

Lendlease Real Estate Investments (Europe) Limited

(Formerly trading as Lend Lease Real Estate Investments Limited)

Annual report and financial statements

Registered Number 3540684

For the year ended 30 June 2016



Annual report and financial statements

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Strategic report

Principal activities

Lendlease Real Estate Investments (Europe) Limited ("the Company") was incorporated on 3 April 1998.

On 1 July 2016 the Company changed its name from Lend Lease Real Estate Investments Limited to Lendlease Real Estate Investments (Europe) Limited.

The principal activity of Lendlease Real Estate Investments (Europe) Limited is as an operator and manager of property collective investment schemes including the establishment of such schemes. The Company is subject to the rules governing Alternative Investment Fund Managers Directive ('AIFMD') firms and is regulated for its investment business activities by the Financial Conduct Authority ('FCA').

The Company was appointed as the fund manager for the Lendlease Retail LP which was launched in June 1999. The fund is an unlisted English Limited Partnership with a Jersey feeder fund providing exposure to long term sustainable commercial real estate assets via capital management, asset management and development of its prime core portfolio.

The Company is a limited company incorporated and domiciled in the United Kingdom. The address of its registered office is 20 Triton Street, Regent's Place, London, NW1 3BF.

These financial statements were authorised for issue by the Board of Directors on 22 September 2016.

Business Review

The results for the year show an operating profit of £1.6m (2015: loss £1.3m) on revenue of £6.9m (2015: £3.9m) and net assets of £4.5m, (2015: £3.2m). Revenue included a £4.6m fee in relation to the forward sale of two commercial towers at the International Quarter London. The company continued to act as Fund Manager for the Lendlease Retail LP and is looking to modernise and extend the life of the fund in FY17.

Principal risks and uncertainties facing the business

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

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

Risk Area

Macro-economic climate

Risk Factor

Interest rates, availability of finance, employment levels and general economic sentiment have a direct impact on the performance of the assets held by the Lendlease Retail Fund managed by the Company and success of any future transactions.

LLR LP Fund extension and modernisation

The modernisation and extension of the fund is dependent on an aligned investor base.

LLR LP Total returns

A fall in the Lendlease Retail LP returns will affect the Company's ability to earn a Performance fee.

Retail sector cycle

The Company will continue to monitor the retail sector cycle and any impact post the UK's decision to leave the European Union.

People

The Company's success is highly dependent upon its ability to attract and retain the best people in the industry.

Health & safety

Health & safety is of paramount importance to the Company; our vision is to operate incident and injury free. We are committed to realising this wherever we have a presence. As such the Company has a dedicated programme of education for both staff and our supply chain.

Environment

Lendlease is committed to making significant long term contributions to the environmental, social and economic fabric of the communities in which it operates.

Strategic report (continued)

Employees

The Company is part of the Lendlease Corporation Group and closely identifies with the Group's corporate identity and activities. The Company is committed to enlisting staff involvement, and staff at all levels is kept informed on a regular basis of the Group's important business contracts and activities through periodic newsletters and daily updates on the Group intranet site. Meetings are held regularly with relevant employees for information and consultation relating to the Company's past performance, future objectives and proposed changes. All employees are encouraged to show an awareness of the objectives of the Company and the standards of performance required in relation to the specific activities in which they are engaged.

Outlook

With the continuing support of Lendlease, the Company will continue to manage the Lendlease Retail LP and look to launch new funds should opportunities arise.

Following the decision to leave the European Union, there is uncertainty around future growth forecasts with a market consensus view that there will be a slowdown in growth in the short term. To date, this has not impacted our projects in delivery. Lendlease will continue to manage our exposure to market movements in line with our standard risk management processes.

Post balance sheet events

There are no post balance sheet events.

By order of the board

C. E. Allen

C Allen
Director
20 Triton Street
Regents Place, London
NW1 3BF
22 September 2016

Directors' report

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

Results and dividends

The profit for the year after taxation amounted to £1.2m (2015: loss £1.1m). The directors do not recommend the payment of a dividend (2015: £nil).

Directors

The directors who held office during the year were as follows:

R Boswell (appointed 23 February 2016)
C E Allen
M Boor
N Steele (resigned 2 November 2015)
C Matheson (appointed 22 September 2015 and resigned 17 March 2016)
G Scott (appointed 10 September 2015 and resigned 29 September 2015)
M J Packer (appointed 12 May 2016 and resigned 27 June 2016)

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 he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

Political and charitable contributions

The company made no political or charitable contributions during the year (2015: £nil).

By order of the board



C Allen
Director
20 Triton Street
Regents Place, London
NW1 3BF
22 September 2016

Statement of Directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Lendlease Real Estate Investments (Europe) Limited

We have audited the financial statements of Lendlease Real Estate Investments (Europe) Limited for the year ended 30 June 2016 as set out on pages 6 - 16.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

The Company was appointed as the fund manager for the Lendlease Retail LP which was launched in June 1999. The fund is an unlisted English Limited Partnership with a Jersey feeder fund providing exposure to long term sustainable commercial real estate assets via capital management, asset management and development of its prime core portfolio.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report, Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Stephen Wardell
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL
22 September 2016

Statement of profit or loss and other comprehensive income
for the year ended 30 June 2016

	Note	2016 £	2015 £
Revenue		6,943,673	3,855,678
Administrative expenses		<u>(5,299,042)</u>	<u>(5,169,498)</u>
Operating profit / (loss)		1,644,631	(1,313,820)
Finance income	4	47,643	52,252
Finance expense	5	<u>(60,666)</u>	<u>(51,315)</u>
Profit / (loss) before taxation		1,631,608	(1,312,883)
Taxation	6	(404,782)	249,325
Profit / (loss) after taxation		<u>1,226,826</u>	<u>(1,063,558)</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income / (loss) for the year		<u>1,226,826</u>	<u>(1,063,558)</u>

The notes to and forming part of these financial statements are set out on pages 10 - 16.

Statement of financial position
as at 30 June 2016

	Note	2016 £	2015 £
Non current assets			
Deferred tax asset	7	<u>118,293</u>	<u>523,075</u>
		<u>118,293</u>	<u>523,075</u>
Current assets			
Cash and cash equivalents		6,036,565	3,817,593
Trade and other receivables	8	<u>1,140,423</u>	<u>1,579,515</u>
		<u>7,176,988</u>	<u>5,397,108</u>
Total assets		<u>7,295,281</u>	<u>5,920,183</u>
Current liabilities			
Trade and other payables	9	<u>(2,830,359)</u>	<u>(2,682,087)</u>
		<u>(2,830,359)</u>	<u>(2,682,087)</u>
Total liabilities		<u>(2,830,359)</u>	<u>(2,682,087)</u>
Net assets		<u>4,464,922</u>	<u>3,238,096</u>
Equity			
Share Capital	10	4,850,000	4,850,000
Retained earnings		<u>(385,078)</u>	<u>(1,611,904)</u>
Total equity		<u>4,464,922</u>	<u>3,238,096</u>

The notes to and forming part of these financial statements are set out on pages 10 - 16.

These financial statements were approved by the board of directors on 22 September 2016 and were signed on it's behalf by:

C. E. Allen.

C Allen
Director

Registered Number : 3540684

Statement of changes in shareholder's equity
for the year ended 30 June 2016

	Attributable to shareholder		
	Share capital £	Retained earnings £	Total equity £
Balance at 1 July 2014	4,850,000	(548,346)	4,301,654
Loss for the year	-	(1,063,558)	(1,063,558)
Balance at 30 June 2015	4,850,000	(1,611,904)	3,238,096
Balance at 1 July 2015	4,850,000	(1,611,904)	3,238,096
Profit for the year	-	1,226,826	1,226,826
Balance at 30 June 2016	4,850,000	(385,078)	4,464,922

The notes to and forming part of these financial statements are set out on pages 10 - 16.

Cash Flow Statement
for the year ended 30 June 2016

	2016 £	2015 £
Cash flows from operating activities		
Profit / (loss) for the year	1,226,826	(1,063,558)
Adjustments for:		
Finance income	(47,643)	(52,252)
Finance expense	60,666	51,315
Taxation	404,782	(249,325)
	<u>1,644,631</u>	<u>(1,313,820)</u>
Decrease in trade and other receivables	439,092	97,620
Increase in trade and other payables	148,272	425,331
Net cash from/(used in) operating activities	<u>2,231,995</u>	<u>(790,869)</u>
Cash flow from investing activities		
Interest received	47,643	52,252
Net cash from investing activities	<u>47,643</u>	<u>52,252</u>
Cash flow from financing activities		
Interest paid	(60,666)	(51,315)
Net cash from financing activities	<u>(60,666)</u>	<u>(51,315)</u>
Increase / (decrease) in cash and cash equivalents	2,218,972	(789,932)
Cash and cash equivalents at 1 July	3,817,593	4,607,525
Cash and cash equivalents at 30 June	<u>6,036,565</u>	<u>3,817,593</u>

The notes to and forming part of these financial statements are set out on pages 10 - 16.

Notes to the financial statements

1 Accounting policies

Lendlease Real Estate Investments (Europe) Limited (the "Company") is a Company incorporated in the UK. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations as adopted by the European Union ("Adopted IFRSs") and with those parts of the Companies Act 2006, applicable to companies reporting under IFRS.

The Company is exempt by virtue of S401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Revenue

Revenue is stated net of value added tax and is derived from the provision of fund and asset management services.

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested, that are recognised in the statement of comprehensive income.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the Cash Flow Statement.

Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less provision for doubtful debts.

Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, 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, where appropriate, the risks specific to the liability.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Taxation

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Critical judgements in applying the entity's accounting policies

The preparation of the financial statements under IFRS requires management to make estimates and assumptions that affect amounts recognised for assets and liabilities at the balance sheet date and the amounts of revenue and expenses incurred during the reporting period. Actual outcomes may therefore differ from these estimates and assumptions.

As at the balance sheet date, there were no assets or liabilities held other than deferred tax assets for which changes in their underlying assumptions are expected to result in a material change in their carrying values within the next financial year.

New standards and interpretations not yet adopted

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

- IFRS 9 Financial Instruments (on or after 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (on or after 1 January 2018).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (on or after 1 January 2016).
- Annual Improvements to IFRSs - 2012-2014 Cycle (effective date to be confirmed).
- Disclosure Initiative - Amendments to IAS 1 (effective date to be confirmed).

2 Directors' remuneration and employees

Any qualifying services in respect of the Company are considered to be incidental and part of these directors' overall management responsibilities within LendLease Europe Limited & Lendlease Development (Europe) Limited. Their remuneration for the current year and prior year was paid by and included in the financial statements of these companies.

The Company had no employees in the year (2015: nil), and was charged by other group companies for the services of 9 employees of the The aggregate payroll costs of these employees were as follows:

	2016	2015
	£	£
Wages and salaries	659,876	1,339,699
Social security cost	131,971	159,627
Other pension costs	99,972	124,487
	<u>891,819</u>	<u>1,623,813</u>

The above aggregate payroll costs are net of recharges and recoveries made by Lendlease Real Estate Investments (Europe) Limited.

Notes to the financial statements (continued)

2 Directors' remuneration and employees (continued)

Lendlease Real Estate Investments (Europe) Limited's senior management is responsible for determining the remuneration policy of the Company and reviews the policy at least annually.

Lendlease Real Estate Investments (Europe) Limited's senior management have determined that variable remuneration is to be paid on the basis of performance.

The below remuneration amounts represent actual payroll costs before any recharges or recoveries.

Remuneration by Business Area		2016	2015
		£	£
Senior management		248,278	268,082
Fund management		685,903	897,434
		<u>934,182</u>	<u>1,165,516</u>
Senior Management and Material Staff		2016	2015
		£	£
Fixed remuneration		821,804	787,113
Variable remuneration		112,378	378,403
		<u>934,182</u>	<u>1,165,516</u>
3 Auditor's remuneration		2016	2015
		£	£
Auditors remuneration paid in the year		<u>15,070</u>	<u>13,000</u>
4 Finance income		2016	2015
		£	£
Interest income on long term deposits		<u>47,643</u>	<u>52,252</u>
5 Finance expense		2016	2015
		£	£
Interest expense on amounts due to group undertakings		<u>(80,666)</u>	<u>(51,315)</u>
6 Taxation			
(a) Recognised in the Statement of profit or loss and other comprehensive income			
		2016	2015
		£	£
Current tax			
Current year		-	39,030
Prior year adjustment		-	<u>39,030</u>
Deferred tax			
Origination and reversal of temporary differences		(302,433)	280,246
Prior year adjustment		(96,123)	(57,810)
Effect of change in UK tax rate 20% (2015: 20.75%)		<u>(6,226)</u>	<u>(12,141)</u>
		<u>(404,782)</u>	<u>249,325</u>
Total tax in Statement of profit or loss and other comprehensive income		<u>(404,782)</u>	<u>249,325</u>

Notes to the financial statements (continued)

6 Taxation (continued)

(b) Reconciliation of effective tax rate

The tax assessed differs from the application of the standard rate of corporation tax in the UK 2016: 20% (2015: 20.75%) to the Company's accounting loss before taxation for the following reasons:

	2016 £	2015 £
Profit / (loss) on ordinary activities before taxation.	1,631,608	(1,312,883)
Tax using the UK corporation tax rate of 20% (2015: 20.75%)	(326,322)	272,423
Income not taxable	23,889	18,333
Adjustments in respect of previous periods	(96,123)	(18,780)
Permanent difference on change of tax rate	(6,226)	(22,651)
Total tax credit / (charge) in statement of comprehensive income	(404,782)	249,325

(c) Factors that may affect future tax charges

The effective rate of taxation will vary as a result of any dividends paid by subsidiaries, overseas tax rates and the utilisation of tax losses brought forward.

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the Company's future current tax charge accordingly. Accordingly, the Company's profit for the accounting period are taxed at an effective rate of 20% (2015: 20.75%)

7 Deferred tax assets

Deferred tax assets are attributable to the following:

	2016 £	2015 £
Tax losses	118,293	523,075
Net tax assets	118,293	523,075

Movement in deferred tax during the year

	£
At 1 July 2014	312,780
Prior year adjustment	(57,810)
Change in UK tax rate	(12,141)
Recognised during the year	280,246
As at 30 June 2015	523,075
Utilisation of tax losses	-
Prior year adjustment	(96,123)
Change in UK tax rate	(6,226)
Recognised during the year	(302,433)
As at 30 June 2016	118,293

Factors that may affect future tax charges

A deferred tax asset of £118,293 (2015: £523,075) has been recognised as tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable

Notes to the financial statements (continued)

8 Trade and other receivables

	2016	2015
	£	£
Trade receivables from related parties	675,013	885,027
Trade and other receivables	426,380	29,548
Group relief receivable	39,030	664,940
	<u>1,140,423</u>	<u>1,579,515</u>

9 Trade and other payables

	2016	2015
	£	£
Trade payables to related parties	(1,311,005)	(1,139,207)
Trade, other payables and accrued expenses	<u>(1,519,354)</u>	<u>(1,542,880)</u>
	<u>(2,830,359)</u>	<u>(2,682,087)</u>

10 Share Capital

	2016	2015
	£	£
Allotted, called up and fully paid		
2,250,000 ordinary shares of £1 (2015: 2,250,000 ordinary share of £1 each)	2,250,000	2,250,000
2,600,000 non cumulative redeemable preference shares of £1	<u>2,600,000</u>	<u>2,600,000</u>
	<u>4,850,000</u>	<u>4,850,000</u>

The non cumulative redeemable preference shares, which were issued at par, are redeemable in such numbers and at such time whether at par or with such premium as the board may in its discretion think fit. The preference shares rank pari passu with ordinary shares, save on winding up or other return of capital when they have priority.

11 Related Party Disclosures

Related party amounts (payable) / receivable by Lendlease Real Estate Investments (Europe) Limited at balance sheet date are as follows:

	2016	2015
	£	£
Related party receivables		
Lendlease Europe Holdings Limited	637,880	-
Lendlease Europe GP Limited	-	391,117
Lendlease Infrastructure (Europe) Limited	26,316	534
Lendlease Infrastructure Holdings (Europe) Limited	10,816	10,816
Lend Lease PFI/PPP Infrastructure Fund GP Limited (sold January 2016)	-	431,073
Lendlease Development (Europe) Limited	-	51,487
	<u>675,013</u>	<u>885,027</u>
Related party payables		
Lendlease Europe Limited	(112,601)	(172,161)
Lendlease Real Estate Investment Services Limited	(336,392)	(921,168)
Lendlease Europe Retail Investments	-	(13,236)
Lendlease Construction (Europe) Limited	<u>(862,012)</u>	<u>(32,642)</u>
	<u>(1,311,005)</u>	<u>(1,139,207)</u>
Expenses from group undertakings		
Management fees paid to Lendlease Europe Limited	<u>(993,099)</u>	<u>(384,225)</u>
Income from group undertakings		
Lend Lease PFI/PPP Infrastructure Fund GP Limited	<u>690,322</u>	<u>866,230</u>

During the year interest was received and charged at LIBOR plus 2.45% on outstanding related party balances.

Notes to the financial statements (continued)

12 Financial Risk Management

Introduction and overview

The Company has exposure to the following risks:

- Credit risk
- Operational risks
- Interest rate risks

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

a) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Company is compliant with the Lendlease Consolidated Group's framework for risk management including credit risk. There are no significant concentrations of external credit risk with the Company's exposure to only Lendlease Consolidated Group related parties.

b) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure and from external factors other than credit risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

c) 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 policy is to manage interest rate risk that impacts directly on the Company's assets and liabilities. The Company's exposure to interest rate risk is limited to movements in intra-group lending rates.

Sensitivity Analysis

At 30 June 2016, it is estimated that an increase of one percentage point in interest rate would have increased the Company's profit before tax by approximately £15,631 (2015: increased the Company's loss before tax by approximately £10,284).

Compliance with the Company's standards is supported by a programme of periodic reviews which are discussed at Board level.

d) Capital management

The Company is regulated by the Financial Conduct Authority who set and monitor capital requirements for the Company.

In implementing capital requirements the Financial Conduct Authority requires the Company to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Company has complied with all externally imposed capital requirements throughout the year. There have been no material changes to the Company's management of capital during the year.

The Company's regulatory capital position at 30 June was as follows:

	2016	2015
	£	£
Tier 1 capital		
Ordinary share capital	2,250,000	2,250,000
Non cumulative redeemable preference shares	2,600,000	2,600,000
Retained earnings	(385,078)	(1,611,904)
	<u>4,464,922</u>	<u>3,238,096</u>

f) Fair values of financial assets and liabilities – on statement of financial position

There is no significant difference between the carrying value and fair value of the financial instruments.

Notes to the financial statements (continued)

13 Ultimate parent Company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Lendlease Europe Limited, a company registered in England and Wales. Its ultimate parent undertaking is Lendlease Corporation Limited, Level 14 Tower Three, International Towers Sydney, Exchange Place, 300 Barangaroo Avenue, Barangaroo NSW 2000, a company incorporated in Australia. The largest group in which the results of the company are consolidated is that headed by Lendlease Corporation Limited. The consolidated financial statements of that group may be obtained from www.lendlease.com.

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