

## OVERVIEW

LaSalle Partners Incorporated ("LaSalle") is a leading vertically integrated global real estate services firm that provides leasing and management services, financial and corporate services and investment management services to corporations and other real estate owners and investors worldwide. LaSalle has grown by expanding both its client base and its range of services and products in anticipation of client needs. LaSalle completed its initial public offering ("Offering") on July 22, 1997, raising net proceeds of \$82.8 million which were used primarily to repay its long-term debt and related interest of \$63.5 million.

LaSalle has pursued a growth strategy that capitalizes on existing client relationships and emerging industry trends. Historically, the four key components of the growth strategy included expanding client relationships to increase the range of services currently provided in addition to developing new client relationships, broadening its international presence and selectively pursuing strategic acquisitions and co-investment opportunities.

During 1998, LaSalle generated nearly 50% of its fee based revenue from clients utilizing services from multiple business units. Additionally, LaSalle generated approximately 85% of its fee based revenue from clients it had previously served.

Since late 1994, LaSalle has completed the following strategic acquisitions: Alex. Brown Kleinwort Benson Realty Advisors Corporation, a real estate investment advisor, in November 1994; CIN Property Management, a London-based investment advisor, in October 1996; The Galbreath Company, a property and development management company, in April 1997; the project management business of Satulah Group Inc., a project management/facilities conversion company, in January 1998; and COMPASS Management and Leasing and certain of its affiliates, a property management and leasing, facility management and project management company with operations in the United States, United Kingdom, Australia and Brazil, in October 1998.

The acquisition of COMPASS, which was combined with LaSalle's Leasing and Management Services segment, created the largest real estate management services company in the United States, adding approximately 200 million square feet of property and facility management assignments to LaSalle's portfolio. LaSalle paid \$180.0 million in cash for the acquisition with provisions for an earnout payment of up to \$77.5 million over five years. The consideration, in addition to transaction costs of approximately \$3.2 million, were financed with a new \$175.0 million acquisition facility and borrowings on LaSalle's existing revolving credit facility. LaSalle anticipates that transition and integration costs related to the acquisition will total approximately \$10.3 million on an after-tax basis, of which \$5.2 million were incurred as of December 31, 1998, with the remainder anticipated to be incurred during the first half of 1999.

In October 1998, LaSalle and Jones Lang Wootton ("JLW") announced their intent to merge operations. JLW is an employee-owned international real estate services firm with approximately 4,000 employees and operations in 32 countries. The operations, headquartered in London, are managed geographically with four main regions in Europe, Asia, Australasia and the United States. JLW has a culture, long-term strategy and service capability which is compatible with that of LaSalle and includes approximately 280 million square feet under management and approximately \$6.3 billion in assets under management. LaSalle incurred merger related transition and integration costs during 1998 totaling \$.9 million on an after-tax basis. A proxy statement soliciting approval has been distributed to LaSalle's shareholders, and a special meeting has been set for March 10, 1999. If LaSalle shareholder approval is received and the other closing conditions are met, the transaction is expected to close shortly after the meeting.

LaSalle intends to continue to increase its level of co-investment with its investment management clients. This strategy should serve to grow the assets under management, generate returns on investment and create potential opportunities to provide services related to the acquisition, financing, property management, leasing and disposition of such investments. As of December 31, 1998, LaSalle had a total investment of \$53.0 million in 38 separate property or fund co-investments with additional capital commitments of \$6.7 million for future fundings of co-investments.

Included in the investments noted above is an \$18.8 million investment in LaSalle Hotel Properties (“LHO”), a real estate investment trust, which completed its initial public offering in April 1998. LHO was formed to own hotel properties and to continue and expand the hotel investment activities of LaSalle by investing particularly in upscale and luxury full service hotels located primarily in major business and urban, resort and convention markets. LaSalle provides advisory, acquisition and administrative services to LHO for which it receives a base advisory fee calculated as a percentage of net operating income, as well as performance fees based on growth in funds from operations on a per share basis. Such performance fees, if any, will be paid in the form of LHO common stock or units, at LaSalle’s option. LHO was formed with 10 hotels, nine of which LaSalle had a nominal co-investment in and acted as the investment advisor for. In accordance with the individual investment advisory agreements, LaSalle earned and received performance fees totaling \$15.2 million on the disposition of certain of the assets which were shared between LaSalle’s Investment Management and Investment Banking units. LaSalle contributed its ownership interests in the hotels as well as the related performance fees to LHO for an effective ownership interest of approximately 6.4%.

#### RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 1998 COMPARED WITH YEAR ENDED DECEMBER 31, 1997

##### Revenue

LaSalle’s total revenue, after elimination of intersegment revenue, grew \$76.7 million, or 35.5%, to \$304.5 million in 1998 from \$224.8 million in 1997. Increased revenues were driven in part, by the acquisitions of COMPASS, Satulah and Galbreath, as well as by the completion of the LHO initial public offering. In addition, growth was driven by strong capital flows into the U.S. real estate market, in spite of a market correction which occurred during the latter half of 1998, continued underlying demand for real estate by users across the spectrum of property types, and LaSalle’s ability to cross-market real estate services to its clients.

These increases were partially offset by a decline in property management, leasing and investment management fees from four of LaSalle’s multiple investor funds (“Commingled Funds”) formed by LaSalle in the 1980s. The decline is a result of the disposition of the funds’ assets, in accordance with the strategic plan. These asset dispositions were completed by December 1998. Revenue generated from these funds compared with total revenue was .8% for 1998 and 4.5% for 1997.

Revenue for LaSalle’s Leasing and Management Services segment, which represented 44.4% of LaSalle’s total revenue in 1998, increased \$49.5 million, or 57.2%, to \$136.1 million in 1998 from \$86.6 million in 1997. This increase was primarily due to the acquisitions of COMPASS, Satulah and Galbreath and, to a lesser extent, as a result of higher volumes of leasing activity, the addition of nine new facility services clients, new strategic alliance relationships formed by the Project Management business and a higher volume of projects being managed by the Development Services business. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously.

LaSalle's Financial and Corporate Services segment revenue, which represented 26.6% of LaSalle's total revenue in 1998, increased \$20.1 million, or 32.3%, to \$82.4 million in 1998 from \$62.3 million in 1997. This record revenue resulted from an increased transaction volume experienced by each of the segment's three business units. In addition, the Tenant Representation business generated approximately 82.2% of its revenues from strategic alliances with large corporations and professional firms and signed on seven new alliances during 1998. Total revenue generated from strategic alliances was up \$6.5 million over 1997 levels. The growth in revenue experienced by the Investment Banking business includes incentive fees of \$5.6 million related to the initial public offering of LHO. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously, in addition to the volatility in the capital markets during the latter half of 1998.

LaSalle Investment Management segment revenue, which represented 29.0% of LaSalle's total revenue in 1998, increased \$10.7 million, or 13.8%, to \$88.3 million in 1998 from \$77.6 million in 1997. The net gain in revenue was primarily attributable to performance fees generated on the disposition of certain assets under management in which LaSalle had a co-investment, including certain hotel properties in connection with the formation of LHO, and, to a lesser extent, to increased acquisition and advisory fees generated on international fund activity and a higher volume of activity performed by the securities business. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously, in addition to the transition of approximately \$1.0 billion in assets under management related to the CalPERS office portfolio to the client's new investment advisor during the third quarter of 1998 and the reduction in publicly traded REIT values during the latter half of 1998.

#### Operating Expense

LaSalle's operating expenses, after elimination of intersegment expenses, increased \$77.0 million, or 40.6%, to \$266.6 million in 1998 from \$189.7 million in 1997. Operating expenses include \$10.0 million in merger related non-recurring charges as a result of the COMPASS acquisition and the proposed merger with JLW. LaSalle's operating expenses, exclusive of these charges, totaled \$256.6 million and represented an increase of \$66.9 million, or 35.3%, over the prior year. As a percentage of total revenue, operating expenses, exclusive of the merger related charges, remained constant at approximately 84.3%.

Operating expenses for LaSalle's Leasing and Management Services segment increased \$48.1 million, or 61.1%, to \$126.7 million in 1998 from \$78.6 million in 1997. This increase was primarily a result of the COMPASS, Satulah and Galbreath acquisitions, including personnel and facility costs and the amortization of intangibles resulting from the acquisitions, higher compensation and benefit costs associated with increased staffing to support new business initiatives and incremental corporate infrastructure costs as a result of higher staffing levels and technology enhancements.

Operating expenses for the Financial and Corporate Services segment increased \$16.1 million, or 34.7%, to \$62.6 million in 1998 from \$46.4 million in 1997. The increase was primarily attributable to increased incentive compensation earned by the Investment Banking and Tenant Representation businesses, consistent with the increased levels of operating income generated, in addition to increased personnel and other operating costs associated with staffing levels necessary to support new business initiatives and the increased business activity.

Operating expenses for the LaSalle Investment Management segment increased \$3.5 million, or 5.2%, to \$69.7 million in 1998 from \$66.2 million in 1997. The increase was primarily a result of increased incentive compensation, consistent with the increased level of operating income generated, and, to a lesser extent, to costs associated with new business initiatives. These increases were partially offset as a result of a one-time reserve of \$1.5 million established in late 1997 related to the pending liquidation of a mid-1980 investment vehicle.

#### Operating Income

As a result of the factors noted above, LaSalle's operating income, including merger related non-recurring charges of \$10.0 million, increased \$2.7 million, or 7.7%, to \$37.8 million in 1998 from \$35.1 million in 1997. Exclusive of the merger related charges, LaSalle's operating income increased \$12.7 million, or 36.3%. As a percentage of total revenue, operating income, exclusive of merger related charges, remained constant at 15.6%.

#### Interest Expense

Interest expense increased \$.2 million, or 4.0%, to \$4.2 million in 1998 from \$4.0 million in 1997, principally as a result of the COMPASS acquisition and the resulting borrowings on the new acquisition facility and existing revolving credit facility, offset by the repayment of LaSalle's long-term debt from the net proceeds of the Offering and the subsequent repayment of outstanding debt under its working capital facility in July 1997.

#### Provision for Income Taxes

The provision for income taxes increased \$7.9 million to \$13.2 million in 1998 from \$5.3 million in 1997 as a result of LaSalle's conversion from partnership to corporate form in July 1997 and the resulting provision for income taxes at an effective tax rate of 39.3% in 1998 and 38.5% in 1997. This increase includes the effect of the recognition of a \$6.8 million tax benefit in July 1997, in accordance with SFAS No. 109, as a result of LaSalle recording a deferred tax asset arising from temporary differences between the book and tax basis of its consolidated assets and liabilities at the date of conversion to corporate form. In 1998, the provision for taxes includes a tax benefit of approximately \$3.9 million related to merger related charges.

#### Net Earnings

Net earnings, including merger related charges of \$6.1 million on an after-tax basis, decreased \$5.4 million, or 20.8% to \$20.5 million in 1998 from \$25.8 million in 1997. Exclusive of merger related charges, net earnings increased slightly to \$26.6 million. Net earnings, excluding merger related charges, represented 8.7% of total revenue compared to 11.5% in 1997. This decrease primarily reflects the increased tax provision in 1998 as a result of being a taxable entity for the entire year, and to a lesser extent, the impact of amortization of intangibles related to recent acquisitions.

YEAR ENDED DECEMBER 31, 1997 COMPARED WITH YEAR ENDED DECEMBER 31, 1996

#### Revenue

LaSalle's total revenue, after elimination of intersegment revenue, grew \$65.3 million, or 41.0%, to \$224.8 million in 1997 from \$159.5 million in 1996. Increased revenues were driven in part, by the acquisition of CIN and Galbreath, and also by three additional factors: the strong U.S. economy, increased inflow of capital to the real estate market, and LaSalle's ability to cross-market real estate services to its clients. The strong economy has led to job growth, which has fueled increased demand for real estate of all types. This increased demand has produced rising rental rates and higher investment returns for owners, thereby attracting investment capital to the market. The inflow of capital has led to a high level of transaction activity, including disposition, acquisition, and financing of real estate. LaSalle's ability to cross-market all of these services to its clients has augmented the increased revenue generated by higher activity levels.

These increases have been partially offset by a decline in property management, leasing and investment management fees from four of LaSalle's Commingled Funds discussed previously. Revenue generated from these funds compared with total revenue was 4.5% for 1997 and 10.8% for 1996.

Revenue for LaSalle's Leasing and Management Services segment, which represented 38.4% of LaSalle's total revenue in 1997, increased \$27.0 million, or 45.3%, to \$86.6 million in 1997 from \$59.6 million in 1996. This increase was primarily due to the acquisition of Galbreath with approximately 67.5 million square feet under management and, to a lesser extent, as a result of an increase in management and leasing fees generated from a net additional 5.6 million square feet under management for LaSalle, exclusive of the Galbreath portfolio. These increases were partially offset by a decline in revenue related to the sale of the Commingled Fund properties discussed previously.

LaSalle's Financial and Corporate Services segment revenue, which represented 27.1% of LaSalle's total revenue in 1997, increased \$18.4 million, or 41.9%, to \$62.3 million in 1997 from \$43.9 million in 1996. This record revenue resulted primarily from a \$12.7 million increase in revenue from LaSalle's Investment Banking business. A number of significant tenant representation transactions and a series of transactions generated from the unit's strategic alliances, including two of LaSalle's facility management clients, accounted for the majority of the \$4.7 million increase in tenant representation revenue. Approximately 81% of domestic tenant representation revenue in 1997 was generated from strategic alliances with large corporations or professional service firms.

LaSalle Investment Management segment revenue, which represented 34.5% of LaSalle's total revenue in 1997, increased \$20.4 million, or 35.6%, to \$77.6 million in 1997 from \$57.2 million in 1996. The net gain in revenue was primarily attributable to growth in LaSalle's European advisory business resulting from the CIN acquisition and to increased performance fees generated on the disposition of certain assets under management. These increases were partially offset by a decline in revenue from four of LaSalle's Commingled Funds discussed previously.

#### Operating Expense

LaSalle's operating expenses, after elimination of intersegment expenses, increased \$57.1 million, or 43.1%, to \$189.7 million in 1997 from \$132.6 million in 1996. As a percentage of total revenue, operating expenses increased to 84.4% in 1997 from 83.1% in 1996, primarily reflecting the impact of goodwill amortization associated with the recent acquisitions. All three of LaSalle's segments experienced higher levels of compensation and benefits associated with increased staffing and higher incentive compensation associated with LaSalle's increased operating income.

Operating expenses for LaSalle's Leasing and Management Services segment increased \$30.2 million, or 62.3%, to \$78.6 million in 1997 from \$48.4 million in 1996. This increase was primarily a result of increased compensation and benefit costs, the effects of the Galbreath acquisition — including personnel costs, amortization of intangibles resulting from the acquisition, and transition and integration costs — and increased corporate infrastructure costs as a result of higher staffing levels and technology enhancements.

Operating expenses for the Financial and Corporate Services segment increased \$13.0 million, or 38.8%, to \$46.4 million in 1997 from \$33.5 million in 1996. The increase was principally a result of increased incentive compensation earned by the Investment Banking and Tenant Representation businesses, consistent with the increased level of operating income generated. In addition, the segment experienced higher employment levels to meet the increased demand for services, and, to a lesser extent, increased corporate infrastructure costs related to higher staffing levels and technology enhancements.

Operating expenses for the LaSalle Investment Management segment increased \$14.4 million, or 27.8%, to \$66.2 million in 1997 from \$51.8 million in 1996. The increase was primarily a result of increased incentive compensation, consistent with the increased level of operating income generated, the effects of the CIN acquisition — including personnel costs and amortization of intangibles resulting from the acquisition — and, to lesser extents, to increased corporate infrastructure costs as a result of higher staffing levels and technology enhancements, and a one-time reserve of \$1.5 million established in late 1997 related to the pending liquidation of a mid-1980 investment vehicle. These increases were partially offset by a decrease in staffing levels from 1996 through unreplaced attrition and redeployment of resources to other segments, in addition to reduced employee relocation costs.

#### Operating Income

As a result of the factors noted above, LaSalle's operating income increased \$8.2 million, or 30.5%, to \$35.1 million in 1997 from \$26.9 million in 1996. As a percentage of total revenue, operating income decreased to 15.6% in 1997 from 16.9% in 1996, primarily as a result of increased amortization of intangible assets associated with the recent acquisitions.

#### Interest Expense

Interest expense decreased \$1.7 million, or 30.3%, to \$4.0 million in 1997 from \$5.7 million in 1996, principally as a result of the repayment of LaSalle's long-term debt from the net proceeds of the Offering and the subsequent repayment of outstanding debt under its working capital facility in July 1997.

#### Provision for Income Taxes

The provision for income taxes increased \$4.1 million to \$5.3 million in 1997 from \$1.2 million in 1996 as a result of LaSalle's conversion from partnership to corporate form in July 1997 and the resulting provision for income taxes at an effective tax rate of 38.5%. This increase was offset by the recognition of a \$6.8 million tax benefit, in accordance with SFAS No. 109, as a result of LaSalle recording a deferred tax asset arising from temporary differences between the book and tax basis of its consolidated assets and liabilities at the date of conversion to corporate form.

#### Net Earnings

Net earnings increased \$5.9 million, or 29.4%, to \$25.8 million in 1997 from \$20.0 million in 1996. Net earnings in 1997 represented 11.5% of total revenue, compared with 12.5% in the previous year as a result of increased tax expense related to the conversion of LaSalle to corporate form and the increased amortization expense related to intangible assets associated with the recent acquisitions.

#### Liquidity and Capital Resources

LaSalle meets its operating cash requirements primarily from operating activities. No one client accounted for more than 10% of total revenue in 1998, 1997 and 1996. During 1998, cash flows provided by operations totaled \$23.0 million, a decrease of \$17.6 million from 1997. This decrease is primarily attributable to the acquisition of COMPASS and the related increase in year-end trade receivable balances as compared to the prior year period, offset by an increase in accrued compensation in 1998. In 1997, cash flows provided by operating activities increased \$26.6 million over 1996 which was primarily attributable to strong second and third quarter earnings in 1997 with cash being collected in that year as compared to the strong fourth quarter generation of earnings experienced in prior years.

LaSalle continues to pursue co-investment opportunities with its investment management clients, for which the holding period typically ranges from three to seven years. Such co-investments are represented by non-controlling general partner and limited partner interests. In addition to its share of investment returns, LaSalle typically earns investment management fees, and in some cases, property management and leasing fees on these investments. The equity earnings from these co-investments have had a relatively small impact on LaSalle's current earnings and cash flow. However, LaSalle's increased participation as a principal in real estate investments could increase fluctuations in LaSalle's net earnings and cash flow as a result of the timing and magnitude of the gains or losses and potential incentive participation fees, if any, to be recognized on the disposition of the assets. In certain of these investments, LaSalle will not have complete discretion to control the timing of the disposition of such investments.

Net cash used in investing activities was \$239.1 million in 1998 compared with \$14.1 million for 1997 and \$32.5 million for 1996. The increase in funds used was primarily related to the acquisitions of COMPASS, for \$180.0 million in cash, and Satulah, for \$5.5 million in cash, in addition to a higher level of co-investment during 1998, including an \$18.8 million investment in LHO (net additional co-investment of \$15.2 million). Finally, LaSalle experienced increased net capital expenditures of \$9.3 million, primarily as a result of the continued implementation of a new property accounting and information system by its Leasing and Management Services segment and a new corporate accounting system, in addition to the on-going replacement of personal computers. The decrease in cash used in investing activities in 1997 compared to 1996 is principally a result of the acquisition of CIN in October 1996 for cash of \$15.7 million, and, to a lesser extent, expenditures on furniture and fixtures at LaSalle's new corporate headquarters in 1996. The decreases in cash used in investing activities were partially offset by an increase in funds used for co-investment of \$2.9 million.

Historically, LaSalle has financed its operations, acquisitions and co-investments with internally generated funds, ownership equity and borrowings under revolving credit facilities. In addition to LaSalle's existing five year unsecured revolving credit facility of \$150 million, in September 1998, LaSalle obtained a \$175 million credit facility (the "Acquisition Facility") which is to be used exclusively to finance the COMPASS acquisition. The new facility, which is placed with a syndicate of seven banks, has an initial term of one year with two six month extensions. The revolving credit facility is available for working capital, co-investment, and acquisitions. The facilities are guaranteed by certain of LaSalle's subsidiaries. LaSalle must maintain a certain level of consolidated net worth and ratio of funded debt to EBITDA, and must meet a minimum fixed charge coverage ratio. Additionally, LaSalle is restricted from, among other things, incurring certain levels of indebtedness to lenders outside of the facilities and disposing of a significant portion of its assets, and is subject to lender approval on certain levels of co-investment. The facilities bear variable rates of

interest based on market rates. The Acquisition Facility was fully drawn on December 31, 1998 and LaSalle had outstanding borrowings of \$27.9 million on its revolving credit facility. LaSalle's effective interest rate on its revolving credit facility was 6.0%, 6.7% and 6.9% for the years ended December 31, 1998, 1997 and 1996, respectively. LaSalle's effective interest rate on its Acquisition Facility was 6.1% during 1998.

Net cash provided by financing activities was \$202.4 million for 1998 compared with net cash used in financing activities of \$3.1 million in 1997. The change in financing cash flow was primarily a result of increased borrowing in 1998 to fund the acquisition of COMPASS and infrastructure investments. In 1997, LaSalle received net proceeds from the Offering of \$82.8 million, of which \$63.5 million was used to repay LaSalle's long-term notes payable and \$14.5 million was used to repay short-term indebtedness. LaSalle believes, based on current operating plans that cash generated from operations and available borrowings will be sufficient to meet its capital and liquidity requirements for the foreseeable future.

#### Disposition

On December 31, 1996, LaSalle completed the sale of its Construction Management business, which specialized in the interior build-out of office and retail space for tenants in the Chicago and Los Angeles markets, to a former member of LaSalle's management. The business was sold in exchange for a note of \$9.1 million of which \$8.5 million was outstanding at December 31, 1998. The note, which is secured by the current and future assets of the business, is due December 31, 2006. For financial reporting purposes, LaSalle has not treated the transaction as a divestiture. Principal and interest to be received under the note will be treated as a reserve, if necessary, for any anticipated financial exposure under the terms of the asset purchase agreement, with the remainder recognized as income when principal and interest payments are received. Income recognized during 1998 and 1997 totaled \$1.2 million and \$1.1 million, respectively, compared with \$1.3 million of revenue, reflected net of related expenses, in 1996.

#### Seasonality

Historically, LaSalle's revenue, operating income and net earnings in the first three calendar quarters are substantially lower than in the fourth quarter. This seasonality is due to a calendar year-end focus on the completion of transactions, which is consistent with the real estate industry generally. In addition, an increasing percentage of LaSalle's management contracts contain clauses providing for performance bonuses to be received if LaSalle's Leasing and Management Services segment achieves certain performance targets. Such incentive payments are generally earned in the fourth quarter. In contrast, the LaSalle Investment Management segment earns performance fees on client's returns on their real estate investments. Such performance fees are generally earned when the asset is disposed of, the timing of which LaSalle does not have complete discretion over. LaSalle's non-variable operating expenses, which are treated as expenses when incurred during the year, are relatively constant on a quarterly basis. Therefore, LaSalle typically sustains a loss in the first quarter of each calendar year, reports a small profit or loss in the second and third quarters and records a substantial majority of LaSalle's earnings in the fourth calendar quarter, barring the recognition of investment generated performance fees. Results in 1998 and 1997 were stronger in the second and third quarters compared with previous years as a result of performance fees recognized by the LaSalle Investment Management segment and the Investment Banking business as well as a higher level of transactions completed by the Tenant Representation and Investment Banking businesses as compared to prior years.

#### Inflation

LaSalle's operations are directly affected by various national and local economic conditions, including interest rates, the availability of credit to finance real estate transactions and the impact of tax laws. To date, LaSalle does not believe that general inflation has had a material impact on its operations, as revenue, commissions, and other variable costs related to revenue are primarily impacted by real estate supply and demand rather than general inflation.

#### OTHER MATTERS

##### Accounting Matters

In an attempt to align its operating results with those presented by similar companies within the industry, certain amounts have been reclassified in LaSalle's 1997 and 1996 revenue and operating expenses to reflect direct personnel cost reimbursements received on property or specific client assignments on a net, rather than a gross, basis. There was no effect on operating income or net earnings as historically reported.

Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("FASB 133") becomes effective for all fiscal quarters for fiscal years beginning after June 15, 1999 and is not expected to have a material impact on LaSalle's financial statements.

##### Year 2000 Issues

The "Year 2000 Issue" is the result of computer programs and systems having been designed and developed to use two digits, rather than four, to define the applicable year. As a result, these computer programs and systems may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, pay invoices or engage in similar normal business activities. LaSalle has defined five key phases in addressing the Year 2000 Issue: awareness, assessment, renovation, validation and implementation.

Under the guidance of a Year 2000 program team, whose strategy is supported by senior management, LaSalle has in place an awareness phase and will continue this phase through December 31, 1999 to maintain a heightened sense of awareness to the Year 2000 Issue. LaSalle conducts its business primarily with commercial software purchased from third-party vendors and has significantly upgraded its information systems capabilities over the last two years and is in the process of finalizing the roll-out of new property and client accounting systems. In conducting the assessment phase, LaSalle is reviewing the year 2000 compliance of these systems in addition to creating an inventory of all other applications, systems software and hardware including the related impact of the Year 2000 Issue. Completion of the assessment phase is anticipated to be in early 1999.

Renovation and validation efforts have commenced throughout the year 2000 program. As a result of the significant recent upgrades of the critical business systems, the renovation process of converting, replacing or eliminating selected platforms, applications, databases and utilities, as well as the validation process of testing and verifying, is on schedule for anticipated completion by mid-year 1999. The continuing implementation phase, which involves returning the tested systems to operational status and the development of contingency plans for critical business systems, is also anticipated to be completed by mid-year 1999.

Management expects that the cost of additional modifications to LaSalle's software to meet Year 2000 requirements will not be material. The total anticipated costs related to the phases previously discussed is currently projected to be approximately \$2.8 million, including approximately \$1.4 million of operating expenses associated with testing and other matters and \$1.4 million of capital expenditures, primarily representing system upgrades which provide operational benefits above and beyond Year 2000 compliance. LaSalle has incurred \$.5 million in operating expenses to date. Factors that could impact LaSalle's ability to make the necessary modifications or replacements include, but are not limited to, the availability and cost of trained personnel and the ability of such personnel to locate and correct all relevant computer codes. If such modifications are not completed on a timely basis or are more costly to implement than anticipated, LaSalle's business, financial condition or results of operations could be materially adversely affected.

The ability of third parties with whom LaSalle transacts business or companies that LaSalle may acquire to adequately address their Year 2000 issues is outside LaSalle's control. At this time, LaSalle is in the process of reviewing the Year 2000 compliance of its major suppliers and customers. There can be no assurance that the failure to adequately address Year 2000 issues will not have a material adverse effect on LaSalle's business, financial condition and results of operations.

Properties for which LaSalle provides management services rely on a variety of third party suppliers to provide critical operating services. These suppliers may utilize systems and embedded technologies to control the operation of building systems such as utilities, lighting, security, elevators, heating, ventilating and air conditioning systems. LaSalle is in the process of obtaining assurances from suppliers as to their Year 2000 compliance and preparing contingency plans, including the identification of alternative suppliers. LaSalle does not control these third party suppliers, and for some suppliers, such as utility companies, there may be no feasible alternative suppliers available. The failure to these suppliers' systems could have a material adverse effect on the operations of the affected property, and widespread failures could have a material adverse effect on LaSalle. Plans for a complete millennium period staffing and communication strategy are well under way to proactively address any concerns.

Although LaSalle is not aware of any threatened claims related to the Year 2000, LaSalle may become subject to litigation arising from such claims and, depending on the outcome, such litigation could have a material adverse effect on LaSalle. It is not clear whether LaSalle's insurance coverage would be adequate to offset these and other business risks related to the Year 2000.

#### **Pending Merger**

On October 22, 1998, LaSalle and JLW announced that they reached a definitive agreement to merge their operations. JLW, which is headquartered in London, provides a wide range of real estate advisory, transactional and asset management services to local, national and international clients in both the private and public sectors. JLW is an employee-owned company and has more than 4,000 employees located in 32 countries throughout Europe, Asia, North America and Australia. The transaction, which is principally structured as a share exchange, has been approved by LaSalle's Board of Directors and the Board of Directors of the JLW companies and the partnerships. Under the terms of the agreement, LaSalle will issue up to 14.3 million shares of common stock and approximately \$6.2 million in cash (collectively, the "Consideration"), subject to a closing net worth adjustment.

As a general matter, the accounting treatment for the Consideration will be dependent on whether the recipient of the Consideration is a direct or indirect owner of JLW prior to the merger. The accounting treatment will be further dependent on vesting and restrictions associated with the shares to be issued. Approximately 7.6 million shares, or 53% of the shares to be issued, and \$5.8 million in cash will be treated as purchase consideration under APB Opinion No. 16, "Business Combinations". The remaining 6.7 million shares, or 47%, and \$.4 million in cash will be treated as compensation expense in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees".

Of the shares subject to accounting under APB Opinion No. 25, 5.1 million shares will be treated as a fixed compensation award and 1.6 million shares will be treated as a variable compensation award. For the fixed award, the value of the shares issued will be based on the stock price on the date of issuance and will not be subject to change. For the variable award, the value of the shares will also initially be based on the stock price on the date of issuance; however, the value will be adjusted on a quarterly basis to reflect changes in the stock price until such time as the contingencies related to those shares are removed. All compensation expense is anticipated to be recognized by December 31, 2000.

Based on the average closing stock price of \$24.66 per share for the five day period that includes the two trading days immediately preceding, the trading day of, and the two trading days immediately following the date of substantial completion of negotiations regarding the principal financial terms of the merger with JLW (October 9, 1998) discounted at a rate of 20% to account for transferability restrictions applicable to such shares, the value of the shares subject to purchase accounting would be approximately \$186.9 million. This consideration, together with an anticipated cash payment of \$5.8 million and any capitalizable transaction costs, will be allocated to the identifiable assets and liabilities being acquired with any excess purchase price being allocated to goodwill and amortized to expense on a straight-line basis over an estimated useful life of 40 years. Based on a closing stock price of \$31.50, as reported on the New York Stock Exchange, Inc. composite tape on January 29, 1999 (a date just prior to the distribution of the LaSalle Partners Incorporated Proxy Statement in preparation for the March 10, 1999 special meeting), LaSalle expects to incur compensation expense associated with the issuance of shares totaling approximately \$117.3 million and \$93.4 million in the years ended December 31, 1999 and 2000, respectively, assuming that the JLW companies meet certain closing net worth requirements. Included in the total estimated compensation expense of \$210.7 million is expense of \$49.2 million which will be subject to fluctuation based on quarterly changes in the price of LaSalle's common stock. Management anticipates that this compensation expense, \$210.3 million of which represents a non-cash charge, will cause the combined entity to report operating losses for those periods.

The transaction has been approved by the LaSalle Board of Directors, the Boards of Directors of the JLW companies and partnerships, and the JLW shareholders and partners. Completion of the transaction is subject to approval by LaSalle's shareholders, regulatory and tax clearances, and other customary conditions. A proxy statement soliciting approval of the merger has been mailed to shareholders, and a special meeting has been scheduled for March 10, 1999. The transaction is expected to close in early 1999, however, there can be no assurance that the transaction will be completed.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest rate risk

LaSalle is exposed to interest rate changes primarily as a result of its lines of credit used to maintain liquidity and to fund capital expenditures, acquisitions and expansion of LaSalle's real estate investment portfolio and operations. LaSalle's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, LaSalle borrows primarily at variable rates and enters into derivative financial instruments such as interest rate swap agreements when appropriate. LaSalle does not enter into derivative or interest rate transactions for speculative purposes.

In September 1998, LaSalle obtained a \$175.0 million credit facility to finance the acquisition of COMPASS. This facility is placed with a syndicate of seven banks, has a one year term with two six-month extensions and bears a variable rate of interest based on market rates, which was 6.1% for 1998.

In November 1997, LaSalle replaced its \$70.0 million credit agreement, which consisted of a short-term revolving line of credit and a long-term facility, with a \$150.0 million, five year unsecured revolving credit facility. This facility bears variable rates of interest based on market rates which were 6.0%, 6.7% and 6.9% in 1998, 1997 and 1996, respectively. LaSalle is also required to pay a commitment fee of .15% per annum on the unused portion of the commitment.

As of December 31, 1998, the outstanding borrowings on the acquisition and revolving credit facilities were \$202.9 million. In addition, LaSalle entered into interest rate swap agreements with a notional amount of \$55.0 million providing for an average fixed interest rate of 4.73% through September 21, 1999. Such interest rate swap agreements had an approximate market value of \$188,000. The carrying value of the debt approximates its fair value.

### Foreign currency risk

LaSalle's functional currency is the U.S. dollar. LaSalle transacts business in various foreign currencies, primarily in Europe. On a limited basis, LaSalle enters into forward currency exchange contracts to manage currency risks and reduce its exposure resulting from fluctuations in the designated foreign currency associated with existing commitments, assets or liabilities. There were no forward exchange contracts in effect at December 31, 1998. LaSalle does not use foreign currency exchange contracts for trading purposes.

### Disclosure of limitations

As the information presented above includes only those exposures that exist as of December 31, 1998 and 1997, it does not consider those exposures or positions which could arise after that date. Moreover, because firm commitments are not presented, the information presented has limited predictive value. As a result, LaSalle's ultimate realized gain or loss with respect to interest rate and foreign currency fluctuations will depend on the exposures that arise during the period, LaSalle's hedging strategies at the time and interest and foreign currency rates.

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this filing and elsewhere (such as in reports, other filings with the Securities and Exchange Commission, press releases, presentations and communications by LaSalle or its management and written and oral statements) may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, achievements, plans and objectives of LaSalle to be materially different from any future results, performance, achievements, plans and objectives expressed or implied by such forward-looking statements. Such factors are discussed in (i) LaSalle's Registration Statement (No. 333-25741) under the caption "Risk Factors" and elsewhere, (ii) LaSalle's Annual Report on Form 10-K, for the year ended December 31, 1997 in Item 1. "Business," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (iii) LaSalle's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (iv) LaSalle's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (v) LaSalle's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, (vi) LaSalle's Current Report on Form 8-K, dated August 31, 1998, (vii) LaSalle's Current Report on Form 8-K, dated October 1, 1998, (viii) LaSalle's Current Report on Form 8-K, dated October 22, 1998 (filed October 22, 1998), (ix) LaSalle's Current Report on Form 8-K, dated October 22, 1998 (filed December 9, 1998), under the captions "The Transactions," "The Purchase Agreements," "JLW Management's Discussion and Analysis of Financial Condition and Results of Operations of the JLW Companies" and elsewhere, (x) LaSalle's Proxy Statement dated February 4, 1999 under the captions "Risk Factors," "The Transactions," "The Purchase Agreements," "JLW Management's Discussion and Analysis of Financial Condition and Results of Operations of the JLW Companies" and elsewhere, (xi) LaSalle's Current Report on Form 8-K, dated February 22, 1999 (filed February 24, 1999), and (xii) other reports filed by LaSalle with the United States Securities and Exchange Commission. LaSalle expressly disclaims any obligation or undertaking to update or revise any forward-looking statements to reflect any changes in events or circumstances or in LaSalle's expectations or results. Statements regarding parties other than LaSalle are based upon representations of such other parties.