



Bovis Lend Lease UK and HY07 Update

February 2007

Greg Clarke

Group CEO



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- Good morning ladies and gentlemen. It is Greg Clarke here, along with Global CEO of our Construction and PFI business – Bob Johnston, and Group CFO – Roger Burrows.
- I will commence today's update with a brief overview of the Group's expectations for the interim results announcement on 28 February.
- I also want to confirm that management expects to meet recent market consensus for the full year June 2007, as reported on Bloomberg, of around A\$399 million net profit after tax.
- Total net operating profit is in fact expected to be higher than that once you include the A\$32 million after tax interest payment now due from the Australian Tax Office.
- This follows the Federal Court's finding in our favour in the long-running Westpac share sale matter, which was determined in late December last year.
- So, despite the UK provision which primarily relates to the Manchester Joint Hospitals project, Lend Lease remains on track to deliver on full year earnings' expectations not including the ATO interest payment.
- There are a number of points to note in the lead-up to the interim result.
- Let's turn to the next slide in your pack which shows a summary of what we now expect to report on 28 February.

HY07 Operating Result



	Dec 2006 A\$m	Dec 2005 A\$m
Operating Profit after tax (excluding revaluations)	163	167
Operating Profit after tax for the period to December 2006 includes	A\$m	
▪ Provision for Bovis Lend Lease UK	(120)	
▪ Global Fund distribution	33	
▪ Australian Taxation Office refund *	32	

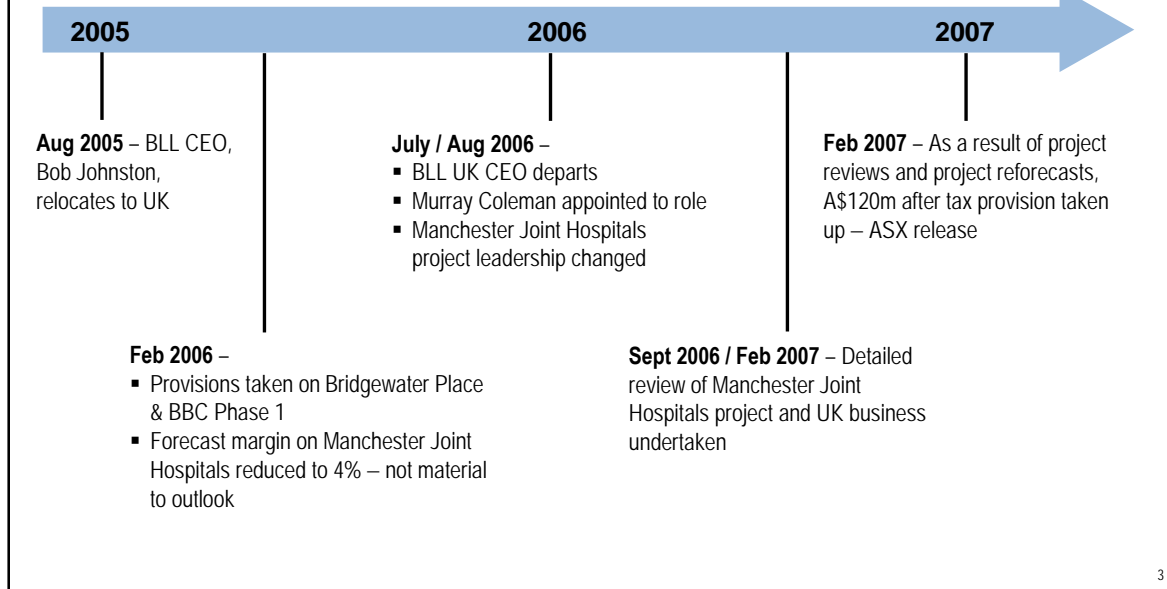
Note: All numbers subject to final audit

* Not included in full year operating earnings' expectations

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- In the first half, we have had to take a provision against the Bovis Lend Lease UK operation of circa A\$120 million after tax, but Lend Lease Group operating earnings have also benefited from a better than expected distribution of A\$33 million after tax from the Global Fund.
- What you cannot yet see from this slide, and we will address it in more detail at the interim announcement, is the fact that operating earnings for Retail & Communities and Investment Management are going to be quite heavily skewed to the second half for a number of reasons:
 1. The December 2005 interim result included earnings from a major asset sale – Chapelfield
 2. A number of Actus military housing projects are expected to reach financial close in the second half ... and
 3. There should be further substantial distributions from the Global Fund, again better than we had in our plans.
- Obviously the global Construction & PFI earnings are expected to be significantly higher in the second half too.
- So, while earnings from the operating businesses for the December 06 half year will be flat due to the UK provision, they will NOT provide a sensible guide to the full year underlying operating result.
- To reiterate my key point for today, Lend Lease remains on track to deliver on recent full year earnings' expectations, irrespective of the UK provision or the ATO tax case win.

Timeline of Bovis Lend Lease UK



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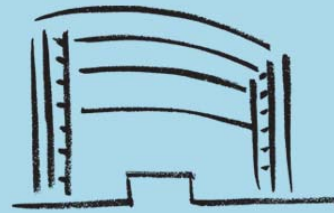
- This next slide provides some important context for Bob's more specific comments about the Manchester Joint Hospitals project and the UK Construction & PFI business.
- Many of you will recall that at the time I announced Bob's appointment as Global CEO for Construction & PFI in mid 2005, it was part of a broader senior management restructure that was designed to achieve two operational benefits:
 - To ensure that we better identify and capture synergies across our businesses; and
 - To get a better focus and line of sight on risk management across business lines.
- You have seen us begin to deliver on the Group synergy objectives over the last twelve months, and we have more to deliver over the coming years.
- While disappointing, the UK provision does show that today we have a much greater transparency of risk in that operation.
- Since his arrival in the UK in August 2005, one of Bob's primary areas of focus has been the review of the UK operations, because we were very aware that the UK market had undergone a fundamental change in risk profile over the last five years, and the business had achieved substantial revenue growth at the same time.
- As you can see from the timeline, as we discovered the problems with Bridgewater Place and BBC, we also started to see some slippage on the Manchester project. At that stage, while it was concerning to management, the margin reduction we took was **NOT** material to our profit outlook.
- From July, we identified the need to make some fundamental changes to management at the business and the project level.
- Since then, the new management team has been working very closely with Bob to undertake an extensive review, not only of Manchester, but the broader UK operations.
- I just want to reinforce that the problems we have encountered are limited to the UK, and we have a good handle on what needs to be done.
- With that context in place, I'll now hand over to Bob for more specific comments before we take your questions.



Project Management, Construction & PFI Update

Bob Johnston

CEO – Bovis Lend Lease



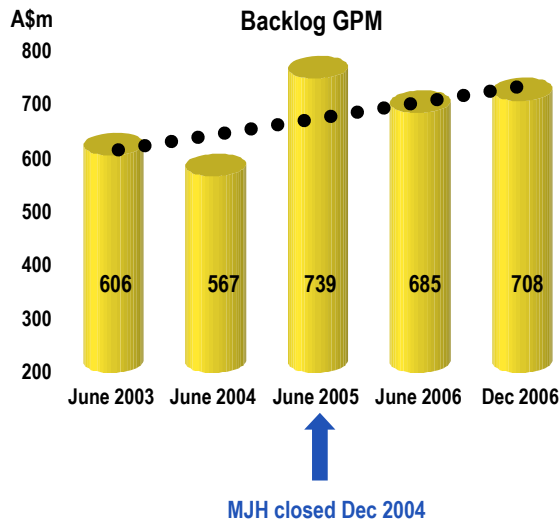
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- Firstly, it is extremely disappointing to have to report this provision to you because it detracts from the very good position of the Construction operations in the US, Asia Pacific and Continental Europe.
- What I want to show you today is that the problems we have encountered in the UK are now well understood, and they are being addressed.
- Now turning to slide 5.

Project Management, Construction & PFI Strong Backlog & Market Positions



Continue to have strong market positions

- Americas New Work Secured up over 35%
- Strong backlog and pipeline in Retail & Commercial in Australia
- Asia Retail and Pharmaceutical sectors growing
- Strong committed forward workload in CEMEA (fee based)
 - Commercial
 - Masterplanned Communities
 - Rail

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- Firstly though, I want to spend a few moments looking at the health of the global business.
- As you can see on this slide, we expect to be reporting a global backlog gross profit margin for Construction & PFI of A\$708 million at December 2006, 3% up on June 2006. That is after allowing for the provision in the UK operation which we have announced this morning.
- In the US, the business continues to do very well and we expect to see strong after tax profit growth, in Australian dollars, during the second half.
- The Asia Pacific operations are performing strongly in both new work secured and backlog gross profit margin terms, particularly here in Australia.
- And our Continental Europe and Middle East operations are also going well. They remain focused on fee for service project management and construction management work.
- So while there are some historical issues in the UK operation which are being addressed, we continue to have leading positions in each of our key markets, a strong backlog position and a deep pipeline of opportunities.

Manchester Joint Hospitals Project Overview

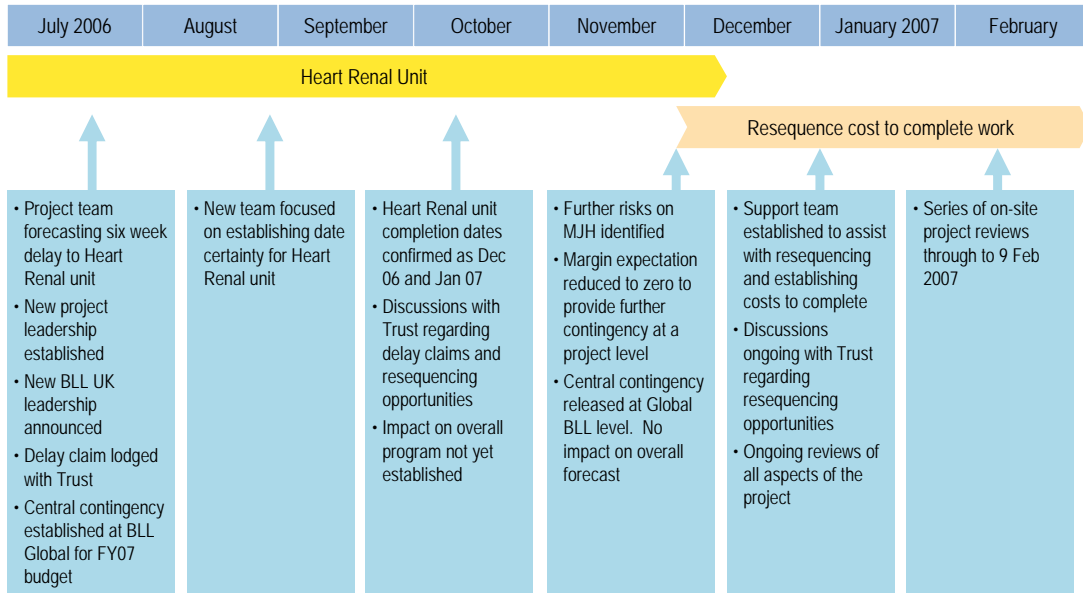


- Project value £382m (circa A\$950m)
- Financial Close – Dec 2004
- Forecast completion – 2010
- Phased building programme – 18 phases
- Six key buildings handed over to date
 - Heart Renal unit
 - Mental Health unit
 - Mental Health Outpatients unit
 - Rehabilitation Centre
 - Energy Centre
 - Multi-storey car park
- Seven major facilities to complete

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- Now let's look at the Manchester Joint Hospitals project which, as Greg said, accounts for most of the provision.
- This is a highly complex, £382 million, six-year construction project which is now close to 50% complete.
- As you know, over recent months there have been a number of UK press articles speculating about the project, and I know several of you have asked questions about progress and margin outlook.
- As Greg indicated, we reduced expected profit margin to 4% in February 06 as a prudent step to increase our overall contingency for delivering the project. At that stage we were of the opinion that the early program delays could be mitigated throughout the remaining five years the project had to run.
- That margin compression at the time was not material for the overall business outlook.
- However, as the project progressed during the year, it encountered an increasing number of unforeseen issues and delays to more critical elements, and in particular the Heart Renal building.
- As a result of these issues emerging, I instigated an exhaustive review of the project as part of a broader review of the UK operations covering everything from the bid phase right through to a complete reforecast of the project cost to complete.
- That review was completed over the weekend and this morning the Board signed off on the provision for the business.

Manchester Joint Hospitals Timeline



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- If you turn to slide 7, we have provided an overview of the extensive review process that we have just completed for the MJH project.
- One of the reasons it has taken a number of months to complete this review is the project itself is very complex in nature.
- Before we could begin to undertake a complete review of project program and cost to completion, we needed to resolve the completion of the Heart Renal unit which was behind schedule and on the critical path for the overall project.
- As you can see, that process took us until well into November before we could be certain of a December handover.
- With certainty on the delivery of the Heart Renal unit and a much more detailed understanding of the project complexity, the new project team was then in a position to undertake the detailed re-sequencing and re-costing of the rest of the project.
- If we were turn to the next slide, I want to talk about the outcome of that review.

Manchester Joint Hospitals Key Issues



- Complexity of sequencing works within a working hospital with multiple handovers was not well understood
- Victorian era brownfield site contributed to complexity
 - Many unknowns – unmarked services
- Delays in early phases had a flow-on impact due to sequential nature of the delivery requirements
 - Multiple user groups involved in the design phase and sign-off process
 - Acceleration efforts in 2006 were not successful



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- Manchester is a very challenging project involving 13 new buildings and a number of others, some dating back over 100 years, to be refurbished and a complex demolition and decanting sequence.
- The program has over 18 staged completions over six years, while at the same time maintaining a major working hospital across a 46-acre site.
- One of the key issues is that right from the outset we did not fully appreciate the risk and adequately price the project to meet the complex phasing and handover sequence dictated by the Trust and user groups.
- This was further exacerbated by the fact that we are working within a live operating environment and on a brownfield site with uncharted in-ground services and many unknowns. Items like temporary services to keep the hospital operational were underestimated.
- We have also been dealing with a complex client with 44 user groups and more than 2,500 design submissions to be made which, in our view, has added to the inefficiency in the process.
- The delays incurred in the design phase and the approval process have now had an impact on the balance of the project and acceleration efforts during 2006 have not been sufficient to mitigate the flow-on to later stages.
- The complexity of this project has also caused the Hospitals Trust some heartache in keeping up with the volume of work required to properly respond to the complex design and sequencing issues.
- We are now in discussions with the Trust on a number of delay notices that we have issued to them in that regard.

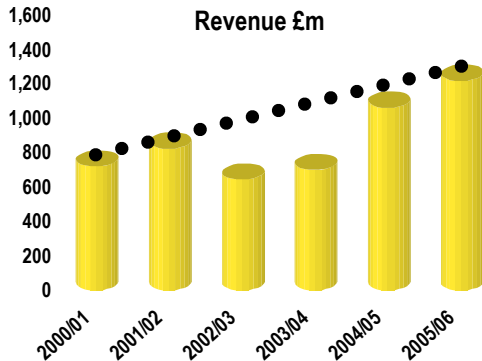
- Full review carried out across the business
- Slippages and margin compression on some projects
- Bridgewater Place, Leeds
 - Now forecast to complete end first quarter 2007
- BBC Phase 2
 - Design simplification agreed
 - On track for revised completion dates



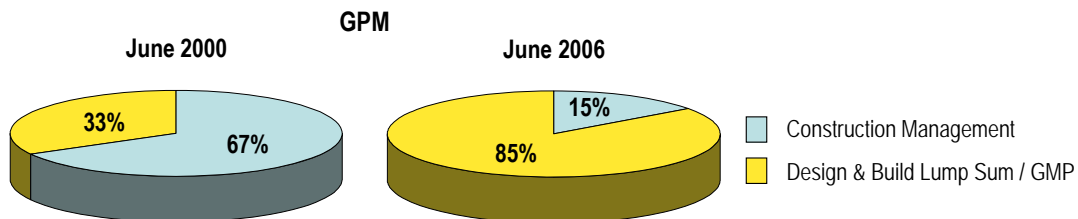
Bridgewater Place, Leeds

- Turning to slide 9, with the management changes I have put in place in the UK, we have also had a close look at the rest of the UK business.
- Whilst MJH is the most significant issue we have, we have also taken into account movements on a handful of other projects in the UK business.
- Besides Manchester Joint Hospitals, the largest component of the other adjustments made relate to Bridgewater Place, which required an additional provision due to a further contractor failure in the latter part of last year causing further delays and costs to the project.
- The project is now close to completion, and we have handed over various parts of the building and expect to be complete by the end of the first quarter.
- I know many of you saw the BBC project in May last year. We remain on track to deliver Phase 2 of this project within expectations.
- So let's now have a look on slide 10 at our analysis of what has given rise to the problems, what we have been doing about it and our outlook.

Bovis Lend Lease UK Significant Shift in Market: 2000 – 2006



- Significant revenue increase over last 5 years
- Moved with market to pursue higher risk D&C / GMP contracts
- Focused on maintaining market position
- **BUT** appropriate risk management not applied consistently across the business



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- We spoke about the fundamental change in the UK construction market on the investor tour last May ...
- In particular, the significant change in risk profile from largely lower risk construction management to higher risk design and construct / GMP work.
- At the same time, the size of the UK business nearly doubled.
- Unfortunately, what we are seeing today is the impact of a number of projects that were procured during 2003 and 2004, a period of high growth for the business and the industry, and we are now having to address some of the shortcomings in our approach to taking on additional risk without having the depth of skills and capabilities to service this at that time.
- While this is no excuse for the problems encountered, it does go some way to understanding the significant structural shift that took place and the extent to which it has stretched and tested our UK skill base and management teams.
- Let's now turn to slide 11 to go through the actions I have taken to address the issues at Manchester Joint Hospitals and the Bovis Lend Lease UK operation.

Manchester Joint Hospitals Actions Taken



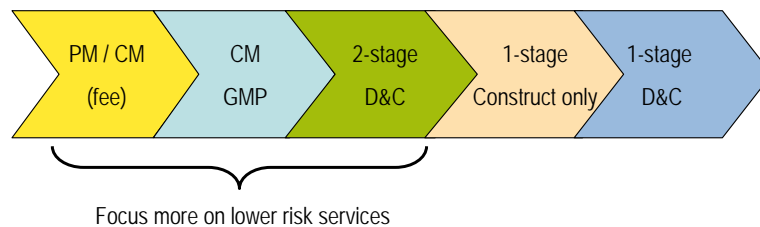
- Project leadership changed – July 2006
 - New Project Director successfully completed Romford Hospital
 - Supported by in-house specialists
- Heart Renal unit was on critical path and behind schedule
 - Contract PC date – Sept 2006
 - New project team achieved mid Dec 2006 handover
- Team has undertaken full review and reforecast to completion
 - Tested all assumptions
 - Resequenced balance of project
 - Scope of works fully reviewed and costed
 - Risk / opportunity assessment carried out



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- Last August, we changed the project leadership to bring in a seasoned and proven project director – Graham Hiley. Graham delivered Romford Hospital on time and ahead of budget.
- The project team was also supplemented by a number of highly experienced local and international specialists from within the Bovis Lend Lease business.
- Since completion of the Heart Renal unit in December, the team has undertaken a full review and reforecast of costs through to completion.
- This has included testing all assumptions, re-sequencing, fully reviewing the scope of works and looking at opportunities to further mitigate identified risks.
- We have also taken a number of steps at the business level which I will address on slide 12.

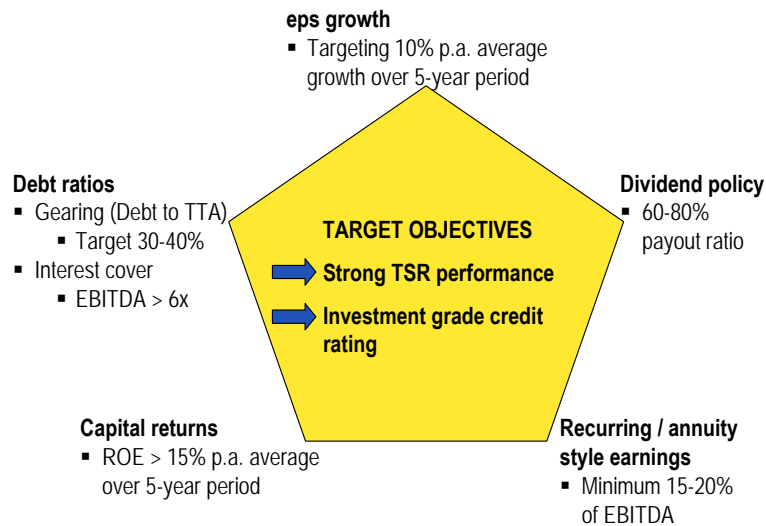
- Number of senior management changes
- Business will be more selective in the risk work undertaken
 - Review of minimum margin expectations
 - Increasing proportion of fee for service clients
 - Focus on lower end of risk profile
- Focus on key clients
 - Repeat clients
 - Significant and growing Lend Lease pipeline



- As Greg noted earlier, I have made a number of senior management changes – the key one being the appointment of Murray Coleman as head of the UK construction business.
- Murray has had 20 years' experience in the Australian market, which has traditionally been a design and construct risk market. He had also previously spent 4 years in the UK and is familiar with the market there and our people.
- Beyond management changes, we are also tightening the business focus by setting minimum margin expectations and instilling clear disciplines around project reviews and risk management processes.
- We will only pursue work where the opportunity exists to price risk appropriately; clearly the business has not been consistent on that in the past.
- We are looking to move the UK business down the risk curve in a number of ways:
 - By increasing the proportion of fee for service work we do
 - By only undertaking D&C work for select clients
 - By focusing on servicing the Group's large and growing internal Retail & Communities pipeline.
- We are confident that we can execute this more focused business strategy.
- The reality is that there are very few organisations capable of delivering the significant pipeline of work in the UK. In contrast with recent years, we are now seeing clients more amenable to procurement models other than fixed price contracts.

- UK
 - Market generally strong
 - Growing internal pipeline
 - Lag period before return to growth
- Americas
 - Strong backlog positioning the business well
 - Good visibility of opportunities in Health, Education and Multi-family
- Asia Pacific
 - Well positioned
 - Good visibility of opportunities
- CEMEA
 - Good source of low risk, fee for service work

- So to conclude my comments today, here's how I am seeing the outlook for the regional operations.
- While the UK market remains quite strong, clearly Bovis Lend Lease UK is going to take longer to now digest the provision announced today.
- As it did in Australia, it took us some time to get the business back on a solid growth path. I expect it to be the same in the UK.
- However, the UK pipeline remains healthy, including the strong internal Retail & Communities work we expect over the coming years.
- We are also developing our strategic alliance with GRD to pursue the growing waste market ,and will continue to pursue the deep privatisation market in education.
- Continental Europe and the Middle East continue to be a good source of low risk, fee for service business with very strong demand.
- The US has a very strong backlog and, as I noted earlier, we expect a higher contribution in the second half in Australian dollar terms.
- Asia Pacific also looks strong, with good levels of backlog and high visibility of opportunities.
- I'll now hand back to Greg to sum up.



Greg Clarke, Group CEO

- If you turn to the next slide which shows our now familiar capital management pentagon, I would like to make just a few summary comments before we take any questions you have.
- First, the Group's strategic settings and management's growth objectives are unchanged.
- Secondly, while very frustrating, the UK provision – and the steps we are taking to address the issues that led to this provision – show a number of things:
 - That the issues are limited to the UK operations
 - And the Continental Europe, US and Asia Pacific construction operations remain very strong.
- Finally, just so that we are all clear on our outlook for the Group, despite the Manchester Hospitals' provision, Lend Lease remains on track to deliver market consensus full year earnings' expectations **PLUS** the added benefit from the win in the Westpac shares tax dispute.


Lend Lease

Q & A

