

**Lend Lease Corporation Limited**  
**CONSOLIDATED FINANCIAL REPORT**  
**30 JUNE 2000**

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# CONSOLIDATED FINANCIAL STATEMENTS

## STATEMENTS OF FINANCIAL PERFORMANCE

Year ended 30 June 2000

	Notes	Consolidated		Company	
		June 2000 \$m	June 1999 \$m	June 2000 \$m	June 1999 \$m
<b>PROFIT AND LOSS STATEMENTS</b>					
<b>REVENUE FROM ORDINARY ACTIVITIES</b>					
Revenue from the sale of development properties <sup>(1)</sup>	3(a)	1,259.3	1,014.2		
Revenue from the provision of services	3(b)	7,515.1	2,275.8	55.4	54.8
Statutory Funds revenue	3(c),36(b)	3,585.6			
Other revenues from ordinary activities	3(d)	636.8	828.8	348.9	230.5
<b>Total revenue from ordinary activities</b>		<b>12,996.8</b>	<b>4,118.8</b>	<b>404.3</b>	<b>285.3</b>
<b>EXPENSES FROM ORDINARY ACTIVITIES</b>					
Cost of development properties sold <sup>(1)</sup>		(1,087.8)	(762.8)		
Project & construction management costs		(6,113.2)	(1,264.0)		
Employee expenses		(621.3)	(433.1)	(12.1)	(10.1)
IT related expenses		(79.5)	(50.7)		
Occupancy expenses		(83.6)	(68.9)		
Professional fees		(81.7)	(77.5)		
Statutory Funds expenses	36(b)	(3,204.5)			
Cost of investments sold		(169.5)	(97.0)	(6.4)	
Net movement in provisions	4	(251.9)	(149.8)	(98.1)	(9.5)
Other expenses		(336.8)	(587.7)	(51.4)	(15.8)
<b>Total expenses from ordinary activities</b>		<b>(12,029.8)</b>	<b>(3,491.5)</b>	<b>(168.0)</b>	<b>(35.4)</b>
Share of net profit of associates accounted for using the equity method	31	13.1	1.6		
Share of net profit of joint ventures using the equity method	32	3.7			
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>		<b>983.8</b>	<b>628.9</b>	<b>236.3</b>	<b>249.9</b>
Depreciation on property, plant and equipment and leasehold improvements		(29.4)	(12.3)	(1.5)	(1.9)
Amortisation of management agreements	15	(12.4)	(8.6)		
Amortisation of goodwill	14	(40.1)	(4.8)		
Other amortisation	16	(3.2)	(1.2)		
Borrowing costs	4	(142.5)	(85.9)	(19.9)	(19.5)
<b>Profit before tax from ordinary activities</b>	4	<b>756.2</b>	<b>516.1</b>	<b>214.9</b>	<b>228.5</b>
Income tax expense relating to ordinary activities	5(a)	(316.0)	(95.7)	(15.8)	(19.3)
<b>Profit after tax from ordinary activities</b>		<b>440.2</b>	<b>420.4</b>	<b>199.1</b>	<b>209.2</b>
<b>Ordinary profit after tax attributable to outside equity interests</b>		<b>(8.0)</b>			
<b>Profit after tax attributable to Lend Lease Corporation Limited</b>		<b>432.2</b>	<b>420.4</b>	<b>199.1</b>	<b>209.2</b>
<b>Extraordinary items after income tax</b>	6	<b>3,112.3</b>		<b>1,986.1</b>	
<b>Net profit attributable to Lend Lease Corporation Limited</b>		<b>3,544.5</b>	<b>420.4</b>	<b>2,185.2</b>	<b>209.2</b>
(1) Revenue from the sale of development properties		1,259.3	1,014.2		
Cost of development properties sold		(1,087.8)	(762.8)		
<b>Gross profit from the sale of development properties</b>		<b>171.5</b>	<b>251.4</b>		

The accompanying notes form part of these financial statements.

**STATEMENTS OF FINANCIAL PERFORMANCE continued**

Year ended 30 June 2000

	Notes	Consolidated		Company	
		June 2000 \$m	June 1999 \$m	June 2000 \$m	June 1999 \$m
<b>EQUITY STATEMENTS</b>					
<b>Equity at the beginning of the financial year</b>		<b>3,468.8</b>	<b>3,237.4</b>	<b>2,626.3</b>	<b>2,615.4</b>
<b>Movements comprise:</b>					
Movements in contributed equity	22	80.1	(47.0)	80.1	(50.2)
Dividends paid or declared	7	(326.6)	(302.5)	(326.6)	(302.5)
Dividends foregone pursuant to share election plan		31.4	22.4	31.4	22.4
Adjustment to retained profits resulting from change in accounting policy for investments in associates	24,31		(5.3)		
Adjustment to retained profits resulting from change in accounting policy for investments in joint ventures	24,32	(1.0)			
Adjustment to retained profits at the beginning of the financial year on initial adoption of AASB1038 – Life Insurance Business	24	(456.0)			
Net profit attributable to Lend Lease Corporation Limited		3,544.5	420.4	2,185.2	209.2
<b>Other changes in equity</b>					
Movement in asset revaluation reserve	23	(1,053.7)	132.0		132.0
Net exchange difference on translation of financial report of self-sustaining foreign operation	23	8.3	(5.3)		
<b>Total revenues, expenses and valuation adjustments attributable to members of Lend Lease Corporation Limited</b>		<b>1,827.0</b>	<b>214.7</b>	<b>1,970.1</b>	<b>10.9</b>
Total changes in outside equity interests in controlled entities	25	10.8	16.7		
<b>Total movement in equity for the financial year</b>		<b>1,837.8</b>	<b>231.4</b>	<b>4,596.4</b>	<b>10.9</b>
<b>Equity at the end of the financial year</b>		<b>5,306.6</b>	<b>3,468.8</b>	<b>4,596.4</b>	<b>2,626.3</b>
Dividend payout ratio (excluding extraordinary item)	(%)	7	75.6	72.0	
Dividend per share	(cents)	7	64.0	60.0	64.0
Basic earnings per share (excluding extraordinary item)	(cents)	7	84.7	82.6	
Basic earnings per share (including extraordinary item)	(cents)	7	695.0	82.6	

The accompanying notes form part of these financial statements.

**STATEMENTS OF FINANCIAL POSITION**

Year ended 30 June 2000

	Notes	Consolidated		Company	
		June 2000 \$m	June 1999 \$m	June 2000 \$m	June 1999 \$m
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	8	3,483.8	620.7		
Receivables	9	1,973.1	819.4	813.1	328.3
Inventories	10	572.1	755.7		
Other investments	12	220.6	27.4		
Other assets	16	16.4	10.9	0.2	0.1
<b>Total current assets</b>		<b>6,266.0</b>	<b>2,234.1</b>	<b>813.3</b>	<b>328.4</b>
<b>NON CURRENT ASSETS</b>					
Receivables	9	248.8	109.6	4,770.1	1,696.5
Inventories	10	1,076.8	1,212.8		
Equity accounted investments	11	166.8	289.7		
Other investments	12	771.4	2,621.0	1,064.3	2,887.7
Future income tax benefit	5(d)	331.1	230.0	56.2	53.1
Property, plant and equipment	13	130.1	78.6	8.8	9.1
Goodwill	14	1,026.1	86.4		
Management agreements	15	860.3	404.0		
Other assets	16	64.5	25.0		
<b>Total non current assets</b>		<b>4,675.9</b>	<b>5,057.1</b>	<b>5,899.4</b>	<b>4,646.4</b>
<b>Total assets</b>		<b>10,941.9</b>	<b>7,291.2</b>	<b>6,712.7</b>	<b>4,974.8</b>
<b>CURRENT LIABILITIES</b>					
Creditors	17	2,401.5	1,079.9	80.2	371.3
Borrowings	18	128.7	825.6		
Current tax liabilities	5(b)	621.0	73.9	554.2	8.7
Provisions	19	504.1	275.0	179.7	156.8
Other interest bearing liabilities	20	34.2	30.1		
Other non interest bearing liabilities	21	110.1	167.4		
<b>Total current liabilities</b>		<b>3,799.6</b>	<b>2,451.9</b>	<b>814.1</b>	<b>536.8</b>
<b>NON CURRENT LIABILITIES</b>					
Creditors	17			1,293.5	1,811.0
Borrowings	18	916.8	384.6		
Provisions	19	67.5	53.6	8.4	0.4
Provision for deferred income tax	5(c)	154.3	128.6	0.3	0.3
Other interest bearing liabilities	20	326.6	336.3		
Other non interest bearing liabilities	21	370.5	467.4		
<b>Total non current liabilities</b>		<b>1,835.7</b>	<b>1,370.5</b>	<b>1,302.2</b>	<b>1,811.7</b>
<b>Total liabilities</b>		<b>5,635.3</b>	<b>3,822.4</b>	<b>2,116.3</b>	<b>2,348.5</b>
<b>NET ASSETS</b>		<b>5,306.6</b>	<b>3,468.8</b>	<b>4,596.4</b>	<b>2,626.3</b>
<b>EQUITY</b>					
Contributed equity	22	1,342.1	1,262.0	1,342.1	1,262.0
Reserves	23	117.1	1,162.5	104.6	1,116.6
Retained profits	24	3,819.9	1,027.6	3,149.7	247.7
<b>Total parent equity interest</b>		<b>5,279.1</b>	<b>3,452.1</b>	<b>4,596.4</b>	<b>2,626.3</b>
Outside equity interests in controlled entities	25	27.5	16.7		
<b>Total equity</b>		<b>5,306.6</b>	<b>3,468.8</b>	<b>4,596.4</b>	<b>2,626.3</b>

The accompanying notes form part of these financial statements.

**STATEMENTS OF CASH FLOWS**

Year ended 30 June 2000

	Notes	Consolidated		Company	
		June 2000 \$m	June 1999 \$m	June 2000 \$m	June 1999 \$m
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts in the course of operations		7,822.1	1,932.1	55.0	55.3
Cash payments in the course of operations		(8,286.6)	(1,851.9)	(104.0)	(61.9)
Property development receipts	28(b)	1,254.2	1,325.2		
Property development expenditures	28(b)	(883.6)	(1,183.0)		
Interest received	28(b)	511.6	38.8	3.0	19.1
Dividends received	28(b)	491.3	35.8	287.0	179.6
Distributions from partnerships received	28(b)	20.1	15.3		
Distribution of profits to shareholder from Statutory Funds			152.6		
Income tax paid	5(b),28(b)	(243.1)	(90.9)	(13.2)	(4.5)
Interest paid		(127.8)	(71.2)	(19.9)	(19.5)
Premiums received	28(b)	3,609.4			
Policy payments	28(b)	(3,855.0)			
Net proceeds from sales and purchases of Statutory Funds investments		413.6			
<b>Net cash provided by operating activities</b>	28(a)	<b>726.2</b>	<b>302.8</b>	<b>207.9</b>	<b>168.1</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale/redemption of investments	28(b)	218.6	195.1	27.0	
Purchases of investments	28(b)	(133.5)	(239.4)		(7.1)
Cash collateral on Westpac hedge	12		402.2		
Repayment of loan made to associate	28(b)	21.5	(21.5)		
Proceeds from sale of controlled entities	28(d)	4,596.7	296.0	4,596.7	
Payment for acquisition of controlled entities	28(c)	(1,688.9)	(224.9)		(47.8)
Proceeds from sale of property, plant and equipment		0.2	1.0		
Purchases of property, plant and equipment	28(b)	(45.4)	(15.6)	(1.5)	(2.1)
<b>Net cash provided by investing activities</b>		<b>2,969.2</b>	<b>392.9</b>	<b>4,622.2</b>	<b>(57.0)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings	28(b)	3,839.7	1,633.5		
Repayment of borrowings	28(b)	(4,394.0)	(1,845.2)		
Net proceeds from share issues		124.1	108.3	124.1	108.3
Payments for share buy backs	22	(12.6)	(142.6)	(12.6)	(142.6)
Dividends paid		(319.0)	(281.8)	(319.0)	(281.8)
Decrease in financing of controlled entities				(4,622.6)	(23.5)
<b>Net cash used in financing activities</b>		<b>(761.8)</b>	<b>(527.8)</b>	<b>(4,830.1)</b>	<b>(339.6)</b>
<b>OTHER CASH FLOW ITEMS</b>					
Effect of exchange rate changes on cash and cash equivalents		17.1	(19.6)		
Cash balances in controlled entities (sold)/acquired		(458.7)	(9.2)		
<b>Net decrease from other items</b>		<b>(441.6)</b>	<b>(28.8)</b>		
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,492.0</b>	<b>139.1</b>		<b>(228.5)</b>
Cash and cash equivalents at beginning of year:					
Attributable to Operating Businesses		620.7	481.6		228.5
Attributable to Statutory Funds		371.1			
<b>Cash and cash equivalents at beginning of year</b>		<b>991.8</b>	<b>481.6</b>		<b>228.5</b>
<b>Cash and cash equivalents at end of year</b>	8	<b>3,483.8</b>	<b>620.7</b>		

The June 2000 Consolidated Statement of Cash Flows includes the cash flows of the Statutory Funds. Refer to Note 28(e) for further details.

The accompanying notes form part of these financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

### (a) BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with applicable Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Corporations Law and Urgent Issues Group consensus views. The Financial Statements have been prepared under the historical cost convention with the exception of assets and liabilities of the Statutory and Shareholder Funds of MLC Limited and MLC Lifetime Company Limited, pursuant to the provisions of Australian Accounting Standard AASB1038 Life Insurance Business ("AASB1038"). The accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year, except where otherwise noted.

The directors of Lend Lease have elected to apply revised Accounting Standard AASB1018 Statements of Financial Performance, revised AASB1034 Financial Report Presentation and Disclosures and AASB1040 Statements of Financial Position before their mandatory applicable dates, in accordance with sub section 334(5) of the Corporations Law.

### BASIS OF CONSOLIDATION

The Lend Lease Group ("Lend Lease") consolidation comprises all entities controlled by Lend Lease Corporation Limited ("Lend Lease Corporation"). Lend Lease sold its Financial Services businesses on 30 June 2000. As such the profits and losses of those entities have been included in the consolidated profit for Lend Lease for the year ended 30 June 2000. This includes the profits of the Statutory Funds of MLC Limited ("MLC") and MLC Lifetime Company Limited ("MLC Lifetime"), and the life insurance operations of PT Simas Lend Lease Life ("Simas") and CEF Lend Lease Life Assurance Ltd ("CEF Life"), which is required by AASB1038. The assets and liabilities of those entities have not been included in the Lend Lease consolidated Statements of Financial Position, as they were sold on 30 June 2000. Prior to 1 July 1999 (the date of implementation of AASB1038) Lend Lease did not consolidate the Statutory Funds.

### (b) STATUTORY FUNDS

#### TYPES OF BUSINESS

The Life Insurance operations of MLC and MLC Lifetime consisted of investment-linked business and non-investment linked business which were conducted in separate Statutory Funds as required under the Life Act .

**Investment Linked Business** related to business where policyholders' investments were made into the Statutory Funds and policyholders' returns were directly linked to the investment performance of the assets in that Fund. The policyholder bears all the risks and rewards of the investment performance. The policyholder has no direct access to the specific assets, however, the policy value is calculated by reference to the market value of the Statutory Fund's assets. Investment-linked business included superannuation and allocated pension business.

**Non-Investment Linked Business** referred to businesses where an insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness or, in the case of an annuity, either the continuance of the annuitant's life or the expiry of the annuity term. The benefit payable is not referable to the market value of the Fund's assets. Non-investment linked business included traditional whole of life and endowment policies (where the risks and rewards generally are shared between policyholder and shareholder) and risk products such as death, disability and income insurance (where the shareholder bears all the financial risks).

#### RESTRICTIONS ON ASSETS

The assets and liabilities held in the Statutory Funds were subject to the restrictions of the Life Act and the Memorandum and Articles of Association of MLC and MLC Lifetime. The main restrictions were that the assets in a Statutory Fund could only be used to meet the liabilities and expenses of the Fund, to acquire investments to further the business of the Fund or make profit distributions when solvency and capital adequacy requirements of the Life Act were met. Therefore, assets held in the Statutory Funds were not available for use by other parts of the Lend Lease business other than any profits generated in the Statutory Funds. Conversely, the liabilities of the Statutory Funds (including policy holder liabilities) were not obligations of Lend Lease but were obligations of (and quarantined to) the Statutory Funds.

### (c) REVENUE

**REVENUE FROM THE SALE OF DEVELOPMENT PROPERTIES** represents:

- for property held for resale whilst under development where an unconditional sales contract is in place or when all conditions under the sales contract have been met or are reasonably likely to be met, the proportion of the development completed;

## 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

### (c) REVENUE continued

**REVENUE FROM THE PROVISION OF SERVICES** represents:

- for completed properties held for resale, upon exchange of unconditional sales contract;
- for property construction, the value of work performed, and
- for property and funds management, capital services and property development, management fee entitlement for services rendered.

#### PREMIUM AND RELATED REVENUE

##### Investment Linked

Premiums received, which are in the nature of investment deposits, have the fee portion of the premium recognised as revenue and the deposit portion recognised as an increase in policy liabilities. Premiums are recognised on a cash received basis.

##### Non-Investment Linked

Premiums received for providing services and bearing risks are recognised as revenue. Premiums with a regular due date are recognised as revenue on an accrual basis.

#### STATUTORY FUNDS INVESTMENT REVENUE

##### Interest, Dividends and Rents

Dividends are recognised on a due and receivable basis. All other investment income is recognised on an accrual basis. Rents are shown net of outgoings.

##### Realised and Unrealised Gains and Losses

Realised and unrealised gains and losses on investments are included in investment revenue.

#### DIVIDENDS

Dividends are recognised when declared.

**RENTAL INCOME** represents:

- for property owned, share of net operating income of property.

#### PROCEEDS ON SALE OF INVESTMENTS

Proceeds on sale of investments are recognised when they can be reliably determined. In the case of shares in Westpac Banking Corporation (Westpac) which have been disposed of in accordance with a forward sale agreement (Note 12), the dividend entitlements are recognised as proceeds on sale when the dividends are declared.

#### SHAREHOLDERS' FUND INVESTMENT REVENUE

Investments held by the Shareholders' Funds of MLC and MLC Lifetime are subject to revaluation each year on a net market value basis. The resulting net unrealised gains and losses are recognised as investment revenue.

### (d) PROFITS

Profits are brought to account:

- for property construction, progressively at an amount equivalent to general overheads or an amount equivalent to the value of work performed when the outcome of a contract can be reliably determined (Lend Lease does not consider that the outcome of a construction contract can be reliably determined until it is at least 50% complete);
- for property held for resale whilst under development where an unconditional sales contract is in place or when all conditions under the sales contract have been met or are reasonably likely to be met, progressively at an amount equivalent to the value of work performed when both revenues and costs to complete can be reliably determined (Lend Lease does not consider that revenues and costs can be reliably determined until a development is at least 50% complete);
- for completed properties held for resale, upon exchange of unconditional sales contract;
- for goods and services, when such goods or services have been supplied or rendered;
- for rental income, when due; and
- for investments held by the Shareholders' Funds of MLC and MLC Lifetime, when their net market value has changed.

## 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

### (d) PROFITS continued

#### STATUTORY FUNDS PROFITS

##### General

Profits were brought to account in the Statutory Funds on a Margin On Services ("MOS") basis in accordance with guidance provided by Actuarial Standard 1.02 "Valuation Standard" as issued by the Life Insurance Actuarial Standards Board.

Under MOS, profit was recognised as fees were received and services were provided to policyholders. When fees were received but the service had not been provided, the profit was deferred. Losses were expensed when identified.

Consistent with the principle of deferring unearned profit was the requirement to defer expenditure associated with the deferred profit. MOS permitted costs associated with the acquisition of policies to be charged to the profit and loss account over the year that the policy would generate profits. Costs could only be deferred, however, to the extent that a policy was expected to be profitable (Refer Policy Acquisition Costs).

##### Investment-Linked Business

Profit from investment-linked business was derived as the excess of fees earned by the Shareholder for managing the funds invested, over operating expenses and amortisation of policy acquisition costs.

##### Non-Investment Linked Business

Profit arising from policies comprising non-investment linked business was based on actuarial assumptions, and calculated as the excess of premiums and investment earnings less claims, operating expenses and the amortisation of acquisition costs that would be incurred over the estimated life of the policies. The profit was systematically recognised over the estimated time period the policy would remain in force.

Certain policies were entitled to share in the profits that arose from the non-investment linked business. This profit sharing was governed by the Life Act and the Life Insurance Company's Memorandum and Articles of Association. This profit sharing amount has been treated as an expense in these Financial Statements.

##### Claims Recognition

Claims arising on policies that provided services and bore risks (generally non-investment linked business) have been shown as expenses. These claims were recognised as an expense when the liability to the policyholder under the policy contract had been established, or upon notification of the insured event depending on the type of claim. Amounts paid which were in the nature of withdrawals (generally investment-linked business), have been recognised in the Financial Statements as reductions in Policy Liabilities.

##### Policy Acquisition Costs (or new business selling costs)

The costs incurred in selling or generating new business included financial planner advisor fees, commission payments, application processing costs, advertising, promotion of products and related activities.

The amount of new business selling costs (not recovered by specific charges received from the policyholder at inception) were effectively deferred (provided that the business generated continues to be profitable). The deferred costs were reflected as a reduction to policy liabilities and were amortised in the profit and loss account over the expected duration of the relevant policies.

##### Expense Apportionment in Statutory Funds

Expenses incurred by the Statutory Funds were equitably apportioned between the different types of policies and Shareholders.

### (e) INCOME TAX

#### GENERAL

Lend Lease applies the liability method of tax effect accounting whereby income tax expense is calculated on the pre-tax profit adjusted for permanent differences. Income tax relating to timing differences arising from items being brought to account in different periods for income tax and accounting purposes is carried forward in the Statements of Financial Position as "Future Income Tax Benefit" or "Provision for Deferred Income Tax". Future income tax benefits relating to income tax losses are only brought to account when their realisation is virtually certain.

#### STATUTORY FUNDS

The taxation of a life company was based neither on the concept of profit nor the movement in the balance of Statutory Funds, and so prima facie tax could not be calculated and a reconciliation of the income tax expense to the prima facie tax payable required by the standard was not possible.

## 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

### (e) INCOME TAX continued

#### STATUTORY FUNDS continued

Tax expense represented the tax on taxable income (as determined under the Income Tax Assessment Act) which generally represented the difference between investment income and operating expenses, determined at varying rates depending on the type of business (refer Note 5(a) for details of tax rates).

### (f) INVESTMENTS

Investments are carried at the lower of cost or recoverable amount. The assessment of net recoverable amount of each holding is carried out at least annually by an independent valuer for assets carried in the Statements of Financial Position at over \$100 million and for assets carried in the Statements of Financial Position at over \$20 million where the last independent valuation was less than 10% higher than Statements of Financial Position value; for other assets carried in the Statements of Financial Position between \$20 million and \$100 million at least bi-annually; and for other assets at least once every three years.

The independent valuers determine the recoverable amount of each asset using valuation methodologies appropriate to the particular nature and circumstances of each asset. Such methodologies, where appropriate, include discounting the expected net cash flows to their present value.

### (g) ASSOCIATES

Associates are those entities over which the economic entity exercises significant influence, but not control. Investments in associates are accounted for in the consolidated accounts using the equity method. This method requires the carrying amount of investments in associates to be adjusted by the economic entity's share of the associates' net profit or loss after tax and other movements in reserves. These amounts are recognised in the group's consolidated Statements of Financial Position account and consolidated reserves respectively.

Dividends from associates represent a return of the Group's investment and as such are applied as a reduction to the carrying value of the investment.

### (h) RECEIVABLES

#### TRADE DEBTORS

Trade debtors are carried at amounts due and are generally due for settlement within 30 days. The collectability of debts is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

#### BILLS OF EXCHANGE

Bills of exchange have been purchased in the market at a discount to face value. The bills are carried at an amount representing cost and a portion of the discount recognised as income on an effective yield basis. The discount is brought to account on an accruals basis.

### (i) INVENTORIES

#### PROPERTY HELD FOR RESALE

Property acquired for development and sale in the ordinary course of business is carried at cost to date, including borrowing costs incurred.

The net recoverable amount of each holding is assessed by independent valuers and a provision for diminution in value is raised by the Directors where cost (including costs to complete) exceeds the valuation. The assessment of net recoverable amount is carried out in accordance with a policy consistent with that applied for investments (refer Note 1(f)).

#### CONSTRUCTION AND DEVELOPMENT WORK IN PROGRESS

The gross amount of construction and development work in progress consists of costs attributable to work performed together with emerging profit and after providing for any foreseeable losses.

### (j) PROPERTY, PLANT AND EQUIPMENT

Land, buildings and leasehold improvements are included at not more than cost or a previous valuation to which the cost of additions since that valuation is added.

Except for investment properties, depreciation is provided on cost or valuation over the economic lives of the assets. Amortisation is provided on leasehold improvements over the remaining period of the lease. Most plant is depreciated over a period not exceeding 10 years, furniture and fittings over 15 years, motor vehicles over 8 years and computer equipment over 3 years.

## 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

### (k) MANAGEMENT AGREEMENTS

Management agreements are held at cost. These agreements are independently valued in accordance with a policy consistent with that applied for investments (refer Note 1(f)). Management agreements are amortised over their estimated useful lives, assessed, on average, to be 50 years.

### (l) GOODWILL

Goodwill represents the excess of the purchase consideration plus incidental acquisition costs over the fair value of the identifiable net assets acquired on the acquisition of a controlled entity, and is amortised on a straight line basis over a period not exceeding 20 years.

In establishing the fair value of the identifiable net assets acquired, a liability for restructuring costs is only recognised at the date of acquisition where there is a demonstrable commitment and a detailed plan. The liability is only recognised where there is little or no discretion to avoid payments to other parties in settlement of costs of the restructuring and a reliable estimate of the amount of the liability as at the date of acquisition can be made.

The unamortised balance of goodwill is reviewed and where the balance exceeds the value of expected future benefits, the difference is charged to the profit and loss account.

### (m) IT SYSTEMS

Direct costs incurred in the development of major IT Systems are capitalised on the Statements of Financial Position. A major IT System is one that has a total cost in excess of \$10.0 million and that will provide demonstrable on-going benefits to Lend Lease.

IT Systems are amortised on a straight line basis over a period not exceeding 5 years.

#### CHANGE IN ACCOUNTING POLICY

The capitalisation of major IT Systems' development costs on to the Statements of Financial Position represents a change in accounting policy. In previous years the costs of such developments were expensed in the profit and loss account as incurred. The changed policy has been adopted due to the nature of major IT investments providing benefits in succeeding years.

The policy is effective from 1 July 1999. The change in accounting policy led to the creation of an IT Systems asset of \$26.5 million on the Statements of Financial Position. The change in accounting policy also increased operating profit after tax by \$15.5 million as compared to the previous policy of charging such expenditures to the profit and loss account as incurred.

### (n) EMPLOYEE BENEFITS

Employees' superannuation funds and retirement plans provide benefits for employees. In addition, Lend Lease provides an employee profit sharing scheme and share plans for employees, subject to eligibility. Contributions by Lend Lease companies are charged against current income.

### (o) TRADE CREDITORS

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to Lend Lease. Trade accounts payable are normally settled within 60 days.

### (p) STATUTORY FUNDS POLICY LIABILITIES

The largest expense of Statutory Funds is the movement in policy liabilities between periods. The policy liabilities of the Statutory Funds and the change in policy liabilities disclosed in the operating expenses in the Statements of Financial Performance have been calculated using the MOS methodology in accordance with guidance provided by Actuarial Standard 1.02 "Valuation Standard" as issued by the Life Insurance Actuarial Standards Board.

Policy liabilities for investment-linked business are calculated using the Accumulation Method. The liability is generally the accumulation of amounts invested by policyholders plus investment earnings less fees specified in the policy. Deferred acquisition costs are offset against this liability.

Policy liabilities from non-investment linked business are measured mainly using the Projection Method which is the net present value of estimated future policy cash flows. Future cash flows represents the payment of policy benefits (including bonuses), operating expenses and expected profits less the receipt of premiums. The Accumulation Method may be used only where the result would not be materially different to the Projection Method.

## 1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES continued

### (p) STATUTORY FUNDS POLICY LIABILITIES continued

The measurement of policy liabilities is subject to actuarial assumptions. Assumptions made in the calculation of the policy liability at each reporting date are based on best estimates at that date. The assumptions include the benefits payable under the policies on death, disablement or surrender, future premiums, investment earnings and expenses. "Best estimate" means that assumptions are neither too optimistic nor too pessimistic but reflect the most likely outcome. The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date. A summary of the significant actuarial methods and assumptions used is contained in Note 36(c).

### (q) BORROWINGS

Borrowings are carried on the Statements of Financial Position at the sum of the drawn principal and accrued interest, which is accrued at the contracted rate.

### (r) FOREIGN CURRENCY

Lend Lease's international currency management strategy and policy is detailed in Note 29.

Assets and liabilities of self sustaining foreign operations and, where applicable, the corresponding forward foreign exchange contract hedges are converted at rates of exchange ruling at balance date and the resulting foreign currency gains and losses are recorded net of income tax in the Foreign Currency Translation Reserve. Other Foreign Currency Translation Reserve amounts are transferred to the profit and loss account when the underlying assets change in nature or are realised.

All other assets and liabilities denominated in foreign currency, and where applicable the corresponding forward foreign exchange contract hedges, are converted at rates of exchange at balance date and the resulting foreign currency gains and losses are taken to profit and loss in the year in which they arise.

Forward foreign exchange contract hedges taken out in respect of the projected future profits of foreign operations (Note 29) are converted at the ruling rates of exchange at balance date. The resulting foreign currency gains and losses are taken to profit and loss for hedge contracts that relate to the current year, or held on the Statements of Financial Position as an asset or a liability for hedge contracts that relate to future period profits, provided that sufficient profits are expected to be made by the foreign operations. The effect is to record profit from foreign operations at the hedged exchange rate.

### (s) DERIVATIVES

Lend Lease is exposed to changes in interest rates and foreign exchange rates and uses interest rate swaps, cross currency swaps, options, and forward foreign exchange contracts to hedge these risks.

Derivative financial instruments designated as hedges are accounted for on the same basis as the underlying exposure.

Interest payments and receipts under interest rate swap contracts are recognised on an accruals basis in the profit and loss account as an adjustment to interest expense during the year, or capitalised within inventories when incurred in relation to property acquired for development and resale (refer Note 1(i)).

The accounting policy for forward foreign exchange contracts is set out in Note 1(r).

### STATUTORY FUNDS

The Statutory Funds used derivative financial instruments, principally futures contracts, options, interest rate swaps and forward exchange contracts, as part of their investment methodology. Futures were primarily used for the purpose of changing market exposures and asset allocation while foreign currency exchange contracts were entered into either to attain desired currency exposures or to hedge against existing currency exposure in respect of certain holdings of investments in foreign currencies. Interest rate swaps were used to manage interest rate risk, interest rate swap receipts and payments were accrued to the profit and loss account as interest on the hedged items over the life of the swap.

Total	12,996.8	4,118.1	756.2	516.1	432.2	420.4	10,941.9	7,291.2
% of Total Group								
Project and Construction Management	50.1%	34.0%	13.4%	10.4%	13.0%	8.7%	25.2%	5.2%
Property Development	10.0%	25.9%	3.0%	38.0%	2.6%	30.4%	18.7%	38.4%
Real Estate Investments <sup>(1)</sup>	5.8%	13.4%	30.6%	19.9%	35.1%	18.5%	24.9%	18.4%
Real Estate Services		7.8%		3.4%		2.7%		
Financial Services								
Statutory Funds	27.6%	4.4%	48.0%	34.1%	45.5%	41.9%		
Other	3.6%	10.3%	8.3%	8.4%	7.9%	5.8%		31.9%
IT + T Investments	0.7%	0.6%	7.9%	2.0%	8.8%	2.2%	0.9%	1.3%
Equity Investments	1.7%	1.9%	17.8%	10.0%	22.8%	12.1%	0.9%	2.4%
Other items <sup>(2)</sup>	0.5%	1.7%	(29.0%)	(26.2%)	(35.7%)	(22.3%)	29.4%	2.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
<b>BUSINESS GEOGRAPHICAL SEGMENT SUMMARY</b>								
Australia & Pacific	6,769.8	2,272.1	542.4	273.8	325.7	251.4	4,703.8	4,137.3
North America	3,439.6	719.1	153.2	87.1	94.6	69.3	3,626.3	999.0
Asia	383.7	126.5	22.5	(12.5)	10.4	(16.7)	370.5	251.0
Europe	2,359.2	959.4	174.2	232.5	105.3	161.5	2,241.3	1,903.9
Group finance and hedging costs	44.5	40.4	(80.4)	(50.1)	(48.1)	(30.1)		
Group amortisation			(55.7)	(14.1)	(55.7)	(14.1)		
Total	12,996.8	4,118.1	756.2	516.1	432.2	420.4	10,941.9	7,291.2
% of Total Group								
Australia and Pacific	52.1%	55.2%	71.7%	53.0%	75.3%	59.8%	43.0%	56.7%
North America	26.5%	17.5%	20.3%	16.9%	21.9%	16.5%	33.1%	13.7%
Asia	2.9%	3.0%	3.0%	(2.5%)	2.4%	(4.0%)	3.4%	3.4%
Europe	18.2%	23.3%	23.0%	45.1%	24.4%	38.4%	20.5%	26.2%
Group finance and hedging costs	0.3%	1.0%	(10.6%)	(9.7%)	(11.1%)	(7.3%)		
Group amortisation			(7.4%)	(2.8%)	(12.9%)	(3.4%)		
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

All interest costs and revenues of the Lend Lease Group not directly relating to a specific project are reported under projects for the purposes of segment reporting.

(1) Real Estate Investments includes the former Capital Services business segment.

(2) Other items includes corporate administration services, amortisation expense and Group Treasury.

## 2. SEGMENT REPORTING continued

The principal activities of each industry segment are:

### PROJECT AND CONSTRUCTION MANAGEMENT

Real estate project management, project design, project financing and construction management.

### PROPERTY DEVELOPMENT

All aspects of property development from concept through to design, planning, construction, financing, leasing and eventual sale.

### REAL ESTATE INVESTMENTS

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

### REAL ESTATE SERVICES

Property management and facilities management. This business was sold during the previous financial year.

### FINANCIAL SERVICES

- Funds Management operations, including superannuation and investment services for both retail and corporate clients; management of investment and unit trusts; investment management and portfolio management services for corporate and institutional clients;
- Life Insurance operations covering traditional life insurance business and wealth protection;
- Funds Administration businesses which operate as fund administrators, providing customers with the ability to direct their investments to fund managers and investment products of their choice (not just MLC), with the fund administrators providing one point of service for their customers; and
- Investment Management which provides strategic investment advice, asset management and investment portfolio management services.

This business was sold on 30 June 2000.

### IT+T INVESTMENTS

Relate to holdings in information technology (IT) and telecommunication services companies which provide an IT service to corporations and governments.

### EQUITY 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.

### OTHER ITEMS

Group Treasury, amortisation and corporate administration services. All financing costs that are not directly related to a real estate development project are reported in the other items segment, irrespective of where those costs are incurred.