

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

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

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

The following discussion and analysis is based on the Group's Consolidated Financial Statements for the half year ended 31 December 2005 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.

As announced on 8 July 2005, Lend Lease reorganised its management structure to align with its long-term growth strategy. The Group is now organised into three global business lines: Retail and Communities; Investment Management; and Project Management, Construction and Private Finance Initiatives (PFIs).

Retail and Communities comprises retail property management, asset management and retail development across all regions, Delfin Lend Lease, Lend Lease Development and Senior Living in Australia, Actus Lend Lease in America and the Communities business, including The Crosby Group, in Europe. Investment Management's principal business is real estate investment management in Asia Pacific, Europe and America. Project Management, Construction and PFIs comprises Bovis Lend Lease which provides construction, project management and design services across all regions, and the PFI business in Europe.

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

Segment Results Summary

The financial results for the period ended December 2005 are summarised below. The financial results of the Group are presented in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS).

	Operating Revenue		EBITDA		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax ^{1,2}	
	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m
Retail and Communities	1,452.7	365.2	139.6	79.9	138.1	77.2	98.1	50.1
Investment Management	80.6	113.1	108.9	87.0	108.9	86.6	79.7	56.2
Project Management, Construction and PFIs	4,526.6	3,752.8	52.9	108.1	50.9	103.1	37.6	75.7
Total Operating	6,059.9	4,231.1	301.4	275.0	297.9	266.9	215.4	182.0
Corporate								
Net Corporate	4.2	10.0	(27.5)	(10.9)	(29.0)	(10.9)	(24.1)	(8.7)
Group Amortisation					(1.5)	(0.9)	(1.5)	(0.9)
Group Treasury	11.4	26.5	2.8	(1.7)	(20.0)	5.7	(13.2)	6.9
Total Corporate	15.6	36.5	(24.7)	(12.6)	(50.5)	(6.1)	(38.8)	(2.7)
Total Group results before one-off items	6,075.5	4,267.6	276.7	262.4	247.4	260.8	176.6	179.3
One-off items ²		39.4		(40.6)		(44.8)		(38.6)
Total Group	6,075.5	4,307.0	276.7	221.8	247.4	216.0	176.6	140.7

1 Operating profit after tax is after deducting the amount attributable to outside equity interests of \$1.6 million (December 2004: \$4.0 million).

2 One-off items of \$38.6 million after tax in the period ended December 2004 relates to restructuring costs and costs incurred in relation to the proposed merger with General Property Trust (GPT) and the net impact of exit from Real Estate Investment businesses.

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

Overview continued

Operating Profit After Tax

The Group's operating profit after tax of \$176.6 million for the half year ended December 2005 is an increase of \$35.9 million from the period ended December 2004. However, the December 2004 result included a loss after tax related to one-off items of \$38.6 million.

Excluding one-off items the Group's operating profit after tax has decreased by \$2.7 million.

The Retail and Communities business profit after tax increased \$48.0 million to \$98.1 million for the period ended December 2005. The Retail business profit after tax increased by \$27.3 million to \$33.0 million, principally due to the successful completion and sale of the Chapelfield shopping centre in Norwich, UK. The Communities business increased its profit after tax by \$20.7 million to \$65.1 million in the period ended December 2005. A key contributor to this growth was the Americas where Actus Lend Lease's profit after tax increased by \$11.3 million and a profit after tax of \$9.8 million was recognised on the sale of the Gotham 80/20 housing project.

The Communities business includes the results of the Crosby Group which was acquired in July 2005. The Crosby Group's underlying performance is in line with management expectations, however due to the fair value adjustment recognised at the time of acquisition, it made no significant contribution to reported profit in the period.

Investment Management profit after tax increased by \$23.5 million to \$79.7 million for the period ended December 2005. This increase was largely due to a foreign exchange provision of \$18.9 million in the period ended December 2004 following the implementation of AIFRS.

Excluding this provision underlying profit after tax increased by \$4.6 million despite the loss of income relating to the management of GPT. This increase was due to increased earnings from the Group's \$392.8 million investment in the Australian Prime Property Fund (APPF) and the strong underlying performance of the Group's retail investments.

Project Management, Construction and PFIs profit after tax declined by \$38.1 million to \$37.6 million for the period ended December 2005. Bovis Lend Lease Asia Pacific and Bovis Lend Lease America increased their reported profit after tax by \$5.4 million and \$0.3 million respectively, however this was more than offset by a decline in profit after tax of \$33.2 million in Bovis Lend Lease Europe due to margin deterioration on two key projects in the UK. PFIs profit after tax decreased by \$10.6 million in the period ended December 2005 due to the prior year including bid cost recoveries relating to UK PFI healthcare projects.

Net Corporate costs increased by \$15.4 million to \$24.1 million in the period ended December 2005. A reduction in corporate costs in the period was masked by the previous financial period including the benefit of using the Group's employee benefit vehicles to pay some employee expenses. Following the introduction of AIFRS any cost associated with the use of the Group's employee benefit vehicles will be reflected in the Group's result.

The Group Treasury profit after tax declined by \$20.1 million to a loss after tax of \$13.2 million due to the interest on the Bluewater lease (which had been capitalised up until March 2005) being expensed in the period and lower interest revenue in the period as a result of lower average cash balances.

Communities Backlog

Lend Lease is involved in the development of large-scale urban communities in the UK, the US and Australia. The number of lots/units under management is a key guide to future profitability and growth potential of the Communities businesses. Lots/units under management is relevant for Delfin Lend Lease, Lend Lease Development, Senior Living, Actus Lend Lease, The Crosby Group and the Communities business in the UK. The Backlog for each business unit is summarised in the table below.

	Number of Projects	December 2005 Backlog (No. of Lots/Units)	June 2005 Backlog (No. of Lots/Units)	Average Project Life Remaining (Years)
Delfin Lend Lease (Australia)	19	29,300	27,500	1-12
Lend Lease Development (Australia)	9	7,950	8,100	2-14
Senior Living (Australia) ¹	13	541	533	1-5
Actus Lend Lease (Americas) ²	8	30,200	27,700	46-51
The Crosby Group (UK)	18	4,450		1-5
Other Communities UK	2	11,000	10,000	20
Total zoned lots under management	69	83,441	73,833	
Delfin Lend Lease unzoned	4	41,800	41,800	
Other Communities UK unzoned	1	5,000	5,000	
Total zoned and unzoned lots under management	74	130,241	120,633	

1 Senior Living number of units relates to potential units on existing sites.

2 Includes projects at preferred bidder stage.

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

Overview continued

Property Investments

As at December 2005 Lend Lease held property investments, directly or indirectly, with a market value of \$2.8 billion. The Group's investment in property interests generated income of \$66.5 million during the period ended December 2005, which is approximately 20% of the Group's profit before tax from operating businesses.

These interests include:

- A 30% direct interest in the Bluewater shopping centre in the UK plus a 1% indirect holding through the Lend Lease Retail Partnership;
- A 50% interest in the King of Prussia shopping centre in North America;
- An investment in APPF;
- Investments held in property funds in Asia Pacific, Europe and North America; and
- Other investments, primarily the International Distressed Debt Fund and the Global Fund.

	Lend Lease Share of Income ¹ December 2005 \$m	Market Value ² December 2005 \$m	Market Value ³ June 2005 \$m
Bluewater ³	32.0	1,398.5	1,318.3
King of Prussia	13.3	382.3	358.4
APPF	10.9	392.8	363.3
Other Retail Investments	8.5	415.1	297.3
Other Investments	1.8	252.9	332.2
Total direct and indirect investments	66.5	2,841.6	2,669.5

1 Represents Lend Lease's share of income earned before tax from properties and investments, excluding allocation of hedge gains/losses and any adjustments to investment carrying value.

2 Market value is the gross value based on independent valuations.

3 The independent market valuation at 31 December 2005 of Bluewater was £1,985.8 million (\$4,661.5 million). Bluewater is treated as inventory in the Financial Statements and therefore is reflected at cost of \$536.5 million.

Assets Under Management

The Investment Management businesses in Asia Pacific and Europe earn management fees from assets under management (AUM).

The following table summarises AUM of the Investment Management businesses.

	Asia Pacific \$b	Europe £b	Total December 2005 \$b	Total June 2005 \$b
AUM at the end of the financial period (excluding foreign currency impacts) ¹	5.4	3.0	12.6	12.0
Exchange movement ²			(0.2)	(0.4)
AUM at the end of the financial period	5.4	3.0	12.4	11.6
Movement in AUM	-	-	6.9%	(40.8%)

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

2 Exchange movement arising from translating AUM in local currency between June 2005 and December 2005.

AUM increased by \$0.8 billion to \$12.4 billion as at December 2005 primarily due to property acquisitions by APPF and the revaluation increment on Bluewater in the period ended December 2005.

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

Overview continued

Backlog GPM Summary

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

The following table provides a summary of New Work Secured for the period ended December 2005 and the Backlog GPM as at that date.

	Opening Backlog GPM at June 2005 ¹ \$m	Foreign Exchange and Other Adjustments ² \$m	New Work Secured GPM to December 2005 \$m	Backlog GPM Realised to December 2005 \$m	Closing Backlog GPM at December 2005 \$m
Bovis Lend Lease	681.3	(84.3)	232.1	(199.3)	629.8
PFI (facilities management)	57.7		4.0	(3.7)	58.0
Actus Lend Lease	363.5	(49.8)	47.9	(33.7)	327.9
Total secured backlog GPM	1,102.5	(134.1)	284.0	(236.7)	1,015.7
Projects in preferred bidder status (awarded)	65.2	(6.1)	17.0		76.1
Total backlog GPM	1,167.7	(140.2)	301.0	(236.7)	1,091.8

- 1 Actus Lend Lease's opening backlog GPM balance has been adjusted from the June 2005 MD&A to reallocate the Piers Development Project, San Francisco which is now included in the Communities business in the US.
 - 2 Foreign exchange and other adjustments includes exchange rate movements from the prior year's effective hedge rate to the current period rate and margin deterioration on two key projects in the UK.
- Total backlog GPM, including backlog GPM for projects at preferred bidder status, decreased by 6% from \$1,167.7 million at June 2005 to \$1,091.8 million at December 2005. This decline is principally due to foreign exchange movements.
 - Bovis Lend Lease backlog GPM increased in both Asia Pacific and the Americas (before foreign exchange movements) but these increases were offset by a decline in backlog in the UK and foreign exchange movements.
 - Total New Work Secured, including projects at preferred bidder status, decreased by \$150.5 million to \$301.0 million in the period ended December 2005 compared to \$451.5 million in the period ended December 2004. The prior period included two large PFI projects and the renewal of the BP Global Alliance.

Shareholder Returns (before one-off items)

		December 2005	December 2004
EBITDA	\$m	276.7	262.4
Earnings per share (EPS) ¹ (After deducting treasury shares) ²	cents	48.0	49.1
Earnings per share (EPS) ¹ (Before deducting treasury shares) ²	cents	44.2	45.0
Return on equity (ROE) for the period	%	6.3	6.6

- 1 Ratios included in the table above are calculated with reference to operating profit after tax before one-off items.
- 2 Represents unallocated Lend Lease shares which are held by employee benefit vehicles, including employee share plans, which Lend Lease sponsors. The value reflects the original historical cost to the Lend Lease Group.

Dividends

An interim fully franked dividend of 30 cents per share for the period ended December 2005 will be paid on 14 March 2006 (28 cents per share unfranked in December 2004). On a half year basis this represents a payout ratio of 72% of operating profit after tax excluding any unrealised revaluations of investments.

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

Retail and Communities

Key Financial Results

The financial results of the Retail and Communities businesses are shown in the following table.

	Revenue		EBITDA		Operating Profit/(Loss) Before Tax ¹		Operating Profit/(Loss) After Tax	
	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m
Retail								
Asia Pacific	14.3	21.3	2.7	5.6	2.5	5.4	1.8	4.3
Europe	653.2	9.9	44.4	2.3	44.4	2.3	31.2	1.4
Total Retail	667.5	31.2	47.1	7.9	46.9	7.7	33.0	5.7
Communities								
Asia Pacific								
Delfin Lend Lease	131.4	120.5	42.7	35.5	42.1	34.9	30.5	24.6
Lend Lease Development	271.9	96.8	17.0	29.4	16.3	28.4	9.5	14.5
Senior Living	17.1	13.5	3.4	3.2	2.8	2.8	1.7	1.9
Total Asia Pacific	420.4	230.8	63.1	68.1	61.2	66.1	41.7	41.0
Americas								
Actus Lend Lease	190.0	95.5	10.8	(3.4)	10.7	(3.9)	9.5	(1.8)
Other Communities Americas	13.0	2.0	13.7	2.4	13.7	2.4	10.4	1.9
Total Americas	203.0	97.5	24.5	(1.0)	24.4	(1.5)	19.9	0.1
Europe								
Crosby Group	156.6		3.4		2.9		1.8	
Other Communities UK	5.2	5.7	1.5	4.9	2.7	4.9	1.7	3.3
Total Europe	161.8	5.7	4.9	4.9	5.6	4.9	3.5	3.3
Total Communities	785.2	334.0	92.5	72.0	91.2	69.5	65.1	44.4
Total Retail & Communities	1,452.7	365.2	139.6	79.9	138.1	77.2	98.1	50.1

¹ Operating profit/(loss) after tax is after deducting the amount attributable to outside equity interests of \$1.5 million (December 2004: \$4.0 million).

Retail - Asia Pacific

Overview of the Businesses

In Asia Pacific, Lend Lease provides retail property management and development management services to six retail centres in Australia on behalf of APPF and other joint owners. In Singapore it provides these services for one retail centre on behalf of Asia Pacific Investment Company No.2 (APIC II). A list of the centres managed by Lend Lease is shown below.

Project	Region	Gross Lettable Area (GLA) sqm
Cairns Central	North Queensland	52,700
Caneland Central	North Queensland	39,000
Sunshine Plaza	Queensland	73,000
Erina Fair	New South Wales	107,100
Macarthur Square	New South Wales	97,700
Greensborough Plaza	Victoria	57,600
Parkway Parade	Singapore	49,700
Total		476,800

The total value of assets managed by Lend Lease in Asia Pacific as at December 2005 was \$3.1 billion.

The operating profit after tax for the period ended December 2005 was \$1.8 million compared to \$4.3 million for the period ended December 2004. The decline in profit is principally due to the termination of the retail property management agreements relating to those centres wholly-owned by GPT, with effect from 15 August 2005.

Income relating to Lend Lease's retail investments in APPF and APIC II is reported as part of Investment Management.

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

Retail and Communities continued

Retail - Europe

Overview of the Businesses

Lend Lease provides a range of services including retail property management for four centres and development management for a further four centres in the UK. The centres for which these activities are undertaken are listed in the following table.

Project	Gross Lettable Area (GLA) sqm
Bluewater, Kent ¹	148,600
Overgate, Dundee ¹	39,000
Touchwood, Solihull ¹	60,400
Golden Square, Warrington ¹	63,600 ³
Chapelfield, Norwich ²	49,200
Arndale Centre, Eastbourne ²	55,700 ³
Cameron Toll Centre, Edinburgh ²	34,800 ³
Park Place, Croydon ²	82,700 ³
Total	534,000

1 Lend Lease provides both retail property management and development management services to these retail centres.

2 Lend Lease provides development management services to these retail centres.

3 Gross Lettable Area shown for these centres is upon completion of development.

Operating profit after tax for the period ended December 2005 was \$31.2 million compared to \$1.4 million in the period ended December 2004, an increase of \$29.8 million. The increase is principally due to the profit after tax of \$33.3 million on sale of the Chapelfield shopping centre in Norwich, UK which was recognised in the period.

Key highlights from the Group's retail development activities for the period ended December 2005 were:

– Golden Square, Warrington

In May 2004, Lend Lease announced that it had signed a conditional agreement with Performance Shopping Centre Partnership to co-invest in and manage the redevelopment of the Golden Square Centre, Warrington. In February 2005 all pre-conditions to the agreement were achieved triggering Lend Lease's purchase of 50% of the 28,800 square metre centre and the right to manage the 34,800 square metre redevelopment and extension. Construction of the extension commenced in January 2005. The carrying value of development at December 2005 was \$47.3 million (£20.2 million). Lend Lease is expected to invest \$129.0 million (£55.0 million) by the time the redevelopment is completed, which is programmed for mid 2007.

– Park Place, Croydon

In July 2005, Lend Lease announced that it had signed an agreement with Minerva PLC to provide development, asset management and construction management services on the landmark 82,700 square metre Park Place retail development. Under the agreement Lend Lease has a call option to acquire 50% of the centre at market value for a period of up to one year after completion. Currently construction is planned to commence in 2008, and the redevelopment is expected to be completed by late 2011. Discussions with potential anchor tenants are underway and the land assembly process is on programme.

– Performance Retail Limited Partnership

In August 2005, Lend Lease announced that it had invested \$66.7 million (£28.4 million) to acquire a one third interest in the Performance Retail Limited Partnership. The partnership owns the Arndale Centre in Eastbourne, Sussex and the Cameron Toll Centre in Edinburgh, Scotland. Lend Lease is providing development management services to the partnership.

In relation to the Arndale Centre in Eastbourne, Sussex, Lend Lease has commenced concept development for a 19,500 square metre extension to the existing centre. The target construction start date is early 2009, and the redevelopment is expected to be completed in 2011.

In relation to the Cameron Toll Centre in Edinburgh, Scotland, Lend Lease has commenced a review of a 11,100 square metre extension, with the aim of repositioning the centre. Negotiations with potential anchors and tenants have commenced. The target construction start date is mid 2008 and the redevelopment is expected to be completed by late 2009.

– Chapelfield, Norwich

The Chapelfield shopping centre was completed and opened in September 2005. Lend Lease had pre-sold the centre to Capital Shopping Centres PLC for a consideration of \$642.0 million (£273.5 million) resulting in a profit after tax of \$33.3 million (£13.3 million).

Income related to Lend Lease's retail investments in Europe is reported as part of Investment Management. Construction income related to development management activity is reported as part of Project Management, Construction and PFIs.

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

Retail and Communities continued

Communities - Asia Pacific

Overview of the Businesses

The Australian residential development businesses (Delfin Lend Lease, Lend Lease Development and Senior Living) have been operating under one management structure, as Lend Lease Communities, since October 2004.

Delfin Lend Lease

Delfin Lend Lease is focused on the development of large-scale master-planned urban communities in Australia. 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 model as the development and resulting cash flows can be phased according to market conditions and this model also ensures landowners' interests are aligned to those of Delfin Lend Lease in terms of risk and return.

The operating profit after tax for the period ended December 2005 was \$30.5 million. This represents a 24% increase from the period ended December 2004 profit after tax of \$24.6 million. This increase is principally due to the increased number of non-residential land lots settled in the period. Revenue from the sale of non-residential land lots increased from \$6.6 million for the period ended December 2004 to \$42.6 million for the period ended December 2005. Non-residential land sales includes \$19.9 million at Varsity Lakes, principally from the sale of land to the Queensland Government as well as a number of smaller industrial lots.

While the number of residential lots settled declined from 1,563 in the period ended December 2004 to 1,127 in the period ended December 2005, the average sales price per residential lot increased by 7%, from \$136,750 to \$146,500.

Total assets increased by \$73.5 million to \$621.2 million as at December 2005. This increase reflects investment in new projects such as Wilton Parklands and Laurimar Park and on-going development works at existing projects.

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

	December 2005	December 2004
Number of projects	23	19
Number of residential lots settled during the period	1,127	1,563
Gross sales value of residential lots settled during the period ¹	\$165.2m	\$213.8m
Pre-sales (residential lots sold but not settled at the end of the period) ²	\$124.1m	\$180.3m
Total assets ³	\$621.2m	\$547.7m

1 Sales value reflects gross revenue from projects including gross revenue earned from joint venture projects.

2 Pre-sales lots represent contracts entered into prior to December 2005 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 periods.

3 Total assets comparative of \$547.7 million is as at June 2005.

The number of lots under management for Delfin Lend Lease is set out below.

	As at December 2005	As at June 2005
Backlog (number of lots)¹		
Zoned	29,300	27,500
Unzoned	41,800	41,800
Total number of backlog lots	71,100	69,300

1 Backlog includes the total number of lots in both Company owned and joint venture projects. The actual number of lots for any particular project can vary as planning applications are obtained.

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

Retail and Communities continued

Communities Asia Pacific continued

Overview of the Businesses continued

Delfin Lend Lease continued

The net increase in zoned backlog lots of 1,800 reflects the securing of 3,050 lots from the Wilton Parklands and Laurimar Park projects offset by sales during the period.

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

Project	Region	Backlog Lots December 2005	Project Life Remaining
Projects (Zoned)			
Nelsons Ridge	New South Wales	950	6 years
St Marys	New South Wales	5,400	12 years
Holroyd Gardens	New South Wales	30	1 year
Wilton Parklands	New South Wales	1,200	10 years
Forde	Australian Capital Territory	1,000	4 years
Forest Lake ¹	South-East Queensland		1 year
Springfield Lakes	South-East Queensland	9,200	10 years
Varsity Lakes	South-East Queensland	300	4 years
Woodlands (Waterford)	South-East Queensland	1,300	6 years
Forest Gardens	Far-North Queensland	350	7 years
Riverside Gardens	Far-North Queensland	100	1 year
Caroline Springs	Victoria	3,250	9 years
Edgewater	Victoria	650	4 years
Lakeside at Pakenham	Victoria	1,050	5 years
Craigieburn	Victoria	750	4 years
Laurimar Park	Victoria	1,850	10 years
Mawson Lakes	South Australia	1,700	5 years
The Chase	Northern Territory	120	1 year
Fairway Waters	Northern Territory	100	2 years
		29,300	
Projects (Unzoned)			
Yarrabilba	South-East Queensland	23,000	
Tanglewood	South-East Queensland	1,800	
Calderwood	New South Wales	4,000	
Lockerbie	Victoria	13,000	
		41,800	
Total backlog lots		71,100	

¹ Project was substantially completed at December 2005.

Key highlights for Delfin Lend Lease for the period ended December 2005 were:

– St Marys

Sales commenced on the first residential stage at Ropes Crossing in August 2005 with significant interest expressed for the house and land packages offered to market. The NSW Government has agreed on the location of the first public school for St Marys which is scheduled to open in January 2008.

– Wilton Parklands

Delfin Lend Lease entered into a Development Agreement with Bradcorp for a 453 hectares land parcel south of Sydney (1,200 lots). This initial parcel of land has received zoning approval for residential allotments and a golf course. Land sales are expected to commence in the 2007 financial year.

– Varsity Lakes

Varsity Lakes' position as a key business hub for the Gold Coast is reflected in the \$19.9 million of non-residential land sales during the period ended December 2005, including the sale of 8.5 hectares of land to the Queensland Government for the Gold Coast rail corridor and train stations.

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

Retail and Communities continued

Communities Asia Pacific continued

Overview of the Businesses continued

Delfin Lend Lease continued

– Woodlands

Sales commenced during the period ended December 2005 with the opening of a permanent sales centre on site.

– Laurimar Park

Delfin Lend Lease purchased an existing trading project at Laurimar Park (1,850 lots) in December 2005.

– Yarrabilba

The Queensland Government released the Regional Plan for South East Queensland in June 2005 and the draft Mount Lindsay/Northern Beaudesert Plan was released for public comment in October 2005. This draft plan identifies the Yarrabilba project as a preferred area for urban development.

Lend Lease Development

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

Lend Lease Development is currently developing nine residential projects; four in Sydney, one in Melbourne and four in South-East Queensland. In Sydney, Jacksons Landing, Olympic Village/Newington and Rouse Hill are predominantly residential developments but include some commercial, industrial and retail precincts, while St Patricks at Manly, is a niche premium residential project. In Melbourne, Victoria Harbour is a waterfront regeneration project that includes residential, commercial and retail precincts. In South-East Queensland, Twin Waters Resort, Twin Waters Community and Hyatt Cooloom are premium residential projects, with a fourth project in Surfers Paradise that includes mixed-use residential, retail and entertainment precincts. Lend Lease Development also project managed the construction and sale of the Darling Park Stage III commercial building during the period ended December 2005.

Operating profit after tax for the period ended December 2005 was \$9.5 million, a decrease of \$5.0 million on the profit after tax for the period ended December 2004 of \$14.5 million. The Australian operations contributed the entire \$9.5 million profit after tax in the period ended December 2005 compared to \$18.6 million in the prior year period. A significant portion, approximately 80%, of revenue relates to non-residential projects, most significantly the Darling Park Stage III project. The number of residential lots settled declined from 229 for the period ended December 2004 to 117 for the period ended December 2005. This decline is due to the completion of Distillery Hill apartments at Jacksons Landing in the period ended December 2004 which had sales of 151 units. No new building was completed during the period ended December 2005.

In addition, an impairment loss of \$4.2 million after tax relating to Jacksons Landing has been recognised following the introduction of AIFRS which requires the impairment of joint ventures to be assessed using a market discount rate that reflects the risks specific to the investment. This has resulted in a provision of \$4.2 million after tax in the period ended December 2005.

The Group has no current developments in Asia. However, the period ended December 2004 included a loss of \$4.1 million relating to a prior year tax adjustment.

The \$2.0 million increase in total assets to \$455.4 million as at December 2005 reflects the completion of Darling Park Stage III offset by the further construction of Dock 5 at Victoria Harbour and the continued investment in projects such as Hyatt Cooloom, Twin Waters Resort and St Patricks.

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

	December 2005	December 2004
Number of projects	9	9
Number of residential units settled during the period	117	229
Gross sales value from residential lots/dwellings sold and completed ¹	\$64.9m	\$204.4m
Pre-sales (residential units sold but revenue not brought to account) ²	\$222.2m	\$70.8m
Total assets ³	\$455.4m	\$453.4m

1 Sales value reflects gross sales from projects, including sales from joint venture projects.

2 Pre-sales represent contracts entered into prior to December 2005. These sales do not form part of operating profit in the current period, as the projects are not yet complete/settled.

3 Total assets comparative of \$453.4 million is as at June 2005.

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

Retail and Communities continued

Communities Asia Pacific continued

Overview of the Businesses continued

Lend Lease Development continued

The portfolio of Lend Lease Development projects is set out below.

Project	Region	Backlog Lots/Dwellings December 2005	Project Life Remaining
Olympic Village/Newington	New South Wales	250	3 years
Jacksons Landing	New South Wales	550	8 years
St Patricks	New South Wales	125	3 years
Rouse Hill	New South Wales	1,685	14 years
Victoria Harbour	Victoria	2,100	13 years
Hyatt Coolum	South-East Queensland	480	6 years
Twin Waters Resort	South-East Queensland	60	2 years
Twin Waters Community	South-East Queensland	550	2 years
Surfers Paradise	South-East Queensland	2,150	10 years
Total backlog lots		7,950	

Key highlights for Lend Lease Development for the period ended December 2005 were:

– Rouse Hill

Lend Lease Development has a joint venture with GPT to develop the Rouse Hill regional centre in the North-West Corridor of Sydney. Following master plan consent in March 2004 the first stage residential product was released in April 2005.

– Twin Waters Resort

Lend Lease Development has a joint venture with GPT to develop the Twin Waters Resort and surrounding land. In October 2005, the joint venture partners exchanged a contract for the sale of the Twin Waters Resort for \$58 million with settlement expected in the second half of this financial year. The joint venture will continue to own and develop the land adjacent to the resort. Council has approved the residential development comprising 60 dwellings and construction is expected to commence in the second half of this financial year.

– Hyatt Coolum

Lend Lease Development acquired the Hyatt Regency Coolum and surrounding land in September 2003. The first precinct of the project, Visage, comprises 28 detached houses and 12 apartments. Sales on released product have been encouraging. Stage 1 of the Vantage precinct, comprising a 17 lot subdivision was released in January 2005 and is fully sold.

– St Patricks Estate

Lend Lease has a joint venture with the Catholic Church for a residential development at Manly. Council approval for the first two precincts has been obtained with construction expected to commence this financial year and completion expected in 2007. As at December 2005, 22 dwellings have been sold but not settled.

– Darling Park Stage III

Lend Lease Development project managed the construction and sale of Darling Park Stage III, which is a commercial office building (approximately 30,000 square metres) in Sydney. The building achieved practical completion in November 2005.

– Victoria Harbour

Construction continues on Dock 5 at Victoria Harbour and is currently scheduled to complete by December 2006. As at December 2005, 112 units were sold but not settled.

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

Retail and Communities continued

Communities Asia Pacific continued

Overview of the Businesses continued

Senior Living (Retirement by Design)

Retirement by Design provides Lend Lease Communities with a presence in the emerging senior living sector. Retirement by Design has been operating for more than 20 years and manages 1,951 retirement units across 13 operating villages with a focus on independent living units and serviced apartments. Retirement by Design derives its earnings from both development returns on the sale and development of new units as well as ongoing management fees from its villages. Management fees are accrued and generally payment is deferred until residents sell their unit (deferred management fees).

Operating profit after tax for the period ended December 2005 was \$1.7 million, a \$0.2 million decrease on profit after tax for the period ended December 2004 of \$1.9 million.

The following table provides a summary of the dwellings under management and backlog units by region.

State	No. of Villages	Current Units	Backlog Units ¹
Victoria	6	1,117	15
New South Wales	4	488	179
Queensland	2	333	52
South Australia	1	13	75
Delfin sites			220
Total	13	1,951	541

¹ Backlog units represent potential units on existing zoned sites.

Communities - Americas

Overview of the Businesses

In the US the Communities business is conducted primarily through Actus Lend Lease. In addition, the US business includes the Piers Development Project in San Francisco. The Group sold its interest in the Gotham 80/20 housing project in New York in the period ended December 2005.

Actus Lend Lease

The business provides privatisation and construction services for the military. The primary focus of Actus Lend Lease is the privatised military housing programme for all branches of the US military. Operating profit after tax of \$9.5 million for the period ended December 2005 represents a \$11.3 million increase from the \$1.8 million loss after tax and minority interests for the period ended December 2004. The increased profit is due to a development fee recognised at financial close of the Marine Corps Installation project which occurred during the period and higher construction profits as more bases reached the operational / construction phase.

Lend Lease acquired the final 12.5% minority interest stake in Actus Lend Lease, with effect from 1 July 2005. The operating profit after tax in the period ended December 2005 represents Lend Lease's 100% holding in Actus Lend Lease (December 2004: 87.5%).

New Work Secured and Backlog GPM

	Opening Backlog GPM at June 2005 \$m	Foreign Exchange Adjustment \$m	New Work Secured GPM to December 2005 \$m	Backlog GPM realised to December 2005 \$m	Closing Backlog GPM at December 2005 \$m
Projects in operational status (secured) ^{1, 2}	363.5	(49.8)	47.9	(33.7)	327.9
Projects in preferred bidder status (awarded) ^{1, 3}	44.6	(6.1)	(5.9)		32.6
Total backlog GPM	408.1	(55.9)	42.0	(33.7)	360.5

¹ Backlog GPM disclosed includes ten years backlog from facilities management even though the contracts run for periods of up to 50 years.

² Opening backlog GPM has been adjusted from the June 2005 MD&A to reallocate the Piers Development Project, San Francisco which is now included in the Communities business in the US.

³ The negative New Work Secured of \$5.9 million for projects in preferred bidder status reflects \$32.6 million of GPM on projects that were awarded preferred bidder status during the period less \$38.5 million of GPM transferred from preferred bidder to operational projects following financial close.

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

Retail and Communities continued

Communities - Americas continued

Overview of the Businesses continued

Actus Lend Lease continued

New Work Secured and Backlog GPM continued

The backlog GPM as at December 2005 is expected to emerge or be realised over future reporting periods as shown in the table below.

	Six Months June 2006 %	Year Ending June 2007 %	Post June 2007 %	Total %
Projects in operational status (secured)	11	18	71	100
Projects in preferred bidder status (awarded)		20	80	100
Total backlog	10	18	72	100

Privatisation Projects

The status of Actus Lend Lease projects as at December 2005 is set out below.

Base	Status	Estimated Number of Units	Estimated Capital Spend ¹ US\$m	Estimated Capital Spend to Date US\$m	Invested Equity US\$m	Committed Equity ² US\$m	Contract End Date
Fort Hood, Texas	Operational	5,900	218	179		6.0	2051
Beaufort Military Complex, South Carolina	Operational	1,700	149	80	3.3		2053
Fort Campbell, Kentucky	Operational	4,300	191	54		6.0	2054
Hickam AFB, Hawaii	Operational	1,300	239	26	16.5		2055
Army RCI, Hawaii	Operational	8,000	1,987	30	8.0		2055
Fort Drum, New York	Operational	3,100	225	26		5.0	2055
Marine Corps Installations, North Carolina and New York	Operational	3,400	300	2	7.5		2055
Fort Knox, Kentucky	Preferred Bidder	2,500	285				2056
Total		30,200	3,594	397	35.3	17.0	

¹ Over the initial development period of the project.

² Committed equity represents future equity investments in the projects.

Actus expects to reach financial close on the Fort Knox project, currently in preferred bidder status, in the 2007 financial year.

A summary of Actus Lend Lease projects is set out below.

– Fort Hood

Fort Hood is an army installation located in Killeen, Texas. The construction phase of the project was approximately 97% complete as at December 2005.

– Beaufort Military Complex

The Beaufort Military Complex is a naval installation located at Beaufort and Parris Island, South Carolina. Construction on this project commenced in 2003 and is due to be completed in the 2009 financial year. The construction phase of the project was approximately 55% complete as at December 2005. An increase in construction expenditure of US\$39 million was agreed in August 2005.

– Fort Campbell

Fort Campbell is an army installation located in Kentucky. Construction on this project commenced in 2003 and is due to be completed in the 2009 financial year. The construction phase of the project was approximately 35% complete as at December 2005.

– Hickam AFB

Hickam is an air force base located on the island of O'ahu, Hawaii. Construction on this project commenced in February 2005 and is due to be completed in the 2011 financial year. The construction phase of the project was approximately 12% complete as at December 2005.

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

Retail and Communities continued

Communities - Americas continued

Overview of the Businesses continued

Actus Lend Lease continued

Privatisation Projects continued

– Army RCI

Army RCI is located on the island of O'ahu, Hawaii. Construction on this project commenced in May 2005 and is due to be completed in the 2015 financial year. The construction phase of the project was approximately 2% complete as at December 2005.

– Fort Drum

Fort Drum is an army installation located in upstate New York. Construction on this project commenced in May 2005 and is due to be completed in the 2010 financial year. The construction phase of the project was approximately 11% complete as at December 2005.

– Marine Corps Installations

There are three Marine Corp Installations: Camp Lejeune, Jacksonville, North Carolina; Marine Corps Air Station Cherry Point, Havelock, North Carolina; and Stewart Terrace in Newburgh, New York. Construction on this project commenced in October 2005 and is due to be completed in the 2011 financial year. The construction phase of the project was less than 1% complete as at December 2005.

– Fort Knox

Actus Lend Lease was selected as the preferred bidder at Fort Knox, Kentucky in September 2005. The project is expected to reach financial close in the 2007 financial year and includes the building and renovation of 2,500 homes with an expenditure of approximately US\$285 million over the first eight years. This project has been included in preferred bidder backlog as at December 2005.

Other Communities - Americas

Piers Development Project, San Francisco

Lend Lease has a 54.95% non-controlling interest in the San Francisco Cruise Terminal joint venture. Construction of the condominium portion of the mixed-used development was substantially completed in the period ended December 2005. Profit from the sale of the condominiums is expected to be recognised in the second half of the current financial year and the 2007 financial year.

Other

On 9 August 2005, Lend Lease's partnership with Gotham sold the Foundry in New York, an 80/20 housing project. Lend Lease's share of net proceeds realised by the partnership was \$14.9 million (US\$11.1 million) resulting in a profit after tax of \$9.8 million (US\$7.1 million). The tax relating to the profit was reduced by \$2.0 million due to the recognition of a tax benefit relating to previously unrecorded tax losses (mainly arising from the exit of US Real Estate Investment businesses).

Communities - Europe

Overview of the Businesses

In Europe the Communities business is conducted through The Crosby Group (Crosby) as well as through a number of other communities opportunities in the UK.

The Crosby Group (Crosby)

On 8 July 2005, Lend Lease acquired its interest in Crosby for \$617.7 million (£263.1 million).

Crosby is an urban regeneration specialist operating in major UK cities such as Manchester, Leeds and Birmingham where the UK Government projects significant growth in housing demand over the next 20 years. The majority of Crosby's earnings are derived from mid to high-rise apartment developments on brownfield urban regeneration sites.

Operating profit after tax for the period ended December 2005 was \$1.8 million. This profit is in line with expectations at the time Crosby was acquired and is after recognising \$19.5 million after tax of the fair value adjustment recorded on acquisition. A fair value adjustment of \$52.6 million after tax was recognised at the date of acquisition in relation to the profit on contracts presold. In the period ended December 2005 \$19.5 million after tax of the fair value adjustment has been used in relation to sales completed in the period. The remaining fair value adjustment will be used in future periods.

Crosby currently has 18 sites with a Backlog of 4,450 units, including joint ventures. Of these, 14 sites have planning approvals and four are in the planning process.

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

Retail and Communities continued

Communities - Europe continued

Overview of the Businesses continued

The Crosby Group (Crosby) continued

The following table provides a summary of Crosby projects:

	December 2005
Number of projects	18
Number of residential units settled during the period	468
Gross sales value of residential units settled during the period	\$156.6m
Pre-sales (units sold but not settled at the end of the period) ¹	\$659.6m
Total assets ²	\$823.7m

1 Pre sales represent units that were unconditionally exchanged prior to December 2005. These sales have not settled and therefore do not form part of the operating profit in the current period.

2 Total assets include goodwill and fair value adjustments reflected on acquisition.

The number of lots under management for Crosby is set out below:

	As at December 2005
Backlog (number of lots) ¹	
Zoned (with planning approval)	3,980
Zoned (awaiting planning approvals)	470
Total number of lots	4,450

1 The actual number of lots for any particular project can vary as planning applications are obtained.

The portfolio of Crosby projects is set out below.

Project	Region	Backlog Lots December 2005	Project Life Remaining
Navigation Street	Birmingham	280	1 year
B5 Southside	Birmingham	190	1 year
Essex Street	Birmingham	280	2 years
John Bright	Birmingham	190	2 years
Unities & Armouries	Birmingham	150	2 years
Honduras Wharf	Birmingham	130	2 years
St James	Cheltenham	140	2 years
Green Quarter	Manchester	1,260	3 years
Quay Street	Manchester	70	1 year
Smithfield	Manchester	130	1 year
Clarence Dock	Leeds	730	2 years
Hungate	York	730	5 years
Other	Various	170	1 year
Total backlog		4,450	

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

Retail and Communities continued

Communities - Europe continued

Overview of the Businesses continued

The Crosby Group (Crosby) continued

A summary of major Crosby projects is set out below.

– Navigation Street

Navigation Street is a scheme comprising residential units with some commercial in a prime area of Birmingham city centre close to the retail and commercial districts. The site was acquired in September 2001 and construction is due to be completed in October 2006. The scheme is 88% forward sold.

– B5 Southside

B5 Southside is a scheme in the Entertainment Quarter of Birmingham adjacent to the retail district. The site was acquired in June 2003 and is 80% forward sold. Construction is expected to be completed in March 2006.

– Essex Street

Essex Street is a new residential scheme adjacent to B5 Southside in Birmingham's Entertainment Quarter. This scheme is due to be launched to the market in early 2006. Construction is expected to commence in February 2006.

– Green Quarter

Green Quarter is a residential development in a new quarter adjacent to Manchester city centre. The site was acquired in October 2003 following a decade during which the site had remained derelict. The first four phases totalling 761 units have been released to the market of which 92% have been sold.

– Clarence Dock

Clarence Dock is a major waterside mixed use scheme adjacent to the Royal Armouries Museum in Leeds comprising residential units and 608,000 square feet of offices, retail and leisure precincts. The site was acquired in March 2002 and is 93% forward sold.

– Hungate

Hungate is a major residential development comprising residential units with some commercial in York. A planning consent was granted in October 2005 and the acquisition was completed in November 2005. Construction is expected to commence in the second half of the financial year.

Other Communities - United Kingdom

Operating profit after tax was \$1.7 million for the period ended December 2005, \$1.6 million lower than in the period ended December 2004. The Communities projects in the UK are in start up phase with consequently low initial profit levels.

Project	Region	Backlog Lots December 2005	Lend Lease ownership	Carrying value (£m)	Project Life Remaining
Greenwich Peninsula	London	10,000	51.0%	17.4	20 years
North Weald	South East England	5,000	17.5%	7.6	20 years
First Base	South East England	1,000	24.1%	3.2	Investment in an ongoing business
Total		16,000		28.2	

The European business is involved in a number of communities opportunities in the UK. The key projects secured to date are:

– Greenwich Peninsula

The Greenwich Peninsula project (undertaken in a joint venture with Quintain Estates and Development PLC and English Partnerships) involves the development of 10,000 housing units on 147 acres of land on the Greenwich Peninsula together with approximately 340,000 square metres of commercial and 33,000 square metres of retail space. Successful completion of all commercial contracts and planning consent was achieved in June 2004. Work is scheduled to start on site for the first major infrastructure component, Millennium Square, in early 2006. The first residential blocks will be delivered in part by third party developers and in part through direct development by Meridian Delta Limited. Discussions with third party developers are ongoing with profits from land sales expected to emerge in the 2007 financial year.

The carrying value of the project as at December 2005 was \$40.8 million (£17.4 million), (June 2005: \$33.4 million (£13.9 million)).

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

Retail and Communities continued

Communities - Europe continued

Overview of the Businesses continued

Other Communities - United Kingdom continued

– North Weald

Lend Lease entered into a 15-year agreement to promote and master-develop a large-scale sustainable community scheme on a 700 acre site in a Government identified growth area north-east of London. The site could provide, subject to planning approvals, approximately 5,000 residential dwellings and associated employment and public amenities uses.

In return for undertaking land management services and the payment of a recoverable advance to the landowner, Lend Lease is entitled to receive a percentage of all disposal proceeds on future land sales. Lend Lease also has an option, exercisable in April 2007, to acquire a 50% freehold interest in the site. Lend Lease is currently focused on the planning and consultation process for the site.

The carrying value of the project at December 2005 was \$17.8 million (£7.6 million), (June 2005: \$17.5 million (£7.3 million)).

– First Base

Lend Lease has a 24.1% equity stake in First Base, a company specialising in affordable housing and community projects. Lend Lease has provided a fully recoverable working capital facility of \$5.9 million of which \$5.3 million had been drawn down as at December 2005.

First Base has agreed terms for the development of two affordable housing projects in London (Hackney and Elephant and Castle), as part of English Partnerships' London-Wide Initiative where First Base is a preferred partner. During the period Lend Lease signed contracts to invest in the first project which is scheduled to start on site in the second half of the financial year.

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

Investment Management

Key Financial Results

The financial results of the Investment Management businesses are shown in the following table.

	Operating Revenue		EBITDA		Operating Profit Before Tax		Operating Profit After Tax	
	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Asia Pacific	31.2	40.3	21.0	16.1	21.0	15.7	15.0	6.6
Europe	35.7	35.6	56.4	36.4	56.4	36.4	40.9	22.3
North America	13.7	37.2	31.5	34.5	31.5	34.5	23.8	27.3
Total operations	80.6	113.1	108.9	87.0	108.9	86.6	79.7	56.2

Operating profit after tax increased by \$23.5 million to \$79.7 million for the period ended December 2005 compared to \$56.2 million for the period ended December 2004. The December 2004 result includes a foreign exchange provision in relation to other investments of \$18.9 million following the implementation of AIFRS (refer Note 32 of the Financial Statements). Excluding the foreign exchange provision, profit after tax increased by \$4.6 million.

Assets Under Management

The following table summarises assets under management (AUM) of the Investment Management businesses.

	Asia Pacific \$b	Europe £b	Total December 2005 \$b	Total June 2005 \$b
AUM at the beginning of the financial period ¹	5.3	2.6	11.6	19.6
Additions	0.2	0.1	0.4	1.7
Reductions ²	(0.1)		(0.1)	(11.0)
Net revaluations		0.3	0.7	1.7
Exchange movement ³			(0.2)	(0.4)
AUM at the end of the financial period	5.4	3.0	12.4	11.6
Movement in AUM	1.9%	15.4%	6.9%	(40.8)%

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

2 Reduction in the year ended June 2005 is due to Lend Lease ceasing to manage GPT.

3 Exchange movement arising from translating AUM in local currency between June 2005 and December 2005.

AUM increased \$0.8 billion to \$12.4 billion as at December 2005 compared to \$11.6 billion as at June 2005. The increase is largely attributable to acquisitions completed by APPF in Australia and the revaluation of UK managed assets.

Investments

The following table summarises Lend Lease's direct and indirect property interests and other investments as at December 2005.

	Lend Lease Share of Income ¹ December 2005 \$m	Market Value ² December 2005 \$m	Market Value ² June 2005 \$m
Asia Pacific	13.0	490.4	460.0
Europe ³	40.2	1,962.2	1,764.2
North America	13.3	389.0	445.3
Total Group	66.5	2,841.6	2,669.5

1 Represents Lend Lease's share of income earned before tax, excluding allocation of hedge gains/losses and any adjustments to investment carrying value.

2 Market value is the gross value based on independent valuations.

3 Bluewater is treated as inventory in the Financial Statements and therefore its book value is reflected at cost.

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

Investment Management continued

Asia Pacific

Investment Management in Australia includes the management of APPF, the Real Estate Partnership Funds (REP1 and REP2) and the Real Estate Securities joint venture. Investment Management in Asia includes the management of Asia Pacific Investment Company (APIC), Asia Pacific Investment Company No. 2 (APIC II) and the Lend Lease International Distressed Debt Fund. As at December 2004 Lend Lease was also the manager of General Property Trust (GPT). Lend Lease ceased its role as manager of GPT with effect from 6 June 2005.

Analysis of Results

	Operating Revenue		EBITDA		Operating Profit Before Tax		Operating Profit After Tax	
	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Funds management income	18.8	32.2	7.6	16.2	7.6	15.8	5.2	7.7
Investment income	12.4	8.1	13.0	5.2	13.0	5.2	9.4	4.2
Equity accounted profits			0.4	0.3	0.4	0.3	0.4	0.3
FX provisions				(5.6)		(5.6)		(5.6)
Total operations	31.2	40.3	21.0	16.1	21.0	15.7	15.0	6.6

Operating Profit After Tax

Operating profit after tax increased \$8.4 million to \$15.0 million for the period ended December 2005 compared to \$6.6 million for the period ended December 2004. The December 2004 result includes a foreign exchange provision in relation to APIC and APIC II of \$5.6 million on the adoption of AIFRS (refer Note 32 of the Financial Statements). Excluding the foreign exchange provision, profit after tax increased \$2.8 million. The increase in profit is principally due to an increase in investment income of \$5.2 million after tax, predominantly due to Lend Lease's increased investment in APPF Retail.

Funds Management

Assets Under Management

	AUM at June 2005	Additions	Reductions	Net Revaluations	AUM at December 2005
	\$b	\$b	\$b	\$b	\$b
APPF	3.0	0.2			3.2
Real Estate Partnership Funds	0.1				0.1
APIC	0.2				0.2
APIC II	0.6				0.6
Real Estate Securities (Lend Lease interest: 50%)	1.4		(0.1)		1.3
Total AUM	5.3	0.2	(0.1)	-	5.4
Movement in AUM					1.9%

Lend Lease is a leading Fund Manager in the Asia Pacific region with strong investor support. Lend Lease managed funds continued to perform well, with all three APPF Funds delivering above target returns. The Real Estate Partners Fund series remains on track to meet its targeted returns. In Singapore, Parkway Parade, the cornerstone asset of APIC II, continues to perform strongly with the Fund exceeding its targeted return.

Funds management EBITDA decreased by \$8.6 million to \$7.6 million for the period ended December 2005 compared to \$16.2 million for the period ended December 2004. The decrease is primarily due to Lend Lease ceasing its role as manager of GPT.

AUM increased \$0.1 billion from \$5.3 billion at June 2005 to \$5.4 billion at December 2005. The increase in AUM is attributable to acquisitions completed by APPF in the period ended December 2005 in both its commercial and industrial portfolios.

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

Investment Management continued

Asia Pacific continued

Investments

The following table summarises Lend Lease's indirect property interests and other investments in Asia Pacific as at December 2005.

	Region	Lend Lease Share of Income December 2005 ¹ \$m	Market Value December 2005 ² \$m	Indicative Fund Liquidation
APPF	Australia	10.9	392.8	Open ended
REP1	Australia		1.9	2006
REP2	Australia		2.7	2010
APIC	Asia		20.3	2006
APIC II	Asia	1.3	58.0	2009
Lend Lease International Distressed Debt Fund	Asia	0.8	14.7	2008
Total Asia Pacific		13.0	490.4	

1 Represents Lend Lease's share of income earned before tax, excluding allocation of hedge gains/losses and any adjustments to investment carrying value.

2 Market value is the gross value based on independent valuations.

EBITDA from investment income increased \$7.8 million to \$13.0 million for the period ended December 2005 compared to \$5.2 million for the period ended December 2004. The increase is predominantly due to Lend Lease's increased investment in APPF Retail.

Equity Accounted Profits

Equity accounted profits after tax of \$0.4 million represents Lend Lease's share of income from its 50% interest in the real estate securities joint venture Resolution Capital Limited.

Europe

In Europe, Lend Lease operates an investment management business and holds assets/investments in retail properties including:

- The management of the Lend Lease Retail Partnership and the Lend Lease Overgate Partnership;
- Investments in Lend Lease Retail Partnership, Lend Lease Overgate Partnership, Warrington Retail Limited Partnership and Performance Retail Limited Partnership;
- An investment in Generali Lend Lease;
- An investment in European Real Estate Securities Funds (SICAV); and
- An investment in the Lend Lease Global Property Fund (SICAF).

Analysis of Results

	Operating Revenue		EBITDA		Operating Profit Before Tax		Operating Profit After Tax	
	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m
Funds management income	1.6	2.7		1.6		1.6		1.1
Investment/rental income	34.1	32.9	33.2	32.1	33.2	32.1	24.6	22.5
Equity accounted profits			6.1	3.1	6.1	3.1	4.3	3.0
Equity valuation uplift			13.6	12.9	13.6	12.9	9.5	9.0
FX provision				(13.3)		(13.3)		(13.3)
Gain on FX hedge			3.5		3.5		2.5	
Total operations	35.7	35.6	56.4	36.4	56.4	36.4	40.9	22.3

Operating Profit After Tax

Operating profit after tax increased by \$18.6 million to \$40.9 million for the period ended December 2005 compared to \$22.3 million for the period ended December 2004. This increase is principally due to increased investment income from Bluewater and higher equity accounted profits from investments in Warrington Retail Limited Partnership and Performance Retail Limited Partnership which were acquired in February 2005 and August 2005 respectively. In addition, profit after tax for the period ended December 2004 included a foreign exchange provision in relation to the Lend Lease Global Property Fund (SICAF) and European Real Estate Securities Funds (SICAV) of \$13.3 million following the implementation of AIFRS (refer Note 32 of the Financial Statements).

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

Investment Management continued

Europe continued

Funds Management

Assets Under Management

	AUM at June 2005 £b	Additions £b	Reductions £b	Net Revaluations £b	AUM at December 2005 £b
Bluewater, Kent	1.8			0.2	2.0
Overgate, Dundee	0.2				0.2
Touchwood, Solihull	0.2			0.1	0.3
Golden Square, Warrington ¹	0.1				0.1
Generali Lend Lease ²	0.3	0.1			0.4
Total AUM	2.6	0.1	-	0.3	3.0
Movement in AUM					15.4%

1 Includes Lend Lease's 50% proportionate share of the Warrington Retail Limited Partnership.

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

AUM increased £0.4 billion from £2.6 billion at June 2005 to £3.0 billion at December 2005, an increase of 15.4%. The increase was largely due to revaluations of the Bluewater and Touchwood Shopping Centres and the acquisition of seven new assets by Generali Lend Lease.

Funds management EBITDA decreased by \$1.6 million to break-even in the period ended December 2005 compared to a profit of \$1.6 million for the period ended December 2004.

Investment/Rental Income

	December 2005 £m	December 2005 \$m	December 2004 £m	December 2004 \$m
Bluewater	13.6	32.0	12.5	31.1
Lend Lease Retail Partnership	0.6	1.5	0.5	1.3
European Real Estate Securities Funds, SICAV	0.3	0.6	0.2	0.5
Investment expense	(0.4)	(0.9)	(0.4)	(0.8)
Total investment income	14.1	33.2	12.8	32.1

Bluewater rental income of \$32.0 million relates to Lend Lease's 30% interest (December 2004: 30%). The increased investment income is due to the improved performance of the retail centre resulting from the completion of the first five-year market rent review.

Lend Lease Retail Partnership investment income of \$1.5 million relates to Lend Lease's 3.95% interest (December 2004: 3.95%). Lend Lease Retail Partnership owns 25% of Bluewater and 100% of Touchwood.

Equity Accounted Profits

EBITDA from equity accounted profits of \$6.1 million and the equity valuation uplift of \$13.6 million are detailed in the table below.

	Lend Lease Holding %	EBITDA December 2005 \$m	Valuation Uplift December 2005 \$m	EBITDA December 2004 \$m	Valuation Uplift December 2004 \$m
Lend Lease Overgate Partnership	30.7	3.3	13.0	2.3	12.9
Performance Retail Limited Partnership (acquired August 2005)	33.3	1.8	0.6		
Warrington Retail Partnership (acquired February 2005)	50.0	0.6			
Generali Lend Lease	50.0	0.4		0.8	
Total equity accounted profits		6.1	13.6	3.1	12.9

The Lend Lease Overgate Partnership reported a valuation uplift of \$13.0 million since June 2005 due to underlying rental growth related to market rent reviews on the underlying property and yield compression.

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

Investment Management continued

Europe continued

Investments

The following table summarises Lend Lease's direct and indirect property interests and other investments in Europe as at December 2005:

	Region	Lend Lease Share of Income December 2005 ¹ \$m	Market Value December 2005 \$m	Indicative Fund Liquidation
Bluewater ²	UK	32.0	1,398.5	
Lend Lease Retail Partnership ³	Europe	1.5	72.2	2011
Lend Lease Overgate Partnership ^{4,5}	Europe	16.3	128.9	2008
Performance Retail Limited Partnership ⁶	Europe	2.4	89.8	2017
Warrington Retail Limited Partnership	Europe	0.6	66.2	2017
Generali Lend Lease	Europe	0.4	1.1	
European Real Estate Securities Funds, SICAV	Europe	0.6	30.1	Open ended
Lend Lease Global Properties Fund, SICAF	Global		175.4	2009
Total Europe		53.8	1,962.2	

- 1 Represents Lend Lease's share of income before tax, excluding allocation of hedge gains/losses and any adjustments to investment carrying value.
- 2 The independent market valuation at December 2005 of 100% of Bluewater was £1,985.8 million (\$4,661.5 million). Bluewater is treated as inventory in the Financial Statements and therefore its book value is reflected at cost. The book value of Lend Lease's 30% direct interest in Bluewater at December 2005 was \$536.5 million.
- 3 Fund life is periodically extended for four years, unless investors elect otherwise. If fully extended the Lend Lease Retail Partnership has a 40-year life ending in 2039.
- 4 Fund life is periodically extended for four years, unless investors elect otherwise. If fully extended the Lend Lease Overgate Partnership has a 40-year life ending in 2040. Lend Lease's co-investment is required to be a minimum of 10% of subscribed capital to the end of the fund's life.
- 5 The Lend Lease Group's share of income from Lend Lease Overgate Partnership represents the equity accounted profit including a valuation uplift of \$13.0 million.
- 6 The Lend Lease Group's share of income from Performance Retail Limited Partnership represents the equity accounted profit including a valuation uplift of \$0.6 million.

North America

Analysis of Results

	Operating Revenue		EBITDA		Operating Profit Before Tax		Operating Profit After Tax	
	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m	December 2005 \$m	December 2004 \$m
Operating profit	0.4	6.0	5.3	2.9	5.3	2.9	3.3	1.7
Investment income		8.6		8.6		8.6		5.0
Equity accounted profits			13.3	9.9	13.3	9.9	7.9	5.5
Gain on sale of investments	13.3	22.6	12.9	8.8	12.9	8.8	8.0	7.0
Investment expenses			(0.7)	(0.5)	(0.7)	(0.5)	(0.4)	(0.3)
Gain on FX hedge			0.7	4.8	0.7	4.8	0.4	4.2
Tax benefit recognised							4.6	4.2
Total operations	13.7	37.2	31.5	34.5	31.5	34.5	23.8	27.3

Operating Profit After Tax

Operating profit after tax decreased \$3.5 million to \$23.8 million for the period ended December 2005 compared to \$27.3 million for the period ended December 2004. Investment income was lower as US Real Estate Investment businesses were sold in the prior financial year. The gain on sale of investments predominantly relates to the sale of Value Enhancement Fund III, IV and V for \$72.3 million (US\$54.5 million) resulting in a profit after tax of \$7.5 million (US\$5.6 million). Profit after tax for the period ended December 2005 also includes the recognition of a \$4.6 million (December 2004: \$4.2 million) tax benefit relating to previously unrecorded tax losses (mainly arising from the exit of US Real Estate Investment businesses).

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

Investment Management continued

North America continued

Investment Income

	Operating Profit Before Tax	
	December 2005 \$m	December 2004 \$m
VEF series		3.6
Other		5.0
Total investment income	-	8.6

No investment income was recorded on the remaining US investments, which have a book value as at December 2005 of \$5.3 million.

Equity Accounted Profits

	Operating Profit Before Tax	
	December 2005 \$m	December 2004 \$m
King of Prussia	13.3	7.6
Yarmouth Capital Partners II		2.3
Total Equity Accounted Profits	13.3	9.9

The King of Prussia operating profit before tax of \$13.3 million for the period ended December 2005 increased by \$5.7 million from the period ended December 2004 principally due to the prior period including a charge of \$4.9 million arising on the implementation of AIFRS.

The value of Lend Lease's investment in the King of Prussia Partnership as at December 2005 was \$382.3 million (US\$279.1 million), (June 2005: \$358.4 million (US\$276.1 million)). The valuation as at December 2005 represents a roll-forward of the Directors' June 2005 valuation, adjusted for income and cash flows during the period.

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

Project Management, Construction and Private Finance Initiatives (PFIs)

Key Financial Results

The financial results of the Project Management, Construction and PFIs business are shown in the following table and are commented on in two separate sections, Bovis Lend Lease and PFIs.

	Operating Revenue		Realised Gross Profit Margin		Operating Profit/(Loss) Before Tax ¹		Operating Profit/(Loss) After Tax	
	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Bovis Lend Lease								
Asia Pacific	869.3	761.9	71.9	54.8	20.2	11.8	13.2	7.8
Americas	2,173.5	1,922.0	81.6	84.8	32.9	33.0	24.8	24.5
Europe	1,442.3	1,043.6	45.8	102.8	1.1	45.9	0.7	33.9
Total Bovis Lend Lease	4,485.1	3,727.5	199.3	242.4	54.2	90.7	38.7	66.2
Private Finance Initiatives (PFIs)	41.5	25.3	4.8	2.1	(3.3)	12.4	(1.1)	9.5
Total Project Management, Construction and PFIs	4,526.6	3,752.8	204.1	244.5	50.9	103.1	37.6	75.7

¹ December 2005 EBITDA for Asia Pacific, Americas and Europe was \$21.1 million, \$35.1 million and \$2.4 million respectively (December 2004: EBITDA for Asia Pacific, Americas and Europe was \$14.2 million, \$36.0 million and \$47.4 million respectively). December 2005 EBITDA for PFIs is a loss of \$5.7 million (December 2004 profit of \$10.5 million).

Bovis Lend Lease

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

Revenue

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

Total revenue for the period ended December 2005 was \$4.5 billion, an increase of \$0.8 billion.

The increase was due to a change in the mix from Fee Services to Construction Services contracts in the UK, an increase in the value of work under management in the Americas from large projects such as Intell Management and Zeckendorf in New York, 500 Atlantic Avenue in Boston and Carillon Phase 1 in Miami, and an increase in Asia Pacific, primarily attributable to the timing of projects such as Macarthur Square shopping centre and Herald & Weekly Times.

Operating Profit After Tax

Bovis Lend Lease's operating profit after tax was \$38.7 million for the period ended December 2005, a 42% decrease on the period ended December 2004. Operating profit after tax for the period ended December 2005 has been negatively affected, relative to the period ended December 2004, by foreign exchange movements of \$3.9 million.

Asia Pacific

Operating profit after tax for the Asia Pacific business was \$13.2 million for the period ended December 2005 compared to a profit of \$7.8 million for the period ended December 2004.

Realised Gross Profit Margin (GPM) increased by \$17.1 million in the period ended December 2005 to \$71.9 million as the Australian business completed a number of large projects including 126 Philip Street, Darling Park Stage III, and the Macarthur Square and Penrith Plaza shopping centres in Sydney, together with Herald & Weekly Times, Melbourne Central and MAB Conder in Victoria. In addition, Japan and Taiwan performed strongly, mainly due to telecommunication and technology projects.

Americas

Operating profit after tax for the Americas was \$24.8 million for the period ended December 2005, an increase of \$0.3 million compared to \$24.5 million for the period ended December 2004. The increase includes a negative impact, relative to the period ended December 2004, of \$3.9 million relating to foreign exchange rate movements. The profit after tax for the period ended December 2005 also includes the recognition of a \$4.9 million (December 2004: \$4.9 million) tax benefit relating to previously unrecorded tax losses (mainly arising from the exit of US Real Estate Investment businesses).

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

Project Management, Construction and Private Finance Initiatives (PFIs) continued

Bovis Lend Lease continued

Operating Profit After Tax continued

Americas continued

Realised GPM decreased \$3.2 million to \$81.6 million for the period ended December 2005. The decrease includes a negative impact of \$12.9 million due to foreign exchange rate movements. Excluding these foreign exchange rate movements, the increase was \$9.7 million. The increase (excluding foreign exchange rate movements) in GPM and the improved December 2005 profit after tax reflects higher volumes.

Europe

Operating profit after tax for the European business decreased by \$33.2 million to \$0.7 million for the period ended December 2005 from a profit after tax of \$33.9 million for the period ended December 2004. Realised GPM decreased \$57.0 million to \$45.8 million in the period ended December 2005.

The significant decrease in GPM and operating profit after tax is due to margin deteriorations on two key UK projects and timing issues across the region which weighs the full year profit towards the second half of the financial year.

- The UK margin deteriorations on the two key projects amount to \$37.3 million after tax (\$53.3 million before tax) and were a result of programme delays and subcontractor defaults. In accordance with Lend Lease's accounting policies, foreseeable losses are recognised in full in the current period and not apportioned on a percentage of completion basis.
- Project timing issues will result in increased GPM being booked in the second half of the financial year. In accordance with Lend Lease's accounting policies, profit will be recognised on the Leeds PFIs hospital when it reaches 50% completion.
- In Continental Europe, the ongoing growth in workload in the Gulf States and the expected financial close on our second PFIs project, Majadahonda Hospital in Spain, similarly weighs the balance of profits more to the second half of the current financial year.

Profitability

The profitability ratio for Bovis Lend Lease for the period ended December 2005 was 27% (December 2004: 37%) primarily as a result of the reduction in GPM and operating profit before tax in Europe.

New Work Secured and Backlog GPM

New Work Secured is the total project Gross Profit Margin (GPM) to be earned from projects secured during the financial period. Backlog GPM is the expected GPM to be realised in future financial periods from contracts committed at the end of the financial period. The following table provides a summary of New Work Secured for the period ended December 2005 and the Backlog GPM at that date, including projects in preferred bidder status.

	Opening Backlog GPM at June 2005 \$m	Foreign Exchange and other Adjustments ¹ \$m	New Work Secured GPM to December 2005 ² \$m	Backlog GPM Realised to December 2005 \$m	Closing Backlog GPM at December 2005 ^{2,3} \$m
Asia Pacific	84.1	0.4	78.5	(71.9)	91.1
Americas	228.0	(31.4)	90.8	(81.6)	205.8
Europe	369.2	(53.3)	62.8	(45.8)	332.9
Total Bovis Lend Lease	681.3	(84.3)	232.1	(199.3)	629.8
Facilities Management ³	57.7		4.0	(3.7)	58.0
Total operational projects	739.0	(84.3)	236.1	(203.0)	687.8
Projects in preferred bidder status (awarded) ³	20.6		22.9		43.5
Total including projects in preferred bidder status	759.6	(84.3)	259.0	(203.0)	731.3

1 Foreign exchange and other adjustments includes exchange rate movement from the prior year's effective hedge rate to the current period's rate and margin deterioration on the two key projects in the UK referred to above.

2 Although closing backlog GPM is run off over several years, the effective hedge rate for the period ended December 2005 has been applied to the closing backlog GPM balance in its entirety as the exchange rates for later periods cannot be predicted accurately. In local currency, the Americas Backlog GPM was US\$150.3 million and the European backlog GPM was £133.2 million at December 2005.

3 Backlog GPM disclosed includes only ten years backlog from facilities management even though the PFIs contracts run for longer periods of up to 35 years. Facilities management GPM is reported in PFIs.

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

Project Management, Construction and Private Finance Initiatives (PFIs) continued

Bovis Lend Lease continued

New Work Secured and Backlog GPM continued

Total closing backlog GPM on operational projects was \$687.8 million as at December 2005, a decrease of 7% on the June 2005 balance of \$739.0 million. The value of New Work Secured for the period ended December 2005 was \$236.1 million. New Work Secured for the period ended December 2004 of \$444.8 million, included two large PFIs projects, Leeds and Manchester hospitals, and the renewal of the BP Global Alliance agreement.

In the period ended December 2005 large project wins included:

- In Asia Pacific: a new office building for the Australian Tax Office in Canberra, an extension of the Brisbane Airport, refurbishment of two Correctional Centres in Queensland and a new distribution centre for Coles Myer in Victoria. In Asia, projects secured across the region included a test and assembly plant for computer chips in Singapore for Xilinx, an LCD production plant for Corning in Taiwan and a number of project management roles in Japan;
- In Americas: One Museum Park East in Chicago, the Allure Condo project in Las Vegas, the Carillon project in Miami and the Extell Riverside project in New York, all of which are residential projects; and
- In Europe: Kings Waterfront, a multi-purpose leisure development in Liverpool, Pollok Town Centre Mall, a retail development in Scotland, Old Broad Street, a commercial development in the City of London and First Base KX200, a residential scheme in London.

The backlog GPM as at December 2005 is expected to emerge or be realised over future reporting periods as shown in the table below.

	Six Months June 2006 %	Year Ending June 2007 %	Post June 2007 %	Total %
Asia Pacific	42	47	11	100
Americas	35	45	20	100
Europe	28	33	39	100
Total Bovis Lend Lease	32	38	30	100

As at December 2005, 32% of backlog GPM is projected to be realised as profit in the six months to June 2006. The proportion of Bovis Lend Lease secured backlog GPM to be realised beyond an 18-month time frame decreased from 34% as at December 2004 to 30% as at December 2005. The overall trend continues towards longer duration projects, however this statistic is affected by the precise timing of new wins and project completions.

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

Project Management, Construction and Private Finance Initiatives (PFIs) continued

Bovis Lend Lease continued

Realised Gross Profit Margin Analysis by Sector

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

The following table details the GPM earned by sector for the period ended December 2005.

	December 2005 Asia Pacific GPM %	December 2005 Americas GPM %	December 2005 Europe ¹ GPM %	December 2005 Total GPM %	December 2004 Total GPM %
Commercial/Office (includes PFIs)	38	8	24	22	37
Retail	19	12	23	18	8
Healthcare (includes PFIs)		24	12	13	11
Residential/Senior Living	7	23	2	10	5
Government/Civic	2	4	8	9	6
Industrial/Technology	24	1	2	6	3
Education	4	11	2	5	7
Pharmaceutical	1	3	7	4	4
Mixed-use		7	4	3	2
Communications	1		3	2	4
Transportation/Aviation	3	2	3	2	3
Other	1	5	10	6	10
Total	100	100	100	100	100

¹ The Europe GPM excludes margin deteriorations in order to provide a more meaningful comparison of the spread of work across sectors.

Private Finance Initiatives (PFIs)

The PFIs result includes net bid costs, facilities management GPM, and returns on equity and loan stock contributions. The PFIs result does not include construction GPM, which is reported as part of the Bovis Lend Lease segment of the Project Management, Construction and PFIs business.

The operating result after tax for PFIs decreased from an after tax profit of \$9.5 million for the period ended December 2004 to an after tax loss of \$1.1 million for the period ended December 2005.

The result for the period ended December 2005 represented a period when bidding costs were incurred on a number of projects, albeit at a lower total level than the period ended December 2004. However, the result for the period ended December 2004 included the recovery of bid costs realised on reaching the financial close of Manchester and Leeds PFIs hospitals of \$16.4 million after tax.

Lend Lease is active in the healthcare, education, accommodation and waste sectors as a member of consortia bidding for projects. If successful, the consortium is awarded a concession (typically 30-35 years) to finance, design, construct and operate the facilities. These responsibilities are contracted to a project company in which all members of the consortium invest. Typically, Lend Lease has a 50% shareholding in these project companies with the balance of shares held by a finance provider and other subcontractors. Lend Lease 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.

Revenue and expenses to Lend Lease arise from construction (reported in Bovis Lend Lease) and facilities management, bid costs, and equity and loan stock returns (all reported in PFIs).

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

Project Management, Construction and Private Finance Initiatives (PFIs) continued

Private Finance Initiatives (PFIs) continued

PFIs Project Summary

The status of current PFIs projects as at December 2005 is listed in the table below.

	Construction Value £m ¹	Facilities Management Revenue Backlog £m ²	Invested Equity £m	Committed Equity £m ³	Current Status	End Date
Healthcare						
Calderdale Hospital (UK)	87.0	33.5	1.7		Operational	2031
Worcester Hospital (UK)	82.6	45.3	1.6		Operational	2031
Hexham Hospital (UK) – Phase 1 & 2	28.9	9.3	0.6		Operational	2033
Hexham Hospital (UK) – Phase 3	19.0				Preferred bidder	2033
Burnley Hospital (UK)	27.1	9.9	0.1	0.8	Under construction	2033
Roehampton Hospital (UK)	55.3	9.0		1.7	Under construction	2034
Romford Hospital (UK)	211.0	1.8	7.0		Under construction	2040
Manchester Hospital (UK)	382.3	25.8		10.5	Under construction	2042
Leeds Hospital (UK)	175.2	24.0		9.9	Under construction	2037
Majadahonda Hospital (Spain)	138.6		3.0	1.8	Under construction	2035
Brescia Hospital (Italy)	15.2		1.6		Operational	2020
Education						
Sheffield University (UK)	162.9	17.6			Preferred bidder ⁴	2045
Newcastle Schools (UK)	49.1	18.5	1.8		Operational	2029
Lincoln Schools (UK)	19.8	8.8	1.1	0.2	Operational	2032
Lilian Baylis School (UK)	12.6	5.3	0.8		Operational	2029
Cork Maritime College (Ireland)	31.0	9.1	2.2		Operational	2029
Accommodation						
Treasury 1 (UK)	114.1	31.7	3.6		Operational	2037
Treasury 2 (UK)	147.6	30.3	3.9		Operational	2037
Waste						
Lancashire Waste	200.0 ⁵				Preferred Bidder	2033
Defence⁶						
SLAM (UK) ⁷	524.0				Under construction	2009
South West Regional PRIME (UK)	215.0				Under construction	2011
	2,698.3	279.9	29.0	24.9		

1 The figures represent total construction value over the entire contract duration. The construction profit after tax and backlog GPM associated with these projects are included in Bovis Lend Lease.

2 Facilities management Revenue Backlog disclosed is only for ten years, although PFI contracts typically run for 25-35 years in total.

3 Committed equity refers to equity and loan stock contributions that Lend Lease has a future commitment to invest.

4 Bovis Lend Lease commenced construction in December 2005 under an Early Works Agreement.

5 Provisional estimate of construction value still under review as the scheme progresses.

6 These are Public Private Partnership projects, which do not require Lend Lease to contribute equity.

7 The Single Living Accommodation Modernisation (SLAM) project has no predetermined end date. However, it is expected to run-off over four more years, although there are currently discussions underway about an extension or second phase to the programme.

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

Other

Corporate

Corporate comprises central overheads, finance costs and amortisation.

	Operating Revenue		EBITDA		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax	
	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004	December 2005	December 2004
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Group Services	4.2	10.0	(27.5)	(10.9)	(29.0)	(10.9)	(24.1)	(8.7)
Group Amortisation					(1.5)	(0.9)	(1.5)	(0.9)
Group Treasury	11.4	26.5	2.8	(1.7)	(20.0)	5.7	(13.2)	6.9
Total Corporate	15.6	36.5	(24.7)	(12.6)	(50.5)	(6.1)	(38.8)	(2.7)

Group Services

Group Services operating costs after tax increased by \$15.4 million to \$24.1 million for the period ended December 2005. A reduction in corporate costs in the current period was more than offset by the prior period including the use of employee benefit vehicles to fund some employee expenses of \$16.4 million. Following the introduction of AIFRS any cost associated with the use of the Group's employee benefit vehicles will be reflected in the Group's result.

The impact of the consolidation of employee benefit vehicles and the recognition of the Australian Defined Benefit Plan asset, required under AIFRS, have been reflected in both the current and prior period.

Group Amortisation

Amortisation charges are in respect of management agreements. These charges are reported at Group level, as opposed to business unit level. The amortisation charge for the period ended December 2005 increased by \$0.6 million due to the increase in Lend Lease's investment in APPF Retail in the June 2005 quarter.

Group Treasury

Group Treasury manages the Group's liquidity, foreign exchange, interest rate risk and debt. The result for the period ended December 2005 is shown in the table below.

	Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax	
	December 2005	December 2004	December 2005	December 2004
	\$m	\$m	\$m	\$m
Interest revenue ¹	11.5	26.7	8.4	18.1
Interest expense and borrowing costs ¹	(36.0)	(23.1)	(24.7)	(12.2)
Net hedge benefit	4.5	2.1	3.1	1.0
Total Group Treasury	(20.0)	5.7	(13.2)	6.9

¹ Includes foreign exchange gain or loss allocated to interest as part of the segment results.

Interest Revenue

Interest revenue decreased by \$15.2 million before tax in the period ended December 2005 compared to the period ended December 2004 due to lower average cash balances and a lower average interest rate. Interest on invested cash averaged 4.1% per annum for the period ended December 2005 compared to 4.6% per annum for the prior period due to a greater proportion of cash being invested in the US.

Interest and Borrowing Costs

Interest expense and borrowing costs of \$36.0 million for the period ended December 2005 represent an increase of \$12.9 million over the interest expense and borrowing costs for the period ended December 2004. There was no significant movement in the average gross debt balances between the period ended December 2005 and December 2004. The increase largely relates to interest on the Bluewater lease in the current period of \$13.2 million which had been capitalised up until March 2005.

As at 31 December 2005 the mix of debt was 64.6% fixed and 35.4% at floating rates.

Cash and Debt

The Group moved from a net cash position of \$69.6 million at June 2005 to a net debt position of \$216.4 million at December 2005. The movement of \$286.0 million is largely attributable to the cash payments in relation to the acquisition of The Crosby Group of \$595.3 million, the acquisition of the final minority stake in Actus Lend Lease of \$92.5 million, investments in Performance Retail Partnership of \$88.1 million and co-investment in APPF of \$41.9 million, offset by the proceeds on the sale of Norwich of \$532.0 million.

Gross debt increased from \$500.0 million as at 30 June 2005 to \$726.7 million as of 31 December 2005. Gross debt of \$500.0 million as at 30 June 2005 related to the Medium Term Notes which were repaid in July 2005. In October 2005 Lend Lease issued US\$300.0 million of guaranteed senior notes in the US Private Placement debt market with maturities of 7, 10 and 12 years. In November 2005 Lend Lease established a committed five year syndicated bank facility of £350.0 million in the UK, which was drawn down to £130.0 million as at 31 December 2005. During the period Lend Lease repaid and cancelled the short term bank committed credit facilities for £550.0 million and \$130.0 million.

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

Other continued

Corporate continued

Group Treasury continued

Net Hedge Benefit

A net hedge benefit of \$4.5 million before tax was earned on the Group's hedging of foreign exchange exposures. The hedge benefit arises from the interest rate differential between US and UK interest rates against Australian interest rates.

Hedging of Foreign Exchange Exposures

Foreign Denominated Earnings

Due to an amendment to the hedge accounting requirements under AIFRS Lend Lease's hedging of foreign currency revenues from foreign operations will not qualify for hedge accounting from the June 2007 financial year onwards. Consequently the hedges relating to the June 2007 and June 2008 financial years were terminated during the period. Hedges for the second half of the 2006 financial year remain in place, details of which are shown in the table below.

	Year Ending 30 June 2006	
	Hedged Range	Average Rate of Underlying Hedge Contracts
Foreign Operations		
US dollars	60-100%	0.71
Pounds sterling	60-100%	0.39
Euro	60-100%	0.56

A net foreign exchange gain of \$6.1 million before tax (December 2004: gain of \$7.4 million) was recognised from hedging foreign denominated earnings in the period ended December 2005. This gain was allocated to the relevant business unit's operating profit, interest revenue and interest expense.

Cash Flows

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

Net Assets

Lend Lease uses natural hedging, where possible, to minimise its exposure to foreign denominated net assets. The remaining net assets are hedged at the discretion of management. The impact of foreign exchange movements on the Group's net assets is accounted for in the Foreign Currency Translation Reserve (FCTR). In the period ended December 2005, the FCTR decreased by \$5.2 million, primarily due to changes in US and UK exchange rates.

Credit Strength

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

		December 2005	June 2005
Cash ¹	\$m	510.3	569.6
Borrowings	\$m	726.7	500.0
Total equity	\$m	2,801.0	2,710.4
Borrowings to total assets	%	9.6	7.2
Borrowings to total tangible assets	%	10.7	7.9
Net (cash)/debt to total tangible assets	%	3.2	(1.1)
Gross debt to shareholders' equity	%	25.9	18.4
Net (cash)/debt to shareholders' equity	%	7.7	(2.6)
Debt to shareholders' equity plus debt	%	20.6	15.6
Credit rating (Standard & Poors/Moody's)	Rating	BBB-/Baa3	BBB-/Baa3
Interest coverage ²	Times	7.0	7.6
Interest coverage target	Times	6.0	6.0

1 In addition to the closing cash balance of \$510.3 million, an amount of \$11.7 million is held in short term investments.

2 Calculated as EBITDA (excluding one-off items) plus interest revenue divided by gross borrowing costs (which includes capitalised borrowing costs), excluding foreign exchange adjustments.

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

Other continued

Balance Sheet

Balance Sheet Summary by Major Component

	December 2005 \$m	June 2005 \$m	Increase/ (Decrease) \$m
Cash	510.3	569.6	(59.3)
Real estate development inventories	1,885.9	1,688.3	197.6
Real estate development investments	255.1	211.2	43.9
Other real estate investments	1,373.7	1,172.4	201.3
Other investments	22.6	20.1	2.5
Goodwill	763.8	582.7	181.1
Management agreements	22.7	24.1	(1.4)
Borrowings	(726.7)	(500.0)	(226.7)
Other net assets/(liabilities) ¹	(1,306.4)	(1,058.0)	(248.4)
Shareholders' equity	2,801.0	2,710.4	90.6

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

The key balance sheet movements are explained as follows:

- The increase in real estate development inventories reflects the acquisition of The Crosby Group offset by the sale of Chapelfield, Norwich;
- Other real estate investments increased due to the acquisition of Performance Retail Limited Partnership, and additional investment in APPF Retail, offset by the sale of Value Enhancement Funds III, IV, and V;
- Goodwill increased due to the acquisition of The Crosby Group; and
- Borrowings increased due to the issue of US\$300.0 million of guaranteed senior notes into the US Private Placement debt market and the borrowing of £130.0 million under a new syndicated bank facility in the UK. This has been offset by the repayment of the \$500.0 million Medium Term Notes held at June 2005.

Cash Flow

The following table summarises the major cash flows for the period ended December 2005.

	Period Ended December 2005 \$m	Period Ended December 2004 \$m	Variance \$m
Net cash provided by/(used in) operating activities	461.0	(176.0)	637.0
Net cash (used in)/provided by investing activities	(746.3)	163.0	(909.3)
Net cash provided by/(used in) financing activities	207.7	(117.7)	325.4
Net increase/(decrease) from other items	7.7	(38.1)	45.8
Net cash deployed for the financial period	(69.9)	(168.8)	98.9
Cash at the beginning of the financial period	569.6	1,388.1	(818.5)
Closing cash at the end of the financial period	499.7	1,219.3	(719.6)

Net cash provided by operating activities of \$461.0 million has increased by \$637.0 million primarily due to the proceeds on the sale of the Chapelfield shopping centre of \$532.0 million and strong underlying cash flow from operating businesses, offset by continued investment in property developments.

Net cash used by investing activities of \$746.3 million has increased by \$909.3 million due to cash payments in relation to the acquisition of The Crosby Group of \$595.3 million, the acquisition of the final minority interest stake in Actus Lend Lease of \$92.5 million, investments in Performance Retail Partnership of \$88.1 million and co-investment in APPF of \$41.9 million.

Net cash provided by financing activities of \$207.7 million has increased by \$325.4 million due to the Group raising funds via the issue of US\$300.0 million of guaranteed senior notes in the US Private Placement debt market and the establishment of a committed five year syndicated bank facility of £350.0 million in the UK which was drawn down to £130.0 million as at 31 December 2005, offset by the repayment of \$500.0 million Medium Term Notes.

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

Other continued

Summary of Major Differences between AIFRS Profit After Tax and Previous GAAP Profit After Tax

	Notes	AIFRS December 2004 \$m	Previous GAAP December 2004 \$m	Difference December 2004 \$m
Retail Asia Pacific		4.3	4.3	
Retail Europe		1.4	1.4	
Delfin Lend Lease	1	24.6	26.5	(1.9)
Lend Lease Development	1, 2	14.5	9.3	5.2
Senior Living	1, 3	1.9	2.2	(0.3)
Actus Lend Lease		(1.8)	(1.8)	
Other Communities Americas	4	1.9	1.5	0.4
Crosby Group				
Communities Europe		3.3	3.3	
Total Retail and Communities		50.1	46.7	3.4
Investment Management Asia Pacific	6	6.6	12.4	(5.8)
Investment Management Europe	7, 6	22.3	26.4	(4.1)
Investment Management North America	7, 4	27.3	25.7	1.6
Total Investment Management		56.2	64.5	(8.3)
Bovis Lend Lease Asia Pacific		7.8	7.8	
Bovis Lend Lease Americas	4	24.5	19.6	4.9
Bovis Lend Lease Europe	8	33.9	38.4	(4.5)
PFI's		9.5	9.6	(0.1)
Total Project Management, Construction & PFI's		75.7	75.4	0.3
Total Operating		182.0	186.6	(4.6)
Group Services	9	(8.7)	(5.0)	(3.7)
Amortisation	5	(0.9)	(22.3)	21.4
Group Treasury		6.9	7.8	(0.9)
Total Unallocated		(2.7)	(19.5)	16.8
Total Group Result before one-off Items		179.3	167.1	12.2

- 1 Revenue and profit from the sale of inventory require additional conditions to be satisfied under AIFRS before recognition can occur. Revenue recognition is primarily determined by assessing whether the significant risks and rewards of ownership of the asset have transferred and the nature of any continuing involvement with the asset. Revenue and profit recognition on pre-sale residential projects were previously accounted for using the percentage completion method. This change results in inventory that was sold under previous GAAP being returned to inventory with a corresponding adjustment to profit at December 2004.
- 2 AIFRS adjustment to discount deferred consideration on Jacksons Landing and Actus Lend Lease projects to present value.
- 3 Includes the recognition of profit on deferred management fees discounted to a present value basis.
- 4 Recognition of tax benefits relating to previously unrecorded tax losses (mainly arising from the exit of US Real Estate Investment businesses).
- 5 Under AIFRS goodwill amortisation ceased effective 1 July 2004. Consistent with AIFRS, APPF Management agreements are amortised at an accelerated rate (10 years).
- 6 Foreign exchange provisions on investments previously taken to reserves but recognised against profit in the December 2004 period.
- 7 Includes the fair value adjustment arising on the reclassification of King of Prussia and Lend Lease Overgate Partnership from Other Investments to Equity Accounted Investments under AIFRS.
- 8 Primarily relates to the recognition of additional expenses of the Bovis UK Pension Scheme determined on an actuarial basis.
- 9 Under AIFRS employee benefit vehicles sponsored by Lend Lease are consolidated, effective 1 July 2004. AIFRS adjustments have been made to recognise the administration costs of the Funds and to eliminate dividends.

Management Reorganisation and December 2004 Comparatives

Prior year comparatives have been restated in line with the revised management structure. The significant reclassifications relate to the following:

- PFI's previously included in the Integrated Development business are now disclosed as part of Project Management, Construction and PFI's;
- Other Integrated Development businesses have been disclosed in the Retail and Communities business; and
- Retail property management, asset management and development management businesses previously included within the Real Estate Investment business are now disclosed as part of Retail and Communities.