Building Australia Market Briefing

Attached is the presentation to be given today by Dale Connor, Chief Executive Officer, Building Australia, Lendlease.

The presentation will be webcast live via www.lendlease.com

ENDS

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Market leading, established business

Building Australia

• Design and delivery capability for the integrated model:
  – 30% of revenue from integrated projects in FY18
• FY18 Key operating metrics:
  – $3.7b in revenue
  – $6.5b\(^1\) construction backlog revenue, 31% of Group
  – $4.4b new work secured
  – $3.1b\(^1\) preferred bidder
• Strong track record of delivery:
  – c.$20b of project revenue delivered over last five years
  – Consistently solid profit contribution

Integrated business model

Vision and competitive advantage

One of Australia’s largest construction companies, recognised for market leading project management, design and construction services

**Vision:** We push boundaries to create places that are innovative, sustainable and commercially viable

**Competitive advantage:** Economies of scale, supply chain relationships, strategic procurement models and innovative solutions

**Offering:**
• Sector focused approach
• Specialist design and project management teams
• Scale business provides flexibility and agility
• Localised capability, capacity and network

Building (Australia)

Integrated service offering, national capability

Strategic business units provide industry expertise, strategic advice and specialised service

Regional business units focused on delivery excellence

Business structure

1. As at 30 June 2018.
**Building’s contribution to the integrated model**

<table>
<thead>
<tr>
<th>Darling Harbour precinct, Sydney</th>
<th>Development</th>
<th>Construction</th>
<th>Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Places delivered by end FY19:</strong></td>
<td>c.$4.7 billion&lt;sup&gt;1&lt;/sup&gt;</td>
<td>c.$3 billion&lt;sup&gt;2&lt;/sup&gt;</td>
<td>c.$1.4 billion&lt;sup&gt;3&lt;/sup&gt;</td>
</tr>
<tr>
<td>• 84,000sqm office space</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• c.1,500 apartments, c.1,300 bed student housing&lt;sup&gt;4&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 590 room Sofitel hotel</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 35,000sqm exhibition, 8,000 seat theatre, convention centre</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Internal building capability – value creation**

- Integral to origination success
- Deep client relationships
- Highly skilled and proven people, sector and product expertise
- Demonstrated ability to deliver on time and budget

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1. Total development end value including public private partnership; 2. Estimated revenue; 3. Funds under management; 4. Not delivered by Lendlease Building
**Strategy**

**Maintain a leadership position in target sectors, leverage competitive advantage, focus on key market trends**

**Focus**

- Continuous improvement to meet objective of incident and injury free work environment
- Core sectors of workplaces, residential, retail and mixed use, education, health, defence, social infrastructure, hospitality and aviation
- Current geographic focus on Eastern Seaboard states
- Understanding customer needs and maintaining brand relevance and recognition
- Apply insights that bring together specialist design and project management expertise to deliver world leading projects

**Grow**

- Deepen presence into the newer regions of Western Australia and Northern Territory led by the defence, retail and health sectors
- Integrated projects to leverage urban regeneration and transport infrastructure related projects
- Expand strategic property advisory services across health, education, financial and telecommunications sectors
- Leverage emerging technology to optimise delivery initiatives
- New product offering in the growth sectors of social and affordable housing, aged care and education

**Strategic initiatives**

**Enhancing our operating platform via:**

- The use of technology
- Understanding social and environmental impacts
- Unlocking supply chain synergies
- Honouring the customer experience – premium nature of offering
- Realising operational efficiencies

**The enhanced operating platform will facilitate:**

- Integrating technology into the built environment
- Strategic partnering in new sectors of social housing and education
- Creation of innovation precincts
- New types of infrastructure
Target sectors for future pipeline

**MAJOR TRANSPORT INFRASTRUCTURE**
Leveraging our project management leadership to capture integrated opportunities for Lendlease.

**RETIREMENT LIVING AND AGED CARE**
Partnering with Lendlease's Retirement Living business to provide senior living accommodation solutions.

**EDUCATION**
Strong pipeline and opportunity to provide vertical and modular school solutions to the growing population of school aged children.

**SOCIAL HOUSING**
Developing a scalable model to facilitate participation in government social and affordable housing initiatives.

**OTHER EMERGING MARKETS**
Identifying sectors where disruptive change can offer customers new solutions.

**MAJOR URBANISATION**
Leveraging the integrated model to support new product and unlocking future projects at current precincts.

Image: Artists' impression of Darling Exchange, NSW
Portfolio Management Framework

Objectives
- Target framework to improve Building’s market leading position
- Maintain leadership position in existing sectors
- Growth from new sectors
- Increase proportion of internally generated work
- Diversity by sector, geography, contract size, risk and client

Medium term outlook, per annum estimates

Addressable Market
- c.$50b

Target pipeline
- c.$15b

Win rate
- c.30%

Portfolio targets

Geography
- NSW/ACT: 35 – 45%
- VIC: 15 – 25%
- Qld/NT: 15 – 25%
- Other: 10 – 30%

Size
- Mega: 30 – 40%
- Large: 30 – 40%
- Medium: 10 – 20%
- Small: 10 – 20%

Risk profile
- Risk: 55 – 65%
- Fee: 35 – 45%

Client type
- Federal: 20 – 30%
- State: 15 – 25%
- Internal: 40 – 50%
- Corporate: 5 – 15%

Sectors
- Traditional sectors: 70 – 90%
- New sectors: 10 – 30%

1. Mega > $500m, Large $200m - $500m, Medium $100m - $200m, Small < $100m.
2. Source: Lendlease Research.
FY18 Portfolio snapshot

Revenue by Sector
- Defence: 29%
- Workplaces: 16%
- Social infrastructure: 11%
- Residential: 8%
- Education: 8%
- Health: 8%
- Retail: 7%
- Hospitality: 4%
- Other: 9%

Revenue by Contract Type
- Risk: 53%
- Fee: 47%

Revenue by Client Type
- Internal Lendlease: 30%
- Federal Govt: 29%
- State/Territory Govt: 18%
- Corporate: 23%

Revenue by Contract Size
- Mega >$500m: 34%
- Large >$200m & < $500m: 40%
- Medium >$100m & < $200m: 9%
- Small <$100m: 17%

1. As at 30 June 2018.
2. >$10 million.
Securing, creating and delivering projects

More than just building delivery

Origination
- Market assessment
- Value proposition
- Identify pipeline
- Key targets & backups

Filter & Focus
- Conversion strategy
- Resourcing
- Portfolio fit
- Go / No go

Conversion
- Win strategy
- Team selection
- Executive sponsorship
- Sector expertise
- Project brief

Product Design & Cost Planning
- Sector expertise
- Consultant selection
- Design brief
- Cost plan
- Functional signoff

Delivery
- Construction management plan
- Production & program controls
- Functional reviews
- Projects in Delivery reporting
- Completion

Commissioning
- Operational testing
- System testing
- Authority approvals
- Occupancy
Risk Management Framework

Four key elements to risk management

1. Limits of authority
2. Contract Risk Limits
3. Contract Review
4. Project Conversion Process

Five contract types – in order of risk

1. Construction Management
2. Managing Contractor
3. Design and Construct (Two stage)
4. Design and Construct (One stage)
5. Design and Construct (PPP)

Specific risks that are managed

1. Parent Company Guarantees
2. Cap on Liability & Exclusions
3. Consequential Losses
4. Latent Conditions
5. Contamination
6. Delay, Milestones and LDs

Key Risk Assessment Criteria
Innovation & technology

Modular & Prefabrication
- Cross Laminated Timber
- Light weight steel
- Modular components

Supply Chain Management
- Digitisation
- Standardisation
- Partnering

Digital Technology & Strategic Procurement
- Computational techniques
- Virtual & augmented reality
- Digital engineering

Safety Systems
- Advanced installation
- Virtual superintendents
- Water management
Non Financial Pillars of Value

Health & Safety

• More than a 72 per cent reduction in critical incidents from 30 June 2015 to 30 June 2018
• Continued focus on:
  – Training to enhance the skills of front line supervisors
  – Screening of multi-storey projects
  – Interface with people and moving plant

Our Customers

• Customer focus has recorded significant improvements
• Measured customer satisfaction (CSAT) and advocacy (NPS)¹
  – 92 customers completed the survey
  – Results indicate the business outperforms in the categories of ‘What matters to customers’ and ‘What is expected by customers’
  – Customers are attracted to the business’ design capability and brand

Our People

• Flexibility and Inclusion:
  – Renewed culture that values, respects and actively fosters flexibility and inclusion
  – Five in Seven initiative – flexibility and work/life balance
• Diversity:
  – More than 50 per cent of 2017 and 2018 graduate intakes’ female
• Employee wellbeing:
  – Targeted mental health programs: Mates in Construction, mental health first aid training
  – Wellbeing days

Sustainability

• Environment:
  – More than 100 projects delivered for clients have achieved Green Star² ratings
  – Awarded highest possible third party² accreditation for the Sunshine Coast University Hospital, Australia’s largest six star green star rated building
• Social:
  – More than 800 Indigenous subcontractors have been inducted on our Defence projects
  – An Indigenous JV between PSG Holdings and Lendlease is delivering the $213m Bayinguwa Project at Garden Island, NSW

¹ Lendlease Building May 2018 Quantitative Customer Satisfaction Survey.
² Green Building Council of Australia.
Outlook

Well placed for continued success

• Strong track record of delivery:
  – c.$20b project revenue delivered over the last five years
  – Average EBITDA margin of 4 per cent over the last five years

• Leading project management, design and construction capability:
  – Integrated strategic offering with sector focused business units and national capability delivered regionally
  – Scale business offering flexibility and agility

• Critical component of the integrated model:
  – Delivery capability provides design excellence and certainty of outcome
  – Contribution to origination of integrated projects e.g. Barangaroo South, Victoria Harbour, Brisbane Showgrounds, Melbourne Quarter and Darling Harbour precinct
  – Future of urbanisation increasingly tied to precincts and hubs

• Strategically focused business:
  – Enhanced operating platform to lead innovation and disruption
  – Portfolio management framework provides disciplined origination and diversity
  – Industry leading risk management processes
# Historical financials

## Revenue ($b)

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>3.5</td>
<td>3.8</td>
<td>4.5</td>
<td>4.2</td>
<td>3.7</td>
</tr>
</tbody>
</table>

## Book to bill ratio

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
<td>0.9</td>
<td>1.2</td>
</tr>
</tbody>
</table>

## Backlog revenue ($b)

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>6.5</td>
<td>6.3</td>
<td>6.3</td>
<td>6.3</td>
<td>6.5</td>
</tr>
</tbody>
</table>

## New work secured ($b)

<table>
<thead>
<tr>
<th></th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>3.8</td>
<td>3.9</td>
<td>4.5</td>
<td>3.9</td>
<td>4.4</td>
</tr>
</tbody>
</table>
# Australia: Major Projects at 30 June 2018 – Building 1, 2

<table>
<thead>
<tr>
<th>Project</th>
<th>Location</th>
<th>Contract Value3 ($m)</th>
<th>Secured Date4</th>
<th>Completion Date4,5</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crown Sydney Hotel Resort</td>
<td>NSW</td>
<td>1,060.0</td>
<td>2015</td>
<td>2021</td>
<td>Hotel/Entertainment</td>
</tr>
<tr>
<td>New Air Combat Capability - RAAF Williamtown</td>
<td>NSW</td>
<td>847.3</td>
<td>2015</td>
<td>2019</td>
<td>Defence</td>
</tr>
<tr>
<td>Osborne Naval Shipbuilding Project (Surface Ships)</td>
<td>SA</td>
<td>448.2</td>
<td>2018</td>
<td>2020</td>
<td>Defence</td>
</tr>
<tr>
<td>New Air Combat Capability - RAAF Tindal</td>
<td>NT</td>
<td>429.5</td>
<td>2016</td>
<td>2021</td>
<td>Defence</td>
</tr>
<tr>
<td>HMAS Cerberus - Delivery Phase</td>
<td>VIC</td>
<td>426.8</td>
<td>2018</td>
<td>2026</td>
<td>Defence</td>
</tr>
<tr>
<td>AIR 7000 Phase 2B</td>
<td>SA</td>
<td>383.3</td>
<td>2016</td>
<td>2020</td>
<td>Defence</td>
</tr>
<tr>
<td>ADF Air Traffic Control Complex Infrastructure Project</td>
<td>National</td>
<td>352.3</td>
<td>2016</td>
<td>2020</td>
<td>Defence</td>
</tr>
<tr>
<td>Sunshine Plaza Redevelopment</td>
<td>QLD</td>
<td>308.5</td>
<td>2017</td>
<td>2019</td>
<td>Other</td>
</tr>
<tr>
<td>Carlton Connect Initiative</td>
<td>VIC</td>
<td>303.0</td>
<td>2018</td>
<td>2021</td>
<td>Other</td>
</tr>
<tr>
<td>Western Sydney Stadium</td>
<td>NSW</td>
<td>285.6</td>
<td>2017</td>
<td>2019</td>
<td>Hotel/Entertainment</td>
</tr>
<tr>
<td>60 Martin Place</td>
<td>NSW</td>
<td>278.1</td>
<td>2016</td>
<td>2020</td>
<td>Commercial</td>
</tr>
<tr>
<td>Melbourne Quarter - Two Melbourne Quarter</td>
<td>VIC</td>
<td>276.1</td>
<td>2018</td>
<td>2021</td>
<td>Commercial</td>
</tr>
<tr>
<td>Melbourne Quarter - East Tower</td>
<td>VIC</td>
<td>275.1</td>
<td>2018</td>
<td>2020</td>
<td>Residential</td>
</tr>
<tr>
<td>130 Lonsdale Street</td>
<td>VIC</td>
<td>274.5</td>
<td>2018</td>
<td>2020</td>
<td>Commercial</td>
</tr>
<tr>
<td>Darling Square - Darling North, Harbour Place and Trinity House (formerly North East Residential Plot)</td>
<td>NSW</td>
<td>272.9</td>
<td>2016</td>
<td>2019</td>
<td>Residential</td>
</tr>
<tr>
<td>Land 121 Stage 2 Unit Sustainment Facilities</td>
<td>National</td>
<td>253.1</td>
<td>2016</td>
<td>2020</td>
<td>Defence</td>
</tr>
<tr>
<td>Growler Airbourne Attack Facility Phase 1 &amp; 2 Project</td>
<td>QLD/NT</td>
<td>238.5</td>
<td>2016</td>
<td>2020</td>
<td>Defence</td>
</tr>
<tr>
<td>Australian National University Union Court Redevelopment</td>
<td>ACT</td>
<td>236.8</td>
<td>2018</td>
<td>2019</td>
<td>Social Infrastructure</td>
</tr>
<tr>
<td>Victoria Harbour - 839 Collins Street</td>
<td>VIC</td>
<td>235.0</td>
<td>2017</td>
<td>2019</td>
<td>Commercial</td>
</tr>
<tr>
<td>Gosford Hospital Redevelopment</td>
<td>NSW</td>
<td>225.9</td>
<td>2016</td>
<td>2020</td>
<td>Social Infrastructure</td>
</tr>
<tr>
<td>Rod Laver Arena</td>
<td>VIC</td>
<td>220.1</td>
<td>2016</td>
<td>2020</td>
<td>Hotel/Entertainment</td>
</tr>
<tr>
<td>Campbell Barracks Redevelopment Project</td>
<td>WA</td>
<td>216.9</td>
<td>2016</td>
<td>2020</td>
<td>Defence</td>
</tr>
<tr>
<td>Joan Kirner (formerly Western) Women's and Children's Hospital</td>
<td>VIC</td>
<td>209.2</td>
<td>2016</td>
<td>2019</td>
<td>Social Infrastructure</td>
</tr>
<tr>
<td>Darling Square - Darling Rise, Barker House and Arena (formerly South East Residential Plot)</td>
<td>NSW</td>
<td>194.5</td>
<td>2017</td>
<td>2019</td>
<td>Residential</td>
</tr>
<tr>
<td>BaptistCare SAHF</td>
<td>NSW</td>
<td>183.5</td>
<td>2017</td>
<td>2020</td>
<td>Residential</td>
</tr>
<tr>
<td>Melbourne Quarter - One Melbourne Quarter (formerly Commercial One)</td>
<td>VIC</td>
<td>175.0</td>
<td>2017</td>
<td>2019</td>
<td>Commercial</td>
</tr>
<tr>
<td>Goulburn Valley Hospital Redevelopment</td>
<td>VIC</td>
<td>149.4</td>
<td>2018</td>
<td>2021</td>
<td>Social Infrastructure</td>
</tr>
<tr>
<td>Delamere Air Weapons Range &amp; Growler Mobile Threat Training Emitter Project</td>
<td>NT</td>
<td>149.1</td>
<td>2017</td>
<td>2019</td>
<td>Defence</td>
</tr>
<tr>
<td>Victoria Harbour - Collins Wharf 1</td>
<td>VIC</td>
<td>141.1</td>
<td>2017</td>
<td>2019</td>
<td>Residential</td>
</tr>
<tr>
<td>South Coast Correctional Centre Nowra</td>
<td>NSW</td>
<td>124.0</td>
<td>2017</td>
<td>2019</td>
<td>Social Infrastructure</td>
</tr>
</tbody>
</table>

1. Disclosure of major projects is subject to client approval. This could impact the projects available for disclosure.
2. Backlog revenue as at 30 June 2018 for the projects listed totals $4.9b, representing 75% of total Australia Building backlog revenue.
3. Includes 100% of joint venture contract value, where applicable.
5. Based on expected completion date of underlying buildings, subject to change in delivery program.
Market trends

Construction outlook (real $b):

Key Commercial by sector

Retail  Office  Accommodation (mostly Hotels)

Forecast

FY13  FY15  FY17  FY19  FY21  FY23

Construction outlook (real $b):

Key Social by sector

Education  Ent & Rec  Health  Defence, Justice

Forecast

FY13  FY15  FY17  FY19  FY21  FY23

Construction outlook (real $b):

Key Commercial v. Key Social sectors

Key Commercial  Key Social

Forecast

FY13  FY15  FY17  FY19  FY21  FY23

Key materials – Annual Cost Changes:

Six Capital City Average

Reinforced Steel  Readymixed Concrete  Structural Timber  Clay Bricks

Forecast


Source: Lendlease Research, Australian Bureau of Statistics
Contract types

**Five typical contract types**

- **Construction Management (CM):** Contractor is the consultant to the client in the management of construction activities of the project. The time and cost of the project is typically not the risk of the contractor. The quality risk may also not be the risk of the contractor as the contractor may engage subcontractors as agent of the client.

- **Managing Contractor (MC):** Contractor manages the design and construction of the project. Typically cost risk is shared such that the contractor is entitled to fixed fees for P&S, project/design management, overhead and margin plus reimbursable subcontractor costs. Under some contracts the contractor may assume the risk of a guaranteed maximum price (GMP) or otherwise a form of painshare/gainshare. Contractor typically assumes time and quality risk.

- **Design and Construct (D&C):** Contractor designs and constructs the project in accordance with the customer’s project brief and typically assumes time, cost and quality risk with limited entitlements for relief. Three contract types: two stage; single stage and PPP.
  - **Two stage:** Fee is paid to manage the design to a stage to prepare a Lump Sum (LS) or a GMP offer which, if agreed, allows the contractor to proceed to stage 2 to design and construct the works.
  - **Single stage:** Preliminary design is completed by the client. Design and construction of the project agreed on either LS or GMP basis.
  - **PPP:** Design and construction of project in accordance with a performance specification based project brief for a LS.

**Distinction between GMP & LS:**

- Guaranteed maximum price (GMP): Fixed price where contractor bears risk if costs exceed the GMP but shares the benefit of the cost savings based upon an agreed formula.
- Lump sum (LS): Fixed price where contractor bears risk if costs exceed the price but keeps the full benefit of cost savings.
## Cost components of typical buildings

### Elements

- **Services**
- **Wall, floor and ceiling finishes**
- **Substructure / superstructure**
- **Supervision and wages**
- **Preliminaries**

### Composition of elements

- **Preliminaries**: plant, scaffold, offices, sheds, hoardings and fences
- **Supervision and wages**: insurances, wages and supervision
- **Substructure / superstructure**: excavation, foundations, piers, piles, ground floor structures, columns, floors, stairs, roof, external walls and windows, internal and external walls and doors
- **Wall, floor and ceiling finishes**: wall, floor, ceiling finishes, fixed and non fixed fitment items, cupboards, shelving, racks, furnishings
- **Services**: plumbing, mechanical, fire, electrical, vertical transportation

![Bar chart showing the composition of cost components for commercial and residential buildings.](chart)

**Source**: Lendlease
Cost escalation by state

**New South Wales**

![Graph showing cost escalation by state for New South Wales](image)

**Forecast**

Source: Lendlease Research, Australian Bureau of Statistics

**Victoria**

![Graph showing cost escalation by state for Victoria](image)

**Queensland**

![Graph showing cost escalation by state for Queensland](image)

**Western Australia**

![Graph showing cost escalation by state for Western Australia](image)

Source: Lendlease Research, Australian Bureau of Statistics
BARANGAROO SOUTH
AND CROWN SYDNEY
HOTEL RESORT SYDNEY,
NSW

Design and construction of the basement, infrastructure, commercial, residential and retail, along with the delivery of a new Crown Hotel Resort.
Design and construction of the Sydney Convention, Exhibition and Entertainment centre, apartments, public realm and new hotel.
Design and construction of a new 30,000 seat stadium, including new public domain and community spaces, landscaping and new car parking spaces.
THE NEW BENDIGO HOSPITAL BENDIGO, VIC

Design and construction of a new 372 bed hospital. Lendlease is a part of the Exemplar Health Consortia – Lendlease with Siemens, Capella Capital and Spotless.
ROD LAVER ARENA
REFURBISHMENT
MELBOURNE, VIC

Redeveloped with a new eastern entrance to the arena, automated retractable seating, a more efficient loading bay that will reduce the down time between concerts and better equipment rigging facilities so the arena can host bigger shows.
A vibrant commercial, residential and cultural destination, an integrated part of Melbourne’s CBD. Key features include 110,000sqm of commercial office space in three Collins Street towers, 1,600 apartments and 4,000sqm retail offering.
The new public tertiary teaching hospital opened at the end of 2016 with around 450 beds and will expand to 738 beds by 2021, with capacity to be expanded to 900 beds beyond that time if needed.
25 King is set to be the largest and tallest engineered timber office building in the world. With a strength akin to concrete and steel, the columns, beams and floors are constructed of glue laminate and Cross Laminated Timber.
Standing at six-storeys high and wrapped in 20 kilometres of sustainably sourced timber, The Exchange is Sydney’s architectural icon and a platform for innovation. Features a state of the art City of Sydney library, a new childcare facility, a ground floor market food hall, mezzanine restaurant, and rooftop restaurant and bar with sweeping views of Sydney’s skyline.
DEFENCE

10 projects across a national portfolio with a contract value of $3.7b.

We are averaging c.80% of local participation across our Defence projects nationally.
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