

Lend Lease Construction (Scotland) Limited

Directors' report and
financial statements
For the year ended 30 June 2013
Registered number 89468

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Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2013.

Principal activities

The Company's principal activity is as a provider of project solutions in the construction industry in the United Kingdom.

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is 33 Bothwell Street, Glasgow, Lanarkshire G2 6NL.

These financial statements were authorised for issue by the Board of Directors on 10 October 2013.

Business review

Lend Lease Construction (Scotland) Limited is part of the Lease Lease Group and is a wholly owned subsidiary of Lend Lease Corporation, a company listed on the Australian Stock Exchange. The 2013 financial year was another successful year for the Lend Lease Corporation with the company declaring A\$552.5m (2012: A\$503.1m) of profit after tax. The corporation also remains highly liquid with A\$1,538.4m of cash (2012: A\$957.9m) and has access to a further A\$1,099.4m (2012: A\$1,242.5m) of unused banking facilities.

Lend Lease Construction (Scotland) Limited is the primary trading entity for the Project Management and Construction business of Lend Lease in Scotland and the North of England. The Company has faced challenging market conditions coupled with a small number of under-performing projects in the financial year to 30 June 2013 which are reflected in the operating result for the year. This also includes the impact of a share of restructuring costs from streamlining the wider UK organisational structure.

Lend Lease Construction (Scotland) Limited continues to successfully focus on its strategy of building long term commercial relationships with a mature and value focused client base as demonstrated by its continued success in the Primary and Further Education, Health and Public sectors.

Strong supply chain relationships across all our sectors coupled with a strong pipeline of work in the Primary and Further Education sector and a number of public sector opportunities which include The Strathclyde Technology and Innovation Centre, The Aberdeenshire Council Framework, The Rowett Institute, Cramlington Hospital in Northumberland and the South Lanarkshire Council Framework (Phase II Tranche II) continue to support the future profitability of the business.

The Company reported a loss after tax of £6,013,000 (2012: profit of £1,338,000) for the year ended 30 June 2013.

The Company reported net liabilities of £1,744,000 (2012: net assets £4,269,000) as at 30 June 2013.

Dividend

The directors do not recommend a final dividend for the year (2012: £nil). An interim dividend of £nil (2012: £nil) was paid during the year.

Directors' report (continued)

Directors and directors' interests

The directors who served during the year are listed below:

G Anderson

P Gandy

L Gledhill (appointed 10 May 2013)

T Peach (appointed 10 May 2013)

B Dew (resigned 7 December 2012)

M Dyke (resigned 10 May 2013)

S Grist (appointed on 19 December 2012 and resigned on 16 January 2013)

Political and charitable donations

The Company made no political contributions during the year (2012: £nil). The Company made no donations to UK charities (2012: £nil).


Disclosure of information to auditor

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

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.

On behalf of the board


LISA GLEDHILL

Director

10 October 2013

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

The directors are responsible for preparing 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 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 Lend Lease Construction (Scotland) Limited

We have audited the financial statements of Lend Lease Construction (Scotland) Limited for the year ended 30 June 2013 set out on pages 6 to 22. 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2013 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the financial statements 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 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; 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.



W. Meredith
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

10/10/13

Statement of Comprehensive Income
for the year ended 30 June 2013

	<i>Notes</i>	2013	2012
		£000	£000
Revenue		82,632	73,147
Cost of Sales		(84,430)	(66,873)
Gross (loss)/profit		(1,798)	6,274
Administrative expenses		(6,106)	(4,462)
Operating (loss)/profit		(7,904)	1,812
Finance income		30	-
Finance costs		-	-
(Loss)/Profit before taxation	<i>3</i>	(7,874)	1,812
Income tax	<i>7</i>	1,861	(474)
(Loss)/Profit for the year	<i>13</i>	(6,013)	1,338
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		(6,013)	1,338

No operations were acquired or discontinued during the year (2012: none). There is no material difference between the results disclosed in the income statement and the result given on an unmodified historical cost basis.

Balance sheet

Registered number 89468

at 30 June 2013

	Notes	2013 £000	2012 £000
Assets			
Non-current Assets			
Deferred tax	8	<u>126</u>	<u>107</u>
		126	107
Current Assets			
Cash and cash equivalents		8,068	2,019
Trade and other receivables	9	<u>42,541</u>	<u>31,822</u>
		50,609	33,841
Total assets		50,735	33,948
Current liabilities			
Trade and other payables	11	<u>(52,479)</u>	<u>(29,679)</u>
		(52,479)	(29,679)
Net Assets		<u>(1,744)</u>	<u>4,269</u>
Equity and liabilities			
Ordinary shares	12	-	-
Retained Earnings	13	(1,744)	4,269
Total equity		<u>(1,744)</u>	<u>4,269</u>

These financial statements were approved by the board of directors on 10 October 2013 and were signed on its behalf by:



LISA GLEDHILL

Director

**Statement of changes in shareholders' equity
 for the year ended 30 June 2013**

	<i>Notes</i>	Ordinary share capital	Retained Earnings	Total equity
		£000	£000	£000
Balance at 30 June 2011		-	2,931	2,931
Profit for the year	13	-	1,338	1,338
Balance at 30 June 2012		-	4,269	4,269
Loss for the year	13	-	(6,013)	(6,013)
Balance at 30 June 2013		-	(1,744)	(1,744)

Cash flow statement
for the year ended 30 June 2013

	<i>Notes</i>	2013	2012
		£	£
		£000	£000
Cash flows from operating activities			
Cash generated from operations	14	9,770	519
Taxation paid		(3,721)	-
Net cash from operating activities		6,049	519
Net increase in cash and cash equivalents		6,049	519
Cash and cash equivalents at beginning of year		2,019	1,500
Cash and cash equivalents at end of year		8,068	2,019

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

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

The Company is not required to prepare consolidated financial statements under section 400 of the Companies Act 2006 and IAS 27 – "Presentation of Consolidated Financial Statements" as it is a subsidiary of another entity that prepares consolidated financial statements. As such, the results presented here are for the Company as an individual undertaking and not of its Group.

The financial statements have been prepared under the historical cost convention.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business net of value added tax.

Sales of goods are recognised when goods are delivered and title has passed. Revenue from construction contracts is recognised in accordance with the Company's accounting policy on construction contracts.

Construction contracts

Where the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent that contract costs incurred are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

Where the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue and cost are recognised over the period of the contract. The Company does not consider that the outcome of a construction contract can be reliably determined until it is at least 20% complete. Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Company uses the "percentage of completion method" to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the actual contract costs incurred up to the balance sheet date as a percentage of the total estimated costs for each contract. Provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers are included within trade and other receivables. The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Foreign currencies

Transactions in currencies other than the entity's functional currency (foreign currencies) are initially recorded at the rates of exchange prevailing on the date of the transaction. At each subsequent balance sheet date assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period. Foreign exchange differences are taken to the income statement in the period in which they arise. All exchange differences arising are dealt with in the income statement.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Pension costs

Contributions in respect of defined benefit pension schemes are calculated as a percentage, agreed based on actuarial advice, of the pensionable salaries of employees. The cost of providing pensions is charged to the profit and loss account over the periods benefiting from the services of employees.

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 'Employee benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease. Lease incentives received are spread over the lease term.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

All receivables are regularly reviewed and a provision for impairment of trade receivables is established when there is objective evidence that all amounts may not be collectible according to the original terms of the sales transaction.

Cash and cash equivalents

Cash and cash equivalents comprises of cash in hand and at bank.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Critical judgements in applying the entity's accounting policies

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

The Company's revenue recognition and long-term contract accounting (set out above) are central to the way the Company values the work it has carried out in each financial year. These policies require forecasts to be made of the outcomes of long-term construction and service contracts, which require assessments and judgements to be made on profit recognition, recovery of pre-contract costs, changes in work scope, contract programmes and maintenance liabilities.

New Accounting Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the financial year ended 30 June 2013 and have not been applied in preparing this report. None of these is expected to have a significant effect on the financial statements and its policies, other than the following standards where the potential effect is yet to be determined:

- IFRS 13 Fair Value Measurement is a new standard which replaces existing guidance on fair value measurement in different IFRSs with a single definition and framework for fair value.

The standard above becomes mandatory for the June 2014 financial year and is to be applied retrospectively.

Notes to the financial statements (continued)

2 Segment information

The Company's turnover and results arose from, and the Company's net assets are deployed in, providing project solutions in the construction industry, primarily in the United Kingdom. Lend Lease Construction (Scotland) Limited has identified the one operating segment based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing the performance and determining the allocation of resources.

Geographical segments

Revenue is attributable to geographic locations based on the location of customers. The Company currently operates solely within one geographical segment (United Kingdom), and accordingly no geographical segment analysis is provided.

3 Profit before taxation

	2013	2012
	£000	£000
<i>Profit before taxation is stated after charging:</i>		
Rentals payable under operating leases:		
Land and other buildings	111	124
Staff costs (note 5)	6,948	6,239

The remuneration of the auditors for the current and prior accounting years of £21,785 (2012: £21,104) has been borne by a fellow group undertaking.

4 Remuneration of Directors

The directors did not receive any remuneration from the Company for their services during the year (2012: £nil).

5 Staff numbers and costs

The average number of employees engaged in the activity of providing project solutions in the construction industry was 101 (2012: 82). The aggregate payroll costs of these employees were as follows:

	2013	2012
	£000	£000
Wages and salaries	5,466	4,916
Social security costs	617	536
Other pension costs (note 18)	865	787
	<u>6,948</u>	<u>6,239</u>

6 Administrative expenses

Other costs such as overheads are borne by a fellow group undertaking which recovered its costs by way of a management charge to the Company. The management charge was £3,485,199 (2012: £3,308,129).

7 Income tax

a) Tax on profit on ordinary activities

	2013	2012
	£000	£000
<i>Current tax:</i>		
UK corporation tax	<u>(1,842)</u>	<u>476</u>
<i>Deferred tax:</i>		
Temporary differences	(24)	(11)
Effect of future tax rate change	5	9
Deferred tax credit	<u>(19)</u>	<u>(2)</u>
Total tax (credit)/charge in the statement of comprehensive income	<u>(1,861)</u>	<u>474</u>

Notes to the financial statements (continued)

7 Income tax (continued)

b) Reconciliation of the total tax charge

The tax charge/(credit) for the year on the profit/(loss) on ordinary activities is the same as the notional tax charge on those profits/(losses) calculated at the UK corporation tax rate of 23.75% (2012: 25.5%). Any differences are explained below:

	2013 £000	2012 £000
(Loss)/Profit on ordinary activities before tax	(7,874)	1,812
Tax at 23.75% (2012: 25.5%)	(1,870)	462
<i>Effects of:</i>		
Non deductible expenses	4	3
Permanent difference on change in tax rate	5	9
Adjustments in respect of prior years	-	-
Total tax (credit)/charge in the statement of comprehensive income (note 7 (a))	(1,861)	474

8 Deferred tax asset

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

	2013 £000	2012 £000
Fixed asset related temporary differences	126	107
<i>Movement in provision:</i>		
Balance 1 July	107	104
Deferred tax (charge)/credit relating to profit (note 7 (a))	19	2
Adjustment in respect of prior years	-	1
Balance 30 June	126	107

The 2013 Budget announced on 20 March 2013 that the UK corporation tax rate will reduce to 20% by 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012 and further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 30 June 2013 (which has been calculated based on the rate of 23% substantively enacted at the balance sheet date) by £10,897.

9 Trade and other receivables

	2013 £000	2012 £000
Trade receivables	8,053	5,376
Amounts due from related parties	24,943	21,664
Other debtors	6,064	4,183
Corporation tax	3,064	-
Construction contract work in progress	417	599
	42,541	31,822

Notes to the financial statements (continued)

9 Trade and other receivables (continued)

The ageing of trade receivables at the reporting date was:

	2013		2012	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	8,053	-	5,376	-
Past due 0-90 days	-	-	-	-
More than 90 days	-	-	-	-
	<u>8,053</u>	<u>-</u>	<u>5,376</u>	<u>-</u>

The directors believe that no impairment allowance is necessary in respect of trade receivables not past due (2012: £nil).

10 Construction contracts

	2013 £000	Restated 2012 £000
Contracts in progress at the balance date:		
- amounts due from contract customers (note 9)	417	599
- amounts due to contract customers (note 11)	(19,931)	(8,678)
Net amounts due to contract customers	<u>(19,514)</u>	<u>(8,079)</u>

During the year ended 30 June 2013, the Lend Lease Group amended the accounting policy around the reporting of construction contract work in progress. The revised accounting policy disaggregates project cost accruals from the net work in progress balance and reports these separately in current liabilities. The comparatives above for 30 June 2012 have been restated to reflect the position under the new accounting policy resulting in a decrease in amounts due to contract customers of £3,711,000. The effect on the net assets of the Company at 30 June 12 is nil. For further detail, see note 11.

During the year ended 30 June 2013, all revenue recognised in the income statement is derived from construction contracts.

At 30 June 2013, retentions held by customers for contract work amounted to £6,064,000 (2012: £4,183,000). Contract advances amounted to £4,723,000 (2012: £3,510,000).

11 Trade and other payables

	2013 £000	Restated 2012 £000
Payments received on account for construction work	19,931	8,678
Trade payables	6,127	3,727
Amounts owed to group companies	10,831	7,346
Corporation tax	-	2,499
Project cost accruals	9,453	3,711
Other creditors	6,137	3,718
	<u>52,479</u>	<u>29,679</u>

During the year ended 30 June 2013, the Lend Lease Group amended the accounting policy around the reporting of construction contract work in progress. The revised accounting policy disaggregates project cost accruals from the net work in progress balance and reports these separately in current liabilities. The comparatives above for 30 June 2012 have been restated to reflect the position under the new accounting policy, resulting in a decrease of £3,711,000 to payments received on account for construction work and an increase of £3,711,000 to project cost accruals. The effect on the net assets of the Company at 30 June 12 is nil.

Notes to the financial statements (continued)

12 Called up share capital

	2013	2012
	£	£
<i>Allotted, called up and fully paid</i>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

13 Retained earnings

	2013	2012
	£000	£000
At beginning of year	4,269	2,931
Profit for the year	(6,013)	1,338
At end of year	<u>(1,744)</u>	<u>4,269</u>

14 Cash flows from operating activities

	2013	2012
	£000	£000
Cash flows from operating activities		
Profit for the year	(6,013)	1,338
<i>Adjustments for:</i>		
Tax charge	(1,861)	474
Finance costs	-	-
Changes in working capital:		
(Increase)/decrease in trade and other receivables	(4,376)	1,142
(Increase)/decrease in amounts due from related parties	(3,279)	10,577
Increase/(decrease) in trade and other payables	2,400	(8,377)
Increase in amounts due to related parties	3,485	3,308
Increase/(decrease) in accruals and other liabilities	19,414	(7,943)
Cash generated from operations	<u>9,770</u>	<u>519</u>

Notes to the financial statements (continued)

15 Commitments

Operating leases

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

	Land and buildings	
	2013	2012
	£000	£000
Operating leases which expire:		
Within one year	79	79
Between one and five years	66	145
Over five years	-	-
	<u>145</u>	<u>224</u>

16 Contingent liabilities

There are claims outstanding which arise under contracts carried out by the Company in the ordinary course of business. It is not possible to predict with any certainty the results of these claims but the directors believe, taking into account counter-claims, claims against third parties and provisions in the accounts, that the outcome will not have a material effect on the Company's financial position.

17 Financing arrangements and financial instruments

Foreign currency risk

Foreign currency risk is the risk that the value of a financial commitment, a recognised asset or liability will fluctuate due to changes in foreign currency exchange rates. The Lend Lease Group policy is to manage currency risk so as to minimise any adverse impact of this risk and associated costs on the results.

The Company operates predominantly within the UK such that its exposure to currency risk is considered to be minimal with only a small proportion of items both in terms of volume and value transacted in a foreign currency. As a result, there are no hedges in place with respect to any potential currency exposure.

The company does not have any material exposure to foreign currency.

Price risk

The Company does not have significant equity investments or investments in commodities and does not consider itself to be exposed to any significant equity, commodity or other price risk.

Commodities are procured in the open market with fixed price contracts, transferring the pricing risk to the subcontractor. The maximum exposure is held between being awarded lump sum contracts and transferring the risk. This is mitigated by the lump sums being covered by trade prices or having sufficient inflation contingency.

Credit risk

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

The Company operates predominantly in the UK construction market and has no significant concentrations of credit risk on either a geographic or industry specific basis. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Trade receivables are monitored on a daily and weekly basis to minimise the Company's exposure to credit risk, in particular, with reference to the Company's debtors days which for the current year was 35 days (2012: 27 days).

Credit risk is also managed by limiting the aggregate exposure to any one individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

The maximum exposure to credit risk at the balance sheet date on financial assets recognised in the balance sheet equals the carrying amount, net of any impairment.

Notes to the financial statements (continued)

17 Financing arrangements and financial instruments (continued)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or future cash flow associated with the instrument will fluctuate due to changes in the market interest rates. No interest has been incurred on any financial instruments held by the Company during the year, therefore, the interest rate risk is not considered to be material. Interest earned on cash and cash equivalents is minimal and is not considered to be material.

Liquidity risk

Liquidity risk is the risk of having insufficient funds to settle financial liabilities as and when they fall due. This includes having insufficient levels of committed credit facilities. Liquidity risk is reduced through prudent cash management which ensures sufficient levels of cash are maintained to meet working capital requirements.

The following are the contractual cash flow maturities of financial liabilities as at 30 June 2013:

30 June 2013	Carrying Amount £000	Contractual Cash flows £000	6 mths or less £000	6-12 mths £000	1-2 years £000	2-5 years £000	More than 5 years £000
Non derivative financial liabilities							
Trade and other payables	12,264	12,264	12,264	-	-	-	-
Total	12,264	12,264	12,264	-	-	-	-
30 June 2012							
Non derivative financial liabilities							
Trade and other payables	9,944	9,944	9,944	-	-	-	-
Total	9,944	9,944	9,944	-	-	-	-

Net fair values of assets and liabilities

All financial instruments recognised on the balance sheet, including those instruments carried at amortised cost, are recognised at amounts that represent a reasonable approximation of fair value.

Capital management

The Company assesses its Capital Management model as part of the broader Lend Lease Group Board's strategic plan. When investing capital, the Company's objective is to deliver strong shareholder returns and to continue to generate high levels of liquid assets in line with the Lend Lease Corporation capital management goals.

The capital structure of the Company can be changed by equity issues, dividend payments and dividend reinvestments.

The Company actively manages the working capital on a daily basis with periodic narrative and recommendations prepared for senior management on movements, risk, exceptions and tracking against business targets. The Company operates under a strict regime of contract billings and debtor payment cycle to maximise liquidity.

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

Notes to the financial statements (continued)

18 Pension scheme

The Company participates in the Lend Lease UK Pension Scheme in respect of its employees. Contributions paid to the scheme are based on pension costs across the companies within the Lend Lease UK Pension Scheme as a whole. The scheme is a group plan for which there is no contractual agreement or stated policy for charging the costs for the plan as a whole.

In accordance with IAS 19 the net defined benefit cost is recognised in the financial statements of Lend Lease Construction Holdings (EMEA) Limited, the legal sponsor for the plan. Accordingly, the scheme is accounted for as a defined contribution scheme in the accounts of the company. Details of this defined benefits scheme, including the level of solvency and the basis on which the future contributions rate is determined and the disclosures required under IAS 19, are set out in the financial statements of Lend Lease Construction Holdings (EMEA) Limited (the company's immediate parent undertaking), which sponsors the scheme. The financial statements of this group may be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff.

Extracts from the financial statements of Lend Lease Construction Holdings (EMEA) Limited which is the legal sponsor of the defined benefit pension scheme are included in this note.

For the year ended 30 June 2013 the Company contributions paid to the Lend Lease UK Pension Scheme were £865,000 (2012: £787,000). The contributions were paid across by Lend Lease Construction (EMEA) Limited and recharged to Lend Lease Construction (Scotland) Limited.

These contributions were based on the funding agreement following the full actuarial valuation of the Lend Lease UK Pension Scheme carried out by the Scheme Actuary as at 31 March 2011.

The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Note 5 to the financial statements show the total cost to the Company of the main schemes operating during the year.

Extract from the financial statements of Lend Lease Construction Holdings (EMEA) Limited

a) Principal actuarial assumptions

	2013	2012	2011	2010
	% p.a.	% p.a.	% p.a.	% p.a.
Pension increases post April 2008	2.5	2.3	2.5	2.6
Rate of increase in salaries	n/a	n/a	n/a	n/a
Inflation assumption	3.5	3.1	3.6	3.7
Discount rate applied to scheme liabilities	4.7	4.8	5.4	5.4
Expected rate of return	5.8	5.8	6.4	6.3

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The overall expected rate of return on the scheme assets is a weighted average of the individual expected rates of return on each asset class.

Lend Lease Construction Holdings (EMEA) Limited employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at the 30 June 2013.

Notes to the financial statements (continued)

18 Pension scheme (continued)

- b) Lend Lease Construction Holdings (EMEA) Limited acts as a sponsor for its group pension scheme, the Lend Lease UK Pension Scheme which is a funded Scheme of the defined benefit type. A separate section, the Personal Investment Section, provides retirement benefits on a defined contribution basis. The Company's contributions to members' PIF accounts are not included in these disclosures.

The Final Salary Section was closed to future accrual on 31 August 2008 and the Index- Linked Section closed to future accrual on 31 January 2012.

There exists a pension deficit in the scheme as at 30 June 2013 (2012: deficit).

Regular employer contributions to the Lend Lease UK Pension Scheme in 2013/14 are estimated to be £10.9m (2012/13:

For the year ended 30 June 2013 Lend Lease Construction Holdings (EMEA) Limited contributions paid to the Lend Lease UK Pension Scheme were £10.9m (2012: £14.6m).

c) Reconciliation of the present value of defined benefit obligations

	2013 £000	2012 £000
Present value of defined benefit obligations at beginning of financial year	422,100	385,500
Current service cost	-	3,500
Interest cost on benefit obligation	19,600	20,400
Actuarial (gains)/losses	17,400	30,400
Benefits paid	(16,500)	(17,700)
Present value of defined benefit obligations at end of financial year	<u>442,600</u>	<u>422,100</u>

d) Reconciliation of the fair value of plan assets

	2013 £000	2012 £000
Fair value of plan assets at beginning of financial year	397,710	381,300
Expected return on plan assets	20,000	22,200
Actuarial gain/(loss)	20,200	(2,700)
Contributions by group companies	10,890	14,610
Benefits paid	(16,500)	(17,700)
Fair value of plan assets at end of financial year	<u>432,300</u>	<u>397,710</u>

e) Categories of plan assets

	% held at 2013	% held at 2012
Equity instruments	39	38
Corporate bonds	14	15
Multi strategy funds	18	14
Liability driven instruments (including Government bonds)	28	31
Other	1	2
	<u>100</u>	<u>100</u>

Notes to the financial statements (continued)

18 Pension scheme (continued)

Changes to accounting standards:

IAS 19 Employee benefits has been revised for periods commencing on or after 1 January 2013. Under the revised standard the corridor method will no longer be permitted and all accumulated actuarial gains and losses must be recognised in the scheme asset or liability. In addition, changes have been made to what is recognised in the Statement of Comprehensive Income. This will only impact the financial statements of Lend Lease Construction Holdings (EMEA) Limited.

19 Related party transactions

The following transactions were carried out with related parties:

	2013	2012
	£000	£000
a) Sale of goods and services		
Sale of goods to:		
- Other group companies	1,984	101
Recharge of Services to:		
- Other group companies	25	-
	<u>2,009</u>	<u>101</u>

Goods are sold based on price lists in force and terms that would be available to third parties. Recharges of services are negotiated with related parties on a cost-plus basis, allowing a margin reflecting standard commercial terms.

b) Purchases of goods and services:

	2013	2012
	£000	£000
Recharge of services by:		
- Parent	3,485	-
- Other group companies	31	39
	<u>3,516</u>	<u>39</u>

Goods and services are bought from group undertakings on normal commercial terms and conditions. Management services are recharged from the immediate, intermediate and ultimate parent on a cost-plus basis, allowing a margin reflecting standard commercial terms.

c) Key management compensation/directors

Refer note 4

d) Year-end balances

	2013	2012
	£000	£000
Receivables from related parties (note 9)		
- Other group companies	24,943	21,664
Payables to related parties (note 11)		
- Other group companies	10,831	7,346

The receivables from related parties arise mainly from sale transactions and are due 1 month after the date of sales. The receivables are unsecured in nature and bear no interest.

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

Notes to the financial statements (continued)

20 Ultimate parent undertaking and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Lend Lease Construction Holdings (EMEA) Limited, a company incorporated in England and Wales. Its ultimate parent undertaking is Lend Lease Corporation Limited, which is incorporated in Australia.

The largest group in which the results of the Company are consolidated is that headed by Lend Lease Corporation Limited. The consolidated financial statements of this group may be obtained from Level 4, 30 The Bond, 30 Hickson Road, Millers Point, New South Wales, Australia, 2000, or from its website at www.lendlease.com.au.

The smallest group in which they are consolidated is that headed by Lend Lease Europe Holdings Limited, incorporated in England and Wales. The consolidated financial statements of this group are available to the public and may be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff.

21 Post balance sheet event

No post balance sheet events to note.