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## **Lend Lease Announces A\$226 Million Profit After Tax for the 2002 Financial Year - Reports Improved Earnings Quality -**

### **STOCK EXCHANGE AND MEDIA ANNOUNCEMENT**

Lend Lease Corporation Limited ("Lend Lease") announced an after tax operating profit of A\$226.3 million for the year ended 30 June 2002, reflecting an increase of 49.5% over the previous year.

Earnings per share (eps) were 52.4 cents for the year to 30 June 2002 compared to 33.5 cents for the year to 30 June 2001, an increase of 56.4%. Pre-amortisation eps were 73.7 cents for the year to 30 June 2002 compared to 54.2 cents for the previous year, an increase of 36%.

The Lend Lease Board of Directors announced a final dividend of 9 cents per share fully franked (September 2001: 8 cents per share) to be paid on 19 September 2002. The total dividend for the 2002 financial year is 18 cents per share fully franked, as foreshadowed this time last year.

Lend Lease's Real Estate Solutions ("RES") and Real Estate Investments ("REI") global businesses both contributed to the improved result. RES delivered A\$153.3 million profit after tax, up 26% on 2001, and REI delivered a 20% growth in after tax profits to A\$140.8 million.

Lend Lease Chairman, Jill Conway, said the Board was pleased with the result, which was achieved despite turbulent global economic conditions.

"The profit of A\$226.3 million after tax sits comfortably with the expectations that we have consistently shared with the market during the year," Mrs Conway said.

"It also demonstrates a significant improvement in the quality of earnings within the operating businesses.

"Our focus on the core operating businesses and deliberate move away from risking material amounts of shareholder capital on speculative development projects is starting to bear fruit.

"We are budgeting for a slight increase in after tax profit in 2003 over 2002, despite not having the benefit of the A\$28 million in profit after tax from the sale of Westpac shares which was included in the 2002 result," she said.

Lend Lease Group Chief Executive Officer and Managing Director, David Higgins, said there were a number of key points to note about Lend Lease's performance in 2002.

"The Real Estate Solutions business performed strongly and now has a good base of long term, predictable earnings in both the project and construction management business and its integrated development activities," Mr Higgins said.

"Many parts of the Real Estate Investments business, such as the Australian business, the Housing and Community Investing and Commercial Credit businesses in the US, and some of our European and Global Fund activities also did well.

"However conditions for the REI Equity business in the US remained very tough, as anticipated. Assets Under Management for the Equity business declined a disappointing 12.8% (US\$2.5 billion) over the year due to a combination of dispositions on behalf of clients, some redemptions and revaluations.

"While the results from the US REI business did not provide the returns that shareholders expect, we should not lose sight of the value of the REI business platform.

"The US REI business is the largest real estate investment management operation in the US. It generated approximately A\$85 million profit after tax in one of the toughest economic environments seen for some time.

“We are very focused on how to best improve returns to shareholders from our businesses there. We are advancing on this, but there is nothing concrete to report at this time. We expect to be able to elaborate on our progress in this regard over the coming months,” Mr Higgins said.

As well as announcing some forthcoming changes to the Board, the company also confirmed that its search for a new CEO is progressing.

Mrs Conway said: “In addition to Diane Grady who retired recently, two other Non-Executive Directors – Yong-Hai Chua and Rudolf Mueller – have decided to retire at this year’s Annual General Meeting.

“Albert Aiello will retire from the Board as Executive Director upon conclusion of his contract with Lend Lease in December this year,” she said.

This will leave the Board with a good ratio of five Non-Executive and two Executive Directors.

“The smaller size will allow us to work more closely with the executive team as a full Board on all the important issues including strategy, governance and audit,” Mrs Conway said.

“We will, of course, keep the size of the Board under review,” she said.

## **REAL ESTATE INVESTMENTS (REI)**

The Real Estate Investments business contributed A\$140.8 million after tax for the year to June 2002 compared to A\$116.9 million for the previous year (excluding US restructuring provision of A\$30.3 million after tax), an increase of 20%. Profit contributions from the Australia/Pacific, European and Asian regions were higher for the year to 30 June 2002 than the previous year. However, the overall result from the United States was down due to a challenging economic environment and despite good performance from various business units within the US operations.

Worldwide Assets Under Management (AUM) at 30 June 2002 were A\$86 billion. This number was affected by the stronger Australian dollar at the end of June compared to the previous year. In home currencies, AUM grew in all regions except the United States, where AUM was down 1% from 30 June 2001.

Loans Under Servicing, principally the CapMark Services business, increased by 39.1% to US\$69.7 billion at 30 June 2002, compared to US\$50.1 billion at 30 June 2001.

The US Real Estate Investments business profit for the year to 30 June 2002 was A\$84.9 million after tax compared to A\$89.9 million for the year to 30 June 2001. This lower result was expected as foreshadowed in February this year.

The difficult global economic conditions had the most significant impact on the REI business in the United States. These conditions created an overall market uncertainty, resulting in a significant reduction in transaction volume and difficulties in raising capital. In addition, the substantially lower US interest rates caused a reduction in CapMark Services’ float earnings from US\$22.4 million in the year to 30 June 2001 to US\$10.4 million for the year to 30 June 2002. Despite this impact from lower interest rates, the overall 2002 US REI result was only down by A\$5.0 million after tax.

In the US, the HCI business has continued to perform strongly and the Commercial Credit business was able to increase its profit by 12% despite lower revenues.

Mr Higgins said there had been some good news from the early weeks of the new financial year, with more than US\$1 billion in either Assets Under Management or capital commitments for the Equity business.

“However, on-going economic uncertainty in the US calls for caution about short term growth prospects for this business,” he said.

In Australia, the REI business profit was A\$30.6 million after tax for the year to 30 June 2002, up 58.5% from the previous year. The 2002 result comprised a 35% increase in operating earnings as well as a A\$4.3 million profit after tax from the sale of the investment in Kiwi Property Group.

The results for Europe and Asia reflect the still early stage of building the REI business in those regions.

The European REI profit for the year to 30 June 2002 was A\$31.9 million after tax, up 78.2% from the previous year, and included an after tax profit of A\$9.0 million on the sale of Lend Lease's 50% interest in the Arrábida Shopping Centre in Portugal.

In Asia, the result was a loss after tax of A\$6.6 million for the year to 30 June 2002, lower than that for the previous year. The 2002 result included A\$11.5 million after tax of expenses in relation to preliminary work on the establishment of REIT businesses in Singapore and Japan.

Mrs Conway said: "In Asia, while we have demonstrated the right amount of caution in delaying entry to the S-REIT and J-REIT markets, we continue to develop our business platform in the region through the activities of the International Distressed Debt Fund and the Global Fund."

### **REAL ESTATE SOLUTIONS (RES)**

The Real Estate Solutions business, which comprises the Bovis Lend Lease and Development businesses, has continued its strong performance, contributing A\$153.3 million after tax for the year to 30 June 2002 compared to A\$121.2 million for the previous year, an increase of 26%.

Mr Higgins said: "We are very pleased with the integration of Bovis Lend Lease and the Development operations. It has created a strong business that is capital efficient, and we expect that it will continue to produce earnings growth for us."

"RES is now well advanced in building new businesses with stable, predictable earnings based on its early success in winning Private Finance Initiative (PFI) contracts in the UK and similar contracts in the USA. We have avoided the broad-brush approach, instead focusing efforts to build expertise and reputation in health, education and military housing sectors," Mr Higgins said.

"Our Development business has also moved well up the value chain by focusing on integrated opportunities like Victoria Harbour, Greenwich Peninsula and Delfin Lend Lease urban communities," he said.

### **Bovis Lend Lease**

Bovis Lend Lease delivered a profit of A\$119.4 million after tax for the year to 30 June 2002, up 32% compared to A\$90.3 million for the previous year.

Bovis Lend Lease has continued to secure new projects and has benefited from its strong client relationships. It has now completed the clean-up of the World Trade Centre "Ground Zero" site, doing so in a quicker timeframe and at less cost to the City of New York than originally anticipated.

At 30 June 2002, Bovis Lend Lease had a committed Backlog Gross Profit Margin (GPM) of A\$596.4 million, up 15% compared to A\$518.2 million at 30 June 2001. In addition, Bovis Lend Lease is the preferred bidder on a number of other PFI projects. These projects will contribute an additional A\$111.8 million to Backlog GPM on the assumption that they reach financial close.

Mr Higgins said: "Our focus on overheads has resulted in a steady improvement in Bovis Lend Lease's Profitability Ratio, from 22% in 2000 to 30% in 2002 and we expect continued improvement."

"This is an outstanding result, and reflects the benefits of the Business Repositioning Project undertaken during the year," Mr Higgins said.

"It is also pleasing to see that the proportion of profits derived from longer term contracts and relationships has increased from 36% in 2001 to 38% in 2002.

"We expect this trend of improving earnings quality and predictability to continue," he said.

### **Integrated Development Businesses**

Lend Lease's Integrated Development businesses contributed A\$33.9 million after tax for the year to 30 June 2002, compared to A\$30.9 million for the previous year.

This result included A\$21.1 million after tax from Delfin Lend Lease. Delfin was acquired in August 2001 and has been successfully integrated. The Delfin Lend Lease result was in line with expectations.

The Integrated Development result also included A\$24.1 million after tax from the sale of Touchwood, Solihull retail centre in the UK.

Mr Higgins said: "While our clear focus is on building long term earnings in Real Estate Solutions, we will of course continue to exploit one-off development opportunities where they fit our third party capital model."

"There is a high quality pipeline of such projects coming through over the next 3-4 years in work for some of the funds we manage, as well as Hickson Road, TresAguas and others," he said.

#### **Other Activities**

The result for the year to 30 June 2002 included the final Westpac hedge profit of \$28.2 million after tax. The result for the year to 30 June 2002 also included A\$16.8 million after tax in earnings from the company's investment in IBM Global Services Australia, compared to A\$7.8 million after tax in the previous year.

#### **FINANCIAL STRENGTH**

The company remains in a very strong financial position. At 30 June 2002 it had cash of A\$904 million with net debt of A\$35 million. Cash generated from operations during the year was strong, with the interest coverage ratio being 7.6 times and well within the company's policy of maintaining a 7 to 9 times ratio.

Mrs Conway said: "We are aware of the expectation that we should leverage our strong Balance Sheet. However, given the current economic uncertainty and the opportunities that this may present, and our focus on how to best improve returns from the REI business, we prefer to keep our powder dry for the moment in order to preserve maximum financial flexibility."

#### **EARNINGS OUTLOOK**

Robert Tsenin, Lend Lease Group Finance Director, said Lend Lease's ability to maintain its outlook for 2003 earnings and budget for a slight increase over the 2002 result, underscored the company's strengthening operations.

"Given the need to replace the profits from the Westpac shares which were fully divested during 2002, this indicates credible progress in core earnings growth despite continuing economic uncertainty," Mr Tsenin said.

Mr Tsenin also noted that the 2003 budget is based on profit growth in both the Real Estate Solutions and Real Estate Investments businesses, as well as continued reduction in Corporate overheads.

"The 2003 budget also assumes no major asset sales and the continued amortisation of intangibles," Mr Tsenin said.

"The bottom line is that while the uncertainty in world economies presents risks to growth, we are positioned to achieve our 2003 budget despite the issues we continue to face in US REI.

"This is, of course, always subject to the proviso that we experience no further major economic or market shocks.

"In line with the budgeted profit increase, we are also budgeting for an increased dividend per share in 2003," Mr Tsenin said.

#### **For further information contact:**

Roger Burrows  
Lend Lease Corporation  
+61 2 9236 6116

Mary Beth Lally  
Lend Lease Corporation  
+ 61 2 9236 6883