

Lend Lease Corporation Limited

Annual Consolidated Financial Report June 2003

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

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Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

All figures in this announcement are expressed in Australian Dollars unless otherwise specified.

The following discussion and analysis is based on the Group's Consolidated Financial Statements as at 30 June 2003, and should be read in conjunction with those Financial Statements.

Overview

Introduction

Lend Lease operated through two core business platforms. Real Estate Investments (REI) and Real Estate Solutions (RES), providing a broad range of real estate services to clients across major global markets and sectors.

REI's principal business is that of real estate investment management and RES' principal business is the provision of property related services, including construction, project management, design, development, capital raising and in some cases the ongoing management of assets.

Lend Lease operates in 42 countries. Its principal operations are in Australia, the USA and the UK. Some of the key factors influencing the business are the state of investment and real estate markets, the level of construction activity, global economic conditions, interest rates, taxation, and regulatory legislation. However, because the Group's operations consist of providing diversified services to a broad range of clients in many geographic locations, no one factor, in management's opinion, determines the Group's financial condition or the profitability of its operations.

Segment Results Summary

The financial results for the year ended June 2003 are summarised below. The segment results of the operating businesses exclude financing costs (which are included in Group Treasury), Corporate overheads, Group restructuring costs, amortisation charges and the writedown of the REI businesses, which are separately disclosed.

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax ¹		Assets	
	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Real Estate Solutions								
Bovis Lend Lease	8,460.9	10,220.7	207.9	181.5	133.7	112.7	2,920.5	3,391.3
Integrated Development Businesses	704.7	1,084.8	46.8	70.4	31.6	40.6	821.6	706.7
Total Real Estate Solutions	9,165.6	11,305.5	254.7	251.9	165.3	153.3	3,742.1	4,098.0
Real Estate Investments								
Continuing operations	222.1	278.8	137.0	118.9	93.1	80.0	1,324.2	1,268.1
Discontinuing operations ²	625.8	740.9	78.3	73.5	60.0	60.8	1,663.5	2,590.7
Total Real Estate Investments	847.9	1,019.7	215.3	192.4	153.1	140.8	2,987.7	3,858.8
Total operating real Estate	10,013.5	12,325.2	470.0	444.3	318.4	294.1	6,729.8	7,956.8
Non core investments³	33.0	95.8	15.7	73.7	22.2	54.1	79.9	95.4
Corporate								
Net Corporate overheads	27.5	21.3	(54.1)	(30.4)	(13.3)	(40.8)		
Group amortisation								
Continuing operations			(47.4)	(44.4)	(47.4)	(44.4)		
Discontinuing operations			(27.9)	(37.5)	(27.9)	(37.5)		
Group Treasury	39.9	35.7	6.0	(14.6)	10.7	0.8	599.2	534.7
	67.4	57.0	(123.4)	(126.9)	(77.9)	(121.9)	599.2	534.7
Group restructuring costs			(47.3)		(32.5)			
Total Corporate	67.4	57.0	(170.7)	(126.9)	(110.4)	(121.9)	599.2	537.7
Total Group results before writedown of REI businesses⁴	10,113.9	12,478.0	315.0	391.1	230.2	226.3	7,408.9	8,586.9
Writedown of REI businesses			(882.0)		(945.0)			
Total Group	10,113.9	12,478.0	(567.0)	391.1	(714.8)	226.3	7,408.9	8,586.9

1 Operating profit/(loss) after tax is net of the amount attributable to outside equity interests of A\$6.9 million (June 2002 A\$12.5 million).

2 Discontinuing operations include those businesses which have been sold or are planned to be divested.

3 Non core investment income principally relates to the Group's investment in IBMGSA, Chelverton Group and THI plc. For the year ended June 2002, non core investments also included Westpac Banking Corporation.

4 Net contribution of discontinuing operations was A\$32.1 million after tax (2002 A\$23.3 million after tax).

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Overview continued

Segment Results Summary continued

Operating Profit After Tax

Operating profit after tax before the writedown of the REI businesses increased from A\$226.3 million for the year ended 30 June 2002 to A\$230.2 million for the year ended 30 June 2003.

The operating profit after tax of RES increased from A\$153.3 million in the year ended June 2002 to A\$165.3 million in the year ended June 2003 driven by strong growth in Bovis Lend Lease where operating profit after tax increased from A\$112.7 million in the year ended June 2002 to A\$133.7 million in the year ended June 2003, an increase of A\$21.0 million (19%). The Integrated Development Businesses (IDB) operating profit after tax declined by A\$9.0 million (22%) from A\$40.6 million in the year ended June 2002 to A\$31.6 million in the year ended June 2003. The decline in IDB's operating profit after tax was principally due to expensing costs associated with bidding for PFI projects in the UK, including the writeoff of A\$13.9 million after tax relating to the unsuccessful Allenby and Connaught bid and the writeoff of the Shell Centre project in London.

The operating profit after tax of REI increased 9% from A\$140.8 million in the year ended June 2002 to A\$153.1 million in the year ended June 2003. Operating profit after tax from continuing operations increased 18% due mainly to higher profit in Asia Pacific, principally attributable to a reduction in overheads.

The decline in operating profit after tax from the Group's non core investments from A\$54.1 million in the year ended June 2002 to A\$22.2 million in the year ended June 2003 is largely due to the year ended June 2002 including the final unwinding of the Westpac share hedge agreements, which contributed A\$28.2 million to profit after tax.

The loss in Corporate decreased from A\$121.9 million after tax in the year ended June 2002 to A\$110.4 million in the year ended June 2003 principally due to the reduction in net Corporate overheads of A\$27.5 million, the reduction in Group amortisation of A\$6.6 million, and an increase in Group Treasury profit after tax of A\$9.9 million, offset by A\$32.5 million of Group restructuring costs, the benefit of which will be realised in the June 2004 and future financial years.

Taxation – Effective Tax Rate

The effective tax rate on operating profit (excluding the writedown of REI businesses) was 24.7% in the year ended June 2003 compared to 38.9% in the prior financial year. The lower effective tax rate includes the reversal of an over provision of prior year tax of A\$13.1 million, while the June 2002 financial year included a charge for a prior year under provision of tax of A\$7.5 million.

Writedown of REI Businesses

During the year Lend Lease announced provisions of up to US\$600.0 million (A\$988.0 million) after tax to reflect the diminution in the carrying value of REI assets, primarily relating to the US Real Estate Investments (REI US) business. The provisions followed an extensive review of the global REI business that has resulted in the decision to sell or discontinue a number of businesses in the US, Europe and Asia. Ultimately the June 2003 results included a charge of US\$574.0 million (A\$945.0 million) which was allocated as follows:

	US\$m	A\$m
Goodwill	148	252
Management agreements	210	351
Future income tax benefits	38	63
Other assets	56	86
Restructuring provisions and transaction costs	122	193
	574	945

Other assets include the writedown of the Project Enterprise IT system of A\$41.2 million, fixed assets relating to businesses to be sold of A\$14.5 million and investments and other assets of A\$30.3 million. Restructuring provisions and transaction costs included redundancy and employee related costs of A\$55.1 million, provision for excess lease space and IT capacity of A\$44.0 million, costs associated with the wind down of the European REI business of A\$13.7 million and transaction costs of A\$17.8 million.

Discontinuing Operations

On 29 May 2003 Lend Lease announced its intention to exit certain REI businesses. These businesses have been classified as discontinued and include all US REI businesses, the Asia debt business and European non-retail REI businesses (including Global Fund but excluding Generali Lend Lease). For further details refer to the REI section of the MD&A.

Capital Management

On 29 May 2003 it was announced that the Group's dividend policy would be amended and that a share buyback program was to be implemented. The dividend payout ratio will be increased to between 60% and 80%, commencing with the final 2003 dividend to be paid in September 2003. The final 2003 dividend will not be franked and future dividends are expected to be unfranked for a period of time.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Overview continued

Capital Management continued

In June 2003 Lend Lease commenced execution of an on market buyback of its issued share capital and as at 30 June 2003 2.9 million shares (approximately 0.7% of issued capital) had been purchased at an average cost of A\$8.69 per share. The buyback was suspended on 6 August 2003 and is expected to recommence on 21 August 2003 pending announcement of the 2003 financial year results. As at 6 August 2003 2.9% of issued capital (12.7 million shares) had been repurchased at an average cost of A\$8.56 per share.

Revised Management Structure and Operating Cost Base

The Group's management structure has been reorganised on a regional basis. This has enabled the removal of the central REI and RES corporate management structures. Also during the year, in part as a response to weakening global economies, Lend Lease implemented a number of measures to reduce its overhead cost base. A one off cost of implementing these cost savings of A\$47.3 million before tax (A\$32.5 million after tax) was incurred in the year ended June 2003. The benefits from these initiatives will impact June 2004 and following financial years. This amount has been disclosed separately in the Corporate results.

Shareholders' Returns

		June 2003	June 2002	Increase/ (Decrease)	% Increase/ (Decrease)
EBITDA¹					
Excluding writedown of REI businesses	A\$m	473.7	593.2	(119.5)	(20.1)
Earnings per share (EPS)²					
Including writedown of REI businesses	cents	(163.1)	52.1	(215.2)	(413.1)
Excluding writedown of REI businesses	cents	52.5	52.1	0.4	0.8
Return on equity (ROE) for the financial year³					
Excluding writedown of REI businesses	%	6.5	6.1	0.4	6.6

1 EBITDA equals earnings before interest revenue, interest expense, income tax expense, depreciation and amortisation.

2 EPS calculation for June 2003 is derived using 438.5 million shares being the weighted average number of shares on issue during the year.

3 Represents the ratio of profit after tax to average shareholder equity.

While profit after tax increased by A\$3.9 million, EBITDA (excluding the writedown of REI businesses) decreased by A\$119.5 million. The following table provides a reconciliation of the variances in EBITDA and profit after tax.

	June 2003 A\$m	June 2002 A\$m	Increase/ (Decrease) A\$m
Net profit attributable to members of Lend Lease Corporation Limited¹	230.2	226.3	3.9
Profit attributable to outside equity interests	6.9	12.5	(5.6)
Depreciation/amortisation	132.3	151.4	(19.1)
Tax expense	77.9	152.3	(74.4)
Net interest	26.4	50.7	(24.3)
Total EBITDA¹	473.7	593.2	(119.5)

1 Excluding the writedown of REI businesses.

The decrease in EBITDA of A\$119.5 is mainly due to the Group restructuring costs (A\$47.3 million) and increased Corporate overheads for one off items (A\$20.4 million). In addition, the June 2002 year included the final Westpac hedge profit (A\$39.0 million). This was offset by decreased amortisation, tax expense and net interest costs, generating a A\$3.9 million increase in profit after tax in June 2003.

A comparison of ROE and EPS based on earnings both before and after amortisation is detailed below:

		June 2003		June 2002	
		Before Amortisation	After Amortisation	Before Amortisation	After Amortisation
Return on equity for the year excluding the writedown of REI businesses ¹	%	8.5	6.5	8.2	6.1
Earnings per share excluding the writedown of REI businesses	cents	71.3	52.5	75.0	52.1

1 ROE for the financial year before amortisation is calculated by adding back accumulated amortisation and the writedown of REI US businesses. Equity represents the average balance of equity for the year.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Overview continued

Shareholders' Returns continued

Excluding the impact of the writedown of REI businesses, EPS increased marginally to 52.5 cents for the year ended June 2003 from 52.1 cents for the year ended 2002 largely reflecting the small increase in operating profit after tax. The share buyback program which commenced in June had no material impact on EPS in the June 2003 financial year.

Excluding the impact of the writedown of REI businesses, ROE for the year ended June 2003 was 6.5% compared to 6.1% for the corresponding financial year. The increase in the ROE was principally due to a small increase in overall operating profit after tax in the year ended 30 June 2003 to A\$230.2 million (excluding the REI writedown) from A\$226.3 million for the prior financial year and the reduction in average shareholders equity from A\$3.7 billion in the year ended June 2002 to A\$3.5 billion in the year ended June 2003, principally due to the first writedown of the REI businesses at December 2002.

Prospects

The net operating profit after tax for the year ended June 2004 will be impacted by many factors, including the timing of the sale of discontinuing operations. Any delays in planned divestments beyond that currently anticipated, could adversely impact reported profit. Management expects growth in profits from continuing operations. The company expects to earn a net operating profit after tax in the range of A\$240 million to A\$250 million for the year ending June 2004. This outlook does not rely on contributions from the sale of any major assets or businesses. However, the future profit of Lend Lease will depend on a range of factors including the state of the global economy and property markets, competitor and regulatory pressures, further deployment of capital and other relevant factors that are not possible to predict with confidence.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES)

The RES business comprises Bovis Lend Lease (BLL) which provides construction, project management and design services and the Integrated Development Businesses (IDB) which provides capital raising, project design, development and asset management services.

Bovis Lend Lease

The principal activity of this business is that of construction and project management. BLL operates in 37 countries worldwide and is managed through three regions (Asia Pacific, Europe including the Middle East and Africa, and the Americas). In addition one global business unit, Global Markets Group, operates in the pharmaceutical sector.

Key Financial Results

	Revenue		Realised Gross Profit Margin		Operating Profit/(Loss) Before Tax		Operating Profit (Loss) After Tax	
	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Asia Pacific	1,326.7	1,355.3	110.6	109.0	41.1	45.4	23.5	27.4
Americas	4,292.6	5,572.9	205.5	208.1	94.5	89.5	56.5	51.9
Europe	1,916.7	2,478.8	209.4	188.1	83.3	64.7	60.3	44.8
Global Markets	924.9	813.7	57.7	40.9	16.9	9.4	12.7	7.4
Global Management					(27.9)	(27.5)	(19.3)	(18.8)
Total BLL	8,460.9	10,220.7	583.2	546.1	207.9	181.5	133.7	112.7

The prior year comparative numbers have been restated in that Actus Lend Lease in the Americas and Private Finance Initiative (PFI) projects in Europe are reported as part of the IDB and the micro-electronics business has been allocated from Global Markets to the regional BLL Businesses.

Revenue

BLL enters into a variety of contract types from 'Fee Services' contracts, where only the fee is recorded as revenue, to 'Construction Services' contracts, where the full value of the project (including third party costs) is recorded as revenue. For this reason, recorded revenues do not provide an accurate measure of the volume of work undertaken and the ratio of operating profit to revenue is not considered to be a useful measurement of profit margin.

Total revenues for the financial year ended June 2003 declined to A\$8.5 billion from A\$10.2 billion reported in the prior financial year. Excluding the impact of exchange rate movements of A\$0.7 billion, total revenue decreased by A\$1.0 billion mainly reflecting a change in the mix of contract types.

Operating Profit After Tax

BLL's operating profit after tax was A\$133.7 million for the financial year ended June 2003, a 19% increase on the year ended June 2002. Lend Lease uses forward exchange contracts to hedge a portion of projected revenues and expenses from foreign operations. The exchange gains or losses on hedge contracts that relate to the current financial year are applied to the results of the respective businesses. The effect is to record profit from foreign operations at the effective hedged exchange rate. Similarly, Realised GPM has been adjusted to reflect the effective hedge rate. BLL has significant UK Pounds Sterling and US Dollar earnings. The exchange rates used in the financial year ended June 2003 compared to those used in the prior financial year reflects the relative movement in effective hedge rates of the Australian Dollar against both these currencies. The movement between the two hedge rates increased operating profit after tax by A\$8.4 million for the year ended 30 June 2003. For further discussion on hedging policies refer to the Group Treasury section of the MD&A.

As noted on page 4 a charge of A\$47.3 million before tax has been recognised within Corporate in respect of the one off costs relating to the overhead repositioning exercise of which A\$33.7 million relates to BLL. The benefit from these initiatives will impact June 2004 and following financial years.

Asia Pacific

Operating profit after tax for the Asia Pacific business declined from A\$27.4 million in the year ended June 2002 to A\$23.5 million in the year ended June 2003, despite Realised GPM increasing by A\$1.6 million to A\$110.6 million. The year ended June 2002 included the recognition of profit of A\$4.8 million after tax from BLL projects carried out for Lend Lease companies, these projects having been sold to third parties during the year, and a profit from the sale of sundry assets (A\$1.8 million after tax). The profit from internal projects relates to the commercial and retail elements of the Newington project.

Americas

Operating profit after tax for the Americas increased from A\$51.9 million in the year ended June 2002 to A\$56.5 million in the year ended June 2003, an increase of A\$4.6 million of which A\$3.3 million was due to exchange rate movements. Realised GPM of A\$205.5 million was A\$2.6 million lower than for the year ended June 2002, primarily due to the prior year including a number of large projects such as the clean up of the World Trade Centre and the AOL Time Warner project. This decline in GPM was more than offset by overhead savings.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Bovis Lend Lease continued

Operating Profit After Tax continued

Europe

Operating profit after tax for the European business increased from A\$44.8 million in the year ended June 2002 to A\$60.3 million in the year ended June 2003, an increase of A\$15.5 million of which A\$5.1 million was due to exchange rate movements. Realised GPM increased from A\$188.1 million in the year ended June 2002 to A\$209.4 million in the year ended June 2003 principally due to large commercial projects in London such as BBC White City and Paternoster Square.

Global Markets

The Global Markets Group operates in the pharmaceutical sector. Operating profit after tax for the Global Markets business increased from A\$7.4 million in the year ended June 2002 to A\$12.7 million in the year ended June 2003. Realised GPM increased from A\$40.9 million to A\$57.7 million due to a number of large projects in the Asia region. The increase in Realised GPM was partly offset by increased overhead expenses as the Global Markets business invested in new countries.

Global Management

Global Management costs for the financial year reflect the expenses of the Global Executive Management Team and costs incurred on global projects such as IT systems and an international safety programme 'Incident and Injury Free'. Following the Group reorganisation along a regional basis, the RES Global Management structure, although separately reported in the 2003 financial year, has either been eliminated or merged into Lend Lease corporate or regional functions.

Profitability Ratio

As a result of the continued focus on overheads the profitability ratio for the year ended 30 June 2003 of 36% shows a strong improvement compared to 33% for the year ended 30 June 2002.

New Work Secured and Backlog GPM

New Work Secured is the value of GPM procured in the financial year. Backlog GPM is the expected GPM to be realised in future years from the total contracts committed at the end of a financial year. The following table provides a summary of New Work Secured for the financial year ended June 2003 and the Backlog GPM at that date.

	Opening Backlog GPM at June 2002 A\$m	Plus: Foreign Exchange Adjustment ¹ A\$m	Plus: New Work Secured (GPM) to June 2003 A\$m	Less: Realised GPM ² to June 2003 A\$m	Equals: Closing Backlog GPM at June 2003 A\$m
Asia Pacific	68.9		126.9	(110.6)	85.2
Americas	195.2	18.9	199.6	(205.5)	208.2
Europe	186.4	8.2	257.0	(209.4)	242.2
Global Markets	53.5	4.8	27.8	(57.7)	28.4
BLL Backlog	504.0	31.9	611.3	(583.2)	564.0
Actus Lend Lease ³	62.2	6.1	28.9	(42.5)	54.7
PFIs (Facilities Management) ³	30.2	1.3	12.3	(1.9)	41.9
Total secured Backlog GPM	596.4	39.3	652.5	(627.6)	660.6
Preferred Bidder but not reached Financial Close	111.8	4.9	95.7		212.4
Total Preferred Bidder and reached Financial Close	708.2	44.2	748.2	(627.6)	873.0

1 The foreign exchange adjustment arises due to the difference in hedged exchange rates used at June 2002 to those used at June 2003.

2 Realised GPM flows through to profit before tax.

3 The GPM from Actus Lend Lease and PFIs are reported as part of the IDB.

The BLL closing Backlog GPM was A\$564.0 million as at June 2003, an increase of 12% over the balance as at June 2002 of A\$504.0 million. The value of New Work Secured for the financial year ended June 2003 was A\$611.3 million, an 8% increase on the Work Secured in the year ended June 2002 of A\$565.2 million. In addition, BLL and Actus Lend Lease have further projects in Europe and the Americas which are designated Preferred Bidder. These projects are expected to contribute a further A\$212.4 million to Backlog GPM on the assumption they reach Financial Close.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Bovis Lend Lease continued

New Work Secured and Backlog GPM continued

The Backlog GPM as at June 2003 is expected to emerge or be realised over future reporting periods as follows:

	June 2004 %	June 2005 %	Post June 2005 %	Total %
Asia Pacific	67	21	12	100
Americas	62	30	8	100
Europe	49	23	28	100
Global Markets	83	8	9	100
Total BLL	58	24	18	100
Actus Lend Lease ¹	31	20	49	100
PFI's ¹	7	8	85	100
Total Actus Lend Lease and PFI's¹	21	15	64	100
Preferred Bidder but not reached Financial Close	14	20	66	100
Total Preferred Bidder and reached Financial Close	43	22	35	100

¹ The GPM from Actus Lend Lease and PFI's is reported as part of the IDB.

The Backlog GPM as at June 2003 is expected to emerge or be realised over future reporting periods as shown above. As at June 2003, 58% of BLL's Backlog is projected to be realised as profit in the year ending June 2004. The proportion of BLL secured Backlog GPM to be realised beyond a 12 month time frame increased from 38% at 30 June 2002 to 42% at 30 June 2003 which reflects an increase in long term projects such as the Single Living Accommodation Modernisation (SLAM) military project and PFI's in the UK.

Of the total BLL Backlog as at 30 June 2003, 58% is expected to be realised in the year ended June 2004. This GPM is expected to represent between 55% and 65% of Realised GPM for the year ending June 2004.

Performance Guarantees

Lend Lease provides performance guarantees to BLL clients in certain circumstances which usually relate to the guarantee that BLL will complete its obligations under its contracts with those clients. These guarantees have been provided in the ordinary course of business. The Directors do not believe that there is currently any material exposure to loss in relation to these guarantees.

BLL Definitions

Backlog Gross Profit Margin (Backlog GPM): represents the expected GPM to be earned for the balance of work to be completed under existing construction contracts (including ongoing facilities management). As construction contracts are progressively completed, Backlog GPM declines. As New Work is secured, Backlog GPM is replenished. Backlog GPM is translated to Australian Dollars using the current effective profit hedge rate.

Despite their long term nature, only ten years of Backlog GPM from facilities management contracts is recognised although a number of these contracts extend beyond 25 years.

Construction Services: BLL commits to the delivery of a completed project to the client, in accordance with negotiated time, cost and quality specifications. Typically, BLL enters into a fixed price contract, but may also be entitled to all or a share of any construction cost savings. Conversely, BLL has the risk of any cost overruns. These contracts may involve BLL undertaking some performance risk. Given the increased risk profile of such projects, a higher contract margin is typically negotiated.

Fee Services: BLL provides management services on construction projects for clients. Under a standard form of Fee Services contract, BLL has no contractual responsibility for the overall construction of a project. Fees negotiated for this type of contract usually have a lower margin (in respect of the total project value) than those received for Construction Services contracts, reflecting the lower level of risk.

Financial Close: This is the point at which the parties to a PFI project are irrevocably committed to the project through the execution of unconditional contracts. It is normally evidenced by the drawdown of funding for the project to commence development and construction activities.

New Work Secured – Gross Profit Margin (New Work Secured): represents the estimated total project profit margin to be earned by BLL from projects which were secured during a financial period. When a written offer and acceptance occurs, the New Work Secured becomes part of Backlog GPM.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Bovis Lend Lease continued

BLL Definitions continued

Preferred Bidder: This is the point in a PFI project when the public sector client formally notifies one bidder that it has been selected from the short list of service providers, and intends to negotiate the contract with the Preferred Bidder on an exclusive basis. While this notification is a non contractual arrangement, it does however confirm the client's intention to proceed to Financial Close.

Private Finance Initiative (PFI): A PFI is similar to a PPP, the key difference being that in a PPP a private sector entity has responsibility for the capital and running costs of the facility, whereas a PFI involves various responsibilities and risks relating to the procurement and operation of a facility being transferred to the private sector. The public sector pays for the facility and the associated services over a long term contract period.

Profitability Ratio: represents the ratio of profit before tax to Realised GPM.

Public Private Partnership (PPP): In a PPP arrangement the Government or Government authority retains ownership and responsibility for the capital and running costs of a facility, however, it relies on a single contractor to take responsibility for the integration and management for the entire design and construction chain.

Realised Gross Profit Margin (Realised GPM): represents total project revenue less direct project related costs such as payments to subcontractors and staff, site and other costs incurred by BLL that are directly attributable to the project. It does not include the allocation of any general (or indirect) overheads.

During project construction it is Lend Lease's policy not to recognise profit on projects other than to cover overheads until the outcome of the contracts can be reliably determined and they are at least 50% complete.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB)

IDB pursues integrated real estate opportunities providing a range of services to clients including capital raising, project design and development as well as the ongoing management of the assets.

Key Financial Results

	Operating Revenue		Operating (Loss)/Profit Before Tax		Operating (Loss)/Profit After Tax		Assets	
	June 2003 A\$m	June 2002 A\$m	June 2003 A\$m	June 2002 A\$m	June 2003 A\$m	June 2002 A\$m	June 2003 A\$m	June 2002 A\$m
Asia Pacific								
Delfin Lend Lease	274.1	183.6	62.3	30.5	43.2	21.5	283.2	270.0
Lend Lease Development	26.6	183.9	16.4	46.3	13.1	24.3	254.9	215.3
	300.7	367.5	78.7	76.8	56.3	45.8	538.1	485.3
Americas								
Actus Lend Lease	286.1	193.8	9.4	7.8	4.2	3.4	63.6	57.8
Other	4.3	0.8	(1.1)	(13.2)	(0.6)	(7.9)	11.7	15.3
	290.4	194.6	8.3	(5.4)	3.6	(4.5)	75.3	73.1
Europe								
PFI's	32.0	17.8	(33.3)	(5.2)	(24.2)	2.2	18.7	13.2
Other	81.6	504.9	6.8	9.4	5.4	0.5	189.5	135.1
	113.6	522.7	(26.5)	4.2	(18.8)	2.7	208.2	148.3
Global Management								
	704.7	1,084.8	46.8	70.4	31.6	40.6	821.6	706.7

Asia Pacific

Revenue

Revenue for the year ended June 2003 of A\$300.7 million (June 2002 A\$367.5 million) related to Delfin Lend Lease sales of A\$274.1 million (June 2002 A\$183.6 million) and Lend Lease Development sales of A\$26.6 million (June 2002 A\$183.9 million).

The increase in revenue attributable to Delfin Lend Lease is primarily due to the proceeds from the sale of Lend Lease's interest in the North Lakes project (A\$42.5 million) and a full years trading for Delfin Lend Lease which was acquired in August 2001.

Revenue from Lend Lease Development for the year ended June 2003 included Newington Precincts 1 and 3 which were equity accounted as Lend Lease only holds a 50% interest. Revenue from Lend Lease Development for the year ended June 2002 included Newington Precinct 2 (67% interest) and Precincts 4 and 5 (100% interest) which were consolidated.

Operating Profit After Tax

Operating profit after tax for the year ended June 2003 was A\$56.3 million compared to A\$45.8 million for the year ended June 2002. Delfin Lend Lease contributed A\$43.2 million (June 2002 A\$21.5 million), including A\$11.2 million profit after tax on the sale of the North Lakes project. Lend Lease Development, principally Jacksons Landing and Olympic Village/Newington, contributed A\$13.1 million (June 2002 A\$24.3 million). The decline in profit from Lend Lease Development is due to the timing of unit releases at Newington and Jacksons Landing.

Operating profit after tax of A\$24.3 million for Lend Lease Development in the year ended June 2002 included A\$7.5 million from the sale of Newington Industrial Park and Newington Retail Centre. Delfin Lend Lease contributed a profit of A\$21.5 million in the year ended June 2002, which comprised profits from Lend Lease's existing urban communities business, and the profits from Delfin Limited since its acquisition in August 2001.

Included in Lend Lease Development is Lend Lease's Asian operations which contributed an operating profit after tax of A\$3.9 million in the year ended June 2003 (June 2002 A\$3.5 million). The profit principally relates to the sale of previously written down assets. No development activity is currently being undertaken in Asia. The operating profit after tax for the financial year ended June 2002 also included a profit after tax of A\$2.2 million from the sale of equity in the Da Chang Water Treatment Plant.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Asia Pacific continued

Overview of Businesses

Delfin Lend Lease

The business is focused on the creation of large scale urban centres through community building and development. The emphasis is on sustainable social, environmental and economic solutions through planning, urban design and infrastructure provision. The developments are usually carried out in partnership with a landowner and where ever possible the payments for land are linked to the proceeds from the sale of land lots. This achieves a lower risk profile as the development and resulting cash flows can be phased according to market conditions.

The following table provides a summary of the Delfin Lend Lease projects.

	June 2003	June 2002
Number of projects	21	21
Number of residential lots settled during the year	3,782	4,183
Average price per lot sold	A\$96,800	A\$86,000
Sales Backlog (number of lots)	34,500	42,900

During the year Delfin Lend Lease sold its interest in the North Lakes project to its joint venture partner for consideration of A\$42.5 million, reducing Backlog by approximately 6,000 lots. This reduction in Backlog was partly offset by agreements with Boral Limited to undertake the Nelson Ridge project in Sydney, with approximately 1,500 lots and a mixed use site.

Lend Lease Development (LLD)

LLD is currently involved in three large development projects, two in Sydney and one in Melbourne. The two established projects, Jacksons Landing and Olympic Village/Newington, are mainly residential developments but include commercial, industrial and retail precincts. The development at Victoria Harbour in Melbourne is a waterfront regeneration project and will include residential, commercial and retail precincts. A further project, St Patrick's, is a smaller, premium residential project in Sydney.

A further two projects have been secured during the year ended June 2003, the Rouse Hill project in Sydney and the redevelopment of the Twin Waters Resort in South East Queensland. Including these additional projects, Lend Lease Development has a sales backlog of approximately 5,300 dwellings.

The key active projects are listed below:

Project	Investment/ Inventory at 30 June 2003 A\$m	Investment/ Inventory at 30 June 2002 A\$m	Expected Profit Emergence
Olympic Village/Newington, Sydney	12.6	8.0	Precincts 2, 4 and 5 completed, sold and profits recognised. Precincts 1 and 3 up to 2005.
Jacksons Landing, Sydney	79.5	86.0	Staged development up to 2007.
Victoria Harbour, Melbourne	17.9	11.5	Staged development over the next 20 years.
St Patricks, Sydney	4.4	14.3	Staged development over the next 5 years.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Asia Pacific continued

Overview of Businesses continued

Lend Lease Development (LLD) continued

Lend Lease Development has an interest in three other development led projects.

Project	Investment/ Inventory at 30 June 2003 A\$m	Investment/ Inventory at 30 June 2002 A\$m	Status
Fox Entertainment Precinct, Sydney	5.0	4.7	Continue to review options.
Darling Park III, Sydney	15.0	15.0	Continue to review options.
Hickson Road, Sydney	-	10.5	New office for Lend Lease in Sydney. Presold to Deutsche Office Trust.

Americas

Revenue

Revenue for the year ended June 2003 of A\$290.4 million (June 2002 A\$194.6 million) principally related to Actus Lend Lease. Revenue from Actus Lend Lease included the Fort Hood project of A\$148.6 million (June 2002 A\$65.7 million) which was under construction during the year and revenue from MILCON projects of A\$122.6 million (June 2002 A\$128.2 million).

Operating Profit/(Loss) After Tax

The operating profit after tax for the year ended June 2003 of A\$3.6 million is largely attributable to Actus Lend Lease which had an operating profit of A\$4.2 million, principally from the Fort Hood and Beaufort Parris Island projects. Actus Lend Lease's operating profit includes a charge of A\$8.3 million relating to the cost of bidding for new military housing projects.

The operating loss after tax for the financial year ended June 2002 of A\$4.5 million included a profit of A\$3.4 million from Actus Lend Lease offset by a loss of A\$7.9 million, principally related to overheads and the cost of pursuing project opportunities, including the San Francisco Piers project.

Overview of Businesses

Actus Lend Lease

The primary focus of Actus Lend Lease is the privatised Military Housing program for all branches of the US military. The current status of Actus Lend Lease projects is set out below.

Privatisation Projects

Base	Estimated Number of Units	Estimated Capital Spend ¹ (A\$m)	Status	Contract Length	Contract End Date
Fort Hood, Texas	5,900	470	Operational	50 years	2051
Beaufort Parris Island, South Carolina	1,700	250	Operational	50 years	2053
Fort Campbell, Kentucky	4,800	630	Preferred Bidder	50 years	2054
Army RCI, Hawaii	7,700	2,770	Preferred Bidder	50 years	2055
Total	20,100	4,120			

¹ Over the initial five years of the contract.

The Backlog GPM in respect of Actus Lend Lease's privatisation projects at June 2003 was A\$54.7 million and represents the GPM expected to be earned from Fort Hood and Beaufort Parris Island over the next ten years. Fort Campbell is expected to reach financial close during the 2004 financial year, which will further increase Backlog GPM. The Army RCI project in Hawaii, which was awarded Preferred Bidder status on 7 August 2003, is expected to reach financial close during the 2005 financial year, which will further increase Backlog GPM.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Americas continued

Overview of Businesses continued

Actus Lend Lease continued

Military Construction Projects (MILCON)

The US Government also procures construction services from Actus Lend Lease under the MILCON method. These projects are bid on a design and construction fixed price basis only. The projects do not involve any development project financing or facilities management of the site. The MILCON projects currently being carried out are set out below.

Base	Capital Spend (A\$m)	Status
Fort Campbell	29	Under construction
Ford Island	63	Under construction
Travis	49	Under construction
Fort Huachuca	17	Under construction
Lemoore	60	Under construction
Hickam/Bellows	37	Under construction
Total	255	

Piers Development Project, San Francisco

The main development project in North America is The Piers on the waterfront in San Francisco. Lend Lease currently holds a 52% interest in the San Francisco Cruise Terminal joint venture. This venture has an exclusive right to negotiate with the Port of San Francisco to develop Piers 30 – 32. The project will be a mixed use development with the condominium portion expected to commence during the June 2004 financial year. Capitalised costs of A\$11.7 million are included in inventory as at 30 June 2003.

Europe

Revenue

Revenue for the year ended June 2003 of A\$113.6 million principally related to facilities management on PFI contracts of A\$30.5 million and proceeds from the sale of the Tres Aguas shopping centre (A\$43.7 million).

Revenue of A\$522.7 million in the year ended June 2002 principally related to the sale of Touchwood, Solihull to the Lend Lease Retail Partnership (A\$481.9 million) and additional revenue recognised from the sale of Overgate, Dundee of A\$13.1 million due to additional space being let.

Operating Profit After Tax

The operating loss after tax for the year ended June 2003 was A\$18.8 million. The profit on the sale of the investment in the company that owned the Tres Aguas shopping centre of A\$12.7 million and further profit recognised from the sale of Touchwood, Solihull of A\$5.5 million was offset by the cost of pursuing new projects, principally PFIs, of A\$26.0 million (including A\$13.9 million relating to the unsuccessful bid for the Allenby & Connaught military project) and the provision against costs incurred on the Shell Centre in London of A\$10.5 million after tax.

The operating profit after tax for the year ended June 2002 of A\$2.7 million included the profit on the sale of Touchwood, Solihull of A\$24.1 million and a profit from the sale of Lend Lease's equity in the Calderdale PFI Hospital of A\$15.4 million, offset by overheads and the cost of pursuing new, principally PFI-related projects.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Europe continued

Overview of Businesses

Urban Regeneration

The European business is currently pursuing a number of urban regeneration schemes in the UK. The key project secured to date is Greenwich Peninsula.

Project		Investment Inventory at 30 June 2003 A\$m	Investment Inventory at 30 June 2002 A\$m	Expected Profit Emergence
Greenwich Peninsula, London	<ul style="list-style-type: none"> - RES in joint venture with Quintain Estates and English Partnerships, to regenerate approximately 190 acres of land at Greenwich Peninsula, East London, including the Millennium Dome. - Planning consent attained subject to negotiation of infrastructure for the site with local council. - The project is in accordance with Lend Lease's strategy of leveraging third party capital. Under the terms of the agreement IDB is able to manage the drawdown of land to coincide with demand. - The development agreement was signed in May 2002 and the first profit is expected to be recognised in the 2006 financial year. 	13.8	8.4	2006 - 2018

Retail and Other Projects

Lend Lease's ongoing development activities are structured to reduce risk by increasingly operating on a fee for work basis with incentive fees linked to increases in asset value. The key developments are as follows:

Project		Investment Inventory at 30 June 2003 A\$m	Investment Inventory at 30 June 2002 A\$m	Expected Profit Emergence
Tres Aguas / Carlos III Madrid	<ul style="list-style-type: none"> - Sale completed on 13 June 2003. - Gross proceeds of A\$43.7 million. - Profit after tax of A\$12.7 million. 	-	24.9	Sold
Chapelfield, Norwich	<ul style="list-style-type: none"> - Conditionally forward sold, with purchaser contributing A\$100.0 million during the year. - The second payment is expected to be made following practical completion, subject to the centre being 70% let by value and area. - The centre is currently 37% pre let by value and 52% let by area. 	163.1	76.0	2005/06
Shell Centre, London	<ul style="list-style-type: none"> - At December 2002, the planning application was refused by local council. - Investment of A\$12.2 million before tax has been fully provided for. - An appeal has been lodged and a decision is not expected until June 2004. 	-	12.2	Subject to appeal
Bluewater Valley, Kent	<ul style="list-style-type: none"> - Land adjacent to Bluewater shopping centre and development options are being evaluated. 	13.0	13.2	Subject to development plan

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Europe continued

Overview of Businesses continued

Private Finance Initiative and Public Private Partnerships (PFI and PPP)

Lend Lease is established as a major infrastructure supplier in the UK healthcare sector. BLL provides the construction services while the facilities management, equity management, cost of bidding and management of PFI projects is managed within IDB.

Lend Lease currently has eight UK and one Italian health PFI projects at Preferred Bidder status or beyond. Lend Lease also has four education PFI projects and two Government accommodation PFIs. Lend Lease is committed to further selective investment in PFI and PPP projects and is currently actively bidding for further projects in the health and military sectors.

The status of IDB's PFI and PPP projects as at 30 June 2003 are set out below:

	Construction Revenue A\$m	FM Revenue Backlog A\$m ¹	Current Status	End Date
PFI Projects				
Health				
Calderdale Hospital (UK)	224.5 ²	47.3	Operational	May 2031
Worcester Hospital (UK)	215.0 ²	94.8	Operational	Dec 2031
Hexham Hospital (UK)	71.8 ²	17.3	Operational	Apr 2033
Brescia Hospital (Italy)	40.3		Under construction	Jun 2021
Roehampton Hospital (UK)	134.4	4.7	Preferred Bidder	Jun 2033
Manchester (UK)	930.2	62.5	Preferred Bidder	Dec 2037
Havering (UK)	496.1	47.5	Preferred Bidder	Sep 2036
Leeds (UK)	475.5	119.4	Preferred Bidder	Mar 2037
Burnley (UK)	69.8	6.5	Preferred Bidder	Jun 2033
Education				
Newcastle Schools (UK)	116.5	40.6	Under construction	Mar 2029
Lincoln Schools (UK)	45.5	15.5	Under construction	Sep 2032
Lilian Baylis School (UK)	33.9	11.6	Under construction	Aug 2029
Cork Maritime (Ireland)	75.2	13.2	Under construction	Aug 2029
Other				
Treasury 1 (UK)	296.6 ²	59.2	Operational	Aug 2037
Treasury 2 (UK)	368.7	75.5	Under construction	Aug 2037
	3,594.0	615.6		
PPP Projects				
Military				
SLAM (UK) ^{3,4}	2,303.5		Under construction	
	5,897.5	615.6		

1 FM Backlog Revenue only for first 10 years. All PFI contracts run for 30-35 years.

2 Construction phase of these projects has been completed.

3 The Single Living Accommodation Modernisation (SLAM) project has no predetermined end date.

4 SLAM involves building, refurbishing and maintaining the living accommodation at military bases across the United Kingdom. The project is being delivered by Debut Services Limited (a joint venture between Bovis Lend Lease and Babcock SGI).

A key issue in the PFI market in the UK is the high cost associated with bidding for new projects due to the requirement for detailed design to be submitted as part of the bidding process. No costs associated with the bidding process were capitalised on Lend Lease's balance sheet as at 30 June 2003, unless Lend Lease or its consortium had been declared Preferred Bidder and was therefore in sole negotiation on the project. A total of A\$78.1 million of capitalised costs were carried on the balance sheet as at June 2003 in relation to projects where Lend Lease was the Preferred Bidder. The most significant projects, in terms of capitalised costs, are Havering Hospital (A\$33.0 million) and Manchester Hospital (A\$22.7 million), which are both expected to reach financial close by December 2003.

As the PFI model matures in the UK, it is anticipated, that the cost of bidding for new projects will be reduced, for example through the introduction of batched bidding.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI)

Strategic Review

On 29 May 2003, Lend Lease announced the finalisation of the REI strategic review. Lend Lease intends to simplify its strategy to one real estate services business, based on Bovis Lend Lease's presence around the world with selective specialisation in real estate development services and funds management in each of the major regions.

Accordingly, Lend Lease is exiting, over time, the North American real estate investments markets (both equity and debt) and real estate debt services, Asian debt markets including management of the International Distressed Debt Fund (IDDF) and other non performing loan servicing activities, certain components of the European real estate investments business and the Global Fund management advisory business.

Lend Lease remains committed to certain specialised regional real estate services and management businesses. In Australia and the Pacific it will continue to operate the asset and funds management businesses of GPT, APPF, Property Securities, various other investment funds and retail property management services but excluding the management of the Lend Lease US Office Trust. In Asia, it will manage APIC & APIC II and the retail property management businesses. In Europe, the business will essentially comprise the retail centre funds management and property management business (including the Lend Lease Retail Partnership, Lend Lease Overgate Partnership and the retail centres of Bluewater, Solihull and Overgate) and Generali Lend Lease (GLL).

As a result of the strategic review, Lend Lease announced writedowns totalling US\$600.0 million (approximately A\$988.0 million) after tax to reflect a diminution in carrying value and the cost of exiting those businesses. The actual final writedown reflected in the June 2003 Consolidated Financial Statements is US\$574.0 million (A\$945.0 million) after tax.

The following table details those businesses treated as discontinuing operations in the Group's Consolidated Financial Statements.

Entity/Business	Region	Purchaser/Intention	Effective Sale/Disposal date
US Equity Advisory	US	Morgan Stanley	Signed; consents outstanding
HCI	US	MuniMae	1 July 2003
CapMark	US	GMAC	14 July 2003
Asset Management – North America	US	GMAC	14 July 2003
Asset Management – Mexico	US	GMAC	To be determined
Debt Advisory	US	GMAC	Signed; consents outstanding
Program Lending	US	GMAC	29 July 2003
Lend Lease Hyperion JV	US	GMAC	12 August 2003
HFF	US	Management	17 June 2003
Cordia Senior Living	US	Management	30 June 2003
Winn Residential	US	Wind down	Not applicable
Lend Lease Rosen	US	Intended disposal	To be determined
Rosen Consulting	US	Intended disposal	To be determined
VEF series co-mingled fund platform	US	Intended disposal	To be determined
Lend Lease Mortgage Capital	US	Wachovia Corporation	Signed; consents outstanding
Structured Finance	US	Intended disposal	To be determined
Lend Lease Agri-Business	US	Intended disposal	To be determined
Lend Lease US Office Trust	Australia	Morgan Stanley	Signed; approval of LLUSOT Board required
Asia Debt	Asia	Intended disposal	To be determined
Global Fund Advisory	Global	Management	To be determined
Europe Non-Retail Equity	Europe	Wind down	Not applicable
Lend Lease Houlihan Rovers	Europe	Intended disposal	To be determined

Although no sales have been agreed or specific arrangements announced in respect of Lend Lease Rosen, Rosen Consulting, the VEF series co-mingled funds, Lend Lease Agri-Business, the Global Advisory business platform and the US REI co-investments, Lend Lease intends to exit these businesses and co-investments and, accordingly, they have been classified as discontinuing operations for the purposes of the Group's Consolidated Financial Statements.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Key Financial Results

The key financial results of the continuing and discontinuing operations are shown in the following table.

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Assets	
	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Continuing Operations								
Australia and Pacific	91.7	109.8	43.5	39.5	30.9	30.0	143.2	155.4
Asia	12.4	21.2	7.3	(2.9)	4.8	(4.4)	90.1	179.9
Europe	94.0	125.6	62.2	60.1	43.0	41.4	754.4	601.1
North America ¹	24.0	22.2	24.0	22.2	14.4	13.0	336.5	331.7
Total continuing operations	222.1	278.8	137.0	118.9	93.1	80.0	1,324.2	1,268.1
Discontinuing Operations								
Australia and Pacific	3.9	2.3	1.9	1.0	1.4	0.6	1.9	1.4
Asia	19.2	32.9	(15.1)	(2.0)	(13.2)	(2.2)	69.2	84.2
Europe	31.6	9.8	2.2	(10.4)	4.9	(9.5)	176.2	108.7
North America	571.1	695.9	94.6	84.9	69.6	71.9	1,416.2	2,396.4
Global management			(5.3)		(2.7)			
Total Discontinuing operations	625.8	740.9	78.3	73.5	60.0	60.8	1,663.5	2,590.7
Total Global REI	847.9	1,019.7	215.3	192.4	153.1	140.8	2,987.7	3,858.8

¹ Refers to investment income from King of Prussia.

Total REI operating profit after tax, excluding the writedown, increased 9% to A\$153.1 million for the year ended June 2003 compared to A\$140.8 million for June 2002.

Operating profit after tax from continuing operations increased A\$13.1 million (16%) to A\$93.1 million for the year ended June 2003 compared to A\$80.0 million for June 2002. The increase in profit was mainly due to improvements in Asia which were principally attributed to a net reduction in expenses as June 2002 included A\$9.5 million of expenses relating to the proposed JREIT joint venture with Tokyu.

Operating profit after tax from discontinuing operations decreased A\$0.8 million (1%) to A\$60.0 million for the year ended June 2003 compared to A\$60.8 million for June 2002.

Global Assets Under Management (AUM)

	Continuing Operations			June 2003 Total A\$b	Discontinuing Operations June 2003 A\$b	Total	
	Aust & Pacific A\$b	Asia US\$b	Europe - Retail £b			June 2003 A\$b	June 2002 A\$b
AUM at beginning of financial period²	10.7	0.6	1.7	16.2	69.9	86.1	92.1
Additions	2.0	0.4	0.1	3.0	11.3	14.3	11.5
Reductions	(1.5)	(0.4)		(2.2)	(7.9)	(10.1)	(9.7)
Net revaluations	0.4		0.1	0.7	0.2	0.9	(0.8)
Exchange gains/(loss) ¹				(0.3)	(8.9)	(9.2)	(7.0)
AUM at end of financial period	11.6	0.6	1.9	17.4	64.6	82.0	86.1
Period movement in AUM	%	8.4	0.0	11.8	7.4	(7.6)	(4.8)
AUM at end of financial period (excluding foreign currency impacts)	A\$b	11.6	1.2	4.9	17.7	73.5	91.2
Exchange gain/(loss) ¹			(0.2)	(0.1)	(0.3)	(8.9)	(9.2)
AUM at end of financial period	A\$b	11.6	1.0	4.8	17.4	64.6	86.1
Period movement in AUM (excluding currency changes)	%				9.2	5.2	5.9

¹ Exchange gains/(loss) arises from exchange rate movements in translating AUM in local currency between June 2002 and June 2003.

² Assets Under Management (AUM) – Equity: represents the gross market value of real estate assets managed in an advisory capacity on behalf of investors.

Assets Under Management (AUM) – Commercial Credit: represents the outstanding principal balance of commercial mortgage loans and mortgage backed securities where mortgage loans are actively managed in an advisory capacity on behalf of investors.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Global Assets Under Management (AUM) continued

Global AUM decreased by A\$4.1 billion (4.8%) to A\$82.0 billion for the year ended June 2003 compared to A\$86.1 billion at June 2002. Excluding the impact of currency changes, Global AUM increased 5.9% for the year ended June 2003 compared to June 2002.

AUM for continuing operations increased A\$1.2 billion (7.4%) to A\$17.4 billion for the year ended June 2003 compared to A\$16.2 billion for June 2002. Excluding the impact of currency changes, AUM for continuing operations increased 9.2% for the year ended June 2003 compared to June 2002.

	North America US\$b	Aust & Pacific A\$b	Discontinuing Operations		Global Fund US\$b	Total A\$b
			Asia US\$b	Europe £b		
AUM at beginning of financial period ²	38.4	1.1		0.2	0.5	69.9
Additions	5.3	0.2			1.2	11.3
Reduction	(4.5)			(0.1)		(7.9)
Net revaluations	0.1					0.2
Exchange gains/(loss) ¹						(8.9)
AUM at end of financial period	39.3	1.3	-	0.1	1.7	64.6
AUM at end of financial period	A\$b	69.0	1.3	-	0.2	73.5
Exchange gain/(loss) ¹		(8.5)			(0.4)	(8.9)
AUM at end of financial period	A\$b	60.5	1.3	-	0.2	64.6

¹ Exchange gains/(loss) arises from exchange rate movements in translating AUM in local currency between June 2002 and June 2003.

² Assets Under Management (AUM) – Equity: represents the gross market value of real estate assets managed in an advisory capacity on behalf of investors.

Assets Under Management (AUM) – Commercial Credit: represents the outstanding principal balance of commercial mortgage loans and mortgage backed securities where mortgage loans are actively managed in an advisory capacity on behalf of investors.

AUM for discontinuing operations decreased A\$5.3 billion (7.6%) to A\$64.6 billion at June 2003 compared to A\$69.9 billion at June 2002. Excluding the impact of currency changes, AUM for discontinuing operations increased 5.2% for the year ended June 2003 compared to June 2002.

Global Assets Under Resolution (AUR)

There are no assets under resolution in respect of continuing businesses.

Global Loans Under Servicing (LUS)

There are no loans under servicing in respect of continuing businesses.

Funds Investment Performance

The investment performance of continuing funds is reviewed in each of the regional business sections.

Global Management Costs

Global management costs reflect the expenses of the Global Executive Management Team and other external costs for the six month period to 31 December 2002. With the move to the regional organisational structure announced in February 2003, all costs associated with the former global REI management structure for the six months ended June 2003 have been included in the results of the North American discontinued operations.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America

The REI North America business consists broadly of real estate equity investment, real estate debt services and certain related real estate activities.

Real Estate Equity

The real estate equity investment management businesses engage in the raising of investor capital, the acquisition/disposition of real estate assets and the investment/asset management of real estate assets for clients. Lend Lease has announced the sale or intended disposal of its Real Estate Equity business.

Although no sale has been agreed or specific arrangements announced, Lend Lease continues to explore options to exit its investment in the VEF series (VEF), Lend Lease Rosen (LLR) and the Rosen Consulting Group (RCG) businesses. Accordingly, all Real Estate Equity businesses have been categorised as discontinuing operations in the Analysis of Results table on the following page.

Real Estate Debt

The real estate debt businesses raise investor capital, originate real estate loans, invest in real estate debt related products, manage real estate loans and service real estate loans for clients. Lend Lease has announced the sale or intended disposal of its Real Estate Debt and servicing businesses.

Although no sale has been agreed or specific arrangements announced, Lend Lease continues to explore options to exit its investment in Lend Lease Agri-Business (LLAG). Accordingly, all Real Estate Debt businesses have been categorised as discontinuing operations in the Analysis of Results table on the following page.

Co-Investments

Lend Lease is to exit its US co-investments over time. Accordingly, income earned on co-investments for the year ended June 2003 is categorised as discontinuing operations and constitute Investment income in the Analysis of Results table following. King of Prussia is included in continuing operations.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Analysis of Results

The results of REI's operations analysed between continuing and discontinuing operations are set out below:

	Continuing Operations		Discontinuing Operations		Total			
	June 2003 US\$m	June 2002 US\$m	June 2003 US\$m	June 2002 US\$m	June 2003		June 2002	
					US\$m	A\$m	US\$m	A\$m
Annuity Fees								
Asset management fees			100.6	97.8	100.6	171.4	97.8	188.1
Property management fees			2.0	2.6	2.0	3.4	2.6	5.0
Mortgage servicing revenue			65.5	70.1	65.5	111.6	70.1	134.8
Total annuity fees	-	-	168.1	170.5	168.1	286.4	170.5	327.9
Transaction Fees								
Acquisition/disposition fees			60.5	52.2	60.5	103.1	52.2	100.4
Origination fees			79.2	88.5	79.2	134.9	88.5	170.2
Incentive fees			8.1	9.6	8.1	13.8	9.6	18.5
Other fees and income			17.2	22.0	17.2	29.3	22.0	42.2
Total transaction fees	-	-	165.0	172.3	165.0	281.1	172.3	331.3
Total operational revenue	-	-	333.1	342.8	333.1	567.5	342.8	659.2
Business expenses			(274.1)	(283.5)	(274.1)	(466.9)	(283.5)	(545.2)
REI corporate overheads			(14.3)	(17.5)	(14.3)	(24.5)	(17.5)	(33.7)
Net operating income	-	-	44.7	41.8	44.7	76.1	41.8	80.3
Investment income	14.1	14.2	6.1	5.0	20.2	34.4	19.2	37.0
Equity accounted profits			1.4	4.9	1.4	2.4	4.9	9.4
Gain on sale of investments			1.1	2.4	1.1	1.9	2.4	4.6
Profit before tax	14.1	14.2	53.3	54.1	67.4	114.8	68.3	131.3
Profit/(loss) on FX hedge						3.8		(24.2)
Profit before tax (after FX hedge)	14.1	14.2	53.3	54.1	67.4	118.6	68.3	107.1
Income tax expense ¹	(5.9)	(5.9)	(12.5)	(7.7)	(18.4)	(32.5)	(13.6)	(21.4)
Profit after tax before minorities	8.2	8.3	40.8	46.4	49.0	86.1	54.7	85.7
Minority interests			(1.2)	(0.5)	(1.2)	(2.1)	(0.5)	(0.8)
Net profit after tax	8.2	8.3	39.6	45.9	47.8	84.0	54.2	84.9
Net profit after tax	A\$m	13.0	69.6	71.9				

¹ Income tax expense in A\$m is net of the tax benefit on the profit/(loss) on the foreign exchange hedge.

Net operating income increased US\$2.9 million to US\$44.7 million for the year ended June 2003 compared to US\$41.8 million for June 2002. The increase was primarily due to lower expenses (US\$12.6 million) offset by reductions in total annuity fees (US\$2.4 million) and total transactions fees (US\$7.3 million).

Total profit before tax decreased US\$0.9 million to US\$67.4 million for the year ended June 2003 compared to US\$68.3 million for June 2002. The increase in net operating income noted above was offset by lower equity accounted profits (US\$3.5 million) and lower gains on sales of investments (US\$1.3 million) for the year ended June 2003 compared to June 2002. On 1 August 2002, Lend Lease increased its ownership stake in Lend Lease Rosen from 50% to 74.9% and then subsequently to 77.5% on 15 October 2002. Equity accounted profits from Lend Lease Rosen were therefore transferred to operating profit from 1 August 2002, as they were included on a consolidated basis rather than an equity accounted basis.

Total profit after tax decreased US\$6.4 million to US\$47.8 million for the year ended June 2003 compared to US\$54.2 million for June 2002. This reduction was primarily due to an increase in the effective tax rate due to tax benefits on amortisation of certain intangibles no longer being taken to account.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations

Discontinuing operations include all the former Investment Management – Equity businesses (including VEF, LLR and RCG), HCI, all the Commercial Credit businesses, HFF and investment income earned on co-investments (excluding King of Prussia).

Analysis of Result

The analysis of the results of REI's discontinuing operations for the year ended 30 June 2003 are set out below:

	Year Ended June 2003						Year Ended June 2002					
	Invest Mgt - Equity US\$m	HCI US\$m	Commercial Credit US\$m	HFF US\$m	Total US\$m	Total A\$m	Invest Mgt - Equity US\$m	HCI US\$m	Commercial Credit US\$m	HFF US\$m	Total US\$m	Total A\$m
Annuity Fees												
Asset management/advisory fees	76.2	14.3	10.1		100.6	171.4	75.7	11.0	11.1		97.8	188.1
Property management fees	2.0				2.0	3.4	2.6				2.6	5.0
Mortgage servicing revenue			59.9	5.6	65.5	111.6			64.9	5.2	70.1	134.8
Total annuity fees	78.2	14.3	70.0	5.6	168.1	286.4	78.3	11.0	76.0	5.2	170.5	327.9
Transaction Fees												
Acquisition/disposition fees	14.8	26.1	1.8	17.8	60.5	103.1	25.8	26.1	0.3		52.2	100.4
Origination fees			17.4	61.8	79.2	134.9			20.7	67.8	88.5	170.2
Incentive fees	5.4	1.2	1.5		8.1	13.8	7.6	1.3	0.7		9.6	18.5
Other fees and income	8.9	4.7	3.6		17.2	29.3	11.3	4.9	5.8		22.0	42.2
Total transaction fees	29.1	32.0	24.3	79.6	165.0	281.1	44.7	32.3	27.5	67.8	172.3	331.3
Total operational revenue	107.3	46.3	94.3	85.2	333.1	567.5	123.0	43.3	103.5	73.0	342.8	659.2
Business expenses	(96.1)	(24.1)	(75.6)	(78.3)	(274.1)	(466.9)	(107.3)	(21.5)	(78.3)	(76.4)	(283.5)	(545.2)
REI corporate overheads					(14.3)	(24.5)					(17.5)	(33.7)
Net operating income	11.2	22.2	18.7	6.9	44.7	76.1	15.7	21.8	25.2	(3.4)	41.8	80.3
Investment income					6.1	10.3					5.0	9.7
Equity accounted profits					1.4	2.4					4.9	9.4
Gain on sale of investments					1.1	1.9					2.4	4.6
Profit before tax					53.3	90.7					54.1	104.0
Profit/(loss) on FX hedge					-	3.0					-	(19.2)
Profit before tax (after FX hedge)					53.3	93.7					54.1	84.8
Income tax expense ¹					(12.5)	(22.0)					(7.7)	(12.1)
Profit after tax before minorities					40.8	71.7					46.4	72.7
Minority interests					(1.2)	(2.1)					(0.5)	(0.8)
Net profit after tax					39.6	69.6					45.9	71.9

¹ Income tax expense in A\$m is net of the tax benefit on the profit/(loss) foreign exchange hedge.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations continued

Analysis of Results continued

Profit before tax from discontinuing operations decreased US\$0.8 million to US\$53.3 million for the year ended June 2003 compared to US\$54.1 million for June 2002. The result for the year ended June 2003 included declines in net operating income for Investment Management – Equity (US\$4.5 million) and Commercial Credit (US\$6.5 million), offset by increases in net operating income for HCI (US\$0.4 million) and HFF (US\$10.3 million) and reduced REI Corporate overhead expense (US\$3.2 million). Analysis of net operating income for each of the discontinued operations is shown below.

Profit after tax from discontinuing operations decreased US\$6.3 million to US\$39.6 million for the year ended June 2003 compared to US\$45.9 million for June 2002. The decrease was primarily due to lower tax benefits recognised from the tax treatment for amortisation of certain intangible assets. This increased the effective tax rate to 23% for the year ended June 2003 compared to 14% for June 2002.

Assets Under Management (AUM)

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at June 2003 US\$b
Investment Management - Equity	16.1	1.1	(2.9)	0.1	14.4
Real Estate Securities	1.0	1.0	(0.1)		1.9
HCI	8.6	1.2	(0.2)		9.6
Commercial Credit	12.7	2.0	(1.3)		13.4
Total discontinuing operations AUM	38.4	5.3	(4.5)	0.1	39.3
Period movement in AUM	%				2.3

AUM for discontinuing operations increased US\$0.9 billion (2%) to US\$39.3 billion for the year ended June 2003 compared to US\$38.4 billion at June 2002. Movements in AUM for the year ended June 2003 included net increases in AUM of US\$0.9 billion for Real Estate Securities, US\$1.0 billion for HCI and US\$0.7 billion for Commercial Credit, offset by a reduction of US\$1.7 billion for Investment Management - Equity.

Analysis of Net Operating Income by Business Unit

Investment Management - Equity

Net operating income decreased US\$4.5 million to US\$11.2 million for the year ended June 2003 compared to US\$15.7 million for June 2002. The decrease was largely attributable to decreased acquisition and disposition fees (US\$11.0 million), lower incentive fees earned (US\$2.2 million) and lower financing and other income (US\$2.4 million) offset by lower operating expenses (US\$11.2 million).

Net Operating Income - VEF series, Lend Lease Rosen and Rosen Consulting

Lend Lease continues to explore options to exit its investment in the VEF series (VEF), Lend Lease Rosen (LLR) and the Rosen Consulting Group (RCG) businesses, although no contracted disposal or specific arrangements have been announced to date. Included in the analysis above are the operating results of the VEF series, LLR and RCG.

Key movements in the net operating income of these businesses are analysed on the following page.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations continued

Analysis of Net Operating Income by Business Unit continued

Net Operating Income - VEF Series, Lend Lease Rosen and Rosen Consulting continued

Analysis of Result

	Year ended June 2003				Year ended June 2002			
	VEF Series US\$m	LL Rosen US\$m	Rosen Consulting US\$m	Total US\$m	VEF Series US\$m	LL Rosen ¹ US\$m	Rosen Consulting US\$m	Total US\$m
Annuity Fees								
Asset management/advisory fees	8.4	9.7	-	18.1	7.5	-	-	7.5
Total annuity fees	8.4	9.7	-	18.1	7.5	-	-	7.5
Transaction Fees								
Acquisition/disposition fees	0.4	-	-	0.4	0.7	-	-	0.7
Incentive fees	-	0.1	-	0.1	-	-	-	-
Other fees and income	0.1	-	4.3	4.4	1.1	-	4.6	5.7
Total transaction fees	0.5	0.1	4.3	4.9	1.8	-	4.6	6.4
Total operational revenue	8.9	9.8	4.3	23.0	9.3	-	4.6	13.9
Expenses	-	-	-	(16.9)	-	-	-	(11.4)
Net operating income				6.1				2.5
Equity accounted profits/(loss)	-	-	-	(0.5)	-	-	-	3.1
Profit before tax and minorities				5.6				5.6

1 Lend Lease Rosen was equity accounted in the year ended 30 June 2002.

Asset Management/Advisory Fees

Asset management / advisory fees increased US\$10.6 million to US\$18.1 million for the year ended June 2003 compared to US\$7.5 million for June 2002. The increase was due to the inclusion of asset management fees from Lend Lease Rosen on a consolidated basis, as a result of Lend Lease acquiring an additional 24.9% of Lend Lease Rosen on 1 August 2002 and another 2.6% of Lend Lease Rosen on 15 October 2002 (US\$9.7 million), together with an increase in asset management fees earned from the VEF series (US\$0.9 million).

The level of AUM is a driver of asset management/advisory fees.

Assets Under Management (AUM)

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at June 2003 US\$b
VEF Series co-mingled funds	2.3	0.1	(0.8)	(0.1)	1.5
Real Estate Securities	1.0	1.0	(0.1)	-	1.9
Total AUM	3.3	1.1	(0.9)	(0.1)	3.4
Period movement in AUM		%			3.0

AUM increased US\$0.1 billion (3%) to US\$3.4 billion for the year ended June 2003 compared to US\$3.3 billion at June 2002. The increase in AUM from Real Estate Securities AUM relates to the acquisition of an additional 27.5% of Lend Lease Rosen (US\$0.6 billion) and organic growth during the year (US\$0.4 billion). Although AUM for the VEF series decreased 35% for the year ended June 2003, asset management fees earned from the VEF series increased 12%. The increase in asset management fees is due to the release of a prior year asset management fee provision (US\$1.0 million) relating to VEF IV. In addition, asset management fees for the VEF series are generated on capital committed rather than the level of AUM. Accordingly, while AUM for the VEF series declined (largely due to VEF IV) the level of capital committed remained relatively constant.

Acquisition/Disposition Fees

Acquisition fees decreased US\$0.3 million to US\$0.4 million for the year ended June 2003 on US\$0.1 billion of acquisition volume compared to acquisition fees earned of US\$0.7 million on US\$0.2 billion of acquisition volume for the year ended June 2002. No disposition fees are earned by the VEF series of funds.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations continued

Analysis of Net Operating Income by Business Unit continued

Net Operating Income - VEF series, Lend Lease Rosen and Rosen Consulting continued

Incentive Fees

No material incentive fees were earned from these operations during the year. The timing and quantum of incentive fees is difficult to predict as they are dependent upon real estate market investment performance and are generally paid towards the end of a fund's life cycle. The basis on which incentive fees are earned for VEF series funds is detailed below.

The level of actual incentive fees is dependent on investment performance, the state of real estate markets, amount of capital invested, timing of liquidation of funds and a number of other factors. Based on current asset valuations, only VEF III is expected to generate a material incentive fee. No incentive fee is expected from VEF IV.

	Currency	Fund Equity Invested at June 2003	Expected Maximum Fund Equity	Gross AUM at June 2003	Expected Maximum Gross AUM	Indicative Realisation of Possible Incentive Fees
Enhanced						
Value Enhancement Fund II	US\$m	161.3	161.3	331.7	331.7	2005
Value Enhancement Fund III	US\$m	317.4	317.4	474.7	474.7	2005
Value Enhancement Fund IV	US\$m	259.0	259.0	472.7	472.7	
Value Enhancement Fund V	US\$m	150.9	363.5	263.1	900.0	2008

Private Equity Funds	Basis of Calculation
Value Enhancement Fund II and III	<p>5% of that portion of 'Cumulative Distributions' (CD) that exceed an annualised 4% return above the 'Avg Annual CPI' (AACPI) up to but not including an annualised 6% return above the AACPI;</p> <p>Plus 7.5% of that portion of any CD that exceeds an annualised 6% return above the AACPI up to but not including an annualised 8% return above the AACPI;</p> <p>Plus 15% of that portion of any CD that equals or exceeds an annualised 8% return above the AACPI.</p>
Value Enhancement Fund IV and V	<p>Once a return of capital plus 10% pa simple is achieved, the Fund will make distributions to investors and the manager on a 50-50 basis until the manager receives an amount equal to 20% of the total return. Distributions are then made on an 80-20 basis to investors.</p>

Other fees and Income

Other fees and income include financing, consulting and other miscellaneous ancillary fees earned. Other fees and income decreased US\$1.3 million to US\$4.4 million for the year ended June 2003 compared to US\$5.7 million for June 2002 primarily due to a reduction in financing activity for the VEF series for the year ended June 2003 compared to June 2002.

Expenses

Total expenses increased US\$5.5 million to US\$16.9 million for the year ended June 2003 compared to US\$11.4 million for June 2002 but included an increase in expenses relating to LL Rosen on a consolidated basis as a result of Lend Lease acquiring an additional 27.5% of LL Rosen during the year.

Housing and Community Investing (HCI)

HCI was sold effective 1 July 2003. Net operating income increased US\$0.4 million to US\$22.2 million for the year ended June 2003 compared to US\$21.8 million for June 2002. The increase is largely attributable to increased operating revenue mainly generated from higher acquisition and asset management fees offset by lower disposition fees earned during the financial period and higher operating expenses.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations continued

Analysis of Net Operating Income by Business Unit continued

Commercial Credit

Net operating income decreased US\$6.5 million to US\$18.7 million for the year ended June 2003 compared to US\$25.2 million for June 2002. The decrease is primarily attributable to lower servicing float interest revenues earned (US\$3.8 million), lower asset management (US\$1.0 million), lower transaction origination fees (US\$3.3 million), offset by a decrease in expenses (US\$2.7 million).

Lend Lease continues to explore options to exit Lend Lease Agri-Business (LLAG), although no contracted disposal or specific arrangements have been announced to date. Further analysis relating to this business is provided below.

Net Operating Income – Lend Lease Agri-Business (LLAG)

Net operating income for LLAG which is included in the results of Commercial Credit increased US\$1.5 million to US\$7.7 million for the year ended June 2003 compared to US\$6.2 million for June 2002. Key movements in the net operating income of this business are analysed below.

Analysis of Results – Lend Lease Agri-Business

	Year Ended June 2003 US\$m	Year Ended June 2002 US\$m
Annuity Fees		
Asset management/advisory fees	0.8	1.6
Mortgage servicing revenue	12.0	12.0
Total annuity fees	12.8	13.6
Transaction Fees		
Acquisition/disposition fees	1.8	0.3
Origination fees	3.8	3.3
Total transaction fees	5.6	3.6
Total operational revenue	18.4	17.2
Expenses	(10.7)	(11.0)
Net operating income	7.7	6.2

Asset Management/Advisory Fees

Asset management fees are principally earned by LLAG from managing non performing loan portfolios, special servicing loans and managing foreclosed real estate on behalf of clients. Asset management fees decreased US\$0.8 million to US\$0.8 million for the year ended June 2003 compared to US\$1.6 million for June 2002. The decrease was primarily due to the disposition of foreclosed real estate assets at the beginning of the June 2003 financial year.

Mortgage Servicing Revenue

Mortgage servicing revenue of US\$12.0 million for the year ended June 2003 was in line with mortgage servicing revenues earned for June 2002.

Assets Under Management (AUM)

AUM is one driver of asset management fees and mortgage servicing revenues and is indicative of the level of activity in the business. However, due to the multiple types of servicing revenues recognised, movements in mortgage servicing revenues are not directly correlated to movements in AUM. Changes in origination volume, servicing asset amortisation and ancillary activities, for example modifications, prepayments and collateral releases may impact the servicing revenues recognised in any given year. The movement in AUM is shown in the following table.

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at June 2003 US\$b
LL Agri-Business	2.6	0.4	(0.4)		2.6
Period movement in AUM	%				0.0

AUM of US\$2.6 billion for the year ended June 2003 was in line with AUM for June 2002.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations continued

Analysis of Net Operating Income by Business Unit continued

Commercial Credit continued

Acquisition/Disposition Fees

Disposition fees increased US\$1.5 million to US\$1.8 million for the year ended June 2003 compared to US\$0.3 million for June 2002 and were earned by LLAG in respect of the sale of foreclosed real estate.

Origination Fees

Origination fees of US\$3.8 million were earned on origination volume of US\$0.4 billion for the year ended June 2003 compared to origination fees of US\$3.3 million on origination volume of US\$0.3 billion for June 2002.

Expenses

Total expenses decreased US\$0.3 million to US\$10.7 million for the year ended June 2003 compared to US\$11.0 million for June 2002 and was primarily due to reductions resulting from the business re-positioning initiatives and cost reduction programs undertaken in the June 2002 financial year.

Holliday Fenoglio Fowler (HFF)

Net operating income for HFF refers to the period 1 July 2002 to 17 June 2003, the date of effective sale. Net operating income increased US\$10.3 million to US\$6.9 million for the year ended June 2003 compared to a net operating loss of US\$3.4 million for June 2002. The increase is largely attributable to increased acquisition fees from investment sales fees, offset by lower origination fees for the period to 17 June 2003 compared to the full year ended June 2002.

Investment Income

The table below summarises investment income earned for the year ended June 2003.

	Year ended June 2003		Year ended June 2002	
	US\$m	A\$m	US\$m	A\$m
Investment Management - Equity				
YCP II	(5.4)	(9.3)	1.7	3.3
VEF series	2.6	4.4	(3.0)	(5.8)
Other	(1.1)	(1.8)	2.3	4.4
	(3.9)	(6.7)	1.0	1.9
Commercial Credit				
Asset management portfolios	8.1	13.8	3.5	6.8
Debt management funds and portfolios	1.0	1.7	0.4	0.8
High yield debt funds	0.9	1.5	0.1	0.2
	10.0	17.0	4.0	7.8
Total investment income	6.1	10.3	5.0	9.7

Total investment income increased US\$1.1 million to US\$6.1 million for the year ended June 2003 compared to US\$5.0 million for June 2002. The movement is largely attributable to an increase in investment income from the VEF series (net of share of partnership profits) and improved investment income earned on Commercial Credit asset management portfolios and funds, offset by a reduction in investment income from YCP II (net of share of partnership losses) due to recent under performance and writedowns of hotel assets held by the fund.

Equity Accounted Profits

Equity accounted profits for the year ended June 2003 represent income earned on Lend Lease's 50% interest in Lend Lease Hyperion (US\$1.9 million) and income earned on Lend Lease's 50% interest in Lend Lease Rosen for the one month period to 1 August 2002 (loss US\$0.5 million).

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations continued

Analysis of Net Operating Income by Business Unit continued

Equity Accounted Profits continued

On 1 August 2002, Lend Lease increased its ownership stake in Lend Lease Rosen from 50% to 74.9% (and subsequently increased to 77.5%) and entered into a three-year agreement to purchase the remainder of the company from its partner, Rosen Financial Services II. Equity accounted profits from Lend Lease Rosen in the year ended June 2003 are included on a consolidated basis rather than on an equity accounted basis.

Gain on Sale of Investments

Gain on sale of investments of US\$1.1 million represents the net gain earned from realisation of Lend Lease's co-investment in certain Senior Living properties.

Review of Continuing Operations

Continuing operations comprise investment earnings relating to Lend Lease's investment in King of Prussia.

Investment Income

	Year ended June 2003		Year ended June 2002	
	US\$m	A\$m	US\$m	A\$m
King of Prussia	14.1	24.0	14.2	27.3

Total investment income relating to King of Prussia marginally decreased US\$0.1 million to US\$14.1 million for the year ended June 2003 compared to US\$14.2 million for June 2002.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Australia and Pacific

Lend Lease will retain its real estate services and management businesses in Australia and Pacific. Lend Lease will continue to report the asset and funds management businesses of GPT, APPF, Real Estate Securities, various other investment funds and the retail property management services business included in the Analysis of Results as continuing operations.

Lend Lease agreed to sell certain parts of the US Equity Advisory business to Morgan Stanley. Pursuant to the agreement, Morgan Stanley will also assume the management of the Lend Lease US Office Trust (LLUSOT) in Australia and Pacific. LLUSOT has therefore been included in discontinuing operations.

Analysis of Results

	Continuing Operations		Discontinuing Operations		Combined	
	June 2003 Australia & Pacific A\$m	June 2002 Australia & Pacific A\$m	June 2003 Australia & Pacific A\$m	June 2002 Australia & Pacific A\$m	June 2003 Australia & Pacific A\$m	June 2002 Australia & Pacific A\$m
Annuity Fees						
Asset management fees	43.5	46.0	3.9	2.3	47.4	48.3
Investment management fees	4.0	6.7			4.0	6.7
Retail property management fees	16.9	16.3			16.9	16.3
Total annuity fees	64.4	69.0	3.9	2.3	68.3	71.3
Transaction Fees						
Leasing fees	8.6	6.2			8.6	6.2
Development management fees	12.6	11.1			12.6	11.1
Other	0.9	3.9			0.9	3.9
Total transaction fees	22.1	21.2	-	-	22.1	21.2
Total operational revenues	86.5	90.2	3.9	2.3	90.4	92.5
Expenses	(48.2)	(61.8)	(2.0)	(1.3)	(50.2)	(63.1)
Net operating income	38.3	28.4	1.9	1.0	40.2	29.4
Investment income	3.6	3.4			3.6	3.4
Equity accounted profits	1.6	3.1			1.6	3.1
Gain on sale of investments		4.6				4.6
Profit before tax	43.5	39.5	1.9	1.0	45.4	40.5
Income tax expense	(12.6)	(9.5)	(0.5)	(0.4)	(13.1)	(9.9)
Profit after tax	30.9	30.0	1.4	0.6	32.3	30.6

Total profit before tax increased A\$4.9 million (12%) to A\$45.4 million for the year ended June 2003 compared to A\$40.5 million for June 2002 which included a A\$12.9 million reduction in expenses for the year ended June 2003 due to overhead savings and the reversal of prior year accruals for which no liability remains. In addition, the June 2002 financial year included a A\$4.6 million gain on the sale of investments.

Profit after tax increased A\$1.7 million (5%) to A\$32.3 million for the year ended June 2003 compared to A\$30.6 million for June 2002. The effective tax rate increased from 24% to 29% as the prior year charge included the reversal of an over provision for tax of A\$1.0 million, thus reducing income tax expense in the June 2002 year.

Review of Continuing Operations

Profit before tax from continued operations increased A\$4.0 million (10%) to A\$43.5 million for the year ended June 2003 compared to A\$39.5 million for June 2002 and was largely attributable to the reduction in expenses noted above.

Profit after tax from continuing operations increased A\$0.9 million (3%) to A\$30.9 million for the year ended June 2003 compared to A\$30.0 million for June 2002 and was affected by the increase in income tax expense noted above.

Net Operating Income

Net operating income increased A\$9.9 million (35%) to A\$38.3 million for the year ended June 2003 compared to A\$28.4 million for June 2002. Key movements in net operating income are analysed below.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Australia and Pacific continued

Review of Continuing Operations continued

Net Operating Income continued

Annuity Fees

Asset Management Fees

Asset management fees decreased A\$2.5 million (5%) to A\$43.5 million for the year ended June 2003 compared to A\$46.0 million for June 2002. The decrease in asset management fees is mainly attributable to a restructure of the management fee received from GPT (see below for further details of revised GPT management fee), offset by an increase in fees due to growth in AUM for GPT and APPF. In addition there was a change in the treatment of revenue and expenses in relation to the Suncorp-Metway Retail Property Fund. This revision resulted in an increase in asset management fees of A\$2.2 million offset by a corresponding increase in expenses for the year ended June 2003 of A\$2.2 million.

The basis upon which the GPT management fee is calculated was changed with effect from 1 January 2003. The new fee structure includes a base management fee of 0.40% per annum of gross assets (previously 0.55%) and the introduction of performance fee component calculated six monthly as 5% of the total return performance above the S&P/ASX Property 200 Accumulation Index. The total fee will be capped at 0.55% per annum. The fee restructure reflects a trend in the listed property trust industry towards the inclusion of a performance bonus component to fees. Lend Lease did not earn a performance fee from GPT for the year ended June 2003.

Investment Management Fees

Investment management fees relate to the Real Estate Securities business. Although Real Estate Securities AUM grew by 32% in the year ended June 2003 investment management fees decreased A\$1.2 million due to the implementation of a new fee structure in the latter part of the June 2002 financial year. In addition, the reported June 2003 fees were reduced by a retrospective adjustment to previous years fees earned of A\$1.5 million.

Retail Property Management Fees

Retail Property Management fees are generally based on a percentage of gross rental income generated from the management of shopping centres on behalf of GPT, APPF and external joint owners. Retail Property Management fees marginally increased for the year ended June 2003 compared to June 2002 largely due to increased rental income from the centres including the addition of three shopping centres following the acquisition by APPF Retail of Suncorp-Metway Retail Property Fund in November 2001 and the performance of the Homemaker portfolio of assets for the full year ended June 2003, offset by a reduction in fees resulting from the sale of two shopping centres during the year. Lend Lease managed 18 shopping centres as at June 2003.

Assets Under Management (AUM)

	AUM at June 2002 A\$b	Additions A\$b	Reductions A\$b	Net Revaluations A\$b	AUM at June 2003 A\$b
General Property Trust (including Darling Park Trust)	6.6	0.5	(0.2)		6.9
Australian Prime Property Fund	1.6	0.1	(0.1)	0.1	1.7
Real Estate Securities	2.2	1.4	(1.0)	0.3	2.9
Other accounts	0.3		(0.2)		0.1
Total continuing operations AUM	10.7	2.0	(1.5)	0.4	11.6
Period movement in AUM			%		8.4

AUM from continuing operations increased A\$0.9 billion (8%) to A\$11.6 billion for the year ended June 2003 compared to A\$10.7 billion for June 2002. The increase was largely due to investments in Real Estate Securities, capital expenditure by GPT and APPF on major retail projects offset by a reduction in AUM from the sale of Bankstown Square by GPT and Redbank Plaza by APPF.

Transaction Fees

Leasing fees

Leasing fees increased A\$2.4 million to A\$8.6 million for the year ended June 2003 compared to A\$6.2 million for June 2002. The increase in leasing fees mainly relates to activities arising from the addition of three centres acquired as part of the acquisition by APPF Retail of Suncorp-Metway Retail Property Fund, and increased retail development activities in centres managed on behalf of GPT and APPF.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Australia and Pacific continued

Review of Continuing Operations continued

Net Operating Income continued

Transaction Fees continued

Development Management Fees

Development management fees increased A\$1.5 million to A\$12.6 million in the year ended June 2003 compared to A\$11.1 million for June 2002. The increase was a result of increased retail development activities in retail centres managed on behalf of GPT and APPF. Major projects that continued redevelopment during the financial period included Erina Fair (A\$210 million), Floreat (A\$42 million) and Sunshine Plaza (A\$50 million). In addition, GPT has commenced a A\$226 million redevelopment of Melbourne Central.

Incentive Fees

No incentive fees were earned during the year ended June 2003.

Other Fees and Income

Other transaction fees decreased A\$3.0 million to A\$0.9 million for the year ended June 2003 compared to A\$3.9 million for June 2002. The decrease largely relates to one off recoveries for marketing initiatives pursued in certain retail centres during the year ended June 2002, but not repeated for the year ended June 2003.

Expenses

Total expenses from continuing operations decreased A\$13.6 million (22%) to A\$48.2 million for the year ended June 2003 compared to A\$61.8 million for June 2002. The decrease is largely attributable to savings achieved as a result of the Group wide business repositioning project and the reversal of expenses accrued in prior periods for which no liability remains. In addition, the 2002 financial year included a number of one off costs such as increased provision for insurances after the HIH liquidation and restructuring costs associated with the Group-wide business re-positioning project.

Other Income

Investment Income

Investment income for the year ended June 2003 was largely in line with June 2002 and relates to income earned on Lend Lease's co-investments in APPF (A\$3.4 million) and Real Estate Partners I (A\$0.2 million).

Equity Accounted Profits/(Losses)

Equity accounted profits of A\$1.6 million includes Lend Lease's share of income from interests in Kiwi Property Group (Kiwi) and Darling Park Trust Operators. Equity accounted profits from Kiwi decreased by A\$1.4 million to A\$0.4 million for the year ended June 2003 compared to June 2002 following the sale of Lend Lease's 50% interest in Kiwi on 28 March 2002. The income for the year ended 2003 for Kiwi relates to the reversal of a provision for wind up costs provided at June 2002. Equity accounted profit for Darling Park Trust Operators was largely in line with the previous year at A\$1.2 million.

Gain on Sale of Investments

Gain on sale of investments for the year ended June 2002 relates to the sale of Lend Lease's 50% interest in Kiwi.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Australia and Pacific continued

Review of Continuing Operations continued

Funds Investment Performance

Detailed below are the latest available returns for certain REI funds compared to appropriate benchmarks, where applicable.

Investment	Region	Before Fees Leveraged Returns %			AUM ¹ A\$b
		1 year	3 years	5 years	
Private Equity Flagship Funds at 30 June 2003					
Australian Prime Property Fund – Retail	Australia	14.1	11.7	10.9	1.2
Australian Prime Property Fund – Commercial	Australia	7.6	8.8	8.9	0.3
Australian Prime Property Fund – Industrial	Australia	12.2	11.6	11.4	0.2
Industry Benchmark at 30 June 2003					
Mercers Diversified Property Fund Index	Australia	11.1	10.5	10.3	
Real Estate Securities	Australia	13.6	14.8	12.3	2.9
Industry Benchmark at 30 June 2003					
S&P/ASX 200 Property Accumulation Index	Australia	12.1	13.6	11.4	
Public Equity Flagship Funds at 30 June 2003					
General Property Trust	Australia	11.6	10.4	9.8	6.9
Industry Benchmark at 30 June 2003					
S&P/ASX 200 LPT Property Accumulation Index	Australia	12.1	13.6	11.4	

¹ Represents amounts included in Assets Under Management at June 2003 of A\$11.6 billion.

Review of Discontinuing Operations - LLUSOT

Profit before tax from discontinued operations increased A\$0.9 million to A\$1.9 million for the year ended June 2003 compared to A\$1.0 million for June 2002 and was largely attributable to increased asset management fees from higher average assets under management during the year.

Profit after tax from discontinuing operations increased A\$0.8 million to A\$1.4 million for the year ended June 2003 compared to A\$0.6 million for June 2002.

Assets Under Management (AUM)

	AUM at June 2002 A\$b	Additions A\$b	Reductions A\$b	Net Revaluations A\$b	AUM at June 2003 A\$b
Lend Lease US Office Trust	1.1	0.2			1.3
Period movement in AUM	%				18.2

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Asia

In May 2003, Lend Lease announced its intention to no longer pursue a distressed debt business in Asia, but rather focus its efforts on the management of APIC, which Lend Lease is transforming into a retail asset fund. APIC remains an integral part of Lend Lease's real estate investment business in Asia Pacific.

Lend Lease will continue to manage the Lend Lease International Distressed Debt Fund (IDDF) but will explore options for ultimately exiting this business in the near future. In addition, it is unlikely that Lend Lease will launch further global properties funds and is in discussion with management in relation to an exit from the Global Fund management advisory business.

Continuing operations include the management of the Asia Pacific Investment Company (APIC), Asia Pacific Investment Company No 2 (APIC II) and property management services provided to APIC II for its retail assets – referred to as Retail Asset & Funds Management below.

Discontinuing operations include the Asian asset management business, which is involved in the acquisition, management, servicing and resolution of sub performing and non performing loan and real estate portfolios (including the management of IDDF).

Analysis of Result

	Continuing Operations		Discontinuing Operations		Combined	
	June 2003 Retail Asset & Funds Mgt A\$m	June 2002 Retail Asset & Funds Mgt A\$m	June 2003 Commercial Credit/Other Equity A\$m	June 2002 Commercial Credit/Other Equity A\$m	June 2003 Total A\$m	June 2002 Total A\$m
Annuity Fees						
Asset management/Advisory fees	8.5	11.3	16.7	22.5	25.2	33.8
Retail property management fees	1.2	1.5			1.2	1.5
Total annuity fees	9.7	12.8	16.7	22.5	26.4	35.3
Transaction Fees						
Acquisition fees				1.5		1.5
Incentive fees			7.8	6.2	7.8	6.2
Leasing fees	1.7				1.7	
Development management fees	1.0		0.6		1.6	
Financing/Consulting/Other		6.8	0.5	4.0	0.5	10.8
Total transaction fees	2.7	6.8	8.9	11.7	11.6	18.5
Total operational revenues	12.4	19.6	25.6	34.2	38.0	53.8
Expenses	(5.1)	(24.1)	(33.4)	(44.2)	(38.5)	(68.3)
Net operating income/(loss)	7.3	(4.5)	(7.8)	(10.0)	(0.5)	(14.5)
Investment income		1.6	(6.4)	7.7	(6.4)	9.3
Profit/(loss) before tax	7.3	(2.9)	(14.2)	(2.3)	(6.9)	(5.2)
Profit on FX hedge			(0.9)	0.3	(0.9)	0.3
Profit/(loss) before tax (after FX hedge)	7.3	(2.9)	(15.1)	(2.0)	(7.8)	(4.9)
Income tax expense ¹	(2.5)	(1.5)	2.2	(0.2)	(0.3)	(1.7)
Profit/(loss) after tax before minorities	4.8	(4.4)	(12.9)	(2.2)	(8.1)	(6.6)
Minority interests			(0.3)		(0.3)	
Profit/(loss) after tax	4.8	(4.4)	(13.2)	(2.2)	(8.4)	(6.6)

¹ Income tax expense in A\$m is net of the tax benefit on the profit/(loss) on the foreign exchange hedge.

Profit Results

The total net loss before tax increased A\$2.9 million to A\$7.8 million for the year ended June 2003 compared to a net loss before tax of A\$4.9 million for June 2002. The increase in net loss before tax for the year ended June 2003 was largely attributable to a reduction in investment income of A\$15.7 million, primarily from the Asia Debt business, partially offset by an increase in net operating income of A\$14.0 million.

The total loss after tax increased A\$1.8 million to A\$8.4 million for the year ended June 2003 compared to a net loss after tax of A\$6.6 million for June 2002.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Asia continued

Review of Continuing Operations

Profit Before Tax

Profit before tax from continuing operations increased A\$10.2 million to A\$7.3 million for the year ended June 2003 compared to a loss before tax of A\$2.9 million June 2002 and was largely attributable to a significant reduction in net expenses (A\$19.0 million) offset by a reduction in financing, consulting and other revenue (A\$6.8 million). Expenses in June 2002 included costs associated with the proposed joint venture with Tokyu.

Profit after tax from continuing operations increased A\$9.2 million to A\$4.8 million for the year ended June 2003 compared to a loss after tax of A\$4.4 million for June 2002 and was impacted by the utilisation of certain tax benefits in the current financial year that were not available in the prior financial year.

Net Operating Income

Net operating income increased A\$11.8 million to A\$7.3 million for the year ended June 2003 compared to a net operating loss of A\$4.5 million for June 2002. Key movements in net operating income are analysed below.

Annuity Fees

Annuity fees relate to advisory fees for the management of APIC and property management fees derived from a major retail asset owned by APIC II. Advisory fees decreased A\$2.8 million (25%) to A\$8.5 million for the year ended June 2003 compared to A\$11.3 million for June 2002. The decline was mainly attributable to a decrease in advisory fees relating to the management of APIC and APIC II, effective from October 2002.

Retail property management fees of A\$1.2 million for the year ended June 2003 were largely in line with June 2002.

Assets Under Management (AUM)

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at June 2003 US\$b
Continuing Operations:					
APIC	0.6		(0.4)		0.2
APIC II		0.4			0.4
Total continuing operations AUM	0.6	0.4	(0.4)	-	0.6
Period movement in AUM	%				0.0

AUM from continuing operations remains unchanged net of a transfer of retail assets from APIC to APIC II.

APIC/APIC II

APIC II was incorporated on 30 August 2002 and will primarily focus on the retail sector and accordingly the retail assets of APIC have been transferred to APIC II during the period. The existing office, residential and industrial assets in APIC will be divested over time.

Transaction Fees

Development management fees of A\$1.0 million were derived from the management of development activities on assets owned by APIC and the Global Fund.

Leasing fees of A\$1.7 million represent income generated from leasing of retail and office space at Parkway Parade, Singapore.

Finance/Consulting/Other fees of A\$6.8 million in June 2002 primarily relate to the provision of retail consulting services. The Retail Consultancy business unit was transferred to the Real Estate Solutions business in Asia in the June 2002 year and accordingly, no revenue has been recorded for the year ended June 2003.

Expenses

Total expenses from continuing operations decreased A\$19.0 million to A\$5.1 million for the year ended June 2003 compared to A\$24.1 million for June 2002. Expenses for June 2002 included costs associated with the Retail Consultancy business unit transferred to Real Estate Solutions of approximately A\$7.6 million, expenditure of A\$9.5 million incurred to establish a joint venture with Tokyu before negotiations were suspended in August 2002 and expenses associated with the proposed SREIT joint venture in Singapore (A\$2.0 million) that was also suspended.

Tokyu Business Alliance

On 20 August 2002, Tokyu Corporation, Tokyu Land Corporation and Lend Lease announced the termination of formal negotiations to establish a joint venture real estate investment management business in Japan.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Asia continued

Review of Continuing Operations continued

Investment Income

Investment income relates to distributions received from APIC. No distributions were received for the year ended June 2003.

Review of Discontinuing Operations

The loss before tax from discontinuing operations increased A\$13.1 million to A\$15.1 million for the year ended June 2003 compared to a net loss before tax of A\$2.0 million for June 2002.

The loss before tax of A\$15.1 million for the year ended June 2003 constituted the following components:

Asia Global Fund Advisory

- A loss before tax of A\$3.3 million in relation to the Asian Global Fund advisory platform; including asset management/advisory fees of A\$1.5 million and development management fees of A\$0.5 million, offset by operating expenses of A\$5.3 million.

Assets Under Management (AUM) - Asia Global Fund Advisory

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at June 2003 US\$b
Lend Lease Global Fund	0.4	0.2			0.6
Period movement in AUM	%				50.0

Asia Debt

- A loss before tax of A\$11.8 million in relation to the Asia Debt business; including asset management/advisory fees of A\$15.1 million, incentive fees earned from servicing IDDF portfolios in Korea and third party portfolios in Japan of A\$7.8 million, offset by expenses of A\$28.0 million and investment income losses of A\$6.4 million.

Investment Balance

	Investment Balance at June 2002 US\$m	Additions US\$m	Reductions US\$m	Currency Translations US\$m	Investment Balance at June 2003 US\$m
IDDF and its investment partners	125.3	209.5	(136.6)	2.5	200.7
Third parties (non IDDF mandates)	181.0		(80.6)	1.0	101.4
Total investment balances	306.3	209.5	(217.2)	3.5	302.1
Period movement	%				(1.4)

Investment balance represents the carrying value of investments and is based on the lower of amortised cost or estimated fair value. Amounts invested decreased US\$4.2 million (1%) to US\$302.1 million for the year ended June 2003. IDDF resolved many of its investments at a faster rate than was anticipated, and in conjunction with the ongoing reduction in non-IDDF mandates, investment balances have marginally reduced during the year.

Investment balance at June 2003 also incorporates a writedown of US\$21.9 million in the carrying value of IDDF's investments in Japan during the year ended 30 June 2003. The results for the year include Lend Lease's proportional share of the US\$21.9 million provision taken against IDDF's Japanese investments, the impact of which is included under Investment Income on the following page.

Assets Under Resolution (AUR)

	AUR at June 2002 US\$b	Additions US\$b	Reductions US\$b	Currency Translations US\$b	AUR at June 2003 US\$b
IDDF and its investment partners	1.9	1.1	(0.8)		2.2
Third parties (non IDDF mandates)	5.4		(2.9)		2.5
Total AUR	7.3	1.1	(3.7)		4.7
Period movement in AUR	%				(35.6)

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Asia continued

Review of Discontinuing Operations continued

Asia Debt continued

Assets Under Resolution (AUR) continued

Assets under resolution represents the legal loan balances of assets managed and serviced on behalf of investors and serves only as a broad indication of the volume of activity in the business. Actual amounts invested can vary depending on the type and quality of the underlying loans. Fees are earned on dollars invested not loan balances and thus movements in AUR values do not directly correlate with the movements in underlying revenue streams.

AUR decreased US\$2.6 billion (36%) to US\$4.7 billion for the year ended June 2003 compared to US\$7.3 billion at June 2002. The decrease in AUR has been driven by the resolution of a large third party mandate which had a material legal loan balance but small investment value.

Investment Income

	June 2003 Total US\$m	June 2003 Total A\$m	June 2002 Total US\$m	June 2002 Total A\$m
International Distressed Debt Fund	(4.0)	(6.8)	3.7	7.1
Other	0.2	0.4	0.3	0.6
Total	(3.8)	(6.4)	4.0	7.7

Investment income primarily relates to IDDF and declined A\$14.1 million to A\$(6.4) million for the year ended June 2003 compared to A\$7.7 million for June 2002. The decline is largely attributable to a provision of US\$10.6 million taken against the carrying value of Lend Lease's investment in IDDF related to adverse market impacts on certain Japanese portfolios within IDDF.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Europe

Lend Lease will continue to operate its retail asset and property management businesses, hold investments in retail property funds and assets and in certain joint venture arrangements, including:

- the management of Bluewater, Overgate and Solihull on behalf of investors (including Lend Lease's 30% direct ownership in Bluewater);
- the management of the Lend Lease Retail Partnership and the Lend Lease Overgate Partnership (LLOP);
- the property management of UK retail shopping centres and the Larry Smith retail centre management business in Spain; and
- investments in Generali Lend Lease (GLL).

Non retail activities and the Global Fund advisory business platform are referred to in the Analysis of Results as discontinued operations.

Analysis of Results

	Continuing Operations			Discontinuing Operations			Combined	
	June 2003	June 2002	June 2003	June 2003	June 2002	June 2003	June 2003	June 2002
	Europe - Retail	Europe - Retail	Europe - Retail	Europe - Other	Europe - Other	Europe - Other	Europe Total	Europe Total
	£m	£m	A\$m	£m	£m	A\$m	A\$m	A\$m
Annuity Fees								
Advisory/asset management fees	2.6	2.4	7.0	7.8	1.4	21.3	28.3	12.5
Funds management fees	1.0	0.9	2.7				2.7	4.4
Property management fees	2.9	2.4	7.9				7.9	3.1
Larry Smith revenue	1.4	1.6	3.8				3.8	4.4
Total annuity fees	7.9	7.3	21.4	7.8	1.4	21.3	42.7	24.4
Transaction fees	3.2	1.1	8.7	4.2	2.4	11.4	20.1	9.5
Total operational revenues	11.1	8.4	30.1	12.0	3.8	32.7	62.8	33.9
Expenses	(12.0)	(13.5)	(32.5)	(10.1)	(8.2)	(27.4)	(59.9)	(60.5)
Net operating income /(loss)	(0.9)	(5.1)	(2.4)	1.9	(4.4)	5.3	2.9	(26.6)
Investment income	23.0	20.9	62.3				62.3	58.0
Equity accounted profit	0.2	1.5	0.5				0.5	4.2
Gain on sale of investments		5.7						15.8
Profit before tax	22.3	23.0	60.4	1.9	(4.4)	5.3	65.7	51.4
Gain/(loss) on FX hedge			(0.2)			(1.1)	(1.3)	(1.7)
Profit before tax (after FX hedge)	22.3	23.0	60.2	1.9	(4.4)	4.2	64.4	49.7
Income tax expense ¹	(6.4)	(7.3)	(17.2)	0.3	0.8	0.7	(16.5)	(17.8)
Profit after tax	15.9	15.7	43.0	2.2	(3.6)	4.9	47.9	31.9

¹ Income tax expense in A\$m is net of the tax benefit on the profit/(loss) on the foreign exchange hedge.

Total profit before tax increased A\$14.7 million (30%) to A\$64.4 million for the year ended June 2003 compared to A\$49.7 million for June 2002. The increase was in part due to an improvement in net operating income (A\$29.5 million) and investment income (A\$4.3 million) for the year ended June 2003. In addition, the year ended June 2002 included a gain on sale of investments (A\$15.8 million) and equity accounted profits largely relating to an investment in Lend Lease Porto Retail (A\$3.8 million).

The total profit after tax increased A\$16.0 million (50%) to A\$47.9 million for the year ended June 2003 compared to A\$31.9 million for June 2002.

Review of Continuing Operations

Profit before tax from continuing operations decreased £0.7 million to £22.3 million for the year ended June 2003 compared to £23.0 million for June 2002. Reduced net operating losses and improved investment income were offset by the gain on sale of investment noted above.

Profit after tax from continuing operations increased £0.2 million to £15.9 million for the year ended June 2003 compared to £15.7 million for June 2002.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Europe continued

Review of Continuing Operations continued

Net Operating Income/(Loss)

The net operating loss improved £4.2 million to a net operating loss of £0.9 million for the year ended June 2003 compared to a net operating loss of £5.1 million for June 2002. Key movements in net operating income are analysed below.

Annuity Fees

Advisory/asset management fees increased £0.2 million to £2.6 million in the year ended June 2003 compared to £2.4 million for June 2002. The increase is largely attributed to the inclusion of asset management fees from the Lend Lease Overgate Partnership and the Solihull centre for the full financial year whereas the prior year included only asset management fees for the nine month period from September 2001 (£0.1 million).

Property Management fees are generated from the management of retail centres (Bluewater, Overgate and Solihull) and increased £0.5 million to £2.9 million for the year ended June 2003 compared to £2.4 million for to June 2002. The increase is mainly due to increased cost recoveries from the retail centres under management.

Larry Smith revenue decreased £0.2 million to £1.4 million for the year ended June 2003 compared to £1.6 million for June 2002. The decrease is largely attributable to the loss of the property management and leasing contract for the Arrábida centre pursuant to the sale of Lend Lease's 50% share in the centre and the termination of unprofitable asset management contracts.

Assets Under Management (AUM)

	AUM at June 2002 £b	Additions £b	Reductions £b	Net Revaluations £b	AUM at June 2003 £b
Investment Management – Equity					
Continuing Operations					
Bluewater	1.3			0.1	1.4
Touchwood ¹	0.2				0.2
Overgate ²	0.1				0.1
Joint ventures/separate accounts ³	0.1	0.1			0.2
Total continuing operations AUM	1.7	0.1	-	0.1	1.9
Period movement in AUM					11.8
					%

1 Includes Lend Lease's 4.95% indirect interest in the Touchwood, Solihull retail centre via the Lend Lease Retail Partnership.

2 Includes Lend Lease's 30.7% indirect interest in the Overgate, Dundee retail centre via the Lend Lease Overgate Partnership.

3 Includes Lend Lease's proportional share of AUM from Generali Lend Lease and Lend Lease Houlihan Rovers.

AUM from continuing operations increased £0.2 billion (11.8%) to £1.9 billion for the year ended June 2003 compared to £1.7 billion at June 2002 due to additional investments managed by Generali Lend Lease and a revaluation of the Bluewater Shopping Centre. The centre was re-valued to £1.4 billion as at June 2003.

Transaction Fees

Total transaction fees of £3.2 million for the year ended June 2003 represent incentive fees derived from the sale of Lend Lease Retail Partnership performance fee shares which were awarded to Lend Lease based on the performance of the Partnership over the three year periods ended December 2001 and December 2002 (totalling £2.4 million), fee income for managing the sale of shares in the Lend Lease Retail Partnership (£0.2 million) and Larry Smith leasing revenue (£0.6 million).

Fund Incentive Fees

Detailed below is the basis on which incentive fees are earned for the key funds. The level of actual incentive fees is dependent on investment performance, the state of real estate markets, amount of capital invested, timing of liquidation of funds and a number of other factors.

	Currency	Fund Equity Invested at June 2003	Expected Maximum Fund Equity	Gross AUM at June 2003	Expected Maximum Gross AUM	Indicative Realisation of Incentive Fees
Core						
Lend Lease Retail Partnership	£m	488.1	506.4	577	785	Annually from 2002
Lend Lease Overgate Partnership	£m	131.1	137.1	137	151	Annually from 2004

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Europe continued

Review of Continuing Operations continued

Net Operating Income/(Loss) continued

Fund Incentive Fees continued

Private Equity Funds	Basis of Calculation
Lend Lease Retail Partnership	Performance fees are based upon a three year rolling average out performance of the UK direct property benchmark (IPD) for retail centres. The performance of the fund's properties must be 110% of the IPD benchmark before any performance fee is payable. For each 1.0% of out performance a fee of 0.15% of assets under management is payable (capped at 0.50% for any one year). Fees are payable annually. At least half of the performance fee can be taken as cash, with the remainder taken as an additional interest in the Partnership which can then be sold.
Lend Lease Overgate Partnership	Performance fees are based on a three year rolling average out performance of the UK direct property market benchmark (IPD) for retail centres. Performance must exceed the IPD benchmark before any performance fee is payable. For each 1% of out performance a fee of 0.15% of assets under management is payable (capped at 0.50% for any one year). The first fee is payable in December 2003, then annually and in cash.

Expenses

Expenses decreased £1.5 million to £12.0 million for the year ended June 2003 compared to £13.5 million for June 2002. The cost reductions are largely due to the Group wide repositioning project undertaken in the prior financial year.

Other Income

Investment Income

	Year ended June 2003		Year ended June 2002	
	£m	A\$m	£m	A\$m
Bluewater, Kent	18.8	50.9	17.4	48.3
Overgate, Dundee			2.0	5.6
Lend Lease Retail Partnership	1.3	3.5	1.1	3.1
Lend Lease Overgate Partnership	2.3	6.3	2.2	6.1
Investment expense	(0.6)	(1.6)	(1.9)	(5.4)
Other	1.2	3.2	0.1	0.3
Total investment income	23.0	62.3	20.9	58.0

Bluewater investment income of £18.8 million relates to the Net Operating Income (NOI) of Bluewater derived from Lend Lease's 30% direct interest (30% at June 2002). The increased NOI is due to the improved performance of the retail centre.

No NOI was directly earned from Overgate for the year ended June 2003. The Overgate investment income of £2.0 million for the year ended June 2002 relates to the NOI derived from Lend Lease's 100% interest in the Centre and related to the period 1 July 2001 to 28 September 2001. At that date the forward sale pre conditions relating to lease targets had been met and the investors in the Lend Lease Overgate Partnership made their final payment and received 100% of the NOI thereafter.

Lend Lease Retail Partnership (LLRP) investment income of £1.3 million relates to Lend Lease's 5.02% interest in LLRP which owns a 25% interest in Bluewater and, throughout the financial year, progressively increased its ownership interest in Touchwood, Solihull. Up to June 2003, 98.5% of the Centre had been purchased by LLRP for a total £195.0 million.

Lend Lease Overgate Partnership (LLOP) investment income of £2.3 million relates to Lend Lease's 30.7% interest in LLOP.

Investment expenses incurred for the year ended June 2003 primarily relates to the Bluewater retail centre. Investment expenses incurred in the period to June 2002 also includes expenses relating to the Bluewater retail centre, but primarily related to a deferred return payable to investors in the LLOP, as Lend Lease was required to pay the investors a return of 8.5% per annum on the deposit for sale up to 28 September 2001.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Europe continued

Review of Continuing Operations continued

Other Income continued

Other investment income includes the part reversal of a provision against the carrying value of Lend Lease's 30.7% interest in the Overgate Partnership (£1.5 million), offset by Lend Lease's share of a writedown to net realisable value of real estate securities in a new European based mutual fund (European SICAV) managed by LL Houlihan Rovers at June 2003 (£0.3 million).

Equity Accounted Profits/(Losses)

Equity accounted profits of £0.2 million relate to Lend Lease's 40% interest in Generali Lend Lease (GLL), a joint venture with the Assicurazioni Generali S.P.A. group. In June 2002, Lend Lease sold its interest in Lend Lease Porto Retail (Porto Retail) and accordingly, no equity accounted profit was attributable to Lend Lease during the year ended June 2003. Porto Retail generated equity accounted profits of £1.1 million for the year ended June 2002.

Gain on Sale of Investments

In June 2002, Lend Lease sold its interests in Lend Lease Porto Retail and Larry Smith & Associates SRL.

Funds Investment Performance

Detailed below are returns for various periods to 30 June for certain REI funds compared to appropriate benchmarks, where applicable.

Investment	Region	Before Fees Leveraged Returns %			AUM ¹ £m
		1 year	3 years	5 years	
Lend Lease Retail Partnership	Europe	11.2	9.6		577
Lend Lease Overgate Partnership	Europe	12.2			137
Investment Property Database (Benchmark)	Europe	9.7	8.8		

¹ Represents amounts included in Assets Under Management at June 2003 of £1.9 billion.

Review of Discontinuing Operations

The profit before tax from discontinued operations increased by £6.3 million to £1.9 million for the year ended June 2003 compared to a loss before tax of £4.4 million for June 2002.

The profit before tax of £1.9 million constituted the following components:

- a profit before tax of £3.5 million in relation to the Global Fund advisory platform; including advisory fees earned of £6.7 million (largely arising from increased assets under management during the year), transaction fees of £2.3 million earned in connection with acquisitions, dispositions and arranging finance, offset by operating expenses of £5.5 million; and
- an operating loss before tax of £1.6 million in relation to new business initiatives that were formerly pursued (e.g. establishment of new funds or separate account mandates) outside the retail sector. The loss for the year included asset management fees earned (£1.1 million), acquisition, loan arrangement and advisory fees (£1.4 million), disposition fees (£0.5 million), offset by expenses of £4.6 million which included costs associated with establishment of a real estate services infrastructure (capital raising, transactions and fund structuring), new business set up costs, net of cost reductions arising from the strategic decision to exit from growth initiatives and close the European Real Estate Funds Management platform.

Assets Under Management (AUM)

	AUM at June 2002 £b	Additions £b	Reductions £b	Net Revaluations £b	AUM at June 2003 £b
Joint ventures/separate accounts	0.1	-			0.1
Lend Lease Global Fund	0.1	0.6			0.7
Total	0.2	0.6	-	-	0.8

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Europe continued

Review of Discontinuing Operations continued

Fund Incentive Fees

Detailed below is the basis on which incentive fees are earned for the Global Fund. The level of actual incentive fees is dependent on investment performance, the state of real estate markets, amount of capital invested, timing of liquidation of funds and a number of other factors.

	Currency	Fund Equity Invested at June 2003	Expected Maximum Fund Equity	Gross AUM at June 2003	Expected Maximum Gross AUM	Indicative Realisation of Incentive Fees
Opportunistic						
Lend Lease Global Fund	US\$m	529.0	529.0	1,727	1,727	2006 to 2009

Private Equity Funds

Basis of Calculation

Lend Lease Global Fund

Incentive Fees – The advisor shares in the simple cumulative net fund returns above 12.0%. The advisor participates in 25% of the excess returns up to 30%, and thereafter, is entitled to 22.5% of the excess returns. Incentive fees are payable at a rate of 50% as returns on investments are realised with the balance payable on final liquidation of the fund based on final fund returns. Previous payments are subject to a clawback if in excess of final determined amounts.

Options – The advisor has been granted options totalling 7.5% of the issued capital of the Global Fund. Options will vest as capital is called from investors (pro rata) and will be exercisable on final liquidation of the fund.

Investments and Co-investments

Lend Lease, where appropriate, has co-invested in funds alongside clients. Such investments are often, in effect, seed capital to establish a fund. The majority of funds in which Lend Lease co-invests are closed ended funds that are weighted towards capital growth rather than income generation. As Australian Accounting Standards prohibit recording unrealised capital gains as profit, Lend Lease's total return on the investment (including incentive fees, if any) is generally only recognised on liquidation of the funds. Until liquidation, Lend Lease receives its share of the net operating income distributed by each fund.

Lend Lease intends to exit its US, IDDF, Non-Retail European and Global Properties Fund co-investments over time. Accordingly, investment earnings from these co-investments have been classified as discontinuing operations.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Real Estate Investments (REI) continued

Investments and Co-investments continued

The following table summarises co-investments at June 2003, as well as future commitments to co-investments.

Investment	Region	Investment June 2003 A\$m	Future Commitments A\$m	Total Commitments A\$m	Indicative Fund Liquidation	Lend Lease Share of Income June 2003 ¹ A\$m
Continuing						
Asia Pacific						
Australian Prime Property Fund	Australia	49.8		49.8	Open ended	3.4
Real Estate Partners I	Australia	2.6	0.5	3.1	2005	0.2
Real Estate Partners II	Australia		10.0	10.0	2010	
Asia Pacific Investment Company	Asia	37.8		37.8	2004	
Asia Pacific Investment Company II	Asia	39.9		39.9	2009	
Total Asia Pacific		130.1	10.5	140.6		3.6
Europe						
Lend Lease Retail Partnership	Europe	60.3	2.3	62.6	2011 ²	3.5
Lend Lease Overgate Partnership	Europe	100.6	4.6	105.2	2008 ³	6.3
Total Europe		160.9	6.9	167.8		9.8
Total Continuing		291.0	17.4	308.4		13.4
Discontinuing						
Asia Pacific						
Lend Lease International Distressed Debt Fund	Asia	45.8	99.9	145.7	2008	(6.8)
Europe						
Lend Lease European Real Estate Securities SICAV	Europe	18.8		18.8	Open ended	(1.6)
German Industrial Property Fund	Europe	2.4		2.4	2009	0.8
Total Europe		21.2	-	21.2		(0.8)
North America						
Value Enhancement Fund III	Americas	16.4		16.4	2005	8.4
Value Enhancement Fund IV	Americas	18.3		18.3	2007	(5.6)
Value Enhancement Fund V	Americas	33.4	41.7	75.1	2008	1.6
Yarmouth Capital Partners Limited Partnership II	Americas	45.5		45.5	2004	(9.3)
Lend Lease Real Estate Securities	Americas	20.6		20.6	Open ended	1.0
Other	Various	47.0	29.4	76.4	Various	14.2
Total North America		181.2	71.1	252.3		10.3
Global						
Lend Lease Global Properties Fund SICAF	Global	153.9		153.9	2009	
Total Discontinuing		402.1	171.0	573.1		2.7
Total Co-Investments		693.1	188.4	881.5		16.1

1 Represents Lend Lease's share of income earned before tax in A\$m.

2 Fund life is periodically extended for four years, unless investors elect otherwise. If fully extended the Lend Lease Retail Partnership has a 40 year life ending in 2039. Lend Lease's co-investment is committed to the end of the fund's life.

3 Fund life is periodically extended for four years, unless investors elect otherwise. If fully extended the Lend Lease Overgate Partnership has a 40 year life ending in 2040. Lend Lease's co-investment is required to be at least a minimum of 10% of subscribed capital to the end of the fund's life.

Investment earnings from Australian co-investments, European retail co-investments and the co-investments in APIC and APIC II have been classified as continuing operations for the purpose of the Consolidated Financial Statements.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Other

Non Core Investments

Non core investments includes those investments that are not integral to Lend Lease operations such as IBM Global Services (IBMGSA) in Australia, Lend Lease Asia Water Trust in Asia and Chelverton and THI in Europe.

The segment results for the year ended June 2003 are summarised below:

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Asia Pacific								
IBMGSA	15.1	20.4	15.1	20.0	12.1	16.8	59.8	58.6
Capital Services	1.1	3.3	(8.4)	0.2	(6.5)	(2.5)	4.0	17.5
Westpac Banking Corporation: Sale of shares subject to hedge arrangements		61.9		39.0		28.2		
	16.2	85.6	6.7	59.2	5.6	42.5	63.8	76.1
Europe								
Capital Services	16.8	8.6	9.0	12.1	16.6	9.2	16.1	19.3
Americas								
Coolsavings Inc		1.6		2.4		2.4		
	33.0	95.8	15.7	73.7	22.2	54.1	79.9	95.4

Asia Pacific

The profit after tax for the year ended June 2003 of A\$5.6 million principally relates to distributions received from IBMGSA offset by a provision against the investment in Lend Lease Asia Water Trust of A\$9.3 million. The June 2002 profit included a A\$28.2 million profit after tax from unwinding the final tranche of the previously hedged Westpac shares.

Europe

European investments in Capital Services comprises Chelverton, THI and Clacton. The profit after tax of A\$16.6 million comprises the reversal of provisions following the receipt of proceeds from the sale of properties in Chelverton, liquidation distributions from THI and Chelverton and the recognition of tax benefits in respect of previous provisions raised against the exposure to Chelverton.

Segment assets of A\$16.1 million relates to loans to the Chelverton Group. The status of this investment is summarised below.

Chelverton Group

During the year ended June 2003 Lend Lease sold its 50% interest in the Chelverton Group. The Group's remaining interest relates to loans outstanding which are partly secured by assets in the UK and Europe.

THI plc (THI)

Lend Lease has a 14.3% interest in THI which is in administration. Provisions were raised in prior periods to cover exposures to this investment. Liquidation proceeds of A\$7.9 million were received during the period.

Americas

The profit after tax of A\$2.4 million in the year ended June 2002 principally relates to the sale of Lend Lease's interest in Coolsavings Inc.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Other continued

Corporate

Corporate comprises central overheads net of revenue and recoveries from the Group's operating businesses, finance costs and amortisation. These charges are summarised below:

	Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	June 2003	June 2002	June 2003	June 2002	June 2003	June 2002
Net Corporate Overheads	(54.1)	(30.4)	(13.3)	(40.8)		
Amortisation	(75.3)	(81.9)	(75.3)	(81.9)		
Group Treasury	6.0	(14.6)	10.7	0.8	599.2	534.7
Total Corporate Services¹	(123.4)	(126.9)	(77.9)	(121.9)	599.2	534.7

¹ Excludes group restructuring costs of A\$32.5 million after tax which are separately disclosed in the Segment Results Summary.

Net Corporate Overheads

Net corporate costs are made up as follows:

	June 2003 A\$m	June 2002 A\$m
Gross corporate costs	99.1	89.6
Shared Services	12.2	12.0
	111.3	101.6
<i>Less:</i> Recoveries from operating businesses	(61.4)	(78.1)
Lend Lease Foundation	2.7	2.7
Other	1.5	4.2
Operating loss before tax	54.1	30.4
Operating loss after tax	13.3	40.8

Gross corporate overheads increased from A\$101.6 million for the year ended June 2002 to A\$111.3 million for the year ended 30 June 2003. This increase is principally due to costs associated with the Group's strategic review (A\$7.0 million), the provision required to make good the Australia Square tenancy (A\$7.3 million) and the introduction of several human resource initiatives (A\$4.1 million) for learning and development offset by savings arising from the review of the Group's overhead structure.

Savings in gross overheads were partly offset by lower recharges to the Group's operating businesses of A\$16.7 million.

The Corporate tax charge for the year ended June 2003 benefited from the one-off release of tax provisions whereas the year ended June 2002 was impacted by prior year under provisions for tax.

Lend Lease Foundation costs and revenue remained constant as there were no major change in dividends received from Lend Lease shares.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Other continued

Group Amortisation

Amortisation charges are largely in respect of management agreements and goodwill which are reported at the Group, not business unit, level.

	Book Value		Amortisation Charge	
	June 2003 A\$m	June 2002 A\$m	June 2003 A\$m	June 2002 A\$m
Management Agreements				
REI US				
Discontinuing operations	374.5	821.3	14.1	19.2
REI Australia				
Continuing operations	58.4	59.8	1.3	1.2
	432.9	881.1	15.4	20.4
Goodwill				
Bovis Group	600.6	685.9	40.2	42.9
Delfin Group	68.5	72.3	3.8	3.4
Other		1.0	0.9	1.3
REI US				
Discontinuing operations	30.9	284.7	13.9	22.9
	700.0	1,043.9	58.8	70.5
Other intangible assets	3.2	5.1	1.5	1.0
Total Group amortisation			75.7	91.9
FX hedge allocation			(0.4)	(10.0)
Amortisation adjusted for FX hedge allocation			75.3	81.9

As a result of the sale of REI US businesses and the writedown of the REI US goodwill and management agreement book values, the amortisation charge going forward will be significantly reduced.

Group Treasury

	Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Assets	
	June 2003 A\$m	June 2002 A\$m	June 2003 A\$m	June 2002 A\$m	June 2003 A\$m	June 2002 A\$m
Interest revenue	39.9	29.3	27.3	21.8		
Interest expense and borrowing costs	(66.4)	(68.0)	(39.2)	(37.9)		
Net hedge benefits	32.5	24.1	22.6	16.9		
Total Group Treasury	6.0	(14.6)	10.7	0.8	595.5	534.7

Interest Revenue and Borrowing Costs

Interest revenue increased by A\$5.5 million to A\$27.3 million (after tax) for the year ended 30 June 2003. This was primarily due to higher average cash balances during the year. Throughout the year excess cash over working capital requirements were consolidated in Australia. This cash was invested in commercial paper and bank bills issued by financial intermediaries and corporates with an acceptable investment grade credit rating. The credit risk on cash investments is managed through a Board approved credit policy. As most of the interest revenue is earned in Australia there is minimal impact from FX movements. The average interest rate earned on invested cash during the year was 4.8% (June 2002 4.7%).

Borrowing costs primarily relate to interest on the A\$500 million medium term note due July 2005 and the US\$250 million guaranteed notes due June 2005. Borrowing costs comprise A\$66.4 million before tax (June 2002 A\$81.8 million), offset by an FX hedge loss allocation of A\$0.1 million in June 2003 (June 2002 A\$13.8 million gain). Interest rates on the Group's borrowings are 70% fixed and 30% floating.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Other continued

Group Treasury continued

Net Hedge Benefit

A net hedge benefit was earned on the Group's hedging of foreign exchange exposures of A\$22.6 million (after tax) compared to A\$16.9 million (after tax) in the prior financial year. This increase is primarily due to favourable interest rate differentials between the US and Australia, earned on hedging the Group's US Dollar position (including intercompany loans).

The impact of foreign exchange movements included in the Statements of Financial Performance differs from net hedge benefits disclosed above as gains and losses arising on hedging the Group's foreign denominated earnings are allocated (FX hedge allocation) to business unit's operating profit before tax, interest and amortisation.

Lend Lease uses Forward Foreign Exchange Contracts to hedge a proportion of forecast revenue and GPM from foreign operations, this hedging results in a proportion of foreign denominated earnings being hedged as follows:

	Year Ending 30 June 2004		Year Ending 30 June 2005		Year Ending 30 June 2006	
	Portion Hedged	Average Rate of Underlying Hedge Contracts	Portion Hedged	Average Rate of Underlying Hedge Contracts	Portion Hedged	Average Rate of Underlying Hedge Contracts
Foreign Operations						
US Dollars	70-100%	0.51	50-70%	0.56	10-30%	0.62
Pounds Sterling	70-100%	0.39	50-70%	0.38	10-30%	0.39

As the rate of the underlying hedges in the year ended June 2003 was similar to the actual average rate for the year, the loss of A\$2.4 million was lower than the loss of A\$21.9 million in the prior financial year. This resulted in a lower FX hedge allocation to the business unit's operating profit before tax, interest and amortisation.

Additionally, where Lend Lease hedges business unit cash flows, any FX gains and losses arising on the hedges are allocated directly to business unit operating profit.

The impact of foreign exchange movements on the Group's net assets is detailed in the Foreign Currency Translation Reserve (FCTR). In the year ended June 2003, the FCTR debit balance increased reducing reserves by A\$8.9 million. Due to the writedown of the US REI business, the appreciation of the A\$ relative to the US\$ had little impact on FCTR this year.

Credit Strength

Management principally analyses credit strength in terms of interest coverage and targets approximately six times EBITDA to interest expense ratio. The key borrowing ratios are shown below.

		June 2003	June 2002
Cash	A\$m	867.2	904.1
Borrowings	A\$m	884.6	938.6
Total equity	A\$m	3,007.6	3,752.1
Borrowings to total assets	%	11.8	10.8
Gross debt to shareholders' equity	%	29.4	25.0
Net (cash)/debt to shareholders' equity	%	0.6	0.9
Debt to shareholders' equity plus debt	%	22.7	20.0
Credit rating	Rating	A-/Baa2	A-/Baa2
Interest coverage ¹	Times	7.7	7.6
Interest coverage target	Times	6.0	6.0

¹ Calculated as EBITDA (before the writedown of REI US businesses of A\$945.0 million) plus interest revenue divided by net borrowing costs excluding foreign exchange benefit.

Management Discussion and Analysis of Financial Condition and Results of Operations (MD&A) continued

Other continued

Statement of Financial Position (Balance Sheet)

Balance Sheet Summary by Major Component

	June 2003 A\$m	June 2002 A\$m	Increase/ (Decrease) A\$m
Cash	867.2	904.1	(36.9)
Real estate development inventories	937.0	857.6	79.4
Real estate development investments	98.9	140.9	(42.0)
Real estate co-investments	694.7	663.7	31.0
Other real estate investments	611.8	648.9	(37.1)
Other investments	42.8	52.1	(9.3)
Goodwill	700.0	1,043.9	(343.9)
Management agreements	432.9	881.1	(448.2)
Borrowings	(884.6)	(938.6)	54.0
Other net assets/(liabilities) ¹	(493.1)	(501.6)	8.5
Shareholders' equity	3,007.6	3,752.1	(744.5)

¹ Other net assets/liabilities includes trade creditors and receivables, provisions and other liabilities including deferred tax.

Total equity decreased from A\$3.8 billion to A\$3.0 billion primarily due to the writedown of the REI businesses.

Cash Flow

The following table summarises the major cash flows for the year ended 30 June 2003.

	June 2003 A\$m	June 2002 A\$m
Cash at the beginning of financial year	904.1	1,118.6
Summary of Major Cash Transactions During Financial Year		
Operating Activities		
Net receipts in the course of operations	265.2	173.8
Net property development receipts	28.9	518.5
Tax payments	(145.6)	(142.0)
Net interest paid	(26.3)	(52.3)
Other operating cash receipts	69.2	59.4
Net cash provided by operating activities	191.4	557.4
Other Cash Transactions		
Payment of dividends	(80.9)	(73.3)
Net REI Co-investments	(166.5)	(142.3)
Net mortgage loans and tax credit properties investments	(69.6)	(219.2)
Proceeds on sale of investments (including North Lakes)	159.4	126.7
Net borrowing repayments		(243.6)
Purchase of controlled entities (including Lend Lease Rosen Real Estate Securities)	(38.2)	(173.9)
Other net cash flows	(32.5)	(46.3)
Net cash deployed for financial year	(36.9)	(214.5)
Closing cash balance at end of financial year	867.2	904.1

Net property development cash flows during June 2003 include the payment received from Capital Shopping Centres in relation to Chapelfield, Norwich. June 2002 included cash flows from Olympic Village, Sydney (A\$240.9 million) Touchwood Court, Solihull (\$139.9 million) and Overgate Centre, Dundee (\$132.1 million).