LEND LEASE
STRATEGY DAY

27 MAY 2010

PANEL Q&A WITH STEVE McCANN, DAVID HUTTON, PAUL WALSH, TARUN GUPTA, MURRAY COLEMAN AND DAN LABBAD

MR STEVE McCANN: We're well ahead of time which is good. It gives us a bit more time for Q&A as we did in the earlier session and then I will have some closing comments before we go to lunch and then head off for the site tour afterwards. I will coordinate as I did previously.

QUESTION: Hi, can you please give us an update into the investigation that was taking place into Bovis in the US?

MR STEVE McCANN: Yes. So what you're referring to there is, as we have announced, previously there was an investigation some time ago commenced by the New York DA and Federal Attorney in the US in relation to billing practices in the construction industry. Unfortunately for us, I think we are the first cab off the rank and we won't be the last is our view.

The work that has been done is looking at a practice of billing overtime charges to clients and as we've said before, we have not charged any client anything that we haven't actually paid. So that is clear and we've demonstrated that. We've also offered and made restitutions to most of our clients and we're talking a small amount of money. When I say small, single digit millions of dollars over a 10 year period.

So unfortunately for us, it has just dragged on and on and that is not without us trying very hard to give them everything they need to bring it to a close. We are getting towards an end we hope. Certainly in the New York City area, it looks like it is coming to a conclusion. The Federal one is dragging behind that because it started more slowly.

It has impacted our ability to win government work in New York; I think that is clear. Having said that, in some ways if this had happened at a different point in the cycle it might have had a bigger impact but because there is not a lot of development going on in New York anyway, it has probably had a bit less of an impact.

So we are doing everything we can to cooperate and hopefully in the next couple of months we'll see an end to that.

QUESTION: Thanks and can you also give us a bit more detail on you mentioned three fatalities in the construction business? Are they just in the second half or were any of them in the first half and which regions were they in?

MR STEVE McCANN: The three fatalities are one in New York and that was on a building where a worker fell through an open window into a lift shaft. He wasn't in fact meant to be where he was at the time. That was on the Columbia University project and it was a couple of months ago.

The second was -- not the second in order of time. The first in order of time was in Peru on a project in Urubamba which is a pretty remote part of Peru. In fact so remote that our safety guy got altitude sickness when he went to visit the project. In that case, it was towards the end, it was in the last 10 days of building this hotel and a worker fell from some scaffolding and he fell about five metres I think or not even that but unfortunately it was fatal.

The third was very recent and it was in Sydney and in that case it was an extraordinary situation at a schools project in the Sydney metropolitan area where a truck driver had arrived at a site to take spoil away from the site, couldn’t fit his trailer into the site and in the process of uncoupling his trailer from his truck outside of our site before entering our site, his truck rolled over him. So he was fatally injured in that.

It is essentially a motor vehicle accident but it is in relation a site that we manage so even though he was a subcontractor of the contractor we had employed, we still classify that as an injury in relation to a site which we’re responsible for. So that is a fatality that we will report.

There are current investigations underway by the authorities to determine the exact root cause of what happened and to try and take some lessons away from that but it is obviously a difficult one for us to know what we could have done differently. But there is always something you could do differently and one of the things that is evident is that it is industry practice quite often for truck drivers to get out of their vehicle and not apply the park brake because they rely on their air brake.

So on an incline that, that is obviously foolish and hopefully that kind of practice will stop going forward. But there is always something you can actually identify where you say had this been done a bit differently, it wouldn’t have happened. Our objective is to make sure we do everything we can to get to the bottom of that and make sure it doesn’t happen.

So they are obviously very unfortunate incidents. Peru we’re coming out of. I went to Latin America with our Head of Risk and Safety Neil Martin recently. We toured Mexico, Peru and Argentina which are the three markets that we’re currently operating in to see how we were going on safety and whether or not it was something that we should continue to do -- projects that we should continue to pursue there.

The reality is that the business actually operates quite well and probably sets the leading standard in safety I would say in those three markets. But to operate in a remote location like we were in Peru, it is a very big challenge to get that to the level that we’d be satisfied with so we are not going to be operating in Peru any longer.

QUESTION: When do you think you can get it down to zero fatalities though? I mean are you committed to do it and can you do it?

MR STEVE McCANN: Yes we are committed to do it. In fact our target is not just zero fatalities but it’s incident and injury free. So the aim is to not have any incidents at all because the difference between a fatality and a serious injury or a near miss is often not very much. So it is one thing to react to fatalities but what we need to be doing is reacting to anything that goes wrong.

It is an injury wide issue; we're all working hard to improve it. Neil, I don't know if you want to say any words. Neil has been in the safety role now for about 18 months and I think we have made a lot of progress over that timeframe.

MR NEIL MARTIN: I will just add. You've heard a lot about safety today and my view on this is you're not going to wake up one morning and say we've done it; this is just going to be an ongoing drive for us. So I think we'll continue to push. I think you have to look at both lead and lag indicators so we talk about LTIs and fatalities and so you need to understand those but you also need to look at what we're doing to drive up better performance across our industry and with other people.

We will continue to give it everything we possibly can. I have a great team, the EMT are behind and a lot companies say it but it really is our number one issue, our number one priority.

MR STEVE McCANN: We're not proud whenever something goes wrong. I will say though that we test ourselves against the rest of the industry. We have appointed DuPont in New York to have a look at our safety approach. They have told us that they believe our global minimum requirements and means and methods are world's best practice and they are the world leader in safety. So we think we do a pretty good job but we're not going to be satisfied until we do get it to zero.

QUESTION: Just a couple of questions for David actually, one just in relation to Barangaroo. You were talking about the cost advantage you have developing down at Barangaroo. Can you talk at all - and I'm sure it's not kind of set in stone at the moment - but just broadly in terms of the price points, so in terms of the office space, rents, just broad range and the retail space, the kind of rents you're expecting to deliver there? Then also on the resi front, just to get an idea for where that sits relative to competing product I guess in the core CBD.

MR DAVID HUTTON: Yes, I'll make some comments. How much space would you like?

As I mentioned before, our whole approach to Barangaroo was we have -- as Steve mentioned, we created some minimum commitments to government in terms of both infrastructure and payments with the balance of our payments related to the outcome of development so that was very deliberate.

Obviously we've also spoken about we did that on the basis of testing the market and getting the initial commitments both from capital and tenancies. So that's the basis. We factored in very little growth, albeit we believe there was room for upside and we believe there was an opportunity to ride the recovery cycle.

We also did it on the basis of being able to share what we saw as upside with both investors and Lend Lease. Tarun talked a lot about capital today. Obviously with the value of Barangaroo at an end value of around $6 billion, we will be using some of Lend Lease's capital to participate in the returns but we will also clearly be using third party capital in terms of that.

Rental wise, obviously if you look at the Sydney market at the moment, there is significant incentives required. We believe they will decrease and the sort of period we're looking at to bring tenants into Barangaroo - the end of '13 as I mentioned is the earliest - and we're targeting tenants between '13 and '16 now. We believe incentives will return to a lot more sensible and market average rates over that period.

In terms of rentals, we are targeting, I mentioned before, certainly 10% below core CBD is where we're targeted. We believe -- if you look at the western edge of the City, obviously we've been involved historically in Darling Park. Obviously we're undertaking Darling Walk now so we've got a good feel for the sorts of tenants that move to the western edge of the City and the sorts of capital that's attracted to those assets.

We do believe Barangaroo, obviously being further north and it's connection to Wynyard, is a far superior location. We do also believe, as I mentioned before, the buildings we can create are far superior from a tenant perspective. So views, natural eye aspects, sustainability, quality, level of amenity on the ground plain, retail, childcare, bike paths, ferries, etc. We believe that is all significantly superior. Operating costs we're forecasting to be significantly lower.

We are confident if you're a tenant that's looking across the Sydney market, we can offer you a greener, more economical, healthier and better amenity for your team. It is interesting. Talking to a lot of the major tenants at the moment, even things like sustainability, a number of the leading organisations are paying for carbon offsets now and they're doing that partly in terms of their core values as organisations, partly their ability to attract the best talent so it is something that they are marketing to their staff, certainly to their graduate programs.

Barangaroo will offer that. They won't have to buy offsets. So again, you can argue is that an accommodation related cost or a cost of operating their business? So they are the sort of factors that they're taking in. I won't quote specific figures but I will say - and it is certainly reflected in the tenants we're talking to - we can offer very competitive -- on the cost side, I mentioned before, largely relates to economy to scale. Barangaroo offers a very different opportunity relative to doing a single building.

QUESTION: On the resi side?

MR DAVID HUTTON: On the resi side, again there is a blend of product. We are looking at products that include some high rise products, some lower rise product on the waterfront and some more affordable product back on Hickson Road. The room would be aware we've been undertaking Jacksons Landing over the last decade. We are down to our last two buildings and in fact we launched our last building to the market the weekend before last.

So we are very close to the values of residential on Sydney Harbour. We believe where Barangaroo is, we're not pricing it at the sort of East Circular Quay levels but we are pricing it at a premium over Piermont and are quite confident we'll get that.

The higher product has got views of the Harbour Bridge which there is a huge price differential with views to the Harbour Bridge and Sydney or not. Virtually all the product, with the exception of some on Hickson Road, has obviously got water views.

If you're talking in terms of probably a 20% premium to Piermont for those of you who are familiar with the product there and obviously if we do better on some the premium stock, then terrific but we're not aiming for sort of East Circular Quay and absolute premium values.

We've got around 700 apartments so depending on the first releases we will time whether we go harder on that or whether we slow that down and release it as the project goes.

QUESTION: Just a question in terms of the IRRs, I'm just thinking back to the capital raising presentation and some of the targeted IRRs from developments. Just in this presentation you've quoted kind of two office developments I guess which are complete or two developments there, the ANZ Centre and the Myer Centre. Can you provide an indication of what the IRRs achieved on those developments were?

MR DAVID HUTTON: Do you want to answer that?

MR STEVE McCANN: The key thing there is that we didn't use our capital on those projects so I guess in one sense the IRR was infinite. But ANZ was built by us for ANZ on ANZ's balance sheet and the Myer Centre was a joint venture between our fund and a JV investor. So both those returned very attractive returns from a construction and development management perspective.

On the Barangaroo question that you started with, I would say that what we've indicated to the market in terms of the returns we think we can get from the capital that we've raised is well and truly exceeded in our forecast on Barangaroo partly because again, we're not relying on our own capital entirely to drive that project.

In my view, if you undertake a development, particularly in the commercial space, over a reasonable period of time, you've got to be targeting at least a 20% development IRR which is the approach we take. To the extent that you then reduce the amount of capital that you use to deliver it yourselves and you still earn all of the fees associated with it, clearly the IRR goes upwards from there, not downwards. So that is the approach we're taking on Barangaroo.

QUESTION: A question for Paul Walsh on retirement. I'm just wondering what percentage of your earnings are backed by cash and whether or not there is any intention to remove the DMF reval from your earnings stream?

MR PAUL WALSH: Our total return, part of it is accrual and part of it is cash. You need to go back and have a look at last year's Lend Lease Primelife results to get a feel for what that mix is. The second part was--

QUESTION: I was wondering if there is any intention to remove the DMF revaluation out of normalised earnings?

MR PAUL WALSH: I think that's a question for Brad.

MR BRAD SOLLER: In terms of the new vals of DMF, we actually consider that to be part of the operating [inaudible] because that's the way all of the other players in this space report the earnings. So we will actually [inaudible]. But it is another reason why, coming back to the point [inaudible] and revals and that whole issue, is why we actually want to get [inaudible] that we actually look at our earnings in cases of revaluation both in the retirement space and the development space.

MR STEVE McCANN: The only other point I would add to that is that clearly when we went into the retirement space recently, we did so with a view that we thought that was a distressed market. So we have acquired assets on discount rates and growth rate assumptions that we think are towards the bottom end of the cycle type assumptions.

As we come out of the cycle and those discount rates firm and growth rates improve, then the value of those assets should go up. We could recycle those assets today and introduce investors at the sort of returns we bought in at but we would be leaving, in our view, a lot of value creation on the table for those investors if we did that today.

What you will see is that over time we will bring investors in and we will only bring them in if we're going to crystallize a material profit on what we actually paid for those assets ourselves.

QUESTION: Thanks. Just one further for Murray Coleman. Given the lack of internally generated work that you're likely to have over the next few years in the US, is there the potential to wind that business up for Bovis?

MR MURRAY COLEMAN: No. I mean the reality is, in the US, the US has never really relied upon any internally generated work so the US has always been a player in the external market. What we're finding at the moment is just some of our traditional markets have -- some that have evaporated and we are re-tooling and re-gearing our business to work into some different business channels, particularly to look at Federal Government contracting work.

Once we get over the hurdle of the issue in New York City with investigations and back with New York City work and state work. Those other markets, our traditional markets, will come back. We are just kind of recalibrating our business and have been over the last 12 months to deal with that.

QUESTION: Just a final one for David Hutton. Interesting that some of your competitors such as Stockland are winding down their apartments business and you guys are quite the opposite there, you're really ramping it up in Australia. I'm wondering what makes it more profitable for you guys to develop apartments than your competitors?

MR DAVID HUTTON: A couple of comments on that. My first would be as outlined. You need to have a business focus on it, you can't just treat it as generic developments. We made a conscious decision that we could be a market leader in that space. You are quite right, Stockland have stepped back to a degree as have Mirvac. We see that as a great opportunity.

Obviously with the sites we've targeted and one of the competitive points of difference is being able to deliver mixed use. Again, the RNA project, Barangaroo, Vic Harbour all require a blend of expertise. Having an apartment expertise adds to our whole competitive ability to win a project like Barangaroo so we see it adding value to the business.

We are seeing demand from a number of investors into that sector. Tarun mentioned HOSTPLUS; we have a number of other investors who are very keen. Obviously the apartment sector in the end that we play -- we're not playing in the bottom end of the sector, we're not playing in very suburban apartments. We're playing in inner city, inner urban where a high quality product is the space that a tier one builder, obviously Bovis in our case, can deliver and make good returns out of.

I think the key is how you do the capital model. Lend Lease historically wasn't that focused on the capital model we use for apartments. We now are very focused on it so we bring in third party capital, we bring in the right debt structure, we minimise our amount of equity and then we are able to create very good returns on capital.

Obviously there is a lag in respected development profit until they're completed in terms of accounting standards but the reality is we're recognising BLL margins, investment management margins, development management fees on the way through. So when you look at that in totality, we believe it is highly accretive to the Group but we do apply strong discipline. So pre-sales - absolutely, third party capital - absolutely so we've got a strong discipline around the model.

QUESTION: Sorry back to Barangaroo, with reference to the Wynyard Train Station being a core public transport source I gather, right now I'm pretty sure Wynyard is full or is at capacity. We all know the State Government cannot and will not do anything about that. Is that an issue that is brewing or is it more it doesn't matter to you guys, just build the stuff and let the users worry about the problems of Wynyard Station?

MR DAVID HUTTON: No, look I think that is a really good question and it is a question that faces all of Sydney. So the reality -- the answer to that question is the challenges we have at Barangaroo will be the same challenges that are faced by every other asset in the City. So Barangaroo will not be worse and will not be better than any other building in the core CBD in terms of transport. Sydney has the challenge with transport.

That said, Barangaroo creates a catalyst for some improvements, not to the level we would all like to see but the reality is Barangaroo will be a catalyst for vastly improved ferry services. You've already seen the Lord Mayor and the Premier announce the extension of a light rail system. Barangaroo was a large catalyst for that.

There will be significantly improved pedestrian connections which will benefit not only

Barangaroo but benefit our neighbours on the western edge of the City. So the Barangaroo Development Authority and the Planning Minister will be making announcements on the improved pedestrian access into Wynyard.

But you are quite right, ultimately the heavy rail system in Sydney is not ideal and the Wynyard facilities are not ideal. So the way we look at it, everything we can do to encourage the Government to further improve transport, terrific. But our view, it does not change the competitive benchmarking of Barangaroo at all. As I said, any building, any employer in Sydney, we're all playing on a level playing field. We would all like it to be better but Barangaroo will be no worse than any other building in the CBD.

QUESTION: Barangaroo adds significantly to the problem so is it at all possible that there is some fight back or government rewind, etc saying wait a second, Wynyard can't handle what Barangaroo is going to need to use? Am I stretching it there?

MR DAVID HUTTON: I think then, on a macro level you get to debate and you say does Sydney stop growing? I don't think again any of us or the Government feels that's an answer. Quite the contrary, most people feel Sydney has got to grow faster. It is interesting, you get into public transport debate and one of the challenges Sydney has is densities aren't high enough. The reason the Light Rail won't work is if the density of the buildings isn't high enough. The reason the West Quay Ferry Service won't work is if the densities aren't high enough.

So you get in Catch-22 and certainly don't take any of my remarks as sort of sounding like Lend Lease has got all the answers. It is a genuine challenge for Sydney how we improve transport. As I said, Barangaroo I think is the catalyst for some improvements that will happen but Barangaroo alone does not support and fix Sydney transport. But as I said, from a risk and commercial perspective, it is no worse than any other part of the City.

QUESTION: My first question is for Tarun. Just in terms of the ING Retail transaction and the warehousing of some those smaller assets by the Group, what should we be thinking in terms of the Group's intentions to sell down those assets and any potential asset sale gains that might be booked then? Would they be material in the context of the Group and just your sense of timing there?

MR TARUN GUPTA: We've acquired assets worth $145 million. There are four assets in New Zealand; there is a portfolio of four assets. We believe we have acquired them at a very attractive price. From the investment management team's point of view, the intention is to add some value to those assets.

We think there are some low hanging fruit which we will convert into extra value and in time, I guess based on the Group's strategy of capital requirements, the timing of any recycling, whether it is in a sale or a recycling into another product, will depend on what Steve and Brad need going forward.

MR STEVE McCANN: The only thing I would add to that is when we first announced that transaction, our net exposure was about twice what it is now. In between announcing and settling, we had already sold all the assets apart from the four that Tarun has mentioned. We went into it confident we could do that and we've chosen to hold those assets for a bit longer because of the value enhancement we think we can deliver.

QUESTION: So is it something that, potentially over the next three years, something might happen there as opposed to say in FY11?

MR TARUN GUPTA: As I said, the divestment or recycling will depend on what the Group's capital requirements are but in the short term we're looking at adding value to those assets.

QUESTION: My next question is for Murray. Just in terms of Bovis Australia, you've got a number of large profitable projects right now i.e. the Royal Children's Hospital. Can you give us your sense of how you see the earnings trajectory for Bovis Australia given the potential lag in terms of the timing of new internal work coming on some of these large social infrastructure projects like the ACCC and the Royal Adelaide Hospital coming on line? Are you comfortable that there is no potential earnings hole there over the next few years?

MR MURRAY COLEMAN: I think our projections are that the Bovis business is very strongly positioned currently. Our outlook is very strong. We are well positioned on a number of major projects. There is no question that the BER was very timely for us and played to many of our strengths and played to some of our core expertise both in the education sector and with our multi site platform. We have a very positive outlook for the Bovis business in Australia.

QUESTION: Okay thank you. My final question is for Paul. Just for us laymans in the room, can you explain the relationship between DMF cash flows and reported earnings? Is there a relationship there and how should we think about it from a purely layman's perspective?

MR PAUL WALSH: The older the residents get, the closer the correlation between total earnings and cash flow. So our portfolio, the average age of exit is 81, 83 and we've got sub-80 in terms of the age of our residents so we've got a lag in terms of the cash flow and our accrual is growing. Over time, subject to getting the right residents in, those two will come together. Does that get it?

QUESTION: It does.

QUESTION: I've got three questions. We'll do them one at a time. The first question is for Dan. With regards to Stratford, recently it has been reported in the media that Eurostar are not going to stop at Stratford for the Olympics. They might reconsider post the Olympics. Would that have a negative impact on either the valuations of what you're doing or any of your competitors in the area?

MR DAN LABBAD: No, not at all. In fact, post Games and leading up to the Olympics there is the idea to actually -- well what is going to happen is they're going to increase services to Europe, bringing in other operators as well. The weak link in the chain is how many trains you can get through the actual tunnel but what you're probably going to -- well what you will find in

2012 and onwards coming through that line is -- you know on Kings Cross you won't only be going to Brussels and Paris but you'll be going to Berlin and other destinations in Europe and that's fantastic for the valuation of the site.

QUESTION: Great thanks. The second question is for Murray. I just noticed in the presentation you were taking a look at the NBN, what competitive advantage do you think you guys could provide in the implementation of the National Broadband Network?

MR MURRAY COLEMAN: I guess that is one of the things we're looking at. I mean we're doing some early kind of exploratory work looking at some of our existing platforms and whether we can utilise those platforms in adjacent sectors, bring some of the both in-house and external engineering skills together to make a bigger play. NBN is potentially a big opportunity and an opportunity which will have room for many players I think.

We are reasonably early days with looking at that but that gives you a feeling for some of the other sector or adjacent sector work we're contemplating.

QUESTION: My final question is for Paul. With regard to your retirement villages, do you have any marketing strategy or business strategy with regard to the average age of your portfolio of residents? Are you looking at reducing that or keeping it where it is?

MR PAUL WALSH: Our objective would be to try and increase it and that is by marketing to an older age group and trying to bring in older people and they'll stay then we hope for less than 11 years and that's how you increase the value.

QUESTION: Great, thanks.

END OF TRANSCRIPT