Lend Lease
CORPORATION

2003 ANNUAL GENERAL MEETING

Managing Director's Address

Thank you David, and good afternoon everyone.

When I joined Lend Lease in December last year, the organisation was experiencing some major challenges. My goal is to return this Company to a firmer footing and to restore its credibility with our shareholders, customers, employees and peers. I was fully aware that to achieve this, we would have to undergo a difficult phase of change and transition.

Before outlining the nature and impact of these changes, I'd like to take you through the financial results for this year. I want to highlight some achievements across the three major regions in which we operate – Asia Pacific, Europe and the Americas. I'd also like to talk about the future direction of this Company, and touch on a number of key projects and initiatives across the Group.

The Group's operating businesses performed well in 2003, delivering an operating profit after tax of A$230 million, which was in line with both our internal targets and the market's expectation.

A$198 million of this operating profit related to our continuing businesses – a strong result, and 13% up on 2002.

The balance of the operating profit of A$32 million related to the discontinuing REI businesses.

I have no doubt that the decision to exit these businesses was the right one. Their profit outlook under ongoing Lend Lease ownership could not justify the disproportionate amount of executive time and resources that they were consuming.

As David has already mentioned, the overall reported loss of A$715 million was very painful. However, as I said at the time of the announcement, I am confident that the hard decisions to abandon the global REI strategy were in the best interests of shareholders.

We have realised a substantial amount of cash from the exit, which allows us to conduct the share buyback and to have the flexibility to undertake any investments that would further strengthen our core businesses.

The underlying strength of our principal ongoing operations is evident in our results – Bovis Lend Lease delivered a strong result in all key regions, as did the Integrated Development Businesses. And REI, absent the US business, continued to deliver for shareholders and stakeholders – particularly in Australia and Asia.

Let's now look in some more detail at those continuing core businesses, which after all is where our future lies.

The construction management industry has suffered some tightening in our key markets such as the US and the UK — particularly in the commercial sector. However, one of Bovis Lend Lease's key

strengths has been its ability to minimise the impact of industry cycles, through sector diversification and focusing on key client alliances and relationships.

This has allowed us to continue to grow the backlog and earnings in this environment.

And this has been reflected in another strong result, with profit after tax up 19% to A$133 million last year.

New work secured was up 8% on the previous year to A$611 million, and backlog gross profit margin was up 12% to A$564 million. In addition, there are a number of UK hospital projects where we are still in preferred bidder stage, which will further increase backlog when financial close is achieved.

Our continued focus on overheads is clearly evident in this result, with Bovis Lend Lease's profitability ratio increasing from 33% to 36% last year. We expect a further improvement in this ratio as a result of the cost reduction process that I introduced earlier this year.

Our integrated development businesses generated a profit after tax of A$31 million for the year compared to A$40 million in 2002.

However, both years contained a number of non-recurring items, with 2003 particularly impacted by the provision on the Shell Centre project and the bidding costs for the Allenby/Connaught defence project in the UK.

In general, our development business model is focused on generating sustainable, longer term earnings. And it is an area where we believe the Group has unique skills and resources.

For example, Delfin Lend Lease is an Australia-based specialist in creating integrated residential communities. It had an exceptional year, with operating profit after tax up 49% to $32 million. This was due to the strong increase in the average price per lot sold, driven by geographic and product diversity, coupled with a focus on reducing overheads.

The urban development business in Australia contributed $9 million profit after tax for the year, mainly from the Jacksons Landing, Newington and St Patrick's projects here in Sydney.

In Asia, our development activities recorded a profit after tax of $4 million, which related to the exit of some Asian development assets.

The majority of our integrated development activities in the US occur through Actus Lend Lease, which is focused on the privatised military housing programme for the US Department of Defense.

We acquired a 75% interest in this business back in 1999 in order to participate in an increasing defence spend on the accommodation needs of US servicemen and women. The US military is looking to privatise many of its bases, with the objective of constructing or renovating approximately 238,000 accommodation units at an estimated cost of over US$20 billion. Around 100,000 units remain up for bidding over the next 4-5 years. This represents approximately US$12 billion of capital remaining to be spent. Our goal is to capture a reasonable share of this.

Actus Lend Lease reported a strong result, with a 24% increase in profit after tax to A$4 million. However this result needs to be viewed in the context of the business being in the early stages of its development.

In the last 3 months we have been appointed preferred bidder on both the Army and Air Force military housing projects in Hawaii.

Both spanning 50 years, the US Army project is a US$5 billion project, including a US$1.7 billion capital works programme over the first ten years. The US Air Force project is a US$1.3 billion project, including a US$200 million development programme over the first five years.

We expect this business to become a meaningful contributor to the Group's earnings in the medium term. We now have five privatisation projects, which will provide a steady workload over a number of years.

In the UK we remain focused on hospitals and defence estates for our PFI — or Private Finance Initiative — business. PFI is a term used for the financing, delivery and ongoing maintenance of public assets by the private sector. We have established a strong position in the PFI hospital sector, with a market share of about 20%. In fact we have won 2 out of 3 bids in this sector over the past two years. This year we reached preferred bidder status on a further two hospitals, and are shortlisted on a number of others.

The £1 billion Single Living Accommodation Modernisation or SLAM project in the UK, which we won late last year, has established our presence in the defence estates sector, where we are also targeting a 20% market share. We were recently awarded preferred bidder status on the £500 million South West PRIME project in the UK — further consolidating our position.

We are focused on PFIs because they offer longer term earnings potential, and they further diversify our earnings base. However, to obtain the benefits, the bidding process requires costs to be incurred prior to contracts being signed — the majority between the awarding of preferred bidder status and contract signing.

Our bidding costs are effectively refunded following the signing of contracts — in fact they are guaranteed once we reach preferred bidder stage. The bid success rate is obviously crucial to minimising our net bidding costs.

The bidding costs for the PFI projects were abnormally high in 2003. This was due to costs of A$14 million after tax for the £4 billion Allenby/Connaught defence project in the UK, in which we were unsuccessful. These bid costs were high for a project in the competitive bid stage, but they reflected the scope of the project. We always knew that at best we were a 1 in 2 chance, but it was worth bidding for a project of this scope.

We also incurred PFI hospital bidding costs of A$11 million after tax, of which A$3 million related to projects we subsequently won, and A$8 million related to projects where we are shortlisted.

Looking forward, there is a strong pipeline of opportunities in both the PFI hospital and defence estate sectors in the UK.

Elsewhere in the UK we are consolidating our development services businesses in both urban development and the retail sector.

We have made good progress on the Greenwich Peninsula project in London, having achieved all major master-planning approvals. This project should generate good returns for us over the next 20 years, with the first profits expected to emerge by 2006. We are also focusing on a number of other urban development projects in the UK, including regeneration projects in Bradford and Leeds.

In the retail development business, the Chapelfield project in Norwich is progressing well, with more than half of the retail space committed to lease. Construction is on schedule for a September 2005 opening.

Our Retail Partnership and strong performing retail centres like Bluewater and Touchwood give us a strong foundation in this sector. However, the challenge is to create a sustainable integrated retail sector business.

Now I'll turn to our continuing Real Estate Investments businesses. Collectively, these businesses recorded a 16% increase in profit after tax to A$93 million.

In Australia, operating profit after tax was up 16% to $28 million.

This reflected a reduction in overheads, partially offset by a restructure of the fee for the management of GPT, which has been well received by the market.

We are pleased with the performance of the Australian REI business, which will benefit from disciplined growth of asset portfolios for investors. A good example of this is the current A$1.1 billion redevelopment program across the retail portfolio over the next six years.

In Asia, we recorded a A$5 million operating profit after tax from the management of APIC, which was an excellent turnaround from the operating loss of $6 million in 2002. As you may recall, the 2002 result included costs associated with pursuing joint ventures in Singapore and Japan.

A significant part of our REI earnings arise from our 30% interest in Bluewater and 50% interest in King of Prussia in the US. They are both well-positioned, major retail centres enjoying strong performance, and this provides us with a stable and growing income stream. Longer term we may look to exit these investments, but only when the shareholder value proposition makes sense.

To summarise 2003, Lend Lease had a strong operating result from our continuing core businesses in what has proved to be a tough economic climate in many of our key markets. Our core businesses continued to perform well, and I am confident that we are well positioned for a consistent and growing earnings profile in the future.

Whilst I have dealt with the financial aspects of our operations, I also want to briefly talk about another aspect that is close to my heart — safety.

It is inconceivable to me that people tolerate dangerous work conditions as a fact of life. But, unfortunately, that is generally the case in many industries, including our own.

Last year, we rigorously examined Lend Lease's health and safety practices. Our health and safety record compares favourably with other leading organisations in our industry. Yet, we still experience deaths and serious injuries on our building sites around the world.

We should not accept that even a low rate of deaths and serious injury is inevitable. A workplace free of incidents and injury is not only possible, but we consider it to be achievable and a basic human right.

At Lend Lease we have initiated a programme called "Incident and Injury Free" that puts safety at the top of our priority list. We believe that making workplaces safer is not only the right thing to do, but is good business as well, and we're confident that our performance will back this up.

Our goal is to deeply embed this commitment throughout our entire organisation.

Last year we introduced a series of Incident & Injury Free workshops. By the end of the year we hope to have involved every employee in this programme, as well as many of our sub-contractors and

clients. It is our intention to lead our industry in safety, and this programme has clearly set a new benchmark.

We are committed to this programme for the long term, and I have been pleased to see a significant improvement in the attitude to safety across our organisation.

I would now like to review the major issues that I've grappled with since joining Lend Lease almost a year ago.

One of my first priorities was to review our business, and determine the optimum model to grow earnings and shareholder value. This, of course, included completing the REI strategic review that was well underway when I joined.

As David has already discussed, we concluded that Lend Lease needed to simplify its business model, and focus on its established strengths in each of the major regions. It was pointless to continue with the two global business platforms of Real Estate Investments and Real Estate Solutions.

That process has seen a dramatic number of changes and transactions brought to a fairly quick close in order to simplify our business model and to get our people focused on the continuing businesses and opportunities. I believe we have been successful in getting Lend Lease back into gear and moving forward with a clear sense of purpose and direction.

As part of the business simplification, I introduced a new, regional management structure to meet the challenges of tougher economic conditions, and to drive this Company forward once again.

I appointed CEOs to lead regional teams — Ross Taylor in Asia Pacific, Adrian Chamberlain in Europe and, most recently, Ron Oakley in the Americas.

I've also made several key appointments to inject new talent into the leadership team.

Our global activities and clients also benefit from the dedicated leadership of Rob Fisher. Our Global Services Group focuses on global clients, global sectors and initiatives such as procurement and knowledge management.

It was very clear to me at the outset that we needed to significantly reduce our cost base. After a thorough review, we were able to reduce our costs by over A$100 million per annum. I also took the opportunity to re-invest some of the savings, with the most significant re-investment being in the development of our key resource – our people. This will allow the Company to be better equipped to tackle the challenges ahead and drive the creation of value for you – our shareholders.

The net effect of the focus on costs was a sustainable reduction of A$88 million per annum.

Lend Lease today is a leaner, more focused Company, with a revitalised management team. We are concentrating on the sectors and markets where we have a strong foundation of knowledge and experience, and where business opportunities exist that are suited to our capabilities.

Bovis Lend Lease provides us with the multi-country presence to address these opportunities.

For example, we have Actus Lend Lease in the US focused on the US military privatisation projects. Another example is our PFI business in the UK.

In the Australian market we have a business model that includes Bovis Lend Lease, integrated development businesses like Delfin Lend Lease, and also extends to our well-established real estate funds management operations here.

In essence, by focusing on our strengths in each market, we maximise our capacity to generate consistent, higher margin earnings that will continue to grow for shareholders.

So, turning to our earnings outlook.

Following the sale of our interest in IBM GSA, the market consensus for our 2004 earnings is around A$230 million operating profit after tax.

We are comfortable with that consensus. However, I hasten to add that this excludes the A$80 million profit after tax on the sale of IBM GSA, which obviously needs to be added to the consensus number.

However, the key result to focus on is the operating earnings, as this provides the best guide to our performance and our prospects.

I should note that in this region Bovis Lend Lease has been impacted by increased costs on some projects due to the long-running housing boom. This has been exacerbated in Canberra, with some substantial increases in materials and labour supply costs subsequent to the bushfires there last summer.

Whilst Bovis Lend Lease is performing to plan in the US and Europe, the net impact of the affected projects in this region may well make it difficult to achieve growth in Bovis Lend Lease earnings this year.

However, this does not change our earnings guidance for the Group in 2004. This highlights the benefit of a diversified business.

So, what does this mean for earnings per share, or eps?

With the impact of the share buybacks, we expect to achieve reasonable eps growth in 2004. However, to get a truly valid comparison, you need to adjust for the IBM GSA sale, as 2002 included operating earnings of A$12 million after tax from IBM GSA. In that case, eps growth in 2004 will be well in excess of 10%.

Looking further ahead, the majority of the buyback benefit will flow through in the 2005 financial year.

Consequently, we expect further strong eps growth in that year.

The future looks much better for Lend Lease than it did this time last year, and I look forward to making the same comment next year.

We are strengthening our performance by focusing our strongest skills and specialised knowledge across fewer countries and businesses, and we have strengthened the management team.

I agree wholeheartedly with David – this has been an immensely challenging year, but I am confident Lend Lease now has a stable platform from which to grow the business.

I would like to take a moment to offer a special word of thanks to all Lend Lease employees who, in my view, have done an extraordinary job in remaining focused over several very hard years. As you have seen, our core continuing businesses are in very good shape – that is a direct reflection of our employees' commitment and focus, despite the challenges the Company has faced.

We are in a very strong financial position, enabling us to invest for organic growth, take advantage of acquisition opportunities, and to return capital to shareholders.

Lend Lease remains a great Company. My goal is to build on its history, its strengths and its tremendous potential.

Thank you.