

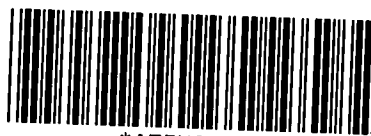
Company registration number: 03196202

Lendlease Europe Limited

Annual Report and Financial Statements

for the year ended 30 June 2018

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Lendlease Europe Limited

Contents

Strategic Report	1 to 4
Directors' Report	5 to 6
Statement of Directors' Responsibilities	7
Independent Auditors' Report to the Members of Lendlease Europe Limited	8 to 9
Statement of Profit or Loss and Other Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Statement of Cash Flows	13
Notes to the Financial Statements	14 to 39

Lendlease Europe Limited

Strategic Report for the year ended 30 June 2018

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

Principal activity

The principal activity of the Company is to provide head office functions and facilities for the Lendlease group of companies in the Europe region. The Company also holds investments.

Business review

The Company recorded a profit after tax of £26.4m (2017: loss of £10.4m), driven by dividends received from its subsidiaries of £55.8m (2017: £nil) offset by intercompany loans written off of (£23.6m) (2017: £nil).

The Company finished the year with a net asset position of £15.3m (2017: net liability of (£1.1)m).

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 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. Our capability in this space is a source of competitive advantage for our business.

Lendlease Europe Limited

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

	Explanation	Mitigation
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 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

With the continuing support of the Lendlease group, the Company will continue to provide head office functions and facilities for the Lendlease group of companies in the Europe region.

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 20/8/18 and signed on its behalf by:



T Mackellar
Director

Lendlease Europe Limited

Directors' Report for the Year Ended 30 June 2018

The directors of Lendlease 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:

R Boswell (Resigned 11 May 2018)

V Quinlan (Resigned 9 May 2018)

T Mackellar

M Packer

The following director was appointed after the year end:

Y Kostopoulos (appointed 2 July 2018)

Results

The Company's profit after tax for the year was £26.4m (2017: loss of £10.4m).

Dividends

During the year, a dividend of £10.0m (2017: £nil) was paid to the Parent Company. The directors do not recommend the payment of a final dividend (2017: £nil).

Political donations

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

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 21 to the financial statements.

Research and development

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

Outlook

An indication of likely future developments in the business has been included in the Strategic Report on page 4.

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.


Lendlease Europe Limited

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

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 20/8/18 and signed on its behalf by:

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

T Mackellar
Director

Lendlease 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 Europe Limited

Opinion

We have audited the financial statements of Lendlease 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.

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

- 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.

Directors' responsibilities

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view; 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: 20/8/18

Lendlease Europe Limited

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

	Note	2018 £ 000	2017 £ 000
Revenue		33,478	29,751
Administrative expenses		(35,415)	(39,993)
Other income	5	55,800	1,850
Other expenses	6	<u>(23,600)</u>	<u>(3,169)</u>
Results from operating activities	4	<u>30,263</u>	<u>(11,561)</u>
Finance income	8	77	5,001
Finance costs	8	<u>(2,942)</u>	<u>(6,317)</u>
Net finance cost		<u>(2,865)</u>	<u>(1,316)</u>
Profit/(loss) before tax		27,398	(12,877)
Income tax (expense)/credit	11	<u>(1,046)</u>	<u>2,445</u>
Total comprehensive income/(loss) after tax		<u><u>26,352</u></u>	<u><u>(10,432)</u></u>

The above results were derived from continuing operations.

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

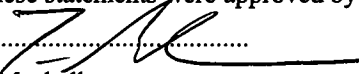
Lendlease Europe Limited

Statement of Financial Position as at 30 June 2018

	Note	2018 £ 000	2017 £ 000
Non current assets			
Investments	13	69,353	49,353
Deferred tax assets	11	2,393	3,169
Property, plant and equipment	14	5,785	6,690
Intangible assets	15	242	351
Total non current assets		77,773	59,563
Current assets			
Cash and cash equivalents	16	4,902	5,457
Trade and other receivables	12	105,572	566,642
Current tax assets		2,153	199
Total current assets		112,627	572,298
Total assets		190,400	631,861
Non current liabilities			
Trade and other payables	17	(1,199)	(1,381)
Provisions	18	(1,378)	(1,378)
Total non current liabilities		(2,577)	(2,759)
Current liabilities			
Trade and other payables	17	(138,124)	(565,250)
Bank overdraft	16	(34,408)	(64,913)
Total current liabilities		(172,532)	(630,163)
Total liabilities		(175,109)	(632,922)
Net assets/(liabilities)		15,291	(1,061)
Equity			
Issued capital	19	1,512	1,512
Retained earnings		13,779	(2,573)
Total equity		15,291	(1,061)

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

These statements were approved by the Board on 20/8/18 and were signed on its behalf by:


.....

T Mackellar

Director

Company Registration Number: 03196202

Lendlease Europe Limited

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

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 July 2016	1,512	7,859	9,371
Total comprehensive income			
Loss for the year	-	(10,432)	(10,432)
Total comprehensive income	-	(10,432)	(10,432)
At 30 June 2017	1,512	(2,573)	(1,061)

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

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 July 2017	1,512	(2,573)	(1,061)
Total comprehensive income			
Profit for the year	-	26,352	26,352
Total comprehensive income	-	26,352	26,352
Dividends	-	(10,000)	(10,000)
At 30 June 2018	1,512	13,779	15,291

Lendlease Europe Limited

Statement of Cash Flows for the Year Ended 30 June 2018

	Note	2018 £ 000	2017 £ 000
Cash flows from operating activities			
Profit/(loss) for the year		26,352	(10,432)
<i>Adjustments for:</i>			
Depreciation and amortisation	4	1,432	1,631
Loss on disposal of property plant and equipment	6	-	3,169
Foreign exchange loss/(gain)	4	16	(35)
Finance income	8	(77)	(5,001)
Finance costs	8	2,942	6,317
Income tax expense	11	1,046	(2,445)
		31,711	(6,796)
Working capital adjustments			
Decrease/(increase) in trade and other receivables	12	461,069	(41,857)
(Decrease)/increase in trade and other payables	17	(456,759)	54,531
Decrease in provisions	18	-	(7,522)
Cash generated from/(used in) operations		36,021	(1,644)
Income taxes paid		(2,520)	(200)
Net cash generated from/(used in) operating activities		33,501	(1,844)
Cash flows from investing activities			
Interest received	8	77	5,001
Acquisition of subsidiaries		-	(3,145)
Acquisitions of property plant and equipment		(649)	(3,352)
Proceeds from sale of property plant and equipment		-	199
Acquisition of intangible assets	15	(37)	(111)
Net cash generated from/(used in) investing activities		(609)	(1,408)
Cash flows from financing activities			
Interest paid	8	(2,942)	(6,317)
Net cash generated from/(used in) financing activities		(2,942)	(6,317)
Net increase/(decrease) in cash and cash equivalents		29,950	(9,569)
Cash and cash equivalents at beginning of year		(59,456)	(49,887)
Cash and cash equivalents at end of year		(29,506)	(59,456)

Lendlease Europe Limited

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

1 General information

Lendlease Europe Limited (the "Company") is a private company limited by share capital incorporated and domiciled in United Kingdom. The company registration number is 03196202.

The address of its registered office is:

20 Triton Street
Regent's Place
London
NW1 3BF
United Kingdom

The principal activity is to provide head office functions and facilities for the Lendlease group of companies in the Europe region. The Company also holds investments.

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.

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 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 24.

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 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 and liabilities.

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, there will be no material impact on the Company.

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.

Based on preliminary analysis performed, there will be no material impact on the Company.

Lendlease Europe Limited

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

2 Basis of preparation (continued)

Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate. The Company is dependent for its working capital on funds provided to it by Lendlease Europe Holdings Limited, the Company's ultimate UK parent entity. Lendlease Europe Holdings Limited has provided the Company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as they are needed by the Company and in particular will not seek repayment of the amounts currently made available. This should enable the Company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other Group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

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 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 transaction at the balance sheet date. Revenue is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

Other revenue

Other revenue primarily includes dividends, distributions and miscellaneous items. Dividend and distribution revenue is recognised when the right to receive payment is established, usually on declaration of the dividend or distribution.

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.

Lendlease Europe Limited

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

3 Accounting policies (continued)

Share based compensation

The Company participates in equity settled share based compensation plans. Shares are issued in the Company's ultimate parent, Lendlease Corporation Limited (LLC), and are treated as cash settled in the Company's accounts. The fair value of the equity received in exchange for the grant is recognised as an expense and a corresponding related party liability due to LLC is recorded. The total amount to be expensed over the vesting period is determined by reference to the fair value of the securities granted.

The fair value is primarily determined using a Monte-Carlo simulation model. Management considers the fair value assigned to be an area of estimation uncertainty as it requires judgements on LLC's security price and whether vesting conditions will be satisfied.

At each Statement of Financial Position date, the entity revises its estimates of the entitlement due. It recognises the impact of revision of original estimates, if any, in the Statement of Profit or Loss and a corresponding adjustment to related party payables. Changes in the entitlement for equity settled share based payment plans are not recognised if they fail to vest due to market conditions not being met.

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 receive 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.

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. Depreciation 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.

Lendlease Europe Limited

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

3 Accounting policies (continued)

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

Interest receivable and interest payable is recognised in the Statement of Profit or Loss as it accrues, using the effective interest method.

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.

Lendlease 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 is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation. 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement 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 (three to five 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. Computer software development costs recognised as assets are amortised over their estimated useful lives (three to five years).

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 annually.

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 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.

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.

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.

Lendlease Europe Limited

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

4 Results from operating activities

Results from operating activities includes the following items:

	2018 £ 000	2017 £ 000
Depreciation expense	(1,286)	(1,504)
Amortisation expense	(146)	(127)
Foreign exchange (losses)/gains	(16)	35

5 Other income

The analysis of the Company's other operating income for the year is as follows:

	2018 £ 000	2017 £ 000
Dividends received	55,800	-
Gain on disposal of operating leases	-	1,850
Total other income	55,800	1,850

6 Other expenses

The analysis of the Company's other expenses for the year is as follows:

	2018 £ 000	2017 £ 000
Gain (loss) on disposal of property, plant and equipment	-	(3,169)
Loan forgiveness	(23,600)	-
Total other expenses	(23,600)	(3,169)

7 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of financial statements	(17)	(79)

Lendlease Europe Limited

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

8 Finance income and costs

	2018 £ 000	2017 £ 000
Finance income		
Bank interest received	77	422
Interest receivable from related parties	-	4,579
Total finance income	<u>77</u>	<u>5,001</u>
Finance costs		
Interest on bank overdrafts and borrowings	(1)	-
Other finance costs	-	(5)
Interest payable to related parties	(2,941)	(6,312)
Total finance costs	<u>(2,942)</u>	<u>(6,317)</u>
Net finance costs	<u>(2,865)</u>	<u>(1,316)</u>

9 Employees

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

	2018 £ 000	2017 £ 000
Wages and salaries	(18,717)	(18,846)
Social security costs	(1,176)	(1,064)
Other pension costs	(717)	(749)
Total staff costs	<u>(20,610)</u>	<u>(20,659)</u>

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

	2018 No.	2017 No.
Number of employees	<u>177</u>	<u>192</u>

Lendlease Europe Limited

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

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018 £ 000	2017 £ 000
Remuneration	(1,632)	(1,146)
Total directors' remuneration	(1,632)	(1,146)

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	3	5

In respect of the highest paid director:

	2018 £ 000	2017 £ 000
Remuneration	(562)	(521)

The directors of the Company were all directly employed by the Company during the financial year.

11 Taxation

Tax (charged)/credited in the income statement

	2018 £ 000	2017 £ 000
Current tax		
Adjustments for prior years	(270)	(403)
Total current tax	(270)	(403)
Deferred tax		
Origination and reversal of temporary differences	(318)	2,152
Change in tax rate	(282)	(82)
Adjustments for prior years	(176)	778
Total deferred tax	(776)	2,848
Total income tax (charge)/credit	(1,046)	2,445

Lendlease Europe Limited

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

11 Taxation (continued)

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/(loss) before tax	27,398	(12,877)
Income tax using the domestic corporation tax rate 19% (2017: 19.75%)	-	2,543
Adjustments for prior year tax claim	(446)	375
Exempt income	10,602	-
Non allowable expenses	(5,124)	(147)
Effect on current tax from unrecognised tax loss or credit	(590)	(244)
Deferred tax relating to changes in tax rates	(282)	(82)
Total income tax credit	4,160	2,445

The effective rate of taxation will vary as a result of any dividends paid by shareholdings, 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:

2018	Asset £ 000
Unused tax losses recognised	-
Property, plant and equipment	1,531
Provisions	862
Share-based payment	-
	<u>2,393</u>

Lendlease Europe Limited

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

11 Taxation (continued)

2017	Asset £ 000
Unused tax losses recognised	-
Property, plant and equipment	1,222
Provisions	1,750
Share-based payment	197
	<u>3,169</u>

Deferred tax movement during the year:

	At 1 July 2017 £ 000	Recognised in income £ 000	At 30 June 2018 £ 000
Unused tax losses recognised	-	-	-
Property, plant and equipment	1,222	309	1,531
Provisions	1,750	(888)	862
Share-based payment	197	(197)	-
Net tax assets/(liabilities)	<u>3,169</u>	<u>(776)</u>	<u>2,393</u>

Deferred tax movement during the prior year:

	At 1 July 2016 £ 000	Recognised in income £ 000	At 30 June 2017 £ 000
Unused tax losses recognised	-	-	-
Property, plant and equipment	410	812	1,222
Provisions	-	1,750	1,750
Share-based payment	(89)	286	197
Net tax assets/(liabilities)	<u>321</u>	<u>2,848</u>	<u>3,169</u>

There are £77,473,000 of deductible temporary differences (2017 - £86,587,000) and £1,906,000 of unused tax losses (2017 - £2,802,000) for which no deferred tax asset is recognised in the statement of financial position.

Lendlease Europe Limited

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

12 Trade and other receivables

	Note	2018 £ 000	2017 £ 000
Current			
Trade receivables		20	210
Amounts owing from related parties	23	103,870	563,661
Prepayments		650	942
Other receivables		1,032	1,829
Total trade and other receivables		105,572	566,642

13 Investments

	2018 £ 000	2017 £ 000
Subsidiaries	69,353	49,353
Total investments	69,353	49,353

Reconciliation of subsidiaries

	2018 £ 000	2017 £ 000
Carrying amount at the beginning of year	49,353	46,208
Additions	20,000	3,145
Carrying amount at end of year	69,353	49,353
Subsidiaries cost	525,074	505,074
Accumulated impairment	(455,721)	(455,721)
Carrying amount at end of year	69,353	49,353

Additions of £20,000,000 relates to a capital injection, settled through intercompany loans, made to Lendlease Development (Europe) Limited (2017 - £nil).

Lendlease Europe Limited

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

13 Investments (continued)

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

Name of subsidiary	Principal activity	Country of incorporation	Note	Ownership and voting rights %	
				2018	2017
Lendlease Europe Retail Investments Limited	Investment management	United Kingdom	1	100%	100%
Lendlease Development (Europe) Limited	Project management	United Kingdom	1	100%	100%
Lendlease Norwich Limited	Property investment and development	United Kingdom	1	100%	100%
St Clements Valley Developments Limited	Property investment and development	United Kingdom	1	100%	100%
Lendlease (Elephant and Castle) Limited	Development of building projects	United Kingdom	1	100%	100%
Lendlease (E&C) Overriding Lease Company Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease (E&C) Estates and Property Management Company Limited	Dormant company	United Kingdom	1	100%	100%
H4 Residents Management Company Limited	Dormant company	United Kingdom	1	100%	100%
H5 Residents Management Company Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease (Elephant and Castle) Retail Limited	Real estate agencies	United Kingdom	1	100%	100%
Lendlease Real Estate Investments Services Limited	Investment management	United Kingdom	1	100%	100%
Lendlease Communities Limited	Development of building projects	United Kingdom	1	100%	100%
Cobalt Place Residents Management Company Limited	Property development	United Kingdom	2	100%	100%
Lendlease Preston Tithebarn No2 Limited	Development of building projects	United Kingdom	1	100%	100%
Lendlease Preston Tithebarn Limited	Development of building projects	United Kingdom	1	100%	100%

Lendlease Europe Limited

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

13 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation	Note	Ownership and voting rights %	
				2018	2017
Preston Tithebarn Unit Trust	Development building projects	of United Kingdom	3	100%	100%
Preston Tithebarn Partnership	Development building projects	of United Kingdom	1	100%	100%
Preston Tithebarn General Partner Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease Stratford GP Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease SCBD Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease Stratford Limited Partnership	Investment management	United Kingdom	1	100%	100%
Peninsula LP Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease N0204 Block A Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease N0204 Block B Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease Dundee Development Limited	Dormant company	United Kingdom	1	100%	100%
Lendlease Solihull Limited	Dormant company	United Kingdom	1	100%	100%
Be Onsite	Jobs and training	United Kingdom	1	100%	100%
Lendlease Real Estate Investments (Europe) Limited	Fund operations	United Kingdom	1	100%	100%
Lendlease PFI/PPP Infrastructure Fund Investor Limited	Fund management activities	United Kingdom	1	100%	100%
Lendlease Performance Retail Limited	Development building projects	of United Kingdom	1	100%	100%
Lendlease Chelmsford Meadows Limited	Development building projects	of United Kingdom	1	100%	100%
Lendlease Bluewater Limited	Investment management	United Kingdom	1	100%	100%
Lendlease Europe GP Limited	Property investment and development	United Kingdom	1	100%	100%

Lendlease Europe Limited

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

13 Investments (continued)

Notes - registered addresses:

1. 20 Triton Street, Regent's Place, London, NW1 3BF
2. Whittington Hall, Whittington Road, Worcester, United Kingdom, WR5 2ZX
3. 12 Castle Street, St. Helier, Jersey, JE2 3RT

Associates

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

Name of associate	Principal activity	Country of incorporation	Note	Ownership and voting rights %	
				2018	2017
First Base 4 Stratford LLP	Property development	United Kingdom	1	65%	65%
Chelmsford Meadows (General Partner) Limited	Dormant company	United Kingdom	1	75%	75%

Notes - registered addresses:

1. 20 Triton Street, Regent's Place, London, NW1 3BF

Joint ventures

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

Name of Joint-ventures	Principal activity	Country of Incorporation	Note	Ownership and voting right %	
				2018	2017
Stratford City Business District Limited	Property development	United Kingdom	1	50%	50%
Greenwich Peninsula N0204 Block B GP Holdings Limited	Property management	United Kingdom	2	50%	50%
IQL Estate Management Company Limited	Dormant company	United Kingdom	1	50%	50%
IQL Commercial Estate Management Company	Dormant company	United Kingdom	1	50%	50%
SCBD S5 (Holding) Limited	Property development	United Kingdom	1	50%	50%
SCBD No.1 Limited	Property development	United Kingdom	1	50%	50%
SCBD S6 (Holding) Limited	Property development	United Kingdom	1	50%	50%
SCBD S6 Limited	Property development	United Kingdom	1	50%	50%

Lendlease Europe Limited

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

13 Investments (continued)

SCBD Residential Limited	Property development	United Kingdom	1	50%	50%
Glasshouse Gardens Residents' Management Company Limited	Property development	United Kingdom	1	50%	50%
SCBD S9 Trust	Property development	Jersey	3	50%	50%
SCBD Trustee No.3 Limited	Property development	Jersey	3	50%	50%
SCBD Trustee No.4 Limited	Property development	Jersey	3	50%	50%
Triathlon Homes LLP	Property development	United Kingdom	4	21%	21%

Notes - registered addresses:

1. 20 Triton Street, Regent's Place, London, NW1 3BF
2. 43-45 Portman Square, London, W1H 6LY
3. Third Floor, Liberation House, Castle Street, St Helier, Jersey, JE1 1BL
4. Fleet House, 59-61 Clerkenwell Road, London, EC1M 5LA

14 Property, plant and equipment

	2018 £ 000	2017 £ 000
Leasehold improvement	4,510	5,084
Furniture and fittings	120	98
Plant and equipment	1,155	1,508
Property, plant and equipment	5,785	6,690

Lendlease Europe Limited

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

14 Property, plant and equipment (continued)

Reconciliation of leasehold improvement

	2018 £ 000	2017 £ 000
Carrying amount at beginning of year	5,084	7,408
Additions	403	1,858
Disposals	-	(5,562)
Depreciation	(977)	(988)
Depreciation eliminated on disposal	-	2,368
Carrying amount at end of year	4,510	5,084
Leasehold improvement cost	8,119	7,716
Accumulated amortisation	(3,609)	(2,632)
Carrying amount at end of year	4,510	5,084

Reconciliation of furniture and fittings

	2018 £ 000	2017 £ 000
Carrying amount at beginning of year	98	77
Additions	14	270
Disposals	(268)	(487)
Depreciation	(51)	(75)
Depreciation eliminated on disposal	327	313
Carrying amount at end of year	120	98
Furniture and fittings cost	525	779
Accumulated depreciation	(405)	(681)
Carrying amount at end of year	120	98

Lendlease Europe Limited

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

14 Property, plant and equipment (continued)

Reconciliation of plant and equipment

	2018 £ 000	2017 £ 000
Carrying amount at beginning of year	1,508	725
Additions	232	1,224
Depreciation	(585)	(441)
Carrying amount at end of year	1,155	1,508
Plant and equipment cost	3,701	3,469
Accumulated depreciation	(2,546)	(1,961)
Carrying amount at end of year	1,155	1,508

15 Intangible assets

Reconciliation of software development costs

	2018 £ 000	2017 £ 000
Carrying amount at beginning of year	351	367
Additions	37	111
Amortisation	(146)	(127)
Carrying amount at end of year	242	351
Software development cost	525	488
Accumulated amortisation	(283)	(137)
Carrying amount at end of year	242	351

16 Cash and cash equivalents

	2018 £ 000	2017 £ 000
Cash at bank	4,902	5,457
Bank overdrafts	(34,408)	(64,913)
Cash and cash equivalents in statement of cash flows	(29,506)	(59,456)

Lendlease Europe Limited

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

17 Trade and other payables

	Note	2018 £ 000	2017 £ 000
Current			
Trade payables		(1,218)	(868)
Amounts due to related parties	23	(120,108)	(544,489)
Accrued expenses		(11,961)	(16,016)
Other payables		(4,837)	(3,877)
Current trade and other payables		<u>(138,124)</u>	<u>(565,250)</u>
Non current			
Other payables		(1,199)	(1,381)
Non current trade and other payables		<u>(1,199)</u>	<u>(1,381)</u>
Total trade and other payables		<u>(139,323)</u>	<u>(566,631)</u>

The Company's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in note 21 "Financial risk management and impairment of financial assets".

18 Provisions

	Other provisions £ 000	Total £ 000
Balance at beginning of year	(1,378)	(1,378)
Balance at end of year	<u>(1,378)</u>	<u>(1,378)</u>

Other provisions relate to potential contractual obligations arising from the Company's activity of overseeing key risks within the European region.

Lendlease Europe Limited

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

19 Issued capital

Allotted, called up and fully paid shares

	2018		2017	
	No.	£	No.	£
Ordinary A Shares of £1 each	2	2	2	2
Ordinary B Shares of £1 each	1,512,134	1,512,134	1,512,134	1,512,134
	<u>1,512,136</u>	<u>1,512,136</u>	<u>1,512,136</u>	<u>1,512,136</u>

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.

20 Dividends

	2018 £ 000	2017 £ 000
Final dividend of £nil (2017 - £nil) per ordinary share	-	-
Interim dividend of £6.61 (2017 - £nil) per ordinary share	<u>10,000</u>	<u>-</u>
	<u>10,000</u>	<u>-</u>

The directors are proposing a final dividend of £nil (2017 - £nil) per share totalling £nil (2017 - £nil).

21 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 Europe Limited

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

21 Financial risk management (continued)

Market risk

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), and movements in intra-group lending rates. The Company has a loan facility with Lendlease Europe Holdings Limited to meet short term financing needs.

Interest rate risk sensitivity analysis

At 30 June 2018, it is estimated that an increase/decrease of 2% in interest rates would have increased/decreased respectively the Company's profit before tax by approximately £1.5m (2017: £3.1m). 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.

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	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	After more than 5 years £ 000	Total £ 000
2018					
Trade and other payables	(138,124)	(182)	(728)	(289)	(139,323)
Bank overdrafts	(115,337)	-	-	-	(115,337)
Total	<u>(253,461)</u>	<u>(182)</u>	<u>(728)</u>	<u>(289)</u>	<u>(254,660)</u>

Lendlease Europe Limited

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

21 Financial risk management (continued)

	Within 1 year £ 000	Between 1 and 2 years £ 000	Between 2 and 5 years £ 000	After more than 5 years £ 000	Total £ 000
2017					
Trade and other payables	(656,360)	(182)	(728)	(471)	(657,741)
Bank overdrafts	(91,111)	-	-	-	(91,111)
	<u>(747,471)</u>	<u>(182)</u>	<u>(728)</u>	<u>(471)</u>	<u>(748,852)</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.

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.

22 Lease Obligations

Operating leases

The operating lease commitments above are for the rental of head office space, lease of printers and the lease of motor vehicles utilised by staff.

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

	2018 £ 000	2017 £ 000
Within one year	3,186	2,037
In two to five years	4,378	5,088
Total	7,564	7,125

The amount of non-cancellable operating lease payments recognised as an expense during the year was £2,564,000 (2017: £2,860,000)

Lendlease Europe Limited

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

23 Related party transactions

23.1 Transactions with key management personnel

The key management personnel compensation is as follows:

Details of directors' remuneration is disclosed in note 10.

23.2 Summary of transactions with related parties

Summary of transactions with parent entities

Transactions with the parent entity include a loan to fund working capital. Interest was incurred on this balance during the year at a rate of 6.42%. Loans outstanding at the end of the period can be recalled at any time.

Summary of transactions with subsidiaries

Transactions with subsidiaries include dividends, management charges and working capital balances for which no interest is charged.

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 intra-group recharges, management charges and working capital balances for which no interest is charged.

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

	2018 £ 000	2017 £ 000
Revenue and other income:		
Subsidiaries	71,993	-
Other related parties	<u>17,285</u>	<u>29,751</u>
Total revenue and other income	<u><u>89,278</u></u>	<u><u>29,751</u></u>
Expenses:		
Parent entities	-	(2,277)
Subsidiaries	(23,600)	-
Other related parties	<u>(6,170)</u>	<u>-</u>
Total expenses	<u><u>(29,770)</u></u>	<u><u>(2,277)</u></u>

Lendlease Europe Limited

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

23 Related party transactions (continued)

23.2 Summary of transactions with related parties (continued)

	2018 £ 000	2017 £ 000
Finance income:		
Parent entities	-	3,334
Subsidiaries	-	608
Other related parties	-	637
Total finance income	<u>-</u>	<u>4,579</u>
Finance costs:		
Parent entities	(2,941)	(4,422)
Subsidiaries	-	(1,148)
Other related parties	-	(742)
Total finance costs	<u>(2,941)</u>	<u>(6,312)</u>

23.3 Related party receivables

	2018 £ 000	2017 £ 000
Parent entities	-	345,000
Subsidiaries	18,690	47,887
Joint ventures	35	-
Other related parties	85,145	170,774
Total related parties receivables	<u>103,870</u>	<u>563,661</u>

23.4 Related party payables

	2018 £ 000	2017 £ 000
Parent entities	(21,519)	(243,321)
Subsidiaries	(1,397)	(121,860)
Other related parties	(97,192)	(179,308)
Total related party payables	<u>(120,108)</u>	<u>(544,489)</u>

Lendlease Europe Limited

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

24 Parent and ultimate parent undertaking

The company's immediate parent is Lendlease Europe Holdings Limited.
The ultimate parent 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 England and Wales.

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.

25 Subsequent events

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