

# 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 for the year ended 30 June 2004 and should be read in conjunction with those Financial Statements.

## Overview

### Introduction

Lend Lease provides a broad range of real estate services to clients in three regions, Asia Pacific, Americas and Europe.

The principal activities are conducted through three divisions, Bovis Lend Lease (BLL), Integrated Development Businesses (IDB), and Real Estate Investment Services (REI). Bovis Lend Lease provides construction, project management and design services across all regions. IDB comprises Delfin Lend Lease and Lend Lease Development in Australia, Actus Lend Lease in America, and the Public Private Partnerships (PPP) and retail and urban regeneration businesses in Europe. REI's principal business is that of real estate investment management in Asia Pacific and Europe.

In management's opinion, no single factor determines the Group's financial condition or the profitability of its divisions. Lend Lease uses a range of performance measures for evaluating different businesses. In addition to profit, the key performance measures used to evaluate future profitability of the businesses are Backlog Gross Profit Margin (GPM) for Bovis Lend Lease, Backlog for urban communities, and Assets Under Management for REI. This overview provides a summary of the Group's performance.

### Segment Results Summary

The financial results for the year ended June 2004 are summarised below.

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax <sup>1,2</sup>		Total Assets	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
<b>Bovis Lend Lease</b>	<b>7,696.0</b>	<b>8,460.9</b>	<b>169.2</b>	<b>243.0</b>	<b>105.1</b>	<b>157.5</b>	<b>2,962.7</b>	<b>2,920.5</b>
<b>Integrated Development Businesses</b>	<b>808.0</b>	<b>704.7</b>	<b>116.8</b>	<b>61.7</b>	<b>78.8</b>	<b>41.8</b>	<b>1,348.6</b>	<b>821.6</b>
<b>Real Estate Investments</b>								
Continuing operations	228.0	222.1	145.4	140.4	100.3	95.8	1,309.7	1,324.2
Discontinuing operations <sup>3</sup>	134.5	625.8	20.8	88.8	10.1	65.3	508.2	1,663.5
<b>Total Real Estate Investments</b>	<b>362.5</b>	<b>847.9</b>	<b>166.2</b>	<b>229.2</b>	<b>110.4</b>	<b>161.1</b>	<b>1,817.9</b>	<b>2,987.7</b>
<b>Total Operating</b>	<b>8,866.5</b>	<b>10,013.5</b>	<b>452.2</b>	<b>533.9</b>	<b>294.3</b>	<b>360.4</b>	<b>6,129.2</b>	<b>6,729.8</b>
<b>Non-Core Investments</b>	<b>25.5</b>	<b>33.0</b>	<b>19.7</b>	<b>15.7</b>	<b>22.1</b>	<b>22.2</b>	<b>2.1</b>	<b>79.9</b>
<b>Corporate</b>								
Net corporate	65.4	27.5	(51.0)	(118.0)	(28.4)	(55.3)	250.1	256.6
Group amortisation								
Continuing operations			(46.2)	(47.4)	(46.2)	(47.4)		
Discontinuing operations <sup>3</sup>			(2.2)	(27.9)	(2.2)	(27.9)		
Group Treasury	62.9	39.9	12.2	6.0	16.3	10.7	669.3	342.6
	<b>128.3</b>	<b>67.4</b>	<b>(87.2)</b>	<b>(187.3)</b>	<b>(60.5)</b>	<b>(119.9)</b>	<b>919.4</b>	<b>599.2</b>
Group restructuring/merger costs			(23.2)	(47.3)	(18.5)	(32.5)		
<b>Total Corporate</b>	<b>128.3</b>	<b>67.4</b>	<b>(110.4)</b>	<b>(234.6)</b>	<b>(79.0)</b>	<b>(152.4)</b>	<b>919.4</b>	<b>599.2</b>
<b>Total Group results before one off items</b>	<b>9,020.3</b>	<b>10,113.9</b>	<b>361.5</b>	<b>315.0</b>	<b>237.4</b>	<b>230.2</b>	<b>7,050.7</b>	<b>7,408.9</b>
<b>One Off Items</b>								
Write-down of REI businesses				(882.0)		(945.0)		
Net impact of exit from REI businesses <sup>4</sup>	547.9		(7.2)		(2.3)			
Profit on sale of IBMGSA	157.3		111.5		79.7		80.0	
Tax benefit from tax consolidation					18.7			
<b>Total Group</b>	<b>9,725.5</b>	<b>10,113.9</b>	<b>465.8</b>	<b>(567.0)</b>	<b>333.5</b>	<b>(714.8)</b>	<b>7,130.7</b>	<b>7,408.9</b>

1 Operating profit/(loss) after tax is net of the amount attributable to outside equity interests of \$4.1 million (June 2003 \$6.9 million).

2 The segment results of the operating businesses exclude financing costs (which are included in Group Treasury), amortisation charges, the profit on sale of the Group's investment in IBMGSA, tax benefits from capital losses arising from tax consolidation and the exit from and write-down of the REI businesses, all of which are separately disclosed, but includes the benefit of capital losses not previously recognised in the segment result of \$14.8 million of which \$13.0 million was recouped against the capital gain on sale of IBMGSA.

3 Discontinuing operations include those businesses which have been sold or are in the process of being divested or wound down.

4 This is comprised of the profit after tax on sale of REI businesses of \$7.6 million and the release of restructure reserve \$18.2 million after tax offset by other exit costs of \$28.1 million after tax.

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

### Overview continued

#### Operating Profit After Tax

The Group's operating profit after tax (including one off items) of \$333.5 million for the year ended June 2004 is an increase of \$1,048.3 million over the year ended June 2003.

The Group's operating profit after tax before one off items of \$237.4 million is an increase of \$7.2 million from the previous year. However, there were several significant differences in the composition of the result compared to June 2003, which are as follows:

- An increase of \$24.5 million in the Delfin Lend Lease profit after tax reflecting increased sales activity, primarily in South-East Queensland;
- An increase of \$12.5 million in profit after tax from other IDB businesses reflecting an increased contribution from Actus Lend Lease and a reduced loss from IDB in Europe due to the timing of bid costs and bid cost recoveries; and
- A reduction in net corporate overheads of \$67.0 million (before tax) reflecting the continued focus on cost reductions. The corporate result includes recoveries from operating businesses and the impact of different tax rates across regions on corporate costs, this is discussed further in the corporate section of this report.

These increases were offset by:

- A decline of \$52.4 million in the Bovis Lend Lease profit after tax, primarily as a consequence of losses arising from a small number of projects in Australia; and
- A reduction of \$50.7 million profit after tax in the contribution from the REI business following the sale of the US REI businesses. The reduced contribution was offset, in part by a reduced amortisation charge from discontinued operations.

#### Backlog GPM Summary

Backlog GPM represents the expected GPM to be earned for the balance of work to be completed under existing construction and facilities management contracts. Backlog GPM is a key measure for Bovis Lend Lease, Actus Lend Lease and the facilities management business associated with PPP contracts.

The following table provides a summary of New Work Secured for the year ended June 2004 and the Backlog GPM as at that date.

	Opening Backlog GPM at June 2003 \$m	Foreign Exchange Adjustment \$m	Significant Adjustments to Backlog \$m	New Work Secured (GPM) June 2004 \$m	Backlog GPM Realised June 2004 \$m	Closing Backlog GPM at June 2004 \$m
Bovis Lend Lease	564.0	10.4	(28.7)	461.9	(486.0)	521.6
PPP (facilities management)	41.9	0.7		5.4	(3.4)	44.6
Actus Lend Lease	54.7	1.6		66.7	(49.3)	73.7
<b>Total Secured Backlog GPM</b>	<b>660.6</b>	<b>12.7</b>	<b>(28.7)</b>	<b>534.0</b>	<b>(538.7)</b>	<b>639.9</b>
Preferred bidder but not reached financial close	212.4	4.2		225.9	(16.8)	425.7
<b>Total preferred bidder and reached financial close</b>	<b>873.0</b>	<b>16.9</b>	<b>(28.7)</b>	<b>759.9</b>	<b>(555.5)</b>	<b>1,065.6</b>

Note: A detailed analysis and explanation of backlog is contained in the Bovis Lend Lease section of this report.

- Due principally to the project losses in Australia, Bovis Lend Lease Backlog declined by 7.5% to \$521.6 million. The significant adjustment to Backlog of \$28.7 million relates to losses on projects in Australia (to the extent GPM was included in the opening balance) and the reduction in scope of major PPP contracts in Europe;
- Total Backlog including Actus Lend Lease projects, facilities management and Backlog for projects at preferred bidder stage, but that have not yet reached financial close, increased 22% to \$1.1 billion; and
- Total New Work Secured, including projects at preferred bidder status, remained relatively constant at \$759.9 million in the year ended June 2004. This is net of adjustments relating to loss making projects.

#### Urban Communities Backlog

Lend Lease is involved in the development of large-scale urban communities in the UK, the US and Australia. The number of lots under management is a key measure of future profitability and growth potential of the urban communities businesses. Lots/units under management is relevant for Delfin Lend Lease, Lend Lease Development, Actus Lend Lease and the urban communities business in the UK. The backlog for each business unit is summarised below:

	Number of Projects	June 2004 Zoned Backlog (No. of Lots/Units)	June 2003 Zoned Backlog (No. of Lots/Units)	Average Project Life Remaining (Years)
Delfin Lend Lease (Australia)	16	29,200	34,500	3 – 10
Lend Lease Development (Australia)	9	8,000	5,300	2 – 19
Actus Lend Lease (Americas) <sup>1</sup>	6	24,400	20,100	50
Greenwich Peninsula (UK)	1	10,000		16
<b>Total zoned lots under management</b>	<b>32</b>	<b>71,600</b>	<b>59,900</b>	
Delfin Lend Lease unzoned	<b>3</b>	<b>21,800</b>	-	
<b>Total zoned and unzoned</b>	<b>35</b>	<b>93,400</b>	<b>59,900</b>	

<sup>1</sup> Includes projects at preferred bidder stage and Hickham AFB.

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

### Overview continued

#### Urban Communities Backlog continued

The number of zoned lots under the control of Lend Lease's urban community business units increased by 11,700 lots in the year ended June 2004. The increase in sales Backlog reflects the following:

- Delfin Lend Lease secured an additional two projects, Yarrabilba and Waterford, in addition to the purchase of ComLand during the year. The Yarrabilba project (16,000 lots) is not zoned and therefore not included in Backlog;
- The total number of lots under control, including unzoned lots, is 93,400, an increase of 33,500 (56%) on June 2003;
- Lend Lease Development secured the Hyatt Coolum and Daikyo projects in Queensland. These projects added 2,550 units to the Lend Lease Development Backlog;
- Actus Lend Lease achieved preferred bidder on Fort Drum, which added 3,500 units and Hickam AFB, which added 1,300 units to the Actus Lend Lease Backlog. These increases were offset by reduced scope on Fort Campbell of 500 units; and
- Planning permission was granted for the Greenwich Peninsula project, a joint venture to develop 10,000 housing units in the UK as well as significant commercial office, retail and community buildings on a 147 acre site.

#### Direct and Indirect Property Interests

As at June 2004 Lend Lease had \$1.4 billion invested in property assets held directly or indirectly (excluding inventory held as part of Delfin Lend Lease and Lend Lease Development). The return on the direct and indirect property interests for the year ended June 2004 was 6.4%.

Lend Lease has significant direct and indirect interests in property. These interests include:

- A 30% direct interest in the Bluewater shopping centre in the UK plus a 1% indirect holding through Lend Lease Retail Partnership;
- A 50% interest in the King of Prussia shopping centre in the US; and
- Co-Investments held in property funds in Asia Pacific, Europe, the US and the Global Fund.

	Income <sup>1</sup> June 2004 \$m	Book Value June 2004 \$m
Bluewater	54.3	581.6
King of Prussia	20.8	207.4
Co-investments <sup>2</sup>		
Asia Pacific	(2.7)	147.0
Europe	8.2	173.5
North America	10.1	156.7
Global Fund		142.6
<b>Total direct and indirect assets</b>	<b>90.7</b>	<b>1,408.8</b>

<sup>1</sup> Represents Lend Lease's gross income before tax from properties/investments.

<sup>2</sup> Co-investments relate to investment in property funds currently or previously managed by Lend Lease where Lend Lease invested its capital alongside other investors.

#### Assets Under Management (AUM) (REI Continuing Operations)

The REI businesses in Asia Pacific and Europe earn management fees from assets under management from both retail and wholesale funds.

The following table summarises assets under management of the continuing REI businesses:

	Australia A\$b	Asia A\$b	Europe A\$b	June 2004 A\$b	June 2003 A\$b
<b>AUM at end of financial year</b> (excluding foreign currency impacts)	<b>13.1</b>	<b>1.0</b>	<b>5.6</b>	<b>19.7</b>	<b>17.7</b>
Exchange movement		(0.1)		(0.1)	(0.3)
<b>AUM at end of financial year</b>	<b>13.1</b>	<b>0.9</b>	<b>5.6</b>	<b>19.6</b>	<b>17.4</b>
Period movement In continuing AUM (excluding currency changes)	%			13.2	9.2

- Global AUM from continuing operations increased \$2.2 billion (12.6%) to \$19.6 billion; and
- REI Australia AUM increased \$1.5 billion, primarily due to the acquisition of 50% of Farrer Place (25% by GPT and 25% by APPF) totalling \$500.0 million, the Marion Shopping Centre in South Australia (\$350.0 million), redevelopment of the Melbourne Central and Erina shopping centres and revaluations of existing assets.

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

### Overview continued

#### Shareholder Returns (before one off items)

		June 2004	June 2003
EBITDA <sup>1</sup>	\$m	406.5	473.7
Earnings per share (EPS) <sup>1</sup> (including amortisation)	cents	57.4	52.5
Earnings per share (EPS) <sup>1</sup> (excluding amortisation)	cents	67.7	69.8
Return on Equity (ROE) <sup>1</sup> for the financial year (including amortisation)	%	8.3	6.5
Return on equity (ROE) <sup>1</sup> for the financial year <sup>1</sup> (excluding amortisation)	%	9.3	8.5

1 Definitions contained at the end of this document. EBITDA and ratios included in the table above are calculated with reference to operating profit after tax before one off items.

- The EBITDA for the year ended June 2004 decreased by \$67.2 million primarily due to the sale of the US REI business and the lower earnings from Bovis Lend Lease, partially offset by increased earnings from IDB and lower corporate costs;
- EPS (including amortisation) increased to 57.4 cents for the period ended June 2004. The increase in EPS, including amortisation, is a result of the decrease in the number of shares on issue following the share buyback and a lower amortisation charge in the year. In contrast, EPS excluding amortisation decreased as a result of decreased earnings following the sale of US REI businesses and losses from Bovis Lend Lease Asia Pacific; and
- The ROE for the year ended June 2004 has increased to 8.3% primarily due to the reduction in average net assets as a result of the provision against the US REI business reported as at June 2003 as well as the share buyback undertaken during the year.

#### Dividends

A final unfranked dividend of 26 cents per share for the six months ended 30 June 2004 will be paid on 15 September (20 cents per share unfranked 2003). On a full year basis this represents a payout ratio of 75% of operating profit after tax before one off items and total dividend of 44 cents for the year ended June 2004. This compares to the payout ratio of 56% of operating after tax before one off items and a total dividend of 30 cents for the year ended June 2003.

#### Proposed Merger with General Property Trust

Lend Lease has announced a proposal to merge with General Property Trust (GPT) by stapling Lend Lease shares to GPT units to form the Lend Lease Group. As the merger is subject to approval by both the unitholders of GPT and shareholders of Lend Lease, no account has been taken of the impact of the merger in the financial statements of Lend Lease Corporation. Details of this proposal and the financial impact will be addressed in the Explanatory Memorandum to be issued to shareholders.

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

### Bovis Lend Lease (BLL)

The principal activity of Bovis Lend Lease is that of construction and project management. Bovis Lend Lease operates in 51 countries worldwide and is managed through three regions: Asia Pacific, Americas, and Europe.

#### Key Financial Results

	Operating Revenue		Realised Gross Profit Margin		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
Asia Pacific	1,617.6	1,343.7	36.7	124.9	(35.9)	44.8	(27.3)	26.6
Americas	4,093.2	4,991.9	225.4	223.6	103.2	103.6	61.8	61.6
Europe	1,985.2	2,125.3	223.9	234.7	101.9	94.6	70.6	69.3
<b>Total BLL</b>	<b>7,696.0</b>	<b>8,460.9</b>	<b>486.0</b>	<b>583.2</b>	<b>169.2</b>	<b>243.0</b>	<b>105.1</b>	<b>157.5</b>

#### Revenue

Bovis Lend Lease enters into a variety of contract types including 'Fee Services' contracts (where only the fee is recorded as revenue) and '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 a useful measure of profit margin.

Total revenue for the year ended June 2004 declined to \$7.7 billion from \$8.5 billion for the year ended June 2003 which was substantially attributable to the impact of exchange rate movements of \$1.1 billion. Excluding the impact of exchange rate movements, total revenue increased by \$0.3 billion. Revenues for Bovis Lend Lease have been translated at the average rate for the year whereas GPM has been adjusted to reflect the effective hedge rate.

#### Operating Profit After Tax

Bovis Lend Lease's operating profit after tax was \$105.1 million for the year ended June 2004, a 33% decline on the year ended June 2003. Operating profit after tax for the year ended June 2004 has been positively affected, relative to June 2003, by foreign exchange movements of \$3.4 million.

#### Asia Pacific

Operating profit after tax for the Asia Pacific business declined from a profit after tax of \$26.6 million in the year ended June 2003 to a loss of \$27.3 million in the year ended June 2004. The loss on residential projects, predominately in Canberra, increased from \$37.4 million in the six months ended to December 2003 to \$41.8 million in the year ended June 2004. The increased losses arose due to further price escalation and subcontractor performance issues on key trades. These projects are now either significantly procured or complete. The residential losses were primarily the result of design and construction contracts which were underpriced. Management deficiencies in Canberra have subsequently been addressed.

In addition to the residential losses, a loss of \$13.6 million after tax was recognised in relation to one commercial project. Management believes adequate provisions have been made for all identified losses.

Realised Gross Profit Margin (GPM) decreased from \$124.9 million in the year ended 30 June 2003 to \$36.7 million in the year ended 30 June 2004 principally due to the project losses discussed above. Major new projects secured in the year ended June 2004 included Stage 2 of the Vodafone contract in Japan, the Millennium Arts Centre in Queensland, the Penrith Plaza and MacArthur Shopping Centre redevelopments for GPT and Darling Park III.

#### Americas

Operating profit after tax for the Americas increased from \$61.6 million in the year ended June 2003 to \$61.8 million in the year ended June 2004, an increase of \$0.2 million which included a \$2.3 million increase due to exchange rate movements. Realised GPM remained relatively constant at \$225.4 million in the year ended June 2004. Major new projects secured include the Midtown Reston Condominium building in Washington and the Abbott Elizabeth Schools project in New Jersey.

The Actus Lend Lease business, including the construction management income, is reported as part of the Integrated Development Business.

#### Europe

Operating profit after tax for the European business increased from \$69.3 million in the year ended June 2003 to \$70.6 million in the year ended June 2004, an increase of \$1.3 million including \$1.1 million due to exchange rate movements. Realised GPM decreased from \$234.7 million in the year ended June 2003 to \$223.9 million in the year ended June 2004 due to the finalisation of certain large commercial projects in London, partially offset by new projects under construction such as Treasury 2 and Single Living Accommodation Modernisation (SLAM). Major new projects secured in the year ended June 2004 included the Bankside building in London, the Civil Justice Centre in Manchester, and the BBC offices in Glasgow. In addition, three PFI projects achieved financial close.

#### Profitability

The profitability ratio for the year ended June 2004 is 35% (2003 42%). The decline in profitability is attributable to the losses in the Asia Pacific region. The profitability ratio for both Europe and the Americas businesses was 46% (2003 40% and 46% respectively).

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

### Bovis Lend Lease (BLL) continued

#### 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 financial years from contracts committed at the end of the financial year. The following table provides a summary of New Work Secured for the year ended June 2004 and the Backlog GPM at that date, including projects at preferred bidder stage.

	Opening Backlog GPM at June 2003 \$m	Foreign Exchange Adjustment <sup>1,2</sup> \$m	Significant Adjustments to Backlog <sup>3</sup> \$m	New Work Secured (GPM) to June 2004 \$m	Backlog GPM Realised to June 2004 \$m	Closing Backlog GPM at June 2004 \$m
Asia Pacific	89.3		(7.7)	37.6	(36.7)	82.5
Americas	218.7	6.3		195.7	(225.4)	195.3
Europe	256.0	4.1	(21.0)	228.6	(223.9)	243.8
<b>Bovis Lend Lease</b>	<b>564.0</b>	<b>10.4</b>	<b>(28.7)</b>	<b>461.9</b>	<b>(486.0)</b>	<b>521.6</b>
PPP (facilities management) <sup>4,5</sup>	41.9	0.7		5.4	(3.4)	44.6
Actus Lend Lease <sup>5</sup>	54.7	1.6		66.7	(49.3)	73.7
<b>Total Secured Backlog GPM</b>	<b>660.6</b>	<b>12.7</b>	<b>(28.7)</b>	<b>534.0</b>	<b>(538.7)</b>	<b>639.9</b>
Preferred bidder but not reached financial close <sup>6</sup>	212.4	4.2		225.9	(16.8)	425.7
<b>Total preferred bidder and reached financial close</b>	<b>873.0</b>	<b>16.9</b>	<b>(28.7)</b>	<b>759.9</b>	<b>(555.5)</b>	<b>1,065.6</b>

- Although closing backlog is run off over several years, the effective hedge rate for the year ended June 2004, has been applied to the closing backlog balance in its entirety as the exchange rates for later years are currently unknown. The Americas Backlog is US\$107.8 million and the European Backlog is GBP92.9 million.
- Exchange rate fluctuations from the prior years effective hedge rate to the current year rate are taken through the foreign exchange adjustment above.
- Significant adjustments to Backlog GPM comprise a \$7.7 million reduction to reflect losses on residential projects in Asia Pacific and \$21.0 million reduction in the scope of major PPP projects in Europe.
- Facilities management Backlog GPM only includes ten years for any project.
- The GPM from Actus Lend Lease and the facilities management GPM from the European Healthcare and other PPP projects are reported as part of IDB.
- Closing Backlog at preferred bidder stage comprises European PPP business (\$110.6 million) and Actus Lend Lease (\$315.1 million) which includes Hickham AFB which is subject to appeal.

The BLL closing Backlog GPM was \$521.6 million as at June 2004, a decrease of 7.5% on the June 2003 balance of \$564.0 million. The value of New Work Secured for the year ended June 2004 was \$461.9 million, a 24.4% decrease on the New Work Secured in the year ended June 2003 of \$611.3 million. This is principally due to the timing of reaching financial close PFI contracts in the UK and the adjustment made to reflect the losses on projects in Australia.

Total Backlog GPM, including projects at preferred bidder, was \$1.1 billion as at June 2004, an increase of 22.1% over the June 2003 balance of \$873.0 million. The significant projects that are at preferred bidder status include the Actus Lend Lease Army RCI Hawaii Project, Hickam AFB project and the Manchester and Leeds PFI hospitals in the UK. Construction works have commenced on Manchester hospital under an early works agreement.

The Backlog GPM as at June 2004 is expected to emerge or be realised over future reporting years as follows:

	June 2005 %	June 2006 %	Post June 2006 %	Total %
<b>Bovis Lend Lease</b>				
Asia Pacific	78	19	3	100
Americas	68	25	7	100
Europe	56	22	22	100
<b>Total Bovis Lend Lease</b>	<b>63</b>	<b>23</b>	<b>14</b>	<b>100</b>
Actus Lend Lease	35	16	49	100
PPP (facilities management)	6	8	86	100
<b>Total Actus Lend Lease and PPP (facilities management)<sup>1</sup></b>	<b>24</b>	<b>13</b>	<b>63</b>	<b>100</b>
Preferred bidder but not reached financial close	15	13	72	100
<b>Total preferred bidder and reached financial close</b>	<b>40</b>	<b>18</b>	<b>42</b>	<b>100</b>

- The GPM from Actus Lend Lease and PPP facilities management is reported as part of IDB.

As at June 2004, 63% of Bovis Lend Lease's Backlog GPM is projected to be realised as profit in the year to June 2005. As at June 2003, 58% was projected to be realised in the year ended June 2004. The proportion of BLL secured Backlog GPM to be realised beyond a 12-month time frame decreased from 42% as at June 2003 to 37% as at June 2004. As Lend Lease secures more longer term PPP projects, the amount of backlog realised beyond 12 months is expected to increase.

The amount of Bovis Lend Lease's Backlog GPM at year ended June 2004 expected to be earned in the 2005 financial year is expected to account for between 55% and 60% of the forecast Realised GPM for the year to June 2005. The balance of the June 2005 GPM is expected to come from new work to be secured during the year ending June 2005.

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

### Bovis Lend Lease (BLL) continued

#### Realised Gross Profit Margin Analysis by Sector

Bovis Lend Lease's strategy is to reduce the volatility of its earnings by operating in a diverse range of industries and geographies. Bovis Lend Lease has also developed strong relationships with a number of key customers that provide Bovis Lend Lease with recurring income.

The following table details the GPM earned by sector for the year ended June 2004.

	June 2004 GPM (%)	June 2003 GPM (%)
Commercial/Office (includes PFIs)	30	30
Retail	17	15
Education	8	7
Healthcare (includes PFIs)	8	7
Residential	8	3
Mixed-use	7	6
Pharmaceutical	7	10
Communications	6	2
Industrial	4	3
Defence	2	
Transportation/Aviation	1	2
Other	2	15
<b>Total</b>	<b>100</b>	<b>100</b>

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

### Integrated Development Businesses (IDB)

#### Key Financial Results

	Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax <sup>1</sup>		Total Assets	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
<b>Asia Pacific</b>								
Delfin Lend Lease	397.8	274.1	95.7	60.2	66.2	41.7	614.6	283.2
Lend Lease Development	85.2	26.6	29.0	18.8	20.2	14.8	315.0	254.9
<b>Total Asia Pacific</b>	<b>483.0</b>	<b>300.7</b>	<b>124.7</b>	<b>79.0</b>	<b>86.4</b>	<b>56.5</b>	<b>929.6</b>	<b>538.1</b>
<b>Americas</b>								
Actus Lend Lease	273.2	286.1	12.3	10.4	5.3	4.8	126.3	63.6
Other Projects	1.1	4.3	(0.9)	(1.1)	(0.5)	(0.6)	27.4	11.7
<b>Total Americas</b>	<b>274.3</b>	<b>290.4</b>	<b>11.4</b>	<b>9.3</b>	<b>4.8</b>	<b>4.2</b>	<b>153.7</b>	<b>75.3</b>
<b>Europe</b>								
Healthcare <sup>2</sup>	21.7	16.7	(14.2)	(17.6)	(8.9)	(12.7)		
Defence <sup>2</sup>			(2.1)	(19.7)	(1.6)	(13.4)		
Retail	11.7	62.9	1.0	23.0	0.8	12.9		
Other	17.3	34.0	(4.0)	(12.3)	(2.7)	(5.7)	265.3	208.2
<b>Total Europe</b>	<b>50.7</b>	<b>113.6</b>	<b>(19.3)</b>	<b>(26.6)</b>	<b>(12.4)</b>	<b>(18.9)</b>	<b>265.3</b>	<b>208.2</b>
<b>Total IDB</b>	<b>808.0</b>	<b>704.7</b>	<b>116.8</b>	<b>61.7</b>	<b>78.8</b>	<b>41.8</b>	<b>1,348.6</b>	<b>821.6</b>

<sup>1</sup> Operating Profit/(Loss) after tax is net of the amount attributable to outside equity interests.

<sup>2</sup> The construction profit after tax and construction Backlog GPM associated with these business units are included in Bovis Lend Lease.

#### Asia Pacific

##### Delfin Lend Lease

Delfin Lend Lease is focused on the development of large scale urban communities within Australia. The emphasis is on sustainable social, environmental and economic solutions through planning, urban design and infrastructure provision. The developments are often carried out in partnership with a landowner and generally the payments for land are linked to the proceeds from the sale of land lots. This achieves a lower risk profile model as the development and resulting cash flows can be phased according to market conditions. This model ensures landowners' interests are aligned to those of Delfin Lend Lease in terms of risk and return.

The increase in operating profit after tax of \$24.5 million from \$41.7 million in the year ended June 2003 to \$66.2 million in the year ended June 2004 reflects an increased level of sales by both volume and price, particularly in South-East Queensland. It also reflects the commencement of trading of Nelson's Ridge in Sydney. The June 2003 profit after tax of \$41.7 million included \$11.2 million on the sale of the North Lakes project.

The following table provides a summary of Delfin Lend Lease projects:

	June 2004	June 2003
Number of projects	21	21
Number of residential lots settled during the year	4,482	3,782
Gross sales value of residential lots settled during the year <sup>2</sup>	\$517.9m	\$366.1m
Pre-sales (sold but not yet settled at the end of the year) <sup>3</sup>	\$166.2m	\$246.4m <sup>1</sup>

<sup>1</sup> The June 2003 pre sales include two Twin Waters projects which were transferred to the Lend Lease Development business from 1 July 2004. If these projects had not been included in the June 2003 pre sales the balance would be \$178.4 million.

<sup>2</sup> Sales value reflects gross revenue from projects including gross revenue earned by joint venture projects.

<sup>3</sup> Pre-sales represent contracts entered into prior to June 2004 which have not settled and therefore do not form part of operating profit in the current year. These sales are expected to settle in future financial periods.

The number of lots under management in Backlog for Delfin Lend Lease is set out below:

	As at June 2004	As at June 2003
<b>Backlog (number of lots)<sup>1</sup></b>		
Zoned	29,200	34,500
Unzoned <sup>2,3</sup>	21,800	
<b>Total number of lots</b>	<b>51,000</b>	<b>34,500</b>

<sup>1</sup> Backlog includes the total number of lots in both Company owned and joint venture projects.

<sup>2</sup> The number of unzoned Backlog lots is likely to vary with the completion of the community master plan and finalisation of zoning approval.

<sup>3</sup> There is no comparative for June 2003 as all Delfin Lend Lease projects had zoning approval at that time.

The increase in total assets of \$331.4 million to \$614.6 million as at June 2004 includes the purchase of ComLand (\$177.4 million including transaction costs), the purchase of an additional equity stake in Retirement by Design (\$6.8 million) and an increase in project activity.

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

### Integrated Development Businesses (IDB) continued

Asia Pacific continued

#### Delfin Lend Lease continued

The portfolio of Delfin Lend Lease projects by key regions is set out below:

Region	No of Projects	Zoned Backlog (No of Lots)	Average Project Life Remaining
South-East Queensland	4	11,850	8
Melbourne	4	7,100	6
Sydney	3	6,800	10
South Australia, Northern Territory, Far North Queensland	5	3,450	3
<b>Total</b>	<b>16<sup>1</sup></b>	<b>29,200</b>	

1 Excludes Twin Waters projects transferred to Lend Lease Development from 1 July 2004.

New projects secured during the year are:

– **Yarrabilba (previously Celebration)**

A development agreement was executed to develop approximately 16,000 lots plus a town centre and a mixed-use precinct on a 2,000 hectare site in the Brisbane/Gold Coast corridor during the next 25 years. A development application was lodged with local council in June 2004. Subject to the necessary government approvals, construction is expected to commence within three years. This project is included in unzoned sales Backlog.

– **Waterford**

Agreements have been secured with individual landowners to consolidate a 115-hectare site south of Brisbane into 1,200 lots over a five-year period. The project is subject to local government approvals and is expected to commence within two years. This project is included in zoned Sales Backlog.

– **ComLand**

A sale agreement was executed on 21 January 2004 and subsequently settled on 4 June 2004 with the Commonwealth Government for the acquisition of ComLand Limited for \$177.4 million. ComLand is the landowner and 50% development partner with Delfin Lend Lease on the St Marys (Sydney) and Edgewater (Melbourne) projects. The sales Backlog of the previous ComLand partnership projects of approximately 6,000 lots was already reflected in the Delfin Lend Lease zoned Backlog lots.

– **Retirement by Design**

Delfin Lend Lease has acquired an additional equity stake in Retirement by Design (RBD). This controlling interest in RBD provides a platform for Delfin Lend Lease to actively grow the business in the emerging senior living sector.

Key highlights for Delfin Lend Lease during the year:

– **The Quay at Varsity Cove**

Construction commenced on the first stage of the medium density development at the Varsity Lakes project on Queensland's Gold Coast. Development of The Quay is being undertaken by Delfin Lend Lease and will feature 143 apartments and terrace homes on a three-hectare waterfront site. All stage one units have been pre-sold.

– **Mawson Lakes Town Centre**

Stage one of the town centre in the mixed-use retail/commercial precinct was opened at the Mawson Lakes community project in Adelaide, a joint venture with the Government of South Australia. Mawson Lakes has won the Urban Development Institute of Australia award for the best master planned community in 2004.

– **Caroline Springs Town Centre**

Construction of the retail centre within the Caroline Springs town centre in Melbourne has commenced. Sales within the town centre include more than eight hectares to the Department of Education and Training for schooling as well as a police station site and a veterinary hospital.

– **Springfield Lakes**

1,096 lots were settled during the 2004 financial year and the first neighbourhood centre incorporating a medical centre, convenience shopping, police station and associated community amenities have been completed.

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

## Integrated Development Businesses (IDB) continued

### Asia Pacific continued

#### Lend Lease Development

Lend Lease Development is principally focused on the development of large scale integrated mixed-use urban residential projects, with an emphasis on built-form products.

Lend Lease Development is currently involved in eight large urban residential development projects - four in Sydney, one in Melbourne, and three in South-East Queensland. In Sydney, Jacksons Landing, Olympic Village/Newington and Rouse Hill are predominantly residential developments but include some commercial, industrial and retail precincts. A further Sydney project, St Patricks at Manly is a smaller premium residential project. The development at Victoria Harbour in Melbourne is a waterfront regeneration project and will include residential, commercial and retail precincts. In South-East Queensland, both Twin Waters Resort and Hyatt Coolum Resort are premium residential projects. The Twin Waters Community was awarded the "World's Best Address" by the International Real Estate Federation in May 2004.

During the year Lend Lease Development successfully completed the sale of its three non residential development projects in Sydney - Darling Park III, The Bond at Hickson Road and the Fox Entertainment precinct.

The increase in operating profit after tax of \$5.4 million from \$14.8 million in the year ended June 2003 to \$20.2 million in the year ended June 2004 reflects increased sales from residential projects as well as the sale of Lend Lease's interest in the Fox Entertainment precinct which generated a profit after tax of \$13.4 million. Included in the Lend Lease Development June 2004 profit after tax was \$0.7 million from Lend Lease Development Asia compared to \$3.9 million in the year ended June 2003.

The following table provides a summary of the Lend Lease Development urban residential projects.

	June 2004	June 2003
Number of projects	9	4
Number of residential lots/exchanged during the period <sup>1</sup>	257	325
Gross value from residential lots/dwellings sold <sup>2</sup>	\$210.7m	\$173.5m
Pre-sales on committed projects (revenue not brought to account) <sup>3</sup>	\$124.3m	\$133.4m

<sup>1</sup> Number of residential lots exchanged during the period will only contribute to sales revenue if the project is more than 50% complete.

<sup>2</sup> Sales value reflects gross sales from projects including sales from joint venture projects. These projects are equity accounted in the Lend Lease consolidated results.

<sup>3</sup> Pre-sales represent contracts entered into prior to June 2004. These sales do not form part of operating profit in the current period as the projects are not yet 50% complete.

Backlog (number of lots/dwellings) as at June 2004 was approximately 8,000. This represents an increase of 2,700 lots from the total Backlog of 5,300 as at 30 June 2003. The portfolio of Sales Backlog is set out below:

Project	Backlog (no of lots/dwellings)	Project Life Remaining
Olympic Village/Newington, Sydney	500	3 years
Jacksons Landing, Sydney	550	4 years
St Patricks, Sydney	100	5 years
Rouse Hill, Sydney	1,500	9 years
Victoria Harbour, Melbourne	2,200	19 years
Hyatt Coolum, Queensland	550	7 years
Twin Waters Resort, Queensland	380	7 years
Twin Waters Community, Queensland	220	2 years
Daikyo, Gold Coast	2,000	10 years
<b>Total</b>	<b>8,000</b>	

Lend Lease Development completed the sale of its three non-residential projects during the year:

Project	Carrying Value June 2004 \$m	Carrying Value June 2003 \$m	Status
Fox Retail and Entertainment Precinct, Sydney	-	5.0	Sold
Darling Park III, Sydney	-	15.0	Sold and under construction
The Bond - Lend Lease Corporation commercial premises	-	-	Sold and project completed

The increase in total assets of \$60.1 million from \$254.9 million as at June 2003 to \$315.0 million as at June 2004 is due to the transfer of Twin Waters from Delfin Lend Lease (\$42.1 million), the acquisition of Hyatt Coolum (\$31.1 million) and Twin Waters Resort (\$21.9 million) and other development activities. These increases were offset by the sale of Darling Park III (\$15.0 million).

The major new residential projects secured during the year were:

#### - Rouse Hill

Lend Lease Development has entered into a joint venture with GPT to develop the Rouse Hill regional centre in the North West corridor of Sydney. Lend Lease Development owns 51% and GPT 49% of the joint venture. The Project Delivery Agreement with the Department of Infrastructure, Planning and Natural Resources and Landcom was signed in October 2003. The master plan was granted consent by the Baulkham Hills Shire Council in March 2004. Under the proposed plans, a vibrant town centre will be a major feature of the site, which will incorporate retail, leisure and entertainment outlets. The new community will also incorporate 1,500 homes, educational facilities and community amenities.

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

### Integrated Development Businesses (IDB) continued

#### Asia Pacific continued

#### Lend Lease Development continued

##### – Twin Waters Resort

Lend Lease Development, in joint venture with GPT, acquired the Twin Waters Resort and surrounding land on 31 October 2003 for \$43.0 million gross. Lend Lease Development owns 51% and GPT 49% of the joint venture. The development application for stage one of the Resort Development was lodged in November 2003. Civil works on stage one of the Resort Development have commenced. The project is forecast to deliver 380 lots/dwellings to be sold over seven years.

##### – Hyatt Coolum

Lend Lease Development acquired the Hyatt Regency Coolum and surrounding land for \$31.1 million on 22 September 2003. Design and planning of the first precinct, Visage, is nearing completion and construction is anticipated to commence in October 2004. The project is expected to deliver 550 lots/dwellings over seven years.

##### – Daikyo

Lend Lease Development has signed a development agreement with Daikyo to develop three Surfers Paradise sites into a mixed use residential, retail and entertainment precinct during the next 10 years with an end value of more than \$1.0 billion. The project will be developed on a land management basis, with Lend Lease drawing on the land as it is developed. The Daikyo Gold Coast sites have the potential for up to 12 residential towers, comprising approximately 2,000 apartments, along with a new entertainment and premium retail precinct. The project will be staged in accordance with market demand.

### Americas

#### Overview of Businesses

In the US, IDB is conducted primarily through Actus Lend Lease. In addition, the US business has two development projects comprising Piers in San Francisco and Gotham 80/20 Housing Project in New York.

#### Actus Lend Lease

The business involves major privatisation and other construction services for the military. The primary focus of Actus Lend Lease is the privatised military housing programme for all branches of the US military.

Operating profit after tax and minority interest of \$5.3 million in the year ended June 2004 represents a \$0.5 million increase from the \$4.8 million in the year ended June 2003. This is primarily attributable to income from the privatisation projects and the development fee recognised on Fort Campbell.

#### New Work Secured (NWS) and Backlog GPM

	Opening Backlog at June 2003 \$m	Foreign Exchange Adjustment \$m	New Work Secured (GPM) to June 2004 \$m	Realised GPM to June 2004 \$m	Closing Backlog GPM at June 2004 \$m
Projects in operational status (secured) <sup>1</sup>	54.7	1.6	66.7	(49.3)	73.7
Projects in preferred bidder status (awarded) <sup>1,2</sup>	65.6	1.9	247.6		315.1
<b>Total projects at preferred bidder and reached financial close</b>	<b>120.3</b>	<b>3.5</b>	<b>314.3</b>	<b>(49.3)</b>	<b>388.8</b>

1 Backlog GPM disclosed represents only ten years' Backlog from facilities management even though the contracts run for longer periods of up to 50 years.

2 Backlog GPM includes Hickam AFB which is subject to appeal.

#### Privatisation Projects

The current status of Actus Lend Lease projects is set out below:

Base	Status	Estimated Number of Units	Estimated Capital Spend <sup>1</sup> \$m	Contract Length	Contract End Date
Fort Hood, Texas	Operational	5,900	397	50 years	2051
Beaufort Military Complex, South Carolina	Operational	1,700	199	50 years	2053
Fort Campbell, Kentucky	Operational	4,300	357	50 years	2054
Army RCI, Hawaii	Preferred bidder	7,700	2,899	50 years	2055
Hickam AFB, Hawaii	Subject to appeal	1,300	362	50 years	2054
Fort Drum, New York	Preferred bidder	3,500	453	50 years	2055
<b>Total</b>		<b>24,400</b>	<b>4,667</b>		

1 Over the initial development period of the project.

The increase in total assets of \$62.7 million from \$63.6 million in the year ended June 2003 to \$126.3 million in the year ended June 2004 is primarily due to increased work in progress on secured projects.

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

## Integrated Development Businesses (IDB) continued

### Americas continued

#### Overview of Businesses continued

##### Actus Lend Lease continued

Major new projects at preferred bidder status:

– **Army RCI, Hawaii**

In August 2003, Actus Lend Lease was selected as preferred bidder for the Army RCI Hawaii project, the largest military housing privatisation project for the US Department of Defence. The community development management plan has been completed and will be submitted to the US Congress for approval in September 2004. The project is expected to reach financial close towards the end of the 2004 calendar year.

The Army RCI Hawaii project covers the building and renovation of over 7,700 homes, as well as the development of numerous community centres and other community amenities in the initial ten-year development period. The development scope for the project is valued at approximately US\$1.6 billion (A\$2.9 billion).

– **Hickam AFB**

In October 2003, the US Air Force selected Actus Lend Lease as the preferred developer for this project. The award of preferred bidder was reversed following a court appeal. The appeal lodged by a competing bidder, whilst successful, is expected to be withdrawn following commercial negotiations between the parties. The project is still expected to reach financial close before the calendar year end 2004. The Hickam Housing Privatisation Initiative Project involves the building and renovation of 1,300 homes, involving an expenditure of approximately US\$200.0 million (A\$362.0 million) over the first five years.

– **Fort Drum**

Actus Lend Lease was selected as the preferred bidder on the Fort Drum project in December 2003. The project is expected to reach financial close in the 2005 financial year.

The Fort Drum project includes the building and renovation of 3,500 homes with an expenditure of approximately US\$250.0 million (A\$453.0 million) over the first five years.

#### Military Construction Projects (MILCON)

In addition to the privatised military housing programme, the US Government also procures construction services from Actus Lend Lease. These projects are bid on a design and construction fixed price basis.

#### Piers Development Project, San Francisco

In March 2004, Lend Lease increased its ownership interest in the San Francisco Cruise terminal joint venture to 54.95%. During the same month the joint venture began construction of the condominium portion of the mixed-use development.

## Europe

### Overview of Businesses

The IDB business in Europe includes Public Private Partnership (PPP) projects in the healthcare and defence sectors, as well as retail development and urban community projects.

Operating profit after tax for the European region improved from an after tax loss of \$18.9 million in the year ended June 2003 to a loss of \$12.4 million in the year ended June 2004. The prior financial year loss of \$18.9 million included a charge for a provision in respect of the Shell Centre project (\$10.5 million after tax) and Allenby and Connaught bid costs (\$13.9 million after tax). These were partially offset by profits on the sale of TresAgua (\$12.7 million profit after tax).

The IDB result includes net PPP bid costs, facilities management GPM, return on equity contributions and return on loan stock from PFIs. The IDB result does not include the construction GPM contribution, which is reported as part of Bovis Lend Lease.

The increase in total assets of \$57.1 million from \$208.2 million in the year ended June 2003 to \$265.3 million in the year ended June 2004 is primarily due to an increase in capitalised work in progress on the Chapelfield, Norwich development.

### Healthcare

Lend Lease is active in the UK healthcare sector as a member of consortia bidding for hospital projects under the UK Government Private Finance Initiative (PFI). These projects are secured in partnership with a finance provider and other subcontractors. If successful, the consortium is awarded a concession (typically 30-35 years) to finance, design, construct and operate the hospital facilities. These responsibilities are contracted to a project company in which all members of the consortium invest.

Typically, Lend Lease has a 50% shareholding in these project companies with the balance of shares held by a finance provider and other subcontractors. Lend Lease will enter into subcontracts with the project company to design and construct the facilities, and to provide certain facilities management services for the operational period of the concession.

Revenue and expenses to Lend Lease include construction revenue and GPM (reported in Bovis Lend Lease); facilities management revenue and GPM, bid costs, equity returns, and loan stock interest (all reported in IDB).

During the financial year, three projects Burnley, Havering (Romford) and Roehampton with aggregate construction revenue of \$726.4 million, reached financial close. Lend Lease is preferred bidder on two major schemes: Manchester (\$973.5 million) and Leeds (\$453.5 million) which are expected to reach financial close in the financial year ending June 2005. Construction works have commenced on Manchester hospital under an early works agreement.

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

### Integrated Development Businesses (IDB) continued

#### Europe continued

##### Defence

The Defence sector is principally involved in the provision of services in the UK for Defence Estates, the property arm of the Ministry of Defence. The service provision varies between contracts but primarily the work is performed under prime contracts in joint venture arrangements. Lend Lease, as part of the joint venture, takes on the construction contract while the other joint venture partner takes on the compliance and core services (i.e. facilities management) contracts. In line with more conventional construction projects, under prime contracts Lend Lease is the single point of responsibility for the management and delivery of the construction portion of the contract, including coordinating and integrating the activities of the complete supply chain. Under prime contracting, the contractor does not provide any financing or equity to the contract.

Defence Sector projects secured to date include SLAM (a \$1.2 billion project secured in December 2002) and South West Regional Prime (\$498.7 million construction revenue).

On 26 March 2004, Debut Services (South West) Limited, a joint venture between Lend Lease and Babcock International Group plc, signed a contract to undertake the South West Regional Prime contract. The contract has a value in excess of \$1.3 billion (construction contract is \$500 million) and includes a wide range of activities from the construction of jetties to dredging channels and a variety of multi-site construction projects for the three divisions of the armed forces in the South West of England. The initial committed amount of New Work Secured for this prime contract is reflected in the Bovis Lend Lease Europe Backlog.

Debut Services (Central) Limited, another joint venture between Lend Lease and Babcock International Group plc, is currently bidding for the fourth in the series of five prime contracts. This contract is known as Central Prime and the contract is similar in size and scope to South West Prime.

As Lend Lease works under a joint venture arrangement, the facilities management revenue is earned by the joint venture partners and is thus not reflected in the accounts. All bid costs are reported under IDB whilst project revenue and expenses are reported within Bovis Lend Lease.

##### Other

A further four PFI projects are underway in the Education sector and two for government accommodation.

### Public Private Partnership (PPP) Project Summary

The status of current PPP projects as at June 2004 was:

	Construction Revenue \$m <sup>1</sup>	Facilities Management Revenue Backlog \$m <sup>2</sup>	Committed Equity \$m <sup>3</sup>	Current Status	End Date
<b>Healthcare</b>					
Calderdale Hospital (UK)	228.1 <sup>4</sup>	76.9	2.8	Operational	2031
Worcester Hospital (UK)	218.4 <sup>4</sup>	121.3	4.1	Operational	2031
Hexham Hospital (UK)	73.0 <sup>4</sup>	22.3	1.7	Operational	2033
Burnley Hospital (UK)	71.1	14.4	2.4	Under construction	2033
Brescia Hospital (Italy)	39.4		4.5	Under construction	2021
Roehampton Hospital (UK)	135.4	25.7	4.3	Under construction	2034
Havering (Romford) Hospital (UK)	519.9	36.5	17.9	Under construction	2040
Manchester Hospital (UK)	973.5	103.7		Preferred bidder	2042
Leeds Hospital (UK)	453.5	121.8		Preferred bidder	2037
<b>Defence<sup>8</sup></b>					
SLAM (UK) <sup>5,6</sup>	1,194.8			Under construction	2009
South West Regional Prime (UK) <sup>7</sup>	498.7			Under construction	2011
<b>Education</b>					
Newcastle Schools (UK)	127.0	42.0	4.8	Under construction	2029
Lincoln Schools (UK)	46.2	15.5	2.8	Under construction	2032
Lilian Baylis School (UK)	34.4	12.6	2.1	Under construction	2029
Cork Maritime (Ireland)	78.4	23.6	5.6	Under construction	2029
<b>Other</b>					
Treasury 1 (UK)	299.2 <sup>4</sup>	77.7	9.4	Operational	2037
Treasury 2 (UK)	376.1	66.7	10.3	Under construction	2037
	<b>5,367.1</b>	<b>760.7</b>	<b>72.7</b>		

1 The construction profit after tax and Backlog GPM associated with these projects are included in Bovis Lend Lease.

2 Facilities management Revenue Backlog disclosed is only for ten years on an indexed basis. All PFI contracts run for 25-35 years.

3 Committed equity refers to loan stock and equity contributions that have been paid or in which Lend Lease has a future commitment to invest.

4 The construction phase of these projects has been completed.

5 The Single Living Accommodation Modernisation (SLAM) project has no predetermined end date. It is however expected to run off over five more years.

6 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 BLL and Babcock International Group plc.

7 South West Prime involves delivering a range of multi-site construction projects for the three divisions of the armed forces in the south-west of England. The project is to be delivered by Debut Services (South West) Limited, a joint venture between Bovis Lend Lease and Babcock International Group plc.

8 Defence projects are procured as Prime contracts, not under PFI.

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

### **Integrated Development Businesses (IDB) continued**

Europe continued

#### **Urban Regeneration**

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

The Greenwich Peninsula project (undertaken in a joint venture with Quintain Estates and Development plc and English Partnerships) plans to develop 10,000 housing units on 147 acres of land on the Greenwich Peninsula. Successful completion of all commercial contracts and planning negotiation was achieved on 18 June 2004. Profit is expected to emerge from the year ended 30 June 2006. The carrying value of inventory at June 2004 is \$20.2 million (2003 \$13.8 million).

#### **Retail and Other**

There are currently two retail development projects in progress: Chapelfield, Norwich and Golden Square, Warrington. The Chapelfield, Norwich project is conditionally forward sold to Capital Shopping Centres and is expected to be completed in the second half of calendar year 2005. The carrying value of inventory at June 2004 is \$316.4 million (2003 \$163.1 million).

On 28 May 2004, Lend Lease announced that it had signed a conditional agreement with Performance Shopping Centre Partnership to co-invest in and manage the redevelopment of the Golden Square Centre, Warrington. Under the agreement Lend Lease will purchase 50% of the centre and manage the 30,700 sqm redevelopment and extension. Lend Lease will provide initial equity of around \$50.0 million, followed by further equity of up to \$80.0 million during the period of construction.

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

### Real Estate Investments (REI)

#### 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		Total Assets	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
<b>Continuing Operations</b>								
Australia	99.0	91.7	32.5	41.3	24.8	29.3	165.8	143.2
Asia	10.0	12.4	5.4	7.7	3.5	5.1	105.4	90.1
Europe	98.2	94.0	80.6	67.4	56.2	47.0	769.5	754.4
North America	20.8	24.0	26.9	24.0	15.8	14.4	269.0	336.5
<b>Total continuing operations</b>	<b>228.0</b>	<b>222.1</b>	<b>145.4</b>	<b>140.4</b>	<b>100.3</b>	<b>95.8</b>	<b>1,309.7</b>	<b>1,324.2</b>
<b>Discontinuing Operations</b>								
Australia	1.0	3.9	0.2	1.9	0.2	1.4		1.9
Asia	9.0	19.2	(6.9)	(15.1)	(7.2)	(13.2)	27.9	69.2
Europe	17.7	31.6	2.3	1.1	3.2	3.8	163.7	176.2
North America	106.8	571.1	25.2	100.9	13.9	73.3	316.6	1,416.2
<b>Total discontinuing operations</b>	<b>134.5</b>	<b>625.8</b>	<b>20.8</b>	<b>88.8</b>	<b>10.1</b>	<b>65.3</b>	<b>508.2</b>	<b>1,663.5</b>
<b>Total</b>	<b>362.5</b>	<b>847.9</b>	<b>166.2</b>	<b>229.2</b>	<b>110.4</b>	<b>161.1</b>	<b>1,817.9</b>	<b>2,987.7</b>

Operating profit after tax from continuing operations increased \$4.5 million (4.7%) to \$100.3 million in the year ended June 2004 compared to \$95.8 million in the year ended June 2003. The increase in profit was due to increased income from Bluewater and the sale of units in Lend Lease Retail Partnership in the UK. This was partially offset by a decrease in profit in Asia Pacific due to a write-down of the co-investment in APIC in Asia and a reversal of a prior year over accrual included in June 2003 in Australia.

Operating profit after tax from discontinuing operations was \$10.1 million in the year ended June 2004 compared to \$65.3 million in the year ended June 2003 as the exit of the discontinued businesses progressed.

#### Assets Under Management (AUM) for Continuing Operations

	Australia A\$b	Asia US\$b	Europe £b	Total June 2004 A\$b	Total June 2003 A\$b
AUM at beginning of financial year <sup>1</sup>	<b>11.6</b>	<b>0.6</b>	<b>1.9</b>	<b>17.4</b>	<b>16.2</b>
Additions	1.6		0.1	1.9	3.0
Reductions	(0.7)			(0.7)	(2.2)
Net revaluations	0.6		0.2	1.1	0.7
Exchange loss <sup>2</sup>				(0.1)	(0.3)
<b>AUM at end of financial year</b>	<b>13.1</b>	<b>0.6</b>	<b>2.2</b>	<b>19.6</b>	<b>17.4</b>
Period movement in AUM	%	12.9	15.8	12.6	7.4
AUM at end of financial year (excluding foreign currency impacts)	A\$b	<b>13.1</b>	<b>1.0</b>	<b>19.7</b>	<b>17.7</b>
Exchange movement <sup>2</sup>			(0.1)	(0.1)	(0.3)
<b>AUM at end of financial year</b>	<b>A\$b</b>	<b>13.1</b>	<b>0.9</b>	<b>19.6</b>	<b>17.4</b>
Period movement in continuing AUM (excluding currency changes)	%			13.2	9.2

<sup>1</sup> Assets Under Management (AUM) represents the gross market value of real estate assets managed in an advisory capacity on behalf of investors.

<sup>2</sup> Exchange loss arises from exchange rate movements in translating AUM in local currency between June 2004 and June 2003.

AUM for continuing operations increased \$2.2 billion (12.6%) to \$19.6 billion as at June 2004 compared to \$17.4 billion as at June 2003.

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

### Real Estate Investments (REI) continued

#### Strategic Review

On 29 May 2003 Lend Lease announced the finalisation of the REI strategic review, which concluded that Lend Lease should exit or sell a significant proportion of the REI businesses, principally in the US.

Lend Lease remains committed to certain regional real estate services and management businesses. In Australia, 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. In Asia, Lend Lease manages APIC & APIC II and Real Estate Securities. In Europe, the business will comprise of the retail centre funds management and property management business (including the Lend Lease Retail Partnership, Lend Lease Overgate Partnership, the retail centres of Bluewater, Touchwood and Overgate, and Generali Lend Lease).

The following table details those businesses sold or being exited. These businesses have been treated as discontinuing operations in the Group's Consolidated Financial Statements.

Entity/Business	Region	Purchaser/Intention	Current Status	Effective Sale Date
HFF	US	Management	Sold	17 June 2003
Cordia Senior Living	US	Management	Sold	30 June 2003
HCI	US	MuniMae	Sold	1 July 2003
Asset Management – North America	US	GMAC	Sold	14 July 2003
CapMark	US	GMAC	Sold	14 July 2003
Program Lending	US	GMAC	Sold	29 July 2003
Lend Lease Hyperion JV	US	GMAC	Sold	12 August 2003
Lend Lease Agri-Business	US	Rabobank	Sold	30 September 2003
Lend Lease US Office Trust	Australia	Management change	Transferred	18 November 2003
US Equity Advisory	US	Morgan Stanley	Sold	20 November 2003
Lend Lease REI GmbH	Europe	First Islamic Investment Bank	Sold	26 November 2003
Asset Management – Mexico	US	GMAC	Sold	11 December 2003
Lend Lease Mortgage Capital	US	Wachovia Corporation	Sold	12 December 2003
Structured Finance	US	CDP Capital	Sold	12 December 2003
Winn Residential	US	Winn Residential	Sold	16 December 2003
Debt Advisory	US	GMAC	Sold	24 December 2003
Global Fund Advisory <sup>1</sup>	Global	Management	Sold	6 February 2004
Lend Lease Houlihan Rovers	Europe	Management	Sold	31 January 2004
VEF series co-mingled fund platform	US	Apollo Real Estate Management	Sold	24 March 2004
Lend Lease Rosen	US	Management	Agreement signed	
Asia Debt	Asia	Intended disposal	Intended disposal	
Rosen Consulting	US	Intended disposal	Intended disposal	

<sup>1</sup> Lend Lease continues as advisor to Lend Lease Asia Properties and sponsor to both Lend Lease Global Properties and Lend Lease Asia Properties.

Although no sales have been agreed or specific arrangements announced in respect of Rosen Consulting, the Asia Debt business and the US REI co-investments, Lend Lease intends to exit these businesses and co-investments (in the normal course of winding down). Accordingly, they have been classified as discontinued 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

#### Australia

The REI Australia business is conducted through two business units:

- Investment Management - which includes the management of General Property Trust (GPT), Australian Prime Property Fund (APPF) and the Property Securities business; and
- Retail Property Management - which manages a number of Australian retail centres on behalf of investors such as GPT, APPF and external owners.

Following a general meeting of unitholders held on 14 November 2003, Lend Lease US Office Trust (LLUSOT) Management was removed as manager of LLUSOT. The results of LLUSOT management up to this date have been included in discontinuing operations.

#### Analysis of Results

	Continuing Operations		Discontinuing Operations		Total	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
Net operating income	28.3	36.1	0.2	1.9	28.5	38.0
Investment income	4.0	3.6			4.0	3.6
Equity accounted profits	0.2	1.6			0.2	1.6
<b>Profit before tax</b>	<b>32.5</b>	<b>41.3</b>	<b>0.2</b>	<b>1.9</b>	<b>32.7</b>	<b>43.2</b>
Income tax expense	(7.7)	(12.0)		(0.5)	(7.7)	(12.5)
<b>Profit after tax</b>	<b>24.8</b>	<b>29.3</b>	<b>0.2</b>	<b>1.4</b>	<b>25.0</b>	<b>30.7</b>

#### Review of Continuing Operations

Profit after tax decreased \$4.5 million to \$24.8 million in the year ended June 2004 compared to \$29.3 million in the year ended June 2003. The decrease is principally due to the reversal of a prior year over accrual included in June 2003. The June 2004 profit after tax includes the GPT incentive fee earned in the second half of the financial year of \$3.5 million before tax. Equity accounted profits decreased by \$1.5 million primarily due to Darling Park III which was offset by increased operating income from the same asset.

#### Assets Under Management (AUM)

	AUM at June 2003 \$b	Additions \$b	Reductions \$b	Net Revaluations \$b	AUM at June 2004 \$b
General Property Trust (including Darling Park Trust)	6.9	1.0		0.1	8.0
Australian Prime Property Fund	1.7	0.6		0.2	2.5
Real Estate Securities	2.9		(0.6)	0.3	2.6
Real Estate Partnerships	0.1		(0.1)		
<b>Total continuing operations AUM</b>	<b>11.6</b>	<b>1.6</b>	<b>(0.7)</b>	<b>0.6</b>	<b>13.1</b>
Period movement in AUM					12.9%

AUM from continuing operations increased \$1.5 billion to \$13.1 billion as at June 2004 compared to \$11.6 billion as at June 2003. The increase was due to capital expenditure by GPT and APPF on major retail projects and acquisitions by APPF and GPT, including a 25% interest in Governor Phillip and Governor Macquarie Towers by each fund, and a 50% interest in Marion Shopping Centre by APPF.

## 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 discontinue its distressed debt business in Asia and focus its efforts on the management of Asia Pacific Investment Company (APIC), which Lend Lease is transforming into a retail asset fund. APIC remains an integral part of Lend Lease's real estate investments business in the Asia Pacific region.

Lend Lease will continue to manage the Lend Lease International Distressed Debt Fund (IDDF) but is exploring options for exiting from this business.

Continuing operations include the management of APIC, Asia Pacific Investment Company No 2 (APIC II) and property management services provided to APIC II for its retail assets.

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 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
Net operating income	5.8	7.7	2.9	(7.8)	8.7	(0.1)
Investment income	(0.4)		(8.2)	(6.4)	(8.6)	(6.4)
<b>Profit/(loss) before tax</b>	<b>5.4</b>	<b>7.7</b>	<b>(5.3)</b>	<b>(14.2)</b>	<b>0.1</b>	<b>(6.5)</b>
Profit on FX hedge			(1.6)	(0.9)	(1.6)	(0.9)
<b>Profit/(loss) before tax (after FX Hedge)</b>	<b>5.4</b>	<b>7.7</b>	<b>(6.9)</b>	<b>(15.1)</b>	<b>(1.5)</b>	<b>(7.4)</b>
Income tax (expense)/benefit	(1.9)	(2.6)	(0.3)	2.2	(2.2)	(0.4)
<b>Profit/(loss) after tax before minorities</b>	<b>3.5</b>	<b>5.1</b>	<b>(7.2)</b>	<b>(12.9)</b>	<b>(3.7)</b>	<b>(7.8)</b>
Minority interests				(0.3)		(0.3)
<b>Profit/(loss) after tax</b>	<b>3.5</b>	<b>5.1</b>	<b>(7.2)</b>	<b>(13.2)</b>	<b>(3.7)</b>	<b>(8.1)</b>

#### Review of Continuing Operations

##### Profit After Tax

Profit after tax from continuing operations decreased \$1.6 million to \$3.5 million in the year ended June 2004, compared to profit after tax of \$5.1 million in the year ended June 2003. The variance was largely attributable to a write-down in the carrying value of the Lend Lease's co-investments in APIC.

##### Assets Under Management (AUM) - Continuing Operations

	AUM at June 2003 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at June 2004 US\$b
APIC	0.2				0.2
APIC II	0.4				0.4
<b>Total continuing operations AUM</b>	<b>0.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.6</b>
Period movement in AUM					0.0%

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

### Real Estate Investments (REI) continued

#### Europe

Lend Lease continues to operate its retail asset and property management businesses by holding investments in retail property funds and assets and through certain joint venture arrangements, including:

- the asset management of Bluewater, Overgate, Dundee and Touchwood, Solihull (including Lend Lease's 30% direct ownership in Bluewater);
- the management of the Lend Lease Retail Partnership (LLRP) and the Lend Lease Overgate Partnership (LLOP);
- the property management of UK retail shopping centres; and
- investment in Generali Lend Lease (GLL).

Non-retail activities are referred to in the Analysis of Results below as discontinued operations.

#### Analysis of Results

	Continuing Operations			Discontinuing Operations			Combined	
	Retail June 2004 £m	Retail June 2003 £m	Retail June 2004 A\$m	Other June 2004 £m	Other June 2003 £m	Other June 2004 A\$m	Total June 2004 A\$m	Total June 2003 A\$m
Net operating income	4.0	0.7	9.8	0.9	1.9	2.2	12.0	7.0
Investment income	24.9	23.4	60.8		(0.4)		60.8	62.3
Equity accounted profit	0.2	0.2	0.5				0.5	0.5
Gain on sale of investments	1.6		3.9				3.9	
<b>Profit before tax (before FX hedge)</b>	<b>30.7</b>	<b>24.3</b>	<b>75.0</b>	<b>0.9</b>	<b>1.5</b>	<b>2.2</b>	<b>77.2</b>	<b>69.8</b>
Gain/(loss) on FX hedge			5.6			0.1	5.7	(1.3)
<b>Profit before tax (after FX hedge)</b>	<b>30.7</b>	<b>24.3</b>	<b>80.6</b>	<b>0.9</b>	<b>1.5</b>	<b>2.3</b>	<b>82.9</b>	<b>68.5</b>
Income tax expense	(9.2)	(6.9)	(24.4)	0.3	0.3	0.9	(23.5)	(17.7)
<b>Profit after tax</b>	<b>21.5</b>	<b>17.4</b>	<b>56.2</b>	<b>1.2</b>	<b>1.8</b>	<b>3.2</b>	<b>59.4</b>	<b>50.8</b>

#### Review of Continuing Operations

Profit after tax from continuing operations increased £4.1 million to £21.5 million in the year ended June 2004 compared to £17.4 million in the year ended June 2003. The increased profit after tax from continuing operations is in part due to an improvement in investment income, which is discussed further below, and a gain on sale of investments. The gain on sale of investments relates to the sale of a proportion of Lend Lease's participation in the Lend Lease Retail Partnership.

#### Investment Income

	Total June 2004 £m	Total June 2004 A\$m	Total June 2003 £m	Total June 2003 A\$m
Bluewater, Kent	22.2	54.3	18.8	50.9
Lend Lease Retail Partnership	1.2	2.8	1.3	3.5
Lend Lease Overgate Partnership	2.2	5.4	2.3	6.3
Investment expense	(0.7)	(1.7)	(0.6)	(1.6)
Other <sup>1</sup>			1.6	3.2
<b>Total investment income</b>	<b>24.9</b>	<b>60.8</b>	<b>23.4</b>	<b>62.3</b>

<sup>1</sup> Other investment income in 2003 included a part reversal of a provision against the carrying value of Lend Lease's 30.7% interest in the Overgate partnership (£1.5 million).

Bluewater investment income of \$54.3 million relates to the Net Operating Income (NOI) of Bluewater derived from Lend Lease's 30% direct interest. The increased NOI of \$3.2 million is due to the rent review in the period.

Lend Lease Retail Partnership (LLRP) investment income of \$2.8 million relates to Lend Lease's 3.95% (June 2003: 4.96%) interest in LLRP, which owns 25% of Bluewater and 100% of Touchwood, Solihull. The decline in investment income in 2004 reflects the sale of retail participation units during the year and foreign exchange movements.

Lend Lease Overgate Partnership (LLOP) investment income of \$5.4 million relates to Lend Lease's 30.7% interest in LLOP which owns Overgate, Dundee. The decline in investment income is largely due to foreign exchange movements during the year.

#### Equity Accounted Profit

Equity accounted profit of \$0.5 million relate to Lend Lease's effective 50% interest in Generali Lend Lease (GLL), a joint venture with the Assicurazioni Generali S.P.A. group.

## 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

#### Assets Under Management (AUM) - Continuing Operations

	AUM at June 2003 £b	Additions £b	Reductions £b	Net Revaluations £b	AUM at June 2004 £b
<b>Investment Management – Equity</b>					
Bluewater <sup>1</sup>	1.4			0.2	1.6
Joint ventures/separate accounts <sup>2</sup>	0.2	0.1			0.3
Overgate, Dundee <sup>3</sup>	0.1				0.1
Touchwood, Solihull <sup>4</sup>	0.2				0.2
<b>Total continuing operations AUM</b>	<b>1.9</b>	<b>0.1</b>	<b>-</b>	<b>0.2</b>	<b>2.2</b>
Period movement in AUM					15.8%

1 Represents 100% including Lend Lease's 30% direct interest in Bluewater plus Lend Lease's 1% indirect interest in Bluewater via the Lend Lease Retail Partnership.

2 Includes Lend Lease's proportional share of AUM from Generali Lend Lease.

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

4 Includes Lend Lease's 3.95% indirect interest in the Touchwood, Solihull retail centre via the Lend Lease Retail Partnership.

AUM from continuing operations increased £0.3 billion (15.8%) to £2.2 billion for the year ended June 2004, compared to £1.9 billion at June 2003 largely due to a revaluation of the Bluewater retail centre and acquisitions made by Lend Lease's joint venture, Generali Lend Lease.

### Review of Discontinuing Operations

Discontinuing operations comprise Lend Lease Houlihan Rovers, the Global Fund Advisor and the investment in the German Industrial Property Fund. The German Industrial Property Fund, the Global Fund Advisor and Lend Lease Houlihan Rovers were sold with effect from 26 November 2003, 6 February 2004 and 31 January 2004 respectively.

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

### Real Estate Investments (REI) continued

#### North America

In May 2003 Lend Lease announced its intention to exit or sell its US REI businesses, with the exception of its investment in the King of Prussia shopping centre. The investment in King of Prussia remains an integral part of Lend Lease's real estate investment business.

The majority of the US REI operations were sold in the June 2004 financial year, however an agreement has been signed for the sale of Lend Lease Rosen and the sale of Rosen Consulting is still pending. The US REI co-investments will be realised in the normal course of winding down each fund.

#### Analysis of Results

	Operating Profit Before Tax		Operating Profit After Tax	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
<b>Continuing Operations</b>				
Investment income – King of Prussia <sup>1</sup>	<b>26.9</b>	<b>24.0</b>	<b>15.8</b>	<b>14.4</b>

1 June 2004 investment income from King of Prussia includes foreign exchange gain of \$6.1 million (before tax) allocated as part of the segment results.

The King of Prussia operating profit after tax increased from \$14.4 million in the year ended June 2003 to \$15.8 million in the year ended June 2004.

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
<b>Discontinuing Operations</b>						
Businesses sold by June 2004	70.9	532.5	(2.9)	74.9	(2.4)	58.9
Businesses yet to be sold						
Lend Lease Rosen	19.9	16.7	9.0	6.1	4.8	3.2
Rosen Consulting	5.9	7.3	2.4	1.5	1.0	0.5
Investment income	10.1	10.3	10.1	10.3	5.9	6.1
Equity accounted profits		2.4		2.4		1.4
Gain on sale of investments		1.9		1.9		1.0
Gain/(Loss) on FX hedge			6.6	3.8	4.6	2.2
<b>Total discontinuing operations</b>	<b>106.8</b>	<b>571.1</b>	<b>25.2</b>	<b>100.9</b>	<b>13.9</b>	<b>73.3</b>

#### Businesses Sold by 30 June 2004

As noted previously, a number of businesses were sold during the year. These businesses contributed a loss after tax of \$2.4 million until the effective sale date.

#### Businesses Yet to be Sold

Lend Lease continues to explore options to exit its investment the Rosen Consulting Group.

#### Investment Income (Discontinuing)

The table below summarises investment income earned for the year ended June 2004.

	Operating Profit/(Loss) Before Tax	
	June 2004 \$m	June 2003 \$m
<b>Discontinuing Business Co-investments</b>		
Yarmouth Capital Partners II (YCP II)		(9.3)
VEF series	2.6	4.4
Asset management portfolios	3.2	13.8
Debt management funds and portfolios	1.1	1.7
High yield debt funds	0.8	1.5
Other	2.4	(1.8)
<b>Total investment income</b>	<b>10.1</b>	<b>10.3</b>

Total investment income decreased \$0.2 million to \$10.1 million for the year ended June 2004, compared to \$10.3 million for the year ended June 2003.

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

### Real Estate Investments (REI) continued

#### Investments, Co-investments and Inventory

The following table summarises the Lend Lease Group direct and indirect REI property interests (excluding inventory held as part of Delfin Lend Lease and Lend Lease Development) as at June 2004, as well as future commitments to co-investments.

Region	Lend Lease Share of Income June 2004 <sup>1</sup> \$m	Book Value Investment June 2004 \$m	Future Commitments \$m	Total Commitments \$m	Indicative Fund Liquidation	
<b>Co-investments - Continuing</b>						
<b>Asia Pacific</b>						
Australian Prime Property Fund	Australia	3.7	51.8		51.8	Open ended
Real Estate Partners I	Australia	0.3	1.4	0.3	1.7	2005
Real Estate Partners II	Australia			8.7	8.7	2010
Asia Pacific Investment Company	Asia	(1.0)	33.3		33.3	2005
Asia Pacific Investment Company II	Asia	0.6	38.7		38.7	2009
<b>Total Asia Pacific</b>		<b>3.6</b>	<b>125.2</b>	<b>9.0</b>	<b>134.2</b>	
<b>Europe</b>						
Lend Lease Retail Partnership <sup>2</sup>	Europe	2.8	49.8	1.6	51.4	2011 <sup>3</sup>
Lend Lease Overgate Partnership <sup>2</sup>	Europe	5.4	103.4	4.5	107.9	2008 <sup>4</sup>
<b>Total Europe</b>		<b>8.2</b>	<b>153.2</b>	<b>6.1</b>	<b>159.3</b>	
<b>Total Continuing</b>		<b>11.8</b>	<b>278.4</b>	<b>15.1</b>	<b>293.5</b>	
<b>Co-investments - Discontinuing</b>						
<b>Asia Pacific</b>						
Lend Lease International Distressed Debt Fund	Asia	(6.3)	21.8	105.9	127.7	2008
<b>Europe</b>						
Lend Lease European Real Estate Securities SICAV	Europe	-	20.3	-	20.3	Open ended
<b>North America</b>						
Value Enhancement Fund III	US		11.3		11.3	2005
Value Enhancement Fund IV	US	(0.1)	16.0		16.0	2007
Value Enhancement Fund V	US	2.7	48.8		48.8	2008
Yarmouth Capital Partners Limited Partnership II	US		39.2		39.2	2004
Lend Lease US Real Estate Securities	US	2.0	17.3		17.3	Open ended
Other	Various	5.5	24.1		24.1	Various
<b>Total North America</b>		<b>10.1</b>	<b>156.7</b>	<b>-</b>	<b>156.7</b>	
<b>Global</b>						
Lend Lease Global Properties Fund SICAF	Global	-	142.6	-	142.6	2009
<b>Total discontinuing</b>		<b>3.8</b>	<b>341.4</b>	<b>105.9</b>	<b>447.3</b>	
<b>Total co-investments</b>		<b>15.6</b>	<b>619.8</b>	<b>121.0</b>	<b>740.8</b>	
<b>Other Assets<sup>5</sup></b>						
King of Prussia <sup>2</sup>	US	20.8	207.4		207.4	
Bluewater <sup>6</sup>	UK	54.3	581.6		581.6	
<b>Total other investments</b>		<b>90.7</b>	<b>1,408.8</b>	<b>121.0</b>	<b>1,529.8</b>	

1 Represents Lend Lease's share of income earned before tax excluding allocation of hedge gains/losses.

2 Lend Lease's investment in the King of Prussia Partnership is valued at \$332.3 million, in Lend Lease Overgate Partnership is \$109.7 million and in Lend Lease Retail Partnership is \$63.8 million.

3 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.

4 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.

5 Only includes other investments which are not a co-investment or held as part of an active business model (eg Europe PPP equity investments, Actus Lend Lease, Delfin Lend Lease, Lend Lease Development and GPT).

6 The independent market valuation at 30 June 2004 of 100% of Bluewater is £1,621.0 million (A\$4,156.4 million).

## 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 2004 are summarised below:

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
<b>Asia Pacific</b>								
IBMGSA - trading result <sup>1</sup>	1.9	15.1	1.9	15.1	1.4	12.1		59.8
Capital Services		1.1	3.8	(8.4)	9.6	(6.5)	2.1	4.0
<b>Total Asia Pacific</b>	<b>1.9</b>	<b>16.2</b>	<b>5.7</b>	<b>6.7</b>	<b>11.0</b>	<b>5.6</b>	<b>2.1</b>	<b>63.8</b>
<b>Europe</b>								
Capital Services	23.6	16.8	14.0	9.0	11.1	16.6		16.1
<b>Total</b>	<b>25.5</b>	<b>33.0</b>	<b>19.7</b>	<b>15.7</b>	<b>22.1</b>	<b>22.2</b>	<b>2.1</b>	<b>79.9</b>

1 IBMGSA was sold in the six months to December 2003.

#### Asia Pacific

The Asia Pacific profit after tax in the year ended June 2004 of \$11.0 million includes loyalty fee income relating to the IBMGSA of \$1.4 million, a write-back of a provision of \$3.8 million following the sale of the Lend Lease Asia Water Trust, recognition of capital losses of \$3.5 million on the sale of Capital Services Investments and \$2.3 million from the write-back of an overprovision of prior years' tax.

#### Europe

European investments in Capital Services comprises Chelverton and THI, both of which have been fully provided in prior years. An interest in the retail development site in Katowice, Poland (held via Chelverton) was sold in January 2004. Lend Lease has a 14.3% interest in THI which is in administration. No distributions were received from the THI liquidator during the year. Operating profit after tax relates to the reversal of provisions raised in prior years to cover exposures to these investments that are no longer required.

#### Corporate

Corporate comprises central overheads, net of revenue and recoveries from the Group's operating businesses, finance costs and amortisation.

	Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
Group Services	(51.0)	(118.0)	(28.4)	(55.3)	250.1	256.6
Amortisation	(48.4)	(75.3)	(48.4)	(75.3)		
Group Treasury	12.2	6.0	16.3	10.7	669.3	342.6
<b>Total Corporate</b>	<b>(87.2)</b>	<b>(187.3)</b>	<b>(60.5)</b>	<b>(119.9)</b>	<b>919.4</b>	<b>599.2</b>

#### Group Services

Corporate overheads are made up as follows:

	June 2004 \$m	June 2003 \$m
Gross corporate costs	95.2	168.0
Less: Recoveries from operating businesses	(44.1)	(51.5)
Other	(0.1)	1.5
<b>Operating loss before tax</b>	<b>51.0</b>	<b>118.0</b>
<b>Operating loss after tax</b>	<b>28.4</b>	<b>55.3</b>

Gross corporate overheads decreased by \$72.8 million to \$95.2 million in the year ended June 2004 through continued management focus to reduce corporate costs. The June 2003 corporate costs of \$168.0 million included costs relating to Global RES and Global REI businesses previously disclosed in the segment results of those businesses. In the year ended 30 June 2004, these costs have either been eliminated or are included as part of the gross corporate costs of \$95.2 million.

Savings in gross corporate costs were partly offset by lower recharges to the Group's operating businesses of \$44.1 million compared to \$51.5 million in the prior financial year. This recharge represents a charge for superannuation costs to the Asia Pacific region of \$14.1 million, a charge for bonuses paid from employee benefit vehicles of \$17.5 million and a charge of \$12.5 million to the Bovis Lend Lease business for overhead costs on behalf of the Global Markets Group.

The effective tax rate referable to Group Services is impacted by the recognition of capital losses and other tax benefits in both the years ended June 2003 and June 2004 and the tax rate differential between the US, UK and Australia. Corporate costs are recharged to each region and due to differences in tax rates between regions, a difference between the tax expense and tax benefit can arise.

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

### Other continued

#### Corporate continued

#### Group Amortisation

Amortisation charges are in respect of management agreements and goodwill, which are reported at Group level, as opposed to business unit level.

	Book Value		Amortisation Charge	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
Management Agreements	57.1	432.9	2.2	15.4
Goodwill	634.3	700.0	40.1	58.8
Other intangible assets	2.6	3.2	0.2	1.5
<b>Total Group amortisation</b>	<b>694.0</b>	<b>1,136.1</b>	<b>42.5</b>	<b>75.7</b>
FX hedge allocation (after tax)			5.9	(0.4)
<b>Amortisation adjusted for FX hedge allocation</b>	<b>694.0</b>	<b>1,136.1</b>	<b>48.4</b>	<b>75.3</b>

The amortisation charge was significantly reduced as a result of the write-down and sale of the US REI businesses.

#### Group Treasury

Group Treasury manages the Group's liquidity, foreign exchange, interest rate risk and debt. The result for the year is as follows:

	Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m	June 2004 \$m	June 2003 \$m
Interest revenue <sup>1</sup>	62.5	39.9	43.8	27.3		
Interest expense and borrowing costs <sup>1</sup>	(61.0)	(66.4)	(35.0)	(39.2)		
Net hedge benefit	10.7	32.5	7.5	22.6		
<b>Total Group Treasury</b>	<b>12.2</b>	<b>6.0</b>	<b>16.3</b>	<b>10.7</b>	<b>669.3</b>	<b>342.6</b>

<sup>1</sup> Includes net foreign exchange gain allocated to interest as part of the Segment Results.

#### Interest Revenue

The Group continued to maintain high levels of cash (\$1.4 billion at 30 June 2004). This high level of cash during the year is due primarily to proceeds from the sale of US REI businesses net of outflows from the share buyback. As a result of the higher cash balances in the year and a marginal increase in average interest rates during the year interest revenue increased \$22.6 million from \$39.9 million in the year ended June 2003 to \$62.5 million in the year ended June 2004.

Excess cash in the Group is consolidated in Australia and invested in investment grade commercial paper and bank bills issued by financial intermediaries and corporations.

#### Borrowing Costs and Debt

Gross debt of \$862.0 million has not changed materially during the year and mainly comprises the \$500 million Medium Term Note (due July 2005) and US\$250 million guaranteed notes (due June 2005). Borrowing cost of \$61.0 million (before tax) relate primarily to interest on these notes. The reduction of \$5.4 million in interest expense and borrowing costs is due to capitalised interest on the Chapelfield, Norwich project during the year. Interest rates are 70% fixed and 30% floating.

#### Net Hedge Benefit

A net hedge benefit of \$10.7 million pre tax was earned on the Group's hedging of foreign exchange exposures on non-Australian dollar denominated cash flows. The hedge benefit arises from the interest rate differential between US and UK interest rates against Australian interest rates. The reduction in hedge benefit from last year is primarily due to lower US hedges as US dollars intercompany loans were repatriated to Australia following the sale of the US REI business. The reduction in the net hedge benefit was offset by the higher interest revenue for the year.

#### Hedging of Foreign Exchange Exposures

##### Hedging of Foreign Denominated Earnings

Lend Lease uses forward foreign exchange contracts to hedge a proportion of forecast revenue and GPM from foreign operations according to the following hedging bands. This hedging results in the foreign exchange rate applied to foreign denominated earnings in any one year being a blend of foreign exchange rates over the previous 3 year period.

	Year Ending 30 June 2005		Year Ending 30 June 2006		Year Ending 30 June 2007	
	Hedged Range	Average Rate of Underlying Hedge Contracts	Hedged Range	Average Rate of Underlying Hedge Contracts	Hedged Range	Average Rate of Underlying Hedge Contracts
<b>Foreign Operations</b>						
US dollars	100-60%	0.58	70-40%	0.66	40-10%	0.66
Pounds Sterling	100-60%	0.38	70-40%	0.38	40-10%	0.38
Euro	100-60%	0.57	70-40%	0.55	40-10%	0.54

Due to the appreciation of the Australian dollar in the current year, a net foreign exchange gain of \$23.9 million before tax (2003 loss of \$2.4 million) was recognised from hedging foreign denominated earnings in the year ended 30 June 2004. This gain is allocated to business unit's operating profit, interest revenue and expense and amortisation expense.

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

### Other continued

Corporate continued

### Group Treasury continued

#### Hedging of Cash Flows

Lend Lease hedges material cashflows. Any foreign exchange gains or losses arising on the underlying cashflow or the hedging of business unit cash flows are allocated to the business unit's operating profit.

#### Hedging of Net Assets

Lend Lease uses natural hedging, where possible, to minimise foreign denominated net assets. The remaining net assets are hedged at the discretion of management. 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 2004 the positive movement increased reserves by \$29.3 million primarily due to changes in US and UK exchange rates.

### Credit Strength

Management principally analyses credit strength in terms of interest coverage. The key borrowing ratios are shown below.

		June 2004	June 2003
Cash <sup>1</sup>	\$m	1,380.1	867.2
Borrowings	\$m	862.0	884.6
Total equity	\$m	2,835.9	3,007.6
Borrowings to total assets	%	12.1	11.8
Gross debt to shareholders' equity	%	30.4	29.4
Net (cash)/debt to shareholders' equity	%	(18.3)	0.6
Debt to shareholders' equity plus debt	%	23.3	22.7
Credit rating (Standard & Poors/Moody's)	Rating	BBB/Baa2	A-/Baa2
Interest coverage <sup>2</sup>	Times	9.0	7.7
Interest coverage target	Times	6.0	6.0

1 In addition to closing cash balance of \$1,380.1 million, an amount of \$9.0 million is held in short term investments.

2 Calculated as EBITDA (excluding the write-down of REI US businesses and sale of IBMGSA) plus interest revenue divided by net borrowing costs (which includes capitalised borrowing costs), excluding foreign exchange benefit.

### Statement of Financial Position (Balance Sheet)

#### Balance Sheet Summary by Major Component

	June 2004 \$m	June 2003 \$m	Increase/ (Decrease) \$m
Cash	1,380.1	867.2	512.9
Real estate development inventories	1,412.5	937.0	475.5
Real estate development investments	103.4	98.9	4.5
Real estate co-investments	679.3	694.7	(15.4)
Other real estate investments	218.5	611.8	(393.3)
Other investments	9.2	42.8	(33.6)
Goodwill	634.3	700.0	(65.7)
Management agreements	57.1	432.9	(375.8)
Borrowings	(862.0)	(884.6)	22.6
Other net assets/(liabilities) <sup>1</sup>	(796.5)	(493.1)	(303.4)
<b>Shareholders' equity</b>	<b>2,835.9</b>	<b>3,007.6</b>	<b>(171.7)</b>

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

The key balance sheet movements are explained as follows:

- Real estate development inventories increased due to the acquisition of Delfin and Lend Lease Development's projects in Australia and development expenditure on Chapelfield, Norwich; and
- The decrease in other real estate investments and management agreements is largely due to the sale/exit of the US REI businesses during the year.

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

### Other continued

#### Cash Flow

The following table summarises the major cash flows for the year ended June 2004.

	Year ended June 2004 \$m	Year ended June 2003 \$m
<b>Cash at the beginning of financial year</b>	<b>867.2</b>	<b>904.1</b>
<b>Summary of major cash transactions during financial year</b>		
Operating Activities		
Net receipts in the course of operations <sup>1</sup>	383.8	265.2
Net property development (expenditure)/receipts	(13.6)	28.9
Tax payments	(46.0)	(145.6)
Net interest received/(paid)	12.7	(26.3)
Other operating cash receipts	105.9	69.2
<b>Net cash provided by operating activities</b>	<b>442.8</b>	<b>191.4</b>
Other Cash Transactions		
Payment of dividends	(159.6)	(80.9)
Share buyback	(405.2)	(15.2)
Proceeds from sale of REI businesses <sup>2</sup>	521.1	
Net REI co-investments	5.4	(166.5)
Net mortgage loans, tax credit properties and commercial paper investments receipts/(payments)	204.8	(69.6)
Proceeds on sale of investments (including IBMGSA) <sup>3</sup>	110.1	159.4
Net borrowing proceeds	109.2	
Purchase of controlled entities	(237.2)	(38.2)
Other net cash flows	(78.5)	(17.3)
<b>Net cash from other cash transactions</b>	<b>70.1</b>	<b>(228.3)</b>
<b>Net cash generated/(deployed) for financial year</b>	<b>512.9</b>	<b>(36.9)</b>
<b>Closing cash balance at end of financial year<sup>4</sup></b>	<b>1,380.1</b>	<b>867.2</b>

1 Net receipts in the course of operations for the year ended 30 June 2004 included an amount of \$208.4 million (June 2003 \$102.3 million) being an inflow relating to the Group's foreign exchange hedging activities including hedging of receivables, payables, revenue, expenses and intercompany transactions and loans.

2 Proceeds from sale of REI businesses includes controlled entities, investments and various assets and operations of the underlying businesses.

3 Excludes deferred proceeds from sale of IBMGSA (\$77.3 million) and Fox Studios Showground (\$24.3 million).

4 In addition to closing cash balance of \$1,380.1 million, an amount of \$9.0 million is held in short term investments.

#### EBITDA

While operating profit after tax before one off items increased by \$7.2 million, EBITDA before one off items decreased by \$67.2 million. The following table provides a reconciliation of the variances in EBITDA before one off items and profit after tax before one off items.

	June 2004 \$m	June 2003 \$m	Increase / (Decrease) \$m
Operation profit after tax before one off items	237.4	230.2	7.2
Profit attributable to outside equity interests	4.1	6.9	(2.8)
Depreciation/amortisation	64.1	132.3	(68.2)
Tax expense (before one-off items)	120.0	77.9	42.1
Net interest <sup>1</sup>	(19.1)	26.4	(45.5)
<b>Total EBITDA before one off items</b>	<b>406.5</b>	<b>473.7</b>	<b>(67.2)</b>

1 Excludes net foreign exchange gain allocated to interest as part of the Segment Results

A decline of \$67.2 million in the group's EBITDA is due to the sale of the US REI business (\$68.0 million), the lower earnings from Bovis Lend Lease (\$73.8 million) and lower net hedge benefit (\$21.8 million). These decreases were partially offset by increased earnings from IDB (\$55.1 million) and a lower net corporate result (\$67.0 million).

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

### Other continued

#### Change in Basis of Reporting – Year Ended June 2003 Comparatives

The Group's management structure has been reorganised on a regional basis. The basis of reporting in the MD&A has changed to reflect the revised organisation structure. As a result of the reorganisation, a significant portion of the global management costs previously incurred by Real Estate Solutions (RES) and Real Estate Investments (REI) were eliminated. However, to the extent that costs are still being incurred they are included in Corporate in the Segment Result Summary. In addition, corporate costs are no longer allocated to the regions for segment reporting purposes. All corporate costs are shown gross as part of the corporate segment in the Segment Results Summary.

The above changes have no impact on the total Group results. The changes do, however, impact the classification of profit between businesses. To assist users of the Financial Statements and MD&A, a reconciliation highlighting the impact of the changes on the comparatives for the June 2003 year are set out below.

	Profit Before Tax			Profit After Tax		
	Previous Basis of Reporting June 2003 <sup>7</sup> \$m	Current Basis of Reporting June 2003 \$m	Movement \$m	Previous Basis of Reporting June 2003 <sup>7</sup> \$m	Current Basis of Reporting June 2003 \$m	Movement \$m
<b>Bovis Lend Lease</b>						
Asia Pacific	41.1	44.8	3.7	23.5	26.6	3.1
Americas	94.5	103.6	9.1	56.5	61.6	5.1
Europe	83.3	94.6	11.3	60.3	69.3	9.0
Global Markets <sup>6</sup>	16.9		(16.9)	12.7		(12.7)
Global Management	(27.9)		27.9	(19.3)		19.3
	<b>207.9</b>	<b>243.0</b>	<b>35.1<sup>1</sup></b>	<b>133.7</b>	<b>157.5</b>	<b>23.8</b>
<b>Integrated Development Business</b>						
Asia Pacific						
Delfin Lend Lease	62.3	60.2	(2.1)	43.2	41.7	(1.5)
Lend Lease Development	16.4	18.8	2.4	13.1	14.8	1.7
Americas	8.3	9.3	1.0	3.6	4.2	0.6
Europe	(26.5)	(26.6)	(0.1)	(18.8)	(18.9)	(0.1)
Global Management	(13.7)		13.7	(9.5)		9.5
	<b>46.8</b>	<b>61.7</b>	<b>14.9<sup>2</sup></b>	<b>31.6</b>	<b>41.8</b>	<b>10.2</b>
<b>Real Estate Investments</b>						
<b>Continuing Operations</b>						
Australia and Pacific	43.5	41.3	(2.2)	30.9	29.3	(1.6)
Asia	7.3	7.7	0.4	4.8	5.1	0.3
Europe	62.2	67.4	5.2	43.0	47.0	4.0
North America	24.0	24.0		14.4	14.4	
	<b>137.0</b>	<b>140.4</b>	<b>3.4</b>	<b>93.1</b>	<b>95.8</b>	<b>2.7</b>
<b>Discontinuing Operations</b>						
Australia and Pacific	1.9	1.9		1.4	1.4	
Asia	(15.1)	(15.1)		(13.2)	(13.2)	
Europe	2.2	1.1	(1.1)	4.9	3.8	(1.1)
North America	94.6	100.9	6.3	69.6	73.3	3.7
Global Management	(5.3)		5.3	(2.7)		2.7
	<b>78.3</b>	<b>88.8</b>	<b>10.5</b>	<b>60.0</b>	<b>65.3</b>	<b>5.3</b>
<b>Total REI</b>	<b>215.3</b>	<b>229.2</b>	<b>13.9<sup>3</sup></b>	<b>153.1</b>	<b>161.1</b>	<b>8.0</b>
<b>Non- Core Investments</b>	<b>15.7</b>	<b>15.7</b>	<b>-</b>	<b>22.2</b>	<b>22.2</b>	<b>-</b>
<b>Corporate</b>						
Net Corporate Overheads	(54.1)	(118.0)	(63.9)	(13.3)	(55.3)	(42.0)
Group Treasury	6.0	6.0		10.7	10.7	
Amortisation						
Continued Operations	(47.4)	(47.4)		(47.4)	(47.4)	
Discontinued Operations	(27.9)	(27.9)		(27.9)	(27.9)	
Group restructuring costs	(47.3)	(47.3)		(32.5)	(32.5)	
<b>Total Corporate</b>	<b>(170.7)</b>	<b>(234.6)</b>	<b>(63.9)<sup>4</sup></b>	<b>(110.4)</b>	<b>(152.4)</b>	<b>(42.0)</b>
<b>Total Group result before write-down of REI businesses</b>	<b>315.0</b>	<b>315.0</b>	<b>-</b>	<b>230.2</b>	<b>230.2</b>	<b>-</b>
Write-down of REI businesses	(882.0)	(882.0)	-	(945.0)	(945.0)	-
<b>Total Group result</b>	<b>(567.0)</b>	<b>(567.0)</b>	<b>-<sup>5</sup></b>	<b>(714.8)</b>	<b>(714.8)</b>	<b>-<sup>5</sup></b>

Footnotes are located on the following page.

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

## Other continued

### Change in Basis of Reporting – Year Ended June 2003 Comparatives continued

Corporate costs previously allocated to business segments have been removed and transferred back to the Corporate segment. The profit before and after tax has been adjusted as follows:

- 1 The Bovis Lend Lease June 2003 profit before tax has increased \$35.1 million. This increase reflects the transfer of corporate overhead costs to the corporate segment.
- 2 The Integrated Development Business profit before tax has increased \$14.9 million. This increased profit is due to the net transfer of corporate overhead costs to the corporate segment.
- 3 The Real Estate Investments profit before tax increased \$13.9 million, due to the transfer of corporate overhead costs to the corporate segment.
- 4 The Corporate segment loss before tax has increased by \$63.9 million, due to the transfer of corporate overhead costs from the business segments discussed above.
- 5 There is no change to the Group profit before or after tax due to the above adjustments.
- 6 The Global Markets profit before tax of \$16.9 million has been allocated to Asia Pacific \$7.9 million; Americas \$4.1 million; and Europe \$4.9 million. The Global Markets profit after tax of \$12.7 million has been allocated to Asia Pacific \$6.0 million, Americas \$2.2 million and Europe \$4.5 million.
- 7 The June 2003 reported result included the transfer of consulting profit of \$6.4 million from Integrated Development Business to Bovis Lend Lease.

## Definitions

**Backlog Gross Profit Margin (Backlog GPM):** The expected GPM to be earned for the balance of work to be completed under existing construction contracts. As construction contracts are progressively completed Backlog GPM declines. As new work is secured Backlog GPM is replenished. Backlog GPM is calculated using the current period foreign exchange effective hedged rates. Total Backlog includes those projects at preferred bidder stage.

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

**Fee Service Contract:** Bovis Lend Lease provides management services on construction projects for clients. Under a standard form of fee services contract, Bovis Lend Lease 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 project procured under a public sector Private Finance Initiative (PFI) or Public Private Partnerships (PPPs) contract are irrevocably committed 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:** Represents the estimated total project profit margin to be earned by Bovis Lend Lease from projects which were secured during a financial period. When a written offer is accepted, the New Work Secured GPM becomes part of Backlog GPM.

**Preferred Bidder:** This is the point in a PPP 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 confirm the client's intention to proceed to financial close.

**Prime:** Prime contracting is a form of PPP developed by the UK Ministry of Defence (MoD) to rationalise and improve its procurement process for new assets. The MoD gains and uses a new or improved asset which is designed, constructed and maintained by the private sector partner for an agreed period, under agreed terms, while financing remains with the MoD.

**Private Finance Initiatives (PFIs):** A PFI is a form of PPP. It is a service contract in which a public body or authority gains and uses a new or improved capital asset which is designed, constructed and operated by the private sector partner for an agreed period, typically 30 years. The private sector partner arranges finance and the public sector entity pays for provision of services, including financing, over the contract term.

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

**Public Private Partnerships (PPPs):** PPPs bring the public and private sectors together in an arrangement, usually a contract, to secure a defined mutual benefit by better integration of their respective skills.

**Realised Gross Profit Margin (Realised GPM):** Total project revenue less direct project related costs, such as payments to subcontractors and staff, site and other costs incurred by Bovis Lend Lease that are directly and indirectly attributable to the project. During project construction, it is Lend Lease's policy not to recognise profit on a project other than to cover overheads until the outcome of the contract can be reliably determined and it is at least 50% complete. Forecast losses are recognised in full when identified.

**Return on Equity:** A measure of how well a company is using shareholders capital. The calculation used is Earnings before one-off items divided by total equity.

**Revenue Backlog:** Expected future revenue arising from facilities management contracts in the Europe IDB business.