Lend Lease
CORPORATION

# 2002 ANNUAL GENERAL MEETING

## Managing Director's Address

Thank you Jill, and good morning everyone.

At last year's AGM, we knew we had entered a more challenging economic environment.

12 months on, as Jill has said, the situation in global economies has not improved and remains uncertain.  Lend Lease has met those challenges and is in a strong position to continue to weather turbulent conditions.

Today I will take you through our financial results for the year, highlighting our many accomplishments and the steps that are being taken to improve the business.

Our 2002 profit after tax of $226 million was in line with our expectations and above the market consensus.

The key points to note from our results are that:

- Both businesses contributed to the improved result.
- Real Estate Solutions performed strongly.
- While REI grew overall, returns from the US business were down.

Global Real Estate Investments' profit was up 20% in 2002.

As can be seen from the slide, Australia performed well, and Europe and Asia also improved their relative positions.  While the US business was down overall, there were a number of good performances from various units within the US operation.

Let's focus on the US REI business which, as Jill explained, has been the subject of an intense review this year.

There are three components to the business - Real Estate Equity;  Housing and Community Investing, or HCI;  and the Commercial Credit, or Debt businesses.

The profit drivers for each are quite different, so I'll deal with each of them separately.

The Equity business is where we manage private real estate assets and public real estate securities, primarily for US pension funds.  Assets under Management is the key profit driver for this business and this determines revenue from asset and investment management fees.

The decline in AUM in 2002 is therefore a disappointment, as it will place a further drag on earnings from this business in the current year.

While Equity AUM remains under pressure, it has been pleasing to see more than US$1 billion in either AUM or capital commitments in the US since June this year.

Lend Lease Rosen has been a significant component of this. It is a growth business, well positioned to take advantage of the increased interest in real estate investment trusts by institutional and individual investors.

So while these transactions indicate some improvement compared to conditions in '02, on-going economic uncertainty in the US calls for caution about short term growth prospects.

Our Housing and Community Investing business has continued its strong performance with a 30% increase in transaction volume in 2002.

Importantly, the business has maintained its market share and is on-track to achieve increased transaction volumes in 2003.

Our Debt businesses include Commercial Credit and HFF.

The Commercial Credit business delivered a 12% increase in profit despite a reduction in revenue.

This was a result of a very successful focus on costs.

The historically low interest rate environment in the US had a clear impact on Commercial Credit's revenues, particularly the earnings on the CapMark float.

HFF made a small loss, mainly because of thinner margins on lower originations in the wake of September 11.

In Australia, we've had continued strong performance, with growth in Assets Under Management of 7% over the year and a profit after tax in 2002 of A$30 million.

There is a good market in Australia in which to raise capital in listed vehicles - both for domestic and offshore assets.

This is exemplified by the market's very strong support for Lend Lease US Office Trust's recent acquisition of the First Union Center in Miami.

We are very happy with the outlook for the Australian business.

In Asia, the loss in 2002 reflects the still early stage of building the REI business in that region.

Caution is the key to managing our build-up there, especially given the state of various economies.

This has led to decisions to delay our entry into the REIT markets in Singapore and Japan for the time being.

In the meantime, we continue our International Distressed Debt Fund, which raised US$350 million. This Fund should deliver its first profits to us this year.

The profit from Europe includes income from our ownership of the 30% interest in Bluewater and the sale of Arrábida shopping centre in Portugal.

The European business is otherwise still in establishment phase, with some good progress.

This includes:

- The Generali joint venture generating its first profit within 18 months of start-up;
- And over the last few months the Global Fund acquiring approximately US$1 billion of real estate assets in Europe, completing its investment programme.

I now want to review the Real Estate Solutions business.

RES has continued its strong performance, with 2002 profit up 26%.

This slide shows the major elements of the RES business as it stands around the world today.

The strategy for this business is both simple and compelling.

There are two major parts to RES:

- First is to utilise the extensive Bovis Lend Lease global platform to identify and focus on the major sectors that offer the best opportunities over the coming years. This has led to our success in healthcare, education and military housing projects in the UK and USA, as well as project management and construction projects in the pharmaceutical and commercial sectors.

- The second point of the strategy is the application of what we call the third party capital model to our Development business.

Under the third party capital model, we no longer risk significant sums of shareholder capital on one-off speculative projects. Instead, we apply our development expertise and limited amounts of capital alongside partners and clients who hold significant real estate assets.

This strategy includes such projects as Hickson Road in Sydney; the Delfin Lend Lease land management business; and urban regeneration projects, such as Victoria Harbour in Melbourne and Greenwich Peninsula in London.

To make this two-part strategy work, the project management and construction operations of Bovis Lend Lease have been closely integrated with Lend Lease's experienced development business. This ensures we can draw on all of Lend Lease's market intelligence and expertise for any opportunity, wherever it may be in the world.

Let's first look at Bovis Lend Lease's operating result and then the integrated development highlights.

Bovis Lend Lease is a global business with a growing reputation, exemplified by our role as Project Manager on the World Trade Center "Ground Zero" site in New York. Bovis Lend Lease is a clear market leader, and has successfully differentiated itself from its competition.

It has continued to perform well for us, and has delivered an excellent result of a 32% increase in profits in 2002, in the face of a tough business climate.

The quality of Bovis Lend Lease's earnings has also continued to improve.

The proportion of profits derived from long-term contracts and relationships, has increased from 36% in 2001 to 38% in 2002.

We expect this trend of improving earnings quality to continue.

Two of the key drivers of Bovis Lend Lease's profitability are the growth in Backlog Gross Profit Margin and the Profitability Ratio.

Backlog GPM is the profit that we expect to earn on our forward workload. The Backlog increased by 15% over the year.

Our focus on overheads has resulted in a steady improvement in the Profitability Ratio from 22% in 2000 to 30% last year. We are well positioned to improve that ratio over the coming years.

Bovis Lend Lease has identified PFIs as a high priority opportunity. They have the characteristics we seek: long term contracts, opportunities for integration of our services and repeat business.

Obviously a large degree of the benefits flow to us from the initial construction of the asset. But we also receive some annuity earnings from the facilities management and maintenance of the asset over the life of the contract.

Our Catalyst Healthcare unit has six UK hospitals, which gives us a leading market share. This includes the recently won Manchester Hospital, which will be our largest PFI project to date.

Our pipeline of bids - for both healthcare and education projects in the UK - is very strong.

Jill mentioned that our focus on UK military privatisation bids is beginning to pay off. We recently announced that we had achieved preferred bidder status on Phase I of the UK Ministry of Defence's SLAM project.

This is a Public Private Partnership project that will involve approximately £1 billion of construction work for the modernisation of the military's single living accommodation across England and Wales over the next 10 years.

The construction work should be even across the ten year period, so it will provide a stable recurrent earnings stream for us.

We are currently 1 of 2 in the bidding process for the £3 billion Allenby & Connaught military housing project, and have been shortlisted to 1 of 5 on the South West PRIME Project.

In the US, the Fort Hood project has now been under way for almost a year and is proceeding well providing us with a good track record for future bids.

Actus Lend Lease has reached preferred bidder status on two other US military housing projects in South Carolina and Kentucky.

Now let's look at some of the highlights of our land management and urban regeneration operations.

Delfin - which was acquired in August last year - has been integrated into Lend Lease and produced a profit after tax of $21 million in 2002, which was in line with our expectations.

As you can see on the slide, it has a very healthy sales inventory, and is well positioned to weather any downturn in the residential market.

In Australia the Urban Regeneration business also generated an after tax profit of $21 million in 2002, principally from the Jacksons Landing and Newington projects.

The Victoria Harbour project in Melbourne is progressing with the construction of The National's headquarters.

This is an integrated project that involves all parts of Lend Lease's businesses, including Bovis Lend Lease, our development skills and the Real Estate Investments business.

The establishment of an Urban Communities business in the UK is underway, with Greenwich Peninsula being the foundation project. The £4 billion project will involve the long term regeneration of 190 acres, which incorporate the Millennium Dome and surrounding areas on the Greenwich Peninsula.

This will include over 7,500 new homes and around 3.5 million square feet of mixed-use commercial space.

We see further opportunities in the UK for an Urban Communities business.

Lend Lease has a series of development projects, which will deliver profits over the next 3 to 4 years.

Importantly, these are done without a significant amount of shareholder capital at risk.

Before I conclude, I want to reinforce with you the financial strength of our organisation.

At a time of such global uncertainty Lend Lease had a net debt at 30 June of only $35 million.

We have deliberately remained cautious in respect of acquisitions over the last 12 to 18 months. This has proved to be the correct strategy, as potential targets are now trading at significantly lower levels today.

Ladies and gentlemen, to conclude what is my last AGM address to you as CEO, I would like to say that while we have not yet achieved all of the benefits of our transition, in the short space of 7 years Lend Lease has gone from being a domestic company to one which has a global presence in real estate.

We now have the opportunity to utilise our strong balance sheet and our established businesses to create a true global leader in real estate in coming years.

It has been an honour to have worked with this great company for the past 17 years and to have served you as CEO.

And I'd like to take this opportunity to thank the many people who represent the Lend Lease stakeholders for supporting me in my tenure as Chief Executive Officer of Lend Lease. They include Board members, shareholders, clients, analysts, media, government agencies and - most of all - our employees.

Thank you.