

## **CHAIRMAN'S REMARKS FOR LEND LEASE'S AGM – 1 NOVEMBER**

### **INTRODUCTION:**

Good evening. I'm glad that so many of you could join us tonight for Lend Lease's Annual General Meeting. I am Jill Ker Conway, Chairman of the Board of Lend Lease Corporation.

Before I talk about the past year at Lend Lease I would like to introduce the other members of the Board of Directors.

The executive members of the Board are: David Higgins, Chief Executive Officer, Robert Tsenin, Finance Director; and Albert Aiello, Chief Information Officer.

And the non-executive members are Richard Longes, who is Deputy Chairman Gordon Edington; Evan Cameron; David Crawford; Diane Grady; Peter Goldmark; Yong Hai Chua; and Rudi Mueller, and also on stage is Phil Crewes, our Company Secretary.

You will be hearing from several of the directors during the meeting, and will have the opportunity to ask us questions later on this evening.

You'll have come tonight expecting answers from us on a number of key questions. The financial year just past was a challenging one for the Company.

This can be seen in our disappointing financial results and you, as shareholders have felt the impact.

In the last two months in particular, as political events have had a direct impact on markets around the world everyone's concern with respect to the future has unquestionably risen.

Despite last year's results and the uncertain world environment we remain confident in our global real estate strategy.

Tonight I want to take you through why we undertook this global growth plan, what we had to do to initiate it and why it continues to hold such great potential for our business.

It's just over a year since we sold MLC. To take the MLC business forward a number of issues needed to be addressed

Firstly. We alone could not achieve global scale with the business, and in the Australian market we faced increasing competition from players with significant distribution platforms.

Secondly. In addition, the projected IT expenditure to keep the business competitive at that level was high.

Thirdly. Tax changes also had a significant impact on our decision. The dividends we paid to you were in part dependent on the favourable taxation basis for life insurance companies in Australia and that changed quite dramatically on 1 July 2000.

To give just one example, 20% of the franking credits that were earned by MLC on its investments were able to be passed on to you, our shareholders. But that benefit was removed by the Government on July 1<sup>st</sup> 2000.

Because we recognised the need for scale in the MLC business we had worked since 1995 with no less than 5 other parties such as National Mutual investigating the possibility of joint ventures. None came to fruition.

Considering where we were in our transition to a global business, it would surely have been preferable to have held onto MLC for perhaps a couple more years.

But in April 2000 National Australia Bank was prepared to pay a price based on how valuable the business would be to them- that exceeded our expectations. The timing was not something we could control and we believed then and still believe now that we had to take up the opportunity that price represented.

Since the early 1990's it had been clear to us that we also had to transition the real estate part of our business as well.

We had to build a foundation for the future that we felt confident would be able to deliver sustainable earnings growth to you.

We knew that if we relied entirely on our Australian earnings Lend Lease's profit potential would be severely curbed in the years to come due to the relatively small size of the Australian market. Geographic diversification was the key step to protect against this decline.

In the 1990's the real estate industry was already becoming more global a trend that created great potential for Lend Lease's unique skills and offerings in key markets around the world.

But our competitive strength was increasingly dependent on our ability to provide cost effective solutions to clients' real estate needs on a worldwide basis.

So we moved quickly to establish a global presence.

We have built the critical mass we need to become a world leader in real estate.

Through our acquisition of Bovis and the real estate investment businesses in the U.S.

And through our entrance into joint ventures with such partners as Generali in Europe and Tokyu in Japan.

Already, Lend Lease is one of the world's largest real estate investment fund managers and one of the largest property solutions companies.

But that positioning has been hard won In this year of our greatest transition, the 2001 result has hit the share price hard.

I want you to know that Lend Lease's directors and our management team share the deep disappointment that many of you have expressed regarding the share price.

However we have made significant progress in building the underlying business that will generate recurrent earnings and has the growth potential that we saw our Australian based business alone could not provide.

One-off items, both positive and negative have impacted our results, most particularly in 2001

In previous years we had made a number of investment decisions in the UK such as Chelverton and THI and Fox here in Australia, that were poor decisions. We take full responsibility for them and we have worked hard this last year to exit them and have clearly moved away from such a strategy but the cumulative impact has been significant.

While not minimizing those losses I want to lay out the underlying story of progress made toward building the new platform.

This slide shows you a comparison of 1999 results with where we will be in 2002

## Transition Status

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|   | A\$M          |        |
|---|---------------|--------|
|   | Expected Base | Actual |
|   | 2002          | 1999   |
| ● Reported Profit after tax                                       | 210+          | 420    |
| ● Amortisation  | 90            | 15     |
| ● Pre-amortisation Profit   | 300+          | 435    |
| ● One-off Sale of Bluewater                                       | -             | (172)  |
| ● Recurrent Pre-amortisation Profit                               | 300+          | 263    |
| ● Cash Earnings per Share<br>on recurrent pre-amortisation profit | 70+c          | 52c    |

We use 1999, because 2000 included only part year results for our acquisitions, such as Bovis, Boston Financial and the Amresco debt businesses.

In 1999 we had none of these businesses, but we did have MLC.

In making this comparison I want you to get a sense of the growth in the real estate platform we have established.

We have said that we are budgeting for an increase in after tax profit this year from a base of \$210 million.

This is our 2001 net profit after tax and before charges. While the 1999 figure of \$420 million is significantly higher to get a true sense of how the businesses are performing we should look at the result before the impact of the non cash amortization charges and any major one-off profits.

Amortization is the non cash deduction we have to make reflecting the write off in the value of goodwill from our acquisitions.

The accountancy rules require us to write off the cost of acquisitions such as Bovis even though we know Bovis is worth more now than when we bought them - not less.

The US accounting rules for amortization have changed. If these changes are adopted in Australia, and they are being reviewed now, they would directly and positively impact our bottom line in the order of \$90 million. This would give us a pre-amortization profit for 2002 of \$300 million plus.

Looking at 1999, the comparable figure would be \$435 million.

But 1999 included a significant one-off profit of \$172 million from the sale of 40% of our share in Bluewater. This cannot be repeated every year. So you can see the recurrent profit is \$263 million.

When you also consider this result was dominated by profits from MLC then in the comparison with a 2002 budget of \$300 million plus, you can see real growth in the real estate platform we are creating.

In cash earnings per share terms, on the same comparison, the numbers would be 52 cents in 1999 and 70 cents in 2002.

I'm not suggesting this year's result was satisfactory. We clearly have work to do in each of the businesses, and David will go through that in detail with you. But overall we are on track in our transition.

You, as shareholders, have felt the impact of the transition in relation to the dividends. I am aware that for many of you the decrease in Lend Lease's dividend payouts has been very disappointing after so many years of growth. However, we have had to work within our changing profile to find what we think is the best way to deliver value to you.

The first major change to the Lend Lease's historical profile has been that earnings generated outside of Australia do not generate franking credits.

From a tax standpoint, it is more effective to pay out only fully franked dividends. As a result, beginning in 2002, and, as 80% of our earnings come from overseas, we will limit the dividend component of our returns to the amounts that can be fully franked. We initiated this policy after careful consideration, and sought extensive advice from outside advisors as well as input from institutional and retail shareholders before determining how to move forward. And as we have said, we expect the dividend in 2002 will be around 18 cents per share fully franked.

As I said, our 2001 result has borne the brunt of the transition and accordingly hit the share price hard. We are now focussed on growing our earnings.

In our Real Estate Investments business this includes working to grow our assets under management and increase our volume of fee-based activities.

And, on the Property Solutions side, we are seeking to establish long-term client relationships that will deliver a steady revenue stream. Our foremost objective in doing this is, of course, to increase the value of our shares. To that end - we feel confident that as we continue to successfully execute on our strategy - the market will take another look at Lend Lease's valuation.

At last year's AGM a Non-Executive Directors' Share Ownership plan was approved under which we can forego our fees in exchange for shares.

In the last twelve months, non-executive directors have participated in the plan and together we have purchased nearly 20,000 shares. In January, we will again be able to purchase shares under this scheme - and I anticipate that we will continue to purchase shares. To put it simply, we feel sure that Lend Lease is a strong Company with a bright future.

In addition, while almost no large company will escape the impact of the current climate, we further believe - that Lend Lease is well positioned to navigate the challenges presented by this period of worldwide economic instability.

As you are all aware -- the effect of the September 11<sup>th</sup> terrorist attacks and their aftermath has been widespread. In the U.S. in particular - the stock markets which fell dramatically when they reopened after the events, have largely returned to pre-September 11<sup>th</sup> levels.

However, those levels are far below where they were a year ago - reflecting the already weak state of the American economy when these horrific events occurred.

This has led to a steady stream of corporate profit warnings - personnel reduction announcements - and other flags of economic recession.

For companies and individuals alike, in light of this uncertainty, investments and expenditure decisions are being made more conservatively than a year ago.

In a few moments, David Higgins will discuss the impact of current market conditions on Lend Lease in more detail.

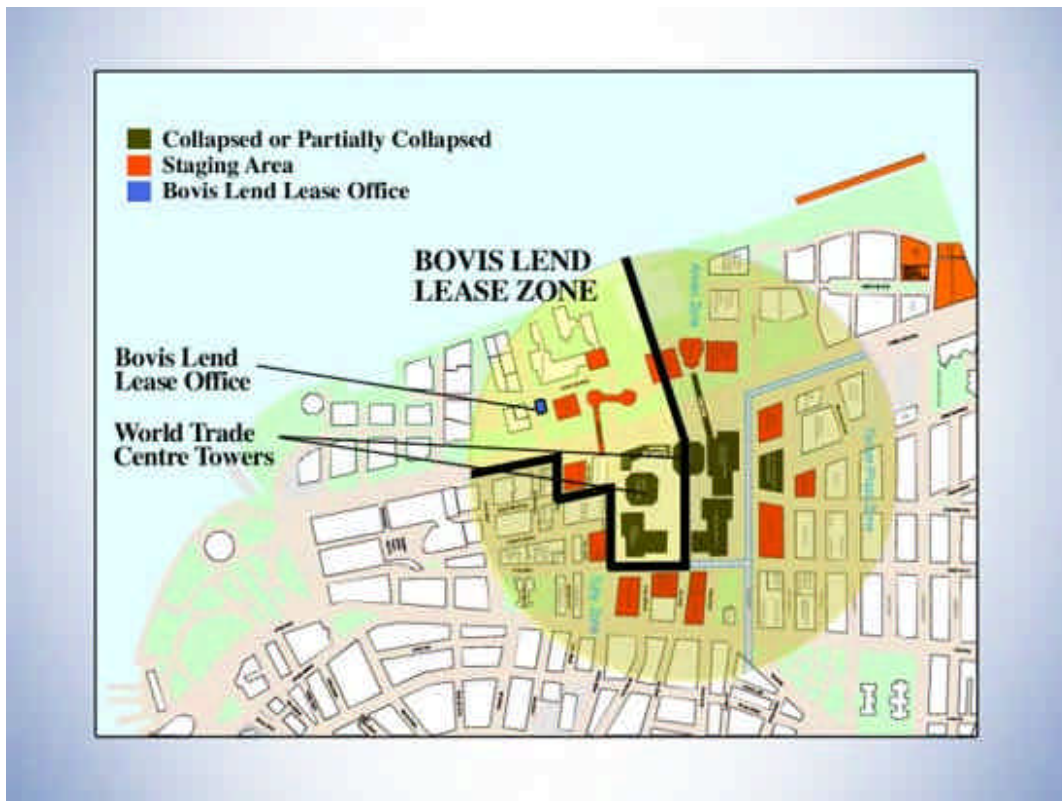
But, I would like to note one important point, which supports what I said earlier about why our business is well-positioned during this period. While markets around the world have been unpredictable in recent months - Lend Lease's presence in 38 countries is of particular benefit at a time like this as growth in some regions or parts of our business can serve to offset the impact of downturns in others.

In discussing the events of September 11<sup>th</sup> - I'd like to highlight some work that our Bovis Lend Lease team in New York has been involved in. Following the horrific attack Bovis Lend Lease has stepped in to assist in the recovery efforts at the World Trade Center site. Bovis Lend Lease were already working on a site near the World Trade Center.



They've removed debris, done demolition work and built temporary structures.

They have also helped to construct a center for the families of the nearly 5,000 victims of the attacks in New York, as well as a Command Center and additional slips for the ferries that have been put in use to replace damaged public transport systems.



All of this work was done in a very short period of time - and New York's Mayor Giuliani recognized Bovis Lend Lease's efforts on U.S. television. On behalf of the entire Board, I would like to thank all of our employees involved in these enormous efforts.

Though I am impressed by the speed and skill involved in what was achieved, I am not at all surprised by the outstanding outcome.

It reflects both the spirit and ingenuity of the Lend Lease team. Our more than forty-year record stands for delivering to our clients high quality, innovative real estate solution that address not only their present needs but anticipate their needs in the years to come.

At the same time as the Ground Zero effort - work continues in New York on the Time Warner Centre - a spectacular mixed-use 2.1 million square foot development on a 3.4 acre site at Columbus Circle.



This landmark building containing offices for AOL Time Warner, -retail and jazz performance space, hotel and residential facilities, will see over 2,300 construction workers working on the site over the three year construction period. We are delighted to be part of such a landmark development in such a spectacular site.

In this region, Japan, the world's second largest economy, has recently adopted Australian style real estate investment trust legislation - as Japan recognises the value of securitised real estate.

In June this year we announced that we are developing a Real Estate Investment Management joint venture with Tokyu in Japan - where we expect to launch our first listed REIT next year. This builds directly off the experience we have had in managing General Property Trust in Australia for the last 30 years. Japan represents an exciting longer term opportunity for us.

These projects such as AOL Time Warner, Generali and our partnership in Japan, should illustrate for you why Lend Lease is such a highly valued partner to our clients – not only here in Australia, but around the world. They exemplify the fundamentals that have made Lend Lease the well-respected company it is today.

These include creativity, innovation, collaboration and, a clear commitment to doing the job well.

I am an historian and one of the lessons of history is that organizations change, but their cultures are enduring. This could not be truer than it is at Lend Lease.

So, I must give both the credit for our ability to execute our global strategy and the challenge to continue to execute it to whom it is due - Lend Lease's employees - a group that is today nearly 12,000 strong. Under the direction of our senior management team, they have shown a terrific ability to work together to maximize the benefits of our global network in order to provide the best outcomes for our clients.

The next step in our global strategy - is to organize ourselves around our client base - in a way that allows us to further improve our levels of service.

We can do this by taking advantage of the synergies across our business platform. To this end, management has outlined a series of clear initiatives to drive performance and identified specific benchmarks to measure our success in achieving them. The Board has worked very closely with management in doing this, and we are now together focused on ensuring that our plans are most effectively executed.

As I said earlier, our objective is to drive Lend Lease's growth and profitability over the long-term.

Our global strategy and the initiatives we are putting in place to support it - are designed with that in mind. And, due to the strides Lend Lease has made in globalizing our operations - and positioning itself as a full service, cost effective partner to our clients - we are well-situated to participate in the economic recovery when it occurs.

Now, an important note before I hand the platform over to David Higgins. Evan Cameron is retiring from our Board of Directors. As a director of Lend Lease since 1989 and Chairman of the Risk & Compliance Committee, Evan's contributions to Lend Lease have been invaluable. On behalf of the Board and the Company, I would like to thank Evan for his great efforts.

Thank you, Evan.

I would also like to officially introduce David Crawford, who joined our Board in July of this year. David is a lawyer by training and has extensive corporate accounting and business experience. Most recently he served as National Chairman of KPMG in Australia. In addition to Lend Lease, he also serves as a director of BHP Billiton.

David succeeds Evan as Chairman of the Risk & Compliance Committee, and the great value he brings to Lend Lease is already clear from our work with him over the past few months. You will hear from David later in the meeting when he is formally proposed for election to the Board.

Now a personal note. Much to my surprise, a question I am often asked by investors is why I took on the assignment of serving as the Chairman of Lend Lease during this period of transition. So just to answer that question a few points that echo some of the themes of my remarks this evening.

First - Lend Lease has a history of superior performance. This history is based on a set of fundamental values - that have inspired generations of employees to deliver to clients products and services that are more than just effective. They are embodiments of our clear understanding of our clients' businesses and their goals. In that way, they reflect the innovative spirit Lend Lease brings to everything we do. This spirit is the hallmark of our success, and it is what is allowing us to leverage our leadership position in Australia - in order to capitalize on the great opportunities for our skills and services around the world.

While it is certainly a bracing period for the Company, due to the transition underway and the economic climate in which it is being executed, it is nonetheless a very exciting time - because of the potential the global markets hold for Lend Lease - and the long-term growth and profitability I feel confident that we will achieve.

The challenge was even more attractive because - as a native Australian I was of course familiar with the great Lend Lease brand name and its reputation as a corporate citizen, long before I joined the Board in 1992.

Even though I left Australia at the age of twenty-five I have always felt a debt to the society where I received a wonderful education from which all my subsequent opportunities in life have come.

From the perspective which comes from a lengthy business and academic career in North America, it has been increasingly clear that long term sustainable growth for many Australian companies and thus for the Australian economy could only come from participation in overseas markets

Entry into those larger markets has always been difficult for Australian enterprises - and so the opportunity to contribute my experience to Lend Lease has been personally very gratifying a chance to return some of the great benefits of being raised in the Australian back country.

In conclusion, I'd like to thank our employees - most of whom are of course, shareholders for their ongoing contribution to Lend Lease's dynamic growth.

And I would like to thank all our shareholders for their support during our time of transition - and to assure you that we could not be more focused on increasing the value of your investment.

Thank you.