

**ALFRED McALPINE UTILITY SERVICES GROUP  
LIMITED**

**REPORT AND ACCOUNTS**

**31 December 2004**



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COMPANIES HOUSE 28/10/2005

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## **ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

### **REPORT OF THE DIRECTORS**

The directors submit their report and the accounts for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Group is the laying of electricity cables, telephone ducting and gas pipelines, and the re-lining and replacement of water mains.

### **REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**

Alfred McAlpine Utility Services Group, operating as "Infrastructure Services", has four principal lines of business: Electricity, Gas, Telecoms and Water.

As the utilities industry focused on regulatory reviews in the water and electricity sector and network sales in the gas sector, workflows and visibility became unpredictable during the first half of 2004, impacting on our operating efficiency and, in turn, depressed profitability in the business.

We have made a number of management changes in the business, and have restructured our contracting and commercial operations. We have also made a structured withdrawal from a small number of contracts which had developed to the point where the risks we were being asked to accept far outweighed the potential rewards available.

Looking forward, the recent regulatory reviews in the electricity and water sectors have signalled increased expenditure programmes over the five years from April 2005. In the electricity sector where we have a particular strength, Ofgem have indicated that investment to replace network assets and improve network performance should grow by 48%. In the water sector an increase in expenditure of around £1.0bn will take investment programme over the same period to £16.8bn. We expect that Infrastructure Services will begin to see the benefits of these new programmes in the latter part of 2005.

We have contracts in the Scottish and Yorkshire regions which are in the process of being sold by Transco. These contracts have some time to run, and we look forward to continuing to provide services to the new owners, Scottish and Southern Energy and United Utilities respectively.

Despite challenging operating conditions during the year, Infrastructure Services continue to make good progress in winning new orders and building its future income base. In the year we secured a new three year contract with Three Valleys water and a new five year contract with Thames Water. In addition we gained renewals for five years with Northumbrian Water and Severn Trent Water. Currently we are bidding for further framework contracts with a number of utility companies across our sectors.

Included within the result for the year is a £6.5M exceptional charge for provisions against old work in progress balances, these do not relate to the current trading year. The majority of these balances arose in contracts entered into in Ryan Utility Services Limited, a business acquired in November 2001.

On the electricity side of our business it is worth noting the acquisition of UK Power Construction Limited which took place in February 2004 for a cash purchase price of £5.2M. The company had an excellent reputation in electrical overhead line installation and maintenance and has strengthened our strategic focus in this area. In addition our associate company Core Utility Solutions with Scottish Power, continues to make excellent progress in the electrical connections market.

# **ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

## **REPORT OF THE DIRECTORS (continued)**

### **RESULTS AND DIVIDENDS**

The results of the group for the year are set out in detail on page 7.

Dividends of £14,000,000 were declared during the year (2003: £1,627,000). Details of dividends payable in relation to each class of share in issue are disclosed in note 10 to the accounts.

In the opinion of the directors, it is thought that the presentation of a consolidated profit and loss account and balance sheet, but not a cash flow statement, adds more value to the understanding of the group's activities from the users' perspective.

### **DIRECTORS**

The directors who served during the year were as follows:

P V Carolan	resigned on 31 December 2004
J W Reid	
A P Jackson	resigned on 31 August 2005
I M Grice	
N D Cocker	
D Lavelle	appointed on 14 February 2005
A Robertson	appointed on 31 August 2005

### **DIRECTORS' INTERESTS**

None of the directors had an interest in the share capital of the company during the year.

Directors' interests in the shares of Alfred McAlpine plc are detailed in note 7 to the financial statements.

### **EMPLOYEES**

It is the group's policy to communicate with and involve employees on matters affecting their interests at work, and inform them of the performance of the business.

It is also company policy to treat all employees and potential employees equally and to give full consideration to suitable applications for employment from disabled persons, where they have the necessary abilities and skills for the position, and wherever possible to retrain employees who become disabled, so that they can continue their employment in another position.

### **SUPPLIER PAYMENT POLICY**

It is the policy of both the company and the group to make payment on their standard terms to suppliers unless alternative terms are agreed. The company and the group both seek to abide by these payment terms, provided that they are satisfied that the supplier has complied with the agreed terms and conditions. The company's average creditor days during the period were 51 days (2002: 49 days).

### **CHARITABLE CONTRIBUTIONS**

Contributions made by the group during the year to United Kingdom charitable organisations amounted to £8,606 (2003: £2,035).

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

**REPORT OF THE DIRECTORS (continued)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and the group for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**AUDITORS**

A resolution to reappoint PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the annual general meeting.

By order of the board

A handwritten signature in dark ink, appearing to read 'D Lavelle', is written over the printed name and title.

D Lavelle  
Director

18 October 2005

## **ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

### **Independent Auditors' report to the members of Alfred McAlpine Utility Services Group Limited**

We have audited the financial statements which comprise the Group profit and loss account, the balance sheets, the statement of total recognised gains and losses, note of historical cost profits and losses, the reconciliation of movements in the shareholders' funds, the accounting policies and the related notes to the accounts.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 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 whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

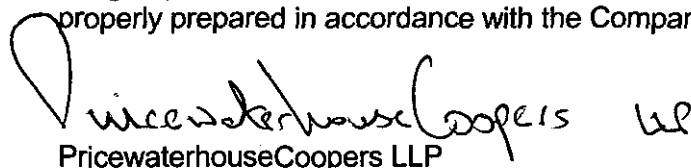
#### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2004 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
18 October 2005

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the year to 31 December 2004

	Note	2004 £'000	2003 £'000
TURNOVER	1	248,411	233,932
Cost Of Sales		<u>(230,527)</u>	<u>(210,538)</u>
GROSS PROFIT		17,884	23,394
Administrative expenses - before exceptional costs		(25,307)	(20,616)
Administrative expenses – exceptional contract provisions	2	<u>(6,500)</u>	<u>-</u>
Total administrative expenses		<u>(31,807)</u>	<u>(20,616)</u>
OPERATING (LOSS)/ PROFIT	2	(13,923)	2,778
Share of operating profit in associated company		3,566	1,174
Share of operating profit in joint venture		1,494	88
Sale of freehold property		-	1,134
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		<u>(8,863)</u>	<u>5,174</u>
Interest receivable and similar income	3	467	257
Interest payable and similar charges	4	<u>(1,914)</u>	<u>(701)</u>
		(1,447)	(444)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(10,310)</u>	<u>4,730</u>
Tax on (loss)/profit on ordinary activities	8	<u>2,457</u>	<u>(1,145)</u>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(7,853)	3,585
Dividends on equity shares	10	(14,000)	(1,627)
(LOSS)/ RETAINED PROFIT FOR THE YEAR	20	<u>(21,853)</u>	<u>1,958</u>

All the activities relate to continuing operations: £7.1million of turnover (2003: £5.8million) relates to contracts in the Republic of Ireland; all other remaining turnover arises in the United Kingdom.

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**
**CONSOLIDATED BALANCE SHEET**

31 December 2004

	Note	2004 £'000	2003 £'000
<b>FIXED ASSETS</b>			
Intangible assets	13	48,648	46,760
Tangible assets	11	5,253	5,540
Investments	12	4,426	2,069
		<u>58,327</u>	<u>54,369</u>
<b>CURRENT ASSETS</b>			
Stock	14	2,382	2,240
Debtors - due within one year	15	191,130	163,094
Debtors - due after more than one year	15	2,885	3,523
Cash at bank and in hand		<u>12,788</u>	<u>5,066</u>
		209,185	173,923
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	16	<u>(254,554)</u>	<u>(193,613)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(45,369)</u>	<u>(19,690)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		12,958	34,679
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	17	(4,062)	(3,920)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	18	<u>(278)</u>	<u>(288)</u>
<b>NET ASSETS</b>		<u>8,618</u>	<u>30,471</u>
<b>CAPITAL AND RESERVES</b>			
<b>CALLED UP SHARE CAPITAL</b>	19	219	219
<b>RESERVES</b>			
Revaluation reserve	20	455	466
Profit and loss account	20	<u>7,944</u>	<u>29,786</u>
		8,399	30,252
Equity shareholders' funds		8,617	30,470
Non-equity shareholders' funds		<u>1</u>	<u>1</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>8,618</u>	<u>30,471</u>

Approved by the board of directors on 18 October 2005

D Lavelle





**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**

for the year to 31 December 2004

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Reported (loss)/ profit on ordinary activities before taxation	(10,310)	4,730
Difference between historical cost depreciation and the actual depreciation charge	<u>11</u>	<u>13</u>
Historical cost (loss)/profit on ordinary activities before taxation	<u>(10,299)</u>	<u>4,743</u>
Historical cost (loss)/ profit for the year after taxation and dividends	<u>(21,842)</u>	<u>1,971</u>

**RECONCILIATION OF MOVEMENTS  
IN SHAREHOLDERS' FUNDS**

for the year to 31 December 2004

		<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
(Loss)/ profit for the financial year		(7,853)	3,585
Dividends	10	<u>(14,000)</u>	<u>(1,627)</u>
Net movement in shareholders' funds		(21,853)	1,958
Opening shareholders' funds		<u>30,471</u>	<u>28,513</u>
Closing shareholders' funds		<u>8,618</u>	<u>30,471</u>

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

**PARENT COMPANY BALANCE SHEET**

31 December 2004

	Note	2004 £'000	2003 £'000
<b>FIXED ASSETS</b>			
Tangible assets	11	-	3,021
Investments	12	<u>115,419</u>	<u>115,419</u>
		115,419	118,440
<b>CURRENT ASSETS</b>			
Debtors - due within one year	15	22,634	29,265
Cash at bank and in hand		<u>-</u>	<u>322</u>
		22,634	29,587
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	16	<u>(134,390)</u>	<u>(140,650)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(111,756)</u>	<u>(111,063)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		3,663	7,377
<b>NET ASSETS</b>		<u>3,663</u>	<u>7,377</u>
<b>CAPITAL AND RESERVES</b>			
<b>CALLED UP SHARE CAPITAL</b>	19	219	219
<b>RESERVES</b>			
Revaluation reserve	20	-	466
Profit and loss account	20	<u>3,444</u>	<u>6,692</u>
		3,444	7,158
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<u>3,663</u>	<u>7,377</u>
Attributable to equity shareholders		3,662	7,376
Attributable to non-equity shareholders		<u>1</u>	<u>1</u>
		3,663	7,377

Approved by the board of directors on 18 October 2005

D Lavelle



**NOTES TO THE ACCOUNTS**

31 December 2004

**1. ACCOUNTING POLICIES**

The group accounts are prepared on the historical cost basis, except for the revaluation of certain land and buildings, and include the financial statements of the company and all of its subsidiary undertakings made up to 31 December, together with the group's share of the results up to the 31 December of associates. They are prepared in accordance with the Companies Act 1985 and applicable accounting standards. The principal policies adopted by the company are detailed below:

**BASIS OF CONSOLIDATION**

The group accounts consolidate the accounts of the company and all its subsidiaries and include the group share of the reserves of the associate company. The accounts of subsidiaries are made up to the same date as the parent company. The results of the associate company, which has a 31 December year-end, are included based on management accounts as at the group's year end and are accounted for using the equity method of accounting in accordance with FRS9. The results of the joint venture are accounted for using the gross equity method of accounting.

**GOODWILL ON CONSOLIDATION**

Purchased goodwill arising since 27 October 1996 is amortised on a straight line basis over its useful economic life, which to-date is considered to be 20 years, based on forecasts of future profitability and cash generation. Permanent diminutions are charged to the profit and loss account. Goodwill arising on consolidation in previous years was written off against reserves in the year of acquisition.

**FOREIGN EXCHANGE**

*Profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the year. Assets and liabilities are translated into sterling at the closing rate of exchange. The differences arising from the re-translation at the closing rate of the opening net assets and the retained profits and losses for the current year are taken to reserves.*

**TURNOVER**

Turnover arises from trading in United Kingdom and in Ireland and comprises the value of work performed and goods and services provided during the year outside of the group excluding Value Added Tax, in line with agreed contractual terms. Provision is made for anticipated contract losses and no credit is taken for claims by the company until there is a firm agreement with the client. Pre-contract costs incurred before it is virtually certain that a contract will be awarded are charged to the profit and loss account.

**NOTES TO THE ACCOUNTS**

31 December 2004

**1. ACCOUNTING POLICIES (continued)**

**DEPRECIATION**

Depreciation is provided at rates estimated to write off fixed assets over their anticipated lives and is applied from the month following that in which they are first brought into use.

The rates are as follows:

**Land and buildings:**

Freehold land	- Nil%
Freehold buildings	- 2.5% on cost or revalued amount
Leasehold	- equal annual instalments over the period of the lease
Plant and machinery	- 10% to 50% on cost
Wagons and other vehicles	- 25% to 100% on cost

Surpluses on revaluation of properties are transferred to revaluation reserve. Shortfalls between cost and valuation on individual properties are charged to the profit and loss account.

**FIXED ASSETS**

Fixed assets are stated at historical cost less depreciation with the exception of land and buildings that are revalued in accordance with FRS15. Land and buildings have an interim valuation every 3 years and a full valuation every 5 years. Additions on subsidiary acquisitions are capitalised at fair value at the time of the acquisition.

Alfred McAlpine plc group policy is generally not to revalue property. However the directors believe that prior years' policy of revaluing property should be continued to ensure consistency within the accounts, with valuations following FRS15 requirements.

**INVESTMENTS**

Investment income is included in the accounts of the year in which it is receivable. Fixed asset investments are stated at cost less provisions for permanent diminution in value.

**STOCK**

Stock is valued at the lower of cost and net realisable value. Cost is calculated on a first in first out basis.

**REINSTATEMENT PROVISION**

The reinstatement provision represents the group's estimate of the cost of final road surfacing still to be incurred on individual contracts otherwise complete.

The directors consider that the provision as a whole is the best estimate of the eventual cost to the group, which can be made.

**NOTES TO THE ACCOUNTS**

31 December 2004

**1. ACCOUNTING POLICIES (continued)**

**DEFERRED TAXATION**

Full provision is made at anticipated rates for taxation deferred as a result of the pension prepayments, accelerated capital allowances and other timing differences. No provision is made for UK or overseas taxation that might become payable on the remittance of profits from overseas.

**PENSIONS**

The group operates a defined contribution pension scheme. The contributions paid by the group and the employees are invested within the individual pension fund in the month following the month of deduction. The employer contribution rates are determined by reference to either an age or service related scale or at a fixed, level percentage. The amount contributed by the group is charged to the profit and loss account as the contributions fall due.

The group also operates a defined benefit pension scheme and participates in the Electricity Supply Pension Scheme (ESPS). Both of these schemes are administered by trustees, the funds being independent of the group's finances and not included in the group accounts. Each scheme is valued by an independent actuary at least every three years, and funded by contribution from the group and the employees at rates determined on the advice of the actuary. Contributions to the schemes are charged to the profit and loss account so as to spread the costs of pensions over employees' service lives within the group.

**LEASES AND HIRE PURCHASE CONTRACTS**

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Assets held under finance leases and hire purchase contracts are included in fixed assets and the capital elements of the commitments are shown as obligations under finance leases and hire purchase contracts. Payments are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets under finance leases are depreciated over the shorter of the lease terms and their useful lives.

**CASHFLOW**

The group has taken advantage of the exemptions afforded under FRS1 (revised) not to include a consolidated cash flow in the accounts. This decision has been made from the point of view of the users of the accounts. It is thought that a consolidated cash flow would not add value to the accounts from the users' perspective.

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

**NOTES TO THE ACCOUNTS**

31 December 2004

**2. OPERATING (LOSS)/PROFIT**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit is arrived at after charging/(crediting):		
Depreciation - assets held under finance lease	-	-
- other	1,479	1,169
Amortisation of regional development grant	-	(7)
Amortisation of goodwill	2,985	2,567
Rentals under operating lease - plant & machinery	-	-
- other	435	554
Profit on sale of tangible assets	(29)	(1,465)
Hire of plant and machinery	13,886	10,793
Auditors remuneration - statutory audit fees	161	137
- non audit services	-	2
- tax service compliance	100	54

**OPERATING EXCEPTIONAL COSTS**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Work in progress provisions	6,500	-

During the year the company paid £nil (2003: £11,000) in audit fees and £nil (2003: £2,000) in non-audit fee remuneration and £nil in tax compliance (2003: £8,000). The audit fees of the company have been borne by another group company.

Provisions against contract WIP have been made following a detailed review of recoverability. The majority of these provisions arise in respect of contracts undertaken in Ryan Utility Services Limited which was acquired in November 2001.

**3. INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable:		
Bank deposits	13	9
Other interest	-	16
Share of associates' interest receivable	454	232
	<u>467</u>	<u>257</u>

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
On bank loans, overdrafts and other loans repayable within 5 years	30	15
On finance leases	17	3
Interest paid on loans from group undertakings	1,476	507
Interest paid on loans from associated undertakings	391	170
Share of associates' interest payable	-	6
	<u>1,914</u>	<u>701</u>

**NOTES TO THE ACCOUNTS**

31 December 2004

**5. EMPLOYEES**

	<b>2004 No.</b>	<b>2003 No.</b>
The average number employed by the group, which includes directors, within each category of persons was:		
Production staff	3,042	3,055
Administrative staff	449	367
	<u>3,491</u>	<u>3,422</u>

The costs incurred in respect of these employees were:

	<b>2004 £'000</b>	<b>2003 £'000</b>
Wages and salaries	84,776	72,333
Social security costs	11,521	8,525
Other pension costs	1,844	1,862
	<u>98,141</u>	<u>82,720</u>

**6. DIRECTORS**

	<b>2004 £'000</b>	<b>2003 £'000</b>
The remuneration of directors who served during the year included in employee costs were:		
Emoluments	-	293
Pension contributions	-	34
	<u>-</u>	<u>327</u>

The emoluments of PV Carolan, D Lavelle and I M Grice are paid by the ultimate parent company. Their services to this company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the ultimate parent company or an intermediate parent company. Accordingly the above details include no emoluments in respect of these directors.

The emoluments of AP Jackson, JW Reid and ND Cocker are paid by Alfred McAlpine Infrastructure Services Limited a subsidiary company. Their services to this company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to Alfred McAlpine Infrastructure Services. Accordingly the above details include no emoluments in respect of these directors.

During the year, the highest paid director received emoluments of £nil (2003: £185,766) and pension of £nil (2003: £24,981). Two of the directors that served during the period were members of the group's pension schemes (2003: two).

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED****NOTES TO THE ACCOUNTS**

31 December 2004

**7. DIRECTORS' INTERESTS**

The shareholdings of I M Grice, D Lavelle and PV Carolan in Alfred McAlpine plc are shown in the notes to the financial statements of Alfred McAlpine plc. Other directors' interests in ordinary shares in Alfred McAlpine plc at 31 December were as follows:

Ordinary shares of 25p each	2004 Number	2003 Number
A P Jackson	12,000	6,500
J W Reid (registered as Grant Thornton Stonehage)	171,230	171,230

As at 31 December, directors held options and awards over shares in the ultimate parent undertaking, Alfred McAlpine plc, as follows:

**Alfred McAlpine plc Executive Share Option Scheme (1991)\*****Alfred McAlpine plc Executive Share Option Scheme 2000\***

	Date of Grant	Option Price	As at 01/01/04	Granted in year	Exercised in year	Lapsed in year	As at 31/12/04
N D Cocker	18/04/00*	178.0p	7,500	-	-	-	7,500
	22/03/01*	280.5p	5,935	-	-	-	5,935

Subject to Alfred McAlpine plc achieving specific performance targets, options issued at no consideration under the terms of the 1991 & 2000 Executive Share Option Schemes are ordinarily exercisable between three and ten years from their date of grant.

**The Alfred McAlpine plc Savings-Related Share Option Scheme 1998**

	Date of Grant	Option Price	As at 01/01/04	Granted in year	Exercised in year	Lapsed in year	As at 31/12/04
N D Cocker	27/08/03	228p	2,580	-	-	-	2,580
J W Reid	27/08/03	228p	2,580	-	-	-	2,580

Savings-related share options are normally exercisable during the six-month period following completion of either a three-year or five-year savings contract. The market price of an ordinary share in Alfred McAlpine plc on 31 December 2004 was 305.0p.



## NOTES TO THE ACCOUNTS

31 December 2004

## 7. DIRECTORS' INTERESTS (continued)

**The Alfred McAlpine Restricted Share Plan**

Under the terms of the Plan the Board of Alfred McAlpine plc grants awards of restricted shares in Alfred McAlpine plc to key executives. The shares may be released if Alfred McAlpine plc achieves specified performance criteria and the executive remains in the group's employment. The maximum value of the initial share awards that may be made to a participant in any year may not exceed 50% of salary. In addition, the vesting of the awards of shares may be deferred into the Alfred McAlpine Employee Benefit Trust for a further three years and, subject to the achievement of a further performance target, become eligible to be matched on a one for one basis. Further details of the Plan and the performance criteria used can be found in the Report and Accounts of Alfred McAlpine plc.

	Initial Awards			At 1 January 2004			At 31 December 2004		
	Date of award	Market value at date of award	Number of Initial Awards	Outstanding Initial Awards and Exceptional Performance Awards	Deferred Awards held in EBT	Number of Awards satisfying vesting criteria during the year	Number of Matching Shares awarded during the year	Outstanding Initial Awards and Exceptional Performance Awards	Deferred Awards held in EBT
<b>A P Jackson</b>	03/10/96	140.00p	-	-	2,749	-	-	-	2,749
	29/10/97	139.00p	-	-	215	-	-	-	215
	13/05/98	167.76p	-	-	2,250	-	-	-	2,250
	12/04/99	171.05p	-	-	22,500	-	-	-	22,500
	27/04/00	188.00p	-	2,802	13,600	-	-	2,802	13,600
	22/03/01	280.50p	16,043	24,064	-	4,242	-	19,822	4,242
	23/04/02	436.10p	11,236	16,854	-	-	-	16,854	-
	16/05/03	245.10p	27,778	41,667	-	-	-	41,667	-
<b>N D Cocker</b>	22/04/04	298.95p	7,500	-	-	-	-	11,250	-
	23/04/02	436.10p	8,026	12,039	-	-	-	12,039	-
	16/05/03	245.10p	20,000	30,000	-	-	-	30,000	-
	22/04/04	299.95p	5,000	-	-	-	-	7,500	-
<b>J W Reid</b>	22/03/01	280.50p	10,000	15,000	-	2,644	-	12,356	2,644
	23/04/02	436.10p	8,000	12,000	-	-	-	12,000	-
	16/05/03	245.10p	18,556	-	-	-	-	27,834	-

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

**NOTES TO THE ACCOUNTS**

31 December 2004

**8. a) TAX ON PROFIT ON ORDINARY ACTIVITIES**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Taxation is based on the (loss)/profit for the year and comprises:		
Receipt group relief at 30% of taxable loss	(4,091)	1,564
Share of tax charge in associated company at 30% (2003: 30%)	1,246	454
Share of tax charge in joint venture at 30%	55	27
Prior year corporation tax adjustment	(288)	(893)
	<hr/>	<hr/>
Current taxation (credit)/ charge for the year	(3,078)	1,152
Deferred tax charge for year	466	(212)
Prior year deferred tax adjustment	155	205
	<hr/>	<hr/>
Total corporation tax (credit)/ charge for year	(2,457)	1,145

**b) CONSOLIDATED PROOF OF TAX**

Group (loss)/ profit on ordinary activities before tax	(10,310)	4,730
	<hr/>	<hr/>
Group (loss)/profit on ordinary activities at 30% (2003: 30%)	(3,093)	1,419
Effects of:		
Expenses not deductible for tax purposes	(177)	(391)
Amortisation of goodwill	896	770
Utilisation of tax losses	(578)	-
Accelerated capital allowances and other timing differences	122	212
Higher/ (lower) rate of tax in associated undertaking	40	35
Adjustments to tax charge in respect of prior years	(288)	(893)
	<hr/>	<hr/>
Current taxation (credit)/ charge for the year	(3,078)	1,152

**9. RESULT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE MEMBERS OF ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Dealt with in the accounts of the parent company	(3,248)	(635)

The company has taken advantage of Section 230 of the Companies Act 1985 and consequently a profit and loss account for the company alone is not presented.

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

**NOTES TO THE ACCOUNTS**

31 December 2004

<b>10. DIVIDENDS ON EQUITY SHARES</b>		<b>2004</b>	<b>2003</b>
		<b>£'000</b>	<b>£'000</b>
Ordinary shares:			
Payable - £63.99 per ordinary share (2003: £7.44)		<u>14,000</u>	<u>1,627</u>
 <b>11. TANGIBLE FIXED ASSETS</b>	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>(a) THE GROUP</b>			
Cost/Valuation:			
At 1 January 2004	3,737	4,422	8,159
Additions	-	1,738	1,738
Transfers to group undertakings	-	(811)	(811)
Disposals	<u>-</u>	<u>(122)</u>	<u>(122)</u>
At 31 December 2004	<u>3,737</u>	<u>5,227</u>	<u>8,964</u>
Depreciation:			
At 1 January 2004	906	1,713	2,619
Charge for the year	170	1,309	1,479
Transfer to group undertakings	-	(299)	(299)
Disposals	<u>-</u>	<u>(88)</u>	<u>(88)</u>
At 31 December 2004	<u>1,076</u>	<u>2,635</u>	<u>3,711</u>
Net book value:			
At 31 December 2004	<u>2,661</u>	<u>2,592</u>	<u>5,253</u>
At 31 December 2003	<u>2,831</u>	<u>2,709</u>	<u>5,540</u>

**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED**

**NOTES TO THE ACCOUNTS**

31 December 2004

11. TANGIBLE FIXED ASSETS (continued)	Land and buildings £'000	Plant and machinery £'000	Total £'000
(b) THE COMPANY			
Cost:			
At 1 January 2004	3,212	1,485	4,697
Transfers to group companies	(3,212)	(1,485)	(4,697)
At 31 December 2004	-	-	-
Depreciation:			
At 1 January 2004	721	955	1,676
Transfers to group companies	(721)	(955)	(1,676)
At 31 December 2004	-	-	-
Net book value:			
At 31 December 2004	-	-	-
At 31 December 2003	2,491	530	3,021

NOTES TO THE ACCOUNTS

31 December 2004

11. TANGIBLE FIXED ASSETS (continued)

(c) LAND AND BUILDINGS

	<u>GROUP</u>		<u>COMPANY</u>	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
The net book value of land and buildings comprises:				
Freehold	1,164	1,343	-	1,343
Long leasehold	1,497	1,488	-	1,148
	<u>2,661</u>	<u>2,831</u>	<u>-</u>	<u>2,491</u>
Land and buildings at cost or valuation are stated:				
At open market value with existing use	3,302	3,302	-	2,777
At cost	435	435	-	435
	<u>3,737</u>	<u>3,737</u>	<u>-</u>	<u>3,212</u>

The land and buildings were valued on an existing use open market value basis on 29 October 2000 by King Sturge, Chartered Surveyors, and the values incorporated into the balance sheet on 21 March 2001, as part of the fair value adjustments on the acquisition of the group by Alfred McAlpine plc.

	<u>GROUP</u>		<u>COMPANY</u>	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
If stated under historical cost principles the comparable amount for the total of land and buildings would be:				
	£'000	£'000	£'000	£'000
Cost	3,041	3,041	-	2,550
Depreciation	(1,037)	(878)	-	(634)
Historical cost value	<u>2,004</u>	<u>2,163</u>	<u>-</u>	<u>1,916</u>

**NOTES TO THE ACCOUNTS**

31 December 2004

**12. FIXED ASSET INVESTMENTS**

**(a) THE GROUP**

**(i) Investment in Associated Company**

**£'000**

Cost:

At 1 January 2004

1,974

Share of associated company profit before taxation

4,020

Share of taxation

(1,246)

Distributions

(987)

At 31 December 2004

3,761

**(ii) Investments in Joint Ventures**

Cost:

At 1 January 2004

61

Share of joint venture company profit before taxation

1,494

Share of taxation

(448)

Distributions

(476)

At 31 December 2004

631

**(iii) Other Investments**

Cost:

At 1 January 2004 and 31 December 2004

34

The fixed asset investments relate to listed shareholdings in various utility companies outside the group.

Fixed Asset Investments	2004 £000	2003 £000
Investment in associated company	3,761	1,974
Investments in joint ventures	631	61
Other Investments	34	34
	<u>4,426</u>	<u>2,069</u>

## NOTES TO THE ACCOUNTS

31 December 2004

## 12. FIXED ASSET INVESTMENTS (continued)

## (b) THE COMPANY

	<u>Total</u> £'000
Shares in subsidiaries	
<b>Cost:</b>	
At 1 January 2004 and 31 December 2004	115,462
<b>Provision:</b>	
At 1 January 2004 and 31 December 2004	43
<b>Net book value:</b>	
At 31 December 2004 and 31 December 2003	<u>115,419</u>

## (c) The table shows the share interests held by the company at 31 December 2004:

Name	Nature of business	Percentage holding	Country of Incorporation
Alfred McAlpine Infrastructure Services Limited	Provision of utility contracting services	100%	England & Wales
Eastern Contracting Holdings BV *	Parent of Alfred McAlpine Utility Services SE Limited, a provider of utility contracting services	100%	The Netherlands
UK Power Construction Limited (see note 22)	Provision of electrical overhead services	100%	England & Wales
Core Utility Solutions Limited	Multi utility domestics and industrial connections	49%	England & Wales
Stirling Water (2003) Limited	Provision of utility contracting services	25%	England & Wales
Alfred McAlpine Utility Services NW Limited	Provision of utility contracting services	100%	England & Wales
Encore Environmental Aggregates Limited	Recycling of by-products arising from road work excavations	100%	England & Wales
Kennedy Pipelining Services Limited	No longer trading	100%	England & Wales
STH Plant Limited	No longer trading	100%	England & Wales
Proby Limited	No longer trading	100%	England & Wales
Bertrem Limited	No longer trading	100%	England & Wales
Kennedy Group Investments Limited	No longer trading	100%	England & Wales
Hale Brooks Limited	No longer trading	100%	Isle of Man
Kennedy Utility Services (Scotland) Limited	No longer trading	100%	Scotland
Astley Self Drive Limited	No longer trading	100%	England & Wales
Kendat Cabling Services Limited	No longer trading	100%	England & Wales
Kennedy Brooks Limited **	No longer trading	100%	Ireland

\* Eastern Contracting Holdings BV includes a contracting Branch in Ireland which runs a contract with the Irish Electricity Supply Board (ESB)

\*\* Kennedy Brooks Limited is in voluntary liquidation and has not been consolidated, as in the opinion of the directors the amounts involved are not material.

**NOTES TO THE ACCOUNTS**

31 December 2004

**13. INTANGIBLE ASSETS**

THE GROUP	£'000
<u>Cost:</u>	
At 1 January 2004	51,325
Additions	4,873
	<hr/>
At 31 December 2004	56,198
<u>Amortisation:</u>	
At 1 January 2004	4,565
Charge in the year	2,985
	<hr/>
At 31 December 2004	7,550
	<hr/>
<u>Net book value:</u>	
At 31 December 2004	48,648
	<hr/>
At 31 December 2004	46,760
	<hr/>

Additions to goodwill are further analysed in note 22.

**14. STOCK**

	<u>GROUP</u>	
	2004	2003
	£'000	£'000
Raw materials and consumables	2,382	2,240
	<hr/>	<hr/>

The replacement value of stock and work in progress is estimated to be the same as book value.

**15. DEBTORS**

	<u>GROUP</u>		<u>COMPANY</u>	
	2004	2003	2004	2003
	£'000	£'000	£'000	£'000
Due within one year:				
Trade debtors	66,822	53,109	-	484
Amounts owed by group undertakings	116,859	99,704	22,634	22,672
Other debtors	3,276	3,074	-	1,097
Prepayments and accrued income	1,825	2,736	-	780
Deferred tax asset (see note 18a)	2,348	2,933	-	233
Corporation tax recoverable	-	1,538	-	3,999
	<hr/>	<hr/>	<hr/>	<hr/>
	191,130	163,094	22,634	29,265
Due after more than one year:				
Trade debtors	2,885	3,523	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.



**NOTES TO THE ACCOUNTS**

31 December 2004

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	<u>GROUP</u>		<u>COMPANY</u>	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Bank overdraft	4,266	27	-	27
Finance leases (see note 17a)	79	26	-	-
Trade creditors	26,301	24,282	-	250
Amounts owed to group undertakings	184,993	148,816	120,390	134,319
Other taxation and social security	5,796	4,834	-	2,271
Other creditors	2,067	2,515	-	1,364
Accruals and deferred income	4,788	3,486	-	792
Loan from associated undertaking	12,264	8,000	-	-
Dividend payable	14,000	1,627	14,000	1,627
	<u>254,554</u>	<u>193,613</u>	<u>134,390</u>	<u>140,650</u>

The company's overdraft is secured by fixed and floating charges on certain assets of the company and group.

Amounts owed to group undertakings for working capital loan amounts are charged at 1% above LIBOR.

Loan from associated undertakings refers to a £12.3 million (2003: £8million) from Core Utility Solutions Limited and the amount for working capital loans is charged at 0.5% below LIBOR.

17. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	<u>GROUP</u>	
	2004 £'000	2003 £'000
Finance leases payable between two and five years	142	-
Other creditors	<u>3,920</u>	<u>3,920</u>
	<u>4,062</u>	<u>3,920</u>

a) Finance leases		
The maturity of obligations under finance leases and hire purchase contracts are as follows:	2004 £'000	2003 £'000
Within one year	79	26
In the second year to fifth years	<u>142</u>	<u>-</u>
	<u>221</u>	<u>26</u>

- b) The other creditors relates to the pension deficiency that was crystallised as part of the acquisition accounting on the Eastern Contracting group acquisition, in accordance with SSAP 24 valuation requirements.

**NOTES TO THE ACCOUNTS**

31 December 2004

**18. PROVISION FOR LIABILITIES  
AND CHARGES**

GROUP

	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Reinstatement and other provisions	278	288

The reinstatement provision represents the group's estimate of the cost of final road surfacing still to be incurred on individual contracts otherwise complete. The directors consider that the provision as a whole is the best estimate that can be made of the eventual cost to the group over the next year.

a) Deferred taxation

i) THE GROUP

<u>Provided</u>	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
Pension provision	(1,170)	(1,170)
Accelerated capital allowances	(872)	(963)
Short term timing differences	(306)	(800)
Deferred taxation (asset)	(2,348)	(2,933)

Movement in deferred taxation

	<b>2004</b> <b>£'000</b>
Opening deferred taxation asset	2,933
Charge for the year	(585)
Closing deferred taxation asset	2,348

The deferred taxation asset of £2,348,000 (2003: £2,933,000) is included in debtors. There is no unprovided deferred taxation in this year or the prior year.

No deferred tax asset has been recognised for the potential capital losses of £300,000 (2003: £300,000) that would arise if the revalued properties were disposed of at the value at which they are held in the accounts. Such capital losses would only become available if the properties were disposed of at the value shown in the accounts. At present it is not envisaged that any capital losses would crystallise, or that there would be any gains that could be sheltered with these losses, and hence no deferred tax asset is recognised.

**NOTES TO THE ACCOUNTS**

31 December 2004

**18. PROVISION FOR LIABILITIES AND CHARGES (continued)**

**ii) THE COMPANY**

<b><u>Provided</u></b>	<b>2004 £'000</b>	<b>2003 £'000</b>
Accelerated capital allowances	-	(233)
Short-term timing differences	-	-
	<hr/>	<hr/>
Deferred taxation (asset)	-	(233)
	<hr/>	<hr/>

<b><u>Movement in deferred taxation</u></b>	<b>2003 £'000</b>
Opening deferred taxation asset	233
Charge for the year	(100)
Transfer to subsidiary undertaking	(133)
	<hr/>
Closing deferred taxation asset	-
	<hr/>

A deferred taxation asset of £nil (2003: £233,000) is included in other debtors. There is no unprovided deferred taxation in this year or the prior period.

**(b) Reinstatement and other provisions  
THE GROUP**

	<b>£'000</b>
Movement in the year:	
At 1 January 2004	288
Provided in the year	194
Utilised in the year	(204)
	<hr/>
At 31 December 2004	278
	<hr/>

# NOTES TO THE ACCOUNTS

31 December 2004

## 19. CALLED UP SHARE CAPITAL

Authorised, allotted and fully paid:	Ordinary shares of <u>£1 each</u>	"A" Ordinary shares of <u>£1 each</u>	<u>Total</u>
At 31 December 2003 and 31 December 2004	<u>217,800</u>	<u>1,000</u>	<u>218,800</u>

The ordinary shares of £1 each are equity shares.

The "A" Ordinary shares of £1 each are non-equity shares.

The holders of the "A" Ordinary Shares:

(i) have no rights to dividends other than those recommended by the directors in respect of "A" Ordinary shares;

(ii) have no redemption rights;

(iii) rank pari passu with the holders of the Ordinary shares in respect of repayment of paid-up capital on a winding-up but have no further right to participate in distribution of surplus assets;

(iv) have no voting rights.

## 20. RESERVES

	Revaluation <u>reserve</u> £'000	Profit and <u>loss account</u> £'000	<u>Total</u> £'000
(a) THE GROUP			
At 1 January 2004	466	29,786	30,252
Retained profit for the year	-	(21,853)	(21,853)
Transfer of amount equivalent to additional depreciation on revalued assets	<u>(11)</u>	<u>11</u>	<u>-</u>
At 31 December 2004	<u>455</u>	<u>7,944</u>	<u>8,399</u>
(b) THE COMPANY			
At 1 January 2004	466	6,692	7,158
Retained profit for the year	-	(3,248)	(3,248)
Transfers to subsidiary undertakings	<u>(466)</u>	<u>-</u>	<u>(466)</u>
At 31 December 2004	<u>-</u>	<u>3,444</u>	<u>3,444</u>

The balances on the profit and loss account are all available for distribution.

## 21. CONTINGENT LIABILITIES

The company is liable under the group election scheme for the value added tax liabilities of other group companies. The contingent liability at 31 December 2004 amounted to £3,701,864 (2003: £2,396,908).

## NOTES TO THE ACCOUNTS

31 December 2004

### 22. ACQUISITIONS

All subsidiary acquisitions in the year have been incorporated into the group accounts using the acquisition accounting method.

#### Acquisition of UK Power Construction Limited

On 6 February 2004 the group acquired UK Power Construction Limited, for £5.2million. Goodwill arising on the acquisition will be amortised over a period of 20 years.

The following table sets out the net book values of the acquisition to the group

	Book Value £'000	Fair Value Adjustments £'000	Final Fair Value of assets £'000
Fixed assets	734	(206)	528
Stocks	5	(5)	-
Debtors	1,327	(20)	1,307
Creditors	(1,139)	(255)	(1,394)
Provisions	(25)	62	37
	<hr/>	<hr/>	
Net liabilities acquired	902	(424)	478
Acquisition expenses			(151)
Goodwill arising			<hr/> 4,873
Cash consideration			<hr/> 5,200

The following fair value adjustments were made to the provisional fair value of the assets stated in accounts: -

	Fair Value Adjustments £'000
<b>Revaluations</b>	
Fixed Assets	206
Stock	5
Debtors	20
Creditors	255
Provisions	(62)
	<hr/>
Total fair value adjustments	<hr/> 424

Adjustments to fixed assets relate to the alignment of depreciation policy to the group accounts. Adjustments to creditors mainly relate to the correct statement of the corporation tax liability on the acquisition accounts.

## NOTES TO THE ACCOUNTS

31 December 2004

### 23. OPERATING LEASE COMMITMENTS

<u>Land and Buildings</u>	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
The minimum annual commitments under non-cancellable operating leases are as follows: -		
Leases which expire:		
Within one year	226	185
Within two and five years	507	431
After five years	407	484
	<hr/> 1,140	<hr/> 1,100

<u>Plant &amp; Equipment</u>	<b>2004</b> <b>£'000</b>	<b>2003</b> <b>£'000</b>
The minimum annual commitments under non-cancellable operating leases are as follows: -		
Leases which expire:		
Within one year	79	8
Within two and five years	142	-
After five years	-	123
	<hr/> 221	<hr/> 131

### 24. PENSIONS COSTS

#### Defined contribution schemes

The group operates three main defined contribution pension schemes in the UK. All provide benefits based upon the individual funds available, at retirement, for the purchase of an annuity.

The Alfred McAlpine Utility Services Group Limited Retirement Benefits Scheme received employer contributions in 2004 of £121,000 (2003: £63,027). The Alfred McAlpine Utility Services Group Limited Group Personal Pension Plan received employer contributions in 2004 of £570,000 (2003: £464,388).

The Eastern Contracting Limited Group Personal Pension plan, which was discontinued at 30 November 2003, received employer contributions in 2004 of £nil (2003: £9,000).

# NOTES TO THE ACCOUNTS

31 December 2004

## 24. PENSIONS (continued)

### Defined benefit scheme

Following the acquisition of Eastern Contracting Limited on 10 September 2002 the group now participates in the Electricity Supply Pension Scheme ('ESPS') in the UK. The ESPS provide benefits based on final pensionable salary for eligible employees. The assets are held separately from those of the group and are managed on the Trustees behalf by investment managers. The scheme is funded through contributions from the employer, the employee and investment returns. The rates of contribution are determined by independent qualified actuaries, using the projected unit method.

The most recent valuation of ESPS was at 31 March 2004 and incorporates the assumptions that investment returns will be 2.3% per annum greater than the rate of future salary increases to normal retirement date or earlier death or withdrawal from the ESPS and 1.3% greater than the rate of increase in present and future pensions.

The actuary reported that the smoothed market value of the Alfred McAlpine Group's share of ESPS' assets at 31 March 2004 was £44.1 million (2001: £37.3million), which was sufficient to cover 83% of the benefits that had accrued to the members. Contributions made to the plan in 2004 were £0.8 million (2003: £0.9 million).

A separate group of employees has been identified as meeting the eligibility requirements for the Alfred McAlpine Group of ESPS. At 31 December 2004, the contributions payable in 2004 for this group have been accounted for as a defined contribution scheme, as the company is unable to identify its share of the underlying assets and liabilities.

The following information has been provided in accordance with the transitional requirements of FRS17.

The financial assumptions used to calculate the liabilities under FRS17 are set out below:

Valuation	At 31 December 2004 Projected Unit	At 31 December 2003 Projected Unit	At 31 December 2002 Projected Unit
Discount rate	5.3%	5.4%	5.5%
Inflation rate	2.6%	2.8%	2.3%
Increase to pensions	2.7%	2.9%	2.5%
Increase to deferred benefits	2.5%	2.5%	2.5%
Salary increases	3.6%	4.3%	3.8%

# NOTES TO THE ACCOUNTS

31 December 2004

## 24. PENSIONS (continued)

The assets and liabilities in the Eastern Contracting Group of the Electricity Supply Pension Scheme and the expected rate of return are set out below. The following amounts at 31 December 2004 were measured in accordance with the requirements of FRS17.

	Long term rate of return expected 31 December 2004 %	Long term rate of return expected 31 December 2003 %	Long term rate of return expected 31 December 2002 %	Market value at 31 December 2004 £m	Market value at 31 December 2003 £m	Market value at 31 December 2002 £m
Equities	7.5	7.9	7.6	35.5	28.9	24.4
Gilts	4.5	4.8	4.5	6.7	5.2	2.4
Corporate bonds	5.0	5.3	5.0	4.7	3.6	3.6
Cash	4.8	4.0	4.0	0.6	0.2	0.8
Total market value of scheme assets				47.5	37.9	31.2
Present value of scheme liabilities				(63.9)	(55.1)	(39.3)
Deficit in the scheme				(16.4)	(17.2)	(8.1)
Related deferred tax asset				4.9	5.2	2.4
<b>Net scheme deficit</b>				<b>(11.5)</b>	<b>(12.0)</b>	<b>(5.7)</b>

If the above had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2004 would be as follows:

	Year to 31 December 2004 £000	Year to 31 December 2003 £000
<b>Net assets per balance sheet</b>	8.6	30.5
Remove net SSAP 24 pension liability and associated deferred tax	2.7	2.7
Include FRS17 pension liability and associated deferred tax	(11.5)	(12.0)
<b>Net assets including FRS 17 pension shortfall</b>	<b>(0.2)</b>	<b>21.2</b>
<b>Profit and loss reserve per balance sheet</b>	7.9	29.8
Remove net SSAP 24 pension liability and associated deferred tax	2.7	2.7
Include FRS17 pension liability and associated deferred tax	(11.5)	(12.0)
<b>Profit and loss reserve including FRS17 pension shortfall</b>	<b>(0.9)</b>	<b>20.5</b>



**NOTES TO THE ACCOUNTS**

31 December 2004

**24. PENSIONS (continued)**

	Year to 31 December 2004 £m	Year to 31 December 2003 £m	
<b>Analysis of the amount charged to operating profit:</b>			
Current service cost	1.6	1.7	
Past service cost	-	-	
Curtailment loss	-	0.7	
<b>Total operating charge</b>	<b>1.6</b>	<b>2.4</b>	
<b>Analysis of net return on pension scheme:</b>			
Expected return on pension scheme	2.7	2.2	
Interest on pension liabilities	(3.0)	(2.2)	
<b>Net return</b>	<b>(0.3)</b>	<b>0.0</b>	
<b>Analysis of amount recognised in the statement of total recognised gains and losses (STRGL):</b>			
Actual return less expected return on pension scheme assets	0.9	3.3	
Experience gains and losses arising on the scheme liabilities	(2.4)	(6.4)	
Change in underlying present value of the scheme liabilities	3.1	(5.6)	
<b>Actuarial loss in the STRGL</b>	<b>1.6</b>	<b>(8.7)</b>	
<b>Movement in deficit during period:</b>	<b>Year to 31 December 2004</b>	<b>Year to 31 December 2003</b>	<b>Year to 31 December 2002</b>
Deficit in scheme at 1 January	(17.2)	(8.1)	(3.4)
Movement during year:			
Current service charge	(1.6)	(1.7)	(1.3)
Curtailments / settlements	-	(0.7)	-
Contributions	1.1	2.0	0.3
Other finance income	(0.3)	-	0.2
Actuarial gain (loss)	1.6	(8.7)	(3.9)
<b>Deficit in scheme as 31 December</b>	<b>(16.4)</b>	<b>(17.2)</b>	<b>(8.1)</b>
<b>History of experience gains and losses:</b>			
Difference between expected and actual return on assets:			
amount £	0.9	3.3	(6.7)
% of scheme assets	1.9%	8.7%	21.5%
Experience gains and losses on scheme liabilities:			
amount £	(2.4)	(6.4)	1.5
% of scheme liabilities	3.8%	11.6%	3.8%
Total amount in the STRGL:			
amount £	1.6	(8.7)	(3.9)
% of scheme liabilities	2.5%	15.8%	9.9%

**NOTES TO THE ACCOUNTS**

31 December 2004

**25. RELATED PARTY TRANSACTIONS**

During the year Alfred McAlpine Infrastructure Services Limited has traded with its associated company Core Utility Solutions Limited. All transactions entered into have been on an arms length basis. During the year Alfred McAlpine Utility Services Group Limited paid interest on working capital loans provided by Core Utility Solutions to the total of £390,883 (2003: £170,446). Interest was charged at a rate of 0.5% above LIBOR. The balance on the loan from Core Utility Solutions Limited was £12,263,500 (2003: £8,000,000).

Balances at the year end with Core Utility Solutions Limited were:-

Sales ledger £258,983 (2003: £118,913)

Purchase ledger £nil (2003: £nil).

**26. ULTIMATE PARENT COMPANY**

The company's ultimate parent company is Alfred McAlpine plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the group financial statements of Alfred McAlpine plc are available from Companies House, Crown Way, Cardiff, CF14 3UZ.

The group and company have taken advantage of the exemptions provided by FRS8 not to disclose transactions with entities that are part of the same group.

**27. POST BALANCE SHEET EVENTS**

On 12th January 2005, Alfred McAlpine Utility Services SE Limited sold the trade and assets of the Business Power and Systems division to Southern Electric Contracting Limited for £1,959,000, resulting in a profit of £100,000. The full effects of this disposal will be included in the 2005 Annual Report.