Lend Lease
CORPORATION

Providing the Best
Real Estate Solutions
to Clients Globally

AGENDA

- **Real Estate Opportunity**
- **Strategy**
- **Lend Lease's two Core Businesses**
- **Lend Lease's Transition**

I will cover 4 topics today:

- What is the opportunity in global real estate
- What is our strategy to secure the opportunity
- A summary of our 2 core real estate businesses, and
- How we are progressing with our strategies in those two businesses.

REAL ESTATE AS AN ASSET CLASS

- **Produces growing income to meet the needs of ageing populations**
- **Markets becoming more sophisticated and more disciplined with growing securitisation worldwide**
- **Yet real estate markets generally are still fragmented and inefficient**

- First the opportunity in real estate.
- Ageing populations and the growing need for income with less volatility of capital values highlight the opportunity for real estate.
- Real estate markets are becoming more sophisticated and disciplined, so the wide swings of the past are dampened, largely because the suppliers of capital - both equity and debt - are much more rigorous in their approach. And public markets also bring discipline.
- This results in real estate providing excellent income streams to investors. An example is the recent purchase of a Boston office building by our Australian based US Office Trust on a 9% cash yield. A 9% cash yield compares very favourably to US Treasuries.
- Recent investment flows to REITs in both the US and Australia have certainly supported our view on the good fundamentals of real estate. We continue to expect that increased investment allocations will be made to real estate over time.
- Yet real estate markets are still fragmented and inefficient, which provides opportunities for us.

LEND LEASE STRATEGY

- **Respond to clients' needs**
- **Build a unique global integrated real estate platform**
- **Generate superior returns by adding value**

- Clients' needs, both for those that need to create physical assets for their business or for those who wish to invest, are evolving fast.
- But in Real Estate, there are no global players across all of the project management, development and investment management businesses.
- We are building such a global platform that will enable us to bring efficiencies to the market, such as raising capital in one market and investing in another.
- We are part way in this transition to a global real estate business. I will cover our progress later in this presentation.
- Those capabilities will allow us to respond to our clients' needs with effective solutions. BP, the US Defense and UK Health Departments are examples.
- A key point of differentiation for Lend Lease is our global project management and development expertise.
- Real Estate - unlike equities - is an asset class where value can be added to the underlying assets thereby adding to returns for investors. This is where the ability we have to enhance the physical asset is so important.

LEND LEASE - 2 CORE BUSINESSES

- **Real Estate Solutions**
- **Real Estate Investment Management**

- Lend Lease has two core businesses to implement our strategy:

  * Real Estate Solutions, which serves clients who want to create physical assets and who wish to outsource the development, design, construction or financing of these facilities; and

  * Real Estate Investment Management which serves clients who invest in real estate equity or debt, and is thus our real estate funds management business.

- Both businesses are focused on being world class in their own right, as well as working together to provide integrated real estate solutions to some clients.

REAL ESTATE SOLUTIONS

- **Bovis Lend Lease**
- **Development capabilities**
- **Australian Residential and Land Management business (including Delfin)**

- Let me first discuss Real Estate Solutions.
- The Real Estate Solutions business is underpinned by Bovis Lend Lease, which is a world class global project management and construction business.
- The business also includes a global development capability that is focused on generating solutions for clients.
- In Australia we also have a very successful residential and land management business which is focused on the building of communities. This business was enhanced by the recent acquisition of Delfin.
- The focus on communities was a key determinant in the securing of the Fort Hood military housing project in the US, so you can start to see some of the linkages.

REAL ESTATE INVESTMENT MANAGEMENT

- **A$87B Assets Under Management**
- **Necessary platforms in US and Australia**
- **Opportunities in Asia and Europe**
- **Global Fund Raising**

- Our Real Estate Investment Management business has around A$87B in Assets Under Management.
- In the US we are a clear industry leader in Real Estate Equity and are also a very strong participant in Real Estate Debt.
- In Australia we have a very strong business, which is well placed to support our growth in Asia.
- The final pieces of our global platform and also the areas of the greatest potential opportunities are in Asia and Europe.
- Japan is the world’s second largest economy and it has adopted Australian style REIT legislation as the market moves to securitise real estate. We have the skills and experience to participate in the formation of the Japanese real estate investment market.
- We have announced that we are developing a Real Estate Investment Management joint venture with Tokyu in Japan.
- With our joint venture partner, Tokyu, we are committed to establishing JREITs that are focused on the investor and we expect to launch our first listed REIT next year.
- So Japan represents an exciting longer term opportunity for us.
- In Europe we have the recently formed joint venture with Generali.
- And we have been raising and investing capital across borders as well, for example, through the Global Fund, where investor capital was sourced from the US, Asia and the Middle East, and invested in Europe and Asia; the US Office Trust, which is an Australian listed vehicle investing in US commercial office buildings; and the International Distressed Debt Fund, where investors in the US, Asia and the Middle East have provided capital to be invested in Asian non-performing commercial real estate backed loans.

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LEND LEASE'S TRANSITION

- **Previously largely an Australian domestic company with scale limitations**
- **Necessary to globalise real estate businesses to achieve required scale**
- **Well down the track in the transition process**

- Now let me turn to our transition. We are well down the track in our transition from an Australian company with some offshore operations to a global real estate business.
- This transition has been absolutely essential.
- One of the reasons we sold MLC was its need to obtain global distribution capability - something that would have been difficult for Lend Lease to achieve in that industry.
- Without our global platforms with Bovis Lend Lease and the Real Estate Investment Management business, we would be very exposed to the Australian market.
- And the tragic events that occurred in the US last month will also have an impact. As to what that impact will be, it is too early to call at this stage.
- However, we remain confident in the real estate fundamentals and that income streams provided by Real Estate will be more important in times of uncertainty.

2001 - TRANSITIONAL YEAR

2001: **After tax profit** **A$151M**

2002: **Budgeting for an increase in after tax profit over base of A$210M.**

- 2001 has been a transitional year for us, but the transition has been tougher than we expected.
- A profit of $151M was clearly an unsatisfactory result, however, we did foreshadow that to the market back in May this year.
- The result included significant one-off provisions, but most of them related to our former Development and Investments strategy that we have been moving away from.
- The result also included some significant one-off profit items - for example $60M profit from the sale of a 10% stake in Bluewater.
- Excluding all these one-off items, the underlying core profit for 2001 was about $210 million.
- We are budgeting for an increase in after tax profit in 2001/02 from this level of $210M. This could be impacted by fall-out from the terrorist attack of 11 September, but that won't be clear for some months yet.
- In what appears to be an acceleration of the global economic slowdown that was already evident, we have accelerated our cost cutting programme in line with the anticipated slowdown in business activity.

LEND LEASE TRANSITION STATUS

	A$M	
	2001	1999
Profit after Tax	210(1)	420
Amortisation	92	15
Profit after Tax pre amortisation	302	435
Number of shares on issue	430M	504M
Pre-amortisation eps	70 cents	86 cents

(1) Base profit excluding one-off items

- To get a sense of where we are in our transition, it is useful to compare 2001 with 1999.
- 2000 is not a useful comparison as it included only part year results for Bovis, Boston Financial and the AMRESCO debt businesses. In 1999 we had none of these businesses, but of course we did have MLC.
- As the slide shows, the 2001 profit is impacted by a significant amortisation charge.
- To get a true sense of how the business is performing it is necessary to look at pre-amortisation profits.
- Our pre-amortisation eps in 2001 was 70 cents compared to 86 cents in 1999.
- In addition, the 1999 profit was dominated by MLC's earnings and was not encumbered by any significant amortisation charges. It should be noted that the 1999 result included a $172M profit after tax on the sale of 40% of Bluewater. So in 1999 of that 86 cents eps, 34 cents was Bluewater - therefore without the Bluewater one-off, the 1999 eps would have been 52 cents.

AMORTISATION OF INTANGIBLES

- **US FASB Statement on Goodwill and Other Intangible assets**
- **Amortisation subject to "impairment test" that reflects economic reality**
- **Australian standard continues to require amortisation charge *irrespective* of performance and value of assets subject to amortisation charge**

- The relevance of pre-amortisation profits are reinforced by the recent release of an accounting standard in the US on Goodwill and Other Intangible Assets.
- The new US Standard removes the requirement to systematically amortise assets with indefinite life, eg Goodwill, and Management Agreements. An annual "impairment" test is now required under that Standard and any impairment losses charged to the Profit and Loss each year.
- Lend Lease believes the impairment test better reflects the economic reality, unlike the current Australian Standards, in that under the current Australian Standard intangibles must be amortised irrespective of whether justified in an economic sense.
- Australia's Accounting Standard setters have stated that they will, in conjunction with the International Accounting Standards Board, fast track a review of amortisation requirements in light of the US Standard.
- We at Lend Lease would strongly endorse the introduction of a Standard in Australia similar to that in the US.
- And we believe that if this Standard was introduced, we would not amortise and this would add about $90M after tax to our reported profit.

CORE REAL ESTATE BUSINESSES
AFTER TAX PROFIT

	A$M 2001	2000
Real Estate Solutions	121	68
Real Estate Investment Management	117	137
	238	205

- Core real estate business unit profitability before restructure costs has shown improvement over last year.
- We clearly have more work to do with Real Estate Investment Management, but the 2000 year had US$42M of incentive fees in the US versus only US$3.5M this year.
- We expect further improvement in the core business profit in 2002. However, this could be impacted by fall-out from the terrorist attack of 11 September, but that won't be clear for some months.
- The market is waiting for Lend Lease to show evidence of success in the execution of our strategy to become a global real estate business.
- So for each of our businesses I propose to go through a quick Progress Report, what we said we would do, and what the outcome has been.
- It won't be all ticks. But I believe it will demonstrate that overall we are on track in transitioning the business to a global real estate model.
- Let me first cover Real Estate Solutions.

PROGRESS REPORT - REAL ESTATE SOLUTIONS - BOVIS LEND LEASE

Initiative		Rating	Outcomes 2000/01
1.	Double after tax profit to A$150M by 2003/4	On track	$90M
2.	Backlog Gross Profit Margin in excess of $500M at June 2001	✓	$518M
3.	Increased visibility of future earnings	On track	37% emerges post 2002
4.	Regular/secure income stream type business to be 50% of yearly Bovis profit by 2004	On track	36%
5.	Indirect overhead costs to be reduced to 70% of Gross Profit Margin by 2004	On track	Reduced to 74%
6.	Secure more PFI type business	On track	• Fort Hood • UK PFIs, but hospital PFIs delayed
7.	More integrated opportunities involving both Bovis Lend Lease and Real Estate Investments	✓	Examples: Arch St, Munich, Erina Fair

- The Progress Report for Bovis Lend Lease shows that we are meeting all the objectives we set for that business.
- We are targeting a profit of $150M after tax in 2004. The attainment of this target will depend to some extent on the global economic condition. This target also depends on future successful acquisitions, which are also partly contingent on economic conditions.
- The 2001 result for Bovis Lend Lease indicated that we are on track to achieve that target.
- The impact of last month's tragic events in the US will clearly have an impact on Bovis Lend Lease.
- On the one hand, there will be a clear need for office space to be constructed in New York and Bovis Lend Lease is one of the largest contractors in that city.
- Conversely a number of organisations have or are likely to defer capital investment decisions. An example is the US airline industry in which one of the airlines is a major client.
- However, it is far too early to ascertain what the impact from these events will be.
- To increase profits we need to increase the Backlog Gross Profit Margin, which was $518M at June 2001. This is the profit before tax and and overheads that remains to be brought to account on committed contracts at balance date.
- We also need to focus on securing longer term contracts so that future profits are more secure or visible.
- In that regard we have secured a number of PFIs over the past year. An example is the Fort Hood military housing project in the US, which is a 50 year contract.

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- The hospital PFIs in the UK have been delayed because of the need to change the model to incorporate the Government's requirements on continued public sector employment. But we are confident the PFI process will proceed.
- Repeat business is also a key factor in future profits. Over 65% of Bovis Lend Lease's work is from repeat clients. However, we do not include any of this repeat work in the Backlog until a formal contract is signed.
- Another key factor in increasing future profits is reducing indirect overheads. Historically, indirect overheads have been approximately 75-80% of the Gross Profit Margin earned on projects. This was reduced to 74% in 2001 and we are on track to further reduce this to 70% by 2004.
- And in regard to integrated opportunities, Bovis Lend Lease is - for example - working for our VEF IV at Arch Street in Boston, for the Global Fund in Munich and Hong Kong, and for GPT at Erina Fair, Floreat Forum in Perth and in the near future at Docklands.
- Bovis has been a great acquisition for us.
- So, in summary, our key objectives for Bovis Lend Lease are to:
  – Continue to increase the Backlog Profit with an increasing proportion of longer term contracts such as PFIs and Client Alliances; and
  – To reduce the level of overheads relative to the Gross Profit Margin earned on contracts.
- Let's now turn to Development.

PROGRESS REPORT - REAL ESTATE SOLUTIONS - DEVELOPMENT

	Initiative	Rating	Outcomes 2000/01
1.	Victoria Harbour bid	✓	Won
2.	Secure NAB at Victoria Harbour	✓	Achieved
3.	Delfin acquisition	✓	Completed
4.	St Marys	Awaiting Commonwealth decision	-
5.	UK Retail – meet minimum letting requirements for Dundee and Solihull	✓	Achieved
6.	Use of third party capital	✓	Examples: Arch Street, Munich, Victoria Harbour

- The Progress Report for Development also looks healthy. We have secured the Victoria Harbour precinct at Docklands in Melbourne, which is a $2B plus multi class development over 20 years, and got commitment from the National Bank for their office complex at Victoria Harbour, and completed the acquisition of Delfin.
- The State Government has gazetted the Regional Environmental Plan for St Marys which rezones the land for development, and we await the final Commonwealth Government decision. This is a major community building project, again worth about $2B over 15 years.
- In the UK where we are dealing with a retail market with soft patches, we have met the leasing commitments for the sale of Overgate and Solihull. So we have significantly reduced the risks in the UK Retail portfolio.
- Under our development model, we said that we would be seeking third party capital for investment in development opportunities. That is exactly what we have done - at Victoria Harbour with GPT; at Arch Street in Boston where the investors are VEF IV and the National Electric Benefit Fund, which is an industry superannuation fund for electrical construction workers; and in Munich where the investor is the Global Fund.
- Let me now turn to Real Estate Investment Management.

PROGRESS REPORT - GLOBAL REAL ESTATE INVESTMENT MANAGEMENT

	Initiative	Rating	Outcomes 2000/01
1.	Global REI after tax profit in 2001 before restructure provisions in the range A$110M-120M	✓	$117M
2.	Growth in Assets under Management in Global REI in home currencies	✓	+8.9%
3.	Assets under Management around A$87B at 30 June 2001	✓	$87B
4.	Partner with major local organisation to develop a real estate funds management business in Japan	✓	MoU with Tokyu
5.	New Fund in Europe	Pursuing options	
6.	Initial Generali JV transactions/products	Progressing	

- The global Real Estate Investment Management after tax profit result in 2001 of $117M, whilst within the range foreshadowed to the market, was not an acceptable result.
- However, we have made some significant progress in relation to the objectives set for that business.
- We grew Assets Under Management by almost 9% in home currencies to A$87B in 2001, in what was a tough capital raising environment.
- Our Australian REI business has shown good growth and there are initiatives that the team has delivered - further expansion of LL US Office Trust, the Suncorp-APPF deal, the opportunity for GPT at Docklands being just three examples. And there are significant further opportunities.
- In Japan we are working to finalise the JV agreement with Tokyu by December. The JV covers both listed and unlisted real estate investment vehicles, and as I said previously, we are very excited about the longer term potential of this opportunity.
- In Europe we are pleased with the progress of the Generali JV and the relationship with Generali is first class. As an example, Bovis has been appointed project manager for the new operations centre at Generali's German headquarters.
- With regard to a European fund, we are focusing on a few options including a European Value Enhancement Fund to build on investor feedback we received and the successes we have had in the US with this kind of vehicle and possible mandates from UK investors where we have relationships for investment in European retail assets.
- Before I turn to the important US business, let me first touch on investment performance.

REAL ESTATE INVESTMENTS - FUND INVESTMENT PERFORMANCE

- **Investment performance is crucial**
- **19/26 Lend Lease managed funds listed in MD&A are beating their benchmark**

- The investment performance we deliver to our clients is crucial for us in growing Assets under Management.
- We have listed all our managed funds in our 2001 MD&A, and in 19/26 cases they are beating their benchmark in returns since inception.
- GPT and APPF, VEF III and IV, and our REIT funds in Australia and in the US are all good examples, as is the recent performance of US Office Trust where the market has started to recognise what that Fund has to offer, and that good investment performance positions us well to raise further capital.
- Our investment performance is evident in the US where we have not lost a client since July 2000.
- So let me now look at the US Progress Report.

PROGRESS REPORT - US REAL ESTATE INVESTMENTS

	Initiative	Rating	Outcomes 2000/01
1.	New real estate equity capital raised in 2000/2001 around US$1.5B	Achieved as per May update	US$1.4B
2.	US REI Assets under Management should grow by around 6% in the year to 30 June 2001	X	+ 4.3%
3.	Value Enhancement Fund V target of US$400M equity	On track	US$165M raised to date
4.	Project Enterprise implemented	✓	
5.	Quit non-core operations	Progressing	• Offload of Apartment Management business • Planned withdrawal from US domestic asset resolution business, except special servicing

- Over the whole year we have not been happy with the performance of our US REI business.
- However, we have made progress and, in terms of the outcomes disclosed to the market in May, have met those objectives with the exception of Assets under Management growth.
- Capital is being held back from investment in US real estate because of the over-allocation to the sector caused by its good relative performance, and because investors are wanting to assess the extent of the US downturn and its impact on real estate before committing further capital.
- The events in the US last month have also further delayed capital commitments. How long this will last and what the long term impact will be is still uncertain at this stage.
- Our capital raising is also focusing on non-traditional sources of capital - union pension funds, financial institutions and foreign capital. We are ahead of budget with our latest Value Enhancement Fund - VEF V - with US$165M of external capital and a strong pipeline of prospects. We should raise at least US$400M of equity for this Fund.
- And our REIT fund management business has won two major mandates for US$230M which are not included in Assets Under Management yet. We also have a very healthy pipeline of prospects with RFPs of around US$1B out at present due to the health of that sector, our superior investment performance, and a renewed investor interest in income. REITs now have a cashflow yield of 9.8% and a dividend yield of 6.7%.
- Our HCI multifamily tax credit business is well positioned to take advantage of the US Federal Government's mandated increase in the market of 20% this year and a further 20% next year.

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- We have also merged our residential apartment management business into another major operator - Winn, retaining a 15% interest.
- In our Debt Investment Management business we are exiting the domestic US part of our Asset Resolution business. The level of US distressed real estate debt is insufficient to support on-going operations. This does not impact our Asian or Mexican asset resolution platforms, nor our special servicing business in the US.
- Our Commercial Mortgage servicing business, CapMark, is expected to significantly increase Loans Under Servicing in 2001/02. CapMark has been awarded one mandate for around US$4B and another for US$8B from US life insurance companies outsourcing mortgage administration.
- Overall, we are looking for better growth in Assets Under Management in US REI in 2001/02, and for an increased before tax profit from the fee based businesses.
- We are also starting to see the benefits of having a global platform - US Office Trust able to purchase an office building delivered by our team in US REI, the same team working on another such transaction for a European investor.

BALANCE SHEET STRENGTH

- **In times of uncertainty, a strong balance sheet is essential**
- **Cash of $1.1B at 30 June 2001**
- **Net Borrowing Position at 30 June 2001**
  - **actually Net Cash**
- **Assets at conservative values**

- It is hard to predict what the outcomes will be following last month’s events in the US.
- However, one thing is clear.
- A strong balance sheet is vital in times of uncertainty like this.
- At 30 June 2001 our cash of $1.1B exceeded our borrowings.
- Whilst this cash holding is large, we have made some significant capital outlays since 30 June such as $172M for the acquisition of Delfin.
- In addition, we are also forecasting capital outlays for a number of commitments in the US Real Estate Investment Management business.
- Assets are in the books at conservative values, so we are in a strong financial position and are able to take advantage of potential acquisition opportunities that are appropriately priced and strategically relevant.
- In that context we will continue to target a 7-9 X EBITDA to interest expense ratio.

SUMMARY

- **Transition**
- **Core Operating Businesses**
- **Outlook**

- To conclude, the transition has been tougher than we expected.
- In terms of our core operating businesses, we are on track. Bovis is meeting all its objectives, and in our Real Estate Investment Management business we have made progress in the last six months in the US, and we are well positioned in Australia with fairly exciting longer-term prospects in Asia and Europe.
- We have nearly 12,000 employees globally and we have a lot of management depth in this organisation. Many of those employees are already shareholders, and they all will be in the near future.
- I am often asked what is the key competitive advantage Lend Lease has. It is our culture and our people - their energy, focus, rigour, commitment and conviction. They are all very focused on us meeting our objectives.
- In this regard we have recently undergone an exercise in refining our core values, with the leaders of our core businesses, David Ross and Ross Taylor leading the communication of that globally.
- The general business outlook has more uncertainty following the tragic events in the US last month.
- However, we are in a strong financial position and I am committed to us successfully completing the transition to a Global Real Estate business.

Providing the Best
Real Estate Solutions
to Clients Globally

QUESTIONS

- I am happy to take any questions.