

LEND LEASE STRATEGY DAY

HELD ON
WEDNESDAY 13 MAY, 2009

AT THE OBSERVATORY HOTEL, SYDNEY

STEVE McCANN
LEND LEASE'S STRATEGIC DIRECTION PRESENTATION

MR STEVE McCANN: Thanks Sally and welcome to everybody. Thank you for attending, and we trust you'll get a lot out of today in terms of understanding Lend Lease's key strategic focus going forward.

First let me just touch on my first five months as CEO. I think obviously I had the advantage of a time as finance director before stepping into this role. So I had a pretty good insight into what I considered to be the key challenges facing Lend Lease, both in the short term and over the medium to longer term. We approved with the board the key strategic initiatives as early as January, so we were already well prepared in our thinking and we're not very well advanced in our organisational restructure and in the cost-out initiatives we've been pursuing.

The reality is we've lived and breathed the economic downturn probably for a lot longer than most Australian companies, given our exposure in markets in the UK and the US, which have been far more distressed than Australia and remain that way. So we're ahead of the curve, really, in our view, managing through the downturn. That's one of the reasons why we have a very strong balance sheet. It's one of the reasons why we're well advanced in our restructure and we can be cautious but confident of the way forward for Lend Lease in the medium term.

So our objective for today is to highlight the key features of Lend Lease. We've structured the day around emphasising our clear and focused strategy and we'll keep coming back to six key points under the heading. Firstly, our undeniable competitive advantage, secondly our simple and clear value proposition, thirdly the differentiation we see between Lend Lease and our key competitors, the undeniable robustness of our business model and the new management team is properly focused on simply pursuing that model and making sure that our execution doesn't let us down. We've got the right strategic priorities for the current economic climate and we're focused on the right sectors for growth and, finally, we're not going to sacrifice longer term shareholder value to meet short-term profit targets.

For my part of the agenda I'll focus on how we've tightened our strategy and give you a brief update on our operations. I'll also talk about the principles that underpinning our business model and what I regard as a very simple value proposition.

Starting with strategy, this slide shows what I consider to be the irrefutable mathematics of our business model. It captures the simplicity of an integrated property model and quite simply what it shows is that we're capable of extracting the maximum value from real estate because we have skills across the entire value chain. We're pretty unique in that regard, not just domestically but also internationally. That enables us to maximise the returns that are possible from property and we do this best when we collaborate across all of our businesses. Obviously that plays best to the large scale inner urban regeneration projects, which is one of our core targets.

The other aspect of our model is that where we do utilise third party capital and invest alongside our investors or our clients, or partners or other developers – and in many cases government partners – at the same time as capturing all the revenue streams we're by definition also using a lower amount of capital than our competitors. So provided we execute well it follows that we must deliver the highest return on capital in our sector. The issue is, of course, that we must execute well at all times and that's the key focus of management going forward.

So what are we doing to ensure that the model does deliver value for shareholders? We've taken a very long detailed look at our strategy, and this work commenced well over a year ago, and we've made some key decisions in refining that strategy. I'm not about to get up here and say it's a new strategy, the reality is it's a refinement of our existing business model and strategy.

Firstly, in relation to targeting performance metrics, we're focused on total shareholder return not earnings per share growth. Earnings per share growth can cause the wrong types of behaviours, especially in a cyclical business like property, and there's more than enough evidence of that in the market today.

We've got a very enviable international platform. We've invested a lot in that over the years, but the reality is we can lose sight of the importance of being a leader in our home market. We'll be putting a lot of energy into making sure that we reposition ourselves as a leader in Australia going forward.

We're not looking for further diversification. We'll consolidate our market leading positions in urban regeneration, in residential subdivision, in commercial delivery and in retirement, and we'll seek to achieve a scale platform in all of our key sectors. We will recycle capital but we'll be doing that to enable investment to fund future growth, not for short-term profit targets, and I think you've already seen the evidence of that in our recent announcement.

The reality is we're well capitalised to give us that flexibility. We're not a distressed seller of assets. A lot of our peers are forced sellers at this point in the cycle and it's exactly the wrong time to be selling valuable assets. We are going to continue to seek to maximise the benefits from integrating our business model. We're going to aim to do that in all the markets that we operate over the longer term. So having reset the overall strategy we've then looked at both our short-term and our long-term priorities.

This slide shows how we've broken down the challenge for repositioning Lend Lease. Within five years we're aiming for Lend Lease to be an unquestioned leader in the property space internationally. What that means to us that we need to be recognised as a leader in providing world-class property solutions. We need to provide a strongly integrated offering in all of the major regions in which we operate and we need to be recognised as a trusted and specialist investment manager. They are the three cornerstones of our integrated model, and driving a high return on capital.

Over a two to four year timeframe we'll be tracking to that by reshaping our portfolio, establishing and supporting the right growth initiatives over that period and investing continuously in the best people. We will be, as I said, focusing very strongly on operational excellence and execution. The first step in that journey is largely complete. We now have the right structure and we have the right cost base to deal with the current market realities.

We'll be very focused on disciplined capital allocation, both in the short and the longer term, and Brad Soller will talk a bit more about this in some detail.

So the tactical actions in the short term are largely complete. Over the last six months we've right-sized the cost base of the group. We've restructured the non-Bovis business into three distinct regions, APAC, CEMEA and Americas each under one CEO. So there are three CEOs reporting in to me from the regions rather than nine. Of course, that's led to some significant cost-out in overhead structure, and we've replicated a similar collapse of the structure in regions within those countries that we operate. So we've moved away from a state-based model in Australia, for example, and we've taken out the overhead associated with that.

We've done that, though, on recognition that property is fundamentally local, so you have to have the right people on the ground in the sectors in which you operate.

We've right-sized the cost base through significant head count reduction. There's been a lot of talk about that. I won't get drawn into the numbers discussion again but the reality is we have a stable work force of around about 10,000 but that is a number that goes up and down as we complete and begin new projects. A lot of that is project based construction workers.

We've prioritised the pipeline. I've spoken a lot about this over the last few months. We are targeting key strategic deals in a very distinct order of priority. Most of those deals are deals that provide backlog across all of our businesses into the longer term and examples of that would be Stratford, the RNA site that we're bidding on in Queensland, Barangaroo and targeting government stimulus spending initiatives across our business.

We will remain very focused on liquidity during this tough market climate and the reason equity raising we undertook – well it doesn't seem that recent any more, given how many they've been in between – but back in February we raised \$300 million and that has given us a clear line of sight for funding our pipeline of projects over the next three years.

In terms of reshaping the portfolio we will be guided by the three goals on this slide. Maximise investment performance: this means employing our capital where we can earn the right returns for the risk we are taking and then, of course, managing those risks well. In over 50 years as a property player that's one thing we believe we have learned over time.

Brad Soller, as I said, will talk more about our disciplined approach to capital management. We're aiming to play in the markets where we can achieve the right scale and deliver multiple earnings opportunities and over time you should expect to see us in less markets but with a more integrated approach.

This also applies to sectors. We will be targeting the sectors where we have genuine expertise and competitive advantage and the sectors which provide sustainable growth across more than one business line.

This is all about simply setting a coherent strategic framework, and that's discipline and that's very simple to follow. Having done that, everyone in the organisation can focus on delivery. I think if you look around the markets in which Lend Lease has operated over the years it's undeniable that we're one of the greatest deliverers of projects in the world. We need to simply get more rigorous and more consistent on the operational excellence that we pursue.

On execution, I think it's fair to say that a lot of CEOs get lost in the rhetoric on this subject and actually don't deliver but the reality is we've seen the difference between poor execution and outstanding execution. We've got a very clear understanding of what it takes to deliver on operational excellence and we can already show you tangible progress towards that goal.

This slide shows what we consider to be five of the key elements of success. Interestingly, we had a dinner last night for some of the senior management team with Bain & Company and they had one of their experts out from the US who's basically flogging a book that he's just written. But it was interesting to see that the key planks that he puts forward for delivering success are very similar to the five that we have on this slide.

We think we're very well advanced on the first three. I've talked a lot about this with the regional structure changes. We do have a lot more work to do on people and culture and on the reward system, but the reality is we will always be seeking to upgrade our bench strength. We are hiring even now, even though we are also making people redundant at the same time. We're going to be constantly working on getting the best people and we have over many years trained many of the best people in the property sector, so we have a track record in that regard.

In relation to rewards we've moved to a balanced score card approach in terms of performance based remuneration. What that means - and it will obviously vary year to year and it will hopefully get better each time we do it, but it means breaking up targets between financial targets, people initiatives, operational excellence and key growth initiatives to set the business up for the longer term. It won't be driven by short-term P&L.

The final element of our strategic thinking, which I want to share with you, is how we're seeing the major trends in the property market and how we are reacting to those trends. One of the key trends will be the continuing urbanisation of the world's populations. Already about 50 per cent of the world lives in cities, and that's projected to increase to 70 per cent by 2050. This is a very important trend. It aligns very closely with most governments' ambitions to reduce carbon emissions and to deliver sustainable communities. It obviously plays very well to our strength as a deliverer of large-scale mixed-use urban regeneration projects, which will continue to be one of our key platforms going forward.

The second trend, hard to probably get your mind around today given the lack of liquidity we're seeing, but the reality is there will be significant strong growth in superannuation funds under management and an increase in alternative funds management such as sovereign wealth funds. Projections are for Australian superannuation funds under management to triple in size by 2020. I'm sometimes asked by people whether there's a flaw in our capital-like model, being the inability to raise new equity. The reality is that's a short-term issue.

Where we are today in our investment management business: in the wholesale market our property investment management business is clearly the best performer in Australia today and we are very well positioned to take advantage of the growth in that sector that's inevitable. The key for us - we have the scale platform - the key for us now is to deliver growth and increase our margins. Growth from here should largely fall to the bottom line in that business.

The third is the ageing population. You've already seen us, as we heralded for some time, achieve our ambition of becoming the number one manager of retirement villages, and Rod Fehring will talk a bit more about that later. The population is increasing in age and it's expected that over 27 per cent of

people globally will be greater than 65 over the next 40 years compared to about 15 per cent today. Looking around the room, I think there's substantial evidence that that must be true. There's probably only one or two of you, in fact only one – Sarah – that I can see that may not fit into that category. The rest of you will be in that category. I certainly will.

The next is climate change. Regardless of the rhetoric around climate change and regardless of what you believe and who you believe on both sides of that argument, the fact is it's happening and all governments globally are responding to it. There is going to be mandatory carbon trading schemes established in various markets and we are a global leader in sustainability already. We're the only property company listed on the three global sustainability indices. We have a very strong competitive advantage in this area, both in social economic and environmental responsibility, and we expect this to be an increasing competitive advantage going forward.

Then finally, infrastructure and PPP projects. In the context of the government budget announcements last night it's obviously a key area of focus for both the Australian government but also the other governments in the countries we operate in, the UK and the US in particular. We're very well positioned to take advantage of this trend. We see this happening in two phases. Firstly, there's some urgency for the governments to let projects out. They want to show runs on the board and they want to get the stimulus spending moving quickly.

Bovis is very well positioned in a number of key markets - health care, education in particular – take advantage of this trend. Our focus is on social infrastructure not hard infrastructure. So we're positioning across our markets to capture as much of that initial wave of government stimulus as we can, and you've already seen some evidence of that in the New South Wales schools projects.

The second trend will be to privatise those initiatives. Inevitably, governments are going to need to rebalance budgets. All stimulus spending and printing of money eventually leads to increased taxes or inflation and, unquestionably, there's going to be a move back towards private funding. Our ambition is to secure our fair share of projects initially and position ourselves in those government relationships through our delivery and quality execution to then take advantage of the move to privatisation and invest in those markets and projects where we see the right risk return criteria. Mark Menhinnitt will talk a lot more about the PPP initiatives later on today.

So in summary, we see five key trends affecting our business going forward and we're very well placed to capitalise on those trends. We'll keep coming back to the strategic settings for the group through the day and how each of the businesses will support those settings. But I hope it's already clear to you that my senior management team and I have a very clear understanding of where we need to take the group over both the short and longer term.

Before I had over to Tony and Brad, I'll give you a very high level update on the business, particularly in the UK, given that Dan Labbad was unable to be with us here today.

So I'll start with an overview of the market. Clearly, market conditions remain very challenging, particularly in the residential markets in the US and UK, and the global economy is unquestionably impacting on Australia. The key impacts in our business are lack of transaction activity, which has obviously impacted our asset recycling ambitions. But as I've already said we are not a distressed seller of assets and we're only going to sell assets where we believe that's in the best interest of creating longer term shareholder value.

As announced on Monday, we also are expecting continuing expansion of cap rates, in particular in the UK markets in retail, but also across the markets more generally to a lesser extent.

We've talked about some of the key trends in property. This is creating some opportunities for Lend Lease given our model, our knowledge and our capabilities and given our capital partnership approach and our deserved reputation as a good delivery partner. We're seeing the Australian REIT market de-leveraging. We expect it also to be de-risking. We expect there to be consolidation. It's going to result probably in a number of dominant players with a more passive approach to what they're doing a few niche players. A lot of REITs are going to need to exit their development position to return to that lower risk model, and we're very well positioned in that regard. There aren't that many buyers of those sorts of products.

There's also going to be significant growth, as I've already mentioned, from the government stimulus spending and that will play to our integrated skill-set and it's somewhat counter-cyclical to us to our businesses.

So on Monday we did announce an earnings guidance update, and I'll just recap on that briefly. You've seen the detail, I presume. The key point really here is to note that our operating earnings outlook remains in line with the guidance we gave in February. We did flag at the time that about 30 per cent of that outlook was subject to asset sales and we have decided not to sell in this market, and the reality is the underlying operating earnings we expect to be in the vicinity of \$300 million, so not quite 30 per cent off what we indicated in February.

I'll just touch again on the model across the sectors in which we operate and really this slide, which you've seen before, we put this up at the time of our half year results, shows our current positioning and our earnings mix. The key takeaways here are that there is a strong base of recurring earnings from our investment management and our investment on assets, and particularly the retail sector. The rental income and investment management earnings at the moment comprises about 30 per cent of group earnings.

Then there are parts of our business such as PPP, which at the moment's about 12 per cent of group earnings, which is counter-cyclical to our core sectors.

So we're very well diversified by both sector and geography. As I've already pointed out we will over the next two to three years begin to reshape that portfolio and you will see the mix by sector and geography beginning to change.

Just taking a quick look at where we are in each of our businesses. It goes without saying that retail sales have been slowing across the globe but the reality is prime assets remain defensive and have long-term value. Our development pipeline in retail we've pulled back on considerably. What we've endeavoured to do is to put ourselves in a position where we have significant option value that doesn't utilise a lot of holding cost, and we think we've achieved that.

In the residential business, the markets remain challenging and particularly the US and UK. In Australia the first homebuyer segment has been very strong and our proportion of first homebuyers in the Delfin business increased from about 10 per cent generally to about 25 per cent by April. Obviously, the announcement last night that that's going to be phased out over time is probably slightly better than we had expected, so that will be a boost for that sector as well.

On the Public to Private Partnerships we've touched on that already and Mark will talk about that further.

Project management and construction: we are managing our cost base for current market conditions. We've taken out a significant amount of cost in that business. Our backlog GPM at 31 December 2008 was \$774 million, which is broadly in line with history and it will underpin the '09 and '10 numbers. Clearly, we expect to see that come off. We expect to see that starting to impact more directly in the 2011 financial year, but one of the key objectives for us is to have repositioned ourselves very well away from the commercial sector towards government spending over that timeframe.

In investment management, we are continuing to perform well. The APPF Retail Fund is the best performing fund in the market today, and we think that one thing that has worked in our favour through this downturn is the reality is our conservative cautious approach to treating property as property has paid significant dividends. We see a significant amount of loyalty in our investor base and we expect to be able to benefit from an improvement in liquidity in the wholesale markets going forward.

So I'll just take you through our UK business in a little bit more detail in Dan's absence. Operationally, we are seeing some small increase in vacancies and

retail sales are slowing but there was some press recently you may have seen indicating that Bluewater's footfall was up 7 per cent month on month, which is a great statistic. We need to wait and see whether that does translate into sales. We've touched on valuations. On development, our two major developments in the UK, Preston and Chelmsford, are both pre-leased to key tenants. We've probably got about five years essentially of option value sitting in those projects, and they're not requiring any capital going forward.

If the market recovers in London sooner than expected and some of the local councils and governments move ahead in terms of funding their fair share of infrastructure on those projects then they're likely to come online sooner, but we're not factoring that in to any of our forecasts over the next five years.

In relation to Stratford, I'll give you an update there and I just want to make sure that we're crystal clear on Stratford because there's been a lot of confusion. Most of that is to do with a continuing relentless press campaign in the UK. They're pretty obsessed with this topic, and there's a lot of politics around it as well. So the position that we are in right now, and we are expecting to get an update on this from the government in the next 24 to 48 hours, we signed back in August last year a fee deal for us to be the deliver of the project on pretty attractive terms and with no risk. We have no obligation to raise debt. That's never been an obligation of Lend Lease. Our deal has always been conditional on debt being raised and the project being funded. If the government decides to fund that project on its own balance sheet - and given that there's a big move toward funding most things on the balance sheet in the UK at the moment - that's a distinct possibility.

If they do decide to do that, what that simply means if we continue on the fee deal that we're currently on. That will mean that we start earning profits immediately rather than in four or five years time if we undertook a risk deal.

We have put a risk deal in front of the government, put that in front of them also back in August. We signed the heads of terms back then. That deal has evolved a little bit since August but not in any material way in terms of the assumptions. We've made some concessions to the government because we needed to help them get to a position where they could look at a realistic alternative of the risk deal versus a fee deal. But we've made it very clear to the government we won't invest more than £150 million in any risk deal. Clearly, the project is a lot bigger than that. There's going to be a significant amount of debt funding as well but what we've done is we have been very, very rigorous on managing the right risk profile that we're prepared to undertake on that deal and the government's very clear on what that is.

So if we do get a risk deal we'll be quite happy. On the other hand, if we do get a fee deal we'll also be quite happy, and we'll have a very good fee income stream for the next five years, and we'll have a £150 million that we can invest elsewhere. Clearly, in this market there are plenty of other opportunities to redeploy that capital.

So we think we've put ourselves in a position where whichever way the outcome is we'll have a good result for Lend Lease and, as I said, we hope to have clarity on that in the next 24 to 48 hours. Crosby, I'll just touch on. We obviously took our medicine some time ago on Crosby and the reality is in that business sales have started to pick up. We've cleared about a third of the backlog to date, and that's been cleared at prices marginally above the written down prices in our books. We will not be committing any new capital to that business unless we see a very significant recovery in the residential market in London in the short term and we're certainly not forecasting that.

From a communities business in London where we've positioned again with very low holding costs, is we do have the predominant inner urban regeneration position in London. Stratford, Greenwich, Elephant and Castle are the three biggest and best urban regeneration sites in London, so it's simply a matter of when the market starts to show evidence that it's the right time to start investing capital of substantial amounts in those projects. We think that's a great position going forward.

So let me sum up. Really, the overriding comment I'd like to make is that we are cautious but confident about our position going forward. Let me recap on why. We do have a strong short-term focus on cash preservation and cost management and we're well advanced in all our initiatives there. We have a longer-term focus on maximising the returns from property by driving a high return on equity. We have solid recurring earnings, currently about 30 per cent of our earnings. We have diversification by geography and sector and business. We're not over-exposed to one cycle or geography. We've got about 12 per cent of earnings currently coming from our PPP businesses and we aim to increase that and that's counter-cyclical to the rest of our businesses. We're very well placed to benefit from government stimulus spending. We have a very strong balance sheet with net debt of only \$300 million today and no major debt rollovers until November 2010, and our well-deserved model and reputation for partnering enables us to maintain a diverse project pipeline and enables us to underpin our long-term earnings potential in a capital light way. That's what sets us up very well for long-term growth and high returns on capital, provided that we execute well. I've emphasised that this is the key focus on management going forward.

So before handing it over to the team for the rest of the day, I just want to talk to you about the Lend Lease value proposition as I see it. There's always a lot of discussion in the marketplace about the Lend Lease business model and our value proposition being very complex. To me it's actually very simple. Our model, our structure and our strategy are all designed to enable us to see and extract more value from property opportunities than any of our competitors. That means we should be able to deliver higher returns on capital than our competition provided we pursue our capital light model. What I mean by that is higher returns for shareholders, higher returns for our investors, higher returns for our partners, higher returns for our clients.

Our model on that value proposition gives Lend Lease a very significant competitive differentiation, especially in today's markets. We are one of very few fully integrated property companies globally today. We build, we develop, we manage and we can extract multiple earnings streams and we can access and deliver the highest value projects possible through our scale. We have a proven partnership model, we have a great brand, we have a great history and we have an enviable reputation as a great working partner. That's what allows the capital light model to work. We have deep property knowledge which has been gained over 50 years and through a number of cycles. We have clear leadership in sustainability and that is opening up more opportunities already, and we expect this to drive significant value going forward. It will also enable us to attract the best talent in what is clearly an evolving market.

So now I'll hand over to Tony and he'll talk to you more about the group's competitive advantages.

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