

Lend Lease Corporation Limited

Half Year Consolidated Financial Report December 2002

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

(Note: In this announcement all figures are expressed in Australian dollars unless otherwise specified).

The following discussion and analysis is based on the Group's Consolidated Financial Statements at December 2002, and should be read in conjunction with those Financial Statements.

Overview

Key Factors

Lend Lease is a diversified real estate services group with operations in 43 countries. Its principal operations are in Australia, USA and the UK. Some of the key factors influencing the business are the state of investment and real estate markets, the level of construction activity, global economic conditions, interest rates, taxation, and regulatory legislation. However, because the Group's operations consist of providing diversified services to a broad range of clients in many geographic locations, no one factor, in management's opinion, determines the Group's financial condition or the profitability of its operations.

Operating Performance

		December 2002	December 2001	Increase/ (Decrease)	% Increase/ (Decrease)
Operating revenue	A\$m	5,311.9	6,245.7	(933.8)	(15.0)
EBITDA ⁽¹⁾	A\$m	249.1	314.8	(65.7)	(20.9)
Operating profit before tax (excluding write-down of REI US businesses)	A\$m	158.5	218.6	(60.1)	(27.5)
Operating profit after tax (excluding write-down of REI US businesses)	A\$m	113.1	126.4	(13.3)	(10.5)
Operating (loss)/profit after tax (including write-down of REI US businesses)	A\$m	(369.4)	126.4	(495.8)	(392.2)
Earnings per share ⁽²⁾	cents	26.0	29.4	(3.4)	(11.6)
Return on equity for the half year ⁽²⁾	%	2.9	3.4	(0.5)	(14.7)

(1) EBITDA equals earnings before interest revenue, interest expense, income tax expense, depreciation, and amortisation. Excludes the impact of the write-down of REI US businesses.

(2) Excludes the impact of the write-down of REI US businesses of \$447.4 million before tax (\$482.5 million after tax).

Write-down of REI US Businesses

Lend Lease announced on 23 January 2003 that Directors had determined a provision in the order of US\$300 million (\$526 million) after tax was necessary to reflect the diminution in the carrying value of the US Real Estate Investments (REI US) business as a result of reduced medium term earnings expectations.

For the period to December 2002 an amount of US\$275 million after tax (\$482.5 million) has been charged as an expense. An additional US\$25 million after tax representing anticipated restructuring costs, included within the US\$300 million, cannot be provided for at this time, in order to comply with Australian Accounting Standards. This additional amount is expected to be fully recognised at June 2003.

The allocation of the REI US charge is summarised as follows:

	US\$m	A\$m
Goodwill	113.5	199.1
Management Agreements	127.5	223.7
Future Income Tax Benefits	20.0	35.1
Other Assets	14.0	24.6
Total recognised at December 2002	275.0	482.5
Additional amount not recognised in first half results in compliance with Australian Accounting Standards	25.0	43.8
Total expected charge at June 2003	300.0	526.3

Operating revenue decreased 15.0% (\$933.8 million) for the period ended December 2002 as compared to the corresponding period, largely due to a decrease in revenue from Bovis Lend Lease's revenue of \$355.5 million, Integrated Development Business of \$473.4 million and Real Estate Investments of \$53.0 million.

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

Overview continued

EBITDA (excluding the write-down of REI US businesses) decreased 20.9% (\$65.7 million) for the period ended December 2002 as compared to the corresponding period. The major components of the movement in EBITDA are outlined below.

	December 2002 A\$m	December 2001 A\$m	Increase/ (Decrease) A\$m
EBITDA Movement – Major Components			
Real Estate Solutions (RES)			
Bovis Lend Lease (BLL)	105.3	92.9	12.4
Integrated Development businesses			
Touchwood, Solihull		28.3	(28.3)
Northlakes	17.4		17.4
Shell Centre	(15.0)		(15.0)
Delfin Lend Lease	17.4	20.3	(2.9)
Other Integrated Development	(26.3)	10.5	(36.8)
Total Integrated Development businesses	(6.5)	59.1	(65.6)
Total Real Estate Solutions	98.8	152.0	(53.2)
Total Real Estate Investments	128.7	132.5	(3.8)
Other			
Capital Services	8.4	1.2	7.2
Other investments	5.3	49.7	(44.4)
Other	7.9	(20.6)	28.5
Total EBITDA ⁽¹⁾	249.1	314.8	(65.7)

The decrease in EBITDA of \$65.7 million is largely attributable to:

- **Integrated Development Business:** a decrease of \$65.6 million in EBITDA largely due to lower major asset sales (2002: North Lakes \$17.4 million; 2001: Touchwood, Solihull \$28.3 million), full provisioning of the Shell Centre project (\$15.0 million), lower contribution from Inner City Residential projects principally Jacksons Landing and Olympic Village (2002: \$10.4 million; 2001: \$23.4 million) and a lower contribution from Actus Lend Lease (2002: \$9.6 million loss; 2001: \$8.7 million profit).
- **Capital Services:** an increase of \$7.2 million in EBITDA largely due to the receipt of THI liquidation distributions previously fully provided.
- **Other Investments:** a decrease of \$44.4 million in EBITDA largely due to the final unwinding of the Westpac share hedge arrangements during the period to December 2001.
- **Other:** an increase of \$28.5 million in EBITDA primarily due to a reduction in Corporate Services expenses (\$26.9 million).

Despite the decrease in EBITDA of \$65.7 million, profit after tax (excluding the write-down of REI US businesses) decreased by \$13.3 million. The following table provides a reconciliation of the variances in EBITDA and profit after tax.

	December 2002 A\$m	December 2001 A\$m	Increase/ (Decrease) A\$m
Total EBITDA ⁽¹⁾	249.1	314.8	(65.7)
<i>Add:</i> Net interest	(14.6)	(23.4)	8.8
Tax expense	(47.7)	(80.3)	32.6
Depreciation/amortisation	(76.0)	(72.8)	(3.2)
Profit after tax from ordinary activities ⁽¹⁾	110.8	138.3	(27.5)
Ordinary loss/(profit) after tax attributable to outside equity interests	2.3	(11.9)	14.2
Net profit attributable to members of Lend Lease Corporation Limited ⁽¹⁾	113.1	126.4	(13.3)

(1) Excluding the write-down of REI US businesses.

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

Overview continued

Shareholders' Returns

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

		December 2002		December 2001	
		Before Amortisation	After Amortisation	Before Amortisation	After Amortisation
Return on equity for the half year excluding the write-down of REI US businesses ⁽¹⁾	%	3.9	2.9	4.4	3.4
Earnings per share excluding the write-down of REI US businesses	cents	37.4	26.0	38.8	29.4

(1) Return on equity for the financial period before amortisation is calculated by adding back accumulated amortisation and the write-down of REI US businesses.

Excluding the impact of the write-down of REI US businesses, earnings per share decreased 11.6% to 26.0 cents for the period ended December 2002 from 29.4 cents for the corresponding financial period largely reflecting the decrease in the operating earnings from the Integrated Development business.

Excluding the impact of the write-down of REI US businesses, return on equity (ROE) for the half year ended December 2002 was 2.9% compared to 3.4% for the corresponding financial period. The decrease in the ROE was principally due to a decrease in overall operating profit after tax in the period to 31 December 2002 to \$113.1 million (excluding the REI US write-down) from \$126.4 million for the corresponding financial period.

Dividends

An interim fully franked dividend of 10 cents per share will be paid on 19 March 2003 (9 cents per share paid on 20 March 2002). The dividend payout ratio in respect of profit after tax (excluding the write-down of REI US businesses) is 38.5% (December 2001 financial period 30.7%). The balance of franking credits as at December 2002 was \$1.8 million (December 2001 \$0.9 million), calculated after adjusting for franking credits which will arise from the payment of income tax provided in the accounts and after deducting franking credits to be used in the payment of the proposed interim dividend and tax losses utilised in the current period.

Segment Results Summary

The financial results presented below are split into two main operating segments. These segments comprise two global real estate businesses – Real Estate Solutions (consisting of project management, construction management, development and project finance) and Real Estate Investments (consisting of investment management and asset management).

Non-core businesses consist of those businesses that are not core to the future real estate strategy. This segment includes Capital Services, Equity Investments, IT+T and eBusiness Investments.

The following table provides segment results for the December 2002 financial period. Each segment is reviewed in detail below. It should be noted that the segment results of the operating businesses exclude financing costs (which are included in Group Treasury), amortisation charges and the write-down of REI US businesses.

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Overview continued

Business Segment Summary

	Operating Revenue		Operating (Loss)/Profit Before Tax		Operating (Loss)/Profit After Tax ⁽¹⁾		Assets	
	6 mths December 2002 A\$m	6 mths December 2001 A\$m	6 mths December 2002 A\$m	6 mths December 2001 A\$m	6 mths December 2002 A\$m	6 mths December 2001 A\$m	As at December 2002 A\$m	As at June 2002 A\$m
Real Estate Solutions								
Bovis Lend Lease	4,465.6	4,821.1	95.6	78.5	59.7	49.3	2,943.3	3,391.3
Integrated Development Businesses	327.9	801.3	(7.9)	60.4	(0.6)	34.0	751.2	706.7
Total Real Estate Solutions	4,793.5	5,622.4	87.7	138.9	59.1	83.3	3,694.5	4,098.0
Real Estate Investments	469.5	522.5	113.2	120.9	85.8	86.7	3,665.6	3,858.8
Total Operating Real Estate	5,263.0	6,144.9	200.9	259.8	144.9	170.0	7,360.1	7,956.8
Corporate								
Group Services	6.0	5.7	(11.1)	(44.0)	0.4	(39.3)		
Group Amortisation			(43.8)	(40.4)	(43.8)	(40.4)		
Group Treasury	22.7	19.6	(1.2)	(7.7)	3.0	(1.5)	615.3	519.8
Total Corporate	28.7	25.3	(56.1)	(92.1)	(40.4)	(81.2)	615.3	519.8
Non Core Businesses								
Capital Services	14.9	3.2	8.4	1.2	4.8	0.9	37.2	36.8
IT+T and eBusiness Investments	5.3	10.4	5.3	10.4	3.8	8.5	58.9	73.5
Equity Investments		61.9		39.3		28.2		
Total Non Core Business	20.2	75.5	13.7	50.9	8.6	37.6	96.1	110.3
Total Group results before write-down of REI US businesses	5,311.9	6,245.7	158.5	218.6	113.1	126.4		
Write-down of REI US businesses			(447.4)		(482.5)			
Total Group	5,311.9	6,245.7	(288.9)	218.6	(369.4)	126.4	8,071.5	8,586.9

(1) Operating (loss)/profit after tax is net of the loss attributable to outside equity interests of \$2.3 million (December 2001 profit \$11.9 million).

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

Real Estate Solutions (RES)

The RES business provides real estate clients with a range of services including construction and project management, design, development, capital raising and in some cases the ongoing management of assets. RES is analysed with reference to its two main components, namely Bovis Lend Lease (BLL) and Integrated Development Businesses (IDB). BLL is RES's global platform and its principal activity is that of construction and project management. The BLL business, through its global scale and capacity, enables the IDB to pursue opportunities which include capital raising, development, design and in some cases the ongoing management of the asset.

BLL supports RES's integrated projects such as Private Finance Initiatives (PFIs) in the UK. In addition, BLL has links with other Lend Lease businesses as a supplier of services to major development projects like Chapelfield in Norwich, UK and Victoria Harbour in Melbourne.

IDB pursues a strategy of building businesses with barriers to entry, leveraging capital and increasing the annuity earnings profile. Delfin Lend Lease and Actus Lend Lease are examples of this strategy being implemented. The RES business also actively pursues synergies with REI where it is mutually beneficial to both the Company and investors.

BLL and IDB operate in 43 countries worldwide with major operations centred in UK, US and Australia.

Region	Business/Sector	Key focus
Asia Pacific	– Project and construction management	– Focus on project management/construction management and engineering projects via Bovis Lend Lease
	– Urban Communities	– Long term land management contracts via Delfin Lend Lease
	– Inner city residential and urban regeneration	– Projects such as Jacksons Landing and Victoria Harbour
Europe	– Project and construction management	– Focus on project management/construction management and engineering projects via Bovis Lend Lease
	– Health Solutions	– Health privatisations through PFI model via Catalyst Healthcare
	– UK Government privatisations (excluding health)	– Focus on military privatisation and education projects
	– Urban Communities	– Inner city urban renewal projects such as Greenwich Peninsula
	– Retail developments	– Two retail developments – Norwich in the UK and Tres Aguas in Spain
Americas	– Project and construction management	– Focus on project management/construction management and engineering projects via Bovis Lend Lease
	– US Government privatisations	– Military housing via Actus Lend Lease

Overview of Financial Results

A summary of the key performance indicators for RES is given in the table below.

	BLL		Integrated Development Businesses ⁽¹⁾		Total RES	
	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m
Operating profit/(loss) after tax	59.7	49.3	(0.6)	34.0	59.1	83.3
New work secured ⁽²⁾	408.3	359.6	9.1	19.6	417.4	379.2
Backlog gross profit margin (Backlog GPM) ⁽²⁾	646.8	542.2	101.4	61.4	748.2	603.6
Number of lots/units in portfolio	N/A	N/A	40,200	48,900	40,200	48,900

(1) Integrated Development Businesses were presented under the heading Property Development in the December 2001 MD&A.

(2) Integrated Development Businesses New Work Secured and Backlog GPM relates to Actus Lend Lease and PFI Facilities Management.

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

Real Estate Solutions (RES) continued

BLL and the Integrated Development Businesses were consolidated under RES management in 2002. In accordance with the revised RES management structure, Actus Lend Lease in the US and PFI projects and consulting in the UK, which were reported as part of BLL in the year ended June 2002, are reported with effect from 1 July 2002 as part of Integrated Development Businesses. In addition, the microelectronics business, that had been reported as part of the Global Markets Group, is now reported within BLL's three regional businesses. In order to enable period on period comparisons the prior period's financial results have been restated to take account of the changes to the RES management structure. The changes have no impact on the total results for RES but do change the allocation between BLL and Integrated Development Businesses.

RES's operating profit after tax was \$59.1 million for the financial period ended December 2002, a \$24.2 million decline on the \$83.3 million earned in the prior corresponding period. BLL's operating profit after tax of \$59.7 million is a 21% increase on the prior corresponding period profit of \$49.3 million. Integrated Businesses' profit after tax declined from \$34.0 million to a loss of \$0.6 million, principally due to the timing of asset sales, the provision raised against capitalised costs on Shell Centre, London and continued costs related to securing PFI projects. The period ended December 2001 included the profit on the sale of Touchwood, Solihull of \$19.8 million.

BLL has secured new work of \$408.3 million in the financial period ended December 2002 compared to \$359.6 million in the corresponding prior period. BLL's closing backlog at December 2002 was \$646.8 million, a 28% increase on the balance at June 2002 of \$504.0 million. In addition, RES has a further eight projects in Europe or the Americas which are designated preferred bidder. These projects will contribute a further \$153.1 million to Backlog GPM on the assumption that they reach financial close.

The Backlog GPM in respect of PFI Facilities Management (PFI FM) increased by \$7.6 million to \$37.8 million and the Backlog GPM for Actus Lend Lease increased by \$1.4 million to \$63.6 million.

In Europe, there are currently 13 PFI projects where RES is the preferred bidder, or which have commercially closed, are under construction or operational. In the US, Actus Lend Lease reached preferred bidder status during this period on Fort Campbell. In Australia, Delfin Lend Lease has approximately 36,700 lots under management and the Inner City Residential projects has a further 3,500 units under management.

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

Real Estate Solutions (RES) continued

Bovis Lend Lease

The principal activity of this business is that of construction and project management. BLL operates in 43 countries worldwide and is managed through three regions (Asia Pacific, Europe including Middle East and Africa, and the Americas). In addition there is one global business unit, Global Markets Group, which operates in the pharmaceutical sector.

Key Financial Results

The financial results for the financial period ended December 2002 are set out below:

	Revenue		Realised Gross Profit Margin		Operating Profit/(Loss) Before Tax		Operating Profit (Loss) After Tax	
	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m
Asia Pacific	674.8	707.1	61.5	66.5	20.7	29.4	11.6	18.3
Americas	2,268.0	2,607.1	104.6	101.1	37.9	30.4	23.1	17.3
Europe	1,031.0	1,177.2	95.5	80.8	44.3	32.0	30.0	22.3
Global Markets	491.8	329.7	24.4	19.1	5.7	4.8	4.1	3.8
Global Management					(13.0)	(18.1)	(9.1)	(12.4)
Total BLL	4,465.6	4,821.1	286.0	267.5	95.6	78.5	59.7	49.3

Revenue

BLL enters into a variety of contract types from Fee Services contracts, where only the fee is recorded as revenue, to Construction Services contracts, where the full value of the project (including third-party costs) is recorded as revenue. For this reason, recorded revenues do not provide an accurate measure of the volume of work undertaken and the ratio of operating profit to revenue is not considered to be a useful measurement of profit margin. The level of revenue is a reasonable indicator of two important value drivers of the business: the level of cash generation or surplus working capital, and the level of construction services contracts in the business.

Total revenues for the financial period ended December 2002 declined to \$4.5 billion from \$4.8 billion reported in the corresponding period due to a decline in the number of Construction Service contracts, relative to Fee Service contracts, and the movement in the average US dollar foreign exchange rates applied for each period.

Operating Profit After Tax

BLL's operating profit after tax was \$59.7 million for the financial period ended December 2002, a 21% increase on the period ended December 2001. Lend Lease uses forward exchange contracts to hedge a portion of projected revenue after expenses from foreign operations. The exchange gains or losses on contracts that relate to the current financial period are applied to the results of the respective businesses. The effect is to record profit from foreign operations at the effective hedged exchange rate. Similarly, Realised GPM has been adjusted to reflect the effective hedge rate. BLL generates significant UK Pounds Sterling and US Dollar earnings. The exchange rates used in the financial period ended December 2002 compared to those used in the prior financial period reflects the relative movement in effective hedge rates of the Australian Dollar against both these currencies. The movement between the two hedge rates increased Operating Profit after Tax by \$2.7 million for the period ended 31 December 2002. For further discussion of hedging policies refer to the Group Treasury section of the MD&A.

Asia Pacific

Operating profit after tax for the Asia Pacific business declined from \$18.3 million in the period ended December 2001 to \$11.6 million in the period ended December 2002. Realised GPM declined by \$5.0 million to \$61.5 million due to the timing of work on large projects.

Americas

Operating profit after tax for the Americas increased from \$17.3 million in the period ended December 2001 to \$23.1 million in the period ended December 2002, an increase of \$5.8 million of which \$1.7 million is due to exchange rate movements. Realised GPM of \$104.6 million is slightly higher than the corresponding period due to ongoing work on a number of large projects.

Europe

Operating profit after tax of the European business increased from \$22.3 million in the period ended December 2001 to \$30.0 million in the period ended December 2002, an increase of \$7.7 million of which \$1.0 million is due to exchange rate movements. Realised GPM increased from \$80.8 million in the period ended December 2001 to \$95.5 million in the period ended December 2002 due a number of commercial projects in London.

Global Markets

The Global Markets Group operates in the pharmaceutical sector. Operating profit after tax of the business increased from \$3.8 million in the period ended December 2001 to \$4.1 million in the period ended December 2002. Realised GPM increased from \$19.1 million to \$24.4 million. The increase in Realised GPM was partly offset by increased overhead expenses.

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

Real Estate Solutions (RES) continued

Bovis Lend Lease continued

Global Management and Project Costs

Global Management and project costs for the financial period reflect the expenses of the global executive management team and costs incurred on global projects such as IT systems and the BLL international safety programme (Incident and Injury Free).

Profitability Ratio

A detailed review of overheads was carried out last financial year which then resulted in an improvement in BLL's profitability ratio which increased from 29% in the prior year period to 33% in the current period.

New Work Secured and Backlog GPM

New Work Secured is the value of GPM procured in the financial period. Backlog GPM is the expected GPM to be realised in future periods from the total contracts committed at the end of a financial period. The following table provides a summary of New Work Secured for the financial period ended December 2002 and the Backlog GPM at that date.

	Opening Backlog GPM at June 2002 A\$m	Plus:Foreign Exchange Adjustment ⁽¹⁾ A\$m	Plus: New Work Secured (GPM) to Dec 2002 A\$m	Less: Realised GPM ⁽²⁾ to Dec 2002 A\$m	Equals: Closing Backlog GPM at Dec 2002 A\$m
Asia Pacific	68.9		88.9	(61.5)	96.3
Americas	195.2	16.5	131.0	(104.6)	238.1
Europe	186.4	7.3	173.3	(95.5)	271.5
Global Markets	53.5	(3.3)	15.1	(24.4)	40.9
	504.0	20.5	408.3	(286.0)	646.8
Actus Lend Lease ⁽³⁾	62.2	4.6	2.7	(5.9)	63.6
PFI FM ⁽³⁾⁽⁴⁾	30.2	1.3	6.4	(0.1)	37.8
Total	596.4	26.4	417.4	(292.0)	748.2
Projects preferred but not reached financial close					153.1
Total preferred and reached financial close					901.3

(1) The foreign exchange adjustment arises due to different exchange rates used at June 2002 to those used at December 2002.

(2) Realised GPM flows through to profit before tax for the financial period before the allocation of indirect overheads.

(3) Although included in the above table the Realised GPM in respect of Actus Lend Lease and PFI (FM) is reported within Integrated Development Businesses.

(4) The Closing Backlog GPM for FM contracts includes only the next 10 years of income, although the contracts run for longer periods.

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

Real Estate Solutions (RES) continued

Bovis Lend Lease continued

BLL had a closing Backlog GPM of \$646.8 million as at December 2002, an increase of 29% over the balance as at June 2002. The value of New Work Secured (including Actus Lend Lease and PFI FM) for the financial period ended December 2002 was \$417.4 million, a 10% increase on the prior corresponding period. In addition, RES has further projects in Europe and the Americas which are designated preferred bidder. These projects are expected to contribute a further \$153.1 million to Backlog GPM on the assumption they reach financial close.

The Backlog GPM as at December 2002 is expected to emerge or be realised over future reporting periods as follows:

	Six months to June 2003 %	Year Ending June 2004 %	Post June 2004 %	Total %
Asia Pacific	40	42	18	100
Americas	43	39	18	100
Europe	25	33	42	100
Global Markets	52	42	6	100
Total BLL	36	37	27	100
Actus Lend Lease ⁽¹⁾	29	23	48	100
PFI FM ⁽¹⁾	4	6	90	100
Total	34	34	32	100
Projects preferred but not reached financial close	1	18	81	100
Total preferred and reached financial close	28	32	40	100

(1) The GPM in respect of Actus Lend Lease and PFI (FM) is reported within Integrated Development Businesses.

The above table shows that of the Backlog GPM at December 2002, 34% is projected to be realised as profit in the six months ending June 2003. The proportion of secured Backlog GPM to be realised beyond an eighteen month time frame increased from 27% at 31 December 2001 to 32% at 31 December 2002 which reflects an increase in long term projects such as the SLAM military project, PFIs in the UK and Actus Lend Lease in the Americas.

Working Capital

BLL is a significant generator of cash for Lend Lease. The level of cash/working capital is subject to the construction activity on individual projects and therefore can vary throughout the financial period.

Performance Guarantees

Lend Lease provides performance guarantees to BLL clients in certain circumstances which usually relate to the guarantee that BLL will complete its obligations under its contracts with those clients. These guarantees have been provided in the ordinary course of business. The Directors do not believe that there is currently any material exposure in relation to these guarantees other than as disclosed in the December 2002 Consolidated Financial Statements.

BLL Definitions

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

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

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

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

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

Real Estate Solutions (RES) continued

Bovis Lend Lease continued

Integrated Opportunities: BLL in conjunction with another RES business provides, in addition to construction/project management services, one or more of the following services: capital raising; development services; design; and the ongoing management of the asset.

Realised Gross Profit Margin (Realised GPM): represents total project revenue less direct project related costs such as payments to subcontractors and staff, site and other costs incurred by BLL that are directly attributable to the project. It does not include the allocation of any general (or indirect) overheads. Realised GPM as per the table of Key Financial Results disclosure is based on a percentage of completion realisation.

During project construction it is Lend Lease's policy not to recognise profit on projects until the outcome of the contracts can be reliably determined and they are at least 50% complete, other than to cover overheads. Provisions are made for unrealised profit in arriving at profit before tax, to offset the GPM on projects that are below this threshold. Once a project passes its relevant recognition threshold the related unrealised profit provision is released.

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

Profitability Ratio: represents the relationship of Realised GPM to overheads. Overheads for the purpose of this calculation include movement in provisions.

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

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB)

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

Key Financial Results

The financial results for the period ended December 2002, are set out below.

	Operating Revenue		Operating (Loss)/Profit Before Tax		Operating (Loss)/Profit After Tax		Assets	
	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	June 2002 A\$m
Asia Pacific	142.9	231.1	40.4	43.5	30.2	28.5	540.7	485.3
Americas	133.5	92.0	(12.4)	11.9	(5.6)	5.1	85.3	73.1
Europe	51.5	478.2	(30.9)	5.0	(21.7)	0.4	125.2	148.3
Global Management			(5.0)		(3.5)			
Total	327.9	801.3	(7.9)	60.4	(0.6)	34.0	751.2	706.7

Asia Pacific

Revenue

Revenue for the financial period ended December 2002 principally relates to Delfin Lend Lease sales of \$87.1 million, Inner City Residential sales of \$9.1 million and proceeds on the sale of North Lakes of \$42.5 million. A total of 2,060 lots were sold by Delfin Lend Lease and 260 units by Inner City Residential.

Revenue for the financial period ended December 2001 related to Delfin Lend Lease sales of \$74.4 million, Inner City Residential sales of \$147.6 million largely comprising Olympic Village, Newington Precinct 2 and sales at Admiralty Industrial Park (AIP) in Singapore of \$9.1 million.

Operating Profit After Tax

Operating profit after tax for the financial period ended December 2002 was \$30.2 million compared to \$28.5 million in the prior financial period. In Australia, Inner City Residential projects, principally Jacksons Landing and Olympic Village/Newington, contributed \$4.6 million via a share of equity accounted profits (2001 \$16.4 million). Delfin Lend Lease projects contributed a further \$23.3 million (2001 \$12.1 million), including a \$11.2 million profit after tax on the sale of our interest in the North Lakes project. The Asian operation contributed an operating profit after tax in the financial period ended December 2002 of \$2.1 million (December 2001 \$0.3 million) principally due to the recovery of assets previously written down. No development activity is currently being undertaken in Asia. The operating profit after tax for the financial period ended December 2001 also included a profit of \$2.2 million from the sale of equity in Da Chang.

Overview of Businesses

Delfin Lend Lease

Delfin Lend Lease has 21 projects, encompassing approximately 36,700 residential lots, in the major growth corridors along the Eastern seaboard of Australia as well as in South Australia and the Northern Territory. This portfolio is expected to be developed over the next 15-20 years. While the ultimate level of profits is dependent on market demand at the time the developments are sold, the scale of the portfolio provides certainty of inventory. Delfin Lend Lease is a market leader in Australia for the creation (the master plan, design and construction) of Urban Communities. The business is focused on the creation of large scale urban centres through community building and development. The emphasis is on sustainable social, environmental and economic solutions through planning, urban design and infrastructure provision. Generally, BLL is not involved in construction of dwellings for the projects. The developments are usually carried out in partnership with a landowner and the payments for land are linked to the proceeds from the sale of land lots. This achieves a lower risk profile as the development and resulting cash flows can be phased according to market conditions.

The following table summarises the Delfin Lend Lease projects.

	6 mths to Dec 2002	12 mths to June 2002
Number of projects	21	21
Number of lots sold	2,060	4,758
Sales Backlog (number of lots)	36,700	42,900

During the period Delfin Lend Lease sold its interest in the North Lakes project to its joint venture partner, Lensworth, for consideration of \$42.5 million, reducing Backlog by 6,000 lots. This reduction in Backlog was partly offset by finalisation of arrangements with Boral Limited to undertake the Nelson Ridge project in Sydney, which includes approximately 1,500 residential lots.

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

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Inner City Residential

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

The Inner City Residential business has a backlog of approximately 3,500 units.

A brief summary of the key projects is set out below.

Project	Current Status	Investment/ Inventory as at 31 Dec 2002 A\$m	Expected Profit Emergence
Olympic Village/Newington, Sydney	<ul style="list-style-type: none"> – Total development of 2,014 residential units and 2 industrial/retail precincts. – All industrial/retail precincts have been completed and sold. – A total of 104 residential units were sold in the period. – The project is 67% sold by number of lots at 31 December 2002. – There were 121 residential units completed and under construction available for sale at 31 December 2002. – There is the capacity to develop a further 550 units on the site. 	12.0	Precinct 2, 4 and 5 completed, sold and profits recognised. Precinct 1 and 3 up to 2005.
Jacksons Landing, Sydney	<ul style="list-style-type: none"> – Total development of 1,341 residential units and commercial/retail precincts. – Completion of two residential towers in the period, approximately 95% sold. – 119 units sold in the period. – Market release of two towers during the period. – Construction of The Distillery has commenced and is expected to be completed in early 2004. – There is the capacity to develop a further 480 units on the site. 	87.8	Staged development up to 2007.
Victoria Harbour, Melbourne	<ul style="list-style-type: none"> – Land management arrangement with Docklands Authority. – First development a 56,000 square metre commercial building pre-let to National Australia Bank and pre-sold to General Property Trust. – Dock 5, the first residential tower, comprising 148 apartments, was released to the market during December. – Project is of a staged nature that can be contracted or expanded in line with prevailing market conditions. 	24.0	Staged development over the next 20 years.
St Patricks, Sydney	<ul style="list-style-type: none"> – Staged development with the Catholic Church. – First precinct of 8 houses, 10 apartments and 3 land lots was 78% sold at December 2002. 	7.4	Staged development over the next 5 years.

Other Projects

Real Estate Solutions has an interest in three other development-led projects in Sydney, namely Fox Studios (carrying value \$3.8 million), Darling Park III (carrying value \$15.0 million) and Hickson Road (carrying value Nil). Hickson Road is to be the new office for Lend Lease in Sydney and has been pre-sold to Deutsche Office Trust.

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

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Americas

Revenue

Revenue for the period ended December 2001 and December 2002 principally relates to Actus Lend Lease. There was no other significant revenue in the Americas.

Operating Profit/(Loss) After Tax

The loss after tax for the financial period ended December 2002 of \$5.6 million is largely attributable to Actus Lend Lease and includes costs of bidding for new military housing projects of \$5.3 million where the incremental GPM is not recognised until these projects reach financial close. There was no significant income recognised in the period as financial close was not reached on any new projects. In addition minimal construction GPM was recognised during the period in relation to the Fort Hood project as it is in the early stages of completion. Fort Campbell and Beaufort Paris Island projects have both reached preferred bidder status.

Profit after tax for the financial period ended December 2001 of \$5.1 million principally relates to fees earned on Fort Hood.

Actus Lend Lease

The main focus of Actus Lend Lease is the privatised military housing program for all branches of the US military. In the corresponding prior year period Actus Lend Lease finalised the contract with the US Army in relation to the privatisation of Fort Hood. In May 2002, Actus Lend Lease was named preferred bidder on the Beaufort Parris Island project, a joint Navy and Marine base in South Carolina which includes the upgrade and ongoing maintenance of 1,600 homes and construction of a number of new homes. The base has an estimated capital spend of US\$110.0 million and includes a 45 year management contract. Actus Lend Lease expects to reach financial close on this project during the 2003 financial year. In May 2002, Actus Lend Lease was also named preferred bidder on Fort Campbell, an army base located in Kentucky, which has an estimated capital spend of US\$290.0 million and approximately 4,800 homes.

Piers Development Project, San Francisco

The main development project in North America is The Piers on the waterfront in San Francisco. Lend Lease holds a joint venture interest in the San Francisco Cruise Terminal Company. This venture has an exclusive right to negotiate with the Port of San Francisco to develop Piers 30-32.

Europe

Revenue

European revenue in the period ended December 2002 of \$51.5 million relates to facilities management income and consultancy. There were no significant asset sales in the period.

European revenue of \$478.2 million in the period ended December 2001 mainly comprised the sale of Touchwood, Solihull to the Lend Lease Retail Partnership (\$439.1 million) and additional revenue recognised from the sale of Overgate, Dundee due to additional space being let in the period.

Operating Profit After Tax

The operating loss after tax for the period ended December 2002 was \$21.7 million. There were no significant capital transactions in the period. The loss is principally due to the full provision against costs incurred on Shell Centre, London of \$10.5 million and continued costs of pursuing new projects, principally PFI's of \$12.0 million offset by profit after tax recognised on Touchwood, Solihull of \$2.1 million.

The operating profit after tax for the period ended December 2001 of \$0.4 million included the profit on the sale of Touchwood, Solihull of \$19.8 million offset by overheads and the cost of pursuing new, principally PFI related, projects. The profit on the sale of Solihull represents the profit on the development calculated by reference to the level of rentals achieved.

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

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Europe continued

Overview of Businesses

Urban Regeneration

The European business is pursuing a number of urban regeneration schemes, details of which are set out below:

Project	Current Status/Risks	Investment /Inventory 31 Dec 2002 A\$m	Expected Profit Emergence
Greenwich Peninsula, East London	<ul style="list-style-type: none"> - RES is in joint venture with Quintain Estates and English Partnerships, to regenerate approximately 190 acres of land at Greenwich Peninsula, East London, including the Millennium Dome. - The outline master plan proposes a total development of around 1.3 million square metres, comprising an arena, approximately 10,000 new homes, 0.5 million square metres of office accommodation, shops, restaurants, open spaces and leisure facilities. - The scheme is in accordance with Lend Lease's strategy of leveraging capital. Under the terms of the agreement RES is able to manage the drawdown of land to coincide with demand. - The deal was signed in May 2002 and the first profit is expected to be recognised in 2006. 	12.9	2006 - 2018
Bluewater Valley, Kent	<ul style="list-style-type: none"> - Early stages of development. - Land is adjacent to Bluewater Shopping Centre and is currently waiting rezoning by Local Council and planning will then be submitted. 	14.3	Subject to development plan

Retail and Other Projects

Lend Lease's ongoing development activities are structured to reduce risk by increasingly operating on a fee for work basis with incentive fees linked to increases in asset value. A summary of the key developments is set out below:

Project	Current Status/Risks	Investment /Inventory 31 Dec 2002 A\$m	Expected Profit Emergence
Tres Aguas / Carlos III Madrid	<ul style="list-style-type: none"> - The centre opened in September 2002. - Currently let 92% by space and 93% by value. - Centre is being marketed for sale. Interest has been received from a number of parties and the sale is expected to be completed in the second half of the 2003 financial year. 	25.1	2002/03
Chapelfield, Norwich	<ul style="list-style-type: none"> - Conditionally forward sold to Capital Shopping Centres plc. - In the period Capital Shopping Centres contributed \$111 million of funding towards development. - A second payment will be made following practical completion (expected in 2005), subject to the Centre being 70% let by space and value. - The Centre is currently 25% pre-let by value and 45% by space. 	104.4	2005/06
Shell Centre, London	<ul style="list-style-type: none"> - Joint venture with Shell to develop a 22,000 square metre commercial tower with associated retail and leisure on the Southbank, London. - Planning application was refused by the local Council in December 2002. An appeal is currently pending. In light of the recent refusal, all costs incurred on this project have been provided for in the current financial period. - Commitment to commence construction is contingent on achieving the required planning, acceptable pre-leasing and pre-sale. 	-	2004/05

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

Real Estate Solutions (RES) continued

Integrated Development Businesses (IDB) continued

Europe continued

Private Finance Initiative (PFI) Projects

Catalyst Healthcare, a 100% owned subsidiary, is established in the European PFI healthcare sector. It currently has six health PFI projects awarded or as preferred bidder in the UK and one in Italy. RES also has four education PFI projects, two government accommodation PFI projects and is pursuing opportunities in the military sector.

IDB recently secured its first large military contract in the UK having been appointed, in joint venture with Babcock SGI, to build, refurbish and maintain living accommodation at 50 Army, Navy and Air Force bases across the UK. The contract is expected to generate \$2 billion of revenue for BLL over the next seven years. The project, named SLAM (Single Living Accommodation Modernisation) has procurement similarities to PFI projects in that IDB is required to both build and maintain the barracks for a contracted period of time. However, unlike PFI projects, the private sector will not finance this project.

The PFI projects are managed by specialist subsidiaries (eg. Catalyst Healthcare) who engage BLL to carry out the construction activities.

The status of IDB's PFI projects as at 31 December 2002 is set out below:

	Construction Revenue A\$m	FM Backlog Revenue(1) A\$m	Current Status	Contract Length Years	End Date
Health					
Calderdale Hospital (UK)	223 ⁽²⁾	46	Operational	33	May 2031
Worcester Hospital (UK)	214 ⁽²⁾	91	Operational	33	Dec 2031
Hexham Hospital (UK)	72	18	Under construction	32	Apr 2033
Roehampton Hospital (UK)	119	5	Preferred bidder	30	Apr 2033
Brescia Hospital (Italy)	40		Preferred bidder	22	Jun 2024
Manchester (UK)	816	62	Preferred bidder	35	Dec 2037
Havering (UK)	477	48	Preferred bidder	33	Sep 2035
Education	1,961	270			
Newcastle Schools (UK)	116	40	Under construction	27	Mar 2029
Lincoln Schools (UK)	46	16	Under construction	29	Sep 2030
Lilian Baylis Schools (UK)	32	12	Preferred bidder	27	Jun 2029
Cork Maritime Schools (Ireland)	66	13	Preferred bidder	27	Dec 2028
Other	260	81			
Treasury 1 (UK)	294 ⁽²⁾	57	Operational	37	Aug 2037
Treasury 2 (UK)	369	75	Under construction	35	Aug 2037
	663	132			
	2,884	483			

(1) FM Backlog Revenue disclosed is for 10 years. All contracts run for 20-35 years.

(2) Construction phase of these projects has been completed.

RES is committed to further investment in the PFI market and is currently actively bidding for further projects in the health and military sectors. The Backlog GPM in respect of PFI FM contracts which are either operational or have reached financial close at December 2002 is \$37.8 million.

A key issue in the PFI market in the UK is the high cost associated with bidding for new projects due to the requirement for detailed design to be submitted as part of the bidding process. No costs associated with the bidding process were capitalised on Lend Lease's balance sheet at December 2002 unless Lend Lease or its consortium had been declared preferred bidder and is therefore in sole negotiation on the project. A total of \$25.5 million of bid costs were capitalised during the six months to December 2002 in relation to the projects for which Lend Lease is the preferred bidder. The most significant project, in terms of capitalised costs, is Havering Hospital, (of which \$12.2 million was capitalised during the current financial period), which is expected to reach financial close in the current financial year.

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

Real Estate Investments (REI) *

The principal activities of this business segment are management of real estate investment funds (which may be partnerships, trusts or other entities), and separate accounts on behalf of clients (including acquiring, managing and disposing of investments and in some cases, includes co-investment in funds or real estate assets), portfolio management, originating and servicing of commercial mortgages and mezzanine loans, resolution of sub-performing and non-performing commercial mortgages, the leasing, management and redevelopment of retail centres and acting as financial advisor and arranger of project finance and related services.

Key Financial Results

	Operating Revenue		Operating Profit/(Loss) Before Tax ⁽¹⁾		Operating Profit/(Loss) After Tax ⁽¹⁾		Assets	
	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	Dec 2001 A\$m	Dec 2002 A\$m	June 2002 A\$m
North America	338.5	370.4	64.5	65.9	50.8	48.8	2,256.1	2,728.2
Australia and Pacific	49.4	44.1	24.8	18.0	17.7	14.1	153.7	156.8
Asia	17.6	31.4	(3.2)	3.8	(2.7)	2.1	210.7	264.0
Europe	64.0	76.6	31.3	33.2	22.5	21.7	1,045.1	709.8
Global management			(4.2)		(2.5)			
Total REI	469.5	522.5	113.2	120.9	85.8	86.7	3,665.6	3,858.8
% of Total Group	8.8	8.4	80.9	55.3	85.6	68.6	45.4	44.9
% period movement	(10.1)		(6.4)		(1.0)		(5.0)	1.2

* Definitions in respect of the terms used in this section are included on page 18.

(1) Excludes the write-down of the REI US businesses.

Global REI profit after tax decreased 1.0% to \$85.8 million for the period ended December 2002 compared to \$86.7 million for December 2001.

Global Management Costs

Global management costs for the period ended December 2002 reflect the expenses of the global executive management team and certain costs associated with the Strategic Review of the Global REI business.

An analysis of the Global REI Assets Under Management, Assets Under Resolution, Loans Under Servicing and regional results follows.

Strategic Review

In May 2002, the Board and management of Lend Lease commenced a detail strategic review of the REI businesses with the objective of optimising the performance of the business and its returns to shareholders.

Key issues prompting the review included:

- Weak economic conditions in the US making meaningful growth in the US in the short term a challenge;
- Intensified competition as a result of industry consolidation by major financial institutions;
- Disappointing performance of certain businesses;
- Significant co-investment requirements for certain funds; and
- Below benchmark investment performance for certain funds and separate accounts.

The Strategic Review is being conducted by the Board and management, working with external advisors. An assessment of a range of alternatives is progressing with the objective of ensuring that shareholders' value from the businesses is maximised.

On 23 January 2003, an announcement was made that a write-down in the order of US\$300 million (\$526 million) after tax will be made reflecting a diminution in the carrying value of US REI businesses and associated restructuring as a result of reduced medium term earnings expectations. The factors contributing to the reduced earnings outlook include problematic US real estate markets, record low US interest rates and a continuing weak US economy.

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

Real Estate Investments (REI) continued

Global Assets Under Management (AUM)

Global AUM increased 5.6% to \$90.9 billion at December 2002 compared to \$86.1 billion at June 2002. Excluding the impact of currency changes, Global AUM at December 2002 increased 4.9% compared to June 2002 (\$90.3 billion December 2002 as compared to \$86.1 billion at June 2002).

	Period ended 31 December 2002				June 2002	
	North America US\$b	Aust & Pacific A\$b	Asia US\$b	Europe £b	Total A\$b	Total A\$b
AUM at beginning of financial period	38.4	11.8	1.0	2.0	86.1	92.1
Additions	3.3	0.8	0.4	0.7	9.2	11.5
Reductions	(2.4)	(0.3)	(0.4)		(5.3)	(9.7)
Net revaluations	(0.1)	0.2		0.1	0.3	(0.8)
Exchange gains/(loss) ⁽¹⁾					0.6	(7.0)
AUM at end of financial period	39.2	12.5	1.0	2.8	90.9	86.1
Period movement in AUM	%			40.0	5.6	(6.5)
AUM at end of financial period	A\$b	12.5	1.8	7.2	90.3	93.1
Exchange gain/(loss) ⁽¹⁾				0.6	0.6	(7.0)
AUM at end of financial period	A\$b	12.5	1.8	7.8	90.9	86.1
Period movement in AUM (excluding currency changes)					4.9%	1.1%

(1) Exchange gains/(loss) arises from exchange rate movements for translation of local currency AUM between June 2002 and December 2002.

The US REI AUM of \$68.8 billion represents approximately 76% of the total Global REI AUM.

Further details of AUM are outlined in the regional analysis following.

Global Assets Under Resolution (AUR)

Global AUR decreased 31.2% to \$9.9 billion at December 2002.

	Period ended 31 December 2002			June 2002
	North America US\$b	Asia US\$b	Total A\$b	Total A\$b
AUR at beginning of financial period	0.9	7.3	14.4	13.1
Additions	0.2	0.4	1.1	5.3
Reductions	(0.1)	(3.4)	(6.1)	(2.9)
Net revaluations/other		0.3	0.5	0.2
Exchange (loss)/gain ⁽¹⁾				(1.3)
AUR at end of financial period	1.0	4.6	9.9	14.4
Period movement in AUR	%			9.9
AUR at end of financial period	A\$b	8.1	9.9	15.7
Exchange (loss)/gain ⁽¹⁾				(1.3)
AUR at end of financial period	A\$b	8.1	9.9	14.4
Period movement in AUR (excluding currency changes)			(31.2)%	19.8%

(1) Exchange (loss)/gain arises from exchange rate movements for translation of local currency AUM between June 2002 and December 2002.

Further details of AUR are outlined in the regional analysis following.

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

Real Estate Investments (REI) continued

Global Loans Under Servicing (LUS)

Global LUS increased 0.9% to \$123.3 billion at December 2002.

	December 2002 Nth America US\$b	June 2002 Nth America US\$b
LUS at beginning of financial period	69.7	50.1
Additions	4.4	25.7
Loan run-offs	(3.8)	(6.1)
LUS at end of financial period	70.3	69.7
Period movement in LUS	%	39.1
LUS at end of financial period	123.3	134.0
Exchange gain/(loss) ⁽¹⁾		(11.7)
LUS at end of financial period	123.3	122.3

(1) Exchange (loss)/gain arises from movements exchange rates for translation of local currency AUM between June 2002 and December 2002.

Further details of LUS are outlined in the regional analysis following.

REI Definitions

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

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

Assets Under Resolution (AUR): represents the outstanding principal balance (legal loan balance) of non-performing and sub-performing loans that are being resolved and the investment balance of foreclosed real estate administered on behalf of investors. AUR consists of delinquent loans in CMBS pools (Special Serviced loans) and non-performing and sub-performing loans acquired by investors. Non-performing portfolios are typically purchased at a significant discount to the legal loan balances.

Loans Under Servicing (LUS): represents the legal balances of mortgage loans that are serviced on behalf of investors.

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

Real Estate Investments (REI) continued

Global Funds Investment Performance

Detailed below are the latest available returns for certain REI funds compared to appropriate benchmarks, where applicable. Specific separate account returns are not disclosed due to confidentiality obligations to clients.

Investment	Benchmark Reference	Region	Before fees 1 year	leveraged returns % 3 years	5 years	AUM ⁽¹⁾ A\$b
Core Funds						
Private Equity Composites at 30 September 2002						
Total composite	A	Americas	0.8	7.8	10.8	22.1
Co-mingled Fund composite	A	Americas	(1.7)	6.6	10.1	11.0
Separate Account composite	A	Americas	2.7	8.7	11.4	11.1
Industry Benchmark at 30 September 2002						
NCREIF Composite Property Index	A	Americas	5.6	9.1	11.4	
Private Equity Flagship Funds at 31 December 2002						
Prime Property Fund	C	Americas	5.3	7.3	10.7	4.6
LL Rosen Total Return Strategy Composite	D	Americas	4.4	16.0	6.5	1.9
Australian Prime Property Fund – Retail	E	Australia	13.2	11.1	10.0	1.2
Australian Prime Property Fund – Commercial	E	Australia	7.5	8.9	8.8	0.3
Australian Prime Property Fund – Industrial	E	Australia	12.8	12.0	11.9	0.2
Real Estate Securities	F	Australia	13.6	15.9	11.8	2.5
Lend Lease Retail Partnership	G	Europe	12.3	10.1	n/a	1.6
Lend Lease Overgate Partnership	G	Europe	6.1	n/a	n/a	0.4
Industry Benchmark at 31 December 2002						
NCREIF Property Index	C	Americas	6.8	8.7	10.7	
Wilshire REIT Index	D	Americas	3.6	15.1	4.3	
Mercers Diversified Property Fund Index	E	Australia	10.7	10.6	10.2	
S&P/ASX 200 Property Accumulation Index	F	Australia	11.8	14.7	11.1	
Investment Property Database	G	Europe	9.5	9.9	11.4	
Public Equity Flagship Funds at 31 December 2002						
General Property Trust ⁽³⁾	B	Australia	12.8	14.2	9.2	6.7
LL US Office Trust ⁽³⁾	B	Australia	6.7	14.4	n/a	1.4
Industry Benchmark at 31 December 2002						
S&P/ASX 200 LPT Property Accumulation Index ⁽³⁾	B	Australia	11.8	14.7	11.1	
Private Debt Flagship Funds at 31 December 2002 ⁽²⁾						
Core Mortgage Fund I	H	Americas	7.9	9.3	7.8	0.2
Core Mortgage Fund II	H	Americas	9.1	n/a	n/a	0.1
Industry Benchmark at 31 December 2002						
Gilberto-Levy (Loss adjusted)	H	Americas	n/a ⁽²⁾	n/a ⁽²⁾	n/a ⁽²⁾	n/a ⁽²⁾

(1) Represents amounts included in Assets Under Management at December 2002 of \$90.9 billion.

(2) The industry benchmark Gilberto-Levy (loss adjusted) at 31 December 2002 is not currently available.

(3) Returns are calculated after fees.

Flagship Funds – Enhanced and Opportunistic

The return profile for enhanced and opportunistic investment vehicles differs from that of core funds. They tend to have greater focus on capital growth at the expense of income yield. Enhanced and opportunistic funds are generally fixed life vehicles.

Enhanced and opportunistic funds target total return over the life of the fund with each having its own particular target rate of return set at the commencement of the fund. Benchmarks are therefore not normally applied to enhanced and opportunistic funds. Fund strategies are aligned to achieving target returns over the life of the fund. These strategies include an investment phase, development activity and property and portfolio repositioning which can result in a substantial portion of a funds assets not being revalued for a period of time. Accordingly, interim fund returns are not provided.

No enhanced and opportunistic funds were liquidated during the period ended December 2002.

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

Real Estate Investments (REI) continued

Co-Investments

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

The following table summarises co-investments at December 2002, as well as future commitments to co-investments.

Investment	Region	Investment December 2002 A\$m	Future Commitments A\$m	Total Commitments A\$m	Indicative Fund Liquidation	Lend Lease Share of Income December 2002 A\$m
Core						
Australian Prime Property Fund	Australia	49.0		49.0	Open ended	1.6
Lend Lease Retail Partnership	Europe	66.8	2.6	69.4	2011	1.9
Lend Lease Overgate Partnership	Europe	109.7	5.4	115.1	2008	3.0
Lend Lease European Real Estate Securities SICAV	Europe	18.1		18.1	Open ended	
Lend Lease US Real Estate Securities Fund	Americas	23.1		23.1	Open ended	1.0
Enhanced						
Asia Pacific Investment Company I and II	Asia	87.7		87.7	2004 and 2009	
German Industrial Property Fund	Europe	2.8		2.8	2009	
Real Estate Partners I	Australia	1.8	1.9	3.7	2005	0.2
Value Enhancement Fund III	Americas	19.7		19.7	2005	8.0
Value Enhancement Fund IV	Americas	22.2		22.2	2007	(4.1)
Value Enhancement Fund V	Americas	35.9	53.2	89.1	2008	1.5
Yarmouth Capital Partners Limited Partnership II	Americas	59.5		59.5	2003	(8.8)
Tactical Office Partnership	Americas		17.5	17.5	2006	
Mezzanine Debt Co-investment	Americas	4.7	31.2	35.9	Various	0.6
Debt Asset Management Portfolios	Americas	10.2		10.2	Various	7.1
Debt Co-investments	Americas	6.9		6.9	Various	0.2
Multi-Family & Tax Credit Fund Co-investments	Americas	15.8	22.9	38.7	Various	0.1
CMBS Co-investments	Americas	19.3		19.3	Various	0.5
LL Enhanced Yield Fund	Americas	1.0	16.0	17.0	2007	(0.6)
Other	Americas	9.4		9.4	Various	0.5
Opportunistic						
Lend Lease Global Properties Fund SICAF	Global	175.4		175.4	2009	
Lend Lease International Distressed Debt Fund	Asia	38.8	128.2	167.0	2008	(6.3)
Total		777.8	278.9	1,056.7		6.4

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

Real Estate Investments (REI) continued

North America

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

Real Estate Equity

The real estate equity investment management businesses engage in the raising of investor capital, the acquisition/disposition of real estate assets and the investment/asset management of real estate assets for clients.

Investment Management – Equity provides services for investors in real estate equity. There are three main categories of real estate assets under management.

- Financial Institutions maintain separate accounts with Lend Lease. The Equitable General Account is the largest client.
- Co-mingled Funds are multi-investor funds and include the Prime Property Fund (PPF), Value Enhancement Fund (VEF) series, Arch Street (multi-family) series, and other smaller funds.
- Separate Accounts represent individual direct investment holdings by domestic pension funds, foundations and endowments, family offices and foreign institutions.

Housing and Community Investing (HCI) syndicates and asset manages multi-family investment funds and separate accounts which primarily provide income tax benefits to investors resulting from their investment in affordable multi-family housing (tax credit-supported) products.

Real Estate Debt

The real estate debt businesses raise investor capital, originate real estate loans, invest in real estate debt related products, manage real estate loans and service real estate loans for clients.

Commercial Credit provides services for investors in real estate debt. There are four main business segments within Commercial Credit:

- The Fixed Income Group originates and manages commercial mortgage loans and mezzanine loans and invests in Commercial Mortgage Backed Securities (CMBS) on behalf of clients. The Fixed Income Group includes the businesses of Lend Lease Mortgage Capital (LLMC), the Debt Advisory Group, Program Lending and Structured Finance. Primary clients include Fannie Mae, Freddie Mac, Teachers Insurance and Annuity Association (TIAA) and The Equitable General Account. In addition, Lend Lease is a sponsor of several funds that originate and manage commercial mortgage loans and mezzanine loans, and is a partner in a joint venture that advises clients on investments in CMBS.
- Lend Lease Agri-Business originates, manages and services agricultural mortgage loans for The Equitable General Account, Farmer Mac and Farm Credit Services.
- Lend Lease Asset Management provides special servicing for CMBS and acquires, manages and resolves non-performing and sub-performing loan portfolios for institutional investors, banks, insurance companies and private investors. This business currently operates in the US and Mexico.
- CapMark Services (CapMark) services commercial mortgage loans originated from external sources including CMBS issuers and owners of whole loan portfolios as well as commercial mortgages originated internally by other Commercial Credit businesses and Holliday Fenoglio Fowler (HFF).

The services provided by the four main Commercial Credit business segments is summarised as follows:

	Origination of Mortgage Loans	Manage Lender/ Investor Capital	Asset Management of Mortgage Loans	Mortgage Loan Servicing (1)	Resolution of Non/Sub-Performing Loans
Fixed Income Group	✓	✓	✓	✓	✓
Lend Lease Agri-Business	✓	✓	✓	✓	✓
Lend Lease Asset Management		✓	✓		✓
CapMark Services			✓	✓	

(1) The servicing function for The Fixed Income Group loans is largely performed by CapMark.

Holliday Fenoglio Fowler (HFF) provides financial brokerage services for commercial real estate owners, including sales of properties and the arrangement of first-lien mortgages and mezzanine capital.

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

Real Estate Investments (REI) continued

North America continued

Analysis of Result

	Period ended December 2002			Period ended December 2001			
	Investment Mgt – Equity US\$m	HCI US\$m	Commercial Credit US\$m	Investment Mgt – Equity US\$m	HCI US\$m	Commercial Credit US\$m	Total US\$m
Annuity Fees							
Asset management/Advisory fees	36.4	8.5	5.2	42.0	5.7	5.4	53.1
Property management fees	1.1			0.9			0.9
Mortgage servicing revenue			30.5			34.0	36.4
Total annuity fees	37.5	8.5	35.7	42.9	5.7	39.4	90.4
				Total A\$m			Total A\$m
Transaction fees							
Acquisition fees	6.1	16.5		3.6	11.5		15.1
Disposition fees	4.2	0.7	1.5	10.7	2.5		13.2
Origination fees			9.4			9.2	45.0
Incentive fees	1.3	0.6	1.2	2.7	0.2	0.5	3.4
Other fees and income	4.7	1.4	2.3	4.8	1.4	2.3	8.5
Total transaction fees	16.3	19.2	14.4	21.8	15.6	12.0	85.2
Total operational revenue	53.8	27.7	50.1	64.7	21.3	51.4	175.6
Investment income	6.6		4.3	9.4		3.4	12.8
Equity accounted profits	0.3		1.0	1.4		0.9	2.3
Total income before expenses	60.7	27.7	55.4	75.5	21.3	55.7	190.7
Direct business expenses							(136.4)
Enterprise amortisation							(3.7)
REI corporate overheads							(9.6)
Profit before tax and loss on FX hedge							
Loss on FX hedge							41.0
Profit before tax	36.9			66.3			(14.1)
Income tax expense ⁽¹⁾							41.0
Profit after tax before minorities	29.2			51.2			(10.8)
Minority interests							30.2
Net profit after tax	29.0			50.8			(0.2)
							30.0

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

The above table details the financial result for the period ended December 2002 compared to the period ended December 2001.

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

Real Estate Investments (REI) continued

North America continued

Profit before tax decreased US\$4.1 million (10.0%) to US\$36.9 million for the period ended December 2002 compared to US\$41.0 million for December 2001.

The decrease in profit before tax reflected:

- A net US\$5.3 million (3.0%) increase in total operating revenue to US\$180.9 million for the period ended December 2002 compared to US\$175.6 million for December 2001.
- Total business expenses (incorporating Direct business expenses, Enterprise amortisation and REI Corporate overheads) increased US\$6.5 million (4.3%) to US\$156.2 million for the period ended December 2002 compared to US\$149.7 million for the period to December 2001.
- Total business investment income decreased US\$1.9 million (14.8%) to US\$10.9 million for the period ended December 2002 compared to US\$12.8 million for December 2001. The reduction was principally due to a share of partnership losses on co-investments in YCPII and VEFIV.

Profit after tax for the period ended December 2002 decreased US\$1.0 million (3.3%) to US\$29.0 million compared to US\$30.0 million for December 2001.

Assets Under Management (AUM) Summary

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluation US\$b	AUM at December 2002 US\$b
Investment Management – Equity	17.1	1.5	(1.7)	(0.1)	16.8
HCI	8.6	0.8	(0.1)		9.3
Commercial Credit	12.7	1.0	(0.6)		13.1
Total AUM	38.4	3.3	(2.4)	(0.1)	39.2
Period movement in AUM					2.1%

AUM increased US\$0.8 billion (2.1%) to US\$39.2 billion for the period ended December 2002 compared to US\$38.4 billion at June 2002. The increase included a net US\$0.3 billion reduction in AUM of Investment Management – Equity, offset by net increases in AUM for Commercial Credit (US\$0.4 billion) and HCI (US\$0.7 billion).

Further detailed analysis of the movements in AUM is contained in the discussion of each business unit.

Assets Under Resolution (AUR) Summary

	AUR at June 2002 US\$b (1)	Additions US\$b	Reductions US\$b	AUR at December 2002 US\$b
Commercial Credit	0.9	0.2	(0.1)	1.0
Period Movement in AUR				11.1%

AUR increased US\$0.1 billion (11.1%) to US\$1.0 billion for the period ended December 2002 compared to US\$0.9 billion at June 2002.

Further detailed analysis of the movements in AUR is contained in the discussion of Commercial Credit.

Loans Under Servicing (LUS) Summary

	LUS at June 2002 US\$b	Additions US\$b	Run Off US\$b	LUS at December 2002 US\$b
Commercial Credit	68.2	4.3	(3.7)	68.8
HFF	1.5	0.1	(0.1)	1.5
Total LUS	69.7	4.4	(3.8)	70.3
Period movement in LUS				0.9%

LUS increased US\$0.6 billion (0.9%) to US\$70.3 billion for the period ended December 2002 compared to US\$69.7 billion at June 2002. The increase was principally due to internal and life company loan originations during the period.

Further detailed analysis of the movements in LUS is contained in the discussion of Commercial Credit.

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

Real Estate Investments (REI) continued

North America continued

Revenues

A detailed discussion of the revenues by each business follows. There are broadly three main types of revenue:

- **Annuity Fees** – chiefly earned from managing clients' real estate equity and debt portfolios; the management and servicing of commercial mortgages, the resolution of sub-performing and non-performing loans, and net interest earned on cash float balances held in CapMark.
- **Transaction Fees** – earned principally from the acquisition, disposition and financing of clients' real estate equity portfolios and the origination of commercial mortgage loans. Transaction fees also include incentive fees based upon the performance of clients' portfolios in excess of agreed hurdle or benchmark returns and net interest income on the portfolio of agency multi-family loans held for sale.
- **Investment Income** – income and capital returns from co-investments in funds, loan assets and direct investment in real estate.

Investment Management – Equity

Annuity Fees

Total annuity fees decreased US\$5.4 million (12.6%) to US\$37.5 million for the period ended December 2002 compared to December 2001. The reduction was largely attributable to a decline in asset management/advisory fees.

Asset Management/Advisory Fees

Asset management/advisory fees decreased US\$5.6 million (13%) to US\$36.4 million for the period ended December 2002 compared to December 2001. The level of AUM is a significant driver of asset management/advisory fees.

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at December 2002 US\$b
Investment Management – Equity					
Financial Institutions	1.7		(0.1)		1.6
Co-mingled funds	6.5	0.1	(1.2)	(0.1)	5.3
Separate Accounts	7.9	0.8	(0.3)		8.4
Real Estate Securities	1.0	0.6	(0.1)		1.5
Total Investment Management – Equity	17.1	1.5	(1.7)	(0.1)	16.8
Period Movement in AUM					(1.8)%

AUM decreased US\$0.3 billion (1.8%) to US\$16.8 billion for the period ended December 2002 compared to US\$17.1 billion at June 2002.

The decrease in asset management/advisory fees was also impacted by the prior year's decrease in AUM of 13% from US\$19.6 billion to US\$17.1 billion.

Financial Institutions' AUM decreased US\$0.1 billion (6%) to US\$1.6 billion for the period ended December 2002 due principally to property disposals for The Equitable General Account.

Co-mingled funds' AUM decreased US\$1.2 billion (18%) to US\$5.3 billion for the period ended December 2002. The reduction in AUM includes redemptions from the Prime Property Fund (PPF) (US\$0.2 billion), YCPII (US\$0.1 billion), Regional Mall Partners (US\$0.1 billion) and net downward revaluations within the VEF series of US\$0.1 billion.

Separate Accounts' AUM increased US\$0.5 billion (6%) to US\$8.4 billion for the period ended December 2002. The net increase is largely attributable to acquisitions for clients.

Real Estate Securities AUM increased US\$0.5 billion (50%) to US\$1.5 billion for the period ended December 2002. The increase primarily relates to the acquisition of an additional 27.5% of Lend Lease Rosen.

Property Management Fees

Property and facilities management fees increased US\$0.2 million to US\$1.1 million for the period ended December 2002 compared to December 2001. Fees for the period ended December 2002 were largely derived from Cordia Senior Living.

Cordia Senior Living is the operating company, which provides the day-to-day management of the senior living facilities owned by clients of the Investment Management – Equity group. Cordia Senior Living currently manages eight facilities and reported a small operating loss in the period ended December 2002.

Transaction Fees

Total transaction fees decreased US\$5.5 million to US\$16.3 million for the period ended December 2002 compared to December 2001. Transaction fees are largely dependent on the level of acquisitions and disposition activity for clients and incentive fees earned.

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

Real Estate Investments (REI) continued

North America continued

Acquisition Fees

Acquisition fees increased US\$2.5 million to US\$6.1 million for the period ended December 2002 on US\$0.8 billion of acquisition volume compared to acquisition fees earned of US\$3.6 million on US\$0.5 billion of acquisition volume for the period ended December 2001.

Disposition Fees

Disposition fees decreased US\$6.5 million to US\$4.2 million for the period ended December 2002 on disposition volume of US\$1.7 billion compared to disposition fees earned of US\$10.7 million on US\$1.8 billion of disposition volume for the period ended December 2001. The decrease in fees is mainly attributable to lower Equitable General Account dispositions. No disposition fees are earned from PPF and the VEF series funds.

Incentive Fees

Incentive fees decreased US\$1.4 million to US\$1.3 million for the period ended December 2002 compared to December 2001. Incentive fees for the current financial period include a number a small incentives fees from separate accounts and co-mingled funds. The timing and quantum of incentive fees is difficult to predict as they are dependent upon real estate market investment performance, and are generally paid towards the end of a fund's life cycle. (Refer to the Fund Incentive Fees section).

Other Fees and Income

Other Fees and Income of US\$4.7 million were relatively stable for the period ended December 2002 compared to December 2001 and largely consist of development, financing and consulting fees.

Other Income

Investment Income

King of Prussia
YCP II
VEF Series
Other

Total Investment income

Equity Accounted Profits/Gain on Sale of Investments/Distributions

Real Estate Securities⁽¹⁾

	Period ended December 2002		Period ended December 2001	
	US\$m	Total A\$m	US\$m	Total A\$m
King of Prussia	7.5	13.4	6.0	11.7
YCP II	(4.9)	(8.8)	1.1	2.1
VEF Series	3.0	5.4	1.8	3.5
Other	1.0	2.0	0.5	1.1
Total Investment income	6.6	12.0	9.4	18.4
Equity Accounted Profits/Gain on Sale of Investments/Distributions				
Real Estate Securities ⁽¹⁾	0.3	0.5	1.4	2.7

(1) Lend Lease Rosen consolidated from 1 August 2002.

Investment income decreased US\$2.8 million to US\$6.6 million for the period ended December 2002 compared to December 2001. The movement is largely attributable to an increase in investment income from the VEF series (net of share of partnership losses) and King of Prussia offset by a reduction in income from YCP II due to the recent under performance and write-downs of hotel assets held by the fund.

Lend Lease Rosen Real Estate Securities (Lend Lease Rosen)

On 1 August 2002, Lend Lease increased its 50% ownership stake in Lend Lease Rosen to 74.9% (which was subsequently increased to 77.5%) and has entered into a three-year agreement to purchase the remainder of the company from its partner, Rosen Financial Services II. Equity accounting of profits from Lend Lease Rosen ceased from 1 August 2002 and earnings were included on a consolidated basis from this date.

Housing and Community Investing (HCI)

Total operating revenue increased US\$6.4 million (30%) to US\$27.7 million for the period ended December 2002 compared to December 2001. The increase was mainly a result of higher acquisition and asset management fees offset by lower disposition fees earned during the financial period.

HCI has traditionally earned a greater portion of its revenues in the December quarter as investors and developers seek to complete transactions within their fiscal and tax year, which is predominately December based. In calendar 2001, however, changes to Federal legislation delayed the allocation of tax credits from April to October consequently deferring revenues that would normally have been generated by HCI in the December 2001 quarter, and magnifying the differences on a comparable basis.

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

Real Estate Investments (REI) continued

North America continued

Annuity Fees

Asset Management Fees

Asset management fees relate to the revenue earned on the portfolios of tax credit assisted properties. Asset management fees increased US\$2.8 million (49%) to US\$8.5 million for the period ended December 2002 compared to December 2001. Although AUM increased 8.1% relative to June 2002, the basis of revenue recognition is dependent on available cash flows and interest income earned on excess cash reserves within each fund. Accordingly, there is only an indirect correlation between growth in AUM and asset management fees.

Assets Under Management (AUM)

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at December 2002 US\$b
Housing and Community Investing – AUM	8.6	0.8	(0.1)	-	9.3
Period movement in AUM					8.1%

HCI's AUM has a longer expected holding period than Investment Management – Equity's AUM due to the nature of tax credit investments. The properties must be maintained and held in qualified tax credit structures for at least 15 years, which results in lower dispositions within the HCI portfolios.

Transaction Fees

Acquisition Fees

Acquisition fees increased US\$5.0 million to US\$16.5 million for the period ended December 2002 compared to December 2001. The increase relates to additional sales volume primarily attributable to investor demand for affordable housing tax credit products.

Disposition Fees

Disposition fees represent revenue generated from the sale of assets acquired in private placement portfolios. Disposition fees decreased US\$1.8 million to US\$0.7 million for the period ended December 2002 compared to December 2001. These transactions occur irregularly and involve individual properties and are not necessarily a result of the closing of a fund.

Incentive Fees

Incentive fees increased US\$0.4 million to US\$0.6 million for the period ended December 2002 compared to December 2001. Incentive fees are contingent upon a fund achieving certain performance hurdles, usually two to three years into a fund's life. The fluctuation in fee generation is related to the timing of when funds were originally syndicated and the period of the fund's life in which it is earned.

Other Fees and Income

Other fees and income of US\$1.4 million for the period ended December 2002 were stable compared to December 2001 and consisted of a variety of miscellaneous items of income earned from the operations of the HCI business.

Commercial Credit

Operating Revenue

Annuity Fees

Asset management fees

Mortgage servicing revenue

Total annuity fees

Transaction fees

Total operating revenue

Other Income

Investment income

Equity accounted profits

Total other income

	December 2002			December 2001		
	Commercial Credit excl. CapMark US\$m	CapMark US\$m	Total US\$m	Commercial Credit excl. CapMark US\$m	CapMark US\$m	Total US\$m
Asset management fees	5.2		5.2	5.4		5.4
Mortgage servicing revenue	14.5	16.0	30.5	14.3	19.7	34.0
Total annuity fees	19.7	16.0	35.7	19.7	19.7	39.4
Transaction fees	14.4		14.4	12.0		12.0
Total operating revenue	34.1	16.0	50.1	31.7	19.7	51.4
Investment income	4.3		4.3	3.4		3.4
Equity accounted profits	1.0		1.0	0.9		0.9
Total other income	5.3	-	5.3	4.3	-	4.3
	39.4	16.0	55.4	36.0	19.7	55.7

Total operating revenue for the Commercial Credit business decreased US\$1.3 million (2.5%) to US\$50.1 million for the period ended December 2002 compared to December 2001.

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

Real Estate Investments (REI) continued

North America continued

Annuity Fees

Annuity Fees related to asset management fees and mortgage servicing revenue, which included servicing float interest revenues earned.

Annuity Fees decreased US\$3.7 million (9.4%) to US\$35.7 million for the period ended December 2002 compared to December 2001. The reduction was largely attributable to a reduction in Mortgage Servicing revenue due to a decline in servicing float interest revenues earned in the lower short term interest rate environment during the financial period (US\$3.0 million).

Asset Management Fees

Asset management fees are earned by Lend Lease Asset Management (LLAM), Lend Lease Agri-Business (LLAG) and the Fixed Income Group (FIG). The fees earned by LLAM and LLAG are earned from managing and resolving non-performing loan portfolios, special servicing loans and managing foreclosed real estate on behalf of clients. Fees earned by FIG relate to advisory income for managing a co-mingled fund and fees for managing mezzanine investments and below investment grade CMBS investments on behalf of clients. Asset management fees marginally decreased US\$0.2 million to US\$5.2 million (4%) for the period ended December 2002 compared to December 2001.

Assets Under Resolution (AUR)

	AUR at June 2002 US\$b	Additions US\$b	Reductions US\$b	AUR at December 2002 US\$b
Lend Lease Asset Management – US Special Servicing	0.5	0.2	(0.1)	0.6
Lend Lease Asset Management – US Non-performing loans	0.2			0.2
Lend Lease Asset Management – Mexico	0.2			0.2
Total Commercial Credit	0.9	0.2	(0.1)	1.0
Period movement in AUR				11.1%

AUR represents the legal loan balances of mortgage loans and the investment balance of foreclosed real estate administered on behalf of investors and is only indicative of the level of activity in the business and not the revenue earned. Special servicing fees are generally based on the legal loan balances, but fees for servicing non-performing loan portfolios are generally based on loan and foreclosed real estate investment balances or cash collections rather than legal loan balances. Accordingly, asset management fees are only indirectly correlated to movements in the AUR balance.

AUR increased US\$0.1 billion (11.1%) to US\$1.0 billion for the period ended December 2002 compared to US\$0.9 billion at June 2002.

Mortgage Servicing Revenue

Mortgage servicing revenue is earned by The Fixed Income Group, Lend Lease Agri-Business and CapMark. CapMark, for a fee, provides the servicing function for loans originated by The Fixed Income Group. Agricultural mortgages are serviced and managed by Lend Lease Agri-Business, with Lend Lease Agri-Business retaining all servicing income related to agricultural mortgages.

Mortgage servicing revenue earned by The Fixed Income Group and Lend Lease Agri-Business marginally increased to US\$14.5 million for the period ended December 2002 compared to December 2001. The increase is largely attributable to origination volumes for the period being greater than the run-off in the loan portfolios being serviced.

AUM for Commercial Credit represents the outstanding principal balance of commercial mortgage loans and market value of mortgage backed securities that are actively managed in an advisory capacity on behalf of investors.

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

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

Real Estate Investments (REI) continued

North America continued

Assets Under Management (AUM) – Commercial Credit

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at December 2002 US\$b
LL Agri-Business	2.6				2.6
Fixed Income Group	10.1	1.0	(0.6)		10.5
Total AUM	12.7	1.0	(0.6)	-	13.1
Period movement in AUM					3.1%

AUM increased US\$0.4 billion (3.1%) to US\$13.1 billion for the period ended December 2002 compared to US\$12.7 billion at June 2002. The increase primarily reflects Fixed Income Group origination volume for the period ended December 2002, which exceeded portfolio run-off for the same period.

Loans Under Servicing (LUS)

	Loans at June 2002 No.	Loans at December 2002 No.	LUS at June 2002 US\$b	Additions US\$b	Run Off US\$b	LUS at December 2002 US\$b
Agri-Business	4,935	4,870	2.6			2.6
CapMark⁽¹⁾						
Securitised	3,817	3,671	31.9	0.6	(1.4)	31.1
Agency	746	773	4.7	0.4	(0.1)	5.0
Life Companies	2,344	2,338	25.5	3.1	(1.7)	26.9
Other	278	268	3.5	0.2	(0.5)	3.2
Total	12,120	11,920	68.2	4.3	(3.7)	68.8
Period movement in LUS						0.9%

(1) Includes The Fixed Income Group and certain HFF loans serviced under sub-servicing agreements. Excludes other HFF loans where HFF performs the servicing functions instead of CapMark.

CapMark

LUS increased US\$0.6 billion (0.9%) to \$66.2 billion for the period ended December 2002 compared to US\$65.6 billion at June 2002. The increase was primarily due to internal and life company loan originations during the period that exceeded run-off. The Agri-Business servicing portfolio remained flat for the period ended December 2002.

There are four major categories of LUS within CapMark. Securitized LUS includes groups of pooled commercial mortgages packaged and re-sold as bond issues either privately or in a public debt placement. Agency LUS represents mortgages originated for and in conjunction with US government sponsored/backed housing agencies including Fannie Mae, Freddie Mac or the Federal Housing Administration (FHA). Life Companies LUS includes portfolios of commercial mortgage loans held directly by life insurance companies on their balance sheets. Other LUS includes miscellaneous contracts.

CapMark's new loan servicing business for the period was derived approximately 38% from internal sources and 62% from external sources. HFF and The Fixed Income Group are internal sources for CapMark's new servicing volumes. External sources include CMBS issues and third party whole loan portfolios. Both sources of external business are generally obtained in a competitive bid process. CMBS issuers, primarily Wall Street investment banks, award CMBS servicing assignments. Some life insurance companies and other financial institutions seeking to improve the quality of their servicing and lower their costs have outsourced servicing on their whole loan portfolios.

CapMark loan servicing revenue comprises; mortgage servicing fees, which are the base fees earned for servicing loans; servicing float interest revenues which represent earnings on cash advances; cash balances and escrow accounts managed by CapMark; and ancillary revenues, which consist of late payment fees, default penalties and fees earned through loan assumptions and modifications.

	Revenue December 2002 US\$m	Revenue December 2001 US\$m
Mortgage Servicing Fees	9.9	10.3
Servicing Float Interest Revenues	3.6	6.6
Ancillary Revenues	2.5	2.8
Total CapMark Mortgage Servicing Revenues	16.0	19.7

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

Real Estate Investments (REI) continued

North America continued

CapMark mortgage servicing fees decreased US\$0.4 million to US\$9.9 million for the period ended December 2002 compared December 2001 despite an increase in LUS. The decrease is attributable to newer portfolios within the LUS balance earning lower basis point servicing fee than older portfolios.

Servicing float interest revenues, which include interest earned on advances, decreased US\$3.0 million to US\$3.6 million for the period ended December 2002 compared to December 2001. Float earnings were lower as a result of lower average US short-term interest rates in the period ended December 2002 financial period compared to December 2001. The average 30 day LIBOR rate for the period ended December 2002 was 1.69% compared to an average 30 day LIBOR rate of 2.87% for the period ended December 2001. Ancillary revenue marginally decreased by US\$0.3 million to US\$2.5 million for the period ended December 2002 compared to December 2001 due to lower late fees and default interest received during the period.

Transaction Fees

Transaction fees are principally earned from the origination of commercial mortgage loans and net interest income earned on the portfolio of loans held for sale. Transaction fees increased US\$2.4 million to US\$14.4 million for the period ended December 2002 compared to December 2001. The increase was mainly due to higher disposition fees, incentive fees and a small increase in origination fees.

Disposition Fees

Disposition fees of US\$1.5 million were earned from Lend Lease Agri-Business related to the sale of foreclosed real estate for a client.

Origination Fees

Origination fees of US\$9.4 million were earned on origination volume of US\$1.1 billion for the period ended December 2002 compared to origination fees of US\$9.2 million on origination volume of US\$1.0 billion for December 2001.

The increase in origination volume for the period ended December 2002 was primarily driven by Lend Lease Agri-Business.

Incentive Fees

Incentive fees of \$US1.2 million were earned for the period ended December 2002. The US\$0.7 million increase in incentive fees relative to the prior period was primarily a result of income received on investments in mezzanine loans made by the Fixed Income Group.

Other Fees and Income

Other fees and income remained flat at US\$2.3 million for the period ended December 2002 compared to December 2001. The majority of this income is net interest income of US\$2.0 million for the period ended December 2002.

Investment Income and Equity Accounted Profits

Investment Income

Lend Lease Asset Management
Fixed Income Group
Other

Total investment income

Equity Accounted Profits

Lend Lease Hyperion (Fixed Income Group)

Total equity accounted profits

	Period ended December 2002		Period ended December 2001	
	US\$m	A\$m	US\$m	A\$m
	3.9	7.0	3.2	6.3
	0.5	0.9	0.2	0.4
	(0.1)	(0.2)		
Total investment income	4.3	7.7	3.4	6.7
	1.0	1.8	0.9	1.8
Total equity accounted profits	1.0	1.8	0.9	1.8

Investment income increased US\$0.9 million to US\$4.3 million for the period ended December 2002 compared to December 2001. The increase is largely attributable to the recognition of a discount applied at purchase of an investment in non performing loan assets in Mexico. Equity accounted profits represent income earned on Lend Lease's 50% interest in Lend Lease Hyperion. The increase in profit for the period ended December 2002 relative to December 2001 is principally due an increase in AUM fees.

Holliday Fenoglio Fowler (HFF)

HFF is the largest originator of mortgages in the United States and recorded a small profit after payment of commissions and other expenses for the period ended December 2002 compared to a small loss in the period to December 2001. HFF total operational revenue increased by US\$11.1 million (29.1%) to US\$49.3 million compared to December 2001.

Mortgage Servicing Fees

HFF originates loans and typically contracts CapMark to perform much of the servicing on a fee-sharing basis. Mortgage Servicing fees increased by US\$0.5 million to US\$2.9 million for the period ended December 2002 compared to December 2001 which was generally in line with the level of LUS for the financial period.

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

Real Estate Investments (REI) continued

North America continued

Origination Fees

Origination fees increased US\$10.6 million to US\$46.4 million on loan origination and sales transaction volume of US\$7.8 billion for the period ended December 2002 compared to origination fees of \$35.8 million on origination volume of US\$6.8 billion for the period ended December 2001.

Expenses

Total expenses of US\$156.2 million, including US\$3.7 million amortisation of Project Enterprise (see below), increased US\$6.5 million (4%) for the period ended December 2002 compared to US\$149.7 million for December 2001. Of the net US\$6.5 million increase in total business expenses, US\$5.3 million related to increased commissions earned by HFF on higher origination volumes than for the period ended December 2001 and US\$2.3 million related to the consolidation of the Lend Lease Rosen business. Excluding the expense increases noted above, total business expenses declined US\$1.1 million for the period ended December 2002 compared to December 2001.

The gross capitalised cost for Project Enterprise at December 2002 was US\$37.5 million, which is being amortised over a 5 year period (i.e. US\$7.5 million per annum beginning in the 2002 financial period). The net book value of Project Enterprise decreased to US\$12.3 million at December 2002 as part of the write-down of REI US businesses. Enterprise will continue to be amortised over the remaining portion of its 5 year estimated life.

Income Tax Expense

The following table analyses the North American REI income tax expense:

Profit before tax

Prima facie tax expense (US REI average rate 41.5%)

Tax benefit from amortisation of intangible assets

Other tax expense adjustments⁽¹⁾

Income tax expense

Effective tax rate

Period ended December 2002		Period ended December 2001	
Total		Total	
US\$m	A\$m	US\$m	A\$m
36.9	64.5	41.0	65.9
15.3	26.8	17.0	27.3
(7.9)	(14.2)	(7.9)	(15.4)
0.3	0.7	1.7	4.8
7.7	13.3	10.8	16.7
21%		26%	

(1) Includes permanent tax differences and under-provision for tax in previous periods.

The effective income tax rate was 21% for the period ended December 2002 as compared to 26% for December 2001. The decrease in effective tax rate results from the tax deduction for amortisation being unchanged whilst profit before tax declined from December 2001 to December 2002.

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

Real Estate Investments (REI) continued

Australia and Pacific

The REI Australia and Pacific business is conducted through two business units:

- Investment Management – Equity which includes the management of General Property Trust (GPT), Australian Prime Property Fund (APPF), the Lend Lease US Office Trust (LLUSOT) and the Real Estate Securities business.
- Retail Property Management which manages a number of Australian retail centres on behalf of investors such as GPT, APPF and external owners.

Analysis of Result

	Period ended December 2002			Period ended December 2001		
	Investment Management – Equity A\$m	Retail Property Management A\$m	Total A\$m	Investment Management – Equity A\$m	Retail Property Management A\$m	Total A\$m
Annuity Fees						
Asset management fees	25.8		25.8	22.2		22.2
Investment management fees	1.0		1.0	2.3		2.3
Retail property management fees		8.6	8.6		7.7	7.7
Total annuity fees	26.8	8.6	35.4	24.5	7.7	32.2
Transaction Fees						
Leasing fees		5.2	5.2		3.5	3.5
Development management fees		5.6	5.6		4.0	4.0
Project/Structured Finance fees				0.8		0.8
Other	0.5	0.1	0.6	0.2		0.2
Total transaction fees	0.5	10.9	11.4	1.0	7.5	8.5
Total operational revenues	27.3	19.5	46.8	25.5	15.2	40.7
Other income						
Investment income before tax	1.8		1.8	1.8		1.8
Equity accounted profits	0.8		0.8	1.6		1.6
Gain on sale of investments						
Total income before expenses	29.9	19.5	49.4	28.9	15.2	44.1
Expenses			(24.6)			(26.1)
Profit before tax			24.8			18.0
Income tax expense			(7.1)			(3.9)
Profit after tax			17.7			14.1

Investment Management – Equity

Annuity Fees

Asset management fees increased \$3.6 million (16%) to \$25.8 million for the period ended December 2002 compared to December 2001. The increase is partly due to growth in AUM for GPT, APPF and LLUSOT. In addition, for the period ended December 2002, the treatment of revenue and expenses in relation to the Suncorp-Metway Retail Property Fund was revised and resulted in an increase in asset management fees of \$1.0 million (offset by a corresponding increase in expenses). Also LLUSOT contributed increased asset management fees of \$1.8 million as a result of an increase in the basis points charged to the Fund to the full entitlement following the expiry of the fee waiver period which applied subsequent to listing.

Investment management fees relate to the Real Estate Securities business. Although Real Estate Securities AUM grew by 14% for the period ended December 2002, investment management fees decreased \$1.3 million compared to December 2001 due to a review of fee structures in the latter part of the June 2002 financial year which was backdated to 1 July 2001, resulting in a current period one-off adjustment to revenue of \$1.5 million.

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

Real Estate Investments (REI) continued

Australia and Pacific continued

Assets Under Management (AUM)

	AUM at June 2002 A\$b	Additions A\$b	Reductions A\$b	Net Revaluations A\$b	AUM at December 2002 A\$b
Investment Management – Equity					
General Property Trust (including Darling Park Trust)	6.6	0.3	(0.2)		6.7
Australian Prime Property Fund	1.6	0.1			1.7
Lend Lease US Office Trust	1.1	0.2		0.1	1.4
Real Estate Securities	2.2	0.2		0.1	2.5
Other accounts ⁽¹⁾	0.3		(0.1)		0.2
Total AUM	11.8	0.8	(0.3)	0.2	12.5
Period movement in AUM					5.9%

(1) Includes Real Estate Partners and private clients

AUM increased \$0.7 billion (6%) to \$12.5 billion for the period ended December 2002. The increase is largely due to investments in Real Estate Securities, capital expenditure by GPT and APPF on major retail projects and acquisitions by LLUSOT, offset by a reduction in AUM from the sale of Bankstown Square by GPT.

Transaction Fees

The Project Finance business unit was transferred to the Real Estate Solutions business in Australia in the June 2002 year resulting in a decrease in Project/Structured Finance fee revenue of \$0.8 million for the period ended December 2002 compared to December 2001.

Other Income

	December 2002 Total A\$m	December 2001 Total A\$m
Investment Income		
Australian Prime Property Fund	1.6	1.6
Real Estate Partners I	0.2	0.2
	1.8	1.8
Equity Accounted Profits		
Kiwi Property Group	0.1	0.9
Darling Park Trust Operators	0.7	0.7
	0.8	1.6

Equity Accounted Profits

Equity accounted profits from Kiwi Property Group (Kiwi) decreased by \$0.8 million for the period ended December 2002 compared to December 2001 following the sale of Lend Lease's 50% interest in Kiwi on 28 March 2002. The equity accounted profit of \$0.1 million in the current period for Kiwi relates to the reversal of a provision for wind up costs provided at June 2002.

Equity accounted profit for Darling Park Trust Operators related to a 50% interest in the management company.

Retail Property Management

Annuity Fees

Retail Property Management fees are generally based on a percentage of gross rental income generated from the management of shopping centres on behalf of GPT, APPF and external joint owners. Retail Property Management fees increased by \$0.9 million (12%) to \$8.6 million for the period ended December 2002 compared to December 2001. The increase was largely due to increased rental income from the centres as a result of strong retail trading performance, the addition of three shopping centres following the acquisition by APPF Retail of Suncorp-Metway Retail Property Fund in November 2001 and reflects the performance of the Homemaker portfolio of assets for the full six month period to December 2002. Lend Lease managed 19 shopping centres as at December 2002.

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

Real Estate Investments (REI) continued

Australia and Pacific continued

Transaction Fees

Leasing fees increased \$1.7 million to \$5.2 million for the period ended December 2002, compared to December 2001. The increase in leasing fees mainly relates to increased activity arising from the addition of three centres acquired as part of the acquisition by APPF Retail of Suncorp-Metway Retail Property Fund, the renewal of specialty leases across the portfolio and increased retail development activities in centres managed on behalf of GPT and APPF.

Development management fees increased \$1.6 million to \$5.6 million in the period ended December 2002 compared to December 2001. The increase was a result of increased retail development activities in retail centres managed on behalf of GPT and APPF. Major projects that continued redevelopment during the financial period included Erina Fair for \$210 million, Floreat Forum \$42 million and Sunshine Plaza \$50 million. In addition, GPT has announced the commencement of a \$226 million redevelopment of Melbourne Central.

Other transaction fees decreased \$0.9 million to \$0.1 million for the period ended December 2002 compared to December 2001 and was largely related to one-off recoveries for marketing initiatives that were pursued in the period ended December 2001.

Expenses

Total expenses decreased \$2.7 million (10%) to \$24.6 million for the period ended December 2002 compared to December 2001. The decrease is largely attributable to the transfer of the Project Finance business unit to the Real Estate Solutions business in Australia during the June 2002 year (\$0.8 million) and savings achieved by the Group-wide business re-positioning project.

Profit After Tax

The profit after tax of the Australian and Pacific REI business increased \$3.6 million (26%) to \$17.7 million for the period ended December 2002 compared to December 2001. Income tax expense increased 82% due to the utilisation of tax benefits \$0.3 million in relation to the Lend Lease's investments in the Kiwi Property Group and Morrisons Group and the reversal of an over provision for tax of \$1.0 million, thus reducing income tax expense, in the period ended December 2001.

Revised GPT Management Fee

As announced on 30 January 2003, Lend Lease changed the basis upon which the GPT management fee is calculated effective 1 January 2003.

The new fee structure includes a base management fee of 0.40% per annum of gross assets (previously 0.55%) and the introduction of performance fee component calculated six monthly as 5% of the total return performance above the S&P/ASX Property 200 Accumulation Index. The total fee will be capped at 0.55% per annum. The fee restructure reflects changes in the market in the past 12 months, including a trend in the listed property trust industry towards the inclusion of a performance bonus component to fees.

The unrecorded valuation of the GPT management agreement has been revised to \$150.6 million (June 2002 \$263.0 million). Refer to Note 14 of the Lend Lease December 2002 Consolidated Financial Statements.

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

Real Estate Investments (REI) continued

Asia

The REI Asia business is conducted through two business units:

- **Investment Management – Equity** includes the management of the Asia Pacific Investment Company (APIC) and Asia Pacific Investment Company No 2 (APIC II), capital transactions and asset management services provided to the Lend Lease Global Properties Fund (Global Fund) in relation to its Asian investments and property management services provided to APIC II for its retail assets.
- **Commercial Credit** relates to 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. The focus of this business is management of the Lend Lease International Distressed Debt Fund (IDDF). This Fund achieved final closing in December 2001, having raised US\$350.0 million of capital including US\$100.0 million of Lend Lease commitments.

Analysis of Result

	Period ended December 2002			Period ended December 2001		
	Investment Management – Equity A\$m	Commercial Credit A\$m	Total A\$m	Investment Management – Equity A\$m	Commercial Credit A\$m	Total A\$m
Annuity Fees						
Advisory fees	5.0	3.9	8.9	5.9	3.9	9.8
Asset management & servicing fees	0.4	4.2	4.6	0.4	5.8	6.2
Property management fees	0.6		0.6	0.6		0.6
Total annuity fees	6.0	8.1	14.1	6.9	9.7	16.6
Transaction fees						
Development management fees	1.4		1.4			
Leasing fees	1.5		1.5			
Acquisition fees				3.2		3.2
Incentive fees		6.1	6.1		3.5	3.5
Financing/Consulting/Other	0.3	0.3	0.6	3.7	0.4	4.1
Total transaction fees	3.2	6.4	9.6	6.9	3.9	10.8
Total operational revenues	9.2	14.5	23.7	13.8	13.6	27.4
Other Income						
Investment income		(6.1)	(6.1)		5.8	5.8
Total income before expenses	9.2	8.4	17.6	13.8	19.4	33.2
Expenses			(20.8)			(29.4)
(Loss)/profit before tax			(3.2)			3.8
Income tax expense			0.8			(1.7)
(Loss)/profit after tax before minorities			(2.4)			2.1
Minority interests			(0.3)			
(Loss)/profit after tax			(2.7)			2.1

Investment Management – Equity

Annuity Fees

Annuity fees relate to advisory fees for the management of APIC, asset management fees earned from investments made by the Global Fund and property management fees derived from a major retail asset owned by APIC II (Parkway Parade).

Advisory/asset management fees decreased \$0.9 million (14%) to \$5.4 million for the period ended December 2002 compared to December 2001. The decline was mainly attributable to a decrease in advisory fees relating to the management of APIC and APIC II, due to a review of fee structures effective from October 2002.

Property management fees remained constant for the period ended December 2002 compared to December 2001.

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

Real Estate Investments (REI) continued

Asia continued

Assets Under Management (AUM)

	AUM at June 2002 US\$b	Additions US\$b	Reductions US\$b	Net Revaluations US\$b	AUM at December 2002 US\$b
APIC	0.6		(0.4)		0.2
APIC II		0.4			0.4
Lend Lease Global Fund	0.4				0.4
Total AUM	1.0	0.4	(0.4)	-	1.0
Period movement in AUM					0.0%

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

APIC/APIC II

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

Transaction Fees

Development management fees of \$1.4 million were derived from the management of development activities on assets owned by APIC including Parkway Parade.

Leasing fees of \$1.5 million represent income generated from leasing of retail and office space at Parkway Parade.

Acquisition fees of \$3.2 million for the period ended December 2001 represent acquisition and financing fees derived from services provided to the Global Fund during that period. No acquisitions were made in the period ended December 2002.

Financing/Consulting/Other transaction fees relate to the provision of capital transaction consultancy services for the Global Fund. The Retail Consultancy business unit was transferred to the Real Estate Solutions business in Asia in the June 2002 year resulting in a decrease in fee revenue of \$3.7 million for the period ended December 2002 compared to December 2001.

Tokyu Business Alliance

In June 2001, Tokyu Corporation, Tokyu Land Corporation and Lend Lease signed a Memorandum of Understanding to examine the feasibility of creating a joint venture to establish a real estate investment trust (J-REIT) management business in Japan. On 20 August 2002, the parties announced the termination of formal negotiations to establish the joint venture.

Profit After Tax

The Investment Management – Equity business recorded a small profit after tax for the period ended December 2002, a slight increase on the December 2001 profit after tax result. The profit for the period ended December 2002 includes expenditure of \$0.5 million relating to the suspension of the Tokyu Joint Venture and exploration of other REI business opportunities in Japan.

Commercial Credit

Annuity Fees

Advisory fees are fees earned from IDDF and are based on investor commitments (US\$350.0 million) to IDDF during the investment period (a three year period ending 31 December 2004). After the investment period fees are based on the outstanding investment balance and as such, advisory fees will decrease over time. Advisory Fees for the period ended December 2002 are in line with those for December 2001.

Lend Lease derives asset management and servicing fees from the management, servicing and resolution of non-performing loan portfolios on behalf of IDDF, its investment partners and other third party clients. Asset management and servicing fees are principally based on the amount invested and therefore reduce as particular investments are resolved. Asset management and servicing fee rates vary by country and by portfolio composition.

Asset management and servicing fees decreased by \$1.6 million to \$4.2 million for the period ended December 2002 compared to December 2001. The reduction is largely attributable to the successful resolution and wind-up of a number of third party portfolios offset by fees earned on additional IDDF investments in Japan and Korea. Since the launch of IDDF, third party opportunities have been limited to investments in which IDDF has an interest.

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

Real Estate Investments (REI) continued

Asia continued

Investment Balance

	Investment Balance at June 2002 US\$m	Additions US\$m	Reductions US\$m	Currency translations US\$m	Investment Balance at December 2002 US\$m
IDDF and its investment partners	125.3	73.3	(96.6)	(1.4)	100.6
Third parties (non IDDF mandates)	181.0		(56.7)	(1.9)	122.4
Total investment balances	306.3	73.3	(153.3)	(3.3)	223.0
Period movement					(27.1)%

The investment balance represents the carrying value of the investments and is based on the lower of amortised cost or net realisable value. The amount invested on behalf of clients decreased by US\$83.3 million to US\$223.0 million at December 2002 due to the successful resolution of third party mandates and the resolution of IDDF investments in Korea. The reduction also incorporates a write down of US\$21.9 million in the carrying value of IDDF's investments in Japan at December 2002 which reflects Lend Lease's assessment of the market value of the Japanese portfolios at that date. The results for the period include Lend Lease's proportional share of the US\$21.9 million provision taken against IDDF's Japanese investments and is shown in investment income below.

Assets Under Resolution (AUR)

	AUR at June 2002 US\$b	Additions US\$b	Reductions US\$b	Currency translations US\$b	AUR at December 2002 US\$b
IDDF and its investment partners	1.9	0.4	(0.2)	0.1	2.2
Third parties (non IDDF mandates)	5.4		(3.2)	0.2	2.4
Total AUR	7.3	0.4	(3.4)	0.3	4.6
Period movement in AUR					(37.0)%

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

AUR decreased US\$2.7 billion (37%) to US\$4.6 billion for the period ended December 2002 compared to US\$7.3 billion at December 2001. The decrease in AUR has been driven by the resolution of a large third party mandate which had a material legal loan balance but small investment value.

Transaction Fees

Incentive fees are earned from the successful resolution of portfolios serviced for IDDF, its investment partners and third party clients. Lend Lease may earn incentive fees in two capacities, as servicer and as advisor. Fees earned as servicer are based on achieving returns above predetermined return hurdles. In addition, Lend Lease has the potential to earn incentive fees in its role as advisor to IDDF based on a pre-determined return above certain preferred investor hurdles.

Incentive fees increased \$2.6 million to \$6.1 million for the period ended December 2002 relating to fees earned from servicing IDDF portfolios in Korea (\$4.7 million) and third party portfolios in Japan (\$1.4 million). The incentive fees for the period ended December 2001 were earned from servicing third party portfolios in Japan.

Other Income

	December 2002 Total A\$m	December 2001 Total A\$m
Investment Income		
International Distressed Debt Fund	(6.3)	5.4
Other	0.2	0.4
Total	(6.1)	5.8

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

Real Estate Investments (REI) continued

Asia continued

IDDF investment income has declined \$11.7 million for the period ended December 2002 compared to December 2001. The decline is largely attributable to a provision of \$11.3 million taken against the carrying value of Lend Lease's investment in IDDF due to adverse movements in the underlying value of IDDF's Japanese investment portfolio at December 2002. The downward assessment of the Japanese portfolios principally arises from the continuing depressed economic conditions in Japan resulting in significant erosion in the market values of real estate during the period, particularly in real estate assets outside metropolitan Tokyo to which the IDDF portfolio has significant exposure.

Excluding the impact of the provision noted above, Lend Lease earned \$5.0 million in investment income from IDDF during the period ended December 2002. This investment income is a function of target returns, the velocity with which capital can be invested and the timing and amount of loan resolutions. IDDF has two years remaining in its investment period (through to December 2004) and at December 2002 has US\$263.5 million of maximum equity capital available for further investment.

Despite the challenges in Japan, IDDF's other investment portfolios in Korea and Mexico are exceeding original expectations. With US\$263.5 million of maximum equity capital available to be invested over two remaining years of the investment period, it is difficult to predict final returns from IDDF.

Profit after Tax

The Commercial Credit business recorded a small loss after tax for the period ended December 2002 compared to a profit after tax result for December 2001. The result for December 2002 was significantly impacted by the provision against the carrying value of Lend Lease's investment in IDDF at December 2002.

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

Real Estate Investments (REI) continued

Europe

The REI Europe business is conducted through two business units:

- **Investment Management** – Equity includes the following:
 - management of Bluewater, Overgate and Touchwood on behalf of investors (including Lend Lease's 30% direct ownership in Bluewater);
 - management of the Lend Lease Retail Partnership and the Lend Lease Overgate Partnership (LLOP);
 - provision of real estate securities services to investors through Lend Lease Houlihan Rovers (LLHR);
 - management of assets on behalf of the First Islamic Investment Bank;
 - sub-advisor to the Lend Lease Global Properties Fund (Global Fund); and
 - the entity Lend Lease Global Real Estate Advisors which relates to the dedicated investment management of the Global Fund and its sister fund, Lend Lease Asia Properties.

The fees derived from the above services comprise advisory/asset management fees, funds management fees, and transaction fees earned in connection with acquisitions, dispositions and arranging finance.

In addition, Lend Lease receives investment income from co-investments in funds, direct investment in assets, and equity accounted profits from Generali Lend Lease.

- **Retail Property Management** includes the management of UK retail shopping centres (Bluewater in Kent, Overgate in Dundee and Touchwood in Solihull) and the Larry Smith Retail Centre management business in Spain.

Analysis of Result

	Period ended December 2002				Period ended December 2001			
	Investment Mgt – Equity £m	Retail Property Mgt £m	Total £m	A\$m	Investment Mgt – Equity £m	Retail Property Mgt £m	Total £m	A\$m
Annuity Fees								
Advisory/Asset management fees	5.2		5.2	14.7	2.2		2.2	6.2
Funds management fees	0.5		0.5	1.4	0.5		0.5	1.4
Property management fees		1.3	1.3	3.7		1.1	1.1	3.1
Larry Smith revenue		1.0	1.0	2.8		1.6	1.6	4.5
Total annuity fees	5.7	2.3	8.0	22.6	2.7	2.7	5.4	15.2
Transaction fees	3.0		3.0	8.5	0.9		0.9	2.5
Total operational revenues	8.7	2.3	11.0	31.1	3.6	2.7	6.3	17.7
Investment income	11.3		11.3	31.9	10.1		10.1	28.4
Equity accounted profit	0.2		0.2	0.6	1.3		1.3	3.7
Gain on sale of investments					6.0		6.0	16.8
Total income before expenses	20.2	2.3	22.5	63.6	21.0	2.7	23.7	66.6
Expenses			(10.7)	(30.2)			(11.6)	(32.7)
Profit before tax			11.8	33.4			12.1	33.9
Loss on FX hedge				(2.1)				(0.7)
Hedged profit before tax			11.8	31.3			12.1	33.2
Income tax expense ⁽¹⁾			(3.3)	(8.8)			(4.2)	(11.5)
Profit after tax			8.5	22.5			7.9	21.7

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

Investment Management – Equity

Annuity Fees

Advisory/Asset management fees increased £3.0 million to £5.2 million in the period ended December 2002 compared to December 2001. The increase is largely attributed to the inclusion of asset management fees from the Lend Lease Overgate Partnership and the Touchwood centre for the whole six month period whereas the prior period to December 2001 only included asset management fees for the three month period from September 2001 (£0.2 million), increased asset management fees from LLHR (£0.1 million) and increased advisory fees from the Global Fund (£2.4 million).

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

Real Estate Investments (REI) continued

Europe continued

Lend Lease Houlihan Rovers (LLHR)

Lend Lease holds an 80% interest in LLHR, a Belgium-based European listed real estate equities management company. LLHR made a small loss for the period ended December 2002. The LLHR results are fully consolidated into the results of Lend Lease Europe.

First Islamic Investment Bank (FIIB)

On 11 November 2002, Lend Lease entered into a services agreement with First Islamic Investment Bank for the purpose of providing asset management, capital transaction and disposition services in relation to a selection of industrial properties in Germany. Lend Lease has a 4.8% stake in the German industrial assets. The value of the various properties acquired was £72.3 million at December 2002.

Lend Lease Global Properties SICAF (LLGP) and Lend Lease Asia Properties SICAF (LLAP)

LLGP and LLAP are advised by the Luxembourg-based Lend Lease Global Real Estate Advisers (LLGREA) and Lend Lease Asia Real Estate Advisers (LLAREA) respectively. LLGP is a private co-mingled opportunistic real estate investment company. Launched in February 1999, LLGP closed to new investors in December 2000 with total capital raised of US\$590 million, including US\$60 million allocated to its sister vehicle LLAP. Lend Lease committed US\$100.0 million in equity as part of the total US\$590 million capital raised, which was fully drawn down at December 2002, to co-invest along with 13 other institutional investors from the US, Canada, Australia, Middle East and Europe. LLGP became fully invested in October 2002 and LLAP has US\$13.2 million invested.

LLGP and LLAP pay LLGREA and LLAREA advisory fees for providing portfolio management, asset management and other services, broadly based on the level of assets under management. Gross advisory fees increased £2.4 million to £3.5 million for the period ended December 2002 compared to December 2001.

Several acquisitions were made by LLGP during the period increasing AUM by US\$1.0 billion. On 5 August 2002, LLGP acquired Akeler Holdings SA (Akeler), a real estate investment and development company, for £294 million specialising in the office and business park sector in the UK. On 8 October 2002, LLGP acquired Banimmio Real Estate, a real estate investment and development company with real estate assets of Euro280 million.

On 14 October 2002, LLGP acquired the Meadow office and industrial portfolio for £124 million with assets situated in England, Scotland and Wales.

Assets Under Management (AUM)

	AUM at June 2002 £b	Additions £b	Reductions £b	Net Revaluations £b	AUM at December 2002 £b
Bluewater	1.3			0.1	1.4
Touchwood ⁽¹⁾	0.2				0.2
Overgate ⁽²⁾	0.1				0.1
Joint ventures/Separate Accounts ⁽³⁾	0.3	0.1			0.4
Lend Lease Global Properties SICAF	0.1	0.6			0.7
Total AUM	2.0	0.7	-	0.1	2.8
Period movement in AUM					40.0%

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

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

(3) Includes Lend Lease's proportional share of AUM from the Generali Lend Lease, Lend Lease Houlihan Rovers and German industrial property assets.

AUM increased £0.8 billion (40.0%) to £2.8 billion for the period ended December 2002 compared to £2.0 billion at June 2002.

Additions to AUM of £0.7 billion largely reflect the purchases by the Global Fund of assets in Europe (see detail below). The joint venture/separate account additions comprise investments managed by Lend Lease Houlihan Rovers (LLHR), Generali Lend Lease and acquisitions of German industrial property assets on behalf of FIIB.

Net revaluations reflect the increased valuation of Bluewater Shopping centre. The centre was re-valued to £1.421 billion as at December 2002.

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

Real Estate Investments (REI) continued

Europe continued

LLGP / LLAP Assets Under Management (AUM)

Gross LLGP and LLAP AUM at December 2002 includes investments in the UK, Hong Kong, Korea, Belgium, Luxembourg and Germany. LLGP / LLAP AUM is included in the AUM reported by the regional REI businesses.

	AUM at June 2002 US\$	Additions (1) US\$	Reductions US\$	Net Revaluations US\$	AUM at December 2002 US\$
Europe	0.1	1.0			1.1
Asia	0.4				0.4
Total AUM	0.5	1.0	-	-	1.5
Period movement in AUM					200.0%

The Global Fund purchased a number of properties during the period as part of the Akeler, Banimmo and Meadow acquisitions discussed above.

AUM increased US\$1.0 billion to US\$1.5 billion for the period ended December 2002 compared to US\$0.5 billion at June 2002 reflecting the purchase of Akeler, Banimmo and Meadow.

Transaction Fees

Transaction fees (being acquisition/incentive/consulting/financing/disposition fees) increased £2.1 million to £3.0 million for the period ended December 2002. The fees for the six months to December 2002 include incentive fees derived from the sale of Lend Lease Retail Partnership performance fee shares which were awarded to Lend Lease based on the performance of the Partnership over a 3 year period to 2001 (£1.6 million). The balance of the fee income comprised acquisition and asset management fees from the German industrial property assets (£0.9 million), fee income for managing the sale of shares in the Lend Lease Retail Partnership (£0.2 million) and disposition fees earned on disposal of certain Global Fund assets in Asia (£0.3 million).

Retail Property Management

Annuity Fees

Retail Property Management fees are generated from the management of retail centres (Bluewater, Overgate and Touchwood). Retail Property Management fees increased £0.2 million to £1.3 million for the period ended December 2002 compared to December 2001. The increase is mainly due to increased cost recoveries from the retail centres under management.

Larry Smith revenue decreased £0.6 million to £1.0 million for the period ended December 2002 compared to December 2001. The decrease is largely attributable to the loss of the property management and leasing contract for the Arrábida centre pursuant to the sale of Lend Lease's 50% share in the centre in December 2001 (£0.4 million) and to the termination of certain unprofitable asset management contracts (£0.1 million).

Other Income

	Period ended December 2002 Total		Period ended December 2001 Total	
	£m	A\$m	£m	A\$m
Investment Income				
Bluewater, Kent	9.2	26.0	8.7	24.5
Overgate, Dundee			1.9	5.3
Lend Lease Retail Partnership	0.7	1.9	0.4	1.1
Lend Lease Overgate Partnership	1.1	3.0	0.5	1.4
Investment expense			(1.4)	(3.9)
Other	0.3	1.0		
Total investment income	11.3	31.9	10.1	28.4
Equity Accounted Profits				
Lend Lease Porto Retail			1.3	3.7
Generali Lend Lease	0.2	0.6		
Total equity accounted profits	0.2	0.6	1.3	3.7
Gain on Sale of Investments				
Arrábida/Larry Smith Italy			6.0	16.8
	-	-	6.0	16.8

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

Real Estate Investments (REI) continued

Europe continued

Investment Income

Bluewater investment income of £9.2 million for the period ended December 2002 relates to the net operating income (NOI) of Bluewater, derived from Lend Lease's remaining 30% direct interest (30% at December 2001).

The NOI of Bluewater is largely comprised of a base rent and therefore is not dependent upon sales turnover rent. However, some tenants are subject to a turnover rent "top-up". The increased NOI is due to the improved performance of the retail centre. The majority of market rent reviews for Bluewater's tenants will occur during the financial year ending June 2004.

The Overgate investment income of £1.9 million for the period ended December 2001 related to the NOI derived from Lend Lease's interest in the Centre. Lend Lease received 100% of Overgate's NOI up to the point at which forward sale pre conditions relating to lease targets had been met and the investors in the Lend Lease Overgate Partnership made their final payment. From 28 September 2001, the investors in the Lend Lease Overgate Partnership (including Lend Lease which holds a 30.7% interest) received 100% of the NOI. Accordingly, investment income earned for December 2001 related to the period from 1 July 2001 to 28 September 2001. No NOI was directly earned in the December 2002 period.

The Lend Lease Retail Partnership (LLRP) investment income of £0.7 million for period ended December 2002 related to Lend Lease's 5.02% interest in the Partnership which owns a 25% interest in Bluewater and, throughout the financial period, progressively increased its ownership interest in Touchwood, Solihull. Up to December 2002, 98% of the Centre had been purchased by LLRP for a total £195.0 million. The final payment for the Centre is expected by March 2003. The increase in investment income is attributed to the improved operating performance from Bluewater and the inclusion of Touchwood centre income for the whole period (the period to 31 December 2001 only included three months).

The Lend Lease Overgate Partnership (LLOP) investment income of £1.1 million for the period ended December 2002 relates to Lend Lease's 30.7% interest in the Partnership. From 28 September 2001 LLOP owned 100% of Overgate, Dundee. The increase in income is due largely to the investment income being earned for the six month period to December 2002 as compared to only three months for the prior period.

The investment expenses incurred in the period to December 2001 primarily related to a deferred return payable to investors in the LLOP. Prior to 29 September 2001 (28 September 2001 being the date of sale of the Overgate retail centre into the LLOP), Lend Lease was required to pay the investors a return of 8.5% per annum on the deposit.

Other investment income includes £0.9 million relating to the part reversal of a previous provision against the carrying value of Lend Lease's 30.7% interest in the Overgate partnership. This was offset by Lend Lease's share of a write down to net realisable value of real estate securities in a new European based mutual fund (European SICAV) managed by LL Houlihan Rovers at December 2002.

Equity Accounted Profits

Equity accounted profits of £0.2 million for Generali Lend Lease (GLL) related to Lend Lease's 40% interest in a Joint Venture with the Assicurazioni Generali S.P.A. group. In December 2001, Lend Lease sold its interest in Lend Lease Porto Retail and accordingly, no equity accounted profit was attributable to Lend Lease during the period ended December 2002.

Gain on Sale of Investments

In December 2001, Lend Lease sold its interests in Lend Lease Porto Retail and Larry Smith & Associates SRL. The profit before tax on these sales was recorded in the December 2001 period.

Expenses

Excluding net investment income, the business operated at a small profit during the period to December 2002 and included costs associated with the establishment of a real estate services infrastructure (capital raising, transactions and fund structuring) to complement the existing retail investment management base. Expenses decreased £0.9 million to £10.7 million for the period to December 2002 compared to December 2001. The decrease is primarily due to a reduction in new business set-up costs (£1.0 million) off set by increased Global Fund establishment costs (£0.3 million) and foreign exchange losses (£0.3 million) incurred in the December 2002 period relative to December 2001 and cost reductions arising from the group-wide business re-positioning project (£0.5 million).

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

Other

Capital Services

The principal activities of Capital Services are as investor in infrastructure assets, asset fund manager and investor in UK real estate development companies. This business is focussed on maximising the value of its existing investments.

Results

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	June 2002 A\$m
Australia and Pacific		3.2	(0.2)	1.2	(0.5)	0.9	2.1	8.2
Asia	0.9		0.9		0.6		9.3	9.3
Europe	14.0		7.7		4.7		25.8	19.3
Total	14.9	3.2	8.4	1.2	4.8	0.9	37.2	36.8

Australia and Pacific

The Australian Capital Services business holds no material investments.

Asia

The segment assets in Asia related to the investment in Lend Lease Asia Water Trust (16.5%) on which a distribution was received during the period.

Europe

The European Capital Services business consists of investments in Chelverton and THI. Profit after tax of \$4.7 million comprises reversal of provisions following the receipt of proceeds from the THI plc liquidation.

Segment assets of \$25.8 million is comprised of loans to the Chelverton Group. The status of each investment is summarised below.

Chelverton Group

Lend Lease had a 50% interest in Chelverton Group. The initial investment was made in April 1996. Lend Lease also had a 50% interest in Chelverton Properties International, which is a property developer in Poland. Both investments were sold during the period for \$14.0 million. However, a continuing interest is held in certain underlying assets of the now sold Chelverton entities.

All known exposures in respect of this investment in, and guarantees provided on behalf of, the Chelverton Group have been fully provided in the financial statements.

THI plc (THI)

Lend Lease has a 14.3% interest in THI which was placed in administrative receivership on 4 April 2001. Provisions were raised in prior periods to recognise the diminution in the value of the investment and associated debt exposures. No additional provisions have been raised since 30 June 2002.

The receiver is in the process of disposing of THI's investments and projects.

Investments – IT+T and eBusiness Investments

These investments related to holdings in information technology and telecommunication (IT+T) services companies and various eBusiness ventures. IT+T and eBusiness initiatives have been discontinued and focus is now on maximising the value of Lend Lease's investment in IBM Global Services Australia (IBMGSA).

Results

	Operating Revenue		Operating Profit Before Tax		Operating Profit After Tax		Segment Assets	
	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	June 2002 A\$m
Australia and Pacific								
IBM Global Services Australia (IBMGSA)	5.3	10.4	5.3	10.4	3.8	8.5	58.9	73.5
Total IT+T and eBusiness investments	5.3	10.4	5.3	10.4	3.8	8.5	58.9	73.5

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

Other continued

Profit After Tax

IT+T and eBusiness investments made a profit after tax of \$3.8 million for the period to December 2002 from royalty distributions from IBMGSA. No dividends were received for the six months to December 2002. In the period to December 2001 Lend Lease received a royalty distribution of \$6.3 million and a dividend of \$4.1 million.

Segment Assets

Segment assets includes the investment in, and loan to, IBMGSA (\$58.9 million).

Investments – Equity (Listed) Investments

Results

	Operating Revenue		Operating Profit Before Tax		Operating Profit After Tax		Segment Assets	
	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	June 2002 A\$m
Australia and Pacific								
Sales of Investments								
Westpac Banking Corporation:								
Sale of shares subject to hedge arrangements		61.9		39.3		28.2		
Total Equity Investments	-	61.9	-	39.3	-	28.2	-	-

Profit After Tax

Equity Investments' contribution to the profits of the Group was nil after tax for the period ended 31 December 2002. In the prior corresponding financial period, the realisation of previously hedged Westpac shares contributed \$28.2 million after tax.

The remaining interest in Westpac shares was realised in the six months to December 2002.

Corporate

Corporate consists of Group Services (which includes corporate administration), Group Amortisation and Group Treasury (which includes all financing costs that are not directly related to real estate development projects or investments, irrespective of where those costs are incurred).

Group Services

	Operating Revenue		Operating Loss Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	June 2002 A\$m
Corporate Services	6.0	5.7	(4.5)	(27.7)	4.9	(27.9)		
Group IT Costs			(6.6)	(16.3)	(4.5)	(11.4)		
Total Group Services	6.0	5.7	(11.1)	(44.0)	0.4	(39.3)	-	-

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

Other continued

Corporate Services

	December 2002 A\$m	December 2001 A\$m
Revenue		
Revenue in relation to Lend Lease Foundation	2.9	2.6
Shared Services provided to external parties	1.5	2.3
Other revenue	1.6	0.8
Total revenue	6.0	5.7
Expenses		
Net corporate costs ⁽¹⁾	8.3	18.3
Net movement in provisions	(2.1)	10.9
Lend Lease Foundation costs	4.3	4.2
Total expenses	10.5	33.4
Loss before tax	(4.5)	(27.7)
Tax benefit/(expense)	9.4	(0.2)
Profit/(loss) after tax	4.9	(27.9)

(1) Net corporate costs comprises:

	December 2002 A\$m	December 2001 A\$m
Gross corporate costs	26.4	38.2
Shared Services	8.8	8.1
Less: recoveries	(26.9)	(28.0)
Net corporate costs	8.3	18.3

Corporate Services revenue increased to \$6.0 million for the December 2002 period from \$5.7 million in the December 2001 period. This is due to Foundation revenue increasing due to the increase in dividend revenue. Shared Services provided to external parties reduced during the financial year as the majority of services were transferred back to MLC.

Net corporate costs for the December 2002 period decreased by \$10.0 million from December 2001 largely due to a reduction in gross corporate costs of \$11.8 million.

Group IT Costs

Group IT costs relate to IT costs that are not incurred directly by the operating businesses. The reduction in costs in the current period is due to the realisation of cost saving initiatives.

Group Amortisation

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

Management Agreements

REI US
REI Australia

Goodwill

Bovis Group
REI US
Larry Smith
Delfin Group

Other intangible assets

Total Group amortisation

Gain on foreign exchange hedges

Amortisation adjusted for foreign exchange hedges

	December 2002 A\$m	December 2001 A\$m
Amortisation Charge		
REI US	9.2	9.8
REI Australia	0.6	0.4
9.8	10.2	
Bovis Group	21.0	21.5
REI US	11.6	11.6
Larry Smith	0.9	0.6
Delfin Group	1.9	1.6
35.4	35.3	
0.9	0.5	
46.1	46.0	
Gain on foreign exchange hedges	(2.3)	(5.6)
43.8	40.4	

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

Other continued

Group Treasury

	Operating Revenue		Operating (Loss)/Profit Before Tax		Operating Profit/(Loss) After Tax		Assets	
	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	December 2001 A\$m	December 2002 A\$m	June 2002 A\$m
Net FX hedge benefits			13.3	9.3	9.3	6.5		
Interest revenue	22.7	19.6	22.2	19.1	15.3	12.7		
Borrowing costs			(36.7)	(36.1)	(21.6)	(20.7)		
Total Group Treasury	22.7	19.6	(1.2)	(7.7)	3.0	(1.5)	615.3	519.8

Foreign Exchange Hedge Benefits/Costs

Net FX hedge benefits are earned on the Group's hedging of net assets and transactions. The current financial period amount of \$13.3 million compared to \$9.3 million in the prior financial period is primarily due to the favourable increase in interest rate differentials between the US and Australia, earned mainly on hedging the Group's US Dollar net asset position (which includes intercompany loans).

Overall the impact of foreign exchange on the consolidated statement of financial performance was a gain of \$8.1 million pre tax compared to a loss of \$1.8 million, in the period ended 31 December 2001. Included in this gain are foreign exchange losses of \$2.7 million incurred on current financial periods profit hedges⁽¹⁾ due to the rate of the original hedges being higher than the current average rate. These losses are excluded from the Group Treasury result (except to the extent that they relate to Group Treasury) and are allocated to business unit segment profit and Group interest and amortisation.

The impact of foreign exchange movements on the Group's net assets is recorded in the Foreign Currency Translation Reserve (FCTR). In the current financial period, the FCTR balance improved by \$34.4 million, mostly due to the fall of the Australian dollar in the period to December 2002 relative to the UK Pound.

(1) Projected revenues less expenses from foreign operations (mainly US Dollars and Pounds Sterling) are hedged within predetermined bands for the current and subsequent 2 years.

Interest

Operating profit before tax in respect of interest revenue increased by \$3.1 million to \$22.2 million for the period ended 31 December 2002. This was primarily due to higher average cash balances during the period ended 31 December 2002.

Borrowing costs comprise \$37.5 million offset by the apportionment of foreign exchange gains of \$0.8 million before tax (\$6.9 million before tax for the period ended 31 December 2001) on interest incurred primarily on the US borrowings. Borrowing costs were broadly in line with the corresponding financial period.

Statement of Financial Position (Balance Sheet)

Balance Sheet Summary by Major Component

	December 2002 A\$m	June 2002 A\$m	Increase/ (Decrease) A\$m
Cash	988.0	904.1	83.9
Real Estate Development Inventories	952.4	857.6	94.8
Real Estate Development Investments	86.9	140.9	(54.0)
Real Estate Co-Investments	777.8	663.7	114.1
Other Real Estate Investments	559.2	648.9	(89.7)
Other Investments	52.1	52.1	
Goodwill	853.4	1,043.9	(190.5)
Management Agreements	662.2	881.1	(218.9)
Borrowings	(938.6)	(938.6)	
Other Net Assets/(Liabilities) ⁽¹⁾	(570.0)	(501.6)	(68.4)
Shareholders' Equity	3,423.4	3,752.1	(328.7)

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

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

Other continued

The Balance Sheet continues to be strong; key features of which are as follows:

- Cash was \$988.0 million at December 2002 (refer Cash Flow section below).
- The increase in Real Estate Co-Investments of \$114.1 million was largely due to an increase in the Lend Lease Global Property Fund, SICAF of \$92.0 million.
- Goodwill and Management Agreements decreased largely as a result of the write-down of the REI US businesses.
- Total equity decreased from \$3.8 billion to \$3.4 billion primarily due to the write-down of the REI US businesses offset by current period profits from normal operations.

Credit Strength

Management analyses credit strength in terms of interest coverage and continues to target approximately 7 times EBITDA to interest expense ratio.

Capital Structure

Shareholders

Shares on Issue	m	435.3	434.5
Weight Average Shares on Issue	m	434.9	431.7

Credit Strength

		December 2002	June 2002
Cash	A\$m	988.0	904.1
Borrowings	A\$m	938.6	938.6
Total Equity	A\$m	3,423.4	3,752.1
Borrowings to Total Assets	%	11.6	10.8
Gross Debt to Shareholders' Equity	%	27.4	25.0
Net (Cash)/Debt to Shareholders' Equity	%	(1.4)	0.9
Debt to Shareholders' Equity plus Debt	%	21.5	20.0
Credit Rating	Rating	A-/Baa2	A-/Baa2
Interest Coverage ⁽¹⁾	Times	7.3	7.6
Interest Coverage Target	Times	7	7

(1) Calculated as EBITDA (before the write-down of REI US businesses of \$447.4 million) plus interest revenue divided by net borrowing costs excluding foreign exchange benefit.

Borrowings were \$938.6 million at December 2002 (June 2002 \$938.6 million). The ratio of borrowings to Shareholders' Equity was 27.4% at December 2002, compared to 25.0% at 30 June 2002. The ratio of Net Debt to Shareholders' Equity December 2002 was (1.4)% due to the level of cash exceeding borrowings (June 2002 0.9%).

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

Other continued

Cash Flow

The following table summarises the major cash flows for the period ended 31 December 2002.

	A\$m
Cash at the beginning of the period	904.1
Summary of Major Cash Transactions During the Financial Period	
Operating Activities	
Net receipts in the course of operations	124.4
Net property development receipts	73.0
Tax payments	(39.7)
Net interest paid	(13.2)
Other operating cash receipts	46.5
Net cash provided by operating activities	191.0
Other Cash Transactions	
Payment of dividends	(38.3)
Net REI Co-investments	(101.4)
Mortgage Loans	135.3
Tax credit properties	(52.7)
Proceeds on sale of investments (including North Lakes)	44.2
Net repayment of loans (associates/related parties)	(45.8)
Purchase of controlled entities (including Lend Lease Rosen Real Estate Securities)	(25.6)
Other net cash flows	(22.8)
Net cash generated for the financial period	83.9
Closing cash balance at end of the financial period	988.0

Net property development cash flows mainly relates to payment received from Capital Shopping Centres in relation to Chapelfield, Norwich.

Commitments

Lend Lease has capital commitments over the next 12 months including payment for REI Co-Investments of \$278.9 million (including IDDF \$128.2 million, VEF Series \$55.1 million and other Co-Investments \$95.6 million).

Taxation – Effective Tax Rate

The effective tax rate on operating profit (excluding the write-down of REI US businesses) was 30.1% in the December 2002 financial period as compared to 38.9% in the prior financial period. The decrease is primarily due to an over provision for tax relating to previous financial years of \$5.5 million while the corresponding financial period included an under provision of tax of \$7.5 million

Prospects

Excluding the write-down of the REI US businesses, the company continues to expect a slight increase in after tax profit from operations for the year ended 30 June 2003 (over \$226.3 million after tax reported for the year ended 30 June 2002). For the six month period to June 2003, RES results are expected to strengthen based on analysis of emerging GPM and forecast development sales, while REI results are expected to decline in light of weak US economic conditions and the seasonality of HCI and HFF revenues which are traditionally skewed to the December quarter. It must be stressed that the future profit of Lend Lease will depend on a range of factors including the outcome of the REI US strategic review, the state of the global economy and property markets, competitive and regulatory pressures, future deployment of capital and other relevant factors that are not possible to predict with confidence.