



Providing the Best  
Real Estate Solutions  
to Clients Globally

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## SUMMARY

- Transition
- Core Operating Businesses
- Provisions



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- Thanks, Jill.
- 2001 has been a transitional year for us, but the transition has been tougher than we expected.
- In terms of our core operating businesses, we are for the most part on track and making progress. Bovis is meeting all its objectives, and in our Investment Management, although capital raising remains difficult. We are well positioned in Australia and we have exciting longer-term prospects in Asia and Europe.
- We have had to make provisions as previously announced, but most of them related to our former Development and Investments strategy that we have been moving away from.

## 2001 - TRANSITIONAL YEAR

2001:	After tax profit	A\$151M
2002:	Budgeting for an increase in after tax profit over A\$210M	



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- A profit of \$151M is clearly an unsatisfactory result, but we foreshadowed that to the market in May.
- To understand why this will not be repeated and how we will improve our performance in the years ahead, we need to look at the underlying performance of our core real estate businesses and the execution and delivery of what we said we would be doing.
- So for each of our businesses I propose to go through a quick Progress Report, what we said we would do, and what the outcome has been.
- It won't be all ticks. But I believe it will demonstrate that overall we are on track in transitioning the business to a global real estate solutions model.
- And, as I said in May, we are budgeting for an increase in after tax profit in 2002 from a level of \$210M.

## GLOBAL REAL ESTATE BUSINESS

- Provide the best real estate solutions for clients globally
- Property Solutions - Bovis Lend Lease
- Investment Management - Real Estate Investments



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- Our vision is to provide the best real estate solutions for clients globally.
- To deliver this we have two global businesses.
  - \* Property Solutions, which is our project management, consulting and construction business - Bovis Lend Lease.
- and
- \* Investment Management, which is our Real Estate Investments business.
- In addition, we have a Development capability, which we are closely aligning with Bovis Lend Lease, where the team works with our investor clients to achieve good investment outcomes for them.
- And we have a very successful land management business in Australia - enhanced by the Delfin acquisition - that also has links with our global businesses, for example with Bovis Lend Lease building communities for the military in the US.

## CORE REAL ESTATE BUSINESSES<sup>(1)</sup> AFTER TAX PROFIT

	A\$M	
	2001	2000
Bovis Lend Lease	90.3	56.3
Lend Lease Development	30.9	11.3
Real Estate Investments	116.9	137.2
	238.1	204.8

(1) As per MD&A Business Segment Summary



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- Our core real estate businesses are Bovis Lend Lease, Development and our Investment Management business. Together these businesses generated an after tax operating profit of \$238M before restructuring costs.
- Our Bovis and Development businesses both delivered increased profits. We still have more work to do with REI, but one important factor to note is that due to specific fund liquidation timing, the 2000 year had US\$42M of incentive fees in US REI versus only US\$3M in 2001.
- We expect further improvement in core real estate profit in 2002.
- Now, turning to the businesses more specifically, let me first cover Bovis Lend Lease - our Property Solutions business.

## BOVIS LEND LEASE - AFTER TAX PROFIT

	A\$M	
	2001	2000
Asia & Pacific	33.4	47.0
Americas	34.5	15.0
Europe	40.0	13.5
Global Markets (JVs)	5.3	1.8
Global Management Costs	(22.9)	(21.0)
	<u>90.3</u>	<u>56.3</u>



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- Bovis was a great acquisition for us.
- Results are on track to the \$150M after tax profit objective we set for 2003/04.
- The benefits of having a global business are clear from the make-up of the result, with Asia Pacific down 29% but the result overall up 60%, although the 2000 year had only 8 months of Bovis.
- As I will show you on a later slide, we have a business that is now very well diversified by business sectors as well as by geographies.
- We see minimal evidence of downturn in our business in either the US or Europe. In fact, the best opportunities continue to be in the UK and continental Europe.
- Bovis is a cash generator and contributed \$691M in cash to the Group at 30 June 2001 compared to \$528M last year. Interest earnings on these cash balances added another \$14M after tax to Bovis' contribution which is NOT included above.

## PROGRESS REPORT - BOVIS LEND LEASE

Initiative	Rating	Outcomes 2000/01
1. Double after tax profit to A\$150M by 2003/4	On track	\$90M
2. Backlog Gross Profit Margin in excess of \$500M at June 2001		\$518M
3. Increased visibility of future earnings	On track	37% emerges post 2002
4. Regular/secure income stream type business to be 50% of yearly Bovis profit by 2004	On track	36%
5. Indirect overhead costs to be reduced to 70% of Gross Profit Margin by 2004	On track	Reduced to 74%
6. Secure more PFI type business	On track	<ul style="list-style-type: none"> <li>• Fort Hood</li> <li>• UK hospital</li> <li>PFIs delayed</li> </ul>
7. More integrated opportunities involving both Bovis Lend Lease and Real Estate Investments		Examples: Arch St, Munich, Erina Fair



- The Progress Report for Bovis Lend Lease shows that we are meeting all the objectives we set for that business.

## BOVIS LEND LEASE - BACKLOG GROSS PROFIT MARGIN

A\$M

<u>June 2000</u>		<u>New Work</u>		<u>Realised to Profit</u>		<u>June 2001</u>
482	<i>plus</i>	593	<i>minus</i>	557	=	518



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- Let's look first at the Backlog Gross Profit Margin.
- This is the profit before tax and overheads that is yet to emerge on existing committed contracts.
- As per our objective, we have grown the Backlog Profit Margin to \$518M at June 2001. That includes backlog for the first stage of Fort Hood, with final contracts expected to be signed before the end of September. And obviously nothing is yet included for projects like Victoria Harbour.
- Nor is anything included for clients where we have a long relationship with a lot of repeat business, but no formal contract exists for other than the present work. Over 65% of our work is repeat business.
- We have reduced overheads to 74% of Gross Profit Margin, which has us on target for the 70% target by 2004.

## VISIBILITY AND SECURITY OF BOVIS LEND LEASE EARNINGS

### % of Backlog Gross Profit Margin to emerge

2001/02	2002/03	After 2002/03
63%	23%	14%



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- Next, let's look at visibility of earnings.
- You can see from this chart that 37% - i.e. the 23% + the 14% - of the Backlog Gross Profit Margin at 30 June 2001 is expected to emerge in years AFTER the next one.
- Over time, as we build this business, we expect that more of that Backlog will emerge in the out years, i.e. years after the next.
- That will mean the visibility or security of future earnings is being improved.
- And it means that more of the business is represented by more secure, longer term income streams.
- In addition, we had 36% of this year's profit come from these types of clients, and are still targeting 50% by 2004.
- In terms of next year's profit, the Backlog Profit at 30 June 2001 should account for around 45-55%, so we have already secured around half of Bovis' next year's profit.

## DIVERSITY OF BOVIS LEND LEASE BUSINESS

	Realised Gross Profit Margin %			
	Asia Pacific	America	Europe	Total
Commercial/Office	31	13	35	26
Mixed Use	2	21	12	13
Healthcare	3	12	12	10
Residential/Senior Living	6	10		4
Transportation		1	2	1
Infrastructure/Government	7	4	1	4
Education	1	9	1	4
Pharmaceutical	2	5	9	6
Retail	11	2	12	8
Industrial	21		2	6
Hotel	1	1	1	1
Sport/Leisure/Culture	2	2	3	2
Communications	1	8	2	4
Microelectronics	3	4	6	5
Aviation	7	2	1	3
Other	2	6	1	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>



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- Bovis has a very well diversified business, not only by region but also by industry sectors.
- The table shows the percentage of Gross Profit Margin earned last year by region and by business sector, and the diversification is clearly evident.
- This was a very deliberate strategy to ensure that the business was not exposed to the kind of sector downturns that have impacted the results of some European companies recently.
- This table relates to last year's profit. Our strategy of focusing on more secure income streams will further increase the diversity going forward, for example in areas such as health and education.
- We have secured PFIs in the year - Fort Hood for example, but hospital PFIs in the UK have been delayed because of the need to change the model to incorporate the Government's requirements on continued public sector employment. Three projects are being used as pilots to determine the model with preferred tenderers, and Bovis is involved in all three. So we are well placed.
- Last, in regard to integrated opportunities, Bovis Lend Lease is - for example - working for VEF IV at Arch Street in Boston, for the Global Fund in Munich and Hong Kong, and for GPT at Erina Fair, Floreat Forum in Perth and in the near future at Victoria Harbour.
- Let me now turn to the Development business.

## DEVELOPMENT BUSINESS - AFTER TAX PROFIT

A\$M	
2001	2000
30.9	11.3



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- The Development result contains one-off items in regard to the provision for Fox, the pre-contracted sale of 10% of Bluewater and the sale of Aurora Place.
- But the recurring items such as our residential projects at Newington and Jacksons Landing made a good contribution and are continuing to sell very well.

## PROGRESS REPORT - DEVELOPMENT

Initiative	Rating	Outcomes 2000/01
1. Victoria Harbour bid		Won
2. Secure NAB at Victoria Harbour		Achieved
3. Delfin acquisition		Completed
4. St Marys	Awaiting Commonwealth decision	-
5. UK Retail – meet minimum letting requirements for Dundee sale		Achieved
6. Use of third party capital		Examples: Arch Street, Munich, Victoria Harbour



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- The Progress Report for Development also looks healthy. We have secured Victoria Harbour at Docklands and got commitment from the National for their office complex there, and completed the acquisition of Delfin.
- The State Government has gazetted the REP for St Marys which rezones the land for development, and we await the final Commonwealth Government decision.
- In the UK where we are dealing with a retail market with soft patches, we have Solihull on schedule and we have met the leasing commitments for the sale of Overgate. So we have significantly reduced the risks in the UK Retail portfolio.
- We said that we would be seeking third party capital for investment in development opportunities. That is exactly what we have done - at Victoria Harbour with GPT; at Arch Street in Boston where the investors are VEF IV and the National Electric Benefit Fund, which is in Australian terminology an industry superannuation fund for electrical construction workers; and in Munich where the investor is the Global Fund.

## LAND MANAGEMENT BUSINESS - LEND LEASE/DELFIN LIMITED



1. The Chase, Darwin
2. Fairway Waters, Darwin
3. Forest Gardens, Cairns
4. Riverside Gardens, Townsville
5. Willow Gardens, Townsville
6. Forest Lake, Brisbane
7. Springfield Lakes, Ipswich
8. Varsity Lakes, Gold Coast
9. Holroyd, Sydney
10. The Sanctuary, Sydney
11. Caroline Springs, Melbourne
12. Craigieburn, Melbourne
13. Wyndham Gardens, Melbourne
14. Pakenham Lakes, Melbourne
15. Golden Grove, Adelaide
16. Mawson Lakes, Adelaide

- Land Lease**  
RESIDENTIAL
1. Twin Waters Residential Community, Qld
  2. North Shore, Qld
  3. North Lakes, Qld
  4. The Anchorage, NSW
  5. Jacksons Landing, NSW
  6. St Patricks Estate, NSW
  7. St Marys, NSW
  8. Newington, (Sydney Olympic Village), NSW
  9. Victoria Harbour Docklands, Vic
  10. Edgewater, Vic



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- Has strong coverage in the inner urban and large scale Master Planned Community Markets.
- Enhances geographic spread of projects with differing life-stages.
- Secures a strong position in over 60% of key growth corridors (excluding WA).

- Delfin shareholders voted overwhelmingly to support our recent cash offer and the Supreme Court sanctioned the Scheme of Arrangement.
- This is a great acquisition for us. It takes the portfolio of residential lots that we control for future release over the next 15-20 years from 20,000 to 55,000.
- And, as you can see from the slide, we now have strong coverage in the key eastern seaboard markets, and in both inner urban and large scale master planned communities.
- Our land management business is a recurrent income stream business that requires only modest capital and earns good and relatively low risk returns. It also has important links to our military housing business in the US which is also all about building communities.

## REAL ESTATE INVESTMENTS - OPERATING PROFIT AFTER TAX

	A\$M	
	2001	2000
Australia & Pacific	19.3	14.2
North America	89.9	88.9
Asia	(10.2)	4.3
Europe	17.9	29.8
	116.9	137.2



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- Now let me turn to our Real Estate Investments business.
- The REI result for the year before restructure costs - while within the range we flagged in December of \$110-120M after tax - is not satisfactory.
- In addition, we have made provision for restructuring costs in US REI of \$30M after tax. Robert will talk to that in a moment.
- The Asian result is impacted by the costs of the Asset Resolution business while the capital for the International Distressed Debt Fund is being raised and invested, and in Europe we have the effect of lower operating income from Bluewater because we sold 10% effective 1 July 2000.
- However, the result and progress in Australia is good, we have new management in place in the US and are seeing some positive moves in regard to allocations to real estate equity securities in that market, although investors still remain hesitant. We are making progress in building a real estate funds management business in Asia and are working very well with Generali.
- So let's look at the Progress Report for Global REI.

## PROGRESS REPORT - GLOBAL REAL ESTATE INVESTMENTS

Initiative	Rating	Outcomes 2001/02
1. Global REI after tax profit before restructure provisions in the range A\$110M-120M		\$117M
2. Growth in Assets under Management in Global REI in home currencies		+8.9%
3. Assets under Management around A\$87B at 30 June 2001		\$87B
4. Partner with major local organisation to develop a real estate funds management business in Japan		MoU with Tokyu
5. Establish a funds management business in Singapore	Proaressina	
6. New Fund in Europe	Pursuing options	
7. Initial Generali JV transactions/products	Proaressina	



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- Progress in line with what we said, although we are looking at different options in regard to a new fund in Europe, which I will come back to.
- I will cover our US Investment Management business specifically in a moment.

## REAL ESTATE INVESTMENTS - ASSETS UNDER MANAGEMENT

		June		% change
		2001	2000	
North America	USDbn	36.0	34.5	+4.3
Europe	GBPbn	1.8	1.1	+64.0
Australia	AUDbn	11.0	10.0	+10.0
Asia	USDbn	0.8	0.5	+60.0
Total	AUDbn	86.6	71.1	+21.8



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- Assets under Management overall were A\$87B at 30 June 2001, but the better measure is the growth in each region by home currency. Excluding currency impacts, Assets Under Management growth was 8.9% in the year.
- Growth in the US was lower than we expected at just over 4%. Growth in Australia was in line with objectives, and the base figures in the other regions are still modest.
- There is a lag in that we do not count capital when raised in Assets Under Management. It is only counted when invested, for example when real estate acquisitions are made. Around US\$350M of real estate acquisitions for clients were deferred to this year. That impacted the US result. Likewise we have raised capital for the Global Fund and the International Distressed Debt Fund, but nothing will appear in Assets Under Management or Assets Under Resolution until we make the investments.
- Since balance date the Global Fund has acquired an office property in London and the Distressed Debt Fund now has US\$140M invested.

## **REAL ESTATE INVESTMENTS - FUND INVESTMENT PERFORMANCE**

- **Investment performance is crucial**
- **19/26 Lend Lease managed funds listed in MD&A are beating their benchmark**



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- The investment performance we deliver to our clients is crucial for us in growing Assets under Management.
- We have listed all our managed funds in the MD&A, and in 19/26 cases they are beating their benchmark in returns since inception.
- GPT and APPF, VEF III and IV, and our REIT funds in Australia and in the US are all good examples, as is the recent performance of US Office Trust where the market has started to recognise what that Fund has to offer, and that good investment performance positions us well to raise further capital.
- So let me now look at the US Progress Report - and this is testing where we are against what we said to the market in May.

## PROGRESS REPORT - US REAL ESTATE INVESTMENTS

Initiative	Rating	Outcomes 2000/01
1. New real estate equity capital raised in 2000/2001 around US\$1.5B	Achieved as per May update	US\$1.4B
2. US REI Assets under Management should grow by around 6% in the year to 30 June 2001	<b>X</b>	+ 4.3%
3. US REI profit margins revised in May to around 14% to June 2001	Achieved as per May update	13.5% (includes expensing of some Enterprise costs)
4. Value Enhancement Fund V target of US\$400M equity	On track	US\$165M raised to date
5. Project Enterprise implemented		
6. Quit non-core operations	Progressing	<ul style="list-style-type: none"> <li>• Offload of Apartment Management business</li> <li>• Planned withdrawal from US domestic asset resolution business, except special servicing</li> </ul>
7. Increase pre-tax profit in 2002	On track	



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- Over the whole year we have not been happy with the performance of our US REI business.
- Capital is being held back from investment in US real estate because of the over-allocation to the sector caused by its good relative performance, and because investors are wanting to assess the extent of the US downturn and its impact on real estate before committing further capital.
- However, we have made progress in the second half and, in terms of the outcomes I spoke of in May, have met those objectives with the exception of Assets under Management growth, which I will come back to.

## US REAL ESTATE INVESTMENTS - REVENUES BY HALF YEAR

Business	US\$M	
	6 months to 12/00	6 months to 6/01
Investment Management - Equity	62.0	64.5
Investment Management - Debt	26.5	35.5
HCI <sup>(1)</sup>	25.4	11.6
CapMark	25.6	23.1
HFF	44.1	36.1

<sup>(1)</sup> HCI always earns the bulk of revenue in the first half



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- Let me now look at our US business in detail.
- The most appropriate comparison is first half to second half because all the businesses were in place for both these periods.
- We have made progress in the second half, but there is still a lot more to do.
- Looking at the revenues - because it is revenue that continues to be our key issue as we have already put a lot of focus on costs - you can see that we increased revenues in the second half in both our Equity and Debt Investment Management businesses.
- HCI, our multifamily housing tax credit business, always earns the bulk of its revenue in the first half, and HFF, our commercial mortgage broking business, also has a skew to more business in the first half. Both businesses performed in line with expectations.
- CapMark was impacted to a small extent in the second half by the lower interest rates on earnings on float balances.
- So, while total revenues were lower in the second half, that was more than explained by the seasonality in the HCI result, and we take some confidence in the underlying revenue trends.
- Over the whole US REI business we achieved the pre-tax profit margin of around 14% as indicated in May but, as we said then, our focus is now on profit not margin in US REI.
- Let me now outline the key factors for us in these businesses.

## US REAL ESTATE INVESTMENTS - KEY FACTORS

- **Investment Management Equity:**
  - Capital raising - private equity
  - Global linkages
  - Transactions and incentive fees
  - Capital raising - public equity



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- We raised US\$1.4B of real estate equity capital in the year, less than we wanted, largely because our traditional investors were up to maximum allocations to real estate.
- Capital raising continues to remain hesitant. So we are focusing on non-traditional sources of capital - union pension funds, financial institutions and foreign capital. We are ahead of budget with our latest Value Enhancement Fund - VEFV - with US\$165M of external capital and a strong pipeline of prospects. We should raise at least US\$400M of equity for this Fund.

We are also starting to see the benefits of having a global platform - US Office Trust able to purchase an office building delivered by our team in US REI, the same team working on another such transaction for a European investor.

- Investor transaction and incentive fees were low this year. We expect higher transaction fees next year, and a higher level of incentive fees in 2003 and later years. We have set out incentive fee details in the MD&A as promised.
- And our REIT fund management business has won mandates - US\$140M and US\$95M - which are not included in Assets Under Management yet. We also have a very healthy pipeline of prospects here with RFPs of around US\$1B out at present due to the health of that sector, our superior investment performance, and a renewed investor interest in income. REITs now have a cashflow yield of 9.8% and a dividend yield of 6.7%.

## US REAL ESTATE INVESTMENTS - KEY FACTORS (cont)

- **Investment Management Debt:**
  - Asset resolution
  - Mortgage capital
  - Program lending



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- In our Debt Investment Management business we are exiting the domestic US part of our Asset Resolution business. The level of US distressed real estate debt is insufficient to support on-going operations. This does not impact our Asian or Mexican asset resolution platforms, nor our special servicing business in the US.
- The Debt Advisory Group's result was below expectations, but there was improvement in the second half.
- Lend Lease Mortgage Capital's result was ahead of expectations with US\$750M of originations for Fannie Mae and Freddie Mac in the year, while in our Program Lending business the delayed Teachers' program finally got underway in the second half with loan closings of US\$213M.

In addition, we have reached agreement with Merrill Lynch whereby we can originate loans not put into the Teachers' program for the Merrill's conduit, and with the servicing of such mortgages to be handled by CapMark.

## US REAL ESTATE INVESTMENTS - KEY FACTORS (cont)

- **HCI:**
  - Government expansion of program
  - Apartment management business
- **HFF:**
  - US\$12B of originations
- **CapMark:**
  - Expects to increase Loans Under Servicing in 2001/02



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- Our HCI multifamily tax credit business is well positioned to take advantage of the US Federal Government's mandated increase in the market of 20% this year and a further 20% next year, and market margins in the business have improved in the last 6 months.
- We have also merged our residential apartment management business into another major operator - Winn, retaining a 15% interest.
- Introducing a guaranteed yield product, where the guarantee is provided by an external high credit rating party, has added a further dimension to this business.
- In our commercial mortgage broking business, HFF, originations exceeded US\$12B in line with expectations and we expect a further increase on this in 2002.
- CapMark's result was in line with expectations, but we expect to significantly increase Loans Under Servicing in 2002. CapMark has been awarded one mandate for around US\$4B from a US life insurance company outsourcing its mortgage administration business and is confident of securing another for almost double that.
- Overall, we are looking for better growth in Assets Under Management in US REI in 2002, and for an increased before tax profit from the fee based businesses.

## REAL ESTATE INVESTMENTS - ASIA/PACIFIC & EUROPE

- Good growth and significant opportunities in Australia
- Focus on building a real estate funds management business in Asia:
  - JV with Tokyu in Japan
  - Opportunities in Singapore
- Generali JV



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- Our Australian REI business has shown good growth in Assets under Management, and there are initiatives that the team has delivered - further expansion of LL US Office Trust, the Suncorp-APPF deal, the opportunity for GPT at Docklands being just three examples. And there are significant further opportunities.
- In Japan we are working to finalise the JV agreement with Tokyu. The JV covers both listed and unlisted real estate investment vehicles, and we are excited about the longer term potential of this opportunity.
- And in Singapore we are working on a possible opportunity involving an S-REIT.
- In Europe we are pleased with the progress of the Generali JV. We have one transaction that is under contract which utilises our global platform, and we are working on three other major initiatives that should come to fruition in the next six to nine months.
- A further example of the Generali relationship is Bovis' appointment as project manager for the new operations centre at Generali's German headquarters.
- With regard to a new European fund, we are focusing on a few options including a European Value Enhancement Fund to build on investor feedback and the successes we have had in the US with this kind of vehicle, and possible mandates from UK investors where we have relationships for investment in European retail assets.

## SUMMARY

- Transition
- Provisions
- Core Operating Businesses
- Outlook



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- To conclude, the transition has been tougher than we expected, but we remain confident in the long term results it will deliver.
- We have had to make provisions, most of which related to our former Development and Investments strategy.
- We have made adequate provision, but Robert will go through those cases in detail in a moment.
- In terms of our core operating businesses, we are on track. Bovis is meeting its objectives, and in our Investment Management business we have made progress in the last six months in the US, and we are well positioned in Australia with fairly exciting longer-term prospects in Asia and Europe.
- We have nearly 12,000 employees globally and we have a lot of management depth in this organisation. Many of those employees are already shareholders, and they all will be in the near future.
- I am often asked what is the key competitive advantage Lend Lease has. It is our people - their energy, focus, rigour, and commitment. They are all very focused on us meeting our objectives.
- At the Lend Lease level, as said in May, we are budgeting for an increase in after tax profit in 2002 from a level of \$210M.
- Now I will hand over to Robert.



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**FINANCIALS**

## AMORTISATION OF INTANGIBLES

- **Westpac Hedge profits used to offset Amortisation expense**

	2001 A\$M	2000 A\$M
- Amortisation of Goodwill & Management Agreements	(82)	(56)
- Westpac Hedge profits realised	83	63
- Expected annual Amortisation expense	\$80-85M	
- Remaining Westpac profits on 6 million shares to be realised in 2002	\$28M	

- **US FASB Statement on Goodwill and Other Intangible Assets**

- Amortisation subject to "impairment test" that reflects economic reality
- Australian standard continues to require amortisation charge *irrespective* of performance and value of assets subject to amortisation charge



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- As previously stated, Westpac Hedge profits have been realised over the last few years to offset amortisation expenses, that is accounting/non-cash profits used to offset accounting/non-cash expenses. The remaining profits (approx. \$28M) on the Westpac Hedge arrangement will be used in 2002.
- A new US Accounting Standard (FASB) on Goodwill and Other Intangible Assets was approved in late June 2001. The Standard removes the requirement to systematically amortise assets with indefinite life, e.g. Goodwill, and Management Agreements. An annual "impairment" test is now required under that Standard and any impairment losses charged to the Profit & Loss each year.
- Australian Accounting bodies are yet to issue a formal response to this US GAPP change.
- As I have previously said, Lend Lease believes the impairment test better reflects the economic reality, unlike the current Australian Standards, in that under the current Australian Standard intangibles must be amortised irrespective of whether justified in an economic sense.
- For 2001 the Group expensed \$82M for Goodwill/Management Agreements amortisation. As you can see, the US Standard would have had a material impact on Reported Profit had it been applied here.
- We at Lend Lease would strongly endorse the introduction of this Standard in Australia.

## DIVIDEND POLICY

- **Objectives**
  - Return capital to shareholders in most tax efficient manner
  - As far as possible satisfy expectations of all groups of shareholders
  - Minimise fluctuations in dividend payments
- **Stated Policy**
  - Transitional arrangement for 2001: 50% payout ratio and dividends may be unfranked
  - Post 2001 dividends paid to extent of available franking credits
- **Financial Year 2001 Board Decision**
  - 13¢/share dividend in March 2001 (unfranked)
  - 8¢/share dividend in September 2001 (100% fully franked)
  - Payout ratio is 60% for fiscal 2001
- **Financial Year 2002 Forecast**
  - Current forecast: 18¢ fully franked



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- The objectives of our dividend policy remain as previously outlined to the market, that is, to return capital to shareholders in the most tax efficient manner. We also have to recognise the economic fact that an increasing percentage of our earnings are offshore sourced on which no franking credits are generated. In addition, we seek to minimise fluctuations in dividend payments.
- Fundamentally, the previously stated policy remains in place with, however, a minor adjustment to the payout ratio for fiscal 2001. That is, 2001 remains a “transitional” year and we will pay dividends at a payout ratio of 60%, some of which will be unfranked. This level of second half dividend, i.e. 8 cents per share, and the fact that it is fully franked, is more indicative of the expected half yearly dividends going forward.
- Post financial year 2001, however, our policy remains to pay dividends to the extent of available franking credits only. We anticipate that financial year 2002 dividends will be 18 cents per share fully franked.
- However, this forecast must be qualified to the extent it depends on a number of critical assumptions, such as future Australian tax paid, utilisation of Australian tax losses, etc.

## SOME SIGNIFICANT PROFIT ITEMS

	PAT \$M
<b>• One-off Profit Items</b>	
- Sale of 10% Bluewater/contingency release	60
- Sale of Aurora Place	20
- Westpac Share Hedge unwind	83
- Amortisation expense	(82)
- Capital Services profits/other	22
<b>• Provisions</b>	
- Restructure Provisions US REI	(30)
- Fox Studios Provision	(65)
- coolsavings.com and other e-business Provisions	(40)
- UK Development Provisions	(28)
<b>• Without one-off profit and provision items, PAT would have been significantly higher</b>	



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- The 2001 result was impacted by both significant one-off profit items and also by provisions. The net of these is about \$60M. So the underlying profit for 2001 is about \$60M more without all these one-offs.
- The profit items are reasonably well known. I will focus on the provisions:
  - On Fox we have provided a total of \$65M and the carrying value of the project is now \$15M.
  - In May we advised the market that we intended to make certain further provisions in relation to UK property development investments, US REI restructuring costs and a further provision against our investment in coolsavings.com.
  - On coolsavings.com, we have written the carrying value of the investment down to a market value of \$6M at June 2001. coolsavings has brought in a new investor who will provide preferred equity and debt capital. This will dilute Lend Lease's holding from 27.8% to 7.8% if the new investor converts the preferred equity to common stock. We support the company's actions.

## PROVISIONS UK DEVELOPMENTS

- Significant drag on recent Lend Lease profits from THI, Chelverton, Clacton
- Lend Lease's exposure to these Investments has fallen significantly since June 2000

	After Tax	
	June 2001	June 2000
	<u>A\$M</u>	<u>A\$M</u>
Total exposure	146	173
Amount provided	(118)	(70)



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- In the mid 1990s Lend Lease made a number of poor investments in UK property development companies and investments.
- Lend Lease has a 50% interest in the Chelverton Group and a 50% interest in Chelverton Properties International.
- Lend Lease has reached agreement to sell its stake in both Chelverton Group and Chelverton Properties International to interests associated with the Chelverton CEO for £10M and received the first instalment of £5M in early August. The remaining £5M is due July 2002. Completion of the sale is contingent on not only receipt of the second instalment of £5M, but also extinguishment of all exposures Lend Lease has under certain guarantees it has provided and also full repayment of any outstanding guarantee fees.
- Clacton, an investment in a factory outlet complex, has been a poor investment and we are fully provided for all our exposure (\$25M).
- THI was placed into receivership in April 2001. All exposures are fully provided for (\$70M).
- A lot of management time has been spent on maximising the value of these investments. It is too early to speculate whether any recoveries will be made from the workout process.

## **PROVISIONS**

### **US REI RESTRUCTURING COSTS**

- **May analyst update forecast restructuring charge of \$25M**
  - Global REI PAT forecast \$110-120M pre-restructuring costs
- **Following year end review made restructuring charge of \$30M**
  - Global REI PAT for June 2001 \$117M
- **Provision for “one-time” restructuring charge made in US REI business, e.g.**
  - Severance payments(\$17M)
  - Office/premises rationalisation (\$3M)
  - Closure of non-core business/restructure existing business (\$10M)



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- Turning now to US REI restructuring costs.
- In May we announced to the market we would make a \$25M after tax “one time” restructuring charge in our US REI business.
- After a very thorough year end review, we decided to increase the provision from \$25M to \$30M after tax.
- This provision relates to:
  - Severance payments of \$17M
  - Office/premises rationalisation of \$3M
  - Closure of non-core business and restructure of existing business of \$10M.

## BALANCE SHEET & CAPITAL STRUCTURE

- The Group is in a strong capital position

	After Tax	
	June 2001	June 2000
	A\$M	A\$M
- Group Cash	1,119	3,484
- Gross Debt	(1,081)	(1,046)
	39	2,438
Interest Expense Ratio (X)	6.1	7.1

- Reduction in cash for year mostly attributable to the share buy-back (A\$1.8B) and tax paid on sale of MLC (A\$545M)
- Leverage will increase due to timing of a number of significant capital outlays in early fiscal 2002 (e.g. Delfin \$172M)
- Continue to target 7-9 times EBITDA to Interest Expense Ratio



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- Reduction in cash balance for the year is mostly attributable to the share buy-back and dividend (A\$1.8B), tax paid in respect of MLC sale (A\$545M), FX hedge settlements (A\$200M), REI co-investments (A\$200M) offset by cash received from operations of A\$500M.
- Whilst cash holding is large, we are forecasting significant committed capital outlays in early fiscal 2002, e.g. Delfin \$172M, Fox loan repayment of \$80M, and a number of commitments to US REI.
- In addition, not all reported cash is actually available to the Group as it is affected by country regulations, legal structures like joint venture, cash to fund working capital, etc.
- We continue to target a 7-9X EBITDA to interest expense ratio.
- And we are in a strong financial position.
- Back to you, David.



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