LAING O'ROURKE GROUP

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

ENGINEERING THE FUTURE

CONTENTS

OPERATING REVIEW – GROUP

Following the successful completion of the Group strategic review, we have a new five-year business strategy and operating plan which was approved by the Board on 28 April 2016.

The new approach will see the Group consolidate its position as a leading major projects and strategic frameworks delivery partner.

A revised organisational structure has been put in place, which streamlines our operations and processes and delivers a reduction in overheads in accordance with our focus on improving the cost efficiency in our core business activities. This enables us to maximise productivity and puts us on a course to achieving industry-leading margins, while providing our clients with increased certainty.

Based on the depth of our capability and the quality of our order book, we have a stable platform from which to take advantage of the pipeline of opportunities within our core markets. We already see improved results arising from the actions we have undertaken during the year.

At year end, the Group's order book stood at £9.7 billion (2015: £9.2 billion). This strong performance has been made possible by improving market conditions, and our focus on major projects and strategic frameworks.

We continue to build our future pipeline, with good quality opportunities across our core markets. We are careful to maintain diversity in our portfolio, which encompasses a wide spectrum of building and infrastructure sectors.

OPERATING REVIEW – AUSTRALIA HUB

Laing O'Rourke's Australia Hub comprises operations across Australia, and our three large transport infrastructure projects in Hong Kong.

The trading year in Australia was characterised by the ongoing and successful diversity of the business between sectors in the nation's volatile infrastructure market – as investment tipped from resources projects in remote and regional locations into significant, but slower, public-sector spending targeted to major cities.

Critically, Laing O'Rourke has both maintained a dominant market share in this next phase of oil and gas sector spending, securing finishing works contracts for two current major clients, but has also won significant new works amid the public-sector urban ramp-up, namely in roads.

Within those projects, the business is seen at the forefront of dynamic and innovative procurement models that are challenging traditional approaches to productivity, efficiency, risk and value. The nation's first delivery partner contract, being led by Laing O'Rourke on the AUD$5 billion, five-year 155km Pacific Highway "Woolgoolga to Ballina" Upgrade project is generating attention as a case study with other clients and sectors.

Client intimacy, a 'digital way of working' agenda and ongoing investment in our people have headlined key strategic programmes over the period, whilst an organisational restructure was completed in November 2015 to recognise the shift in spending to new geographies, especially our successful investment in the new markets of Victoria and South Australia.

An increase in managing contractor and delivery partner payment models contributed to a reduction in managed revenue to AUD$1.5 billion (£0.7 billion) 2015: AUD $2.7 billion (£1.5 billion), earnings were pleasing with a pre-exceptional EBIT performance of AUD $74.3 million (£21.6 million) 2015: AUD $171.9 million (£92.9 million). In addition, the Australia Hub ended the year in a strong cash position with AUD$242.4 million (£128.9 million) in cash.

Laing O'Rourke was named as Australia's 'eighth most innovative business' in the last two annual surveys of the prestigious BRW Top 50 Most Innovative list, and the AUD $870 million Moorebank Units Relocation project for defence – completed in FY16 – is the recipient of the Australian Construction Achievement Award, the country's most prestigious construction honour highlighting the hub's focus on 'certainty of delivery'.

OPERATING REVIEW - EUROPE HUB

Laing O'Rourke's Europe Hub encompasses operations in United Kingdom, United Arab Emirates and Canada.

The trading year in Europe was characterised by a small number of significant ongoing problem contracts in the UK and Canada, entered into prior to March 2014 in challenging market conditions. From Autumn 2015, as these problem contracts approached the latter stages of completion or handover, losses of £206.4 million on these contracts were fully recognised in the year. The costs associated with the work undertaken to complete these historical problem contracts are reflected in the UK revenue, losses and cash position and were a driver for the post balance sheet refinancing.

The European business is also at the forefront of innovation and continues to challenge traditional approaches to all the key sector drivers. Our approach has produced tangible results in work winning with successful project wins during the year producing a record order book.

Following our strategic review, the Board restructured and refinanced the European business. The management teams have been aligned into two major operational platforms: Engineering Enterprise and Asset Businesses. Engineering Enterprise comprises the Construction and Infrastructure project delivery businesses, Expanded, the Middle East and our joint venture activities in Canada. Asset Businesses comprises Explore Manufacturing, Crown House Technologies and Crown House Manufacturing, Select Plant and Logistics, and Strategic Procurement. As a direct result of market conditions in the commodities sector, the Group also exited our operations in western Canada.

Our rescaling exercise has significantly reduced overhead expenditure and we will continue further consolidation of our regional offices into our headquarters at Dartford, Manchester and Explore Industrial Park.

Our engineering enterprise model is centred around the establishment of long-term partnerships and early engagement. By working together from the earliest opportunity as part of integrated project delivery teams, we are better equipped to deploy the benefits of our value proposition.

HOW WE CREATE VALUE

LAING O'ROURKE IS COMMITTED TO CONSISTENTLY DELIVERING SUPERIOR SERVICE IN THE MOST EFFICIENT AND EFFECTIVE WAYS POSSIBLE, FOR THE SHARED BENEFIT OF OUR CUSTOMERS, SHAREHOLDERS, EMPLOYEES AND THE COMMUNITIES IN WHICH WE WORK.

Our business model is founded on our reputation for smart and certain delivery, aligned to our Group Strategic Roadmap. Taken together this sets us apart in the industry as an innovative, growth-oriented business.

WHAT WE DELIVER

OUR CLIENT PLATFORM

As a client-centric organisation, we work across a broad spectrum of project types in the building, infrastructure and natural resources sectors, offering a true end-to-end service. We design and deliver complex engineering solutions for customers who value the certainty that we can provide. This allows us to build long-term partnerships, from the very earliest engagement, with customers and strategic partners who value our approach and share our commitment to intelligent engineering, delivered smartly, ensuring our world is built better.

OUR UNIQUE APPROACH

We are trusted by clients to meet their needs through early engagement and our ability to maximise the value of our 'Design-Manufacture-Construct' approach.

Design
Early involvement ensures the most efficient and value-creating engineering solution and buildability.

Manufacture
Maximising the use of our offsite manufacturing skills and capabilities, where it is appropriate to do so, de-risks the design and delivery.

Construct
We are able to exercise unparalleled control and efficient onsite assembly through the expertise of our highly skilled, directly employed workforce and the construction resources we own.

HOW WE DELIVER

THE VALUE OF CERTAINTY

Our unique approach is underpinned by four complementary capabilities, which combine to deliver unparalleled certainty for clients and end-users. By setting higher standards for our industry, we are redefining the future of construction.

Excellence in engineering
Engineering solutions are key to our success, and our ability to deliver for our clients is reliant upon us driving excellence throughout our engineering teams. The Engineering Excellence Group sits at the heart of this objective and provides a catalyst for our innovation and gives us a competitive advantage, but they are one element of a broader expertise. We are committed to investment in research and development and education, as these are fundamental to our sustainability and addressing the step change required in the construction industry. We will work together across the business to ensure that all of our engineering abilities are lifted up to the next level and deployed as a key differentiator on our projects.

Digital engineering
We build virtually in a digital-engineering-enabled environment first. This ensures greater predictability of cost, quality, safety and sustainability for clients, through the provision of smarter engineering-led solutions – focused on whole-life value and long-term performance.

Design for Manufacture and Assembly, and offsite manufacturing
Design for Manufacture and Assembly (DfMA) provides an efficient design process which is aligned to our offsite manufacturing and onsite assembly approach. Using standard product design for bespoke solutions where appropriate and where it adds value to our clients, manufacturing off site allows us to better control quality and assure delivery, without compromising the original architectural intent. We can be faster, cleaner, safer and more reliable and sustainable than our competition.

We can achieve higher standards in a controlled factory environment, with a highly automated approach which supports optimum performance.

Direct delivery
With our in-house supply chain, we can move faster, integrate better, develop our own products more successfully, and control the methods of production, enabling logistics and site construction. This reduces the risks associated with a traditional fragmented delivery approach and our clients consistently appreciate the certainty that this creates.

During the year ended 31 March 2016, the Group faced significant trading and financial challenges in UK and Canada as we completed and delivered complex legacy contracts. The UK also suffered from slippage in the commencement of major projects. These issues began to be addressed through the second half of last year and progress has subsequently been made towards completion of the Group's recovery plan.

The key achievements can be summarised as follows:

- UK refinancing successfully completed in April 2016 with £61 million of new bank facilities, together with committed bonding lines, asset finance facilities and a £23.6 million subordinated long-term loan from its principal shareholders;
- The Group also announced its intention to dispose of the Australian business in January 2016; this continues to progress but is not expected to complete within the current financial year;
- Progress since refinancing in the European business has been positive with considerable success in work-winning and limitation of further losses;
- The Australian business continued to generate strong profits and cash-flow during the year and, despite the Group announcing its intention to dispose of the business, it has had a promising start to the new year with continuing work-winning success;
- On 15 December 2016, the Group secured new bonding and bank guarantee facilities for the Australian business. These facilities, which were provided by our prevailing lender group, increases our capacity and allows improved inter-group working capital flexibility.
- At the year-end the Group had an order book of £9.7 billion with forecast revenue for the year ending 31 March 2017 84 per cent secured and anticipated.

FINANCIAL SUMMARY PERFORMANCE

	2015/16 (£m)	2014/15 (£m)
Total revenue	2,513.2	3,127.4
Group revenue	2,353.6	2,885.8
Gross profit*	125.8	217.0
Gross profit %*	5.3%	7.5%
Administrative expenses %*	9.0%	6.6%
Underlying group operating (loss)/profit (before exceptional and joint venture results)	(82.0)	28.0
(Loss)/profit from operations	(242.7)	14.3
Taxation	25.7	7.7
(Loss)/profit after tax	(219.9)	20.1
Net funds	45.4	370.4

* Pre-exceptional items

2016 UNDERLYING PERFORMANCE

The Group delivered revenue of £2.4 billion for the year. The reduction from the previous year was due to major project slippages in the UK, reduced revenue in the Australia Hub from natural resources projects and a movement towards management contracts where only the management fee is recognised as Group revenue.

The trading challenges arising from problem contracts in the UK (entered into prior to March 2014) and Canada was the primary reason for the disappointing Group performance which produced an operating loss, before joint ventures and exceptional items, of £82.0 million (2015: underlying operating profit of £28.0 million). The Group pre-exceptional gross margin dropped from 7.5 per cent in 2015 to 5.3 per cent directly as a result of lower margins in the UK business. UK margins were also negatively impacted by a £24.8 million margin deterioration due to the failure of one of the Group's joint venture partners and the subsequent consequences of delivering a new water treatment plant in UK.

In Australia we are continuing to see a shift in opportunities from natural resources to urban development and infrastructure projects, particularly in New South Wales and Victoria. We expect margins to remain competitive, but remain confident in our business model capability to deliver strong margins from our key target sectors. Following a turbulent time in the commodities sector, the Australian landscape continues to evolve and we are seeing significant opportunities for Laing O'Rourke to gain further market share.

In the UK, following an assessment of the strength of our order book and demand across both construction and infrastructure projects, we are confident that our margin improvement plan will deliver the results anticipated in our business plan. The strength of our UK order book has allowed us to create stronger partnerships and client engagement, and improve our project selection process.

Despite performance issues in the UK and Canada, the Group benefited from continuing strong performance in Australia and Hong Kong. The Australia Hub generated a 12.6 per cent gross margin, up 1.8 per cent on 2015, largely due to the movement towards management contracts on major infrastructure projects, such as the Pacific Highway Upgrade contract. The remaining project portfolio secured under traditional contract structures delivered margins consistent to prior years.

Profit after tax from joint venture companies fell from a profit of £1.2 million in 2015 to a £86.8 million loss, due entirely to a £93.1 million write-down of a major construction joint venture in Canada. The write-down in this contract was due to additional costs due to programme slippage including damages payable after the original substantial completion date was not achieved.

The client and the joint venture project team have now agreed to target substantial completion in the last quarter of the year ending 31 March 2017.

Whilst the scale and complexity of this contract means the position is not without risk, management believe project progress together with recent alignment of programme with the client significantly de-risks the company from further material slippage.

EXCEPTIONAL ITEMS

Exceptional costs of £43.3 million were recognised in the year, which relate to three first generation Design for Manufacture and Assembly (DfMA) construction contracts in the UK. These projects were substantially redesigned in order to demonstrate the benefits of DfMA. Significant lessons have been learned from these projects, all of which were won in 2013; a particularly aggressive price-driven market. As issues were encountered using new construction methods and lessons have been learned, these unusual circumstances are unlikely to recur on new contracts.

During the year, in the UK, a number of payments were made through The Construction Workers Compensation Scheme (TCWCS), which Laing O'Rourke, along with other construction companies, founded in 2014. The scheme offers streamlined access to compensation for anyone who has been affected by the existence of The Consulting Association (TCA) records. During the year Laing O'Rourke incurred costs of £5.1 million in respect of the TCWCS and other matters relating to TCA, which have been treated as an exceptional item.

The members of TCWCS are determined to ensure this issue stays in the past and are committed to upholding the highest standards in employment practice. Laing O'Rourke respects the right to freedom of association with others and the right to participate in lawful activities which do not restrict or in any way unduly influence an individual's duties. We accept and support the role of trade unions and the assistance they can provide our employees and employers.

During the year, the Directors reviewed the carrying value of the Group's residential and mixed-use development assets in accordance with current accounting standards. As a result, the Group recognised exceptional impairments of £2.4 million (2015: £0.2 million).

Also during the year, the Group performed a strategic review across the European business to establish a more focused business structure, increasing the focus on creating a simple management team for the contracting businesses and for the manufacturing, logistics and plant businesses. Following this review the European business has streamlined operations and aligned organisation structures to drive greater productivity and cost benefits into the operating model. The Group incurred £23.1 million (2015: £nil) of costs in relation to refinancing, consulting advice, and redundancies.

The restructuring actions undertaken in the last quarter of the year will ensure that the Group's administration expenses are lower in 2017, as a percentage of turnover, than 2016 – and that, in the medium-term, the Group outperforms its financial target of zero per cent growth in overhead percentages.

COST MANAGEMENT

As part of the medium-term plan, the Group continued to invest in sector expertise and staff training, alongside further longer-term expenditure in the Engineering Excellence Group and digital engineering functions. This resulted in an increase in administration expenses during the year both in real terms and percentage terms.

The Group continued its focus on improving cost efficiency in both our Australia and Europe Hubs. This resulted in a restructuring of our core UK operations in the final quarter of FY16. The UK business reduced its overhead burden and redeployed staff to support the growth in our core order book. An exceptional restructuring charge of £23.1 million has been recognised in the year in respect of one-off staff costs and UK refinancing costs. Additional costs will be incurred during FY17 as we continue to implement the latest strategic plan.

The Group will continue to invest in engineering and manufacturing expertise, as it believes this is a central catalyst for the successful implementation of its strategy. However, the level of investment will be tempered through strong corporate governance and adherence to business and financial plans.

FUNDING

The Group's net funds position (cash less debt) reduced from £370.4 million at 31 March 2015 to £45.4 million at 31 March 2016. This deterioration was largely caused by adverse trading in the UK and Canadian businesses.

The Group implemented significant liquidity-management process improvements with more proactive engagement of its financial stakeholders across both hubs. These efforts culminated in the Group refinancing the UK business on 14 April 2016, securing £61 million in new bank facilities on similar terms to the prevailing facilities. Prior to concluding the refinancing, the Group secured a covenant waiver and standstill agreement from all its financial stakeholders, which ensured the Group remained compliant with the terms of its bank facilities. Common covenants on the RCF and the term loan were introduced on refinancing and include a minimum liquidity target, adjusted tangible net worth of the European Hub and a specific margin covenant (relating to one major contract). In December 2016 the specific margin covenant was adjusted to reflect changes in the expected end of contract forecast. The Group has adequate headroom on this contract to take account of a reasonable level of downside risk. All covenants are tested monthly and the Group has met and is forecast to meet its covenants for the foreseeable future. The liquidity-improvement plan has delivered results in line with our expectations. From the period 3 October 2015 to date, the Group increased its UK revolving credit facility utilisation by £10 million, with the cash used to part-fund the third-party costs associated with the refinancing exercise. During the year our working capital improvement plans have delivered improved cash flow which has significantly offset the cash impact of project losses.

On 15 December 2016, the Group secured new bonding and bank guarantee facilities for the Australian business. These facilities, which were provided by our prevailing lender group, increases our capacity and allows improved inter-group working capital flexibility.

UK CORE BORROWINGS:

	Committed facility at 30 November 2016 £m	Facility undrawn at 30 November 2016 £m
RCF	155.0	30.0
Term loan	41.0	–
Principal shareholders loan	23.6	–
	219.6	30.0

The Group remains committed to the highest standards of financial and liquidity management, and will continue to exercise robust controls over our cash resources – particularly during 2016, where the pressure is most acute, as we complete legacy projects and phase one of our Canadian joint venture.

Thereafter, as we build out our high-quality order book, the Group will rapidly return to generating significant free cash-flow.

The Group supports prompt payment to suppliers and, despite the challenging financial performance, has remained amongst the industry leaders in its payment terms.

ORDER BOOK

The Group order book increased during the year by £0.5 billion to £9.7 billion. Order book growth was driven primarily by the UK, which increased by 11 per cent during the year to £8.2 billion. Whilst we maintained a cautious approach during the period to minimise lower-margin work, as part of our bid-to-win approach, as the UK market improved, we invested to secure the improved opportunities available.

Since the year-end, including preferred bidder contracts, the Group has secured in excess of £2 billion of new projects across our Construction and Infrastructure businesses.

In the Middle East, we continue to target opportunities in Dubai and Abu Dhabi, where we have a permanent presence and strong track record. We are starting to see an improvement in the construction market in the region and expect to develop our business in the lead up to Expo 2020.

Despite a marginal reduction in our Australian order book, at 31 March 2016, from £1.1 billion to £1.0 billion, we have seen a significant increase in secured contracts in the first quarter of FY17. The reduction in order book, as at 31 March 2016, was primarily due to the expected reduction in new opportunities in the natural resources sectors. However, the planned targeting of significant opportunities in the urban infrastructure markets is already delivering results.

TAXATION

Due to the large losses, particularly in the UK, the Group generated a corporation tax credit of £25.7 million in the year (2015: £7.7 million credit). This was largely due to deferred tax credit on UK losses and exceptional costs.

The Group takes its social and economic responsibilities seriously and pays the appropriate amount of tax in all countries where we operate.

PENSIONS

The Group operates a number of pension schemes with leading industry providers in Europe and Australia. These are defined contribution schemes and, as such, there are no outstanding pension liabilities.

INSURANCE

Insurance broking globally is consolidated with Marsh, given its technical expertise in underwriting engineering-based projects, combined with international market coverage.

The Group continued to experience low levels of claims during the year, although we carefully monitor the balance between insurance risk retained by the Group through its insurance captive, and that which we purchase in the external market.

Our insurance profile closely tracks and correlates with our safety performance – and our rolling Accident Frequency Rate (AFR) is 0.13 in 2015/16. We remain comfortable with the level of insurance risk we are carrying internally.

GOODWILL AND INTANGIBLE ASSETS

The Group carries £328 million of goodwill in the consolidated balance sheet. Goodwill is not amortised under International Financial Reporting Standards, but is tested annually for impairment. In accordance with IAS 36, the recoverable amount has been tested by reference to four-year forecasts, discounted at the Group's estimated weighted average cost of capital.

As at 31 March 2016, based on the internal value-in-use calculations, the Board concluded that the recoverable value of the cash-generating units exceeded the carrying amount. Details of this test can be found in note 13 to the financial statements.

FINANCE AND TREASURY POLICY

The Group's centralised treasury function has prudently managed the Group's liquidity, funding and financial risks arising from movements in areas such as interest rates and foreign currency exchange rates. The Group continues to review its credit-support requirement and broaden its base of key financial stakeholders, including key banking relationships and surety bonding providers who support our long-term strategic growth agenda.

RISK AND ACCOUNTING POLICIES

The Group's risk management framework and processes have been enhanced since 31 March 2015 by the implementation of strict management controls over all aspects of contract governance, from bidding to project execution and across all business units. Following the issues identified in autumn 2015 on our problem contracts, even greater attention is being placed upon the risk-management framework and the work of internal audit, particularly in seeking to identify issues through the work-winning phase and early in the operational phase of delivery.

The Board continuously assesses and monitors risks affecting the Group. Further details of how the Group has managed key financial and operational risks, such as credit and liquidity risks, are set out on pages 7 to 12 under 'risk management'.

As an EU-domiciled company, Laing O'Rourke reports its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the Cyprus Companies Law, Cap 113. The Group's significant accounting policies and measures are explained in the Notes to the Financial Statements on pages 25 to 57.

OUTLOOK

The Group has faced up to recent trading challenges - not only by restructuring and refinancing its UK business, but also by implementing new processes and controls on project selection, operational delivery, and risk and assurance.

The Board will continue to dispose of non-core assets, recycle our PFI capital and, assuming the Board can meet its value target, dispose of its Australian business.

Although this was a challenging year for the Group, it has continued to focus on its core engineering business, building internal capability through our engineering and specialist businesses, whilst continuing to invest in our value proposition to clients. Delivery of legacy contracts during the next year is not without challenges but the Board is confident in returning to operating and pre-tax profits and free cash-flow generation.

Our UK pipeline improved during the year, and we expect that the current financial year ending 31 March 2017 will be a transitional year but the Board is confident of returning to profit and positive cash generation. The full benefits of the pipeline will be realised in 2018, and beyond. Despite the level of uncertainty arising from the recent UK referendum, the outlook in the UK construction market continues to improve. However, the Group will monitor any impact arising as a result of the UK's decision to exit the European Union, and seek to mitigate any consequences that are within the Group's control.

Establishing and consolidating deeper and longer-term relationships with major clients and supply-chain partners across high-value sectors and markets provides greater confidence in the validity of our strategic direction.

As a result, the Board has considered the Group's financial requirements, based on current commitments and its secured order book, as well as the latest projections of future opportunities, against its banking and surety bonding arrangements, and has concluded that the Group is well placed to manage its business risks and meet its financial targets successfully.

A S MCINTYRE
GROUP FINANCE DIRECTOR

PROACTIVELY AND EFFECTIVELY MANAGING RISK

THE EFFECTIVE MANAGEMENT OF RISKS AND OPPORTUNITIES IS FUNDAMENTAL TO THE DELIVERY OF THE GROUP'S OBJECTIVES, ACHIEVEMENT OF SUSTAINABLE GROWTH, PROTECTION AND ENHANCEMENT OF ITS REPUTATION, AND UPHOLDING THE REQUIRED STANDARDS OF CORPORATE GOVERNANCE.

GROUP RISK MANAGEMENT

HOW LAING O'ROURKE MANAGES RISK

The Group's structured approach to risk management is based on the principle of prevention through early identification. Detailed analysis and decisive action planning are carried out to remove or mitigate the potential for and impact of key risks before they actually occur. As risks and uncertainties do materialise, this structured approach also ensures actual issues are effectively dealt with.

The Board and senior management are committed to the proactive protection and optimisation of the Group's assets, which include human, financial and strategic resources, through the consistent application of an effective risk management process, augmented where necessary by insurance. The Group is equally committed to the effective management of material operational risks, covering important non-financial and reputational risks arising in connection with health and safety, environmental impact and business conduct.

The Board and Group Executive Committee have overall responsibility for ensuring that risk is effectively managed across the Group to guarantee full compliance with the legislative and regulatory requirements in the jurisdictions where it operates. The Board delegates certain risk management activities to designated subcommittees. Risk is a regular agenda item at these senior management forums and an integral component of the Group's periodic strategy review process.

This ensures the Board has a full appreciation of the principal risks affecting business operations as well as a comprehensive oversight of how they are being managed in line with our Group risk appetite and Risk Management Policy.

The Board considers Laing O'Rourke's internal control system to be effective and appropriate.

The Audit Committee reviews the effectiveness of the Group's risk management systems and reports regularly to the Board directors on the key sources of risk, the monitoring of their status and the corresponding mitigation plans. Risk reporting at the operational business unit level is structured so that key risks can be escalated rapidly through the management team, and ultimately to the Board where necessary.

The individual businesses are able to tailor and adapt standard risk management processes to suit the specific circumstances of their respective operating environments. In doing so, they must always adhere to the underlying principles of the Group's Risk Management Policy, which is to continuously identify, analyse, plan and provide for, report and monitor the principal risks through established control procedures. Our 'risk aware' culture supports this, with staff involvement at all levels to promote an environment of learning from experience, in order to adapt and continually improve our controls and communication on risks.

Project risks are monitored and reported by our project leadership teams, which are reviewed by business unit operational management at monthly contract reviews. This process covers the financial and schedule performance of projects and is overseen by the commercial function.

Reporting structures and mechanisms ensure that project risks are continually monitored and significant exposures can be escalated from project level to business unit level and ultimately to the Group Executive Committee and the Board. All project-owning business units must have assurance mechanisms to assess the likelihood and potential impact of risks and to ensure actions can be taken to mitigate and eliminate risks, while strengthening our internal controls and systems to manage the recurrence of such risks at any point in the future.

During the year, to meet the challenges presented by significant losses in Europe on a number of major projects, the business has increased the monitoring of operational performance through the introduction of weekly operational dashboard reviews across the European Businesses which cascade through the business from Executive to project. This has ensured a much quicker identification and rectification of operational issues.

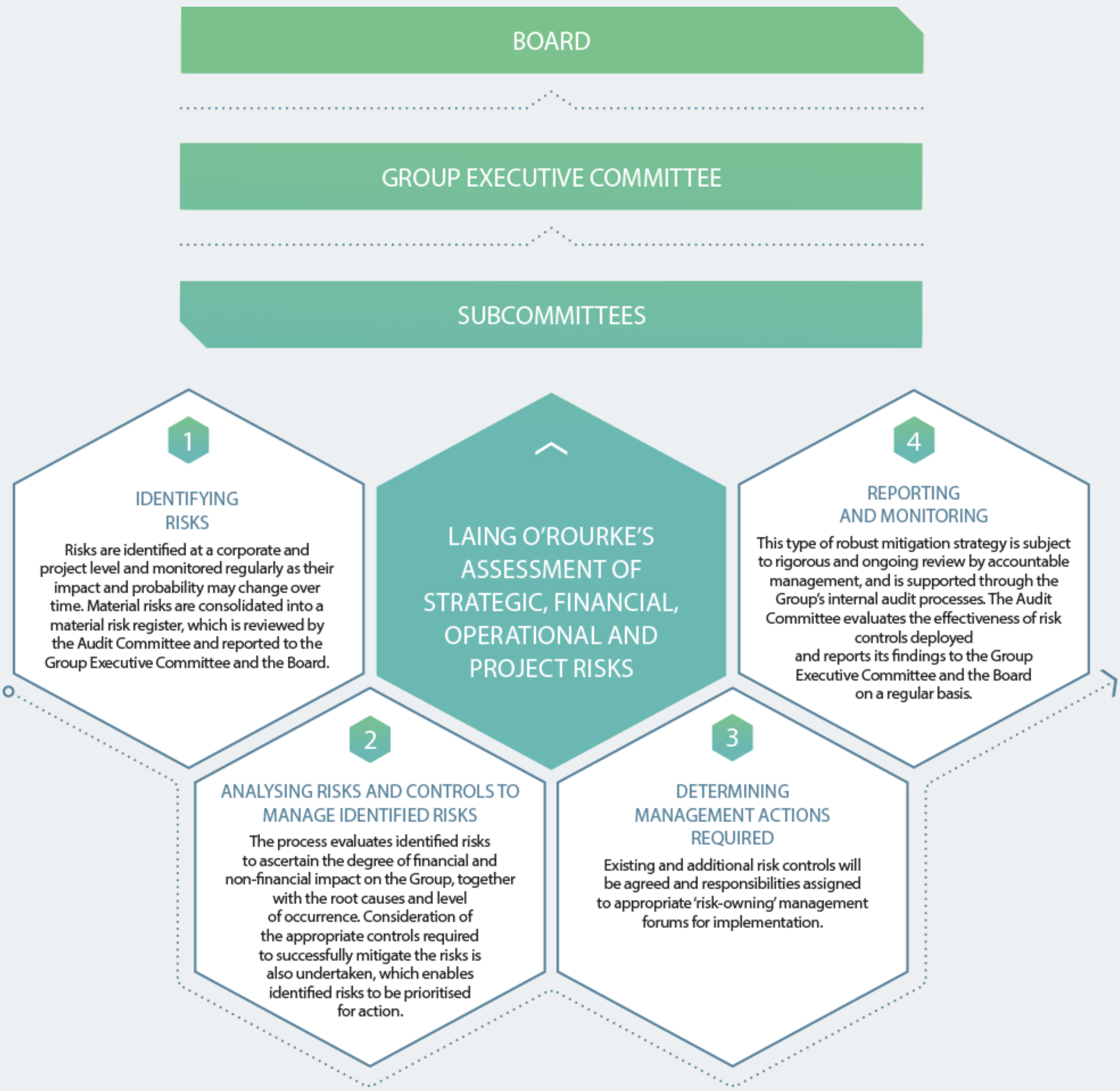
Alongside this the business has also strengthened its working capital and liquidity procedures across all Business Units which are used to monitor and drive performance as well as to report to stakeholders.

These measures taken together underpin the Company's response to mitigate any potential increase in financial risk.

Furthermore, Laing O'Rourke is striving to assess risks and viable opportunities collectively, that will enable more efficient prioritising of time and effort throughout the business.

INTERNAL CONTROLS

This system of internal risk control is designed to manage rather than eliminate the risk of detrimental business impact to achieve business objectives, and therefore can only ever provide reasonable assurance against the possibilities of material financial loss or organisational disruption.



OPERATIONAL GOVERNANCE

GLOBAL CODE OF CONDUCT

Laing O'Rourke believes laws and regulations act as our minimum integrity standards, and we constantly seek to go beyond this level. The Global Code of Conduct articulates our approved set of ethical principles covering key business issues that we expect every employee and contracted supply chain partner to uphold in every activity, every day, wherever we operate.

By setting the expected minimum standards of business conduct in different areas of our work, the Code is integral to the way we do business at Laing O'Rourke and is underpinned by our Group vision and values. Compliance with the Code provides heightened assurance of our business affairs, which in turn supports the long-term sustainability of the Group by encouraging more ethical and effective relationships and stimulating deeper economic, social and environmental contributions where we work. The Code applies globally and its development and application are the responsibility of the Group Executive Committee.

GROUP POLICIES

Our Group policies underpin the Global Code of Conduct and are based on government laws and regulations that impact upon every Laing O'Rourke business and every employee. The policies establish and define the internal rules that everyone must comply with to conduct business effectively. We are subject to a growing number of regulations in the jurisdictions where we operate. This environment demands that every employee be aware of, knowledgeable about and committed to excellence in the application of clear, global and mandatory Laing O'Rourke policies.

PROJECT QUALITY MANAGEMENT SYSTEM

The Laing O'Rourke Way is a Group-wide project quality management system. It comprises the Core and Enabling Processes and functional toolkits, a set of standards and procedures that guide and direct The Laing O'Rourke Way for finding, winning and delivering projects. This proven quality assurance framework enables us to connect and direct all of the different decisions and activities necessary, through a series of mandated process gateways, to achieve maximum performance and control across the entire lifecycle of a project. The quality management system is subject to continuous improvement to reflect the evolving organisation.

CORE PROCESS

Core Process enables accountable business leaders to fully understand the critical sign-off procedures in bidding for and securing a project, and the formal governance approach which must be observed to secure optimum performance. It is also a vital tool for establishing accurate and reliable assessments of risk and opportunity in commercial and design activities and is aligned with our health, safety and environment systems. Core Process is mandatory across all of our projects and compliance is monitored by our Risk and Assurance function.

A key element of Core Process is our centrally managed and governed client relationship management system – Salesforce – which captures information in relation to the opportunities the

Group is pursuing, and also acts as a repository for supporting documentation. Information captured in Salesforce is used across the business to aid collaboration and provide reporting at all governance levels. Opportunity pipeline information to this level of quality and detail helps ensure all bidding-related decisions are fact-based and fully informed, heightening the Group's chance of success in the tendering phases.

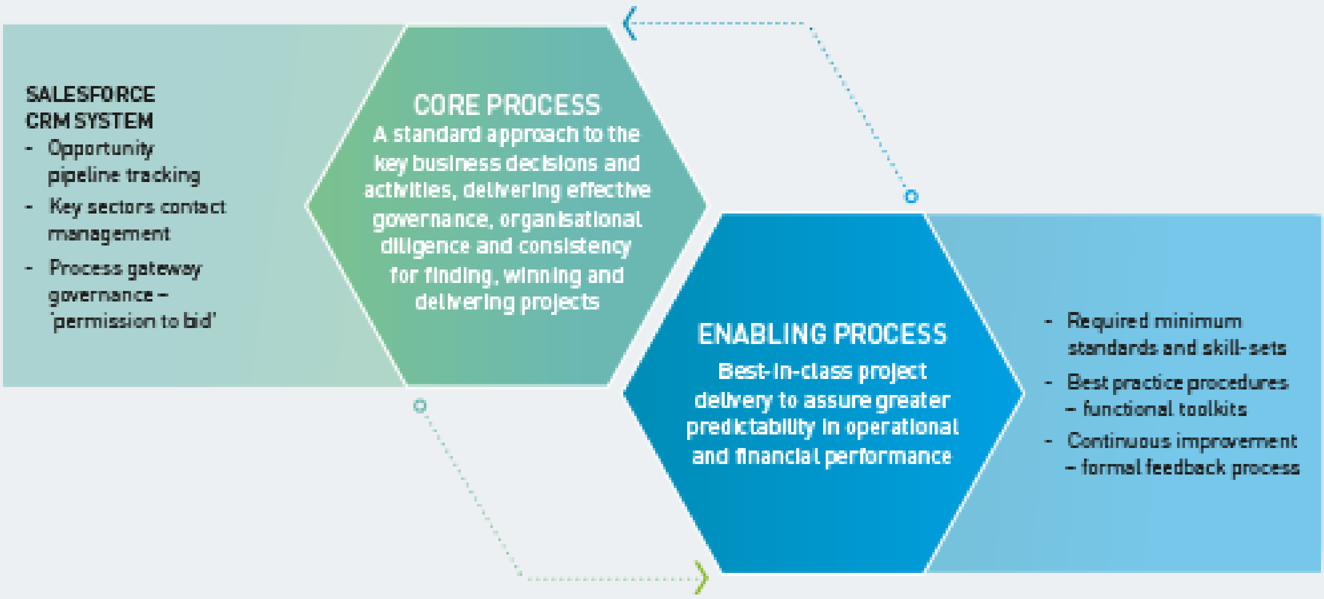
ENABLING PROCESS

Enabling Process helps accountable project leaders to fully understand the minimum requirements, in terms of operational procedures, for assuring success in project design and delivery. It also supports project leaders to ensure that their teams have the necessary skills to meet these minimum requirements, allowing them to allocate clear responsibilities to team members. Adherence to Enabling Process is also mandatory, and it is only permissible to omit elements in clearly defined circumstances, and by specific dispensation from an accountable director.

Key elements of Enabling Process are the functional toolkits, which enable accountable functional leaders and their teams to deploy current best practice consistently, executing project-specific plans in an integrated and disciplined manner.
A frequent and formal feedback process is implemented to capture key information to enable us continually to assimilate the best and most current ways of working.

BUSINESS UNIT/FUNCTION GUIDELINES AND PROCEDURES

Business unit and function-specific guidelines ensure that the different operating hubs and their constituent parts can effectively adapt their business practices and processes to suit the markets and sectors in which they operate. They are designed to align with, and complement, Group policies and stem directly from The Laing O'Rourke Way. In addition, they remain true to both the spirit and the letter of the Global Code of Conduct, and comply with applicable laws and regulations.



SUMMARY OF PRINCIPAL RISKS

THE GROUP'S PRINCIPAL RISKS ARE IDENTIFIED BELOW, TOGETHER WITH A DESCRIPTION OF HOW WE MITIGATE THEM

This list is not intended to be exhaustive, and some risks and uncertainties have not been included on the basis that they are not considered to be material, to affect or be likely to affect businesses in general, or are not presently known by the Board and Audit Committee. However, we have established controls and systems in place to identify and manage these risks.

HEALTH, SAFETY AND SUSTAINABILITY

Risk/Impact:	Mitigation:
The nature of our activities present considerable threats that could cause significant harm to employees, suppliers, clients, members of the public or the environment, which could lead to injuries, health implications, financial loss/penalties or serious damage to the Group's reputation.	Health and safety is the key focus for Laing O'Rourke and mitigation occurs throughout every level of the Group's governance framework. Our global safety campaign is an integrated programme designed to eradicate accidents from our business by driving continuous improvement through our culture and leadership. Every project is subject to regular reviews and changes implemented where necessary. Ultimate responsibility for the management of health, safety and environmental issues rests with the Board and Group Executive Committee, which routinely monitor performance. Primary authority for the day-to-day execution of related objectives is delegated to hub and business unit level management committees. Our documented Safety Management System (SMS) clearly details compulsory procedural, behavioural and training requirements, is implemented on every project and is continually reviewed and updated.

WORK-WINNING

Risk/Impact:	Mitigation:
Market limitations on delivery of new business could put pressure on the Group to secure projects with inadequate price/risk profiles or with difficult client/contractual arrangements, which could impact the Group's future profitability and its reputation with clients, suppliers and employees resulting in lost opportunities.	The Group's approach to project selection is guided by a detailed set of protocols known as Core Process. This has defined authority levels for approving all tenders depending on the size and complexity of the project under consideration that is supported through our gateway process. Our end-to-end delivery capability and early engagement initiatives result in greater certainty of the build sequence, cost and risk profile pre-contract. Tender review meetings are held to check progress, understand the win strategy and test the contract risk profile in turn providing considerations/recommendations where necessary.

Key:
- Increase in risk during 2015/16
- No change in risk during 2015/16
- Decrease in risk during 2015/16

PROJECT DELIVERY

Risk/Impact:	Mitigation:
The Group continues to deliver innovative, yet complex, construction and engineering projects across a range of geographies. Any inability to deliver on time, to budget and to the right quality could result in financial loss or reputational damage.	Once a project has gone through our rigorous work-winning and project selection as described above, Laing O'Rourke's approach is guided by a detailed set of protocols – Core Process – and an associated project management approach – Enabling Process. This ensures a standardised approach to tendering and delivery based on robust project controls and a continuous improvement cycle. Laing O'Rourke's early engagement initiatives, innovative DfMA methodology and our integrated end-to-end capabilities result in greater surety of delivery. Building Information Modelling (BIM) and digital engineering technologies are used to achieve time and cost certainty through a full visualisation of the build sequence.

SUPPLY CHAIN AND JOINT VENTURE PARTNERS

Risk/Impact:	Mitigation:
Non-delivery by our supply chain or joint venture partners – through poor performance, financial failure, or reduced capacity/capability – could impact the Group's ability to deliver projects on time, on budget and to the right quality, and result in financial loss or reputational damage.	Our in-house delivery capability allows the Group to actively work independently wherever possible reducing our reliance on third parties. Joint ventures are only established when the Group's interests are complementary to those of its partners. Laing O'Rourke undertakes a thorough evaluation process to determine the financial, operational and reputational integrity of potential partners before committing to any formal arrangement. Once established, implementation of robust governance procedures ensures compliance with all contractual terms and practices within the joint venture. Whenever specialist subcontractors are used to meet specific delivery needs, the risk is mitigated through a robust selection process, including reviews to assess financial and operational viability, as well as contractor capacity and capability. Our list of preferred suppliers is regularly reviewed to ensure compliance with Group standards, applicable laws and industry regulations. Furthermore, price inflation trends and supply chain feedback are used to better inform the business of the latest market movements.

PEOPLE

Risk/Impact:	Mitigation:
Inability to recruit, develop and retain appropriately skilled people could impact the Group's ability to meet current commitments and deliver projects.	Human capital is a primary component of Laing O'Rourke's strategy and is overseen by the Group Executive Committee. The Group aims to be a progressive employer of choice and offers attractive reward packages, training and development, and a broad range of career opportunities. Succession planning is undertaken for all key roles. Innovative partnerships with universities also help position Laing O'Rourke in attracting leading graduates. We monitor engagement levels through our biennial staff survey.

FINANCIAL

Risk/Impact:	Mitigation:
Inability to secure funding – in the form of cash bonding facilities and sufficient bank facilities – could impact the Group's ability to bid work, make investments or meet its ongoing liquidity needs, which could adversely impact profitability, cash flow and future growth.	Our experienced in-house treasury management and finance teams take a prudent approach to liquidity and constantly monitor and maintain sufficient cash reserves and available bank facilities to meet liabilities and financing needs as they fall due. Procedures are in place to monitor and forecast cash usage and other highly liquid current assets. This, together with committed credit facilities, ensures that we have adequate availability of cash when required. The new financial covenants have the potential to increase financial risk; however these are being managed through our improved liquidity management processes.

POLITICAL, ECONOMIC AND REGULATORY

Risk/Impact:	Mitigation:
The Group operates in a cyclical industry and changes in the economic environment, government policy and regulatory developments can have a significant impact on the number of new projects, thus affecting the Group's profitability.	The Group seeks to maintain a diverse portfolio of projects for both private and public clients and a broad exposure to a number of resilient sectors and geographic markets. Laing O'Rourke also maintains a focus on sustainable relationships with key clients, government departments and related regulatory authorities. This includes members of the senior leadership team actively participating in a number of political, economic and regulatory forums to share knowledge and, where appropriate, support the development of policy and legislation. The Group will monitor any impact arising as a result of the UK's decision to exit the European Union and will manage any issues that are directly under its control.

CONDUCT, COMPLIANCE AND REPUTATION

Risk/Impact:	Mitigation:
Damage to the Group's reputation through poor conduct or acts of fraud, bribery, corruption or anticompetitive behaviour can all adversely impact corporate reputation and result in financial loss.	The Group has very clear principles governing the way in which it conducts its business and expects all employees and partners to act in accordance with its published Global Code of Conduct and established policies. Continuous awareness programmes ensure high levels of understanding of the Group's expectations and each individual's obligations. The Group also provides a confidential independent 'whistle-blowing' service to encourage the reporting of inappropriate behaviour. We use a range of strategic advisers to protect and enhance our brand and reputation in the eyes of key business influencers and opinion formers.

KEY PERFORMANCE INDICATORS

MEASURING OUR PERFORMANCE

THE BOARD AND GROUP EXECUTIVE COMMITTEE USE A BALANCED RANGE OF FINANCIAL AND OPERATIONAL INDICATORS ACROSS OUR BUSINESS UNITS TO MEASURE THE GROUP'S PERFORMANCE AGAINST KEY GROUP STRATEGIC ROADMAP (GSR) TARGETS, HELPING TO GUIDE OUR THINKING AND DECISION-MAKING AT EVERY STAGE OF DEVELOPMENT.

FINANCIAL PERFORMANCE

The Group sets stretching but achievable financial performance targets as part of its annual strategic planning process to improve performance from both a cost and sales perspective to drive appropriate financial returns, with complementary capital structures. These are derived from the Group's consolidated financial statements.

MANAGED REVENUE

£3.2bn

(2015: £3.8bn)

Definition: Managed revenue represents the amount of sales generated from the provision of engineering and construction related services, including the Group's share of joint ventures, associates and inter-segment sales.

Performance: Managed revenue decreased by 16 per cent to £3.2 billion (2015: £3.8 billion) during the year. This was a result of reduced revenue from natural resources projects and the move towards management contracts, where only the fee rather than the gross contract volume is recognised as revenue. Within the Australia Hub, selective bidding during periods of intense market competition as well as some slippage of the start dates of major contracts within the European Hub. This also reflects an increased focus on quality of earnings over volume of sales across our work-winning activities globally.

UNDERLYING PROFIT BEFORE JOINT VENTURES & EXCEPTIONALS

Loss of £82.0m

2015: Profit of £28.0m

Definition: Profit/(loss) on ordinary activities before joint ventures and exceptional items

Performance: Profit before joint ventures and exceptional items decreased by £110.0 million year on year. This is driven by underperformance in the UK business across a number of key projects with project write-downs of £89.9 million. There has also been slippage in new work.

OPERATIONAL PERFORMANCE

THE GROUP SETS AND TRACKS OPERATIONAL PERFORMANCE THROUGH ALIGNMENT TO THE GROUP STRATEGIC ROADMAP (GSR) AND OUR VISION TO TRANSFORM THE ORGANISATION INTO ONE RECOGNISED AS AN ENDURING ENGINEERING ENTERPRISE OF CONSIDERABLE SCALE. THESE RESULTS FORM PART OF A CONTINUOUS MONITORING AND IMPROVEMENT CYCLE THAT HELPS GUIDE THE IMMEDIATE NEXT STEPS IN OUR STRATEGY REALISATION.

CLIENTS, MARKETS AND SECTORS

To assess progress towards our aim of becoming an enduring engineering enterprise, we continuously track the marketing, adoption and application of the core elements of our value proposition across our targeted clients, sectors and markets. We also use qualitative client satisfaction survey results as key indicators of our engineering and delivery performance on projects.

ORDER BOOK

£9.7bn

(2015: £9.2bn)

Definition: Order book represents the value of work outstanding on secured contracts. It is a key measure of our success in winning new work and also provides visibility of future earnings.

Performance: The Group order book increased to £9.7 billion (2015: £9.2 billion). The strong performance is directly attributable to the improving market conditions, particularly in the UK, and the Group's selective focus on high-quality, profitable work rather than volume. We continue to build our future workload, with a medium-term pipeline of good quality opportunities in all of our core markets. At the same time, we will remain cautious in our approach, maintaining selectivity to avoid bidding for lower-margin work at a time when price competition in the market remains intense.

VALUE PROPOSITION

The Group's desire is to fully understand the needs of its clients and deliver on its promises throughout the life of the engineering and construction services provided. Engineering excellence is fundamental to our strategy – through extensive deployment of our unique value proposition embracing excellence in engineering, digital engineering, Design for Manufacture and Assembly (DfMA) and offsite manufacturing, and direct delivery, across all our key sectors.

CUSTOMER SATISFACTION

7.3 / 10

Definition: Customer satisfaction data is collected from key clients relating to their perception of the Group's operational performance on their projects as part of the Quality Management System.

In 2015, Laing O'Rourke rolled out a new method of gathering and reporting client feedback at project level. Interviews are conducted at pre-delivery, delivery, practical-completion and post-defects stages – with quantitative feedback sought on nine key business areas: health and safety; sustainability; commercial; people; quality; delivery; design management; supply chain management and innovation. Interviewees are asked to rank our performance on a scale of 1-10 against each of these areas.

Performance: We now have the benefit of 12 months' worth of data to guide our continuous improvement agenda, allowing us to direct resources where they are most needed – and giving us a clear picture of individual client-engagement levels.

The overall, current average of our performance across the areas we measure against is 7.3. This represents consolidated feedback derived from a total of 67 interviews across 44 projects (13 Infrastructure; 29 Construction; 2 Crown House Technologies). These 44 projects represent more than 80 per cent by value of our Europe Hub turnover.

In the areas of health and safety, innovation and people (competence) we consistently score in excess of 8 out of 10, while commercial (management), people (collaboration) and design management on average receive a score of less than 7.

These lower-scoring areas will be subject to improvement interventions. Based on lessons learned from the data gathered – and about the process itself – we will be making a number of changes over the coming 12 months to the way we gather and report feedback, introducing subjectivity into the rankings, amending the questions to allow for a better balance of quantitative and qualitative feedback, and improving rigour in terms of reporting and placing ownership of the process with our projects.

Our goal is year-on-year improvement and our target is presently set at 7.5 or above. Note: all figures relate to UK projects. The previous year's results have not been included for comparative purposes as the new approach means data is incomparable.

ENABLING THE ORGANISATION

We are refining our business systems and processes to optimise our assets, capabilities and risk appetite. By working according to our governance framework and complying with the high standards set out in our Global Code of Conduct, the Group will sustain long-term business success.

ACCIDENT FREQUENCY RATE

0.13

(2015: 0.12)

Definition: Our health and safety performance determines our strength as a business. It is not an isolated measure but one that defines our success in all other areas of our operations. For this reason, it is central to business improvement – a precondition of our continued growth and licence to operate. Accident Frequency Rate (AFR) is an industry standard measurement equivalent to one reportable lost-time incident resulting in more than seven working days' absence per 100,000 hours worked.

Performance: AFR increased marginally in the year to 0.13 (2015: 0.12). This performance validates the investment in leadership time and resources given to all aspects of safety management.

EMPLOYEE ENGAGEMENT

72%(2015)

Definition: The Group's pursuit of industry leading financial and operational performance is dependent on the quality and commitment of its people. It is critical that the Group attracts, develops and retains the best talent to ensure project delivery within the tight tolerances of time, cost and quality required to provide certainty for our clients. Employee engagement is an all-encompassing metric which determines the level of understanding and commitment of the Group's employee base to our strategic goals, and hence provides a direct correlation to service levels, client satisfaction, business growth and financial performance. We increasingly use our employee engagement survey – Shape – to assess organisational processes in this regard.

Performance: Employee engagement is measured every two years. The most recent survey took place in 2015, resulting in an overall score of 72 per cent – the highest ever on a like-for-like basis, 18 per cent above the global norm for comparator large companies. This is a clear endorsement of our strategic direction and the executive team tasked with leading its implementation. During 2016 the Group launched a plan to implement the findings and recommendations of the 2015 survey

DIRECTORS, OFFICERS AND ADVISERS

DIRECTORS	R G O'Rourke KBE S Anastasiades C Klerides V Papadopoulos A S McIntyre (appointed 23 February 2016) A M Stewart (resigned 19 January 2016)
COMPANY SECRETARY	CMK Management Limited 23 Kennedy Avenue Globe House, 4th Floor 1075 Nicosia Cyprus
COMPANY NUMBER	190393
REGISTERED OFFICE	23 Kennedy Avenue Globe House, 4th Floor 1075 Nicosia Cyprus
UK CONTACT ADDRESS	Laing O'Rourke plc Bridge Place Anchor Boulevard Admirals Park Crossways Dartford Kent DA2 6SN United Kingdom
INDEPENDENT AUDITORS	PricewaterhouseCoopers Limited PwC Central 43 Demostheni Severi Avenue CY-1080 Nicosia PO Box 21612 CY-1591 Nicosia Cyprus
BANKERS	Lloyds Bank Corporate Markets Bank of Scotland plc 10 Gresham Street London EC2V 7HN United Kingdom BNP Paribas 10 Harewood Avenue London NW1 6AA United Kingdom HSBC 8 Canada Square London E14 5HQ United Kingdom Commonwealth Bank Darling Park Tower 1 201 Sussex Street Sydney NSW 2000 Australia
INSURANCE ADVISERS	Marsh Limited Tower Place London EC3R 5BU United Kingdom
INSURERS	QBE European Operations Plantation Place 30 Fenchurch Street London EC3M 3BD United Kingdom

MANAGEMENT REPORT
FOR THE YEAR ENDED 31 MARCH 2016

The Board of Directors present their annual management report together with the audited financial statements of the Laing O'Rourke Corporation Limited consolidated group (the 'Group') for the year ended 31 March 2016.

PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS OF THE GROUP

The Group's principal activities are:

CONSTRUCTION

- Programme management
- Construction and building
- Civil engineering
- Mechanical and electrical engineering
- Core enabling and logistics management services
- Infrastructure and support services
- Construction and maintenance of utilities
- Architectural and environmental services
- Plant hire and operations
- Building products
- Design services
- Building operations management
- Manufacturing construction products

CAPITAL

- Property development
- Housebuilding

A list of principal subsidiaries, joint arrangements and associates can be found on pages 56 and 57 in note 36 to the financial statements.

A review of the Group's activities and performance for the year is presented on pages 2 to 6.

CHANGES IN GROUP STRUCTURE

During the year there were no significant changes in the Group structure. The Group does not intend to proceed with any acquisitions or mergers.

GENERAL INFORMATION

The Company is a wholly owned subsidiary of Suffolk Partners Corporation, a company incorporated in the British Virgin Islands.

BRANCHES OUTSIDE CYPRUS

Laing O'Rourke Corporation Limited did not operate through any branches during the year.

REVIEW OF DEVELOPMENTS, POSITION AND PERFORMANCE

Details of future developments are presented on page 2.

RESEARCH AND DEVELOPMENT

The Group expenditure on research and development of £25.7 million (2015: £41.5 million) supports the development of construction techniques to deliver quality, certainty and value for our customers.

RESULTS AND DIVIDENDS

The results for the year are set out in the Consolidated Income Statement on page 20 and show a loss for the year after tax of £219.9 million (2015: profit for the year after tax of £20.1 million).

The Company paid no dividends during the year (2015: £21.05 million). The Directors do not recommend the payment of a final dividend (2015: £nil).

CHARITABLE CONTRIBUTIONS

During the year the Group contributed £0.5m (2015: £0.5m) to its nominated charities.

POST BALANCE SHEET EVENTS

The Group refinanced the UK business on 14 April 2016, securing £61.0 million in new bank facilities. The Group also secured committed asset finance facility of £65 million and £67 million of bonding capacity on similar terms. These facilities are committed through to October 2017 and have a common set of covenants which are formally tested monthly. In December 2016 the specific margin covenant was adjusted to reflect changes in the expected end of forecast. The Group also received a £23.6 million subordinated loan from its principal shareholders. Details are set out in the Financial Review on page 5. On 15 December 2016, the Group secured new bonding and bank guarantee facilities for the Australian business. These facilities, which were provided by our prevailing lender group, increases our capacity and allows improved inter-group working capital flexibility.

DIRECTORS AND THEIR INTERESTS

The current membership of the Board is as set out on page 16. R G O'Rourke KBE is one of the ultimate beneficiaries of the trust which owns the majority of the shareholding of the Company. No other Director has an interest in the shares of the Company. Details of related party transactions can be found on page 53 and 54 in note 32 to the financial statements.

HEALTH, SAFETY AND WELFARE

The Group is committed to ensuring the health, safety and welfare of all employees at work. All reasonable measures have been taken to achieve this policy. Arrangements have been made to protect other persons against risk to health and safety arising from the activities of the Group's employees when at work.

EMPLOYMENT POLICY

The Group continues to provide employees with relevant information and to seek their views on matters of common concern through their representatives and through line managers. Priority is given to ensuring that employees are aware of significant matters affecting the Group's trading position and of any significant organisational changes.

The Group treats each application for employment, training and promotion on merit. Full and fair consideration is given to both disabled and able-bodied applicants and employees. If existing employees become disabled, every effort is made to find them appropriate work and training is provided if necessary

PRINCIPAL RISKS AND UNCERTANTIES

Details of the Group's policies and procedures for managing risk are set out on pages 7 to 12.

Key judgements and estimation uncertainty are detailed on pages 30 to 31 in note 2.25 to the financial statements.

Financial risks are detailed on pages 49 to 52 in note 29 to the financial statements.

USE OF FINANCIAL INSTRUMENTS BY THE GROUP

Details of the Group’s financial instruments are set out on pages 49 to 52 in note 29 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out on page 47 in note 26 to the financial statements.

GOING CONCERN

The Board has carefully considered those factors likely to affect the Group's future development, performance and financial position in relation to the ability of the Group to operate within its current and foreseeable resources, financial and operational.

Specifically it has assessed the impact of challenging trading and financial difficulties experienced by its UK business during the year, in particular in respect to certain problem contracts, which culminated with the Group refinancing its UK businesses on 14 April 2016. Prior to concluding the refinancing, the Group secured a covenant waiver and standstill agreement from all its financial stakeholders, which ensured the Group remained compliant with the terms of its bank facilities.

As part of the refinancing on 14 April 2016 a number of new bank covenants were established, including covenants relating to liquidity, tangible net worth and the requirement that the estimated final margin on a specific project is not below a certain amount. In December 2016 the specific margin covenant was adjusted to reflect changes in the expected end of contract forecast. If certain of these covenants are breached this will constitute an event of default on the Group’s borrowing facilities. The Directors have reviewed these covenants and are confident they will be complied with.

Principal risks of the Group for the next 12 months relate to the UK construction business including the delivery of programmes of work and managing associated working capital, work-winning assumptions and delivering business restructuring. The UK business is also responsible for funding the completion of its share of other construction projects, including joint venture arrangements, in overseas territories operating within the Group's Europe Hub (which includes UK, Middle East and Canada).

The Group continues to remain focussed on financial and liquidity management, and will continue to exercise controls over cash resources particularly as the Group completes legacy projects and phase one of our Canadian joint venture where the Group has a specific covenant relating to the expected end of contract forecast.

After a detailed review of the Group's business plans, including contract performance, the directors believe the UK refinancing and other finance provides adequate headroom for the Group for the foreseeable future and that the business risks are manageable within the limits sets out in the Group's core business and financing plans.

For these reasons the directors continue to adopt the going concern basis in preparing the Group's financial statements.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE ANNUAL REVIEW

Company law in Cyprus requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Group's profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable;
- State whether applicable International Financial Reporting Standards (IFRS) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group and enable them to ensure the financial statements comply with the Cyprus Companies Law, Cap. 113. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements. Cyprus legislation governing preparation and dissemination of financial statements may therefore differ from that in other jurisdictions. The maintenance and integrity of the Group's website at www.laingorourke.com is also part of the Directors' responsibilities.

INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

So far as each of the Directors are aware, there is no relevant audit information of which the Group's auditors are unaware, and the Directors have taken all the steps that ought to have been taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

The auditors, PricewaterhouseCoopers Limited, have indicated their willingness to continue in office as auditors of the Group.

APPROVAL

This report was approved by the Board on 21 December 2016 and signed on its behalf by:

C KLERIDES
DIRECTOR

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LAING O'ROURKE CORPORATION LIMITED

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Laing O'Rourke Corporation Limited (the 'Company') and its subsidiaries (together with the Company, the 'Group'), which are presented on pages 20 to 57 and comprise the consolidated statement of financial position as at 31 March 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

BOARD OF DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

REPORT ON OTHER LEGAL REQUIREMENTS

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit;
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books;
- The consolidated financial statements are in agreement with the books of account;
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required;
- In our opinion, the management report, whose preparation is the responsibility of the Board of Directors has been prepared in accordance with the requirement of the Cyprus Companies Law, Cap.113, and the information given therein the Report of the Board of Directors is consistent with the financial statements.
- In our opinion and in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the management report.

OTHER MATTER

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

ANDROULLA S PITTAS
CERTIFIED PUBLIC ACCOUNTANT AND REGISTERED AUDITOR
FOR AND ON BEHALF OF

PRICEWATERHOUSECOOPERS LIMITED
CERTIFIED PUBLIC ACCOUNTANTS AND REGISTERED AUDITORS NICOSIA, 21 DECEMBER 2016

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2016

	Note	Pre-exceptional items 2016 £m	Exceptional items (note 4) 2016 £m	Total 2016 £m	Pre-exceptional items 2015 £m	Exceptional items (note 4) 2015 £m	Total 2015 £m
Continuing operations							
Total revenue		2,513.2	–	2,513.2	3,127.4	–	3,127.4
Less: share of joint ventures' and associates' revenue		(159.6)	–	(159.6)	(241.6)	–	(241.6)
Revenue	3	2,353.6	–	2,353.6	2,885.8	–	2,885.8
Cost of sales		(2,227.8)	(45.7)	(2,273.5)	(2,668.8)	(61.4)	(2,730.2)
Gross profit		125.8	(45.7)	80.1	217.0	(61.4)	155.6
Administrative expenses		(211.8)	(28.2)	(240.0)	(192.7)	–	(192.7)
Other operating income	7	4.0	–	4.0	3.7	–	3.7
(Loss)/profit from operations before joint ventures		(82.0)	(73.9)	(155.9)	28.0	(61.4)	(33.4)
Profit on disposal of joint ventures	14	–	–	–	46.5	–	46.5
Share of post-tax (losses)/profit of joint ventures and associates	15	(86.8)	–	(86.8)	1.2	–	1.2
(Loss)/profit from operations	5	(168.8)	(73.9)	(242.7)	75.7	(61.4)	14.3
Net non-operating expense	8	(0.3)	–	(0.3)	–	–	–
Finance income	9	4.4	–	4.4	9.2	–	9.2
Finance expense	10	(7.0)	–	(7.0)	(11.1)	–	(11.1)
Net financing expense		(2.6)	–	(2.6)	(1.9)	–	(1.9)
(Loss)/profit before tax		(171.7)	(73.9)	(245.6)	73.8	(61.4)	12.4
Taxation	11	11.2	14.5	25.7	(5.2)	12.9	7.7
(Loss)/profit for the year		(160.5)	(59.4)	(219.9)	68.6	(48.5)	20.1
Attributable to:							
Owners of the Parent		(160.4)	(59.4)	(219.8)	68.8	(48.5)	20.3
Non-controlling interests		(0.1)	–	(0.1)	(0.2)	–	(0.2)
		(160.5)	(59.4)	(219.9)	68.6	(48.5)	20.1

The notes on pages 25 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	Note	Pre-exceptional items 2016 £m	Exceptional items (note 4) 2016 £m	Total 2016 £m	Pre-exceptional items 2015 £m	Exceptional items (note 4) 2015 £m	Total 2015 £m
(Loss)/profit for the year		(160.5)	(59.4)	(219.9)	68.6	(48.5)	20.1
Other comprehensive income/ (expense):							
Items that may be subsequently reclassified to profit or loss							
Exchange differences on translating foreign operations		9.1	–	9.1	(30.6)	–	(30.6)
Available-for-sale financial assets		0.1	–	0.1	0.3	–	0.3
Disposal of cash flow hedges		–	–	–	6.8	–	6.8
Share of other comprehensive income of investments accounted for using the equity method	15	(5.3)	–	(5.3)	3.3	–	3.3
Other comprehensive income for the year, net of tax	11	3.9	–	3.9	(20.2)	–	(20.2)
Total comprehensive income for the year		(156.6)	(59.4)	(216.0)	48.4	(48.5)	(0.1)
Attributable to:							
Owners of the Parent	27	(156.5)	(59.4)	(215.9)	48.6	(48.5)	0.1
Non-controlling interests	27	(0.1)	–	(0.1)	(0.2)	–	(0.2)
		(156.6)	(59.4)	(216.0)	48.4	(48.5)	(0.1)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 11

The notes on pages 25 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2016

	Note	2016 £m	2015 £m
Assets			
Non-current assets			
Intangible assets	13	335.8	334.6
Investments in joint ventures and associates	15	21.1	14.0
Loans to joint ventures	15	42.4	37.5
Property, plant and equipment	16	261.1	282.2
Investment property	17	21.4	30.4
Deferred tax assets	25	68.1	38.8
Trade and other receivables	21	46.7	32.5
Total non-current assets		796.6	770.0
Current assets			
Inventories	20	70.3	76.4
Trade and other receivables	21	480.6	466.2
Available-for-sale financial assets	18	–	0.5
Derivative financial instruments	19	0.3	–
Current tax assets		8.9	–
Cash and cash equivalents		271.0	555.9
Total current assets		831.1	1,099.0
Total assets		1,627.7	1,869.0
Liabilities			
Current liabilities			
Borrowings	22	(164.5)	(45.5)
Trade and other payables	23	(832.5)	(999.0)
Provisions for other liabilities and charges	24	(113.5)	(19.2)
Derivative financial instruments	19	–	(3.2)
Current tax liabilities		(3.2)	(18.2)
Total current liabilities		(1,113.7)	(1,085.1)
Non-current liabilities			
Borrowings	22	(61.1)	(140.0)
Trade and other payables	23	(36.1)	(38.4)
Provisions for other liabilities and charges	24	(49.6)	(29.6)
Deferred tax liabilities	25	(11.0)	(3.0)
Total non-current liabilities		(157.8)	(211.0)
Total liabilities		(1,271.5)	(1,296.1)
Net assets		356.2	572.9
Equity			
Share capital	26	–	–
Share premium	26	286.4	286.4
Fair value reserve	27	–	(0.1)
Foreign currency translation reserve	27	(1.7)	(5.5)
Retained earnings	27	70.6	290.4
Total equity attributable to owners of the Parent		355.3	571.2
Non-controlling interests	27	0.9	1.7
Total equity		356.2	572.9

The financial statements were approved and authorised for issue by the Board of Directors on 21 December 2016 and were signed on its behalf by:

A S MCINTYRE
DIRECTOR

C KLERIDES
DIRECTOR

The notes on pages 25 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
(Loss)/profit before tax		(245.6)	12.4
Adjustments for:			
Non-cash exceptional items	4	2.4	0.2
Depreciation and amortisation	5	50.4	57.1
Profit on disposal of property, plant and equipment	5	(2.6)	(6.3)
Profit on disposal of joint ventures	14	–	(46.5)
Loss on disposal of intangibles	5	–	0.4
Net financing costs		2.6	1.9
Share of post tax loss/(profit) of joint ventures and associates	15	86.8	(1.2)
(Increase)/ decrease in trade and other receivables		(19.8)	51.7
Decrease in inventories		5.1	52.2
Decrease in trade and other payables and provisions		(171.3)	(169.3)
Other		(2.8)	2.6
Cash generated from operations		(294.8)	(44.8)
Interest paid		(6.6)	(11.1)
Tax paid		(15.8)	(1.6)
Net cash generated from operating activities		(317.2)	(57.5)
Cash flows from investing activities			
Purchase of property, plant and equipment		(24.8)	(25.6)
Purchase of intangible assets	13	(2.5)	(6.0)
Acquisition of subsidiaries, net of cash acquired		–	(1.3)
Payments to acquire equity investments	15	(0.8)	–
Proceeds from disposal of available-for-sale financial assets		0.5	0.5
Proceeds from sale of property, plant and equipment		18.3	24.1
Proceeds from sale of investment property		9.6	18.0
Proceeds from disposal of joint ventures and associates	14	–	69.4
Loans to joint ventures and associates	15	(1.7)	(5.5)
Loans repaid by joint ventures and associates	15	–	0.2
Interest received		4.1	9.2
Distributions received from joint ventures and associates	15	0.9	8.9
Net cash generated from investing activities		3.6	91.9
Cash flows from financing activities			
Proceeds from new bank loans		75.0	50.0
Repayments of bank loans		(5.3)	(139.9)
Finance lease principal repayments		(46.8)	(48.5)
Dividends paid to non-controlling interests	27	(0.7)	–
Dividends paid	12	–	(21.0)
Net cash used in financing activities		22.2	(159.4)
Net decrease in cash and cash equivalents		(291.4)	(125.0)
Cash and cash equivalents at beginning of year		555.9	690.7
Effect of exchange rate fluctuations on cash held		6.5	(9.8)
Cash and cash equivalents at end of year		271.0	555.9

Non-cash transactions principally relate to new hire purchase and finance lease agreements taken out during the year amounting to £16.9m (2015: £45.4m).

	Note	2016 £m	2015 £m
Cash and cash equivalents comprise:			
Cash at bank and on hand		248.5	541.4
Short-term bank deposits	30	14.5	14.5
Restricted cash deposits[1]		8.0	–
		271.0	555.9

1 Restricted cash deposits relate to the project bank accounts where amounts due to subcontractors are ringfenced. Payments to subcontractors were made after the year end.

The notes on pages 25 to 57 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2016

	Note	Share capital and share premium £m	Other reserves £m	Retained earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2014		286.4	14.6	291.1	592.1	1.9	594.0
Profit for the year		–	–	20.3	20.3	(0.2)	20.1
Other comprehensive income after tax		–	(20.2)	–	(20.2)	–	(20.2)
Total comprehensive expense for the year		–	(20.2)	20.3	0.1	(0.2)	(0.1)
Dividends paid	12	–	–	(21.0)	(21.0)	–	(21.0)
At 31 March 2015		286.4	(5.6)	290.4	571.2	1.7	572.9
Loss for the year		–	–	(219.8)	(219.8)	(0.1)	(219.9)
Other comprehensive income after tax		–	3.9	–	3.9	–	3.9
Total comprehensive expense for the year		–	3.9	(219.8)	(215.9)	(0.1)	(216.0)
Dividends paid		–	–	–	–	(0.7)	(0.7)
At 31 March 2016		286.4	(1.7)	70.6	355.3	0.9	356.2

Additional disclosure and details are provided in note 27.

The notes on pages 25 to 57 form an integral part of these consolidated financial statements.

1 GENERAL INFORMATION

Laing O'Rourke Corporation Limited (the 'Company') is a company incorporated and domiciled in Cyprus. The Company prepares parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the Cyprus Companies Law, Cap. 113. The address of the registered office is given on page 16. The nature of the Group's operations and its principal activities are set out in note 36 and in the Group Financial Review on pages 4 to 6. The consolidated financial statements of the Company for the year ended 31 March 2016 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in joint arrangements and associates. The entity's financial statements are filed separately.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

The Group consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRS and IFRS Interpretations Committee (IFRIC) interpretations) and the Cyprus Companies Law, Cap. 113.

2.2 BASIS OF PREPARATION

The Group consolidated financial statements are presented in pounds sterling, rounded to the nearest hundred thousand and include the results of the holding company, its subsidiary undertakings and the Group's interest in joint arrangements and associates for the year ended 31 March 2016. The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of land and buildings (prior to the adoption of IFRS), available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The principal accounting policies which have been consistently applied for all consolidated entities including subsidiaries, joint arrangements and associates are set out below.

Going concern

During 2016 the Group experienced challenging trading and financial circumstances, in particular in respect to certain problem contracts, which culminated with the Group refinancing its UK businesses on 14 April 2016. Prior to concluding the refinancing, the Group secured a covenant waiver and standstill agreement from all its financial stakeholders, which ensured the Group remained compliant with the terms of its bank facilities. As part of the short term agreement in place prior to refinancing, all Group cash was retained within each operating hub.

As part of the refinancing on 14 April 2016 a number of new banking covenants were established, including covenants relating to liquidity, tangible net worth and the requirement that the estimated final margin on a specific project is not below a certain amount. In December 2016 the specific margin covenant was adjusted to reflect changes in the expected end of contract forecast. If certain of these covenants are breached this will constitute an event of default on the Group’s UK borrowing facilities. The Directors have reviewed these covenants and are confident they will be complied with.

After a detailed review of the Group’s business plans, including contract performance the directors believe the refinancing provides adequate headroom for the Group, for the foreseeable future and that the business risks are manageable within the limits set out in the Group’s core business and financing plans.

The following standards, amendments and interpretations became effective in the year ended 31 March 2016 and have been adopted:

a) IFRIC 21, Levies, (effective for accounting periods beginning on or after 17 June 2014);

b) Amendments to IFRS 1: First-time Adoption of International Financial Reporting Standards (effective for accounting periods beginning on or after 1 July 2014);

c) Amendments to IFRS 3: Business Combination (effective for accounting periods beginning on or after 1 July 2014);

d) Amendments to IFRS 13: Fair Value Measurement (effective for accounting periods beginning on or after 1 July 2014);

e) Amendments to IAS 40: Investment Property (effective for accounting periods beginning on or after 1 July 2014);

f) Amendments to IAS 19: Employee benefits (effective for accounting periods beginning on or after 1 July 2014 although endorsed for annual periods on or after 1 February 2015);

g) Annual improvements 2012. These amendments include changes from the 2010-12 cycle of the annual improvements (effective for accounting periods beginning on or after 1 July 2014 although endorsed for annual periods on or after 1 February 2015).

Each standard has been reviewed and the effect on the Group financial statements of adopting these new standards, amendments and interpretations has been determined to be minimal.

The Directors have considered recently published IFRSs, new interpretations and amendments to existing standards that are mandatory to the Group's accounting periods commencing on or after 1 April 2016.

Standards that are not yet effective and have not been early-adopted by the Group:

a) Amendments to IAS 27: Equity Method in Separate Financial Statements (effective for accounting periods beginning on or after 1 January 2016);

b) Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective for accounting periods beginning on or after 1 January 2016);

c) Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective for accounting periods beginning on or after 1 January 2016);

d) Amendments to IAS 1: Disclosure Initiative (effective for accounting periods beginning on or after 1 January 2016).

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.2 BASIS OF PREPARATION CONTINUED

e) Amendments to IFRS 10 and IAS 28: Investment Entities: Applying the Consolidation Exception (effective for accounting periods beginning on or after 1 January 2016);

f) IFRS 15, Revenue from Contracts with Customers, (effective for accounting periods beginning on or after 1 January 2018);

g) IFRS 9, Financial Instruments, (effective for accounting periods beginning on or after 1 January 2018);

h) IFRS 16, Leases (effective for accounting periods beginning on or after 1 January 2019);

i) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective for accounting periods beginning on or after 1 January 2017);

j) Amendments to IFRS10 and IAS 28: Addressing an inconsistency between the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture (effective date not determined);

k) Amendments to IAS 7, Statement of Cash Flows on Disclosure Initiative (effective for accounting periods beginning on or after 1 January 2017).

The effect on the Group financial statements of adopting these new standards, amendments and interpretations has been determined to be minimal with the exception of those detailed below:

IFRS 15 is expected to replace the two main revenue recognition standards, IAS 18 Revenue and IAS 11 Construction Contracts. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The mandatory effective date for IFRS 15 is 1 January 2018, and it will therefore be applied for the first time to the Group accounts for the year ending 31 March 2019. The standard has not yet been endorsed by the EU. The Group will carry out a systematic review of all existing major contracts to ensure that the impact and effect of the new standard is fully understood and changes to the current accounting procedures are highlighted and acted upon in advance of the effective date.

IFRS 9 is expected to replace IAS 39 Financial Instruments: Recognition and Measurement from 2018. The standard covers the classification, measurement and derecognition of financial assets and financial liabilities together with a new hedge accounting model. The IASB intends to expand IFRS 9 to add new requirements for impairment. The mandatory effective date for IFRS 9 is 1 January 2018. The Group will consider the impact of IFRS 9 when the remaining phases of IAS 39 Replacement Project are complete.

IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related interpretation. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 is effective from 1 January 2019 and a company can chose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from Contracts with Customers. The Group is evaluating the potential impact arising from the new standard.

2.3 BASIS OF CONSOLIDATION

a) The Group financial statements include the financial statements of the Company and subsidiaries controlled by the Company. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are deconsolidated from the date control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group falling within the scope of IFRS 3, 'Business Combinations'. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

b) Associates are operations over which the Group has the power to exercise significant influence but not control, generally accompanied by a share of between 20% and 50% of the voting rights. Associates are accounted for using the equity method and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in the statement of other comprehensive income. If the Group's share of losses in an associate equals its investment, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate, in which case a provision is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.3 BASIS OF CONSOLIDATION CONTINUED

c) Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of each joint arrangement and has determined some to be joint operations and some to be joint ventures, as detailed in note 36.

i) The Group accounts for its share of the assets, liabilities, revenue and expenses in a joint operation, under each relevant heading in the income statement and the statement of financial position.

ii) Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

d) Intra-Group balances and transactions together with any unrealised gains arising from intra-Group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with jointly controlled entities and jointly controlled operations are eliminated to the extent of the Group's interest in the entity. The Group's share of unrealised gains arising from transactions with associates is eliminated against the investment in the associate. The Group's share of unrealised losses is eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.4 FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, which is the functional and presentation currency of Laing O'Rourke Corporation Limited and the currency of the primary economic environment in which the Group operates.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at 'fair value through profit or loss' are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

Group companies

The results and financial position of all Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

ii) Income and expenses for each income statement are translated at average exchange rates;

iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings designed as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of, or sold, exchange differences that were recorded in other comprehensive income are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are reported at historical cost less accumulated depreciation and any recognised impairment loss. Land is not depreciated. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. Cost comprises purchase price and directly attributable costs. Depreciation is calculated on the straight-line method to write down the cost to their residual values over their estimated useful lives as follows:

Group owner occupied property	2%
Other buildings	2%
Plant, equipment and vehicles	6% – 50%

Certain land and buildings were revalued under previous accounting standards. On transition to IFRS, the Group elected to use the revalued amount as deemed cost.

Assets held under finance leases are depreciated over the term of the lease or the estimated useful life of the asset as appropriate.

Gains and losses on disposal are recognised within cost of sales, administrative expenses or non-operating income/expense in the income statement as appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.6 GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions prior to 1 April 2006 (the date of transition to IFRS) is carried at its book value (original cost less cumulative amortisation) on that date, less any subsequent impairment. This is in accordance with the transitional provisions of IFRS 1. Goodwill arising before 1 January 1998 was eliminated against reserves and has not been reinstated in accordance with the transitional provisions of IFRS 3, 'Business Combinations'. Goodwill arising on the Group's investments in associates and joint ventures since that date is included within the carrying value of these investments. Negative goodwill arising on or after 1 April 2006 is recognised immediately within profit from operations in the income statement. Separately recognised goodwill is tested annually for impairment and carried at cost less impairment losses. Goodwill is included when determining the profit or loss on subsequent disposal of the business to which it relates. Goodwill is allocated to cash generating units for the purpose of impairment testing.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on the useful lives of the assets concerned, and recognised on a straight line basis over the following periods:

Brands	8-10 years
Computer software and licences	2-5 years

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually. Assets that are subject to amortisation or depreciation are reviewed for impairment or reversal of prior impairments when circumstances or events indicate there may be a change in the carrying value. For impairment testing, goodwill is allocated to cash-generating units by geographical reporting unit and business segment. Assets are grouped at the lowest level for which there are separately identifiable cash flows.

2.7 INVESTMENT PROPERTY

Investment properties are held for long-term rental yields and are not occupied by the Group. Acquired investment properties are initially measured at cost, being the fair value of consideration given to acquire the property. The cost of self-constructed investment properties includes all directly attributable costs. Completed investment properties are stated at fair value, which is supported by market evidence, as assessed annually by the chief surveyor or by qualified external valuers at three year intervals. Depreciation is not provided on investment properties. Changes in fair values are recorded in the income statement as part of non-operating income/expense.

2.8 FINANCIAL INVESTMENTS

The Group has classified its financial investments as available-for-sale financial assets which are recognised at fair value. Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the assets, at their fair values less transaction costs. The fair values of listed financial investments are determined using bid market prices. Changes in the fair value of financial investments classified as available-for-sale are recorded in the fair value reserve within equity. When these are sold, the fair value adjustments recognised in equity are included in the income statement.

Under the terms of a PFI or similar project, where the risks and rewards of ownership remain largely with the purchaser of the associated services, the Group's interest in the asset is classified as a financial asset and included at its amortised cost within investment in joint ventures.

2.9 DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into forward contracts or borrows/deposits funds in foreign currencies in order to hedge against transactional foreign currency exposures. Fair value derivatives are initially recognised at fair value on the date of the contract and are subsequently remeasured at their fair value. Movements in fair value are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred taxation.

2.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, project bank accounts controlled by the Group, and other short-term highly liquid investments with less than 90 days maturity from the date of acquisition. For the purpose of the cash flow statement, cash and cash equivalents also include bank overdrafts, which are included in borrowings in the statement of financial position.

2.11 TRADE AND OTHER RECEIVABLES

Trade receivables are initially recorded at fair value and subsequently measured at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. Subsequent recoveries of amounts previously written off are credited to the income statement line in which the provision was originally recognised.

2.12 TRADE AND OTHER PAYABLES

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.13 PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, where it is probable that an outflow will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are measured at the best estimate of the present value of the expenditures expected to be required to settle the obligation.

2.14 REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, net of sales tax, for goods and services supplied to external customers. It includes the Group's share of revenue from work carried out under jointly controlled operations. Revenue from services and construction contracts is recognised by reference to the stage of completion of the contract, as set out in the accounting policy for construction and service contracts. Revenue from the sale of goods is recognised when the Group has transferred significant risks and rewards of ownership of the goods to the buyer, the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

Rental income is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised as an integral part of the total rental income.

Revenue on sale of private housing and commercial property is recognised on legal completion of the sale.

2.15 CONSTRUCTION AND SERVICE CONTRACTS

When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of each contract, as measured by the proportion of total costs at the balance sheet date to the estimated total cost of the contract.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately.

Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is recognised as due from customers on construction contracts within trade and other receivables. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is recognised as advance payments on construction contracts within trade and other payables.

Private Finance Initiative (PFI)/Public Private Partnership (PPP) bid costs are expensed as incurred until the Group is appointed preferred bidder. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is virtually certain, PFI/PPP bid costs incurred after the appointment as preferred bidder are included within receivables. The PFI/PPP bid costs are expensed on reimbursement at financial close. Any surplus on reimbursement of costs compared with those recorded in receivables is recognised in the income statement.

2.16 INVENTORIES

Inventories, including land and related development activity thereon, are stated at the lower of cost and estimated net realisable value. Cost comprises direct materials, direct and subcontract labour, specific borrowing costs and those overheads that have been incurred in bringing inventories to their present location and condition. Net realisable value represents the estimated income less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

2.17 LEASES AND HIRE PURCHASE COMMITMENTS

Assets obtained under hire purchase contracts and leases, where a significant portion of the risks and rewards of ownership is transferred to the Group, are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the liability and finance charge to produce a constant rate of interest on the finance lease balance outstanding. Assets held for use in such leases are included in 'Property, plant and equipment' (note 16) and are depreciated to their residual values over the estimated useful lives or the lease term as appropriate and are adjusted for impairment losses. Obligations under such agreements are included in 'Borrowings' (note 22).

Leases other than finance leases are classified as operating leases. Payments made under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. Any incentives to enter into operating leases are recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.18 PENSION COSTS

The Group operates defined contribution pension schemes for staff and Directors. The contributions paid by the Group and the employees are invested in the pension fund within 30 days following deduction. Once the contributions have been paid, the Group, as employer, has no further payment obligations. The Group's contributions are charged to the income statement in the year to which they relate.

2.19 TAX

Tax expense represents the sum of the tax currently payable and deferred tax. The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it also excludes items that are neither taxable nor deductible. The Group's liability for current tax is calculated using tax rates and laws that have been enacted or substantially enacted by the reporting date.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.19 TAX CONTINUED

Deferred tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred taxes are not provided in respect of temporary differences arising from the initial recognition of goodwill, or from goodwill for which amortisation is not deductible for tax purposes, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is calculated at the tax rates based on those enacted or substantially enacted at the balance sheet date and are expected to apply when the related asset is realised or liability settled. Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also included in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 BORROWINGS AND BORROWING COSTS

Interest bearing bank loans and overdrafts are recognised initially at fair value net of transaction costs incurred. All borrowings are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the income statement over the period to redemption.

Borrowing costs are capitalised where the Group borrows funds specifically for the purpose of acquiring, constructing or producing a qualifying asset, in accordance with IAS 23, 'Borrowing Costs'. All other finance costs of debt, including premiums payable on settlement and direct issue costs, are charged to the income statement on an accruals basis over the term of the instrument, using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the year end date.

2.21 SHARE CAPITAL

Ordinary shares are classified as equity. Preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.22 EXCEPTIONAL ITEMS

Exceptional items are defined as items of income or expenditure which, in the opinion of the Directors, are material and unusual in nature or of such significance that they require separate disclosure on the face of the consolidated income statement in accordance with IAS 1, 'Presentation of Financial Statements'.

2.23 TRADING ANALYSIS

Trading analysis information is based on the Group's internal reporting structure of two operational hubs and corporate management centre. Further information on the business trading activities is set out in the operating overview on pages 32 to 33. Trading analysis results represent the contribution directly attributable for the different hubs to the results of the Group. Transactions between hubs are conducted on an arm's length basis.

2.24 INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2.25 KEY JUDGEMENTS AND ESTIMATION UNCERTAINTY

The preparation of consolidated 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 the expenses incurred during the reported period. Actual outcomes may therefore differ from these estimates and assumptions. The estimates and assumptions that have the most significant impact on the carrying value of assets and liabilities of the Group within the next financial year are detailed as follows:

a) Revenue and margin recognition

The Group's revenue recognition and margin recognition policies, which are set out in notes 2.14 and 2.15, are central to the way the Group values the work it has carried out in each financial year and have been consistently applied. 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 changes in work scopes, raw material and labour pricing, contract programmes and maintenance liabilities.

Across the Group there are several long-term complex projects where the Group have made their best estimate on significant judgements. The range of potential outcomes could result in a material change to the Group's profitability and cash flows.

b) Disputes

Management's best judgement has been taken into account in reporting disputed amounts, legal cases and claims but the actual future outcome may be different from this judgement.

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.25 KEY JUDGEMENTS AND ESTIMATION UNCERTAINTY CONTINUED

c) Exceptional items presentation

Judgement has been used to determine the presentation of exceptional items which relate to matters arising which are unusual and not expected to reoccur; the key judgements were:

i) Costs related to inefficiencies arising on the first generation of the Design for Manufacture and Assembly ("DfMA") contracts have been treated as exceptional, as losses have been taken from these contracts and similar issues are not reoccurring on the second generation DfMA contracts.

ii) The cost of a major restructuring and refinancing exercise has been treated as an exceptional as it was a major one-off programme.

iii) The impairment of the Group's residential and market-use development assets in accordance with the current accounting standards.

iv) Settlement of compensation claims under The Construction Workers Compensation Scheme, and other matters relating to The Consulting Association, as this is a major one-off cost to the Group.

d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires an estimation to be made of the timing and amount of future cash flows expected to arise from the cash generating unit, and a suitable discount rate in order to calculate the present value. The discount rate used, carrying value of goodwill and further details of the impairment loss calculation are included in note 13.

e) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the worldwide provision for income taxes including the recognition of deferred tax assets. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based upon management's assessment of exposures. Assets are only recognised where it is reasonably certain additional tax will become payable in future periods and when the asset can be utilised.

f) Development land and work in progress

Determining whether land developments are impaired requires an estimation of the fair values of expected selling prices and costs to complete.

g) Investment property

Determining the fair value of investment properties requires an estimation of future rental yields compared to current market evidence. In certain cases comparable market price information is limited due to the current economic conditions and management have exercised their best judgements in determining the fair value of investment properties.

h) Captive insurance company

Group operates a captive insurance company which provides reinsurance exclusively to the Group. Provision is made on actuarial assessment of the reserve for future claims, which necessarily includes estimates of the likely trend of future claims costs and the emergence of further claims subsequent to the year-end. An actuarial review of claims is performed annually. To the extent that actual claims differ from those projected, the provisions could vary significantly.

i) Financial risk management

In the course of its business, the Group is exposed to foreign currency risk, liquidity risk, interest rate risk and credit risk. The overall aim of the Group's financial risk management policies, processes and controls is to use judgement to minimise potential adverse effects on financial performance and net assets. Further details are provided in note 29 to these financial statements.

3 TRADING ANALYSIS

	Europe Hub 2016 £m	Australia Hub 2016 £m	Corporate Management & Treasury 2016 £m	Total Group 2016 £m
Performance by geography:				
Managed revenue	2,452.5	746.5	13.3	3,212.3
Less: Inter-segment revenue	(636.8)	(49.7)	(12.6)	(699.1)
Total revenue	1,815.7	696.8	0.7	2,513.2
Less: Share of joint ventures' and associates revenue	(156.)	(3.1)	–	(159.6)
Revenue	1,659.2	693.7	0.7	2,353.6
(Loss)/profit from operations post-exceptional items	(238.5)	22.0	(26.2)	(242.7)
(Loss)/profit before tax post-exceptional items	(241.4)	20.1	(24.3)	(245.6)
EBIT post-exceptional items	(240.6)	21.6	(26.2)	(245.2)
EBITDA post-exceptional items	(205.7)	35.8	(24.9)	(194.8)
(Loss)/profit from operations pre-exceptional items	(182.2)	22.0	(8.6)	(168.8)
(Loss)/profit before tax and exceptional items	(185.1)	20.1	(6.7)	(171.7)
EBIT pre-exceptional items	(184.3)	21.6	(8.6)	(171.3)
EBITDA pre-exceptional items	(149.4)	35.8	(7.3)	(120.9)

	Europe Hub 2015 £m	Australia Hub 2015 £m	Corporate Management & Treasury 2015 £m	Total Group 2015 £m
Managed revenue	2,353.4	1,482.8	13.9	3,850.1
Less: Inter-segment revenue	(605.9)	(104.1)	(12.7)	(722.7)
Total revenue	1,747.5	1,378.7	1.2	3,127.4
Less: Share of joint ventures' and associates revenue	(241.6)	–	–	(241.6)
Revenue	1,505.9	1,378.7	1.2	2,885.8
(Loss)/profit from operations post-exceptional items	(54.2)	92.9	(24.4)	14.3
(Loss)/profit before tax post-exceptional items	(57.5)	91.7	(21.8)	12.4
EBIT post-exceptional items	(56.7)	92.9	(24.4)	11.8
EBITDA post-exceptional items	(18.3)	110.5	(23.3)	68.9
Profit/(loss) from operations pre-exceptional items	7.2	92.9	(24.4)	75.7
Profit/(loss) before tax and exceptional items	3.9	91.7	(21.8)	73.8
EBIT pre-exceptional items	4.7	92.9	(24.4)	73.2
EBITDA pre-exceptional items	43.1	110.5	(23.3)	130.3

3 TRADING ANALYSIS CONTINUED

EBIT and EBITDA:	Note	Pre-exceptional items 2016 £m	Exceptional items (note 4) 2016 £m	Total 2016 £m	Pre-exceptional items 2015 £m	Exceptional items (note 4) 2015 £m	Total 2015 £m
(Loss)/profit from operations		(168.8)	(73.9)	(242.7)	75.7	(61.4)	14.3
Adjusted for:							
Net non-operating expense	8	(0.3)	–	(0.3)	–	–	–
JV net finance income	15	(2.0)	–	(2.0)	(3.3)	–	(3.3)
JV tax (expense)/income	15	(0.2)	–	(0.2)	0.8	–	0.8
EBIT		(171.3)	(73.9)	(245.2)	73.2	(61.4)	11.8
Depreciation	5	47.9	–	47.9	53.8	–	53.8
Amortisation	5	2.5	–	2.5	3.3	–	3.3
EBITDA		(120.9)	(73.9)	(194.8)	130.3	(61.4)	68.9

There is no material difference between revenue by origin and revenue by destination. Revenue includes £1,957.4m on construction contracts (2015: £2,455.0m) calculated on the definition included in IAS 11, Construction Contracts. Revenue arising from the sale of goods amounted to £72.3m (2015: £78.9m) and from the sale of services amounted to £329.0m (2015: £351.9m).

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £3,013.6m (2015: £5,571.9m).

4 EXCEPTIONAL ITEMS

	2016 £m	2015 £m
Impairment of land and developments	2.4	0.2
Contract losses	43.3	61.2
Restructuring costs	23.1	–
Other	5.1	–
Exceptional costs before tax	73.9	61.4
Income tax credit on exceptional items	(14.5)	(12.9)
Exceptional costs after tax	59.4	48.5

IMPAIRMENT OF LAND AND DEVELOPMENTS

During the year the Directors reviewed the carrying value of the Group's residential and mixed-use development assets in accordance with current accounting standards. As a result of the review, the Group recognised exceptional impairments of £2.4m (2015: £0.2m).

CONTRACT LOSSES

Exceptional costs of £43.3m (2015: £61.2m) were recognised in the year, which relate to three first generation Design for Manufacture and Assembly (DfMA) construction contracts in the UK. These projects were substantially redesigned in order to demonstrate the benefits of DfMA. Significant lessons have been learned from these projects, all of which were won in 2013; a particularly aggressive price-driven market. As issues were encountered using new construction methods and lessons have been learned, these unusual circumstances are unlikely to recur on new contracts.

RESTRUCTURING COSTS

During the year, the Group's management performed a strategic review across the European business to establish a more focused business structure increasing the focus on creating a simple management team for the contracting businesses and one for the manufacturing, logistics and plant business. Following this review, the European business has streamlined operations and aligned organisation structures to drive greater productivity and cost benefits into the operating model. The Group incurred £23.1m (2015 £nil) of costs in relation to refinancing, consulting advice and redundancies.

OTHER

During the year, the Group recognised costs of £5.1m (2015: £nil) in relation to the settlement of compensation claims under The Construction Workers Compensation Scheme, and matters related to The Consulting Association. See page 4 for details.

5 PROFITS FROM CONTINUING OPERATIONS

Profit from operations is stated after charging/(crediting):	Note	2016 £m	2015 £m
Staff costs	6	764.5	923.8
Depreciation of property, plant and equipment:	16		
Owned assets		24.0	42.5
Under finance leases		23.9	11.3
Operating lease rentals and short term hires:			
Property, plant and equipment		65.0	67.2
Amortisation of other intangible assets	13	2.5	3.3
Profit on disposal of joint venture		–	(46.5)
Profit on disposal of plant and equipment		(2.6)	(6.3)
Loss on disposal of intangibles		–	0.4
Research and development expenditure		25.7	41.5
Foreign exchange gains		(0.1)	(4.8)
Investment property income	17	(1.4)	(1.7)
Cost of inventories recognised as an expense:			
Amount of inventories recognised as an expense		46.4	93.9
Amount of inventories written off as an expense		2.4	0.2
Auditors' remuneration (see below)		3.0	2.6

During the year, to 31 March 2016, the Group narrowed the definition of 'research and development costs' which are incurred. For consistency we have amended the comparative figure from £54.4m to £41.5m.

Auditors' remuneration	Note	2016 £m	2015 £m
Fees payable to the Company's auditor for the audit of:			
The Company's annual financial statements and consolidated financial statements		0.3	0.3
The Company's subsidiaries pursuant to legislation		1.0	0.9
Total audit fees		1.3	1.2
Fees payable to the Company's auditor and its associates for other services:			
Services relating to taxation		0.7	0.9
All other services		1.0	0.5
Total non-audit fees		1.7	1.4
Total fees		3.0	2.6

The fees stated above include £nil (2015: £0.3m) for other non-assurance services and £0.1m (2015: £0.1m) for audit fees charged by the Company's statutory audit firm PricewaterhouseCoopers Limited Cyprus.

6 STAFF COSTS AND EMPLOYEE NUMBERS

Number of employees	2016 Number	2015 Number
The average monthly number of employees (including Directors) during the period was:		
Europe Hub	12,086	10,378
Australia Hub	3,148	4,710
Total number of employees	15,234	15,088

Aggregate remuneration and related costs, including Directors:	2016 £m	2015 £m
Salaries	346.4	410.0
Wages	347.3	424.9
Social security costs	42.4	47.7
Other pension costs	28.4	41.2
	764.5	923.8

At 31 March 2016 £1.8m (2015: £0.3m) was payable in respect of defined contribution schemes and included in other payables (note 23).

6 STAFF COSTS AND EMPLOYEE NUMBERS CONTINUED

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Group's key management personnel during the period include the five Directors and twelve other members (2015: five Directors and eight other members) who served on the Group Executive Committee during the year, and no other individuals (2015: five) considered key management personnel during the year.

The compensation of key management personnel is as follows:

	2016 £m	2015 £m
Salaries and other short-term employee benefits	13.0	9.6

DIRECTORS' REMUNERATION

The total remuneration of the Directors (included in key management personnel compensation above) was as follows:

	2016 £m	2015 £m
Salaries and other short-term benefits	8.2	3.5

None of the directors are accruing benefits under a defined contribution scheme (2015: none). No post-retirement benefits were paid on behalf of Directors (2015: £nil).

7 OTHER OPERATING INCOME

	2016 £m	2015 £m
Fair value gain on investment properties	0.3	0.8
Rents received	0.9	0.8
Research and development expenditure	2.4	2.0
Other operating income	0.4	0.1
	4.0	3.7

8 NET NON-OPERATING EXPENSE

	2016 £m	2015 £m
Impairment of investments	0.3	–

9 FINANCE INCOME

	2016 £m	2015 £m
Bank interest	1.9	6.5
Other interest and similar income	2.5	2.7
	4.4	9.2

10 FINANCE EXPENSE

	2016 £m	2015 £m
Interest payable on bank loans and overdrafts	3.0	6.3
Finance lease charges	3.8	4.7
Other interest payable and similar charges	0.2	0.1
	7.0	11.1

11 INCOME TAX

	2016 £m	2015 £m
Cyprus corporation tax		
Current tax on (loss)/profit for the year	0.1	0.3
Foreign tax		
Current tax on (loss)/profit for the year	(3.4)	16.6
Adjustment in respect of prior years	(0.9)	(10.5)
Total current tax	(4.2)	6.4
Net origination of temporary differences – current year	(19.8)	(16.1)
Net origination of temporary differences – prior years	(4.5)	2.0
Impact of change in tax rate	2.8	–
Total deferred taxation	(21.5)	(14.1)
Tax credit	(25.7)	(7.7)

The overall credit for the year of £25.7m is explained relative to the UK statutory rate of 20 per cent below:

	2016 £m	2015 £m
Total tax reconciliation		
(Loss)/profit before tax	(245.6)	12.4
Tax at the UK corporation tax rate of 20% (2015: UK 21%)	(49.1)	2.6
Effects of		
– overseas tax rates	(6.8)	3.6
– non-deductible expenditure/non-taxable income	3.4	(2.5)
– adjustments in respect of prior years	(5.4)	(8.5)
– unrecognised losses of the period	0.6	0.2
– utilisation of previously unrecognised losses	(2.6)	(1.8)
– tax effect of joint ventures	(1.1)	(0.5)
– impact of change in UK tax rate	2.9	–
– non-recognised deferred tax asset	29.9	–
– other items	2.5	(0.8)
Total tax credit	(25.7)	(7.7)

A total group tax credit of £25.7m (2015: £7.7m) arises for the year on the total group loss of £245.6m (2015: total group profit before tax of £12.4m), giving an effective tax rate of 10.4%. The total tax credit for the year includes an exceptional tax credit of £14.5m (2015: £12.9m) in relation to tax allowable exceptional expenditure for UK contract losses and impairments of land and developments (see note 4).

UK legislation was substantively enacted on 26 October 2015 to reduce the UK corporation rate to 19% from 1 April 2017 and then to 18% from 1 April 2020. The reductions in rate from 20% to 19% and then to 18% have been used in the calculations of the UK's deferred tax assets and liabilities as at 31 March 2016. The changes in future corporation tax rates have resulted in a reduction in the Group's deferred tax asset, and that is reflected in the tax charged to the income statement

Further changes to the UK corporate tax rates were announced in the Budget on 16 March 2016. These include a reduction in the main rate to 17% from 1 April 2020. As the change had not been substantively enacted at the financial position date, the effects are not included in these financial statements. If the changes had applied at the statement of financial position date, there would be no material impact on the Group's net assets

TAX EFFECTS RELATING TO EACH COMPONENT OF COMPREHENSIVE INCOME

	2016			2015		
	Before-tax amount £m	Tax charge £m	Net-of-tax amount £m	Before-tax amount £m	Tax charge £m	Net-of-tax amount £m
Exchange differences on translating foreign operations	9.1	–	9.1	(30.6)	–	(30.6)
Available-for-sale financial assets	0.1	–	0.1	0.3	–	0.3
Disposal of cash flow hedges	–	–	-	6.8	–	6.8
Share of other comprehensive income of joint ventures and associates	(5.3)	–	(5.3)	3.3	–	3.3
	3.9	–	3.9	(20.2)	–	(20.2)

12 DIVIDENDS

	2016 £m	2015 £m
No interim dividends were paid during the year (2015: £2,333 per ordinary share)	–	21.0

The Directors do not recommend the payment of a final dividend (2015: £nil).

13 INTANGIBLE ASSETS

	Goodwill £m	Brands £m	Computer software and licences £m	Development costs £m	Total £m
Cost					
At 1 April 2015	327.2	2.1	24.8	3.4	357.5
Additions	–	–	2.5	–	2.5
Disposals	–	(2.0)	(1.4)	–	(3.4)
Exchange differences	1.3	(0.1)	0.1	–	1.3
At 31 March 2016	328.5	–	26.0	3.4	357.9
Accumulated amortisation and impairment					
At 1 April 2015	0.9	2.1	19.9	–	22.9
Amortisation for the year	–	–	2.5	–	2.5
Disposals	–	(2.0)	(1.4)	–	(3.4)
Exchange differences	0.1	(0.1)	0.1	–	0.1
At 31 March 2016	1.0	–	21.1	–	22.1
Net book value at 31 March 2016	327.5	–	4.9	3.4	335.8
Cost					
At 1 April 2014	329.0	2.2	22.2	–	353.4
Acquisitions	1.6	–	–	–	1.6
Additions	–	–	2.6	3.4	6.0
Disposals	–	–	(0.4)	–	(0.4)
Exchange differences	(3.4)	(0.1)	0.4	–	(3.1)
At 31 March 2015	327.2	2.1	24.8	3.4	357.5
Accumulated amortisation and impairment					
At 1 April 2014	1.0	2.1	16.5	–	19.6
Amortisation for the year	–	0.1	3.2	–	3.3
Disposals	–	–	–	–	–
Exchange differences	(0.1)	(0.1)	0.2	–	–
At 31 March 2015	0.9	2.1	19.9	–	22.9
Net book value at 31 March 2015	326.3	–	4.9	3.4	334.6
Net book value at 31 March 2014	328.0	0.1	5.7	–	333.8

13 INTANGIBLE ASSETS CONTINUED

IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL

The following units have significant amounts of goodwill:

	2016 £m	2015 £m
Australia	46.3	45.1
United Kingdom	281.2	281.2
	327.5	326.3

The recoverable amount of goodwill attached to each cash generating unit is based on value in use calculations in accordance with IAS 36, Impairment of Assets. Each calculation uses cash flow projections based on four-year financial budgets approved by management and a perpetual growth rate of 3% (2015: 3%), discounted at the Group's estimated pre-tax weighted average cost of capital of 10% (2015: 11%). Budgeted gross margins are based on past performance and management's market expectations. The estimated perpetual growth rate of 3% (2015: 3%) is in line with the long-term average growth rate for the business in which the cash-generating unit operates and is consistent with industry forecast reports. The weighted average cost of capital is an estimate from listed industry competitors, adjusted for changes in capital structures.

As at 31 March 2016, based on the internal value in use calculations, management concluded that the recoverable value of the cash generating units exceeded their carrying amount and there is no reasonably possibly change in a key assumption that would result in an impairment change.

Sensitivity analysis has been performed on the goodwill in relation to each CGU by changing the key assumptions applicable to each CGU. Sensitivity analysis with regards to the discount rate would need to increase from 10.1% to 37.6% before any impairment would be triggered. Whilst revenue is considered a key assumption, if business performance was below expectations, management would take actions in order to seek to control the net cash flow impact. Total forecast cash flow would need to reduce by 80.0% before any impairment would be triggered. The value of goodwill in use for the Group exceeds its carrying value by £155.3 million (190.2%).

Amortisation charge

The amortisation charge in respect of software, licences and brands is recognised in the following line item in the income statement:

	2016 £m	2015 £m
Administrative expenses	2.5	3.3

14 DISPOSALS

There were no disposals during the year.

Prior year disposals

During the prior year Laing O'Rourke Plc, a subsidiary of the Group, disposed of equity interests in four Private Finance Initiatives ('PFIs'). The disposals were made for cash consideration of £69.1m generating a profit of £40.6m.

On 30 March 2015, Laing O'Rourke Middle East (Holdings) Limited disposed of its equity interest in Aldar Laing O'Rourke Construction LLC. The disposal generated cash consideration of £0.8m and a profit of £5.9m.

15 INVESTMENTS IN JOINT VENTURES AND ASSOCIATE

	Joint ventures equity investment £m	Associates equity investment £m	Loans to joint ventures £m	Total £m
Cost				
At 1 April 2015	0.8	13.3	60.8	74.9
Equity investment purchases	0.8	–	–	0.8
Loans advanced	–	–	1.7	1.7
Exchange differences	–	–	4.4	4.4
At 31 March 2016	1.6	13.3	66.9	81.8
Share of post-acquisition results				
At 1 April 2015	(28.4)	(2.6)	–	(31.0)
Share of results for the year after tax	(86.8)	–	–	(86.8)
Distributions received	(0.9)	–	–	(0.9)
Exchange differences	(5.6)	0.3	–	(5.3)
At 31 March 2016	(121.7)	(2.3)	–	(124.0)
Net book value at 31 March 2016	(120.1)	11.0	66.9	(42.2)
Net book value at 31 March 2015	(27.6)	10.7	60.8	43.9
Cost				
At 1 April 2014	2.3	13.3	84.4	100.0
Loans advanced	–	–	5.5	5.5
Loans repaid	–	–	(0.2)	(0.2)
Disposals	(1.5)	–	(21.6)	(23.1)
Exchange differences	–	–	(7.3)	(7.3)
At 31 March 2015	0.8	13.3	60.8	74.9
Share of post-acquisition results				
At 1 April 2014	(27.6)	(1.9)	–	(29.5)
Share of results for the year after tax	1.2	–	–	1.2
Distributions received	(8.9)	–	–	(8.9)
Disposals of cash flow hedges	6.8	–	–	6.8
Disposals of joint ventures	(3.9)	–	–	(3.9)
Exchange differences	4.0	(0.7)	–	3.3
At 31 March 2015	(28.4)	(2.6)	–	(31.0)
Net book value at 31 March 2015	(27.6)	10.7	60.8	43.9
Net book value at 31 March 2014	(25.3)	11.4	84.4	70.5

The Group's share of joint venture and associate equity investments and loans to joint ventures are presented above. IFRS 11, Joint Arrangements, and IAS 28, Investments in Associates, require the following presentation adjustments:

- Where the Group has already accounted for an obligation to fund net liabilities of a joint venture or associate this is deducted from loans made to the joint venture or associate; and
- Where the Group's obligation to fund net liabilities of a joint venture or associate exceeds the amount loaned, a provision is recorded (see note 24).

The Group's investments in joint ventures and associate are presented in the statement of financial position as:

	2016 £m	2015 £m
Investments in joint ventures and associates	21.1	14.0
Loans to joint ventures	42.4	37.5
Provisions	(105.7)	(7.6)
	(42.2)	43.9

No impairment losses to equity investments were brought forward at 31 March 2016 or charged in the year (2015: £nil).

15 INVESTMENTS IN JOINT VENTURES AND ASSOCIATE CONTINUED

The principal joint ventures and associate are shown in note 36. Each joint venture and associate has share capital consisting solely of ordinary shares, which is held directly by the Group. Each joint venture is a private company and there is no quoted market price available for its shares.

Set out below is the summarised financial information for the joint ventures and associates which are material to the group and are accounted for using the equity method.

	Emirates Precast Construction LLC 2016 £m	Canal Harbour Development Company Limited 2016 £m	*Health Montreal Collective CJV Limited Partnership 2016 £m	Private Finance Initiatives (PFIs) 2016 £m	Other joint ventures 2016 £m	North East Business Park Pty Limited – Associate 2016 £m	Total 2016 £m
Revenue	14.4	–	100.9	285.4	57.8	12.4	470.9
Depreciation and amortisation	(0.3)	–	–	–	–	–	(0.3)
Other (expenses)/income	(12.1)	–	(287.2)	(285.4)	(37.3)	(12.4)	(634.4)
Operating (loss)/profit	2.0	–	(186.3)	–	20.5	–	(163.8)
Net finance income/(costs)	–	–	–	7.4	(0.3)	–	7.1
(Loss)/profit before tax	2.0	–	(186.3)	7.4	20.2	–	(156.7)
Tax credit/(expense)	–	–	–	1.2	(0.2)	–	1.0
(Loss)/profit after tax	2.0	–	(186.3)	8.6	20.0	–	(155.7)
Other comprehensive (expense)/income	0.3	(3.6)	(7.8)	0.2	–	1.1	(9.8)
Total comprehensive (expense)/income	2.3	(3.6)	(194.1)	8.8	20.0	1.1	(165.5)
Dividends received from joint ventures	0.8	–	–	–	0.1	–	0.9
Non-current assets							
Goodwill	–	–	–	–	–	16.3	16.3
Property, plant and equipment	1.0	–	–	–	1.8	0.1	2.9
Other non-current assets	0.8	21.2	–	932.4	–	0.1	954.5
Current assets							
Cash and cash equivalents	4.0	0.1	11.5	62.3	5.3	0.1	83.3
Other current assets	14.0	–	57.3	9.7	0.6	37.0	118.6
Total assets	19.8	21.3	68.8	1,004.4	7.7	53.6	1,175.6
Current liabilities							
Borrowings	–	–	–	–	(1.5)	–	(1.5)
Other current liabilities	(4.8)	(0.2)	(280.2)	(30.5)	(3.4)	(2.5)	(321.6)
Non-current liabilities							
Borrowings	–	–	–	(958.4)	(1.6)	(7.3)	(967.3)
Other non-current liabilities	(1.3)	(70.2)	–	–	–	–	(71.5)
Total liabilities	(6.1)	(70.4)	(280.2)	(988.9)	(6.5)	(9.8)	(1,361.9)
Net (liabilities)/assets	13.7	(49.1)	(211.4)	15.5	1.2	43.8	(186.3)
Financial commitments	–	–	–	–	–	–	–
Capital commitments	–	–	–	–	–	–	–

* During the year, the Health Montreal Collective CJV project, a hospital PFI construction joint venture, made significant losses as a result of a major delay in the programme.

15 INVESTMENTS IN JOINT VENTURES AND ASSOCIATE CONTINUED

	Joint Ventures disposed 2015									
	Aldar Laing O'Rourke Construction LLC 2015 £m	Private Finance Initiatives (PFIs) 2015 £m	Total disposed JVs 2015 £m	Emirates Precast Construction LLC 2015 £m	Canal Harbour Development Company Limited 2015 £m	*Health Montreal Collective CJV Limited Partnership 2015 £m	Private Finance Initiatives (PFIs) 2015 £m	Other joint ventures 2015 £m	Associates 2015 £m	Total 2015 £m
Revenue	–	52.1	52.1	12.4	0.1	410.6	189.1	76.4	–	740.7
Depreciation and amortisation	(0.7)	–	(0.7)	(0.3)	–	–	–	–	–	(1.0)
Other (expenses)/income	1.7	(50.7)	(49.0)	(10.4)	(0.1)	(430.0)	(190.1)	(76.4)	–	(756.0)
Operating (loss)/profit	1.0	1.4	2.4	1.7	–	(19.4)	(1.0)	–	–	(16.3)
Net finance income	–	1.0	1.0	–	–	0.7	5.3	–	–	7.0
Profit/(loss) before tax	1.0	2.4	3.4	1.7	–	(18.7)	4.3	–	–	(9.3)
Tax expense	–	(0.5)	(0.5)	–	–	–	(1.0)	–	–	(1.5)
Profit/(loss) after tax	1.0	1.9	2.9	1.7	–	(18.7)	3.3	–	–	(10.8)
Other comprehensive income	0.6	–	0.6	1.5	6.0	0.4	–	–	(3.1)	5.4
Total comprehensive income	1.6	1.9	3.5	3.2	6.0	(18.3)	3.3	–	(3.1)	(5.4)
Dividends received from joint ventures	7.7	0.4	8.1	0.8	–	–	–	–	–	8.9
Non-current assets										
Goodwill	–	–	–	–	–	–	–	–	17.6	17.6
Property, plant and equipment	–	–	–	1.2	–	–	7.9	–	–	9.1
Other non-current assets	–	–	–	0.3	19.7	–	445.1	–	–	465.1
Current assets	–	–	–							
Cash and cash equivalents	–	–	–	5.0	–	57.9	58.4	10.9	0.4	132.6
Other current assets	–	–	–	13.0	–	180.7	77.2	18.9	31.2	321.0
Total assets	–	–	–	19.5	19.7	238.6	588.6	29.8	49.2	945.4
Current liabilities										
Borrowings	–	–	–	–	–	–	–	–	–	–
Other current liabilities	–	–	–	(4.8)	(0.1)	(269.1)	(30.2)	(49.0)	(1.2)	(354.4)
Non-current liabilities	–	–	–							
Borrowings	–	–	–	–	–	–	(557.1)	–	(5.2)	(562.3)
Other non-current liabilities	–	–	–	(1.2)	(65.0)	–	–	–	–	(66.2)
Total liabilities	–	–	–	(6.0)	(65.1)	(269.1)	(587.3)	(49.0)	(6.4)	(982.9)
Net (liabilities)/assets	–	–	–	13.5	(45.4)	(30.5)	1.3	(19.2)	42.8	(37.5)
Financial commitments	–	–	–	–	–	–	–	–	–	–
Capital commitments	–	–	–	–	–	–	–	–	–	–

* During the year, the Health Montreal Collective CJV project, a hospital PFI construction joint venture, made significant losses as a result of a major delay in the programme.

16 PROPERTY, PLANT AND EQUIPMENT

	Group owner occupied property £m	Other land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost				
At 1 April 2015	35.9	25.7	513.0	574.6
Additions	0.1	1.0	40.6	41.7
Disposals	–	–	(61.1)	(61.1)
Exchange differences	0.1	0.4	3.2	3.7
At 31 March 2016	36.1	27.1	495.7	558.9
Accumulated depreciation				
At 1 April 2015	2.2	16.0	274.2	292.4
Depreciation charge for the year	0.3	2.0	45.6	47.9
Impairment	–	–	0.1	0.1
Disposals	–	–	(45.4)	(45.4)
Exchange differences	(0.1)	0.4	2.5	2.8
At 31 March 2016	2.4	18.4	277.0	297.8
Net book value at 31 March 2016	33.7	8.7	218.7	261.1
Cost				
At 1 April 2014	35.5	23.6	504.1	563.2
Additions	0.7	1.4	68.9	71.0
Disposals	–	(0.1)	(55.2)	(55.3)
Exchange differences	(0.3)	0.8	(4.8)	(4.3)
At 31 March 2015	35.9	25.7	513.0	574.6
Accumulated depreciation				
At 1 April 2014	2.1	13.5	260.6	276.2
Depreciation charge for the year	0.2	1.7	51.9	53.8
Disposals	–	–	(37.5)	(37.5)
Exchange differences	(0.1)	0.8	(0.8)	(0.1)
At 31 March 2015	2.2	16.0	274.2	292.4
Net book value at 31 March 2015	33.7	9.7	238.8	282.2
Net book value at 31 March 2014	33.4	10.1	243.5	287.0

Finance leases: Included in ‘plant, equipment and vehicles’ are assets held under finance leases at the following amounts:

	2016 £m	2015 £m
Cost at 1 April	235.1	245.9
Accumulated depreciation at 1 April	(72.8)	(82.5)
Net book value at 1 April	162.3	163.4
Additions/acquisitions	16.9	45.1
Cost of disposals/transfers out	(35.8)	(51.2)
Depreciation on disposals/transfers out	21.5	19.9
Depreciation charge for the year	(23.9)	(11.3)
Other	(5.4)	–
Exchange differences	0.5	(3.6)
Net book value at 31 March	136.1	162.3

Finance lease terms are between one and five years, see note 22 for ageing of finance lease obligations.

17 INVESTMENT PROPERTY

	Freehold 2016 £m	Freehold 2015 £m
Net book value at 1 April	30.4	48.4
Disposals	(9.3)	(17.3)
Exchange differences	0.3	(0.7)
Net book value at 31 March	21.4	30.4

Investment property income earned by the Group, all of which was received under operating leases, amounted to £1.4m (2015: £1.7m) and is shown as revenue in the income statement. Direct operating expenses arising on investment properties generating rental income in the year amounted to £0.5m (2015: £0.6m).

The Group's investment properties are let under non-cancellable operating lease agreements. The leases have varying terms, escalating clauses and renewal rights. The Group's future operating lease income commitments comprise:

	2016 £m	2015 £m
Expiry date:		
Due within one year	0.9	1.0
Due between one and five years	2.8	2.8
Due after more than five years	12.8	13.5
	16.5	17.3

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 £m	2015 £m
At 1 April	0.5	0.6
Disposals	(0.5)	(0.3)
Net gains transferred to equity	–	0.2
At 31 March	–	0.5
Available-for-sale financial assets include the following:		
Unlisted securities	–	0.5

The fair value of available-for-sale financial assets is determined from quoted prices in active markets.

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Current portion:				
Forward foreign exchange contracts	0.3	–	–	(3.2)

FOREIGN EXCHANGE FAIR VALUE HEDGES

FORWARD EXCHANGE CONTRACTS

The Group enters into forward contracts to hedge its foreign currency exposure arising on a number of construction contracts where construction costs have been agreed to be paid in foreign currencies. The highly probable forecast transactions denominated in foreign currencies are expected to occur at various dates during the next 12 months.

20 INVENTORIES

	2016 £m	2015 £m
Development land and work in progress	62.0	67.0
Raw materials and consumables	5.6	5.8
Finished goods and goods for resale	2.7	3.6
	70.3	76.4

Development land and work in progress at 31 March 2016 includes assets to a value of £20.6m (2015: £62.8m) expected to be consumed after more than one year.

Capitalised specific borrowing costs attributable to qualifying assets and included in development land and work in progress of £1.8m did not materially change from last year (2015: decreased by £1.9m).

Inventories carried at net realisable value at 31 March 2016 had a carrying value of £19.5m (2015: £11.1m).

21 TRADE AND OTHER RECEIVABLES

	2016 £m	2015 £m
Amounts expected to be recovered within one year:		
Gross amounts due from customers on construction contracts	278.8	309.0
Trade receivables	101.1	69.4
Prepayments and accrued income	28.7	32.6
Other receivables	72.0	55.2
	480.6	466.2
Amounts expected to be recovered after more than one year:		
Gross amounts due from customers on construction contracts	44.6	28.9
Trade receivables	1.3	3.2
Other receivables	0.8	0.4
	46.7	32.5
Total trade and other receivables	527.3	498.7

At 31 March 2016, trade and other receivables include retentions of £85.6m (2015: £99.0m) relating to construction contracts of which £37.0m (2015: £28.9m) are non-current assets.

For construction contracts in progress at 31 March 2016, £165.8m (2015: £287.6m) was received as an advance and is included within advance payments on construction contracts in trade and other payables (see note 23).

At 31 March 2016 the bad debt provision for trade receivables amounted to £8.2m (2015: £1.3m). The net losses recognised via write off or impairment of trade and other receivables in the year to 31 March 2016 amounted to £1.4m (2015: £0.4m) which has been recognised in administrative expenses. £1.7m of debts provided for have now been fully written off.

Please refer to note 29 for a credit risk profile of trade receivables.

22 BORROWINGS

	2016 £m	2015 £m
Amounts expected to be settled within one year:		
Bank loans	128.3	3.4
Finance lease obligations	36.2	42.1
	164.5	45.5
Amounts expected to be settled after more than one year:		
Bank loans	7.1	62.1
Finance lease obligations	54.0	77.9
	61.1	140.0
Total borrowings	225.6	185.5

Bank loans amounting to £11.2m (2015: £16.5m) are secured on the assets to which they relate.

22 BORROWINGS CONTINUED

FINANCE LEASE OBLIGATIONS

Finance lease obligations are payable as follows:

	Interest 2016 £m	Principal 2016 £m	Minimum lease payments 2016 £m	Interest 2015 £m	Principal 2015 £m	Minimum lease payments 2015 £m
Less than one year	2.5	36.2	38.7	3.5	42.1	45.6
Between one and five years	2.2	54.0	56.2	4.0	77.9	81.9
More than five years	–	–	–	–	–	–
	4.7	90.2	94.9	7.5	120.0	127.5

Obligations under finance leases are secured by legal charges on certain non-current assets of the Group with an original cost of £217.6m (2015: £235.1m) and total net book value of £136.1m (2015: £162.3m). During 2016 the Group experienced challenging trading and financial circumstances in particular in respect to certain problem contracts which culminated in the Group refinancing its UK business on 14 April 2016. Prior to concluding the refinancing, the Group secured the covenant waiver and standstill agreement for all its financial stakeholders, which ensured the Group remained compliant with the terms of its bank facilities. As part of the short-term agreement in place prior to the refinancing, all Group cash was retained within each operating hub.

At 14 April 2016, as part of the refinancing agreement, the revolving credit facility (RCF) became payable beyond 31 October 2017. As at the statement of financial position date, £125m is shown in current borrowings.

23 TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Amounts expected to be settled within one year:		
Advance payments on construction contracts	176.5	287.6
Trade payables	203.7	239.9
Other tax and social security	24.3	33.3
Other payables	46.0	33.9
Accruals and deferred income	382.0	404.3
	832.5	999.0
Amounts expected to be settled after more than one year:		
Trade payables	23.8	18.9
Other payables	0.7	1.4
Accruals and deferred income	11.6	18.1
	36.1	38.4
Total trade and other payables	868.6	1,037.4

At 31 March 2016, trade and other payables include retentions of £54.5m (2015: £58.2m) relating to construction contracts of which £22.3m (2015: £18.9m) are non-current liabilities.

24 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Insurance technical provisions £m	Employee provisions £m	Joint venture provisions £m	Total provisions £m
At 1 April 2015	36.0	5.2	7.6	48.8
Provisions created	16.6	0.1	101.0	117.7
Provisions utilised	–	(0.5)	(2.9)	(3.4)
At 31 March 2016	52.6	4.8	105.7	163.1
Disclosed within:				
Current liabilities	5.5	2.3	105.7	113.5
Non-current liabilities	47.1	2.5	–	49.6
	52.6	4.8	105.7	163.1
At 1 April 2014	36.8	4.8	2.9	44.5
Provisions created	–	0.8	4.7	5.5
Provisions utilised	(0.8)	(0.4)	–	(1.2)
At 31 March 2015	36.0	5.2	7.6	48.8
Disclosed within:				
Current liabilities	9.2	2.4	7.6	19.2
Non-current liabilities	26.8	2.8	–	29.6
	36.0	5.2	7.6	48.8

Insurance provisions relate to provisions held by the Group's captive insurer Laing O'Rourke Insurance Limited. Such provisions are held until utilised or such times as further claims are considered unlikely under the respective insurance policies.

The employee provision relates to the accrual of long service leave for employees in Australia and New Zealand.

The Group provides in full for obligations to remedy net liabilities of jointly controlled entities in excess of amounts already loaned. At 31 March 2016 these provisions amounted to £105.7m (2015: £7.6m) which were measured in accordance with the Group's accounting policies. Amounts provided are assessed based on judgements of contract costs, contract programmes and maintenance liabilities and are expected to be paid within one year.

25 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

	Assets 2016 £m	Assets 2015 £m	Liabilities 2016 £m	Liabilities 2015 £m	Net 2016 £m	Net 2015 £m
Property, plant and equipment	0.7	–	(2.6)	(8.5)	(1.9)	(8.5)
Other temporary differences	24.5	44.3	(8.4)	–	16.1	44.3
Offsetting of deferred tax balances	–	(5.5)	–	5.5	–	–
Tax losses carried forward	42.9	–	–	–	42.9	–
Deferred tax assets/(liabilities)	68.1	38.8	(11.0)	(3.0)	57.1	35.8

The ageing of deferred tax assets/(liabilities) at the year end was:

	Assets 2016 £m	Assets 2015 £m	Liabilities 2016 £m	Liabilities 2015 £m	Net 2016 £m	Net 2015 £m
Less than one year	16.1	24.9	–	(1.5)	16.1	23.4
More than one year	52.0	13.9	(11.0)	(1.5)	41.0	12.4
	68.1	38.8	(11.0)	(3.0)	57.1	35.8

25 DEFERRED TAX ASSETS AND LIABILITIES CONTINUED

MOVEMENTS IN DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

	As at 1 April 2015 £m	Exchange and other movements £m	Recognised in income £m	Recognised in equity £m	As at 31 March 2016 £m
Property, plant and equipment	(8.5)	–	6.6	–	(1.9)
Other temporary differences	29.6	(0.2)	(13.3)	–	16.1
Tax losses carried forward	14.7	–	28.2	–	42.9
	35.8	(0.2)	21.5	–	57.1

	As at 1 April 2014 £m	Exchange and other movements £m	Recognised in income £m	Recognised in equity £m	As at 31 March 2015 £m
Property, plant and equipment	(10.6)	–	2.1	–	(8.5)
Other temporary differences	33.6	(1.3)	(2.7)	–	29.6
Tax losses carried forward	–	–	14.7	–	14.7
	23.0	(1.3)	14.1	–	35.8

Other temporary differences relate mainly to assets in Laing O'Rourke Australia Pty Limited, where employee benefits, project accruals and cost provisions are debited in one period but deducted against tax in another, and LOR Canada Limited where advance project payments are taxed when received but spread across several periods under accounting standards.

UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets have not been recognised in respect of the following items:

	2016 £m	2015 £m
Tax losses	1.1	4.5

The Group has unrecognised deferred tax assets of £1.1m relating to unused tax losses. The tax losses have arisen in the Group and can be carried forward to future periods for use against part of future profits. No deferred tax asset has been recognised in respect of these amounts due to the unpredictability of future taxable profits and the constraints in using the losses.

26 SHARE CAPITAL AND PREMIUM

	Number of €1 Shares	Share premium £m
At 1 April 2015 and at 31 March 2016	9,000	286.4

The authorised share capital of Laing O'Rourke Corporation Limited at 31 March 2016 was 18,000 ordinary shares of €1 each (2015: 18,000 shares).

27 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	Called-up share capital £m	Share premium £m	Fair value reserve £m	Hedging reserve £m	Foreign currency translation reserve £m	Retained earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
At 1 April 2014	–	286.4	(0.4)	(6.8)	21.8	291.1	592.1	1.9	594.0
Profit for the year	–	–	–	–	–	20.3	20.3	(0.2)	20.1
Other comprehensive expense after tax	–	–	0.3	6.8	(27.3)	–	(20.2)	–	(20.2)
Total comprehensive expense for the year	–	–	0.3	6.8	(27.3)	20.3	0.1	(0.2)	(0.1)
Dividends paid	–	–	–	–	–	(21.0)	(21.0)	–	(21.0)
At 31 March 2015	–	286.4	(0.1)	–	(5.5)	290.4	571.2	1.7	572.9
Loss for the year	–	–	–	–	–	(219.8)	(219.8)	(0.1)	(219.9)
Other comprehensive income after tax	–	–	0.1	–	3.8	–	3.9	–	3.9
Total comprehensive expense for the year	–	–	0.1	–	3.8	(219.8)	(215.9)	(0.1)	(216.0)
Dividends paid	–	–	–	–	–	–	–	(0.7)	(0.7)
At 31 March 2016	–	286.4	–	–	(1.7)	70.6	355.3	0.9	356.2

FAIR VALUE RESERVE

The fair value reserve includes the cumulative net change in the fair value of available-for-sale financial assets until the investment is de-recognised, together with any related deferred tax.

HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred tax. The movement in the prior year of £6.8m primarily relates to joint venture disposals, see note 15.

FOREIGN CURRENCY TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities and the cumulative net change in the fair value of instruments that hedge the Group's net investment in foreign operations. The translation reserve also includes any related current tax.

RETAINED EARNINGS

Retained earnings relate to the proportion of net income retained by the Group less distributions.

28 GUARANTEES AND CONTINGENT LIABILITIES

The Group and certain subsidiaries have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the Group's own contracts. The Group has given guarantees in respect of its share of certain contractual obligations of joint ventures and associates.

At 31 March 2016, Group companies are parties to disputes from which legal actions have arisen or may arise in the ordinary course of business. While the outcome of these disputes is uncertain, the Directors believe that, except where provided in these financial statements, no material loss to the Group will occur (2015: £nil). In forming their opinion the Directors have taken relevant legal advice. Undertakings have been given by certain Group companies that they will not seek repayment of amounts due by other Group companies, except to the extent of their ability to pay.

29 FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to foreign currency risk, interest rate risk, liquidity risk and credit risk. The overall aim of the Group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board of Directors and purchases derivative financial instruments where appropriate. Treasury is not a profit centre and does not enter into speculative transactions.

29.1 FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of financial instruments will fluctuate as a result of changes in foreign exchange rates. The pound sterling equivalents of the currency of the Group's financial assets and liabilities, were as follows:

	Pound sterling value of equivalent currency (m)								
	2016 GBP	2016 EUR	2016 AUD	2016 AED	2016 SAR	2016 CAD	2016 HKD	2016 Other	2016 Total £m
Loans to joint ventures	7.2	59.7	–	–	–	–	–	–	66.9
Trade and other receivables	277.1	0.4	85.8	99.8	7.2	0.9	27.0	1.4	499.6
Available-for-sale financial assets	–	–	–	–	–	–	–	–	–
Derivative financial instruments	–	–	0.3	–	–	–	–	–	0.3
Restricted financial assets	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	124.1	7.4	88.4	10.6	0.5	2.5	35.5	2.0	271.0
Total financial assets	408.4	67.5	174.5	110.4	7.7	3.4	62.5	3.4	837.8
Borrowings	(198.6)	–	(27.0)	–	–	–	–	–	(225.6)
Trade and other payables	(519.8)	(12.6)	(129.6)	(121.5)	(0.6)	(11.4)	(47.0)	(2.1)	(844.6)
Net financial (liabilities)/assets	(310.0)	54.9	17.9	(11.1)	7.1	(8.0)	15.5	1.3	(232.4)

Other cash and cash equivalents primarily include £1.4m (2015: £0.1m) held in NZD and £0.3m (2015: £0.3m) held in USD.

	Pound sterling value of equivalent currency (m)								
	2015 GBP	2015 EUR	2015 AUD	2015 AED	2015 SAR	2015 CAD	2015 HKD	2015 Other	2015 Total £m
Loans to joint ventures	5.4	55.4	–	–	–	–	–	–	60.8
Trade and other receivables	232.7	0.8	100.0	79.7	27.1	6.6	18.9	1.6	467.4
Available-for-sale financial assets	–	0.5	–	–	–	–	–	–	0.5
Cash and cash equivalents	318.9	13.5	157.1	4.3	1.6	30.8	27.6	2.1	555.9
Total financial assets	557.0	70.2	257.1	84.0	28.7	37.4	46.5	3.7	1,084.6
Borrowings	(147.8)	–	(37.7)	–	–	–	–	–	(185.5)
Derivative financial instruments	–	–	(3.2)	–	–	–	–	–	(3.2)
Trade and other payables	(597.2)	(2.7)	(239.0)	(86.6)	(1.5)	(32.9)	(42.6)	(2.2)	(1,004.7)
Net financial (liabilities)/assets	(188.0)	67.5	(22.8)	(2.6)	27.2	4.5	3.9	1.5	(108.8)

Of the total foreign currency borrowings of £27.0m (2015: £37.7m), the amount of borrowings used to finance overseas operations amounts to £27.0m (2015: 37.7m).

It is Group policy that forward exchange contracts are taken out for all material foreign currency receivables and payables where they differ from the functional currency of the Company or subsidiary.

If the foreign exchange rates that the Group is exposed to had changed adversely by 10% at the balance sheet date, the results for the year and equity would have decreased by £6.7m (2015: £4.8m). This sensitivity analysis takes into account the tax impact and the forward exchange contracts in place.

29 FINANCIAL INSTRUMENTS CONTINUED

29.2 INTEREST RATE RISK

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group is exposed to interest rate risk in relation to some of its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The contractual repricing or maturity dates, whichever dates are earlier, and effective interest rates of borrowings are as follows:

	Repricing/maturity date				
	Total £m	Within one year £m	Between one and two years £m	After two years £m	Effective interest rate %
At 31 March 2016					
Bank loans	135.4	128.3	0.5	6.6	3.42%
Finance lease obligations	90.2	36.2	33.3	20.7	3.55%
	225.6	164.5	33.8	27.3	3.47%
At 31 March 2015					
Bank loans	65.5	3.4	0.8	61.3	3.04%
Finance lease obligations	120.0	42.1	41.8	36.1	3.62%
	185.5	45.5	42.6	97.4	3.41%

If interest rates had been 1% higher during the period, the results and equity would have reduced by £1.4m (2015: £1.5m). This sensitivity analysis takes into account the tax impact.

29.3 LIQUIDITY RISK

Prudent liquidity risk management involves maintaining sufficient cash and available funding to meet liabilities as they fall due. The Group has procedures in place to minimise liquidity risk such as maintaining sufficient cash and other highly liquid current assets and by having an adequate amount of committed credit facilities.

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non–current liabilities including interest is as follows:

	Trade and other payables £m	Bank loans £m	Finance leases £m	Total £m
At 31 March 2016				
Between one and less than two years	27.5	0.7	34.7	62.9
Between two and less than five years	1.9	7.0	21.5	30.4
Five or more years	6.7	–	–	6.7
	36.1	7.7	56.2	100.0
At 31 March 2015				
Between one and less than two years	29.8	1.1	44.8	75.7
Between two and less than five years	2.5	52.3	37.1	91.9
Five or more years	6.1	11.3	–	17.4
At 31 March 2016	38.4	64.7	81.9	185.0

Borrowing facilities

The Group has the following undrawn committed borrowing facilities at the year-end in respect of which all conditions precedent had been met:

	2016 £m	2015 £m
Expiring within one year	51.7	83.2
Expiring between one and two years	–	0.2
Expiring in more than two years	10.0	85.0
	61.7	168.4

29 FINANCIAL INSTRUMENTS CONTINUED

29.4 CREDIT RISK

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Group's credit risk is primarily attributable to its loan assets, trade and other receivables.

The ageing of trade receivables at the year-end was:

	Gross receivables 2016 £m	Impairment 2016 £m	Gross receivables 2015 £m	Impairment 2015 £m
Not past due	87.1	–	50.1	–
Past due 0-30 days	12.3	–	15.4	–
Past due 31-120 days	1.9	–	2.5	–
Past due 121-365 days	1.5	(0.4)	3.0	–
More than one year	0.6	(0.6)	2.9	(1.3)
	103.4	(1.0)	73.9	(1.3)

Based on prior experience and an assessment of the current economic environment, management believes there is no further credit risk provision required in excess of the normal provision for impairment of its loan assets, trade and other receivables. The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales are made to customers with an appropriate credit history and monitors on a continuing basis the ageing profile of its receivables. Cash balances are held with high credit quality financial institutions.

29.5 FAIR VALUES

Financial instruments carried at fair value in the statement of financial position are other investments, available-for-sale financial assets and derivative financial instruments. The following hierarchy classifies each class of financial instrument depending on the valuation technique applied in determining its fair value.

Level 1: The fair value is calculated based on quoted prices traded in active markets for identical assets or liabilities. The Group holds available-for-sale investments which are traded in active markets and valued based on the closing per unit market price at 31 March 2016.

Level 2: The fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of derivative financial instruments is estimated to be the difference between the fixed forward price of the instrument, and the current forward price for the residual maturity of the instrument at the balance sheet date.

Level 3: The fair value is based on unobservable inputs. The fair value of other investments is calculated by discounting expected future cash flows using asset specific discount rates.

There have been no transfers between these categories in the current or preceding year.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 March 2016

	Fair value measurement 2016				Fair value measurement 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial instruments	–	0.3	–	0.3	–	(3.2)	–	(3.2)
Available-for-sale financial assets	–	–	–	–	0.5	–	–	0.5
	–	0.3	–	0.3	0.5	(3.2)	–	(2.7)

The fair value movements on other investments and certain derivative financial instruments are recognised in the consolidated income statement. The fair value movements on available-for-sale financial assets and cash flow hedges are recognised in the statement of comprehensive income.

29 FINANCIAL INSTRUMENTS CONTINUED

29.5 FAIR VALUES

The carrying and fair values of the Group's financial instruments at 31 March 2016 and 31 March 2015 are as follows:

	Fair value 2016 £m	Carrying amount 2016 £m	Fair value 2015 £m	Carrying amount 2015 £m
Derivative financial instruments	0.3	0.3	(3.2)	(3.2)
Available-for-sale financial assets	–	–	0.5	0.5
Loans and receivables	573.7	573.7	528.8	528.8
Financial liabilities measured at amortised cost	(1,048.9)	(1,048.9)	(1,190.2)	(1,190.2)

The carrying and fair values of the Group's financial instruments were not materially different at 31 March 2016.

Loans, receivables and financial liabilities are valued at their amortised cost which is deemed to reflect fair value due to their short-term nature.

The fair values of investment properties are based on an annual assessment of future rental yields compared to current market evidence. Further details are found in note 2.25 (g). The fair values are within level 3 of the hierarchy above.

29.6 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal capital structure to reduce the cost of capital and to comply with the insurance capital required by the regulator, The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group regularly forecasts its cash position to management on both a short-term and a long-term basis. Performance against forecasts is also reviewed and analysed to ensure the Group efficiently manages its net funds/debt position.

Net funds is calculated as cash and cash equivalents less total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position).

At 31 March 2016 the Group had net funds of £45.4m (2015: £370.4m); see note 35.

The Group is required to hold regulatory capital for its captive insurance company in compliance with the rules issued by the Guernsey Financial Services Commission. The Company must hold assets in excess of the higher of two amounts. The first is based on a fixed percentage of premium income. The second is based on a fixed percentage of claims outstanding (including claims incurred but not reported). In addition the Company must complete an own risk solvency assessment which is reviewed by the Guernsey Financial Services Commission. The Group’s capital is sufficient to meet all regulatory requirements.

30 ASSETS CHARGED AS SECURITY FOR LIABILITIES AND COLLATERAL ACCEPTED AS SECURITY FOR ASSETS

Financial assets pledged as short-term collateral and included within cash equivalents were £14.5m (2015: £14.5m).

As part of the Group's management of its insurable risks a proportion of this risk is managed through self insurance programmes operated by its captive insurance subsidiary company, Laing O'Rourke Insurance Limited. This Company is a wholly owned subsidiary of the Group and premiums paid are held to meet future claims. The cash balances held by the Company are reported within cash and cash equivalents. As is usual practice for captive insurance companies some of the cash is used as collateral against contingent liabilities, standby letters of credit to the value of £14.5m (2015: £14.5m) have been provided to certain external insurance companies. The standby letters of credit have been issued via banking facilities that Laing O'Rourke Insurance Limited has in place.

No financial assets have been provided to the Group as collateral (2015: £nil).

31 FINANCIAL AND CAPITAL COMMITMENTS

Capital expenditure for property, plant and equipment, authorised and contracted for which has not been provided for in the financial statements amounted to £8.1m (2015: £5.5m) in the Group.

The Group leases land and buildings, equipment and other various assets under non-cancellable operating lease agreements. The leases have varying terms, escalating clauses and renewal rights. The lease expenditure charge to the income statement is disclosed in note 5. The Group's future aggregate minimum lease payments comprise:

	Land and buildings 2016 £m	Other 2016 £m	Land and buildings 2015 £m	Other 2015 £m
Future operating lease expenditure commitments:				
Due within one year	10.8	7.0	24.0	2.5
Due between one and five years	24.2	17.1	57.5	1.2
Due after more than five years	30.9	–	92.8	–
	65.9	24.1	174.3	3.7

Future commitments have been computed on current rental payments which are subject to periodic review.

The Group has committed to provide its share of further equity funding and subordinated debt investments in PPP (Public-Private Partnerships) special purpose entities amounting to £42.6m (2015: £37.1m), please refer to note 34 Post Balance Sheet Review for further details.

32 RELATED PARTY TRANSACTIONS AND BALANCES

IDENTITY OF RELATED PARTIES

The Group has a related party relationship with its major shareholder, subsidiaries, joint arrangements, associates and key management personnel.

GROUP

The Group received income and incurred expenses with related parties from transactions made in the normal course of business.

SALE OF GOODS AND SERVICES PROVIDED TO RELATED PARTIES

	2016		2015	
	Income earned in year £m	Receivable at year-end £m	Income earned in year £m	Receivable at year-end £m
Joint ventures	164.1	21.3	212.2	10.7

PURCHASE OF GOODS AND SERVICES PROVIDED BY RELATED PARTIES

	2016		2015	
	Expenses paid in year £m	Payable at year-end £m	Expenses paid in year £m	Payable at year-end £m
Joint ventures	–	–	–	–

The related parties' receivables are not secured and no guarantees were received in respect thereof. The receivables will be settled in accordance with normal credit terms.

PROPERTY LEASES

During the year the Group incurred expenditure of £2.1m (2015: £2.1m) with Mark Holding and Finance Limited and £7.3m (2015: £7.1m) with Steetley Investments Limited in respect of amounts due under lease agreements for premises occupied by the Group. During the year the interests in Mark Holding and Finance Limited and Steetley Investments Limited were held in trust, the beneficiaries of which are R G O'Rourke KBE and H D O'Rourke, who are also beneficiaries of the trusts which ultimately own Suffolk Partners Corporation. At the year-end the balance outstanding to Mark Holding and Finance Limited was £nil (2015: £nil) and to Steetley Investments Limited was £nil (2015: £nil). No amounts were written off in the period by either party in respect of amounts payable under the agreements entered into.

32 RELATED PARTY TRANSACTIONS AND BALANCES CONTINUED

CONSTRUCTION CONTRACT

During the prior year the Group entered into a construction contract with R G O'Rourke KBE, who is a beneficiary of one of the trusts which ultimately own Laing O'Rourke Corporation Limited. At the year end, the contract was in progress and the fair value of work performed during the year was £3.8m (2015: £0.2m). No amounts were outstanding at the year end (2015: £nil) and no amounts were written off in the year (2015: £nil) by either party in respect of amounts payable under the agreement entered into. The contract is based on normal commercial terms.

During the prior year the Group completed a construction contract with H.E. Sultan Saeed Mohammed Naser Al Mansoori, a beneficial owner of a minority stake in six UAE entities of the Group. At the year ended 31 March 2016 the balance outstanding on this contract amounted to £0.8m (2015: £0.7m). No amounts were written off during the period by either party in respect of the amount payable under the agreement entered into. The contract was based on normal commercial terms.

LOANS

The Group has a loan outstanding from its ultimate parent company, Suffolk Partners Corporation, although did not advance any loan amounts in the year (2015: £nil). The loan is subject to interest at commercial rates. The balance outstanding at the year end was £17.2m (2015: £16.7m).

The Group has a 50% share of a super senior debt facility, a minority share of a syndicated senior debt facility and provides an enabling debt facility which are jointly repayable from Southside & City Developments Limited and KDC Properties Limited. The Group's interest in the super senior and senior debt facilities rank pari-passu with other lenders, who are financial institutions. During the year the Group loaned £0.6m (2015: £0.9m) to Southside & City Developments Limited. The loans entered into are based on normal commercial terms. C Klerides and V Papadopoulos are Directors of Laing O'Rourke Corporation Limited and Southside & City Developments Limited. At the year-end the fair value of the amounts outstanding was £10.9m (2015: £12.6m). No amounts were written off in the period by either party in respect of amounts payable under the agreements entered into.

During the year, the Group loaned a further £0.3m (2015: £0.4m) to Augur Investments Limited. Suffolk Partners Corporation is the ultimate parent company of Laing O'Rourke Corporation Limited and a 50% shareholder of Augur Investments Limited. The loan is subject to interest at commercial rates. At the year-end the balance outstanding was £3.7m (2015: £5.9m).

In the opinion of the Directors the agreements entered into are based on normal commercial terms.

LOANS TO AND FROM JOINT VENTURES AND ASSOCIATES

At 31 March 2016 loans to joint ventures amounted to £66.9m (2015: £60.8m) and loans from joint ventures amounted to £13.3m (2015: £24.1m). During the normal course of business the Group provided services to, and received management fees from certain joint ventures and associates amounting to £0.6m (2015: £2.9m). Amounts due to and from joint ventures and associates at 31 March 2016 are disclosed within investments in joint ventures and associates, trade and other receivables and trade and other payables in notes 15, 21 and 23 respectively.

DIRECTORS' REMUNERATION

During the year the total remuneration of the Directors was £8.2 million (2015: £3.5m) of which pension costs amounted to £0.2 million (2015: £nil), see note 6.

33 ULTIMATE PARENT COMPANY

The immediate and ultimate parent company of Laing O'Rourke Corporation Limited is Suffolk Partners Corporation, a company incorporated in the British Virgin Islands.

The interests in the share capital of Suffolk Partners Corporation are held in trusts, beneficiaries of which include R G O'Rourke KBE and H D O'Rourke.

34 POST BALANCE SHEET REVIEW

EQUITY FUNDING

In April 2016 the Group provided £23.6m to Health Montreal Collective CJV Limited Partnership, being its share of further equity funding and subordinated debt investments.

REFINANCING

On 14 April 2016 the Group refinanced the UK business, securing £61.0m of new bank facilities, together with committed bonding lines and asset finance. The Group also received a £23.6m subordinated loan from its principal shareholders. In December 2016 the specific margin covenant was adjusted to reflect changes in the expected end of contract forecast. Also In December 2016, the Group secured new bonding and bank guarantee facilities for the Australian business. These facilities, which were provided by our prevailing lender group, increases our capacity and allows improved inter-group working capital flexibility.

POST BALANCE SHEET EVENT – EU REFERENDUM

On 23 June 2016 the UK electorate voted to leave the European Union. This decision commences a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. There will be a resulting period of uncertainty for the UK economy and real estate markets, with increased volatility expected in financial markets. This does not impact the fair value of assets and liabilities, including investment property, reported at the balance sheet date of 31 March 2016.

35 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2016 £m	2015 £m
Decrease in cash and cash equivalents for the year	(291.4)	(125.0)
Cash (inflow)/outflow from debt and lease financing	(22.9)	138.4
Change in net funds resulting from cash flows	(314.3)	13.4
New finance leases	(16.9)	(45.4)
Other non-cash items	(0.3)	–
Foreign exchange translation differences	6.5	(6.2)
Movement in net funds in the year	(325.0)	(38.2)
Net funds at 1 April	370.4	408.6
Net funds at 31 March	45.4	370.4

36 PRINCIPAL SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES

Principal subsidiaries	Principal activity	Group interest in ordinary voting shares	Principal place of business
Austrak Pty Limited	Manufacture of construction products	100%	Australia
Bison Manufacturing Limited	Manufacture of precast concrete	100%	United Kingdom
Crown House Technologies Limited	Mechanical and electrical contracting	100%	United Kingdom
Expanded Limited	Civil and structural engineering, piling and demolition	100%	United Kingdom
Explore Capital Limited	Holding company	100%	United Kingdom
Explore Investments Australia Pty Limited	Property development	100%	Australia
Explore Investments Limited	Commercial property development	100%	United Kingdom
Explore Living Limited	Residential development	100%	United Kingdom
Explore Manufacturing Limited	Manufacture of construction products	100%	United Kingdom
John Laing International Limited	Overseas contracting	100%	Hong Kong
Laing O'Rourke Australia Construction Pty Limited	Building contracting, civil engineering, infrastructure and plant hire	100%	Australia
Laing O'Rourke Australia Holdings Limited	Holding company	100%	Cyprus
Laing O'Rourke Australia Pty Limited	Holding company	100%	Australia
Laing O'Rourke Canada Limited	Building contracting	100%	Canada
Laing O'Rourke Construction Limited	Building contracting, civil engineering and infrastructure	100%	United Kingdom
Laing O'Rourke Construction Hong Kong Limited	Building contracting, civil engineering and infrastructure	100%	Hong Kong
Laing O'Rourke Infrastructure Limited	Civil engineering and infrastructure	100%	United Kingdom
Laing O'Rourke Ireland Holdings Limited	Holding company	100%	Cyprus
Laing O'Rourke Ireland Limited	Building contracting	100%	Ireland
Laing O'Rourke Middle East Holdings Limited	Building contracting and civil engineering	100%	Cyprus
Laing O'Rourke plc	Holding company	100%	United Kingdom
Laing O'Rourke Services Limited	Service company	100%	United Kingdom
O'Rourke Investments Holdings (UK) Limited	Holding company	100%	United Kingdom
Select Plant Hire Company Limited	Plant hire and operations	100%	United Kingdom
Vetter UK Limited	Finished stone products	100%	United Kingdom
Joint ventures			
Alder Hey (Special Purpose Vehicle) Limited	PFI accommodation operator hospital	40%	United Kingdom
Emirates Precast Construction LLC	Manufacture of precast concrete	40%	United Arab Emirates
Health Montreal Collective CJV Limited Partnership	Building and civil engineering	50%	Canada
Health Montreal Collective Limited Partnership	PFI hospital operator	25%	Canada
High Wood Health (Hold Co) Limited	Holding company	50%	United Kingdom
High Wood Health (Finance Co) plc	Raising of finance through loan note issue	50%	United Kingdom
High Wood Health (Project Co) Limited	Design, build, finance and maintenance of district hospital	50%	United Kingdom

Emirates Precast Construction LLC has a year-end of 31 March. Alder Hey SPV Limited, CLM Delivery Partner Limited and Health Montreal Collective Limited Partnership have a 31 December year-end and Health Montreal Collective CJV Limited Partnership has a 30 April year-end.

36 PRINCIPAL SUBSIDIARIES, JOINT ARRANGEMENTS AND ASSOCIATES CONTINUED

Joint operations			
Bayswater JV	Civil engineering	50%	Australia
BYLOR	Civil engineering	50%	United Kingdom
COLOR Bond Street	Civil engineering	50%	United Kingdom
FLO JV	Civil engineering	50%	United Kingdom
Staffordshire Alliance	Civil engineering	33%	United Kingdom
Laing O'Rourke – Bachy Soletanche JV	Infrastructure and building construction	50%	Hong Kong
Laing O'Rourke – Hsin Chong Paul Y JV	Infrastructure and building construction	55%	Hong Kong
Laing O'Rourke – Kier Kaden JV	Infrastructure and building construction	42.5%	Hong Kong
Laing O'Rourke – Hsin Chong Paul Y (WKCD) JV	Infrastructure and building construction	55%	Hong Kong
M-Pact Manchester	Civil engineering	60%	United Kingdom
Pacific Complete JV	Civil engineering	60%	Australia

Associate			
North East Business Park Pty Limited	Property development	25%	Australia