

Lend Lease Construction (EMEA) Limited

(formerly Bovis Lend Lease Limited)

Directors' report and
financial statements

30 June 2011

Registered number 467006



Directors' report and financial statements

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Directors' report

The directors present their directors' report and the audited financial statements for the year ended 30 June 2011

Principal activities

The Company's principal activity is as a provider of project solutions in the construction industry in the United Kingdom

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is 20 Triton Street, Regent's Place, London, NW1 3BF.

These financial statements were authorised for issue by the Board of Directors on 24 October 2011

Business review

Following several years of organic growth and consolidation, the Company has seen a reduction in turnover during the financial year to 30 June 2011 to £605,127,000 (2010: £964,464,000). This reflects the completion during the year of a number of major projects, including developments for the BBC at Broadcasting House in London and at Media City Manchester, whilst opportunities to secure replacement projects during 2009 and 2010 to drive turnover in 2011 were significantly impacted by market weakness.

In the year to 30 June 2011, the Company reported a profit on ordinary activities before taxation of £13,539,000 (2010: £25,247,000). This profit is stated after non-recurring restructuring costs to ensure a business structure appropriate to current market conditions, of £8,800,000 (2010: £5,000,000).

Against this background, the Company maintained a strong cash performance, with a net cash inflow from operating activities of £19,545,000 (2010: £12,085,000).

Notable successes in the year included the continuing on-site delivery of the Athletes Village for the 2012 Olympics, and the achievement of financial close on 12 schools and academies under the Building Schools for the Future programme. This brings the total number of BSF projects on which the Company has reached financial close in Birmingham to 16. The Company also secured the contract for the construction of North East Quadrant at Regent's Place, and the St James's Gateway development, both in Central London. At Bulford, the Company secured the redevelopment of the Canadian Estate for the Ministry of Defence, supplementing the existing pipeline of works with the MOD through the SLAM 1 & 2 and South West Prime frameworks.

As outlined above, the Company's external order book has been adversely affected by macro economic factors but the diversification of the business into new sectors, education in particular, has mitigated the effect of reduced volumes in our traditional commercial and retail sector specialisms. A return to more sustainable trading conditions in the private sector and the Company's strong position in capital framework contracts underpins the ongoing profitability for the foreseeable future.

In addition to the Company's external order book, the internal Lend Lease pipeline includes significant opportunities at Greenwich Peninsula where the wider Lend Lease organisation has been selected as prime developer. During the year, Lend Lease also reached a conditional agreement with the London Borough of Southwark for the regeneration of Elephant and Castle, and all conditions were met in relation to the Framework Agreement for the second stage of the development of the International Quarter in Stratford City, London. The Company anticipates playing a key role in these regeneration projects over the coming years.

The Company continues to focus on improving profitability and risk management, with cost control remaining at the forefront of management activities.

The Company reported an operating profit of £12,940,000 (2010: £24,285,000).

During the year, the Company's net assets increased to £66,661,000 (2010: £54,300,000).

Directors' report *(continued)*

Risks

	Risk	Mitigation
Business strategy and economic environment	Implementation of a strategy inconsistent with the market environment	We evaluate the economy and use this to prepare an annual Business Plan and regular financial forecasts. Consistent reporting systems are in place to accurately forecast project outturns and provide management with visibility over the existing backlog of work and the run off of turnover and profit.
Government regulations and planning policy	Governments issue a wide variety of requirements for UK Construction Industry, covering areas such as design, quality, sustainability and product mix.	We consult with the UK Government on upcoming legislation, both directly and as a member of industry groups to highlight potential issues. At a local level our specialist teams work closely with the relevant local authorities.
Human resources	Inability to recruit and retain key staff	The senior management team monitor employee turnover levels on a monthly basis. Recruitment procedures and the remuneration structure are regularly reviewed and benchmarked. For all key senior staff, succession plans are in place.
Counterparty risk management	Inability to recover revenue from stakeholders. Also, inability of sub-contractors to carry out the work.	Policies, procedures and a counterparty risk team are in place to ensure that sales of products and services and supply chain relationships are undertaken to customers and suppliers with an appropriate credit history, liquidity, financial, environmental, technical and safety strength.
Cashflow and liquidity management	Ability to meet all the debt covenant facilities and banking/credit arrangements. Also poor project management can lead to delays.	The Company operates within the Lend Lease Europe liquidity pool and with the assistance of the Lend Lease Europe Treasury department. Processes are in place to ensure adequate liquidity in all operating entities within the liquidity pool.
Business and operation risk	Construction work can incur additional costs which must be accurately factored in to the pricing agreement.	The Company operates a risk adjusted Return on Equity measurement to ensure the correct pricing and measurement of risk within operations. Each project is closely monitored through detailed risk registers, regular site visits and a comprehensive system of senior management oversight and project reporting.
Site Safety	Please refer to the safety section of the Director's Report.	Please refer to the safety section of the Director's Report.

Directors' report (continued)

Key Performance Indicators

KPI	Definition	Objective/Importance
Average full time equivalent	Average number of staff employed by business units. Also overhead per FTE	Ensure that we are able to attract and retain employees within the company and overheads are managed appropriately to FTEs
Cashflow/working capital targets	Monthly and yearly cashflow targets committed by the senior management team to Lend Lease Group	Ensure that the company does not breach its financial covenants and optimises its cashflow performance for the Lend Lease Group
Aged debtors report	Aged debtors report by number of days on a monthly basis	To ensure that debtors are billed and cash is collected on a timely basis. This also alerts the senior management team for potential risks on projects
New work secured report	The New Work Secured by month Report displays how Revenue or GPM is forecast to be secured for the current Financial Year	This report records when a Project is secured, rather than how it is delivered and profitability realised. It is the key measure of the effectiveness of the Business Development within the organization
Backlog report	The Backlog GPM report details, on a project by project basis, the level of GPM that has been secured, or is forecast to be secured, in a Financial Reporting period but will not be recognised until Future Reporting periods	It is used by the business to understand the contribution that current or forecast workstreams will make to future business profitability resource requirements and structure
Project in delivery report	The PiD is a web-based tool that assists the offices and regions in compiling and analysing a standard set of key project performance indicators across their business for projects currently in the delivery phase	The aim of the PiD to increase transparency and governance within the business, and to assist all levels of management with the early identification and actioning of project specific and/or business wide performance issues and portfolio risks
Project Dashboards	This includes consolidated measurement of Financial Operational Sustainability and Safety KPI's and their monitoring by senior management in a consistent and transparent manner across our global operations	This gives management a snapshot of the performance and individual project and is an early alert of areas of potential risk or underperformance

Safety

Health & Safety stands at the heart of our business and shapes our values, directs our decision-making and is the focus of all our business planning

Our company vision is simple, a culture where any incident or injury is unacceptable. This is reinforced by ensuring that safety always comes first in the decisions we make at all levels of the way we operate. We believe that every incident is preventable and that all our employees share an obligation to actively integrate Incident & Injury Free into every aspect of their work. This is called the Lend Lease Way for Safety and we apply it wherever we have a presence.

A dedicated Safety Leadership Team leads the business to ensure this commitment of an Incident & Injury Free vision is embedded and sustained throughout our people, supply chain, consultants and clients.

We operate within defined Global Minimum Standards to better identify, assess and manage risks. We have established accountability for the implementation of these standards, and set Key Performance Indicators at all management levels to measure current gaps and pinpoint further opportunities for improvement. And we have developed a set of tools to ensure we generate, share and incorporate best practice.

Through this approach, we have seen a positive reduction of 17% in lost time injuries which builds upon the previous year's success.

Directors' report (continued)

Sustainability

Sustainability is a guiding principle for Lend Lease, which has a set of clearly defined global standards and an approach based on published sustainability aspirations across environmental, social and economic categories. Corporate targets are set out in areas including carbon management, waste, procurement of materials, design, and training and employment. Lend Lease uses a number of indicators to assess its performance including public benchmarks and comparisons provided by independent agencies such as the Dow Jones Sustainability World Index and the Global Reporting Initiative.

Recent achievements by the UK construction business include reducing the amount of construction waste going to landfill by 70 per cent (based on a 2007 baseline), and a 42% normalized carbon reduction on construction projects (based on a 2008 baseline). 98.8% of timber on sites is now certified or recycled, and 77 per cent of projects in 2010 achieved or are expected to achieve BREEAM Very Good or Excellent.

The Company's work in sustainability has also been independently recognised by various national awards, including the top prize in the 2010 Business Commitment to the Environment (BCE) Environmental Leadership Awards. The award is one of the most prestigious environmental schemes in the UK and the longest running green business award in the world, recognising outstanding commitment to sustainability through meeting commercial demands without compromising the environment. In 2011, the Company was ranked 6th in the Sunday Times Best Green Companies in the UK.

Dividend

The directors do not recommend a final dividend for the year (2010: £nil) and no interim dividend was paid during the year (2010: £nil).

Directors and directors' interests

The directors who served during the year are listed below:

G Anderson	(appointed 5 November 2010)
P Gandy	(appointed 5 November 2010)
G Kondo	(appointed 5 November 2010)
B Dew	
J Daniel	
A Lenehan	(resigned 30 September 2010)
P Varga	(resigned 12 October 2010)
J Spanswick	(resigned 11 March 2011)
P Jacobs	(resigned 30 November 2010)

None of the directors who held office at the end of the year held any disclosable interest in group undertakings as recorded in the register of directors' interests.

Subsequent to the year end, M Dyke (effective 1 July 2011) and Stephen Grist (effective 26 August 2011) were appointed as directors and J Daniel (resigned 30 September 2011) and G Kondo (resigned 4 October 2011) resigned as directors. D Labbad was appointed and resigned as director in August 2010.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Directors' report (continued)

Employees

Disabled persons

It is the Company's policy to give full and fair consideration to applications for employment made by disabled persons having regard to their aptitudes and abilities. The Company also uses its best endeavours to provide continuing employment for employees who are disabled whilst the Company employs them and, where appropriate, provides facilities for training and retraining and opportunities for career development and promotion.

Employees and their involvement in group business

The Company is part of the Lend Lease group of companies and is a wholly owned subsidiary of Lend Lease Corporation Limited, an Australian property development, investment and construction business.

Employees benefit from a profit sharing scheme that enables them to identify more closely with the group's performance and to share common objectives with shareholders. This spirit of involvement in the group is encouraged through access to a variety of media, and staff at all levels are regularly advised of the group's and individual companies' achievements.

The methods and media used to do this include:

- 'Hive', the group's intranet site which is updated with daily news on the activities taking place within the group, both regionally and globally, and regularly publishes detailed information on Lend Lease Construction (EMEA) Limited and Lend Lease Corporation.
- "Interlink" Lend Lease Corporation's magazine.
- 'Global Update', annual employee update meetings.
- "Coffee talks" – at which senior directors meet with small groups of employees to brief them on aspects of the business and answer their questions.
- Notice board displays of matters of interest and importance relating to the Company and to the group, such as health and safety, vision and values and financial matters.

All employees are encouraged to show an awareness of the objectives of the Company and the standards of performance required in relation to the specific activities in which they are engaged.

Lend Lease Corporation's core values are published widely. They encourage a culture of involvement and performance. The five core values are 'Respect', 'Integrity', 'Innovation', 'Collaboration' and 'Excellence'.

Safety is a critical issue both on site and in our offices. With this in mind, Incident & Injury Free was launched in 2002 to encourage people to consider the safety and welfare of others as well as themselves. It is a global programme that sets out Lend Lease's commitment to a safe working environment and involves everyone who works on our sites and in our offices, promoting the need for behavioural change and consistent safety standards. We continue to actively promote this commitment.

Creditor payment policy

The Company's policy is to pay suppliers in accordance with terms and conditions agreed when orders are placed. Where payment terms have not been specifically agreed, then the invoices received each calendar month are paid close to the end of the following month. This policy is understood by the purchasing and financing departments. The Company has procedures for dealing promptly with complaints and disputes.

The number of days' billings from suppliers outstanding at the end of the year was 20 days (2010: 15 days).

Directors' report *(continued)*

Political and charitable donations

The Company made no political contributions during the year (2010: £nil). Donations to UK charities amounted to £51,000 (2010: £32,000).

By order of the board

A handwritten signature in black ink, appearing to be 'B Dew', written in a cursive style.

B Dew
Director

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEND LEASE CONSTRUCTION (EMEA) LIMITED
(PREVIOUSLY BOVIS LEND LEASE LIMITED)**

We have audited the financial statements of Lend Lease Construction (EMEA) Limited for the year ended 30 June 2011 set out on pages 9 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2011 and of its profit for the year then ended;
- financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



W. Meredith
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

25th October 2011

15 Canada Square
London
E14 5GL

Statement of comprehensive income
for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Revenue		605,127	964,464
Cost of sales		<u>(559,698)</u>	<u>(905,061)</u>
Gross profit		45,429	59,403
Administrative expenses		<u>(32,489)</u>	<u>(35,118)</u>
Operating profit		12,940	24,285
Finance income	7	1,349	1,858
Finance costs	8	<u>(750)</u>	<u>(896)</u>
Profit before taxation	3	13,539	25,247
Taxation	9	<u>(1,288)</u>	<u>(4,262)</u>
Profit for the year	21	<u>12,251</u>	<u>20,985</u>
Other comprehensive income			
Exchange differences on translating foreign operations		110	(661)
Other comprehensive income for the period, net of tax		<u>110</u>	<u>(661)</u>
Total comprehensive income for the period		<u>12,361</u>	<u>20,324</u>

No operations were acquired or discontinued during the year (2010 none) There is no material difference between the results disclosed in the income statement and the result given on an unmodified historical cost basis

Balance sheet
at 30 June 2011

	Notes	2011 £000	2010 £000
Non-current assets			
Property plant and equipment	10	7,909	8,342
Intangible assets	11	1,577	1,371
Investments	12	1,003	1 003
Deferred tax assets	15	7,739	7,500
		<u>18,228</u>	<u>18,216</u>
Current assets			
Trade and other receivables	13	162,639	212,602
Cash and cash equivalents		<u>81,915</u>	<u>63,915</u>
		<u>244,554</u>	<u>276,517</u>
Total assets		262,782	294,733
Current liabilities			
Trade and other payables	16	(191,484)	(236,753)
Provision for liabilities and charges	17	<u>(4,637)</u>	<u>(3,680)</u>
		<u>(196,121)</u>	<u>(240 433)</u>
Total liabilities		(196,121)	(240 433)
Net assets		<u>66,661</u>	<u>54,300</u>
Equity			
Share capital	18	33,101	33,101
Share premium account	19	24,999	24,999
Other reserves	20	381	271
Retained earnings	21	8,180	(4,071)
Total equity		<u>66,661</u>	<u>54,300</u>

These financial statements were approved by the board of directors on 24 October 2011 and were signed on its behalf by



B Dew
Director

Statement of changes in shareholders' equity
for the year ended 30 June 2011

	Notes	Ordinary share capital £000	Ordinary share premium £000	Translation reserve £000	Retained earning £000	Total equity £000
Balance at 30 June 2009		33,101	24,999	932	(25,056)	33,976
Exchange differences on translating foreign operations	20	-	-	(661)	-	(661)
Retained profit for the year	21	-	-	-	20,985	20,985
Balance at 30 June 2010		33,101	24,999	271	(4,071)	54,300
Exchange differences on translating foreign operations	20	-	-	110	-	110
Retained profit for the year	21	-	-	-	12,251	12,251
Balance at 30 June 2011		33,101	24,999	381	8,180	66,661

Cash flow statement

for the year ended 30 June 2011

	Notes	2011 £000	2010 £000
Cash flows from operating activities			
Cash generated from operations	22	18,947	11,093
Interest received		1,349	1,858
Interest paid		(750)	(896)
Dividends/distributions received		-	-
Corporation tax received/(paid)		-	30
Net cash inflow from operating activities		19,545	12,085
Cash flows from investing activities			
Property plant and equipment acquisitions		(883)	(849)
Intangible asset acquisitions		(662)	(1,295)
Net cash used in investing activities		(1,545)	(2,144)
Net increase in cash and cash equivalents		18,000	9,941
Cash and cash equivalents at beginning of year		63,915	53,974
Cash and cash equivalents at end of year		81,915	63,915

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

Basis of preparation

Lend Lease Construction (EMEA) Limited (the "Company") is a company incorporated and domiciled in the UK

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS")

The Company is not required to prepare consolidated financial statements under section 400 of the Companies Act 2006 and IAS 27 – "Consolidated and Separate Financial Statements" as it is a subsidiary of another entity that prepares consolidated financial statements. As such, the results presented here are for the Company as an individual undertaking and not of its Group

The financial statements have been prepared under the historical cost convention

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of value added tax

Sales of goods are recognised when goods are delivered and title has passed. Revenue from construction contracts is recognised in accordance with the Company's accounting policy on construction contracts

Construction contracts

Where the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent that contract costs incurred are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue and cost are recognised over the period of the contract. The Company does not consider that the outcome of a construction contract can be reliably determined until it is at least 20% complete. Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the actual contract costs incurred up to the balance sheet date as a percentage of the total estimated costs for each contract. Provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within trade and other receivables. The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Notes to the financial statements (continued)

1 Accounting policies (continued)

Construction contract debtors

Construction contract debtors represent the gross unbilled amount for contract work performed to date. They are measured at cost plus profit recognised to date (see the revenue accounting policy) less a provision for foreseeable losses and less progress billings. Variations are included in contract revenue when they are reliably measurable and it is probable that the customer will approve the variation itself and the revenue arising from the variation. Claims are included in contract revenue only when they are reliably measurable and negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Construction contract debtors are presented as part of trade and other receivables in the balance sheet. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the balance sheet.

Property, plant & equipment and depreciation

Property, plant & equipment is stated at historical cost less depreciation. No depreciation has been provided on freehold land.

Depreciation is provided by the Company to write off the cost less the estimated residual value of other tangible fixed assets over their useful economic lives as follows:

Freehold buildings	-	2% per annum, straight line
Office improvements	-	Over remaining period of lease, straight line
Plant, machinery, furniture and fixtures	-	10% - 33% per annum, straight line

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

IT Software Systems

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the use of the specific software.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs directly associated with producing identifiable and unique software products that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible asset. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Acquired computer software licences and computer software development costs recognised as assets are amortised over their estimated useful lives as follows:

Acquired computer software licences	-	20% - 33% per annum, straight line
Developed computer software	-	20% - 33% per annum, straight line

Investments

Equity investments in subsidiary and associated undertakings, including joint controlled entities, are stated at cost less impairment. Adjustments are made to the carrying value to reflect the net realisable value of the investment where these are lower than cost. Management conducts impairment reviews annually.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

All exchange differences arising in respect of foreign operations are taken to equity through the Translation reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Pension costs

Contributions in respect of defined benefit pension schemes are calculated as a percentage, agreed based on actuarial advice, of the pensionable salaries of employees. The cost of providing pensions is charged to the profit and loss account over the periods benefiting from the services of employees.

The Company participates in a groupwide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 'Employee benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period. Full disclosure of the Pension deficit in the Lend Lease UK Pension Scheme is provided in the financial statement of the immediate parent company Lend Lease Construction Holdings (EMEA) Limited as at 30 June 2011.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease. Lease incentives received are spread over the lease term.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables

Trade receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

All receivables are regularly reviewed and a provision for impairment of trade receivables is established when there is objective evidence that all amounts may not be collectible according to the original terms of the sales transaction.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and at bank.

Share-based payment transactions

The Company operates a share-based incentive plan for certain employees. The shares issued are in the Company's ultimate parent, Lend Lease Corporation. The fair value of these shares at the date of grant is recognised through the income statement on a straight line basis over the vesting period.

Critical judgements in applying the entity's accounting policies

The preparation of financial statements under IFRS requires management to make estimates and assumptions that affect amounts recognised for assets and liabilities at the balance sheet date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may therefore differ from these estimates and assumptions. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The Company's revenue recognition and long-term contract accounting policies (set out above) are central to the way the Company values the work it has carried out in each financial year. These policies require forecasts to be made of the outcomes of long-term construction and service contracts, which require assessments and judgements to be made on profit recognition, recovery of pre-contract costs, changes in work scope, contract programmes and maintenance liabilities.

Notes to the financial statements (continued)

1 Accounting policies (continued)

New Accounting Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the financial year ended 30 June 2011 and have not been applied in preparing this report. None of these is expected to have a significant effect on the financial statements and its policies, other than the following standards where the potential effect is yet to be determined:

- IFRS 13 Fair Value Measurements introduces new guidance on fair value measurement and disclosure requirements when fair value is permitted by accounting standards
- IFRS 11 Joint Arrangements establishes principles for financial reporting by parties to a joint arrangement
- IFRS 12 Disclosure of Interests in Other Entities relates to disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities
- The amendments to IAS 19 Employee Benefits (June 2011) introduce changes to the accounting for and presentation of pensions and other post-employment benefits

The standards above become mandatory for the June 2014 financial year and are to be applied retrospectively.

Notes to the financial statements (continued)

2 Segmental information

The Company's turnover and results arose from, and the Company's net assets are deployed in, providing project solutions in the construction industry, primarily in the United Kingdom. Lend Lease Construction (EMEA) Limited has identified the one operating segment based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing the performance and determining the allocation of resources.

Geographical Segements

Revenue is attributable to geographic locations based on the location of customers. The Company currently operates solely within one geographical segment (United Kingdom), and accordingly no geographical segment analysis is provided.

3 Profit before taxation

	2011 £000	2010 £000
<i>Profit before taxation is stated after charging/(crediting)</i>		
Auditors' remuneration charged to the Income Statement		
Audit of the financial statements of the Company	158	145
Audit of the financial statements of other group companies	105	110
All other services	-	-
Depreciation of tangible fixed assets (note 10)	1,316	1,415
Amortisation of intangible assets (note 11)	456	322
Rentals payable under operating leases		
Land and buildings	980	928
Other	1,082	1,598
Staff costs (note 5)	97,007	119,911
Provision for trade receivable impairment	(418)	(1,394)
Impairment of capitalisation contribution	-	2,050
Provision made against funding of joint venture losses in the year	16,000	-
Re-imbursment by Lend Lease Infrastructure Ltd of funding made by the company	(16,000)	-
	<u>1,180</u>	<u>2,642</u>

4 Remuneration of directors

<i>Directors' emoluments</i>		
	2011 £000	2010 £000
Aggregate emoluments	1,030	2,354
Compensation for loss of office	-	-
Company contributions to money purchase pension schemes	150	288
	<u>1,180</u>	<u>2,642</u>

Retirement benefits are accruing to nil directors (2010: three directors) under a defined benefit scheme and six directors (2010: three directors) under a defined contribution scheme.

Notes to the financial statements (continued)

4 Remuneration of directors (continued)

Highest paid director

	2011	2010
	£000	£000
Total amount of emoluments and amounts receivable under long-term incentive schemes	369	551
	<u>369</u>	<u>476</u>

5 Staff numbers and costs

The average number of employees engaged in the activity of providing project solutions in the construction industry was 1,380 (2010 1,773). The aggregate payroll costs of these employees were as follows

	2011	2010
	£000	£000
Wages and salaries	77,161	95,253
Social security costs	7,957	9,246
Other pension costs (see note 27)	11,889	15,412
	<u>97,007</u>	<u>119,911</u>

The staff numbers and costs exclude staff which are seconded to other companies

6 Share based payment arrangements

Short Term Incentives (STI)

The STI plan is an annual bonus scheme where executives receive benefits based upon individual personal targets and achievements of the financial targets of the Company. The total value of the potential benefit (target opportunity) varies by executive, but is generally linked to salary.

The STI comprises a cash element and a deferred element. The deferred element represents Lend Lease Corporation (LLC), the Company's ultimate parent company, shares based on share price at the date of determination of the bonuses. The shares are then held in trust on behalf of the executive for the deferred period. For executives to receive the full deferral they must be employed by the Group at the date of vesting, which will usually be one year from the date of grant.

Long Term Incentives (LTI)

LTIs are settled in cash or LLC shares, with settlement occurring upon vesting if performance hurdles are met. Grants depend on personal contribution and potential and are designed to retain and motivate high performing and key executives. The LTI grants are 'invested' in performance shares over time to deliver value depending on the performance of the LLC group and whether the executive remains within the group. The grant will lapse should an executive resign before vesting.

Notes to the financial statements (continued)

6 Share based payment arrangements (continued)

Long Term Incentives (LTI) (continued)

For the June 2007 through to June 2011 financial year awards new performance hurdles were set to align interests between the participant and shareholders and for consistency with a new STI structure. These are now based on two equal measures: long term profitability as measured by earnings per share, and external TSR compared to that of other ASX100 listed companies.

Retention Awards

Certain employees are incentivised to remain with the Company through the granting of a retention award. These awards are settled in shares and are dependent upon service to vesting date.

Summary of LTI and Retention Awards

Grant date	Vesting date	Opening balance	2011 Number of shares			Closing balance
			Granted	Lapsed	Exercised	
STI awards						
Aug-09	Aug-10	27,634	26,216	-	(30,986)	22,864
		<u>27 634</u>	<u>26,216</u>	<u>-</u>	<u>(30,986)</u>	<u>22,864</u>
LTI awards						
Sep-08	Aug-12	90,556	-	(66 302)	-	24 254
Sep-09	Aug-13	46,074	-	(19 196)	-	26 878
		<u>136,630</u>	<u>-</u>	<u>(85 498)</u>	<u>-</u>	<u>51 132</u>
Retention awards						
Jan-08	Jan-11	11 152	-	-	(11 152)	-
Aug-08	Aug-10	13 000	-	-	(13 000)	-
Aug-08	Aug-11	14 000	-	-	-	14,000
Jan-08	Dec-09	6,000	-	-	(6 000)	-
Jan-08	Dec-10	6 000	-	-	(6 000)	-
		<u>50 152</u>	<u>-</u>	<u>-</u>	<u>(36 152)</u>	<u>14 000</u>
Total		<u>214,416</u>	<u>26 216</u>	<u>(85 498)</u>	<u>(67 138)</u>	<u>87 996</u>

Notes to the financial statements (continued)

6 Share based payment arrangements (continued)

Grant date	Vesting date	Opening balance	2010 Number of shares			Closing balance
			Granted	Lapsed	Exercised	
STI awards						
Aug-08	Aug-09	48,368	-	-	(48,368)	-
Aug-09	Aug-10	-	27,634	-	-	27,634
		<u>48,368</u>	<u>27,634</u>	<u>-</u>	<u>(48,368)</u>	<u>27,634</u>
LTI awards						
Jul-07	Jun-10	58,320	-	(58,320)	-	-
Sep-08	Aug-12	82,673	7,883	-	-	90,556
Sep-09	Aug-13	-	46,074	-	-	46,074
		<u>140,993</u>	<u>53,957</u>	<u>(58,320)</u>	<u>-</u>	<u>136,630</u>
Retention awards						
Jul-07	Jun-10	80,214	-	(80,214)	-	-
Jan-08	Jan-11	11,152	-	-	-	11,152
Aug-08	Aug-10	-	13,000	-	-	13,000
Aug-08	Aug-11	-	14,000	-	-	14,000
Jan-08	Dec-09	-	6,000	-	-	6,000
Jan-08	Dec-10	-	6,000	-	-	6,000
		<u>91,366</u>	<u>39,000</u>	<u>(80,214)</u>	<u>-</u>	<u>50,152</u>
Total		<u>280,727</u>	<u>120,591</u>	<u>(138,534)</u>	<u>(48,368)</u>	<u>214,416</u>

There was nil shares forfeited in the current financial year (2010 nil)

Amounts recognised in the financial statements

LTI awards are valued using the Monte-Carlo simulation methodology where the share price can be projected based on the assumptions underlying the Black-Scholes formula. Retention awards are valued by discounting the share price by the expected dividends assumed to be paid from the valuation date until vesting date (if applicable). The model inputs include the LLC share price, a risk free interest rate, expected volatility and dividend yield.

In August 2007 the rules of the 1 July 2006 LTI were modified such that it now vests in shares rather than cash, other than for certain specified executives or where share settlement is not practical. The modified LTI was valued using a Monte-Carlo simulation methodology where the share price can be projected based on the assumptions underlying the Black-Scholes formula.

The STI, LTI and Retention Awards represent awards in equity instruments of LLC that the Company has granted to its employees. The awards are considered to be cash-settled share based payments in the Company's financial statements. The Company reimburses LLC for the expense of the share settled awards LLC granted to the Company's employees during each financial year.

During the financial year ended 30 June 2011, a share based payments charge of £98,905 (2010 £479,266) was recognised in the statement of comprehensive income in relation to equity settled security payments awards. The share price used to calculate the award was £5.49 (2010 £4.10) and the fair value of the award as at 30 June 2011 was £508,486 (2010 £880,135).

Notes to the financial statements (continued)

7 Finance income

	2011 £000	2010 £000
Bank and other interest	-	1
Interest receivable from parent and other group undertakings	1,349	1,857
	<u>1,349</u>	<u>1,858</u>

Foreign currency exchange gains for the year of £110,000 (2010 loss of £661,000) on the translation of foreign operations were recognised directly in equity through the translation reserve

8 Finance costs

	2011 £000	2010 £000
Interest payable to parent and other group undertakings	750	896
	<u>750</u>	<u>896</u>

Interest payable to parent and other group undertakings includes guarantee fees. The two types of guarantee fees Lend Lease Construction (EMEA) Limited pay relate to the guarantee of a debt facility and a guarantee of performance.

9 Taxation

a) Tax on profit on ordinary activities

	2011 £000	2010 £000
Current tax:		
UK corporation tax	-	-
Adjustments in respect of previous periods	-	(610)
Total current tax credit	<u>-</u>	<u>(610)</u>
Deferred tax		
Property, plant and equipment related temporary differences	654	(909)
Other timing differences	(31)	1,906
Tax losses utilised	384	3,197
Permanent difference on change of tax rate	481	-
Adjustment in respect of previous periods	(200)	678
Deferred tax charge	<u>1,288</u>	<u>4,872</u>
Total tax charge in the statement of comprehensive income	<u>1,288</u>	<u>4,262</u>

Notes to the financial statements (continued)

9 Taxation

b) Reconciliation of the total tax charge

The tax charge/(credit) for the year on the profit/(loss) on ordinary activities is lower than the notional tax charge on those profits/(losses) calculated at the UK corporation tax rate of 27.5 per cent (2010: 28%). Any differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	<u>13,539</u>	<u>25,247</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 27.5%	3,723	7,069
Effects of		
Tax-exempt revenues	(372)	-
Non deductible expenses	93	485
Other permanent differences	-	(3,360)
Permanent difference on change of tax rate	481	-
Transfer pricing	(2,475)	-
Losses not recognised	38	-
Adjustments in respect of previous periods	(200)	68
Tax charge/(credit) in the statement of comprehensive income (note 9a)	<u>1,288</u>	<u>4,262</u>

c) Factors that may affect future tax charges

Future effective tax rates may vary due to short term timing differences and dividends from subsidiaries

Notes to the financial statements (continued)

10 Property, plant and equipment

	Freehold land and buildings	Improvements to leasehold buildings	Plant and machinery	Furniture and fixtures	Total
	£000	£000	£000	£000	£000
<i>Cost or valuation</i>					
At beginning of year	6 320	658	3,196	2 716	12,890
Additions	209	-	665	9	883
Disposals	-	-	(525)	(253)	(778)
At end of year	6,529	658	3 336	2,472	12,995
<i>Depreciation and diminution in value</i>					
At beginning of year	814	368	1,760	1,606	4 548
Charge for year	71	66	935	244	1,316
Disposals	-	-	(525)	(253)	(778)
At end of year	885	434	2 170	1,597	5 086
<i>Net book value</i>					
At 30 June 2011	5,644	224	1,166	875	7,909
At 30 June 2010	5,506	290	1,436	1,110	8,342

11 Intangible assets

	Software £000
<i>Cost or valuation</i>	
At beginning of year	1,721
Additions	662
Disposals	-
At end of year	2,383
<i>Amortisation and diminution in value</i>	
At beginning of year	350
Charge for year	456
Disposals	-
At end of year	806
<i>Net book value</i>	
At 30 June 2011	1,577
At 30 June 2010	1 371

Notes to the financial statements (continued)

12 Investments

	Shares in subsidiary undertakings	Other investments	Total
	£000	£000	£000
<i>Cost</i>			
At beginning of year 2009	1 698	641	2,339
Capitalisation contribution	-	2 050	2,050
At beginning of year 2010	1,698	2,691	4 389
	-	-	-
At end of year 2011	1 698	2,691	4,389
<i>Provision</i>			
At beginning of year 2009	698	638	1 336
Impairment of capitalisation contribution	-	2,050	2,050
At beginning of year 2010	698	2,688	3 386
	-	-	-
At end of year 2011	698	2,688	3 386
<i>Net book value</i>			
At 30 June 2011	1,000	3	1,003
At 30 June 2010	1,000	3	1,003

Notes to the financial statements (continued)

12 Investments (continued)

The principal companies in which the Company's interest is more than 10% are as follows

Subsidiary and associated undertakings	Country of registration or incorporation	Principal activity	Percentage of ordinary shares held
Be Onsite	England and Wales	Jobs and training	100
Bovis Engineering Limited	England and Wales	Project solutions	100
Bovis Ireland Limited	Ireland	Project solutions	100
Lend Lease Construction North Western Limited	England and Wales	Project solutions	100
Lend Lease Construction Management Services (One) Limited	England and Wales	Project solutions	100
Debut Services (Contracts) Limited	England and Wales	Dormant	91
Debut Services Limited	England and Wales	Project solutions	85
Waste 2 Resources Project Lancashire LLP	England and Wales	Project solutions	50
Debut Services (South West) Limited	England and Wales	Project solutions	50
BLS Warwick Limited	England and Wales	Project solutions	50
BLS St Martins Limited	England and Wales	Project solutions	50
BLS KEC Limited	England and Wales	Project solutions	50
BLS Regent Limited	England and Wales	Project solutions	50
BLS Blackfriars Limited	England and Wales	Project solutions	50
BLFB Limited	England and Wales	Project solutions	50
H1 Development Limited	England and Wales	Project solutions	50
St Swithins Developments Limited	England and Wales	Project solutions	50
Coleman Street Developments Limited	England and Wales	Project solutions	50

In the opinion of the directors the investments in and amounts due from the Company's subsidiary and associated undertakings are worth at least the amounts at which they are stated in the balance sheet

Notes to the financial statements (continued)

13 Trade and other receivables

	2011 £000	2010 £000
Trade receivables	22,818	18 969
Amounts due from related parties	84,305	113,765
Other debtors	34,589	39 232
	<u>141,712</u>	<u>171 966</u>
Loans and receivables	141,712	171 966
Construction contract work in progress	19,606	39 205
Prepayments and accrued income	1,321	1 431
	<u>162,639</u>	<u>212,602</u>

The ageing of trade receivables at the reporting date was

	2011 Gross £000	2011 Impairment £000	2010 Gross £000	2010 Impairment £000
Not past due	19,675	-	17 936	-
Past due 0-90 days	3,239	(96)	1 167	(134)
More than 90 days	383	(383)	843	(843)
	<u>23,297</u>	<u>(479)</u>	<u>19,946</u>	<u>(977)</u>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows

	2011 £000	2010 £000
Balance as at 1 July	977	2 372
Impairment gain recognised	(498)	(1 395)
Balance as at 30 June	<u>479</u>	<u>977</u>

The directors believe that no impairment allowance is necessary in respect of trade receivables not past due

Notes to the financial statements (continued)

14 Construction contracts

	2011 £000	2010 £000
Contracts in progress at the balance sheet date		
- amounts due from contract customers	19,606	39,205
- current amounts due to contract customers	(64,868)	(100,809)
- non-current amounts due to contract customers	-	-
Net amounts due to contract customers	<u>(45,262)</u>	<u>(61,604)</u>

During the year ended 30 June 2011, all revenue recognised in the income statement is derived from construction contracts

At 30 June 2011, retentions held by customers for contract work amounted to £29,735,000 (2010 £37,844,000) Contract advances received amounted to £23,006,000 (2010 £31,754,000)

15 Deferred taxation

The deferred tax included in the balance sheet is as follows

	2011 £000	2010 £000
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	<u>7,739</u>	<u>7,500</u>

Deferred tax assets	Provisions £000	Construction contract loss provisions £000	Tax losses £000	Profit Recognition / Share plan £000	Decelerated capital allowances £000	Total £000
At 1 July 2009	1,530	180	4,227	1,424	5,013	12,374
(Charged)/credited to the income statement	(495)	(160)	(3,704)	(1,424)	909	(4,874)
At 30 June 2010	<u>1,035</u>	<u>20</u>	<u>523</u>	<u>-</u>	<u>5,922</u>	<u>7,500</u>
(Charged)/credited to the income statement	90	-	(1,211)	-	(167)	(1,288)
Prior year/reallocation			1,527			1,527
At 30 June 2011	<u>1,125</u>	<u>20</u>	<u>839</u>	<u>-</u>	<u>5,755</u>	<u>7,739</u>

The 2011 Budget in March 2011 announced a reduction in the main rate of UK corporation tax to 23% over a period of 4 years from 2011. The rate reduction from 28% (2010) to 26% was substantively enacted on 29 March 2011, effective from 1 April 2011, and is the rate at which the closing net DTA/DTL is recognised at. A reduction of the tax rate to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011. The impact of this rate change to the net DTA/DTL is a reduction of £298,000. No estimate has been made of the reduction in the company's net DTA/DTL as a result of the future reduction in the tax rate (to 23% in 2014).

Notes to the financial statements (continued)

16 Current trade and other payables

	2011		2010	
	£000	£000	£000	£000
Payments received on account for construction work		64,868		100,809
Trade payables		29,426		38,171
Amounts due to related parties		51,428		42,148
Other creditors including taxation and social security				
Corporation tax	5,005		3,479	
Taxation and social security	7,150		8,129	
Other creditors	28,233		36,617	
		40,388		48,225
Accruals and deferred income		5,374		7,400
		191,484		236,753

Amounts due to related parties are unsecured, have no fixed repayment terms and bear no interest

17 Provisions for liabilities and charges

	Restructure provision £000	Design provision £000	Other provision £000	Total £000
At 1 July 2009	-	5,206	1,596	6,802
Charged to the income statement				
- Additional provisions	-	1,457	5,000	6,457
- Unused amounts reversed	-	(3,242)	(1,286)	(4,528)
- Reclassified to creditors	-	-	(5,051)	(5,051)
Used during the year	-	-	-	-
At 30 June 2010	-	3,421	259	3,680
Charged to the income statement				
- Additional provisions	8,800	1,447	-	10,247
- Unused amounts reversed	-	(1,363)	(16)	(1,379)
- Reclassified to creditors	-	-	-	-
Used during the year	(7,911)	-	-	(7,911)
At 30 June 2011	889	3,505	243	4,637

Notes to the financial statements (continued)

18 Called up share capital

	2011		2010	
	000's	£000	000's	£000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	33,101	33,101	33,101	33,101

19 Share premium account

	2011	2010
	£000	£000
At beginning and end of year	24,999	24,999

20 Other reserves

	2011	2010
	£000	£000
At beginning of year	271	932
Exchange (loss)/gain on translating foreign operations	110	(661)
At end of year	381	271

21 Retained earnings

	2011	2010
	£000	£000
At beginning of year	(4,071)	(25,056)
Profit for the year	12,251	20,985
At end of year	8,180	(4,071)

Notes to the financial statements (*continued*)

22 Cash flows from operating activities

	2011	2010
	£000	£000
Cash flows from operating activities		
Net profit	12,251	20,985
Adjustments for		
Tax charge	1,288	4,262
Finance cost	750	896
Finance income	(1,349)	(1,858)
Dividends/distributions received	-	-
Depreciation and Amortisation	1,772	1,737
Changes in working capital		
(Increase)/decrease in trade and other receivables	20,393	14,811
Decrease in prepayments	110	831
Decrease/(increase) in amounts due from related parties	29,570	80,977
Decrease in trade and other payables	(44,686)	(48,980)
Increase/(decrease) in amounts due to related parties	9,280	(53,130)
Increase/(decrease) in accruals and other liabilities	(10,432)	(9,438)
Cash generated from operations	18,947	11,093

23 Commitments

Operating leases

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2011		2010	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
Operating leases which expire				
Within one year	758	1,294	687	1,163
Between one and five years	2,638	1,305	1,880	713
Over five years	1,111	-	253	-
	4,507	2,599	2,820	1,876

Capital commitments

As at 30 June 2011 the Company was contractually committed to incur capital expenditure of £nil (2010: £nil)

Notes to the financial statements (continued)

24 Contingent liabilities

There are claims outstanding which arise under contracts carried out by the Company in the ordinary course of business. It is not possible to predict with any certainty the results of these claims but the directors believe, taking into account counter-claims, claims against third parties and provisions in the accounts, that the outcome will not have a material effect on the Company's financial position.

25 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk and liquidity risk. The Company's risk management programme seeks to minimise potential adverse effects on the Company's financial performance, under the auspices of the Company's Risk Management Director working in concert with the Lend Lease Corporation risk management function.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial commitment, a recognised asset or liability will fluctuate due to changes in foreign currency rates.

The Company operates predominantly within the UK such that its exposure to currency risk is considered to be minimal with only a small proportion of items both in terms of volume and value transacted in a foreign currency. As a result, there are no hedges in place with respect to any potential currency exposure.

The Company's material exposure to foreign currency is set out below:

	Local currency €000	Total £000
30 June 2011		
Net asset exposure	320	281
	Local currency €000	Total £000
30 June 2010		
Net asset exposure	(39)	(31)

The Company has carried out a sensitivity analysis and does not consider that it has material exposure to changes in the exchange rates at the year-end reporting date.

Price risk

The Company does not have significant equity investments or investments in commodities and does not consider itself to be exposed to any significant equity, commodity or other price risk.

Commodities are procured in the open market with fixed price contracts transferring the pricing risk to the subcontractor. The maximum exposure is held between being awarded lump sum contracts and transferring the risk. This is mitigated by the lump sums being covered by trade prices or having sufficient inflation contingency.

Notes to the financial statements (continued)

25 Financial risk management (continued)

Credit risk

The Company operates predominantly in the UK construction market and has no significant concentrations of credit risk on either a geographic or industry specific basis. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Trade receivables are monitored on a daily and weekly basis to minimise the Company's exposure to credit risk in particular with reference to the Company's debtors days which for the current year was 12 days (2010: 9 days).

Credit risk is also managed by limiting the aggregate exposure to any one individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

The maximum exposure to credit risk at the balance sheet date on financial assets recognised in the balance sheet equals the carrying amount, net of any impairment.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flow associated with the instrument will fluctuate due to changes in the market interest rates. The only financial instruments that the Company holds and are subject to interest rate risk are financial assets in the form of loans from associated companies which do not have specified repayment terms.

Interest is charged based upon the average annual base rate, plus a margin as specified by Group treasury. A sensitivity analysis has been performed and a 1% change in the average base rate for the year would have altered the Company's profit before taxation by £640,500 (2010: £817,538).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. Liquidity risk is reduced through prudent cash management which ensures sufficient levels of cash are maintained to meet working capital requirements.

The following are the contractual cash flow maturities of financial liabilities as at 30 June 2010

30 June 2011	Carrying Amount £000	6 mths or less £000	6-12 mths £000	1-2 years £000	2-5 years £000	More than 5 years £000
Non-derivative financial liabilities						
Trade and other payables – current	141,304	117,659	23,645	-	-	-
Trade and other payables – non current	-	-	-	-	-	-
Total	141,304	117,659	23,645	-	-	-

Notes to the financial statements (continued)

25 Financial risk management (continued)

Liquidity risk (continued)

30 June 2010	Carrying Amount £000	6 mths or less £000	6-12 mths £000	1-2 years £000	2-5 years £000	More than 5 years £000
Non-derivative financial liabilities						
Trade and other payables – current	160 965	128 541	32 424	-	-	-
Trade and other payables – non current	-	-	-	-	-	-
Total	160 965	128,541	32,424	-	-	-

Net fair values of assets and liabilities

All financial instruments recognised on the balance sheet including those instruments carried at amortised cost are recognised at amounts that represent a reasonable approximation of fair value

Capital management

When investing capital, the Company's objective is to deliver strong shareholder returns and to continue to generate high levels of liquid assets in line with the Lend Lease Corporation capital management goals

The Company actively manages the working capital on a daily basis with periodic narrative and recommendations prepared for senior management on movements, risk, exceptions and tracking against business targets. The Company operates under a strict regime of contract billings and debtor payment cycle to maximise liquidity.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Notes to the financial statements (continued)

26 Pension scheme

The Company participates in the Lend Lease UK Pension Scheme in respect of its employees. Contributions paid to the scheme are based on pension costs across the companies within the Lend Lease UK Pension Scheme as a whole. The scheme is a group plan for which there is no contractual agreement or stated policy for charging the costs for the plan as a whole.

In accordance with IAS 19 the net defined benefit cost is recognised in the financial statements of Lend Lease Construction Holdings (EMEA) Limited (formerly Bovis Lend Lease Holdings Limited), the legal sponsor for the plan. Accordingly the scheme is accounted for as a defined contribution scheme in the accounts of the Company. Details of this defined benefits scheme, including the level of solvency and the basis on which the future contribution rate is determined and the disclosures required under IAS 19, are set out in the financial statements of Lend Lease Construction Holdings (EMEA) Limited (the Company's immediate parent undertaking), which sponsors the scheme. The financial statements of this group may be obtained from the Registrar of Companies, Companies House, Crown Way, Mandy Cardiff.

Extracts from the financial statements of Lend Lease Construction Holdings (EMEA) Limited which is the legal sponsor of the defined benefit pension scheme are included in this note.

For the year ended 30 June 2011 the total Company contributions paid to the Defined Benefit Section of the Lend Lease UK Pension Scheme were £13,300,000 (2010: £15,412,000).

These contributions were based on the funding agreement following the full actuarial valuation of the Lend Lease UK Pension Scheme carried out by the Scheme Actuary as at 31 March 2008, finalised on 26 October 2009. We are currently undertaking an actuarial valuation as at 31 March 2011 which is expected to be finalised in March 2012.

The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Note 5 to the financial statements show the total cost to the Company of the main schemes operating during the year.

Extract from the financial statements of Lend Lease Construction Holdings (EMEA) Limited

a) Principal actuarial assumptions

	2011	2010	2009	2008
	% p a	% p a	% p a	% p a
Pension increases post April 2008	2.5	2.6	2.7	2.9
Rate of increase in salaries	n/a	n/a	n/a	5.6
Inflation assumption	3.6	3.7	3.9	4.1
Discount rate applied to scheme liabilities	5.4	5.4	6.5	6.4
Expected rate of return	6.4	6.3	6.1	7.0

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The overall expected rate of return on the scheme assets is weighted average of the individual expected rates of return on each asset class.

Lend Lease Construction Holdings (EMEA) Limited employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at 30 June 2011.

Notes to the financial statements (continued)

26 Pension scheme (continued)

- b) Lend Lease Construction Holdings (EMEA) Limited (formerly Bovis Lend Lease Holdings Limited) acts as a sponsor for its group pension scheme, the Lend Lease UK Pension Scheme which is a funded Scheme of the defined benefit type. A separate section, the Personal Investment Section, provides retirement benefits on a defined contribution basis. The Company's contributions to members' PIF accounts are not included in these disclosures.

The Final Salary Section was closed to future accrual on 31 August 2008 and members of this Section joined the Index-Linked Section for service from 1 September 2008. These members have retained leaving service benefits in the Final Salary Section.

There exists a pension surplus in the scheme as at 30 June 2011 (2010: deficit).

Regular employer contributions to the Lend Lease UK Pension Scheme in 2011 are estimated to be £10.2m (2010: £12.0m).

For the year ended 30 June 2011 the total Lend Lease Construction Holdings (EMEA) Limited contributions paid to the Defined Benefit Section of the Lend Lease UK Pension Scheme were £20,000,000 (2010: £24,600,000).

- c) Reconciliation of the present value of defined benefit obligations

	2011	2010
	£000	£000
Present value of defined benefit obligations at beginning of financial year	375,900	338,700
Current service cost	7,200	7,200
Interest cost on benefit obligation	19,900	20,200
Contributions by Scheme participants	100	100
Actuarial (losses)/gains	(2,200)	28,300
Benefits paid	(15,400)	(18,600)
Present value of defined benefit obligations at end of financial year	<u>385,500</u>	<u>375,900</u>

- d) Reconciliation of the fair value of plan assets

	2011	2010
	£000	£000
Fair value of plan assets at beginning of financial year	331,800	274,000
Expected return on plan assets	18,700	15,900
Actuarial gains/(losses)	26,100	35,800
Contributions by group companies	20,000	24,600
Contributions by Scheme participants	100	100
Benefits paid	(15,400)	(18,600)
Fair value of plan assets at end of financial year	<u>381,300</u>	<u>331,800</u>

Notes to the financial statements (continued)

26 Pension scheme (continued)

e) Categories of plan assets

	% held at 2011	% held at 2010
Equity instruments	39	35
Corporate bonds	14	14
Multi strategy funds	14	8
Liability driven instruments (including Government bonds)	31	33
Other	2	10
	100	100

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were

	Long-term rate of return expected at 30 June 2011 % p a	Value at 30 June 2011 £000	Long-term rate of return expected at 30 June 2010 % p a	Value at 30 June 2010 £000	Long-term rate of return expected at 30 June 2009 % p a	Value at 30 June 2009 £000	Long-term rate of return expected at 30 June 2008 % p a	Value at 30 June 2008 £000
Equities	8.3	147,900	8.3	137,400	8.5	88,900	8.4	129,300
Multi strategy funds	8.3	53,900	8.3	25,800	8.5	23,800	8.4	32,200
Corporate bonds	5.0	52,200	5.3	48,800	6.0	41,100	5.4	-
Liability driven investments	4.1	118,000	4.1	110,200	4.2	109,400	5.2	133,700
Other	1.5	9,300	1.5	9,600	2.0	10,800	6.0	2,900
Balance at 30 June	6.4	381,300	6.3	331,800	6.1	274,000	7	298,100

f) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows	2011 £000	2010 £000
Present value of defined benefit obligations	(385,500)	(375,900)
Fair value of plan assets	381,300	331,800
Unrecognised actuarial gains	5,700	34,000
	1,500	(10,100)

During the year, it was identified that a reclassification needed to be performed with respect to the 2010 disclosures. This has been reflected in the 2010 figures shown above resulting in a decrease in defined benefit obligations of £5,300,000, a decrease in plan assets of £2,900,000 and a decrease in unrecognised actuarial gains of £2,400,000, a net nil effect on the Balance Sheet.

Notes to the financial statements (continued)

27 Related party transactions

The following transactions were carried out with related parties

a) Sale of goods and services

	2011 £000	2010 £000
Sale of goods to		
- Associates	187,864	264,773
Recharge of services to		
- The ultimate parent (legal and administration services)	1,481	304
- Associates	22,966	25,261
	<u>212,311</u>	<u>290,338</u>

Goods are sold based on the price lists in force and terms that would be available to third parties. Recharges of services are negotiated with related parties on a cost-plus basis, allowing a margin reflecting standard commercial terms.

b) Purchases of goods and services

	2011 £000	2010 £000
Purchases of goods from		
- Associates	452	435
Recharge of services by		
- Associates	4,422	4,398
- the immediate parent	14,870	22,210
	<u>19,744</u>	<u>27,043</u>

Goods and services are bought from associates on normal commercial terms and conditions. Management services are recharged from the immediate, intermediate and ultimate parent on a cost-plus basis, allowing a margin reflecting standard commercial terms.

c) Key management/directors compensation

Refer to note 4

Notes to the financial statements (continued)

27 Related party transactions (continued)

d) Year-end balances arising from sales/purchases of goods/services

	2011 £000	2010 £000
Receivables from related parties (note 13)		
- Associates	11,629	18,408
- The ultimate and immediate parent	-	751
	<u>11,629</u>	<u>19,159</u>
Payables to related parties (notes 15 and 17)		
- Immediate parent	-	-
- Associates	167	1
	<u>167</u>	<u>1</u>

The receivables from related parties includes a provision of £81,000 against two intercompany invoices

The receivables from related parties arise mainly from sale transactions and are due 1 month after the date of sales. The receivables are unsecured in nature and bear no interest.

The payables arise mainly from purchase transactions and are due 1 month after the date of purchase. The payables bear no interest.

The above disclosures exclude all short and long term funding between the Company and its associates, including transactions paid by the Company and recharged to the relevant party. The total of these balances are included within the disclosures of note 13 and 16.

e) Other related party transactions

During the year capital requirements were identified in respect of a joint venture in which Lend Lease Construction (EMEA) Limited has a 50% share. The funding by Lend Lease Construction (EMEA) Ltd was to the value of £16m. The main beneficiary of this funding was Lend Lease Infrastructure Limited who reimbursed Lend Lease Construction (EMEA) Limited during the year.

28 Ultimate parent undertaking and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Lend Lease Construction Holdings (EMEA) Limited, which is registered in England and Wales. Its ultimate parent undertaking is Lend Lease Corporation Limited, which is incorporated in Australia.

The largest group in which the results of the Company are consolidated is that headed by Lend Lease Corporation Limited. The consolidated financial statements of this group may be obtained from Level 4, 30 The Bond, 30 Hickson Road, Millers Point, New South Wales, Australia, 2000 or from its website at www.lendlease.com.au

The smallest group in which the financial statements of the Company are consolidated is that headed by Lend Lease Europe Holdings Limited. The consolidated financial statements of this group may be obtained from the Registrar of Companies, Companies House, Crown Way, Mandy, Cardiff.

Notes to the financial statements (continued)

29 Post balance sheet event

No post balance sheet events to note