

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 currency amounts in the MD&A are expressed in Australian dollars unless otherwise specified. The following discussion and analysis is based on the Lend Lease Group (the Group) Consolidated Financial Statements for the half year ended 31 December 2009 and should be read in conjunction with those financial statements.

Overview

Introduction

The Group has five lines of business that operate in three geographic regions: Asia Pacific, Europe and the Americas.

- The Retail business comprises retail property management, asset management and development. This business also includes the Group's ownership interests in direct property investments, including those held via limited partnerships;
- The Communities business is involved in the development of large scale master-planned urban communities, inner city mixed use developments, apartments and the retirement sector;
- The Public Private Partnerships (PPP) business manages and invests equity in large PPP projects;
- Investment Management provides real estate investment management services. Investment Management includes the Group's ownership interests in property investments held indirectly through investments in Lend Lease managed funds;
- Project Management and Construction provides construction, project management and design services through Bovis Lend Lease.

Results Summary

	Revenue		EBITDA		Profit/(Loss) After Tax ¹	
	December 2009 A\$m	December 2008 A\$m	December 2009 A\$m	December 2008 A\$m	December 2009 A\$m	December 2008 A\$m
Retail	57.4	69.6	45.2	51.7	31.5	37.4
Communities	363.4	215.5	104.3	55.7	71.4	71.1
Public Private Partnerships	589.3	712.7	55.1	25.0	49.5	30.8
Investment Management	27.9	36.8	18.5	25.8	12.4	20.9
Project Management and Construction	4,529.0	6,754.2	90.6	131.3	55.9	88.1
Total operating businesses	5,567.0	7,788.8	313.7	289.5	220.7	248.3
Group Services	7.5	11.3	(31.9)	(42.1)	(24.6)	(39.0)
Group Treasury	18.8	28.5	2.0	(12.9)	(5.9)	(22.4)
Group Amortisation					(2.3)	(1.5)
Total corporate	26.3	39.8	(29.9)	(55.0)	(32.8)	(62.9)
Total operating	5,593.3	7,828.6	283.8	234.5	187.9	185.4
Property investment revaluations			26.1	(216.3)	17.0	(169.6)
Other asset impairments				(652.6)		(593.6)
Savings implementation costs				(70.4)		(48.9)
Net gain on Bovis UK pension scheme curtailment				42.0		30.3
Total statutory	5,593.3	7,828.6	309.9	(662.8)	204.9	(596.4)

¹ Profit/(loss) after tax is after adjusting for the profit attributable to minority interests of A\$1.6 million (December 2008: A\$6.0 million loss after tax).

The Group's statutory profit after tax for the half year ended 31 December 2009 increased to A\$204.9 million from a loss after tax of A\$596.4 million for the prior period, which included a number of net write-downs and charges.

Operating profit after tax for the half year ended 31 December 2009 of A\$187.9 million is broadly in line with the prior period.

Operating profit after tax was negatively impacted by foreign exchange movements of A\$17.0 million due to the strengthening of the Australian dollar.

The Group recognised net property investment revaluations of A\$17.0 million profit after tax (December 2008: a loss after tax of A\$169.6 million).

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

Overview continued

Results Summary continued

The difficult economic environment, particularly in the construction sector, impacted on the Group's operating results for the period. The Group, however, is well positioned for future growth, securing a number of significant projects in the period, including:

- Being selected by the Barangaroo Delivery Authority (BDA) on behalf of the New South Wales Government as Developer for Stage 1 of Barangaroo, the largest central business district (CBD) development in the history of Sydney with an end value of approximately A\$6.0 billion;
- A consortium led by Lend Lease being appointed preferred bidder to acquire the 14 assets of the A\$1.4 billion ING Retail Property Fund;
- Agreeing Heads of Terms with the London Borough of Southwark for the circa £1.5 billion regeneration of Elephant and Castle, in the United Kingdom (UK);
- Launching a new wholesale fund, Lend Lease Real Estate Partners 3 (REP3), after receiving A\$250.0 million in commitments from investors. The Fund is part of the consortium that has been announced as the preferred bidder for the ING Retail Property Fund;
- Subsequent to balance date, on 20 January 2010, Lend Lease was selected as preferred proponent by the Western Australian Government for the first stage of the 710-hectare Alkimos Community development.

These transactions continue to build upon the Group's strategic model of investing alongside third party capital partners.

Additionally, the Group consolidated its position in the retirement sector with the acquisition of the remaining 56.8% interest in Lend Lease Primelife (Primelife) and the purchase of nine aged care facilities and four retirement villages from Prime Retirement and Aged Care Property Trust (Prime Trust).

Following shareholder approval on 12 November 2009 the shares of the Company and the units in Lend Lease Trust (LLT) were combined as stapled securities. From 13 November 2009 the shares in the Company and units in the Trust have been traded as one security under the name of Lend Lease Group on the Australian Securities Exchange and the New Zealand Stock Exchange. LLT was 100% owned by the Company prior to approval of the stapling proposal. Units in LLT were subsequently distributed to Lend Lease Corporation Limited shareholders as an 'in specie' dividend. The Company is deemed to control LLT and therefore LLT is consolidated into the Group's financial report. The Trust held assets of A\$0.5 million as at 31 December 2009.

Operating Profit After Tax

The Retail business operating profit after tax, although lower than the prior period, has remained relatively robust due to development fees received and the relatively stable income flow from its investments.

The Communities business operating profit after tax in Asia Pacific declined, as the prior period included the sale of the Group's interest in seven retirement villages and an aged care facility to Primelife. Residential markets in Australia and the UK improved, resulting in higher settlements compared to the prior period. In addition, the Communities business in Europe completed the sale of the share capital in Meridian Delta Dome Limited for a consideration of A\$22.2 million.

The increase in operating profit after tax for the PPP business is largely attributable to the UK PPP business, where operating profit after tax increased with the sale of the Group's interest in the Queen's Hospital, Romford, for a consideration of A\$43.2 million. In the United States (US), Actus Lend Lease (Actus) achieved financial close on Phase 1 of the Privatised Army Lodging project.

The contribution to operating profit after tax from Investment Management was lower principally due to reduced funds management fees.

Project Management and Construction operating profit after tax decreased, reflecting the significant slowdown in construction markets, particularly in the US, Europe and the Middle East. The result also includes additional restructure costs resulting from cost savings initiatives implemented in response to the slowdown in construction markets, costs in relation to the New York investigations and a provision against debtor exposures in the Middle East. This has been partially offset by the strong performance of the Australian business.

Group Services costs decreased due to cost reductions in Corporation and Lend Lease Ventures and reduced losses in the Group's captive insurance vehicle.

Group Treasury costs decreased due to the £350.0 million UK syndicated bank facility being drawn to a lower amount in the period compared with the prior period and lower hedge costs.

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

Overview continued

Shareholder Returns

		December 2009	December 2008
Earnings per security (EPS) on statutory profit/(loss) after tax ¹	cents	44.6	(148.2)
EPS on operating profit after tax ¹	cents	40.9	46.1
Return on equity (ROE) on statutory profit/(loss) after tax ²	%	8.2	(21.7)

- 1 EPS is calculated using the weighted average number of securities on issue including treasury securities. Under the Australian Accounting Standards, securities held in employee benefit vehicles, including employee security plans, which Lend Lease sponsors, are treated as treasury securities and are excluded from the calculation. This would have the effect of increasing the EPS calculations above if applied.
- 2 ROE is calculated based on statutory profit/(loss) after tax for the half year ended 31 December 2009 and average equity as at 31 December 2009.

Distributions

An interim 100% franked dividend of 20 cents per security will be paid on 31 March 2010 (December 2008: 25 cents per share 60% franked). This represents a payout ratio of 49% of operating profit after tax for the half year ended 31 December 2009. The distribution per security excludes the 'in specie' dividend of A\$0.5 million following the stapling of LLT units to shares in the Company in November 2009.

Group Debt

		December 2009	June 2009
Net debt ¹	A\$m	749.9	195.8
Gross borrowings to total tangible assets ²	%	18.9	16.9
Net debt to total tangible assets, less cash ³	%	9.2	2.9
Interest coverage ⁴	times	10.2	5.2

- 1 Net debt is borrowings, including other non current financial liabilities, less cash.
- 2 Calculated as borrowings, including other non current financial liabilities, divided by total tangible assets.
- 3 Calculated as net debt divided by total tangible assets, less cash.
- 4 Calculated as operating EBITDA plus interest income divided by interest finance costs, including capitalised finance costs.

The Group's net debt at 31 December 2009 was A\$749.9 million, including other non current financial liabilities of A\$168.9 million. The Group's net debt includes the A\$570.0 million committed club facility maturing in December 2011, which was used to fund the Primelife acquisition.

The Group's gearing has increased due to the A\$570.0 million committed club facility being fully drawn at 31 December 2009.

Interest coverage at 10.2 times is significantly in excess of the Group's banking covenant thresholds.

The Group is in a strong liquidity position with cash and cash equivalents of A\$967.5 million at 31 December 2009. In addition, the Group had un-drawn committed bank facilities of A\$536.8 million.

The average maturity of Lend Lease's drawn debt at 31 December 2009 was six years, with the earliest maturity date being November 2010.

At 31 December 2009, the mix of borrowings, adjusted for interest rate swaps and including other non current financial liabilities, was 60% at fixed rates and 40% at floating rates.

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

Overview continued

Cash Flow

	December 2009 A\$m	December 2008 A\$m
Net cash provided by operating activities	107.3	195.0
Net cash used in investing activities	(263.7)	(277.9)
Net cash provided by financing activities	81.2	709.2
Effect of foreign exchange rate movements on cash and cash equivalents	(78.1)	94.2
Net (decrease)/increase in cash and cash equivalents	(153.3)	720.5

Operating cash inflows of A\$107.3 million represent the underlying cash flows from the Group's operating businesses net of continued investment in property developments.

Investing cash outflows of A\$263.7 million includes the acquisition of the remaining 56.8% interest in Primelife for a consideration of A\$170.1 million and the purchase of nine aged care facilities and four retirement villages from Prime Trust for a consideration of A\$82.6 million.

Financing cash inflows of A\$81.2 million include the A\$570.0 million committed club facility, which was fully drawn at 31 December 2009, partially offset by the repayment of borrowings on the acquisition of Primelife of A\$445.6 million and distribution payments of A\$38.3 million.

Investments

	Region	Lend Lease Share of Income ¹ December 2009 A\$m	Lend Lease Share of Income ¹ December 2008 A\$m	Market Value ² December 2009 A\$m	Market Value ² June 2009 A\$m
Retail					
Bluewater	UK	20.6	30.0	764.5	814.3
King of Prussia	US	14.1	16.7	367.4	427.0
Other retail investments	Various	3.3	2.2	238.0	222.8
Total		38.0	48.9	1,369.9	1,464.1
Investment Management					
Other retail investments	Various	11.4	13.1	428.9	432.7
Other investments	Various	3.4	0.6	70.6	72.9
Total		14.8	13.7	499.5	505.6
Total investments		52.8	62.6	1,869.4	1,969.7

1 Represents Lend Lease's share of income before tax from investments net of direct expenses and allocated overhead, excluding property investment revaluations. There are no gains or losses on the disposal or redemption of available for sale financial assets included in Lend Lease's share of income for the half year ended 31 December 2009 (December 2008: nil).

2 Market value is based on independent valuations and is net of project specific debt.

Lend Lease held property investments, directly or indirectly, with a market value of A\$1.9 billion at 31 December 2009. The market value of investments in local currency increased by A\$106.9 million, however the value in Australian dollars was reduced by A\$207.2 million due to exchange rate movements.

During the period, the Group's interest in property investments generated investment income EBITDA of A\$52.8 million (December 2008: A\$62.6 million).

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

Overview continued

Investments continued

Retail

The independent market value of 100% of Bluewater at 31 December 2009 increased by 7% to £1,427.0 million (A\$2,548.2 million). However the value of Lend Lease's 30% direct interest in Australian dollars decreased to A\$764.5 million, due to negative foreign exchange movements. As Bluewater is held as inventory, the asset is recorded at cost in the financial statements, which at 31 December 2009 was A\$444.2 million (June 2009: A\$506.2 million).

The value of Lend Lease's 50% interest in King of Prussia decreased slightly to US\$341.7 million (June 2009: US\$345.9 million), although the Australian dollar equivalent value decreased by 14% due to a negative foreign exchange movement.

Other retail investments have increased by A\$15.2 million to A\$238.0 million, principally due to an increase in the valuation of 313@somerset of A\$35.0 million, offset by negative foreign exchange movements.

Investment Management

Other retail investments decreased by A\$3.8 million to A\$428.9 million principally due to negative foreign exchange movements, offsetting an increase in valuation, principally on Lend Lease Asian Retail Investment Fund (ARIF) and Asia Pacific Investment Company No. 2 Limited.

Other investments remained broadly in line with the prior period at A\$70.6 million.

Property Investment Revaluations

	Unrealised Revaluation Gain/(Loss) Before Tax December 2009 A\$m	Unrealised Revaluation Gain/(Loss) Before Tax December 2008 A\$m	Unrealised Revaluation Gain/(Loss) After Tax December 2009 A\$m	Unrealised Revaluation Gain/(Loss) After Tax December 2008 A\$m
Retail				
Australia	(1.8)	(1.3)	(1.8)	(1.3)
Asia	35.0		24.5	
Europe	0.2	(115.0)	(0.6)	(106.7)
Americas	(8.4)	(76.4)	(4.9)	(44.7)
Total	25.0	(192.7)	17.2	(152.7)
Communities				
Europe	(3.8)		(3.8)	
Total	(3.8)	-	(3.8)	-
Investment Management				
Australia	(3.3)		(3.0)	
Asia	5.3	(0.7)	3.7	(0.5)
Europe	2.9	(22.9)	2.9	(16.4)
Total	4.9	(23.6)	3.6	(16.9)
Total property investment revaluations	26.1	(216.3)	17.0	(169.6)

Subsequent Events

The Lend Lease Group plans to undertake an equity raising via a Single-bookbuild Accelerated Renounceable Entitlement Offer ('SAREO') commencing 25 February 2010 and concluding 24 March 2010. The offer will be fully underwritten.

All new securities issued will be fully paid and rank equally with existing Lend Lease Group securities on issue, except that they will not be eligible for an interim distribution declared in respect of the period ended 31 December 2009. The Lend Lease Group expects to raise gross proceeds of A\$800.0 million through this offer.