

Lendlease Finance Limited

Half Year Financial Report

31 December 2016

Lendlease Finance Limited ABN 49 008 618 380

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Lendlease Finance Limited (the Company) is incorporated and domiciled in Australia. The Company is a for-profit entity. Further information about Lendlease Finance Limited's primary activities is included in the Directors' Report.

The Company's half year financial report was authorised for issue by the Directors on 15 February 2017.



Directors' Report

The Directors of Lendlease Finance Limited ('the Company') (ABN 49 008 618 380) present their Report together with the Half Year Financial Report of the Company, for the six months ended 31 December 2016 and the Auditor's Report thereon.

Lendlease Finance Limited is a wholly owned subsidiary of Lendlease Corporation Limited and forms part of the consolidated Lendlease Group ('the Group'). The registered office and principal place of business of the Company is Level 14, Tower Three, International Towers Sydney Exchange Place, 300 Barangaroo Avenue, Barangaroo NSW 2000.

1. Directors

The name of each person who has been a Director of the Company at any time between 1 July 2016 and the date of this Report are:

P J Hooper	Director since February 2005
S G Benson	Director since July 2015
T D Gupta	Director since June 2016

2. Principal Activities

The principal activities of the Company are to manage financial risks undertaken through borrowing, lending and investing and hedging the Group's foreign currency and interest rate exposures. In relation to these activities, the Company holds foreign exchange and interest rate derivative contracts as part of its role in maintaining the Group's hedged position. There were no significant changes in the nature of this activity during the period.

3. Review and Results of Operations

The Company made a profit after tax of \$10,983,000 for the six months ended 31 December 2016 (31 December 2015: \$152,000 profit after tax).

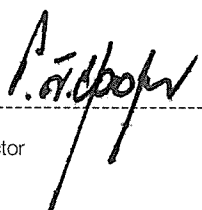
4. Events Subsequent to Balance Date

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

5. Rounding Off

Lendlease Finance Limited is a Company of the kind referred to in the Australian Securities and Investments Commission (ASIC) (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with the Instrument, amounts in the financial statements and directors' report have been rounded off to the nearest thousand dollars, or, where the amount is A\$500 or less, zero, unless specifically stated otherwise.

This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors.



Director

Financial Statements

Income Statement

Half Year Ended 31 December 2016

	Note	6 months December 2016 S000s	6 months December 2015 S000s
Finance revenue	3	40,424	48,881
Finance costs	3	(42,722)	(40,626)
Net finance (cost)/revenue		(2,298)	8,255
Other income			
Guarantee fees – related parties		13,582	14,514
Derivative and foreign exchange gain/(loss)	4	13,776	(11,928)
Expenses			
Guarantee fees		(9,262)	(10,182)
Management fees		-	(371)
Professional fees		(37)	97
Other expenses		(78)	(168)
Total expenses		(9,377)	(10,624)
Profit before tax		15,683	217
Income tax expense	5	(4,700)	(65)
Profit after tax attributable to members of Lendlease Finance Limited		10,983	152

Statement of Comprehensive Income

Half Year Ended 31 December 2016

	6 months December 2016 S000s	6 months December 2015 S000s
Profit after tax	10,983	152
Other comprehensive income/(expense) after tax	-	-
Total comprehensive income after tax	10,983	152

Financial Statements continued

Statement of Financial Position

As at 31 December 2016

	Note	December 2016 \$000s	June 2016 \$000s
Current Assets			
Cash and cash equivalents		411,471	272,147
Loans and receivables	6	1,108,360	1,442,274
Derivatives		31,289	15,520
Financial guarantee contracts		820	820
Other assets		3,120	602
Total current assets		1,555,060	1,731,363
Non Current Assets			
Derivatives		259	1,213
Financial guarantee contracts		2,416	2,416
Deferred tax assets		17,342	29,542
Other assets		13,867	17,290
Total non current assets		33,884	50,461
Total assets		1,588,944	1,781,824
Current Liabilities			
Trade and other payables	7	346,119	411,753
Derivatives		5,326	65,952
Borrowings and financing arrangements	8	263,072	-
Total current liabilities		614,517	477,705
Non Current Liabilities			
Trade and other payables	7	464,472	536,805
Derivatives		259	1,221
Borrowings and financing arrangements	8	475,573	750,189
Deferred tax liabilities		10,429	3,193
Total non current liabilities		950,733	1,291,408
Total liabilities		1,565,250	1,769,113
Net assets		23,694	12,711
Equity			
Issued capital	9	100,000	100,000
Reserves		14,941	14,941
Accumulated losses		(91,247)	(102,230)
Total equity		23,694	12,711

Financial Statements continued

Statement of Changes in Equity

Half Year Ended 31 December 2016

	6 months December 2016 \$000s	6 months December 2015 \$000s
Issued Capital		
Opening balance at beginning of financial period	100,000	100,000
Closing balance at end of financial period	100,000	100,000
Financial Guarantee Contract Reserve		
Opening balance at beginning of financial period	14,941	14,941
Closing balance at end of financial period	14,941	14,941
Retained Earnings/(Accumulated Losses)		
Opening balance at beginning of financial period	(102,230)	(101,324)
Profit attributable to members of Lendlease Finance Limited	10,983	152
Closing balance at end of financial period	(91,247)	(101,172)
Total equity	23,694	13,769
Total Comprehensive Income After Tax for the Period		
Attributable to members of Lendlease Finance Limited	10,983	152
Total comprehensive income after tax	10,983	152

Statement of Cash Flows

Half Year Ended 31 December 2016

	6 months December 2016 \$000s	6 months December 2015 \$000s
Cash Flows from Operating Activities		
Cash receipts in the course of operations	2,837,478	2,162,096
Cash payments in the course of operations	(2,903,603)	(2,132,861)
Interest received	40,460	48,807
Interest paid	(41,042)	(38,285)
Net cash (used in)/provided by operating activities	(66,707)	39,757
Cash Flows from Financing Activities		
Funding provided from Group entities	655,999	683,153
Funding provided to Group entities	(456,174)	(1,107,725)
Proceeds from borrowings - external	1,450,000	1,730,000
Repayment of borrowings - external	(1,450,000)	(1,300,000)
Net cash provided by financing activities	199,825	5,428
Other Cash Flow Items		
Effect of foreign exchange rate movements on cash and cash equivalents	6,206	(4,657)
Net increase in cash and cash equivalents	139,324	40,528
Cash and cash equivalents at beginning of financial period	272,147	6,988
Cash and cash equivalents at end of financial period	411,471	47,516

Notes to the Financial Statements

1. Basis of Preparation

The half year financial report is a general purpose financial report which:

- has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*;
- complies with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB);
- should be read in conjunction with the 30 June 2016 annual financial report. The half year financial report does not contain all the information required for a full financial report;
- is presented in Australian dollars with all values rounded off to the nearest thousand dollars unless otherwise indicated, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191; and
- is prepared under the historical cost basis except for derivative financial instruments which are stated at their fair value.

The preparation of an interim financial report that complies with AASB 134 requires management to make judgements, estimates and assumptions.

- This can affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.
- The accounting policies have been consistently applied by the Company and are consistent with those applied in the 30 June 2016 annual financial report other than as stated below.

1.1 Impact of New/Revised Accounting Standards

New and Revised Accounting Standards Adopted 1 July 2016

There were no new accounting standards or amendments adopted by the Company for the period ended 31 December 2016.

New Accounting Standards and Interpretations Not Yet Adopted

Accounting Standard	Requirement	Impact on Financial Statements
AASB 9 <i>Financial Instruments</i> and consequential amendments	AASB 9 addresses the classification, measurement and derecognition of financial assets, financial liabilities, and hedging. The standard becomes mandatory for the June 2019 financial year, and will be applied retrospectively.	Based on the preliminary analysis performed, AASB 9 and consequential amendments are not expected to have a material impact on the Company.
AASB 15 <i>Revenue from Contracts with Customers</i>	AASB 15 provides a new five step model for recognising revenue earned from a contract with a customer and will replace the existing AASB 118 Revenue and AASB 111 Construction Contracts. The standard becomes mandatory for the June 2019 financial year and will be applied retrospectively.	Based on the preliminary analysis performed, AASB 15 and consequential amendments are not expected to have a material impact on the Company.
AASB 2016-1 <i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i>	The amendments to AASB 112 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. The amendment becomes mandatory for the June 2018 financial year and will be applied retrospectively.	Based on the preliminary analysis performed, the amendments are not expected to have a material impact on the Company.
AASB 2016-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	The amendment to AASB 107 introduces additional disclosures relating to changes in liabilities arising from financing activities. The amendment becomes mandatory for the June 2018 financial year and will be applied prospectively.	The amendments is not expected to have any significant financial impact on the Company, however it will impact the type of information disclosed in relation to financing cash flows.

Notes to the Financial Statements continued

2. Segment Reporting

Business Segment

The Company is involved in providing financial services to the Lendlease Group through borrowing, lending and investing activities and in hedging foreign currency exposures and interest rate risks.

Geographical Segment

The Company operates solely in Australia in respect of its management and operational activities. Its total assets are held in Australia.

	6 months December 2016 \$000s	6 months December 2015 \$000s
3. Finance Revenue and Finance Costs		
Finance revenue		
Related parties	38,548	47,979
Other corporations	1,876	902
Total finance revenue	40,424	48,881
Finance costs		
Related parties	(10,429)	(3,906)
Other corporations	(32,293)	(36,720)
Total finance costs	(42,722)	(40,626)
Net finance (cost)/revenue	(2,298)	8,255

4. Derivative and Foreign Exchange Gain/(Loss)

Foreign exchange contracts gain	7,782	19,649
Foreign exchange loss on related party loans	(11,984)	(24,105)
Foreign exchange gain/(loss) on S\$275 million Singapore bond	11,729	(2,567)
Foreign exchange gain/(loss) on other transactions	43	(69)
Foreign exchange gain/(loss) on revaluation of foreign currency bank accounts	6,206	(4,657)
Loss on remeasurement of foreign exchange options	-	(179)
Total derivative and foreign exchange gain/(loss)	13,776	(11,928)

5. Taxation

Income Tax Expense

Recognised in the Income Statement

Current Tax Benefit

Current period	(14,737)	(7,387)
Adjustments for prior periods	-	-
	(14,737)	(7,387)

Deferred Tax Expense

Origination and reversal of temporary differences	19,437	7,452
Adjustments for prior periods	-	-
	19,437	7,452

Total income tax expense	4,700	65
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Reconciliation of Effective Tax Rate

Profit before tax	15,683	217
Income tax using the domestic corporation tax rate 30%	4,705	65
Non allowable expenses	2	-
Foreign tax credits claimable	(7)	-
Income tax expense	4,700	65

Notes to the Financial Statements continued

	December 2016 \$000s	June 2016 \$000s
6. Loans and Receivables		
Current		
Loans to parent entity (including intercompany tax balance)	1,104,409	1,379,993
Related party loans and receivables	3,683	62,064
Other receivables	268	217
Total loans and receivables	1,108,360	1,442,274
7. Trade and Other Payables		
Current		
Loans from parent entity (including intercompany tax balance)	-	1,800
Related party trade payables and loans	331,197	395,434
Accrued expenses	14,922	14,519
Total current	346,119	411,753
Non Current		
Related party trade payables and loans	464,472	536,805
Total non current	464,472	536,805
Total trade and other payables	810,591	948,558
8. Borrowing and Financing Arrangements		
a. Borrowings – Measured at Amortised Cost		
Current		
Commercial notes	263,072	-
Total current	263,072	-
Non Current		
Commercial notes	475,573	750,189
Total non current	475,573	750,189
Total borrowings and financing arrangements	738,645	750,189

Notes to the Financial Statements continued

	December 2016 \$000s	June 2016 \$000s
8. Borrowing and Financing Arrangements continued		
b. Finance Facilities		
The Company has access to the following lines of credit:		
Commercial notes		
Facility available	738,645	750,189
Amount of facility used	(738,645)	(750,189)
Amount of facility unused	-	-
Bank credit facilities		
Facility available	1,500,000	1,500,000
Amount of facility used	-	-
Amount of facility unused	1,500,000	1,500,000
Bank overdrafts		
Facility available	115,000	115,000
Amount of facility used	-	-
Amount of facility unused	115,000	115,000

Commercial notes include:

- S\$275.0 million of senior unsecured notes issued in July 2012 in the Singapore bond market with a 4.625% p.a. coupon rate maturing in July 2017; and
- A\$475.0 million of unsecured medium term notes issued in May 2013 (A\$375.0 million) and June 2014 (A\$100.0 million) in the Australian bond market comprising A\$250.0 million with a 5.5% p.a. coupon maturing in November 2018 and A\$225.0 million with a 6.0% p.a. coupon maturing in May 2020.

Bank credit facilities include:

- A\$1,500.0 million syndicated multi-option facility maturing in June 2019 (A\$600.0 million) and June 2020 (A\$900.0 million) undrawn as at 31 December 2016. (Undrawn at 30 June 2016).

The bank overdraft facilities may be drawn at any time and are repayable on demand.

Consistent with prior periods, the Company has not defaulted on any obligations of principal or interest in relation to its borrowings and finance arrangements.

9. Issued Capital

	December 2016		June 2016	
	No. of Shares	\$000s	No. of Shares	\$000s
Issued Capital				
Ordinary shares of A\$1 each – fully paid	5,000,000	5,000	5,000,000	5,000
Ordinary shares of A\$9,500,000 each – fully paid	10	95,000	10	95,000
Issued capital at beginning and end of financial period	5,000,010	100,000	5,000,010	100,000

Terms and Conditions

Lendlease Corporation Limited, as sole shareholder, has the right to receive dividends as declared from the Company from time to time. Ordinary shareholders rank after all creditors in repayment of capital.

10. Contingent Liabilities

In certain circumstances, the Company guarantees the bonding and bank guarantee facilities of particular Group entities in respect of their obligations. This includes bonding and bank guarantee facilities primarily used by the Group's construction business. These guarantees are provided in respect of activities that occur in the ordinary course of business and there are no known claims in respect of these guarantees that give rise to a loss which would be material in respect of the relevant contracts as at the end of the financial period.

The Company does not have any other contingent liabilities as at 31 December 2016.

Notes to the Financial Statements continued

11. Fair Value Measurement

All financial instruments recognised in the Statement of Financial Position, including those instruments carried at amortised cost, are recognised at amounts that represent a reasonable approximation of fair value, with the exception of the following borrowings.

	Note	December 2016		June 2016	
		Carrying Amount \$000s	Fair Value \$000s	Carrying Amount \$000s	Fair Value \$000s
Liabilities					
Current					
Commercial notes	8	263,072	268,221	-	-
Non Current					
Commercial notes	8	475,573	516,217	750,189	814,882

The fair value of commercial notes has been calculated by discounting the expected future cash flows by the appropriate government bond rates and credit margin applicable to the relevant term of the commercial note.

Valuation of Financial Assets and Liabilities

Where financial assets and liabilities are carried at fair value, the fair value is based on assumptions of future events and involves estimates. The basis of valuation is set out below.

Basis of Determining Fair Value

The determination of fair values of financial and non financial assets and liabilities that are not measured at cost or amortised cost in the half year financial report are summarised as follows:

- The fair value of derivative instruments comprises forward foreign exchange contracts and foreign exchange options, which are valued using forward rates at balance date, and interest rate swap contracts, which are measured at the present value of future cash flows estimated and discounted based on applicable yield curves derived from quoted interest rates and include counterparty risk adjustments

Fair Value Measurements

The table below analyses financial and non financial assets and liabilities carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: The fair value is determined using the unadjusted quoted price for an identical asset or liability in an active market for identical assets or liabilities;
- Level 2: The fair value is calculated using predominantly observable market data other than unadjusted quoted prices for an identical asset or liability; and
- Level 3: The fair value is calculated using inputs that are not based on observable market data.

During the period there were no transfers between Level 1, Level 2 and Level 3 fair value hierarchies.

	Level 1 \$000s	Carrying Amount Level 2 \$000s	Level 3 \$000s	Total \$000s
December 2016				
Financial Assets				
Derivatives	-	31,548	-	31,548
Financial Liabilities				
Derivatives	-	5,585	-	5,585
	Level 1 \$000s	Carrying Amount Level 2 \$000s	Level 3 \$000s	Total \$000s
June 2016				
Financial Assets				
Derivatives	-	16,733	-	16,733
Financial Liabilities				
Derivatives	-	67,173	-	67,173

12. Events Subsequent to Balance Date

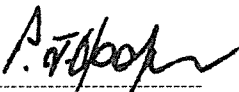
There were no material events subsequent to the end of the financial period.

Directors' Declaration

In the opinion of the Directors of Lendlease Finance Limited ('the Company'):

1. The financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - a. Giving a true and fair view of the financial position of the Company as at 31 December 2016 and of its performance for the half year ended on that date; and
 - b. Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors:



Director 15 February 2017



Independent auditor's review report to the members of Lendlease Finance Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Lendlease Finance Limited (the Company), which comprises the statement of financial position as at 31 December 2016, income statement and statement of comprehensive income, statement of changes in equity and statement of cash flows for the interim period ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Responsibility of the Directors for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2016 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Lendlease Finance Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Lendlease Finance is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the interim period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Eileen Hoggett

Partner

Sydney

15 February 2017