

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

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

The following discussion and analysis is based on the Group's Consolidated Financial Statements at 31 December 2000, and should be read in conjunction with those Financial Statements.

## OVERVIEW

### KEY FACTORS

Following the sale of the Financial Services businesses, Lend Lease is a diversified real estate services group with operations in Australia, North and South America, Europe, Asia and New Zealand. Some of the key factors influencing the business are the state of investment and real estate markets, the level of construction activity, global economic conditions, interest rates, taxation and regulatory legislation. However, because the Group's operations consist of diversified services to a broad range of clients with wide geographic spread, no one factor, in management's opinion, determines the Group's financial condition or the profitability of its operations.

### OPERATING PERFORMANCE

		Dec 2000	Adjusted Dec <sup>(1)</sup> 1999	Increase/ (Decrease) <sup>(2)</sup> %	Reported Dec 1999
Operating revenue	\$m	5,757.6	3,570.0	61.3	5,336.3
EBITDA	\$m	292.8	423.0	(30.8)	589.0
Operating profit before tax	\$m	186.4	358.0	(47.9)	526.2
<b>Operating profit after tax</b>	<b>\$m</b>	<b>108.8</b>	<b>274.0</b>	<b>(60.3)</b>	<b>276.2</b>
Earnings per share	cents	23.1	53.9	(57.1)	54.3
Return on equity	%	3.0	7.6	(60.5)	12.9

(1) Adjusted to remove the impact of consolidating the profits of the Statutory Funds of MLC Limited and MLC Lifetime Company Limited which was required by the Australian Accounting Standard AASB1038 Life Insurance Business. The Adjusted column includes the profit distribution from the Statutory Funds rather than a full consolidation of the Statutory Funds' revenues and expenses.

(2) Percentage relates the comparison of December 2000 column with the Adjusted December 1999 column with all explanations based on this comparison, unless otherwise stated

The 61.3% increase in operating revenue in December 2000 mainly reflects a full six months of revenues from Bovis acquired in October 1999. The Reported December 1999 financials include revenue for the Statutory Funds of \$2,128.7 million. Lend Lease sold its Financial Services businesses in June 2000. Discussions in this section of the MD&A refer to the Adjusted December 1999 financials unless otherwise stated.

EBITDA has decreased by \$130.2 million to \$292.8 million largely due to the following factors:

- The sale of the Financial Services businesses on 30 June 2000 which contributed \$120.0 million of EBITDA in the December 1999 period;
- Lower profit before tax of \$67.3 million in relation to Bluewater sales in the December 2000 period when 10% was sold compared to the December 1999 period when 20% was sold;
- Provisions raised on Fox Studios (\$90.0 million) and coolsavings.com (\$33.0 million);
- The impact of the inclusion of a full six months operating results (approximately \$80.0 million) for the acquisitions made in the June 2000 financial year (Bovis, Boston Financial Group and the five debt businesses acquired from AMRESCO, Inc); and
- Increased interest revenue of \$88.4 million in the December 2000 period (compared to \$13.9 million in the December 1999 period) due to increased net cash balances relative to the December 1999 period;

## OPERATING PERFORMANCE continued

The lower EBITDA in the December 2000 period relative to the December 1999 period resulted in a lower profit after tax. The profit after tax declined by a greater proportion than EBITDA, mainly because of the non-taxable nature of the profit distribution from Financial Services in the December 1999 period.

Earnings per share (EPS) has decreased in similar proportions to the operating profit after tax despite the reduction of 88.3 million in shares on issue (17.3% of shares on issue at 30 June 2000 following the share buyback completed in October 2000). This is due to the EPS calculation being based on the weighted average number of shares on issue during the six months reporting period.

Return on equity (ROE) for the six months to 31 December 2000 was 3.0% compared to 7.6% for the corresponding period. The decrease in the ROE was principally due to a reduction in overall profit after tax from \$274.0 million to \$108.8 million as well as an increase in book equity from \$2.1 billion at December 1999 to \$3.6 billion at December 2000. The increase in equity of \$1.5 billion since December 1999 is primarily due to the extraordinary profit on sale of Financial Services businesses of \$3.1 billion, offset by the off-market share buyback of \$1.8 billion.

The interim unfranked dividend of 13.0 cents per share will be paid on 14 March 2001 (32.0 cents per share 15 March 2000). The dividend payout ratio is 51% (December 1999, 59%).

## SEGMENT RESULTS

The following table provides segment results for 31 December 2000. Each segment is reviewed in detail below. It should be noted that the segment results of the operating businesses exclude financing costs (which are included in Group Financing) and amortisation charges.

### BUSINESS SEGMENT SUMMARY

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	June 2000 \$m
<b>Real Estate</b>								
Real Estate Investments	498.0	306.4	128.6	94.3	87.3	64.3	3,139.6	2,733.1
Property Development	621.9	607.9	4.9	113.8	3.3	89.6	2,015.6	2,049.2
Bovis Lend Lease	4,424.7	2,195.9	65.8	46.0	41.2	26.4	3,331.1	2,755.6
<b>Total Real Estate</b>	<b>5,544.6</b>	<b>3,110.2</b>	<b>199.3</b>	<b>254.1</b>	<b>131.8</b>	<b>180.3</b>	<b>8,486.3</b>	<b>7,537.9</b>
<b>Financial Services<sup>(1)</sup></b>		<b>362.1</b>		<b>117.5</b>		<b>108.3</b>		
<b>Investments</b>								
IT+T Investments	5.9	6.0	(41.4)	4.8	(28.6)	3.1	98.2	132.3
Equity Investments	99.0	68.7	61.3	41.0	42.8	35.6	56.3	93.7
<b>Corporate</b>								
Group Services	19.7	9.1	(29.5)	(18.0)	(26.5)	(22.2)		
Amortisation			(40.2)	(16.5)	(40.2)	(16.5)		
Group Financing	88.4	13.9	36.9	(24.9)	29.5	(14.6)	508.5	3,178.0
<b>Total</b>	<b>5,757.6</b>	<b>3,570.0</b>	<b>186.4</b>	<b>358.0</b>	<b>108.8</b>	<b>274.0</b>	<b>9,149.3</b>	<b>10,941.9</b>

(1) Excludes consolidation of Statutory Funds

## REAL ESTATE

The Group's real estate business encompasses three major business activities: Lend Lease Real Estate Investments (REI), which includes Capital Services, Lend Lease Property Development and Bovis Lend Lease (Project and Construction Management).

### REAL ESTATE INVESTMENTS (REI)

The principal activities of this business segment are management of real estate investment funds, limited partnerships and trusts on behalf of clients (including acquiring, managing and selling investments), co-investment in funds or real estate assets, portfolio management, originating and servicing of commercial and residential mortgages, shopping centre leasing, management and re-development and acting as financial advisor and arranger of project finance and related services.

The Capital Services business unit has been included within the REI business segment since 1 July 1999. The principal activities of Capital Services are as investor in infrastructure assets and asset fund managers and investor in UK real estate development companies.

### RESULTS

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	June 2000 \$m
<b>REI</b>								
Australia & Pacific	39.2	38.5	14.9	11.6	8.4	7.1	146.4	163.8
North America	364.4	195.7	69.7	51.4	56.5	36.4	2,596.1	2,210.4
Asia	17.8	2.3	(0.5)	5.0	(2.3)	2.9	175.4	144.3
Europe	47.2	32.2	21.5	16.6	15.3	11.5	138.8	109.3
<b>Total REI</b>	<b>468.6</b>	<b>268.7</b>	<b>105.6</b>	<b>84.6</b>	<b>77.9</b>	<b>57.9</b>	<b>3,056.7</b>	<b>2,627.8</b>
<b>CAPITAL SERVICES</b>								
Australia & Pacific	18.7	0.7	16.8	(2.4)	7.0	(2.0)	40.9	40.8
Asia							9.3	9.3
Europe	10.7	37.0	6.2	12.1	2.4	8.4	32.7	55.2
<b>Total Capital Services</b>	<b>29.4</b>	<b>37.7</b>	<b>23.0</b>	<b>9.7</b>	<b>9.4</b>	<b>6.4</b>	<b>82.9</b>	<b>105.3</b>
<b>Total</b>	<b>498.0</b>	<b>306.4</b>	<b>128.6</b>	<b>94.3</b>	<b>87.3</b>	<b>64.3</b>	<b>3,139.6</b>	<b>2,733.1</b>
% of Total Group	8.7%	5.7%	69.0%	17.9%	80.2%	23.3%	34.3%	25.0%

### REI

The 31 December 2000 profit after tax for REI was \$77.9 million, an increase of 34.5% over the period to 31 December 1999. The result included a full six months of operations of Boston Financial (acquired 3 November 1999) and the five businesses acquired from AMRESKO, Inc. (Debt Businesses) (acquired 17 March 2000). The REI results are analysed by region below.

### AUSTRALIA & PACIFIC

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

- **Investment Management - Equity** - which includes the management of General Property Trust (GPT), Australian Prime Property Fund (APPF), the Lend Lease US Office Trust (LL USOT) and the Property Securities business retained when the Investment Management Division was sold to National Australia Bank on 30 June 2000.
- **Retail Property Management** - which manages a number of Australian Retail Centres on behalf of investors such as GPT and APPF.

**REI - AUSTRALIA & PACIFIC continued****ANALYSIS OF RESULT**

Profit after tax of the REI business increased by 18.3% from December 1999 to December 2000.

	Six months to 31 December 2000			Six months to 31 December 1999		
	Investment Mgt - Equity A\$m	Retail Property Mgt A\$m	Total A\$m	Investment Mgt - Equity A\$m	Retail Property Mgt A\$m	Total A\$m
<b>Annuity Fees</b>						
Asset management fees	19.5		19.5	20.5		20.5
Investment management fees	2.5		2.5			
Retail property management fees		6.9	6.9		6.6	6.6
<b>Total annuity fees</b>	<b>22.0</b>	<b>6.9</b>	<b>28.9</b>	<b>20.5</b>	<b>6.6</b>	<b>27.1</b>
<b>Transaction Fees</b>						
Leasing fees		2.9	2.9		2.7	2.7
Development management fees		4.4	4.4		3.1	3.1
Project Finance fees	0.5		0.5	2.8		2.8
Other		1.0	1.0			
<b>Total transaction fees</b>	<b>0.5</b>	<b>8.3</b>	<b>8.8</b>	<b>2.8</b>	<b>5.8</b>	<b>8.6</b>
<b>Total operational revenues</b>	<b>22.5</b>	<b>15.2</b>	<b>37.7</b>	<b>23.3</b>	<b>12.4</b>	<b>35.7</b>
Personnel expenses	(6.9)	(10.0)	(16.9)	(6.7)	(9.4)	(16.1)
Other expenses	(2.0)	(4.9)	(6.9)	(7.7)	(3.2)	(10.9)
<b>Underlying Profit before tax</b>	<b>13.6</b>	<b>0.3</b>	<b>13.9</b>	<b>8.9</b>	<b>(0.2)</b>	<b>8.7</b>
Investment income before tax	1.5		1.5	2.1		2.1
Equity accounted profits	(0.5)		(0.5)	0.8		0.8
<b>Profit before tax</b>	<b>14.6</b>	<b>0.3</b>	<b>14.9</b>	<b>11.8</b>	<b>(0.2)</b>	<b>11.6</b>
Income tax expense	(6.2)	(0.3)	(6.5)	(4.6)	0.1	(4.5)
<b>Profit after tax</b>	<b>8.4</b>		<b>8.4</b>	<b>7.2</b>	<b>(0.1)</b>	<b>7.1</b>

The underlying profit before tax of the Investment Management - Equity business increased from \$8.9 million for the six months ended 31 December 1999 to \$13.6 million for the six months ended 31 December 2000. The increase mainly reflected a reduction in expenses of \$5.5 million and the inclusion of \$1.6 million profit before tax from the retained Property Securities business. The Property Securities financial results were previously included in the Financial Services business segment. The reduction in expenses of \$5.5 million was mainly due to recurring cost savings of \$1.0 million and the reversal of provisions no longer required of \$3.5 million in the December 2000 period. In addition the December 1999 expenses include \$1.0 million in relation to the unsuccessful Department of Finance and Administration tender.

The small profit for the Retail Property Management business at December 2000 as compared to a small loss in December 1999 mainly reflected the increased transaction fees. The Other transaction revenue in December 2000 of \$1.0 million related to the recovery of expenses incurred on behalf of investors.

**ANNUITY FEES**

Asset management fees for the Investment Management - Equity business for the six months ended 31 December 2000 decreased by 4.9% to \$19.5 million, as compared to \$20.5 million for the six months ended 31 December 1999. The decrease in asset management fees occurred despite an increase in assets under management (AUM) as a result of a fee reduction for the management of GPT and because fees for the management of Darling Park Trust are now earned by Darling Park Trust Operator, which is equity accounted (refer below).

The investment management fees related to the Property Securities business. Fees for the six months to December 2000 of \$2.5 million were in line with that for December 1999 (included in revenue for the Financial Services business).

The retail property management fees refer to gross revenues generated from the management of 18 shopping centres on behalf of GPT and APPF.

**REI - AUSTRALIA & PACIFIC continued****ANNUITY FEES continued****ASSETS UNDER MANAGEMENT (AUM)**

	AUM at 30 June 2000 A\$b	Additions A\$b	Reductions A\$b	AUM at 31 December 2000 A\$b
<b>Investment Management - Equity</b>				
GPT	5.2	0.3		5.5
APPF	1.1	0.2		1.3
LL USOT	0.9	0.1		1.0
Property Securities	2.1			2.1
Other domestic accounts	0.7	0.1		0.8
<b>Total Investment Management - Equity AUM</b>	<b>10.0</b>	<b>0.7</b>		<b>10.7</b>

The 7.0% increase in AUM over the six months to 31 December 2000 related to a combination of new capital and revaluations of assets within the funds.

**TRANSACTION FEES**

The increase in the leasing and development management fees mainly relate to increased retail redevelopment activities during the period. The lower project finance fees are mainly due to a one-off \$1.7 million fee earned in the December 1999 period.

**INVESTMENT INCOME**

	Six months to 31 December 2000 Total <sup>(1)</sup> A\$m	Six months to 31 December 1999 Total <sup>(1)</sup> A\$m
<b>Investment Income</b>		
APPF	1.5	1.5
Other		0.6
	<b>1.5</b>	<b>2.1</b>
<b>Equity Accounted Profits</b>		
Kiwi	0.8	0.8
Darling Park Trust Operators	(1.3)	
	<b>(0.5)</b>	<b>0.8</b>
<b>Total</b>	<b>1.0</b>	<b>2.9</b>

(1) Relates to the Investment Management - Equity business.

The December 2000 investment income relates to distributions from APPF. The Other Investment Income in December 1999 mainly related to distributions from GPT units which were sold in June 2000.

The equity accounted profits for Kiwi relates to Lend Lease's 50% interest in the Kiwi Property Group which undertakes property management and funds management activities in New Zealand. The equity accounted loss for Darling Park Trust Operator (DPTO), relates to a 50% interest in the management company set up to manage GPT's and AMP's joint ownership of the Darling Park Trust, which they acquired in May 2000. The other 50% interest in DPTO is owned by AMP. The loss reflected income support payments (Lend Lease share \$1.8 million after tax) paid during the period as required under the terms of the Darling Park divestment offset by fees earned. DPTO is expected to be profitable post 30 June 2001.

## REI - NORTH AMERICA

The REI North America business is conducted through interconnected businesses:

- **Investment Management - Equity**, which includes financial institutions, co-mingled funds and separate accounts. The Equitable General Account is the principal investor in the financial institutions group. Co-mingled funds are the flagship funds, which include Prime Property Fund (PPF), the Value Enhancement Fund (VEF) series, Arch Street (Multi-family) series and other smaller multi-investor funds. Separate accounts are individual direct holdings by domestic pension funds, foundation and endowments, family offices and foreign institutions.
- **Investment Management – Debt**, which includes Lend Lease Agri-Business, Debt Relationship Management, Lend Lease Asset Management and Fixed-Income Investments. Lend Lease Agri-Business originates and services agriculture loans for The Equitable General Account and Farmer Mac (Farm Mortgage Credit Association) and the Farm Credit System of Central Kansas, which are US Government sponsored programs. Debt Relationship Management includes the mezzanine debt fund business and the Program Lending initiative, which originates and services commercial mortgages for Teachers Insurance. Lend Lease Asset Management acquires, services and resolves non-performing and sub-performing loan and real estate portfolios for governmental agencies, institutional investors, banks, insurance companies and private investors. This business operates in the US, Canada, Mexico, Japan, Thailand and South Korea. The Fixed-Income Investments group includes Lend Lease Mortgage Capital, which originates and services loans for Fannie Mae and Freddie Mac (US Government Sponsored Programs), the Private Debt Advisory Group, whose clients are The Equitable General Account and other institutional separate accounts with investment mandates in mortgage loans, and the Public Debt Advisory Group, which acquires and manages investments in Commercial Mortgage Backed Securities (CMBS) for investors.
- **Housing and Community Investing (HCI)**, which aggregates, syndicates and then manages multi-family investment funds which have significant tax advantages due to their investment in affordable income (tax credit supported) projects.
- **Holliday Fenoglio Fowler (HFF)**, which provides financial brokerage services for commercial real estate owners, including sales of properties and the arrangement of first-lien mortgages and mezzanine capital.
- **CapMark Services (CapMark)**, which services mortgage loans originated internally by HFF and the Debt Investment Management businesses and for external sources including CMBS issuers and owners of whole loan portfolios.

## REI - NORTH AMERICA continued

## ANALYSIS OF RESULT

	Six months to 31 December 2000						Six months to 31 December 1999					
	Investment Mgt - Equity USDm	Investment Mgt - Debt USDm	HCI USDm	HFF USDm	CapMark USDm	Total USDm	A\$m	Investment Mgt - Equity USDm	Investment Mgt - Debt USDm	HCI USDm	Total USDm	A\$m
<b>Annuity fees</b>												
Asset management fees	42.1	13.7	8.7			64.5	118.8	40.6	4.5	6.9	52.0	80.7
Property management fees	4.6					4.6	8.5	3.0			3.0	4.6
Mortgage servicing fees		5.8		3.5	25.6	34.9	64.3		6.3		6.3	9.8
<b>Total annuity fees</b>	<b>46.7</b>	<b>19.5</b>	<b>8.7</b>	<b>3.5</b>	<b>25.6</b>	<b>104.0</b>	<b>191.6</b>	<b>43.6</b>	<b>10.8</b>	<b>6.9</b>	<b>61.3</b>	<b>95.1</b>
<b>Transaction fees</b>												
Acquisition fees	4.7		15.9			20.6	38.0	10.1		14.6	24.7	38.3
Disposition fees	6.1	0.9				7.0	12.9	12.6	0.2		12.8	19.9
Origination fees		6.1		40.6		46.7	86.0		6.8		6.8	10.6
Incentive fees	0.7					0.7	1.3	6.0	0.1		6.1	9.5
Consulting fees	2.1		0.8			2.9	5.3	3.0			3.0	4.6
Financing fees	0.8					0.8	1.5	3.3			3.3	5.1
Development fees	0.9					0.9	1.7	1.0			1.0	1.5
<b>Total transaction fees</b>	<b>15.3</b>	<b>7.0</b>	<b>16.7</b>	<b>40.6</b>		<b>79.6</b>	<b>146.7</b>	<b>36.0</b>	<b>7.1</b>	<b>14.6</b>	<b>57.7</b>	<b>89.5</b>
<b>Total operational revenues</b>	<b>62.0</b>	<b>26.5</b>	<b>25.4</b>	<b>44.1</b>	<b>25.6</b>	<b>183.6</b>	<b>338.3</b>	<b>79.6</b>	<b>17.9</b>	<b>21.5</b>	<b>119.0</b>	<b>184.6</b>
Direct Personnel expenses	(25.9)	(17.6)	(7.3)	(32.5)	(9.2)	(92.5)	(170.4)	(26.9)	(8.3)	(4.5)	(39.7)	(61.7)
Other expenses	(19.6)	(10.1)	(3.3)	(7.3)	(5.2)	(45.5)	(83.9)	(20.4)	(6.8)	(2.0)	(29.2)	(45.3)
<b>Underlying profit before tax</b>	<b>16.5</b>	<b>(1.2)</b>	<b>14.8</b>	<b>4.3</b>	<b>11.2</b>	<b>45.6</b>	<b>84.0</b>	<b>32.3</b>	<b>2.8</b>	<b>15.0</b>	<b>50.1</b>	<b>77.6</b>
Investment income before tax	11.5	1.3				12.8	23.7	7.2			7.2	11.1
Equity accounted profits	1.0	0.6				1.6	2.9	0.7	0.5		1.2	1.8
Other income	1.3					1.3	2.4					
	<b>30.3</b>	<b>0.7</b>	<b>14.8</b>	<b>4.3</b>	<b>11.2</b>	<b>61.3</b>	<b>113.0</b>	<b>40.2</b>	<b>3.3</b>	<b>15.0</b>	<b>58.5</b>	<b>90.5</b>
REI corporate overheads						(18.5)	(34.1)				(25.2)	(39.1)
<b>Profit before tax</b>						<b>42.8</b>	<b>78.9</b>				<b>33.3</b>	<b>51.4</b>
Gain/(loss) on fx hedge							(9.2)					
<b>Hedged profit before tax</b>						<b>42.8</b>	<b>69.7</b>				<b>33.3</b>	<b>51.4</b>
Income tax expense <sup>(1)</sup>						(8.8)	(13.2)				(10.1)	(15.0)
<b>Profit after tax</b>						<b>34.0</b>	<b>56.5</b>				<b>23.2</b>	<b>36.4</b>

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

## REI - NORTH AMERICA continued

### ANALYSIS OF RESULT continued

The above table details the results for the comparative six month period to 31 December 1999, which included only two months of operating results for the Boston Financial Group (BFG) acquired in November 1999 and no results for the Debt Businesses acquired in March 2000. The December 2000 Investment Management - Equity results include the non-HCI elements of BFG. The results for the two months ended 31 December 1999 for BFG have been allocated in the following table on that basis to enable comparability. The Investment Management – Debt business for the six months ended 31 December 1999 related to the Lend Lease Agri-Business and Private and Public Debt Advisory businesses. Lend Lease Mortgage Capital, Lend Lease Asset Management and the Private Lending Group (acquired as part of the Debt Business in March 2000), have been combined with Lend Lease Agri-Business and the Private and Public Debt Advisory businesses to form the Investment Management – Debt business.

The pre-tax profitability of the REI North America business decreased from USD50.1 million for the six months ended 31 December 1999 to USD45.6 million for the six months ended 31 December 2000.

The decrease in pre-tax profitability reflected:

- Investment Management – Equity's profitability declined significantly due to lower transaction and incentive fees.
- Investment Management – Debt's profitability declined slightly due to mixed results from the underlying businesses as explained below.
- HCI profitability declined slightly over the comparable periods due to margin pressure and certain timing considerations. Refer further discussion in the HCI section.
- CapMark and HFF performed satisfactorily but their combined profit before tax contribution did not offset reduced profit from the other businesses.

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

- Annuity fees - chiefly earned from managing the real estate equity and debt portfolios of clients.
- Transaction fees - earned from the acquisition, disposition and financing of clients' real estate equity and debt portfolios. It also includes incentive fees earned based upon the performance of clients' portfolios in excess of agreed upon hurdles or benchmarks.
- Investment income - income and capital returns from REI's Co-investments in funds and direct investment in real estate.

### INVESTMENT MANAGEMENT - EQUITY

The results of this business were well below expectations, which was primarily due to a result of a reduced flow of investment capital by institutional sources to real estate and a decline in the North American REI's current year's market share allocation from institutional investors. This disruption in allocations was caused by selective changes in senior management and a reorganisation to accommodate the acquired businesses. A detailed integration plan is in place and the North American REI Management believes that the issues have been largely resolved. During the last six months, many pension funds, including the North American REI clients, have become over allocated to equity real estate as the decline in stock market values has lowered the total value of the funds' assets. Since real estate values have either remained stable or increased, the percentage of real estate in some funds has exceeded the approved allocation. As a result, these funds are fully invested which has reduced the flow of investment capital into real estate.

A bias towards more defensive investing is expected by the institutional market given the lower expectations for returns in the US stock market. This may lead to increased allocations to real estate as it is seen as a relatively low volatility asset class, however, neither the pace nor quantum of any reallocation can be confidently predicted. Should investors increase their allocations to the real estate asset class, transaction fees are expected to increase.

**REI - NORTH AMERICA continued****INVESTMENT MANAGEMENT - EQUITY continued****ASSET MANAGEMENT FEES**

The key driver of asset management fees is the level of AUM.

**Assets Under Management**

	AUM at 30 June 2000 USD <b>b</b>	Additions USD <b>b</b>	Reductions USD <b>b</b>	AUM at 31 December 2000 USD <b>b</b>
<b>Investment Management - Equity</b>				
Financial institutions	2.3	0.2	(0.2)	2.3
Co-mingled funds	6.2	0.4	(0.5)	6.1
Domestic US separate accounts	6.8	0.1	(0.1)	6.8
Non US separate accounts	2.1	0.1		2.2
<b>Total Investment Management - Equity</b>	<b>17.4</b>	<b>0.8</b>	<b>(0.8)</b>	<b>17.4</b>

The Investment Management - Equity AUM was flat for the six months primarily due to lower acquisition transaction volume, the continuation of the General Account Disposition Program and the remaining run off of the Prime Property Fund queue. However, the AUM is expected to increase in the six months to 30 June 2001 as a result of several initiatives, including the launch of Value Enhancement Fund V, the multi-family Arch Street funds and separate accounts, and the re-launch of Prime Property Fund.

Asset management fees of USD42.1 million for the current period have increased by USD1.5 million over the December 1999 period, which reflected higher average AUM in the six months to 31 December 2000 (USD17.4 billion) as compared to the six months to 31 December 1999 (USD16.4 billion), and the inclusion of the BFG institutional equity accounts for six months in the December 2000 period, versus two months in the December 1999 period.

**PROPERTY MANAGEMENT FEES**

Property and facilities management fees are derived from Lend Lease Apartment Management (LLAM) and Cordia Senior Living. LLAM manages 22,800 apartment units primarily for clients of the Investment Management – Equity group and the HCI business. Cordia Senior Living is the operating company which provides the day to day management of the senior living facilities owned by clients of the Investment Management – Equity group. Cordia Senior Living currently manages four facilities. The increase mainly relates to a full six months results compared to two months in the December 1999 results.

**TRANSACTION FEES**

There was a significant decrease in transaction fees of \$20.7 million for the December 2000 period compared to the December 1999 period. Transaction fees are somewhat dependent on the level of investment and disposition activity in the managed funds, which has been more subdued than in the previous comparable period because of the reasons noted earlier.

**ACQUISITION FEES**

Investment Management – Equity acquisition fees were USD4.7 million for the six-month period 31 December 2000 on USD1.1 billion of transaction volume compared to USD10.1 million on USD2.2 billion of transaction volume for the comparable period in 1999. The December 2000 period transaction volume includes USD400 million of assets where acquisition fees are bundled with the asset management fees, or may emerge in future years (not material amounts).

## REI - NORTH AMERICA continued

### INVESTMENT MANAGEMENT - EQUITY continued

#### DISPOSITION FEES

Investment Management – Equity disposition fees were USD6.1 million for the six months to 31 December 2000 compared to USD12.6 million for the comparable period in 1999. The decrease is mainly attributable to the continuing slow down in The Equitable disposition program as it approaches completion. December 2000 results include USD247.0 million of dispositions for The Equitable General Account compared to USD530.0 million in the same period of 1999.

#### INCENTIVE FEES

Incentive fees were USD0.7 million for the six months to 31 December 2000 compared to USD6.0 million for the comparable period in 1999. The December 1999 incentive fees included USD3.9 million from YCPI which has been liquidated and has returned funds to investors. The timing of incentive fees is difficult to predict as they are dependent upon the real estate market and investment performance, and are generally paid towards the end of a fund's life cycle. This is evidenced by the larger incentive fees received in previous years (USD38.6 million for June 1999 and USD42.5 million for June 2000) which have been derived mainly from certain funds being liquidated (YCPI and VEF I).

#### FINANCING FEES

Investment Management – Equity financing fees were USD0.8 million for the six months to 31 December 2000 compared to USD3.3 million for the comparable period in 1999. December 2000 transaction volume of USD850 million was lower compared to the December 1999 transaction volume of USD900.0 million. Financing fees are down because the majority of the financing transactions closed for the current period were for funds in which financing fees were bundled with the asset management fees.

#### OPERATING COSTS

Operating costs in the Investment Management – Equity business for the current period were slightly lower than the previous period. The Company has implemented a long-term cost reduction program across all businesses. The cost reductions are expected to have some profit impact in the six months to 30 June 2001, but mostly expected to assist profitability in the June 2002 financial year onwards.

### INVESTMENT MANAGEMENT – DEBT

The debt business has performed below expectations, which can be primarily attributed to:

- Executive turnover early in the December 2000 period;
- Impact of rising interest rates early in the calendar year 2000;
- Less domestic distressed loan portfolios available for agency workouts;
- Protracted delay in negotiating a major new loan origination agreement.

Investment Management – Debt includes six business lines. Lend Lease Agri-Business and the Public and Private Debt Advisory businesses are from the previous Yarmouth/ERE businesses. Lend Lease Mortgage Capital, Lend Lease Asset Management, and Private Lending are from the acquired Debt Businesses. In addition, there is a start-up mezzanine debt program.

Total revenues have increased from USD17.9 million in the six months to 31 December 1999 to USD26.5 million in the six months to 31 December 2000, primarily as a result of the acquired Debt Businesses. Expenses have also increased as a result of the acquired Debt Businesses, from USD15.1 million in the six months to 31 December 1999 to USD27.7 million in the six months to 31 December 2000. The result is a profit turnaround of USD4.0 million. The financial results of the Yarmouth/ERE businesses were flat when compared period to period. Lend Lease Mortgage Capital earned USD3.3 million in profit, which was in line with expectations. Lend Lease Asset Management, Private Lending and the start-up mezzanine debt program were significantly below expectations with a combined loss of USD7.2 million.

The Private Lending Program after a slow start closed USD95.0 million in loans in the month of December 2000.

The North American asset management/resolution business currently has a low volume of distressed loans due to a strong US economy over the past decade. However, with the US economy now slowing substantially, US banks are experiencing an increase in problem loans in their debt portfolio. This may lead to an increase in volumes for the business over the next 12-18 months.

#### ASSET MANAGEMENT FEES

Debt asset management fees are earned on the portfolio of loans which are actively managed on behalf of The Equitable General Account, Fannie Mae and the debt resolution portfolios.

The key driver of asset management fees is the level of AUM and Assets under Resolution (AUR).

**REI - NORTH AMERICA continued****INVESTMENT MANAGEMENT - DEBT continued****ASSET MANAGEMENT FEES continued****Assets Under Management**

	AUM at 30 June 2000 USD <b>b</b>	Additions USD <b>b</b>	Reductions USD <b>b</b>	AUM at 31 December 2000 USD <b>b</b>
<b>Investment Management - Debt</b>				
Lend Lease Agri-Business	2.0	0.2	(0.2)	2.0
Lend Lease Mortgage Capital <sup>(1)</sup>	1.7	0.3	(0.2)	1.8
Private Debt Advisory	5.0			5.0
Public debt advisory	0.3	0.1	(0.1)	0.3
<b>Total Investment Management - Debt</b>	<b>9.0</b>	<b>0.6</b>	<b>(0.5)</b>	<b>9.1</b>

(1) Relates to the acquired Debt Businesses.

Asset management fees were USD13.7 million for the six months to 31 December 2000 compared to USD4.5 million for the six months to 31 December 1999. The increase related to the inclusion of the Debt Businesses acquired in March 2000 (Lend Lease Mortgage Capital and Lend Lease Asset Management) which contributed USD9.0 million in asset management fees in December 2000. Asset management fees for the Yarmouth/ERE Investment Management - Debt businesses were flat for the December 2000 period as compared to the December 1999 period.

**Assets Under Resolution**

	AUR at 30 June 2000 USD <b>b</b>	Additions USD <b>b</b>	Reductions USD <b>b</b>	AUR at 31 December 2000 USD <b>b</b>
<b>Investment Management - Debt</b>				
Domestic US Asset Management/Resolution <sup>(1)</sup>	<b>0.9</b>		<b>(0.1)</b>	<b>0.8</b>

(1) Relates to the acquired Debt Businesses.

AUR relates to the legal loan balances of distressed debt portfolios.

**MORTGAGE SERVICING FEES**

Mortgage servicing fees for December 2000 relates to Lend Lease Agri-Business. The reduction in fees from USD6.3 million in December 1999 to USD5.8 million in December 2000 relates to the run-off of Loans Under Servicing (LUS) that related to Lend Lease Agri-Business.

**TRANSACTION FEES**

Transaction fees were USD7.0 million in December 2000 as compared to USD7.1 million in December 1999. Loan origination fees, which comprised the majority of debt transaction fees, were disappointing for the six-month period ending 31 December 2000. Lend Lease Agri-Business was flat in fees and volume compared to 1999. The Private Debt Advisory business was down USD4.6 million, due primarily to key executive turnover and delays in the implementation of a large program. Lend Lease Mortgage Capital originated USD300 million in loans for Fannie Mae and Freddie Mac for the current period, which was in line with expectation, given the current interest rate environment.

**HOUSING AND COMMUNITY INVESTING (HCI)**

The underlying profit before tax for HCI decreased from USD15.0 million in December 1999 to USD14.8 million in December 2000. Revenues were USD3.9 million higher for 2000, however, expenses were USD4.1 million higher, resulting in lower profit for December 2000. This disparity in profit results is caused by timing differences. The December 2000 result was for a full six months, compared to two months of operation in the December 1999 result. Because HCI normally earns over 50% of its annual revenues in November and December, the revenue is clustered in two months, while the expenses are spread more evenly throughout the period.

Transaction flow in HCI continues to be strong and USD300.0 million of transactions were completed in the December 2000 period. Acquisition/syndication fees were USD15.9 million for six month period ended 31 December 2000 compared to USD14.6 million for the two month period ending 31 December 1999. However, HCI's fees earned as a percent of total transaction volume were less in 2000 compared to 1999. This pressure on HCI's margins occurred as a result of investors increasing their yield requirements, thereby lowering syndication fees. This is not expected to be a long term trend and deal pricing is expected to improve.

## REI - NORTH AMERICA continued

### HOUSING AND COMMUNITY INVESTING (HCI) continued

The six months result for HCI is not indicative of the full year, as HCI delivers the bulk of its annual profits in the December quarter when tax-driven transactions are completed in advance of the US tax financial period of 31 December.

The US government recently announced an additional 20% in federal affordable housing tax credits for each of the next two years. The HCI business is positioned to capitalise on this opportunity.

#### ASSET MANAGEMENT FEES

HCI asset management fees relate to the revenue earned on the portfolios of tax-credit assisted properties.

#### Assets Under Management

	AUM at 30 June 2000 USD <b>b</b>	Additions USD <b>b</b>	Reductions USD <b>b</b>	AUM at 31 December 2000 USD <b>b</b>
<b>Housing and Community Investing</b>	<b>7.1</b>	<b>0.9<sup>(1)</sup></b>	<b>(0.1)</b>	<b>7.9</b>

(1) Includes a revaluation adjustment of USD0.2 billion.

Asset management fees for HCI increased from USD6.9 million for December 1999 to USD8.7 million for December 2000. HCI's asset management fees are dependent upon AUM and cash flows from the underlying properties. Asset management fees were disproportionately higher in 1999 for the two month period compared to the 2000 six month period. This increase was caused by the timing of receipts of asset management fees, which is dependent on the operations of the underlying properties. This is normally reviewed twice a year and can result in considerable variability in asset management fees.

HCI's AUM has a much longer expected life span than Investment Management – Equity's AUM because of the nature of the tax-credit structures. The properties must be maintained and held in qualified tax-credit structures for at least 15 years, which results in low dispositions within the HCI portfolios.

#### ACQUISITION FEES

HCI's December 2000 transaction volumes increased over December 1999. HCI acquisition fees were USD15.9 million for the six months to 31 December 2000 on USD300.0 million of tax-credit assisted equity transaction volume compared to USD14.6 million of fees on USD196.0 million of equity transaction volume for the two month period ended 31 December 1999. However, HCI's margins (acquisition fees) were compressed by the tax credit investors' demanding higher yields due to higher interest rates.

#### OPERATING COSTS

The increase in HCI's operating costs was mainly due to the December 1999 expenses only relating to a two month period. The increase is not entirely proportional as a significant amount of operating costs are expended in the acquisition process (the majority occurs in the December quarter).

#### HOLLIDAY FENOGLIO FOWLER

Profit before tax of USD4.3 million for December 2000 was slightly above expectations. HFF is a leader in US commercial loan transactions and is the largest debt intermediary in the US. HFF is the primary source of loans for Lend Lease Mortgage Capital (Fannie Mae and Freddie Mac) and the Private Lending Program platforms.

#### MORTGAGE SERVICING FEES

HFF earned USD3.5 million of mortgage servicing fees during the December 2000 period. These fees are derived from USD9.4 billion of Loans Under Servicing (LUS) and are comparable to the December 1999 period's results.

#### ORIGINATION FEES

HFF earned origination fees of USD40.6 million on USD6.1 billion in loan origination and sales transactions for the six months ended 31 December 2000. Both fees and volume were comparable to the December 1999 six month period.

#### CAPMARK

CapMark has a predictable income stream and contributed USD11.2 million to operating profit before tax this period, which was in line with expectations.

**REI - NORTH AMERICA continued****CAPMARK continued****MORTGAGE SERVICING FEES**

CapMark earned USD25.6 million in mortgage servicing fees for the December 2000 period. The mortgage servicing fees are driven by the level of LUS which have increased 1.6% since 30 June 2000.

**Loans Under Servicing (LUS)**

	<b>Dec 2000 Total USDb</b>	<b>June 2000 Total USDb</b>
LUS at beginning of financial period	49.6	7.2
LUS acquired in AMRESKO transactions		42.2
Additions – internal sources	1.7	
Additions – external sources	1.5	1.1
Loan run-offs	(2.6)	(0.9)
<b>LUS at end of financial period</b>	<b>50.2</b>	<b>49.6</b>

LUS includes CapMark and Lend Lease Agri-Business. CapMark's new loan servicing business is derived approximately 50% from internal sources and 50% from external sources. HFF, which shares the servicing fee with CapMark, and the Investment Management – Debt businesses are internal sources for CapMark's new servicing volumes. External sources include CMBS issues and third party whole loan portfolios. Both sources of external business are won in a competitive bid process.

The reported LUS at 30 June 2000 of USD55.8 billion for North America included USD5.5 billion of Asian loans and USD0.7 billion of North American loans that were acquired with the Debt Businesses in March 2000. These loans are now included within AUR in REI North America and Asia.

**INVESTMENT INCOME**

	<b>Six months to 31 December 2000</b>			<b>Six months to 31 December 1999</b>		
	<b>Investment Mgt - Equity USDm</b>	<b>Investment Mgt - Debt USDm</b>	<b>Total USDm</b>	<b>Investment Mgt - Equity USDm</b>	<b>Investment Mgt - Debt USDm</b>	<b>Total USDm</b>
<b>Investment Income<sup>(1)</sup></b>						
King of Prussia	5.6		5.6	4.8		4.8
YCPII	2.4		2.4	2.2		2.2
Other	3.5	1.3	4.8	0.2		0.2
	<b>11.5</b>	<b>1.3</b>	<b>12.8</b>	<b>7.2</b>		<b>7.2</b>
<b>Equity Accounted Profits</b>						
Lend Lease Rosen	1.0		1.0	0.7		0.7
Lend Lease Hyperion		0.6	0.6		0.5	0.5
	<b>1.0</b>	<b>0.6</b>	<b>1.6</b>	<b>0.7</b>	<b>0.5</b>	<b>1.2</b>
Other	1.3		1.3			
<b>Total</b>	<b>13.8</b>	<b>1.9</b>	<b>15.7</b>	<b>7.9</b>	<b>0.5</b>	<b>8.4</b>

(1) Recorded as revenue.

Investment income for the six months ended 31 December 2000 was USD12.8 million compared to USD7.2 million for the same period in 1999. December 2000 investment income was higher as a result of investments acquired as part of BFG and the Debt Businesses and an increase in the return on the King of Prussia super regional mall investment.

Equity accounted profits represents 50% interests in Lend Lease Rosen and Lend Lease Hyperion.

Other income relates to the collection of a receivable from a fund acquired as part of the acquisition of Equitable Real Estate that went into liquidation and was previously written off in the June 2000 fiscal year.

## REI - NORTH AMERICA continued

### CORPORATE OVERHEADS

The December 2000 profit was derived after capitalising USD10.3 million of costs incurred on Project Enterprise which is designed to build an operating platform for the long term growth and flexibility of the REI business by transforming business processes through the focus on value added service activities and integrated IT solutions. Operating costs are expected to reduce as a result of Project Enterprise.

The following table sets out the total estimated costs to be capitalised for Project Enterprise.

	USDm	A\$m
Costs capitalised to 30 June 2000	15.9	26.5
Costs capitalised in December 2000 period	10.3	19.8
Foreign exchange movements		4.0
<b>Costs capitalised at 31 December 2000</b>	<b>26.2</b>	<b>50.3</b>
Expected costs to complete phase 1 (capitalised)	11.3	21.7
<b>Total expected project costs (capitalised on phase 1)</b>	<b>37.5</b>	<b>72.0</b>

Phase I of Project Enterprise is expected to be completed in June 2001, and amortisation of the capitalised costs will commence from that point over a five year period.

The December 1999 REI corporate overheads included USD9.9 million of costs expensed in relation to the initial phase of Project Enterprise. Excluding those costs from December 1999 to enable direct comparability, the REI Corporate overheads increased from USD15.3 million in December 1999 to USD18.5 million in December 2000. The increase in overhead is directly attributable to the increased size of the business following the integration of the two acquired businesses.

### INCOME TAX EXPENSE

The effective income tax rate was 21% for the six months ended December 2000 as compared to 30% for the same period in 1999. The difference is primarily due to a USD4.2 million increase in tax amortisation of management contracts in excess of book amortisation related to the acquisitions of BFG and the Debt Businesses.

### NORTH AMERICAN ASSETS UNDER MANAGEMENT (SUMMARY)

	AUM at 30 June 2000 USDb	Additions USDb	Reductions USDb	AUM at 31 December 2000 USDb
Investment Management - Equity	17.4	0.8	(0.8)	17.4
Investment Management - Debt	9.0	0.6	(0.5)	9.1
Housing and Community Investing	7.1	0.9	(0.1)	7.9
Public Equity and Debt	1.0	0.2		1.2
<b>Total funds under management</b>	<b>34.5</b>	<b>2.5</b>	<b>(1.4)</b>	<b>35.6</b>

AUM increased 3.2% for the six months ended 31 December 2000. The reported AUM at 30 June 2000 of USD40.9 billion for North America has been adjusted for the USD5.5 billion of Asian AUR and USD0.9 billion of North American AUR that were acquired with the acquisition of the Debt Businesses.

The Public Equity and Debt AUM mainly relates to Lend Lease Rosen Securities, in which Lend Lease has a 50% interest.

### SEGMENT ASSETS

The increase in segment assets in North America is mainly due to currency fluctuations.

## REI - ASIA

The REI Asia business is conducted through two business units:

- **Investment Management - Equity**, which includes the management of the Asia Pacific Investment Corporation (APIC) and management services provided to the Lend Lease Global Fund in relation to its Asian investments.
- **Investment Management - Debt**, which relates to the Asian Lend Lease Asset Management business, which is involved in the acquisition, administration and resolution of non-performing and sub-performing loan and real estate portfolios.

## ANALYSIS OF RESULT

	Six months to 31 December 2000			Six months to 31 December 1999
	Investment Mgt - Equity A\$m	Investment Mgt - Debt A\$m	Total A\$m	Total <sup>(1)</sup> A\$m
<b>Asset management fees (annuity fees)</b>	<b>5.6</b>	<b>4.6</b>	<b>10.2</b>	<b>2.3</b>
<b>Transaction fees</b>				
Disposition fees		2.4	2.4	
Incentive fees		2.8	2.8	
<b>Total transaction fees</b>		<b>5.2</b>	<b>5.2</b>	
<b>Total operational revenues</b>	<b>5.6</b>	<b>9.8</b>	<b>15.4</b>	<b>2.3</b>
Personnel expenses	(2.5)	(6.8)	(9.3)	(1.3)
Other expenses	(2.9)	(6.9)	(9.8)	(1.0)
<b>Underlying profit before tax</b>	<b>0.2</b>	<b>(3.9)</b>	<b>(3.7)</b>	
Investment income		2.0	2.0	
Equity accounted profits		0.4	0.4	
Other – Reversal of Provisions	0.4	0.4	0.8	5.0
<b>Profit/(loss) before tax</b>	<b>0.6</b>	<b>(1.1)</b>	<b>(0.5)</b>	<b>5.0</b>
Income tax (expense)/ benefit	(0.4)	(1.4)	(1.8)	(2.1)
<b>Profit/(loss) after tax</b>	<b>0.2</b>	<b>(2.5)</b>	<b>(2.3)</b>	<b>2.9</b>

(1) Relates to Investment Management- Equity business only.

## INVESTMENT MANAGEMENT - EQUITY

The underlying profit after tax of the Investment Management - Equity business for the six months to 31 December 2000 increased due to increased asset management fees (discussed below). Included in the December 2000 total of \$0.6 million profit after tax for Investment Management - Equity was a \$0.4 million reversal of the provision held against the investment in APIC (compared to \$5.0 million reversal in the six months to 31 December 1999). The reversal was due to the recovery in the values of some investments held by APIC.

The asset management fees of \$5.6 million for December 2000 relate to the management of APIC (\$4.2 million) and fees received from the Lend Lease Global Fund (Global Fund) for services performed in Asia (\$1.4 million). The increased APIC asset management fees was due to higher AUM in APIC, which increased to USD0.6 billion at 31 December 2000 from USD0.5 billion at 31 December 1999.

## ASSETS UNDER MANAGEMENT (AUM)

	AUM at 30	Additions	Reductions	AUM at 31
	June 2000			December
	USD <b>b</b>	USD <b>b</b>	USD <b>b</b>	2000
				USD <b>b</b>
<b>Investment Management – Equity (APIC)</b>	<b>0.5</b>	<b>0.1</b>		<b>0.6</b>

The increase in operating costs from \$2.3 million in December 1999 to \$5.4 million in December 2000 mainly related to the additional services provided to the Global Fund and costs incurred in establishing a broader Asian REI business, including retail management support.

## REI - ASIA continued

### INVESTMENT MANAGEMENT - DEBT continued

It has taken longer than was originally anticipated to launch the Asian asset management/resolution businesses. The loss after tax of \$2.5 million includes start-up expenses for the business in Japan, Korea and Thailand. These businesses are now operational, staffed with local nationals and a number of deals have been closed.

The asset management fees of \$4.6 million related to management/resolution of distressed debt portfolios in Japan, Korea and Thailand. In the current period, the Investment Management – Debt business was successful in winning a bid for a Korean distressed loan portfolio (USD400.0 million in legal loan balances) and bids for Japanese portfolios (totalling USD2.0 billion in legal loan balances). AUR for the Asia Investment Management - Debt business totalled USD7.9 billion (legal loan balances) as at 31 December 2000, up 43.6% from the USD5.5 billion at 31 December 1999.

### ASSETS UNDER RESOLUTION (AUR)

	AUR at 30 June 2000 USDb	Additions USDb	Reductions USDb	AUR at 31 December 2000 USDb
<b>Investment Management - Debt</b>	<b>5.5</b>	<b>2.4</b>		<b>7.9</b>

The transaction fees of \$5.2 million related to disposition fees of \$2.4 million and incentive fees of \$2.8 million.

The investment income of \$2.0 million related to income from various co-investments held by the business.

The equity accounted profits of \$0.4 million related to various joint ventures in the asset management business that Lend Lease does not control.

The income tax expense of \$1.4 million on a loss before tax of \$1.1 million relates to the non-recognition of tax losses incurred by the start-up businesses in Korea and Thailand that cannot be offset against profits earned in Japan.

### SEGMENT ASSETS

The segment assets in Asia mainly relates to the investment in APIC (\$82.6 million) and the Lend Lease Asset Management businesses located in Japan, Korea and Thailand.

## REI - EUROPE

The Real Estate Investments Europe business is conducted through two business units:

- **Investment Management - Equity**, which includes the management of Bluewater on behalf of investors (including Lend Lease's 30% residual ownership), the Lend Lease Retail Partnership, the Lend Lease Overgate Partnership, as well as the joint venture with Generali and Lend Lease Houlihan Rovers.
- **Retail Property Management**, which includes the Larry Smith Retail Centre management business in Spain and Italy as well as the management of UK Retail Shopping centres (Bluewater and Overgate, Dundee).

## ANALYSIS OF RESULT

	Six months to 31 December 2000				Six months to 31 December 1999			
	Investment Mgt - Equity GBPm	Retail Property Mgt GBPm	Total GBPm	A\$m	Investment Mgt - Equity GBPm	Retail Property Mgt GBPm	Total GBP	A\$m
<b>Annuity fees</b>								
Asset management fees	1.0		1.0	2.7	0.9		0.9	2.3
Funds management fees	0.4		0.4	1.1	0.2		0.2	0.5
Property management fees		1.4	1.4	3.8		0.9	0.9	2.3
Larry Smith revenue		2.1	2.1	5.6		1.1	1.1	2.7
<b>Total annuity fees</b>	<b>1.4</b>	<b>3.5</b>	<b>4.9</b>	<b>13.2</b>	<b>1.1</b>	<b>2.0</b>	<b>3.1</b>	<b>7.8</b>
<b>Transaction fees</b>	<b>0.4</b>		<b>0.4</b>	<b>1.2</b>				
<b>Total operational revenues</b>	<b>1.8</b>	<b>3.5</b>	<b>5.3</b>	<b>14.4</b>	<b>1.1</b>	<b>2.0</b>	<b>3.1</b>	<b>7.8</b>
Personnel expenses	(1.6)	(1.6)	(3.2)	(8.6)	(1.1)	(1.6)	(2.7)	(7.5)
Other expenses	(2.2)	(1.5)	(3.7)	(10.6)	(2.0)	(1.5)	(3.5)	(8.1)
<b>Underlying profit/(loss) before tax</b>	<b>(2.0)</b>	<b>0.4</b>	<b>(1.6)</b>	<b>(4.8)</b>	<b>(2.0)</b>	<b>(1.1)</b>	<b>(3.1)</b>	<b>(7.8)</b>
Equity accounted profits	0.4		0.4	1.1				
Investment income	12.2		12.2	32.8	9.7		9.7	24.4
Investment income expenses <sup>(1)</sup>	(2.2)		(2.2)	(5.4)				
<b>Profit before tax</b>	<b>8.4</b>	<b>0.4</b>	<b>8.8</b>	<b>23.7</b>	<b>7.7</b>	<b>(1.1)</b>	<b>6.6</b>	<b>16.6</b>
Gain/(loss) on fx hedge				(2.2)				
<b>Hedged profit before tax</b>	<b>8.4</b>	<b>0.4</b>	<b>8.8</b>	<b>21.5</b>	<b>7.7</b>	<b>(1.1)</b>	<b>6.6</b>	<b>16.6</b>
Income tax (expense) <sup>(2)</sup>	(2.4)	(0.1)	(2.5)	(6.2)	(2.3)	0.3	(2.0)	(5.1)
<b>Profit after tax</b>	<b>6.0</b>	<b>0.3</b>	<b>6.3</b>	<b>15.3</b>	<b>5.4</b>	<b>(0.8)</b>	<b>4.6</b>	<b>11.5</b>

(1) Relates to guaranteed yield paid to investors in the Lend Lease Overgate Partnership of GBP1.9 million in relation to the deposit and a notional allocation of a management fee equivalent to that charged to other Bluewater owners of GBP0.3 million.

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

## INVESTMENT MANAGEMENT - EQUITY

The underlying loss before tax of GBP2.0 million reflects the effective start up nature of the business in this region. The result also includes the costs of establishing the Generali Joint Venture. Profitability will improve when the Lend Lease Overgate Partnership is fully operational (expected by September 2001) and when Solihull has been completed (expected in September 2001). Both of these occurrences will generate an increase in the level of asset management and funds management fees.

Asset management fees have increased slightly from December 1999 due to the inclusion of fees from the management of the additional 10% of Bluewater sold to Prudential in July 2000. The key drivers of these fees are the value of assets held within the funds which were GBP1.3 billion at 31 December 2000.

## ASSETS UNDER MANAGEMENT (AUM)

	AUM at 30 June 2000 GBPm	Additions GBPm	Reductions GBPm	AUM at 31 December 2000 GBPm
<b>Investment Management – Equity</b>	<b>1.0</b>	<b>0.3</b>		<b>1.3</b>

The equity accounted profits of GBP0.4 million relates to a 50% share of the net operating income of the Arrabida Shopping Centre in Portugal.

**REI - EUROPE continued****INVESTMENT MANAGEMENT - EQUITY continued****INVESTMENT INCOME**

	Six months to 31 December 2000		Six months to 31 December 1999	
	Total		Total	
	GBPm	A\$m	GBPm	A\$m
Bluewater, Kent	8.6	23.1	9.4	23.7
Overgate, Dundee	3.3	8.9		
Lend Lease Retail Partnership	0.3	0.8	0.3	0.7
<b>Total investment income</b>	<b>12.2</b>	<b>32.8</b>	<b>9.7</b>	<b>24.4</b>

The Bluewater investment income of GBP8.6 million for the six months ended 31 December 2000 related to the net operating income (NOI) of Bluewater, derived from Lend Lease's remaining 30% interest in Bluewater. The December 1999 comparative related to a 40% interest.

On 1 July 2000 Prudential completed the acquisition of a further 10% interest of Bluewater, leaving Lend Lease with a 30% share of the NOI of Bluewater. All rent free periods granted to the initial tenants in Bluewater had expired at 30 June 2000. The NOI of Bluewater is largely comprised of a base rent and therefore is not dependent upon sales turnover rent. There are some tenants that are subject to a turnover rent "top-up". The majority of rent reviews for Bluewater's tenants will occur during the financial year ending 30 June 2004.

The Overgate, Dundee investment income of GBP3.3 million for the six months ended 31 December 2000 related to 100% of the NOI of Overgate, Dundee. Lend Lease receives 100% of Overgate's NOI up to the point that the investors in the Lend Lease Overgate Partnership make their final payment when the remaining leasing targets have been met. Prior to that payment (expected to be in September 2001), Lend Lease is required to pay the investors a return of 8.5% per annum on the deposit. Following that payment, the investors will receive 70% of the NOI. The December 2000 total NOI was affected by shop unit vacancies and rent free periods. The amount of rent free periods will decrease in future periods and the NOI will also benefit from rentals received from the shop units leased since opening.

The Lend Lease Retail Partnership investment income of GBP0.3 million for the six months ended 31 December 2000 related to Lend Lease's 4.95% investment in the Partnership which owns a 25% interest in Bluewater and has a commitment to acquire Touchwood, Solihull upon completion (subject to minimum leasing criteria).

**RETAIL PROPERTY MANAGEMENT**

The underlying profit before tax of GBP0.4 million mainly reflects increased revenues by the Larry Smith Group for the period as well as property management fees on Overgate, Dundee that commenced trading in March 1999.

Property management fees are generally fixed on each property and will grow in line as further properties are brought under management.

The Larry Smith revenue has both a fixed component for property management and an element which varies with leasing activity at the centres under management. Current split between this income is approximately 50:50.

## REI - CAPITAL SERVICES

### AUSTRALIA & PACIFIC

The Australian revenue of \$18.7 million and profit after tax of \$7.0 million in December 2000 mainly related to the sale of Lend Lease's remaining interest in the Prospect Water Partnership during the period.

The Australian Capital Services business currently consists of investments in the BP Co-generation Facility (33%), Morrisons (25%) and the Lend Lease Asia Water Trust (16.5%) (reported as an Asian segment investment). Capital Services earns negligible recurring income from these investments.

### ASIA

The segment assets in Asia related to the investment in the Lend Lease Asia Water Trust on which no income has been earned.

### EUROPE

The European Capital Services business consists of investments in Chelverton, THI and Clacton. The European revenue of \$10.7 million in December 2000 mainly related to guarantee fees earned from loans guaranteed for Chelverton. The December 1999 revenue of \$37.0 million mainly related to the sale of Lend Lease's interest in the Fareham Shopping Centre for \$26.0 million.

The status of each investment is summarised below.

### CHELVERTON PROPERTIES

Lend Lease has a 50% interest in Chelverton, which has provided the majority of the European Capital Services' recurrent income over the past four years, mainly through guarantee fees (refer below). The initial investment was made in April 1996. Lend Lease also has a 50% interest in Chelverton Properties International, which is the developer of a number of schemes in Poland and Spain including the Wisniowy, Poland project. Lend Lease's total investment and commitment in Chelverton at 31 December 2000 was:

	GBPm	A\$m
<b>Chelverton Properties</b>		
Investment (equity accounted) <sup>(1)</sup>	8.1	22.1
Guaranteed loan (drawn amount) <sup>(2)</sup>	11.4	31.2
Guarantee fees outstanding	0.2	0.4
	<b>19.7</b>	<b>53.7</b>
	<b>USDm</b>	
<b>Chelverton Properties International</b>		
Investment <sup>(3)</sup>		
Guaranteed loan (drawn amount) <sup>(4)</sup>	18.1	34.8
Guarantee fees outstanding	2.3	4.4
	<b>20.4</b>	<b>39.2</b>
<b>Total investment and commitment</b>		<b>92.9</b>

(1) Initial cost was GBP3.3 million (A\$9.0 million)

(2) Guarantee on a GBP20.0 million (A\$54.8 million) loan facility used to finance projects.

(3) Initial cost was USD4,000.

(4) Guarantee on a USD18.5 million (A\$35.6 million) loan facility used to finance projects.

The drawn amounts on the guaranteed loans are supported by the underlying values of the developments for which the funds have been utilised.

**REI - CAPITAL SERVICES continued****EUROPE continued****THI PLC (THI)**

Lend Lease has a 14.3% interest in THI. The initial investment was made in December 1996. The performance of THI over the past two years has been substantially below expectations and a number of provisions have been raised in previous periods to cover the exposure. No additional provisions have been raised since 30 June 2000, with the exception of \$2.0 million (before tax) raised at 31 December 2000 to cover foreign exchange movements.

	<b>Commitment GBPm</b>	<b>Commitment A\$m</b>	<b>Amounts Provided A\$m</b>
Investment (equity accounted) <sup>(1)</sup> Guarantees <sup>(2)</sup>	22.0	60.2	59.3
<b>Total</b>	<b>22.0</b>	<b>60.2</b>	<b>59.3</b>

(1) Initial investment of GBP3.4 million (A\$9.3 million) has been written off in June 1998.

(2) Guarantees on a GBP25.0 million (A\$68.5 million) loan facility (used to finance projects) and directors' loans, including outstanding guarantee fees. Only drawn amounts on the loans are included as an exposure.

THI is undertaking a number of projects that have either been sold or are in the process of sale, which is expected to reduce Lend Lease's total commitment over time.

**CLACTON**

Lend Lease's approximate 43% interest in the Clacton Common Factory Outlet Centre was acquired in March 1998. The centre itself has traded below expectations since opening.

Lend Lease's total investment and commitment in Clacton at 31 December 2000 was:

	<b>Commitment GBPm</b>	<b>Commitment A\$m</b>	<b>Amounts Provided A\$m</b>
Investment	2.2	6.0	6.0
Guarantees <sup>(1)</sup>	7.1	19.5	19.5
<b>Total</b>	<b>9.3</b>	<b>25.5</b>	<b>25.5</b>

(1) Mainly comprises guarantees on a mezzanine loan facility and outstanding guarantee fees.

The investment and commitments on the guarantees have been fully provided for in previous periods. No additional provisions have been raised since 30 June 2000, with the exception of \$0.6 million (before tax) raised at 31 December 2000 to cover foreign exchange movements.

The Centre is financed by a secured loan and given its non-recourse nature, Lend Lease has no further obligations to support the Centre beyond that provided at 31 December 2000.

## REI - ASSETS UNDER MANAGEMENT

Real Estate Investments AUM at 31 December 2000 were \$84.0 billion, compared to \$70.9 billion at 30 June 2000, a 18.5% increase (5.4% increase excluding currency fluctuations).

### ASSETS UNDER MANAGEMENT

	Dec 2000 North America A\$b	Dec 2000 Aust & Pacific A\$b	Dec 2000 Asia A\$b	Dec 2000 Europe A\$b	6 months Dec 2000 Total A\$b	12 months June 2000 Total A\$b
<b>AUM at beginning of financial period</b>	57.4	10.0	0.9	2.6	70.9	46.9
Exchange gain/(loss)	9.0		0.1	0.2	9.3	3.0
Additions <sup>(1)</sup>	4.8	0.7	0.2	0.8	6.5	13.1
Reductions	(2.7)				(2.7)	(7.5)
Acquisitions						26.1
Reallocated to AUR						(10.7)
<b>AUM at end of financial period</b>	<b>68.5</b>	<b>10.7</b>	<b>1.2</b>	<b>3.6</b>	<b>84.0</b>	<b>70.9</b>
	<b>USD35.6</b>		<b>USD0.6</b>	<b>GBP1.3</b>		

(1) Additions include both new funds and revaluations of assets within existing funds.

The US REI AUM totalled \$68.5 billion representing approximately 81.5% of the total REI AUM.

The opening balance of AUM was adjusted by a reallocation of USD6.4 billion (A\$10.7 billion) from AUM to AUR. The reallocation related to Asian and North American debt assets under resolution that were acquired with the acquisition of the Debt Businesses in March 2000, and included within North America AUM at 30 June 2000.

## REI - LOANS UNDER SERVICING

Real Estate Investment's LUS at 31 December 2000 were \$96.5 billion, compared to \$82.7 billion at 30 June 2000, a 16.7% increase (1.3% increase excluding currency fluctuations).

	Dec 2000 Nth America A\$b	June 2000 Nth America A\$b
<b>LUS at beginning of financial period</b>	<b>82.7</b>	<b>12.0</b>
Exchange gain/(loss)	12.7	
LUS acquired		70.4
Additions - internal sources	3.2	
Additions - external sources	2.9	1.8
Loan run-offs	(5.0)	(1.5)
<b>LUS at end of financial period</b>	<b>96.5</b>	<b>82.7</b>
	<b>USD50.2</b>	<b>USD49.6</b>

## REI - ASSETS UNDER RESOLUTION

Real Estate Investment's AUR at 31 December 2000 were \$16.7 billion, compared to \$10.4 billion at 30 June 2000, a 60.6% increase (46.2% increase excluding currency fluctuations).

	Dec 2000 Nth America A\$b	Dec 2000 Asia A\$b	Dec 2000 Total A\$b
<b>AUR at beginning of financial period</b>	<b>1.5</b>	<b>9.2</b>	<b>10.7</b>
Exchange gain/(loss)	0.2	1.4	1.6
Additions		4.6	4.6
Reductions	(0.2)		(0.2)
<b>AUR at end of financial period</b>	<b>1.5</b>	<b>15.2</b>	<b>16.7</b>
	<b>USD0.8</b>	<b>USD7.9</b>	

## REI - GLOBAL FUNDS PERFORMANCE

### AS AT 31 DECEMBER 2000

	Fund Type	Investment Strategy	Net Asset Value Millions	One Year Annualised Return After Fees	Since Inception Return After Fees	Years Since Inception	One Year Annualised Benchmark Return
Prime Property Fund	Private Equity	Core	USD2,190	13.3%	8.0%	27.0	11.7% <sup>(1)</sup>
Value Enhancement Fund II	Private Equity	Enhanced	USD228	13.2%	14.9%	4.3	11.7% <sup>(1)</sup>
Value Enhancement Fund III	Private Equity	Enhanced	USD628	28.9%	16.6%	2.8	11.7% <sup>(1)</sup>
Value Enhancement Fund IV	Private Equity	Enhanced	USD257	20.5%	20.6%	1.0	11.7% <sup>(1)</sup>
LL Rosen Total Return Strategy (Composite)	Public Equity	Core	USD950	33.2%	13.4%	6.8	31.0% <sup>(1)</sup>
LL Retail Partnership	Private Equity	Core	GBP336	19.4% <sup>(7)</sup>	19.4% <sup>(7)</sup>	1.5	15.0% <sup>(5)</sup>
LL Global Fund	Private Equity	Opportunistic	USD67	na	na	2.0	
US Office Trust	Public Equity	Core	A\$1,100	10.3%	8.6%	1.0	17.9% <sup>(2)</sup>
APIC <sup>(6)</sup>	Private Equity	Core	A\$1,050	12.8%	2.5%	4.8	-8.9% <sup>(3)</sup>
APPF - Retail	Private Equity	Core	A\$690	9.1%	7.5%	12.0	11.2% <sup>(4)</sup>
APPF - Commercial	Private Equity	Core	A\$370	8.5%	7.1%	6.5	11.2% <sup>(4)</sup>
APPF - Industrial	Private Equity	Core	A\$155	9.9%	10.0%	4.5	11.2% <sup>(4)</sup>
GPT	Public Equity	Core	A\$4,700	20.1%	14.5%	30.0	17.9% <sup>(2)</sup>

(1) National Council of Real Estate Investment Fiduciaries (NCREIF) Index at 30 September 2000 before fees.

(2) ASX LPT Accumulation Index at 31 December 2000.

(3) Asian Property Index at 30 April 2000.

(4) Mercers Australian Unlisted Property Index.

(5) Investment Property Database at 31 December 1999. Return is before fees.

(6) Return is for the year ended 30 April 2000.

(7) Refers to the year ended 31 December 1999. Return is before fees.

## REI - CO-INVESTMENTS

Part of the REI strategy involves Lend Lease co-investing, where appropriate, in the Funds alongside clients. Such investments are usually in effect seed capital to establish a fund. The majority of funds that Lend Lease co-invests in are closed ended funds that are weighted towards capital growth rather than income generation. As Australian Accounting Standards prohibit the recording of unrealised capital gains as profit, Lend Lease's total return on the investment is only earned on liquidation of the funds.

The following table summarises the co-investments at 31 December 2000, as well as future commitments to co-investments.

Investment	Investment 31 Dec 2000 A\$m	Future Commitments A\$m	Total Commitments A\$m	Expected Realisation Year <sup>(1)</sup>
<b>North America</b>				
Lend Lease Real Estate Securities Fund	21.1		21.1	2003
VEF III	32.2		32.2	2005
VEF IV	21.8	17.8	39.6	2006
VEF V		48.1	48.1	2007
YCP II	102.2		102.2	2003
Arch Street series	10.7	25.7	36.4	2006
Mezzanine debt funds	10.6	19.2	29.8	2005
Other	30.7	4.0	34.7	Various
	<b>229.3</b>	<b>114.8</b>	<b>344.1</b>	
<b>Asia</b>				
Lend Lease Asia Water Trust	9.3	29.6	38.9	2002
APIC	82.6		82.6	2003
International Distressed Debt Fund		192.3	192.3	2008
	<b>91.9</b>	<b>221.9</b>	<b>313.8</b>	
<b>Europe</b>				
Lend Lease Global Fund	16.2	172.9	189.1	2006
Lend Lease Retail Partnership	42.0	26.7	68.7	2008
Lend Lease Europe Mutual Fund	19.2		19.2	2004
	<b>77.4</b>	<b>199.6</b>	<b>277.0</b>	
<b>Australia</b>				
APPF	48.0		48.0	Open ended
REP I	0.9	4.1	5.0	2005
	<b>48.9</b>	<b>4.1</b>	<b>53.0</b>	
<b>Total</b>	<b>447.5</b>	<b>540.4</b>	<b>987.9</b>	

(1) Relates to the final liquidation of the fund.

## REI - SIGNIFICANT EVENTS

### NORTH AMERICA

- Skyline Fund, a tax efficient opportunistic fund geared toward high net worth individual investors, has been developed and is in the marketing stage. The Skyline Fund is a joint venture with the Marvin Davis Group. The fund will be open-ended and provide the management team with full discretion over investment opportunities that may include foreign and domestic investments in private and public equity as well as private and public debt. The expected initial capital raising is USD100.0 million.

### EUROPE

- Lend Lease Global Properties SICAF and its sister funds Lend Lease European Properties and Lend Lease Asia Properties (Global Properties) form the Lend Lease flagship global real estate investment fund, which has successfully closed with total commitments of USD590.0 million. The fund has approximately USD2.0 billion (including debt) available for investment in Europe, Asia and the Americas. Lend Lease has committed USD100.0 million as an equity investment in Global Properties. At 31 December 2000 Global Properties had total gross assets under management of USD347.0 million.

## REI - SIGNIFICANT EVENTS continued

### EUROPE continued

- Lend Lease Houlihan Rovers (LLHR) is a Belgium-based European listed real estate equities management company. Lend Lease holds an 80% interest with the balance held by the management.
- GLL Real Estate Partners (GLL) was established in October 2000 as a joint venture between Lend Lease (40%) and Generali, a major European insurance company (40%), with the balance of the joint venture held by GLL management. The principal objective of the joint venture, which will be based in Munich, Germany, is to provide European real estate investors access to core investment opportunities, initially in Europe, and then in other regions drawing on Lend Lease Real Estate Investment's network. The joint venture commenced operations in January 2001.

### ASIA

- A major new initiative, the Lend Lease International Distressed Debt Fund, was launched in December 1999. This initiative will capitalise on the Lend Lease Mortgage Investment's asset management historical track record in resolving troubled loan portfolios. The objective is to raise up to USD600.0 million to invest in distressed debt portfolios, principally in Japan, Korea and other Asian countries. Lend Lease has committed USD100.0 million of co-investment capital to the fund. The first close of USD250 million is anticipated for early February. The second and final closes are anticipated for the end of March and June respectively.

## DEFINITIONS

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

**Assets Under Resolution (AUR)**- represents the legal balances of distressed (non-performing) mortgage loans that have typically been acquired at a discount in order for the assets, secured by the mortgage loans, to be liquidated at a higher value on behalf of investors.

**Loans Under Servicing (LUS)** - represents the legal balances of mortgage loans that are administered on behalf of investors.

## PROPERTY DEVELOPMENT (PD)

The activities of this business involve all aspects of property development from concept through design, planning, construction, financing and leasing to eventual sale.

Properties for development are generally acquired or secured initially by Lend Lease in order to retain control over the planning and early development phases of each project. Co-investors are then introduced which limits the Group's risk to each project.

## RESULTS

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	June 2000 \$m
Australia	287.0	69.5	(54.4)	0.6	(39.6)	11.3	823.8	822.6
North America	2.4	2.1	(1.2)	(1.1)	(0.7)	(0.6)	9.4	
Asia	8.4	2.6	0.5	(2.5)	2.1	(1.9)	57.8	44.2
Europe	324.1	533.4	60.0	116.8	41.5	80.8	1,124.6	1,182.4
<b>Total Property Development</b>	<b>621.9</b>	<b>607.6</b>	<b>4.9</b>	<b>113.8</b>	<b>3.3</b>	<b>89.6</b>	<b>2,015.6</b>	<b>2,049.2</b>
% of Total Group	10.8%	11.4%	2.7%	21.6%	3.1%	32.4%	22.0%	18.7%

## REVENUE

Australian revenue for the financial period ended 31 December 2000 primarily related to revenue earned in relation to the disposal of the 50% joint venture interest in Aurora Place, Sydney (\$242.5 million), residential sales of the Olympic Village/Newington project in Sydney (\$31.8 million) and progressive sales of other residential projects (\$8.0 million).

The Asian revenue mainly related to sales of factory units at Admiralty Industrial Park, Singapore (AIP).

European revenue mainly comprised the sale of 10% of Bluewater, Kent (\$268.8 million) to Prudential on 1 July 2000, additional revenue recognised from the sale of a 70% interest in Overgate, Dundee (\$25.2 million), proceeds on the sale of Whitecliff Properties (\$19.2 million) and development fees from the Bluewater South Village project (\$8.5 million).

## PROFIT AFTER TAX

The substantial decrease in profit for the financial period mainly reflected the provisions raised against the Fox Studios, Sydney and a smaller stake sold of Bluewater, Kent in December 2000 (10%) compared to December 1999 (20%).

The loss after tax in Australia of \$39.6 million mainly comprised:

- Profit after tax of \$19.6 million in relation to the disposal of the 50% joint venture interest in Aurora Place.
- A net loss after tax of \$65.0 million on Lend Lease's 50% interest in Fox Studios which consisted of:
  - share of operating loss after tax for the six months ended 31 December 2000 of \$7.9 million;
  - a provision of \$63.0 million after tax raised against the investment in Fox Studios; and
  - reversal of part of a general provision held at June 2000 in respect of Fox Studios of \$5.9 million after tax.

Full details on the Fox Studios provisions are contained in Note 30(c) of the 31 December 2000 Consolidated Half Year Financial Statements.

- Profit after tax on the residential projects of \$5.0 million including Olympic Village/Newington (\$1.4 million) and Jacksons Landing (\$3.2 million).
- Other development profits after tax of \$0.8 million.

The \$0.7 million loss after tax in North America mainly related to costs to establish a US Development business.

The profit after tax in Asia of \$2.1 million mainly related to sales of the AIP factory units, offset by business overheads. The December 1999 loss related principally to unrecovered business overheads.

## PD - RESULTS continued

### PROFIT AFTER TAX continued

The European profit after tax of \$41.5 million for the financial period to December 2000 mainly related to the divestment of 10% of Bluewater to Prudential (\$45.5 million profit after tax) the profit effect of the discounted final Bluewater land payment to Blue Circle Industries as part of the Whitecliff Properties sale (\$4.5 million profit after tax), offset by business overheads and costs associated with prospective projects.

Details on Bluewater are contained in Note 30(n) of the 31 December 2000 Consolidated Half Year Financial Statements.

### SEGMENT ASSETS

The decrease in segment assets of \$33.6 million to \$2,015.6 million at 31 December 2000 (from \$2,049.2 million at 30 June 2000), mainly related to the sale of 10% of Bluewater offset by expenditures on development projects including Touchwood, Solihull (\$85.6 million) and the effect of currency fluctuations. Total segment assets includes property development inventories of \$1,111.4 million which have decreased by \$275.1 million since June 2000. This is consistent with Lend Lease's strategy to reduce exposure to development projects. Total property development inventories of \$1,111.4 million includes the 30% interest in Bluewater retained by Lend Lease (\$624.1 million), Olympic Village/Newington, Sydney (\$192.8 million), Overgate, Dundee (\$120.2 million), Chapelfield, Norwich (\$38.4 million), Admiralty Industrial Park, Singapore (\$24.0 million), Darling Park, Stage III, Sydney (\$16.3 million) and Jackson's Landing, Sydney (\$15.7 million). Other segment assets include receivables in respect of various developments (totalling \$714.3 million) and other items (\$189.9 million).

The investment in the Fox Studios development of \$15.0 million (net of provisions) is included in Investments on the Statement of Financial Position.

Further details of the development projects can be found in the Group's Consolidated Half Year Financial Statements at 31 December 2000.

## PROJECT UPDATES

Since 30 June 2000 there has been considerable leasing and disposition activity on the major projects (all statistics as at 31 December 2000):

### AUSTRALIA & PACIFIC

#### RESIDENTIAL AND LAND MANAGEMENT BUSINESS

The current focus of the Australian Property Development business is on residential and land management type projects which are staged developments for durations of up to 20 years. These include projects such as Jacksons Landing at Pyrmont in Sydney, North Lakes in Brisbane, St Mary's in Western Sydney and the Olympic Village/Newington in Sydney. The land management projects are usually partnered with land bank owners and generally structured to allow land payments to be made in line with the actual sale proceeds from the development program. The staged nature of these projects enables a lower risk profile as investment commitments can be made in accordance with market conditions. In addition a more predictable profit stream can be achieved through diversity of project locations and products. Currently this business controls approximately 20,000 dwellings/land lots with a total forward development value of approximately \$5.0 billion. Subject to market conditions, profitability is expected to increase from current levels from existing major projects (North Lakes, Jackson's Landing and Olympic Village/Newington) and the emergence of new projects in Melbourne (Edgewater) and Sydney (St Patrick's, Manly and St Mary's).

**PD - PROJECT UPDATES continued****AUSTRALIA & PACIFIC continued**

<b>Project</b>	<b>Current Financial period Significant Events</b>	<b>Status/Risks</b>
<b>Aurora Place, Sydney</b>	<ul style="list-style-type: none"> <li>▪ Disposal of the 50% joint venture interest in Aurora Place during the period.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Settlement completed in February 2001.</li> </ul>
<b>Olympic Village/Newington, Sydney</b>	<ul style="list-style-type: none"> <li>▪ 73% of dwellings released to market in Stages I, II and III are now sold.</li> </ul>	<ul style="list-style-type: none"> <li>▪ If current selling prices are maintained budgeted profits will be achieved.</li> <li>▪ Key risk is the strength of the Sydney residential market.</li> <li>▪ Remainder of project is of a staged nature which can be contracted or expanded in line with the prevailing market conditions.</li> </ul>
<b>Jacksons Landing, Sydney</b>	<ul style="list-style-type: none"> <li>▪ 71% of total units released to market sold.</li> <li>▪ Launch of McCafferys with sales of 48 units out of 93 released achieved in six months.</li> <li>▪ Marketing commenced on second commercial building.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Key risk is the strength of the Sydney residential market.</li> <li>▪ Project is of a staged nature which can be contracted or expanded in line with the prevailing market conditions.</li> </ul>
<b>Fox Studios, Sydney</b>	<ul style="list-style-type: none"> <li>▪ 100% of total available office/retail space leased.</li> <li>▪ Trading in the Backlot tour since opening has been well below budget. As a result a total loss of \$65.0 million after tax from share of trading losses and provisions raised was incurred at 31 December 2000. This is in addition to losses after tax of \$81.5 million which were incurred in the year to June 2000.</li> <li>▪ A "reduced Backlot offer" (reduced ticket price, removing gate) implemented since late November 2000.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Key risk is achieving the revised business plan for visitations to the site.</li> <li>▪ Bent Street has been trading in line with expectations.</li> <li>▪ The working film studios are substantially pre-booked for the next 2 years.</li> <li>▪ Current carrying value of \$15.0 million is supported by internal cash flow forecasts with project expected to be cash flow positive in 2002.</li> </ul>
<b>St Mary's, Sydney (Land Management Project)</b>	<ul style="list-style-type: none"> <li>▪ Gazettal of the rezoning of the site on 19 January 2001.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Joint venture with ComLand Limited to develop 1,500 hectares in Western Sydney over 20 years.</li> <li>▪ Target first sales date is early 2003.</li> </ul>

## PD - PROJECT UPDATES continued

### EUROPE

The market for retail centres is reasonably robust, particularly in Southern Europe. In the UK, investor demand for prime retail centres remains strong, although there has been a weakening in asset values in the secondary retail sector. This weakness in the UK has been largely due to concerns that the poor trading results reported by some retailers and increased supply of older retail space, may adversely impact rental levels and vacancy rates. The perceived weakness in UK retail means that there are capital, leasing and exit risks to our inventories.

Future developments in the UK and continental Europe will be structured to lower the risk profile through operating increasingly as a fee for service type-business, primarily assuming risks on leasing and delivery only. Lend Lease may use internal capital to secure its sites, however, developments will only be commenced when an exit strategy is supported via pre-commitments from investors and pre-letting has reached appropriate target levels. Incentive fees will typically be structured so as to reward leasing or delivery targets being exceeded.

Project	Current Financial period Significant Events	Status/Risks
<b>Bluewater, Kent</b>	<ul style="list-style-type: none"> <li>▪ Sale of 10% interest to Prudential in July 2000.</li> <li>▪ Fully let at 31 December 2000.</li> <li>▪ Valuation of full Centre increased by 3.3% over the last 6 months to GBP1,275.0 million.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Holding was 30% at 31 December 2000.</li> <li>▪ Lend Lease is entitled to a proportionate share of net operating income of the Centre.</li> <li>▪ Remaining risk relates to rental levels and the capitalisation rate at exit on the final 30% interest.</li> </ul>
<b>Overgate, Dundee</b>	<ul style="list-style-type: none"> <li>▪ Opened on schedule in March 2000.</li> <li>▪ Leased to 94% of total space (90% of rental value).</li> <li>▪ 70% interest sold to investors through a limited partnership structure. Sale is contingent on certain leasing targets and a minimum letting threshold being met.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The risks are the leasing of the remaining space at minimum rentals agreed with the investors.</li> <li>▪ Lend Lease 30% interest held through the limited partnership structure with the other investors.</li> </ul>
<b>Touchwood, Solihull</b>	<ul style="list-style-type: none"> <li>▪ 73% of space (50% of rental value) leased in line with leasing plan.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Centre pre-sold to Lend Lease Retail Partnership at an agreed capitalisation rate.</li> <li>▪ The risks are the remaining leasing and completion of the Centre.</li> <li>▪ Due to open in September 2001.</li> </ul>
<b>Norwich, Chapelfield</b>	<ul style="list-style-type: none"> <li>▪ Preliminary design for Centre being prepared.</li> <li>▪ House of Fraser signed as department store anchor tenant.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Commitment to commence construction contingent on achieving acceptable pre-leasing and equity partners.</li> <li>▪ Planning approval expected by June 2001.</li> <li>▪ Financial exposure at this stage is land acquisition costs and fees (\$38.4 million).</li> </ul>
<b>Tres Aguas/Carlos III, Madrid</b>	<ul style="list-style-type: none"> <li>▪ Joint venture (Lend Lease 50% interest) to develop regional retail centre established in September 1999.</li> <li>▪ Development facility put in place to finance construction costs.</li> <li>▪ Construction commenced during the December 2000 period on attainment of appropriate leasing commitments.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Agreements signed in respect of 27% of space and 19% by value.</li> <li>▪ Site preparation started with opening scheduled for September 2002.</li> <li>▪ The risks are the construction costs, the leasing and capitalisation rate at exit.</li> </ul>
<b>Leeds, England</b>	<ul style="list-style-type: none"> <li>▪ Development management agreement signed with USS Pension Fund for a new retail Centre.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Phase I for design and feasibility study to be completed in February 2001.</li> <li>▪ Decision on development to be made at completion of Phase 1.</li> </ul>

## PD - PROJECT UPDATES continued

### NORTH AMERICA

The main development project in North America is The Piers Project on the waterfront in San Francisco in which Lend Lease holds a 50% interest in San Francisco Cruise Terminal, which has an exclusive right to negotiate with the Port of San Francisco to develop Piers 30 - 32 and Seawall Lot 330. The lease is expected to be signed by 30 June 2001 with construction commencing in early 2002.

Development services are also provided to the REI US business.

### PROPERTY DEVELOPMENT WORKLOAD

The following table details some key features of the major property development projects.

Project	Investment/ Inventory <sup>(1)</sup> 31 Dec A\$m	Expected Maximum Inventory/ Investment Value <sup>(1)</sup> A\$m	Status	Expected Realisation
<b>Bluewater, Kent (30%)</b>	624.1	624.1	30% to be retained under head lease until 2005.	Dictated by terms of head lease and market conditions.
<b>Olympic Village/Newington, Sydney</b> - Precinct 1 - Precinct 2  - Precinct 3  - Precinct 4/5	192.8	200.0	Staged development.  Post games residential development. Olympic Village- pre and post games residential development. Inventory balance to decline as dwellings settled post retro-fit process.  Pre and post games residential development.  Commercial/Retail.	  Up to January 2006 Up to June 2002  Up to June 2003  Up to December 2003
<b>Touchwood, Solihull</b>	164.3 <sup>(2)</sup>	392.0	Construction to be completed in September 2001. Pre sold to Lend Lease Retail Partnership.	September 2001
<b>Overgate, Dundee</b>	120.2	120.2	Opened March 2000. Sold 70% subject to attaining minimum leasing targets.	September 2001
<b>Chapelfield, Norwich</b>	38.4	300.0	Awaiting planning approval.	2003/04
<b>Jacksons Landing, Sydney</b>	84.6	90.0	Staged development. Three residential precincts completed. Two others under construction as well as a commercial building.	Up to 2007
<b>Fox Studios, Sydney</b>	15.0	15.0	Business model under review.	To be reviewed following implementation of new business model
<b>Admiralty Industrial Park, Singapore</b>	24.0	30.0	Final stages of development and realisation.	2002/03
<b>Tres Aguas, Madrid</b>	18.5	30.0	Main construction commenced. Expected to be opened in September 2002.	2002/03
<b>Land Management Business</b>	41.8	200.0	North Lakes, Brisbane in establishment phase. St Mary's, Sydney achieved rezoning. Twin Waters, QLD 45% complete. Edgewater, Melbourne to commence mid 2001.	Up to 2014  Up to 2020 Up to 2005 Up to 2006
<b>Darling Park, Stage III, Sydney</b>	16.3	16.3	Vacant land, future development dependent on market conditions	No current plans

(1) Book values

(2) In Receivables

## BOVIS LEND LEASE (BLL)

The principal activities of this business segment are real estate project management, project design and construction management.

Lend Lease acquired Bovis Group plc (Bovis) from The Peninsular and Oriental Steam Navigation Company (P&O) on 29 October 1999. Bovis was merged with Lend Lease Projects to form Bovis Lend Lease. The acquisition extended Lend Lease's project and construction management capabilities globally, particularly to Europe and the USA. Bovis Lend Lease is a multi-national, multi-industry project management, design and construction management operation, which has enhanced Lend Lease's integrated real estate strategy by adding recurrent profit streams, global scale and capacity, a global brand, an enhanced client pipeline and the ability to leverage other Lend Lease real estate capabilities. At 31 December 2000, 51% of the committed workload comprised contracts having a total project life of more than 30 months. In addition, 65% of the work performed during the December 2000 period was for repeat customers. As a result of the broad service offering, Bovis Lend Lease is not dependent on any particular industry sector to achieve its results. Through industry/client/geographic diversification, the Bovis Group is positioned to dampen earnings volatility typically evident in project and construction management businesses.

Bovis Lend Lease profit is generally earned on a margin over cost basis. Construction costs are typically funded by progress payments from clients and accordingly the business does not require significant amounts of capital. The profitability of this business is most directly related to the level of construction activity and fees and margins negotiated on a contract by contract basis.

## OPERATING RESULTS

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	June 2000 \$m
Australia & Pacific	587.7	794.5	23.0	34.1	12.8	22.3	352.7	272.7
Americas	2,590.5	821.5	19.2	5.3	12.8	3.0	1,670.5	1,415.9
Asia	158.7	89.6	3.5	1.1	2.0	(0.7)	190.8	172.7
Europe	1,087.8	490.3	20.1	5.5	13.6	1.8	1,117.1	894.3
<b>Total Bovis Lend Lease</b>	<b>4,424.7</b>	<b>2,195.9</b>	<b>65.8</b>	<b>46.0</b>	<b>41.2</b>	<b>26.4</b>	<b>3,331.1</b>	<b>2,755.6</b>
% of Total Group	76.8%	41.1%	35.3%	8.8%	37.9%	9.6%	36.4%	25.2%

The accounts for 31 December 1999 only include two months of operating financials for Bovis.

## BUSINESS MANAGEMENT STRUCTURE

Since June 2000, the company has reorganised its structure to focus on the markets in which it operates and to better meet its customer needs. The global business comprises three geographical regions (Americas, Europe and Asia Pacific).

The regional organisation structure has resulted in the Australia & Pacific and Asian regions being managed as one combined region.

Bovis Lend Lease has formed global business units focussing on particular global market sectors and clients that require global real estate services, specifically the pharmaceutical and microelectronics industries. Activities in these sectors have been rebranded as Bovis Lend Lease Pharmaceutical and Bovis Lend Lease Microelectronics.

The pharmaceutical business consists of the current pharmaceutical operations of Bovis Lend Lease, including the business previously known as Bovis Tanvec. The business unit also has responsibility for the Jacobs Lend Lease joint venture in Singapore and Ireland.

The microelectronics business consists of the acquired operations of Project Consultants Inc. (acquired 30 May 2000) and the Crystal Group (acquired January 1999).

The Global Markets business unit, which has operations in North America, Asia and Western Europe, provides consulting, engineering, procurement and construction management services in both the pharmaceutical and microelectronic industry sectors.

A business unit has also been established to focus specifically on global clients and alliances to ensure that management focus is given to the requirements of these customers. Currently this business unit has operations in Asia, Europe and North America and includes the alliance with BP and Coca-Cola. Over time, more clients will be reported under this business unit as the services provided to those clients expand globally.

**BLL - OPERATING RESULTS continued****BUSINESS MANAGEMENT STRUCTURE continued**

The financial results to December 2000 as compared to the six months to December 1999 are as follows:

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m
<b>Regional Businesses</b>						
Asia Pacific	728.7	847.5	28.8	37.7	16.6	23.1
Americas	2,543.1	821.5	19.5	6.9	13.0	3.9
Europe	1,002.3	423.7	11.0	1.4	7.9	0.7
<b>Global Businesses</b>						
Global Markets and Clients & Alliances	151.3	103.2	22.4	7.3	14.1	3.4
Global Management and Other Costs <sup>(1)</sup>			(15.9)	(7.3)	(10.4)	(4.7)
<b>Total Bovis Lend Lease</b>	<b>4,424.7</b>	<b>2,195.9</b>	<b>65.8</b>	<b>46.0</b>	<b>41.2</b>	<b>26.4</b>

- (1) Includes the overhead cost of global management and integration and re-positioning costs, which are allocated across the regions for segment reporting purposes.

**REVENUE**

Total revenue has increased significantly by 101.5% to \$4,424.7 million primarily due to the inclusion of a full six months of Bovis revenue in the current period as compared to only two months' contribution from Bovis for the comparative period.

Revenue for the Asia Pacific business decreased by 14.1% to \$728.3 million for the six months ended 31 December 2000, with revenues for the Australian business down 26.0% to \$587.7 million reflecting the downturn in construction activity following the completion of the Olympics-related work in Sydney. The Australian business reduction was largely attributable to the Pre-Existing (Lend Lease Projects) business which accounted for 98% of Australian-based revenue for the half year ended December 1999.

The downturn in Australia (reduction of \$207.0 million) was somewhat offset with increased revenues in Asia (increase of \$69.0 million) for the six months ended 31 December 2000, which mainly reflected the acquired Bovis business as well as increased construction activity in the industrial market sectors.

The American and European revenue mainly related to the acquired Bovis business with the increase due to the acquisition timing discussed above.

Revenue for the Global Markets and Clients & Alliances business unit increased by 46.6% to \$151.3 million for the six months ended 31 December 2000, which included revenues from the former Project Consultants Inc. (PCI) in the USA for the first time (now rebranded and forming part of BLL Microelectronics), the BP alliance in both Europe and North America and projects for Coca-Cola in Asia.

The acquisition of Bovis has resulted in a more globally diversified business when compared to the Pre-Existing business. The table below provides a geographic split of the revenue and gross profit margin (GPM) (refer to Definitions) streams based on the six months to 31 December 2000.

	Revenue		Gross Profit Margin	
	Bovis Lend Lease %	Pre-Existing <sup>(1)</sup> Business %	Bovis Lend Lease %	Pre-Existing <sup>(2)</sup> Business %
<b>REVENUE DIVERSITY</b>				
Asia Pacific	17	99	24	100
Americas	58		40	
Europe	25	1	36	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

- (1) Based on the June 1999 financial period actual revenues.

- (2) Based on the June 1999 financial period actual gross profit margins.

Bovis Lend Lease enters into a wide variety of types of contract, from contracts where only its fee is recorded as revenue to contracts where the full value of the project, including third-party costs, is recorded as revenue. For this reason, recorded revenues do not necessarily provide a good measure of the volume of work undertaken and the ratio of operating profit to revenue is not considered to be a useful measurement of profit margin. GPM is the more appropriate indicator of diversity and profitability.

## BLL - OPERATING RESULTS continued

### PROFIT AFTER TAX

Bovis Lend Lease's contribution to the Group's operating profit after tax was \$41.2 million for the six months ended 31 December 2000, a 56.1% increase on the six months ended 31 December 1999 earnings of \$26.4 million. This is due primarily to the inclusion of a full six months of the acquired Bovis business in the current period.

The Asia Pacific region's profit after tax for the six months ending December 2000 was \$16.6 million, a decrease from the \$23.1 million earned in the comparative period. This reflected decreased Australian profits with the lower construction activity (discussed previously) and a number of large projects that were completed or near completion in the previous period, partially offset by increased profits in Asia as a result of the increase in current workload. The current period's result also included a net \$1.9 million after tax release of internal profits in respect of projects in which Lend Lease held an equity interest which mainly reflected Lend Lease's disposition of Aurora Place. Under Australian accounting rules the profits are excluded from the results until the equity interests in those projects are realised.

The profit after tax of \$13.0 million for the current period for the North American business reflected the inclusion of a full six month's operating result for Bovis and a small after tax loss for the Lend Lease Actus joint venture, which was primarily due to the start up nature of the business.

The profit after tax of \$7.9 million for the current period for the European business included a full six months operating result from Bovis and the impact of a change in Bovis' accounting policy to standardise the Bovis financials with the Pre-Existing Lend Lease Projects' accounting policies.

The profit after tax for the Global business units of \$14.1 million for the current period mainly reflects profits from a number of strategic alliances within the European pharmaceutical business and with global clients.

Global Management and Other totalling (\$10.4 million) after tax for the current period mainly reflect expenses for the global executive management team, integration and strategic re-positioning.

As reported in previous MD&As, the total integration and strategic re-positioning costs were expected to total up to \$35.0 million after tax, including the amount of \$14.1 million included in the capitalised cost of acquisition which has now been fully expensed. Integration costs incurred during the year to June 2000 were \$9.1 million after tax. In the period to December 2000 a further \$4.0 million after tax was expensed on these initiatives. The integration initiatives are planned to be completed by June 2001, within the remaining budget of approximately \$8 million after tax. The initiatives have included the re-organisation of management, changing the brand, elimination of duplicated processes and functions, standardisation of policies, procedures and practices, rationalisation of essential technology infrastructure, establishment of shared services with the wider Lend Lease Group, consolidation of offices and knowledge and skill sharing initiatives.

Bovis Lend Lease also contributed net interest earnings of \$6.6 million after tax, which is included in the Corporate Group Treasury result. Bovis Lend Lease generates surplus working capital, which then earns interest income for the Group or is lent to other parts of the Lend Lease Group thereby reducing the level of interest expense for the Group. The benefit of \$6.6 million for this period comprises interest earnings of \$3.1 million after tax in addition to a reduction in the Group's interest expense of \$3.5 million after tax.

The following table summarises the profit after tax by region after adjusting for the benefits of the positive working capital balances to reflect the full contribution to the Lend Lease profit by the Bovis Lend Lease business.

### ADJUSTED PROFIT AFTER TAX

	Segment Profit After Tax Dec 2000 \$m	Add Interest After Tax Dec 2000 \$m	Adjusted Profit After Tax Dec 2000 \$m
Asia Pacific	16.6	1.6	18.2
Americas	13.0	2.9	15.9
Europe	7.9	1.7	9.6
Global Markets and Clients & Alliances	14.1	0.4	14.5
Global Management and Other	(10.4)		(10.4)
<b>Total Bovis Lend Lease</b>	<b>41.2</b>	<b>6.6</b>	<b>47.8</b>

### SEGMENT ASSETS

Segment Assets increased from \$2,755.6 million at 30 June 2000 to \$3,331.1 million at 31 December 2000 which mainly reflected the effect of currency fluctuations.

## BLL - OPERATING RESULTS continued

### WORKING CAPITAL

The Bovis Lend Lease business is a significant generator of cash. The amount of cash and cash equivalents attributable to Bovis Lend Lease at 31 December 2000 was \$633.6 million, compared to \$527.7 million at 30 June 2000, up \$105.9 million, of which \$56.2 million related to currency fluctuations.

	Asia/Pacific \$m	Americas \$m	Europe \$m	December 2000 \$m	June 2000 \$m
Cash at Bank	134.9	49.6	98.9	283.4	257.8
Cash lent to Lend Lease Corporation	90.7	94.2		184.9	148.1
Cash lent to other Lend Lease companies		165.3		165.3	121.8
<b>Total cash</b>	<b>225.6</b>	<b>309.1</b>	<b>98.9</b>	<b>633.6</b>	<b>527.7</b>

While overall cash was higher than at June 2000, there was a decrease in the Asia Pacific cash balances in line with the lower monthly activity in that region due to the completion of a number of large Sydney-based projects post the Olympics. There was an improvement in the level of net cash in the Americas of \$153.9 million over the June 2000 balance of \$155.2 million.

### DIVERSITY OF BOVIS LEND LEASE BUSINESS MIX

The Bovis Lend Lease business can be segregated into four broad business categories or segments:

- Fee Services
- Construction Services
- Global Clients
- Real Estate Solutions

### FEE SERVICES BUSINESS

In this type of business, Bovis Lend Lease provides management services on construction projects for clients.

Under a standard form of fee services contract, Bovis Lend Lease has no contractual responsibility for the overall construction cost of a project. Accordingly the revenue recognised by Bovis Lend Lease in respect of these projects is limited to the fees earned by Bovis Lend Lease only and does not reflect the full value of the project. Fees negotiated for this type of business usually represent a lower margin (in respect of the total project value) than those received for construction services contracts reflecting the lower level of risk involved.

Bovis Lend Lease enters into a number of types of fee services contract, including project management/program management and construction management/management contracting.

### CONSTRUCTION SERVICES BUSINESS

In this type of business, Bovis Lend Lease commits to the delivery of a completed project to its client, in accordance with negotiated time, cost and quality specifications. Typically, Bovis Lend Lease will be paid a fixed fee for its services or a fee that is linked to the ultimate size of the contract. In addition, incentives are sometimes negotiated under this type of contract. This business may involve Bovis Lend Lease undertaking some performance risk. Given the increased risk profile of such projects, a higher contract margin is typically negotiated on this type of contract. The reported revenues for these projects usually comprise the total value of the project.

Bovis Lend Lease enters into a number of types of construction services contracts including Guaranteed Maximum Price, Design and Build and Lump Sum.

### GLOBAL CLIENTS & ALLIANCES

Particular emphasis is given to establishing long term recurrent revenue streams at both a regional and global level. This business unit focuses on clients who manage their capital investment activities globally (i.e. global clients), and other clients with whom Bovis Lend Lease has an ongoing relationship and who manage their capital investment on a regionally specific basis (i.e. client alliances). The potential to focus on major repeat client accounts (both global and by alliances) is a result of the strong relationships that have been established by Bovis Lend Lease through its client-centric management approach.

Within this type of business, Bovis Lend Lease may provide services under various types of contracts e.g. fee services contracts, construction services contracts.

## BLL - DIVERSITY OF BOVIS LEND LEASE BUSINESS MIX continued

### REAL ESTATE SOLUTIONS

A key growth strategy of Bovis Lend Lease's business is creating longer term income streams, that also involve other parts of Lend Lease's real estate business. This involves the provision of services from REI and/or Development to Bovis Lend Lease's clients (and vice versa). In addition it could involve the aggregation of services across the Lend Lease real estate businesses to provide a total solution to a client. A major source of this growth is the increasing level of outsourcing of public assets by governments around the world. Real Estate Solutions typically provides Bovis Lend Lease with construction profits at the start of the project then an ongoing management income stream for the duration of the contracts. Due to the debt financing in the special purpose vehicles typically used, the operating income may not emerge for a number of years as the debt is repaid. Importantly, these projects also provide Bovis Lend Lease with preferred supplier status for future maintenance and construction work. The best example of current Real Estate Solutions activities are PFIs and Military Housing which draw on the skills across the Lend Lease real estate capabilities.

### GROSS PROFIT MARGIN BY CONTRACT TYPE

The following table shows the mix of the four contract categories for Bovis Lend Lease for the financial period ended 31 December 2000 for each of the geographic regions on the basis of GPM.

	Fee Service Contracts %	Construction Services %	Client Alliances %	Real Estate Solutions %	Total %
Asia Pacific	6.0	10.3	1.4	5.0	22.7
Americas	7.2	19.1			26.3
Europe	15.1	3.6		5.3	24.0
Global Markets and Clients & Alliances	10.3	2.3	14.4		27.0
<b>Total Bovis Lend Lease</b>	<b>38.6%</b>	<b>35.3%</b>	<b>15.8%</b>	<b>10.3%</b>	<b>100.0%</b>

Historically, approximately 60% of the acquired Bovis profit had been derived from fee services contracts. The majority of Lend Lease Projects' profit was historically from construction services contracts.

Bovis Lend Lease is focussing on changing the work profile through deriving a greater proportion of business from Client Alliances and Real Estate Solutions. The target is to achieve approximately 25% from each of the four business categories in the future. The business is also focussed on specialising in key industry segments, in particular the retail, health, industrial, microelectronics, pharmaceutical and defence industry sectors.

## RECURRENT AND DIVERSIFIED INCOME STREAMS

### PRIVATE FINANCE INITIATIVES (PFI) AND INFRASTRUCTURE INVESTMENTS

Build, Operate, Transfer (BOT)/PFI contracts are a developing part of the Bovis Lend Lease business and, as previously discussed, are a key part of the Real Estate Solutions growth strategy. These contracts involve the partnership of various companies and sector specialists who together design, build, finance and operate major facilities over a number of years, before handing them over to another party or public ownership. BOT-type contracts are particularly suited to major infrastructure projects developed by governments. BOT/PFI projects are normally non-recourse projects, which are primarily financed using debt, with equity and mezzanine finance comprising the difference. Bovis Lend Lease participates in the equity finance component of a BOT/PFI project. The returns from any equity participation are paid, subject to performance, during the life of the project. Bovis Lend Lease's equity contribution currently totals \$21.3 million including \$20.2 million equity to a BOT project – the construction of the Da Chang Water Treatment Plant in China - with additional amounts of equity committed for existing projects of \$9.0 million. Bovis Lend Lease's first PFI project (Calderdale Hospital) is now 78% complete and the second project (Worcester Hospital) is now 61% complete with the third PFI project (Treasury) having recently commenced and now 20% complete.

Bovis Lend Lease's role in BOT/PFI contracts is primarily that of principal contractor which involves taking design and build risk. Operational risk is usually transferred to a specialist operator. Typically a higher margin is earned due to the more complex risk profile of these projects.

Further resources are being committed to this initiative because of attractive profit and growth opportunities anticipated in the future.

**BLL - RECURRENT AND DIVERSIFIED INCOME STREAMS continued****PRIVATE FINANCE INITIATIVES (PFI) AND INFRASTRUCTURE INVESTMENTS continued****SUMMARY OF LONG TERM MANAGEMENT CONTRACT ASSETS**

	Investment Value \$m	Assets Under Management Value \$m
<b>PFI</b>		
Calderdale (under construction)	0.5	216.4
Worcester (under construction)	0.1	224.7
Exchequer Partnership (Treasury) (under construction)	0.5	306.8
<b>BOT</b>		
Da Chang water treatment plant (complete)	20.2	23.8
<b>Total</b>	<b>21.3</b>	<b>771.7</b>

**PFI/BOT/INFRASTRUCTURE PIPELINE**

Bovis Lend Lease is currently the preferred bidder on three new PFIs in the UK including Hexham Hospital, Lincolnshire Group schools and the second component of the Exchequer Partnership (Treasury). Bovis Lend Lease is also on the shortlist for six further major health projects in the UK.

In America, Lend Lease Actus has been selected through competitive tender to enter into exclusive negotiations with the US Government on the privatisation of Fort Hood, which includes rehabilitation and reconstruction of over 4000 existing units (a capital spend expected to exceed USD250 million), and ongoing management for a period of 50 years. Lend Lease Actus is also responsible for a number of other smaller contracts with the US Department of Defence. The Lend Lease Actus joint venture was formed in August 1999 to focus on major real estate solution initiatives comprising the development, finance, design and construction of military housing for the US Department of Defence. Bovis Lend Lease has a 75% interest in the joint venture with the former existing business, Actus Corp, and interests associated with the Chief Executive Officer of Lend Lease Actus holding the remaining 25% interest.

**DIVERSITY OF CLIENTS AND MARKET SECTORS**

For the financial period to 31 December 2000 over 65% of the profits generated were from clients to whom the Company had previously provided services. An example of this is the BP alliance agreement where Bovis Lend Lease manages the BP retail outlet building program across 14 countries during the period through to 2005. The program involves the construction of over 1300 new outlets in Europe, USA and Japan. The agreement includes an on-going maintenance program on new and existing stations.

Bovis Lend Lease is not dependent on any one particular client as seen in the table below:

<b>% of total GPM from top 10 clients</b>	<b>Total Group %</b>
	<b>25.7%</b>

On a global basis, the top 10 clients of Bovis Lend Lease account for 25.7% of the GPM.

## BLL - RECURRENT AND DIVERSIFIED INCOME STREAMS continued

### DIVERSITY OF CLIENTS AND MARKET SECTORS continued

Bovis Lend Lease operates in many diverse market sectors with no one market sector in any region representing more than 30% for that region.

As at December 2000	Asia Pacific GPM %	America GPM %	Europe GPM %	Total GPM %
Commercial/Office	27	15	18	19
Mixed Use		13	12	10
Healthcare	4	13	13	11
Residential/Senior living	6	9		5
Transportation/Aviation	7	2	2	4
Infrastructure/Government	10	8	1	6
Education	1	9	1	4
Pharmaceutical	3	4	16	8
Retail	10	2	22	11
Industrial	21	1	2	6
Hotel		1	1	1
Sport/Leisure/Culture	4	3	4	3
Communications	1	5	1	2
Microelectronics	2	11	7	7
Other	4	3		3
<b>Total Bovis Lend Lease</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The diversity of clients, regions and market sectors is important in terms of dampening the cyclicity typically seen in project management and construction businesses.

### NEW WORK SECURED/BACKLOG PROFIT MARGIN

Two key business measures are New Work Secured and Backlog Profit Margin.

New Work Secured can be measured in terms of the expected revenue to be earned from contracts committed during the financial period (called New Work Secured – Revenue) or in terms of the committed GPM (called New Work Secured – Margin).

The following table provides a summary of New Work Secured in the period to 31 December 2000.

	New Work Secured (Revenue) 6 mths to Dec 2000 \$m	New Work Secured (Margin) 6 mths to Dec 2000 <sup>(2)</sup> \$m	New Work Secured (Revenue) 12 mths to June 2000 <sup>(1)</sup> \$m	New Work Secured (Margin) 12 mths to June 2000 <sup>(1)</sup> \$m
Asia Pacific	649.5	54.0	1,175.4	122.3
Americas	2,503.7	103.6	2,818.2	111.7
Europe	1,144.4	47.4	1,351.8	112.1
Global Markets and Clients & Alliances	149.3	44.2	395.6	140.5
<b>Total Bovis Lend Lease</b>	<b>4,446.9</b>	<b>249.2</b>	<b>5,741.0</b>	<b>486.6</b>

(1) Includes only 8 months results for the acquired Bovis business.

(2) Included in backlog table below.

Backlog Profit Margin is the forecast GPM to be earned from the total contracts committed at the end of a period. Operating profit before tax is determined by deducting indirect overhead, and allowing for timing differences (for example reserve releases) from the GPM.

Currently the indirect overheads are between 75% to 80% of GPM across the business as a whole. Management has targeted indirect overheads at approximately 70% of GPM as an efficient level at which to operate the business.

The following table provides a summary of the Backlog Profit Margin at 31 December 2000.

**BLL - NEW WORK SECURED/BACKLOG PROFIT MARGIN continued**

	Opening Backlog Gross Profit Margin at June 2000 \$m	Plus: New Work Secured (Margin) <sup>(1)</sup> to December 2000 \$m	Less: Backlog Gross Profit Margin Used <sup>(2)</sup> to December 2000 \$m	Equals: Closing Backlog Gross Profit Margin at December 2000 \$m
<b>Local Businesses</b>				
Asia Pacific	63.4	54.0	(67.0)	50.4
Americas	142.2	103.6	(88.2)	157.6
Europe	136.2	47.4	(69.4)	114.2
<b>Global Businesses</b>				
Global Markets and Clients & Alliances	140.0	44.2	(44.3)	139.9
<b>Total Bovis Lend Lease</b>	<b>481.8</b>	<b>249.2</b>	<b>(268.9)</b>	<b>462.1</b>
Acquisition of IRW (Germany) on 3 January 2001				8.9
<b>Adjusted backlog margin</b>				<b>471.0</b>

(1) As per previous New Work Secured table.

(2) Flows through to profit for the period before the allocation of indirect overheads.

The GPM reported for the period includes the Backlog Margin released during the period and any margin on projects secured since 1 July 2000 and run off within the reporting period. Additional GPM can be earned from the contracts in the current Backlog, including contract variations which are included in the New Works secured for the period.

The Backlog GPM for Asia Pacific at December 2000 has been impacted by the run off of abnormally high Olympic-related projects and a general slowdown in construction activity in the post-Olympic period in Sydney.

The Backlog GPM for Europe at December 2000 includes the impact of certain PFI projects reaching the percentage completion profit recognition threshold thereby releasing GPM to profit during the period. During the period since 31 December 2000 a number of significant contracts have been secured throughout the business. In particular, the European business has secured an additional GBP13.0 million (A\$36.0 million) of Backlog GPM bringing the business in line to achieve an expected increase in Backlog GPM at 30 June 2001 (relative to 30 June 2000).

Profits arising from the Backlog are typically earned within eighteen months to two years of the Backlog date, although in some cases this might take up to four years.

The Backlog Margin at 31 December 2000 is expected to emerge as follows:

	6 months to June 2001 %	12 months to June 2002 %	Post June 2002 %	Total %
<b>Local Businesses</b>				
Asia Pacific	62	32	6	100
Americas	47	40	13	100
Europe	37	47	16	100
<b>Global Business</b>				
Global Markets and Clients & Alliances	20	27	53	100
<b>Total Bovis Lend Lease business</b>	<b>38%</b>	<b>37%</b>	<b>25%</b>	<b>100%</b>

The above table shows that of the Backlog committed, as at December 2000, 38.0% is projected to be earned in the six months to 30 June 2001. A further 37% of the December 2000 Backlog is projected to be earned in the year to June 2002.

The December 2000 Backlog GPM that is expected to be earned in the twelve months to June 2002, represents approximately 25% - 30% of the total GPM that is expected to be earned in June 2002 financial year.

Total value of the projects currently under management by the Bovis Lend Lease Group is approximately \$38.0 billion with operations in 42 countries.

## BLL - FOUR YEAR PROFIT TARGET

Bovis Lend Lease management has an objective of doubling its profit after tax over four years. This is from a base of \$75.0 million after tax in relation to the June 2000 financial year.

The profit growth is expected to be achieved in part by acquisitions such as IRW in Germany (refer to Significant Events below). Such acquisitions would most likely involve the recognition of additional goodwill which is required to be amortised over a 20 year period. The growth in profit after tax is not expected to be uniform due to significant Repositioning Costs that will be expensed in fiscal 2001 and 2002. Hard to predict market-related and other conditions will be critical to the success in attaining this objective.

The December 2000 half year profit after tax is indicative of the full year profit with a slight increase expected in the second half.

## SIGNIFICANT EVENTS

- On 3 January 2001 Bovis Lend Lease acquired IRW, one of Germany's leading project management companies, for GBP9.0 million (\$24.6 million). The acquisition extends Bovis Lend Lease's presence in a key European market.

## DEFINITIONS

**New Work Secured – Revenue** - represents the estimated contract revenue to be earned by Bovis Lend Lease from property projects secured during the financial period. New Work Secured was previously referred to as Sales.

**New Work Secured – Margin** - represents the estimated contract profit margin to be earned by Bovis Lend Lease from property projects secured during the financial period. When formal contracts are signed, the New Work Secured becomes part of Backlog.

**Backlog Profit Margin** - represents the expected gross profit margins to be earned from the balance of work to be completed under existing construction contracts. As the construction contracts are progressively completed, Backlog Profit Margin declines. As new work is secured and contracts signed, Backlog Profit Margin is replenished.

**Gross Profit Margin** - represents total project revenue less direct project related costs such as payments to sub-contractors and other costs incurred by Bovis Lend Lease that are directly attributable to the project. It does not include the allocation of any general (or indirect) overheads. Operating profit before tax is determined by deducting indirect overhead and allowing for timing differences for example reserve releases from gross profit margin.

**Global Clients & Alliances** - where there is an established long term relationship at both a regional and/or global level and profit is earned from agreed fees for the services provided.

**Real Estate Solutions** - where income is derived from either fees or construction contracts and skilled resources drawn from other parts of Lend Lease.

## REAL ESTATE SOLUTIONS

Lend Lease's objective is to be the world's leading provider of real estate solutions. Lend Lease is uniquely placed to achieve this with its global capabilities in the key real estate activities: real estate investment (REI), real estate development (Development) and project management and construction (Bovis Lend Lease).

Real Estate as an industry has traditionally involved local or in some cases regional service providers and therefore has been fragmented and inefficient. However, an increasing number of clients are requiring service providers that possess broad global real estate capabilities but as well have the ability to provide services in local markets. This is supported by the Davos prediction that in 20 years time, 80% of the world's business would be carried out by global corporations.

An organisation structure is evolving which will encourage business units to sell services of other business units to their clients. In other circumstances services will be aggregated across the Lend Lease Group to provide a total solution for a client. Solutions to clients can come from a combination of REI and Bovis Lend Lease capabilities as well as Lend Lease's development and financial capabilities.

Lend Lease has provided clients with such real estate solutions in the past. An example would be Bluewater, Kent, which involved:

- Partnering with Blue Circle Industries, Prudential, Lloyds Bank, Royal Bank of Scotland and Barclays Bank to develop a disused quarry;
- Providing development services such as design, leasing, financing and marketing;
- Providing project management and construction management services for the construction of Bluewater;
- Creation of the Lend Lease Retail Partnership to allow other investors to acquire an interest in Bluewater;
- Providing asset management services to Bluewater's investors; and
- Providing retail property management services to operate Bluewater since its opening.

Some examples of other such initiatives include:

- Providing services to the needs of many of the world's largest corporations who require real estate solutions;
- Major development projects in Munich, Germany (for the Global Fund) and Seattle, US (for VEF IV), involving all three real estate businesses; and
- Multi-family asset developments in Boston, US for multi-family funds (Arch Street), involving REI and Bovis Lend Lease.

Lend Lease has devoted senior resources to focus on opportunities within Real Estate Solutions leveraging off the real estate capabilities of the Group. This is expected to be an increasingly important component of Lend Lease's growth strategy.

## INVESTMENTS

### IT+T INVESTMENTS

These investments related to holdings in information technology and telecommunication (IT+T) services companies.

#### RESULTS

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	June 2000 \$m
<b>AUSTRALIA &amp; PACIFIC</b>								
IBM Global Services Australia (IBMGSA)	5.9	6.0	5.9	6.0	3.9	3.8	77.3	80.3
Other investments			(38.7)		(27.1)		20.9	52.0
Expenses			(8.6)	(1.2)	(5.4)	(0.7)		
<b>Total IT+T Investments</b>	<b>5.9</b>	<b>6.0</b>	<b>(41.4)</b>	<b>4.8</b>	<b>(28.6)</b>	<b>3.1</b>	<b>98.2</b>	<b>132.3</b>
% of Total Group	0.1%	0.1%	(22.2%)	(0.9%)	(26.3%)	1.1%	1.1%	1.2%

#### PROFIT AFTER TAX

IT+T Investments made a loss of \$28.6 million for the period, which was largely due to the writedown in internet-related investments which totalled \$27.1 million after tax. The previous period profit comprised IBMGSA royalty payments offset by overhead expenditures.

Distributions from IBMGSA totalled \$5.9 million before tax, which relate to loyalty payments. No dividend was received from IBMGSA in the period.

A provision of \$33.0 million (\$23.1 million after tax) has been made against the investment in coolsavings.com to reflect a carrying value of \$20.9 million (June 2000 \$47.0 million). coolsavings.com listed on 19 May 2000, at a price of USD7.00 per share and closed on 31 December 2000 at USD1.00 per share which is the basis of the 31 December 2000 carrying value. It has traded in the range of USD0.70 to USD1.98 since. Given the general weakness in the market for internet stocks, this investment must be considered to be speculative.

In addition to coolsavings.com, Lend Lease had investments in other smaller internet-related businesses. The investments were fully provided for at 31 December 2000 (\$5.7 million, \$4.0 million after tax).

Expenses of \$8.6 million (\$5.4 million after tax) included costs incurred in the US to pursue IT+T initiatives. These included consultants' fees (\$5.7 million) and will be reduced significantly as the IT+T initiatives are no longer actively pursued.

#### Business-to-Business (B2B) Initiatives

Bovis Lend Lease was an active member in two industry owned B2B exchange ventures – the global AECventure, and the United Kingdom-focussed Arrideo. During the period Bovis Lend Lease discontinued its involvement in these ventures and redirected priorities on enhancing internal capabilities, through technology investment and adoption of e-business tools and services as they become viable.

#### SEGMENT ASSETS

Segment assets consist of investments in coolsavings.com (\$20.9 million), and the investment in, and loan to, IBMGSA (\$77.3 million). The reduction in segment assets is due to the provisions against coolsavings.com and the other internet-related investments.

## EQUITY (LISTED) INVESTMENTS

Lend Lease's strategy has been from time to time to make and hold investments in companies where a strategic business rationale existed, and where a mutually beneficial business relationship with these companies could be developed. The decision to invest or divest equity investments is determined after consideration of both strategic and valuation factors.

### RESULTS

	Operating Revenue		Operating Profit Before Tax		Operating Profit After Tax		Segment Assets	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	June 2000 \$m
<b>AUSTRALIA &amp; PACIFIC</b>								
<b>Sales of Investments</b>								
Westpac Banking Corporation:								
Sale of shares subject to Hedge Arrangements	98.7		61.1		42.7		56.3	93.7
Dividend income from shares subject to forward sale		24.0		24.0		24.0		
Sale of residual holding	0.3		0.2		0.1			
Mirvac		43.7		16.0		10.6		
<b>Dividend Income</b>								
Mirvac		1.0		1.0		1.0		
<b>Total Equity Investments</b>	<b>99.0</b>	<b>68.7</b>	<b>61.3</b>	<b>41.0</b>	<b>42.8</b>	<b>35.6</b>	<b>56.3</b>	<b>93.7</b>
% of Total Group	1.7%	1.3%	32.9%	7.8%	39.3%	12.9%	0.6%	0.9%

### PROFIT AFTER TAX

Equity Investments' contribution to the profits of the Group was \$42.8 million for the financial period to 31 December 2000, compared to \$35.6 million for the period to 31 December 1999. The increase was due to the realisation of \$42.7 million profit after tax in respect of the hedged Westpac shares during the current period. The prior period included the sale of Lend Lease's interest in Mirvac for a profit after tax of \$10.5 million and a dividend of \$24.1 million received on the 100 million Westpac Warrants.

### WESTPAC SHARES HEDGE ARRANGEMENT

In December 1998 Lend Lease entered into share lending and hedging arrangements (the Arrangements) in relation to 40 million Westpac shares which effectively locked-in a \$10.05 per share price. The Arrangements involved Lend Lease receiving approximately \$402.2 million in cash (as collateral under the Arrangements). The Arrangements locked-in an unrealised profit of \$174.3 million after tax (adjusted from previous forecasts to reflect the current Australian tax rates) which is not recognised until the Arrangements are terminated, the timing of which is at Lend Lease's discretion. One consequence of the Arrangements is that Lend Lease no longer receives the dividends and franking credits from the shares held under these arrangements.

During the financial period Lend Lease terminated the Arrangements over 10 million of the Westpac shares. The termination resulted in a \$42.7 million profit after tax which approximated the total Group amortisation charge for the financial period ended 31 December 2000 of \$40.2 million. As amortisation is an accounting entry, which does not in the Directors' view reflect the true valuations of the assets being amortised, the Directors have decided to offset the amortisation charge by an approximately equivalent accounting gain from unwinding some of the Westpac shares.

The Arrangements continue over the remaining 15 million Westpac shares effectively locking-in an unrealised profit of \$69.0 million after tax. It is planned to recognise approximately an additional \$36.0 million of the profit after tax in the second half of the June 2001 financial year and the balance (\$33.0 million after tax) in the first half of the June 2002 financial year, which is consistent with Lend Lease's stated policy.

## CORPORATE

The principal activities of Group Services includes corporate administration services and Group Treasury which encompasses all financing costs that are not directly related to real estate development projects or investments, irrespective of where those costs are incurred. Amortisation charges are also included within Corporate.

## GROUP SERVICES

	Operating Revenue		Operating Profit/(Loss) Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	Dec 2000	Dec 1999	Dec 2000	Dec 1999	Dec 2000	Dec 1999	Dec 2000	June 2000
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>GROUP SERVICES</b>								
Corporate Services	19.7	9.1	(14.9)	(3.7)	(16.8)	(13.1)		
Group IT Costs			(14.6)	(14.3)	(9.7)	(9.1)		
<b>Total Group Services</b>	<b>19.7</b>	<b>9.1</b>	<b>(29.5)</b>	<b>(18.0)</b>	<b>(26.5)</b>	<b>(22.2)</b>		

## CORPORATE SERVICES

Revenue of \$19.7 million for the December 2000 period included \$5.4 million from outsourced services provided to the Financial Services businesses which were sold on 30 June 2000. This revenue is expected to significantly reduce over the six months to 30 June 2001 as services are transferred to MLC. The increased loss before tax of \$14.9 million for the December 2000 period relative to the December 1999 period, mainly related to corporate overheads that were previously recharged to the Financial Services businesses. A number of initiatives have been introduced during the period which have reduced group overheads following the sale of the Financial Services businesses, however, the full benefit of the annual recurring cost savings will not be reflected until the June 2002 financial year.

Profit after tax for the period to December 2000 included additional tax expense due to the restatement of deferred tax balances (\$5.9 million) and an under-provision of tax in relation to the sale of the Financial Services businesses (\$6.6 million). The December 1999 profit after tax included an additional tax expense of \$8.0 million in relation to the restatement of deferred tax balances.

## GROUP IT COSTS

Group IT costs relate to IT costs that are not incurred directly by the operating businesses.

## GROUP AMORTISATION

	Amortisation Charge		
	Dec 2000 <sup>(1)</sup> \$m	June 2000 <sup>(2)</sup> \$m	Dec 1999 <sup>(1)</sup> \$m
<b>Management Agreements</b>			
ERE Yarmouth	4.5	7.5	3.8
Boston Financial Group	2.0	2.6	0.4
MLC Investments		0.2	0.1
Debt Businesses (including CapMark and HFF)	2.4	1.2	
GPT	0.4	0.9	0.4
	<b>9.3</b>	<b>12.4</b>	<b>4.7</b>
<b>Goodwill</b>			
Bovis	20.4	23.4	5.6
Boston Financial Group	0.9	1.0	0.3
ERE Yarmouth	1.4	2.4	1.5
Rosen Consulting Group	0.7	1.3	0.7
MLC		5.4	2.7
Crystal Group	0.4	0.8	0.5
Debt Businesses (including CapMark and HFF)	8.0	2.4	
Larry Smith	1.0	3.4	0.5
	<b>32.8</b>	<b>40.1</b>	<b>11.8</b>
<b>Other Intangible Assets</b>			
Crystal patent and semiconductor contracts	1.6	3.2	
<b>Total group amortisation at average rate</b>	<b>43.7</b>	<b>55.7</b>	<b>16.5</b>
(Gain)/loss on foreign profit hedges	(3.5)		
<b>Amortisation adjusted for foreign exchange hedges</b>	<b>40.2</b>	<b>55.7</b>	<b>16.5</b>

(1) Six month period

(2) Twelve month period

The increase in amortisation charges mainly related to a full six months amortisation of goodwill in relation to the acquisitions of Bovis, BFG and Debt Businesses.

## GROUP TREASURY

	Operating Revenue		Operating Profit Before Tax		Operating Profit/(Loss) After Tax		Segment Assets	
	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	Dec 1999 \$m	Dec 2000 \$m	June 2000 \$m
FX Hedge Costs			(6.5)	(3.7)	(4.3)	(2.3)		
Interest Revenue	88.4	13.9	88.4	13.9	60.9	9.3		
Borrowing Costs			(45.0)	(35.1)	(27.1)	(21.6)		
<b>Group Financing</b>	<b>88.4</b>	<b>13.9</b>	<b>36.9</b>	<b>(24.9)</b>	<b>29.5</b>	<b>(14.6)</b>	<b>508.4</b>	<b>3,178.0</b>

### FOREIGN EXCHANGE HEDGE COSTS

Foreign exchange hedge costs increased by \$2.0 million after tax to \$4.3 million for the period ended 31 December 2000 principally due to higher costs incurred in hedging USD and GBP profit and asset positions.

### INTEREST

Interest revenue increased by \$74.5 million to \$88.4 million for the period ended 31 December 2000, primarily due to the increased interest earned on the larger cash balances consequent to the sale of Financial Services businesses on 30 June 2000.

Borrowing costs (including non-interest) increased by \$9.9 million to \$45.0 million for the period ended 31 December 2000, primarily due to higher average borrowings outstanding. Borrowing costs comprises \$49.1 million (as per Note 4 of the 31 December 2000 Consolidated Financial Statements) offset by the apportionment of a foreign exchange hedge benefit of \$4.1 million before tax (\$2.9 million after tax) on interest incurred on the US borrowings. The comparative December 1999 borrowing costs figure in Note 4 of the 31 December 2000 Consolidated Financial statements differs from the \$35.1 million shown here due to:

- Interest expense incurred by the Statutory Funds of \$9.2 million before tax not included in the Group Treasury result as they related to the policyholders only and therefore were included as an operating expense of the Statutory Funds.
- Non-interest borrowing costs of \$10.2 million relating to loan break costs for Bluewater which were included in the European Property Development segment.

## BALANCE SHEET

### BALANCE SHEET SUMMARY BY MAJOR COMPONENT

	Dec 2000 \$m	June 2000 \$m
Cash	852.4	3,483.8
Real Estate Developments	1,146.9	1,453.0
Real Estate Investments	1,034.2	909.4
Other Investments	119.1	182.9
Goodwill	1,149.9	1,026.1
Management Agreements	974.4	860.3
Borrowings	(1,068.7)	(1,045.5)
Other Net Assets/(Liabilities) <sup>(1)</sup>	(560.8)	(1,563.4)
<b>Shareholders' Equity</b>	<b>3,647.4</b>	<b>5,306.6</b>

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

Lend Lease's Balance Sheet continues to be strong, the key features of which are:

- Cash was \$852.4 million at December 2000, the decrease from \$3,483.8 million at June 2000 mainly reflected the off-market share buyback and tax payments on the sale of the Financial Services businesses (refer to Cash Flow section).
- Total equity reduced from \$5.3 billion to \$3.6 billion primarily due to the off-market share buyback.
- A reduced exposure to Property Development projects (\$1,146.9 million at December 2000 compared to \$1,453.0 million at June 2000).
- Many assets are stated on the Statement of Financial Position at a discount to realisable or market value, or in some instances internally generated assets are not recorded on the Statement of Financial Position.

### CREDIT STRENGTH

Management analyses credit strength in terms of interest coverage (i.e. ratio of EBITDA to interest expense). The ratio was 6.2 times for the financial period ended 31 December 2000 (7.5 times June 2000). However, as explained previously, the comparative EBITDA to interest expense is influenced by the consolidation of the Statutory Funds which, if excluded, would have resulted in 7.1 times EBITDA to interest expense coverage ratio.

Borrowings were \$1,068.7 million at 31 December 2000, compared to \$1,045.5 million at 30 June 2000. The ratio of borrowings to Shareholders' Equity was 29.3% at 31 December 2000, compared to 19.7% at 30 June 2000. The decrease related to the reduction in Shareholders' Equity following the off-market share buyback in October 2000. The ratio of Net Debt to Shareholders' Equity at 31 December was 5.9%.

## CASH FLOW

The following table summarises the major cash flows for the period including the application of cash balances since 30 June 2000.

	\$m
Existing cash balances at 30 June 2000 prior to sale	349.1
Financial Services proceeds received 30 June 2000	4,596.7
	<b>4,945.8</b>
Repayment of debt on 30 June 2000	(1,462.0)
<b>Cash at 30 June 2000</b>	<b>3,483.8</b>
<b>Summary of cash transactions during the period</b>	
Payment to shareholders	
Off-market share buyback distributed on 10 October 2000	(1,757.2)
Net payment of dividends on 14 September 2000	(128.1)
Tax payment on profit from the sale of Financial Services businesses on 1 December 2000	(545.2)
Other cash flows	
Funding of 'out of the money' foreign exchange hedge contracts for hedging of foreign net assets	(178.0)
REI Co-investments	(84.3)
Net interest received	32.4
Other net cash flows from operations	29.0
<b>Net cash deployed for the period</b>	<b>(2,631.4)</b>
<b>Closing cash balance at 31 December 2000</b>	<b>852.4</b>

### APPLICATION OF FUNDS FROM THE SALE OF FINANCIAL SERVICES BUSINESSES

Net cash deployed for the period of \$2,631.4 million was principally due to share buyback payments totalling \$1,757.2 million and income tax paid of \$665.3 million (including \$545.2 in respect of the profit on sale of Financial Services business).

The bulk of the cash at 30 June 2000 was deployed into areas that did not have any immediate profit benefit to Lend Lease e.g. dividend and capital return payments to shareholders (\$1,885.3 million), tax payments (\$665.3 million), REI Co-investments (\$84.3 million) and funding of development projects (totalling \$316.6 million). This explains the relatively low immediate profit contribution to Lend Lease's December 2000 results from the cash balance at 30 June 2000.

## TAXATION

### CHANGE IN TAX RATE

The corporate tax rate applicable to the Australian operations was changed to 34% on 1 July 2000. The corporate tax rate will further reduce to 30% on 1 July 2001. Future Income Tax Benefit (FITB) and Provision for Deferred Income Tax (PDIT) balances are carried forward based on the tax rates applicable to the period in which they are expected to be realised. The realisation assumptions are re-assessed at the end of each period and where applicable the FITB and PDIT balances are restated.

### EFFECTIVE TAX RATE

The effective tax rate for the period ended 31 December 2000 was 41.6% (31 December 1999 47.3%). The decrease from December 1999 is due to the comparative figures including the consolidation of the profits of the Statutory Funds offset by increased non deductible goodwill amortisation and an increased expense resulting from the restatement of deferred tax balances. The tax expense for the Statutory Funds, which was included in the comparative figures, included the tax expense applicable to the policyholders, which has the effect of grossing up the effective tax rate.

The effective tax rate for the period ended 31 December 2000 of 41.6% was higher than the Australian corporate tax rate of 34% mainly due to:

- An underprovision of tax of \$9.2 million (4.9%) from prior periods, including \$6.6 million in relation to the sale of the Financial Services businesses; and
- The restatement of deferred tax balances of \$5.9 million (3.2%).

### DIVIDEND FRANKING

As approved at the General Meeting on 18 August 2000, Lend Lease undertook an off-market share buyback in October 2000. The franking balance at 31 December 2000 of \$1.0 million (calculated at the 34% tax rate) reflects the utilisation of the franking credits of \$1,137.0 million distributed as part of the buyback in October 2000 and the fully franked final dividend of \$163.8 million paid in September 2000. The dividend franking account balance at 31 December 2000 is calculated after adjusting for franking credits which will arise from the payment of income tax provided in the accounts.

As previously announced, the Board has adopted a policy where the company will pay dividends equal to 50% of profits in the 2000/2001 year. The interim dividend for 2001 to be paid in March 2001 will be unfranked and the final dividend for 2001 to be paid in September 2001 is expected to be only partially franked. For the June 2002 and subsequent financial years the company will only pay dividends to the extent of the available franking credits. The level of franking credits in any particular year is dependent upon the level of taxable income generated in Australia, the timing of the realisation of profits and losses and the timing of the payment of tax.

## PROSPECTS

Lend Lease announced to the market on December 20, 2000 that it expects to achieve a profit after tax in the range of \$210 - \$230 million for the year ending 30 June 2001. This forecast was based on management's then current forecasts and was premised on a number of critical assumptions including the absence of any material deterioration in the then prevailing market conditions, no further significant provisions, asset sales, acquisitions or capital returns to shareholders. Nothing material has occurred that could cause us to change that forecast.

Although the global economic outlook has since weakened, this is not expected to have a material impact on the June 2001 profit outcome. It could, however, have an adverse profit impact in subsequent years, depending on the severity of the economic downturn. Bovis Lend Lease's sales are broadly on budget and business is being won on acceptable profit margins. A global economic slowdown, however, could adversely impact sales and potentially increase bad debts which could reduce profits post June 2001. REI, as mentioned in the December announcement, is underperforming in the US where integration issues have proven to be challenging. North American REI profits in the 6 months to June 2001 are expected to be materially lower than for the 6 months to December 2000, in part because the majority of HCI's profits are earned in the December quarter to coincide with the US tax year end, but also due to reduced volume of transactional activity as well as possible volatility from large, one-off transactions. Management remains confident of the longer term prospects for this business. The full year to June 2001 profit after tax for the REI business in total (excluding Capital Services) is expected to be in range of \$110 - \$120 million, before any one time restructure charges.

Lend Lease's future profits will be in part determined by how capital is allocated. Lend Lease currently is underleveraged with cash at December 2000 of \$852 million compared to gross debt of \$1,089 million. The Company has the financial capacity to grow the business through further acquisitions and investments but the timing of these and the timing of their profit release could have a material impact on future accounting profit levels and EPS.

In future financial years amortisation expense will be approximately \$70 - \$80 million and will reduce reported profits as offsetting profits from the Westpac Hedges will be exhausted in the first half of the next financial year. However, the Board of Lend Lease is strongly of the view that the appropriate way to analyse companies such as Lend Lease is on a pre-amortisation basis. In that regard the Board welcomes recent developments in the United States whereby goodwill and intangibles will be subject to a market value test in determining amortisation charges rather than current policy of formula-determined amortisation charges.

Lend Lease has announced a policy of only paying dividends to the extent of available franking credits. Due to the declining percentage of Australian sourced profits and possible realisation of some large, one-off Australian sourced losses already provided for, current internal forecasts show relatively limited franking credits being available in fiscal year 2002. Based on current forecasts, the fiscal 2002 dividend is expected to be in the order of 15 cents per share but this could change materially depending upon the timing of realisation of some Australian taxable profits and losses.