

Lend Lease Construction (EMEA) Limited

Directors' report and
financial statements
30 June 2012
Registered number 467006

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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 2012

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 15 October 2012

Business review

Lend Lease Construction (EMEA) Limited is part of the Lease Lease Group and is a wholly owned subsidiary of Lend Lease Corporation, a company listed on the Australian Stock Exchange. The 2012 financial year was another successful year for the Lend Lease Corporation with the company declaring A\$503.1m (2011 A\$493.2m) of profit after tax. The corporation also remains highly liquid with A\$957.9m of cash (2011 A\$1,046.2m) and has access to a further A\$1,242.5m (2011 A\$815.7m) of unused banking facilities.

Lend Lease Construction (EMEA) Limited is the primary trading entity for the Project Management and Construction business of Lend Lease in the UK. The company has successfully pursued a strategy of concentrating on long term commercial relationships with a mature and value focused client base. A strong operational performance for these clients in the current financial year has driven an increase in operating profit to £18,766,297 (2011 £12,939,662). Operational highlights include the delivery of all milestones in respect of the Athletes Village for the 2012 Olympic Games, the practical completion of 6 projects under the SLAM framework for the MoD and 7 schools reached practical completion on the Birmingham BSF framework.

With the prioritisation of longer term, value based relationships over short term cost based bidding activity, overall revenues for 2012 of £545,316,135 (2011 £605,126,886) are lower than in the prior year. The return of the London commercial market to more normal levels of activity and a strong pipeline of work in the UK Regions division underpins the external workload within the business. In addition to this external work the Company anticipates commencement of work on site for Lend Lease's Elephant and Castle development in 2013, which, in combination with the International Quarter development for Lend Lease, will provide a £2 billion pipeline of work over the next decade for the company. The strong operational performance ethos of the business also drove continuing robust working capital and balance sheet management. Net cash inflow from operating activities of £7,837,632 (2011 £19,545,287) despite the reduction in volumes noted above reflects this discipline within the company.

On an ongoing basis the Company has repositioned its operating business units to facilitate customer driven growth across the broad business. The London Business operates as a distinct division highlighting the distinctive skills and experience required to deliver value for clients in that market. The UK Regions division comprises operational centres in the South of England, the Midlands and the North. Operationally the Scottish business is a key component of the UK Regions division although its results are reported separately within the Lend Lease Construction (Scotland) Limited statutory accounts. The Company has created a Sector Business Unit to service our Ministry of Defence and Ministry of Justice clients and to act as a centre of excellence for our Health and Education businesses.

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

During the year the Company's net assets increased to £83,491,328 (2011 £66,661,392).

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 the 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 monitors employee turnover levels on a monthly basis. Recruitment procedures and the remuneration structure are regularly reviewed and benchmarked on both a national and international basis. 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 Gross Profit Margin 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 organisation
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 (PID) 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 is 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 of individual projects 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 fundamental to how Lend Lease does business. We are committed to driving positive change in an industry that has a substantial impact on our community, economy and planet. In order to continue to improve our sustainability performance, we have identified 9 key impact areas across the 'triple bottom line' of environmental, social and economic sustainability. Within each impact area we have set long-term aspirations and short-term targets which are implemented through annual KPIs to measure our performance and ensure continual improvement. Performance against core KPIs is formally reported to the business on a monthly basis.

Lend Lease has developed and published Sustainability Position Statements which set out our commitment to upholding high standards of sustainability wherever our business has a presence. These are supported by our Environmental Management System which is certified to ISO14001 and informs all stages of our operations. 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 Carbon Disclosure Project.

Recent achievements within our UK construction business include an 8.8% improvement in waste efficiency and 26.7% improvement in water efficiency over the last financial year (year to June 2012). We have also been audited and licensed by the British Standards Institution (BSI) to use their Energy Reduction Verification Kitemark in recognition of our energy efficiency improvement. We are continually working with our supply chain partners to procure sustainable materials, in 2011 94% of all timber was FSC certified with a target of achieving 99% in the current financial year. In 2011, 83% of our projects achieved BREEAM Very Good/Excellent or Level 4 of the Code for Sustainable Homes. In addition, the BeOnsite charitable organisation established by Lend Lease has helped thousands of people with training, skills and employment opportunities in recent years.

External recognition over recent years demonstrates our leadership and credibility in the field of sustainability. Business in The Community (BiTC) reaccredited Lend Lease with their 'Big Tick' award for Responsible Supply Chain and Education. 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 (2011: £nil) and no interim dividend was paid during the year (2011: £nil).

Directors and directors' interests

The directors who served during the year are listed below:

G Anderson	
B Dew	
P Gandy	
M Dyke	(appointed 1 July 2011)
S Grist	(appointed 26 August 2011)
N Sacley	(appointed 31 October 2011)
P Boyle	(appointed 31 October 2011)
G Kondo	(resigned 4 October 2011)
D Labbad	(resigned 25 August 2011)
J Daniel	(resigned 30 September 2011)

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, D McKenzie was appointed Director on 8 August 2012.

Directors' report *(continued)*

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information

Auditor

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

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

Directors' report *(continued)*

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 day's billings from suppliers outstanding at the end of the year was 41 days (2011: 20 days).

Political and charitable donations

The Company made no political contributions during the year (2011: £nil). Donations to UK charities amounted to £31,000 (2011: £51,000).

By order of the board

A handwritten signature in black ink, appearing to be 'B Dew', written over a horizontal line.

B Dew
Director

15 October 2012

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

We have audited the financial statements of Lend Lease Construction (EMEA) Limited for the year ended 30 June 2012 set out on pages 9 to 39. 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 7, 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 2012 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

15 Canada Square
London
E14 5GL

15 October 2012

Statement of comprehensive income
for the year ended 30 June 2012

	Notes	2012 £000	2011 £000
Revenue		545,316	605,127
Cost of sales		(494,339)	(559,698)
Gross profit		50,977	45,429
Administrative expenses		(32,211)	(32,489)
Operating profit		18,766	12 940
Finance income	7	2,265	1,349
Dividend income		1,044	-
Finance costs	8	(706)	(750)
Loss on disposal of investments	12	(1,000)	-
Profit before taxation	3	20,369	13,539
Taxation	9	(3,409)	(1,288)
Profit for the year	21	16,960	12,251
Other comprehensive income			
Exchange differences on translating foreign operations		(129)	110
Other comprehensive income for the period, net of tax		(129)	110
Total comprehensive income for the period		16,831	12,361

No operations were acquired or discontinued during the year (2011 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 2012

	Notes	2012		2011	
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	10		7,228		7,909
Intangible assets	11		1,048		1,577
Investments	12		3		1,003
Deferred tax assets	15		6,765		7,739
			<u>15,044</u>		<u>18,228</u>
Current assets					
Trade and other receivables	13	179,218		162,639	
Cash and cash equivalents		<u>90,040</u>		<u>81,915</u>	
			<u>269,258</u>		<u>244,554</u>
Total assets			284,302		262,782
Current liabilities					
Trade and other payables	16	(197,297)		(191,484)	
Provision for liabilities and charges	17	<u>(3,513)</u>		<u>(4,637)</u>	
			<u>(200,810)</u>		<u>(196,121)</u>
Total liabilities			(200,810)		(196,121)
Net assets			<u>83,492</u>		<u>66,661</u>
Equity					
Share capital	18		33,101		33,101
Share premium account	19		24,999		24,999
Other reserves	20		252		381
Retained earnings	21		25,140		8,180
Total equity			<u>83,492</u>		<u>66,661</u>

These financial statements were approved by the board of directors on 15 October 2012 and were signed on its behalf by



B Dew
Director

Statement of changes in equity
for the year ended 30 June 2012

	Notes	Ordinary share capital	Ordinary share premium	Translation reserve	Retained earning	Total equity
		£000	£000	£000	£000	£000
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
Exchange differences on translating foreign operations	20	-	-	(129)	-	(129)
Retained profit for the year	21	-	-	-	16,960	16,960
Balance at 30 June 2012		33,101	24,999	252	25,140	83,492

Cash flow statement
for the year ended 30 June 2012

	Notes	2012 £000	2011 £000
Cash flows from operating activities			
Cash generated from operations	22	7,261	18,947
Interest received		2,265	1,349
Interest paid		(706)	(750)
Corporation tax paid		(26)	-
Net cash inflow from operating activities		8,794	19,545
Cash flows from investing activities			
Property plant and equipment acquisitions		(606)	(883)
Intangible asset acquisitions		(107)	(662)
Proceeds from liquidation of subsidiary		44	-
Net cash used in investing activities		(669)	(1,545)
Net increase in cash and cash equivalents		8,125	18 000
Cash and cash equivalents at beginning of year		81,915	63,915
Cash and cash equivalents at end of year		90,040	81,915

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 assets. 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 accounting 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 2012.

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 2012 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 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 2012) introduce changes to the accounting for and presentation of pensions and other post-employment benefits
- The amendments to IFRS 10 and 11 introduce changes to the accounting for subsidiaries and joint ventures
- IFRS 13 Fair Value Measurement is a new standard which replaces existing guidance on fair value measurement in different IFRSs with a single definition and framework for fair value

The standards above become mandatory for the June 2013 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

	2012	2011
	£000	£000
<i>Profit before taxation is stated after charging/(crediting)</i>		
Auditor's remuneration charged to the Income Statement		
Audit of the financial statements of the Company	-	158
Audit of the financial statements of other group companies	-	105
All other services	-	-
Depreciation of tangible fixed assets (note 10)	956	1,316
Amortisation of intangible assets (note 11)	636	456
Rentals payable under operating leases		
Land and buildings	657	980
Other	882	1,082
Staff costs (note 5)	74,732	97,007
Provision for trade receivable impairment	42	(418)
Provision made against funding of joint venture losses in the year	-	16,000
Re-imburement by Lend Lease Infrastructure Limited of funding made by the company	-	(16,000)
	<u>74,732</u>	<u>97,007</u>

The remuneration of the auditors for the current year of £166,721 has been borne by a fellow group undertaking.

4 Remuneration of directors

Directors' emoluments

	2012	2011
	£000	£000
Aggregate emoluments	2,375	1,030
Compensation for loss of office	-	-
Company contributions to money purchase pension schemes	236	150
	<u>2,611</u>	<u>1,180</u>

Retirement benefits are accruing to nil directors (2011: nil directors) under a defined benefit scheme and six directors (2011: six directors) under a defined contribution scheme.

Notes to the financial statements (continued)

4 Remuneration of directors (continued)

Highest paid director

	2012	2011
	£000	£000
Total amount of emoluments and amounts receivable under long-term incentive schemes	506	369
	<u>506</u>	<u>369</u>

5 Staff numbers and costs

The average number of employees engaged in the activity of providing project solutions in the construction industry was 878 (2011 1,380). The aggregate payroll costs of these employees were as follows:

	2012	2011
	£000	£000
Wages and salaries	61,557	77,161
Social security costs	6,102	7,957
Other pension costs (see note 26)	7,073	11,889
	<u>74,732</u>	<u>97,007</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	2012 Number of shares			Closing balance
			Granted	Lapsed	Exercised	
STI awards						
Sep-11	Sep-13	-	3,235	-	-	3,235
Sep-11	Sep-12	-	89 897	-	-	89,897
Aug-09	Aug-10	22,864	-	(4 198)	(18 666)	-
		<u>22,864</u>	<u>93,132</u>	<u>(4,198)</u>	<u>(18 666)</u>	<u>93,132</u>
LTI awards						
Sep-08	Aug-12	24,254	2,624	(6,428)	(18,473)	1,977
Sep-09	Aug-13	26,878	-	(17 618)	-	9,260
		<u>51,132</u>	<u>2,624</u>	<u>(24 046)</u>	<u>(18,473)</u>	<u>11,237</u>
Retention awards						
Aug-08	Aug-11	14,000	-	-	(14 000)	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,000)</u>	<u>-</u>
Total		<u>87,996</u>	<u>95,756</u>	<u>(28,244)</u>	<u>(51 139)</u>	<u>104,369</u>

Notes to the financial statements (continued)

6 Share based payment arrangements (continued)

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>0</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>

There were 1,324 shares forfeited in the current financial year (2011 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 2012, a share based payments charge of £483,877 (2011 £98,905) 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 £5.20 (2011 £5.49) and the fair value of the award as at 30 June 2012 was £543,290 (2011 £508,486).

Notes to the financial statements (continued)

7 Finance income

	2012	2011
	£000	£000
Bank and other interest	136	-
Interest receivable from parent and other group undertakings	2,129	1,349
	<u>2,265</u>	<u>1,349</u>

Foreign currency exchange losses for the year of £129,000 (2011 gains of £110,000) on the translation of foreign operations were recognised directly in equity through the translation reserve

8 Finance costs

	2012	2011
	£000	£000
Interest payable to parent and other group undertakings	706	750
	<u>706</u>	<u>750</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

	2012	2011
	£000	£000
Current tax		
UK corporation tax	1,071	-
Adjustments in respect of previous periods	1,364	-
Total current tax charge	<u>2,435</u>	<u>-</u>
Deferred tax		
Property, plant and equipment related temporary differences	547	654
Other timing differences	81	(31)
Tax losses utilised	1,330	384
Permanent difference on change of tax rate	380	481
Adjustment in respect of previous periods	(1,364)	(200)
Deferred tax charge	<u>974</u>	<u>1,288</u>
Total tax charge in the statement of comprehensive income	<u>3,409</u>	<u>1,288</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 25.5 per cent (2011: 27.5%). Any differences are explained below:

	2012 £000	2011 £000
Profit on ordinary activities before tax	<u>20,369</u>	<u>13,539</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 25.5%	5,194	3,723
Effects of:		
Tax-exempt revenues	(266)	(372)
Non deductible expenses	67	93
Other permanent differences	-	-
Permanent difference on change of tax rate	380	481
Transfer pricing	(1,966)	(2,475)
Losses not recognised	-	38
Adjustments in respect of previous periods	-	(200)
Tax charge in the statement of comprehensive income (note 9a)	<u>3,409</u>	<u>1,288</u>

The 2012 Budget on 23 March 2012 announced that the main rate of UK corporation tax will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 30 June 2012, which has been calculated based on the rate of 24% substantively enacted at the balance sheet date by £380,154. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

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	6,529	658	3,336	2,472	12,995
Additions	-	208	398	-	606
Disposals	(208)	-	(455)	(518)	(1,181)
At end of year	6,321	866	3,279	1,954	12,420
<i>Depreciation and diminution in value</i>					
At beginning of year	885	434	2,170	1,597	5,086
Charge for year	66	92	589	209	956
Disposals	-	-	(332)	(518)	(850)
At end of year	951	526	2,427	1,288	5,192
<i>Net book value</i>					
At 30 June 2012	5,370	340	852	666	7,228
At 30 June 2011	5,644	224	1,166	875	7,909

11 Intangible assets

	Software
	£000
<i>Cost or valuation</i>	
At beginning of year	2,383
Additions	107
Disposals	-
At end of year	2,490
<i>Amortisation and diminution in value</i>	
At beginning of year	806
Charge for year	636
Disposals	-
At end of year	1,442
<i>Net book value</i>	
At 30 June 2012	1,048
At 30 June 2011	1,577

Notes to the financial statements (continued)

12 Investments

	Shares in subsidiary undertakings	Other investments	Total
	£000	£000	£000
Cost			
At beginning of year 2010	1,698	2,691	4,389
Capitalisation contribution	-	-	-
At beginning of year 2011	1,698	2,691	4,389
Disposal	(1,698)	-	(1,698)
At end of year 2012	-	2,691	2,691
Provision			
At beginning of year 2010	698	2,688	3,386
Impairment of capitalisation contribution	-	-	-
At beginning of year 2011	698	2,688	3,386
Disposal	(698)	-	(698)
At end of year 2012	-	2,688	2,688
Net book value			
At 30 June 2012	-	3	3
At 30 June 2011	1,000	3	1,003

Bovis Engineering Limited was dissolved on 20 March 2012 and Bovis Ireland Ltd was dissolved on 10 May 2012. This resulted in a loss on disposal of £1,000,000.

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
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 Swithuns 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

	2012	2011
	£000	£000
Trade receivables	22,397	22,818
Amounts due from related parties	113,367	84,305
Other debtors	23,124	34,589
	<u>158,888</u>	<u>141,712</u>
Loans and receivables	158,888	141,712
Construction contract work in progress	19,343	19,606
Prepayments and accrued income	987	1,321
	<u>179,218</u>	<u>162,639</u>

The ageing of trade receivables at the reporting date was

	2012	2012	2011	2011
	Gross	Impairment	Gross	Impairment
	£000	£000	£000	£000
Not past due	20,779	-	19,675	-
Past due 0-90 days	403	-	3,239	(96)
More than 90 days	1,817	(602)	383	(383)
	<u>22,999</u>	<u>(602)</u>	<u>23,297</u>	<u>(479)</u>

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

	2012	2011
	£000	£000
Balance as at 1 July	479	977
Impairment gain recognised	123	(498)
Balance as at 30 June	<u>602</u>	<u>479</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

	2012	2011
	£000	£000
Contracts in progress at the balance sheet date		
- amounts due from contract customers	19,343	19,606
- current amounts due to contract customers	(67,343)	(64,868)
Net amounts due to contract customers	<u>(48,000)</u>	<u>(45,262)</u>

During the year ended 30 June 2012, all revenue recognised in the income statement is derived from construction contracts

At 30 June 2012, retentions held by customers for contract work amounted to £17,670,000 (2011 £29,735,000) Contract advances received amounted to £16,328,000 (2011 £23,006,000)

15 Deferred taxation

The deferred tax included in the balance sheet is as follows

	2012	2011
	£000	£000
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	<u>6,765</u>	<u>7,739</u>

Deferred tax assets	Provisions	Construction contract loss provisions	Tax losses	Employee benefits	Decelerated capital allowances	Total
	£000	£000	£000	£000	£000	£000
At 1 July 2010	1,035	20	523	0	5,922	7,500
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>
Charged/(credited) to the income statement	33		(2,203)	(31)	(137)	(2,338)
Prior year/reallocation			1,364			1,364
At 30 June 2012	<u>1,158</u>	<u>20</u>	<u>0</u>	<u>(31)</u>	<u>5,618</u>	<u>6,765</u>

The 2012 Budget on 23 March 2012 announced that the main rate of UK corporation tax will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 30 June 2012, which has been calculated based on the rate of 24% substantively enacted at the balance sheet date by £380,154. It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

Notes to the financial statements (continued)

16 Current trade and other payables

	2012		2011	
	£000	£000	£000	£000
Payments received on account for construction work		67,343		64,868
Trade payables		55,738		29,426
Amounts due to related parties		38,224		51,428
Other creditors including taxation and social security				
Corporation tax	7,415		5,005	
Taxation and social security	6,710		7,150	
Other creditors	20,132		28,233	
		34,257		40,388
Accruals and deferred income		1,735		5,374
		197,297		191,484

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 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
Charged to the income statement				
- Additional provisions	2,800	1,297	101	4,198
- Unused amounts reversed	-	(1,798)	-	(1,798)
Used during the year	(3,453)	-	(71)	(3,524)
At 30 June 2012	236	3,004	273	3,513

Notes to the financial statements (continued)

18 Called up share capital

	2012		2011	
	000's	£000	000's	£000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	<u>33,101</u>	<u>33,101</u>	<u>33,101</u>	<u>33,101</u>

19 Share premium account

	2012	2011
	£000	£000
At beginning and end of year	<u>24,999</u>	<u>24,999</u>

20 Other reserves

	2012	2011
	£000	£000
At beginning of year	381	271
Exchange (loss)/gain on translating foreign operations	(129)	110
At end of year	<u>252</u>	<u>381</u>

21 Retained earnings

	2012	2011
	£000	£000
At beginning of year	8,180	(4,071)
Profit for the year	16,960	12,251
At end of year	<u>25,140</u>	<u>8,180</u>

Notes to the financial statements (continued)

22 Cash flows from operating activities

	2012	2011
	£000	£000
Cash flows from operating activities		
Net profit	16,960	12,251
Adjustments for		
Tax charge	3,409	1,288
Finance cost	706	750
Finance income	(2,265)	(1,349)
Dividends/distributions received	(1,044)	-
Depreciation and Amortisation	1,592	1,772
Loss on liquidation of subsidiary	1,000	-
Loss on sale of property, plant & equipment	331	-
Changes in working capital		
(Increase)/decrease in trade and other receivables	13,149	20,393
Decrease in prepayments	334	110
Decrease/(increase) in amounts due from related parties	(29,191)	29,570
Decrease in trade and other payables	28,787	(44,686)
Increase/(decrease) in amounts due to related parties	(13,204)	9,280
Increase/(decrease) in accruals and other liabilities	(13,304)	(10,432)
Cash generated from operations	7,261	18,947

23 Commitments

Operating leases

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

	2012		2011	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
Operating leases which expire				
Within one year	549	425	758	1,294
Between one and five years	1,115	157	2,638	1,305
Over five years	137	-	1,111	0
	1,801	582	4,507	2,599

Capital commitments

As at 30 June 2012, the Company was contractually committed to incur capital expenditure of £nil (2011 £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, interest rate 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 curren- cy €000	Local currency \$000	Total £000
30 June 2012			
Net asset exposure	126	13	110
		Local currency €000	Total £000
30 June 2011			
Net asset exposure		320	281

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 15 days (2011: 12 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 £853,000 (2011: £640,500).

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 2012:

30 June 2012	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	144,064	127,097	16,967	-	-	-
Trade and other payables – non current	-	-	-	-	-	-
Total	144,064	127,097	16,967	-	-	-

Notes to the financial statements (continued)

25 Financial risk management (continued)

Liquidity risk (continued)

30 June 2011	Carrying	6 mths	6-12	1-2	2-5	More than
	Amount	or less	mths	years	years	5 years
	£000	£000	£000	£000	£000	£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	-	-	-

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 2012 the total Company contributions paid to the Defined Benefit Section of the Lend Lease UK Pension Scheme were £7,100,000 (2011: £13,300,000).

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 2011.

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

	30 June 12	30 June 11	30 June 10	30 June 09
	% p a	% p a	% p a	% p a
Pension increases post April 2008	2.3	2.5	2.6	2.7
Rate of increase in salaries	n/a	n/a	n/a	n/a
Inflation assumption	3.1	3.6	3.7	3.9
Discount rate applied to scheme liabilities	4.75	5.4	5.4	6.5
Expected rate of return	5.8	6.4	6.3	6.1

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 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 the Index-Linked Section closed to future accrual on 31 January 2012.

There exists a pension surplus in the scheme as at 30 June 2012 (2011: surplus).

Regular employer contributions to the Lend Lease UK Pension Scheme in 2011 are estimated to be £10.8m (2011: £10.2m).

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 £14,610,000 (2011: £20,000,000).

c) Reconciliation of the present value of defined benefit obligations

	2012	2011
	£000	£000
Present value of defined benefit obligations at beginning of financial year	385,500	375,900
Current service cost	3,500	7,200
Interest cost on benefit obligation	20,400	19,900
Contributions by Scheme participants	-	100
Actuarial (losses)/gains	30,400	(2,200)
Benefits paid	(17,700)	(15,400)
Present value of defined benefit obligations at end of financial year	<u>422,100</u>	<u>385,500</u>

d) Reconciliation of the fair value of plan assets

	2012	2011
	£000	£000
Fair value of plan assets at beginning of financial year	381,300	331,800
Expected return on plan assets	22,200	18,700
Actuarial gains/(losses)	(2,700)	26,100
Contributions by group companies	14,610	20,000
Contributions by Scheme participants	-	100
Benefits paid	(17,700)	(15,400)
Fair value of plan assets at end of financial year	<u>397,710</u>	<u>381,300</u>

Notes to the financial statements (continued)

26 Pension scheme (continued)

e) Categories of plan assets

	% held at 2012	% held at 2011
Equity instruments	38	39
Corporate bonds	15	14
Multi strategy funds	14	14
Liability driven instruments (including Government bonds)	31	31
Other	2	2
	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 2012 % p a	Value at 30 June 2012 £000	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
Equities	8	152,000	8.3	147,900	8.3	137,400	8.5	88,900
Corporate Bonds	4.2	55,900	5	52,200	5.3	48,800	6	41,100
Multi strategy funds	8.0	59,100	8.3	53,900	8.3	25,800	8.5	23,800
Liability driven investments	3	124,500	4.1	118,000	4.1	110,200	4.2	109,400
Other	1.8	6,210	1.5	9,300	1.5	9,600	2.0	10,800
Balance at 30 June	5.8	397,710	6.4	381,300	6.3	331,800	6.1	274,000

f) Balance sheet amounts

The amounts recognised in the balance sheet are determined as follows

	2012 £000	2011 £000
Present value of defined benefit obligations	(422,100)	(385,500)
Fair value of plan assets	397,710	381,300
Unrecognised actuarial losses	38,800	5,700
	14,410	1,500

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

	2012	2011
	£000	£000
Sale of goods to		
- Other group companies	227,676	187,864
Recharge of services to		
- The ultimate parent (legal and administration services)	66	1,481
- Other group companies	20,522	22,966
	<u>248,264</u>	<u>212,311</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

	2012	2011
	£000	£000
Purchases of goods from		
- Other group companies	792	452
Recharge of services by		
- Other group companies	5,293	4,422
- The immediate parent	30,922	14,870
	<u>37,007</u>	<u>19,744</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

	2012 £000	2011 £000
Receivables from related parties (note 13)		
- Other group companies	113,367	84,305
	<u>113,367</u>	<u>84,305</u>
 Payables to related parties (note 16)		
- Other group companies	38,224	51,428
	<u>38,224</u>	<u>51,428</u>

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

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

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.

29 Post balance sheet event

No post balance sheet events to note.