

AFFO is an alternative, secondary, non-IFRS measure used to assist in the assessment of the underlying performance of the Group. AFFO is calculated by deducting maintenance capital expenditure and incentive and leasing costs from FFO.

# Our key performance outcomes

## OUR STRATEGIC FOCUS AREAS



Grow asset returns  
and our customer base

## COMMUNITIES

### RESIDENTIAL

#### OPERATING PROFIT

**\$336m** ↑24.3%

#### LOTS SETTLED

**6,438**

#### RESIDENT SATISFACTION

**93%**

#### OPERATING PROFIT MARGIN

**18.3%**

#### RETURN ON ASSETS, CORE PORTFOLIO

**22.0%**

### RETIREMENT LIVING

#### OPERATING PROFIT

**\$53m** ↓16.7%

#### SETTLEMENTS – ESTABLISHED AND DEVELOPED

**854**

#### OCCUPANCY

**95%**

#### RESIDENT SATISFACTION

**90%**

#### CASH RETURN ON ASSETS

**4.6%**

## COMMERCIAL PROPERTY

### RETAIL TOWN CENTRES

#### FUNDS FROM OPERATIONS (FFO)

**\$428m** ↑2.2% Comparable FFO ↑ 1.3%

#### OCCUPANCY

**99.4%**

#### RETAILER SATISFACTION

**72% – rated Top 2**

#### WEIGHTED AVERAGE LEASE EXPIRY (WALE)

**6.3 years**

#### DEVELOPMENT PIPELINE

**~\$500m**

*Celebrated the opening of our \$421m Stockland Green Hills redevelopment, the largest redevelopment undertaken by Stockland.*

### WORKPLACE AND LOGISTICS

#### LOGISTICS

#### FUNDS FROM OPERATIONS (FFO)

**\$152m** ↑6.2% Comparable FFO ↑ 6.0%

#### OCCUPANCY

**98.7%**

#### TENANT SATISFACTION

**90%**

#### WEIGHTED AVERAGE LEASE EXPIRY (WALE)

**4.1 years**

#### DEVELOPMENT PIPELINE

**~\$600m**

#### WORKPLACE

#### FUNDS FROM OPERATIONS (FFO)

**\$54m** ↓9.6% Comparable FFO ↓ 2.0%

#### OCCUPANCY

**88.3%**

#### TENANT SATISFACTION

**82%**

#### WEIGHTED AVERAGE LEASE EXPIRY (WALE)

**3.5 years**

## OUR STRATEGIC FOCUS AREAS



## Capital strength

### S&P RATING

A-/stable for 17 years

### MOODY'S RATING

A3

### GEARING

22.2%

### WEIGHTED AVERAGE DEBT MATURITY

6.2 years

### WEIGHTED AVERAGE COST OF DEBT

5.2%

### RETURN ON EQUITY (ROE)

11.2%



## Operational excellence

### MANAGEMENT RESTRUCTURE

\$8m gross savings per annum from FY20

### EMPLOYEE ENGAGEMENT SCORE

83%

### CITATION BY WGEA (WORKPLACE GENDER EQUALITY AGENCY)

Employer of Choice for Women for 4th consecutive year

### GLOBAL LEADERSHIP IN SUSTAINABILITY

#### WORLD DOW JONES SUSTAINABILITY INDEX

#### MEMBER OF

**Dow Jones Sustainability Indices**

In Collaboration with RobecoSAM

10th year listed on the World Dow Jones Sustainability Index

#### GLOBAL REAL ESTATE SUSTAINABILITY BENCHMARK (GRESB)



Global Sector Leader for Diversified – Listed – Office/Retail

#### CDP RECOGNITION



Only Australian company recognised by CDP for leading global climate performance

# Our key performance outcomes

## CREATING SHARED VALUE – SUSTAINABILITY PERFORMANCE

### Optimise and innovate

#### CLIMATE CHANGE AND ENERGY EFFICIENCY

- 5% reduction in carbon intensity of our Commercial Property portfolio (52% reduction since FY06)
- Increased total investment in solar to \$30 million, exceeding 10% return over 10 years

#### BIODIVERSITY

- Worked to rehabilitate and restore 204 hectares of biodiversity, and will have protected around 2,202 hectares of land upon completion of our current residential developments.

#### WATER MANAGEMENT AND QUALITY

- Reduced the water intensity of our Retail Town Centre and Workplace and Business Park assets by 5% and 11% respectively

#### WASTE AND MATERIALS MANAGEMENT

- 89% and 94% waste diversion rates for our Commercial Property developments and Residential developments respectively

### Shape thriving communities

#### HEALTH AND WELLBEING

- Residential community national liveability score of 78%
- Resident satisfaction across our Residential communities is 93%
- Residential community resident personal wellbeing index score of 77%, above the national average
- Retirement Living resident Personal Wellbeing score of 82%, well above the national average

#### COMMUNITY CONNECTION

- \$7.7 million invested in community initiatives across Australia
- 308 local organisations awarded over \$560,000 in total as grants to our communities
- Six new inclusive playspaces developed with the Touched by Olivia Foundation

#### EDUCATION AND PROSPERITY

- Final year of Green Hills Connectivity centre project placing over 180 people in local employment
- Determined that our Retirement Living portfolio generates \$1.66 in social value for every \$1 invested by our business
- Over 2,200 people attended Jamie's Ministry of Food classes at Stockland assets
- 479 students benefited from Stockland mentoring through the Australian Business and Community Network
- Over 11,000 primary school students engaged in STEAM programming through our partnership with the National Theatre for Children

### Enrich our value chain

#### EMPLOYEE ENGAGEMENT, DEVELOPMENT, DIVERSITY AND INCLUSION

- 83% employee engagement score, 7% higher than the Australian National Norm
- 80% of employees have flexible work arrangement
- 45.1% of women in management, 39.7% of women in senior management

#### HEALTH AND SAFETY

- Corporate Lost Time Injury Frequency Rate of 1.6, our lowest rate in seven years

#### SUPPLY CHAIN MANAGEMENT

- Delivered our Sights on Safety program focused on reducing injuries at our worksites
- Expanded Mates in Construction training to enhance awareness of mental health at our worksites

#### STAKEHOLDER ENGAGEMENT

- Substantially progressed or completed 49 actions within our Innovate Reconciliation Action Plan
- Procured over \$3.2 million from indigenous suppliers since 2014
- Completed a human rights risk review and identified action items to enhance our capacity to identify and address instances of modern slavery in our supply chain

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# Our business and strategy

*Our vision is to be a great Australian real estate company  
that makes a valuable contribution to our communities  
and our country.*

# Our business

**Stockland is one of the largest diversified real estate groups in Australia with \$18.2 billion of real estate assets. We are Australia's largest community creator covering whole of life housing solutions. We own, manage and develop retail town centres, workplace and logistics assets, residential and retirement living communities.**

Our vision is to be a great Australian real estate company that makes a valuable contribution to our communities and our country. Founded in 1952, today we leverage our diversified model to help create thriving communities with dynamic town centres where people live, shop and work.

This approach is underpinned by our purpose – “we believe there is a better way to live” – and is brought to life by our

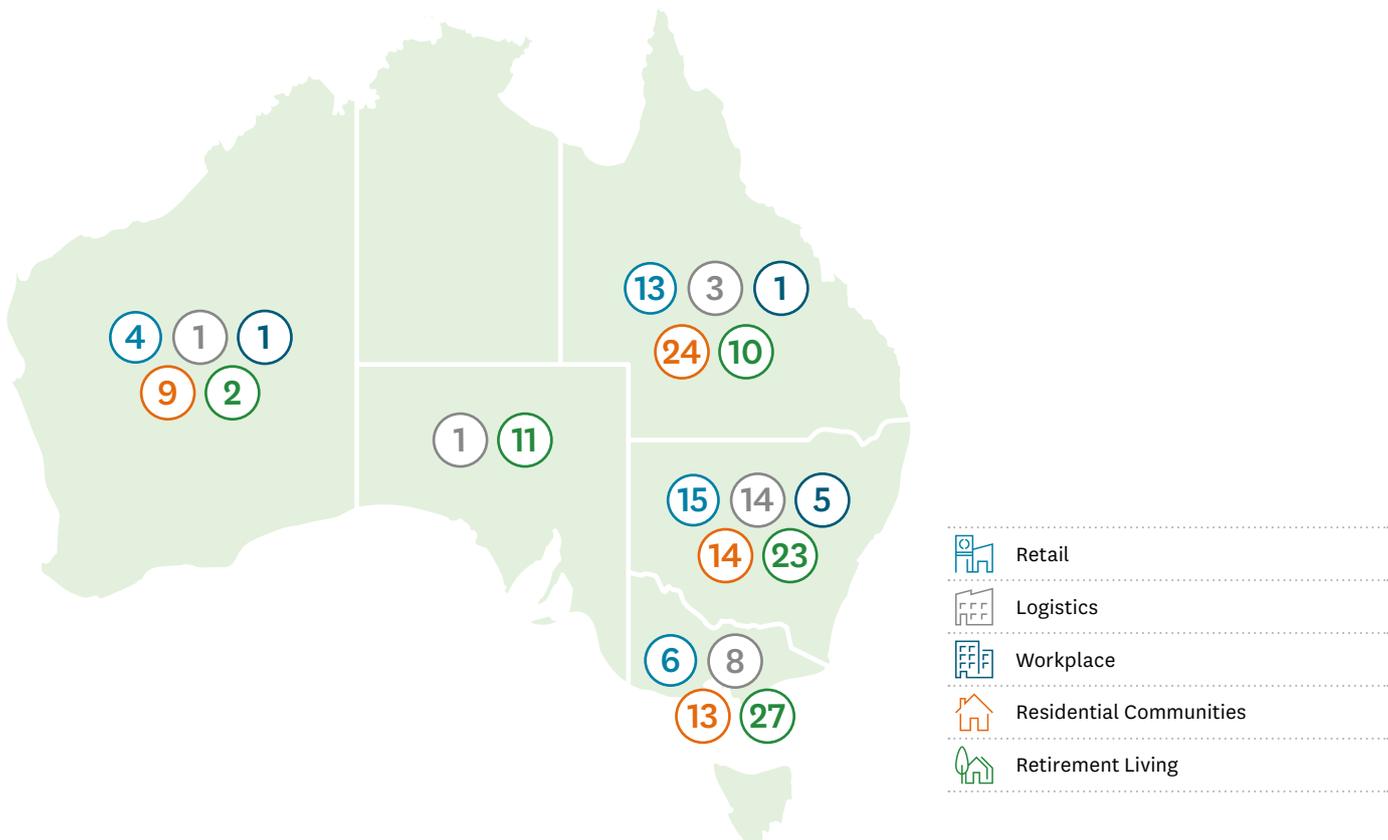
employees who are guided by Stockland’s values of Community, Accountability, Respect, and Excellence (CARE).

Our primary objective is to deliver earnings per security growth and total risk-adjusted securityholder returns above the Australian Real Estate Investment Trust index average, by creating quality communities and real estate assets and delivering great customer experiences.

To optimise value to securityholders we are structured as a stapled security: a combination of a unit in Stockland Trust and a share in Stockland Corporation that are together traded as one security on the Australian Securities Exchange. This stapled structure allows Stockland to efficiently undertake property investment, property management and property development activities to create sustainable risk/reward outcomes.

OUR PURPOSE	OUR VISION	OUR VALUES
We believe there is a better way to live	To be a great Australian real estate company that makes a valuable contribution to our communities and country	Community Accountability Respect Excellence

## WE ARE WELL POSITIONED WITH A DIVERSE PORTFOLIO



# Our portfolio

## COMMUNITIES

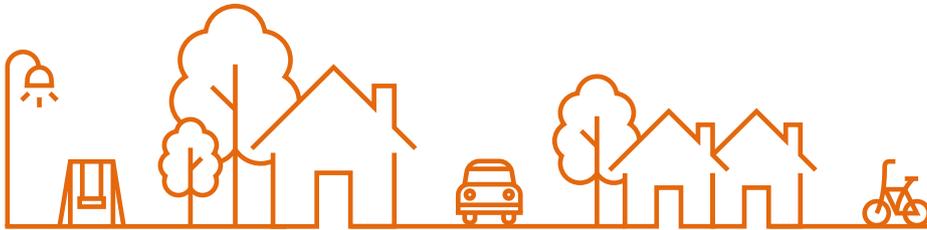
**60** Residential Communities

124 families move in every week

82,000 lots remaining

**\$22.2 billion\***

approximate total end value



**65** Retirement Living villages

11,500+ residents

9,600+ established units

3,000+ units in development pipeline

**\$1.5 billion** funds employed



## COMMERCIAL PROPERTY

**39** Retail Town Centres

3,500+ retailers

415,000+ customers every day

**\$7.4 billion** in value

1 million+ sqm of gross lettable area

**\$6.8 billion+** p.a. retail sales



**34** Workplace And Logistics Assets

267 tenants

1.4 million sqm

**\$2.8 billion** in value

**In key locations**

for logistics, infrastructure and employment



\* Excluding value on projects identified for disposal

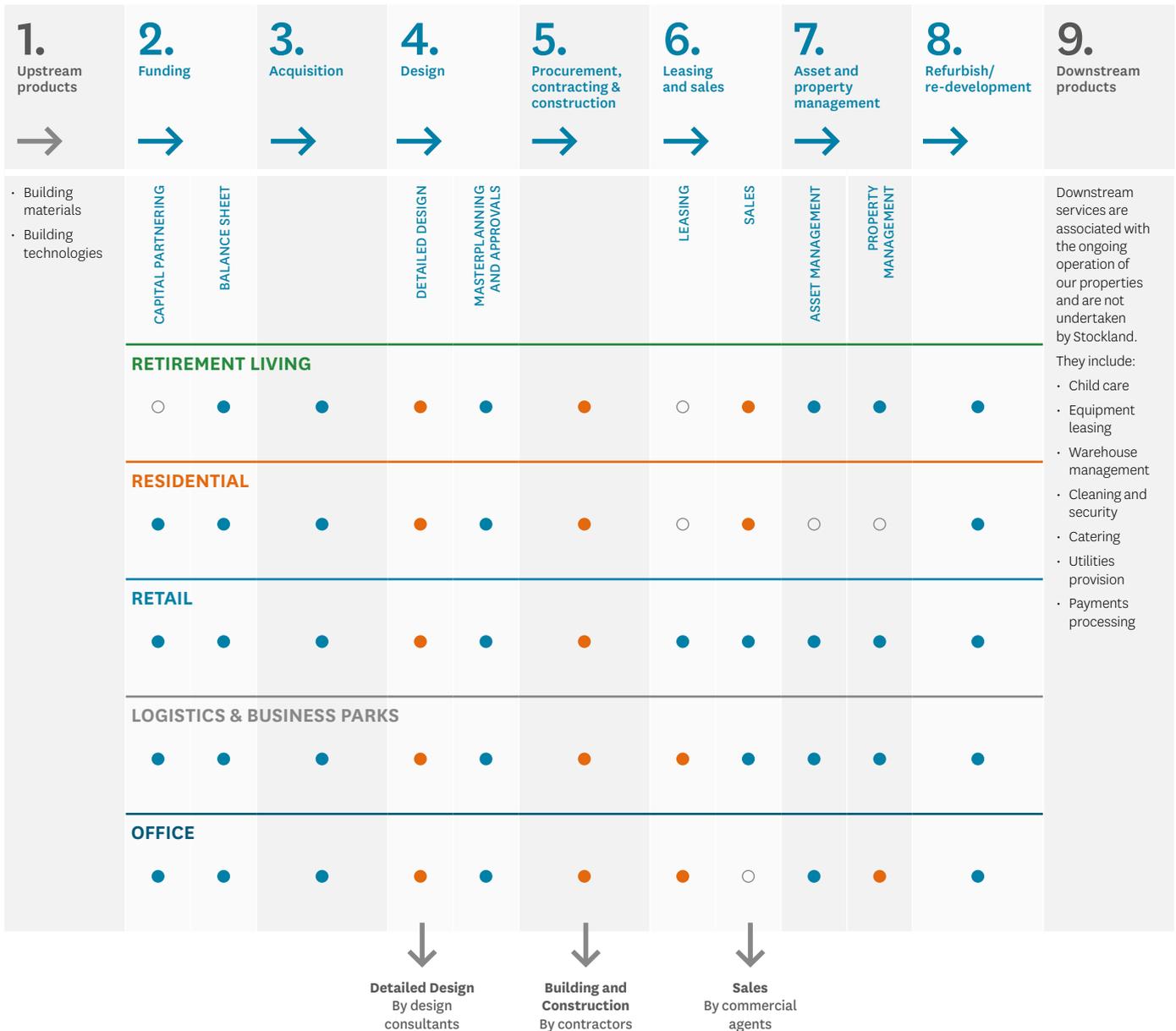


For more information see our Property Portfolio [www.stockland.com.au/property-portfolio](http://www.stockland.com.au/property-portfolio)

# Our value chain

This diagram demonstrates what we control and influence across the value chain.

- Currently undertaken by Stockland
- Currently undertaken by Stockland or coordinated using external parties
- Not currently undertaken by Stockland



# Stakeholder engagement

**We have a commitment to developing and maintaining strong relationships with a broad range of stakeholders across our diverse business and understanding and responding to their unique perceptions, needs and concerns. We practice open, honest, two-way communication and recognise the mutual benefits that result from genuine engagement for both our business and our stakeholders.**

At Stockland, we recognise the importance of engaging regularly and directly with all our stakeholder groups so that we understand their expectations, issues and concerns.

Our key stakeholders	How we engage
<b>Employees</b> We have 1,690 employees in Australia.	<p>Our annual Our Voice employee survey measures employee engagement across the organisation. Employees are also provided with opportunities to provide feedback on specific issues throughout the year. Our intranet, stockXchange, is a key source of business news, activities and policies, and is updated each business day.</p> <p>Our annual roadshows provide an opportunity for our Executive Committee to interact with employees in each capital city where we operate and provide an update on our strategy and performance.</p> <p>For more information on our engagement with employees refer to our <i>Employee Engagement, Development, Diversity and Inclusion Deep Dive</i>.</p>
<b>Government and regulators</b> Federal, state and local governments set the regulatory environment in which we operate.	<p>We engage regularly with all levels of government in New South Wales, Victoria, Queensland, Western Australia, South Australia and the Australian Capital Territory, both directly and through industry associations. We also engage with the federal government.</p> <p>For more information on our engagement with government and regulators refer to our <i>Stakeholder Engagement Deep Dive</i>.</p>
<b>Securityholders and the investment community</b> We have over 52,000 securityholders in Australia and overseas.	<p>We provide investor briefings on our strategy and financial results. At our Annual General Meeting, retail securityholders can engage with our Board of Directors and are updated on our strategy and performance. Our management also meet regularly with institutional investors.</p> <p>For more information on our engagement with securityholders and investors refer to our <i>Stakeholder Engagement Deep Dive</i>.</p>
<b>Customers</b> We have daily contact with a diverse range of customers, including commercial, retail and logistics tenants, shoppers in retail town centres, our residential community customers and residents in our retirement villages.	<p>We regularly seek feedback from customers through surveys and research, and we incorporate feedback into our product design and service offerings.</p> <p>Customer Relations Management Systems are in place across all of our businesses to support regular, effective and responsive engagement with our customers.</p> <p>For more information on our engagement with our customers refer to our <i>Customer Engagement Deep Dive</i>.</p>
<b>Suppliers</b> We procure services and products from over 3,600 active suppliers with the top 100 suppliers representing approximately 75 per cent of our spend.	<p>Spend associated with the development of our assets accounts for approximately 80% of our annual direct procurement spend, with operational and corporate procurement each representing approximately 10% of annual procured spend.</p> <p>We actively monitor and engage with our suppliers. Our strategic suppliers (predominantly involved in the development and construction of our assets) are prequalified to ensure they have the ability to meet general and project-specific sustainability and quality requirements. This involves an assessment of the occupational health and safety systems, financial viability and the environmental, social and sustainability capabilities of suppliers.</p> <p>For more information on our engagement with suppliers refer to our <i>Supply Chain Deep Dive</i>.</p>
<b>Communities</b> The people who reside, work or engage in the areas where we operate.	<p>Our engagement with communities includes community and consultation forums, one-on-one meetings with community groups and local leaders, as well as surveys and research.</p> <p>For more information on our engagement with communities refer to our <i>Community Deep Dive</i>.</p>
<b>Media</b> We interact with journalists across a wide spectrum of local, regional, metropolitan and national print and electronic media outlets.	<p>We regularly engage with the media to provide information about our business that supports clearer and more accurate reporting.</p> <p>We aim to respond promptly to requests for information about our business activities.</p> <p>For more information on our engagement with media refer to our <i>Stakeholder Engagement Deep Dive</i>.</p>



For more information see our [Stakeholder Engagement Deep Dive](#)

# Our strategy

## MAXIMISE RETURNS THROUGH COMMUNITY CREATION

We have three strategic focus areas:

### Grow asset returns and provide great customer experiences

Driving returns in our core businesses by creating liveable, affordable and connected communities, future proofing our retail town centres and retirement villages, and growing our workplace and logistics portfolio organically

### Operational excellence

Improving the way we operate across the Group to drive efficiencies, compliance, sustainability and employee engagement

### Capital strength

Actively managing our balance sheet to maintain diverse funding sources and an efficient cost of capital



## OUR SUSTAINABILITY STRATEGY – CREATING SHARED VALUE

Our sustainability strategy integrates with our business strategy and priorities, providing a better way to deliver shared value for all stakeholders. We have three core sustainability priorities:

- Shape Thriving Communities
- Optimise and Innovate
- Enrich Our Value Chain.

Each sustainability priority is pursued through action in several focus areas. We explore our sustainability priorities and focus areas throughout this review.



# Responding to our challenges and opportunities

**Stockland adopts a rigorous approach to understanding and proactively managing the risks faced in the business.**

We recognise that making business decisions that involve calculated risks, and managing these risks within sensible tolerances, is fundamental to creating long-term value for securityholders and meeting commitments to our employees, tenants, customers, business partners,

consultants and the communities in which we do business.

There are various risks that could impact our business. The nature and potential impact of these risks change over time. Our risks include but are not limited to:

## SHORT TERM – STRATEGY EXECUTION

**Change within the retail sector impacts retail operating models**

The retail landscape is constantly evolving. Within the last 10 years the sector has seen a convergence of technological advances, in particular e-commerce, the entry of new, international retailers and changes in underlying consumer behaviour. These changes have challenged some of our retailers. We have been proactive and have pre-empted many of the changes and will continue to:

- remix our assets with a focus on experiential retail, food catering and retail services including beauty and health service providers
- redevelop our assets to create diverse, walkable town centres that form the social hub of the community
- leverage deep customer insights and analytics to inform our tenant remixing and centre design
- divest non-core assets subject to market conditions.

**Housing affordability continues to impact the dynamics of the Australian housing market**

Our Residential business is influenced by the dynamics of the Australian housing market. Housing affordability remains of key concern for Australians. We consider a suite of measures is required to unlock housing supply and address affordability, including early planning and delivery of infrastructure, and simplified development controls to enable housing diversity. To address affordability, we will continue to:

- partner with government and industry to drive solutions
- provide a broader mix of value for money housing options
- balance the demand from home owners and investors so our residential communities remain attractive to buyers
- improve efficiency across the business and manage costs while investigating alternative building methods and build-to-rent models
- address what our customers want by providing a strong community value proposition.

**Regulatory and policy changes impact our business and customers**

Substantial policy reform presents both opportunities and potential impacts for our business and customers. Planning, infrastructure and tax reform remain key policy areas where we will continue to engage with industry and government. We will also continue to:

- focus our development activity in areas where governments support growth
- drive leadership in areas including the retirement living sector, housing affordability and energy policy through proactive initiatives and engagement
- create developments in line with best practices to garner support from governments and community and prepare for potential regulatory changes.

**Ability to harness digital business opportunities to remain competitive**

To remain competitive, we must continually assess and leverage digital innovation. This includes facilitating a connected and agile workforce, more efficient business and supply chain processes, and digital lead nurturing and customer-centric innovation.

In March, the executive level position, Chief Technology and Innovation Officer, was created to enhance our ability to progress commercial outcomes from innovation projects.

To remain competitive, we will also continue to execute our Information Technology strategy with a focus on long-term strategic investment, and the identification and integration of technical enhancements across the business. This includes developing online residential and retirement living engagement opportunities, improved development and management processes and e-enabled retail town centres.

**Security risks and unexpected market events impact business continuity and community resilience**

The safety of our customers and employees is a key priority. Managing their safety and the resilience of the communities in which we operate is becoming increasingly complex. This includes safety and security risks associated with terrorism, cyber threats and extreme weather events.

To make our business more resilient we will continue to:

- train our employees and increase their risk awareness
- undertake regular scenario testing
- engage with peers and across industries
- invest in asset upgrades and adapt community design to improve resilience
- actively manage our corporate insurance program.

We also have strategies in place for unexpected market events that may impact business continuity such as potential volatility within our supply chain and energy price shocks.

## LONGER TERM – CHANGING MARKETPLACE

Climate change impacts our assets, operations and the broader community

Extreme weather and other climate change related events have the potential to damage our assets, disrupt operations and impact the health and wellbeing of our customers and communities.

We are committed to creating climate resilient assets that operate with minimal disruption in the event of increased climate events, as well as building strong communities that are equipped to adapt to climate change risks and opportunities. To do this, we will continue to:

- assess our portfolio for climate and community resilience and implement action plans
- embed climate resilience within our standard asset risk assessments
- evolve our scenario analysis over time.

To further demonstrate our commitment to climate action and best practice disclosure we were an early adopter of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Our response is detailed on page 19 of the Annual Report.

Ability to develop products and deliver experiences that meet future customer and societal demands

Our ability to develop products that meet anticipated future customer and societal demands is crucial to the sustainability of our business, particularly considering Australia's changing demographics, including an aging population and more socially conscious millennials.

We will remain focused on:

- customer choice including diverse housing products and offering retirement living contract options
- evolving our market leading product innovation and deepen our customer insights using our proprietary Liveability Index research, Stockland Exchange (our online research community), Quantum (which provides data-driven customer insights to inform how we view markets and opportunities) and other data sources
- enhancing our design excellence, providing greater functionality and value for money that meets the demands of Australia's changing demographics
- creating sustainable and liveable communities and assets, resilient to change in climate.

Capital market volatility impacts our ability to transact and access suitable capital

Our long-term growth is dependent on our ability to access capital at the appropriate time and cost as capital markets fluctuate in response to domestic and global economic shifts. Variable economic activity and changing capitalisation rates may impact the valuation of our assets and our ability to access capital.

So that we can continue to raise sufficient capital to fund growth, we will continue to:

- focus on retaining a strong balance sheet at appropriate levels of gearing
- maintain and increase access to diverse funding sources
- maintain our prudent capital management policies
- recycle capital from divested non-core assets.

Increasing expectations on organisations from the community

Community expectations on the social and behavioural operations of a "good corporate" are changing. Corporates are increasingly expected to work in partnership with the community and government on societal issues.

Corporate leaders are also expected to create a positive corporate culture by shaping business outcomes through a system of beliefs, values and behaviours and a focus on customers.

We are well placed to meet these expectations and have a strong reputation for sustainability leadership and community development. We use a variety of tools to assess the health of our culture including our annual employee engagement survey to capture employee feedback and our Stockland Leadership Experience to build leaders that align with our values.

Ability to meet the changing nature of workforce to attract, engage and retain employees

The ability to attract, engage and retain our employees is critical to our overall business performance. Similar to customer experience, employee experience is becoming increasingly important. Employees expect a work environment that enables greater flexibility in both where and how they work.

We are focused on how we actively set employees up for success and will continue to:

- improve our systems and processes to provide more efficient ways to work
- encourage flexible work practices supported by our new collaboration platforms
- train our senior leaders to be more agile and resilient through programs such as our Stockland Leadership Experience.

# Grow asset returns and our customer base

*Driving returns in our core businesses by creating liveable, affordable and connected communities, future proofing our retail town centres and retirement villages, and growing our workplace and logistics portfolio organically*



# Our business unit results

## PRIORITIES AND PERFORMANCE OVERVIEW

### COMMUNITIES

#### Residential

##### OPERATING PROFIT

↑24.3%

##### OPERATING PROFIT MARGIN

18.3%

##### RETURN ON ASSETS (CORE)

22.0%

##### RESIDENT SATISFACTION

93%

### COMMUNITIES

#### Retirement Living

##### OPERATING PROFIT

↓16.7%

##### CASH RETURN ON ASSETS

4.6%

##### RESIDENT SATISFACTION

90%

### COMMERCIAL PROPERTY

#### Retail Town Centres Workplace and Logistics

##### FUNDS FROM OPERATION (FFO)

↑2.3%

growth in comparable FFO across our Commercial Property portfolio

##### RETAIL TENANT SATISFACTION

72% rated Top 2

##### WORKPLACE AND LOGISTICS TENANT SATISFACTION

89%

##### OCCUPANCY

99.4%

across Retail Town Centre portfolio

##### OCCUPANCY

98.7%

across Logistics portfolio

## RESIDENTIAL COMMUNITIES

(\$M, unless otherwise stated)	FY18	FY17	Change
Lots settled (lots)	6,438	6,604	2.5% ↓
Revenue	1,830	1,767	3.5% ↑
– Including superlot revenue <sup>1</sup>	58	91	36.6% ↓
EBIT (before interest in COGS)	435	412	5.6% ↑
EBIT margin	23.8%	23.3%	↑
Operating profit (FFO) <sup>2</sup>	336	270	24.3% ↑
Operating profit margin	18.3%	15.3%	↑
ROA – core portfolio <sup>3</sup>	22.0%	20.8%	↑
ROA – total portfolio	20.4%	15.2%	↑

1 30 superlot settlements in FY18; 44 superlot settlements in FY17.

2 Operating profit is equal to FFO for the Residential business.

3 Core excludes impaired projects.

## RETIREMENT LIVING COMMUNITIES

(\$M, unless otherwise stated)	FY18	FY17	Change
EBIT	56	69	19.4% ↓
Operating profit (FFO) <sup>1</sup>	53	63	16.7% ↓
Occupancy	95.0%	95.0%	
Cash ROA	4.6%	6.2%	↓
<b>Established</b>			
– Established settlements (units)	618	731	15.5% ↓
– Withheld settlements (units) <sup>2</sup>	73	49	49.0% ↑
<b>Total settlements (units)</b>	<b>691</b>	<b>780</b>	<b>11.4% ↓</b>
Average re-sale price	\$356k	\$339k	4.9% ↑
Turnover cash per unit	\$89k	\$86k	3.6% ↑
Turnover cash margin	25.1%	25.4%	↓
Reservations on hand (units)	121	128	5.5% ↓
<b>Development</b>			
Average price per unit	\$504k	\$539k	6.3% ↓
Average margin – excludes Deferred Management Fee (DMF)	20.2%	19.1%	↑
Development settlements (units)	163	270	39.6% ↓
Reservations on hand (units)	98	58	69.0% ↑

1 Operating profit is equal to FFO for the Retirement Living business.

2 Typically associated with brownfield developments like Cardinal Freeman.

## COMMERCIAL PROPERTY

(\$M, unless otherwise stated)	Funds from operations			Comparable growth
	FY18	FY17	Change	
• Retail Town Centres	428	419	2.2% ↑	1.3% ↑
• Logistics	152	143	6.2% ↑	6.0% ↑
• Workplace	54	59	9.6% ↓	2.0% ↓
Trading profit	1	5		
Net overheads	(21)	(18)		
<b>Total Commercial Property</b>	<b>614</b>	<b>608</b>	<b>0.9% ↑</b>	<b>2.3% ↑</b>
<b>Return on assets (ROA)</b>	<b>7.8%</b>	<b>8.1%</b>		

# Residential



**Maximise returns  
by creating thriving  
communities**

OPERATING PROFIT

**\$336m** ↑24.3%



The Residential business delivered strong profit growth, up 24.3 per cent from FY17, with solid volumes of net deposits from high margin Sydney and Melbourne projects providing high profit visibility for the year ahead.

We recorded settlements of 6,438 lots, with a number of successful project launches in Victoria and Queensland – Grandview, Mt Atkinson, Waterlea, Promenade and Kalina – and the success of our existing communities at locations like Willowdale and Elara in Sydney, and Highlands and Cloverton in Victoria, contributing solid sales.

This result and the strong position we are in for FY19 and beyond reflects good sales levels despite moderating overall market conditions with 5,478 contacts on hand as at 30 June 2018. The quality of our masterplanned communities which offer high amenity, affordability and strong connections, with many close to heavy rail, is driving increased market share, up over 3 per cent to 14.5 per cent, and velocity of sales.

We are the leading creator of communities in Australia with our Residential and Retirement Living businesses providing customers with whole-of-life housing options in liveable locations with close proximity to transport, retail and services, education and employment.

We remain well positioned in the deepest part of the lending market, with over 75 per cent of our product now sold to owner occupiers and continued demand for our range of affordable house and land and townhome product.

Finance availability has had a moderating effect on the housing market, but our focus on differentiated masterplanned community creation and housing affordability leaves us well placed in this environment. We have strong pre-sales, low cancellation rates and a continued focus on delivering product to a majority owner occupier market at affordable price points.

In FY19, we expect to deliver over 6,000 residential settlements with future profit growth to be delivered through more townhome settlements and strong operating profit margins, subject to market conditions. We anticipate residential profit margins to remain around 18 per cent in FY19 and 17 per cent over the medium term.

Our business will continue to benefit from price growth realised in the Sydney and Melbourne markets over recent years, affordability, strong housing demand and supply fundamentals and increasing medium density settlements.

## STRATEGIC PRIORITIES

The Residential business is making good progress on its plans to make the portfolio more resilient and profitable in the future by continuing to focus on:

- 1. Reshaping the portfolio**  
Actively manage the portfolio to increase the velocity of capital, improve returns and maintain an optimal pipeline with a preference to acquire land on capital efficient terms. We continue to make good progress in activating our land through the launch of new projects.
- 2. Broaden our market reach**  
Increase revenue by creating a better community value proposition that drives high customer referrals and broaden market reach through a medium density/built form offering.
- 3. Improving efficiency**  
Continue to manage costs by maintaining strong contractor relationships and closely managing tender processes.

### STRONG DEMAND FOR AFFORDABLE, LIVEABLE COMMUNITIES

**+6,400**

lots settled in FY18

**75%**

of purchasers were owner occupiers

**50%**

of purchasers were first home buyers

**+350**

Townhomes settled in FY18



# Retirement Living



## Leading operator and developer



Operating profit in Retirement Living was down 16.7 per cent on FY17, with sales volumes impacted by adverse sector media coverage and reduced settlements due to the timing of development completions. We are seeing some positive sales momentum in our Retirement Living business. Q4 sales are up 14.9 per cent on the FY17 corresponding quarter, underpinned by our ongoing commitment to improve contract choice, village quality and providing broader services to our residents.

The retiree market is responding well to investment in our existing villages and new developments in masterplanned communities, like Mernda Retirement Village in Melbourne and Willowdale in Sydney.

We've continued to improve our customer offer with Benefits Plus home care partnerships and the rollout of new contract choices, 'Capital Share' and 'Peace of Mind', with the latter placing a cap on the deferred management fee (DMF) and secures the exit value for incoming residents. We have also had success with 'Aspire', a new product for downsizing Australians who purchase their home and land outright under community title.



Mernda Retirement Village, Vic

We finished FY18 by entering a project development agreement for a new vertical village in Epping, Sydney, and we continue to explore opportunities to sell non-core assets to recycle capital in our development pipeline, which is on track to deliver a number of completions before the end of the year.

We expect improvement in retirement living market conditions in 1H19 given improving customer sentiment and sales velocity.

### STRATEGIC PRIORITIES

The business remains focused on being a preferred operator and developer of retirement living villages by creating high quality retirement villages in Australia. The business has a clear strategy to continue to improve its return on assets by:

1. differentiating the customer experience through access to a range of resident care and other services
2. actively managing the portfolio
3. growing development volumes
4. divesting non-core villages.

### ENHANCING CUSTOMER CHOICE

Contract Choice

Home Care Partnerships

Non-DMF Aspire Product





# Retail Town Centres

Create market leading retail town centres



The Retail Town Centre business saw some positive improvements in FY18 with comparable specialty sales up by 4.2 per cent, to \$9,378 per square metre and total MAT up by 3.4 per cent with strong growth in resilient categories such as retail services.

Comparable Retail Town Centre FFO growth was 1.3 per cent over the year, impacted by higher outgoings and retail remixing. The overall success of our remixing strategy is beginning to be reflected in higher retail sales growth, which has continued to improve over the year.

This precinct remixing strategy continues to attract more customers into our centres with foot traffic up 2.5 per cent and will help ensure income resilience into the future. Income from growth categories including food, dining, leisure, cinemas and services now represents 41 per cent of our specialty store income.

We continue to focus on improving customer experience to ensure that our Retail Town Centres provide the services and lifestyle options customers are seeking in this changing retail environment.

The \$421 million redevelopment and launch of the new Stockland Green Hills (NSW) retail town centre is a prime example of



our ability to successfully upgrade and reposition our assets, to future proof them and deliver accretive returns.

Following the official opening of Stockland Green Hills in March this year, total like for like MAT is up 5.7 per cent. The stabilised initial yield on development is estimated to be 7 per cent and the IRR around 12 per cent.

We also completed the \$37 million redevelopment of Stockland Wendouree (Vic) in June, targeting an IRR of 13.8 per cent and stabilised FFO yield of 7.2 per cent, and continue on schedule with the first stage of the \$86 million Stockland Birtinya greenfield town centre development on the Sunshine Coast, part of our \$830 million Oceanside masterplanned community.

## STRATEGIC PRIORITIES

The Retail business maintains its focus on creating market leading town centres by providing the services and lifestyle options to enhance the customer experience at our centres. We continue to remix our centres to create leading community and entertainment hubs and maximise trade area market share.

Our retail mix continues to evolve, underpinned by supermarkets, mini majors, food catering, fast casual dining, specialty food, entertainment, targeted apparel, health and services.

We will continue to focus on tailoring our offering to each specific trade area, cultivating retailer relationships and long-term sustainable rent, and invest in industry research and technology to adapt to an evolving retail landscape.

We have completed around \$200 million of divestments and are targeting up to an additional \$400 million of divestments over the next 12-24 months.

**OUR RETAIL TOWN CENTRE STRATEGY**

**Our objective**

**Metro markets:**  
Unique, convenient destinations

**Regional markets:**  
Leading destinations

**Our focus**

- Community
- Convenient
- Curated to our customers

**We create community places**

"It's your place."

# Workplace and Logistics



*Grow and develop a leading portfolio*

LOGISTICS

FUNDS FROM OPERATIONS

**\$152m** ↑6.2%  
Comparable FFO ↑6.0%

WORKPLACE

FUNDS FROM OPERATIONS

**\$54m** ↓9.6%  
Comparable FFO ↓2.0%



STRATEGIC PRIORITIES

Our focus is on growing and developing a market leading portfolio of logistics and workplace properties to greater than 25 per cent of our total assets. The growth of this portfolio will primarily be through delivery of our existing development pipeline, on land we already control, targeting incremental IRRs of 9 plus per cent and stabilised FFO yields of 7 plus per cent.

We are developing a market leading portfolio of logistics centres by leveraging our existing communities and land, strong tenant relationships and asset management skills to become a scale player in this market.

We will continue to focus on optimising the returns of our workplace portfolio. Our portfolio is now predominantly located in Sydney and we will continue to assess development opportunities.

We have combined logistics, business parks and office into Workplace and Logistics to simplify our operating structure and increase the focus on growth.

High occupancy was maintained across the logistics portfolio, with a robust leasing performance in Sydney and Melbourne, overall 324,400 square metres of space was leased over the period.

Our workplace assets are largely located in the strongly performing Sydney market. Post balance date, we completed the sale of our non-core Canberra office asset for consideration of \$24 million.

Our logistics developments continue to progress very well. The successful delivery of the \$77 million Coopers Paddock Logistics Centre in Warwick Farm this period, which is fully leased and saw a 23.7 per cent

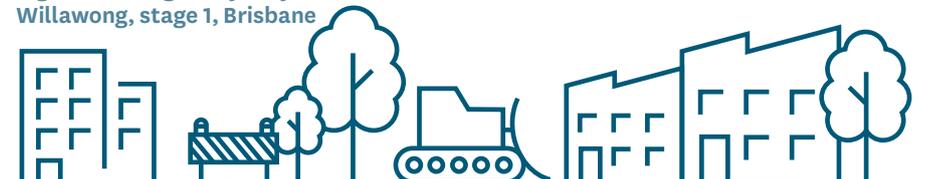
increase in valuation on completion, reflects the success of our focus on growing this portfolio. This project has achieved an initial yield of 7.3 per cent and is expected to reflect an IRR of 10.7 per cent.

We are focused on executing the \$600 million development program on land we control and have lodged a development approval to redevelop Macquarie Technology Park, Sydney, with a masterplan vision for a \$500 million state-of-the-art technology hub to cater to workers of the future.

STRONG WORKPLACE AND LOGISTICS DEVELOPMENT PIPELINE

**\$99m**  
\$99 million under construction  
Yennora, Sydney  
Ingleburn, stage 2, Sydney  
Willawong, stage 1, Brisbane

**\$600m**  
\$600 million in the future development pipeline



# Capital strength

*Actively managing our balance sheet to maintain diverse funding sources and an efficient cost of capital.*



# Our progress

## PRIORITIES AND PROGRESS OVERVIEW

### STRATEGIC PRIORITIES

- Maintain a strong balance sheet to support future growth
- Maintain diverse funding sources
- Maintain disciplined capital allocation

### FY18 PROGRESS

- Maintained S&P A-/stable credit rating for 17 years and Moody's credit rating of A3
- 22.2% gearing remains within our target range of 20–30%
- Reduced average cost of debt to 5.2% for FY18
- Increased our access to diverse funding sources
- 66% of land payments made relate to land purchased on capital efficient terms

We maintained our focus on prudent balance sheet management, continuing to utilise diverse funding sources throughout the year. During the current year Stockland repaid USD 204 million (\$311 million) of notes that were issued in the US private placement market. In January 2018 new US private placement notes equivalent to \$286 million were issued with tranches of between 10 and 15 years. In addition, a \$478 million Euro bond and a \$51 million Asian bond were executed in the year to replace maturing US private placement facilities. The new notes were issued at a competitive rate and demonstrate continued strong support from debt investors and acknowledgement of our robust credit profile. Our gearing level decreased marginally to 22.2 per cent at 30 June 2018 (FY17: 22.7 per cent). Gearing remains within our target range of 20–30 per cent and we retained our A-/Stable credit rating from S&P and obtained an A3 rating from Moody's (equivalent to S&P's A-).

We manage our exposure to financial markets, including movements in foreign exchange rates and interest rates, through the use of derivative financial instruments in order to provide greater certainty over future financing costs, taking advantage in particular of the current historically low interest rate environment. Through actively managing our debt portfolio and hedging positions, the fixed/hedge ratio is now back within our target range at 95 per cent (June 2017: 109 per cent) and we continue to look for opportunities to lock in favourable rates for the Group going forward. The weighted average cost of debt for the year has

decreased to 5.2 per cent (FY17: 5.5 per cent) as we draw down on new lower cost debt and older, higher cost hedges continue to expire. We have extended our weighted average debt maturity further to 6.2 years (from 5.5 years as at 30 June 2017) as we continue to take advantage of our ability to source longer dated funding across a variety of debt capital markets.

Interest cover has remained stable at 4.8 : 1 (30 June 2017: 4.8 : 1).

The value of the Commercial Property investment portfolio has increased by \$344 million to \$10,599 million primarily due to net valuation uplift (up \$143 million including equity-accounted joint venture investments) and capital and development expenditure of \$421 million, partially offset by the \$172 million of disposals including 77 Pacific Highway (NSW) and Stockland Wallsend (NSW).

Valuations for the Retail Town Centre portfolio were mixed, with a net \$61 million reduction. This is primarily due to more conservative rental growth assumptions and capitalisation rate expansion at some of our non-metropolitan retail town centres, particularly in central and north Queensland where economic conditions remain soft. Our Logistics and Workplace portfolios delivered valuation gains of \$117 million and \$83 million respectively during the period driven by rental growth and continued capitalisation rate compression across several assets. Valuation gains across the portfolio saw our weighted average capitalisation rate reduce marginally from 6.2 per cent to 6.0 per cent.

### BALANCE SHEET

(\$M)	FY18	FY17	Change %
Cash	333	238	39.9% ↑
Real estate assets: <sup>1</sup>			
• Commercial Property	10,599	10,255	3.4% ↑
• Residential	3,432	2,453	39.9% ↑
• Retirement Living	4,167	3,848	8.3% ↑
Other assets	760	701	8.4% ↑
<b>Total assets</b>	<b>19,291</b>	<b>17,495</b>	
Interest bearing loans and borrowings	3,938	3,529	11.6% ↑
Retirement Living resident obligations	2,741	2,629	4.3% ↑
Other liabilities	2,236	1,410	58.6% ↑
<b>Total liabilities</b>	<b>8,915</b>	<b>7,568</b>	
<b>Net assets/total equity</b>	<b>10,376</b>	<b>9,927</b>	<b>4.5%</b>

<sup>1</sup> Includes non-current assets held for sale, inventory, investment properties, equity-accounted investments and certain other assets.

The increase in capital and development expenditure predominantly reflects continued investment in the Logistics development pipeline including the redevelopment of Willawong (Qld), Ingleburn (NSW) and Yennora (NSW).

Residential assets, which represent mainly land under development, increased to \$3,432 million at 30 June 2018 as we successfully re-stocked our portfolio through land acquisitions including land previously acquired on capital efficient terms settled during the year and new capital efficient acquisitions entered into during the year.

New capital efficient acquisitions in FY18 were made through put and call options, whereby an asset and a corresponding liability included within other liabilities, relating to future payments for this land which results in a nil Net Funds Employed impact until some future point if and when the options are exercised. By way of example, the 2018 operating cash flows include cash payments for land acquisitions 66 per cent of which had been bought under capital efficient terms, in locations which have seen strong capital appreciation in the time since the original contract was signed. In the same way, a large portion of the options booked this year relate to the Sydney market, which remains fundamentally undersupplied for new housing land. This includes a contract for land at Marsden Park (NSW) signed in December 2017, payments for which will only commence in 2020 and under the option agreement extend out as far as 2024.

We maintained a disciplined approach to development expenditure and finished goods levels remain appropriate. Excluding acquisitions, the underlying asset value of Residential has fallen, because of the significant settlements of 6,438 recorded during the year.

The value of the Retirement Living real estate related assets, net of resident obligations, was \$1,426 million, an increase of \$207 million from June 2017. This primarily reflects capital expenditure on the development pipeline at Birtinya (Qld), The Residences – Cardinal Freeman (NSW) and Willowdale (NSW), fair value uplift on the Retirement Living portfolio, partly offset by an increase in resident loan obligations created on first sales of development units.

Total debt increased by \$409 million to \$3,938 million at 30 June 2018 as a result of increased operating activity during the year funded by the drawing down of bank debt.

New US private placement notes equivalent to \$286 million were issued with tranches of between 10 and 15 years. In addition, a \$478 million Euro bond and a \$51 million Asian bond were executed in the year to replace maturing US private placement facilities. The new notes which broaden our funding sources were issued at a competitive rate and demonstrate continued strong support from debt investors and acknowledgement of our robust credit profile. During the year, Stockland repaid USD 204 million (\$311 million) US private placement notes on maturity.

#### CASH FLOWS

(\$M)	FY18	FY17	Change %
Operating cash flows (excluding payments for land)	1,224	1,204	1.7% ↑
Payments for land	(496)	(283)	75.3% ↑
Investing cash flows	(426)	(380)	12.1% ↑
Financing cash flows	(207)	(511)	59.5% ↓
<b>Net change in cash and cash equivalents</b>	<b>95</b>	<b>30</b>	
Cash at the end of the period	333	238	

Net operating cash inflows (excluding payments for land) increased as a result of \$81 million higher property development sales revenue. Despite 166 fewer residential lots settled compared to FY17, the average price per lot increased due to a change in product mix to NSW and Qld. In addition, \$50 million was received relating to deferred settlements, offset by \$91 million lower net receipts from Retirement Living residents due to lower turnover events.

Payments for land have increased significantly driven by deferred settlement payments for acquisitions made in previous years and a number of payments relating to strategic acquisitions to restock the portfolio. These capital efficient purchases are expected to deliver strong profit margins given capital growth since contract signing.

Net cash outflows from investing activities reflect our continued commitment to growing our asset base and mainly comprises payments for and development of Commercial Property investment property assets of \$463 million, with the largest individual contribution relating

to development at Green Hills. Investment in Retirement Living totalled \$213 million with main villages including Cardinal Freeman (NSW), Willowdale (NSW) and Birtinya (Qld). Investing cash inflows includes \$25 million return of capital received from our investment in BGP (FY17: \$71 million final dividend from BGP) together with proceeds from sale of investment properties of \$278 million (FY17: \$74 million). A further \$65 million of contracted investment property sales is due to complete post year end.

Net financing cash flows reflect the net proceeds from borrowings to fund acquisitions and development expenditure, offset by dividends and distributions paid during the year.

#### EQUITY

##### Distribution/Dividend Reinvestment Plan (DRP)

In the current year, Stockland issued 16,069,134 securities (FY17: 26,357,840) under the DRP. The DRP security price for the 30 June 2017 distribution was determined by the average of the daily volume weighted averages over a 15-day trading period and applying a 1.0 per cent discount.

On 21 February 2018 we announced the suspension of the DRP in respect of the half year distribution for the six months ended 31 December 2017. On 22 May 2018 we announced the continued suspension of the DRP in respect of the 30 June 2018 distribution. On 23 August 2018 we announced the termination of the DRP.

#### DISTRIBUTIONS

The dividend and distribution payable for the year ended 30 June 2018 is 26.5 cents per security. Our distribution policy is to pay the higher of 100 per cent of Trust taxable income or 75–85 per cent of FFO.

The distribution for the year comprises:

Stockland (cents)	FY18	FY17
Corporation dividend, fully franked	–	–
Trust distribution	26.5	25.5
<b>Total dividend/distribution</b>	<b>26.5</b>	<b>25.5</b>

Registers closed at 5.00pm (AEST) on 29 June 2018 to determine entitlement to the year end dividend/distribution, which were paid on 31 August 2018.



For more information please see our Annual Report 2018 [www.stockland.com.au/corporate-reporting/downloads](http://www.stockland.com.au/corporate-reporting/downloads)

# Our progress

## CASE STUDY

# Tax strategy – our approach to tax

Stockland's tax strategy is to conduct all its tax affairs in a transparent, equitable and commercially responsible manner, whilst having full regard to all relevant tax laws, regulations and tax governance processes, to demonstrate good corporate citizenship.

Consistent with the Board approved low tax risk appetite, Stockland maintains a low tax risk profile to ensure we remain a sustainable business and an attractive investment proposition, in both the short and long term.

### TAX CONTROL AND GOVERNANCE POLICY FRAMEWORK

Stockland maintains a Tax Control and Governance Framework (TCGF), reviewed and approved by our Board Audit Committee, which outlines the principles governing Stockland's tax strategy and risk management policy.

Our Tax Control and Governance Framework is consistent with the guidelines published by the Australian Taxation Office (ATO) regarding tax risk management and governance processes for large business taxpayers.

We undertake periodic reviews of the TCGF to test the robustness of the design of the framework against ATO benchmarks and to demonstrate the operating effectiveness of internal controls to stakeholders.

The key principles of our TCGF are summarised as follows:

- A tax strategy that ensures all tax affairs are conducted in a transparent, equitable and commercially responsible manner, whilst having full regard to all relevant tax laws, regulations and tax governance processes, to demonstrate good corporate citizenship;
- A balanced tax risk appetite which is consistent with the Board approved risk appetite, to ensure Stockland remains a sustainable business and a reputable and attractive investment proposition;
- A commitment to engage and maintain relationships with tax authorities which are open, transparent and co-operative, consistent with Stockland's Code of Conduct and Ethical Behaviour policy; and
- An operating and trading business based in Australia, with no strategic intentions of engaging in any tax planning involving the use of offshore entities or low tax jurisdictions.

### VOLUNTARY TAX TRANSPARENCY CODE

As part of Stockland's commitment to tax transparency and demonstrating good corporate citizenship, Stockland has adopted the Australian Federal Government's Voluntary Tax Transparency Code (TTC), which provides a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information.

### Tax Disclosures & Information

For information and detailed reconciliations of Stockland's tax expense, effective tax rate and deferred tax balances please refer to section (B3) in the 2018 Annual Report.

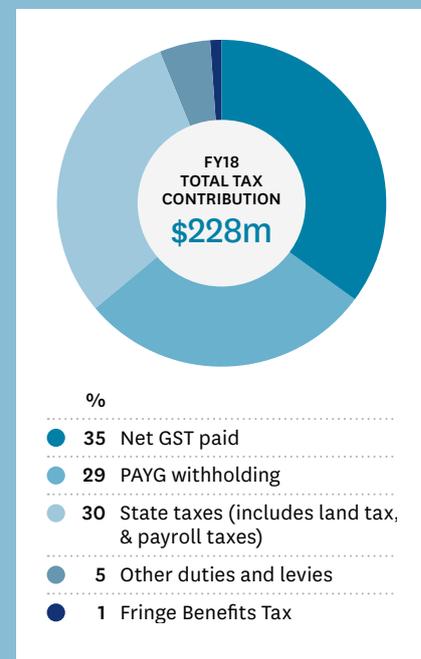
### TAX CONTRIBUTION SUMMARY

As one of Australia's largest diversified real estate groups, which owns, develops and manages commercial property assets, residential and retirement living communities, Stockland contributes to the Australia economy, through the various taxes levied at the federal, state and local government level.

For 2018 these taxes totalled more than \$228 million, and were either borne by Stockland as a cost of our business or collected and remitted as part of our broader contribution to the Australian tax system.

The chart below illustrates the types of taxes which contributed to the taxes paid and/or collected and remitted for the 2018 year:

### TOTAL TAX CONTRIBUTION



# Operational excellence

*Improving the way we operate across the Group to drive efficiencies, compliance, sustainability and employee engagement.*



# Our progress

## PRIORITIES AND PROGRESS OVERVIEW

### STRATEGIC PRIORITIES

- Drive operational efficiency
- Continue to improve technology use and systems
- Strong commitment to safety
- Maintain high employee engagement
- Achieve leading sustainability credentials

### FY18 PROGRESS

#### Operational efficiency

- Streamlined management with gross cost savings of \$8m per annum from FY20

#### Technology and innovation

- Appointed Chief Technology and Innovation Officer
- Progressing our CORE Systems Program

#### Safety

- Reduced our lost time injury frequency rate to 1.6, the lowest rate in seven years

#### Employee engagement

- Improved our employee engagement score to 83%
  - seven points above the Australian norm

#### Sustainability leadership

- Retained our global sustainability leadership credentials

## RESHAPING OUR BUSINESS FOR FUTURE GROWTH

### Innovation and technology

One of the major issues facing all large corporations is the increased pace of innovation and its ability to disrupt growth. We are embracing this challenge and appointed a new executive committee position to focus specifically on our technology and innovation capabilities. In addition to progressing the development of our CORE Systems Program, which will provide digital-ready platforms to increase efficiency and our ability respond to digital opportunities, this role will also focus on enhancing our ability to progress commercial outcomes from innovation projects.

As part of our CORE Systems Program, during the year we completed the delivery and implementation of SuccessFactors (Human Resources module) and are seeing significant efficiency gains including improved employee self-service and access to Human Resources data. Importantly, our employees are recognising improvements being made, with 100 per cent of employees recognising that we are improving systems and processes, and 81 per cent indicating that computer management systems are providing information to help them do their work (an increase of 35 per cent compared to FY17).

We have also enjoyed an overwhelmingly positive response from the community to our announcement of a \$23.5 million solar rollout across ten of our retail town centres (bringing our total investment in solar to \$30 million). This project's excellent return on investment is a great example of the areas where we are enhancing our ability to deliver commercial outcomes from our innovation projects.

### Streamlining our management

In August 2018, we announce the streamlining of our Executive Committee, combining our Residential and Retirement Living business into one integrated business, Stockland Communities, to be led by Andrew Whitson.

We are proud of our position as the leading creator of liveable and affordable residential and retirement living communities across Australia. These changes will ensure we continue to execute on our communities strategy, taking advantage of our integrated model and leveraging capabilities across the group.

The Chief Operating Officer function was also restructured and responsibilities reallocated across the Executive Committee.

In addition to these changes, after 12 successful years at the head of our Commercial Property business, in June 2018 John Schroder ended his time in the role. In his place we welcomed as our new CEO of Commercial Property Louise Mason, who joined us with over 25 years of experience in retail town centres, workplaces and logistics.

The operational synergies and cost savings created through the streamlining of our organisational structure and the introduction of new talent in Commercial Property and Technology and Innovation, will assist in lifting the quality of our retail town centres, growing our workplace and logistics portfolio and driving innovation and digitisation across our business. Overall these initiatives will save gross costs of \$8 million per annum from FY20.

***The introduction of new talent in Commercial Property and Technology and Innovation, will assist in lifting the quality of our retail town centres, growing our workplace and logistics portfolio and driving innovation and digitisation across our business.***

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## **OUR CORPORATE CULTURE**

This year the importance of culture has become front of mind for all boards and executives across Australia as corporate culture dominated media headlines. We remain focused on promoting a strong culture; one concentrated on our customers and ensuring employees are a strong first line of defence for risk management.

### **Our intense focus on our customers**

How we engage with our customers is an important element of our culture. Understanding and responding to our customers' changing needs and improving customer experience is critical to the success of our business. We remain committed to enhancing customer centricity and our engagement with customers at all stages of their journey with Stockland.

We continue to receive high customer satisfaction ratings across our business, with very strong 90 per cent satisfaction results in our residential and retirement living communities and at our logistics assets. Our retail tenants rated us as top two in the industry, however our overall score decreased in line with our peers to 72 per cent, largely due to the challenging retail sales environment.

### **Our strong employee engagement and safety record**

We continue to enjoy a high level of employee engagement, above the Australian National Norm as measured by our annual, independently conducted employee engagement survey, 'Our Voice'. We also recently conducted an internal review of our culture which has identified key strengths that we want to preserve, such as respect, customer focus and engagement, as well as areas for further focus and improvement including encouraging diversity of thought.

## ***The safety of our employees, customers and partners is always paramount. This year, we achieve the lowest lost time injury frequency rate (LTFIR) in seven years***

The Senior Leadership Experience program continues to be our flagship leadership development offering targeted at Senior Managers and General Managers and focusing on those areas of management and leadership we are seeking to enhance. The Senior Leadership Experience program delivers an immersive leadership development experience across inclusive leadership, design thinking, change and wellbeing.

The safety of our employees, customers and partners is always paramount. This year, we achieve the lowest lost time injury frequency rate (LTFIR) in seven years, dropping to 1.6 from 1.8 in FY17, a result of ongoing improvements in employee training and risk awareness.



Stockland Shellharbour, NSW

## Our industry-leading solar rollout

We are continuously improving how we source and use energy throughout our assets. A major focus has been the rollout of 6.4 hectares of solar panels across 10 of our retail town centres; the largest rooftop solar project ever undertaken by a retail landlord in Australia at the time of its announcement. The \$23.5 million investment will see us install more than 39,000 photovoltaic (PV) panels, comparable in size to more than nine football fields, across the roof space on shopping centres including Stockland Merrylands (NSW), Stockland Burleigh Heads (Qld), Stockland Point Cook (Vic) and Stockland Wendouree (Vic).

With the project expected to generate 17.2 GWh of additional renewable energy every year, it will account for 20 to 25 per cent of retailers' baseload and usage, excluding supermarkets and department stores.

We added another three sites to the rollout near the end of FY18. Once complete, the investment will increase our combined retail town centre solar generation capacity to 15.72 MW over 13 sites generating in total 20,000,000 kWh per annum.

Mark Steinert, Managing Director and CEO, said, "Investing in technology such as solar energy is not only environmentally sustainable, it also makes good business sense. Our forecast average yield over a 10 year period is 11.6 per cent on capital invested, generating strong shared value for both our investors and our communities."

The project reaffirms our position as a global leader in sustainability, and provides potential for future participation in the national energy market. It also brings us closer to our target of a 60 per cent carbon intensity reduction for our Retail Town Centre and Workplace assets over the FY06 – FY25 period.

*"Investing in technology such as solar energy is not only environmentally sustainable, it also makes good business sense. Our forecast average yield over a 10 year period is 11.6 per cent on capital invested, generating strong shared value for both our investors and our communities."*

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We are proud to maintain our reputation as an employer of choice with recognition for our leadership in the areas of gender equity and graduate employment from: the Workplace Gender Equality Agency (WGEA) – Gender Equality Employer of Choice for the fourth consecutive year, CoreData – Top 20 Best Australian Workplaces for New Dads, and both the Australian Financial Review and the Australian Association for Graduate Employers as a Top Employer for Graduates for the second consecutive year.

#### SUSTAINABILITY LEADERSHIP

Sustainability also continues to be a key part of our competitive advantage and a strong driver of employee engagement. Our proactive approach to emerging issues across the areas of governance, environmental management and social inclusion and development have kept us at the forefront of corporate sustainability. Pleasingly, we have retained our global sustainability leadership credentials from leading sustainability indices across the globe.

***Our proactive approach to emerging issues across the areas of governance, environmental management and social inclusion and development have kept us at the forefront of corporate sustainability.***

#### Global leadership credentials

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MEMBER OF

### Dow Jones Sustainability Indices

In Collaboration with RobecoSAM 

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Eighth consecutive year in World Down Jones Sustainability Index – Real Estate Top 5

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Only Australian company listed on the Global CDP A-List for climate action

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Global Sector Leader for listed, diversified – Office/Retail

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### “Leading”

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Recognised by Australian Council of Superannuation Investors for our “Leading” sustainability disclosure

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Cloverton Vision Centre, Vic

# Enhancing our customer centricity

Customer focus is a key priority across Stockland, as we engage with our customers to understand their needs, priorities, goals and challenges. We do this through:

- our research community, Stockland Exchange
- conducting customer immersion workshops early in our development process
- Our Stockland Listens customer immersion program.

We set up Stockland Exchange almost five years ago and today we have over 5,500 members who are residents, prospective residents and shoppers. We use this community to reach out to customers and get their feedback on a range of different issues. This provides us with a quick and cost-effective means of engaging with our customers and acting on their feedback. Some examples of how we have used the Stockland Exchange include:

- testing new ideas and initiatives
- voting on community names
- feedback on future parks
- input into future town centres
- positioning of and communication about our communities.

We are increasing our use of customer immersion workshops in our development planning. The workshops involve engaging prospective customers for feedback on our initial design plans, floor plans and marketing which inform early planning and development of our new communities. Different functions across our business interact directly with customers and share insights with the whole project team. In this way, we are better able to identify potential issues early on and put the customer at the heart of our project team's decision-making, ultimately leading to a better outcome.

Stockland Listens was launched this year to make it easier for staff within our Residential business to connect with, listen to, and learn from our customers. Customers attend staff meetings in each state and share their home buying stories.

Listening to their feedback generates ideas from staff on improving the customer experience, which are collected and prioritised by team leaders for implementation. Staff also listen in with our contact centre to hear phone calls and discuss improvement opportunities with front line staff. We are already actioning two major initiatives as a result of Stockland Listens, and have a pipeline of ideas under consideration by our Customer Experience team.

Over 250 of our people have engaged with Stockland Listens to date, and the program will be extended to all business units in FY19 and become part of our normal operating rhythm.



# Optimise and innovate

*We aim to provide business solutions that better serve our customers while reducing our impact on the environment.*



# Our progress

## PRIORITIES AND PROGRESS OVERVIEW

### STRATEGIC PRIORITIES

#### Climate change & energy efficiency

- Reduce emissions, invest in alternative energy supplies, and improve portfolio climate resilience

#### Biodiversity

- Minimise our impact on ecological communities and protected or significant species
- Design our communities to promote connection to nature

#### Water management and quality

- Improve water consumption efficiency and sustainable sourcing
- Deliver projects that minimise water use and positively contribute to local water catchments

#### Waste and materials management

- Reduce, reuse and recycle our waste, minimising our contribution to landfill
- Specify the use of sustainable materials

### FY18 PROGRESS

#### Climate change & energy efficiency

- 5% reduction in carbon intensity of our Commercial Property portfolio (52% reduction since FY06)
- Increased total investment in solar to \$30 million, exceeding 10% return over 10 years

#### Biodiversity

- Rehabilitated 204 hectares of biodiversity, and upon completion 2,202 hectares protected on current residential developments

#### Water management and quality

- Reduced water intensity of our retail town centre and workplace and business park assets by 5% and 11% respectively

#### Waste and materials management

- 89% and 94% waste diversion rates for our Commercial Property developments and Residential developments respectively

One of our sustainability strategy focus areas is to provide business solutions that better serve our customers while reducing our impact on the environment. As one of Australia's largest developers and owners of real estate we have an enduring focus on climate change mitigation and adaptation, eco-efficiency (including energy, water and waste management) and biodiversity management.

### RESILIENT COMMUNITIES AND ASSETS

For the benefit of our stakeholders and society more broadly we are committed to creating climate resilient assets that operate with minimal disruption, as well as building strong communities that are equipped to adapt to climate change risks and opportunities.

We have a comprehensive approach to assessing and managing the physical risks of climate change for both our assets and our local communities, residents and customers. Our approach includes national risk mapping of our portfolio, undertaking climate and community resilience assessments at prioritised assets and implementing action plans based on those assessments.

This year we have extended the coverage of our assessments to any new masterplanned communities, an additional three retirement living villages and several Commercial Property assets. Details of our process and assessment scoring can be found in our Climate Resilience Deep Dive.

To complement our understanding of the physical risks, during the year we undertook scenario analysis including scenarios limiting global warming to below 2°C to enhance our understanding of risks and opportunities associated with the transition to a low carbon economy. Our 2°C scenario analysis confirmed that our existing commitments to energy efficiency and renewable energy are appropriate for leveraging low carbon opportunities. It also enhanced our understanding of risks including land development regulation and climate risk disclosure. More information on our 2°C scenario analysis is provided in the case study on the next page.

### OUR TARGETS

#### Climate and Energy

60% reduction in carbon emissions by FY25 in Commercial Property.

- All new residential and retirement living communities to be designed as 10% more energy efficient than regulatory standards.

#### Water Management and Quality

Retail Town Centres and retirement living villages to reduce water intensity by five per cent, and all new residential communities designed to exceed minimum water efficiency standards by five per cent.

#### Biodiversity

New masterplanned community developments to have an aggregated net positive contribution to biodiversity value by FY20.

#### Waste and Materials

Divert at least 85% of Retail Town Centre development waste from landfill.

Divert at least 60% of Residential development waste from landfill.

Divert at least 45% of Commercial Property operational waste from landfill.

Our work on climate mitigation, through our emissions reduction activities, and climate adaptation is highly regarded in the industry and we were the only Australian CDP Climate A List company to be recognised on the CDP A list. We were also amongst the first Australian companies to respond to the Global Financial Stability Board's Task Force on Climate-related Financial Disclosure, releasing our response to the Australian Securities Exchange with our Financial Statements in February 2018 and again in August 2018. This includes our approach to climate risk governance, strategy, risk management, targets and performance.

# What does net zero emissions by 2050 look like for Stockland?

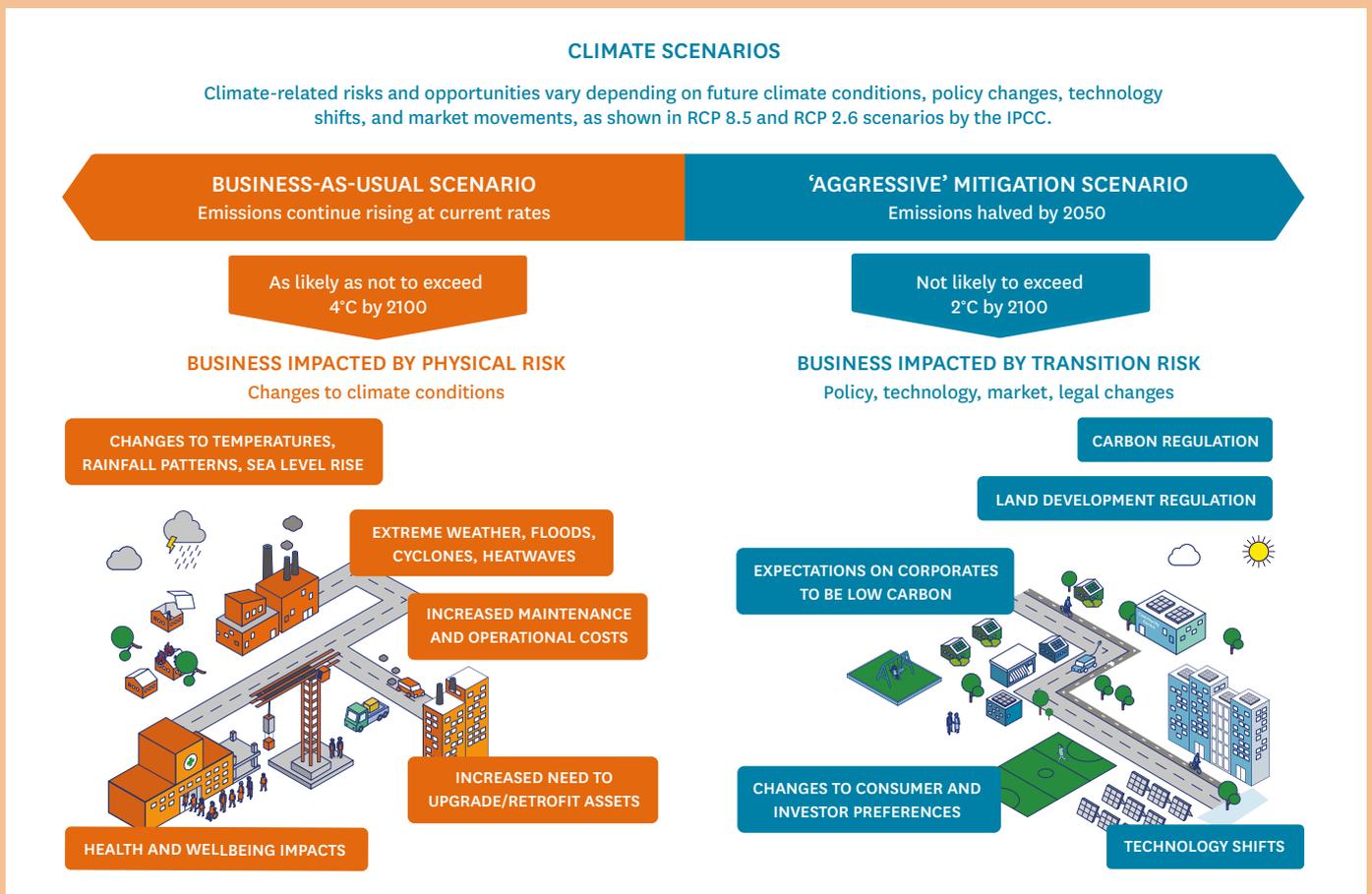
We completed a scenario analysis to understand risks and opportunities presented by a low carbon future, leveraging 2°C scenarios from both the Intergovernmental Panel on Climate Change (RCP2.6) and the Australian contribution to the Deep Decarbonization Pathways Project. Our scenario analysis using 2°C scenarios builds upon our existing scenario analysis that we have used for several years to understand the distribution of physical risks across our portfolio. Our workshop to test the scenarios involved many teams within our business, such as Development, Project Management, Asset Operations, Group Risk, Group Sustainability, Group Legal, and Stakeholder Relations.

The scenario analysis incorporated the key assumption that Australia would be carbon neutral by 2050 as a means of contributing to the global objective of limiting warming to 2°C compared to a pre-industrial baseline. The analysis included changes to energy networks, climate policy, customer preferences, and investment flows that would plausibly lead to carbon neutrality by 2050.

Our analysis confirmed the importance of policy and legal issues such as carbon pricing and climate risk disclosure, technological issues such as automation and electrification, market issues such as customer and investment preferences for low carbon solutions, and reputational

issues such as the willingness of governments or employees to work with us if we are seen as a climate laggard. Our industry-leading investment in renewable energy and our continued dedication to energy efficiency position us well to take advantage of opportunities associated with the transition to a low carbon economy.

We have integrated the outcomes of our scenario analysis into our corporate risk register and will continue to use the approach to understand how to remain a climate leader into the future.



For more information see our Climate Resilience Deep Dive and Management Approach [www.stockland.com.au/sustainability](http://www.stockland.com.au/sustainability)

# Our progress

## TARGETING ENERGY EFFICIENCY AND RENEWABLES

The declining cost of solar infrastructure works in tandem with the increasing cost of conventional energy to make solar a sound business investment. We look to design and technology innovation and access to alternative energy supplies.

In FY18 we completed our largest solar photovoltaics (PV) installation at Stockland Green Hills (NSW, 1.85 MW), as well as an additional installation at Stockland Caloundra (Qld, 0.25 MW). This brings our total portfolio solar PV capacity in FY18 to 4.36 MW and generating approximately 6,000,000 kWh in renewable energy annually. Our total committed investment in solar is around \$30 million, leading the industry with an expected 16.36 MW of solar PV capacity across our Commercial Property portfolio by the end of FY19. In addition to our investment in renewables we also completed lighting upgrades that will result in approximately 1,700,000 kWh of annual electricity savings.

We recognise that we also have an important role in encouraging more efficient living options. Examples of these initiatives include encouraging electric vehicle use by installing over 65 electric vehicle charging stations in 23 of our retail town centres; and developing a four bedroom home at our North Shore (Qld) community to achieve a NatHERS<sup>1</sup> thermal comfort rating of 9.3 out of 10. The home is equipped with solar and battery storage, and acts as a sales office and education tool for prospective residents.

<sup>1</sup> The Nationwide House Energy Rating Scheme (NatHERS) is a star rating system (out of ten) that rates the energy efficiency of a home, based on its design ([www.nathers.gov.au](http://www.nathers.gov.au)).



### CASE STUDY

## Powering up our portfolio with Tesla Destination Chargers

We are delivering a \$200,000 national rollout of Tesla Destination Chargers across up to 31 retail town centres from Cairns to Melbourne. Tesla owners can now charge their cars for free in our retail town centres, boosting convenience for customers while they shop, dine, or spend time with family and friends.

Louise Mason, CEO of Commercial Property, said: “In the ever changing retail landscape, technology is increasingly critical to drive innovation, efficiency and engagement with our customers.”

“We know electric vehicles are part of the future and we look forward to offering more features like this to meet continuing Australian demand.”

Hon Craig Laundy MP, former Federal Assistant Minister for Industry, Innovation and Science joined the Stockland team to launch the initiative, and to charge up the first Tesla vehicle at Stockland Cammeray in Sydney.

Mr Laundy said it was great to see two companies with corporate philosophies that were committed to sustainability – in Tesla and Stockland – working together to expand low emissions technology.

Once complete, Tesla owners will enjoy the convenience of charging locations at our retail town centres from Cairns to Melbourne.

The 43 Tesla Destination Chargers rolled out to date in 23 locations complements our 24 free ChargePoint facilities in 13 locations throughout Australia, which have been used more than 3,600 times by customers since 2015.

We are proud to be leading the sector by investing in both EV charging capacity and renewable energy, both of which are crucial to the future of our retail town centres and cities.

*“In the ever changing retail landscape, technology is increasingly critical to drive innovation, efficiency and engagement with our customers.”*

# Our Environmental Performance

## GREENHOUSE GAS EMISSIONS

The chart opposite provides absolute Scope 1 and Scope 2 greenhouse gas emissions totals (in kgCO<sub>2</sub>-e) since FY14. Our Residential business constitutes the majority of our Scope 1 emissions, the levels of which vary each year in accordance with civil contractor construction activity. Commercial Property constitutes the majority of our Scope 2 emissions, which have been decreasing over time because of our energy efficiency and renewable energy initiatives.

## WATER MANAGEMENT AND EFFICIENCY

We are currently committed to a five per cent reduction in water intensity by FY20, against the FY17 benchmark. The chart below shows the water intensity result for our Commercial Property portfolio (Workplace, Business Parks and Retail) since FY14.

## WASTE MANAGEMENT

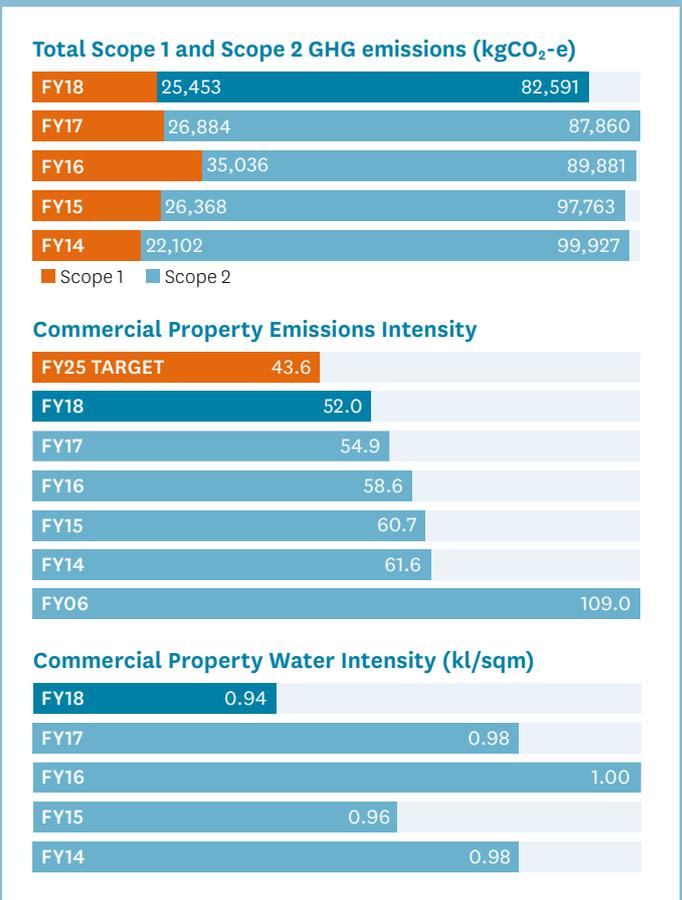
We set waste targets for our operational assets and our developments.

- Achieve a minimum 60 per cent waste diversion from landfill for all new residential construction contracts by FY20. This year we diverted 94 per cent of waste from landfill across our residential developments.
- Achieve a minimum 45 per cent waste diversion from landfill for Retail Town Centre, Workplace and Business Parks operations (by FY20). We achieved a diversion from landfill of 33 per cent for Retail Town Centres and 37 per cent for Workplace and Business Parks. We continue to enhance waste management across our Commercial Property operations in pursuit of our FY20 target.
- Achieve a minimum 85 per cent waste diversion from landfill for Retail Town Centre, Workplace and Business Parks developments (by FY20). This year we diverted 89 per cent of waste diversion.

## RENEWABLE ENERGY GENERATED

The table below illustrates our solar generation over the past five years, and estimated generation at end of FY19.

	FY18	FY17	FY16	FY15	FY14	FY19 Estimate
Energy generated using solar PV (kWh)	3,274,463	2,387,168	1,940,689	292,124	175,374	
Total solar PV capacity at end of reporting period (MW)	4.36	2.26	1.36	1.36	0.05	16.36



↓60%

FY25 emission intensity reduction target (2006 baseline)

↓52%

Emissions intensity reduction progress to date

\$90m+

Cost savings to date



Our full environmental data pack is available online at [www.stockland.com.au/sustainability](http://www.stockland.com.au/sustainability)

# Our progress

## CREATING SUSTAINABLE AND INCLUSIVE ASSETS AND DEVELOPMENTS

Asset ratings and certifications are key means of assuring and demonstrating the quality of our assets. These ratings serve as independent validation that key sustainability aspects, including social and environmental factors, have been considered in our asset designs, developments and operations.

Assets that are highly rated and can demonstrate optimal performance are often more attractive to customers and investors. Not only do they guarantee a certain level of energy and water efficiency, and therefore cost savings over the long term, they also incorporate various design features that promote social inclusion and enhance health and wellbeing. Buildings with high environmental ratings can demonstrate higher return on investment over time.

***Not only do they guarantee a certain level of energy and water efficiency, and therefore cost savings over the long term, they also incorporate various design features that promote social inclusion and enhance health and wellbeing.***

We have a strong commitment to the use of product rating and certification tools to ensure the sustainability performance of our projects and assets.

In FY18 we achieved ratings across a large portion of our portfolio with the following key achievements:

- 6 Star Green Star 'World Leadership' – Communities rating for our Waterlea (Vic) residential community currently under development in Melbourne
- 5 Star Green Star 'Australian Excellence' – Design rating (Retail Centre v1) for our Stockland Green Hills (NSW) development
- 4 Star Green Star – As Built rating (Retail Centre v1) on our Stockland Baldivis (WA) development
- completed Green Star – Performance portfolio rating on our Workplace and Business Park portfolio.
- completed NABERS Waste and Indoor Environment ratings on three assets in our Workplace and Business Parks portfolio
- registered our forthcoming Retirement Living development at Newport (Qld) under the Green Star – Design & As Built rating tool
- confirmed 11 of our standard Townhomes home plans and 10 of our Retirement Living home plans to be compliant with Livable Housing Australia (LHA) Silver design standard.

## NABERS and Green Star certifications

### 4.18 stars

NABERS Energy  
Retail Town Centre portfolio average

### 4.35 stars

NABERS Energy  
Workplace and Business Parks portfolio average

### 42 centres

Green Star Performance rated Retail Town Centres, Workplaces and Business Parks

### 3.57 stars

NABERS Water  
Workplace and Business Parks portfolio average

### 27 assets

Green Star Design & As Built, Communities and Retirement Living rated assets

### 3.18 stars

NABERS Water  
Retail Town Centre portfolio average

## RATING TOOLS FOR MORE SUSTAINABLE DEVELOPMENT, OPERATIONS AND LIVING

### Green Star

Tools developed by the Green Building Council of Australia that rate the sustainable design, construction and operation of buildings and communities using a scale of 1 to 6 stars, with 1 being Minimum Practice and 6 World Leadership

### NABERS

The National Australian Built Environment Rating Scheme uses measured and verified performance information to assess energy efficiency water usage and other factors of a building or tenancy and its impact on the environment using a scale of 1 to 6, 6 being a market leading performance.

### Livable Housing Australia

A three-tiered performance certification for liveable housing design including more accessible design for all stages of life – Silver, Gold and Platinum.

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## **OUR GOAL OF NET POSITIVE BIODIVERSITY IMPACT**

We develop new land for housing, including infrastructure and social amenities, to create sustainable, thriving communities. Development brings challenges and opportunities that we manage as we deliver our projects. In particular, developments on greenfield sites can impact local bushland habitat, ecological communities and protected or significant species.

We aim to minimise and mitigate these impacts to protect the biodiversity of our surrounding environments and appreciate that preserving biodiversity enhances the liveability and vitality of our communities over the long term. Our Liveability Index survey results tell us that our residential customers value this green space and a connection to nature.

***We will have placed approximately 2,202 hectares of land into protection for the purposes of biodiversity management once these projects are complete.***

We have identified biodiversity that will be protected on site in 20 of our projects under construction in FY18. We will have placed approximately 2,202 hectares of land into protection for the purposes of biodiversity management once these projects are complete.

Our FY20 target is to make a net positive contribution to biodiversity value across our residential developments, as measured by our biodiversity calculator. The only project with significant biodiversity assessed by the calculator in FY18 was Mt Atkinson (Vic). At Mt Atkinson our overall impact will be positive once the project is complete with 39 hectares of land rehabilitated and replanted (score of +11.94). A full list of projects scored by our calculator since FY15 is provided in our Environmental Data Pack. More information on the methods behind our biodiversity calculator can be found in Our Management Approach to Biodiversity.



*For more information on our energy, carbon, water, waste, materials and biodiversity management visit [www.stockland.com.au/sustainability](http://www.stockland.com.au/sustainability)*



# 6 Star Green Star – World Leadership for Waterlea

We were awarded a “World Leadership” 6 Star Green Star – Communities rating by the Green Building Council of Australia (GBCA) for our Waterlea medium density residential development. This highly coveted certification helps to confirm the position of Waterlea as one of the most sustainable residential communities in Australia. Waterlea is our first medium density project to be rated under the Green Star – Communities tool and one of the first medium density projects in Australia to be rated.

The Green Star rating framework aligns with our own strategic priorities to improve the community and environmental outcomes of our projects. Waterlea scored full credits for ‘governance’ and rated highly across the rating areas of ‘liveability’, ‘economic prosperity’, ‘environment’ and ‘innovation’.

The design elements of each home work to reduce environmental impact, including innovative features such as solar panels, rainwater tanks plumbed for toilet and laundry usage, and garages fitted with an electric vehicle charging point. For home owners, this means reduced power and water bills and a lower impact carbon footprint.

We have designed 20 per cent of homes to Livable Housing Australia Silver Design standard to provide for the needs of growing families and people with disabilities, injuries and life changing circumstances. Design features improve access to the home, navigational space within the home and provide a more comfortable living environment without compromising the quality of life for residents.

Anthony Scafidi, Senior Development Manager said, “We have worked closely with sustainability groups, the Green Building Council of Australia and Livable Housing Australia to design the new community to be a model development for affordability and sustainability. The team has worked incredibly hard over the past 18 months to deliver this outcome and we are proud to be at the forefront of sustainable design. We can expect to see continued customer value placed on Green Star homes with residents benefiting from design features that reduce the impact on the environment.”

*Our Green Star ratings provide external verification of our projects’ sustainability credentials. We continue to use Green Star across all areas of our business to benchmark and enhance our performance.*



# Shape thriving communities

*Our research indicates that health and wellbeing, community connection and education contribute most to liveable communities.*



# Our progress

## PRIORITIES AND PROGRESS OVERVIEW

### STRATEGIC PRIORITIES

#### Health and wellbeing

- Activities and places that encourage positive physical and mental health and wellbeing
- Smart design that optimises accessibility, safety and mobility

#### Community connection

- Activities that foster engagement, pride and a sense of belonging
- Design that encourages sense of place and supports recreation and participation

#### Education and prosperity

- Programs that support economic employment within our communities
- Design that facilitates learning and education opportunities for all ages

### FY18 PROGRESS

#### Health and wellbeing

- Residential community national liveability score of 78% (new methodology)
- Residential community resident personal wellbeing index (PWI) score of 77%, above the national average
- Retirement Living resident PWI score of 82%, well above the national average

#### Community connection

- \$7.7 million invested in community initiatives across Australia
- 308 local organisations awarded over \$560,000 in total as grants to our communities

#### Education and prosperity

- 180 people placed in local employment through the Green Hills Connectivity centre
- Determined the social value generated by our Retirement Living portfolio

Our ability to shape thriving communities is a fundamental element of our success. To do this we focus on what our customers want and those elements that make a liveable community including wellbeing, community connection, and opportunities for lifelong learning and prosperity. We focus on these three social impact areas because our proprietary customer and industry research tells us these are the areas that matter when our customers are deciding where to live, work, play and shop.

We coordinate our efforts in the community through a combination of mechanisms including:

- **Customer engagement** – maintaining high levels of communication with our local community to ensure we are responsive to their needs
- **Community development** – local community infrastructure and initiatives that enhance the communities in and around Stockland assets
- **Community investment** – our employee volunteering and giving program and
- **Stockland CARE Foundation** – our charitable trust, which delivers infrastructure, programs and initiatives to Australian communities.

***In FY18, we completed our annual proprietary Liveability Index survey and we received close to 2,500 survey responses from residents across over 40 residential communities.***

#### CUSTOMER ENGAGEMENT

As highlighted in our business unit summaries on page 20–24 we retained a high level of customer satisfaction across the group. In addition to surveying our customers on their level of satisfaction with the service we provide we also seek feedback from beyond the point of sale.

As Australia's largest residential developer, we understand both the excitement and the challenges that come with living in a new community. Through the insights gained from our Liveability Index, we remain committed to investing in what matters most to our residents as we develop our new communities.

### OUR TARGETS

- 🎯 All Stockland Communities (residential and retirement living) score above the Australian average National Wellbeing Index to FY20
- 🎯 Achieve consistent Stockland National Liveability Index scores of 80% across our residential communities
- 🎯 Make a meaningful contribution to community health and wellbeing, community connection and education in partnership with community groups supported directly and by the Stockland CARE Foundation

In FY18, we completed our annual proprietary Liveability Index survey receiving close to 2,500 survey responses from residents across over 40 residential communities. This research tells us how satisfied our residents are once they have moved into our residential communities, what we are doing well, and learnings that we can take forward for future developments. Insights from this research are used to inform strategic planning of each community and our national community design guidelines.

In FY18, we scored 78 per cent on our new Liveability Index modelling which is calculated using regression modelling. We also introduced a new question this year which asks residents if the community has met or exceeded their expectations, and 88 per cent of residents responded positively on this metric. The proportion of residents agreeing they are likely to recommend Stockland has also increased, which is an important metric because referrals are a key source of new business. We have now reset Liveability Index targets to be achieved by FY22.



# Early amenity delivers liveability at Aura

Moving into a brand new community is an exciting time for our residents, many of whom have just purchased their first home. This experience is enhanced even further when we are able to bring forward the delivery of key community infrastructure for the benefit of the community’s initial residents.

Our \$5 billion Aura (Qld) residential community on the Sunshine Coast is the largest project ever undertaken by Stockland and will continue to develop for at least the next 25 years. We have made a concerted effort to provide open space, community facilities, and other programs early in the development lifecycle, so that residents who move in during the first stages do not have to wait for years to enjoy everything that this 6 Star Green Star community has to offer.

Aura residents were included in our annual Liveability Index survey for the first time in 2018. Aura’s Liveability Index score was 78 per cent, a strong result for a new community. Aura residents’ average wellbeing score is at 81 per cent, above the national average of 74-76 per cent (according to the Personal Wellbeing Index measured by Deakin University). Residents also feel that their standard of living has improved since moving to Aura (85 per cent).

Satisfaction with public spaces and amenity is at 86 per cent, which is one of the highest results across our portfolio. Residents said that they enjoyed “the cleanliness of park facilities and family friendly orientation”, they remarked how “the public landscaping and design makes Aura feel well-built and well thought-out”, and they were “proud” to tell people they lived at Aura.

In fact, 60 per cent of Aura residents say they have recommended the community to others, which is substantially higher than the average across all communities. These results are a testament to the strong efforts by our Residential business to deliver early amenity at Aura and actively address any issues as they arise.

As Australia’s largest residential developer, we understand both the excitement and the challenges that come with living in a new community. Through the insights gained from our Liveability Index, we remain committed to investing in what matters most to our residents as we develop our new communities.



# Our progress

## OUR COMMUNITY CONTRIBUTION OVERVIEW

The table below provides an overview of our community contributions. In FY18, we invested over \$6.9 million through our community development, community investment programs and the Stockland CARE Foundation, as verified by Corporate Citizenship. A further breakdown of these contributions by category is provided in our Community Data Pack.

Community Contribution category	FY18
Community development	\$4,734,707
Community investment	\$1,222,587
Management costs	\$982,704
<b>Total community contribution</b>	<b>\$6,939,998</b>

In addition to the items outlined above, we also facilitate community contributions through our stakeholders and through the provision of space, bringing our total community contribution to \$7,776,317. More detail on these community contributions is provided in our Community Deep Dive.

## VALUING OUR CONTRIBUTION

Over the past year, we also sought to quantify the social contribution of our Retirement Living portfolio and completed a Social Return on Investment (SROI). The SROI aimed to put a financial value on the social contribution that is made by us for our Retirement Living residents, the local community and state-level government. The SROI is 1:1.66. This means that for every \$1 that we invest in our Retirement Living portfolio, it creates \$1.66 in social value. The analysis is explored in the case study opposite.

## CASE STUDY



# Measuring the social value created by our Retirement Living communities

We know, from talking with residents, there is intrinsic social value created through living in a Stockland retirement village for those residents, the local community and state-level government. To better understand and communicate this social value created by our Retirement Living portfolio for its residents, the local community and state-level government, we completed a Social Return on Investment (SROI) research project in partnership with Ernst & Young (EY). The outcomes of the SROI will assist us to communicate and enhance the intangible social value that we create in our Retirement Living business.

Our approach was four-fold:

1. Conduct extensive stakeholder engagement
2. Design a Theory of Change and Measurement Framework
3. Undertake a resident survey to measure the outcomes
4. Assign proxies to value the outcomes.

Part of our stakeholder engagement involved four resident focus groups which were vital in unpicking the depth of, and commonalities among, our residents' experiences of Stockland retirement living. Overall a range of consistent positive and supportive sentiments were heard from the residents about their experiences and the value they have gained from moving

into the village. For most, they expressed the sentiment that they did not realise how good the move would be, and would have considered moving earlier had they known. These focus groups helped EY researchers to design a specific survey around the key themes (outcomes) identified to measure the benefit and value created by the villages for our residents and other stakeholders. For all residents surveyed (637 in total), sense of community and sense of safety and security were the most significant wellbeing outcomes. This was closely followed by reduced worry, stress and concern, and greater independence.

Some key findings from the SROI include:

- The SROI found that Stockland Retirement Living creates \$1.66 in social value for every \$1 invested
- 64 per cent of the positive changes reported by residents are attributable to the services and amenities provided by Stockland
- 41 per cent of residents felt their wellbeing would have worsened during the course of the year if they had not been living in a Stockland retirement village
- It is estimated that state-level government authorities receive nearly as much value in the form of avoided costs in health and care services (\$162 million).

## OUR COMMUNITY DEVELOPMENT ACTIVITIES AND PARTNERSHIPS

Many of our community development activities are delivered with the assistance of our community partners. The following are examples of how our focus areas are delivered at our assets. More detail on our partnerships can be found in our Community Data Pack.

### Community connection through inclusive play with Touched by Olivia

We built six new inclusive playspaces in collaboration with our Stockland CARE Foundation partner Touched by Olivia. These playspaces are designed so that children of all abilities can play together, including those with physical disabilities, vision, hearing and mobility impairments, or spectrum disorders such as autism. In FY18, we built two inclusive playspaces at Stockland Green Hills (NSW), two at Stockland Wendouree (Vic), one at Stockland Rockhampton (Qld), and one in our Sienna Wood (WA) residential community.

### Healthy eating with Jamie's Ministry of Food

Our partnership with Jamie's Ministry of Food continued to expand across our residential communities, retirement living communities and retail town centres. We delivered five- and seven-week cooking programs that teach members of the community how to prepare simple, healthy, fresh and affordable meals at the fixed kitchen at Stockland Wetherill Park (which closed in January 2018), and through community outreach pilots at our Willowdale (NSW) and Elara (NSW) residential communities, and our Hillsvieview (SA) retirement living community. At Hillsvieview, we invited prospective residents to the final two weeks of the program, resulting in reservations for two homes.

We continued to work with the Jamie's Ministry of Food Mobile Kitchens in Queensland and Western Australia by providing funding, marketing, and logistics support. We also delivered 'Learn Your Fruit and Veg' school holiday programs in five of our retirement villages, and specially designed cooking demonstrations for Men's Health Week in two of our villages in Victoria. Over 2,215 customers, residents and local community members have participated in the programs held in FY18.

### Focusing on local employment at Green Hills, NSW

The Green Hills Connectivity Centre, a collaboration between us and the primary contractor on our Green Hills redevelopment, sought to leverage the economic potential of the redevelopment to address the high level of youth unemployment in the Maitland area. The aim of the Connectivity Centre was to connect local job seekers with employment opportunities in the redeveloped Stockland Green Hills (NSW), and to upskill individuals in preparation for the workplace.

Over the two years of its operation, the Connectivity Centre placed more than 180 local people in jobs, exceeding its initial target of 100. Importantly, the majority of placements were in sustainable employment. The Connectivity Centre also ran workshops such as the Customer Service Workshop, Driver Learner and Driver Awareness workshops, and Interview Technique workshops, all designed to enhance the employability of local residents.

The Connectivity Centre wound up operations as the \$421 million redevelopment project drew to a close. We will continue to work with our builder partners at our development projects to establish a broader local economic benefit resulting from our work.

### STOCKLAND CARE FOUNDATION

In FY15, the Stockland CARE Foundation made its inaugural commitment to Redkite and Touched by Olivia which were chosen as the first charity partners to receive financial and in-kind support from the Foundation for a minimum three-year period. The Foundation has extended these partnerships into FY19. Since the launch of these partnerships, we have focused on embedding the Stockland CARE Foundation purpose, partners and programs into our offices and assets.

Supported by our state employee volunteer committees, our employees ran numerous events, fundraisers and volunteering activities throughout FY18. Some of the highlights of the year included:

- Foundation Fortnight, which is a concentrated two week period of targeted events and activations to promote awareness and raise funds for our Stockland CARE Foundation and its partners. FY18 was the third year for Foundation Fortnight, which was held from 2 October 2017 to 15 October 2017 at our state offices and selected assets.

During the fortnight, our corporate, employee, partner and community contributions to the Foundation exceeded \$245,000. We have integrated supplier and contractor engagement into our annual Foundation Fortnight for FY19 (we did not host a fundraiser targeting suppliers and contractors in FY18 as originally intended).

- participation of retirement living communities in Family Day (formerly known as Grandparents Day). Family Day provided an opportunity to raise awareness about the CARE Foundation and its charity partners in a fun environment involving activities including face painting, petting zoos, craft tables, treasure hunts and food and drink. In FY18, 1570 residents and family members participated compared to 830 in FY17.
- fundraising and volunteering efforts that resulted in:
  - support for 100 families who will have access to Redkite's full suite of programs and services
  - six new inclusive playspaces.

 \$7.7m

contributed to community investment and development

 782

community development initiatives delivered across Australia

 4,336

hours volunteered by our employees

 154

employees volunteered for student mentoring



For more information on our community development and investment visit [www.stockland.com.au/sustainability](http://www.stockland.com.au/sustainability)



# Shipwreck Park brings inclusive play to Sienna Wood

Shipwreck Park at our Sienna Wood (WA) residential community was officially opened in December 2017 on International Day of People with Disability. Shipwreck Park was designed in collaboration with the Touched By Olivia Foundation and provides an atmosphere where children of all abilities can play together, including those with physical disabilities, vision, hearing and mobility impairments, or spectrum disorders such as autism.

Touched by Olivia, one of our CARE Foundation partners, believes that all children, regardless of ability, can lead healthier and happy lives. Touched by Olivia advocates for an inclusive society, through its national network of inclusive playspaces and social enterprises that provide training and employment for people with disabilities.

At the opening, Col Dutton, General Manager for WA, said “We are very proud to be setting a new benchmark for inclusive, imaginative outdoor play in WA. Not only does Shipwreck Park celebrate diversity and inclusion, but at three times the size of the WACA, spanning six hectares, it is also our largest park in Western Australia.”

With one in five Australians living with a disability, inclusive playgrounds such as Shipwreck Park provide easy access and fun, stimulating play areas that celebrate the abilities of all children. Elements of the playground include viewing platforms, giant swings, a dual all-abilities flying fox, in-ground trampolines, slides and musical equipment for beating out tunes.

*We are proud to partner with the Touched By Olivia Foundation to spread the joy of inclusive play at our residential communities and retail town centres across Australia.*

# Enrich our value chain

*When we collaborate our outcomes are strong and relationships prosper.*

# Our progress

## PRIORITIES AND PROGRESS OVERVIEW

### STRATEGIC PRIORITIES

#### Employee engagement, diversity development and inclusion

- Attract and retain high-performing employees
- Develop authentic, accessible and performance-focused leaders

#### Supply chain management

- Identify and address key social, environmental and governance risks beyond our direct control
- Encourage sustainable procurement

#### Stakeholder engagement

- Develop and maintain strong relationships through regular and genuine engagement with stakeholders

### FY18 PROGRESS

#### Employee engagement, diversity development and inclusion

- 83% employee engagement score, 7% higher than Australian National Norm
- 80% employees with flexible work arrangements
- 45.1% women in management, 39.7% in senior management

#### Supply chain management

- Delivered Sights on Safety program focused on reducing injuries at worksites
- Enhanced awareness of mental health at our worksites through Mates in Construction training

#### Stakeholder engagement

- Substantially progressed or completed 49 actions in our Reconciliation Action Plan
- Procured over \$3.2 million from indigenous suppliers since 2014
- Completed a human rights risk review enhancing our capacity to address modern slavery in our supply chain

We know that when we successfully collaborate across our value chain our outcomes are stronger and relationships more prosperous. This sustainability strategy focus area concentrates on the elements that make our business more robust; our suppliers, our employees and how we engage with the broader community.

#### SUSTAINABLE SUPPLY CHAIN MANAGEMENT – SAFETY, HUMAN RIGHTS AND THE ENVIRONMENT

Throughout the year we continued to collaborate with our suppliers to achieve health, safety, and quality outcomes through our 'Sights on Safety' initiative. Sights on Safety focuses on identifying and implementing measures to reduce the number of serious incidents at our developments and assets. The program is aimed at driving safety behaviours and advancing better practice on our developments, construction sites, operational assets and where possible, across the broader construction industry.

***This sustainability strategy focus area concentrates on the elements that make our business more robust; our suppliers, our employees and how we engage with the broader community.***

### OUR TARGETS

#### Stakeholder Engagement

Maintain stakeholder engagement plans for all active development projects, and deliver stakeholder engagement workshops to our employees

#### Supply Chain

Launch our Sustainability in our Development Supply Chain guideline

#### Employee Engagement

Maintain employee engagement score above 80%

Increase women in management to 50% by 2020.

With regard to the human rights aspect of our supply chain framework we have been working with our contractor partners regarding participation in health, safety and wellbeing initiatives on our sites. This has been demonstrated with our continued work with Mates in Construction to improve mental health awareness at our worksites. We have also extended this to our head office by raising awareness about mental health issues facing construction workers in conjunction with our national mental health promotion campaigns such as RUOK Day.

We acknowledge that within the broader construction industry supply chain there may be risks associated with labour practices. For this reason, we consider that industry collaboration is the most appropriate means to increase transparency and have committed to working with members of our peer group to create an industry-wide supplier survey across our broader supply chain.

Over the course of FY18, we have worked with our suppliers to establish a sustainability schedule for inclusion in project requirements. We continue to work across our business and with our suppliers to implement these requirements across the development of our assets.

The schedule aims to:

- improve environmental impact through environmental management systems, environmental and waste management plans, reuse of spoil on site and the use of recycled materials and materials that have lower embodied energy
- prioritise health, safety and wellbeing programs and initiatives such as Mates in Construction
- promote Aboriginal and Torres Strait Islander employment opportunities with our contractors
- seek to understand how we can partner with our contractors to improve female participation in the construction industry
- raise sustainability awareness through initiatives such as the Supply Chain Sustainability School and implementation of the Green Star suite of rating tools
- drive community engagement by working with contractors to hold events to involve residents in the delivery process of their new community
- enhance understanding of emerging risks such as modern slavery through working with the Supply Chain Sustainability School.



For more information on our supply chain and management visit [www.stockland.com.au/sustainability](http://www.stockland.com.au/sustainability)

### HIGH EMPLOYEE ENGAGEMENT SUPPORTED BY COMMITMENT TO DIVERSITY AND INCLUSION

We continue to outperform the Australian high performing norm for employee engagement with a score of 83 per cent, as measured by Willis Towers Watson. Our results reiterated the importance our people place on diversity and inclusion, which continues to be a key driver for engagement and retention. The diversity and inclusion Index from our 2018 Our Voice survey has increased to 87 per cent (86 per cent in FY17), and continues to be seven points above Australian National Norm.

We have a firm commitment to improve the diversity of our workforce and continue to build a culture of inclusion in our workplace. It outlines our aim to leverage the maximum potential of our people, irrespective of differences, such as gender, ethnicity, age, physical abilities, gender identity, gender expression, sexual orientation, family status, beliefs, and perspectives.

Targets and metrics that guide our approach to diversity and inclusion include:

- targets for women in: management, senior management and job families with lower female representation.
- parental leave return rates targeting greater than 80 per cent return, as well as growing the proportion of males taking primary carers leave
- target range for gender pay equity ratio
- gender diversity of our succession pipeline and talent population
- diversity and inclusion related indices from our annual Our Voice employee engagement survey
- flexible working practices through One Simple Thing.

Our Gender Equity, Flexibility and Disability, Parents and Carers, Wellbeing and Cultural Inclusion, and LGBTI+<sup>1</sup> employee advocacy groups (EAGs) are a key component of our approach to diversity and inclusion. Key achievements in these areas include:

- **Gender equity:** Women in management increased to 45.1 per cent and senior women in management was consistent at 39.7. Our gender pay equity ratio remains within our target range at 98.3 per cent.
- **Flexibility and disability:** 80 per cent of employees have a flexible work arrangement in place via our 'One Simple Thing' initiative. Six students interned at Stockland as part of the Stepping Into program for university students with a disability. Two went on to permanent positions.
- **Parents and carers:** Our rate of return from parental leave continues to be well above our target of 80 per cent. Following the enhancement of our parental leave policy in FY17, there has been a near 50 per cent increase in men taking parental leave.
- **Wellbeing and cultural inclusion:** continued to advance our Reconciliation Action Plan commitments and piloted a resilience course for our leaders focused on stress management.
- **LGBTI+:** The LGBTI+ EAG was formed in FY18 and quickly established itself as a vital component of our diversity and inclusion agenda.



For more information on our employee engagement visit [www.stockland.com.au/sustainability](http://www.stockland.com.au/sustainability)

<sup>1</sup> LGBTI+ stands for lesbian, gay, bisexual, transgender, and intersex, with the '+' added to indicate inclusion of other diverse sexual orientations and gender identifies. In FY18 the LGBTI+ EAG was contained within the 'Wellbeing, Cultural Inclusion and LGBTI+' EAG, however the LGBTI+ EAG has been established as a standalone EAG from FY19 onward and so is indicated as such here.

# Our progress

## CASE STUDY



## Benchmarking to enhance our LGBTI+ inclusion strategy

Being positive toward LGBTI+ employees contributes to a workplace that is inclusive of all employees, regardless of race/ethnicity, gender, age, disability, religion, sexual orientation, gender identity or intersex status. A positive attitude toward employees means they can be confident in bringing their whole selves to work, speaking their mind, and contributing their perspectives for the benefits of the business as a whole.

Over the past year, our LGBTI+ Employee Advocacy Group achieved substantial progress in formalising its strategy and benchmarking Stockland's position as an LGBTI+ inclusive employer.

The group led the completion of our first submission to the Australian Workplace Equality Index, which drives best practice for LGBTI+ inclusion in Australia and sets a comparative benchmark for Australian employers across all sectors.

In its first year of existence the LGBTI+ EAG launched an internal employee network, marked days of significance such as Wear It Purple Day, and enhanced the language used in some of our policies and procedures. These achievements were recognised by our

Australian Workplace Equality Index result, which also recognised the explicit support provided by our executive and senior leaders for LGBTI+ inclusion at Stockland.

The LGBTI+ EAG is using the Australian Workplace Equality Index results to inform the forward strategy for LGBTI+ inclusion at Stockland. Priorities for the next twelve months include:

- targeted LGBTI+ inclusion and awareness training
- continuing to expand our internal employee network
- enhancing policies and procedures to provide for explicit inclusion of LGBTI+ individuals
- formalising the EAG strategy and action plan.

*Image: Members of the Stockland LGBTI+ EAG, along with Pride in Diversity Director Dawn Hough, upon lodging our first Australian Workplace Equality Index submission in March 2018.*

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# Governance and remuneration

*The Stockland Board oversees the high standard of corporate governance, integrity and accountability required of a professional and ethical organisation.*

# Corporate governance

The Board believes that Stockland's governance accords fully with the principles and recommendations of the ASX Corporate Governance Council as summarised in our corporate governance statement at [www.stockland.com.au/about-stockland/corporate-governance](http://www.stockland.com.au/about-stockland/corporate-governance).

## ROLE OF THE BOARD

The Board is accountable to securityholders, ensuring that the operations of Stockland are being effectively managed in a manner that is properly focused on its economic, social and community objectives. The Board has overall responsibility for the good governance of Stockland. As set out in the Board Charter, the Board:

- oversees the development and implementation of Stockland's corporate strategy, operational performance objectives and management policies with a view to creating sustainable long-term value for securityholders;
- oversees the development and implementation of Stockland's overall framework of governance, risk management, internal control and compliance which underpins the integrity of management information systems, financial reporting and fosters high ethical standards throughout Stockland;
- appoints the Managing Director, approves the appointment of the Company Secretary and Senior Executives reporting to the Managing Director and determines the level of authority delegated to the Managing Director;
- sets Executive remuneration policy, monitors Senior Executive performance and approves the performance objectives and remuneration of the Managing Director and his or her direct reports and reviews Senior Executive and Board succession planning and Board performance;
- approves and monitors the annual budget, business plans, financial statements, financial policies and financial reporting and major capital expenditure, acquisitions and divestitures;
- determines and adopts dividend and distribution policies for Stockland;



**Tom Pockett**  
Chairman  
(Non-executive)



**Carolyn Hewson**  
Non-executive



**Barry Neil**  
Non-executive



**Stephen Newton**  
Non-executive



**Carol Schwartz**  
Non-executive



**Mark Steinert**  
Managing Director  
and CEO



**Andrew Stevens**  
Non-executive



**Melinda Conrad**  
Non-executive



**Christine O'Reilly**  
Non-executive

## New non-executive board directors – Melinda Conrad and Christine O'Reilly

Ms Melinda Conrad and Ms Christine O'Reilly are both highly respected directors. Ms Conrad joined the Board in May 2018 and has already made a valuable contribution to the Board drawing on her extensive expertise in retail and consumer-related industries. Ms Christine O'Reilly also joined us this year, in August 2018, and brings a wide range and depth of skills from her 30 years of experience in the utilities, energy and infrastructure investment sectors.

Both new Directors will further complement and strengthen the Board's experience and expertise in a range of areas.

As required by the Stockland Constitution, Ms O'Reilly and Ms Conrad will offer themselves for election by securityholders at the Annual General Meeting on 24 October 2018.

- oversees compliance with laws and regulations which apply to Stockland and its businesses; and
- appoints and monitors the independence of Stockland's external auditors.

The Board aims to ensure that its securityholders are kept well-informed of all major developments and business events that are likely to materially affect Stockland's operations and financial standing and the market price of its securities. Further information in relation to communication with Stockland's securityholders is located on the Stockland website.

Stockland's Directors, Senior Executives and employees are required to maintain high ethical standards of conduct. Stockland's Code of Conduct (the 'Code') is periodically reviewed and endorsed by the Board and covers dealings with both external parties and internal operations. Further information in relation to the Code together with key policies including in relation to whistleblowers, fraud and corruption, securities trading, government relations and privacy are located on the Stockland website.



Further information on Stockland's governance including our policies can be found at [stockland.com.au/corporate-governance](http://stockland.com.au/corporate-governance)

## Diversity of Board skills and experience

GOVERNANCE	100%
STRATEGY	100%
FINANCIAL MANAGEMENT	75%
CAPITAL MANAGEMENT	75%
RISK MANAGEMENT	87.5%
CUSTOMER MARKETING INCLUDING DIGITAL	75%
TECHNOLOGY	50%
REMUNERATION	62.5%
WORKPLACE HEALTH & SAFETY	87.5%
SUSTAINABILITY	50%
MERGERS & ACQUISITIONS	75%
EXECUTIVE LEADERSHIP	100%
PROPERTY INDUSTRY EXPERIENCE	75%

### COMPOSITION AND DIVERSITY OF THE BOARD

Stockland is committed to having a Board whose members have the capacity to act independently of management, and have the collective skills and diversity of experience necessary to optimise the long-term financial performance of Stockland so as to deliver long term sustainable profitable returns to securityholders.

As at the date of this report, the Board comprised one Executive Director and seven Non-Executive Directors. The Boards of Stockland Corporation Limited and Stockland Trust Management Limited have the same Directors. Directors' details are available on our website [www.stockland.com.au/about-stockland/board-and-executive](http://www.stockland.com.au/about-stockland/board-and-executive).

The Board recognises the advantage of having a mix of relevant business, executive and professional experience on the Board, the importance of cultural and ethical values, and the benefits of diversity, including gender diversity. The Board has identified a range of core skills and experience that will assist the Board collectively to fulfil its oversight role effectively. These include experience with property investment and management, property and community development, construction and project management, retailing and consumer marketing, technology (including digital), industrial supply chain logistics, funds management,

banking and finance, government and regulatory relations and environmental, social and governance matters. It is also advantageous for some Board members to have experience in the audit and risk management field, capital management, mergers and acquisitions, people management and executive remuneration. The Board believes that the core skills of importance to Stockland are well represented among the current Directors. In addition, most Directors have occupied senior executive management positions in large corporations both in Australia and globally, including CEO and CFO positions, covering a wide range of industry sectors or have held senior positions in relevant finance and accounting disciplines.

The Board also believes that it is important to maintain a range of director tenures to facilitate orderly Board renewal while maintaining valuable continuity and corporate knowledge among Directors. As at 30 June 2018, of the eight Directors, including the Managing Director, five had tenure of less than six years, one had tenure of between six and nine years and two had served for more than nine years. In March 2018, Dr Nora Scheinkestel retired from the Board. Melinda Conrad joined the Board on 18 May 2018 and on 31 May 2018 Stockland announced that Christine O'Reilly would join the Board on 23 August 2018.

In defining the Board's requirements for new Directors, consideration is given to the skills, professional experience, and educational backgrounds of continuing members of the Board, the organisation's strategy and any identified skills required to supplement the Board's capabilities as the organisation's strategy evolves. Criteria used includes the value of gender diversity on the Board.

Stockland has for many years had a focus on actively encouraging gender diversity at all levels within the organisation and a culture that supports workplace diversity and inclusion. As part of this focus, gender diversity targets are set by management and regularly reviewed and endorsed by the Human Resources Committee.

In addition, we have a formal Diversity and Inclusion Policy which is available on the Stockland website at [www.stockland.com.au/about-stockland/corporate-governance](http://www.stockland.com.au/about-stockland/corporate-governance).

Further details of this policy and our achievements, including measurable objectives for achieving gender diversity, are set out in the Remuneration Report on pages 39 to 54 within the Directors' Report as well as on the Stockland website at [www.stockland.com.au/about-stockland/sustainability](http://www.stockland.com.au/about-stockland/sustainability).

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## BOARD AND DIRECTOR PERFORMANCE

The Board has instituted a formal process to review the performance and effectiveness of the Board, the Board Committees and individual Directors. The Human Resources Committee oversees this process.

On a regular basis an external review is also conducted. An external consultant was engaged to facilitate a review of Board performance in 2017. As part of the external review, each Director completed an interview with the external consultant relating to the Board's role, composition, procedures, practices and behaviour. Members of the Executive Committee also participated in feedback with the external consultant and observations and recommendations from the review were presented to and discussed with the Board with various action items identified and implemented during FY18.

The Chairman also meets one-on-one with each Director annually to discuss their individual contribution, their views on the Board's performance and their suggestions for improvement in Board processes or procedures. Following these sessions, the Chairman provides feedback to individual Directors as necessary.

## DIRECTOR REMUNERATION AND SECURITIES OWNERSHIP

Non-Executive Directors receive fees for their services, being an all-inclusive fee including statutory and elected superannuation contributions.

To underpin the alignment of Directors and securityholder interests, the Board believes that Directors should hold a meaningful number of Stockland securities. In August 2015 the Board revised its existing policy to increase the minimum number of securities each Non-Executive Director is required to acquire from 10,000 to 40,000 securities within a reasonable time of becoming a Director. The increased minimum roughly

equates to one year's base Board fees. All new directors will have a period of three years to comply with this policy. Stockland also has a policy regarding the minimum securityholdings for Senior Executives as set out in the Remuneration Report. Both these policies are intended to align the personal financial interests of Directors and Senior Executives with those of securityholders.

## BOARD COMMITTEES

Four permanent Board Committees have been established to assist in the execution of the Board's responsibilities:

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<b>Human Resources Committee</b>	The Committee seeks to ensure that there is a strong link between employee reward, Stockland's performance and ultimately securityholder returns. The Committee also seeks to ensure that remuneration for Non-Executive Directors is designed to attract and retain talented and experienced individuals. Refer to the Remuneration Report on page 39 of our Annual Report.
<b>Audit Committee</b>	The Board delegates oversight of the preparation of Stockland's Financial Reports and the maintenance of a sound financial reporting control environment to the Audit Committee. The Audit Committee works in conjunction with the Sustainability Committee, Human Resources Committee and Risk Committee to assist the Board in fulfilling its responsibilities for ensuring Stockland has adopted and maintains appropriate corporate governance procedures.
<b>Risk Committee</b>	The Board is responsible for establishing a framework of risk management across Stockland. The purpose of the Risk Committee is to assess the effectiveness of Stockland's overall risk management framework and support a prudent and risk aware approach to business decisions across Stockland. The Committee reviews the framework on an annual basis including in the 2018 financial year to satisfy itself that it continues to be sound and that any changes are reviewed and resolved at Board level.
<b>Sustainability Committee</b>	Stockland recognises that a sustainable future for its business depends upon the sustainability of the communities, economy and society in which it operates. The purpose of the Sustainability Committee is to consider the social, environmental and ethical impact of Stockland's business activities; major corporate responsibility and sustainability initiatives and changes in policy; and stakeholder communication about Stockland's corporate and sustainability policies.

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The membership and the procedures for the Committee meetings are set out in the charters for each Board Committee located on the Stockland website at [www.stockland.com.au/about-stockland/corporate-governance](http://www.stockland.com.au/about-stockland/corporate-governance).

# Remuneration

At Stockland, the Human Resources Committee is responsible for recommending Senior Executive remuneration policies to the Board for its approval and is charged with reviewing Stockland's remuneration policies each year to ensure that they remain fair and competitive when compared to those of companies of similar size, business mix and complexity in the property industry in Australia. There were no changes to the remuneration framework during FY18.

We remain committed to an executive remuneration framework that supports Stockland's objectives to deliver growth in EPS and total risk-adjusted securityholder returns above the average Australian Real Estate Investment Trust index, to create quality property assets and to deliver value for our customers and alignment with the delivery of our strategic priorities.

***Both these policies are intended to align the personal financial interests of Directors and Senior Executives with those of securityholders.***

 <b>GROW ASSET RETURNS AND OUR CUSTOMER BASE</b>	 <b>OPERATIONAL EXCELLENCE</b>	 <b>CAPITAL STRENGTH</b>
<b>Strategic priorities</b> Provide great customer experiences, actively manage our portfolio and develop new assets	<b>Strategic priorities</b> Improve the way we operate across the Group to drive efficiencies, compliance, sustainability and employee engagement	<b>Strategic priorities</b> Actively manage our balance sheet to maintain diverse funding sources and an efficient cost of capital
<b>FY18 Financial highlights</b> <ul style="list-style-type: none"> <li>• Annual Growth in Funds From Operations of 7.5% to \$863m</li> <li>• FFO per security of 35.6cps growth of 6.6%</li> </ul>	<b>FY18 Financial highlights</b> <ul style="list-style-type: none"> <li>• ROE of 11.2%</li> <li>• NTA per security of \$4.18</li> <li>• Distribution of 26.5 cps</li> </ul>	<b>FY18 Financial highlights</b> <ul style="list-style-type: none"> <li>• TSR over 3 yrs of 16.0%</li> <li>• CAGR in EPS over 3 yrs of 5.2%</li> </ul>

## WHAT DID OUR EXECUTIVES RECEIVE?

- In FY18, there was no increase in the Fixed Pay for the Managing Director as the current level of Fixed Pay remains appropriate. The Managing Director's Fixed Pay has remained unchanged for the prior five years.
- The Fixed Pay for one Senior Executive was increased to reflect their increased scope of responsibilities and market relativities. The average increase in Fixed Pay for the Senior Executives was less than 1%.
- Our considered approach to remuneration will continue in FY19 with no increases planned for the Fixed Pay of the Managing Director or the majority of our Senior Executives
- A range of STIs against target was awarded to the Managing Director and Senior Executives this year and awards are set out in section 3.3. The STIs awarded reflected a mixed performance against the Corporate Balanced Scorecard. Any individual STI awarded above target takes the form of Stockland securities which vest in future years, subject to continued service by those executives and to Stockland's clawback policy.
- Three year underlying profit per security CAGR of 5.2% was above the minimum vesting threshold of 4.5% set in FY16. Accordingly 70.1% of the EPS component of the FY16 LTI award has vested. TSR over the three year performance period of 16.0% which was below the performance benchmark (the ASX AREIT 200 index excluding Stockland) of 30.9% and accordingly none of the TSR component of the FY16 LTI awards has vested. These combined outcomes resulted in the vesting of 35.05% of FY16 LTI awards.

## FIXED PAY

Fixed Pay includes salary, superannuation and other employee benefits. Annual reviews of Fixed Pay take into account each individual's skills and experience relevant to their roles, internal and external benchmarks and the importance of a considered approach to pay. Our policy is to review Senior Executives' Fixed Pay each year against independently provided external data sources and market benchmarks from a group of ASX50 companies and larger property firms, ensuring that our Fixed Pay remains competitive with companies of comparable size and complexity in our industry.

For the 2018 financial year, Fixed Pay did not increase for our Managing Director and CEO or for the majority of our Senior Executives. The average increase across all key management personnel (KMP) in FY18 was less than 1%.

## SHORT TERM INCENTIVES

STI rewards the annual progress towards long-term objectives. All permanent employees employed at 30 June of the applicable financial year and who have greater than 3 months service are eligible to be considered for a STI award.

STI awards are dependent on Group, business unit and individual performance measures based on a Balanced Scorecard approach which the Board uses to set financial and non-financial Key Performance Indicators (KPIs) that are aligned to overall business strategy and key priorities. The Corporate Balanced Scorecard is used by the Board to determine the size of the overall STI pool.

## LONG TERM INCENTIVES

Our LTI plan aims to align executive remuneration with securityholder returns and help retain our key talent. LTI awards are issued as performance rights granted under the Stockland Performance Rights Plan. Half of the LTI allocated to Senior Executives is linked to Stockland's performance against underlying EPS growth targets with the remaining half linked to a TSR performance hurdle.

The tables below show Stockland's performance against the respective underlying EPS and TSR performance hurdles for the three years to 30 June 2018.

Hurdle	Target/ benchmark performance	Actual performance	Out/(Under) performance	% Vested	Weight	Vesting outcome
<b>EPS for FY16–18<sup>1</sup></b>						
Compound Average Growth Rate EPS <sup>1</sup>	4.5%	5.2%	0.7%	70.1%	50%	35.05%
<b>TSR for FY16–18<sup>2</sup></b>						
Relative TSR FY16–FY18 <sup>2</sup>	30.9%	16.0%	(14.9%)	0.0%	50%	0.0%
<b>Total Vesting</b>						<b>35.05%</b>

<sup>1</sup> Based on underlying profit. For LTI awards made in FY17 and future years, the Earnings (EPS) performance benchmark is FFO per security.

<sup>2</sup> Benchmark based on ASX AREIT 200 Index excluding Stockland. For LTI awards made in FY17 and future years, the TSR performance benchmark is a tailored index comprised of 6 large companies forming 80% and 9 smaller companies forming 20%.

The performance rights that were awarded to the Managing Director and CEO and other Senior Executives under the Performance Rights Plan in FY18 are outlined in the table below. These awards are subject to a three year performance period (FY18–FY20) with the awards measured against two performance hurdles: Relative TSR and FFO Growth.

As advised at the October 2017 AGM, the maximum vesting hurdle based on the Compound Annual Growth Rate for FFO for LTI awards granted during FY18 was 6.2% (40.0 cps) for the three years from 1 July 2017 to 30 June 2020, with the threshold or minimum vesting hurdle being 4.5% (38.1 cps).

## CORPORATE BALANCED SCORECARD

The Board's assessment of performance against the Corporate Balanced Scorecard in FY18 is provided in the following table.

Strategic Priority	KPI	Commentary	Overall Rating
<b>Business and Financial Performance (75%)</b>			
<b>Group and Business Unit performance</b>			
	<b>Group Performance</b>		
	<ul style="list-style-type: none"> <li>Funds from Operations per security (FFOps) guidance of 4.5–6.5%; and</li> <li>Return on Equity<sup>1</sup> (ROE) of 10.5–11%.</li> </ul>	<ul style="list-style-type: none"> <li>FFOps growth was 6.6% to 35.6 cps.</li> <li>ROE<sup>1</sup> was 11.2%.</li> </ul>	Above Target
	<b>Business Performance</b>		
	<ul style="list-style-type: none"> <li>Operating Business financial performance in line with plan;</li> </ul>	Business unit financial performance was mixed: <ul style="list-style-type: none"> <li>Commercial Property FFO of \$614 million was in line with FY17 and in line with plan.</li> <li>Residential Operating Profit of \$336 million was well up on FY17 and above plan.</li> <li>Retirement Living profit of \$53 million was down on FY17 and below plan.</li> </ul>	On Target
	<ul style="list-style-type: none"> <li>Maintain conservative debt profile and remain within policy limits for gearing, interest cover, asset mix, credit rating and debt profile</li> <li>Credit rating maintain A- rating</li> <li>Debt maturity profile &gt;5 years</li> <li>Liquidity buffer 10% above committed and undrawn facilities</li> <li>Gearing within range 20–30%</li> </ul>	<ul style="list-style-type: none"> <li>Average Debt Maturity was over five years and Credit Rating and liquidity buffer maintained with gearing and interest cover all within guidelines</li> </ul>	Above or On Target
	<ul style="list-style-type: none"> <li>Deliver against Key Business Priorities</li> </ul>	<ul style="list-style-type: none"> <li>Mixed progress against our key business and strategic priorities</li> </ul>	On or Below Target
<b>Customer, Stakeholder and Sustainability</b>			
	<ul style="list-style-type: none"> <li>Achieve independent customer satisfaction ratings goals for each business unit</li> </ul>	<ul style="list-style-type: none"> <li>The customer satisfaction scores were above target for Residential, on target for Retirement Living and mixed for Commercial Property with Logistics above and Retail slightly below target</li> </ul>	On Target
	<ul style="list-style-type: none"> <li>Embed sustainable business practices across Stockland and make good progress towards environment improvement goals</li> </ul>	<ul style="list-style-type: none"> <li>Recognised as a leading Global Real Estate firm in DJSI Sustainability Survey. Continued progress across our GHG measures and other sustainability targets</li> </ul>	Above or On Target
<b>Organisational Performance (25%)</b>			
<b>People Management</b>			
	<ul style="list-style-type: none"> <li>Maintain employee-initiated turnover (employees rated good and above) to 12.0% or less</li> </ul>	<ul style="list-style-type: none"> <li>turnover reduced from FY17 and was 10.9%;</li> </ul>	Above Target
	<ul style="list-style-type: none"> <li>Achieve employee engagement target – 80%</li> </ul>	<ul style="list-style-type: none"> <li>Employee engagement score increased on FY17 and was 83%;</li> </ul>	Above Target
	<ul style="list-style-type: none"> <li>Increase women as percentage of total management at 47.3% or better</li> </ul>	<ul style="list-style-type: none"> <li>Women in management was 45.1%</li> </ul>	Below Target
	<ul style="list-style-type: none"> <li>Increase women as percentage of total senior management to 39% or better</li> </ul>	<ul style="list-style-type: none"> <li>Women in senior management was 38.9%</li> </ul>	On Target
	<ul style="list-style-type: none"> <li>Increase female General Managers to 36.4% or better</li> </ul>	<ul style="list-style-type: none"> <li>34.5% of General Managers were females</li> </ul>	Below Target
	<ul style="list-style-type: none"> <li>Progress longer term diversity and inclusiveness objectives</li> </ul>	<ul style="list-style-type: none"> <li>Good progress made including again being recognised as a WGEA Employer of Choice for Gender Equality for fourth consecutive year.</li> </ul>	On Target
<b>Operational Excellence and Risk Management</b>			
	<ul style="list-style-type: none"> <li>Continued Process Improvement and enhanced innovation</li> </ul>	<ul style="list-style-type: none"> <li>Whilst a number of deliverables such as new HR, Sales and Marketing systems were implemented in line with project milestones, the majority of other deliverables have been delayed</li> </ul>	Below Target
	<ul style="list-style-type: none"> <li>Embed strong risk compliance and safety management practices</li> </ul>	<ul style="list-style-type: none"> <li>Excellent safety record with no major preventable injuries with continued embedding of the risk and compliance framework</li> </ul>	On Target

<sup>1</sup> Excluding Residential workout projects. ROE was 11.0% including these projects.

## FINANCIAL PERFORMANCE OVER THE PAST FIVE YEARS

Underlying profit, FFO, EPS and other key financial performance measures over the last five years are set out below.

	FY14	FY15	FY16	FY17	FY18
Underlying profit <sup>1</sup> (\$M)	555	608	660	696	<b>731</b>
FFO <sup>2</sup> (\$M)	573	657	740	802	<b>863</b>
AFFO <sup>3</sup> (\$M)	452	531	624	687	<b>756</b>
Statutory profit (\$M)	527	903	889	1,195	<b>1,025</b>
Security price as at 30 June <sup>4</sup> (\$)	3.88	4.10	4.71	4.38	<b>3.97</b>
Distributions/Dividends per security (cents)	24.0	24.0	24.5	25.5	<b>26.5</b>
Underlying EPS (cents)	24.0	25.9	27.8	29.0	<b>30.2</b>
FFO per security (cents)	24.8	28.0	31.1	33.4	<b>35.6</b>
AFFO per security (cents)	19.6	22.6	26.3	28.6	<b>31.2</b>
Statutory EPS (cents)	22.8	38.5	37.4	49.8	<b>42.3</b>
Stockland TSR – 1 year (%)	20.5	12.3	16.4	7.1	<b>(7.0)</b>
A-REIT 200 TSR (excluding SGP) – 1 year (%)	11.3	24.2	21.1	(6.7)	<b>11.5</b>
Tailored index TSR <sup>5</sup>	–	–	–	–	<b>7.2</b>

1 Underlying profit was the non-IFRS performance measure used in determining the EPS component of LTI remuneration for periods up to and including 30 June 2016. Performance against this benchmark is set out in section 3.4 of our Remuneration Report in our Annual Report.

2 FFO is a non-IFRS measure which replaced underlying profit as Stockland's primary reporting measure from FY17. This change recognises the importance of FFO in managing our business and the use of FFO as a comparable performance measurement tool in the Australian property industry. The reconciliation of FFO to statutory profit is provided on page 11 of the Annual Report.

3 AFFO is stated exclusive of derivative close out costs and inclusive of Commercial Property and Retirement Living maintenance capex.

4 FY13 closing security price was \$3.48.

5 Tailored AREIT 200 index comprised six large companies forming 80 per cent and nine smaller companies forming 20 per cent as detailed in section 2.2 of our Remuneration Report in our Annual Report. Measured from FY17.

## REMUNERATION OUTCOMES

### Executive remuneration outcomes

Executives received a mix of remuneration during FY18 including Fixed Pay, STI awarded as cash and deferred securities and LTI awarded as performance rights.

The table below outlines the cash remuneration that was received in relation to FY18 which includes Fixed Pay and the non-deferred portion of any FY18 STI. The table also includes the value of DSTI awards from FY16 and FY17 which vested during FY18 and LTI awards from FY16 which vested during FY18.

### Executive Remuneration (Non-Statutory Presentation)

		Fixed Pay <sup>1</sup> \$	STI awarded and received as cash \$	Total cash payments in relation to financial year \$	Previous years' DSTI that were realised <sup>3</sup> \$	Previous years' LTI that were realised <sup>3</sup> \$	Total Remuneration (received and/ or realised) \$	Awards which lapsed or were forfeited <sup>4</sup> \$
<b>Executive Director</b>								
<b>Mark Steinert</b> <i>Managing Director and CEO</i>	<b>2018</b>	<b>1,500,000</b>	<b>702,000<sup>2</sup></b>	<b>2,202,000</b>	<b>1,014,208</b>	<b>1,326,726</b>	<b>4,542,934</b>	<b>1,711,320</b>
	2017	1,500,000	750,000 <sup>2</sup>	2,250,000	1,080,721	1,889,970	5,220,691	1,776,090
<b>Senior Executives</b>								
<b>Stephen Bull</b> <i>Group Executive and CEO, Retirement Living</i>	<b>2018</b>	<b>700,000</b>	<b>300,000</b>	<b>1,000,000</b>	<b>313,888</b>	<b>355,525</b>	<b>1,669,413</b>	<b>479,171</b>
	2017	700,000	420,000	1,120,000	307,708	491,655	1,919,363	462,090
<b>Robyn Elliot<sup>5</sup></b> <i>Chief Technology and Innovation Officer</i>	<b>2018</b>	<b>128,250</b>	<b>68,400</b>	<b>196,650</b>	<b>-</b>	<b>-</b>	<b>196,650</b>	<b>-</b>
	2017	-	-	-	-	-	-	-
<b>Katherine Grace</b> <i>General Counsel and Company Secretary</i>	<b>2018</b>	<b>600,000</b>	<b>320,000</b>	<b>920,000</b>	<b>198,286</b>	<b>266,141</b>	<b>1,384,427</b>	<b>342,266</b>
	2017	550,000	293,333	843,333	176,426	178,485	1,198,244	356,970
<b>Louise Mason<sup>6</sup></b> <i>Group Executive and CEO, Commercial Property</i>	<b>2018</b>	<b>75,000</b>	<b>-</b>	<b>75,000</b>	<b>-</b>	<b>-</b>	<b>75,000</b>	<b>-</b>
	2017	-	-	-	-	-	-	-
<b>Tiernan O'Rourke</b> <i>Chief Financial Officer</i>	<b>2018</b>	<b>875,000</b>	<b>420,000</b>	<b>1,295,000</b>	<b>314,229</b>	<b>451,345</b>	<b>2,060,574</b>	<b>581,847</b>
	2017	875,000	466,667	1,341,667	323,700	643,860	2,309,227	604,440
<b>Darren Rehn</b> <i>Group Executive and Chief Investment Officer</i>	<b>2018</b>	<b>750,000</b>	<b>450,000</b>	<b>1,200,000</b>	<b>361,262</b>	<b>382,831</b>	<b>1,944,093</b>	<b>513,396</b>
	2017	750,000	450,000	1,200,000	362,664	499,320	2,061,984	499,320
<b>Michael Rosmarin</b> <i>Chief Operating Officer</i>	<b>2018</b>	<b>600,000</b>	<b>280,000</b>	<b>880,000</b>	<b>228,124</b>	<b>318,771</b>	<b>1,426,895</b>	<b>410,716</b>
	2017	600,000	320,000	920,000	214,235	454,425	1,588,660	427,050
<b>John Schroder<sup>7</sup></b> <i>Group Executive and CEO, Commercial Property</i>	<b>2018</b>	<b>1,050,000</b>	<b>600,000</b>	<b>1,650,000</b>	<b>590,978</b>	<b>557,602</b>	<b>2,798,580</b>	<b>1,896,056</b>
	2017	1,050,000	630,000	1,680,000	430,664	794,970	2,905,634	746,790
<b>Simon Shakesheff</b> <i>Group Executive, Strategy and Stakeholder Relations</i>	<b>2018</b>	<b>600,000</b>	<b>293,333</b>	<b>893,333</b>	<b>241,543</b>	<b>318,771</b>	<b>1,453,647</b>	<b>410,716</b>
	2017	600,000	320,000	920,000	244,763	434,715	1,599,478	427,050
<b>Andrew Whitson</b> <i>Group Executive and CEO, Residential</i>	<b>2018</b>	<b>750,000</b>	<b>450,000</b>	<b>1,200,000</b>	<b>379,846</b>	<b>382,831</b>	<b>1,962,677</b>	<b>513,396</b>
	2017	750,000	450,000	1,200,000	362,664	531,075	2,093,739	499,320

1 Fixed Pay includes salary, superannuation and salary sacrificed items.

2 For Mark Steinert this is 50 per cent (two thirds for Senior Executives) of his STI awards. The remaining 50 per cent of his STI (one third for Senior Executives) was deferred in Stockland securities which vests over two years following the performance year, 50 per cent after year one and 50 per cent after year two subject to continued employment.

3 This represents the value of all prior years' deferred STI and LTI which vested during FY18 using the 30 June 2018 closing security price of \$3.97.

4 The value shown represents the value of any previous years' equity awards which lapsed or were forfeited during the financial year. The FY18 values are based on the closing 30 June 2018 security price of \$3.97 (FY17: \$4.38).

5 Robyn Elliot was appointed 26 March 2018.

6 Louise Mason was appointed 4 June 2018.

7 John Schroder ceased employment 2 July 2018. In addition to the above, post year end John received a termination benefit payment of \$1,050,000.

## Remuneration Ratio – Managing Director/Employee

Remuneration Measure	FY18	FY17	FY16 <sup>1</sup>	FY15	FY14
Managing Director's annual total compensation ÷ employee median annual total compensation	39	46	48	44	44
% increase in Managing Director's annual total compensation ÷ employee's median % increase	-5.38	1.08	-0.26	1.50	6.04

<sup>1</sup> Annual total compensation for each year is calculated as Fixed Pay FTE (as at 30 June of end of performance year) + STI FTE (awarded for relevant performance year) + LTI (allocated at start of performance year), for employees who participated in the Remuneration Review plus sales employees paid on a commission basis.

## GENDER PAY EQUITY RATIO

We aim to achieve gender pay equity within roles by considering an individual's positioning against the relevant market benchmark and comparing gender outcomes. This analysis is shown in the gender pay equity ratio table below. Our target is for a gender pay equity ratio of 100 per cent plus or minus three per cent across the company. This means that males and females would be paid the same for performing similar roles, with a small variance to allow for different levels of experience and other factors. Using the gender pay equity ratio overcomes the limitation of measuring pay equity based solely on average fixed pay by job band, which ignores different market values placed on different jobs.

FY18	98.3%
FY17	98.6%
FY16	97.4%
FY15	97.2%
FY14	96.9%

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# Our reporting approach and external assurance

*The aim of our integrated approach is to inform investors and other stakeholders on how our business creates value over the short, medium and long term.*



## MATERIALITY PROCESS

Stockland has used the materiality definition from the Integrated Reporting Framework that states 'an integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term'.

We identified our FY18 material matters using the following process.

The issues identified through this process and the sustainability content in the Annual Review are reviewed and approved by Stockland's executive team and the Board.

IDENTIFY	EVALUATE AND PRIORITISE	ALIGNMENT AND DISCLOSURE
<p>We combined the outcomes of the following two materiality processes to identify draft material matters:</p> <ol style="list-style-type: none"> <li>1. Materiality test capturing internal and external perspectives in alignment with the principles of AA1000 and GRI G4, including: <ul style="list-style-type: none"> <li>• Investor research and engagement;</li> <li>• Customer feedback and insights;</li> <li>• Employee surveys;</li> <li>• Political and regulatory developments;</li> <li>• Industry engagement and advocacy; and</li> <li>• Social and mainstream media.</li> </ul> </li> <li>2. An internal operational and strategic risk assessment.</li> </ol> <p>The resulting list of matters served as a starting point for our integrated reporting materiality workshop.</p>	<p>An integrated reporting materiality workshop was held with members of the leadership team to identify any additional relevant issues, rank issues of greatest significance and prioritise them based on their ability to affect value.</p> <p>Material matters were mapped in terms of their potential impact on value creation over the short, medium and long term.</p>	<p>Following the materiality workshop, the identified material matters were validated via a six stage collaborative assessment undertaken by Group Strategy. This included input from teams across the whole business.</p> <p>The final list of material matters was presented to our internal Integrated Reporting Committee.</p> <p>Once confirmed, the matters formed the basis of the Board and Executive Committee's strategy discussion.</p>

## MATERIAL MATTERS

Through our materiality research, we have identified emerging societal issues that impact the landscape in which we operate. They represent future risks and opportunities for our business and our stakeholders over the short, medium and long-term.

Our material matters also align with the core focus areas of our sustainability strategy. We anticipate that these matters will evolve over time and we will continue to work with relevant stakeholders to shape these issues going forward.

Our material matters are detailed on page 17 under 'Responding to our risks and opportunities'.



Further information on how we are responding to these matters can be found on our website at [www.stockland.com.au/corporatereporting/materialmatters](http://www.stockland.com.au/corporatereporting/materialmatters)

## ASSURANCE

The sustainability reporting content within the Annual Review has been externally assured in accordance with the Australian Standard for Assurance Engagements (ASAE3000): Assurance Engagements other than Audits and Reviews of Historical Financial Information and (ASAE 3410): Assurance Engagement on Greenhouse Gas Statements by Ernst & Young (EY).



A copy of EY's assurance statement is available on our website at [www.stockland.com.au/about-stockland/sustainability](http://www.stockland.com.au/about-stockland/sustainability)

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Point Cook, Vic

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