

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

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

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

The following discussion and analysis is based on the Group's Consolidated Financial Statements as at 31 December 2003 and should be read in conjunction with those Financial Statements.

Overview

Introduction

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

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

Lend Lease operates in 53 countries. Some of the key factors influencing the business are the state of investment and real estate markets; the level of construction activity; global economic conditions; interest rates; taxation, and regulatory legislation. However, because the Group's operations consist of providing diversified services to a broad range of clients in many geographic locations no one factor, in management's opinion, determines the Group's financial condition or the profitability of its operations.

Segment Results Summary

The financial results for the six month period ended December 2003 are summarised below. The segment results of the operating businesses exclude financing costs (which are included in Group Treasury), amortisation charges, the profit on sale of the Group's investment in IBMGSA and the write-down of the REI businesses, all of which are separately disclosed.

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax ¹		Total Assets	
	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002	December 2003	June 2003
	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m	A\$m
Bovis Lend Lease	3,859.4	4,493.4	73.2	119.4	44.3	76.0	2,587.8	2,920.5
Integrated Development Businesses	374.0	300.1	35.9	(8.2)	24.4	(0.9)	991.0	821.6
Real Estate Investments								
Continuing operations	101.0	112.4	65.1	72.2	44.9	49.7	1,338.5	1,324.2
Discontinuing operations ²	634.2	357.1	28.8	51.0	15.6	42.3	543.8	1,663.5
Total Real Estate Investments	735.2	469.5	93.9	123.2	60.5	92.0	1,882.3	2,987.7
Total Operating	4,968.6	5,263.0	203.0	234.4	129.2	167.1	5,461.1	6,729.8
Non-core investments³	1.9	20.2	5.2	13.7	7.2	8.6	97.4	79.9
Corporate								
Net corporate	12.8	6.0	(23.6)	(44.6)	(9.6)	(21.8)	263.1	256.6
Group amortisation								
Continuing operations			(24.7)	(23.6)	(24.7)	(23.6)		
Discontinuing operations ²			(1.9)	(20.2)	(1.9)	(20.2)		
Group Treasury	26.9	22.7	6.4	(1.2)	8.3	3.0	989.3	342.6
Total Corporate	39.7	28.7	(43.8)	(89.6)	(27.9)	(62.6)	1,252.4	599.2
Total Group results before write-down of REI businesses and sale of IBMGSA	5,010.2	5,311.9	164.4	158.5	108.5	113.1	6,810.9	7,408.9
Write-down of REI businesses				(447.4)		(482.5)		
Profit on sale of IBMGSA	157.3		111.5		79.7			
Total Group	5,167.5	5,311.9	275.9	(288.9)	188.2	(369.4)	6,810.9	7,408.9

1 Operating profit/(loss) after tax is net of the amount attributable to outside equity interests of \$2.9 million (December 2002; loss of \$2.3 million).

2 Discontinuing operations include those businesses which have been sold or are planned to be divested. Net profit after tax from discontinuing operations was \$13.7 million (December 2002; \$22.1 million).

3 Non-core investment income in the period ended December 2003 principally relates to the Group's investment in Chelverton Group and THI plc, and income from IBMGSA.

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

Overview continued

Revised Management Structure and Reporting Basis

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

The Global Markets result previously reported as a separate line has now been amalgamated into the region results.

The above changes have no impact on the total Group results. The changes do however impact the classification of profit between businesses. To assist users of the Financial Statements and MD&A, a reconciliation highlighting the impact of the changes on profit is set out on page 35.

Operating Profit After Tax

Operating profit after tax, before the write-down of the REI businesses and before the inclusion of the profit from the sale of IBMGSA, declined from \$113.1 million for the period ended December 2002 to \$108.5 million for the period ended December 2003.

The operating profit after tax of BLL declined from \$76.0 million in the period ended December 2002 to \$44.3 million in the period ended December 2003. The decrease in the BLL profit was largely attributable to losses in the Asia Pacific region arising from residential projects, mainly in Canberra.

The IDB operating profit after tax increased from a loss of \$0.9 million in the period ended December 2002 to a profit of \$24.4 million in the period ended December 2003. The increase in IDB's operating profit after tax was due to the higher profit from Delfin Lend Lease of \$4.6 million, the reduction in PFI bid costs in the UK of \$1.6 million; the write-down in the Shell Centre project in December 2002 of \$10.5 million and the increase in profit from Actus Lend Lease of \$9.3 million.

The operating profit after tax of REI continuing operations decreased from \$49.7 million in the period ended December 2002 to \$44.9 million in the period ended December 2003, due to a decline in Asia Pacific of \$2.5 million resulting from a change to the GPT management fee and a decrease in Asia of \$2.8 million largely due to a provision against the carrying value of the Group's co-investment in APIC.

The operating profit after tax of REI discontinued operations declined from \$42.3 million in the period ended December 2002 to \$15.6 million in December 2003 as the result of businesses being sold during the period.

The loss after tax in corporate decreased from \$62.6 million in the period ended December 2002 to \$27.9 million in the period ended December 2003, principally due to a reduction in net corporate overheads of \$21.0 million before tax; lower amortisation charges of \$17.2 million reflecting the write off of goodwill associated with REI; and an increase in Group Treasury profit after tax of \$5.3 million due to increased cash balances invested during the period.

Taxation – Effective Tax Rate

The effective tax rate on operating profit was 30.7% in the period ended December 2003 compared to 30.1% in the corresponding period to December 2002 (excluding the write-down of REI businesses).

Sale of REI Businesses

Following the completion of the REI strategic review in May 2003, Lend Lease decided to sell or exit a number of REI businesses, largely in the US. As a result, the profit for the year ended June 2003 included a charge of US\$574 million (\$945 million) allocated as follows:

	US\$m	\$m
Goodwill	148	252
Management agreements	210	351
Future income tax benefits	38	63
Other assets	56	86
Restructuring provisions and transaction costs	122	193
Total ¹	574	945

¹ An amount of \$482.5 million was recognised in the period ended December 2002 and the balance in the six-month period ended June 2003.

During the six-month period ended December 2003, a significant proportion of the US REI businesses were sold with the realised values being materially consistent with the provisions raised at June 2003. Further details on the status of the discontinuing REI businesses are provided in the REI section of the MD&A.

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

Overview continued

Capital Management

In June 2003 Lend Lease commenced an on-market buyback of 10% of its issued share capital (43.5 million shares) and, as at 31 December 2003, 33.4 million shares (approximately 7.6% of issued capital) had been purchased at an average cost of \$9.74 per share. The buyback was suspended on 3 January 2004 and is expected to recommence on 20 February 2004 pending announcement of the December 2003 half year results.

On 12 November 2003 shareholders gave approval for a further buyback to enable the Company to buy up to an additional 44.0 million shares. The shareholders' approval of the buybacks has provided the Company with the flexibility required to use surplus cash to acquire 87.5 million shares in total.

Dividends

An interim unfranked dividend of 18.0 cents per share will be paid on 17 March 2004 (10.0 cents per share fully franked paid on 19 March 2003). The dividend pay-out ratio of is 67.9%, excluding the profit from the sale of IBMGSA (December 2002: 38.5% excluding the write-down of the REI businesses).

Shareholders' Returns

		December 2003	December 2002
EBITDA ¹ (excluding write-down of REI businesses and profit from sale of IBMGSA)	\$m	191.3	249.1
Earnings per share (EPS) ² (excluding write-down of REI businesses and profit from sale of IBMGSA)	cents	25.7	26.0
Return on equity (ROE) for the financial period ³ (excluding write-down of REI businesses and profit from sale of IBMGSA)	%	3.8	2.9

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

2 EPS calculation for December 2003 is derived using 421.8 million shares as the weighted average number of shares on issue during the period.

3 Represents the ratio of profit after tax for the six months to December 2003 to average shareholders' equity.

The following table provides a reconciliation of the variances in EBITDA and profit after tax.

	December 2003 \$m	December 2002 \$m	Increase/ (Decrease) \$m
Net profit attributable to members of Lend Lease Corporation Limited ¹	108.5	113.1	(4.6)
Profit/(loss) attributable to outside equity interests	2.9	(2.3)	5.2
Depreciation/amortisation	33.6	76.0	(42.4)
Tax expense ¹	53.0	47.7	5.3
Net interest	(6.7)	14.6	(21.3)
Total EBITDA ¹	191.3	249.1	(57.8)

1 Excluding the write-down of REI businesses and profit from the sale of IBMGSA.

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

		December 2003		December 2002	
		Before Amortisation	After Amortisation	Before Amortisation	After Amortisation
Return on equity for the period excluding the write-down of REI businesses and profit from sale of IBMGSA ¹	%	4.4	3.8	3.9	2.9
Earnings per share excluding the write-down of REI businesses and profit on sale of IBMGSA	cents	31.4	25.7	37.4	26.0

1 ROE for the financial period before amortisation is calculated by adding back accumulated amortisation the write-down of REI US businesses and profit on sale of IBMGSA. Equity represents the average balance of equity for the period.

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

Overview continued

Shareholders' Returns continued

Excluding the impact of the write-down of REI businesses and the profit from sale of IBMGSA, EPS after amortisation decreased to 25.7 cents for the period ended December 2003 from 26.0 cents for the period ended December 2002. The decrease in operating profit after tax is partially offset by the reduction in the number of shares on issue. The decrease in EPS before amortisation from 37.4 cents per share for the period ended December 2002 to 31.4 cents per share for the period ended December 2003 reflects the loss in earnings from those businesses sold.

Excluding the impact of the write-down of REI businesses and the sale of IBMGSA, return on equity (before amortisation) for the period ended December 2003 was 4.4% compared to 3.9% for the corresponding financial period. The increase in the return on equity was due to the reduction in average shareholders' equity from \$3.8 billion in the period ended December 2002 to \$2.9 billion in the period ended December 2003, offset by the decrease in operating profit after tax in December 2002.

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

Bovis Lend Lease (BLL)

The principal activity of this business is that of construction and project management. BLL operates in 51 countries worldwide and is managed through three regions (Asia Pacific, Americas and Europe).

Key Financial Results

	Operating Revenue ¹		Realised Gross Profit Margin ²		Operating Profit/(Loss) Before Tax		Operating Profit (Loss) After Tax ³	
	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Asia Pacific	759.4	686.8	17.8	66.4	(23.2)	22.3	(18.0)	13.1
Americas	2,183.4	2,618.7	102.2	112.4	43.6	42.8	25.8	25.6
Europe	916.6	1,187.9	115.1	115.2	52.8	54.3	36.5	37.3
Total BLL	3,859.4	4,493.4	235.1	294.0	73.2	119.4	44.3	76.0

1 Revenue from Global Markets in December 2002 has been allocated to the regions as follows: Asia Pacific \$12.0 million, Americas \$350.7 million and Europe \$129.1 million.

2 Realised GPM from Global Markets in the period ended December 2002 has been allocated to the regions as follows: Asia Pacific \$4.9 million, Americas \$7.8 million and Europe \$11.7 million. The GPM for December 2002 has also been restated to include GPM from the BLL Europe consulting business of \$8.0 million, which was previously disclosed as part of IDB. The restated results are consistent with the 30 June 2003 disclosures.

3 Operating profit after tax from Global Markets for the period ended December 2002 has been allocated to the regions as follows: Asia Pacific \$2.8 million, Americas \$0.7 million and Europe \$0.6 million. The profit after tax relating to the transfer of the consulting business from IDB to BLL Europe is \$4.5 million.

Revenue

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

Total revenue for the period ended December 2003 declined to \$3.9 billion from \$4.5 billion for the period ended December 2002. Excluding the impact of exchange rate movements of \$0.7 billion, total revenue increased by \$0.1 billion.

Operating Profit After Tax

BLL's operating profit after tax was \$44.3 million for the period ended December 2003, a 42% decrease on the period ended December 2002. Operating profit after tax for the period ended December 2003 has been adversely affected by foreign exchange movements of \$0.7 million.

Asia Pacific

Operating profit after tax for the Asia Pacific business declined from a profit after tax of \$13.1 million in the period ended December 2002 to a loss of \$18.0 million in the period ended December 2003. This is primarily due to recognition of forecast after tax losses of \$37.4 million on residential projects, mainly in Canberra. Under Australian accounting standards, forecast project losses are recognised immediately and are not apportioned on a percentage of completion basis.

The losses were primarily the result of three residential design and construction contracts which were underpriced. The situation was further exacerbated by significant escalation in trade costs fuelled by the residential construction demand in the region. Management deficiencies in Canberra have been addressed and the Group believe the expected losses have been fully provided for.

The losses in Australia were partly offset by higher profits in Asia arising from work in the Telecommunications sector.

Americas

Operating profit after tax for the Americas increased from \$25.6 million in the period ended December 2002 to \$25.8 million in the period ended December 2003, an increase of \$0.2 million which included a \$0.9 million increase due to exchange rate movements. Realised GPM of \$102.2 million was \$10.2 million lower than for the period ended December 2002 due to the timing of the income recognition from large projects.

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

Europe

Operating profit after tax for the European business decreased marginally from \$37.3 million in the period ended December 2002 to \$36.5 million in the period ended December 2003. The operating profit after tax has been impacted by exchange rate gains of \$2.2 million and by delays in closing a number of healthcare PFI projects.

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

Bovis Lend Lease (BLL) continued

Profitability Ratio

The profitability ratio for the period ended December 2003 of 31.1%, represents a decrease of 9.5% on the period ended December 2002. The decline in profitability reflects the impact of the losses from Canberra in the Asia Pacific region.

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 financial 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 period ended December 2003 and the Backlog GPM at that date.

	Opening Backlog GPM at June 2003 \$m	Foreign Exchange Adjustment ¹ \$m	Significant Adjustments to Backlog ⁵	New Work Secured (GPM) to December 2003 \$m	Backlog GPM Realised to December 2003 \$m	Closing Backlog GPM at December 2003 \$m
Asia Pacific	89.3		(7.0)	46.2	(63.7)	64.8
Americas	218.7	6.3		88.4	(102.2)	211.2
Europe	256.0	4.1	(21.3)	112.7	(115.1)	236.4
BLL Backlog	564.0	10.4	(28.3)	247.3	(281.0)	512.4
PPP (facilities management) ^{2,3}	41.9	0.3		0.4	(1.4)	41.2
Actus Lend Lease ³	54.7	1.5		55.6	(23.7)	88.1
Total Secured Backlog GPM	660.6	12.2	(28.3)	303.3	(306.1)	641.7
Preferred bidder but not reached financial close ⁴	212.4	6.2		254.7		473.3
Total preferred bidder and reached financial close	873.0	18.4	(28.3)	558.0	(306.1)	1,115.0

1 The foreign exchange adjustment arises due to the difference in hedged exchange rates used for the year ended June 2003 to those used for the period ended December 2003.

2 Facilities management Backlog GPM only includes ten years of any contract.

3 The GPM from Actus Lend Lease and the facilities management GPM from the European Healthcare and other PPP projects are reported as part of IDB.

4 Closing Backlog comprises; European PPP business (\$152.5 million) and Actus Lend Lease (\$320.8 million).

5 Significant adjustments to Backlog GPM comprise \$7.0 million to reflect losses associated with the residential projects in Asia Pacific and \$21.3 million reduction in the scope of major PFI projects in Europe.

The BLL closing Backlog GPM was \$512.4 million as at December 2003, a decrease of 9% over the balance as at June 2003 of \$564.0 million. The value of New Work Secured for the period ended December 2003 was \$247.3 million, a 39% decrease on the New Work Secured in the period ended December 2002 of \$408.3 million. In addition, BLL and Actus Lend Lease have a number of projects in Europe and the Americas respectively for which they are designated preferred bidder. These projects are expected to contribute a further \$473.3 million to Backlog GPM on the assumption they reach financial close.

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

	Six Months to June 2004 %	Year Ending June 2005 %	Post June 2005 %	Total %
Asia Pacific	49	39	12	100
Americas	39	46	15	100
Europe	34	25	41	100
Total BLL	38	36	26	100
Actus Lend Lease	21	25	54	100
PPP (facilities management)	4	8	88	100
Total Actus Lend Lease and PPP¹	16	19	65	100
Preferred bidder but not reached financial close	4	15	81	100
Total preferred bidder and reached financial close	21	25	54	100

1 The GPM from Actus Lend Lease and PPPs is reported as part of IDB.

As at December 2003, 38% of BLL's Backlog GPM is projected to be realised as profit in the six-months to June 2004. The proportion of BLL secured Backlog GPM to be realised beyond an 18-month time frame remained constant at 26%.

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

Bovis Lend Lease (BLL) continued

Realised Gross Profit Analysis by Sector

The strategy for BLL is to reduce the volatility of its earnings by operating in a diverse range of industries and geographies. In addition, BLL has developed strong relationships with a number of key customers that provide BLL with recurring income.

The following table details the GPM earned by sector for the six months ended December 2003.

	December 2003 GPM (%)	December 2002 GPM (%)
Commercial/Office	35%	23%
Retail	18%	12%
Residential	(11%) ¹	12%
Healthcare	9%	7%
Pharmaceutical	10%	7%
Mixed-use	6%	6%
Infrastructure/Government	3%	6%
Education	10%	6%
Industrial	3%	4%
Transportation/Aviation	3%	4%
Communications	8%	2%
Hotel	1%	2%
Sport/Leisure Culture	(2%)	1%
Other	7%	8%
Total	100%	100%

¹ Negative GPM contribution reflects losses from residential projects in Australia.

Definitions

Backlog Gross Profit Margin (Backlog GPM): The expected GPM to be earned for the balance of work to be completed under existing construction contracts. As construction contracts are progressively completed, Backlog GPM declines. As new work is secured, Backlog GPM is replenished. Backlog GPM is calculated using the current period hedged rates.

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

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

Financial Close: This is the point at which the parties to a project procured under a public sector Private Finance Initiative (PFI) or Public Private Partnerships (PPPs) contract are irrevocably committed through the execution of unconditional contracts. It is normally evidenced by the draw-down of funding for the project to commence development and construction activities.

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

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

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

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

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

Bovis Lend Lease (BLL) continued

Definitions continued

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

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

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

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

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

Integrated Development Businesses (IDB)

Key Financial Results

	Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002	December 2003	June 2003
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Asia Pacific								
Delfin Lend Lease	173.5	126.9	40.3	32.4	28.0	23.4	330.3	283.2
Lend Lease Development	23.3	16.0	10.1	8.1	7.8	6.8	313.6	254.9
	196.8	142.9	50.4	40.5	35.8	30.2	643.9	538.1
Americas								
Actus Lend Lease ¹	156.5	131.5	8.8	(11.8)	4.1	(5.2)	105.8	63.6
Other Projects		2.0	(1.8)		(1.0)		16.0	11.7
	156.5	133.5	7.0	(11.8)	3.1	(5.2)	121.8	75.3
Europe								
Healthcare ¹	9.5	5.2	(17.4)	(10.6)	(11.8)	(7.3)		
Defence ¹			0.3	(7.3)	0.2	(5.1)		
Retail	4.5	9.5	(0.8)	2.3	(0.6)	1.5		
Other	6.7	9.0	(3.6)	(21.3)	(2.3)	(15.0)		
	20.7	23.7	(21.5)	(36.9)	(14.5)	(25.9)	225.3	208.2
Total	374.0	300.1	35.9	(8.2)	24.4	(0.9)	991.0	821.6

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

Asia Pacific

Delfin Lend Lease

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

The increase in operating profit after tax of \$4.6 million from \$23.4 million in the period ended December 2002 to \$28.0 million in the period ended December 2003 reflects an increased level of sales by volume and price, particularly in south-east Queensland. Included within the December 2002 result is \$11.2 million profit after tax from the sale of the North Lakes project to our joint venture partner. Excluding the North Lakes profit in December 2002, the December 2003 result represents a \$15.8 million increase over the corresponding period for the prior year.

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

	December 2003	December 2002 ³
Number of trading projects	22	21
Number of residential lots settled during the financial period	2,209	1,641
Gross sales value of residential lots settled during the period ¹	\$242.5m	\$141.7m
Pre-sales (sold but not yet settled at the end of the period) ²	\$284.8m	\$188.9m

¹ Sales revenue reflects gross revenue from projects including revenue in joint venture projects.

² Pre-sales represent contracts entered into prior to December 2003 which have not settled and therefore do not form part of operating profit in the current period. These sales are expected to settle in future financial periods.

³ The December 2002 result includes sales from the North Lakes project until the date of its disposal.

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

Integrated Development Businesses (IDB) continued

Asia Pacific continued

Delfin Lend Lease continued

	As at December 2003	As at June 2003
Sales Backlog (number of lots) ¹		
Zoned	32,900	34,500
Unzoned ²	16,000	- ³
Total number of lots	48,900	34,500

1 Sales Backlog includes the total number of lots in both Company owned and joint venture projects.

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

3 There is no comparative for 30 June 2003 as all Delfin Lend Lease projects had zoning approvals at that time.

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

Region	No of Projects	Zoned Backlog (No of Lots)	Average Project Life Remaining
South-east Queensland	7	13,200	9 years
Melbourne	6	8,400	7 years
Sydney	4	7,100	11 years
South Australia, Northern Territory, Far North Queensland	5	4,200	5 years
Total	22	32,900	

New projects secured during the period:

- Celebration
A development agreement was executed to develop approximately 16,000 lots plus a town centre and mixed precincts at a 2,000 hectare site in the Brisbane/Gold Coast corridor over the next 25 years. Subject to the necessary government approvals, construction is expected to commence within three years. This project is included in unzoned sales Backlog.
- Waterford
Agreements have been secured with individual landowners to consolidate a 115-hectare site south of Brisbane into 1,200 lots over a five-year period. The project is subject to local government approvals and is expected to commence within two years. This project is included in zoned Sales Backlog.
- ComLand
A share sale agreement was executed on 22 January 2004 with the Commonwealth Government for the acquisition of ComLand Limited for \$165 million. ComLand was the landowner and 50% development partner with Delfin Lend Lease on the St Marys (Sydney) and Edgewater (Melbourne) projects. Sales Backlog of approximately 6,000 lots is already reflected in the Delfin Lend Lease zoned Backlog lots analysis. Settlement is expected by mid-2004.

Key highlights for the Delfin Lend Lease business during the period:

- The Quay at Varsity Cove
Construction commenced on the first stage of the medium density development at the Varsity Lakes project on Queensland's Gold Coast. Development of The Quay is being undertaken by Delfin Lend Lease and will feature 143 apartments and terrace homes on a three hectare waterfront site. All stage one units have been pre-sold.
- Mawson Lakes Town Centre
Stage one of the town centre in the mixed-use retail/commercial precinct was opened at the Mawson Lakes community project in Adelaide, which is a joint venture with the Government of South Australia.
- Caroline Springs Town Centre
Construction of the retail centre within the town centre at the Caroline Springs master planned community in Melbourne has commenced and is expected to be completed prior to the end of the 2004 calendar year.

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

Integrated Development Businesses (IDB) continued

Asia Pacific continued

Lend Lease Development

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

Lend Lease Development is currently involved in seven large urban residential development projects: four in Sydney; one in Melbourne; and two in south-east Queensland. Two established projects in Sydney; Jacksons Landing and Olympic Village/Newington, are predominantly residential developments but include commercial, industrial and retail precincts. The development at Victoria Harbour in Melbourne is a waterfront regeneration project and will include residential, commercial and retail precincts. A further project, St Patricks, is a smaller, premium residential project in Sydney. Lend Lease Development is also engaged in three non residential development projects.

The Lend Lease Development profit after tax for the period ended December 2003 includes \$6.1 million from residential projects in Sydney.

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

	December 2003	December 2002
Number of projects	7	4
Number of residential lots/exchanged during the period ¹	124	238
Revenue from residential lots/dwellings sold ²	\$137.8m	\$91.9m
Pre-sales on committed projects (revenue not brought to account) ³	\$78.4m	\$155.0m

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

² Sales revenue reflects gross sales from projects including sales from joint venture projects. These projects are equity accounted in the Lend Lease Consolidated results. Operating revenue (\$33.5 million in the six months ended 31 December 2003) is determined after equity accounting the Lend Lease Development interest in joint ventures.

³ Pre-sales represent contracts entered into prior to December 2003. These sales do not form part of operating profit in the current period as the projects are not yet 50% complete. The decline in pre-sales between December 2002 and December 2003 reflects the timing of the release of new products to the market.

Sales Backlog (number of lots/dwellings) as at December 2003 was 5,880. This represents an increase of 580 lots from the total Backlog lots/dwellings at 30 June 2003 of 5,300. The portfolio of projects that comprise Sales Backlog at December 2003 is as follows:

Project	Backlog (no of lots/dwellings)	Project Life Remaining
Olympic Village/Newington, Sydney	520	3 years
Jacksons Landing, Sydney	550	3 years
Victoria Harbour, Melbourne	2,270	19 years
St Patricks, Sydney	120	4 years
Rouse Hill, Sydney	1,510	9 years
Hyatt Coolum, Queensland	530	7 years
Twin Waters, Queensland	380	7 years
Total	5,880	

Lend Lease Development is also involved in three non residential projects:

Project	Investment/Inventory as at December 2003 \$m	Investment/Inventory as at June 2003 \$m	Status
Fox Retail and Entertainment Precinct, Sydney	4.6	5.0	Continue to review options
Darling Park Stage III, Sydney	20.8	15.0	Continue to review options
Hickson Road	-	-	Completion March 2004

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

Integrated Development Businesses (IDB) continued

Asia Pacific continued

Lend Lease Development continued

The major new projects secured during the period were:

- Rouse Hill
Lend Lease Development has entered into a joint venture with General Property Trust (GPT) to develop the Rouse Hill Regional Centre in Sydney's north-west corridor, valued at over \$1 billion. Lend Lease Development holds a 51% interest and GPT holds a 49% interest in the joint venture. The Project Delivery Agreement was signed in October 2003 with our partners, The Department of Infrastructure, Planning and Natural Resources and Landcom. A master plan development application was submitted on 19 November 2003. The master plan includes a regional mixed-use town centre which will include a full range of retail, entertainment, community, commercial and leisure. Over 1,500 residential lots/dwellings will be developed to create an environmentally and socially sustainable community.
- Twin Waters Resort
Lend Lease Development, in a joint venture with GPT, acquired the Twin Waters Resort and surrounding land on 31 October 2003. The acquisition price was \$41 million. Lend Lease Development holds a 51% interest and GPT holds a 49% interest in the project. Design and planning of Stage one of the Twin Waters Resort residential development has commenced. The project is forecast to deliver 380 lots/dwellings to be sold over seven years.
- Hyatt Coolum
Lend Lease Development acquired the Hyatt Regency Coolum and surrounding land for \$31.1 million on 22 September 2003. Design and planning of the first precinct, the Ambassador Precinct, has commenced. The project is forecast to deliver 530 lots/dwellings to be sold over seven years.

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

Integrated Development Businesses (IDB) continued

Americas

Overview of Businesses

In the US, IDB is conducted primarily through Actus Lend Lease. In addition, the US business has one development project in San Francisco.

Actus Lend Lease

The business involves major privatisation and other construction services for the military. The primary focus of Actus Lend Lease is the privatised military housing programme for all branches of the US military. Revenue and operating profit for the period ended December 2003 reflects the fact that financial close was reached on the Fort Campbell privatisation project in December 2003.

Operating profit after tax and minority interest of \$4.1 million in the period ended December 2003 represents a \$9.3 million increase over the net losses of \$5.2 million after tax in the period ended December 2002. This is primarily attributable to the fee income from the privatisation projects and the development fee recognised on Fort Campbell.

New Work Secured (NWS) and Backlog GPM

	Opening Backlog at June 2003 \$m	Foreign Exchange Adjustment \$m	New Work Secured (GPM) to December 2003 \$m	Realised GPM to December 2003 \$m	Closing Backlog GPM at December 2003 ¹ \$m
Projects in operational status (secured)	54.7	1.5	55.6	(23.7)	88.1
Projects in preferred bidder status (awarded)	65.7	4.1	251.0		320.8
Total	120.4	5.6	306.6	(23.7)	408.9

¹ Backlog GPM disclosed represents ten years' Backlog from facilities management.

Privatisation Projects

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

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

¹ Over the initial development period of the project

Major new projects awarded during the period included:

– Army RCI, Hawaii

In August 2003, Actus Lend Lease was selected preferred bidder for the Army RCI Hawaii project, the largest military housing privatisation project for the US Department of Defence, and has begun work in conjunction with the Army on the Community Development Management Plan (CDMP). The CDMP is expected to be completed in the first half of 2004 and the project is expected to reach financial close towards the end of the 2004 calendar year.

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

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

Integrated Development Businesses (IDB) continued

Americas continued

Overview of Businesses continued

Actus Lend Lease continued

Privatisation Projects continued

- Hickam AFB
In October 2003, the US Air Force selected Actus Lend Lease as the preferred bidder developer for this project. Actus Lend Lease and the US Air Force are currently working together to finalise the contract. The project is expected to reach financial close during 2004.

The Hickam Housing Privatisation Initiative Project involves the building and renovation of 1,300 homes, involving an expenditure of approximately US\$200 million (A\$362 million) over the first five years.
- Fort Drum
Actus Lend Lease was selected as the preferred bidder on the Fort Drum project in December 2003. The project is expected to reach financial close in 2005.

The Fort Drum project includes the building and renovation of 3,500 homes with an expenditure of approximately US\$250 million (A\$453 million) over the first five years.

Military Construction Projects (MILCON)

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

Other

Piers Development Project, San Francisco

The only development project in the Americas is The Piers on the San Francisco waterfront. Lend Lease currently holds a 52% interest in the San Francisco Cruise Terminal joint venture. This venture has an exclusive right to negotiate with the Port of San Francisco to develop Piers 30–32. The project will be a mixed-use development with the construction of the residential portion expected to commence during the second half of the financial year. Capitalised costs of US\$8.5 million (A\$11.9) million relating to this project are included in inventory as at December 2003.

The loss after tax of \$1.0 million in the period to December 2003 for Other Projects represents costs incurred during the period relating to other IDB opportunities which are no longer being pursued. These costs are not recurring.

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

Integrated Development Businesses (IDB) continued

Europe

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

The operating loss after tax of \$14.5 million for the period ended December 2003 represents an improvement of \$11.4 million over the corresponding period ended December 2002. The prior period loss of \$25.9 million included a charge for a provision in respect of the Shell Centre project (\$10.5 million after tax) following the refusal of planning permission for the development.

The GPM in relation to construction services provided in respect of the PPP projects is included in BLL's profit after tax.

Healthcare

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

The operating loss after tax includes bid costs of \$9.7 million (pre tax) written off in the half year.

Construction Backlog GPM on secured PPP projects is included within BLL Backlog GPM. In addition, Backlog GPM associated with projects at preferred bidder stage is shown on Page 6.

During the period Burnley Hospital reached financial close. This project will provide a newly constructed hospital wing comprising a 170-bed inpatient accommodation, a renal unit and an outpatients department. The concession period of the project is 30 years. On 15 January 2004, Havering Hospital reached financial close. This project will provide a new 859-bed acute care hospital for Barking, Havering and Redbridge Hospitals NHS Trust, together with the provision of a full range of non-clinical services, including a managed equipment service, under a 36-year concession agreement.

Defence

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

In November 2003, Debut South West Limited, a joint venture between Lend Lease and Babcock International Group plc, was appointed preferred bidder to undertake the South West Regional Prime contract. The contract has a capital value of approximately \$1.3 billion, of which the construction value is approximately \$640 million. The contract will include a wide range of activities from the construction of jetties to dredging channels and a variety of multi-site construction projects for the three divisions of the armed forces in the south west of England. The contract is expected to reach financial close by April 2004.

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

Backlog GPM associated with projects at preferred bidder stage is shown on page 6.

Other

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

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

Integrated Development Businesses (IDB) continued

Europe continued

Public Private Partnership (PPP) Project Summary

The status of current PPP projects as at 31 December 2003 was:

	Construction Revenue \$m ¹	Facilities Management Revenue Backlog \$m ²	Committed Equity \$m ⁸	Current Status	End Date
Healthcare					
Calderdale Hospital (UK)	228.1 ³	49.6	1.8	operational	May 2031
Worcester Hospital (UK)	218.4 ³	100.5	4.2	operational	Dec 2031
Hexham Hospital (UK)	73.0 ³	19.4	1.8	operational	Apr 2033
Burnley Hospital (UK)	71.1	6.6	2.6	under construction	Jun 2033
Brescia Hospital (Italy)	39.4		4.5	under construction	Jun 2021
Roehampton Hospital (UK)	142.3	4.7		under construction	Dec 2034
Havering Hospital (UK)	519.9	48.3		under construction	Jan 2040
Manchester Hospital (UK)	828.6	63.5		preferred bidder	Sep 2038
Leeds Hospital (UK)	453.5	121.3		preferred bidder	Mar 2037
Defence					
SLAM (UK) ^{4,5,7}	1,194.8			under construction	2009
South West Regional Prime (UK) ^{6,7}	643.0			preferred bidder	2011
Education					
Newcastle Schools (UK)	118.4	36.2	5.0	under construction	Mar 2029
Lincoln Schools (UK)	46.2	14.7	2.9	under construction	Sep 2032
Lillian Bayliss School (UK)	34.4	10.5	2.1	under construction	Aug 2029
Cork Maritime (Ireland)	76.9	22.3	6.0	under construction	Aug 2029
Other					
Treasury 1 (UK)	301.6 ³	60.9	11.3	operational	Aug 2037
Treasury 2 (UK)	387.7	76.6	10.2	under construction	Aug 2037
	5,377.3	635.1	52.4		

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

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

3 Construction phase of these projects has been completed.

4 The Single Living Accommodation Modernisation (SLAM) project has no predetermined end date; it is expected to run off over seven years.

5 SLAM involves building, refurbishing and maintaining the living accommodation at military bases across the United Kingdom.

The project is being delivered by Debut Services Limited, a joint venture between BLL and Babcock International Group plc.

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

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

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

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

Integrated Development Businesses (IDB) continued

Europe continued

Urban Regeneration

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

Project	Highlights	Inventory as at December 2003 \$m	Inventory as at June 2003 \$m	Expected Profit
Greenwich Peninsula, London	<ul style="list-style-type: none"> - A Lend Lease joint venture with Quintain Estates & Development plc has an agreement with English Partnerships giving it exclusive rights to develop the Greenwich Peninsula in London, some 190 acres. - Under the agreement the joint venture entity, Meridian Delta Limited (MDL), will lease 43 acres incorporating the Millennium Dome and surrounding areas from English Partnerships. MDL will concurrently issue a lease to the Anschutz Entertainment Group (AEG) for 9.5 acres in which AEG will, subject to planning consent, build and manage a world-class sports and leisure arena. - MDL will be granted land management rights to the remaining 147 acres of the Peninsula. - On 16 April 2003, the London Borough of Greenwich unanimously resolved to grant planning permission, subject to the negotiation of Section 106 agreements. The Mayor of London has subsequently indicated that he will not direct refusal following agreement on a variety of issues including the provision of affordable housing. Also, the central government has agreed not to call in the planning application. 	15.4	13.8	2006 – 2018

Retail and Other

Lend Lease's ongoing development activities are structured to have a low risk profile by 1) operating on a fee-for-work basis with incentive fees linked to increases in asset value, or 2) where Lend Lease uses its own capital to secure sites, only commencing development when an exit strategy is supported via pre-commitments from investors and the project is significantly pre-let.

Project	Highlights	Inventory as at December 2003 \$m	Inventory as at June 2003 \$m	Expected Profit
Chapelfield, Norwich	<ul style="list-style-type: none"> - Conditionally forward sold to Capital Shopping Centres plc (CSC). - In December 2002, CSC contributed £40 million of funding towards development, in line with the contract. - A second payment will be made following practical completion (expected in 2005), subject to the centre being 70% let by value and area. - The centre is 52% pre-let by value and 62% pre-let by area. 	216.9	163.1	2005/06

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

Integrated Development Businesses (IDB) continued

Europe continued

Retail and Other continued

Project	Highlights	Inventory as at December 2003 \$m	Inventory as at June 2003 \$m	Expected Profit
Tres Aguas	<ul style="list-style-type: none"> Lend Lease sold its 50% interest in Tres Aguas on 13 June 2003. In addition to the proceeds received, there is an earn-out payment to be calculated for the calendar years ending December 2003 and December 2004. The earn-out is capped at €2.1 million (A\$3.9 million) and is subject to the trading of the centre. 	-	-	2003/04 and 2004/05
Shell Centre	<ul style="list-style-type: none"> As noted in the June 2003 MD&A, the Company is appealing against the refusal of planning permission on the Shell Centre project in London, and management believes there is a reasonable chance of success. All costs associated with this project were fully provided at 30 June 2003. There were no material developments on the project during the period. 	-	-	-

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

Real Estate Investments (REI)

Strategic Review

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

Lend Lease has made good progress in exiting the US real estate investments markets (both equity and debt).

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

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

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

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

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

Real Estate Investments (REI) continued

Key Financial Results

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

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	December	December	December	December	December	December	December	December
	2003	2002	2003	2002	2003	2002	2003	2002
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Continuing Operations								
Australia	46.6	47.6	17.7	23.2	14.0	16.5	161.3	143.2
Asia	5.9	2.4	1.6	3.3	0.5	2.3	95.4	90.1
Europe	38.2	49.8	33.1	32.6	23.0	23.2	716.3	754.4
North America ¹	10.3	12.6	12.7	13.1	7.4	7.7	365.5	336.5
Total continuing operations	101.0	112.4	65.1	72.2	44.9	49.7	1,338.5	1,324.2
Discontinuing Operations								
Australia	1.0	1.8	0.3	1.0	0.3	0.8	0.7	1.9
Asia	1.0	15.2	(5.1)	(6.1)	(5.3)	(4.7)	34.4	69.2
Europe	10.6	14.2	1.3	0.8	1.3	0.9	159.4	176.2
North America	621.6	325.9	32.3	55.3	19.3	45.3	349.3	1,416.2
Total discontinuing operations	634.2	357.1	28.8	51.0	15.6	42.3	543.8	1,663.5
Total	735.2	469.5	93.9	123.2	60.5	92.0	1,882.3	2,987.7

1 Refers to investment income from King of Prussia.

Operating profit after tax from continuing operations decreased to \$44.9 million for the period ended December 2003 compared to \$49.7 million for the period ended December 2002, largely due to a decrease in the profit after tax of \$2.5 million in Australia resulting from a restructure of the GPT management fee, and a decrease in profit after tax of \$1.8 million in Asia due to a write-down in APIC.

Operating profit after tax from discontinuing operations decreased \$26.7 million to \$15.6 million for the period ended December 2003 compared to \$42.3 million for the period ended December 2002, as the sales of the discontinued businesses were completed.

Assets Under Management (AUM) for Continuing Operations

	Australia A\$b	Asia US\$b	Europe £b	December	June
				2003 Total A\$b	2003 Total A\$b
AUM at beginning of financial period¹	11.6	0.6	1.9	17.4	16.2
Additions	1.3			1.3	3.0
Reductions	(0.3)			(0.3)	(2.2)
Net revaluations	0.5		0.2	0.9	0.7
Exchange loss ²				(0.4)	(0.3)
AUM at end of financial period	13.1	0.6	2.1	18.9	17.4
Period movement in AUM	%	12.9	-	10.5	8.6
AUM at end of financial period (excluding foreign currency impacts)	A\$b	13.1	1.0	5.2	19.3
Exchange loss ²			(0.2)	(0.2)	(0.3)
AUM at end of financial period	A\$b	13.1	0.8	5.0	18.9
Period movement in continuing AUM (excluding currency changes)	%			10.9	9.2

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

2 Exchange gains/(loss) arise from exchange rate movements in translating AUM in local currency between June 2003 and December 2003.

AUM for continuing operations increased \$1.5 billion (8.6%) to \$18.9 billion as at December 2003, compared to \$17.4 billion as at June 2003. Excluding the impact of currency changes, AUM for continuing operations increased 10.9%.

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

Real Estate Investments (REI) continued

North America

Operating Businesses

The REI North America business consisted of real estate equity investment, real estate debt services and certain related real estate activities. As at December 2003, Lend Lease had sold or exited all REI businesses with the exception of the VEF series, Lend Lease Rosen and Rosen Consulting Group.

All North America businesses have been included in discontinuing operations with the exception of King of Prussia.

Co-investments

Lend Lease is to exit its US co-investments over time. Accordingly, income earned on co-investments for the period ended December 2003 is categorised as discontinuing operations and constitutes investment income in the Analysis of Results table following.

Analysis of Results

	Operating Income ²		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax	
	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002
	\$m	\$m	\$m	\$m	\$m	\$m
Continuing Operations						
Investment income – King of Prussia ¹	10.3	12.6	10.3	13.5	5.9	7.9
Gain/(loss) on FX hedge			2.4	(0.4)	1.5	(0.2)
Total continuing operations	10.3	12.6	12.7	13.1	7.4	7.7
Discontinuing Operations						
Businesses sold by December 2003	65.7	311.0	9.9	44.1	6.6	37.8
Businesses yet to be sold:						
VEF series co-mingled fund platform	4.9	8.1	1.7	4.7	1.2	4.0
Lend Lease Rosen	9.9	4.5	3.9	(0.4)	2.0	(0.5)
Rosen Consulting	2.9	4.0	1.0	0.7	0.3	0.3
Investment income	8.8	6.1	8.8	5.9	5.2	3.5
Equity accounted profits	0.3	1.8	0.3	1.8	0.2	1.1
Gain/(Loss) on FX hedge			6.7	(1.5)	3.8	(0.9)
Total discontinuing operations	92.5	335.5	32.3	55.3	19.3	45.3
Total	102.8	348.1	45.0	68.4	26.7	53.0

1 The decline in investment income from King of Prussia relates to asset management income transferred to Morgan Stanley.

2 Includes items not classified as revenue and excludes the proceeds from the sale of businesses.

Review of Discontinuing Operations

Businesses Sold by 31 December 2003

As noted on page 19, a number of businesses were sold during the period. These businesses contributed a profit after tax of \$6.6 million until the effective sale date. In addition, a net profit/loss after tax of \$0.5 million was realised on the sale of these businesses.

Businesses Yet to be Sold

Lend Lease continues to explore options to exit its investment in the VEF Series (VEF), Lend Lease Rosen and the Rosen Consulting Group. These businesses contributed a profit after tax of \$3.5 million during the six months ended December 2003.

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

Real Estate Investments (REI) continued

North America continued

Review of Discontinuing Operations continued

Investment Income

The table below summarises investment income earned for the period ended December 2003.

	December 2003		December 2002	
	US\$m	A\$m	US\$m	A\$m
Investment Management – Equity				
Yarmouth Capital Partners II (YCP II)			(4.9)	(8.8)
VEF series	1.5	2.2	3.0	5.4
Other	0.5	0.7	1.0	1.9
	2.0	2.9	(0.9)	(1.5)
Commercial Credit				
Asset management portfolios	2.7	3.9	3.9	7.0
Debt management funds and portfolios	0.9	1.3	0.3	0.6
High yield debt funds	0.5	0.7		
	4.1	5.9	4.2	7.6
Total investment income	6.1	8.8	3.3	6.1

Total investment income increased US\$2.8 million to US\$6.1 million for the period ended December 2003, compared to US\$3.3 million for the period ended December 2002. The movement is largely attributable to the prior period, including US\$4.9 million of provisions in respect of the YCP II portfolio, partly offset by higher income from the VEF series.

Equity Accounted Profits

Equity accounted profits for the period ended December 2003 represent income earned on Lend Lease's 50% interest in Lend Lease Hyperion (A\$0.3 million). Lend Lease sold its 50% interest in Lend Lease Hyperion on 12 August 2003.

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

Real Estate Investments (REI) continued

Australia

The REI Australia business is conducted through two business units:

- Investment Management, which includes the management of General Property Trust (GPT), Australian Prime Property Fund (APPF) and the 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 joint owners.

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

Analysis of Results

	Continuing Operations		Discontinuing Operations		Combined	
	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002
	\$m	\$m	\$m	\$m	\$m	\$m
Operational Revenues						
Annuity fees	31.5	33.6	1.0	1.8	32.5	35.4
Transaction fees	11.4	11.4			11.4	11.4
Total operational revenues	42.9	45.0	1.0	1.8	43.9	46.8
Expenses	(27.9)	(24.4)	(0.7)	(0.8)	(28.6)	(25.2)
Net operating income	15.0	20.6	0.3	1.0	15.3	21.6
Investment income	2.0	1.8			2.0	1.8
Equity accounted profits	0.7	0.8			0.7	0.8
Profit before tax	17.7	23.2	0.3	1.0	18.0	24.2
Income tax expense	(3.7)	(6.7)		(0.2)	(3.7)	(6.9)
Profit after tax	14.0	16.5	0.3	0.8	14.3	17.3

Review of Continuing Operations

Profit before tax from continuing operations decreased \$5.5 million to \$17.7 million for the period ended December 2003, compared to \$23.2 million for the period ended December 2002. The movement is principally due to a change in the basis upon which the GPT management fee is calculated, offset by an increase in fees resulting from the growth in assets under management and lower expenses in December 2002 due to a one-off reversal of expense accruals for which no liability remained.

Profit after tax decreased \$2.5 million to \$14.0 million for the period ended December 2003 compared to \$16.5 million for the period ended December 2002. The effective tax rate decreased from 29% to 21% due to the reversal of a prior year over provision for income tax.

Assets Under Management (AUM)

	AUM at	Additions	Reductions	Net Revaluations	AUM at
	June 2003				December 2003
	\$b	\$b	\$b	\$b	\$b
General Property Trust (including Darling Park Trust)	6.9	0.6		0.2	7.7
Australian Prime Property Fund	1.7	0.7		0.1	2.5
Real Estate Securities	2.9		(0.2)	0.2	2.9
Other accounts	0.1		(0.1)		
Total continuing operations AUM	11.6	1.3	(0.3)	0.5	13.1
Period movement in AUM	%				12.9%

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

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

Real Estate Investments (REI) continued

Australia continued

Review of Continuing Operations continued

Net Operating Income

Net operating income decreased \$5.6 million to \$15.0 million for the period ended December 2003 compared to \$20.6 million for the period ended December 2002. Key movements in net operating income are analysed below.

Annuity Fees

The movement in annuity fees is summarised as follows:

	December 2003 \$m	December 2002 \$m	Increase/ (Decrease) \$m
Asset management fees	20.1	24.0	(3.9)
Retail property management fees	8.4	8.6	(0.2)
Investment management fees	3.0	1.0	2.0
Total annuity fees	31.5	33.6	(2.1)

Asset management fees decreased \$3.9 million to \$20.1 million for the period ended December 2003. The decrease in asset management fees is mainly attributable to a restructure of the management fee received from GPT, offset by an increase in fees due to growth in AUM for GPT and APPF.

The basis upon which the GPT management fee is calculated was changed with effect from 1 January 2003. The new fee structure includes a base management fee of 0.40% per annum of gross assets (previously 0.55%) and the introduction of a performance fee component calculated six-monthly as 5% of the total return above the S&P/ASX Property 200 Accumulation Index. The total fee is capped at 0.55% per annum. Lend Lease did not earn a performance fee from GPT for the period ended December 2003.

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 decreased by \$0.2 million to \$8.4 million for the period ended December 2003 from \$8.6 million in the period ended December 2002. This decline is due to the sale of two shopping centres in the prior year, offset by higher rental from other centres due to increased floor space. Lend Lease managed 18 shopping centres as at December 2003.

Investment management fees relate to the Real Estate Securities business. The increase of \$2.0 million in investment management fees is largely attributable to a retrospective fee adjustment impacting the six months ended December 2002, together with increased fees resulting from the growth in assets under management (AUM). Real Estate Securities AUM increased by \$0.4 billion (16%) to \$2.9 billion as at December 2003, compared to \$2.5 billion as at December 2002.

Transaction Fees

Transaction fees totalled \$11.4 million for the period ended December 2003 (December 2002: \$11.4 million). The variances in individual components are summarised as follows:

	December 2003 \$m	December 2002 \$m	Increase/ (Decrease) \$m
Leasing fees	4.2	5.2	(1.0)
Development management fees	6.2	5.6	0.6
Incentive fees	0.8	0.3	0.5
Other fees and income	0.2	0.3	(0.1)
Total transaction fees	11.4	11.4	-

Leasing fees decreased \$1.0 million due to reduced development leasing activity in centres managed on behalf of GPT and APPF and a decline in operational activity resulting from the sale of two shopping centres.

Development management fees increased \$0.6 million to \$6.2 million in the period ended December 2003. 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 (\$210 million) and Melbourne Central (\$226 million). In addition, fees have been generated from the \$228 million Rouse Hill development being carried out, in conjunction with Lend Lease Development, and the \$178 million redevelopment of Macarthur Square.

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

Real Estate Investments (REI) continued

Australia continued

Review of Continuing Operations continued

Net Operating Income continued

Transaction Fees continued

Incentive Fees

Incentive fees increased by \$0.5 million to \$0.8 million in the period ended December 2003 from \$0.3 million for the period ended December 2002. The increase is mainly attributable to fees earned on the sale of assets by Real Estate Partners I.

Expenses

Total expenses from continuing operations increased \$3.5 million to \$27.9 million for the period ended December 2003 compared to \$24.4 million for the period ended December 2002. The increase is attributable to the reversal, in December 2002, of expense accruals from prior periods for which no liability remained.

Other Income

Investment Income

Investment income increased \$0.2 million to \$2.0 million for the year ended December 2003 compared to \$1.8 million in December 2002 and relates to income earned on Lend Lease's co-investments in APPF (December 2003: \$1.7 million; December 2002: \$1.5 million) and Real Estate Partners I (December 2003: \$0.3 million, December 2002: \$0.2 million).

Equity Accounted Profits/(Losses)

Equity accounted profit for DPT Operators was largely in line with the previous year at \$0.7 million.

Funds Investment Performance

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

Investment	Region	Before Fees Leveraged Returns %			AUM ¹ \$b
		1 year	3 years	5 years	
Private Equity Flagship Funds at 30 June 2003					
Australian Prime Property Fund – Retail	Australia	17.8	13.7	12.3	1.7
Australian Prime Property Fund – Commercial	Australia	9.1	8.8	8.6	0.6
Australian Prime Property Fund – Industrial	Australia	12.2	12.4	11.7	0.2
Industry Benchmark at 30 June 2003					
Mercers Diversified Property Fund Index	Australia	11.9	10.8	10.7	
Real Estate Securities	Australia	9.9	12.9	10.4	2.9
Industry Benchmark at 30 June 2003					
S&P/ASX 200 Property Accumulation Index	Australia	8.8	11.7	9.3	
Public Equity Flagship Funds at 30 June 2003					
General Property Trust	Australia	8.2	10.3	7.1	7.7
Industry Benchmark at 30 June 2003					
S&P/ASX 200 LPT Property Accumulation Index	Australia	8.8	11.7	9.3	

¹ Represents amounts included in Assets Under Management (AUM) at June 2003 of \$13.1 billion.

Review of Discontinuing Operations - LLUSOT

Profit after tax from discontinuing operations decreased \$0.5 million to \$0.3 million for the period ended December 2003 due to the termination of the LLUSOT management rights on 18 November 2003.

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

Real Estate Investments (REI) continued

Asia

In May 2003, Lend Lease announced its intention to discontinue its distressed debt business in Asia and focus its efforts on the management of APIC, which Lend Lease is transforming into a retail asset fund. APIC remains an integral part of Lend Lease's real estate investments business in the Asia Pacific region.

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

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

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

Analysis of Result

	Continuing Operations		Discontinuing Operations		Combined	
	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002
	\$m	\$m	\$m	\$m	\$m	\$m
Operational Revenues						
Annuity fees	3.6	6.0	7.0	8.3	10.6	14.3
Transaction fees	0.7	3.2	0.9	6.5	1.6	9.7
Total operational revenues	4.3	9.2	7.9	14.8	12.2	24.0
Expenses	(1.4)	(5.9)	(6.2)	(14.8)	(7.6)	(20.7)
Net operating income	2.9	3.3	1.7		4.6	3.3
Investment income	(1.3)		(6.8)	(6.1)	(8.1)	(6.1)
Profit/(loss) before tax	1.6	3.3	(5.1)	(6.1)	(3.5)	(2.8)
Income tax expense/(benefit) ¹	(1.1)	(1.0)	(0.2)	1.6	(1.3)	0.6
Profit/(loss) after tax before minorities	0.5	2.3	(5.3)	(4.5)	(4.8)	(2.2)
Minority interests				(0.2)		(0.2)
Profit/(loss) after tax	0.5	2.3	(5.3)	(4.7)	(4.8)	(2.4)

¹ Income tax expense is net of the tax benefit on the profit/(loss) on the foreign exchange hedge.

Review of Continuing Operations

Profit After Tax

Profit after tax from continuing operations decreased \$1.8 million to \$0.5 million for the period ended December 2003, compared to a profit after tax of \$2.3 million for the period ended December 2002. The variance was largely attributable to a reduction in investment income (\$1.3 million) and reduction in net operating income (\$0.4 million).

Annuity Fees

Annuity fees relate to advisory fees for the management of APIC and property management fees derived from major retail assets owned by APIC II. Annuity fees decreased \$2.4 million (40%) to \$3.6 million for the period ended December 2003 compared to \$6.0 million for the period ended December 2002. The decline was attributable to a decrease in the advisory fees from 1% to 0.85% relating to the management of APIC and a change in the advisory fee structure of APIC II, effective from July 2003. The new fee structure is more closely aligned to the performance of the underlying assets.

Investment Income

The loss of \$1.3 million in investment income from continuing operations relates to a provision taken against the carrying value of the Group's co-investment in APIC.

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

Real Estate Investments (REI) continued

Asia continued

Review of Continuing Operations continued

Profit After Tax continued

Transaction Fees

Transaction fees decreased by \$2.5 million from \$3.2 million in the period ended December 2002 to \$0.7 million for the period ended December 2003, due to the following;

- Development management fees of \$0.2 million (December 2002: \$1.4 million) were derived from the management of development activities on assets owned by APIC II. The decrease in fees of \$1.2 million for the period was due to the completion of the Parkway Parade project in the six-months ended December 2002.
- Leasing fees, which represent income generated from leasing of retail and office space at Parkway Parade, declined \$1.0 million to \$0.5 million in the period ended December 2003. This was largely attributable to the completion of the Parkway Parade project in the previous year.

Expenses

Total expenses from continuing operations decreased \$4.5 million to \$1.4 million for the period ended December 2003 compared to \$5.9 million for the period ended December 2002 due to a reduction in overhead expenses of \$1.6 million. In addition, the period ended December 2002 included costs associated with the REI (HK) Global Properties team of \$2.4 million, and expenditure incurred to establish a joint venture with Tokyu before negotiations were suspended in August 2002 (\$0.5 million).

Assets Under Management (AUM) - Continuing Operations

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

AUM from continuing operations is consistent with June 2003.

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

Real Estate Investments (REI) continued

Europe

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

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

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

Analysis of Results

	Continuing Operations			Discontinuing Operations			Combined	
	December 2003	December 2002	December 2003	December 2003	December 2002	December 2003	December 2002	
	Retail	Retail	Retail	Other	Other	Other	Total	Total
	£m	£m	A\$m	£m	£m	A\$m	A\$m	A\$m
Annuity fees	3.4	3.2	8.4	4.3	3.8	10.4	18.8	19.8
Transaction fees	0.1	1.8	0.1		1.2		0.1	8.5
Total operational revenues	3.5	5.0	8.5	4.3	5.0	10.4	18.9	28.3
Expenses	(2.5)	(4.8)	(5.7)	(4.4)	(4.1)	(10.6)	(16.3)	(25.2)
Net operating income/(loss)	1.0	0.2	2.8	(0.1)	0.9	(0.2)	2.6	3.1
Investment income	11.7	11.9	28.4	0.6	(0.6)	1.5	29.9	31.9
Equity accounted (loss)/profit	(0.2)	0.1	(0.5)				(0.5)	0.6
Profit before tax (before FX hedge)	12.5	12.2	30.7	0.5	0.3	1.3	32.0	35.6
Gain/(loss) on FX hedge			2.4				2.4	(2.2)
Profit before tax (after FX hedge)	12.5	12.2	33.1	0.5	0.3	1.3	34.4	33.4
Income tax expense ¹	(3.8)	(3.6)	(10.1)				(10.1)	(9.3)
Profit after tax	8.7	8.6	23.0	0.5	0.3	1.3	24.3	24.1

¹ The income tax expense is net of tax effect on FX hedge gain/loss.

Review of Continuing Operations

Profit after tax from continuing operations increased £0.1 million to £8.7 million for the period ended December 2003 compared to £8.6 million for the period ended December 2002. The key movements are explained on the next page.

Annuity Fees

Annuity fees for the period ended December 2003 increased by £0.2 million due to an increase in property management fees, which are generated from the management of retail centres (Bluewater, Overgate and Touchwood).

Transaction Fees

There were no significant transaction fees in the period. The period ended December 2002 included incentive fees of £1.6 million derived from the sale of LLRP performance fee shares.

Expenses

Expenses decreased £2.3 million to £2.5 million for the period ended December 2003. The cost reductions are due to savings identified as part of the Group-wide repositioning project undertaken last year.

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

Real Estate Investments (REI) continued

Europe continued

Review of Continuing Operations continued

Investment Income

	Period ended December 2003 Total £m	Period ended December 2002 Total £m
Bluewater, Kent	10.1	9.2
Lend Lease Retail Partnership	0.6	0.7
Lend Lease Overgate Partnership	1.0	1.1
Other		0.9
Total investment income	11.7	11.9

Bluewater investment income of £10.1 million relates to the Net Operating Income (NOI) of Bluewater derived from Lend Lease's 30% direct interest (30% at December 2002). The increased NOI is due to the improved performance of the retail centre.

Lend Lease Retail Partnership (LLRP) investment income of £0.6 million relates to Lend Lease's 4.95% (December 2002: 5.02%) interest in LLRP, which owns 25% of Bluewater and 100% of Touchwood. The income has decreased as a result of Lend Lease selling participations in the LLRP.

Lend Lease Overgate Partnership (LLOP) investment income of £0.9 million relates to Lend Lease's 30.7% interest in LLOP.

Equity Accounted (Losses)/Profits

Equity accounted losses of £0.2 million relate to Lend Lease's effective 40% interest in Generali Lend Lease (GLL), a joint venture with the Assicurazioni Generali S.P.A. group.

Assets Under Management (AUM) - Continuing Operations

	AUM at June 2003 £b	Additions £b	Reductions £b	Net Revaluations £b	AUM at December 2003 £b
Investment Management – Equity					
Bluewater	1.4			0.2	1.6
Joint ventures/separate accounts ¹	0.2				0.2
Overgate ²	0.1				0.1
Touchwood ³	0.2				0.2
Total continuing operations AUM	1.9			0.2	2.1
Period movement in AUM					10.5%

¹ Includes Lend Lease's proportional share of AUM from Generali Lend Lease.

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 4.95% indirect interest in the Touchwood Solihull retail centre via the Lend Lease Retail Partnership.

AUM from continuing operations increased £0.2 billion (10.5%) to £2.1 billion for the period ended December 2003, compared to £1.9 billion at June 2003 largely due to a revaluation of the Bluewater Shopping Centre.

Review of Discontinuing Operations

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

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

Real Estate Investments (REI) continued

Europe continued

Review of Discontinuing Operations continued

Investments and Co-investments

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

Investment	Region	Investment December 2003 \$m	Future Commitments \$m	Total Commitments \$m	Indicative Fund Liquidation	Lend Lease Share of Income December 2003 ¹ \$m
Continuing						
Asia Pacific						
Australian Prime Property Fund	Australia	51.3		51.3	Open ended	1.7
Real Estate Partners I	Australia	1.4	0.5	1.9	2005	0.3
Real Estate Partners II	Australia		10.0	10.0	2010	
Asia Pacific Investment Company	Asia	34.1		34.1	2005	(1.3)
Asia Pacific Investment Company II	Asia	36.7		36.7	2009	
Total Asia Pacific		123.5	10.5	134.0		0.7
Europe						
Lend Lease Retail Partnership	Europe	57.8	1.8	59.6	2011 ²	1.5
Lend Lease Overgate Partnership	Europe	106.6	4.3	110.9	2008 ³	2.4
Total Europe		164.4	6.1	170.5		3.9
Total Continuing		287.9	16.6	304.5		4.6
Discontinuing						
Asia Pacific						
Lend Lease International Distressed Debt Fund	Asia	31.4	94.9	126.3	2008	(6.8)
Europe						
Lend Lease European Real Estate Securities SICAV	Europe	19.4		19.4	Open ended	
Total Europe		19.4	-	19.4		
North America						
Value Enhancement Fund III	US	12.8		12.8	2005	0.5
Value Enhancement Fund IV	US	21.1		21.1	2007	(0.3)
Value Enhancement Fund V	US	34.8	13.9	48.7	2008	2.0
YCP II	US	38.6		38.6	2004	
Lend Lease Real Estate Securities	US	17.1		17.1	Open ended	0.6
Other	Various	36.4		36.4	Various	6.0
Total North America		160.8	13.9	174.7		8.8
Global						
Lend Lease Global Properties Fund SICAF	Global	138.9		138.9	2009	
Total discontinuing		350.5	108.8	459.3		2.0
Total co-investments		638.4	125.4	763.8		6.6

1 Represents Lend Lease's share of income earned before tax.

2 Fund life is periodically extended for four years, unless investors elect otherwise. If fully extended the Lend Lease Retail Partnership has a 40-year life ending in 2039.

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

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

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

Other

Non-Core Investments

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

The segment results for the period ended December 2003 are summarised below:

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	December 2003	December 2002	December 2003	December 2002	December 2003	December 2002	December 2003	June 2003
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Asia Pacific								
IBMGSA - trading result	1.9	5.3	1.9	5.3	1.4	3.8	80.0	59.8
IBMGSA - profit on sale	157.3		111.5		79.7			
Capital Services		0.9	4.0	0.7	6.3	0.1	6.0	4.0
	159.2	6.2	117.4	6.0	87.4	3.9	86.0	63.8
Europe								
Capital Services		14.0	(0.7)	7.7	(0.5)	4.7	11.4	16.1
	159.2	20.2	116.7	13.7	86.9	8.6	97.4	79.9

Asia Pacific

The profit after tax for the period ended December 2003 of \$87.4 million principally includes the profit on sale of IBMGSA of \$79.7 million, a write-back of a provision of \$4.1 million, and a tax benefit of \$2.2 million from the write-back of an overprovision of prior years' tax.

Europe

European investments in Capital Services comprises Chelverton and THI. The interest in the retail development site in Katowice, Poland was sold in January 2004. Lend Lease has a 14.3% interest in THI which is in administration. Provisions were raised in prior periods to cover exposures to this investment. No distributions were received from the THI liquidator during the period.

Total assets of \$11.4 million relate to loans to the Chelverton Group.

Corporate

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

	Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	December 2003	December 2002	December 2003	December 2002	December 2003	June 2003
	\$m	\$m	\$m	\$m	\$m	\$m
Group Services	(23.6)	(44.6)	(9.6)	(21.8)	263.1	256.6
Amortisation	(26.6)	(43.8)	(26.6)	(43.8)		
Group Treasury	6.4	(1.2)	8.3	3.0	989.3	342.6
Total Corporate	(43.8)	(89.6)	(27.9)	(62.6)	1,252.4	599.2

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

Other continued

Corporate continued

Group Services

Corporate overheads are made up as follows:

	December 2003 \$m	December 2002 \$m
Gross corporate costs	40.3	70.0
Less: Recoveries from operating businesses	(11.6)	(19.4)
Lend Lease Foundation	(3.6)	(2.9)
Other	(1.5)	(3.1)
Operating loss before tax	23.6	44.6
Operating loss after tax	9.6	21.8

Gross corporate overheads decreased by \$29.7 million to \$40.3 million for the period ended December 2003. This decrease is a result of overhead savings achieved from the review undertaken last year. The December 2002 corporate costs of \$70.0 million include costs relating to Global RES and Global REI businesses previously disclosed in the segment results of those businesses. In the period ended December 2003, these costs have either been eliminated or are included as part of the gross corporate costs of \$40.3 million.

Savings in gross corporate costs were partly offset by lower recharges to the Group's operating businesses of \$11.6 million compared to \$19.4 million in the prior financial period. This recharge represents a charge for superannuation costs to the Asia Pacific region of \$7.0 million and a charge of \$4.6 million to the BLL business for costs incurred by the Global Markets Group.

Group Amortisation

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

	Book Value		Amortisation Charge	
	December 2003 \$m	December 2002 \$m	December 2003 \$m	December 2002 \$m
	Management Agreements	57.8	662.2	1.5
Goodwill	624.9	853.4	20.2	35.4
Other intangible assets	2.7	4.3	0.1	0.9
Total Group amortisation			21.8	46.1
FX hedge allocation (after tax)			4.8	(2.3)
Amortisation adjusted for FX hedge allocation			26.6	43.8

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

Group Treasury

	Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Total Assets	
	December 2003 \$m	December 2002 \$m	December 2003 \$m	December 2002 \$m	December 2003 \$m	June 2003 \$m
	Interest revenue	26.6	22.2	18.9	15.3	
Interest expense and borrowing costs	(27.9)	(36.7)	(16.0)	(21.6)		
Net hedge benefit	7.7	13.3	5.4	9.3		
Total Group Treasury	6.4	(1.2)	8.3	3.0	989.3	342.6

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

Other continued

Group Treasury continued

Interest Revenue and Borrowing Costs

Interest revenue increased by \$4.4 million to \$26.6 million (before tax) in the period ended December 2003. This was due to higher average cash balances during the period resulting from the sale of US REI businesses net of outflows from the share buyback. Throughout the year excess cash over working capital requirements was consolidated in Australia. This cash was invested in commercial paper and bank bills issued by financial intermediaries and corporates with an acceptable investment grade credit rating. The credit risk on cash investments is managed through a Board-approved credit policy. As most of the interest revenue is earned in Australia, there is minimal impact from foreign exchange movements.

Borrowing costs primarily relate to interest on the \$500 million medium term note due July 2005 and the US\$250 million guaranteed notes due June 2005. Borrowing costs for the period ended December 2003 were \$27.9 million before tax (December 2002: \$36.7 million). The change for the period comprises interest costs of \$22.0 million (December 2002: \$37.5million) and foreign exchange hedge loss allocation of \$5.9 million (December 2002: \$0.8 million gain). The reduction in the net interest expense and borrowing costs of \$8.8 million from December 2002 to December 2003 is due to a combination of lower US dollar interest rates and higher capitalised interest of \$3.2 million (December 2002: \$1.3 million). Interest rates on the Group's borrowings are 70% fixed and 30% floating.

Net Hedge Benefit

A net hedge benefit of \$7.7 million before tax, was earned on the Group's hedging of foreign exchange exposures of non Australian dollar denominated cash flows (2002: gain of \$13.3 million before tax). This decline is primarily due to lower US dollar hedges as US dollars were repatriated to Australia following the sale of the US REI businesses.

The impact of foreign exchange movements included in the Statement of Financial Performance of \$23.5 million differs from net hedge benefits disclosed above, as gains and losses arising on hedging the Group's foreign denominated earnings (being a gain of \$10.2 million) are allocated to the relevant business unit's operating profit before tax, interest and amortisation. Further, the foreign exchange gains on transactions of \$5.6 million are allocated to the relevant business unit segment result.

Lend Lease uses forward foreign exchange contracts to hedge a proportion of forecast revenue and GPM from foreign operations. This hedging results in the following proportions of foreign denominated earnings being hedged:

	Year Ending 30 June 2004		Year Ending 30 June 2005		Year Ending 30 June 2006	
	Portion Hedged	Average Rate of Underlying Hedge Contracts	Portion Hedged	Average Rate of Underlying Hedge Contracts	Portion Hedged	Average Rate of Underlying Hedge Contracts
Foreign Operations						
US dollars	70-100%	0.51 cents	50-70%	0.56 cents	10-30%	0.62 cents
Pounds Sterling	70-100%	0.39 cents	50-70%	0.38 cents	10-30%	0.39 cents
Euro	70-100%	0.59 cents	50-70%	0.57 cents	-	-

Due to the appreciation of the Australian dollar in the current year, a foreign exchange gain of \$10.2 million before tax (December 2002: loss of A\$2.7 million) was recognised in the period ended December 2003. This gain is allocated to the regional business unit's operating profit before tax, interest and amortisation.

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

The impact of foreign exchange movements on the Group's net assets is detailed in the Foreign Currency Translation Reserve (FCTR). In the period ended December 2003 the negative movement in foreign exchange reduced reserves by \$11.3 million.

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

Other continued

Credit Strength

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

		December 2003	June 2003
Cash ¹	A\$m	1,456.8	867.2
Borrowings	A\$m	853.2	884.6
Total equity	A\$m	2,838.4	3,007.6
Borrowings to total assets	%	12.5	11.8
Gross debt to shareholders' equity	%	30.1	29.4
Net (cash)/debt to shareholders' equity	%	(21.3)	0.6
Debt to shareholders' equity plus debt	%	23.1	22.7
Credit rating (Standard and Poors/Moody's)	Rating	BBB/Baa2	A-/Baa2
Interest coverage ²	Times	8.7	7.7
Interest coverage target	Times	6.0	6.0

¹ In addition to closing cash balance of \$1,456.8 million, an amount of \$129.0 million is held in short term investments.

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

Statement of Financial Position (Balance Sheet)

Balance Sheet Summary by Major Component

	December 2003 \$m	June 2003 \$m	Increase/ (Decrease) \$m
Cash	1,456.8	867.2	589.6
Real estate development inventories	1,058.0	937.0	121.0
Real estate development investments	114.8	98.9	15.9
Real estate co-investments	604.1	694.7	(90.6)
Other real estate investments	240.4	611.8	(371.4)
Other investments	129.3	42.8	86.5
Goodwill	624.9	700.0	(75.1)
Management agreements	57.8	432.9	(375.1)
Borrowings	(853.2)	(884.6)	31.4
Other net assets/(liabilities) ¹	(594.5)	(493.1)	(101.4)
Shareholders' equity	2,838.4	3,007.6	(169.2)

¹ Other net assets/liabilities includes trade creditors and receivables, provisions and other liabilities including deferred tax, dividend payment offset by profit for the period.

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

Other continued

Cash Flow

The following table summarises the major cash flows for the period ended December 2003.

	Period ended December 2003 \$m	Year ended June 2003 \$m
Cash at the beginning of financial period	867.2	904.1
Summary of major cash transactions during financial period		
Operating Activities		
Net receipts in the course of operations ¹	321.1	265.2
Net property development (expenditure)/receipts	(34.9)	28.9
Tax payments	(46.8)	(145.6)
Net interest received/(paid)	3.5	(26.3)
Other operating cash receipts	34.0	69.2
Net cash provided by operating activities	276.9	191.4
Other Cash Transactions		
Payment of dividends	(85.9)	(80.9)
Share buyback	(310.7)	(15.2)
Proceeds from sale of REI businesses ²	516.5	
Net REI co-investments	(3.4)	(166.5)
Net mortgage loans, tax credit properties and commercial paper investments receipts/(payments)	58.7	(69.6)
Proceeds on sale of investments (including IBMGSA)	88.8	159.4
Net borrowing proceeds	134.5	
Purchase of controlled entities	(53.0)	(38.2)
Other net cash flows	(32.8)	(17.3)
Net cash generated/(deployed) for financial period	589.6	(36.9)
Closing cash balance at end of financial period ³	1,456.8	867.2

¹ Net receipts in the course of operations for the period ended 31 December 2003 included an amount of \$134.9 million (December 2002: \$43.9 million) being an inflow relating to the Group's foreign exchange hedging activities including hedging of receivables, payables, revenue, expenses and intercompany transactions and loans.

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

³ In addition to closing cash balance of \$1,456.8 million, an amount of \$129.0 million is held in short term investments.

Change in Basis of Reporting - Half Year December 2002 Comparatives

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

The above changes have no impact on the total Group results. The changes do however impact the classification of profit between businesses. To assist users of the Financial Statements and MD&A, a reconciliation highlighting the impact of the changes on profit is set out overleaf.

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

Other continued

Change in Basis of Reporting - Half Year December 2002 Comparatives continued

	Profit Before Tax			Profit After Tax		
	Previous Basis of Reporting December	Current Basis of Reporting December	Movement \$m	Previous Basis of Reporting December	Current Basis of Reporting December	Movement \$m
	2002 \$m	2002 \$m		2002 \$m	2002 \$m	
Bovis Lend Lease						
Asia Pacific	20.7	22.3	1.6	11.6	13.1	1.5
Americas	37.9	42.8	4.9	23.1	25.6	2.5
Europe	44.3	54.3	10.0	30.0	37.3	7.3
Global Markets ⁶	5.7		(5.7)	4.1		(4.1)
Global Management	(13.0)		13.0	(9.1)		9.1
	95.6	119.4	23.8 ¹	59.7	76.0	16.3
Integrated Business Development						
Asia Pacific						
Delfin Lend Lease	32.3	32.4	0.1	23.4	23.4	
Lend Lease Development	8.1	8.1		6.8	6.8	
Americas						
Actus Lend Lease	(12.4)	(11.8)	0.6	(5.6)	(5.2)	0.4
Other						
Europe						
PFI's	(30.9)		30.9	(21.7)		21.7
Healthcare		(10.6)	(10.6)		(7.3)	(7.3)
Defence		(7.3)	(7.3)		(5.1)	(5.1)
Retail		2.3	2.3		1.5	1.5
Other		(21.3)	(21.3)		(15.0)	(15.0)
Global Management	(5.0)		5.0	(3.5)		3.5
	(7.9)	(8.2)	(0.3) ²	(0.6)	(0.9)	(0.3)
Real Estate Investments						
Continuing Operations						
Australia and Pacific	23.8	23.2	(0.6)	16.9	16.5	(0.4)
Asia	2.9	3.3	0.4	2.1	2.3	0.2
Europe	28.7	32.6	3.9	19.9	23.2	3.3
North America	13.1	13.1		7.7	7.7	
Discontinuing Operations						
Australia and Pacific	1.0	1.0		0.8	0.8	
Asia	(6.1)	(6.1)		(4.7)	(4.7)	
Europe	2.5	0.8	(1.7)	2.5	0.9	(1.6)
North America	51.5	55.3	3.8	43.1	45.3	2.2
Global Management	(4.2)		4.2	(2.5)		2.5
	113.2	123.2	10.0 ³	85.8	92.0	6.2
Non-Core Investments						
Asia Pacific						
IBMGSA	5.3	5.3		3.8	3.8	
Capital Services	0.7	0.7		0.1	0.1	
Europe						
Capital Services	7.7	7.7		4.7	4.7	
Americas						
	13.7	13.7	-	8.6	8.6	-
Corporate						
Net Corporate Overheads	(11.1)	(44.6)	(33.5)	0.4	(21.8)	(22.2)
Amortisation						
Continued Operations	(23.6)	(23.6)		(23.6)	(23.6)	
Discontinued Operations	(20.2)	(20.2)		(20.2)	(20.2)	
Group Treasury	(1.2)	(1.2)		3.0	3.0	
	(56.1)	(89.6)	(33.5) ⁴	(40.4)	(62.6)	(22.2)
Total	158.5	158.5	- ⁵	113.1	113.1	-

Footnotes are located on next page.

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

Other continued

Change In Basis of Reporting - Half Year December 2002 Comparatives continued

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

- 1 The Bovis Lend Lease December 2002 profit before tax has increased \$23.8 million. This increase reflects the transfer of corporate overhead costs to the corporate business unit (\$17.4 million) and the transfer of consulting profit of \$6.4 million from Integrated Development Business (IDB), consistent with the disclosure adopted at 30 June 2003.
- 2 The IDB loss has increased \$0.3 million. This increased loss is due to net transfer of corporate costs (\$6.1 million) to the corporate business segment, offset by the transfer of consulting profit (\$6.4 million) to Bovis Lend Lease.
- 3 The Real Estate Investments profit before tax increased \$10.0 million, due to the transfer of corporate cost to the corporate business segment.
- 4 The corporate business segment loss has increased by \$33.5 million, due to the transfer of corporate cost from the business units discussed above.
- 5 There is no change to the Group profit before or after tax due to the above adjustments.
- 6 The Global Markets profit before tax of \$5.7 million has been allocated across to Asia Pacific \$3.5 million; Americas \$1.8 million; and Europe \$0.4 million.