LEND LEASE STRATEGY DAY

HELD ON
WEDNESDAY 13 MAY, 2009

AT THE OBSERVATORY HOTEL, SYDNEY

PANEL Q&A
STEVE McCANN / TONY LOMBARDO / BRAD SOLLER

The program now has us taking some questions and answers – join us up on stage.

STEVE McCANN: Okay. I think we've got lapel mics that are working.

BRAD SOLLER: Yep.

STEVE McCANN: So if you can flag it by putting your hand up, I guess, and Pam will come around with the microphone and we'll direct the questions where they are more appropriately answered.

QUESTION: Steve, on further equity issues, based on everything that's been said to date, is it fair to say that it would be extremely unlikely that you'd require further equity in the next two to three years based on all of that talk about confidence in rolling over the £350 million in the operating forecasts, et cetera?

STEVE McCANN: I'll answer that one, I guess. I don't want to be drawn on saying over the next two to three years. The reality, though, is that we don't have any current plan to raise new equity. We also don't have any current M&A activity building to our business plan. We do expect to see significant increase in distressed opportunities coming our way over that sort of timeframe. If there was something that was going to reposition our business materially and have the appropriate value drivers then we might look at it. If that required additional funding outside of the plan, then we'd do that, but our plan over that three year period today, which we've just finalised with our businesses, has no additional equity being raised, other than through, I should add, the DRP.

QUESTION: (Alistair Reid, JP Morgan) Just on the Stratford update that you mentioned in the next couple of days, is that actually the government's response and decision to your proposal as it stands right now, or is it something different to that?

STEVE McCANN: What we're expecting is a broader announcement in relation to funding of the entire Olympics project so that part of that we expect will be on the village, and quite frankly we've been getting a bit impatient. So we're hoping that it will clarify that exact position.

I just want to reiterate what we've done, and we've spent – I think it was November '06 when we were announced preferred on this project, so that's a long time ago. We spent a lot of time in that two and a half year period trying to put ourselves in a position where essentially either a risk deal or a fee deal works for us, so we're indifferent to that outcome, because it was becoming quite obvious that politics was going to guide that decision.

QUESTION: (Alistair Reid, JP Morgan) Just one final one from me. Following on from Monday's announcement with the upping of the cost reduction program, just in terms of the timing and quantum of benefits expected, Brad you sort of touched on that, but nothing specific there. Can you add anything further?

BRAD SOLLER: The cost savings that we're actually expecting are largely people-related, so Steve had previously given a number in terms of the head counts that we were expecting. A lot of those head counts related to Bovis projects where people are working on projects at the moment and generating gross profit margin for us so the reduction in that head count is ready for going across; that would have come on to our P&L account had we not actually taken the steps. So some of it's been a protective measure; others related to the restructuring of management and the reorganisation that Steve spoke about where we have taken out layers of management. That will flow directly down to the P&L account.

QUESTION: (Callum Bramah, Macquarie) So just on that Bovis side then, if you're pulling people out and the outlook for that Bovis business. You've previously kind of thought about a guide maybe of that business going backwards by 10 to 15 per cent in '10. On this three year plan, what does that profile look like for Bovis now?

STEVE McCANN: I'm hoping that – and I say hoping because obviously construction is an industry which carries with it its fair share of risk. We think we are managing those risks a lot better now than we were, say, three years ago, so I'm very hopeful that you'll see a pretty material contribution from Bovis this year which will surprise on the upside. Very hopeful you'll see the same again next year.

The GPM as we said at December was still broadly in line with the previous year, so that backlog number of $776 million, I think it was, usually rolls off over about a three year period, the bulk of it in year one and two. So what this is telling us is that 2011 is where we'll first start to feel a significant impact from a downturn in the commercial space. Murray will talk a bit more about this later but we are very focused on trying to plug that gap.

I think Tony said in his presentation that we have increased the contribution from government spending by twofold over the last three years. So part of that objective is to remix the business to try and mitigate against that downturn.

QUESTION: (Callum Bramah, Macquarie) So is it going backwards next year, 10 to 15 per cent or is it ‘11 that it actually goes backwards? So you’re now saying now it’s a flat in ’10?

STEVE McCANN: Well, it’s very hard to be specific on that but GPM backlog is broadly in line with last year at this point but it’s starting to come off. So 30 June you’ll see that it’s come off and that will flow into reduced earnings in the back end of ‘010 and in ‘011, unless of course we take out a significant amount of cost, which we are doing, and we target higher marginal work, which we’re also doing.

So if you see the GPM come off at 30 June, my expectation will be the margins will be attained or better.

QUESTION: (Callum Bramah, Macquarie) I asked this of Rod recently regarding the investment management business and just looking at kind of what the trends are there and now and the pressure on fees and perhaps move towards fees based on either net assets or an equity number rather than on gross assets. I’m just sort of wondering then, looking at your metrics around that business and the like profitability, the strong margins and returns you’re getting there. Is it realistic that you can sustain what you’ve seen in history or is likely to deteriorate?

STEVE McCANN: Well, our expectation in the investment management business is in fact that our margins will increase materially, and the reason for that is that we have a structure which has significantly under-utilised capacity. So we’ve been building for growth over the last several years. We’ve got a platform in Australia which is very strong and which is capable of handling a lot more funds under management than it has today.

So most of the increased revenue from the investment management business should drive our bottom line going forward. Obviously we’re going to have to be patient and wait for a catalyst for market recovery for those funds to start flowing again but we don’t expect margin deterioration in that business.

At the revenue level there’s always pressure on fees. I think that one of the things that plays to us - and it’s easy to say this, it’s another thing to actually maintain this approach and manage our investors expectations – but you’ve seen the collapse of a number of investment managers around the world. Our perspective is most of those businesses are what we’d call off-the-shelf investment management product, without the expertise behind the product that they’ve invested in. Our platform is about property expertise. We don’t pretend to be anything else. Our investors invest in property and they're not looking for equity returns, they're looking for property returns.

So that's differentiated us very strongly over the last few years, and the feedback from our client base is very positive. So they know they get better service from us that comes at a price.

QUESTION: (Callum Bramah, Macquarie) Just one more for me on Aussie Communities. So they've extended the first home owners grant. It would appear to me though that you haven't maybe moved the mix in your business as strongly as some of your peers to try and capture that. I don't know if you've consciously decided that or whether the margins aren't there. If you can talk about that, and then also what's your ability to act now, quickly, over the next six months to get them before they disappear?

STEVE McCANN: David Hutton will talk a little bit more about the Delfin business later on today.

In short we think the first government home buyers spending's obviously a good thing for our sector and we think a lot of the government stimulus spending is clearly positive in the short term. But we also think the first home buyers market is really pulling forward demand that is already in existence. It's not creating new demand. There's only a certain amount of people who can buy their first home, by definition. So our view is remixing our business too aggressively to that market would be a mistake in the medium term. As it happens, the volumes from the first home buyers have gone through the roof and it's now, as I said, about 25 per cent of our sales compared to 10 per cent historically. The reality is, as the market recovers you need to have a good mix of assets and a good demographic spread, and that's what we've aimed to maintain.

QUESTION: (Steven Fahey, Balanced Equity) Steve, you gave a great rap about the capability of the business and I guess that's including Bovis in pre-eminent ability to deliver and unquestionable – I think words like that were used – if that's the case, why aren't you getting significantly better margins, because they really are embarrassingly low, given the skills that you're talking about [unclear] of the past experience. I mean, is it a cultural thing of under-pricing? Is there any change in that or is it just you price as well as you can and that's as much as the market will bear?

STEVE McCANN: Is your question directed primarily at Bovis?

QUESTION: Yes.

STEVE McCANN: Okay. I think Tony did acknowledge the problem with the construction industry, which is that a large part of it is commoditised and very, very difficult to extract significant margins in a market that is commoditised. The reality is we've spent a lot of time working on reducing our cost base to try and improve.

END OF TRANSCRIPT