LEND LEASE STRATEGY DAY

HELD ON
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AT THE OBSERVATORY HOTEL, SYDNEY

MURRAY COLEMAN
BOVIS LEND LEASE

MR MURRAY COLEMAN: Good morning everyone. I thought I might first start by introducing myself. My name is Murray Coleman. I have been with Lend Lease for a bit over 20 years; in fact, a little bit more than 20 years.

I have been in this role since February and I've probably only met a few of you so I thought I would give you a little bit very quickly about my background.

I have worked probably the first 15 years in our organisation in operational roles and then more recently from 2002 to 2004 I took the role on as the Lend Lease Head of Health and Safety based in the UK. This was followed by coming back to Australia to run our Australian and then our Asia-Pacific business, after which I returned to the UK again in mid-2006 to run our UK business, our BLI business, there as Chief Executive.

I arrived back here on the sunny shores of Sydney just before Christmas last year to take up this role in February.

Today I want to take you through the following agenda. First, a business overview which will be a bit of a recap for most. My expectation obviously is everyone here is reasonably familiar with the Bovis business.

Secondly, some regional updates which is a bit of a run around our business around the world; a bit of a status update.

Plus also I want to touch on how we see our competitors at the moment around the world and also on two subjects which are fairly key to us as an organisation and two things I'm quite passionate about being safety and sustainability.

Then finally conclude with some thoughts on our plans for growth and a brief discussion on how the BLL business in Australia has positioned itself in the health sector.

So without any further ado, as I said, I think Bovis Lend Lease is a business that most people here will be reasonably familiar with. Obviously we are one of the leading project management design and construction organisations in the world and one of the few really with global reach and certainly an integral part of the Lend Lease organisation.

You can see here that we are basically still organised in three major regions with just under 9,000 employees at December last year with a presence in over 35 countries around the world.

You can see here also what our backlog GPM looked like, as Steve said, just under $774 million at the end of the first half. Obviously that is a key indicator of our future profitability and whilst we're not immune to the current difficult market conditions, our focus really isn't so much on FY10, it's really on, as Steve said, FY11 and onwards.

I will talk a little bit about some of the things we're doing to make sure we can fill any gap that we see emerging, particularly in taking advantage of the variety of stimulus packages around the globe.

We operate in a number of key sectors and in some of these, we have particular focus going forward and I will just touch on those quickly. In the US, particularly healthcare, we have got ourselves reorganised and I will talk a little bit about that in a minute.

In Europe, we have been a long-term player in defence, working for defensive states with the accommodation programs. In education, you've heard mention of not only the Birmingham program, the £1.2 billion program – one earlier this year but also we're working on the Lancashire schools programs and also on some of the schools programs in Scotland.

We are delivering two of the projects which make up the Lancashire Waste PFI up in the North and we have certainly an interest in some other sectors at the moment including rail where we've historically done a lot of work consulting and providing fee for service project management work.
An area that we're looking at, at the moment is the build component of the huge nuclear programs that are going to be rolled out over the next 10 years in the UK.

Finally, in Asia Pacific, we have a strong track record in pharmaceutical, particularly out of Singapore where we originally partnered with Jacobs back in 1999. We have really driven that business over the last 10 years and I think we have a reputation without parallel.

Now particularly in Singapore, if you ever go down the area of [unclear], the reclaimed land or what they call the hockey stick in Singapore, you will see the Bovis name widespread and you will see a lot of plants and facilities that we have delivered.

So perhaps then to touch on a couple of things in terms of our strategy and how we create value. I imagine again, this is all fairly familiar to you but I just thought to recap quickly.

Our overall strategy going forward is two-pronged really. Firstly, to continue to embed the governance frameworks throughout business which is work that has been ongoing for probably the last two and a half years and I would summarise that as getting the basics right. And secondly, to reposition the business to achieve what we call operational excellence and growth, again very much in line with the overall Lend Lease strategy.

In terms of how we create value, I will just talk firstly perhaps about our value proposition and these are just a few discreet examples of that because it really encapsulates a number of elements, depending on what role we are playing and what the opportunity may be.

So those include our core capability of project management which is dealing with and delivering on complex problems, issues and projects.

The IP we have regarding a variety of property products from our knowledge about how commercial buildings go together in our Australian business; to our knowledge about pharmaceutical works in Singapore; to our knowledge about accommodation for single living in the military over in the UK; to how we might price and put together a water reticulation system for an alliance with Sydney Water.

Value engineering which is obviously how to deliver greater value and effectiveness more efficiently and certainty and quality of delivery, something that all of our clients look for but really for us, it drives down to cost and quality predictability.

Then if I draw your attention to the right-hand side, the value we add for Lend Lease is also I think extremely clear and again, just some of the examples. The in-house capabilities we have; project management obviously; design and technical expertise to bid for example some of the opportunities that Mark was alluding to that will be delivered through a PPP procurement or PPP model. Bovis Lend Lease has those in-house skills and capabilities for Lend Lease.

The management talent, you know, the gene pool that Bovis Lend Lease provides for the broader Lend Lease. Many of the executives throughout our organisation started their days in Bovis Lend Lease.

New business opportunities, for example, the Catalyst business that Mark referred to was actually born in the Bovis Lend Lease business in the UK. The Actus business which has been so extremely successful in the US, was really driven from an executive level by people out of the Bovis Lend Lease business such as Mark.

Cash flow generation, I'm sure I don't have to touch too much on that. It has always been a key benefit of having Bovis as part of the broader Lend Lease.

So now I just want to touch on what I call transient observations which are a little bit of a mixed bag in terms of what we are seeing around the world.

Obviously the global financial crisis is impacting all markets pretty much everywhere, some more than others. We certainly see very touch times at the moment in the UK and I'll touch on that a little bit further on and we may well not have seen the worst of what is to come in Australia I suspect.

Infrastructure spend continues in most of our major markets, in particular Australia, the UK and the US and as you've heard a few times today, it is really social infrastructure that our organisation is focused on as opposed to hard infrastructure.

We continue to focus on key sectors such as healthcare and education and you will hear that as a pretty common theme throughout all of our businesses and we are well placed we believe to take advantage of the increased spending in those areas.

Bonding and insurance markets continue to tighten and we are seeing many of our competitors around the world struggle as a consequence. We remain pretty well positioned and comfortable with how we are placed in that regard.

There is clearly a tendency towards more risk transference in some markets and for us it is really the next swing of the pendulum I guess and something that is certainly not unexpected.

Overall, we remain cautious to ensure that we remain disciplined in the projects, clients and market sectors that we target and focus on. This is obviously not the time to get a rush of blood.

Escalation risk certainly is diminished. Some of the markets, if I wound the clock back 18 months ago to when I was in London and running our business in the UK, you know escalation was a pretty scary conversation to have.

I know when we were looking at how we were going to price the Athletes Village and what kind of ordinary escalation there might be and then we overlaid what the Stratford factor might be and then we overlaid what the, as you get very close to 2012 factor might be and we looked at the history of other Olympics venues in past years. It was a pretty scary conversation.

But we are now seeing a lot of that vastly diminished. Along with that, we are seeing increasingly competitive supply chain pricing. Again on Stratford is a good example. We have a supply chain beating a path to our door at the moment to price and work on that project when we couldn't get them at all interested two years ago.

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Whilst that is clearly potential opportunity for us, again we remain very cautious and considered in selecting which supply chain partners to work with because there are obviously other counterparty risks.

In terms of the stimulus packages, they really vary around the globe and I just want to touch briefly on three of them. Australia you are all obviously very familiar with. So up until last night, $54 billion allocated by government; significantly more now depending on what you can't count as part of the stimulus package or not.

For us, clearly opportunities in schools, the building and education revolution – about $14 billion all up and housing – 20,000 social and defence homes. So what we have done really, as part of the broader Lend Lease, is we have a very clear and national coordinated response and again you hear this prior to today and you'll hear this in the rest of the day that really we're looking for opportunities for the whole organisation to participate in.

You can see that we have had some great success so far with securing two regions of the BER in New South Wales and some of the New South Wales science labs. So that is just under about $675 million odd of that work to date and hopefully we have more to come.

In the UK, the government has taken a stance a little bit different to the US and Australia. It is not really using construction to reinvigorate the economy in development. That said however, we still think there are potentially some quite significant opportunities.

There is the £750 million strategic investment fund which supports advanced industrial projects. We are just working through that to see what may lay in there for us. There is the Building Colleges for the Future, £200 million funding which is certainly a positive impact for us because that is a sector we do play in.

There is no question that the increase in landfill tax will help drive the economics for some of the waste projects we are looking at and there is certainty significant injection into measures to encourage energy efficiency and low carbon growth.

We are not really clear what that means for us at the moment but we certainly have again a very coordinated and joined up approach to that in our business in the UK with Bovis and the rest of the Lend Lease organisation.

I guess finally in the US, the [Yarra] package is just under US$790 billion at the moment of which, in our view, about US$130 billion of that really is allocated to construction, the majority for core infrastructure works. We have identified just under US$28 billion of that which was related to projects that we might plan in terms of buildings and social infrastructure. Particularly, there is a significant focus on refurbishment and high performance green buildings which, as I think you have heard earlier today, we believe really does play to our strengths.

I guess the final thing in terms of trends is that in sustainability – you know when think back to even 12 months ago when I was in London, there was an enormous amount of discussion in the market about whether sustainability was going to come completely off the agenda for clients, for contractors, for project management groups because of the perceived cost of delivering it in these kind of times as the economy tightened.

Surprisingly to some, it remains very key to our clients all around the world, albeit there has been a lot of discussion and again that plays to what we consider to be very much one of our strengths so we feel well positioned for that.

So now I'm going to quickly walk through an update of each of our regions and I have probably touched through some of this already so I will move through this fairly quickly.

In the Americas, really the key sectors continue to be healthcare which I have touched on. We have reorganised to get focused on this growing sector. We now have a person or an executive charged with leading this vertical market and we see significant opportunities in our pipeline and that is not to be confused with what Mark was talking about because that is the PPP space. We see significant opportunities for Bovis Lend Lease in healthcare.

Education – the Obama package or the stimulus package there again providing impetus in that sector through considered funding and we are very focused there.

Multi-uni residential – we still surprisingly are seeing some of that though certainly nothing like what we had been seeing. It has come significantly off but it was a very large part of our business over there.

We have reorganised the business really to drive more focus and imbed more governance throughout our business in the US and provide us with the opportunity focus on what other growth potential opportunities might be out there.

Our businesses in New York City and Chicago, our two largest offices, remain very strong and we see ourselves with a significant opportunity going forward in California where really we are a minor player and we think there is an enormous amount of headroom and opportunity for us if we can position ourselves in the right way.

UK and CEMEA – UK, no surprise – extremely difficult economic conditions and very low business confidence makes it a very tough market and I'm sure that doesn't surprise anyone. Two of our traditionally strongest sectors, like in Australia being commercial and retail, both in severe decline. We have got a very strong focus on government, education, waste, health, rail, the nuclear building we're looking at and again, continue to be very strong in defence.

You would have read in the last few days that we have carried out some reorganisation over in the UK. Again, it is to drive our cost base to the right position and to enable us to focus on the key areas going forward for the next few years.

I guess the last point for me is that yes the Athletes Village does continue to progress extremely well on site. It does suffer from some very interesting press over in the UK and it is one of the great joys of being back in Australia; I don't have to read that every five minutes and be called up by various people every five minutes about it.

CEMEA – similarly very difficult market conditions. In the Middle East, Dubai really kind of drove off a cliff to many people's surprise interestingly last year and is certainly not showing any real signs of recovery. Other Gulf countries probably in a lot better shape but again confidence is down and still quite difficult times.

We have just commenced a strategic review of our CEMEA business and we will reshape that business to reposition it for the future.

Asia-Pacific – well I guess I'll start off with Australia and I guess there is no other way of putting it, Australia has had an extremely strong performance over the past 12 months which Tony down here who runs our Australian business, would be very pleased about.

It really hit all its metrics. We very successfully diversified this business into particularly social infrastructure including healthcare over the past few years which now offsets the decline in the commercial and retail pipeline. So we are in very good shape currently and now of course we're ensuring we position ourselves further and further for government work.

As Tony alluded to earlier, our work from government has increased significantly into the go-forward years. Significant education contracts and I've mentioned one in New South Wales.

We continue with the successful delivery of all of our major projects actually, probably most notably being 420 George Street which many of you I'm sure have seen and the ANZ Project down in the Docklands which has its first occupation towards the end of the year.

So fantastic performance by an Australian business, of course very well set up by the previous management. I couldn't let you get away with that Tony without me mentioning it.

In Asia, our strength in the pharmaceutical sector continues and we really are on track to deliver and secure work successfully in this sector. There continues to be an enormous amount of interest in Singapore. Of course, the three main destinations for pharmaceutical outside North America really are interestingly Porta Rico Island and Singapore, all to do with tax and incentivisation.

Still an enormous amount of attraction in Singapore and we are still seeing many, many clients looking to move their facilities into Singapore and those who are there expand.

Our key opportunities really lie in China I think where we have really got to get reorganised and refocused given there has been a significant reduction in FDI and Japan also where we're going to look to further diversify. We have been largely focused on the telecom sector over the last five or six years and we have some opportunities now to re-diversify that business which we are now taking.

So now I just want to change gears a little bit just for a minute to turn attention to two specific areas which are absolutely key to our business for slightly different reasons and which I'm very passionate about and that is safety and sustainability.

Firstly, I want to talk about safety in our business and in our workplaces. Our vision as Lend Lease and our vision certainly as Bovis Lend Lease is to operate incident and injury free wherever we have a presence. That means that every person who comes to work goes home safety to their family and loved ones at the end of the day. At the end of the day it is kind of that simple.

That vision is for every single person who works for us and who works on our projects wherever that might be around the world. So the back blocks of Shanghai to the middle of Manhattan.

Whilst I am very pleased to report to you that the company-wide commitment to operating injury free has helped deliver a very pleasing global trend downwards in lost time injury rates and people getting hurt on our projects, two people have died this year on construction sites where Bovis Lend Lease has had a presence.

Whilst many would say and many would say that overall our business performs far better than most in this regard, at the end of the day this is completely unacceptable to us. I know that we have deep and widespread commitment to our vision and that as an organisation we're wholeheartedly focused on making this vision a reality.

So as I've said before, becoming an incident and injury free organisation is not for the faint hearted and at the most difficult times, we must push harder than ever to achieve our vision because human lives are at stake.

I now just want to touch on sustainability and about two aspects of sustainability. Firstly compliance and I am sure it is no surprise to anyone in this room that compliance is ever increasing pretty much with everything and we have really entered a time now where our environmental impacts are assessed externally with the same scrutiny and focus as our financial performance; the real triple bottom line reporting.

So we continue to measure our ecological footprint, both at our offices and more increasingly on our sites and we are committed to continuing to get this right.

The other area and the second area I wanted to touch on is tapping into business opportunity. You have heard that a little bit today in terms of business opportunities on the green agenda really to enable us to continue to build on our leadership position.

We are a creator of environmentally sustainable and affordable solutions. The Bond just up the road is a fantastic example of that. The Gauge down in Melbourne is also a fantastic example and when you start to look at buildings like ANZ and other works we've done around Australia, there is no question in my mind that we are the leader on that agenda in this industry in this country. Similarly, we are in other parts of the world.

We will continue to invest in R&D. Buildings are responsible, as Tony said earlier, for 40 per cent of the world's greenhouse gas emissions and consume a third of the world's resources. You will see in the Lend Lease brochure that is in your showbags that 80 per cent of the buildings that will exist in 2020 are already standing today.

So what a fantastic opportunity we have for truly a green refurb market and something that we have been debating amongst our businesses about how we best avail ourselves of that opportunity, not just in Australia but right around the world. We will certainly be very focused on that.

So just a couple more slides. We've touched on our competitive landscape. The reality is that our competitors are varied very much dependent upon geography. There is no one particular group we bump into everywhere around the world. In the US, the competition is fragmented and fragmented nationally. As in Australia, it varies by sector and region as well.

It is however becoming increasingly competitive in each of the markets in which we operate and there is a clear movement at the moment towards more competition which means for us more tenders, more competitive proposals and less direct negotiated work. I wasn't planning to go through that slide. I'm sure you can do that at your leisure, as Mark said when you have nothing else to do. I'm sure it is something you will rush back to do this evening.

Plan for growth and opportunities - so really in terms of growth in going forward, our strategy addresses this in the following areas. Firstly developing and imbedding what we call operational excellence throughout our regional businesses and that is taking those attributes that we know we must have as basic tickets to the game and becoming the market and the sector leader in those.

So things like how we procure, how we project manage, how we plan, how we provide value engineering, how we manage design, how we manage risk. It is really taking those and becoming the best we can be really to be world's best practice.

Eliminating volatility – I'm sure you've all sat in presentations like this before as certainly we have and grimaced at some of the volatility in the Bovis business in the past.

We are extremely focussed on eliminating volatility in our business through the embedment of all the basic disciplines and governance in our business.

Sector focus – developing IP in specific sectors as we have in say the pharmaceutical sector in Singapore so that we can provide specific value to our clients because of our expertise.

The Green Agenda – I've touched on re leverage and expertise to make the Green Agenda something we do for more than just Lend Lease which is what some of our clients think, to take the next steps to really commercialise that into the green market and the green refurb market in particular.

Finally but certainly not lease, the Lend Lease integrated model to provide more focused support for delivering this around the world in select opportunities. It is not something that we do exclusively. As you heard Tony say, it is about 20 per cent of our work around the world but it is something that when we do it, we add an enormous amount of value for our clients.

So I think just finally, I thought I would touch quickly on the health sector and just what we have done in Australia over the last five years. I actually think it is a great example of how you can turn the attention of an organisation like Bovis which is 9,000 people or in Australia – well how many in Australia are we Tony - about 1500 - turn the attention of a large organisation quickly to a sector, focus on it and deliver some real results. Get a real market position.

In Australia, the healthcare sector is worth in excess of $10 billion over the next five years and state governments and obviously federal governments continue to invest in health. It often accounts for about 25 per cent of their budgets.

We are working on nearly $3 billion worth of projects in that sector. Work extends across the spectrum of health facilities which you can see on this slide: new hospitals, research, education centres, redevelopment of hospitals in both the public and private sectors.

You can see with some of these projects, these are scale projects. The Gold Coast University Hospital - in excess of $1.3 billion; the new Royal Children's Hospital in Melbourne - in excess of $1 billion; Liverpool Hospital – about $300 million. These are large scale projects and opportunities.

So why have we been successful in such a short period of time? I guess firstly, we do have throughout our organisation global health expertise. It is that global to leverage local, principally in the US where we are a top five healthcare construction manager and in the UK where we have a dedicated PFI health business in Catalyst Lend Lease.

Secondly, we have a national approach here in Australia. We have a dedicated health team of over 30 experienced managers focused in this sector. We have an extremely strong integrated offering. You have heard about our integrated model. This is where we can start to see strong project management capability to which we match delivery expertise.

Ability to deliver large and complex projects that require a high level of collaboration with all our stakeholders - we are very familiar with this.

We have a reputation for quality and innovation that is respected by our clients looking to upgrade and modernise their facilities. Often they are designed to suit models of care from 50 years ago so we are talking about significant upgrades in many cases. I am sure we have all been to some hospitals and wondered how people ever operated in there.

We have, we think, best in class expertise in design and sustainability which is an increasing focus of all of our clients. As I said, I think this really is a great example of the flexibility and agility in how we have done this in one sector and how we could do it in others, like we're doing with the stimulus packages and like we will do as part of the overall Lend Lease approach to how we address the PPP, in inverted commas I guess, market in Australia; how we can get mobilised.

So with that, I don't have a summary slide which you are probably all glad about. With that we might go Q&A.

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