

ASX ANNOUNCEMENT

19 December 2019

Lendlease to divest Engineering business

- **Agreement reached to sell Engineering to Acciona for \$180 million**
- **Engineering sale expected to complete in first half CY2020 and is subject to client consents and regulatory approvals**
- **The sale process for the Services business continues**

Lendlease today announced it had entered into an agreement with Acciona Infrastructure Asia Pacific (Acciona) to sell its Engineering business for a purchase price of \$180 million.

The transaction, which is expected to complete in the first half of calendar year 2020, is subject to conditions including client and third party consents and regulatory approvals including the Foreign Investment Review Board.

Under the terms of the Engineering sale agreement, Acciona will acquire the Engineering business excluding the NorthConnex and Kingsford Smith Drive projects, which will be completed by Lendlease. Kingsford Smith Drive and NorthConnex are both in their final stages and are at least 90 percent complete.

The Melbourne Metro project is also currently excluded. This project involves the design and construction of the tunnels and stations package of the larger Melbourne Metro Tunnel project and is being undertaken by a joint venture comprising Lendlease Engineering, John Holland and Bouygues Construction. As previously indicated by Lendlease, the start of this project has been slower than anticipated. There have been issues in relation to the scope and costs on the project. The consortium has been working with Government on a confidential basis to resolve these issues while delivering the project to achieve the Government's completion dates. As a result, this project is currently being retained by Lendlease, subject to further negotiation.

Group Chief Executive Officer and Managing Director, Steve McCann said "We believe the sale of the Engineering business represents a positive outcome for our people, our clients and our securityholders. Acciona is already a leader in the sector in which they operate. Our skilled workforce, client relationships and existing projects stand to enhance their existing footprint in Australia.

"Today's announcement also represents an important milestone for Lendlease as we continue to focus on the successful delivery of our more than \$100 billion global development pipeline."

Bede Noonan, CEO of Acciona Australia and New Zealand, said "Bringing Lendlease's Engineering business together with Acciona will allow us to create one of Australia's leading tier-one engineering firms. Our two organisations share an impressive register of projects within

Lendlease Corporation Limited ABN 32 000 226 228 and
Lendlease Responsible Entity Limited ABN 72 122 883 185 AFS Licence 308983
as responsible entity for **Lendlease Trust** ABN 39 944 184 773 ARSN 128 052 595

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Australia and internationally. Our combined team will have an opportunity to contribute to some of the most significant infrastructure projects of our generation.”

Financial Update

The loss on exiting the Engineering business will reflect a combination of restructuring costs and proceeds from sale relative to the carrying value of the business on completion of the transaction.

Lendlease considers the previously disclosed restructuring cost estimate to exit the Engineering and Services businesses of \$450 - \$550¹ million pre tax remains appropriate. Restructuring costs include implementation and selling costs, such as technology and systems, employee and advisory costs, and potential costs and indemnities to cover concluding existing customer contracts. This restructuring cost estimate, together with existing provisions, is considered by Lendlease to be appropriate to cover the cost of concluding the projects retained by Lendlease.

The impact on cash flow from the sale of Engineering will comprise \$180 million in proceeds from the sale (\$60 million in FY20 and \$120 million in FY21), less implementation and selling costs, and adjustments for the final balance sheet including working capital which will be determined on completion of the transaction. The cash flow impact of the remaining restructuring costs related to Engineering is expected to be incurred over several years.

The sale process for the Services business continues, and the business has successfully won and converted contracts from an attractive pipeline of opportunities.

An update will be provided at the HY20 results.

ENDS

Lendlease will host a teleconference on the announcement at 5:45pm (AEDT) today. A link to listen to the call is available below and will also be made available on lendlease.com

<https://edge.media-server.com/mmc/p/og36zjyn>

Attached is a copy of the address to be given by Steve McCann, Group Chief Executive and Managing Director, Lendlease and Tarun Gupta, Group Chief Financial Officer, Lendlease on this call.

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Authorised for lodgement by Lendlease Group's Disclosure Committee

¹ \$15m expensed and incurred in FY19

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Thursday 19 December 2019

STEVE MCCANN, GROUP CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR:

Good afternoon everyone, my name is Steve McCann, Group Chief Executive Officer and Managing Director of Lendlease.

Thank you for joining our conference call on the announcement of the sale of the Engineering business.

I'll begin by acknowledging that we're on the land of the Gadigal people and I extend my respects to their elders past, present and future.

Joining me in the room is Tarun Gupta, Group Chief Financial Officer.

I will provide some opening remarks before handing over to Tarun who will provide some more detail on the financial implications of the sale. We will then open it up to questions.

Opening remarks

This afternoon we announced Lendlease entered into an agreement with Acciona to sell its Engineering business, through the sale of the business entity, for a purchase price of \$180 million.

The transaction is expected to complete in the first half of calendar year 2020. It is subject to conditions including client and third party consents, and regulatory approvals including the Foreign Investment Review Board.

Under the terms of the Engineering sale agreement, Acciona will acquire the business excluding the NorthConnex and Kingsford Smith Drive projects, which will be completed by Lendlease. These projects are in their final stages and are at least 90 per cent complete. Employees working on these projects will transfer with the Engineering business and be seconded to Lendlease until the projects are completed, which is expected in calendar year 2020.

The Melbourne Metro project is currently excluded, however is subject to further negotiation.

As previously indicated by Lendlease, the start of this project has been slower than anticipated. There have been issues in relation to the scope and costs on the project. The consortium has been working with Government on a confidential basis to resolve these issues while delivering the project to achieve the Government's completion dates. As a result, this project is currently being retained by Lendlease.

We believe the sale of the Engineering business represents a positive outcome for our people, our clients and our securityholders.

For our people and clients, Acciona is already a leader in the sectors in which they operate. Our skilled workforce, client relationships and existing projects stand to enhance their existing footprint in Australia. We believe our employees and Acciona have a bright future



given the forecast of strong activity in the transport engineering sector over the coming five years.

For securityholders, it enables the Group to focus on its core competitive advantages. Our core strategy is focused on urbanisation in gateway cities and we aim to be the urbanisation partner of choice.

Our ability to deliver across all aspects of major urbanisation projects, together with our financial strength and strong track record provide a point of difference we believe few can match.

We believe we have cemented the Group's position as a global leader in urbanisation with a total development pipeline of more than \$100 billion. This provides substantial visibility on future earnings.

I will now hand over to Tarun to provide an update on the financials.

TARUN GUPTA, GROUP CHIEF FINANCIAL OFFICER:

Thanks Steve and good afternoon everyone.

The Engineering business will be reported as a discontinued operation in the half year 2020 accounts and this will be reflected in both the income statement and balance sheet.

The loss on exiting the Engineering business will reflect a combination of restructuring costs and proceeds from sale relative to the carrying value of the business on completion of the transaction. It is anticipated that this will be accounted for in FY20.

The carrying value of the business will be determined on completion of the transaction. There are several moving parts. For example, the balance sheet at completion, including working capital adjustments and the final composition of the portfolio of projects which will be transferred. Therefore, it's too early to provide an estimate today.

As a reminder, the Group had previously disclosed a restructuring cost estimate to exit the Engineering and Services businesses of \$450 - \$550 million pre tax. We consider the range remains appropriate following today's announcement. Those restructuring costs include implementation and selling costs, such as technology and systems, employee and advisory costs, and potential costs and indemnities to cover concluding existing customer contracts. \$15 million was expensed and incurred in FY19.

As Steve noted, the NorthConnex and Kingsford Smith Drive projects will be retained and completed by Lendlease, and the Melbourne Metro project is excluded and remains subject to further negotiation.

As is customary in a business sale process, indemnities will be provided on completed projects and projects nearing completion. Lendlease retains responsibility for all excluded projects. We consider the existing provisions and the \$450 - \$550 million restructuring cost estimate are appropriate to cover the cost of concluding any projects which remain the responsibility of Lendlease and the cost associated with transaction indemnities.



Other than an immaterial indemnity on one project, Lendlease is not providing indemnities with respect to the performance of the remaining projects in delivery which will transfer to the buyer.

The cash flow impact from the sale of Engineering will comprise \$180 million in proceeds from the sale, of which \$60 million will be received in FY20. The remaining proceeds will be received in FY21. Implementation and selling costs will be incurred on completion of the transaction. The cash flow impact of the remaining restructuring costs for Engineering is expected to be incurred over several years.

The Engineering business operates on a negative working capital basis. That working capital balance will result in a cash transfer on completion of the sale. For context, at 30 June 2019, the negative working capital balance was approximately \$450 million, excluding NorthConnex, Kingsford Smith Drive and Melbourne Metro projects. The actual amount transferred on completion will depend on a range of factors.

The Group is expected to remain in a strong financial position following the completion of the sale. Gearing is expected to be in the range of 15-20 per cent at 30 June 2020.

The sale process for the Services business continues.

The Services business has had a solid start to the year and remains on track to meet its financial targets for FY20. The business has successfully won and converted contracts from an attractive pipeline of opportunities.

We will provide an update on the status of the transaction at the HY20 results.

I'll now hand back to Steve

STEVE MCCANN, GROUP CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR:

Thanks Tarun. I would like to acknowledge the hard work of our team in pursuing this transaction and of our Engineering and Services employees in maintaining a strong commitment and focus on business performance during what has been a difficult period.

As I have done before, I apologise for the circumstances which have led to what has been a difficult period for our people and our securityholders. We believe the announced sale is a good outcome for the reasons discussed.

We'll now open it up for questions. The webcast is not two-way so we will only be able to take questions over the phone.

Question and Answer