

LEND LEASE STRATEGY DAY

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COMPETITIVE ADVANTAGE PRESENTATION

TONY LOMBARDO: Thanks Steve. For those who don't know me, I've been at Lend Lease now for just under a couple of years. Steve brought me in to head up strategy and M&A for the group. I came across from GE after being in GE for 10 years.

I have been working with Steve quite closely over the last 12 to 18 months focusing on Lend Lease's strategy and how we are positioned as a group. I think a couple of the key things that we focused on as we reviewed our strategy and business model are around the portfolio and the returns. We've looked at do we have the right business model, have we got the right structure, are we playing in the right sectors and are we positioned for growth?

I think when we looked at the model some of the key things we did find were the model's sound and we do believe it works. But there are a couple of key areas we do need to focus on. As Steve's mentioned they are around portfolio management and that's what we need to focus on from a corporate perspective. We need to focus on execution, and that's going to be critical around our operational excellence and our focus to ensure we embed that in the organisation. We also focused on getting the right business performance metrics in place as an organisation, so focusing on setting the right targets and KPIs as an organisation.

I suppose the recent market downturn really put the spotlight and highlights different business models and weaknesses in those models. What we're trying to do is fix some of those issues that we're coming up with and adapting the business models going forward. What I'm going to do is we've talked about some of the key differentiators today, about what makes Lend Lease unique, and our competitive advantages.

I've broken the presentation into two components, that is the business model and the key attributes associated with the business model.

When you try to understand what differentiates Lend Lease and to try to work

out your competitive advantages it's important to understand who your competition is. So we spend a lot of time understanding who we compete against, how we compete and what makes us successful. I think Steve's reiterated a number of times, the business model is based on and predicated around integrated business model and an end-to-end property solution. So it is important from our perspective that we maintain key core capabilities in property management, in property development, construction and funds management.

When we compare ourselves against property players we do compete against a lot of internalised rates. But their key focus is more on passive earnings and asset ownership. Our key focus is on active earnings and asset creation, so for us property expertise is essential for our model to work.

When we compare ourselves against contractors, contracting is a commoditised field and it's important that we have and we maintain excellence in project and risk management.

Funds management rolls out the model. The key here is really about access to capital and what makes Lend Lease unique is our property capabilities help us attract capital. By having the three core components of the business we think this is what differentiates Lend Lease as a model and gives us a competitive advantage.

I'm now going to go into some of the five core competitive advantages we see that the model gives us versus our competition. The first one is around the business approach.

I know you've heard a lot about the integrated end-to-end solution that we do provide as an organisation, but what we try to do is use that at different points in time. So there's times that we do offer our clients and investors the complete service suite, there's times that our business units buy in just a discrete component of that. I think that's one of the key things that really does differentiate Lend Lease and has helped us recently win a lot of large-scale projects. It's becoming a bigger competitive advantage in the short term and long term around big urbanisation trends.

So when we look at when we've won large projects, this model has really helped us build our pipeline and win deals such as Darling Walk, Vic Harbour, Somerset, Elephant and Castle, and our business units leaders will talk about why the integrated models work for them in each of their different business units. This is providing us with a real good opportunity to secure a long-term backlog.

But one of the most important things is to understand that our business units do compete independently in each of their individual markets. For instance, Bovis has actually 80 per cent of its work to external clients. Twenty per cent of its work is for Lend Lease. So it does maintain the right competitive skill-set

to be able to compete in the open marketplace. It's extremely important for us to make sure we've got business units that can actually have the right skills and the relevant market expertise.

Our second core advantage is one of our key core advantages and that is asset creation. When we look at what we've delivered over time, and that is today and historically, asset creation is one of our key competencies. It's the core to what we deliver as an organisation. Our brand is associated and recognised with delivering quality assets in multiple cities and in multiple geographies around the world.

When we look at the skill-set we break it up into two components. The first component is origination and we break that up into we find, we buy, we fund because that's how we go about sourcing the right opportunities for the group and that's for our capital and investment capital.

Execution: we break into the next bucket, being design, build, manage. That ensures we deliver the right property outcomes as a group.

So by maintaining the strength of these two capabilities we believe this maximises our property outcomes and returns. This is what attracts customers to Lend Lease as an organisation and we've got a track record for delivering consistent performance.

The third competitive advantage is our ability to manage our business through property cycles. As we all know property is cyclical and it's always tough to keep to the right cycle but you need to be able to manage through the cycle – it's key. At the top of the cycle one of our key focuses was on maximising capital recycling. So that's been a core part of the strategy over the last couple of years and that was active capital recycling and that was to ensure we maximise the returns to our investors.

Now that the market's turned we're not a forced seller of assets and Steve's reiterated that point again, and you can see that's exactly what we've done with the PFI sale. Our competition is a forced seller and they are selling assets at the wrong time of the market. As we've moving through the downward part of the cycle a strong focus of the organisation has been around strong capital management and cost control. Steve's highlighted a lot of the reconstruction which has gone on internally around right-sizing the businesses for their cost base, and what we've done is ensured we're leveraging the different expertise globally to actually flex the strategy of the model. So being able to flex your strategy and understand what's going on, we've actually tried to mitigate some of the lost margin in terms of reducing cost structures.

We've spent a lot of time increasing our hurdle rates as well, internally, in terms of matching back the risk and reward equation. So we've reset and benchmarked all the right returns to take into account the new regime in

today's environment.

I think capital recycling, as Steve pointed out, is going to be key. It's going to help us in terms of how we replenish the pipeline over time, and that's actually going to provide us with a good opportunity around the distressed opportunities which present themselves. So we're seeing today a lot of the distressed opportunities come our way. I think we can be selective in the right investments to rebuild the pipeline from a development perspective.

When we look to invest and replenish we've spent a bit of time looking at how we change our business mix. At the top of the cycle one of the key things we've found was when we were trying to acquire land and new development sites everyone wanted – it was highly competitive and everyone would want a cut. What we're seeing is a lot of traditional opportunities open up today in land management. Now land management is around where our different JV partners are willing to chip in their sites as part of the project, so it's no capital outlay up front. They'll take a proportion of the profits over time. So we're seeing more of those opportunities present themselves, and that's quite important around our master-planned communities, business and our mixed use projects.

If we look at Bovis, Bovis is being very agile in being able to flex its business mix. So it's gone from having a large proportion of corporate versus government work. Its percentage of government work has now increased by twofold over the last two years. So they've been very flexible and agile in moving their business model into capitalising on a lot of the stimulus spend, and that's quite evident in how they've won the recent school work that's come up through the different stimulus packages around the globe, and Murray will talk about some of that later on.

We have positioned our business to capitalise on the retirement sector. We made an investment in the previous BBC platform, now LLP, and Rod will talk about that business going forward. We do see some strong demographics in that market and we do believe over time that's going to be a strong growth circuit.

Developer maximise: Steve did mention we have moved the model quite significantly on our approach to sustainability and we've made significant investment in sustainable property solutions. We believe that this will be a growth area over the long term, and a lot of stimulus packages are focused on ensuring that this is a big part of where legislation's going and we're ready to capitalise on sustainable property solutions. So by leveraging our agility this helps us in terms of what we use our deep understanding and knowledge from property in.

So I want to go into our fourth key competitive advantage and that is our global and local property expertise. Knowledge is powerful but you've got to have an organisation that's structured around how do you share and learn

from different experiences. We do have global and local expertise, and that is a key core competency of the group and I want to share some different examples of how we've leveraged that over time.

For instance, we've used new ideas. We've recently built a large solar community farm within our US Army Hawaii operation. This is from different lessons we've learned over time and we learned certain things around delivering solar when we did the Sydney Olympics Village back eight years ago, so it's one of the key focuses; we'll leverage those sort of capabilities around the organisation.

Deploying talent: we've actually deployed a lot of the team who delivered the Sydney Olympics projects to UK Stratford, so we've been able to deploy some of the skills and capabilities across the group, so we're actually deploying people from Sydney back into London to ensure we can execute the various projects on foot.

The recent property trends: as Steve pointed out, we were early to pick up some of the key trends going forward. We were able to flex the model and adapt it to Australia, so a lot of the cost-cutting initiatives we deploy locally and we were ahead of the curve in Australian terms of right-sizing the business model to protect margins.

Intellectual property: we've leveraged our PP capabilities across from Actus and we've been redefining how we look at our Catalyst business in the UK, and Mark can talk to some of the initiatives he's undertaken within the PPP space.

So knowledge is actually helping us, and that's leading to innovation in our organisation, and that's the fifth key competitive advantage as a group.

As Steve talked to you, we have created a leadership position in sustainable property solutions. We are delivering some of the greenest buildings globally. We've spent a decade building the skill-set and being able to develop sustainable building solution. When you look at sustainability we did recognise that buildings are responsible for about 40 per cent of greenhouse gas emissions. We've moved from just advocacy in sustainability, like a lot of corporates are doing today; we're moving into the commercialisation of sustainability and delivering products in sustainable solution.

We've trained over 1000 green professionals in our organisation. We've delivered the first five star building, being The Bond, our Sydney headquarters. We've now delivered the first six star building, being The Gauge, our head office in Melbourne.

A lot of recent trends and government stimulus work is around sustainable solutions, so this is becoming a key differentiator for us in winning different work that government's providing around the globe. We've currently got about

a 30 per cent market share in green buildings. We're going to continue to invest in growth platforms in sustainability, so I just want to go through some of the key things we're doing today.

When we look at developments there's more opportunities that present themselves today than ever before. Before it was just about delivering the buildings; now, we're seeing new opportunities emerge around different utilities opportunities. So infrastructure being energy and water is going to be come a big part of big urban redevelopment opportunities. We've been investing in different smaller opportunities through our ventures operations. We've made six investments to date in our ventures division, and they are focused on opportunities where we believe we can capitalise on utilities and water through some of our big urban sites.

So it's how we can commercialise those opportunities going forward. So we've made two or three significant little small investments in utilities, that's been water and energy groups. We think that's going to be a key differentiator going forward, because we can capture those value opportunities which weren't available to us before.

So going forward, we'll look not only to ensure we design the best sustainable outcomes but aim to be carbon neutral and we'll continue to invest the right sort of platforms that give us opportunities to capitalise on new emerging trends.

So just to wrap up, the key five competitive advantages which really do help Lend Lease win in today's marketplace versus our competition is our approach and that is the integrated solutions that we offer. Our core competency is asset creation. Agility is quite important because it gives us flexibility and helps with the diverse model. Knowledge is critical in property and we've got both global and local expertise. Innovation is core to our group and we've positioned ourselves to capitalise on the growing trend of sustainable property solutions, and that will be a big growth sector for the group over the long term.

I'm now going to hand over to Brad and he's going to talk through our detailed approach around capital allocation. Thanks very much.

END OF TRANSCRIPT