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

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

All currency amounts in the MD&A are expressed in Australian dollars unless otherwise specified.

The following discussion and analysis is based on the Group's consolidated financial statements for the year ended 30 June 2006 and should be read in conjunction with those financial statements.

## Overview

### Introduction

The Group is organised into three global operating businesses which are in turn focused on three key geographic regions: Asia Pacific, Americas and Europe.

- Retail and Communities operates across all regions. Retail comprises retail property management, asset management and development in Australia, Singapore and the United Kingdom (UK). The Communities business is involved in the development of large scale urban communities through Delfin Lend Lease, Lend Lease Development and Senior Living in Australia, through Actus Lend Lease in the United States of America (USA), and in the UK principally through The Crosby Group;
- Investment Management provides real estate investment management services in Asia Pacific and the UK;
- Project Management, Construction and Private Finance Initiatives (PFIs) provides construction, project management and design services across all regions through Bovis Lend Lease and includes the PFI business in Europe;
- The Group also has direct and indirect ownership interests in property investments in Asia Pacific, Europe and the USA.

### Segment Results Summary

| | Revenue | | EBITDA | | Profit/(Loss) After Tax [1] | |
|---|---|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Retail and Communities | 2,384.9 | 819.3 | 245.3 | 152.3 | 167.5 | 94.0 |
| Investment Management | 134.8 | 225.6 | 174.8 | 164.5 | 129.5 | 117.0 |
| Project Management, Construction and PFIs | 9,576.6 | 8,183.8 | 187.0 | 191.0 | 134.6 | 140.6 |
| **Total operating businesses** | **12,096.3** | **9,228.7** | **607.1** | **507.8** | **431.6** | **351.6** |
| Group Services | 8.1 | 7.5 | (85.3) | (88.6) | (52.0) | (62.5) |
| Group Treasury | 22.4 | 44.9 | 4.7 | (8.5) | (22.4) | (1.7) |
| Group Amortisation | | | | | (3.0) | (1.7) |
| **Total corporate** | **30.5** | **52.4** | **(80.6)** | **(97.1)** | **(77.4)** | **(65.9)** |
| **Total operating** | **12,126.8** | **9,281.1** | **526.5** | **410.7** | **354.2** | **285.7** |
| Property investment revaluations[2] | | | 99.4 | 64.5 | 61.0 | 39.5 |
| **Total Group results before one off items** | **12,126.8** | **9,281.1** | **625.9** | **475.2** | **415.2** | **325.2** |
| One off items[3] | | 154.2 | | (101.4) | | (99.7) |
| **Total statutory** | **12,126.8** | **9,435.3** | **625.9** | **373.8** | **415.2** | **225.5** |

1 Profit after tax is after deducting the amount attributable to minority interests of A$7.4 million (June 2005: A$10.4 million).
2 Represents the unrealised valuation increases on property investments.
3 One off items of A$99.7 million after tax in June 2005 related to restructuring costs and costs incurred in relation to the proposed merger with General Property Trust (GPT) of A$67.1 million and the write down of management agreements of A$44.2 million. These costs were partially offset by a profit from the sale of Real Estate Investment businesses in the USA of A$11.6 million.

### Profit After Tax

The Group's statutory profit after tax increased by 84% to A$415.2 million. The Group recognised revaluation uplifts on its interests in retail investments of A$61.0 million (June 2005: A$39.5 million). There were no one off items in the current year, however the prior year included a loss after tax relating to one off items of A$99.7 million. Excluding one off items and property investment revaluations, the Group's operating profit increased by 24%.

Retail and Communities profit after tax increased by 78% in the year.

The Retail business profit after tax increased following the successful completion and sale of the Chapelfield retail centre in Norwich, UK.

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

## Overview continued

### Profit After Tax continued

The Communities business profit after tax increased following a strong performance in Australia which included profit from the sale of the entitlement to deferred management fees from two Senior Living retirement villages to the Lend Lease managed Core Plus Fund (LLCPF), continued sales of non residential land lots in line with Delfin Lend Lease's strategy for large projects, profit from the sale of the Gotham 80/20 housing project in the USA and the inclusion of The Crosby Group for the first time this year. These increases were partially offset by the write down of the Group's interest in a UK Communities project, North Weald, following an unfavourable planning ruling.

Investment Management profit after tax increased due to higher earnings from the Group's investment in the Australian Prime Property Fund (APPF) and strong performance from the Group's property investments. Also, June 2005 included the recognition of a foreign exchange provision following the implementation of the Australian equivalents to International Financial Reporting Standards (AIFRS). In Asia Pacific, the business was repositioned to focus on its wholesale investor base following Lend Lease ceasing its role as manager of GPT.

Project Management, Construction and PFIs' profit after tax declined slightly in the year. Bovis Lend Lease's profit after tax increased in both Asia Pacific and Americas. However, this was more than offset by a decline in profit in Europe due to margin deterioration on certain projects in the UK. The PFIs' profit after tax increased following the sale of a proportion of Lend Lease's equity interest in 11 PFI projects on entering into a 50/50 joint venture with the Bank of Scotland.

Corporate costs declined as the prior year included a charge, following the implementation of AIFRS, relating to the Lend Lease employee share plans and a lower effective tax rate. Underlying corporate costs have remained broadly flat.

The Group Treasury loss after tax increased principally due to lower interest revenue reflecting the lower average cash balance during the year.

The revaluation gain of A$61.0 million after tax relates to King of Prussia, Lend Lease Overgate Partnership and the Performance Retail Limited Partnership. The valuation of the Group's interest in Bluewater also increased, however as Bluewater is held as inventory the asset is recorded at historical cost in the financial statements.

### Shareholder Returns

| | | June 2006 | June 2005 |
|---|---|---|---|
| Earnings per share (EPS) on operating profit[1] | cents | 88.7 | 71.6 |
| Earnings per share (EPS) on statutory profit[1] | cents | 104.0 | 56.5 |
| Return on equity (ROE) on statutory profit excluding one off items[2] | % | 14.7 | 11.9 |

1 EPS is calculated using the weighted average shares on issue including treasury shares. Under AIFRS, shares held in employee benefit vehicles including employee share plans, which Lend Lease sponsors, are treated as treasury stock and are excluded from the calculation. This would have the effect of increasing the EPS calculations above if applied.
2 ROE is calculated based on average equity.

### Dividends

A final fully franked dividend of 31 cents per share will be paid on 13 September 2006 (June 2005: 29 cents per share fully franked). On a full year basis this equates to a total dividend of 61 cents which is a payout ratio of 68.8% of profit after tax excluding property investment revaluations.

### Credit Strength

| | | June 2006 | June 2005 |
|---|---|---|---|
| Net debt/net (cash)[1] | A$m | 286.5 | (69.6) |
| Net debt/(cash) to total tangible assets | % | 3.9 | (1.1) |
| Net debt/(cash) to shareholders' equity plus net debt/(cash) | % | 8.7 | (2.6) |
| Interest coverage[2] | times | 7.8 | 6.6 |
| Credit rating (Standard & Poor's/Moody's) | rating | BBB-/Baa3 | BBB-/Baa3 |

1 Net debt/net (cash) is calculated as borrowings less cash.
2 Calculated as EBITDA (excluding one off items and revaluation gains from investments) plus interest revenue divided by gross borrowing costs (which includes capitalised borrowing costs) excluding the allocation of hedge gains/losses.

The Group's gearing remained low throughout the year and interest coverage at 7.8 times is above the Group's internal targets. The Group continues to maintain an investment grade credit rating.

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

## Overview continued

### Total Equity

| | June 2006 A$m | June 2005 A$m |
|---|---|---|
| Retail and Communities | 1,587.6 | 1,255.4 |
| Investment Management | 1,961.9 | 1,574.6 |
| Project Management, Construction and PFIs | 204.4 | 252.5 |
| Corporate | (742.6) | (372.1) |
| Total equity | **3,011.3** | **2,710.4** |

The increase in Retail and Communities reflects the acquisition of The Crosby Group offset by the sale of the Chapelfield retail centre, Norwich.

Investment Management increased due to property investment revaluations and the acquisition of the Group's investments in the Performance Retail Limited Partnership and the Chelmsford Meadows Unit Trust offset by the sale of the Value Enhancement Funds III, IV and V, and capital returns from the Lend Lease Global Properties, SICAF.

Corporate equity decreased due to a A$346.0 million increase in borrowings.

### Cash Flow

| | June 2006 A$m | June 2005 A$m |
|---|---|---|
| Net cash provided by/(used in) operating activities | 660.3 | (54.7) |
| Net cash (used in)/provided by investing activities | (910.1) | (186.4) |
| Net cash provided by/(used in) financing activities | 233.8 | (548.5) |
| Net increase/(decrease) from other items | 5.9 | (28.9) |
| Net decrease in cash and cash equivalents | **(10.1)** | **(818.5)** |

Operating cash flows of A$660.3 million reflects the proceeds from the sale of the Chapelfield retail centre of A$532.0 million and strong underlying cash flows from the Group's operating businesses, offset by continued investment in property developments.

Investing cash outflows of A$910.1 million include the acquisition of The Crosby Group of A$619.3 million, the acquisition of the final minority interest in Actus Lend Lease of A$92.5 million, investment in the Chelmsford Meadows Unit Trust of A$142.8 million and investment in the Performance Retail Partnership of A$89.8 million.

Net cash provided by financing activities of A$233.8 million includes 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 £185.0 million as at 30 June 2006. These proceeds were offset by the repayment of the A$500.0 million Medium Term Notes in July 2005.

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

## Retail and Communities

### Key Financial Results

The key financial results for the Retail and Communities business are summarised below.

| | Revenue | | EBITDA | | Profit After Tax[1] | |
|---|---|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Retail | 724.1 | 60.8 | 44.6 | 9.7 | 30.9 | 6.1 |
| Communities | 1,660.8 | 758.5 | 200.7 | 142.6 | 136.6 | 87.9 |
| Total Retail and Communities | **2,384.9** | **819.3** | **245.3** | **152.3** | **167.5** | **94.0** |

1 Profit after tax is after deducting the amount attributable to minority interests of A$7.0 million (June 2005: A$10.3 million).

### Retail

### Overview of Business

Lend Lease has continued to expand its retail operations in Australia, Singapore, the UK and the USA to include:

- An ownership interest, directly or indirectly via managed funds, in 18 centres (June 2005: 15 centres), of which Lend Lease's share is valued at A$3.0 billion (June 2005: A$2.3 million);
- Development management positions on 12 centres (June 2005: nine centres), with the potential to redevelop more than 320,000 square metres of retail space;
- Property management of 763,100 square metres of retail space across 12 centres (June 2005: 11 centres);
- Total assets under management of A$9.8 billion at June 2006 (June 2005: A$8.5 billion).

The key financial results for the Retail business are summarised below.

| | Revenue | | EBITDA | | Profit After Tax | |
|---|---|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Asia Pacific | 25.3 | 41.3 | 1.7 | 8.2 | 1.0 | 5.4 |
| Europe | 698.8 | 19.5 | 42.9 | 1.5 | 29.9 | 0.7 |
| Total Retail | **724.1** | **60.8** | **44.6** | **9.7** | **30.9** | **6.1** |

Profit after tax for the year of A$30.9 million comprises Lend Lease's retail development and property management activities. Income and property investment revaluations from ownership of retail investments are reported as part of Investment Management and income from the construction of retail centres is reported as part of Project Management, Construction and PFIs.

Europe includes a profit after tax of A$33.3 million relating to the successful completion and sale of the Chapelfield retail centre.

Profit after tax declined in Asia Pacific principally due to the termination, with effect from 15 August 2005, of the property management agreements relating to retail centres wholly owned by GPT.

### Retail – Asia Pacific

In Asia Pacific, Lend Lease's retail interests include an ownership interest in 10 retail centres (June 2005: 10 centres). The Group's ownership interests are held indirectly through investments in Lend Lease managed funds, APPF Retail in Australia and Asia Pacific Investment Company No. 2 (APIC II) in Singapore. The business is currently undertaking master planning of development opportunities for five centres and carries out property management of six centres in Australia and one in Asia with a total gross lettable area of 472,300 square metres.

Performance highlights for the year included:

- Increasing the net operating income of the Lend Lease managed centres by 6.3%;
- Completing the Macarthur Square development which delivered an additional 30,000 square metres of retail space;
- Continued master planning of a pipeline of future development opportunities relating to the Lend Lease managed centres with an approximate value of A$645.0 million;
- Entering into a conditional sales agreement on 28 June 2006 to acquire a 25% interest in the Paradiz Centre in Singapore for a consideration of A$28.8 million.

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

## Retail and Communities continued

### Retail continued

#### Retail – Europe

In Europe, Lend Lease's retail business includes an ownership interest in seven centres in the UK (June 2005: four centres). The business also has development opportunities which are expected to deliver an additional 243,600 square metres of retail space. Lend Lease is responsible for asset and property management of five centres with total retail space of 290,800 square metres.

Performance highlights for the year included:

- Completion and sale of the Chapelfield retail centre for a profit after tax of A$33.3 million;
- An increase in the value of the four Lend Lease managed retail centres held throughout the year (Bluewater, Touchwood, Overgate and Golden Square) of A$0.7 billion to A$6.3 billion;
- Securing development management positions on four centres including Park Place, Croydon; Arndale, Eastbourne; Cameron Toll, Edinburgh and The Meadows, Chelmsford thereby increasing the potential development pipeline to around A$3.5 billion subject to planning consent and acceptable commercial viability;
- Securing asset and property management rights for The Meadows, Chelmsford;
- Increasing assets under management by 16% to A$6.5 billion.

### Communities

#### Overview of Business

Lend Lease continued to expand its community development operations. Lend Lease has a market leading position in Australia and now has a growth platform in both the UK and the USA following the acquisition of The Crosby Group in the UK and having secured its first communities project in the USA, Horizon City Center in Denver.

The key financial results of the Communities business are summarised below.

| | Revenue | | EBITDA | | Profit After Tax | |
|---|---|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Asia Pacific | 724.2 | 491.6 | 144.3 | 90.8 | 92.6 | 52.3 |
| Europe | 508.4 | 7.0 | 19.1 | 3.2 | 12.9 | 3.0 |
| Americas | 428.2 | 259.9 | 37.3 | 48.6 | 31.1 | 32.6 |
| **Total Communities** | **1,660.8** | **758.5** | **200.7** | **142.6** | **136.6** | **87.9** |

The Communities profit after tax of A$136.6 million reflects the diversified earnings from this business and includes:

- In excess of 4,200 new homes or land units settlements;
- The sale of the entitlement to deferred management fees from two Lend Lease retirement villages to the LLCPF;
- Gross sales revenue of A$330.0 million from the sale of a number of non residential sites on Communities projects in Australia;
- The results for The Crosby Group for the first time following its acquisition in July 2005.

Profit after tax includes a write down of A$13.8 million after tax relating to Lend Lease's investment in North Weald in the UK following an unfavourable planning ruling.

## Retail and Communities continued

## Communities continued

### Communities Backlog

| | June 2006 Backlog Units | June 2005 Backlog Units |
|---|---|---|
| **Zoned Backlog** | | |
| Asia Pacific | 36,000 | 36,133 |
| Europe | 13,700 | 10,000 |
| Americas | 3,025 | |
| Total | **52,725** | **46,133** |
| **Unzoned Backlog** | | |
| Asia Pacific | 40,400 | 41,800 |
| Europe | 280 | 5,000 |
| Total | **40,680** | **46,800** |
| **Units Under Management** | | |
| Americas[1] | 34,200 | 27,700 |
| Total | **127,605** | **120,633** |

1 Includes projects where Lend Lease is preferred bidder, including extensions of two existing projects.

### Communities – Asia Pacific

Communities – Asia Pacific operates through three main business sectors:

– Delfin Lend Lease which undertakes the development of large scale, master planned urban communities;
– Lend Lease Development which is focused on inner urban mixed use regeneration projects;
– Senior Living which is focused on the development and management of retirement villages.

The key financial results of the Communities – Asia Pacific business are detailed below.

| | Delfin Lend Lease | | Lend Lease Development[1] | | Senior Living[2] | | Total | |
|---|---|---|---|---|---|---|---|---|
| | June 2006 | June 2005 | June 2006 | June 2005 | June 2006 | June 2005 | June 2006 | June 2005 |
| Profit after tax (A$m) | 60.2 | 50.0 | 20.4 | 1.7 | 12.0 | 0.6 | 92.6 | 52.3 |
| Number of projects | 22 | 21 | 9 | 9 | 13 | 13 | 44 | 43 |
| Number of units settled | 2,736 | 3,301 | 219 | 429 | 24 | 34 | 2,979 | 3,764 |
| Gross sales value of units settled (A$m)[3] | 490.4 | 439.3 | 370.1 | 367.8 | 32.4 | 18.0 | 892.9 | 825.1 |
| Pre-sales (A$m)[4] | 149.2 | 118.4 | 251.4 | 171.7 | 2.1 | 3.2 | 402.7 | 293.3 |
| Backlog (number of units)[5] | | | | | | | | |
| Zoned (with planning approval) | 27,250 | 27,500 | 8,100 | 8,100 | 650 | 533 | 36,000 | 36,133 |
| Unzoned (awaiting planning approvals) | 40,400 | 41,800 | | | | | 40,400 | 41,800 |
| Total backlog | **67,650** | **69,300** | **8,100** | **8,100** | **650** | **533** | **76,400** | **77,933** |

1 Profit after tax in June 2005 includes a A$3.9 million prior period tax expense relating to Asia. The Group has no current developments in Asia.
2 Units settled for Senior Living refers to primary sales (new development sites) and excludes any resales.
3 Gross sales value reflects residential and non residential revenue from projects, including revenue earned from joint venture projects and the sale of deferred management fees.
4 Pre-sales represent contracts entered into prior to 30 June 2006, including contracts from joint venture projects which have not settled and therefore do not form part of profit after tax in the current year. These sales are expected to settle in future periods.
5 Backlog includes the total number of units in both company owned and joint venture projects. The actual number of units 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 continued

### Communities – Asia Pacific continued

Performance highlights for the year included:

- Profit after tax increasing by A$40.3 million (77%) to A$92.6 million;
- The average sale price per residential land lot increasing by 7% (A$139,000 to A$149,000). This was partially offset by the number of units settled declining by 21%, reflecting the portfolio's weighting to start up projects;
- Gross sales revenue of A$330.0 million (June 2005: A$10.2 million) from the sale of non residential units;
- Further geographic diversification of the portfolio as trading commenced on Ropes Crossing (NSW) and Forde (ACT). Also, the Laurimar Park (VIC) and Wilton Parkland projects (NSW) were secured, adding 3,040 backlog units;
- The sale of deferred management fees of two retirement villages to the LLCPF generating a profit after tax of A$10.2 million. The Senior Living business will continue to operate the villages and earn management fees from the LLCPF;
- The completion of the Darling Park Stage III project delivering a profit after tax of A$15.1 million;
- The sale of the Twin Waters Resort (Lend Lease ownership interest 51%) for a profit after tax of A$8.8 million;
- Zoned backlog of 36,000 units remaining consistent with the prior year (June 2005: 36,133 units).

The Lend Lease Development result includes a loss of A$4.2 million after tax relating to Jacksons Landing. This 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.

Subsequent to the year end three projects (Woodlands, Ropes Crossing and Lakeside) were sold into the Lend Lease Communities Fund 1 for a total consideration of A$186.1 million. Lend Lease has a 20.8% co-investment in the fund and will earn ongoing management fees from these projects.

### Communities – Europe

In Europe, the Communities business primarily consists of The Crosby Group, the Greenwich Peninsula project and First Base.

The key financial results of the Communities – Europe business are detailed below.

| | Crosby | | Other | | Total | |
|---|---|---|---|---|---|---|
| | June 2006 | June 2005 | June 2006 | June 2005 | June 2006 | June 2005 |
| Profit/(loss) after tax (A$m) | 27.8 | | (14.9) | 3.0 | 12.9 | 3.0 |
| Number of projects | 20 | | 2 | 2 | 22 | 2 |
| Number of units settled | 1,193 | | | | 1,193 | |
| Gross sales value of units settled (A$m)[1] | 550.0 | | | | 550.0 | |
| Pre-sales (A$m)[2] | 452.9 | | | | 452.9 | |
| Backlog (number of units)[3] | | | | | | |
| Zoned (with planning approval) | 3,550 | | 10,150 | 10,000 | 13,700 | 10,000 |
| Unzoned (awaiting planning approvals) | 280 | | | 5,000 | 280 | 5,000 |
| **Total backlog** | **3,830** | **–** | **10,150** | **15,000** | **13,980** | **15,000** |

1 Gross sales value reflects revenue from projects, including revenue earned from joint venture projects.

2 Pre-sales represent contracts entered into prior to 30 June 2006, including contracts from joint venture projects which have not settled and therefore do not form part of profit after tax in the current year. These sales are expected to settle in future periods.

3 Backlog includes the total number of units in both company owned and joint venture projects. The actual number of units 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 continued**

## The Crosby Group

Lend Lease acquired its interest in The Crosby Group on 8 July 2005 for a consideration of A$618.9 million. The Crosby Group is an urban regeneration specialist operating in major northern UK cities such as Manchester, Leeds and Birmingham. The majority of The Crosby Group's earnings are derived from mid to high rise apartment developments on brownfield urban regeneration sites.

The Crosby Group performance highlights for the year included:

- A contribution to profit after tax of A$27.8 million. This profit is in line with management's expectations at the time The Crosby Group was acquired. The reported profit after tax has been reduced by A$46.3 million after tax due to a fair value adjustment recognised on acquisition;
- A gross profit margin on revenue in excess of 20%, which is in line with expectations;
- Closing backlog representing approximately three years sales. This is considered appropriate given that The Crosby Group typically secures projects by purchasing land. The Crosby Group is expected to replenish and build its backlog through a combination of site acquisitions and leveraging mixed use development opportunities from within Lend Lease;
- Acquiring a new development site at Potato Wharf, Manchester during the year. This site has an existing planning approval for 230 residential units with the potential to significantly expand the scheme by acquiring adjacent sites.

## Other Communities – United Kingdom (UK)

Other Communities – UK operating loss after tax of A$14.9 million was primarily due to a provision made against the North Weald investment of A$13.8 million after tax. Lend Lease invested in this project based on the draft East of England Regional Spatial Strategy (RSS) which identified North Weald within a major residential growth zone. In June 2006 a Government Planning Inspector's report in relation to the RSS was published recommending withdrawal of support for North Weald as a location for major development. Given this policy shift away from the draft RSS, the investment has been fully provided for and management is now undertaking a full review of options for the site. Unzoned backlog has accordingly been reduced by 5,000 units.

The Greenwich Peninsula project (undertaken in a joint venture with Quintain Estates and Development Plc and English Partnerships) involves the development of 10,000 apartments, 340,000 square metres of commercial and 33,000 square metres of retail space on 59 hectares of land on the Greenwich Peninsula in London. The project will be developed through a combination of land sales to third party developers and direct development with joint venture partner, Quintain. Discussions with third party developers for the sale of the first plot of land are well advanced.

First Base is a company specialising in affordable housing and community projects in London. During the year Lend Lease increased its equity stake in the business from 24.1% to 45.0%. As a preferred partner of English Partnerships' London Wide Initiative, First Base has secured a backlog of 1,000 units. In addition to its equity stake in First Base, Lend Lease has directly invested in the company's first project, Adelaide Wharf, which comprises 150 apartments and commenced construction in April 2006.

## Communities – Americas

In the US, the Communities business consists of Actus Lend Lease, the San Francisco Piers development project and the newly acquired Horizon City Center project in Denver. The Group sold its interest in the Gotham 80/20 housing project in New York during the year.

## Actus Lend Lease

The primary focus of Actus Lend Lease is the military housing privatisation initiative (MHPI) for all branches of the US Military. The MHPI includes family housing, lodging and barracks and is a A$55.0 billion programme, of which approximately A$19.0 billion of projects has been released to date. Under the MHPI, Actus Lend Lease is selected to own, finance, construct and operate family housing projects for 50 years. To date Actus Lend Lease has been awarded projects valued at A$6.0 billion which represents over 25% of the value of projects released.

## Retail and Communities continued

## Communities continued

### Actus Lend Lease continued

The key financial results for Actus Lend Lease are detailed below.

| | June 2006 | June 2005 |
|---|---|---|
| Profit after tax (A$m) | 18.1 | 30.7 |
| Construction gross profit margin (GPM) (A$m) | 25.8 | 6.3 |
| Development GPM (A$m) | 20.8 | 58.7 |
| Asset management GPM (A$m) | 5.3 | 5.6 |
| Equity returns (A$m) | 1.6 | 0.2 |
| Number of projects[1] | 11 | 7 |
| **Backlog (number of units under management)** | | |
| Projects in operational status (secured) | 27,700 | 24,300 |
| Projects in preferred bidder status (awarded) | 6,500 | 3,400 |
| Total backlog | **34,200** | **27,700** |

1 Number of projects includes projects where Lend Lease is preferred bidder, including extensions of two existing projects.

Performance highlights for the year included:
- Lend Lease acquiring the final 12.5% minority interest stake in Actus Lend Lease, with effect from 1 July 2005. The profit after tax represents Lend Lease's 100% holding in Actus Lend Lease (June 2005: 87.5%);
- Construction on secured projects progressing in accordance with contract obligations and as a result GPM recognised reflects contracted margins. The Fort Hood project reached substantial completion five months ahead of schedule;
- Development fees represent a fee for service and are not at risk for project performance. Development fee income declined due to fewer projects reaching financial close in the year. Development fees were high in the prior year due to financial close of the Army RCI and Hickam AFB projects in Hawaii and the Fort Drum project in New York;
- Units under management increasing by 6,500 units. Occupancy levels across the portfolio continued to meet project expectations, despite ongoing deployment of military personnel, ensuring that asset management fees were earned as planned;
- The Marine Corps Installation reaching financial close with a construction value of A$460.0 million;
- Selection as preferred bidder on the privatisation contracts for Fort Knox in Kentucky, and the Air Combat Command Group II in Arizona and New Mexico. The combined construction value of these two projects is A$658.0 million;
- Selection as preferred bidder on the second phases of the privatisation of Hickam AFB and the Marine Corps Installation. The combined construction value of these two projects is A$625.0 million.

### New Work Secured and Backlog GPM

| | Opening Backlog GPM at June 2005[1] A$m | Foreign Exchange Adjustment A$m | New Work Secured GPM to June 2006 A$m | Backlog GPM Realised to June 2006 A$m | Closing Backlog GPM at June 2006[2] A$m |
|---|---|---|---|---|---|
| Projects in operational status (secured) | 363.5 | (49.8) | 75.2 | (51.9) | 337.0 |
| Projects in preferred bidder status (awarded) | 44.6 | (6.1) | 100.8 | | 139.3 |
| Total backlog GPM | **408.1** | **(55.9)** | **176.0** | **(51.9)** | **476.3** |

1 Opening backlog GPM has been adjusted from the June 2005 MD&A to reallocate the San Francisco Piers development project, which is now included in the US Communities business.
2 Backlog GPM disclosed includes ten years backlog from facilities management even though the contracts run for up to 50 years.

### Backlog GPM Run Off

| | Year Ending June 2007 % | Year Ending June 2008 % | Post June 2008 % | Total % |
|---|---|---|---|---|
| Projects in operational status (secured) | 23 | 15 | 62 | 100 |
| Projects in preferred bidder status (awarded) | 25 | 13 | 62 | 100 |
| Total backlog GPM | **24** | **14** | **62** | **100** |

## Retail and Communities continued

## Communities continued

### Other Communities – Americas

Other Communities – Americas includes the Piers development project in San Francisco and the newly acquired community development project, Horizon City Center in Denver. The Group sold its interest in the Gotham 80/20 housing project in New York in the year.

The key financial results for Other Communities – Americas are detailed below.

| | Total | |
|---|---|---|
| | June 2006 | June 2005 |
| Profit after tax (A$m) | 13.0 | 1.9 |
| Number of projects | 2 | 2 |
| Number of units settled | 61 | |
| Gross sales value of units (A$m) [1] | 88.1 | |
| Pre-sales (A$m)[2] | 36.5 | |
| **Backlog (number of units)**[3] | | |
| Zoned | 3,025 | |

1 Gross sales reflects revenue from projects, including revenue earned from joint venture projects.
2 Pre-sales represent contracts entered into prior to 30 June 2006, including contracts from joint venture projects which have not settled and therefore do not form part of profit after tax in the current year. These sales are expected to settle in future periods.
3 The actual number of backlog units for any particular project can vary as planning applications are obtained.

Performance highlights for the year included:

- Acquisition of a 203 hectare development parcel known as Horizon City Center in Denver, Colorado in June 2006. A mixed use housing, retail and commercial community proposed for the site is expected to commence in the first half of the June 2007 financial year, with first settlements expected in 2008;
- Sale of 61 of the 136 condominiums developed in joint venture with the San Francisco Cruise Terminal. The remaining 75 condominiums are expected to be sold in the June 2007 financial year;
- Sale on 9 August 2005 of the Foundry in New York, an 80/20 housing project held in partnership with Gotham, resulting in a profit after tax of A$9.8 million.

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

## Investment Management

### Overview of Business

The Investment Management business has A$9.7 billion of funds under management (FUM) (June 2005: A$8.1 billion). Lend Lease holds investments directly and indirectly in property assets with a market value of A$3.2 billion (June 2005: A$2.7 billion). The Group's interest in these property investments generated investment income EBITDA (excluding gains on sale of investments) of A$133.4 million during the year, representing 22% of the Group's EBITDA from operating businesses.

### Key Financial Results

The key financial results of the Investment Management business are summarised below.

| | Revenue[1] | | EBITDA | | Profit After Tax | |
|---|---|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Funds Management | | | | | | |
| Asia Pacific | 34.6 | 64.5 | 8.7 | 29.8 | 6.5 | 21.4 |
| Europe | 3.8 | 3.6 | 0.8 | 2.4 | 0.5 | 1.2 |
| Americas | 0.4 | 13.5 | 4.9 | 6.5 | 3.1 | 3.8 |
| **Total** | **38.8** | **81.6** | **14.4** | **38.7** | **10.1** | **26.4** |
| Investment Income[2,3,4] | | | | | | |
| Asia Pacific | 29.2 | 27.9 | 24.3 | 8.6 | 16.1 | 5.7 |
| Europe | 66.4 | 66.1 | 94.9 | 60.2 | 70.4 | 38.6 |
| Americas | 0.4 | 50.0 | 41.2 | 57.0 | 32.9 | 46.3 |
| **Total** | **96.0** | **144.0** | **160.4** | **125.8** | **119.4** | **90.6** |
| Total Operating | | | | | | |
| Asia Pacific | 63.8 | 92.4 | 33.0 | 38.4 | 22.6 | 27.1 |
| Europe | 70.2 | 69.7 | 95.7 | 62.6 | 70.9 | 39.8 |
| Americas | 0.8 | 63.5 | 46.1 | 63.5 | 36.0 | 50.1 |
| **Total** | **134.8** | **225.6** | **174.8** | **164.5** | **129.5** | **117.0** |
| Property Investment Revaluations[5] | | | | | | |
| Europe | | | 25.3 | 14.5 | 17.7 | 10.2 |
| Americas | | | 74.1 | 50.0 | 43.3 | 29.3 |
| **Total** | **–** | **–** | **99.4** | **64.5** | **61.0** | **39.5** |

1 Revenue excludes Lend Lease's share of profits from associates and joint ventures accounted for using the equity method.
2 Represents Lend Lease's share of income from properties and investments net of direct expenses, including the allocation of hedge gains/losses and excluding any adjustments to the investment carrying value.
3 EBITDA and profit after tax includes gains from the sale of investments of $27.0 million (June 2005: $6.8 million) and $24.6 million (June 2005: $4.9 million) respectively.
4 The June 2005 result included a foreign exchange provision of A$18.9 million after tax following the implementation of AIFRS.
5 Represents the unrealised valuation increases on property investments. Relates only to Lend Lease's property investments that are accounted for using the equity method.

Performance highlights for the year included:

- In Asia Pacific, the Funds Management business was repositioned to focus on its wholesale investor base following Lend Lease ceasing its role as manager of GPT in Australia. Profit after tax was A$6.5 million, with FUM (excluding joint venture interests) increasing by 15% during the year;
- The profit after tax from investment income in Asia Pacific increased to A$16.1 million. The increase is predominantly due to Lend Lease's additional investment in APPF Retail, acquired in two tranches in April 2005 and in October 2005;
- In Europe, profit after tax from investment income increased to A$70.4 million reflecting the Group's new investments in the Warrington Retail Limited Partnership and the Performance Retail Limited Partnership which were acquired in February 2005 and August 2005 respectively. In addition, the Group's investment in Lend Lease Global Properties, SICAF contributed A$11.8 million after tax. Also, the prior year included a foreign exchange provision of A$13.3 million after tax following the introduction of AIFRS;
- In the Americas, total profit after tax declined to A$36.0 million due to lower investment income as Real Estate Investment businesses were sold. The ongoing sale of these businesses (Value Enhancement Fund III, IV and V in July 2005) generated a profit after tax of A$7.5 million. In addition, the Americas business had a low effective tax rate due to the recognition of a A$6.6 million (June 2005: A$6.9 million) tax benefit relating to previously unrecorded tax losses;
- Unrealised valuation increases on property investments was A$99.4 million before tax. In Europe, this represented a A$16.1 million increase in the value of the Group's 30.7% interest in the Lend Lease Overgate Partnership and a A$9.2 million increase in the value of the Group's 33.3% interest in the Performance Retail Limited Partnership. In the Americas, the A$74.1 million property investment revaluation related to Lend Lease's 50% interest in King of Prussia. In addition, the value of the Group's 30% direct interest in Bluewater increased by 12% to $1,482.8 million. However Bluewater is treated as inventory in the financial statements and therefore is reflected at cost, which at June 2006 was A$559.2 million.

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

## Investment Management continued

### Funds Under Management (FUM)

| | Asia Pacific A$b | Europe £b | Total June 2006 A$b | Total June 2005 A$b |
|---|---|---|---|---|
| FUM at the beginning of the financial year | 3.9 | 0.9 | 6.0 | 13.3 |
| Additions | 0.4 | 0.1 | 0.6 | 1.3 |
| Reductions[2] | (0.1) | | (0.1) | (9.5) |
| Net revaluations | 0.3 | 0.1 | 0.5 | 0.9 |
| **FUM at the end of the financial year (excluding joint ventures)[1]** | **4.5** | **1.1** | **7.0** | **6.0** |
| FUM from joint venture interests | 1.5 | 0.5 | 2.7 | 2.1 |
| **FUM at the end of the financial year (including joint ventures)[1]** | **6.0** | **1.6** | **9.7** | **8.1** |

1 FUM represents the gross market value of real estate assets managed on behalf of investors.
2 Reductions in the June 2005 year is due to Lend Lease ceasing to manage GPT.

FUM increased by A$1.6 billion due to property acquisitions by APPF in Australia and revaluation gains in existing managed assets. In addition, Investment Management launched the Lend Lease Core Plus Fund in June 2006, adding A$0.1 billion of FUM in Australia, and was appointed as manager of the Chelmsford Meadows Partnership in March 2006, adding A$0.2 billion of FUM in Europe.

### Investments

| | Region | Lend Lease Share of Income[1,2] June 2006 A$m | Lend Lease Share of Income[1,2] June 2005 A$m | Market Value[3] June 2006 A$m | Market Value[3] June 2005 A$m |
|---|---|---|---|---|---|
| Bluewater | UK | 64.5 | 64.5 | 1,482.8 | 1,318.3 |
| King of Prussia | USA | 25.1 | 27.9 | 445.3 | 358.4 |
| Other retail investments | Various | 42.8 | 14.8 | 1,029.6 | 661.6 |
| Other investments | Various | 28.0 | 18.6 | 210.9 | 331.2 |
| **Total direct and indirect investments** | | **160.4** | **125.8** | **3,168.6** | **2,669.5** |

1 Represents Lend Lease's share of income before tax from properties and investments net of direct expenses, including the allocation of hedge gains/losses and excluding any adjustment to investment carrying value.
2 Lend Lease share of income includes gains from the sale of investments of A$27.0 million (June 2005: A$6.8 million).
3 Market value is the gross value based on independent valuations.

Lend Lease held property investments, directly or indirectly, with a market value of A$3.2 billion at June 2006:
- Lend Lease maintains a 30% direct interest in Bluewater. The independent market value at June 2006 of 100% of Bluewater was £2,026.5 million (A$4,942.7 million);
- The value of Lend Lease's investment in the King of Prussia Partnership increased to A$445.3 million (June 2005: A$358.4 million);
- Other retail investments increased by A$368.0 million due predominantly to the acquisition of a 33.3% interest in the Performance Retail Limited Partnership (June 2006 market value: A$103.3 million) and a 75% interest in the Chelmsford Meadows Unit Trust (June 2006 market value: A$146.6 million);
- Other investments decreased by A$120.3 million due to the sale of the Value Enhancement Fund III, IV and V, and capital returns from the Lend Lease Global Properties, SICAF and the Lend Lease International Distressed Debt Fund.

### Property Investment Revaluations

| | Region | Unrealised Revaluations Before Tax June 2006 A$m | Unrealised Revaluations Before Tax June 2005 A$m |
|---|---|---|---|
| Lend Lease Overgate Partnership | UK | 16.1 | 14.5 |
| Performance Retail Limited Partnership (acquired August 2005) | UK | 9.2 | |
| King of Prussia | USA | 74.1 | 50.0 |
| **Total property investment revaluations** | | **99.4** | **64.5** |

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

## Project Management, Construction and Private Finance Initiatives

### Key Financial Results

| | Revenue | | Realised Gross Profit Margin | | EBITDA | | Profit After Tax | |
|---|---|---|---|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Bovis Lend Lease | | | | | | | | |
| Asia Pacific | 1,718.6 | 1,553.4 | 123.5 | 98.8 | 43.1 | 26.8 | 23.8 | 14.2 |
| Americas | 4,587.6 | 3,662.7 | 190.3 | 183.3 | 87.3 | 70.9 | 59.3 | 55.7 |
| Europe | 3,193.5 | 2,866.4 | 154.8 | 218.0 | 48.0 | 94.5 | 33.3 | 66.9 |
| Total Bovis Lend Lease | **9,499.7** | **8,082.5** | **468.6** | **500.1** | **178.4** | **192.2** | **116.4** | **136.8** |
| Private Finance Initiatives (PFIs) | 76.9 | 101.3 | 9.1 | 0.6 | 8.6 | (1.2) | 18.2 | 3.8 |
| Total Project Management, Construction and PFIs | **9,576.6** | **8,183.8** | **477.7** | **500.7** | **187.0** | **191.0** | **134.6** | **140.6** |

Project Management, Construction and PFIs profit after tax was A$134.6 million, a 4% decrease on the prior year. Profit after tax was negatively affected by foreign exchange movements of A$9.4 million. Excluding currency movement, profit after tax increased by 2%.

Total revenue increased A$1.4 billion due to higher volumes in Asia Pacific and the Americas and a continuing change in the mix from fee services to construction services contracts in the UK.

### Bovis Lend Lease

**Asia Pacific**
Profit after tax for the Asia Pacific business increased by A$9.6 million (68%) due to the Australian business completing a number of large projects including 126 Phillip 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 Asia, Japan and Taiwan performed strongly off the back of telecommunication and technology projects. The effective tax rate for Asia Pacific is high due to the proportion of profits emerging from Japan, a high tax jurisdiction.

**Americas**
Profit after tax for the Americas business of A$59.3 million was negatively impacted by foreign exchange movements of A$9.4 million. Excluding currency movements, profit increased 23%. Gross Profit Margin increased A$7.0 million (A$37.2 million excluding currency movements) due to higher volumes of work, particularly in Miami, Washington and San Francisco, and performance bonuses received on two large projects: 731 Lexington Avenue, New York and 111 South Wacker Street, Chicago. The Americas business has a low effective tax rate due to the recognition of an A$11.2 million (June 2005: A$8.2 million) tax benefit relating to previously unrecorded tax losses.

**Europe**
Operating profit after tax for the European business decreased by A$33.6 million and realised GPM decreased A$63.2 million primarily due to margin deteriorations on certain UK projects. The European business had a solid performance in the second half of the financial year due to continued growth in the Gulf States and Continental Europe and the recognition of previously deferred profit in the UK relating to the Chapelfield development and the Leeds PFI hospital as the project was more than 50% complete.

**Profitability Ratio**
The profitability ratio (defined as EBITDA divided by realised GPM) of Bovis Lend Lease for the year was 38% (June 2005: 38%) with the strong performances in the Asia Pacific and Americas regions offsetting a decline in Europe.

## Project Management, Construction and Private Finance Initiatives continued

### New Work Secured and Backlog GPM

| | Opening Backlog GPM at June 2005 A$m | Foreign Exchange and Other Adjustments[1] A$m | New Work Secured GPM to June 2006 A$m | Backlog GPM Realised to June 2006 A$m | Closing Backlog GPM at June 2006[2,3] A$m |
|---|---|---|---|---|---|
| Asia Pacific | 84.1 | 0.4 | 144.2 | (123.5) | 105.2 |
| Americas | 228.0 | (31.4) | 213.4 | (190.3) | 219.7 |
| Europe | 369.2 | (53.3) | 139.0 | (154.8) | 300.1 |
| **Total Bovis Lend Lease** | **681.3** | **(84.3)** | **496.6** | **(468.6)** | **625.0** |
| Facilities Management[3] | 57.7 | | 10.8 | (8.0) | 60.5 |
| **Total operational projects** | **739.0** | **(84.3)** | **507.4** | **(476.6)** | **685.5** |
| Projects in preferred bidder status (awarded)[4] | 20.6 | | 4.2 | | 24.8 |
| **Total including projects in preferred bidder status** | **759.6** | **(84.3)** | **511.6** | **(476.6)** | **710.3** |

1 Foreign exchange and other adjustments include exchange rate movements from the prior year's effective hedge rate to the current year's rate and margin deterioration on projects in the UK referred to above.
2 Although closing backlog GPM is run off over several years, the effective hedge rate for the current year 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$160.4 million (June 2005: US$143.6 million) and the European backlog GPM was £120.0 million (June 2005: £147.7 million).
3 Backlog GPM disclosed includes only 10 years backlog from facilities management even though PFIs contracts run for longer periods of up to 35 years. Facilities management GPM is reported in PFIs.
4 New work secured of A$4.2 million for projects in preferred bidder status reflects A$28.3 million of GPM on projects that were awarded preferred bidder status during the year less A$24.1 million of GPM transferred from preferred bidder to operational projects following financial close.

New work secured is the total project GPM to be earned from projects secured during the financial year. Backlog GPM is the expected GPM to be realised in future financial periods from contracts committed at the end of the financial year.

New work secured of A$496.6 million for Bovis Lend Lease was higher than realised GPM of A$468.6 million. However, after adjusting for foreign exchange movements and the margin deterioration on UK projects, total Bovis Lend Lease backlog GPM declined 8% to A$625.0 million.

### Backlog GPM Realisation as at June 2006

| | Year Ending June 2007 % | Year Ending June 2008 % | Post June 2008 % | Total % |
|---|---|---|---|---|
| Asia Pacific | 72 | 24 | 4 | 100 |
| Americas | 59 | 29 | 12 | 100 |
| Europe | 49 | 22 | 29 | 100 |
| **Total Bovis Lend Lease** | **56** | **25** | **19** | **100** |

As at June 2006, 56% of backlog GPM is projected to be realised as profit in the year to June 2007. The proportion of Bovis Lend Lease secured backlog GPM to be realised beyond 12 months decreased marginally to 44% (June 2005: 48%). While the trend towards longer duration projects continued, this statistic is affected by the timing of new projects.

### 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 included in Bovis Lend Lease.

The profit after tax for PFIs increased to A$18.2 million (June 2005: A$3.8 million). The profit includes a gain arising from the Lend Lease and Bank of Scotland PFI joint venture of A$19.6 million after tax. Lend Lease and the Bank of Scotland equalised their investments in 11 PFI projects which resulted in Lend Lease and the Bank of Scotland each holding a 50% interest.

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

## Corporate

| | Revenue | | EBITDA | | Profit/(Loss) After Tax | |
|---|---|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Group Services | 8.1 | 7.5 | (85.3) | (88.6) | (52.0) | (62.5) |
| Group Treasury | 22.4 | 44.9 | 4.7 | (8.5) | (22.4) | (1.7) |
| Group Amortisation | | | | | (3.0) | (1.7) |
| Total Corporate | **30.5** | **52.4** | **(80.6)** | **(97.1)** | **(77.4)** | **(65.9)** |

### Group Services

Group Services costs after tax decreased by A$10.5 million due to the prior year including a charge on the implementation of AIFRS in relation to the Lend Lease employee share plans and a lower effective tax rate. Underlying costs have remained broadly flat compared to the prior year.

Amortisation charges are in respect of management agreements. The amortisation charge increased by A$1.3 million due to the increase in Lend Lease's investment in APPF.

### Group Treasury

Group Treasury manages the Group's liquidity, foreign exchange, interest rate risk and debt. The result for the year is detailed in the table below.

| | Profit/(Loss) Before Tax | | Profit/(Loss) After Tax | |
|---|---|---|---|---|
| | June 2006 A$m | June 2005 A$m | June 2006 A$m | June 2005 A$m |
| Interest revenue | 22.8 | 45.4 | 15.3 | 32.3 |
| Interest expense and borrowing costs | (63.6) | (60.6) | (42.5) | (37.6) |
| Net hedge benefit | 6.8 | 5.2 | 4.8 | 3.6 |
| Total Group Treasury | **(34.0)** | **(10.0)** | **(22.4)** | **(1.7)** |

**Interest Revenue and Expenses**

– Interest revenue decreased by A$22.6 million before tax due to lower average cash balances. Interest on invested cash averaged 4.2% per annum for the year (June 2005: 5.2% per annum);
– Interest expense and borrowing costs increased by A$3.0 million before tax, largely due to the amount of interest capitalised reducing by A$10.8 million following the completion of the Chapelfield retail centre, in September 2005. This increase was partly offset by a reduction in non interest borrowings costs of A$8.1 million. The prior period included non interest borrowing costs principally related to the proposed merger with GPT;
– At 30 June 2006 the mix of borrowings was 54% at fixed rates and 46% at floating rates.

**Hedging and Foreign Exchange Exposure**

– A net hedge benefit of A$6.8 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;
– Due to an amendment to the hedge accounting requirements under AIFRS Lend Lease's hedging of foreign currency revenues less expenses from foreign operations will no longer qualify for hedge accounting from the June 2007 financial year. Consequently the hedges relating to the June 2007 and June 2008 financial years were terminated during the year;
– A net foreign exchange gain of A$11.1 million before tax (June 2005: gain of A$15.9 million) was recognised from hedging foreign denominated earnings in the year. This gain was allocated to the relevant business unit's operating profit, interest revenue and interest expense. 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;
– 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 year the FCTR increased by A$17.9 million, primarily due to changes in UK and USA exchange rates.

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

## Other

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

| | Notes | AIFRS June 2005 A$m | Previous GAAP June 2005 A$m | Difference June 2005 A$m |
|---|---|---|---|---|
| Retail – Asia Pacific | | 5.4 | 5.4 | |
| Retail – Europe | | 0.7 | 0.7 | |
| Delfin Lend Lease | 1 | 50.0 | 59.4 | (9.4) |
| Lend Lease Development | 1, 2 | 1.7 | 17.5 | (15.8) |
| Senior Living | 1, 3 | 0.6 | 3.1 | (2.5) |
| Communities – Europe | | 3.0 | 1.8 | 1.2 |
| Actus Lend Lease | 2,4 | 30.7 | 22.5 | 8.2 |
| Other Communities – Americas | 4 | 1.9 | 1.6 | 0.3 |
| Total Retail and Communities | | **94.0** | **112.0** | **(18.0)** |
| Investment Management Asia Pacific | 5 | 27.1 | 32.7 | (5.6) |
| Investment Management Europe[10] | 5, 6 | 50.0 | 52.3 | (2.3) |
| Investment Management America[10] | 4, 6 | 79.4 | 43.1 | 36.3 |
| Total Investment Management | | **156.5** | **128.1** | **28.4** |
| Bovis Lend Lease Asia Pacific | | 14.2 | 14.4 | (0.2) |
| Bovis Lend Lease Americas | 4 | 55.7 | 47.3 | 8.4 |
| Bovis Lend Lease Europe | 7 | 66.9 | 73.7 | (6.8) |
| PFIs | | 3.8 | 3.8 | |
| Total Project Management, Construction and PFIs | | **140.6** | **139.2** | **1.4** |
| Total Operating | | **391.1** | **379.3** | **11.8** |
| Group Services | 8 | (62.5) | (23.0) | (39.5) |
| Group Treasury | | (1.7) | (1.9) | 0.2 |
| Amortisation | 9 | (1.7) | (44.0) | 42.3 |
| Total Corporate | | **(65.9)** | **(68.9)** | **3.0** |
| Total Group result before one off Items | | **325.2** | **310.4** | **14.8** |

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 sold 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 June 2005.
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 Foreign exchange provisions on investments previously taken to reserves but recognised against profit in June 2005.
6 Includes the fair value adjustment arising on the reclassification of King of Prussia and Lend Lease Overgate Partnership from Other Investments to Investments Accounted for Using the Equity Method under AIFRS.
7 Primarily relates to the recognition of additional expenses of the Bovis UK Pension Scheme determined on an actuarial basis.
8 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.
9 Under AIFRS, goodwill amortisation ceased effective 1 July 2004. APPF Management agreements are amortised at an accelerated rate (10 years).
10 Includes property investment revaluations.