

# ASX ANNOUNCEMENT

18 November 2022

## **2022 Annual General Meeting – Chair and Global Chief Executive Officer Addresses**

In accordance with ASX Listing Rule 3.13, attached are the addresses to be given at the 2022 Annual General Meeting of shareholders of Lendlease Corporation Limited and General Meeting of Unitholders of Lendlease Trust (together Lendlease Group).

The meeting will be held in the Wesley Theatre, Wesley Conference Centre, 220 Pitt Street, Sydney and online today at 10:00am (AEDT). The addresses will be given by the Chairman and Global Chief Executive Officer.

**ENDS**

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***Authorised for lodgement by the Lendlease Group Disclosure Committee***

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## **ADDRESS BY THE LENDLEASE CHAIRMAN TO THE LENDLEASE ANNUAL GENERAL MEETING**

**Friday 18 November 2022**

Good morning and welcome to the Lendlease 2022 Annual General Meeting.

My name is Michael Ullmer and I am Chairman of the Lendlease Group.

It's wonderful to be able to hold this meeting in person again after two years in a virtual format.

We also recognise that not everyone is able to meet in person and for this reason, I am very pleased that we are able to offer a hybrid format to allow our securityholders to participate, ask questions and vote at this meeting virtually.

For those who have joined online, we are pleased that you have joined us today, and we have worked hard to ensure your experience runs smoothly. However, should you have any technical difficulties, please contact Computershare, the details of which can be found on the meeting platform, and a recording of the meeting will be available on our website following the meeting.

For people in the room, in the event of a fire or other safety incident, should the alarm sound, please follow the instructions of the safety wardens. If there is a need to adjourn the meeting, we will provide updates via the ASX platform and on our website.

This meeting is being held on the land of the Gadigal people of the Eora Nation. The Gadigal people are the traditional custodians of this land, and I extend my respect to their Elders past and present. I also acknowledge and pay my respects to any other First Nations peoples who are attending this meeting. Securityholders attending virtually may be doing so from other ancestral lands, and I also pay my respects to the traditional custodians of those lands and their elders past and present.

It is now my pleasure to introduce your Board of Directors.

- On my far right is Bob Welanetz
- Jane Hemstritch, Chair of our Nominations Committee, will retire at the conclusion of this meeting. I am pleased to report that Bob will succeed Jane as Chair of the Nominations Committee
- Phil Coffey, Chair of our Risk Committee



- Elizabeth Proust, Chair of the People and Culture Committee
- Tony Lombardo, Global Chief Executive Officer and Managing Director
- On my left, Wendy Lee, Company Secretary
- David Craig, Chair of our Audit Committee, and standing for re-election today
- Nicola Wakefield Evans, Chair of our Sustainability Committee, and also standing for re-election today; and
- Nick Collishaw who joined the Board during the year and is standing for election today.

Members of Lendlease's Leadership Team are either here in person or joining the meeting virtually.

Eileen Hoggett and Paul Rogers from KPMG, the Group's Auditor, are also here and available to answer any questions relating to the audit of the Group's financial statements.

Barry Azzopardi from our share registry, Computershare is in attendance and will act as returning officer.

I now confirm that a quorum is present and formally declare the meeting open.

Before we begin, our Company Secretary, Wendy Lee, will outline the procedure for asking questions and voting.

I now declare voting open on all items of business, so please submit your votes at any time. The poll will close at the end of the last item and the results of all resolutions will be lodged on the ASX following the conclusion of the meeting.

Before moving to the formal business of the meeting, Tony and I will address achievements over the last year, areas for improvement, and our outlook against the backdrop of a challenging geopolitical and economic environment.

First, some reflections on the progress we have made over the last three years.

On becoming Chair, my immediate priority was to lead the Board in a strategic review of the business, which resulted in the Engineering and Services businesses being deemed Non core. Plans were enacted to separate them from the Group, with both businesses now divested.

A comprehensive review of the Board's governance practices identified opportunities to enhance the effectiveness of Board processes. Changes were implemented to increase the focus of the Board on strategy, reputation, customer and our people.



We have transitioned the leadership of the organization, with Tony Lombardo appointed Global Chief Executive Officer in June 2021. Tony has overseen executive leadership changes and refreshed the Group's strategy and organisational structure.

Board renewal has been a focus, with three new directors, Bob Welanetz, Nick Collishaw, and more recently Margaret Lui strengthening the Board's experience in real estate investment and development. Our intent is to continue to refresh the Board with high calibre directors with deep experience in our core segments and geographies.

All these changes were taking place against the backdrop of the worst pandemic in more than a century. As an integrated real estate group operating in targeted gateway cities around the world, the impacts were particularly severe and extended to our people, our customers and other stakeholders, including our securityholders. Having said that, I am astonished at the capacity of our teams to deliver market leading products and services throughout this period, notwithstanding the massive challenges posed by COVID restrictions, supply chain constraints, and severe weather events.

At the same time, FY22 was also a year where significant actions were taken to reset our business for future growth. This involved resetting the strategies for a small number of Development projects to reflect the changed market environment, driving significant operational efficiencies through the organisation, and dealing with some legacy project issues.

This is a big agenda, but one that was necessary to set the business up for the future. But it resulted in a financial performance for FY22 that was disappointing.

### **Financial Performance**

Lendlease reported a Statutory Loss after Tax of \$99 million. This comprised a Core operating profit of \$276 million, a loss for Non operating items of \$333 million, and a Non core loss of \$42 million. While disappointing, the outcome reflects the challenging global operating environment and the decisions we flagged to the market in August 2021, that we would be resetting the Group for future growth and the refocus of our digital activities.

In light of the continued deterioration of economic indicators, I am pleased the team took the actions they did, but there is more to be done.

Core operating profit of \$276 million was down from \$377 million in the prior year, with lower Development segment earnings, in part due to lower income recognition from a revised approach to joint venture arrangements, more than offsetting a strong recovery in the Investments segment. Full year distributions of



16 cents per security reflects a payout ratio of 40 per cent on Core operating profit per security.

Our refreshed executive leadership team has simplified the business and created a leaner organisation. Redirecting capital and removing a significant amount of operating costs will assist in improving returns in future periods. Restructuring costs associated with these changes were \$342 million after tax and included allowances for employee redundancies and tenancy exit costs, and development impairments on a small number of underperforming projects. There was also an impairment of intangibles relating to our Digital investments of \$55 million after tax.

The Non core loss primarily reflects costs associated with the exit of the Services business.

The Group entered FY23 in a strong financial position with a healthy pipeline of work, cash and cash equivalents of \$1.3 billion and gearing of 7.3 per cent. The strength of our balance sheet positions the Group to grow the investments platform and increase development activity.

In recent months, the risks posed by the external environment foreshadowed in our Annual Report have manifested in the economic outlooks across our target cities. Projections of economic growth have been downgraded further and forecasts of more persistent inflation have put upward pressure on interest rates. Real estate markets are highly sensitive to these factors. As a consequence, we are seeing both a deferral of activity as clients pause and lower asset prices.

As outlined in the recent strategy update to the market, the returns for each of our operating segments in FY23 are now likely to be at the lower end of the ranges.

The distribution policy has been revised, with the payout ratio reduced to 30-50 per cent of Core operating profit, down from 40-60 per cent. While the distributions each period will be determined through Board deliberation, we expect nearer term distributions to be at the lower end of the range as we fund our planned growth.

We acknowledge it has been a difficult period for our securityholders, and our financial performance has not met your expectations. The Board believes the organisation has significant latent value, and is acutely aware that we must hold ourselves and management to account to translate this into sustainable financial returns. As a first step, restoring the Group's return on equity to the target range of 8-10 per cent from FY24 is, apart from health and safety, our most important objective.



## **FY22 Non Financial Performance**

From a non financial perspective, to achieve sustainable success, businesses must have a clear purpose aligned to a long term strategy for shared value creation. This is reflected in our purpose statement - creating places where communities thrive. Living our purpose means we help to create the best places for customers and the communities we serve, inspire our people, preserve our culture, and deliver sustainable growth for our securityholders.

### **Health and Safety**

The health and safety of our people, our sub contractors and the communities in which we operate remains our number one priority. We are deeply saddened by the fatality of a subcontractor in FY22 on one of our construction sites in New York, in an area under subcontractor management. More recently, there was a fatal incident involving a subcontractor at the 1 Java project in New York. Our sincere condolences are extended to the family and colleagues of the two men who lost their lives.

It is a sombre reminder of the importance of our focus on safety for all people who interact with our places. Eliminating incidents and injury remains at the forefront of our strategy and operating philosophy, and we will continue to strive for improvement.

Our safety culture, which is one of the strongest cultural markers amongst our people, is exemplified by the implementation of innovative solutions. For example, the improvements we have made to the perimeter screens on steel framed buildings, has set the industry standard in reducing the risk of falls from height for workers and materials.

Exceptional outcomes were achieved against some of the Group's key safety metrics in FY22. The Critical Incident Frequency Rate, Lost Time Injury Frequency Rate and the percentage of operations without a critical incident were all at their best ever levels. But the tragic fatalities remind us, that in an organisation that performs approximately 100 million hours worked per year, the loss of focus for a split second may have devastating consequences. Hence, we will endeavour to continually improve the safety environment.

### **Environmental and Social Sustainability**

Lendlease aspires to be a leader in driving industry transformation to limit global warming, create lasting social value, and embed our commitments to First Nations people in the way we work.



On climate change, our commitment to be a 1.5 degree aligned company is reflected in our targets of net zero carbon emissions for scope 1 and 2 by 2025, and absolute zero for scope 1, 2 and 3 by 2040.

Our goal is not only to eliminate the use of fossil fuels across our business, but also to help transform the real estate sector.

This year's initiatives include the use of renewable diesel, the design of all electric buildings, and the switch to 100 per cent renewable electricity for operating assets in Europe. We have also made progress on scope 3 emissions through various supply chain partnerships in areas such as low carbon steel and concrete, mass engineered timber, and recycled aluminium facades.

From a social sustainability perspective, we have created more than \$100 million of social value since launching our target of \$250 million by 2025 two years ago. This has been derived from 'shared value' partnerships over and above any individual project contractual requirement, that focus on creating measurable social value by addressing the needs of communities.

For decades, Lendlease has supported community-led initiatives to advance the self-determination of First Nations people.

For the past eight years, we have publicly supported constitutional reform, and in 2019 were one of 14 companies who came together to support the Uluru Statement from the Heart. We believe corporate Australia has a leadership role to play in raising awareness of what Voice, Treaty and Truth means to us all. It is my hope that Australians will support the call for truth-telling and a constitutionally enshrined Voice – which I believe, is essential for a reconciled nation.

Today there are only a handful of organisations in Australia with an Elevate Reconciliation Action Plan. We are proudly one of them. We have committed to delivering, specific targets for employment, procurement, and cultural learning. We have invested in partnerships and programs that revitalise First Nations languages and cultures, facilitated community-led solutions to reducing incarceration and supported First Nations businesses to grow.

This prioritisation of First Nations voices, languages and cultures is redefining the way we operate. And when it comes to our core purpose of creating places where communities thrive, we are strongly focused on ensuring First Nations voices are central to the placemaking and development process. We understand that Country is foundational to the way communities connect and thrive.

On a separate topic that is unfortunately becoming more prevalent in the turbulent world we live in; we will be releasing our 2022 Modern Slavery





Statement in the coming weeks. We are enhancing our modern slavery risk governance, launching a global supply chain management policy standard and rolling out awareness training.

### **Executive Reward Strategy**

As outlined in the 2021 Remuneration Report, significant changes were made to the Executive Reward Strategy with effect from FY22. These were strongly endorsed by securityholders at the 2021 AGM.

The changes to the 2021 Executive Reward Strategy were designed to improve the alignment of executive remuneration with securityholders and included: the removal of the restricted securities plan so as to increase the portion of remuneration which is performance based; increasing the weighting of financial components of the Short Term Award, along with simplifying the KPIs and deferring 50 per cent into equity; and simplifying the vesting schedules for the Long Term Award.

Remuneration outcomes relating to FY22 were determined by business performance while having regard to the difficult operating conditions. Although financial performance was below our Portfolio Management Framework targets, it was consistent with the expectations set for FY22. And importantly, established the platform to support the delivery of sustainable growth in the future.

Notwithstanding strong performance against scorecard KPIs, that were set based on the reset Operational Plan for FY22, the Board determined that a downward adjustment to STA outcomes should be made given the overall financial outcome. The Short Term Award for the Group CEO was 48 per cent of maximum, and ranged between 55 per cent and 61 per cent for other Key Management Personnel. We believe these remuneration outcomes for executives are appropriate, acknowledging the significant progress made on the five year roadmap.

There was no vesting of the 2020 Long Term Award that was tested this year, given the relative Total Securityholder Return and Return on Equity performance hurdles were not met. That marks the fourth consecutive year of nil vesting for the Long Term Award, demonstrating its alignment with the sub-par experience of securityholders.

### **Board Program and Renewal**

The Board program, in addition to its regular cadence of meetings in FY22, expanded to reflect the broader range of both operational and strategic issues which required oversight.





While some engagement activities were restricted by the pandemic, the Board was able to assess our Asian operations in person while other parts of the program were conducted virtually. This enabled the Board to engage in programs in all four operating regions – including site tours, both physical and virtual, project reviews, interactive employee roundtables, leadership discussions and engagement with external stakeholders.

The Board firmly believes these activities, in addition to our formal meetings, are critical for meaningful corporate governance.

The Board has a structured approach to director succession planning, and aims to deliver an appropriate mix of skills, experience and diversity in order to govern Lendlease in the best interests of all stakeholders.

After almost 11 years of service, Jane Hemstritch will retire from the Board at the conclusion of today's meeting. Jane has made a significant contribution during her tenure. She always comes to the table well prepared, asks penetrating questions, but in a constructive way, and provided strong support to management in her specialist domain. On behalf of the Board, I thank Jane for her commitment, hard work and dedicated service.

In September we announced the appointment of Margaret Lui to the Board as an independent Non Executive Director. Margaret will join the Board on 1 December 2022.

Based in Singapore, Margaret is the Chief Executive Officer and Executive Director of Azalea Asset Management which oversees a US\$10 billion portfolio.

Margaret's extensive investment management and international business experience makes her an outstanding addition to the Board, and we are delighted to have attracted someone of her calibre.

Nick Collishaw is seeking election today, and David Craig and Nicola Wakefield Evans are standing for re-election.

All three have the unanimous support of the Board and bring diverse skills and experiences which add to the quality of Board deliberations.

### **The Future**

FY22 was focused on resetting the organisation and rebuilding momentum to set the Group up with a clear pathway to meet its financial and operational targets from FY24 and beyond.



The further deterioration in the macroeconomic outlook is negatively impacting global real estate markets. As a result, the recovery in financial performance is expected to be more subdued than originally anticipated. Notwithstanding this, operating momentum into FY23 has improved.

We remain committed to our strategy and believe the underlying strength of our business will become apparent as global cities recover their economic momentum. The Group is evolving into an investments led organisation, with growth to be underpinned by converting already secured opportunities across our integrated real estate group. This gives us confidence that we are on track to achieve our target return on equity from FY24, and thus on the pathway to restore long term securityholder value.

Finally, I thank my Board colleagues and the entire Lendlease team for their continued dedication in negotiating an extremely difficult period for the Group.

Thank you.

I will now hand over to Tony.



## **ADDRESS BY THE LENDLEASE GLOBAL CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR TO THE LENDLEASE ANNUAL GENERAL MEETING**

Thank you, Michael, and good morning everyone.

I also acknowledge the Gadigal people of the Eora nation and pay my respects to their elders past and present.

Echoing the Chairman's earlier remarks, it's great to welcome everyone back to an in-person meeting. And I also welcome those joining online and via telephone.

I want to make it clear that I share the Chairman's disappointment with Lendlease's financial performance during FY22.

Undertaking a major reset of the Group in the midst of a global pandemic, a war in Ukraine and deteriorating economic conditions was never going to be a simple task. Nor was it a task that could be completed quickly. It is, however, a very necessary task. And one that I wholeheartedly believe will deliver more sustainable returns to you, our securityholders, from FY24.

In August last year we announced our five-year roadmap – Reset; Create; Thrive – to enhance the way we operate to deliver sustained performance. FY22 was the reset phase of this roadmap.

We are positioning Lendlease to be an investments led organisation with our integrated model – Investments, Development and Construction – being our point of difference. This means a greater proportion of Lendlease's financial returns should, over time, be composed of more predictable and recurrent earnings.

We are pursuing a disciplined product and sector strategy where we have the advantage of scale or deep capability across key real estate sectors: residential; workplace; retail; data centres, industrial; and social infrastructure.

Several portfolio divestments and adjustments, as well as the exit of the Non core businesses, formed part of this investments led transition and strengthened the Group's balance sheet.

We optimised our structure to create a more consistent operating model across our regions, as well as streamlining our Group functions. This has enabled our regions to focus on the execution of the strategy while freeing up our Group team to focus on portfolio management, capital allocation and risk management.



Our current portfolio comprises \$44b of Funds under management, \$30b of assets under management, a development pipeline of \$117b and Construction backlog revenue of \$10.5b.

The reset year for the Group was the predominant driver of the Statutory Loss after Tax of \$99 million with a Core operating Profit after Tax of \$276 million. Core operating earnings per security was 40.1 cents, representing a Return on Equity of 4.0 per cent.

The Investments segment performed strongly with returns exceeding targets on a recovery in investment portfolio income, higher management fees and part sale of the asset management income stream of the US Military Housing portfolio. Returns for the Development segment were below target. This was due to low completions of \$2.5b stemming from lower historical commencements dating back to FY19 and subsequently COVID, as well as the impact of the change in profit recognition on joint venture projects.

In Construction, cost pressures, including supply chain disruption and COVID related delays, more than offset various mitigating strategies. This put downward pressure on margins and earnings.

Notwithstanding a difficult year financially, progress was made in advancing several strategic priorities.

Funds under management grew 12 per cent to \$44 billion.

We established approximately \$11 billion of new investment partnerships that are expected to contribute to the acceleration in development activity and grow our funds under management. This included the Comcentre redevelopment in Singapore, a joint venture to develop the remaining office precinct at International Quarter London, and separate partnerships for Life Sciences in the US and Innovation districts in Asia.

Development Work in Progress, the lead indicator for development completions, climbed to a record \$18.4 billion.

Backlog revenue in Construction is healthy at \$10.5 billion.

As always, getting our people home safely each day remains our highest priority.

Echoing the Chairman's earlier comments, I extend my sincerest condolences to the families and colleagues of the two men who lost their lives.

Leadership in sustainability remains a strategic priority.



Our Mission Zero Roadmaps set out specific strategies across our operating segments.

For Investments, our Barangaroo office fund was recently named the world's most sustainable in the 2022 Global Real Estate Sustainability Benchmark, known as GRESB. This is an accolade a Lendlease fund has achieved for eight of the past nine years.

Further, in each of the four regions in which we operate – Australia, Asia, Europe and the Americas – at least one of our funds achieved a number one GRESB ranking.

In Development, we are increasing the number of all-electric developments in our portfolio, including at 1 Java Street, New York and La Cienega, Los Angeles. We have also raised \$1.2 billion across three green bonds to help fund our global pipeline of sustainable projects.

From a Construction perspective, we continue to collaborate with suppliers to progressively source and procure low embodied carbon materials.

Now to our outlook.

The near term operating environment has deteriorated.

As outlined during our recent strategy briefing, the FY23 result is being impacted by these more challenging macroeconomic conditions. Each of our operating segments are likely to be towards the lower end of the ranges we provided at the FY22 result.

Consistent with previous years, there is also likely to be a skew to the second half largely due to the timing of development completions.

To accelerate our transition to being an investments led company, we are reweighting our capital allocation towards the Investments segment.

The high quality and sustainable product created from our development pipeline is anticipated to remain the predominant driver of growth in Funds Under Management, which is targeted to be more than \$70b by FY26. In addition, we are continuing to progress external opportunities to grow Funds Under Management.

We remain on track to achieve development completions of \$8b per annum from FY24.



While we operate a capital light model in the Development segment, we believe there is scope to work our capital harder. That will involve bringing in investment partners earlier in the development process, including from day one when we secure new projects. Consequently, we are reducing the capital allocation to Development.

Our construction capability plays a critical role in the delivery of our urban projects as well as providing specialist capabilities to our external clients. We will continue to be selective by targeting specialist sectors and customers whose values align to ours, including our unrelenting focus on health and safety.

As a result of these changes to our portfolio management framework, we have narrowed the target range on our Return on Equity, our key financial KPI, to 8-10%, reflecting the ongoing shift in becoming investments led.

In summary, we are committed to restoring securityholder value – including achieving our FY24 Return on Equity target – without compromising our ‘safety first’ approach or our ethos of environmental and social sustainability.

I'll now hand back to the Chairman.