

**LEND LEASE STRATEGY DAY**

**HELD ON**  
**WEDNESDAY 13 MAY, 2009**

**AT THE OBSERVATORY HOTEL, SYDNEY**

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**BRAD SOLLER**  
**CAPITAL ALLOCATION / MANAGEMENT PRESENTATION**

BRAD SOLLER: Good morning everybody. There are three things I want you to take away from our presentation today. Firstly, the financial metrics that we have adopted which we're going to use to guide the group over the next three to five years. Secondly, where we're going to allocate capital and why. Finally, the strength of our financial position and the flexibility that this gives us to implement our strategy which I believe is a unique differentiator in today's market.

So what are the financial metrics we are working to? First of all, return on equity. Our return on equity target remains unchanged at the group level at 15 per cent. However, the key thing to remember is that these targets vary from business unit to business unit based on our assessment of risk. I will talk to this briefly later and I know a number of business unit CEOs will cover this off in their presentations as well.

Next, gearing: as you know, our gearing target is between 30 and 40 per cent. For those of you who have been following the group for a while, you also know that we haven't got anywhere near this target for a number of years, and at the 31 December our actual gearing was just over 5 per cent. We have just gone through our planning cycle and we do expect to get to the lower end of our target range by 2012.

In relation to interest cover, we have moved our target from 6 times to 5 times. That I believe reflects the reality of the current environment in which we're operating. However, importantly the 5 times interest cover is still way above our bank covenants.

Annuity income: in recent years, as Steve highlighted, the proportion of annuity income that we have has been above our target of 20 per cent. While we do like to have a chunk of stable earnings that come from annuity type earnings they by their very nature have lower growth opportunities. Therefore, going forward, what we are looking to do is to reduce a proportion of income that comes from annuity style earnings to around about the 20 per cent mark.

Steve talked about our cost base and I just want to give you a quick update as I see the savings initiatives program that we're implementing. In our recent announcement we had noted that there would be an increase in the one-off implementation costs associated with that program. While the one-off implementation cost has increased this should not detract from the value of the recurring savings we are actually expecting and that we have indeed baked into our base business plans.

I've, in the finance function, have actually reviewed all the savings initiatives and where people have actually spent money, one-off implementation costs, we have made sure that we are actually getting value for money and that the payback period is reasonable.

So now let's move to capital allocation. This slide shows you our capital allocation at December. Now as you can expect, as any finance function, we have diced this and sliced this and cut it in numerous ways. What I actually have here is three ways as to how we have cut our capital allocation, with the resulting earnings profile shown on the right-hand box.

I just want to make a few comments as to how our capital allocation is likely to change over the next three years. Firstly, in relation to sector, Steve and Tony have already mentioned, but we'll see increased investment in PPP projects and also investment in large mixed-use schemes. In relation to geography, we are looking to increase our weighting towards Australia.

Active versus passive income: it is our intention to allocate more capital to our higher returning operating businesses. This will reduce our annuity earnings more in line with the 20 per cent target we have set. Key drivers of earnings in the short term will be in the PPP space and through Bovis on the back of the government's stimulus package which will actually drive the spending in that area. I know Mark is going to talk to that later.

Now let's have a closer look at capital allocation policies going forward and how these will guide our investment decisions over the next three years. The first point that I want to make here is that capital allocation is done at the group level. We do not leave this to the business unit, much to the frustration of my colleagues in the audience. The reason being is we manage our business as a dynamic portfolio of opportunities. But even though our portfolio is dynamic we have set broad parameters to manage the group's allocation of capital going forward.

The key points that I want to make in this slide are, first of all, in relation to sector. Going forward we are looking for no more than 30 per cent of our capital to be allocated to any one sector at any one point in time. In the short term this is likely to see an increased allocation of capital to the PPP space, which currently comprises only 14 per cent of our invested capital.

In relation to geographic allocation, we're looking to increase our investment in Australian home market, as Steve already said. In our view, Australian market is one of the more robust economies. It's also where we have a great depth of skills and we have a definite market competitive advantage. Also as CFO, I won't be too adverse to increase franking credits that will be derived if we actually give a greater allocation of our income to Australia.

So let's look at the practicalities. What are our opportunities and how are we actually going to fund them? Steve has already mentioned that we have developed a list of priority projects where we would like to invest our capital. There are over 30 projects on that listing. While we're unlikely to be able to execute on all these opportunities the key point to make here is we have flexibility as to which projects we'll be pursuing and that will be dependent on market conditions over our planned period.

So what is clear is we're not short of opportunities so let's talk about our ability fund these, which in my view is a good story for Lend Lease as well. These opportunities will be funded through a combination of our existing liquidity, which I'll talk to you about later, our underlying cash flows which remain strong and our future capital recycling.

We are very confident about our available facilities and the assumptions we have made in our business plan in relation to our operating cash flows. The key variable element therefore is capital recycling and, as Steve has mentioned on many occasions and again this morning, we are not a forced seller of assets. We will therefore match our planned investment and expenditure with the availability of funds going forward. The major consumers of new capital going forward will be first of all PPPs in all markets; secondly, large mixed-use projects in our development business; and, where appropriate, we'll continue to take co-investment positions in our investment management business as they launch new funds.

Tony made reference to Delfin. It is our intention still to contribute capital to the Delfin business but we will be doing this through a capital light land management model.

Investment in our pipeline of opportunities should see our gearing increasing over the next three years to the lower end of our target range.

The third and final topic I want to talk to is our continuing financial strength. This slide that I have up now has been presented on many times before, so what's actually changed? Well, there's been no large movement in our net debt position since February. The more significant change relates to the mix of our debt and cash. As at December we had fully drawn on the £350 million UK revolver and that draw down was invested in cash.

This was done because of a perceived volatility of the banking system at the time, and we wanted to ensure there would be no issues in drawing down on

these funds. The costs of drawing down on the facility versus the cash deposit rate was not that expensive. The cost of the UK revolver facility is 55 basis points above libor. As we have got more comfortable as to the available facilities we have repaid a proportion of the UK revolver, and it's currently drawn down to £150 million. Our weighted average cost of debt is 6 per cent, which is highly competitive in this market. So in summary, our financial position remains strong.

No finance presentation would be complete in today's market environment without a mandatory reference to our banking covenants. In this regard, it's easy for me to stand up here and say we are comfortably above all our bank covenants. The graph on the slide shows our debt maturity profile. As Steve mentioned this morning and has previously flagged, our first major debt maturity is the UK Revolver which matures in November 2010, with the remaining debt maturities staggered between 2012 and 2021.

We believe we are well placed to roll over the UK £350 million facility. As I already mentioned, our gearing's only 5 per cent and our interest cover remains healthy. We have commenced discussions with the banks regarding the roll over of this facility. We have also reflected increased pricing in relation to the facility in our business plans going forward.

In conclusion, I believe in each of the three areas I've talked about Lend Lease is strongly positioned. We have a great pipeline of opportunities, we have clear priorities as to where we want to allocate our capital and, importantly, we have the funding capacity to invest.

**END OF TRANSCRIPT**