

Lend Lease Construction (EMEA) Limited

Strategic report, Directors' report and
financial statements

30 June 2014

Registered number 467006



Strategic report, Directors' report and financial statements

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Strategic report

Lend Lease Construction (EMEA) Limited is the primary trading entity for the construction business of Lend Lease in the UK. The Company is a wholly owned subsidiary of Lend Lease Construction Holdings (EMEA) Limited and is part of the Lend Lease Corporation group, a company listed on the Australian Securities Exchange.

Business review

The UK construction market returned to growth in 2013/14, with the Office for National Statistics reporting new construction work output up 3.7% in the year to May 2014 underpinned by new housing, in particular in London. However, the pattern by region and sector varies considerably and the market remains very competitive, with many projects being awarded on a lowest cost basis leading to pressure on tender margins.

Against this backdrop the Company has pursued its strategy of selective bidding in targeted key sectors and markets, where Lend Lease is able to differentiate its offering to clients who understand our value proposition. This strategic decision has resulted in revenue declining slightly in the year.

Key projects in delivery during the year included Kingsgate House (a major mixed used development in Victoria, London), Cramlington Hospital, the redevelopment of Beacon Barracks, the first phases of the regeneration of Elephant & Castle, and a number of projects on the Defence Infrastructure Organisation's Single Living Accommodation Modernisation framework.

The restructuring and streamlining of the organisational structure in 2013 has resulted in a significant reduction in the overall cost base, which combined with the resolution of completed project joint ventures and gains on property disposals resulted in a profit after tax for the year to 30 June 2014 of £14.0m (2013: loss £4.9m) and has an improved net asset position of £79.5m (2013: £65.6m).

Outlook

The directors expect the business to grow in 2014/15 as a result of the Company's targeted strategy on key growth sectors and opportunities and the general upturn in activity in the UK construction market, in particular London, where the Company has a number of significant projects. Key sectors include residential, commercial, health, justice, defence, education, retail and leisure.

The Company also benefits from the multi-billion pound pipeline of opportunities available through the development arm of the wider Lend Lease group, including the regeneration of Elephant & Castle and The International Quarter, Stratford.

The Company finished 2014 with an increase in the backlog of new work secured or at preferred bidder stage compared to 2013, however, the directors expect margins to remain tight as a result of continuing competition for tenders and supply chain cost inflation, which is occurring as activity levels pick up. We continue to exercise strict commercial criteria to our selective bidding, combined with disciplined cost control.

Strategic report (continued)

Risks

Risk	Impact	Mitigation
Political, economic, social and regulatory risk	The Company operates in a competitive, cyclical industry and changes in the economy, government policy and regulations - for example planning policy or taxation - could impact the Company's operations.	Through the annual business planning cycle the directors review and evaluate the economic climate, long-term industry trends, key value drivers and competitor activity, which is used to determine the strategy and business plan. The validity of this is regularly reviewed. We aim to maintain a balanced portfolio of projects in terms of sectors, clients and contract risk profile to mitigate against unforeseen changes. We aim to build long-term relationships and consult regularly with stakeholders, including government departments, local authorities and regulatory bodies.
Health, safety & environment	Through our activities we could cause harm to employees, suppliers, clients, members of the public or the environment, which could lead to injuries, financial loss or damage to the Company's reputation.	Please refer to the safety section of the Strategic Report.
Conversion of new work	Failure to secure enough new work or projects with an inappropriate risk/reward profile, could impact the Company's profitability and its reputation.	The Company has a well established and disciplined approach to work winning, which is managed through the PCP. Business-wide limits of authority are applied to ensure contracts are reviewed at the appropriate level and regular tender reviews are held to understand the risk profile pre-contract.
Operational and project delivery	The Company delivers complex construction projects. Failure to deliver on time, to budget and to the right quality could result in financial loss or reputational damage.	Mitigation starts pre-contract through the Project Conversion Process (PCP), ensuring an appropriate risk/reward profile. Once on site, each project is closely monitored through the Project in Delivery process (PID), with regular project reviews encompassing progress against set KPIs, risk mitigation strategy, stakeholder relationships and appropriate actions.
Human resources	Inability to recruit, develop and retain key staff could affect ability to deliver projects.	The senior management team undertakes strategic resource planning and monitors employee levels regularly. Recruitment procedures and total remuneration packages are reviewed and benchmarked on a national and international basis to ensure we attract talented people. The Company runs a number of training and development programmes and focuses on employee engagement to improve retention rates. Succession plans are in place for all key positions.
Counterparty risk	Non-delivery by our supply chain partners or clients through sub-standard performance or financial failure could impact the Company's ability to deliver projects on time, on budget and to the right quality.	Supply chain risk is mitigated through a robust selection process, including reviews to assess financial and operational viability and past performance. The list of preferred suppliers is regularly reviewed to ensure compliance with Lend Lease standards including Health & Safety, applicable laws and industry regulations. Policies and procedures are also in place to ensure that we understand our clients, their needs and credit risk profile pre-contract.
Cashflow and liquidity management	Inability to fund obligations, secure bonding capacity and comply with our banking/credit facility terms could impact the Company's liquidity and restrict growth.	The Company has robust processes to ensure cash is regularly reviewed against expected KPIs and forecasts. The Company operates within the Lend Lease Europe liquidity pool and uses the experienced Lend Lease Europe Treasury department to assist in managing liquidity and availability of bonding and credit facilities.
Compliance and conduct	Poor conduct or acts of fraud, bribery, corruption or anticompetitive behaviour could adversely impact the Company's reputation and result in financial loss.	The Company has clear principles and values concerning the way in which it does business. Employees go through an induction to ensure awareness of the Company's expectations and employee's obligations including Employee Conduct, Bribery & Corruption, Sustainability and the Group's Global Minimum Requirements. Awareness programmes are used to refresh and update learning post-induction.

Strategic report (continued)

Key Performance Indicators

KPI	Definition	Objective/Importance
Accident frequency rate	Numbers of accidents (reportable, lost-time and all) divided by the total number of hours worked	To assess the performance of business in its target of reducing all accidents and to enable appropriate action to be taken where necessary.
Profit per head	Gross profit divided by the average number of full-time equivalent staff	A measure of productivity and profitability to ensure that our skilled staff are effectively utilised
New work secured revenue and GPM	Total contract value and Gross Profit Margin of projects secured and forecast to be secured in the financial period	A key measure of the effectiveness and return on investment of business development and work winning activities
Backlog revenue and GPM	Total Revenue and GPM secured in the order book, to be delivered and recognised in future reporting periods	A key measure of the effectiveness and return on investment of business development and work winning activities. Used to develop financial projections and business plans around resource requirements and structure.
Project in delivery (PID) risk score	Each project is measured against a standard set of KPIs including programme, design, procurement, safety, profitability and cash	To assist all levels of management with the early identification of project issues/risks and to enable business-wide performance and portfolio risk to be monitored and appropriate action to be taken.
Unbilled work in progress	Work done by Lend Lease and not yet billed to the client	To ensure cash is collected on a timely basis and mitigate the risk of non-payment. This also alerts the senior management team for potential risks on projects.
Aged debtors	Total debtors not due and overdue by age	To ensure cash is collected on a timely basis and mitigate the risk of non-payment. This also alerts the senior management team for potential risks on projects.
Aged creditors	Total creditors not due and overdue by age	To ensure timely payments to our supply chain partners and early identification and resolution of issues.

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 at which 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. We have developed a set of tools to ensure we generate, share and incorporate best practice.

Strategic report (*continued*)

Sustainability

Sustainability is fundamental to the ethos of Lend Lease both as a company and how it does business. At its core is a belief that we enrich the lives of people by creating the best places. Places where people prefer to spend their time, places that contribute to a community, are healthier places, more productive, more skilled, more profitable; quite simply places that physically and mentally improve the quality of people's lives.

We deliver this through excellence in the built environment, by creating places for people that enhance the wellbeing of the environment, society and the economy that sustains us, meet our needs for the future and will determine our future prosperity.

To help deliver this vision as a company, we have developed a framework to ensure that all aspects of sustainability are addressed in a cohesive manner. Utilising short term targets to achieve long term aspirations, all projects track environmental and social KPIs through monthly progress reports, which in turn are reported to the regional leadership team to assess the region's performance as a whole. Lend Lease utilises solid business processes such as published, and continually updated governing Sustainability Position Statements, and a fully integrated Environmental Management System that ensures high standards for sustainability wherever our business has a presence.

This year has seen a solid performance from the construction business particularly in the area of resource efficiency, achieving a 96% diversion from landfill (up 2% on prior year), getting ever closer to our aspiration of zero waste going to landfill. The strongest achievement however was in the use of Forest Stewardship Council (FSC) timber, achieving a rating of 97% across the region, up from 85% the previous year. Lend lease believes in the use of fully certified FSC timber as the forests must conform to very strict forestry practices, principles and criteria that protect the welfare of forestry workers, indigenous peoples living and using the forest, environmental impacts, species and habitats and therefore the forest biodiversity. By working towards our goal of 100% use of FSC certified wood, we can be sure that our influence on the environment is positive and extends through our supply chain beyond our project hoardings.

We believe that continual performance in sustainability will be a differentiator for our business, will drive innovation and create a more resilient company that generates value for our customers, motivates our employees, contributes to our communities and delivers long-term value for our shareholders and those who invest with us. Doing what's smart and right in creating a more prosperous future for people.

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 a wholly owned subsidiary of Lend Lease Construction Holdings (EMEA) Limited and part of the Lend Lease group of companies with the ultimate parent being Lend Lease Corporation, 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:

- "Pulse", 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.

- "The Word", Lend Lease EMEA publication.

Strategic report *(continued)*

- "Global Update", annual employee update meetings.

- "Coffee talks" – at which directors and senior leaders meet with small groups of employees to brief them on aspects of the business and answer their questions.

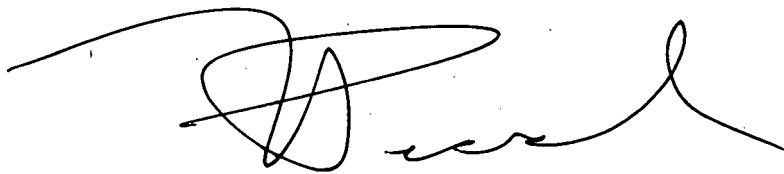
- Notice board displays of matters of interest and importance relating to the Company and to the group, such as health and safety, vision and values and financial matters.

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 six core values are: 'Respect', 'Integrity', 'Innovation', 'Collaboration', 'Trust' 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.

By order of the board

A handwritten signature in black ink, appearing to be 'T Peach', written over a horizontal line.

T Peach

Director

26 August 2014

Directors' report

The directors present their directors' report and the audited financial statements for the year ended 30 June 2014.

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 England and Wales. 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 26 August 2014.

Dividend

The directors do not recommend a final dividend for the year (2013: £nil). An interim dividend of £nil (2013: £13.0m) was declared during the year.

Directors and directors' interests

The directors who served during the year are listed below:

L Gledhill
T Peach
V Quinlan (resigned 15/08/2014)
M Heyes (appointed 01/08/2014)
G Ray (appointed 24/03/2014)
R Shed (appointed 24/03/2014)
N Martin (appointed 24/03/2014)
A Bates (appointed 24/03/2014)
G Anderson (resigned 31/12/2013)
P Boyle (resigned 05/01/2014)
G Scott (resigned 30/10/2013)
P Gandy (resigned 31/07/2014)

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.

Political donations

The Company made no political contributions during the year (2013: £nil).

Disclosure of information to auditor

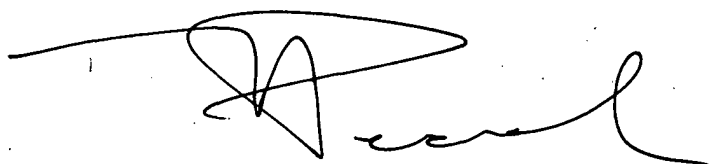
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make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

Directors' report *(continued)*

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.

By order of the board

A handwritten signature in black ink, appearing to read 'T Peach', with a large, stylized initial 'T' and a long, sweeping horizontal stroke extending to the right.

T Peach
Director

26 August 2014

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

The directors are responsible for preparing the Strategic report, 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:

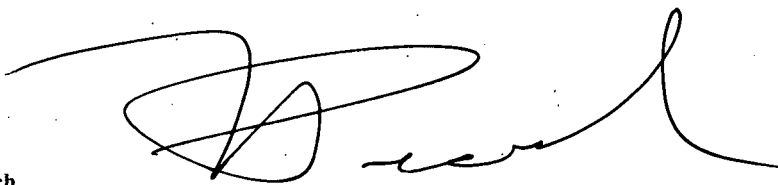
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is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

By order of the board

T Peach
Director

26 August 2014

A handwritten signature in black ink, appearing to be 'T Peach', written over a horizontal line.

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 2014 set out on pages 10 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 8, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

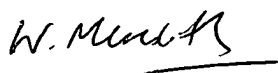
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; 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.



William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

26 August 2014

Statement of comprehensive income
for the year ended 30 June 2014

	<i>Notes</i>	2014 £000	2013 £000
Revenue		441,331	448,519
Cost of sales		<u>(422,519)</u>	<u>(416,290)</u>
Gross profit		18,812	32,229
Other operating income	<i>6</i>	18,976	-
Administrative expenses		(28,735)	(43,009)
Gain on sale of discontinued operations	<i>11</i>	-	733
Operating profit/(loss)		<u>9,053</u>	<u>(10,047)</u>
Finance income	<i>8</i>	1,981	2,031
Finance costs	<i>9</i>	<u>(425)</u>	<u>(586)</u>
Profit/(loss) before taxation	<i>3</i>	10,609	(8,602)
Tax on profit on ordinary activities	<i>10</i>	3,403	3,717
Profit/(loss) for the year from continuing operations		<u>14,012</u>	<u>(4,885)</u>
Discontinued operations			
Loss from discontinued operations, net of tax	<i>11</i>	-	(128)
Profit/(loss) for the year attributable to the equity shareholders of the company	<i>23</i>	<u><u>14,012</u></u>	<u><u>(5,013)</u></u>
Other comprehensive income			
Exchange differences on translating foreign operations	<i>22</i>	<u>(62)</u>	102
		(62)	102
Tax on other comprehensive income			
Exchange differences on translating foreign operations		-	-
Total comprehensive income for the year		<u><u>13,950</u></u>	<u><u>(4,911)</u></u>

All activities are continuing.

The company had no recognised gains or losses other than the profit for the year.

There is no material difference between the results disclosed in the income statement and the result given on an unmodified historical cost basis.

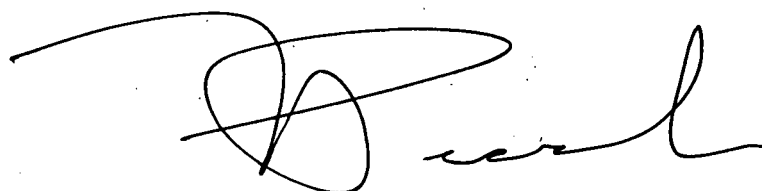
The notes to and forming part of the financial statements are set out on pages 14-39

Statement of financial position
at 30 June 2014

	Notes	2014		Restated 2013	
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	12		1,795		8,840
Intangible assets	13		724		648
Investments	14		3		3
Deferred tax assets	17		11,085		6,249
			<u>13,607</u>		<u>15,740</u>
Current assets					
Trade and other receivables	15	260,065		225,724	
Cash and cash equivalents		<u>22,351</u>		<u>21,990</u>	
			<u>282,416</u>		<u>247,714</u>
Total assets			<u>296,023</u>		<u>263,454</u>
Current liabilities					
Trade and other payables	18	(209,805)		(197,593)	
Provision for liabilities and charges	19	<u>(6,687)</u>		<u>(280)</u>	
			<u>(216,492)</u>		<u>(197,873)</u>
Total liabilities			<u>(216,492)</u>		<u>(197,873)</u>
Net assets			<u>79,531</u>		<u>65,581</u>
Equity					
Share capital	20		33,101		33,101
Share premium account	21		24,999		24,999
Other reserves	22		292		354
Retained earnings	23		21,139		7,127
Total equity			<u>79,531</u>		<u>65,581</u>

These financial statements were approved by the board of directors on 26 August 2014 and were signed on its behalf by:

T Peach
Director



The notes to and forming part of the financial statements are set out on pages 14-39

Statement of changes in equity
for the year ended 30 June 2014

	<i>Notes</i>	Ordinary share capital	Ordinary share premium	Translation reserve	Retained earnings	Total equity
		£000	£000	£000	£000	£000
Balance at 30 June 2012		33,101	24,999	252	25,140	83,492
Exchange gains on translating foreign operations		-	-	102	-	102
Retained loss for the year		-	-	-	(5,013)	(5,013)
Dividend declared		-	-	-	(13,000)	(13,000)
Balance at 30 June 2013		33,101	24,999	354	7,127	65,581
Exchange loss on translating foreign operations	22	-	-	(62)	-	(62)
Retained profit for the year	23	-	-	-	14,012	14,012
Dividend declared		-	-	-	-	-
Balance at 30 June 2014		33,101	24,999	292	21,139	79,531

The notes to and forming part of the financial statements are set out on pages 14-39

Statement of cash flows
for the year ended 30 June 2014

	<i>Notes</i>	2014 £000	2013 £000
Cash flows from operating activities			
Cash generated from/(used in) operations	<i>24</i>	2,435	(66,768)
Interest received	<i>8</i>	1,981	2,031
Interest paid	<i>9</i>	(425)	(586)
Corporation tax paid		(21)	(2,083)
Net cash generated from/(used in) operating activities		<u>3,970</u>	<u>(67,406)</u>
Cash flows from investing activities			
Property plant and equipment acquisitions	<i>12</i>	(347)	(484)
Intangible asset acquisitions	<i>13</i>	(590)	(160)
Proceeds from the sale of property, plant and equipment		10,328	-
Net cash generated from/(used in) investing activities		<u>9,391</u>	<u>(644)</u>
Cash flows from financing activities			
Dividends paid	<i>23</i>	(13,000)	-
Net cash used in financing activities		<u>(13,000)</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents		361	(68,050)
Cash and cash equivalents at beginning of year		21,990	90,040
Cash and cash equivalents at end of year		<u>22,351</u>	<u>21,990</u>

The notes to and forming part of the financial statements are set out on pages 14-39

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

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 exempt by virtue of section 400 of the Companies Act 2006 and IAS 27 – "Consolidated and Separate Financial Statements" from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about 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)

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 to use 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 where it is probable that they will 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.

Post retirement benefits

a) Defined Benefit Plan

The Company participates in a group pension scheme, which is closed to new members, providing benefits based on final pensionable pay. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. 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 2014.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Post retirement benefits (continued)

b) Defined Contribution Plan

For defined contribution plans, the Company pays contributions to publicly or privately administered superannuation/pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the Statement of Comprehensive Income in the periods during which related services are rendered by the employees. Prepaid contributions are recognised as an asset to the extent that cash refund or a reduction in the future payments is available.

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.

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.

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.

New Accounting Standards and Interpretations Not Yet Adopted

The following Adopted IFRSs have been issued but have not been applied in these financial statements. The effect of these Adopted IFRSs on these financial statements have not yet been determined:

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (mandatory for year commencing on or after 1 January 2014).
- IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures (mandatory for year commencing on or after 1 January 2014).
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2014).
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014).
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (mandatory for year commencing on or after 1 January 2014).
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (mandatory for year commencing on or after 1 January 2014).

Notes to the financial statements (continued)

1 Accounting policies (continued)

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 determination of the pension cost and defined benefit obligation of the Company's defined benefit pension scheme depends on the selection of certain assumptions which include the salary growth, inflation rate, discount rate and expected return on scheme assets. Differences arising from actual experiences or future changes in assumptions will be reflected in subsequent periods. See note 28 for further details.

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 Managing Director (the chief operating decision maker) in assessing the performance and determining the allocation of resources.

Geographical segments

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

	2014	2013
	£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	115	-
Audit of the financial statements of other group companies	120	-
Depreciation of tangible fixed assets (note 12)	1,538	1,227
Amortisation of intangible assets (note 13)	514	550
Rentals payable under operating leases:		
Land and buildings	654	724
Other	457	824
Staff costs (note 5)	58,815	73,105
Provision for trade receivable impairment	644	-
Management charge from Lend Lease Europe Limited	1,128	6,348

The remuneration of the auditors for the prior year of £172,099 was borne by a fellow group undertaking.

Notes to the financial statements (continued)

4 Remuneration of directors

Directors' emoluments

	2014	2013
	£000	£000
Aggregate emoluments	1,576	2,170
Compensation for loss of office	227	901
Company contributions to defined contribution pension schemes	139	204
	<u>1,942</u>	<u>3,275</u>

Retirement benefits are accruing to nil directors (2013: nil directors) under a defined benefit scheme and seven directors (2013: seven directors) under a defined contribution scheme.

Highest paid director

	2014	2013
	£000	£000
Total amount of emoluments and amounts receivable under long-term incentive schemes	358	643
	<u>358</u>	<u>643</u>

5 Staff numbers and costs

The average number of employees engaged in the activity of providing project solutions in the construction industry was 746 (2013: 841). The aggregate payroll costs of these employees were as follows:

	2014	2013
	£000	£000
Wages and salaries	48,625	60,464
Social security costs	5,334	6,848
Other pension costs	4,856	5,793
	<u>58,815</u>	<u>73,105</u>

The staff numbers and costs exclude staff who are seconded to other companies.

6 Other income

	2014	2013
	£000	£000
Gain on sale of property, plant and equipment	4,476	-
Fee for purchase of joint venture obligations	14,500	-
	<u>18,976</u>	<u>-</u>

Notes to the financial statements (continued)

7 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 Limited (LLC), the Company's ultimate parent company, shares based on the 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.

Performance hurdles have been set to align interests between the participant and shareholders and for consistency with a new STI structure. They are 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 STI & LTI Awards

Grant date	Vesting date	Opening balance	2014 Number of shares			Closing balance
			Granted	Lapsed	Exercised	
STI awards						
Sep-13	Sep-15	-	21,699	(2,276)	-	19,423
Sep-13	Sep-14	-	50,385	(4,634)	-	45,751
Sep-12	Sep-13	119,622	-	(43,351)	(76,271)	-
		<u>119,622</u>	<u>72,084</u>	<u>(50,261)</u>	<u>(76,271)</u>	<u>65,174</u>
LTI awards						
Sep-09	Aug-13	4,630	-	(1,771)	(2,859)	-
		<u>4,630</u>	<u>-</u>	<u>(1,771)</u>	<u>(2,859)</u>	<u>-</u>
Total		<u>124,252</u>	<u>72,084</u>	<u>(52,032)</u>	<u>(79,130)</u>	<u>65,174</u>

Notes to the financial statements (continued)

7 Share based payment arrangements (continued)

		2013				
			Number of shares			
Grant date	Vesting date	Opening balance	Granted	Lapsed	Exercised	Closing balance
STI awards						
Sep-12	Sep-13	-	119,622	-	-	119,622
Sep-11	Sep-13	3,235	-	-	(3,235)	-
Sep-11	Sep-12	89,897	-	-	(89,897)	-
		<u>93,132</u>	<u>119,622</u>	<u>-</u>	<u>(93,132)</u>	<u>119,622</u>
LTI awards						
Sep-08	Aug-12	1,977	-	(1,977)	-	-
Sep-09	Aug-13	9,260	496	(1,158)	(3,968)	4,630
		<u>11,237</u>	<u>496</u>	<u>(3,135)</u>	<u>(3,968)</u>	<u>4,630</u>
Total		<u>104,369</u>	<u>120,118</u>	<u>(3,135)</u>	<u>(97,100)</u>	<u>124,252</u>

There were 52,032 shares forfeited in the current financial year (2013: 1,158).

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.

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 2014, a share based payments charge of £274,744 (2013: £537,185) 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 £4.94 (2013: £5.44) and the fair value of the award as at 30 June 2014 was £322,121 (2013: £675,682).

Notes to the financial statements (continued)

8 Finance income

	2014	2013
	£000	£000
Bank and other interest	59	121
Interest receivable from parent and other group undertakings	1,922	1,910
	<u>1,981</u>	<u>2,031</u>

Foreign currency exchange losses for the year of £62,000 (2013: gains of £102,000) on the translation of foreign operations were recognised directly in equity through the translation reserve.

9 Finance costs

	2014	2013
	£000	£000
Interest payable to parent and other group undertakings	425	586
	<u>425</u>	<u>586</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.

10 Taxation

a) Tax on profit on ordinary activities

	2014	2013
	£000	£000
Current tax:		
UK corporation tax	(2,837)	(4,233)
Adjustments in respect of previous periods	(898)	-
Total current tax (credit)/charge	<u>(3,735)</u>	<u>(4,233)</u>
Deferred tax:		
Property, plant and equipment related temporary differences	(426)	(526)
Other timing differences	-	768
Tax losses utilised	-	-
Permanent difference on change of tax rate	1,046	274
Adjustment in respect of previous periods	(288)	-
Deferred tax charge	<u>332</u>	<u>516</u>
Tax (credit)/charge from continuing operations	<u>(3,403)</u>	<u>(3,717)</u>

Notes to the financial statements (continued)

10 Taxation (continued)

b) Reconciliation of the total tax charge

The tax credit for the year on the profit on ordinary activities is higher than the notional tax debit on those profits calculated at the UK corporation tax rate of 22.5% (2013: 23.75%). The differences are explained below:

	2014 £000	2013 £000
(Loss)/Profit on ordinary activities before tax	<u>10,609</u>	<u>(8,602)</u>
(Loss)/Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 22.5% (2013: 23.75%)	2,387	(2,043)
Effects of:		
Tax-exempt income	(5,724)	(1,831)
Non deductible expenses	74	(117)
Other permanent differences	(1,186)	-
Permanent difference on change of tax rate	1,046	274
Tax credit from continuing operations	<u>(3,403)</u>	<u>(3,717)</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)

11 Discontinued Operation

In November 2012, the Company sold the assets and future revenues associated with its BP Global Alliance contract. The comparative statement of comprehensive income has been represented to show the discontinued operation separately from continuing operations for the year ended 30 June 2013.

(a) Results of discontinued operation

	2014 £000	2013 £000
Revenue	-	2,008
Expenses	-	(2,176)
Results from operating activities	-	(168)
Tax	-	40
Results from operating activities, net of tax	-	(128)
Gain on sale of discontinued operation	-	733
Tax on gain on sale of discontinued operation	-	-
Profit for the year	-	605

(b) Cash flows from discontinued operation

	2014 £000	2013 £000
Net cash used in operating activities	-	1,984
Net cash flows for the year	-	1,984

(c) Effect of disposal on the financial position of the Company

	2014 £000	2013 £000
Consideration receivable, net of costs to sell	-	1,003
Trade and other receivables	-	(364)
Trade and other payables	-	94
Net assets and liabilities	-	733

Notes to the financial statements (continued)

12 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	6,316	828	2,997	4,244	14,385
Additions	-	-	179	168	347
Disposals	(6,316)	(34)	(935)	(1,536)	(8,821)
At end of year	-	794	2,241	2,876	5,911
<i>Depreciation and diminution in value</i>					
At beginning of year	1,022	565	2,123	1,835	5,545
Charge for year	59	75	397	1,007	1,538
Disposals	(1,081)	(33)	(646)	(1,207)	(2,967)
At end of year	-	607	1,874	1,635	4,116
<i>Net book value</i>					
At 30 June 2014	-	187	367	1,241	1,795
At 30 June 2013	5,294	263	874	2,409	8,840

13 Intangible assets

	Software £000
<i>Cost or valuation</i>	
At beginning of year	2,640
Additions	590
At end of year	3,230
<i>Amortisation and diminution in value</i>	
At beginning of year	1,992
Charge for year	514
At end of year	2,506
<i>Net book value</i>	
At 30 June 2014	724
At 30 June 2013	648

Notes to the financial statements (continued)

14 Investments

	Shares in subsidiary undertakings	Other investments	Total
	£000	£000	£000
<i>Cost</i>			
At beginning of year 2012	-	2,691	2,691
Disposal	-	-	-
At beginning of year 2013	-	2,691	2,691
Disposal	-	-	-
At end of year 2014	-	2,691	2,691
<i>Provision</i>			
At beginning of year 2012	-	2,688	2,688
Disposal	-	-	-
At beginning of year 2013	-	2,688	2,688
Disposal	-	-	-
At end of year 2014	-	2,688	2,688
<i>Net book value</i>			
At 30 June 2014	-	3	3
At 30 June 2013	-	3	3

Notes to the financial statements (continued)

14 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
BLFB Limited	England and Wales	Project solutions	50
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
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
B6 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)

15 Trade and other receivables

	2014 £000	Restated 2013 £000
Trade receivables	22,434	4,463
Amounts due from related parties	167,212	142,092
Other debtors	17,101	14,893
	<u>206,747</u>	<u>161,448</u>
Loans and receivables	206,747	161,448
Construction contract work in progress	52,230	63,166
Prepayments and accrued income	1,088	1,110
	<u>260,065</u>	<u>225,724</u>

During the year ended 30 June 2014, the Lend Lease Group amended the method in which the reporting of construction contract work in progress is determined. The comparatives for 30 June 2013 have been restated above to reflect the position under the new method of determination resulting in a decrease of £11,820,000 to trade and other payables and a decrease of £11,820,000 to trade and other receivables. The effect on the net assets of the Company at 30 June 2013 is nil.

The ageing of trade receivables at the reporting date was:

	2014 Gross £000	2014 Impairment £000	2013 Gross £000	2013 Impairment £000
Not past due	18,127	-	3,144	-
Past due 0-90 days	3,611	-	347	-
More than 90 days	1,557	(860)	1,516	(544)
	<u>23,295</u>	<u>(860)</u>	<u>5,007</u>	<u>(544)</u>

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

	2014 £000	2013 £000
Balance as at 1 July	544	602
Impairment loss recognised	644	-
Utilised	(328)	(58)
Balance as at 30 June	<u>860</u>	<u>544</u>

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

Notes to the financial statements (continued)

16 Construction contracts

	2014 £000	Restated 2013 £000
Contracts in progress at the balance sheet date:		
- amounts due from contract customers	52,230	63,166
- current amounts due to contract customers	(53,801)	(53,799)
Net amounts due (to)/from contract customers	<u>(1,571)</u>	<u>9,367</u>

During the year ended 30 June 2014, all revenue recognised in the income statement is derived from construction contracts.

At 30 June 2014, retentions held by customers for contract work amounted to £16,636,000 (2013: £14,633,000). Contract advances received amounted to £12,711,000 (2013: £12,700,000).

During the year ended 30 June 2014, the Lend Lease Group amended the method in which the reporting of construction contract work in progress is determined. The comparatives for 30 June 2013 have been restated above to reflect the position under the new method of determination resulting in a decrease of £11,820,000 to trade and other payables and a decrease of £11,820,000 to trade and other receivables. The effect on the net assets of the Company at 30 June 2013 is nil. For further detail, see notes 15 and 18.

17 Deferred taxation

The deferred tax included in the balance sheet is as follows:

	2014 £000	2013 £000
Deferred tax asset to be recovered after more than 12 months	<u>11,085</u>	<u>6,249</u>

Deferred tax assets	Provisions £000	Construction contract loss provisions £000	Tax losses £000	Employee benefits £000	Decelerated capital allowances £000	Total £000
At 1 July 2012	1,158	20	-	(31)	5,618	6,765
(Charged)/credited to the income statement	(792)	(1)	-	1	276	(516)
At 30 June 2013	<u>366</u>	<u>19</u>	<u>-</u>	<u>(30)</u>	<u>5,894</u>	<u>6,249</u>
(Charged)/credited to the income statement	(14)	-	(449)	(16)	(141)	(620)
Adjustment in respect of previous periods	(303)	(19)	-	211	399	288
Prior period reallocation	-	-	5,168	-	-	5,168
At 30 June 2014	<u>49</u>	<u>-</u>	<u>4,719</u>	<u>165</u>	<u>6,152</u>	<u>11,085</u>

The 2013 Budget announced on 20 March 2013 that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 23% to 21% (effective from 1 April 2014) was substantively enacted on 17 July 2013, and further reductions to 20% (effective from 1 April 2015) was substantively enacted on 17 July 2013. This will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 30 June 2014 (which has been calculated based on the rate of 21% substantively enacted at the balance sheet date) by £527,927.

Notes to the financial statements (continued)

18 Current trade and other payables

	2014		Restated 2013	
	£000	£000	£000	£000
Payments received on account for construction work		53,801		53,799
Trade payables		16,277		4,947
Amounts due to related parties		38,741		52,253
<i>Other creditors including taxation and social security:</i>				
Corporation tax	2,470		1,057	
Taxation and social security	5,026		6,446	
Project cost accruals	74,020		61,991	
Other creditors	17,421		16,024	
		98,937		85,518
Accruals and deferred income		2,049		1,076
		<u>209,805</u>		<u>197,593</u>

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

During the year ended 30 June 2014, the Lend Lease Group amended the method in which the reporting of construction contract work in progress is determined. The comparatives for 30 June 2013 have been restated above to reflect the position under the new method of determination resulting in a decrease of £11,820,000 to trade and other payables and a decrease of £11,820,000 to trade and other receivables. The effect on the net assets of the Company at 30 June 2013 is nil.

19 Provisions for liabilities and charges

	Defects provision £000	Restructure provision £000	Design provision £000	Other provision £000	Total £000
At 1 July 2012	-	236	3,004	273	3,513
Charged to the income statement:					
- Additional provisions	-	-	1,118	7	1,125
- Unused amounts reversed	-	-	(4,122)	-	(4,122)
Used during the year	-	(236)	-	-	(236)
At 30 June 2013	<u>-</u>	<u>-</u>	<u>-</u>	<u>280</u>	<u>280</u>
Charged to the income statement:					
- Additional provisions	6,450	-	-	-	6,450
- Unused amounts reversed	-	-	-	-	-
Used during the year	-	-	-	(43)	(43)
At 30 June 2014	<u>6,450</u>	<u>-</u>	<u>-</u>	<u>237</u>	<u>6,687</u>

Notes to the financial statements (continued)

20 Called up share capital

	2014		2013	
	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>

21 Share premium account

	2014	2013
	£000	£000
At beginning and end of year	<u>24,999</u>	<u>24,999</u>

22 Other reserves

	2014	2013
	£000	£000
At beginning of year	354	252
Exchange gain/(loss) on translating foreign operations	(62)	102
At end of year	<u>292</u>	<u>354</u>

23 Retained earnings

	2014	2013
	£000	£000
At beginning of year	7,127	25,140
(Loss)/Profit for the year	14,012	(5,013)
Dividend declared	-	(13,000)
At end of year	<u>21,139</u>	<u>7,127</u>

Notes to the financial statements (continued)

24 Cash flows from operating activities

	2014	2013
	£000	£000
Cash flows from operating activities		
Net profit/(loss)	14,011	(5,013)
Adjustments for:		
Tax charge	(3,402)	(3,717)
Tax charge from discontinued operations	-	(40)
Finance cost	425	586
Finance income	(1,981)	(2,031)
Depreciation and Amortisation	2,052	1,777
(Gain)/loss on sale of property, plant & equipment	(4,476)	5
Gain on disposal of discontinued operations	-	(733)
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(9,243)	15,452
Decrease/(increase) in prepayments	22	(123)
Increase in amounts due from related parties	(25,182)	(27,891)
Increase/(decrease) in trade and other payables	11,332	(46,406)
(Decrease)/increase in amounts due to related parties	(512)	1,029
Increase in accruals and other liabilities	19,389	337
Cash generated from/(used in) operations	<u>2,435</u>	<u>(66,768)</u>

25 Commitments

Operating leases

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

	2014		2013	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	540	424	689	648
Between one and five years	422	202	1,016	649
Over five years	3	-	5	-
	<u>965</u>	<u>626</u>	<u>* 1,710</u>	<u>1,297</u>

Capital commitments

As at 30 June 2014, the Company was contractually committed to incur capital expenditure of £nil (2013: £nil).

Notes to the financial statements (continued)

26 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.

27 Financing arrangements and financial instruments

Foreign currency

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 exchange rates. The Lend Lease Group policy is to manage currency risk so as to minimise any adverse impact of this risk and associated costs on the results.

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 major foreign currency exchange rates used in the translation of income and expenses (average rate) and assets and liabilities (spot rate) denominated in foreign currencies are as follows:

	Average Rate		Spot Rate	
	2014	2013	2014	2013
Euro	1.20	1.21	1.22	1.16
US Dollar	1.63	1.56	1.70	1.52

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

	Local currency €000	Local currency \$000	Total £000
30 June 2014			
Net asset exposure	8,867	111	7,337
	Local currency €000	Local currency \$000	Total £000
30 June 2013			
Net asset exposure	1,120	8	1,309

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)

27 Financing arrangements and financial instruments (continued)

Credit risk

Credit risk represents the risk that a counterparty will not be able to complete its obligations in respect of a financial instrument, resulting in a financial loss to the Company.

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 29 days (2013: 19 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 which are subject to interest rate risk are financial assets in the form of loans to other Group companies which do not have specified repayment terms.

	Effective interest rate	Floating interest rate £000
Financial Assets		
30 June 2014		
<i>Current</i>		
Cash	0.26%	22,351
Amounts due from related parties	1.88%	102,191
	Effective interest rate	Floating interest rate £000
Financial Assets		
30 June 2013		
<i>Current</i>		
Cash	0.75%	21,990
Amounts due from related parties	2.17%	83,790

At 30 June 2014, it is estimated that a decrease of one percentage point in interest rates would have decreased the Company's profit before tax by approximately £910,000 (2013: £895,000).

Notes to the financial statements (continued)

27 Financing arrangements and financial instruments (continued)

Liquidity risk

Liquidity risk is the risk of having insufficient funds to settle financial liabilities as and when they fall due. This includes having insufficient levels of committed credit facilities. 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 2014:

30 June 2014	Carrying Amount	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities						
Trade and other payables – current	74,428	61,712	12,716	-	-	-
Total	<u>74,428</u>	<u>61,712</u>	<u>12,716</u>	<u>-</u>	<u>-</u>	<u>-</u>
30 June 2013	Carrying Amount	6 mths or less	6-12 mths	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Non-derivative financial liabilities						
Trade and other payables – current	77,700	64,995	12,705	-	-	-
Total	<u>77,700</u>	<u>64,995</u>	<u>12,705</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

The Company assesses its Capital Management model as part of the broader Lend Lease Group Board's strategic plan. 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 capital structure of the Company can be changed by equity issues, dividend payments and dividend reinvestments.

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)*

28 Pension scheme

The Company participates in a group wide pension scheme (The Lend Lease UK Pension Scheme) providing benefits based on final pensionable pay, with the sponsor being Lend Lease Construction Holdings (EMEA) Limited.

There is no contractual agreement or stated policy for charging the net defined benefit cost for the group wide pension scheme to individual group entities. Contributions in respect of defined benefit 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.

As required by IAS 19 'Employee benefits', the amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Further detailed information in respect of the Lend Lease UK Pension Scheme can be found in the financial statements of Lend Lease Construction Holdings (EMEA) Limited.

For the year ended 30 June 2014 the total Company contributions paid to the Defined Benefit Section of the Lend Lease UK Pension Scheme were £10,500,000 (2013: £10,900,000).

29 Related party transactions

The following transactions were carried out with related parties:

a) Sale of goods and services:

	2014	2013
	£000	£000
Sale of goods and services to:		
- Other group companies	105,536	130,034
Recharge of services to:		
- The ultimate parent	294	17
- Other group companies	28,883	22,350
	<u>134,713</u>	<u>152,401</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.

Notes to the financial statements (continued)

29 Related party transactions (continued)

b) Purchases of goods and services

	2014 £000	2013 £000
Purchases of goods from:		
- Other group companies	30	70
Recharge of services by:		
- The ultimate parent	2,611	7,213
- Other group companies	53,691	39,688
	<u>56,332</u>	<u>46,971</u>

Goods and services are purchased from other group companies under 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.

d) Year-end balances

	2014 £000	2013 £000
Receivables from related parties (note 15)		
- Other group companies	167,212	142,092
	<u>167,212</u>	<u>142,092</u>
Payables to related parties (note 18)		
- Other group companies	38,741	52,253
	<u>38,741</u>	<u>52,253</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.

Interest is charged on loans receivable from related parties based on 3 month UK LIBOR.

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

Notes to the financial statements (continued)

30 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, Maindy, Cardiff.

31 Subsequent events

No subsequent events to note.