

Lendlease Construction (Europe) Limited

Annual Report and Financial Statements

for the year ended 30 June 2018



Lendlease Construction (Europe) Limited

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Lendlease Construction (Europe) Limited

Strategic Report for the year ended 30 June 2018

The directors of Lendlease Construction (Europe) Limited present their report for the financial year ended 30 June 2018.

Business review

In 2014 the business established a strategy of selective bidding in targeted key sectors and markets where Lendlease is able to differentiate its offering to clients and focus on quality and a client led service. This strategic direction and tight control on operational costs has led to further growth in gross profit for the Company.

The Company's strategic approach has, in addition to delivering a strong operational result, led to a doubling of the Company's backlog and has generated an enviable amount of work at preferred bidder stage all of which continues to establish a strong platform for profitable, sustainable growth.

The recent focus on the right procurement routes to best manage the Company's risk exposure across the portfolio, means that a significant amount of the Company's workload is now Construction Management. Achieving this balance between fee and risk work in the revenue mix has been key to this year's positive results. So while revenue is down as a result of the number of Construction Management jobs - the Company's profit margin is up and this positions the Company strongly as we continue to deliver on the expanding pipeline.

The Company's balance sheet remains solid finishing the year with a net asset position of £136.6m (2017: £122.1m), a cash on hand balance of £60.2m (2017: £60.2m) and no external debt. Key projects completed successfully in the year have been Rathbone Square (a major mixed-use development in Central London); HMP Berwyn (a 2,100 inmate prison in North Wales); and The International Quarter London, Buildings 1&2 (part of a large scale commercial and residential development in Stratford).

Key commencements in the year have been Google European HQ in Central London; Timbryard Deptford Plot 2 (part of the Timbryard Deptford residential development); 1 Triton Square (an office refurbishment in Central London); further plots as part of the award-winning regeneration at Elephant Park; and Manchester New Square (a residential development in Manchester).

Principal risks and uncertainties

The Lendlease risk management approach recognises the nature and level of risk that the Company is willing to accept to achieve its strategic goals and key performance targets. The objectives of our approach to risk management include:

- Ensuring that there is alignment of the Board and management to drive informed and consistent decision making;
- Effective and efficient allocation of capital and resources;
- Providing a clear understanding of risk limits and where zero tolerance applies;
- Providing context for the identification, reporting and management of risks;
- Creating a workplace culture of risk awareness.

Risk awareness, improvement and governance are key elements of the Lendlease approach.

Accountability and responsibility for risk governance and management is held at various levels across the Lendlease business including the Board and Board Committees, Group Leadership, Regional Leadership, Business Units and Specialist Functions such as Risk, Internal Audit and the Centre of Excellence.

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 Lendlease Group as whole, although it is not intended to be an extensive analysis of all such risks that exist.

Lendlease Construction (Europe) Limited

Strategic Report for the year ended 30 June 2018 (continued)

Explanation		Mitigation
External environment		
Macro Conditions	Lendlease's business activities are impacted by prevailing economic conditions in the regions in which Lendlease operates. The changes in the global political environment and the increased frequency of unpredicted events creates greater uncertainty in the global economic environment.	We have a strong pipeline of long dated integrated projects and a solid base of recurring earnings through our global investments platform. We are focused on further diversifying the business through targeted growth opportunities in our gateway cities where we can achieve our target returns and are able to implement our Global Minimum Requirements (GMRs).
Capital Markets	Property and infrastructure development and investment is capital intensive and dependent on access to both equity and debt capital from third parties. Development and construction activity is dependent on access to forms of credit support for performance.	We manage our capital prudently across debt, equity and third party capital partners and remain focused on maintaining our credit rating.
Political Environment	In each of our operating regions we work with governments as a major customer and stakeholder and as such, our business is susceptible to changes in the political environment.	We have dedicated resources for government relations proactively liaising with all sides of politics to support policies for long term property and infrastructure projects.
Competitive Dynamics	The extent to which we are facing competition in our existing markets and sectors, and the threat of new competition.	We are one of a few companies globally that is offering end to end property and infrastructure solutions with a strong urbanisation delivery capability. We have a strong reputation for delivering our projects safely and we are a trusted partner. Our strong track record and access to capital along with our extensive integrated capabilities are also difficult to replicate.
Climate Change and Resilience	The world is experiencing the impacts of climate change. These impacts are likely to increase in the future and pose an increased risk to the safety of communities as well as having the potential to damage real estate and infrastructure.	We are committed to reducing our contribution to human induced climate change. We continually assess the impact of climate change on our operations and create mitigation plans for our communities and business generally. Our capability in this space is a source of competitive our communities and business generally.
Materials and Supply Chain	We understand that our environmental, social and governance goals and targets extend beyond our direct business operations to our supply chain. We work with suppliers to maintain continuous improvement and compliance with environmental, social and ethical considerations.	The environmental performance of any supplier and the sustainability of products and services is considered in the Group's selection process.
Technology	The emergence of digital business will disrupt current ways of working and offer opportunities for Lendlease to innovate. These opportunities also illustrate areas of cyber risk, and the increasing dependence in technology will only see a rise in this risk in the short term.	Innovation and disruption is a core element of our 'Focus & Grow' Strategy. Growth in this area encourages our people to adopt leading edge technologies to deliver innovative solutions for our customers and also provides avenues to new revenue streams in our target growth areas. Cyber resilience and greater adoption of technology continue to be key focus areas globally.

Lendlease Construction (Europe) Limited

Strategic Report for the year ended 30 June 2018 (continued)

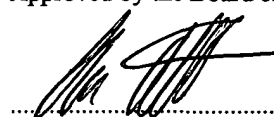
Explanation		Mitigation
Internal environment		
Delivery of Earnings	Our ability to continue to deliver earnings across Development, Construction and Investments.	Our GMRs allow the business to minimise risks of incidents and onsite injuries which in turn has increased productivity onsite. Strategies have been developed to mitigate the risk of settlement defaults within our residential business, and our non residential developments are mostly forward funded. We are diversifying our portfolio to provide for a portion of our operating EBITDA is recurring in nature.
Maintaining Strong Relationships	Customer and stakeholder focus is critical to delivering resilient products efficiently and on cost.	We are building an international framework for consistent customer relationship management to enhance our strong engagement with customers.
Training, Skills and Employment	The skills, experience and capabilities of our people influence our ability to deliver quality projects and to deliver the Group's strategy.	We continue to invest in the learning and development of our people to attract, retain and grow the best people. We provide construction and property industry training through academies and various training programs.
Eliminating Incidents and Injuries	The safety of our people, our supply chain, and the members of the public we interact with is paramount. As we undertake larger, more complex projects we must continue to evolve our approach to managing health and safety.	We empower our people to use informed judgement to manage their health and safety risks using our GMR Framework and have also introduced a Health & Wellbeing Framework to address the risks associated with mental health issues.

Outlook

The Company will continue as a provider of project solutions in the construction industry in the United Kingdom.

There has been no indication of likely future developments in the business, nor any event or circumstance since the end of the financial year to the date of this report that would significantly affect the Company.

Approved by the Board on 12 November 2018 and signed on its behalf by:



.....
C Pettett
Director

Lendlease Construction (Europe) Limited

Directors' Report for the Year Ended 30 June 2018

The directors of Lendlease Construction (Europe) Limited present their report for the financial year ended 30 June 2018.

Directors of the company

The following persons held office as directors of the Company during the financial year and up to the date of this report:

A Bates

M Boor (appointed 18 June 2018)

J Clark (resigned 20 February 2018)

J Emery (appointed 18 June 2018)

S Gorski

D Labbad (appointed 26 June 2018)

P Leonard (appointed 9 October 2017)

T Mackellar (appointed 18 June 2018)

N Martin

V Quinlan

M Packer (appointed 18 June 2018)

C Pettett (appointed 20 February 2018)

G Ray (resigned 28 February 2018)

L White (appointed 18 June 2018)

Results

The Company's profit after tax for the year was £15.0m (2017: £20.2m).

Dividends

The directors do not recommend the payment of a dividend (2017: £nil).

Political donations

The Company made no political donations or incurred any political expenditure during the year (2017: £nil).

Employment of disabled persons

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

Employee involvement

The Company has employment policies designed to suit the needs of individuals and comply with certain key principles, to encourage involvement within the Group. Employees are regularly advised of the Group and individual Company's achievements. Furthermore, employees benefit from a bonus scheme that enables them to identify more closely with Lendlease Group's performance and to share common objectives with shareholders.

Financial risk management

Information about the Company's financial risks, the Company's objectives, policies and processes for measuring and managing financial risk are detailed in note 19 to the financial statements.

Research and development

Innovation is part of the Lendlease Group's heritage and is embedded in the approach to business.

Lendlease Construction (Europe) Limited

Directors' Report for the Year Ended 30 June 2018 (continued)

Outlook

An indication of likely future developments in the business has been included in the Strategic Report on page 3.

Events after the balance sheet date

There were no material events subsequent to the end of the financial year.

Disclosure of information to the 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.

Reappointment of 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.

Approved by the Board on 12 November 2018 and signed on its behalf by:



.....
C Pettett
Director

Lendlease Construction (Europe) Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (IFRSs as adopted by the EU).

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 apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error, and 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 Auditors' Report to the Members of Lendlease Construction (Europe) Limited

Opinion

We have audited the financial statements of Lendlease Construction (Europe) Limited (the "Company") for the year ended 30 June 2018, which comprise the Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Notes to the Financial Statements, including a summary of significant accounting policies in note 3.

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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.
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

We have nothing to report in these respects.

Independent Auditors' Report to the Members of Lendlease Construction (Europe) Limited (continued)

Directors' responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.


.....
Ian Griffiths
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
United Kingdom
E14 5GL

Date: 12 November 2018

Lendlease Construction (Europe) Limited

Statement of Profit or Loss and Other Comprehensive Income For the year ended 30 June 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	357,681	636,263
Cost of sales		<u>(310,569)</u>	<u>(593,644)</u>
Gross profit		47,112	42,619
Administrative expenses		<u>(30,224)</u>	<u>(24,565)</u>
Results from operating activities	5	<u>16,888</u>	<u>18,054</u>
Finance income	9	2,071	4,826
Finance costs	9	<u>(504)</u>	<u>(1,497)</u>
Net finance income		<u>1,567</u>	<u>3,329</u>
Profit before tax		18,455	21,383
Income tax expense	10	<u>(3,485)</u>	<u>(1,144)</u>
Profit after tax		<u>14,970</u>	<u>20,239</u>
Other comprehensive expense after tax			
<i>Items that may be reclassified to profit or loss:</i>			
Movements in hedging reserve		<u>(503)</u>	<u>(3,027)</u>
<i>Total items that may be reclassified to profit or loss</i>		<u>(503)</u>	<u>(3,027)</u>
Total comprehensive income after tax		<u>14,467</u>	<u>17,212</u>

The above results were derived from continuing operations.

The notes to and forming part of these financial statements are set out on pages 13 to 35.

Lendlease Construction (Europe) Limited

Statement of Financial Position as at 30 June 2018

	Note	2018 £ 000	2017 £ 000
Non current assets			
Trade and other receivables	11	5,759	17,647
Investments	13	1	103
Other financial assets		102	-
Deferred tax assets	10	8,979	12,567
Property, plant and equipment		269	330
Intangible assets		288	73
Total non current assets		15,398	30,720
Current assets			
Cash and cash equivalents	14	60,188	60,208
Trade and other receivables	11	216,157	299,112
Inventories	12	19,760	52,574
Other financial assets		4	566
Total current assets		296,109	412,460
Total assets		311,507	443,180
Non current liabilities			
Provisions	16	(1,500)	(6,302)
Other financial liabilities		(50)	-
Deferred tax liabilities	10	-	(118)
Total non current liabilities		(1,550)	(6,420)
Current liabilities			
Trade and other payables	15	(166,917)	(309,523)
Provisions	16	(5,638)	(4,477)
Other financial liabilities		(265)	-
Current tax payable	10	(570)	(660)
Total current liabilities		(173,390)	(314,660)
Total liabilities		(174,940)	(321,080)
Net assets		136,567	122,100
Equity			
Issued capital	18	1	1
Retained earnings		136,566	121,596
Other reserves		-	503
Total equity		136,567	122,100

The notes to and forming part of these financial statements are set out on pages 13 to 35.

These statements were approved by the Board on 12 November 2018 and were signed on its behalf by:

.....
C Pettett

Director

Company Registration Number: 00467006

Lendlease Construction (Europe) Limited

Statement of Changes in Equity for the year ended 30 June 2018

	Share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 July 2016	1	3,530	101,357	104,888
Total comprehensive income				
Profit for the year	-	-	20,239	20,239
Unrealised gain/(loss) on hedges	-	(3,027)	-	(3,027)
Total comprehensive income	-	(3,027)	20,239	17,212
At 30 June 2017	1	503	121,596	122,100

	Share capital £ 000	Hedging reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 July 2017	1	503	121,596	122,100
Total comprehensive income				
Profit for the year	-	-	14,970	14,970
Unrealised gain/(loss) on hedges	-	(503)	-	(503)
Total comprehensive income	-	(503)	14,970	14,467
At 30 June 2018	1	-	136,566	136,567

The notes to and forming part of these financial statements are set out on pages 13 to 35.

Lendlease Construction (Europe) Limited

Statement of Cash Flows for the Year Ended 30 June 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Profit for the year		14,970	20,239
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment	5	92	277
Finance income	9	(2,071)	(4,826)
Finance costs	9	504	1,497
Income tax expense	10	3,485	1,144
Foreign exchange loss		148	-
Bad debt expense		27	-
		<u>17,155</u>	<u>18,331</u>
<i>Working capital adjustments:</i>			
Decrease/(increase) in inventories	12	32,814	(21,492)
Decrease/(increase) in trade and other receivables	11	94,843	(55,810)
(Decrease)/increase in trade and other payables	15	(142,566)	46,539
Decrease in provisions	16	(4,141)	(170)
Interest received		2,071	4,826
Interest paid		(4)	(939)
		<u>2,067</u>	<u>3,887</u>
Cash generated from/(used in) operations		172	(8,715)
Income taxes (paid)/received	10	-	-
Net cash flow generated from/(used in) operating activities		<u>172</u>	<u>(8,715)</u>
Cash flows from investing activities			
Acquisitions of property plant and equipment		-	(4)
Acquisition of intangible assets		(245)	-
Acquisition of investments in joint ventures and associates		-	(52)
Net cash flow generated from/(used in) investing activities		<u>(245)</u>	<u>(56)</u>
Net decrease in cash and cash equivalents		(73)	(8,771)
Cash and cash equivalents at beginning of year		60,208	68,979
Effect of exchange rate fluctuations on cash held		53	-
Cash and cash equivalents at end of year		<u><u>60,188</u></u>	<u><u>60,208</u></u>

The notes to and forming part of these financial statements are set out on pages 13 to 35.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018

1 General information

Lendlease Construction (Europe) Limited (the "Company") is a private company limited by share capital incorporated and domiciled in United Kingdom. The registered number is 00467006.

The address of its registered office is:

20 Triton Street

Regent's Place

London

NW1 3BF

United Kingdom

The principal activity is as a provider of project solutions in the construction industry.

2 Basis of preparation

Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with International Financial Reporting Standards and interpretations as adopted by the EU ("adopted IFRS").

The financial statements have been prepared in accordance with adopted IFRSs and under the historical cost basis except for the following assets and liabilities, which are stated at their fair value: derivative financial instruments, fair value through profit or loss investments, and liabilities for cash settled share based compensation plans.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Amounts are presented in pounds sterling, with all values rounded to the nearest thousand pounds unless otherwise indicated.

These financial statements are the separate financial statements of Lendlease Construction (Europe) Limited. The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the IFRS compliant consolidated financial statements of the parent, Lendlease Europe Holdings Limited. Refer to note 23.

Significant accounting policies

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

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

2 Basis of preparation (continued)

Changes in accounting policy

New standards, interpretations and amendments effective

The following standards have been applied for the first time from 1 July 2017:

IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets, financial liabilities and hedging. The changes from the implementation have been deemed immaterial and have not had a material effect on the Company's accounting policies for financial assets, liabilities and hedging.

Amendment to IAS 12 on recognition of deferred tax assets for unrealised losses

The amendment clarifies that, when an entity assess whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers whether tax law restricts the sources of taxable profits against which it can make deductions on the reversal of that deductible temporary difference.

It also clarifies that the estimate of probable future taxable profit can include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

There was no material financial impact on the Company following the adoption of this amendment.

Disclosure initiative: Amendments to IAS 7 Statement of Cash Flows

The amendment introduces additional disclosure requirements regarding changes in liabilities arising from financing activities. There was no material financial impact on the Company following adoption of this amendment.

New standards, interpretations and amendments not yet effective

The following newly issued but not yet effective standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the Company financial statements in future:

IFRS 16 Leases

IFRS 16 provides a new model for accounting for leases. The standard becomes mandatory for the June 2020 financial year and will be applied retrospectively. Based on preliminary analysis performed, the Company will record 'right to use' lease assets and lease obligation liabilities in the Statement of Financial Position for its material operating leases and revise the Statement of Profit or Loss presentation of operating lease expense to record an amortisation and finance expense for the 'right to use' lease assets and the lease obligation liabilities, respectively.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a new five step model for recognising revenue earned from a contract with a customer and will replace IAS 11 Construction Contracts and IAS 18 Revenue. The standard becomes mandatory for the June 2019 financial year and will be applied retrospectively.

On adoption of IFRS 15, the impacts are as follows:

- The process to value and allocate consideration to individual components of revenue transactions will not change; and
- Recognition of construction services will continue to be over time.

The new standard will require an increase in the disclosure in relation to revenue derived from contracts, key judgements and future revenue expected to be generated.

Going concern

The financial statements have been prepared on a going concern basis.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

2 Basis of preparation (continued)

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements that comply with IFRS requires management to make judgements, estimates and assumptions which can affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. These estimates and underlying assumptions are reviewed on an ongoing basis and revisions are recognised prospectively. Accounting judgements that have the most significant effects on reported amounts and further information about estimated uncertainties are highlighted in the relevant accounting policy in note 3.

3 Accounting policies

Revenue recognition

Revenue from the provision of services

Revenue from the provision of services is recognised in the Statement of Profit or Loss in proportion to the stage of completion of the transactions at the balance sheet date.

For construction, the value of work performed using the percentage complete method is measured by reference to costs incurred to date as a percentage of the total forecast costs for each contract. This measurement is an accounting judgement as management uses judgement to estimate expenses incurred to date as a percentage of total estimated costs.

Employee benefits

Employee benefits are expensed as the related service by the employee is provided and includes both equity and cash based payment transactions. Employee benefits are recognised in the Statement of Profit or Loss net of recoveries.

Incentive plans

For cash bonuses, the Company recognises an accrued liability for the amount expected to be paid. This is based on formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the Statement of Financial Position date are discounted to present value.

Defined contribution pension obligation

Employees of the Company are entitled to benefits on retirement from the Company's pension scheme. The majority of employees are party to a defined contribution plan and received fixed contributions from the Company. A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset to the extent that a cash refund or a deduction in future payments is available.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

3 Accounting policies (continued)

Defined benefit pension obligation

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

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 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.

Impairment

The carrying amounts of the Company's assets, subject to impairment tests, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The calculation of this recoverable amount is dependent on the type of asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Profit or Loss unless an asset has been previously revalued through reserves.

Impairment losses on assets can be reversed when there is a subsequent increase in the recoverable amount. The increase could be due to a specific event, the indication that impairment may no longer exist or if there is a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Depreciation and amortisation

Depreciation is charged to administrative expenses within the Statement of Profit or Loss on a straight line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Amortisation is provided on leasehold improvements over the remaining term of the lease. Most plant is depreciated over a period not exceeding 20 years, furniture and fittings over 3 to 15 years, and computer equipment over 3 years. Land is not depreciated.

Operating leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Profit or Loss on a straight line basis over the term of the lease.

Finance income and costs

Finance revenue is recognised as it is earned using the effective interest method, which applies the interest rate that discounts estimated future cash receipts over the expected life of the financial instrument. The discount is then recognised as finance revenue over the remaining life of the financial instrument.

Finance costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of costs incurred in connection with the arrangement of new borrowings facilities. Costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings. Finance costs are expensed immediately as incurred unless they relate to acquisition and development of qualifying assets. Qualifying assets are assets that take more than six months to prepare for their intended use or sale. Finance costs related to qualifying assets are capitalised.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

3 Accounting policies (continued)

Taxation

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss, except to the extent that it relates to items recognised in other comprehensive income, in which case it is recognised directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the financial year, using applicable tax rates (and tax laws) at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous financial years. The current tax payable or receivable includes amounts awaiting settlement of group relief with other Lendlease Europe Holdings Limited subsidiary entities.

Deferred tax is the expected tax payable or receivable in future periods as a result of past transactions or events and is calculated by comparing the accounting balance sheet to the tax balance sheet. Temporary differences are provided for any differences in the carrying amounts of assets and liabilities between the accounting and tax balance sheets. Temporary differences are not provided for on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they are not likely to reverse in the foreseeable future.

Measurement of deferred tax is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using applicable tax rates and laws at the reporting date.

Recognition of deferred tax assets is only to the extent it is probable that future taxable profits will be available so as the related tax asset will be realised. Deferred tax assets may include deductible temporary differences, unused tax losses and unused tax credits.

Management considers the estimation of future taxable profits to be an area of estimation uncertainty as a change in any of the assumptions used in budgeting and forecasting would have an impact on the future profitability of the Company. Forecasts and budgets form the basis of future profitability to support the carrying value of deferred tax assets.

Presentation of deferred tax assets and liabilities can be offset if there is a legally enforceable right to offset current tax liabilities and assets, they relate to income taxes levied by the same tax authority, and they are intended to be settled on a net basis or realised simultaneously.

Foreign currency transactions and balances

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

3 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated in the Statement of Financial Position at cost, less any subsequent accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation. The residual value and useful life applied to an asset are reassessed at least annually.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the Statement of Profit or Loss during the financial year in which they are incurred.

Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 to 5 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs directly associated with producing identifiable and unique software products that will generate economic benefits exceeding costs beyond one year are recognised as intangible assets.

Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

Investments

Equity investments in subsidiaries, joint ventures and associates 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 six monthly.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, bank overdrafts and other short term highly liquid investments that are readily convertible to known amounts of cash within three months and which are subject to an insignificant risk of changes in value. Bank overdrafts (if applicable) are shown as a current liability on the Statement of Financial Position and are shown as a reduction to the cash balance in the Statement of Cash Flows.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

3 Accounting policies (continued)

Trade and other receivables

Trade and other receivables are non derivative financial assets with fixed or determinable payments that are not equity securities. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable.

Trade and other receivables are carried at amortised cost using the effective interest method, which applies the interest rate that discounts estimated future cash receipts over the term of the receivable. Cash flows relating to short term trade and other receivables are not discounted if the effect of discounting is immaterial. The discount, if material, is then recognised as finance income over the remaining term.

The Company assesses provision for impairment of the receivable based on expected loss, if material. The Company considers reasonable and supportable information that is relevant and reliable. This includes both quantitative and qualitative information and analysis, based on the Company's historical impairment experience, credit assessment of customers and any relevant forward-looking information. The amount of provision is recognised in the Statement of Profit or Loss.

Retentions receivable on construction contracts represent amounts withheld by customers until the satisfaction of conditions specified in the contract are satisfied.

Inventories

Work in progress

The gross amount of work in progress consists of costs attributable to work performed, including recoverable pre contract and project bidding costs and emerging profit after providing for any foreseeable losses. In applying the accounting policies on providing for these losses accounting judgement is required.

Work in progress is presented as part of inventories for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings and recognised losses exceed costs incurred plus recognised profits, the the difference is presented in trade and other payables.

Trade and other payables

Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company. Trade and other payables are settled in the normal course of business. Trade and other payables are carried at amortised cost using the effective interest method, which applies the interest rate that discounts estimated future cash outflows over the term of the trade and other payables. Cash flows relating to short term trade and other payables are not discounted if the effect of discounting is immaterial. The discount, if material, is then recognised as a finance cost over the remaining term.

Construction revenue - amounts due to customers

Construction contracts where the total progress billings issued to customers (together with foreseeable losses if applicable) on a project exceed the costs incurred to date plus recognised profit on the contract are recognised as a liability.

Retentions

Retentions are amounts payable for the purpose of security and for the provision of defects in accordance with contract terms. Release of retention amounts are in accordance with contractual terms.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

3 Accounting policies (continued)

Provisions

Provisions are recognised in the Statement of Financial Position when the Company has a legal or construction obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. Management considers the determination of the likelihood and magnitude of an outflow of resources an area of estimation uncertainty.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2018 £ 000	2017 £ 000
Provision of services	357,681	636,263
Total revenue	357,681	636,263

5 Results from operating activities

Results from operating activities includes the following items:

	2018 £ 000	2017 £ 000
Depreciation expense	(61)	(88)
Amortisation expense	(31)	(187)
Foreign exchange losses	(153)	(346)

6 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of financial statements	(92)	(115)

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

7 Employees

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	(45,854)	(50,645)
Social security costs	(4,571)	(5,661)
Other pension costs	(5,155)	(4,901)
Total staff costs	(55,580)	(61,207)

The average number of persons employed by the company (including directors) during the year was as follows:

	2018 No.	2017 No.
Number of employees	638	742

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	(2,079)	(2,262)
Total directors' remuneration	(2,079)	(2,262)

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2018 No.	2017 No.
Accruing benefits under money purchase pension scheme	4	4

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Remuneration	(998)	(1,023)
Defined benefit accrued pension entitlement at the end of the period	(2)	(30)

The remuneration of the following directors of the Company are not disclosed above as they are employees of the following entities:

M Boor: Lendlease Europe Limited
 D Labbad: Lendlease Europe Limited
 T Mackellar: Lendlease Europe Limited
 M Packer: Lendlease Europe Limited
 V Quinlan: Lendlease Europe Limited
 L White: Lendlease Europe Limited
 J Emery: Lendlease Development (Europe) Limited
 J Clark: Lendlease Development (Europe) Limited

Any qualifying services in respect of the Company are considered to be incidental and part of the directors' overall management services within the above entities. Their remuneration for the current year and prior year was paid by and included in the financial statements of the above entity.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

9 Finance income and costs

	2018 £ 000	2017 £ 000
Finance income		
Interest receivable from related parties	2,071	4,826
Total finance income	2,071	4,826
Finance costs		
Interest on bank overdrafts and borrowings	(1)	(45)
Other finance costs	(503)	(576)
Interest payable to related parties	-	(876)
Total finance costs	(504)	(1,497)
Net finance income	1,567	3,329

10 Income tax and deferred tax

Tax charged in the income statement

	2018 £ 000	2017 £ 000
Current tax		
UK corporation tax	(31)	(659)
UK corporation tax adjustment to prior periods	134	(444)
Total current tax	103	(1,103)
Deferred tax		
Arising from origination and reversal of temporary differences	(1,926)	(1,998)
Arising from changes in tax rates and laws	(880)	76
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(782)	1,881
Total deferred tax	(3,588)	(41)
Total income tax charge	(3,485)	(1,144)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.75%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	18,455	21,383
Income tax using the domestic corporation tax rate 19% (2017: 19.75%)	(3,506)	(4,223)
Adjustments for prior year tax claim	(648)	1,437
Non allowable expenses	(186)	(54)
Deferred tax relating to changes in tax rates	(880)	76
Pension contributions	1,735	1,620
Total income tax charge	(3,485)	(1,144)

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

10 Income tax and deferred tax (continued)

The effective rate of taxation will vary as a result of any dividends paid by shareholdings, overseas tax rates, prior year tax claims and the utilisation of tax losses brought forward. A reduction in the corporate tax rate to 17% (effective from 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the Company's future current tax charge accordingly. The Company's profits for the accounting period are taxed at a statutory rate of 19% (2017: 19.75%).

Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2018			
Unused tax losses recognised	3,910	-	3,910
Property, plant and equipment	4,645	-	4,645
Net defined benefit plans	-	-	-
Provisions	-	-	-
Share-based payment	-	-	-
Revaluation of cash flow hedges	-	-	-
Other items	424	-	424
	<u>8,979</u>	<u>-</u>	<u>8,979</u>
2017			
Unused tax losses recognised	5,791	-	5,791
Property, plant and equipment	5,153	-	5,153
Net defined benefit plans	734	-	734
Provisions	717	-	717
Share-based payment	172	-	172
Revaluation of cash flow hedges	-	(118)	(118)
Other items	-	-	-
	<u>12,567</u>	<u>(118)</u>	<u>12,449</u>

Deferred tax movement during the year:

	At 1 July 2017 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 30 June 2018 £ 000
Unused tax losses recognised	5,791	(1,881)	-	3,910
Property, plant and equipment	5,153	(508)	-	4,645
Net defined benefit plans	734	(734)	-	-
Provisions	717	(717)	-	-
Share-based payment	172	(172)	-	-
Revaluation of cash flow hedges	(118)	-	118	-
Other items	-	424	-	424
Net tax assets/(liabilities)	<u>12,449</u>	<u>(3,588)</u>	<u>118</u>	<u>8,979</u>

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

10 Income tax and deferred tax (continued)

Deferred tax movement during the prior year:

	At 1 July 2016 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 30 June 2017 £ 000
Unused tax losses recognised	4,930	861	-	5,791
Property, plant and equipment	6,097	(944)	-	5,153
Net defined benefit plans	1,472	(738)	-	734
Provisions	104	613	-	717
Share-based payment	216	(44)	-	172
Revaluation of cash flow hedges	(814)	204	492	(118)
Other items	(7)	7	-	-
Net tax assets/(liabilities)	11,998	(41)	492	12,449

11 Trade and other receivables

	2018 £ 000	2017 £ 000
Current		
Trade receivables	15,794	20,339
Less: impairment	(387)	(360)
Net trade receivables	15,407	19,979
Amounts owing from related parties	178,505	264,601
Retentions	19,000	11,677
Prepayments	1,107	925
Other receivables	2,138	1,930
Total current	216,157	299,112
Non current		
Net trade receivables	-	-
Retentions	5,637	17,385
Other receivables	122	262
Total trade and other receivables	221,916	316,759

Trade receivables disclosed above include amounts that are past due at the end of the reporting period for which an allowance for impairment has not been recognised because there has not been a significant change in credit quality and the amounts are still considered to be recoverable. 'Past due' is defined under accounting standards to mean any amount outstanding for one or more days after the contractual due date.

Other receivables disclosed above is net of an allowance for impairment of £255,000 (2017: £nil).

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

11 Trade and other receivables (continued)

Age of trade receivables that are past due but not impaired

	2018 £ 000	2017 £ 000
0 - 90 days	817	3,459
More than 90 days	1,290	1,819
Total trade receivables past due but not impaired	2,107	5,278

Age of impaired trade receivables

	2018 £ 000	2017 £ 000
More than 90 days	1,856	1,819
Total impaired trade receivables	1,856	1,819

The credit quality of all loans and receivables, including those neither past due nor impaired, is assessed and monitored on an ongoing basis. To determine the impairment provision for the financial year, the Company considers how economic and market conditions will affect the creditworthiness of certain entities. The impairment provision relates to specific loans and receivables that have been identified as being impaired, including related party loans.

Provision for impairment

	2018 £ 000	2017 £ 000
Bad and doubtful debt impairment loss net of provisions written back	(27)	-
Other movements (including foreign exchange rate movements)	(360)	(360)
Carrying amount at end of year	(387)	(360)

12 Inventories

	2018 £ 000	2017 £ 000
Current		
Construction work in progress	19,760	52,574
Total current inventories	19,760	52,574

13 Investments

	2018 £ 000	2017 £ 000
Subsidiaries	1	1
Associates	-	102
Total investments	1	103

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

13 Investments (continued)

Reconciliation of subsidiaries

	2018 £ 000	2017 £ 000
Carrying amount at the beginning of year	1	1
Carrying amount at end of year	1	1
Subsidiaries cost	3	3
Accumulated impairment	(2)	(2)
Carrying amount at end of year	1	1

Reconciliation of associates

	2018 £ 000	2017 £ 000
Carrying amount at beginning of year	102	50
Additions	-	52
Transfer	(102)	-
Carrying amount at end of year	-	102
Associates cost	-	102
Carrying amount at end of year	-	102

Details of the subsidiaries as at 30 June 2018 are as follows:

Legal entity	Principal activity	Registered office and country of incorporation	Ownership interest %	
			2018	2017
Lendlease Construction (North Western) Limited	Dormant	20 Triton Street, London NW1 3BF United Kingdom	100%	100%
Lendlease Construction Management Services (One) Limited	Dormant	20 Triton Street, London NW1 3BF United Kingdom	100%	100%
BLFB Limited	Dormant	20 Triton Street, London NW1 3BF United Kingdom	100%	100%
Debut Services (Contracts) Limited	Dormant	20 Triton Street, London NW1 3BF United Kingdom	100%	100%
Debut Services Limited	Project solutions	20 Triton Street, London NW1 3BF United Kingdom	100%	100%

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

13 Investments (continued)

Joint ventures

Details of the joint ventures as at 30 June 2018 are as follows:

Legal entity	Principal activity	Registered office and country of incorporation	Ownership interest %	
			2018	2017
H1 Developments Limited	Project solutions	55 Station Road, Buckingham Shire HP9 1QL United Kingdom	50%	50%
Waste 2 Resources Project Lancashire LLP	Project solutions	20 Triton Street, London NW1 3BF United Kingdom	50%	50%
Debut Services (South West) Limited	Project solutions	20 Triton Street, London NW1 3BF United Kingdom	50%	50%
BLS Regent Limited	Dissolved	55 Station Road, Buckingham Shire HP9 1QL United Kingdom	50%	50%
BLS Blackfriars Limited	Project solutions	55 Station Road, Buckingham Shire HP9 1QL United Kingdom	50%	50%
St Swithins Development Limited	Dormant	55 Station Road, Buckingham Shire HP9 1QL United Kingdom	50%	50%
Coleman Street Developments Limited	Dormant	55 Station Road, Buckingham Shire HP9 1QL United Kingdom	50%	50%
B6 Developments Limited	Project solutions	55 Station Road, Buckingham Shire HP9 1QL United Kingdom	50%	50%
Elwick Place Construction Limited	Project Solutions	2nd Floor 100 New Oxford Street, London, United Kingdom, WC1A 1HB United Kingdom	50%	50%

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

14 Cash and cash equivalents

	2018 £ 000	2017 £ 000
Cash at bank	60,188	60,208
Cash and equivalents	60,188	60,208

15 Trade and other payables

	2018 £ 000	2017 £ 000
Current		
Trade payables	(12,207)	(16,827)
Amounts due to related parties	(18,259)	(95,889)
Construction revenue - amounts due to customers	(51,763)	(43,930)
Retentions and deferred payments	(20,702)	(24,869)
Accrued expenses	(56,936)	(108,470)
Other payables	(7,050)	(19,538)
Current trade and other payables	(166,917)	(309,523)
Non current trade and other payables	-	-

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 19 "Financial risk management and impairment of financial assets".

16 Provisions

	Defects provision £ 000	Specific provision £ 000	Loss provisions £ 000	Other £ 000
Balance at 1 July 2017	(2,875)	(4,100)	(3,804)	-
Provisions made during the year	-	-	-	(810)
Provisions used during the year	-	1,100	-	-
Provisions reversed during the year	2,875	-	976	-
Unwinding of a discounted amount	-	(500)	-	-
Balance at 30 June 2018	-	(3,500)	(2,828)	(810)
Non-current liabilities	-	(1,500)	-	-
Current liabilities	-	(2,000)	(2,828)	(810)

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

16 Provisions (continued)

	Total £ 000
Balance at 1 July 2017	(10,779)
Provisions made during the year	(810)
Provisions used during the year	1,100
Provisions reversed during the year	3,851
Unwinding of a discounted amount	(500)
Balance at 30 June 2018	(7,138)
Non-current liabilities	(1,500)
Current liabilities	(5,638)

The defects provision is a provision for construction risk in relation to claims outstanding which arise under contracts carried out by the Company in the ordinary course of business. A provision is recognised only where claims can be estimated reliably.

The specific provision is a settlement liability. The Company has agreed to make a series of annual payments, completing in June 2021. These payments have been discounted to the present value of the liability using the effective interest method.

The loss provision is recognised for construction projects where it is probable that the total contract costs will exceed total contract revenue.

17 Contingencies

There are outstanding claims and exposures that arise in the normal course of business. There is significant uncertainty as to whether a future liability will arise in respect to these items. The amount of liability, if any, that may arise, cannot be measured reliably at this time. The directors are of the opinion that all known liabilities have been brought to account and that adequate provision has been made for any anticipated losses.

18 Issued capital

Allotted, called up and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	1	1	1	1

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

The holder of ordinary shares have the right to receive declared dividends from the Company and are entitled to one vote per share at meetings of the Company.

19 Financial risk management

The Company's activities expose it to a variety of financial risks. The Lendlease Asset and Liability Committee oversees the management of the Group's Treasury risks, within the parameters of a Board approved Treasury Policy, and maintains a Group-wide framework for financial risk management and reviews issues of material risk exposure within the scope of the Treasury Policy. A summary of key risks identified, exposures and management of exposures is detailed below.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

19 Financial risk management (continued)

Market risk

Foreign exchange risk

Foreign currency risk is the risk in local currency terms that the value of a financial commitment or a recognised asset or liability will fluctuate due to changes in foreign currency exchange rates. The Company is exposed to foreign currency risk primarily from foreign currency earnings, net investments in foreign operations and transactions settled in foreign currency. The exposure is managed using physical financial instruments, derivative financial instruments (mainly foreign exchange contracts), and contracting out. The Company's exposure is primarily to the EURO.

The Company uses physical and derivative financial instruments (mainly forward foreign exchange contracts) to hedge its foreign currency exposures.

Foreign exchange risk sensitivity analysis

At 30 June 2018, it is estimated that a 5% strengthening of the EURO would have decreased the Company's profit before tax by approximately £136,000 (2017: decrease of £22,000). A weakening of 5% is estimated to have increased the Company's profit before tax by £136,000 (2017: increase of £25,000). This analysis assumes that all other variables, in particular interest rates, remain constant. There has been no change in method or assumptions from previous periods.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flow associated with the instrument will fluctuate due to changes in the market interest rates. The Company's exposure to interest rate risk includes financial assets (mainly cash at bank), financial liabilities (mainly borrowings and financing arrangements) and movements in intra-group lending rates. The exposure is managed using physical financial instruments, derivative financial instruments (mainly interest rate swaps) and managing to hedging limits in respect of recourse funding as outlined in the Treasury Policy.

Interest rate risk sensitivity analysis

At 30 June 2018, it is estimated that an increase/decrease of 1.0% (2017: 1.0%) in interest rates would have increased/decreased the Company's profit before tax by approximately £2.1m (2017: £2.3m). This analysis assumes that all other variables remain constant. There has been no change in method or assumptions from previous periods.

Credit risk

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

The risk includes the recoverability of loans and receivables, other financial assets and cash deposits. Credit risk exposure is managed by having policies in place to ensure that customers and suppliers are appropriately credit assessed. The Treasury Policy sets out credit limits for each counterparty based on minimum investment-grade ratings.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

19 Financial risk management (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.

The exposure is managed by maintaining sufficient levels of cash and committed credit facilities to meet financial commitments and working capital requirements, managing to funding portfolio benchmarks as outlined by the Treasury Policy, and timely review and renewal of credit facilities. The Company has a loan facility with Lendlease Europe Holdings Limited to meet short term financing needs.

Maturity analysis

	Within 1 year £ 000	Total £ 000
2018		
Trade and other payables	<u>(166,917)</u>	<u>(166,917)</u>
	Within 1 year £ 000	Total £ 000
2017		
Trade and other payables	<u>(309,523)</u>	<u>(309,523)</u>

Capital risk 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 Company actively manages the working capital on a daily basis and operates a strict regime of contract billings and debtor payment cycles to maximise liquidity.

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

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

20 Pension and other schemes

Defined benefit 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 2018 the total Company contributions paid to the Defined Benefit Section of the Lend Lease UK Pension Scheme were £2,336,000 (2017: £2,582,000).

21 Lease Obligations

Operating leases

The Company leases land and buildings and plant and vehicles under non cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of leases are renegotiated.

At balance date, commitments in relation to non cancellable operating leases are payable as follows:

	2018	2017
	£ 000	£ 000
Within one year	(173)	(255)
In two to five years	(167)	(361)
Total	(340)	(616)

The amount of non-cancellable operating lease payments recognised as an expense during the year was £251,000 (2017: £603,000)

Sublease arrangements

The Company has entered into a non-cancellable sublease arrangement for an office space in the current financial year.

Total future minimum sublease income under non-cancellable operating leases expected to be received is £151,800 (2017 - £Nil).

The amount of income recognised in the year from non-cancellable operating subleases was £Nil (2017 - £Nil).

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

22 Related party transactions

22.1 Transactions with key management personnel

Further details of directors' remuneration is disclosed in note 8.

22.2 Summary of transactions with related parties

Summary of transactions with parent entities

Transactions with the parent entity include a loan to parent entity to fund working capital. Interest was received on this balance during the year at a rate of 1.00% (2017: LIBOR + 2.45%). Loans outstanding at the end of the period can be recalled at any time.

Summary of transactions with subsidiaries

Transactions with subsidiaries include management charges and provision of goods and services.

Summary of transactions with other related parties

Other related parties are entities controlled by Lendlease Corporation Limited that are neither the parent nor subsidiaries of the Company. Transactions with other related parties include management charges, loans and interest.

During the year, the Company received the following income and incurred the following costs with related parties:

	2018 £ 000	2017 £ 000
Sale of goods and services:		
Subsidiaries	1,371	9,574
Joint ventures	2,122	-
Other related parties	268,371	326,332
Total sale of goods and services	271,864	335,906
Purchase of goods and services:		
Parent entities	(2,275)	(844)
Other related parties	(32,922)	(20,658)
Total purchase of goods and services	(35,197)	(21,502)
Finance income:		
Parent entities	2,071	-
Other related parties	-	4,826
Total finance income	2,071	4,826
Finance costs:		
Parent entities	-	(831)
Other related parties	-	(45)
Total finance costs	-	(876)

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

22 Related party transactions (continued)

22.3 Related party receivables

	2018	2017
	£ 000	£ 000
Parent entities	176,939	-
Subsidiaries	28	581
Joint ventures	206	-
Other related parties	1,605	264,020
Total related parties receivables	178,778	264,601

22.4 Related party payables

	2018	2017
	£ 000	£ 000
Parent entities	(33)	(32,069)
Joint ventures	(31)	-
Other related parties	(18,195)	(63,820)
Total related party payables	(18,259)	(95,889)

23 Parent and ultimate parent undertaking

The Company's immediate parent is Lendlease Construction Holdings (Europe) Limited.

The ultimate parent is Lendlease Corporation Limited. The most senior parent entity producing publicly available financial statements is Lendlease Corporation Limited.

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Lendlease Corporation Limited, incorporated in Australia.

The address of Lendlease Corporation Limited is:

Level 14 Tower Three
International Towers Sydney
Exchange Place
300 Barangaroo Avenue
Barangaroo NSW 2000

The consolidated financial statements of that group may be obtained from www.lendlease.com.

The parent of the smallest group in which these financial statements are consolidated is Lendlease Europe Holdings Limited, incorporated in United Kingdom.

The address of Lendlease Europe Holdings Limited is:

20 Triton Street
Regent's Place
London NW1 3BF

The consolidated financial statements of that group may be obtained from:

The Registrar of Companies
Companies House
Crown Way
Maindy, Cardiff.

Lendlease Construction (Europe) Limited

Notes to the Financial Statements for the year ended 30 June 2018 (continued)

24 Subsequent events

There has been no event or circumstance since the balance sheet date that would significantly affect the Company.