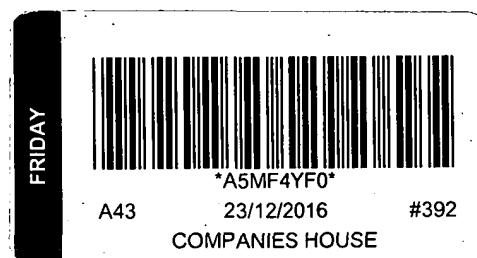


Lendlease Construction (Europe) Limited
(Formerly Lend Lease Construction (EMEA) Limited)
Annual report and financial statements
Registered number 467006
30 June 2016



Strategic report, Directors' report and financial statements

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Strategic report

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

Business review

The UK construction market continued to grow in 2015/16, with strong activity in the London residential and commercial market supporting growth. Outside of London there is considerable variability by region and sector.

Against this backdrop the Company has continued to pursue its strategy of selective bidding in targeted key sectors and markets where Lendlease is able to differentiate its offering to clients who understand the Lendlease value proposition. This strategic decision together with a tight control on operational costs has led to an improvement in gross profit margin.

Key projects in delivery during the year included Rathbone Square (a major mixed used development in central London); HMP Berwyn (a 2,100 inmate Category C prison in Wrexham, North Wales); International Quarter London (large scale commercial and residential development in Stratford); the award winning regeneration of Elephant & Castle, London; and the finalisation of a number of projects on the Defence Infrastructure Organisation's Single Living Accommodation Modernisation programme.

Gross profit was up significantly in 2016 to £37.2m from £29.0m reflecting a strong underlying business performance and volume growth while underlying administration expenses were stable, however, legacy costs associated with certain PFI projects completed in prior years lead to an overall increase. Headline profit before tax for the year was £1m, up on the prior year restated loss of £2.6m. Following an additional investment of £50m from Lendlease Construction Holdings (Europe) Limited, the Company's immediate parent, the net asset position has increased to £104.8m, from £50.6m in the prior year restated. The Company's cash balance of £69m (2015: £51m) together with amounts due from related group entities of £191m (Restated 2015: £159m) provides the Company with a strong financial position heading into the financial year 2017.

Outlook

Following the referendum vote to leave the European Union, there is significant uncertainty with most forecasts predicting a slowdown in growth in the short and medium term. It is likely that some projects may be postponed or cancelled, as funding becomes harder to access and investors and purchasers delay decisions. Notwithstanding this the Company enters into the year with a strong external pipeline, supported by the opportunities provided by the development arm of the Lendlease group including International Quarter London and Elephant Park at Elephant & Castle.

Supply chain inflation has been running at elevated levels in recent years as construction activity has increased, particularly in London. If projects are delayed or cancelled, this may reduce cost pressures and assist margins on existing projects already secured. However the directors expect the main contractor market to remain competitive for new work.

Risks and uncertainties

The Company takes a prudent approach to risk; risk management is embedded in the organisation with different types of risk requiring different levels and types of management response.

Although many of the risk factors influencing the business are macroeconomic, others are particular to our operations. The section following highlights some of the risks and uncertainties that affect the Company as a whole, although it is not intended to be an extensive analysis of all such risks that exist.

Strategic report (continued)

Risk area	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 on page 3.
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 its Project Conversion Process (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 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 Key Performance Indicators (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 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 Lendlease 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 Lendlease Europe liquidity pool and uses the experienced Lendlease 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 potential incidents 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 Lendlease 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.

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 Lendlease 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 Requirements (GMR's) 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.

Sustainability

Sustainability is fundamental to the ethos of Lendlease 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.

Strategic report (continued)

Sustainability (continued)

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. Lendlease 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 there has been a significant shift in the profile and stage of our construction projects compared to last year with many long term projects entering key phases of energy and water use. We continue to implement energy, water and waste initiatives across our portfolio to reduce our construction environmental footprint. Our timber reporting has similarly been affected with an increased performance from 87% certified FSC timber to 91% across the calendar year. This is due to the prior year having a higher use of Cross Laminated Timber (CLT), a positive advancement for the company in terms of innovation and modern methods of construction, but at a cost of our FSC target of 100% due to only PEFC certified timber (the next best certification level) being available.

Our social sustainability performance across the construction business however has seen significant elevation in engagement with our Lendlease community and staff. New programmes focusing around health and wellbeing have resulted in bringing life-saving services into reach of our staff across offices and sites.

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 Lendlease Construction Holdings (Europe) Limited and part of the Lendlease group of companies with the ultimate parent being Lendlease Corporation Limited, an Australian property development, investment and construction business.

Employees benefit from a bonus 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.

Strategic report *(continued)*

Employees *(continued)*

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 Lendlease Construction (Europe) Limited and Lendlease Corporation Limited.

- "The Word", Lendlease Europe publication.

- "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.

Lendlease 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 Lendlease'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



M Heyes
Director

18 August 2016

Directors' report

The directors present their directors' report and the audited financial statements for the year ended 30 June 2016.

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.

On the 1 July 2016, the Company changed its name from Lend Lease Construction (EMEA) Limited to Lendlease Construction (Europe) Limited.

These financial statements were authorised for issue by the Board of Directors on 18 August 2016.

Dividend

The directors do not recommend a final dividend for the year (2015: £nil).

Directors and directors' interests

The directors who served during the year are listed below:

M Heyes
L Gledhill (Resigned 22 June 2016)
T Peach (Resigned 15 June 2016)
V Quinlan
G Ray
R Shed (Resigned 31 December 2015)
N Martin
A Bates
S Gorski (Appointed 7 June 2016)

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 contributions

The Company made no political donations or incurred any political expenditure during the year (2015: £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)*

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial year have been included in the Strategic Report on page 1.

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 'M Heyes', with a stylized, cursive flourish at the end.

M Heyes
Director

20 Triton Street
London, NW1 3BF
18 August 2016

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LENDLEASE CONSTRUCTION (EUROPE) LIMITED

We have audited the financial statements of Lendlease Construction (Europe) Limited for the year ended 30 June 2016 set out on pages 10 to 44. 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 2016 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.

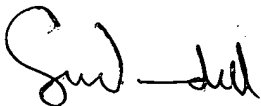
Opinion on other matter prescribed by the Companies Act 2006

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.



Stephen Wardell (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

~~18~~ 18 August 2016

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2016

	Notes	2016 £000	2015 £000 *Restated
Revenue	2	603,785	524,587
Cost of sales		<u>(566,548)</u>	<u>(495,551)</u>
Gross profit		37,237	29,036
Other operating income		421	13
Administrative expenses	3	<u>(40,253)</u>	<u>(34,024)</u>
Operating loss		(2,595)	(4,975)
Finance income	7	3,647	2,536
Finance expenses	7	<u>(79)</u>	<u>(134)</u>
Profit/(loss) before tax		973	(2,573)
Taxation	8	<u>(239)</u>	<u>4,089</u>
Profit for the year	23	<u>734</u>	<u>1,516</u>
Other comprehensive profit/(loss)			
<i>Items that will not be reclassified to profit or loss</i>			
Movement in hedge reserve	22	3,530	-
Exchange differences on translating foreign operations	22	<u>-</u>	<u>(292)</u>
Other comprehensive profit/(loss), net of income tax		3,530	(292)
Total comprehensive income for the year		<u>4,264</u>	<u>1,224</u>

* Refer to Note 28 for details of the restatement.

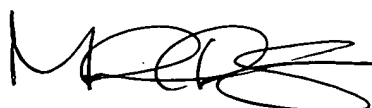
The notes to and forming part of the financial statements are set out on pages 14 to 44.

Statement of financial position
at 30 June 2016

	Notes	2016 £000	2015 *Restated £000	2014 *Restated £000
Non-current assets				
Property, plant and equipment	9	413	991	1,795
Intangible assets	10	260	348	724
Investments in group companies and associated undertakings	11	53	3	3
Other financial assets	12	388	-	-
Deferred tax assets	17	12,812	9,842	11,085
		<u>13,926</u>	<u>11,184</u>	<u>13,607</u>
Current assets				
Trade and other receivables	13	278,290	251,284	228,483
Cash and cash equivalents	16	68,979	51,498	22,351
Other financial assets	12	3,736	-	-
		<u>351,005</u>	<u>302,782</u>	<u>250,834</u>
Total assets		<u>364,932</u>	<u>313,966</u>	<u>264,441</u>
Non-current liabilities				
Provisions	19	(3,600)	-	-
Current liabilities				
Trade and other payables	18	(249,595)	(260,882)	(208,354)
Provisions	19	(6,849)	(2,460)	(6,687)
Total liabilities		<u>(260,044)</u>	<u>(263,342)</u>	<u>(215,041)</u>
Net assets		<u>104,888</u>	<u>50,624</u>	<u>49,400</u>
Equity				
Share capital	20	1	33,101	33,101
Share premium	21	-	24,999	24,999
Reserves	22	3,530	-	292
Retained earnings	23	101,357	(7,476)	(8,992)
Total equity		<u>104,888</u>	<u>50,624</u>	<u>49,400</u>

* Refer to Note 28 for details of the restatement.

These financial statements were approved by the board of directors on 18 August 2016 and were signed on its behalf by:



M Heyes
Director

The notes to and forming part of the financial statements are set out on pages 14 to 44.

Statement of Changes in Equity

	Notes	Share capital	Share premium	Reserves	Retained earnings	Total equity
		£000	£000	£000	£000	£000
Balance at 30 June 2014 as previously disclosed		33,101	24,999	292	21,139	79,531
*Restatement	28	-	-	-	(30,131)	(30,131)
Balance at 1 July 2014 restated*		<u>33,101</u>	<u>24,999</u>	<u>292</u>	<u>(8,992)</u>	<u>49,400</u>
Total comprehensive income for the period						
Other comprehensive income	22	-	-	(292)	-	(292)
Profit for the year (restated*)	23	-	-	-	1,516	1,516
Total comprehensive income for the period		<u>-</u>	<u>-</u>	<u>(292)</u>	<u>1,516</u>	<u>1,224</u>
Balance at 1 July 2015 restated*		<u>33,101</u>	<u>24,999</u>	<u>-</u>	<u>(7,476)</u>	<u>50,624</u>
Total comprehensive income for the period						
Other comprehensive income	22	-	-	3,530	-	3,530
Profit for the year	23	-	-	-	734	734
Total comprehensive income for the period		<u>-</u>	<u>-</u>	<u>3,530</u>	<u>734</u>	<u>4,264</u>
Capital injection	20	50,000	-	-	-	50,000
Capital reduction	20	(83,100)	(24,999)	-	108,099	-
Balance at 30 June 2016		<u>1</u>	<u>-</u>	<u>3,530</u>	<u>101,357</u>	<u>104,888</u>

* Refer to Note 28 for details of restatement.

The notes to and forming part of the financial statements are set out on pages 14 to 44.

Cash Flow Statement
for the year ended 30 June 2016

	<i>Notes</i>	2016 £000	2015 £000 *Restated
Cash flows from operating activities			
Profit for the year		734	1,516
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment		606	1,307
Finance income		(3,959)	(1,143)
Finance expenses		79	134
Taxation		239	(4,089)
Gain on sale of property, plant and equipment		(421)	-
		<u>(2,722)</u>	<u>(2,275)</u>
 (Increase)/decrease in trade and other receivables		 (30,500)	 (12,724)
(Decrease)/increase in trade and other payables		(11,286)	48,549
Increase/(decrease) in provisions and employee benefits		7,989	(4,228)
 Interest received	7	 3,647	 1,143
Interest paid	7	(79)	(134)
Tax paid		-	(1,057)
 Net cash from operating activities		 <u>(32,951)</u>	 <u>29,274</u>
 Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		750	-
Acquisition of property, plant and equipment	9	(131)	(117)
Acquisition of other intangible assets	10	(138)	(10)
Acquisition of investments	11	(50)	-
Net cash from investing activities		<u>431</u>	<u>(127)</u>
 Cash flows from financing activities			
Proceeds from issuance of shares	20	50,000	-
 Net cash from financing activities		 <u>50,000</u>	 <u>-</u>
 Net increase in cash and cash equivalents		 17,481	 29,147
Cash and cash equivalents at beginning of year		51,498	22,351
 Cash and cash equivalents at end of year	16	 <u>68,979</u>	 <u>51,498</u>

* Refer to Note 28 for details of the restatement.

The notes to and forming part of the financial statements are set out on pages 14 to 44.

Notes
(forming part of the financial statements)

1 Accounting policies

Basis of preparation

Lendlease Construction (Europe) Limited (the "Company") is a company incorporated and domiciled in the United Kingdom (UK).

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

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

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

1.2 Foreign currency

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 Statement of Profit or Loss and Other Comprehensive Income. 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 Statement of Profit or Loss and Other Comprehensive Income as part of the gain or loss on sale.

1.3 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 and other 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.

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.

Investments

Investments in subsidiaries are carried at cost less impairment.

Notes (continued)

1 Accounting policies (continued)

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, Lendlease Corporation Limited. The fair value of these shares at the date of grant is recognised through the Statement of Profit or Loss and Other Comprehensive Income on a straight line basis over the vesting period.

1.4 Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

1.5 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses.

Depreciation is charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings - 2% per annum, straight line

Office improvements - Over remaining period of lease, straight line

1.6 Intangible assets

Research and development

Expenditure on research activities is recognised in the Statement of Profit or Loss and Other Comprehensive Income as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the Statement of Profit or Loss and Other Comprehensive Income as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Notes (continued)

1 Accounting policies (continued)

1.6 Intangible assets (continued)

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

1.7 Construction contract debtors

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).

1.8 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through the Statement of Profit or Loss and Other Comprehensive Income is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Notes (continued)

1 Accounting policies (continued)

1.8 Impairment excluding inventories and deferred tax assets (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the Statement of Profit or Loss and Other Comprehensive Income.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

1.9 Employee 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 Statement of Profit or Loss and Other Comprehensive Income 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 Lendlease Construction Holdings (Europe) Limited as at 30 June 2016.

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 Profit or Loss and Other 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.

1.10 Provisions

A provision is recognised in The Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.11 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.

Notes (continued)

Accounting policies (continued)

1.11 Revenue (continued)

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.

1.12 Expenses

Operating lease payments

Payments made under operating leases are recognised in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Profit and Loss and Other Comprehensive Income as an integral part of the total lease expense.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing income and expenses

Financing expenses comprise interest payable and finance leases recognised in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the Statement of Profit or Loss and Other Comprehensive Income (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues, using the effective interest method. Dividend income is recognised in the Statement of Profit or Loss and Other Comprehensive Income on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.13 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income 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.

Notes (continued)

1 Accounting policies (continued)

1.14 Derivative financial instruments and hedging activities

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement when the hedged item will affect profit or loss (for instance, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

1.15 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 has not yet been determined:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Contracts with Customers (effective date 1 January 2018).
- Annual Improvements to IFRSs – 2012-2014 Cycle (effective date to be confirmed).
- Disclosure Initiative – Amendments to IAS 1 (effective date to be confirmed).
- IFRS 16 Leases (effective date 1 January 2019).

Notes (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 in the United Kingdom. Lendlease Construction (Europe) 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 Expenses and auditor's remuneration

	2016	2015
	£000	£000
<i>Included in profit/loss are the following:</i>		
Depreciation of tangible fixed assets (Note 9)	(380)	(921)
Amortisation of intangible assets (Note 10)	(226)	(386)
Rentals payable under operating leases:		
Land and buildings	(518)	(677)
Other	(418)	(357)
Staff costs (Note 4)	(57,547)	(56,270)
Management charge from Lendlease Europe Limited	(10,520)	(1,163)
	<u>(10,520)</u>	<u>(1,163)</u>
<i>Auditor's remuneration:</i>		
	2016	2015
	£000	£000
Audit of these financial statements	(116)	(115)
Total remuneration	<u>(116)</u>	<u>(115)</u>

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2016	2015
Engaged in the activity of providing project solutions in the construction industry	<u>647</u>	<u>648</u>
	2016	2015
	£000	£000
Wages and salaries	(47,588)	(46,311)
Social security costs	(5,378)	(5,337)
Other pension costs	(4,581)	(4,622)
	<u>(57,547)</u>	<u>(56,270)</u>

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

5 Directors' remuneration

	2016	2015
	£000	£000
Directors' remuneration	(2,020)	(1,615)
Company contributions to defined contribution pension schemes	(132)	(184)
	<u>(2,152)</u>	<u>(1,799)</u>

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £811,738 (2015 : £737,000).

	Number of directors	
	2016	2015
Retirement benefits are accruing to the following number of directors under:		
Defined contribution schemes	5	6
Defined benefit schemes	<u>-</u>	<u>-</u>
	<u>5</u>	<u>7</u>

The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes.

Notes (continued)

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 Lendlease 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

		2016				
		Number of shares				
Grant date	Vesting date	Opening balance	Granted	Lapsed	Exercised	Closing balance
STI awards						
Sep-15	Sep-17	-	28,985	-	-	28,985
Sep-15	Sep-16	-	63,697	(809)	-	62,888
Sep-14	Sep-16	18,710	-	-	-	18,710
Sep-14	Sep-15	38,343	-	(2,331)	(36,012)	-
Sep-13	Sep-15	19,423	-	-	(19,423)	-
Total		76,476	92,682	(3,140)	(55,435)	110,583

Notes (continued)

6 Share based payment arrangements (continued)

		2015				
		Number of shares				
Grant date	Vesting date	Opening balance	Granted	Lapsed	Exercised	Closing balance
STI awards						
Sep-14	Sep-16	-	18,710	-	-	18,710
Sep-14	Sep-15	-	39,009	(666)	-	38,343
Sep-13	Sep-15	19,423	-	-	-	19,423
Sep-13	Sep-14	45,751	-	(523)	(45,228)	-
		65,174	57,719	(1,189)	(45,228)	76,476

There were 3,140 shares forfeited in the current financial year (2015: 1,189).

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.

Notes (continued)

7 Finance income and expense

Recognised in profit or loss

	2016	2015
	£000	£000
<i>Finance income</i>		
Bank and other interest	-	70
Interest receivable from parent and other group undertakings	2,645	2,202
Net foreign exchange gain	1,002	264
Total finance income	<u>3,647</u>	<u>2,536</u>

Foreign currency exchange losses for the year of £nil (2015: losses of £292,000) on the translation of foreign operations were recognised directly in equity through the translation reserve. These foreign operations had no activity in the year.

	2016	2015
	£000	£000
<i>Finance expense</i>		
Interest payable to parent and other group undertakings	(79)	(134)
Total finance expense	<u>(79)</u>	<u>(134)</u>

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

Notes (continued)

8 Taxation

a) Recognised in the Statement of Profit or Loss and Other Comprehensive Income

	2016	*restated 2015
	£000	£000
<i>Current tax expense</i>		
Current year	157	5,334
Adjustments for prior years	(3,210)	-
Current tax (expense)/credit	<u>(3,053)</u>	<u>5,334</u>
<i>Deferred tax expense</i>		
Origination and reversal of temporary differences	1,850	274
Reduction in tax rate		(489)
Effect of future change in UK tax rate (19%)	(674)	-
Adjustment in respect of previous periods	<u>1,638</u>	<u>(1,030)</u>
Deferred tax credit/(expense)	<u>2,814</u>	<u>(1,245)</u>
Total tax (expense)/credit	<u>(239)</u>	<u>4,089</u>

b) Reconciliation of effective tax rate

The tax credit for the year on the profit on ordinary activities is lower than the notional tax charge on those profits calculated at the UK corporation tax rate of 20% (2015: 20.75%). The differences are explained below:

	2016	* restated 2015
	£000	£000
Profit for the year	734	1,516
Total tax (expense)/credit	<u>(239)</u>	<u>4,089</u>
Profit/(loss) excluding taxation	973	(2,573)
Tax using the UK corporation tax rate of 20% (2015: 20.75%)	(195)	534
Effects of:		
Pension contributions	2,315	5,104
Non-deductible expenses	(113)	(30)
Adjustments in respect of previous periods	(1,572)	(1,030)
Permanent difference on change of tax rate	(674)	(489)
Total tax (expense)/credit	<u>(239)</u>	<u>4,089</u>

The effective rate of taxation will vary as a result of any dividends paid by shareholders, overseas tax rates and the utilisation of tax losses brought forward. Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly. Accordingly, the company's profits for the accounting period are taxed at an effective rate of 20% (2015: 20.75%).

* Refer to Note 28 for details of the restatement.

Notes (continued)

9 Property, plant and equipment

	Total
	£000
<i>Cost or valuation</i>	
Balance at 1 July 2014	5,911
Acquisitions	117
Disposals	(109)
Balance at 30 June 2015	5,919
<i>Cost or valuation</i>	
Balance at 1 July 2015	5,919
Acquisitions	131
Disposals	(2,360)
Balance at 30 June 2016	3,690
<i>Depreciation and impairment</i>	
Balance at 1 July 2014	(4,116)
Depreciation charge for the year	(921)
Disposals	109
Balance at 30 June 2015	(4,928)
Balance at 1 July 2015	(4,928)
Depreciation charge for the year	(380)
Disposals	2,031
Balance at 30 June 2016	(3,277)
<i>Net book value</i>	
At 1 July 2014	1,795
At 30 June 2015 and 1 July 2015	991
At 30 June 2016	413

Notes (continued)

10 Intangible assets

	Software £000
<i>Cost or valuation</i>	
Balance at 1 July 2014	3,230
Acquisitions	10
Balance at 30 June 2015	3,240
Balance at 1 July 2015	3,240
Acquisitions	138
Balance at 30 June 2016	3,378
<i>Amortisation and impairment</i>	
Balance at 1 July 2014	(2,506)
Amortisation for the year	(386)
Balance at 30 June 2015	(2,892)
Balance at 1 July 2016	(2,892)
Amortisation for the year	(226)
Balance at 30 June 2016	(3,118)
<i>Net book value</i>	
At 1 July 2014	724
At 30 June 2015 and 1 July 2015	348
At 30 June 2016	260

Notes (continued)

11 Investments in group companies and associated undertakings

	Investments in Joint Ventures and Associates
	£000
Cost	
At beginning and end of year 2014	<u>2,691</u>
At 1 July 2015	2,691
Acquired during the period	<u>50</u>
At 30 June 2016	<u>2,741</u>
Provision	
At beginning and end of year 2014	<u>(2,688)</u>
At 1 July 2015	(2,688)
Provisions made during the year	<u>-</u>
At 30 June 2016	<u>(2,688)</u>
Net book value	
At 1 July 2014	<u>3</u>
At 1 July 2015	<u>3</u>
At 30 June 2016	<u>53</u>

Notes (continued)

11 Investments in group companies and associated undertakings (continued)

The Company has interests in the following companies and associated undertakings:

Subsidiary and associated undertakings	Country of incorporation	Class of shares held	Ownership 2016	Ownership 2015
Lendlease Construction North Western Limited	England and Wales	Ordinary shares	100%	100%
Lendlease Construction Management Services (One) Limited	England and Wales	Ordinary shares	100%	100%
BLFB Limited	England and Wales	Ordinary shares	100%	100%
Debut Services (Contracts) Limited	England and Wales	Ordinary shares	91%	91%
Debut Services Limited	England and Wales	Ordinary shares	85%	85%
H1 Development Limited	England and Wales	Ordinary shares	50%	50%
Waste 2 Resources Project Lancashire LLP	England and Wales	Ordinary shares	50%	50%
Debut Services (South West) Limited	England and Wales	Ordinary shares	50%	50%
BLS Warwick Limited	England and Wales	Ordinary shares	50%	50%
BLS St Martins Limited	England and Wales	Ordinary shares	50%	50%
BLS KEC Limited	England and Wales	Ordinary shares	50%	50%
BLS Regent Limited	England and Wales	Ordinary shares	50%	50%
BLS Blackfriars Limited	England and Wales	Ordinary shares	50%	50%
St Swithins Developments Limited	England and Wales	Ordinary shares	50%	50%
Coleman Street Developments Limited	England and Wales	Ordinary shares	50%	50%
B6 Developments Limited	England and Wales	Ordinary shares	50%	50%
Ospedal Grando S.R.L.	Italy	Ordinary shares	2.5%	0%

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 Statement of Financial Position.

12 Other financial assets

	2016 £000	2015 £000
Non-current		
Other financial assets	388	-
Total non-current other financial assets	<u>388</u>	<u>-</u>
	2016 £000	2015 £000
Current		
Other financial assets	3,736	-
Total current other financial assets	<u>3,736</u>	<u>-</u>

Notes (continued)

13 Current trade and other receivables

	2016 £000	2015 Restated* £000
Receivables due from related parties	191,366	159,371
Trade receivables	42,379	26,409
Corporate tax receivable	444	2,239
Other debtors	12,335	23,468
Loans and receivables	246,524	211,487
Construction contract work in progress	31,082	39,797
Prepayments and accrued income	684	-
Closing balance	278,290	251,284

* Refer to Note 28 for details of restatement.

The ageing of trade receivables at the reporting date was:

	2016 Gross £000	2016 Impairment £000	2015 Gross £000	2015 Impairment £000
Not past due	32,263	-	15,525	-
Past due 0-90 days	7,020	-	6,560	-
More than 90 days	3,741	(645)	4,969	(645)
	43,024	(645)	27,054	(645)

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

	2016 £000	2015 £000
Balance as at 1 July	(645)	(860)
Impairment loss recognised	-	-
Utilised	-	215
Balance as at 30 June	(645)	(645)

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

Notes (continued)

13 Current trade and other receivables (continued)

Construction contracts

	2016	2015
	£000	£000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers	31,082	39,797
Current amounts due to contract customers	(54,180)	(58,640)
	<u>(23,098)</u>	<u>(18,843)</u>

During the year ended 30 June 2016, all revenue recognised in the Statement of Profit or Loss and Other Comprehensive Income is derived from construction contracts.

At 30 June 2016, retentions held by customers for contract work amounted to £24.3m (2015: £22.7m). Contract retentions held back from suppliers amounted to £22.1m (2015: £20.5m).

14 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2016		2015	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Less than one year	638	210	232	219
Between one and five years	457	152	233	139
More than five years	-	-	1	-
	<u>1,095</u>	<u>362</u>	<u>466</u>	<u>358</u>

Land and buildings have been considered separately for lease classification.

During the year £0.9m was recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income in respect of operating leases (2015 : £1m).

15 Commitments

Capital commitments

The company has no capital commitments (2015: £nil).

16 Cash and cash equivalents

	2016	2015
	£000	£000
Cash and cash equivalents per Statement of Financial Position	68,979	51,498
Cash and cash equivalents per cash flow statement	<u>68,979</u>	<u>51,498</u>

Notes (continued)

17 Deferred taxation

Recognised deferred tax assets

	2016 £000	2015 £000
Deferred tax asset to be recovered after more than 12 months	<u>12,812</u>	<u>9,842</u>

Movement in deferred tax during the year

	01 July 2015 £000	Recognised in the statement of profit or loss and other comprehensive income £000	Adjustment in respect of previous periods £000	Effect of future tax changes £000	30 June 2016 £000
Provisions	42	70	(3)	(5)	104
Tax losses	4,496	157	537	(260)	4,930
Employee benefits	169	115	(57)	(11)	216
Decelerated capital	5,135	124	1,159	(321)	6,097
Unrealised Foreign Exchange gain/(loss)	-	(7)	-	-	(7)
Pension plan	-	1,549	-	(77)	1,472
Total	<u>9,842</u>	<u>2,008</u>	<u>1,636</u>	<u>(674)</u>	<u>12,812</u>

Movement in deferred tax during the prior year

	01 July 2014 £000	Recognised in the statement of profit or loss and other comprehensive income £000	Adjustment in respect of previous periods £000	Effect of future tax changes £000	30 June 2015 £000
Provisions	49	(5)	-	(2)	42
Tax losses	4,719	-	2	(225)	4,496
Employee benefits	165	12	-	(8)	169
Decelerated capital	6,152	267	(1,030)	(254)	5,135
Total	<u>11,085</u>	<u>274</u>	<u>(1,028)</u>	<u>(489)</u>	<u>9,842</u>

The effective rate of taxation will vary as a result of any dividends paid by shareholders, overseas tax rates and the utilisation of tax losses brought forward. Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the company's future current tax charge accordingly. Accordingly, the company's profits for the accounting period are taxed at an effective rate of 20% (2015: 20.75%).

Notes (continued)

18 Trade and other payables

	2016	2015
	£000	Restated* £000
Current		
Payments received on account for construction work (Note 13)	(54,180)	(58,640)
Trade payables	(13,814)	(25,562)
Payables due to related parties	(47,480)	(52,807)
Taxation and social security	(814)	(411)
Project cost accruals	(81,086)	(79,114)
Other creditors	(49,993)	(41,595)
Accruals and deferred income	(2,228)	(2,753)
	<u>(249,595)</u>	<u>(260,882)</u>

* Refer to Note 28 for details of restatement.

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

Included within trade and other payables is £Nil (2015 : £Nil) expected to be recovered in more than 12 months.

19 Provisions

	Specific provision £000	Defects provision £000	Other provision £000	Total £000
Balance at 1 July 2015	-	(2,090)	(370)	(2,460)
Provisions made during the year	(11,500)	(2,223)	(66)	(13,789)
Provisions used during the year	5,800	-	-	5,800
Balance at 30 June 2016	<u>(5,700)</u>	<u>(4,313)</u>	<u>(436)</u>	<u>(10,449)</u>
Non-current	(3,600)	-	-	(3,600)
Current	<u>(2,100)</u>	<u>(4,313)</u>	<u>(436)</u>	<u>(6,849)</u>
	<u>(5,700)</u>	<u>(4,313)</u>	<u>(436)</u>	<u>(10,449)</u>

Notes (continued)

20 Share capital

	2016		2015	
	000's	£000	000's	£000
<i>Allotted, called up and fully paid</i>				
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	33,101	<u>33,101</u>

On the 24th of June 2016 the Company issued an additional 50,000,000 shares at £1 each to its sole shareholder Lendlease Construction Holdings (Europe) Limited. On the same day it reduced its capital to 1,000 shares at £1 each.

21 Share premium account

	2016	2015
	£000	£000
At beginning of year	24,999	24,999
Capital reduction	(24,999)	-
At end of the year	<u>-</u>	<u>24,999</u>

On the 24th of June 2016 the Company resolved to reduce its share premium account to £nil.

22 Reserves

	2016	2015
	£000	£000
At beginning of year	-	292
Translation reserve	-	(292)
Hedging reserve	3,530	-
At end of year	<u>3,530</u>	<u>-</u>

23 Retained earnings

	2016	2015
	£000	Restated* £000
At beginning of year	(7,476)	(8,992)
Profit for the year	734	1,516
Capital reduction	108,099	-
At end of year	<u>101,357</u>	<u>(7,476)</u>

*Refer to Note 28 for details on the restatement.

On the 24th of June 2016 the Company reduced its share capital and share premium accounts per resolution of the board of directors. The excess capital value was transferred to retained earnings at this time.

Notes (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 Financing arrangements and financial instruments

Foreign currency risk

The Group's policy is to manage currency risk so as to minimise any adverse impact of this risk and associated costs on the result. The Group's exposure is primarily to the Euro (EUR). The Asset and Liability Committee oversees this risk in line with the Group Treasury Policy.

Foreign currency translation

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	
	2016	2015	2016	2015
Euro	1.32	1.32	1.19	1.41

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

	Local currency €000	Local currency \$000	Total £000
30 June 2016			
Net asset exposure	11,567	-	9,680
	Local currency €000	Local currency \$000	Total £000
30 June 2015			
Net asset exposure	3,993	-	2,828

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 Lendlease Group policy is to manage currency risk so as to minimise any adverse impact of this risk and associated costs on the results.

Notes (continued)

25 Financing arrangements and financial instruments (continued)

Foreign currency translation (continued)

The majority of forward exchange contracts hedge specific foreign currency exposures including receivables, payables, revenues, expenses and intercompany transactions and loans. Net assets which are hedged (although not hedge accounted) have been excluded from the net asset exposure analysed in the above table. The contracts are converted using forward rates at the statement of financial position date with unrealised gains and losses recorded in the income statement or the hedge reserve when the derivative is used in a hedging relationship that satisfies IAS 39 'Financial Instruments: Recognition and Measurement' criteria.

Exchange gains and losses on these contracts are accounted for in accordance with the Company's accounting policy for foreign currency (refer to Note 1 Accounting Policy).

Foreign currency hedges

The Group's foreign currency derivative contracts held at reporting date to hedge specific foreign currency exposures are as follows:

	Weighted average exchange rate		Receivable/(payable) under contracts	
	2016	2015	2016	2015
Contracts to (buy)/sell the following currencies at an agreed exchange rate:				
Buy EUR	0.711	-	35,026	-
Total GBP			<u>24,896</u>	<u>-</u>

Sensitivity analysis

The Company is mainly exposed to EUR. The following table details the Company's sensitivity to a 5% increase and decrease in GBP against the EUR. The sensitivity analysis includes only outstanding foreign denominated monetary items and adjusts their translation at the period end for a 5% change in foreign currency rates. This analysis assumes that all other variables, in particular interest rates remain constant.

	EUR impact	
	2016 £'000	2015 £'000
<i>Profit or loss</i>		
Strengthening of 5%	(18)	-
Weakening of 5%	20	-

There will be a corresponding impact on equity for the above movement.

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.

Notes (continued)

25 Financing arrangements and financial instruments (continued)

Price risk (continued)

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.

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 26 days (2015: 23 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.

Financial Assets	Effective interest rate	Floating interest rate
30 June 2016		£000
Cash	0.00 %	68,979
Amounts due from related parties	1.46 %	180,611

Notes (continued)

25 Financing arrangements and financial instruments (continued)

Interest rate risk (continued)

	Effective interest rate	Floating interest rate £000
Financial Assets		
30 June 2015		
<i>Current</i>		
Cash	0.14%	51,498
Amounts due from related parties	1.68%	131,302

At 30 June 2016, it is estimated that a decrease of one percentage point in interest rates would have decreased the Company's profit before tax by approximately £1.2m (2015: £0.8m).

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 2016:

30 June 2016	Carrying Amount	Less than 12 mths	1-2 years	2-5 years	More than 5 years
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
Trade and other payables – current	(89,081)	(89,081)	-	-	-
Total	<u>(89,081)</u>	<u>(89,081)</u>	<u>-</u>	<u>-</u>	<u>-</u>
 30 June 2015					
	£000	£000	£000	£000	£000
Non-derivative financial liabilities					
Trade and other payables – current	(56,553)	(56,553)	-	-	-
Total	<u>(56,553)</u>	<u>(56,553)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Notes (continued)

25 Financing arrangements and financial instruments (continued)

Net fair values of assets and liabilities

All financial instruments recognised on the Statement of Financial Position, 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 Lendlease 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 Lendlease 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 (continued)

26 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 Lendlease Construction Holdings (Europe) 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 Statement of Profit or Loss and Other Comprehensive Income 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 Lendlease Construction Holdings (Europe) Limited.

For the year ended 30 June 2016 the total Company contributions paid to the Defined Benefit Section of the Lend Lease UK Pension Scheme were £2,336,000 (2015: £2,582,000). All other contributions made during 2016 were made by Lendlease Construction Holdings (Europe) Limited.

27 Related party transactions

The following transactions were carried out with related parties:

a) Sale of goods and services:

	2016 £000	2015 £000 Restated*
Sale of goods and services to:		
- Other group companies		
Birmingham LEP Company Limited	2,261	5,456
Lendlease Overseas Holdings Limited	26	(5)
Lendlease Infrastructure (Europe) Limited	-	85
East Lancashire LEP Company Limited	1,138	2,617
Lendlease Development (Europe) Limited	238,101	119,466
Lendlease Infrastructure (Europe) Limited	(144)	101
Lendlease Communities Limited	1,064	18,780
	<u>242,448</u>	<u>146,499</u>
Recharge of services to:		
- The ultimate parent	-	-
- Other group companies	97,566	20,710
	<u>340,014</u>	<u>167,209</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.

* Refer to Note 28 for details of restatement.

Notes (continued)

27 Related party transactions (continued)

b) Purchases of goods and services

	2016	2015
	£000	£000
Purchases of goods from:		
- Other group companies	(26)	(74)
Recharge of services by:		
- The ultimate parent	(935)	(2,429)
- Other group companies	(81,990)	(46,873)
	<u>(82,951)</u>	<u>(49,376)</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 5.

d) Year-end balances

	2016	2015
	£000	Restated* £000
Receivables from related parties (Note 13)		
Lendlease Overseas Holdings Limited	-	11,352
Lendlease Europe Finance Limited	171,438	120,829
Lendlease Development (Europe) Limited	687	5,132
Debut Services Limited	2,140	2,212
Lendlease Europe Limited	12,000	11,021
Lendlease Residential (BH) Limited	2	-
Lendlease Infrastructure (Europe) Limited	-	304
Lendlease (Elephant and Castle) Limited	-	16
Lendlease Construction (Scotland) Limited	1,125	2,460
Lendlease Consulting (Europe) Limited	2,763	4,560
Lendlease Pharmaceutical (Europe) Limited	-	250
Be Onsite	221	-
Lendlease Construction North Western Limited	91	91
Lendlease Real Estate Investments (Europe) Limited	862	-
Lendlease Norwich Limited	36	-
Lendlease Real Estate Investment Services Limited	-	239
Lendlease Residential (Special Projects) Limited	-	905
	<u>191,366</u>	<u>159,371</u>

Amounts owed by all the entities listed above are inter-group balances for general working capital purposes and can be recalled at any time. The balances accrue interest at a rate of LIBOR + 2.45%

Notes (continued)

27	Related party transactions (continued)	2016	2015
	Payables to related parties (Note 18)	Restated*	
		£000	£000
	Lendlease Europe Limited	(4,769)	(3,132)
	Lendlease Construction Holdings (Europe) Limited	(34,280)	(34,449)
	Lendlease Construction (Scotland) Limited	(481)	(1,835)
	Lend Lease Pharmaceutical (EMEA) Limited	(10)	(959)
	Lend Lease Construction (Ireland) Limited	(11)	(10)
	Lendlease Real Estate Investment Services Limited	(21)	-
	Lendlease Bluewater Limited	(4,999)	(6,451)
	Lendlease Residential (CG) Plc	(76)	(30)
	Lendlease Overseas Holdings Limited	(2,832)	(36)
	Lendlease Development (Europe)	-	(941)
	Lendlease (Elephant & Castle) Limited	-	(708)
	Lendlease Infrastructure Holdings (Europe) Limited	-	(4,209)
	Other related party entities	-	(47)
		<u>(47,480)</u>	<u>(52,807)</u>

* Refer to Note 28 for details of the restatement.

Amounts owed to all the entities listed above are inter-group balances for general working capital purposes and can be recalled at any time. The balances accrue interest at a rate of LIBOR + 2.45%

Notes (continued)

28 Restatement of Opening Statement of Financial Position

The Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Cash Flow Statement for the year ended 30 June 2015 have been restated to correct an error which arose in earlier periods relating to allocation of management recharges between subsidiaries of a common parent. This affects administrative expenses, taxation, trade and other receivables, trade and other payables and retained earnings. The company received payment from its fellow subsidiary for the inter-company debt arising from these management charges during 2015 before the error was identified. The cumulative amount settled was £31.6 million. The majority of the correcting entry in 2015 is therefore made to trade and other payables and not trade and other receivables. The effect of the restatement is as follows:

Impact of cumulative restatements for the year ended 30 June 2013

- Statement of Financial Position: decreased trade and other receivables by £19.8 million and a corresponding change to retained earnings.
- Statement of Changes in Equity: decreased closing retained earnings by £19.8 million.
- Statement of Cash Flows: decreased operating profit before changes in working capital and a corresponding change to the movements in related party balances resulting in net nil impact on net cash from operating activities.

Impact of restatements for the year ended 30 June 2014

- Statement of Financial Position: decreased trade and other receivables by £11.8 million and decreased trade and other payables by £1.5m and corresponding changes to retained earnings.
- Statement of Changes in Equity: decreased retained earnings by £10.3 million.
- Statement of Cash Flows: decreased operating profit before changes in working capital and a corresponding change to the movements in related party balances resulting in net nil impact on net cash from operating activities.
- The cumulative impact of these restatements is a £31.6m decrease in trade and other receivables, a £1.5m decrease in trade and other payables, and a reduction in net assets and retained income of £30.1m at 30 June 2014.

Impact of restatements for the years ended 30 June 2015

- Statement of profit or loss and other comprehensive income: increased administrative expenses and taxation credit by £8.1 million and £1.6 million respectively resulting in a decrease to profit on ordinary activities after tax of £6.5 million.
- Statement of financial position: increased trade and other receivables by £0.8 million, increased trade and other payables by £37.3 million and corresponding changes to retained earnings.
- Statement of Changes in Equity: decreased retained earnings by £6.5 million.
- Statement of Cash Flows: decreased operating profit before changes in working capital and a corresponding change to the movements in related party balances resulting in net nil impact on net cash from operating activities.
- The cumulative impact of these restatements is a £0.8m increase in trade and other receivables, a £37.3m increase in trade and other payables and a £36.5m reduction in net assets and retained earnings compared to those previously reported at 30 June 2015.

29 Ultimate parent undertaking and parent undertaking of larger group

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

The largest group in which the results of the Company are consolidated is that headed by Lendlease Corporation Limited. The consolidated financial statements of this group may be obtained from Level 14, Tower Three, International Towers Sydney, Exchange Place, 300 Barangaroo Avenue, Barangaroo NSW 2000, Australia or from its website at www.lendlease.com.

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

Notes (*continued*)

30 Subsequent events

There has been no event or circumstance since the end of the year to the date of this report that would significantly affect the Company.