

# Internalisation of GPT Investor Presentation 11 May 2005

- Vote NO to GPT's compromise proposal on 2 June
- Preserve GPT's strength, portfolio and independence
- Secure a pure, internalised GPT for the LPT sector

## **Greg Clarke, Group CEO**

- Today, Lend Lease is presenting GPT unitholders with a choice ... A choice between a proposal that will lead to a fundamental change in asset quality and investment risk, and a proposal that will preserve the premium quality portfolio that unitholders and Lend Lease have built over the last 34 years.
- Having had the opportunity to study the Explanatory Memorandum issued by GPT directors last week, we have reached the conclusion that the compromise package put before unitholders is not in their interests.
- The alternative opportunity is for an internalisation without the compromises.
- Today I encourage unitholders to:
  1. Vote NO on the 2<sup>nd</sup> of June to GPT's compromise proposal ;
  2. Preserve GPT's strength, portfolio and independence; and
  3. Secure a pure, internalised GPT for the LPT sector

- The “alternative internalisation” opportunity
- Why VOTE NO to GPT’s package
- Update on Lend Lease business and growth strategy

- Our presentation today is in three parts.
- I will outline an alternative pure internalisation opportunity for GPT.
- Roger will take you through Lend Lease’s analysis of the GPT Explanatory Memorandum and underscore why we have concluded the GPT proposal comes at far too big a risk to GPT unitholders for our liking at least.
- I then want to give you an update on Lend Lease’s business, growth strategy and outlook, irrespective of what GPT unitholders ultimately decide for the future of GPT.
- I expect the presentation will take around 40 to 45 minutes.
- We will then of course take your questions.
- I want to make it clear that Lend Lease is outlining its intentions today if GPT unitholders vote down the current internalisation proposal.
- Unitholders have an alternative opportunity to internalise GPT, but clearly only if they decide to reject the GPT package on 2<sup>nd</sup> June.
- Lend Lease will not campaign for the NO vote - we simply do not support GPT’s proposed package.

- If unitholders reject the GPT internalisation proposal, Lend Lease will
  - Stop the sale to Westfield
  - Stop the Babcock & Brown JV
  - Not exercise pre-emptive rights on Rouse Hill and Twin Waters
  - Manage GPT at cost from 1 July 2005
  - Forego performance fees
  - Consult major unitholders on the alternative internalisation
  - Implement unencumbered alternative internalisation by 31 December 2005

- The alternative internalisation opportunity is very simple.
- It is a pure internalisation of GPT as an independent entity, without the need to undertake compromised transactions in order to dress up what we believe to be an unsustainable - and certainly an unreliable outlook for higher distribution growth.
- The alternative involves these key components if unitholders vote NO on 2<sup>nd</sup> June.
- If unitholders reject the GPT internalisation proposal, Lend Lease will
  - Stop the sale to Westfield
  - Stop the Babcock & Brown Joint Venture
  - Not exercise pre-emptive rights on Rouse Hill and Twin Waters
  - Manage GPT at cost from 1 July 2005
  - Forego performance fees
  - Consult major unitholders on the alternative internalisation
  - Implement unencumbered alternative internalisation by 31 December 2005.
- If unitholders vote NO on 2<sup>nd</sup> June, they will still receive approximately 1 cent extra distribution per unit under the alternative internalisation. This was the only component of GPT's proposal that Grant Samuel assessed as unambiguously positive.
- Given the protracted circumstances under which GPT's future is being decided, I would like to emphasise two points.
- Lend Lease is in no way seeking to spoil the orderly internalisation of GPT's management.
- Nor is Lend Lease seeking to retain its position -nor enhance the value of a future relationship with GPT through the alternative opportunity we have put on the table today.
- Lend Lease is committed to an orderly transition to an internalised GPT in either case.

- GPT's future is now the subject of a real choice
- Unitholders can choose between short term growth driven by financial engineering or a pure, internalised GPT with its high-quality diversified portfolio
- Unitholders should VOTE NO on 2 June to preserve GPT's strength, quality and independence

- As of today, with the Lend Lease alternative on the table, GPT unitholders now have a very clear choice about what sort of GPT they want to have for the future..
- That choice is not between proposals that compete to the promise of super returns through financial engineering.
- The choice we have provided unitholders is between a GPT with the characteristics that LPT sector investors have said over the last six months are fundamental to the sector, that is high quality assets and investment earnings certainty, moderate gearing and above all predictability, OR
- A transformation of GPT, which will have diluted its best asset portfolio and moved GPT to some of the highest levels of gearing in the sector and well up the risk curve.
- It is now up to unitholders.
- If GPT unitholders want a pure and unfettered GPT internalisation, then they must vote NO to the GPT proposal on 2<sup>nd</sup> June.

## GPT Management's Proposal Is Not in the Unitholders' Interests

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- Let's now turn to why Lend Lease believes the GPT management proposal should be rejected.
- Remember, Lend Lease is not opposed to the internalisation of GPT; we have put such a proposal on the table today.
- However, the inseparable package of deals that GPT management has tied into its proposal is, in our view, not in GPT unitholders' interests.
- Internalisation is not a holy grail to be achieved at any cost to the fundamental characteristics of a prime quality property trust like GPT.

## The different aspects of the “package” have different levels of appeal



### Extracts of Grant Samuel’s Expert’s Report

#### Internalisation of GPT’s Management

“Unambiguously positive...should add approximately 12-14 cents to the value of GPT units relative to the status quo”

#### Babcock & Brown Joint Venture

“The merits of the joint venture involve more complex issues and turn essentially on judgements about Babcock & Brown’s ability to deliver value adding properties over the next few years”

“There are some aspects of the joint venture which are less than ideal”

#### Asset Sales to Westfield

“The benefits of the Westfield sale are less clear”

“... it is not necessarily attractive to sell (even if only partly) such prime assets with proven long term performance that would be difficult to replace”

Lend Lease proposes that GPT unitholders should be able to choose the only “unambiguously positive” component of the package – internalisation – without the need for Asset Sales or the B&B JV

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- The GPT directors have put before their unitholders a proposal that has 3 key elements:
  - the internalisation of the Trust
  - a joint venture with Babcock and Brown
  - the sale of 3 premium retail assets to Westfield.
- Although these elements have very different levels of appeal, unitholders are only being given the opportunity to vote on internalisation.
- However, in doing so, they are accepting:
  - terms to a joint venture that in the polite language of the Independent Expert are ‘less than ideal’ and in our view are seriously flawed ... AND
  - a sale of 3 irreplaceable assets to Westfield that the expert said was for benefits that are ‘less clear’ and in our view a value that is below their market worth
- Lend Lease believes that GPT unitholders should be able to choose the only “unambiguously positive” component of the package – that is internalisation – without the need for asset sales or the Babcock & Brown Joint Venture.

## Westfield is receiving a benefit not available to any other unitholder

"Lyons says that under different circumstances, GPT "would prefer not to have sold" the half interests in the Penrith, Woden and Sunshine Plazas"

Australian Financial Review, 17 March 2005

"Agreeing the Asset Sales with Westfield...had the benefit of clarifying Westfield's willingness to support an internalisation proposal and the Babcock & Brown Joint Venture"

GPT Chairman's Letter, 2 May 2005

"An arguably preferable transaction structure might have been to raise the necessary capital to invest in the joint venture by either borrowing or by selling less prime assets from GPT's portfolio (or a mixture of both)..."

Grant Samuel Report, p. 54

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- That Westfield is receiving a benefit not available to other unitholders does not seem to be at issue.
- Market commentators have noted this, and it would appear that GPT's management, Board and the Independent Expert concur.
- Apart from Westfield's clear conflict of interest and exclusive benefits, Lend Lease believes that these transactions should not be undertaken - there would have been other avenues of funding for the Babcock & Brown Joint Venture available.
- The sale to Westfield compromises the GPT retail property portfolio, and gives up GPT unitholder value.

## If Westfield required an inducement to support the Babcock & Brown JV, why should other unitholders accept it?

"As the Joint Venture concept was being developed with Babcock & Brown, it became clear to the GPT Independent Directors that it would be necessary to clarify the position of Westfield if GPT was to be in a position to put a recommendable proposal to GPT unitholders..."

GPT Explanatory Memorandum, page ix

- If the only basis on which Westfield would support the Babcock & Brown JV was if it had the exclusive ability to acquire GPT's best shopping centres on favourable terms, why should other unitholders who won't receive any special benefits support it?

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- However, we do not believe that other unitholders should be forced to accept these terms as they vote for internalisation.
- If the only basis on which Westfield would support the Babcock & Brown Joint Venture was that it had the exclusive ability to acquire GPT's best shopping centres on favourable terms, why should other unitholders, who won't receive any special benefits, support it?
- We are not alone in that view.
- Many unitholders have expressed significant concern regarding the position with respect to sale of the key retail assets.

### Asset Sales

- Sale price at discount to market
- No competitive sale process
- Further value transfer through management/development agreements and pre-emptives
- Sale of key assets to largest competitor
- Benefit provided to Westfield in return for its support of GPT's internalisation
- No financial benefit to GPT

### Joint Venture

- Fees payable to B&B are excessive
- Relative returns on investment heavily favour Babcock & Brown
- Returns generated from 100% leverage of assets rather than quality property investment
- Potential for excess total returns (including capital growth) is questionable

- Let me summarise our assessment of the GPT package before I hand over to Roger for a more detailed analysis.
- Our concerns are that neither the Joint Venture, nor the sales to Westfield, are in the GPT unitholders' interests; they should therefore not be a condition of internalisation.
- The Asset Sales involve:
  - Sale price at discount to market
  - No competitive sale process
  - Further value transfer through management/development agreements and pre-emptives
  - Sale of key assets to largest competitor
  - Benefit provided to Westfield in return for its support of GPT's internalisation
  - No financial benefit to GPT.
- Our concerns regarding the Joint Venture include:
  - Fees payable to B&B are excessive
  - Relative returns on investment heavily favour Babcock & Brown
  - Returns generated from 100% leverage of assets rather than quality property investment
  - Potential for excess total returns (including capital growth) is questionable.

## GPT's package is NOT in GPT unitholders' interests (cont)



- The forecast increased DPU arises from short-term underwriting/branding fees and does not reflect returns from long-term property investment
- The proposal does not enhance long-term DPU growth as the JV investment is capped at 15% of GPT's Total Assets
- Acquiring up to \$5.6b in overseas property assets within 18 months does not represent "controlled expansion" into offshore markets
- There is a substantial increase in gearing – up to 45% on "see through" basis and S&P has indicated a downgrade from A+ to BBB+ or A-
- The proposal will dilute any premium for control
  - The B&B poison pill could reduce the price a party is willing to pay for control of GPT by approximately 30 cents per unit
  - GPT will be less attractive with its diluted Australian retail presence

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- Beyond those specific concerns about these transactions, we have other serious concerns with GPT's proposal.
- These include:
  - The forecast increased DPU arises from short-term underwriting/branding fees and does not reflect returns from long-term property investment
  - The proposal does not enhance long-term DPU growth as the Joint Venture investment is capped at 15% of GPT's Total Assets
  - Acquiring up to \$5.6b in overseas property assets within 18 months does not represent "controlled expansion" into offshore markets
  - There is a substantial increase in gearing – up to 45% on "see through" basis and S&P has indicated a downgrade from A+ to BBB+ or A-
  - The proposal will dilute any premium for control:
    - The Babcock & Brown poison pill could reduce the price a party is willing to pay for control of GPT by approximately 30 cents per unit
    - GPT will be less attractive with its diluted Australian retail presence.
- I'll now hand over to Roger to walk you through our more detailed analysis of what is wrong with the GPT management proposal.

**Why GPT Management's Internalisation  
Proposal Is Not In The Best Interests  
Of GPT Unitholders**

"The Proposal should be considered a "package" of three key initiatives that will flow from any vote to internalise management",

GPT Chairman's Letter, 2 May 2005

1. Internalising management of GPT
  - The Board and management team that proposed this "package" will resign from GPT Management and become an internal team employed by GPT
2. Asset sales to Westfield
  - Sale of half of GPT's ownership interests in, and management and development control of, three of GPT's best shopping centres to Westfield <sup>(1)</sup>
3. Babcock & Brown Joint Venture
  - Investment by GPT of at least \$1.26b in a highly leveraged global real estate investment business
  - Investment by Babcock & Brown of \$140m for 50% equity interest in the Joint Venture

<sup>(1)</sup> Subject to APPF pre-emptive rights/consent in the case of Sunshine Plaza

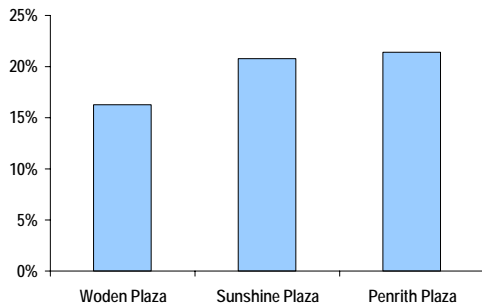
### **Roger Burrows, Chief Financial Officer**

- As Greg noted, the heart of our concerns relates to the inter-connected nature of the three transactions:
  - Internalising management of GPT;
  - Sale of high quality assets to Westfield; and
  - Highly leveraged Joint Venture with Babcock & Brown.

## GPT unitholders will swap high returning shopping centres for relatively low returning JV assets

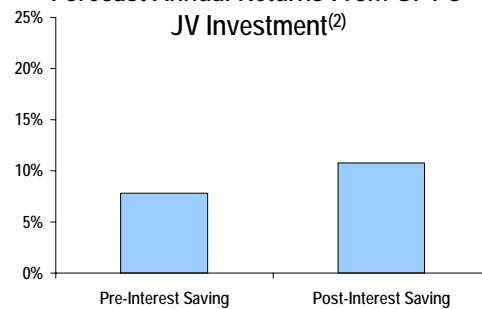


Average Annual Total Returns<sup>(1)</sup> from GPT's shopping centres to be sold to Westfield



<sup>(1)</sup> Comprises rent and capital growth for 5 years to 31 December 2004

Forecast Annual Returns From GPT's JV Investment<sup>(2)</sup>



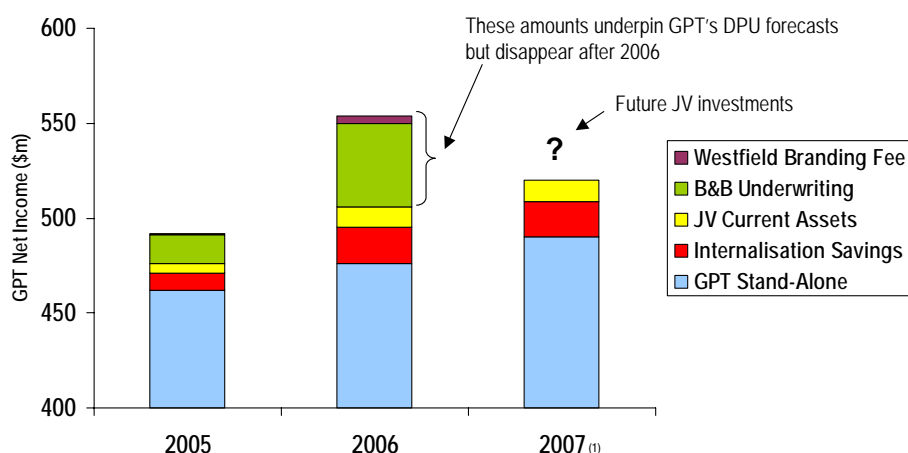
<sup>(2)</sup> Based on \$1 billion invested by the JV (\$900m by GPT). From Grant Samuel analysis

**Will the Joint Venture assets be able to produce high enough capital returns to match the total returns from the shopping centres GPT proposes to sell?**

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- The core of the package relates to the swapping of high returning shopping centres for low returning Joint Venture assets.
- The three centres being sold to Westfield have provided very strong total returns, including substantial capital growth, for GPT over the past 5 years:
  - Over 15% per annum for Woden Plaza; and
  - Over 20% per annum for Penrith and Sunshine Plaza.
- Contrast that to the 10-11% returns forecast from the Joint Venture investment:
  - With a significant proportion of that flowing from financial engineering.
- It begs the question of whether the assets in the Joint Venture will produce the capital growth to match the total returns that have been generated for these 3 shopping centres.

## GPT's 2006 forecast earnings raise questions about sustainable, long term earnings



Almost 10% of GPT's forecast 2006 earnings are based on a short-term underwriting from B&B and branding fee from Westfield

<sup>(1)</sup> Assumes 3% stand-alone growth, internalisation savings of \$19m and current JV portfolio only with no net income growth on these assets

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- In addition, we have grave concerns about the sustainability of GPT's earnings under the package.
- It appears to us that the transactions have been structured to produce apparent short term earnings growth.
- Almost 10% of GPT's forecast 2006 earnings are based on a short-term underwriting from Babcock & Brown and the branding fee from Westfield.
- In our view, there is a significant risk that GPT's earnings will decline in 2007.

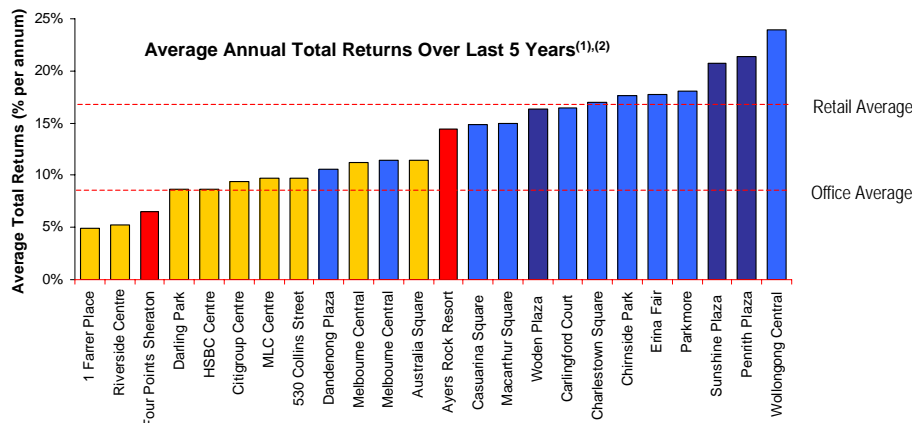
**The Sale of Shopping Centre Interests To  
Westfield Is Not In The Best Interests Of GPT  
Unitholders**

- Let's now turn to the issues around the sale of the three centres to Westfield.

## Shopping centres are GPT's best performing asset class



- Shopping centres have delivered superior returns (net rent and capital appreciation) for GPT Unitholders over the last 5 years



The proposed sale of half of GPT's interests in Penrith Plaza, Woden Plaza and Sunshine Plaza would reduce GPT's best performing asset class from 54% to 44% of its investment portfolio

(1) GPT properties over \$100 million owned for at least 12 months

(2) Based on internal rate of return taking into account capital growth (based on book values at 31 December 1999 or later if acquired subsequently), net rent and capital expenditure

- There is no doubt that retail shopping centres have been GPT's best performing asset class, particularly over the past five years:
  - For example, retail returns have averaged around 17% compared to office at around 9%.
- We see no sense in undertaking a transaction which has such a dramatic reduction in GPT's weighting to this sector.
- As you can see, the sale to Westfield will reduce the weighting from 54% to 44%.

## The shopping centre interests that GPT proposes to sell are amongst the best in Australia



- Penrith Plaza, Woden Plaza and Sunshine Plaza are amongst the best regional shopping centres in Australia

Ranking	Centre	Manager	MAT/m <sup>2</sup>	Change
1.	Chadstone	Gandel	7624	+3.9%
2.	Chatswood Chase	Gandel	7542	+0.4%
3.	<b>Penrith Plaza</b>	<b>Lend Lease</b>	<b>7212</b>	<b>+6.4%</b>
4.	<b>Sunshine Plaza</b>	<b>Lend Lease</b>	<b>7206</b>	<b>+7.7%</b>
5.	Castle Towers	QIC	7013	+2.8%
6.	<b>Woden Plaza</b>	<b>Lend Lease</b>	<b>6960</b>	<b>+4.9%</b>

Source: Shopping Centre News as reported in Australian Financial Review, 3 March 2005

- The strong sales productivity highlights the redevelopment and income growth potential of these centres
  - Penrith Plaza is currently undergoing a \$140m expansion which will increase its retail size from 69,500m<sup>2</sup> to 86,000m<sup>2</sup>

**These assets are irreplaceable – their sale will weaken the strategic importance of GPT's retail portfolio**

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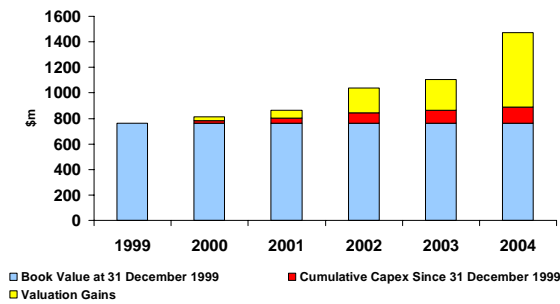
- Even more concerning is the fact that the 3 centres in question are amongst the highest quality and best regional centres in Australia.
- Their strong sales productivity highlights the redevelopment and income growth potential of the three centres:
  - the majority of which are being handed to Westfield for little or no additional value.
- In essence, these assets are irreplaceable:
  - there is no doubt that their sale will weaken the strategic importance of GPT's retail portfolio.

# GPT will forego an impressive capital and rental growth record



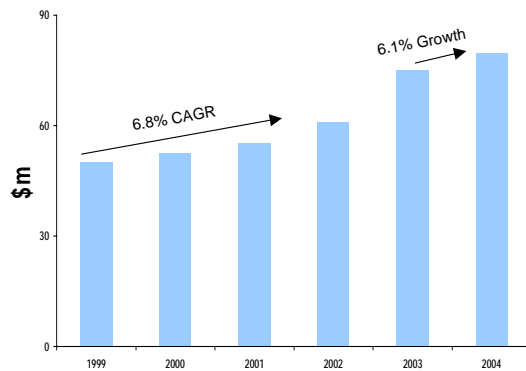
- Penrith Plaza, Woden Plaza and Sunshine Plaza have delivered consistent strong growth in rentals and capital value

## Capital Growth <sup>(1)</sup>



<sup>(1)</sup> Based on book value for 100% of GPT's interests in Penrith Plaza, Woden Plaza and Sunshine Plaza

## Rental Growth <sup>(1)</sup>



(1) Aggregate rentals on Penrith Plaza, Woden Plaza and Sunshine Plaza (50%)  
 (2) Above average rental growth in 2003 due to Penrith Plaza JVIA unwind

- By completing the sale to Westfield, GPT will forego an impressive capital and rental growth record.
- We have significant doubts that the assets being acquired by the Babcock & Brown joint venture will go anywhere near matching this record going forward.

## GPT will not have a strategic regional shopping centre management platform



(1) Based on GPT's 31 December 2004 valuation

- The 5 largest regional shopping centres in which GPT has an investment will be managed by other parties
- GPT's shopping centre management and development skills will not be optimised

Why sell assets / management at a discount to true value to your largest competitor?

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- Post the sale of the three centres, in our view, GPT will not have a strategic regional shopping centre management platform.
- What is apparent is that the largest regional centres in which GPT is invested will be managed by others:
  - either Lend Lease or Westfield.
- Given the mature nature of the Australian retail sector, there is very limited ability for GPT to rebuild this platform.

### Exclusive Dealings

- No other party was given the opportunity to submit an offer for these assets
- Lend Lease believes there would have been keen interest if these assets were offered for competitive sale
- It is inappropriate to sell prime assets representing 12% of Unitholders' Equity in an exclusive negotiation

### Value Comparisons

- The sale of 3 of GPT's best assets is essentially at book while GPT units trade at a circa 20% premium to NTA

	Sale Yield
Chatswood Chase (2003)	5.3% <sup>(1)</sup>
Penrith Plaza, Woden Plaza, Sunshine Plaza (2005)	6.0% <sup>(2)</sup>

(1) Based on broker research  
 (2) Based on current independent valuation cap rates

"In Australia today, you are fighting over [shopping centre] assets at 5.5 per cent..."

Quote from Nic Lyons in  
 Australian Financial Review  
 17 March 2005

- We know that many others in the market share our concerns that these three centres are being sold below their true value.
- Given other comparable transactions, it is clear that GPT could have obtained a far higher price if it had conducted an open market sale process.
- Even Nic has previously recognised the demand for, and the increasing value of quality retail assets.

Without a short term “branding fee” from Westfield there is no net income enhancement from the asset sales



- GPT’s forecast financial benefit from the Asset Sales arises entirely from a “branding fee” paid by Westfield to GPT

(\$m)	Six Months to 31 December 2005	Year to 31 December 2006
Impact of Proposal – Asset Sales to Westfield <sup>(1)</sup>	1	4
Less Branding Fees Paid to GPT By Westfield	<u>(1.0)</u>	<u>(4.5)</u>
Underlying Earnings Impact	<u>-</u>	<u>(0.5)</u>

(1) Includes branding fees paid by Westfield to GPT

- No branding fee is payable after 31 December 2006
- Rent foregone will result in negative (and growing) on-going earnings impact
- With no real earnings benefit, GPT unitholders will also forego capital growth
  - Approx \$200m in capital growth recorded on GPT’s current ownership interest in these assets in latest revaluations (covering a 15 – 21 month period)
  - Strong rental growth should underpin future capital growth

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- We also question the logic behind the sales, given there is no net income enhancement from these sales apart from a short term “branding fee” paid by Westfield which drops away post December 2006:
  - It leads us to believe that this branding fee has effectively been constructed to underpin the DPU forecasts in GPT’s Explanatory Memorandum
  - From 1 January 2007 there will be a reduction in GPT’s net income as the branding fee drops away.
- In fact, the sales will result in negative on-going earnings impact, the magnitude of which should grow over time.
- GPT’s forecast of \$4 million earnings benefit pales into insignificance when compared to the potential ongoing capital growth:
  - For example, GPT revalued these assets by around \$200 million last December.

## The sales will give rise to a large Capital Gains Tax liability



### Estimated Capital Gain on Sale

Sale proceeds	\$744m
Less vendor stamp duty	<u>\$8m</u>
Net proceeds	\$736m
"Total cost including additions"	<u>\$478m<sup>(1)</sup></u>
Estimated capital gain	<u>\$258m</u>

<sup>(1)</sup> As disclosed in GPT's 2004 Annual Report

### Impact on GPT unitholders

- Tax liability does not impact GPT's reported earnings
- Taxable capital gain will be distributed to GPT unitholders – estimated 12.8 cents per unit
- Will result in higher tax payable by unitholders in current year

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- The asset sales will also impose a higher tax liability to GPT's unitholders from the \$272 million capital gain.
- GPT unitholders will have to pay higher tax this year as a result of this deal.

## The value of GPT's remaining ownership interests will be diluted



- Westfield will be appointed manager, developer and leasing agent for the shopping centres
- No fees are disclosed, but Grant Samuel states
  - "These rights will generate significant fees for Westfield Group and represents a potential lost opportunity for GPT"
- Westfield's implied development and construction margins in its own business are substantial

	Forecast 30 June 2005 <sup>(1)</sup>	Forecast 30 June 2006 <sup>(1)</sup>
Project profits eliminated	\$146.8m	\$227.7m
Construction and development expenditure	\$1,008.4m	\$986.0m
Implied development and construction margin <sup>(2)</sup>	14.6%	23.1%

(1) Per Westfield's Explanatory Memorandum dated May 2004.

(2) Implied margins may differ from actual margins due to timing of cashflows

- Westfield will be granted a pre-emptive right over GPT's remaining ownership interests
  - Reduces GPT's ability to maximise price on any future sale of its remaining interest

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- In our opinion, the value of GPT's remaining ownership interests in the three centres will be diluted:
  - particularly in relation to Penrith and Woden Plaza, which are to be managed by Westfield.
- Westfield has an impressive record of earning significant margins on the redevelopment of its retail centres.
  - and I refer you to Grant Samuel's comment on this matter.
- Combined with the pre-emptions granted to Westfield over GPT's remaining interests in the three centres, it serves to reduce GPT's ability to maximise long term value.

- GPT's Directors are not seeking a separate unitholder approval to sell the assets to Westfield despite the divergent interests of Westfield and other unitholders

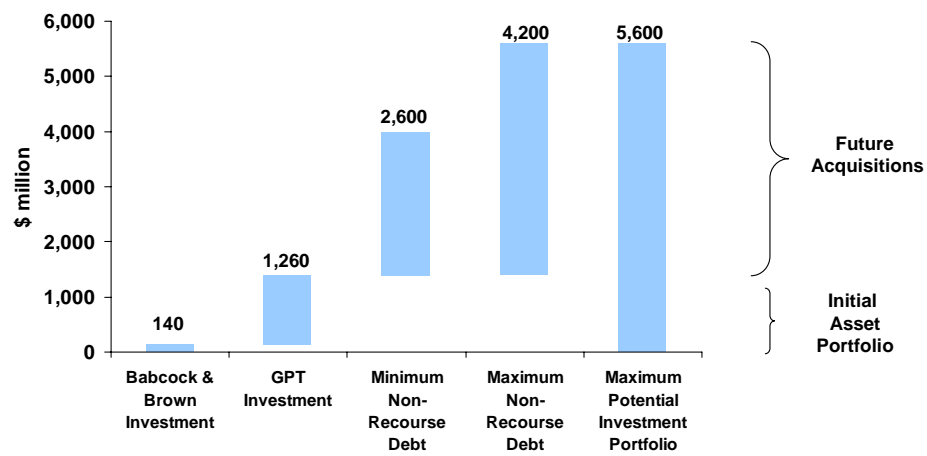
**The only way to prevent the sales to Westfield is to vote  
AGAINST GPT's current internalisation proposal**

- It is clear to us that these sales to Westfield were not agreed for sound commercial reasons.
- In our view, it has been an exercise in securing Westfield's vote, by delivering a benefit to Westfield not available to other unitholders.
- The nature of this transaction should be subject to a separate unitholder resolution – however it is not.
- Therefore the only way GPT unitholders can stop the sale of GPT's three best assets is to vote NO to GPT's internalisation proposal on 2<sup>nd</sup> June.

**Proposed Babcock & Brown Joint Venture  
Raises Serious Questions for  
GPT Unitholders**

- The proposed Babcock & Brown joint venture also raises some questions.

## GPT provides the vast majority of the JV's risk capital



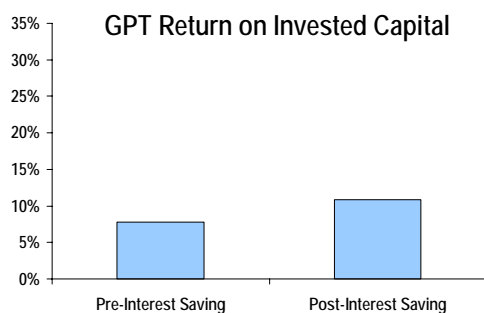
GPT provides 22.5% of funding for 50% equity interest in a potential \$5.6 billion portfolio  
B&B provides 2.5% of funding for 50% equity interest in a potential \$5.6 billion portfolio

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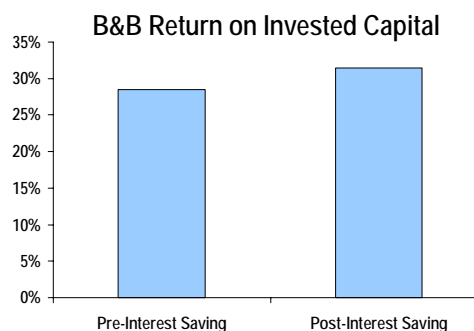
- There is a disproportionate sharing of risk/reward between GPT and Babcock & Brown.
- GPT's capital contribution to the Joint Venture is 9 times that of Babcock & Brown's.

## GPT's returns are inadequate relative to B&B's given GPT takes the majority of equity risk

- GPT is assuming the vast majority of the equity risk through its preferred equity
  - Ordinary equity is only around 5% of asset purchase price – almost equal to property acquisition costs
  - “this margin [on preferred capital] is at the lower end of what mezzanine lenders in the Euro zone would typically require in relation to assets such as the initial portfolio” (Grant Samuel Report, page 51)
- Yet returns on investment are heavily skewed in favour of Babcock & Brown (before fees it will receive)



Source: Grant Samuel analysis (\$1 billion fully invested)



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- In addition, GPT's returns are inadequate relative to Babcock & Brown's returns
  - particularly given GPT takes the majority of equity risk.
- The vast majority of GPT's equity risk is through its preferred equity
  - Even the Independent Expert, Grant Samuel, notes that GPT's return on this is at the lower end of what mezzanine lenders in the Euro zone would typically require in relation to assets such as the initial asset portfolio.
- You can see that the returns on investment are heavily skewed in favour of Babcock & Brown:
  - and this is before the fees Babcock & Brown will receive.

## In addition to its superior returns, the fees/profits payable to Babcock & Brown are excessive

- Estimated fees payable to, and profits realised by, Babcock & Brown on the JV's \$1.4b equity investment (90% funded by GPT)

	A\$m
Profit on sale of initial portfolio	80
Reimbursement of B&B's initial portfolio acquisition costs	45
Joint venture establishment fee <sup>(1)</sup>	50
Property acquisition advisory fees	30 - 225
Debt arranging fees <sup>(2)</sup>	<u>25 - 40</u>
	<u>230 - 440</u>
Fees as % of Babcock & Brown's JV equity investment	



- 82% by value of these properties were only acquired one month before the GPT/B&B JV was announced
- The vast majority of the profit arises from these recent acquisitions

<sup>(1)</sup> GPT can only avoid this fee if it winds up the JV within 3 years – it would only have an incentive to do so if the JV has not delivered the unit price appreciation that Grant Samuel estimates it will

<sup>(2)</sup> Assumed 1% on \$2.6b-\$4b of non-recourse debt (actual fees not disclosed)

- Babcock & Brown can charge acquisition advisory fees of up to 5% if the acquisition price is below a third party valuation
  - Fee is uncapped for any sale of a property owned by Babcock & Brown for more than 12 months
- Babcock & Brown is incentivised to charge all of these fees within the joint venture's first 18 months
  - Babcock & Brown's underwriting arrangement incentivises it to acquire properties as quickly as possible

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- In our view, the fees and profits payable to Babcock & Brown by GPT are excessive.
- As you can see, at up to \$440 million, within the next 18 months, they are a breath-taking fee outcome in the light of GPT's objective to internalise and reduce fee leakage.
- You should also note that GPT is paying these fees on only 15% of its asset base.
- Furthermore, the vast majority of these fees and profits are not dependent on the performance of the underlying assets.

## The Joint Venture has an overly aggressive acquisition program



- Babcock & Brown's European real estate platform has only been in place for a little over 2 years. During these 2 years it has
  - Other than the current sale of its portfolio to the JV, has realised only one other asset
- The remaining \$2.9b-\$4.5b in joint venture capital is a substantial amount to invest in the next 18 months
  - Up to 4 times the size of the initial portfolio which was assembled by Babcock & Brown over the last 18 months
  - Up to half the value of GPT's existing high quality Australian asset base which has been assembled over 30 years
- JV is expected to concentrate on smaller to medium sized assets
  - Requires a much larger volume of deals
- GPT's management team has limited experience in investing outside Australia
- If sufficient acquisitions cannot be delivered, GPT's EPU will likely decline after 31 December 2006

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- We are also concerned about what appears to be a very aggressive acquisition program for the Joint Venture.
- To put this in context, the remaining \$4 billion to be invested in just 18 months represents up to half of GPT's existing portfolio built up over the past 30 years.
- You then overlay the fact that the GPT Board and management team will be required to approve these investments in geographies and markets in which they have little or no experience or track record.
- Alternatively, if they do not secure sufficient acquisitions, GPT's earnings will decline post 2006.

## The JV assets substantially reduce the quality of GPT's portfolio and capital growth prospects

### German Apartments

- 13% average vacancy
- Generally built between 1930s and 1960s
- Recent history of weak rental growth
- Downward pressure on residential rentals in some locations
- Some of the residential blocks have asbestos contamination

" Yields for residential apartments have contracted rapidly ..."

Grant Samuel

### Cologne Technology Park

- 19% vacancy
- Value underpinned by €18m rent guarantee from previous vendor to support vacancies and near term lease expiries
- No minority discount applied for 30% ownership interest
- Estimated rental growth rates of only 1-2% p.a.
- 6.0% initial yield is significantly lower than most Australian office portfolios

"Arguably ... relatively limited upside potential"

Grant Samuel

### Galerie Butovice

- 15% vacancy
- Royal Ahold lease (supermarket and 67% of office space) has no rental increases for first 5 years
- 15% vacancy subject to short term rental guarantee

" ... it should be recognised that considerable [yield] compression has already taken place (and is reflected in the purchase price ..."

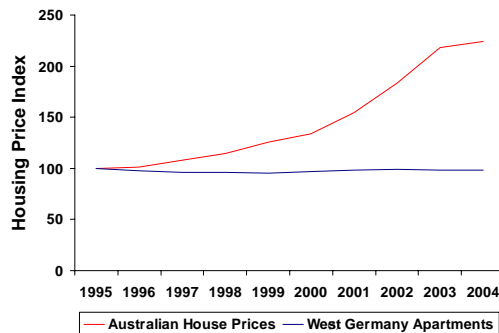
Grant Samuel

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- The proposed investments to be undertaken by the Joint Venture represent a lower quality of assets than GPT's current high quality portfolio:
  - and certainly lower than the quality of the assets being sold to Westfield.
- We seriously question the total returns GPT unitholders will receive when you consider the capital growth prospects of these properties.
  - and I refer you to the Grant Samuel report.

# German apartment prices have been flat for at least 10 years

## Average Housing Prices



Source: Deutsche Bank Research, ABS

(1) Weighted average of 8 capital cities

## German Market Outlook

### Supply

"...During the mid 1990s incentives were provided to developers to increase supply and quality of the accommodation in West Germany...creating an oversupply"

Deutsche Bank Research, 30 March 2005

### Demand

"...Our economist expects Germany to have one of the lowest rates of population growth in Europe, with the population of Germany to peak by ~ 2012 and then decline by up to 10% by 2050"

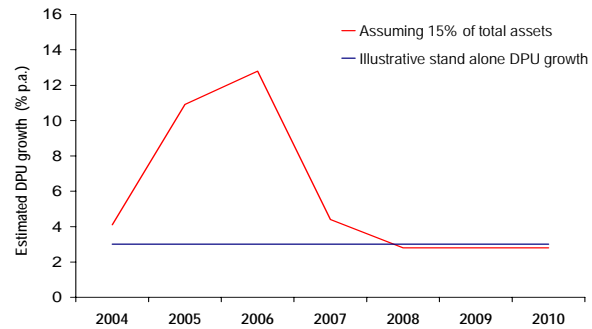
Deutsche Bank Research, 30 March 2005

- To put this in context, the majority of assets to be acquired are German apartments that have had a track record of underwhelming capital growth over the past 10 years.
- In addition, the outlook for these assets in general points to continued underperformance.
  - With oversupply and poor underlying demand dynamics.

## GPT's Asset Allocation Caps Potential DPU Growth

- GPT states the B&B JV will represent no more than \$1.26b or 15% of its total assets
- GPT's forecasts assume that the \$1.26b will be fully invested by December 2006
- Therefore, there is limited on-going growth potential absent a substantial recurring increase in GPT's investment assets
- After 2006, income growth will need to first compensate for the lost rental growth and branding fees (est. \$7m-plus p.a.) from the asset sales to Westfield
- Reported DPU growth benefit from JV is largely "one-off"

## Illustrative DPU Growth Impact

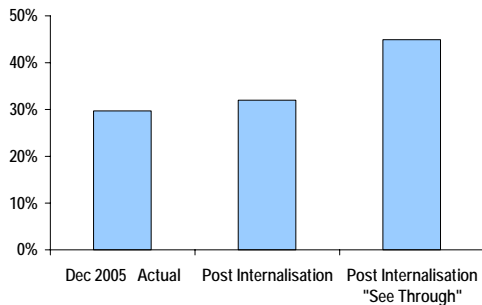


Note

- Assumes 5% p.a. compound growth in total assets
- Assumes average earnings growth of 3% stand-alone, 5% on assets sold to Westfield and 10% p.a. return on JV investment

- I have already noted our concerns about the potentially one-off nature of the DPU growth from the proposal.
- GPT has represented that its investment in the Babcock & Brown Joint Venture will be effectively capped at 15% of its total assets.
- This means that continued DPU growth will need to flow from either very strong performance from the lower quality assets – in our view, unlikely – or from increasing the weighting to these types of investments beyond 15% - arguably doubling your bets!

## GPT's Gearing<sup>(1)</sup>



<sup>(1)</sup> Based on net debt to total tangible assets (excluding cash)

- GPT's development pipeline will further increase gearing (or require equity raising)

## Impact on GPT's Credit Rating

"...based on the information provided to date, GPT's long-term rating would likely be lowered by two or three notches..."

"...The trust has about A\$1.1 billion of debt maturing in the next 12 months... Furthermore, A\$250 million of medium term notes may become repayable if GPT's rating is downgraded to BBB+"

Standard & Poor's, 17 Feb 2005

- A credit rating downgrade, combined with GPT's short-term maturities, could increase GPT's cost of debt (not allowed for in GPT's forecasts)

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- Despite selling the three retail centres to Westfield to make this proposal work, it is necessary for GPT to substantially increase its gearing:
  - on a see-through basis of up to 45%.
- This - combined with the lower quality of assets invested in - has clearly raised concerns for Standard and Poor's, who have indicated that it will likely result in a 2-3 notch downgrade in its credit rating.
- The impact of this over time is likely to increase GPT's cost of debt.

## Babcock & Brown is NOT underwriting GPT's net income from the JV



- GPT is forecasting \$55m net income (2.75¢/unit) from the JV in 2006 based on the Babcock & Brown underwriting
- The Babcock & Brown underwriting is not guaranteeing the performance of assets
- The underwriting is reduced if GPT's net income is below forecast due to
  - The actual net income from investments being below forecast
  - The JV not proceeding with an investment opportunity where due diligence substantiates the profit forecast
- As the JV has already invested almost 40% of its initial \$1b equity, a significant part of the underwriting obligation has already fallen away
- Any payments by B&B under the underwriting are subject to claw-back if certain targets are achieved in the future

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- In relation to the underwriting position:
  - GPT is forecasting \$55 million net income (2.75¢/unit) from the Joint Venture in 2006 based on the Babcock & Brown underwriting
  - The Babcock & Brown underwriting is not guaranteeing the performance of assets
  - The underwriting is reduced if GPT's net income is below forecast due to:
    - The actual net income from investments being below forecast
    - The Joint Venture not proceeding with an investment opportunity where due diligence substantiates the profit forecast.
  - As the Joint Venture has already invested almost 40% of its initial \$1 billion equity, a significant part of the underwriting obligation has already fallen away.
  - Any payments by Babcock & Brown under the underwriting are subject to claw-back if certain targets are achieved in the future.

## The Joint Venture's actual property earnings do not provide attractive returns to GPT



- The return on GPT's capital from the Joint Venture itself is relatively low pre interest savings
- A significant portion of GPT's returns arise from switching part of its existing debt (to take the effective gearing on its JV investment to 100%) from A\$ to Euro denominated

Illustrative Financial Impact of the Joint Venture		
	Initial portfolio only (\$ millions)	\$1 billion fully invested (\$ millions)
Net income from the joint venture (€)	15.9	58.4
GPT's share:		
- Preferred capital (€)	9.8	24.8
- Ordinary equity (€)	3.1	16.8
	<b>12.9</b>	<b>41.6</b>
GPT's share of net income (@A\$1=€0.59)	21.8	70.5
Interest saving on GPT's Euro funding	10.6	27.0
Total return from joint venture by GPT	32.4	97.5
Less cost of GPT's AS funding (@ 6.0%)	(21.3)	(54.0)
<b>Net financial impact on GPT</b>	<b>11.1</b>	<b>43.5</b>
<b>Capital invested</b>		
- GPT	355	900
- Babcock & Brown	39	100
<b>GPT return on invested capital</b>		
- Pre interest saving	3.6%	4.6%
- Post interest saving	9.1%	10.5%
<b>Babcock &amp; Brown return on invested capital</b>		
- Pre interest saving	13.3%	28.5%
- Post interest saving <sup>135</sup>	16.3%	31.5%

Source: Grant Samuel Report, page 50

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- Let's be clear here, the assets being acquired by the Joint Venture are not high yielding!
- The returns are generated by high leverage in the Joint Venture.
- And GPT gearing up its entire equity investment in Euro denominated debt.

"Much of the anticipated "super" return on investment comes simply from the use of high leverage"

Grant Samuel Report, p. 3

- This has been confirmed by GPT's Independent Expert, Grant Samuel.

## The JV contains a poison pill and the wrong incentives for GPT



- It is difficult for GPT to reject any investment by the JV proposed by B&B
  - Refusal to continue to invest in assets proposed by Babcock & Brown triggers a termination right
  - B&B has first right to acquire assets it introduced to the JV at “market value” on termination (approx \$600m premium to asset backing implicit in Grant Samuel’s GPT valuation would disappear)
  - GPT provides 90% of funding but no effective veto over investment decisions
  
- Joint Venture contains a poison pill
  - B&B can terminate JV on change of control of GPT
  - B&B has first right to acquire assets it introduced to JV at market value on termination (approx \$600m premium to asset backing implicit in Grant Samuel’s GPT valuation would disappear)
  - Therefore, implied approx 30 cents per unit premium to asset backing for JV assets within GPT’s unit price not sustainable in a takeover

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- Grant Samuel’s implied valuation of GPT’s Joint Venture investment is a \$600 million - or 30 cents per unit - premium to asset backing.
- This is important to understand because if the Joint Venture is terminated, the Joint Venture assets at the asset backing value.
- That has two consequences:
  - Firstly, because the JV is subject to a change of control of GPT, it is a poison pill and could reduce the premium anyone is willing to pay GPT unitholders by 30 cents per unit;
  - Secondly, it provides a strong disincentive for GPT to assess investments purely on their merits, as continued rejection of Babcock & Brown’s investment proposals could trigger termination.
- Curiously, GPT provides 90% of the Joint Venture’s funding, but only has a limited veto over investment decisions.

## Asset Sales

- Sale price at discount to market
- No competitive sale process
- Further value transfer through management/development agreements and pre-emptives
- Sale of key assets to largest competitor
- Benefit provided to Westfield in return for its support of GPT's internalisation
- No financial benefit to GPT

## Joint Venture

- Fees payable to B&B are excessive
- Relative returns on investment heavily favour Babcock & Brown
- Returns generated from 100% leverage of assets rather than quality property investment
- Potential for excess total returns (including capital growth) is questionable

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- So, to summarise why this proposal is, in our opinion, NOT in GPT unitholders' best interests ...
- The asset sale and Joint Venture are indefensible.
- The Asset Sales involve:
  - Sale price at discount to market
  - No competitive sale process
  - Further value transfer through management/development agreements and pre-emptives
  - Sale of key assets to largest competitor
  - Benefit provided to Westfield in return for its support of GPT's internalisation
  - No financial benefit to GPT.
- Our concerns regarding the Joint Venture include:
  - Fees payable to B&B are excessive
  - Relative returns on investment heavily favour Babcock & Brown
  - Returns generated from 100% leverage of assets rather than quality property investment
  - Potential for excess total returns (including capital growth) is questionable.

- The forecast increased DPU arises from short-term underwriting/branding fees and does not reflect returns from long-term property investment
- The proposal does not enhance long-term DPU growth as the JV investment is capped at 15% of GPT's Total Assets
- Acquiring up to \$5.6b in overseas property assets within 18 months does not represent "controlled expansion" into offshore markets
- There is a substantial increase in gearing – up to 45% on "see through" basis and S&P has indicated a downgrade from A+ to BBB+ or A-
- The proposal will dilute any premium for control
  - The B&B poison pill could reduce the price a party is willing to pay for control of GPT by approximately 30 cents per unit
  - GPT will be less attractive with its diluted Australian retail presence

- Beyond those specific concerns about these transactions, we have other serious concerns with GPT's proposal.
- These include:
  - The forecast increased DPU arises from short-term underwriting/branding fees and does not reflect returns from long-term property investment
  - The proposal does not enhance long-term DPU growth as the Joint Venture investment is capped at 15% of GPT's Total Assets
  - Acquiring up to \$5.6b in overseas property assets within 18 months does not represent "controlled expansion" into offshore markets
  - There is a substantial increase in gearing – up to 45% on "see through" basis and S&P has indicated a downgrade from A+ to BBB+ or A-
  - The proposal will dilute any premium for control:
    - The Babcock & Brown poison pill could reduce the price a party is willing to pay for control of GPT by approximately 30 cents per unit
    - GPT will be less attractive with its diluted Australian retail presence.



# Lend Lease Update

**Greg Clarke**

- I think a few words on the prospects of Lend Lease would be appropriate.

- The Group strategy is unchanged
- Our business positions are robust
- The growth outlook is exciting
- We expect increasing earnings and returns to continue

- Our strategy remains unchanged, with our focus on core geographies and property sectors where we enjoy competitive advantage.
- Our business units are performing well.
- Geographic diversity is managing property cycle risk.
- Earnings prospects are good.

## Strategic Intent

Lend Lease's ambition ...



**'A leading international Retail & Residential property group, supported by strong construction management and investment management businesses delivering double digit earnings growth.'**

International	<ul style="list-style-type: none"><li>▪ Must go beyond Australia (mature and small)</li><li>▪ Opportunities not 'global'; UK &amp; US the first focus</li></ul>
Retail & Residential	<ul style="list-style-type: none"><li>▪ Lend Lease should expand along sector (not business unit) lines</li><li>▪ Regional retail and masterplanned communities are the most attractive sectors (including 'mixed-use' opportunities within these 'footprints')</li><li>▪ Lend Lease has leading skills in both sectors</li></ul>
Construction Management & Investment Management	<ul style="list-style-type: none"><li>▪ Protected positions come from integrated skills</li><li>▪ Strong Group synergies in terms of generating opportunities and developing leading property skills (Lend Lease's privatisation positions are an example)</li><li>▪ Boosts growth and returns for shareholders</li></ul>
Double digit earnings growth	<ul style="list-style-type: none"><li>▪ Markets targeted are 'deep'</li><li>▪ Lend Lease has advantaged positions and has secured a large pipeline for growth (interest in projects with value circa \$20b)</li><li>▪ Significant opportunities for consolidation</li><li>▪ Lend Lease's balance sheet remains strong</li></ul>

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- Our ambitions are clear and consistent.
- Our teams are of high quality, and are meeting milestones and budgets.
- Double digit earnings growth is on track.

## Business Review

Lend Lease is a robust property group



Business Stream	Strength of Position
Retail	<ul style="list-style-type: none"><li>▪ \$1.8b invested in some of the best centres in the UK and Australia – now worth over \$2.5b</li><li>▪ Leading development, construction and management skills internationally</li></ul>
Urban Communities	<ul style="list-style-type: none"><li>▪ Circa 73,000 land lots / units under control in Australia and the UK (zoned and unzoned)</li><li>▪ Innovator in community design, product development and capital management</li></ul>
Privatisation	<ul style="list-style-type: none"><li>▪ Leading UK healthcare player with 8 projects with a total value of approximately \$3b</li><li>▪ Leading US military housing privatisation player with 7 projects with a total value of approximately \$5b</li></ul>
Bovis Lend Lease	<ul style="list-style-type: none"><li>▪ Top 12 international construction management business</li><li>▪ Earnings up circa 80% since Bovis acquisition in FY 2000</li></ul>
Investment Management	<ul style="list-style-type: none"><li>▪ \$10.8b under management in Australia, UK and Asia (excluding GPT)</li><li>▪ International access to product complemented by unique product creation skills and proven fund performance</li></ul>

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- We have robust positions with scale and competitive advantage.
- These businesses have just finished their three year plans and report excellent prospects.

## Business Review

GPT's internalisation should not materially affect the Group's business positions



Business Stream	Impact of GPT Internalisation
Retail	<ul style="list-style-type: none"><li>Investment returns not impacted</li><li>Growth and development opportunities mostly offshore (UK and Asia)</li><li>Non-investment returns in Australia are not significant</li></ul>
Urban Communities	<ul style="list-style-type: none"><li>Returns and opportunities in Australia and offshore not material impacted</li><li>Pre-emptions over Rouse Hill and Twin Waters potentially increase earnings in Australia</li></ul>
Privatisation	<ul style="list-style-type: none"><li>No material impact on UK healthcare or US military housing privatisation</li></ul>
Bovis Lend Lease	<ul style="list-style-type: none"><li>No impact offshore (approximately 95% of earnings base)</li><li>Earnings from GPT asset portfolio in Australia circa 1% of total Bovis Lend Lease earnings</li></ul>
Investment Management	<ul style="list-style-type: none"><li>Business strategy assumes and supports GPT internalisation</li><li>Australian wholesale funds teams operate and report via separate structure</li><li>Contingency plans in place for retail asset management</li><li>No impact offshore</li></ul>

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- Our growth prospects do not include GPT.
- We have our own international platform, deal flow and scale.

- GPT will contribute approximately \$14m of post tax profit this year
- Development and construction services provided by Lend Lease to GPT will account for \$2m<sup>(1)</sup> post tax profit this year
- Through the course of this financial year the Group has embarked on cost saving initiatives aimed at increasing post tax profit by around \$40m to offset this
- The Group is on track to deliver its profit target this year and double digit earnings growth next year

<sup>(1)</sup> Excludes projects initiated by the Lend Lease Development Group

- Most of you will recognise these figures.
- They confirm that GPT internalisation is of limited consequence to Lend Lease.

## Growth Outlook

To date the Group has secured an interest in projects worth circa \$20b



Business Stream	Scope of Work Secured to date	Estimated Capital Spend
Retail	<ul style="list-style-type: none"> <li>193,000 m<sup>2</sup> <sup>(1)</sup> of development projects in the UK</li> </ul>	\$1.1b
Urban Communities	<ul style="list-style-type: none"> <li>58,200 units / blocks under control in Australia</li> </ul>	\$8.0b
	<ul style="list-style-type: none"> <li>15,000 units / blocks under control in the UK</li> </ul>	\$2.3b
Privatisation	<ul style="list-style-type: none"> <li>8 PPP hospitals and 9 other projects secured in the UK and Europe</li> </ul>	\$5.1b
	<ul style="list-style-type: none"> <li>7 projects representing 28,000 dwellings secured in US military housing privatisation</li> </ul>	\$5.0b
Bovis Lend Lease	<ul style="list-style-type: none"> <li>Backlog GPM of \$378m in EMEA, \$222m in Americas and \$72m in Asia Pacific (\$672m in total)</li> </ul>	N/A
Investment Management	<ul style="list-style-type: none"> <li>8 funds and \$10.8b under management (excluding GPT)</li> </ul>	N/A
	<ul style="list-style-type: none"> <li>7 new funds under investigation on existing product and pipeline</li> </ul>	

<sup>(1)</sup> Total area post development

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- Our development pipeline is large and secure.
- It underpins our confidence in growth.

## Growth Outlook

Given the Group's collective positions and capability, the opportunities to extend this pipeline are significant



Business Stream	Growth Ambition
Retail	<ul style="list-style-type: none"><li>Extend the UK pipeline by securing at least one major redevelopment asset p.a.</li><li>Extend the Asia Pacific pipeline by securing at least one major redevelopment asset p.a.</li></ul>
Urban Communities	<ul style="list-style-type: none"><li>Target 80,000 blocks / units backlog in Australia by FY08</li><li>Target 40,000 blocks / unit backlog in the UK by FY08</li><li>Target 10,000 backlog in the US by FY08</li></ul>
Privatisation	<ul style="list-style-type: none"><li>Maintain share of UK Government's £4b p.a. healthcare and education PFI program</li><li>Maintain share of US Government's circa \$30b military housing privatisation initiative</li><li>Look to extend success and experience in Europe and Australia</li></ul>
Bovis Lend Lease	<ul style="list-style-type: none"><li>Continue to target 10% profit growth through margin improvement and increased penetration of targeted sectors in existing geographies</li></ul>
Investment Management	<ul style="list-style-type: none"><li>Leverage the Group's internal project pipeline as a source of product</li><li>Continue to support Wholesale Funds Management through our internal development pipeline and aligned co-investment in funds</li></ul>

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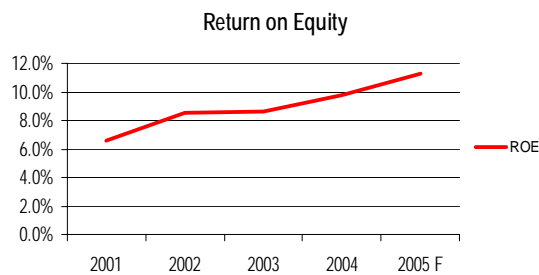
- Our opportunities are extensive and do not take us outside markets where we have demonstrable consequence.

## Earnings & Returns

Based on these positions and outlook we expect earnings and returns to continue to improve



- The Group is on track to deliver its profit target this year
- Double digit earnings growth is targeted over our 3 year plan to FY 08
- ROCE and ROE are expected to continue to increase



- The Group still retains a strong balance sheet to further invest in targeted markets as opportunities arise

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- We are focused on delivering economic value and our plan is to drive up returns on equity and capital.
- We will run a prudent and capital efficient business with a strong market grade balance sheet.

- Lend Lease does not support GPT internalisation proposal
- If shareholders vote NO on 2 June, a viable alternative internalisation will be delivered
- Lend Lease believes the choice is stark
  - Impressive growth in the short term through financial engineering and enhanced risk
  - OR
  - Quality asset ownership and measured growth
- Lend Lease is on track strategically and financially
- Our view is clear – there will be no follow-up campaign

### In summary:

- Lend Lease does not support GPT internalisation proposal
- If shareholders vote NO on 2 June, a viable alternative internalisation will be delivered
- Lend Lease believes the choice is stark
  - Impressive growth in the short term through financial engineering and enhanced risk
  - OR
  - Quality asset ownership and measured growth
- Lend Lease is on track strategically and financially
- Our view is clear – there will be no follow-up campaign.

# Internalisation of GPT Investor Presentation 11 May 2005

- Vote NO to GPT's compromise proposal on 2 June
- Preserve GPT's strength, portfolio and independence
- Secure a pure, internalised GPT for the LPT sector