LENDLEASE
2016 FULL YEAR RESULTS

19 August 2016

STEVE McCANN – Group Chief Executive Officer:
Good morning everybody and welcome to the Lendlease full year results presentation for 2016. My name is Steve McCann, Group Chief Executive Officer and Managing Director of Lendlease.

Standing here at Barangaroo in Sydney, I'd like to acknowledge that we're on the land of the Gadigal people. The Gadigal people are the traditional custodians of this land and they form part of the wider Aboriginal nation known as the Eora. I extend my respects to their elders, past and present and to any Aboriginal or Torres Strait Islander people here with us today.

(Conference instructions)

This presentation is being held on Level 13 at Lendlease's new head offices at International Towers, Barangaroo, Sydney as well as via webcast at www.lendlease.com.

Lendlease's vision to "create the best places" underpins the Group's strategy and the way we operate and it's been instrumental in identifying, planning and designing the projects that drive our growth. I certainly believe we've achieved that vision here at Barangaroo. The project has been many years in the making and has involved all parts of our business, from development conception through to design, construction and investment management. It's a tremendous example of our integrated model coming to life.

We're immensely proud of the legacy we've created here in Sydney. In fact, the entire Barangaroo precinct is a showcase of who we are, what we do and how we do it. It is a platform for us to demonstrate our capability in delivering large scale and complex projects.

Now turning to what we're all here for today. I will provide an overview of our Group results for the year. I'll then hand over to Tarun Gupta, our new Chief Financial Officer, who will take us through the financial result in more detail, before I return to provide an operational update and outlook. Dan Labbad, our Chief Executive Officer International Operations will then join Tarun and myself on stage and we'll be happy to take questions.

Lendlease is committed to operating Incident and Injury Free wherever we have a presence. This is central to our business approach and it's embedded in all of our decision-making. The Group Lost Time Injury Frequency Rate declined from 2.2 per million hours worked during FY15 to 1.8 per million hours worked in FY16. This year, 86% of our operations did not report a critical incident, up three percentage points on our FY15 performance. That said, we can never be complacent and we'll continue to do all that we can to ensure that all of our employees, subcontractors and others on Lendlease sites go home without incident or injury.

FY16 was a year of rewarding execution where we continued to transition more of our development pipeline from planning to production and delivery. This necessitated an ongoing strong focus on operational excellence and the outcomes have been pleasing from a safety, profitability and importantly, cash flow perspective.

We have delivered a strong result for our securityholders. Our business delivered profit after tax of $698.2 million in FY16, up 13%. Earnings per stapled security were 120.1 cents up 12%. The Board declared a final distribution of 30 cents per stapled security, taking the full year distribution to 60 cents per stapled security. That represents a payout ratio of 50% of Profit after Tax, in the middle of our 40% to 60% target range.

Return on Equity rose by 60 basis points to 13%, in the middle of our 11% to 15% target range. Strong cash generation was a highlight of the result, with operating cash flow representing over 120% of Profit after Tax. That was generated despite more than a further $3 billion being deployed into our development projects.

In turn, that strong outcome has the balance sheet looking in great shape.

The Development segment delivered a very strong result in FY16 across both residential and commercial. We reached additional milestones at Barangaroo South, with completion of a number of commercial and residential buildings. Total residential settlements were up 7% to 4790 units, including the first meaningful contribution from our apartment projects.

The forward sale of three major commercial buildings, two at International Quarter in London and one at Darling Square in Sydney, has further de-risked our development exposure. This is a critical component of our business model, with recent events in the UK highlighting the importance of having a strong risk management framework.

We are gaining traction in the infrastructure space, with an increase in engineering new work secured of 56% to $2.8 billion.

The establishment of Lendlease Public Infrastructure Investment Company, a PPP managed investment vehicle, is testimony to the asset creation capabilities of the Group and another example of the integrated model at work.

The Investments segment, representing 37% of operating EBITDA, continues to deliver strong recurring style earnings. And finally, we had another year of double-digit growth in funds under management.

As I touched on earlier, we've been going through a strong growth phase, with more of our pipeline transitioning into production and delivery. Development inventories are now at $3.7 billion, that's up more than $1.3 billion over the last two years, with inventories up 37% in FY15 and a further 14% in FY16. That rapid growth is likely to ease in coming periods as we head towards a more steady rate, although it will depend on the level of development opportunity that we decide to pursue.

When developing, we're required to take development inventory through the operating, rather than the investing cash line. As such, our growth has seen a significant drag on our operating cash flow. For example, the chart highlights that backing out the incremental investment in development inventories over the last two years, we would have generated operating cash flow of almost $500 million in FY15 and $1.4 billion in FY16.

It is also important to understand that at a project level, there is often a mismatch between profits and cash. For instance, we received a substantial component of the sale proceeds for Towers Two and Three at Barangaroo South on completion of those towers. Those proceeds relate to profit largely booked in prior periods.

I'll now hand over to Tarun, who will run through the financial results in more detail. Thank you.

TARUN GUPTA – Group Chief Financial Officer:
Thank you Steve and good morning everyone. I've just completed my first 100 days in the seat and I'm pleased to present a strong set of financial results. While I know many of you, I'm very much looking forward to engaging on a more frequent and regular basis in my new capacity.

In the next few slides, I will provide some detail on our financial results covering the income statement, cash flow and financial position. But before I do that, I'd like to briefly touch on our re-segmentation and our inaugural integrated report.

As foreshadowed last month, we have revised our segment reporting structure and transitioned to Integrated Reporting. We believe the re-segmentation more accurately reflects the underlying nature of the revenue generating activities of the Group and aligns external reporting and how the business is described to you, the investment community, with that of our internal management reporting.

We now report three segments, namely Development, Construction and Investments. The Investments segment comprises all of our recurring style earnings. The key changes are transferring Retirement Living ownership to Investments and separating the former Infrastructure Development segment across Development and Investments, based on the type of activity undertaken.

FY16 marks our inaugural Integrated Annual Report and has been prepared with reference to the International Integrated Reporting Council's framework. This Integrated Annual Report has consolidated the previous Annual Report, Directors' Report and Financial Statements and the Securityholder Review, into one document. We believe that both initiatives help simplify the reporting of our business. To further assist the market in its analysis, we have also prepared a more comprehensive appendix pack to this presentation.

So now turning to the financial performance for FY16.

Development EBITDA rose by 30%, driven by strong residential and commercial results in both Australia and the UK. The first wave of apartment completions across the Group was a key contributor, with settlements up almost threefold to 1,203 units. This included projects in Sydney, Melbourne, Brisbane and London.

In Commercial, Steve has already outlined the forward sale of three major buildings that contributed to profit in FY16. In line with the new reporting structure, the profit from developing the PPP assets that seeded the new managed investment vehicle, was recognised in the Development segment.

Construction EBITDA for the year was up 3% with improvements in the Australian margin, offset by a reduction in the Americas and Europe. The Americas business has been working through a change in the mix of earnings from higher margin military housing work, to more traditional residential and commercial construction work. The performance of the Asian and European Construction businesses has been impacted by challenging market conditions. Overall, the global EBITDA margin declined by 20 basis points to 2.4%.

Investments EBITDA was down 4%, with modest declines in both ownership interests and operating activities. The ownership interest decline was largely the result of reduction of the carrying value of our 25% interest at 313@somerset in Singapore, while the contribution from operating activities was impacted by lower fund performance fees year on year.

The combined earnings mix, consisting of 40% Development, 23% Construction and 37% Investments, resulted in Group EBITDA rising a pleasing 9%.

The foreign exchange rate impact on the result was fairly modest, given the Australian region accounted for 78% of our earnings.

The 8% rise in Group Services in corporate costs (excluding Treasury) was driven by several factors, including some one-offs. FY16 included the impact of a fully centralised Finance Services team as we near completion of our transformation program. This will facilitate efficiencies at a business unit and segment level. The corporate centre also included our major projects bid team in Australia, that will move back out to the business from FY17 and one-off relocation costs associated with the move to Barangaroo.

Our expectation for FY17 is that without previous one-offs and continued discipline, costs should be in line with FY15 levels.

Net interest expense declined by 8% on a combination of lower net debt and a 60 basis points decline in the weighted average cost of debt to 4.6%.

The effective tax rate of 19.1% was down 30 basis points.

The Lendlease Trust income has a large impact on our tax rate, accounting for around five percentage points of the difference to the Australian corporate tax rate of 30%. Different tax rates in off-shore jurisdictions and certain non-assessable income also have an impact. For FY17, we expect the tax rate to be in the range of 15% to 25%.

The cumulative impact of the aforementioned items resulted in Profit after Tax of $698.2 million, up 13%. A small increase in the average weighted number of securities resulted in EPS growth of 12%, or 120.1 cents per stapled security.

Moving on to Cash Flow movements for the year. We commenced the year with cash of $750.1 million. I won't spend too much time discussing the operating cash flow, given Steve has already done so, but it is worth highlighting that generating net operating cash flow of $853 million, while deploying a further $3 billion into the development of projects, is the significant achievement.

Cash was received on Tower Two and Tower Three at Barangaroo South in Sydney following completion. In addition, settlements on a number of urban regeneration apartment projects and execution of a PLLaces transaction at our Toorak Park project, were the key drivers of strong cash inflows. On the outflows side, our urban regeneration activities were the major users of cash.

Net investing cash flows were effectively flat. Proceeds from the sale of the PPP assets into the new managed investment vehicle were offset by the capital contribution the Group made towards its investment in the two Office Trusts at Barangaroo.

On the financing side, there was a net cash outflow of $620.4 million. Our Treasury team has had an active year. We renegotiated and extended the Group's Club Revolving facilities, issued a US Dollar Euro Medium Term Note and redeemed the majority of our US Private Placement. We finished the year with cash of $1 billion.

Moving on to the Group's financial position.

We entered FY17 in a very strong financial position. In addition to the cash, we have $2.2 billion of undrawn facilities, taking total liquidity to $3.2 billion. Gearing declined by four percentage points to 6.5% and the interest coverage ratio has risen to eight times. We have lengthened the tenor of our debt and the average maturity up by more than one year to 5.3 years. The proportion of fixed rate debt has risen from around two-thirds to more than 90%.

The resilience of the Lendlease balance sheet, including high levels of liquidity, combined with access to third party capital, provides financial flexibility to fund our development pipeline and explore future growth opportunities.

In terms of capital deployment, we currently have $3.7 billion in property development inventories. Future movement in development inventories will depend on our reinvestment program, but we will only proceed where our risk and return hurdles can be met.

We have $3 billion in Investments, broadly split equally between Co-investments and Retirement Ownership. Our strategic decision to exit New Zealand retirement saw our Retirement investment decline during the year, with cash receipts received post balance sheet date. The Investments segment will continue to underpin the Group's recurring style earnings going forward.

With that, I'll hand back to Steve for the operational update and Group outlook.

STEVE McCANN – Group Chief Executive Officer:
Thanks Tarun. The Development pipeline continued to expand on both a geographic and sector basis.

FY16 was an active period for commercial development. We reached practical completion at Tower Three at Barangaroo South in Sydney and construction "topped out" at the 50th floor of Tower One, the third and final office tower.

There are currently 10 major commercial buildings in delivery that we'll complete over the next three years. The total project end development value of these buildings is over $6 billion and includes buildings in Sydney, Singapore and London. These projects are leveraging the integrated model with our construction business and our capital partners heavily involved.

Communities presales were up 31% to 2,794. Settlement volumes were impacted by production timing on different projects across our portfolio, but our strong presales provide a great start for settlements in the current financial year.

The 1,203 Apartment settlements generated revenue of approximately $1.2 billion, with two-thirds derived from Australia and the remaining third from London. To date, we have physically settled just under 1,100 of these units and are pleased to report that the non-settlement rate on these apartments is less than 1%.

Settlements at One The Elephant and at stage one of 888 Collins Street in Melbourne have extended through to the current financial year, given their completion in late FY16 and to date there have been zero non-settlements.

Apartment pre-sales reached a record $5.2 billion. Pre-sales were driven by new apartment releases during the period, including the final phase of Darling Square in Sydney, and West Grove and Elephant and Castle in London, in addition to sales at already active projects.

On a geographic basis, Australia was the key contributor, with $392 million in EBITDA, followed by Europe at $140 million. We are currently investing in Asia and the Americas, and therefore are absorbing costs in those regions.

We expect these regions to start making a meaningful contribution from FY18 with the projects that we have already secured. In fact, more than 50% of our urban regeneration development pipeline is offshore, highlighting our commitment to growth outside Australia.

Given the investment community's focus on the Apartment market, we believe it is worthwhile to share some further insight into our projects. Of the total Apartment pre-sales of $5.2 billion, we currently have $4.7 billion worth of apartments in delivery across 21 major buildings. We have a diversified geographical exposure, with 39% to Sydney, 35% to Melbourne, 22% to London and 4% to Brisbane.

In the chart, we have also split the pre-sales by timing of settlement between those due in FY17 and those due in the subsequent two financial years. Our biggest exposure in FY17 is to Melbourne, with Sydney accounting for a significant proportion of total pre-sales across FY18 and FY19.

More than $1 billion of pre-sales are due to settle in FY17, with in excess of 1500 units expected to settle.

In terms of the origin of our buyers across the apartments in delivery, almost 60% of customers reside in the local market. Exposure to Mainland China is less than one quarter, while other offshore customers account for 18% of pre-sales.

While the non-settlement rate for FY16 of below 1% has been a good outcome, we are by no means complacent. We are monitoring market developments closely and understand that some customers will require more time to arrange alternative finance.

Our Victoria Harbour precinct, which is our largest exposure in FY17, is performing well. Concavo, which settled in first half of FY16, is fully let. The majority of rental stock was taken up within two months of becoming available.

Vacancy in Victoria Harbour is sub-1% based on agency feedback. This bodes well for the following stages at 888 Collins and 889 Collins.

Deposits against the pre-sales provide solid coverage. We carry 10% deposits against the Australian pre-sales. For the UK, we usually take 10% deposit on exchange of contract and a further 10% one year after exchange. We believe the geographical diversity of the book, the high levels of pre-sales, the quality of the product that is predominantly tailored to the mid-market, and our solid deposit coverage all position the Group well to convert on our pre-sales.

Overall, a respectable performance from the Construction segment, with modest earnings growth. The Australian business was the standout performer with margin improvement of over 100 basis points to 3.7%, resulting in EBITDA growth of more than 50%.

As we identified at the half year result, the Americas business has been adversely impacted by a change in sector mix from higher margin military housing work to traditional residential and commercial construction work. As a result, Construction earnings for the region halved in FY16. That mix shift has now fully washed through the numbers.

The performance of the Asia and Europe Construction businesses was impacted by challenging market conditions, with their results broadly breakeven. More specifically, the European business was impacted by some legacy costs relating to previous PFI projects.

Despite Brexit, we have had some recent productive discussions with some of our European clients on new opportunities and we're hopeful of converting some of these in the near future. We delivered solid growth in our backlog revenue position, which was up 20% to $20.7 billion, and we are preferred bidder on approximately $7 billion of work globally, which we expect to convert over the next 12 months.

The Group recorded a strong increase in new work secured of 24% to $14.6 billion. Engineering Australia secured a number of new projects in the transport sector, including the Gateway Upgrade North project and Kingsford-Smith Highway upgrade in Queensland, Caulfield to Dandenong and CityLink Tulla Widening in Victoria and Northern Connector in South Australia.

The Services business has emerged well from a difficult period. The sector exposure has been transformed following its historical weighting to the resources sector. Also, they have leveraged the integrated model having secured work from our Communities business.

We remain positive on the outlook, with our backlog position underpinning earnings visibility. We have diversification across clients and sectors, while the internal development pipeline will provide support to the business outlook in each of our regions.

All of the recurring-style earnings we generate are now in the Investments segment, which represents 37% of operating EBITDA.

It was another solid year for our investments platform, with funds under management recording double-digit growth to $23.6 billion.

The Australian operations was the engine room, with growth of 20%, taking funds under management to $16.5 billion. The Australian platform also raised a large majority of the total $1.3 billion in new equity. The majority of the funds under management growth came in the commercial sector via the Trusts that control the three towers at the International Towers Sydney.

We also completed a major equity-raising in APPF Commercial and the new PPP-managed investment vehicle, a first in this space for our Australian business, will commence with $400 million in funds under management.

Funds under management in Europe declined, following the sale of the UK Infrastructure Fund.

Future growth is underpinned by approximately $3 billion of secured funds under management growth across the Group's urbanisation projects, largely commercial. In addition, the retail developments at Macarthur Square in Sydney and Sunshine Plaza in Queensland will also add to funds under management over time.

On the Co-Investment front, the Group divested a 25% interest in Lendlease One International Towers Sydney Trust, which manages Tower One at Barangaroo South. That was offset by equity contributions into the two trusts that control the three towers.

In Retirement Living, the strategic sale of the New Zealand Retirement business resulted in the number of villages under management declining by five to 73.

Finally, the number of operational units under management in our US military housing business rose by more than 2,000.

We are well placed heading into FY17 given our financial strength and earnings visibility, despite mixed market conditions. There are several macroeconomic and geopolitical risks that both ourselves and the broader market face, of which Brexit is receiving the most attention. It's still too early to assess the long-term impact of the vote, however we acknowledge the near-term risks.

Our expectation is that London will remain a major global gateway city. Therefore, our longer-term strategy for the UK has not changed. We hope the current uncertainty creates some attractive new pipeline opportunities, especially as local governments in London continue to pursue more supply, particularly in the private rental and affordable sectors. In fact, there is a healthy pipeline of potential urban regeneration projects.

Turning to strategy more broadly, it is very much business as usual from a strategic perspective. Differentiation is derived from our integrated model that utilises at least two of our segments to deliver large-scale, long-term and often complex projects. We believe that this, combined with an enviable track record of quality design and sustainable outcomes, will continue to attract third party capital partners.

The six global trends of urbanisation, infrastructure, ageing population, funds growth, sustainability and technology continue to guide our strategy. We have diversification by both segment and geography.

While Australia will continue to account for a majority of earnings in the near term, a greater proportion of earnings is likely to be driven from offshore operations in the coming years. This is reflected in the growth of our international pipeline and our refined development strategy targeting gateway cities. We overlay this with a strong risk management framework at a country, property cycle and project level that incorporates an uncompromising approach to health and safety.

Earnings visibility remains high, with a growing pipeline across all three operating segments. We can afford to be selective and patient with future origination activities. Any new project launches will remain subject to our disciplined risk management approach.

The Development pipeline rose 9% to $48.8 billion. Residential pre-sales reached a record $5.9 billion, up 13%, with 21 major apartment buildings in delivery. Beyond the traditional apartment space, delivery is underway at Paya Lebar Quarter in Singapore, we have commenced the first stage of Riverline in Chicago and work is in progress at The Wharves, Deptford in London. Collectively, these projects will help underpin the medium-term earnings outlook for Development.

Construction backlog revenue climbed 20% to $20.7 billion, with approximately $7 billion of further work in preferred bidder status. There was double-digit growth during the year in new work secured across each of Building, Engineering and Services.

The outlook for Engineering is particularly strong, on the back of $2.8 billion of new work secured, some of which will begin contributing to earnings in the current year. The outlook for FY18 and beyond is positive, with the business expected to bid on a substantial amount of work over the coming year.

The funds management platform will continue to expand, given the embedded growth we outlined earlier.

While the timing between profit and cash flow differs, the heavy period of investment in production over recent years has been a significant drag on our operating cash flow. This will diminish as the rate of growth in production capital slows. As a result, we're also confident in the outlook for operating cash flow. Thank you, and if Dan, you could join us on the stage, and we'll open up for questions.

Andrew Johnston – CLSA:
Some questions around the Engineering business and then some on guidance. On Engineering, some pretty impressive growth numbers, and taking into the preferred work in hand there's some really strong growth coming through.

Can you talk a bit about where that's coming from, and also what you're seeing from a competitive environment? Do you think you're taking your share? Do you think you're losing share? And then specifically in Australia, how are international players coming in changing the competitive environment?

STEVE McCANN:
So on the Engineering business, a lot of the work that we've secured in the last 12 months has been in transport related projects, and we would expect that to be a continuing strong focus. There are a number of large public transport driven projects, like Melbourne Metro, coming to market in the not too distant future.

As I mentioned, I think we're one of three now on that project, so there's a great opportunity to pursue the pipeline that I think we've all seen coming for some time. The reality is it's only now really starting to ramp up, in our view.

In terms of market share, I think the foreign entrants into the market are well and truly here. That's been happening over the last five years, so that's not new. We see that as part of the competitive environment. We are really the only large scale Tier 1 engineering contractor left in Australia that's Australian owned, so we see that as a good position to be, and we ought to be able to leverage off of our local expertise and our ability to drive quality results and local labour. Over the medium to longer term, that's something that we think will stand us in pretty good stead.

Andrew Johnston – CLSA:
And just on the Engineering business, if we were to look just at the engineering business what cash conversion would there have been in the Construction business?

TARUN GUPTA:
Overall, there was positive cash conversion in the Construction business.

Andrew Johnston – CLSA:
It was more than one times?

TARUN GUPTA:
Yes, more than one times.

Andrew Johnston – CLSA:
And Steve, can we go on to the guidance commentary? I just noted in the last five results you've used the words, in relation to earnings, strong growth trajectory. In your guidance this time there was no comment about growth at all. Is this a new way you're presenting the information? Is there a change there? What should we take from that because if I look at the underlying commentary from, say, Engineering, funds under management, that all seemed pretty strong?

STEVE McCANN:
I'll have to go back and check the last five years' wording, but I can tell you that the reason I didn't know that we said that is because we don't do that. We write our results releases based on the facts in front of us, not on the words we used the year before.

The reality is I think I've said there's great earnings visibility, and we have got very strong growth across all of our sectors, our backlog in Development and Construction, our growth in funds management puts us in pretty good shape.

Obviously, the growth environment globally is tougher - low interest rate, low growth, low inflationary environment - so I have no doubt that every dollar of growth as you go forward is harder to achieve than the dollar that you achieved in the last five years. That applies to every company. But when you look at what we built up in our backlog over the last decade, we've never had a backlog like it, so I think we're in pretty good shape.

Andrew Johnston – CLSA:
Previously, again, you've often commented about consensus numbers and where you're positioned on those. Any comment on that?

STEVE McCANN:
Same comment as last year - no comment.

Rob Freeman - Macquarie:
Good afternoon, guys. Just exploring the outlook statement a little bit further. Tarun mentioned that the tax rate next year is 15% to 25%. That's obviously a wide range. Then also Engineering wins obviously a benefit in 2018 and beyond. Should we think about 2017 being a little bit of a transitory type year, essentially, given the high amount of recycling last year?

TARUN GUPTA:
Rob, with the tax rate, as you're aware, our tax rate's impacted by a number of things: income through the Lendlease Trust, mix of offshore earnings, and we've also got some embedded tax losses. So the range you should keep in mind is a range of 15% to 25%. As we said for Engineering, the projects we've secured will start delivering meaningfully from FY18 onwards.

In terms of the outlook, as Steve and I said, we're in a very strong position with very strong visibility of earnings through our secured backlogs, but also the apartments pipeline that's delivering quite solidly in the FY17 year as we highlighted in the chart.

Rob Freeman - Macquarie:
Thanks, Tarun. And just exploring the presentation which has 1,203 settlements, and then I think you mentioned 1,100 have settled. Question one: does that mean there's 1,203 in the P&L and 1,100 in the cash flow? And then why is that divergent and should we expect it to continue?

TARUN GUPTA:
This is due to the timing of when the projects finish. One The Elephant and stage 1 888 Collins Street finished just before year end in terms of reaching practical completion, which is when we book the profit. Since then we've been getting the settlements coming through, which takes a few weeks afterwards.

We are, on both projects, more than 70% through those settlements and, as we said, without any default, and there's about $110 million yet to collect. That'll come through in the coming weeks.

Rob Freeman – Macquarie:
Okay. Did I hear correctly that you've done another PLLaces transaction at Toorak?

TARUN GUPTA:
That's right, Rob, we've done a PLLACes transaction at Toorak Park for just over $300 million.

Rob Freeman – Macquarie:
What price did you get on that compared to the two that you did just over a year ago?

TARUN GUPTA:
It was a more favourable price. We got 4.8% on that, which is slightly tighter than what we achieved on the previous two transactions.

Rob Freeman – Macquarie:
Are there more of those to do, Tarun, across the remainder of the pre-sold revenue?

TARUN GUPTA:
Yes, it is a key part of our de-risking strategy as we've been following for over two years now. We do plan to look at PLLACes transactions going forward across our book, but it really depends on the project and also working with our investors, based on their requirements.

Rob Freeman – Macquarie:
Okay. Then, look, just one more. Obviously, the disclosure on cash flow's good in terms of on a gross and a net basis. Stock's still trading on 11 x earnings, so call it a 9% EPS yield. Can you just talk about the merits of a share buyback, Steve, please?

STEVE McCANN:
Capital management is a question we get from time-to-time. Our view is that it is a tool that businesses should consider as part of their long term strategy. It's not something for the short term. It's something that you've got to consider in line with your cash and capital requirements over a long period of time.

As we've said, we've got a very significant production pipeline in our existing portfolio that we're going to be delivering, and that's expected to peak in FY17. So our priority today is to focus on ensuring that we do deliver those projects and we execute them seamlessly.

Then, going forward, any concept of capital management has to be balanced against the mixed market outlook that we're in and our existing backlog and making sure we have the capacity to deliver on that existing backlog.

Rob Freeman – Macquarie:
So if the share price is at the current level today, essentially, in just over 12 months' time, and assuming that asset prices are static, how does a buyback stack up compared to other opportunities you may have?

STEVE McCANN:
Well, we've got to consider that at the time. There's a whole range of things that need to be taken into account in deciding where we allocate capital, what the right sort of risk return profile for that capital is, so we'll have to assess it at the time.

Simon Thackray – Citigroup:
Good morning, guys. Steve, a technical question. I'm trying to reconcile something in your slide deck here. You talk about the $4.7 billion of apartments in delivery across the various geographies. Based on the delivery in FY17, that adds up to 34% of that pipeline.

That comes in at a number closer to $1.6 billion versus the $1 billion that you've noted below, that would be settled in 2017. But the number of apartments out of the 5,900 pre-sold is about 25%. So I'm just trying to reconcile what's going on there. Does that mean that the average price of settlements beyond FY17 are at a lower value? Or am I missing something there on page 15?

STEVE McCANN:
My Deputy CFO has the answer to that question, it would appear. Frank.

FRANK KRILE – Deputy Chief Financial Officer:
Yes, the pricing on the settlement profile, going into FY17 and FY18, will be slightly down on what was booked in the current year, given the settlements at Concavo and Barangaroo were at a higher price point. So if you look at the product that is settling in next two years it is at a lower price point.

Simon Thackray – Citigroup:
Okay. So it's right to say there's more revenue in 2017 than there will be in the years beyond on an average pricing basis. I'm trying to reconcile why there's only $1 billion noted in FY17, but the math says 34% of 4.7%, $1.6 billion

TARUN GUPTA:
I think the $1 billion has a plus at the end of it. There are projects that are on the cusp of FY17 and FY18 in terms of timing in our run off profile estimate. The run-off profile chart reflects our current expected completion timing of the underlying buildings and is subject to changes in the delivery program. So that's why you've got a plus at the end of it. The final number will depend on how delivery takes place.

Simon Thackray – Citigroup:
I don't mean to be picky, but a 50% number is a pretty big number between $1 billion and $1.5 billion, $1.6 billion, notwithstanding that. I'll just move on then in terms of construction. By any global measure against your peers, EBIT margins per construction are poor or low by global comparative and local comparative. Just want to understand why that is. Is there much greater overhead allocation into the construction business than we're seeing elsewhere and what's going to get us back to those 3% plus margins in the US, in particular?

And related to that, looking at the Asian backlog, you're noting 91% of your $600 million will be delivered in FY17, which will be a bigger number than FY16, where you made negative margins in Asia. So what are we meant to read for Asian construction in terms of EBIT? And what are we meant to interpret for construction margins going forward, notwithstanding the good improvement, obviously, in the Australian construction margin?

STEVE McCANN:
We've actually got a pretty detailed analysis of how we're tracking versus competitors in every region on a margin basis, which Tarun can comment on. In Asia, there's a significant shift in that business. Over the last several years we've moved the business away from the service type one contracts, as we call them, which is project management for third parties where we really don't control the site, and therefore it drives significant safety and other risks.

So the scale of the Asian business is much smaller than what it was. We have no ambition to rebuild that business in the way that it was built up before. We're focused on the outcomes for integrated projects which is our primary priority. So it's quite a different business to what it has been historically, and we're not really competing directly with players in Asia.

So Tarun, do you want to comment on the margin?

TARUN GUPTA:
I'll just build on that and just say again at a Group level we are targeting margins across the Construction business of 3% to 4%. Obviously the margins in Australia we expect to continue to improve as more

engineering work becomes part of the earnings going forward. As Steve explained, in the US business, again on a comparable basis for the type of work we're doing, we are well within margins for our peers for comparable work in the residential and commercial sectors.

Simon Thackray – Citigroup:
Okay, that's helpful. So the message there Tarun is that the margin in the engineering business is 100 to 150 basis points higher?

TARUN GUPTA:
The underlying Australian business, which is the mix of Building and Engineering, our targets are 4% to 5%, and that translates to, across the Group, 3% to 4%.

Simon Thackray – Citigroup:
Okay, that's very helpful. Just finally, Tarun, your comment about the $20 million plus of incremental corporate costs with the impact of obviously moving to Barangaroo, project teams, the large bids being brought into HQ, and their not being there in FY17, so I mean all things being equal, given where the backlog's growing, given where the backlog realisation is for construction that you've indicated, given where the apartment presales and the development pipeline is, it's pretty hard to argue you'll get anything other than growth at the EBIT line in 2017 on 2016. Is that the correct way of thinking about it, all other things being equal?

TARUN GUPTA:
I'll clarify your corporate line comment on the origination team. We had a specific team under Mark Menhinnitt, who was leading certain major projects. Now as you may have heard, Mark Menhinnitt has moved into the property business as Managing Director of the urban regeneration business. That's where he's going to be allocated, so we're not going to have that cost at the Group. As we said, Barangaroo was a one-off as part of a movement from The Bond here to these premises

Simon Thackray – Citigroup:
If it goes back to the Group then, there's just a transfer of costs from head office to the Group, but the moving costs won't be repeated. What were they?

STEVE McCANN:
I guess the guidance we're giving if you go back to FY15, and that's where we're targeting to get our corporate cost line down to in FY17. We are targeting some cost out in that line. I think just in your general question, we do have a great backlog. Obviously we've got to deliver. There's a significant amount of production activity to come over the next 12 months. We don't give guidance because obviously there's a lot of market issues we don't manage, but we're in pretty good shape and we will be working hard to drive growth.

Nathan Reilly –Goldman Sachs:
A question on the operating cash flows. It looks like the operating cash flow performance has been partly boosted by the proceeds of a new PLLACes transaction. Can you just say what the size of that transaction was, and what project has been wrapped up by that facility?

TARUN GUPTA:
Nathan, the size of the transaction was $335 million, and it was the Toorak Park project in Melbourne. Just to add, this is our third PLLACes transaction, so over the last two years it is a key part of our de-risking strategy of our settlement risks.

Nathan Reilly –Goldman Sachs:
Yes, I was going to ask about that. In terms of that $4.7 billion apartment presales pipeline, how much of that has now actually been covered by your PLLACes facilities?

TARUN GUPTA:
We had one transaction at Concavo, which was successfully completed, and our investors received their proceeds by March. The two we currently have PLLACes on is Darling Harbour Live and Toorak Park, and that's circa a net $700 million worth of PLLACes transactions.

Nathan Reilly –Goldman Sachs:
That's $700 million total, across the two?

TARUN GUPTA:
That's circa a net $700 million currently.

Chris Cahill – Quest Asset Partners:
Good afternoon. Could you tell me what the contribution of Retirement to EBITDA was during the year? And could we have an update both on TRX and Barangaroo South next leg Modification 8 et cetera please?

STEVE McCANN:
Yes. So I'll take TRX and Barangaroo, and we'll come back to Tarun on Retirement. On TRX, obviously that's a project that we secured a couple of years ago now. A lot of negative media around investigations into corruption and other related activities in Malaysia, and one of the entities that is the landowner of the entire TRX site, of which our project, The Lifestyle Quarter, is one portion of that, they've been caught up in all of that. But what we believe, based on what we're told, is that most of that is around the power side of that business rather than real estate. Nevertheless, we've got to obviously be very cautious about proceeding, and we have been cautious.

I think we flagged previously that we structured our deal so that we would not pay our land deposit until we had clarity on commitment to infrastructure and the project, and until we got good visibility as to where things were going. We do have pretty good visibility now, and we are pretty optimistic about the project from a commercial perspective. There's still obviously some work to do before we get through a few more milestones and commit capital. I might get Dan to add any comments to that.

DAN LABBAD – Chief Executive Officer, International Operations
I think you've covered it. Ultimately the deal is yet to go unconditional as Steve has said. We have the appropriate protections in place as we have in all our agreements around the world. The Ministry of Finance has acknowledged publicly they're going to take ownership of the development vehicle, so our partner will be the Ministry of Finance. But they haven't actually implemented that yet, but we do expect that to happen.

STEVE McCANN:
Then on Barangaroo South, so the Mod 8 challenge, which has been launched. I'm sure most of you would be aware action has commenced to try and block the Mod 8 approval. It's part of going through the planning process for something this complex. Our planning modification incorporates our residential alongside what's being done with Crown. So we're kind of caught up in that, even though the objection is not in relation to our part of the site. So we need to wait and see how that plays out. We'll obviously take our part in that process, as you would expect. But it is part of going through planning in Sydney, and not the first time we've been delayed by something like that. Tarun?

TARUN GUPTA:
On Retirement, I think you'd be aware we flagged previously contribution from that business has been circa $150 million of EBITDA, and FY2016 was in line with that.

Peta Arnott – Touchstone Asset Management:
Some of your peers have been noting a bit of stress emerging on the smaller developers on the residential side. I was just interested if you've seen this. They've noted the UK and some Australian markets, notably Brisbane, and if you're seeing any impact on supply or forward supply, and the general competitive market.

DAN LABBAD:
I might cover Brexit first and London in particular. It's really too early to tell what the true impact of the vote is going to be. There's mixed messages. Firstly the appointment of a new Prime Minister quickly in the UK has obviously helped. You would have seen some of the employment figures coming out of the UK over recent days have been on the positive side. But we do know, and we have seen, a number of leasing and other institutional transactions be deferred.

Talking to investors, the common theme is deferral, wait and see, and so effectively that's going to affect a number of the sub-markets, including residential. We have seen some stress in our contemporaries and in some of our competitors, but at the same timet, completions on One the Elephant at Elephant and Castle as Tarun has said have continued to plan, and in addition to that, we have continued to receive the second 10% deposit instalment on the projects we have in delivery, West Grove and South Gardens, with no issues. So it's mixed messages at the moment.

STEVE McCANN:
In relation to Brisbane firstly, only 4% of our presales are in Brisbane, so it's not a big part of our book. People are more nervous about Brisbane because obviously it's not as deep a market as Sydney and Melbourne. Anecdotally, we're hearing about some stress on the smaller developers, but we don't really play in the outer ring suburban market. We're very much focused on CBD as the primary part of our portfolio. We're in pretty good shape, and we're not really seeing stress.

The issue is clearly the absence of the major banks in Australia lending to foreign owners, and that's the issue that's causing consternation to date. I think this is consistent also with Mirvac and Stockland's commentary, a bit of slowdown in some settlements while people go and get alternative financing, but a lot of alternative financing avenues are emerging. So that's good, that gives us confidence. There is a lot of other anecdotal commentary out there. I read something in the Financial Review today which I think suggested that Sydney wasn't a problem because foreign buyers had been priced out of the Sydney market, which was quite an extraordinary comment, I thought. But anyway, everyone's got their opinions.

There are no more questions. Thank you very much everybody for attending.

END OF EVENT