

**ALFRED McALPINE UTILITY SERVICES GROUP
LIMITED**
and its subsidiaries

REPORT AND ACCOUNTS

31 December 2002



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REPORT OF THE DIRECTORS

The directors submit their report and the accounts for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the laying of electricity cables and telephone ducting and gas pipelines and the relining and replacement of water mains.

REVIEW OF THE BUSINESS

Alfred McAlpine Utility Services Group has four principle lines of business: Electricity, Gas, Telecom and Water.

Our Electricity business was greatly strengthened in May 2002 by significant recruitment of senior staff from regional electricity companies. In September 2002, we acquired Eastern Contracting Limited now renamed Alfred McAlpine Utility Services SE Limited, one of the UK's most successful electrical services companies, giving us UK-wide market coverage and overhead line capability enabling us to undertake engineering project management across the entire distribution process.

Significant electricity contracts in 2002 include our first installation of 275Kv cable for National Grid, three major 132Kv contracts from National grid and others, a two-year extension with Aquila, worth £15million and a 17-month extension to our excavation and cable-laying contract with Scottish Power worth £8million. We also secured a £34million contract with Powergen to undertake electrical connections and repair and maintenance works in the East Midlands.

Our Gas business won a new eight year contract from Transco in Scotland worth £28million a year, obtained a two year extension of our contracts with Transco in Yorkshire and the North West (worth approximately £60 million a year in total), and three-year contracts with each of Fulcrum connections Scotland, Transco Network Services Scotland and United Utilities.

Our Telecom business has continued to grow despite significantly reduced levels of investment within the Telecoms sector. We are an implementation partner of O₂, T-Mobile, Orange, Hutchinson and Nokia, among other major customers in the mobile telecoms sector, for whom we have worked on over 3,500 sites throughout the UK.

Our Water business has maintained steady growth and profitability. We carry out installation, repair, maintenance and rehabilitation of the water and sewerage networks for Scottish water, Northumbrian Water, United Utilities, Severn Trent Water, Yorkshire Water, Thames Water and South East Water.

The prospects for the business are good. Our electricity business is looking to capitalise on an increase in outsourcing from electricity companies in response to price reductions imposed by the regulator; our gas business is set to take advantage of opportunities in the recently opened competitive gas metering market; our Telecoms business is well positioned to provide utility infrastructure services in the rail sector, as well as in the mobile and fixed network sector; and our Water business anticipates significant growth opportunities in Scotland and Northern Ireland.

Other major highlights in the year were the sale in January 2002 of a non-core company, Kennedy Asphalt Limited for £2.5million, allowing the company to focus its activities better. In February 2002 we set up a joint venture with our partners ScottishPower, called Core Utility Solutions Limited. This company provides industrial and domestic multi-utility connection solutions and is performing profitably after only 9 months of operation.

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 £1,595,000 were declared during the year (2001: £405,000). 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, add more value to the understanding of the groups activities from the users perspective.

DIRECTORS

The directors who served during the year were as follows:

P V Carolan

J W Reid

A P Jackson

I M Grice

N D Cocker

P Carney resigned 9 December 2002

S D B Carter resigned 1 February 2002

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 of 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 is 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 47 days (2001: 45 days).

CHARITABLE CONTRIBUTIONS

Contributions during the year to United Kingdom charitable organisations amounted to £13,318 (14 months 2001: £4,831).

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 of the profit or loss of the company 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 2001 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 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

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned and the directors appointed PricewaterhouseCoopers LLP as auditors. A resolution to reappoint the new firm, PricewaterhouseCoopers LLP, as auditors to the company will be proposed at the annual general meeting.

By order of the board



G J Forster
Secretary

28 July 2003

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.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

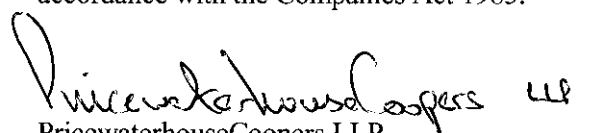
Basis of audit opinion

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 Group at 31 December 2002 and of the profit 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
Manchester
28 July 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year to 31 December 2002

| | Note | 12 months to 31 Dec 2002 £'000 | 14 months to 31 Dec 2001 £'000 |
|--|------|---|---|
| TURNOVER | 1 | | |
| -Continuing | | 183,165 | 177,024 |
| -Acquisitions | | <u>15,353</u> | <u>-</u> |
| | | 198,518 | 177,024 |
| Cost Of Sales | | <u>(176,442)</u> | <u>(159,589)</u> |
| GROSS PROFIT | | | |
| -Continuing | | 21,097 | 17,435 |
| -Acquisitions | | <u>979</u> | <u>-</u> |
| | | 22,076 | 17,435 |
| Administrative expenses | | <u>(15,810)</u> | <u>(10,204)</u> |
| OPERATING PROFIT | 2 | | |
| -Continuing | | 6,454 | 7,231 |
| -Acquisitions | | <u>(188)</u> | <u>-</u> |
| | | 6,266 | 7,231 |
| Share of profit in associated company | | 504 | 172 |
| Exceptional profit on sale of subsidiary undertaking | 23 | <u>1,585</u> | <u>-</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST | | | |
| -Continuing | | 8,543 | 7,403 |
| -Acquisitions | | <u>(188)</u> | <u>-</u> |
| | | 8,355 | 7,403 |
| Interest receivable and similar income | 3 | 107 | 61 |
| Interest payable and similar charges | 4 | <u>(217)</u> | <u>(315)</u> |
| | | (110) | (254) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | | |
| | | 8,245 | 7,149 |
| Tax on profit on ordinary activities | 8 | <u>(3,119)</u> | <u>(1,701)</u> |
| PROFIT FOR THE FINANCIAL YEAR/PERIOD | | | |
| | | 5,126 | 5,448 |
| Dividends on equity shares | 10 | <u>(1,595)</u> | <u>(405)</u> |
| RETAINED PROFIT FOR THE YEAR/PERIOD | 20 | <u>3,531</u> | <u>5,043</u> |

All the activities relate to continuing operations and arise in the United Kingdom.

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED and its subsidiaries

CONSOLIDATED BALANCE SHEET

31 December 2002

| | Note | 2002 £'000 | 2001 £'000 |
|--|------|------------------|------------------|
| FIXED ASSETS | | | |
| Intangible assets | 13 | 48,269 | 32,435 |
| Tangible assets | 11 | 6,509 | 6,350 |
| Investments | 12 | <u>1,367</u> | <u>2</u> |
| | | 56,145 | 38,787 |
| CURRENT ASSETS | | | |
| Stock | 14 | 2,408 | 1,935 |
| Debtors - due within one year | 15 | 148,415 | 143,789 |
| Debtors - due after more than one year | 15 | 1,316 | 1,233 |
| Cash at bank and in hand | | <u>11,426</u> | <u>8,861</u> |
| | | 163,565 | 155,818 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 16 | <u>(186,606)</u> | <u>(168,189)</u> |
| NET CURRENT LIABILITIES | | <u>(23,041)</u> | <u>(12,371)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 33,104 | 26,416 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | 17 | (3,963) | (228) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 18 | <u>(628)</u> | <u>(1,206)</u> |
| NET ASSETS | | <u>28,513</u> | <u>24,982</u> |
| CAPITAL AND RESERVES | | | |
| CALLED UP SHARE CAPITAL | 19 | 219 | 219 |
| RESERVES | | | |
| Revaluation reserve | 20 | 537 | 547 |
| Profit and loss account | 20 | <u>27,757</u> | <u>24,216</u> |
| | | 28,294 | 24,763 |
| Equity shareholders' funds | | 28,512 | 24,981 |
| Non-equity shareholders' funds | | <u>1</u> | <u>1</u> |
| TOTAL SHAREHOLDERS' FUNDS | | <u>28,513</u> | <u>24,982</u> |

Approved by the board of directors on 28 July 2003

P V Carolan

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year to 31 December 2002

| | Note | 12 months 31 Dec 2002 £'000 | 14 months 31 Dec 2001 £'000 |
|--|------|--------------------------------------|--------------------------------------|
| Profit for the financial year / period | | 5,126 | 5,448 |
| Surplus on revaluation of properties | | - | 268 |
| Total recognised gains and losses for the year / period | | <u>5,126</u> | <u>5,716</u> |

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the year to 31 December 2002

| | 2002 £'000 | 2001 £'000 |
|---|---------------|---------------|
| Reported profit on ordinary activities before taxation | 8,245 | 7,149 |
| Difference between historical cost depreciation and the actual depreciation charge | <u>10</u> | <u>8</u> |
| Historical cost profit on ordinary activities before taxation | <u>8,255</u> | <u>7,157</u> |
| Historical cost profit for the year / period after taxation and dividends | <u>3,541</u> | <u>5,051</u> |

**RECONCILIATION OF MOVEMENTS
IN SHAREHOLDERS' FUNDS**

for the year to 31 December 2002

| | | 2002 £'000 | 2001 £'000 |
|--|----|----------------|---------------|
| Profit for the financial year / period | | 5,126 | 5,448 |
| Dividends | 10 | <u>(1,595)</u> | <u>(405)</u> |
| | | 3,531 | 5,043 |
| Movement on revaluation reserve | | <u>-</u> | <u>268</u> |
| Net movement in shareholders' funds | | 3,531 | 5,311 |
| Opening shareholders' funds | | <u>24,982</u> | <u>19,671</u> |
| Closing shareholders' funds | | <u>28,513</u> | <u>24,982</u> |

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED and its subsidiaries

PARENT COMPANY BALANCE SHEET

31 December 2002

| | Note | 2002 £'000 | 2001 £'000 |
|---|------|------------------|------------------|
| FIXED ASSETS | | | |
| Tangible assets | 11 | 3,384 | 4,104 |
| Investments | 12 | <u>115,419</u> | <u>104,831</u> |
| | | 118,803 | 108,935 |
| CURRENT ASSETS | | | |
| Debtors - due within one year | 15 | 25,624 | 22,874 |
| Cash at bank and in hand | | <u>492</u> | <u>48</u> |
| | | 26,116 | 22,922 |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | 16 | <u>(136,900)</u> | <u>(126,216)</u> |
| NET CURRENT LIABILITIES | | <u>(110,784)</u> | <u>(103,294)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 8,019 | 5,641 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 18 | <u>(7)</u> | <u>(27)</u> |
| NET ASSETS | | <u>8,012</u> | <u>5,614</u> |
| CAPITAL AND RESERVES | | | |
| CALLED UP SHARE CAPITAL | 19 | 219 | 219 |
| RESERVES | | | |
| Revaluation reserve | 20 | 537 | 547 |
| Profit and loss account | 20 | <u>7,256</u> | <u>4,848</u> |
| | | <u>7,793</u> | <u>5,395</u> |
| TOTAL SHAREHOLDERS' FUNDS | | <u>8,012</u> | <u>5,614</u> |
| Attributable to equity shareholders | | 8,011 | 5,613 |
| Attributable to non-equity shareholders | | <u>1</u> | <u>1</u> |
| | | <u>8,012</u> | <u>5,614</u> |

Approved by the board of directors on 28 July 2003

P V Carolan



NOTES TO THE ACCOUNTS

31 December 2002

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 applicable accounting standards. The principle policies adopted by the company are detailed below;

ACCOUNTING STANDARDS

The Group has adopted FRS19 (Deferred Tax) and the transitional provisions of FRS17 (Retirement Benefits). The adoption of these standards gives rise to changes in accounting policy and the comparative figures have been restated accordingly.

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.

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, is taken to reserves.

TURNOVER

Turnover represents the value of work carried out and goods and services provided during the year outside of the Group excluding Value Added Tax, in line with agreed contractual terms. Full provision is made for losses on a contract and no credit is taken for claims by the company until there is a firm agreement with the client.

NOTES TO THE ACCOUNTS

31 December 2002

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.

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.

NOTES TO THE ACCOUNTS

31 December 2002

1. ACCOUNTING POLICIES (continued)**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.

| 2. OPERATING PROFIT | 12 months | 14 months |
|--|------------------|------------------|
| | 31 Dec | 31 Dec |
| | 2002 | 2001 |
| | £'000 | £'000 |
| Operating profit is arrived at after charging/(crediting): | | |
| Depreciation - assets held under finance lease | 16 | 31 |
| - other | 991 | 1,498 |
| Amortisation of regional development grant | (20) | - |
| Amortisation of goodwill | 1,946 | 9 |
| Rentals under operating lease - plant & machinery | 439 | - |
| - other | 614 | 145 |
| Profit on sale of tangible assets | (165) | (595) |
| Auditors remuneration - audit fees | 78 | 122 |
| - non audit fees | 66 | 66 |
| | <hr/> | <hr/> |

During the year the company paid £4,000 (14 months to 31 Dec 02: £21,000) in audit fees and £66,000 (14 months to 31 Dec 02: £47,000) in non audit fee remuneration.

NOTES TO THE ACCOUNTS

31 December 2002

| 3. INTEREST RECEIVABLE AND SIMILAR INCOME | 12 months to | 14 months to |
|--|---------------|---------------|
| | 31 Dec | 31 Dec |
| | 2002 | 2001 |
| | £'000 | £'000 |
| Interest receivable: | | |
| Bank deposits | 10 | 43 |
| Interest from associate | 37 | - |
| Other interest | 51 | 18 |
| Share of associates' interest receivable | 9 | - |
| | <u>107</u> | <u>61</u> |
| 4. INTEREST PAYABLE AND SIMILAR CHARGES | 2002 | 2001 |
| | £'000 | £'000 |
| On bank loans, overdrafts and other loans repayable within 5 years | 65 | 140 |
| On finance leases | 6 | 91 |
| Other interest | 108 | 84 |
| Share of associates' interest payable | 38 | - |
| | <u>217</u> | <u>315</u> |
| 5. EMPLOYEES | 2002 | 2001 |
| | No. | No. |
| The average number employed by the group, which includes directors, within each category of persons was: | | |
| Production staff | 2,694 | 1,894 |
| Administrative staff | 336 | 337 |
| | <u>3,030</u> | <u>2,231</u> |
| | 12 months to | 14 months to |
| | 31 Dec | 31 Dec |
| | 2002 | 2001 |
| | £'000 | £'000 |
| The costs incurred in respect of these employees were: | | |
| Wages and salaries | 60,070 | 51,590 |
| Social security costs | 7,497 | 6,247 |
| Other pension costs | 494 | 508 |
| | <u>68,061</u> | <u>58,345</u> |

NOTES TO THE ACCOUNTS

31 December 2002

6. DIRECTORS

12 months to
31 Dec
2002
£'000

14 months to
31 Dec
2001
£'000

The remuneration of directors who served during the period included in employee costs were:

| | | |
|-----------------------|------------|------------|
| Emoluments | 313 | 347 |
| Pension contributions | <u>22</u> | <u>18</u> |
| | <u>335</u> | <u>365</u> |

The emoluments of AP Jackson and IM Grice are paid by the parent company or various intermediate parent companies. 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 parent company and various intermediate parent companies. Accordingly the above details include no emoluments in respect of these directors.

During the year, the highest paid director received emoluments of £203,027 (14 months – 2001: £228,372) and pension of £13,903 (14 months – 2001: £13,763). Two of the directors that served during the period were members of the Group's pension schemes (2001: Three)

7. DIRECTORS' INTERESTS

The shareholdings of IM Grice and AP Jackson in Alfred McAlpine PLC are shown in the notes to the financial statements of Alfred McAlpine PLC and Alfred McAlpine Support Services and Investments Limited respectively. Other directors' interests in the ordinary shares of Alfred McAlpine PLC at 31 December were as follows:

| | 2002 | 2001 |
|---|----------------|----------------|
| | Number* | Number |
| Ordinary equity shares of 25p each | | |
| PV Carolan | 301,844 | 301,844 |
| JW Reid | 201,230 | 201,230 |

* Each of the above shareholdings are held in a Grant Thornton Stonehage Nominee Account for the beneficial interest of the named directors, however the shareholding cannot be transferred or sold for a period of 2 years from date of allotment.

NOTES TO THE ACCOUNTS

31 December 2002

7. DIRECTORS' INTERESTS (continued)

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

Alfred McAlpine PLC executive share option scheme 1991 & Alfred McAlpine PLC executive share option scheme 2000

| Date of Grant | 18 Apr 00 | 22 Mar 01 | Total |
|----------------------|-----------|-----------|--------|
| Option Price (pence) | 178.0p | 280.5p | |
| ND Cocker | 7,500 | 5,935 | 13,435 |

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

The Alfred McAlpine Restricted Share Plan

Under the terms of the Plan the Remuneration Committee 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 and held in 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 on the Plan and the performance criteria used can be found in the Report and Accounts of Alfred McAlpine PLC.

| Name of Director | Date of Award of Initial Shares | Number of Initial Shares awarded as at 01/01/01 | Award of Initial Shares during the year | Awards of Exceptional Performance Shares during the year | Awards of shares vested and released during the year | Initial and Exceptional Performance awards of shares as at 31/12/01 |
|------------------|---------------------------------|---|---|--|--|---|
| P Carolan | 22.03.01 | 25,000 | - | - | - | 25,000 |
| | 23.04.02 | - | 15,363 | - | - | 15,363 |
| Total | | 25,000 | 15,363 | - | - | 40,363 |
| J Reid | 22.03.01 | 10,000 | - | - | - | 10,000 |
| | 23.04.02 | - | 8,000 | - | - | 8,000 |
| Total | | 10,000 | 8,000 | - | - | 18,000 |
| N Cocker | 23.04.02 | - | 8,026 | - | - | 8,026 |
| Total | | - | 8,026 | - | - | 8,026 |

NOTES TO THE ACCOUNTS

31 December 2002

| 8. a) TAX ON PROFIT ON ORDINARY ACTIVITIES | 12 Months to 31 Dec 2002 £'000 | 14 months to 31 Dec 2001 £'000 |
|--|---|---|
| Taxation is based on the profit for the year / period and comprises: | | |
| Corporation tax at 30% (2001: 30%) of taxable profit | 2,857 | 2,288 |
| Share of tax charge in associated company at 30% (2001: 30%) | 143 | - |
| Prior year corporation tax adjustment | - | (23) |
| | <hr/> | <hr/> |
| Current taxation charge for the year / period | 3,000 | 2,265 |
| Deferred tax charge for year / period | (10) | (45) |
| Prior year deferred tax adjustment | 129 | (519) |
| | <hr/> | <hr/> |
| Total Corporation Tax charge for year / period | 3,119 | 1,701 |
| | <hr/> | <hr/> |
| b) CONSOLIDATED PROOF OF TAX | | |
| Profit on ordinary activities before tax | 8,245 | 7,149 |
| | <hr/> | <hr/> |
| Group profit on ordinary activities at 30% (2001: 30%) | 2,474 | 2,145 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 429 | 98 |
| Amortisation of goodwill | 584 | - |
| Accelerated capital allowances and other timing differences | 10 | 45 |
| Capital disposals | (497) | - |
| Adjustments to tax charge in respect of prior years | - | (23) |
| | <hr/> | <hr/> |
| Current taxation charge for the year / period | 3,000 | 2,265 |
| | <hr/> | <hr/> |
| 9. RESULT FOR THE FINANCIAL YEAR / PERIOD ATTRIBUTABLE TO THE MEMBERS OF ALFRED MCALPINE UTILITY SERVICES GROUP LIMITED | | |
| | 2002 £'000 | 2001 £'000 |
| Dealt with in the accounts of the parent company | 2,398 | 3,423 |
| | <hr/> | <hr/> |

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.

NOTES TO THE ACCOUNTS

31 December 2002

10. DIVIDENDS ON EQUITY SHARES

| | 2002 £'000 | 2001 £'000 |
|---|---------------|---------------|
| Ordinary shares: | | |
| Paid - £nil per ordinary share (2001: £1.86) | - | 405 |
| Payable - £7.29 per ordinary share (2001: £nil) | <u>1,595</u> | <u>-</u> |
| | <u>1,595</u> | <u>405</u> |

11. TANGIBLE FIXED ASSETS

| | Land and buildings £'000 | Plant and machinery £'000 | Total £'000 |
|---------------------------------|--------------------------------|---------------------------------|----------------|
| (a) THE GROUP | | | |
| Cost/Valuation: | | | |
| At 1 January 2002 | 5,108 | 6,529 | 11,637 |
| Additions | - | 1,008 | 1,008 |
| Additions on acquisitions | 284 | 1,408 | 1,692 |
| Transfers to group undertakings | - | (628) | (628) |
| Disposals | <u>(1,052)</u> | <u>(3,587)</u> | <u>(4,639)</u> |
| At 31 December 2002 | <u>4,340</u> | <u>4,730</u> | <u>9,070</u> |
| Depreciation: | | | |
| At 1 January 2002 | 847 | 4,440 | 5,287 |
| Charge for the year | 155 | 852 | 1,007 |
| Transfer to group undertakings | - | (351) | (351) |
| On disposals | <u>(203)</u> | <u>(3,179)</u> | <u>(3,382)</u> |
| At 31 December 2002 | <u>799</u> | <u>1,762</u> | <u>2,561</u> |
| Net book value: | | | |
| At 31 December 2002 | <u>3,541</u> | <u>2,968</u> | <u>6,509</u> |
| At 31 December 2001 | <u>4,261</u> | <u>2,089</u> | <u>6,350</u> |

The net book value of plant and machinery includes £96,000 in respect of assets held under finance leases (2001: £357,174). Depreciation for the year on these assets was £16,000 (2001: £30,295)

NOTES TO THE ACCOUNTS

31 December 2002

| 11. TANGIBLE FIXED ASSETS (continued) | Land and buildings £'000 | Plant and machinery £'000 | Total £'000 |
|---------------------------------------|--------------------------------|---------------------------------|----------------|
| (b) THE COMPANY | | | |
| Cost: | | | |
| At 1 January 2002 | 4,428 | 1,366 | 5,794 |
| Additions | - | 327 | 327 |
| Disposals | <u>(826)</u> | <u>(24)</u> | <u>(850)</u> |
| At 31 December 2002 | <u>3,602</u> | <u>1,669</u> | <u>5,271</u> |
| Depreciation: | | | |
| At 1 January 2002 | 842 | 848 | 1,690 |
| Charge for the year | 82 | 322 | 404 |
| Disposals | <u>(197)</u> | <u>(10)</u> | <u>(207)</u> |
| | <u>727</u> | <u>1,160</u> | <u>1,887</u> |
| Net book value: | | | |
| At 31 December 2002 | <u>2,875</u> | <u>509</u> | <u>3,384</u> |
| At 31 December 2001 | <u>3,586</u> | <u>518</u> | <u>4,104</u> |

NOTES TO THE ACCOUNTS

31 December 2002

11. TANGIBLE FIXED ASSETS (continued)

(c) LAND AND BUILDINGS

| | <u>GROUP</u> | | <u>COMPANY</u> | |
|--|-----------------------------|---------------|-----------------------------|---------------|
| The net book value of land and buildings comprises: | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Freehold | 1,782 | 2,672 | 1,547 | 2,217 |
| Long leasehold | <u>1,759</u> | <u>1,589</u> | <u>1,328</u> | <u>1,369</u> |
| | <u>3,541</u> | <u>4,261</u> | <u>2,875</u> | <u>3,586</u> |
| Land and buildings at cost or valuation are stated: | | | | |
| At open market value with existing use | 3,442 | 4,268 | 3,437 | 4,263 |
| At cost | <u>898</u> | <u>840</u> | <u>165</u> | <u>165</u> |
| | <u>4,340</u> | <u>5,108</u> | <u>3,602</u> | <u>4,428</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> | |
|---|-----------------------------|---------------|-----------------------------|---------------|
| If stated under historical cost principles the comparable amount for the total of land and buildings would be: | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| | £'000 | £'000 | £'000 | £'000 |
| Cost | 3,821 | 4,593 | 3,087 | 3,978 |
| Depreciation | <u>(741)</u> | <u>(809)</u> | <u>(673)</u> | <u>(815)</u> |
| Historical cost value | <u>3,080</u> | <u>3,784</u> | <u>2,414</u> | <u>3,163</u> |

NOTES TO THE ACCOUNTS

31 December 2002

12. FIXED ASSET INVESTMENTS

(a) THE GROUP

(i) Investment in Associated Company

| | £'000 |
|--|--------------|
| Cost: | |
| At 1 January 2002 | - |
| Investment in Associated Company (see note 22) | 1,000 |
| Share of Associated Company retained profit | 333 |
| | <hr/> |
| At 31 December 2002 | 1,333 |
| | <hr/> |

The investment is in Core Utility Solutions Limited an associated company. From start-up in February 2002 to 31 December 2002 the company achieved the following trading results:

| | £'000 |
|-------------------|--------------|
| Turnover | 34,537 |
| Profit before tax | 950 |
| Tax | (285) |
| Profit after tax | 665 |
| | <hr/> |

The balance sheet as at 31 December 2002 is summarised as follows:-

| | £'000 |
|---|--------------|
| Fixed assets | 760 |
| Current assets | 17,355 |
| Creditors: amounts falling due within one year | (15,442) |
| Creditors: amounts falling due after more than one year | (8) |
| | <hr/> |
| Net Assets | 2,665 |
| | <hr/> |

(ii) Other investments

| | |
|-------------------------|-------|
| Cost: | |
| At 1 January 2002 | 2 |
| Additions | 32 |
| | <hr/> |
| At 31 December 2002 | 34 |
| Fixed asset investments | |
| At 31 December 2002 | 34 |
| | <hr/> |
| At 31 December 2001 | 2 |
| | <hr/> |

The fixed asset investments relate to listed shareholdings in various Utility Companies outside the group.

NOTES TO THE ACCOUNTS

31 December 2002

12. FIXED ASSET INVESTMENTS (continued)

(b) THE COMPANY

| | Total £'000 |
|--|------------------------|
| Shares in subsidiaries | |
| Cost: | |
| At 1 January 2002 | 104,874 |
| Additions (see note 22) | 10,652 |
| Disposals (see note 23) | (64) |
| | <hr/> |
| At 31 December 2002 | 115,462 |
| Provision: | |
| At 1 January 2002 and 31 December 2002 | <hr/> 43 |
| Net book value: | |
| At 31 December 2002 | <u>115,419</u> |
| At 31 December 2001 | <hr/> 104,831 |

(c) The table shows the share interests held by the company at 31 December 2002:

| Name | Nature of business | Percentage holding | Incorporation |
|--|---|--------------------|-----------------|
| Alfred McAlpine Utility Services Limited | Provision of Utility contracting services | 100% | England & Wales |
| Alfred McAlpine Utility Services SE Limited (formerly Eastern Contracting Ltd – see note 22) | Provision of Utility contracting services | 100% | England & Wales |
| Core Utility Solutions Limited (see note 22) | Multi Utility domestics and industrial connections | 49% | England & Wales |
| Alfred McAlpine Utility Services NW Limited (formerly Ryan Utility Services Limited see note 22) | 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 |

* 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 2002

13. INTANGIBLE ASSETS

| THE GROUP | £'000 |
|------------------------|---------------|
| <u>Cost:</u> | |
| At 1 January 2002 | 32,487 |
| Additions | 17,780 |
| | <u>50,267</u> |
| As at 31 December 2002 | 50,267 |
| <u>Amortisation:</u> | |
| At 1 January 2002 | 52 |
| Charge in the year | 1,946 |
| | <u>1,998</u> |
| At 31 December 2002 | 1,998 |
| <u>Net book value:</u> | |
| At 31 December 2002 | 48,269 |
| At 31 December 2001 | 32,435 |

Additions to goodwill are further analysed in note 22

14. STOCK

| | <u>GROUP</u> | |
|-------------------------------|--------------|-------|
| | 2002 | 2001 |
| | £'000 | £'000 |
| Raw materials and Consumables | 2,408 | 1,935 |

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> | |
|------------------------------------|----------------|----------------|----------------|---------------|
| | 2002 | 2001 | 2002 | 2001 |
| | £'000 | £'000 | £'000 | £'000 |
| Due within one year: | | | | |
| Trade debtors | 42,867 | 39,970 | 187 | 21 |
| Amounts owed by group undertakings | 99,865 | 99,451 | 22,398 | 22,072 |
| Other debtors | 1,427 | 2,452 | 9 | 692 |
| Prepayments and accrued income | 1,330 | 779 | 744 | - |
| Deferred tax asset (see note 18a) | 2,926 | 1,103 | 198 | 89 |
| Corporation tax recoverable | - | 34 | 2,088 | - |
| | <u>148,415</u> | <u>143,789</u> | <u>25,624</u> | <u>22,874</u> |
| Due after more than one year: | | | | |
| Trade debtors | 1,316 | 1,233 | - | - |
| | <u>1,316</u> | <u>1,233</u> | <u>-</u> | <u>-</u> |

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

NOTES TO THE ACCOUNTS

31 December 2002

| 16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | GROUP | | COMPANY | |
|---|----------------|----------------|----------------|----------------|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Bank loan | - | 409 | - | - |
| Bank overdraft | 768 | - | 768 | - |
| Finance leases (see note 17a) | 157 | 590 | 74 | 186 |
| Trade creditors | 20,934 | 21,417 | 576 | 216 |
| Amounts owed to group undertakings | 145,590 | 130,895 | 131,678 | 123,839 |
| Corporation tax | 259 | - | - | 76 |
| Other taxation and social security | 5,300 | 5,717 | 206 | - |
| Other creditors | 2,547 | 3,834 | 1,304 | 1,456 |
| Accruals and deferred income | 9,456 | 5,327 | 699 | 443 |
| Dividend payable | 1,595 | - | 1,595 | - |
| | <u>186,606</u> | <u>168,189</u> | <u>136,900</u> | <u>126,216</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.

| 17. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR | GROUP | |
|--|---------------|---------------|
| | 2002 £'000 | 2001 £'000 |
| Finance leases payable between two and five years | 43 | 228 |
| Other Creditors | <u>3,920</u> | <u>-</u> |
| | <u>3,963</u> | <u>228</u> |

| | | |
|--|---------------|---------------|
| a) Finance leases | | |
| The maturity of obligations under finance leases and hire purchase contracts is as follows: | 2002 £'000 | 2001 £'000 |
| Within one year | 157 | 590 |
| In the second year to fifth years | <u>43</u> | <u>228</u> |
| | <u>200</u> | <u>818</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 2002

18. PROVISION FOR LIABILITIES
AND CHARGES

| | <u>GROUP</u> | | <u>COMPANY</u> | |
|------------------------------------|---------------|---------------|----------------|---------------|
| | 2002 £'000 | 2001 £'000 | 2002 £'000 | 2001 £'000 |
| Reinstatement and other provisions | 621 | 1,179 | - | - |
| Regional development grant | 7 | 27 | 7 | 27 |
| | <u>628</u> | <u>1,206</u> | <u>7</u> | <u>27</u> |

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> | 2002 £'000 | 2001 £'000 |
|--|----------------|----------------|
| Pension provision | (1,170) | - |
| Accelerated capital allowances | (666) | (371) |
| Short term timing differences | (1,090) | (732) |
| | <u>(2,926)</u> | <u>(1,103)</u> |
| Deferred taxation (asset)/liability | | |
| | <u>(2,926)</u> | <u>(1,103)</u> |
| <u>Movement in Deferred tax charge</u> | 2002 £'000 | |
| Opening Deferred taxation asset | 1,103 | |
| Subsidiaries acquired | 1,956 | |
| Charge for the year | (119) | |
| Subsidiaries disposed | (14) | |
| | <u>2,926</u> | |
| Closing Deferred taxation asset | | |
| | <u>2,926</u> | |

The deferred taxation asset of £2,926,000 (2001: £1,103,000) is included in other debtors. There is no unprovided deferred taxation in this year or the prior period.

No deferred tax asset has been recognised for the potential capital losses of £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 2002

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

ii) **THE COMPANY**

| <u>Provided</u> | 2002 £'000 | 2001 £'000 |
|-------------------------------------|-----------------------|-----------------------|
| Accelerated capital allowances | (198) | 18 |
| Short-term timing differences | - | (107) |
| | <hr/> | <hr/> |
| Deferred taxation (asset)/liability | (198) | (89) |
| | <hr/> | <hr/> |

Movement in Deferred tax

| | 2002 £'000 |
|---------------------------------|-----------------------|
| Opening Deferred taxation asset | 89 |
| Credit for the year | 109 |
| | <hr/> |
| Closing Deferred taxation asset | 198 |
| | <hr/> |

A deferred taxation asset of £198,000 (2001: £89,000) 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

| | £'000 |
|--|--------------|
| Movement in the year: | |
| At 1 January 2002 | 1,179 |
| Provided in the year | 256 |
| Utilised in the year | (681) |
| Disposed as part of Kennedy Asphalt Limited disposal | (133) |
| | <hr/> |
| At 31 December 2002 | 621 |
| | <hr/> |

(c) **Regional development grant**
GROUP AND COMPANY

| | £'000 |
|---------------------|--------------|
| At 1 January 2002 | 27 |
| Amortisation | (20) |
| | <hr/> |
| At 31 December 2002 | 7 |
| | <hr/> |

NOTES TO THE ACCOUNTS

31 December 2002

19. CALLED UP SHARE CAPITAL

| | Ordinary shares of <u>£1 each</u> | "A" Ordinary shares of <u>£1 each</u> | <u>Total</u> |
|--|---|---|----------------|
| Authorised, allotted and fully paid: | | | |
| At 31 December 2001 and 31 December 2002 | <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 2002 | 547 | 24,216 | 24,763 |
| Retained profit for the year | - | 3,531 | 3,531 |
| Transfer of amount equivalent to additional depreciation on revalued assets | (10) | 10 | - |
| | <u>537</u> | <u>27,757</u> | <u>28,294</u> |
| At 31 December 2002 | <u>537</u> | <u>27,757</u> | <u>28,294</u> |
| (b) THE COMPANY | | | |
| At 1 January 2002 | 547 | 4,848 | 5,395 |
| Retained profit for the year | - | 2,398 | 2,398 |
| Transfer of amount equivalent to additional depreciation on revalued assets | (10) | 10 | - |
| | <u>537</u> | <u>7,256</u> | <u>7,793</u> |
| At 31 December 2002 | <u>537</u> | <u>7,256</u> | <u>7,793</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 2002 amounted to £1,888,168 (2001: £1,670,020).

NOTES TO THE ACCOUNTS

31 December 2002

22. ACQUISITIONS

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

a) Acquisition of Eastern Contracting Holdings BV

On 10 September 2002 the Group acquired Eastern Contracting Holdings BV, the parent company of Eastern Contracting Limited for £10.6million in cash excluding net debt acquired of £2.9million. 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 | Fair Value At Acquisition £'000 |
|-----------------------------|---------------------------------|---|--|
| Fixed Assets (see note 11a) | 1,692 | - | 1,692 |
| Investments (see note 12a) | 32 | - | 32 |
| Stocks | 634 | (96) | 538 |
| Debtors | 9,165 | (435) | 8,730 |
| Creditors | (11,732) | (4,047) | (15,779) |
| Provisions | (528) | 1,071 | 543 |
| Net borrowings | (2,884) | - | (2,884) |
| Net Liabilities acquired | (3,621) | (3,507) | (7,128) |
| Goodwill arising | | | 17,729 |
| Cash consideration | | | 10,601 |

The following fair value adjustments were made to the book value of the assets on acquisition: -

| | Fair Value Adjustments £'000 |
|---|---|
| Alignment of Accounting Policy | |
| Stocks | 96 |
| Debtors | 435 |
| Creditors | 147 |
| Provisions | 99 |
| Defined Benefit pension scheme shortfall | |
| Creditors | 3,900 |
| Provisions | (1,170) |
| Total Fair value Adjustments | 3,507 |

From the date of acquisition to 31 December 2002 Poweronline Limited, the ECL consolidated group company contributed £15.4million to turnover and an operating loss of £0.2million after restructuring costs. In its financial year to 31 March 2002, ECL had turnover of £49.1million and made an operating loss of £5.0million.

NOTES TO THE ACCOUNTS

31 December 2002

22. ACQUISITIONS continued

a) Acquisition of Eastern Contracting Holdings BV continued

In the six month period from 31 March 2002 to the date of acquisition by Alfred McAlpine on the 10 September 2002, the ECL group had the following trading results: -

| | £'000 |
|---------------------|--------------|
| Turnover | 18,914 |
| Operating loss | (1,484) |
| Loss before tax | (1,253) |
| Taxation credit | 789 |
| Loss after taxation | (464) |

b) Alfred McAlpine Utility Services NW Limited (formerly Ryan Utility Services Limited)

Alfred McAlpine Utility Services NW Limited (formerly Ryan Utility Services Limited) was purchased on 27 November 2001 for a consideration of £5.8million. The fair values of assets on acquisition were fully disclosed in the previous period's financial statements.

During the current year further acquisition expenses were incurred to the value of £51,000, these costs have been capitalised the as part of the consideration paid for the company, and consequently goodwill on acquisition has increased to £6,685,000 (2001: £6,634,000).

c) CORE Utility Solutions Limited

On 20 February 2002 the Group invested £1million into Core Utility Solutions Limited, a newly formed joint venture company with SP Power Systems Limited. Core Utility Solutions Limited main trading activity is that of new Multi-utility connections for both domestic and commercial supply. The Group owns 49% of the share capital of Core Utility Solutions and has been accounted for as an associate undertaking in the consolidated financial statements.

23. DISPOSALS

On 28 January 2002 a non-core part of the group, Kennedy Asphalt Limited was sold for £2,550,855. The sale price was to cover the purchase of the shares in Kennedy Asphalt Limited and some associated land and buildings. The sale valuation was based on the net assets at 31 December 2001.

| | |
|--|--------------|
| a) Group Profit on Disposal | £'000 |
| Sale Consideration | 2,551 |
| Less disposal costs | (201) |
| Net Assets Disposed in Kennedy Asphalt Limited | (136) |
| Net Book Value of Land and Buildings Disposed | (629) |
| Exceptional profit on sale of subsidiary | 1,585 |

NOTES TO THE ACCOUNTS

31 December 2002

23. DISPOSALS continued

| | |
|---|--------------|
| b) Company Profit on Disposal | £'000 |
| Sale Consideration | 2,551 |
| Less disposal costs | (201) |
| Disposal of fixed asset Investment in Kennedy Asphalt Limited | (64) |
| Net Book Value of Land and Buildings Disposed | (629) |
| | <hr/> |
| Exceptional profit on sale of investment | 1,657 |

In 14-month financial period to 31 December 2001, Kennedy Asphalt Limited had turnover of £26.7million and an operating profit of £0.3million.

24. OPERATING LEASE COMMITMENTS

| | | |
|---|--------------|-------|
| <u>Land and Buildings</u> | 2002 | 2001 |
| | £'000 | £'000 |
| The minimum annual commitments under non-cancellable operating leases are as follows: - | | |
| Leases which expire: | | |
| Within one year | 101 | - |
| Within two and five years | 458 | 336 |
| After five years | 461 | - |
| | <hr/> | <hr/> |
| | 1,020 | 336 |
| | <hr/> | <hr/> |
| <u>Plant & Equipment</u> | 2002 | 2001 |
| | £'000 | £'000 |
| The minimum annual commitments under non-cancellable operating leases are as follows: - | | |
| Leases which expire: | | |
| Within one year | 253 | - |
| Within two and five years | 952 | - |
| After five years | 49 | - |
| | <hr/> | <hr/> |
| | 1,254 | - |
| | <hr/> | <hr/> |

25. 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 2002 of £95,599 (14 months to 31 Dec 2001: £90,540). The Alfred McAlpine Utility Services Group Limited Group Personal Pension Plan received employer contributions in 2002 of £315,255 (14 months to 31 Dec 2001: £412,460).

The Eastern Contracting Limited Personal Pension plan received employer contributions in 2002 of £12,045.

NOTES TO THE ACCOUNTS

31 December 2002

25. 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 2001 and incorporates the assumptions that investment returns will be 2.5% per annum greater than the rate of future salary increases to normal retirement date or earlier death or withdrawal from the ESPS.

The actuary reported that the smoothed market value of the Alfred McAlpine Group's share of ESPS' assets at 31 March 2001 was £37.3 million, which was sufficient to cover 124% of the benefits that had accrued to the members. Contributions made to the plan in 2002 since acquisition were £238,901.

A separate group of employees has been identified as meeting the eligibility requirements for the Alfred McAlpine Group of ESPS. At 31 December 2002, the contributions payable in 2002 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 2002 Projected Unit | At 10 September 2002 Projected Unit |
|-------------------------------|--|---|
| Discount rate | 5.5% | 5.5% |
| Inflation rate | 2.3% | 2.3% |
| Increase to pensions | 2.5% | 2.5% |
| Increase to deferred benefits | 2.5% | 2.5% |
| Salary increases | 3.8% | 3.8% |

NOTES TO THE ACCOUNTS

31 December 2002

25. 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 2002 were measured in accordance with the requirements of FRS17.

| | Long term rate of return expected 31.12.02 % | Long term rate of return expected 10.09.02 % | Market value at 31.12.02 £m | Market value at 10.09.02 £m |
|-------------------------------------|---|---|--|--|
| Equities | 7.6 | 7.6 | 24.4 | 23.7 |
| Gilts | 4.5 | 4.5 | 2.4 | 2.4 |
| Corporate bonds | 5.0 | 5.0 | 3.6 | 3.5 |
| Cash | 4.0 | 4.0 | 0.8 | 0.7 |
| | | | <hr/> | <hr/> |
| Total market value of scheme assets | | | 31.2 | 30.3 |
| Present value of scheme liabilities | | | (39.3) | (38.7) |
| | | | <hr/> | <hr/> |
| Deficit in the scheme | | | (8.1) | (8.4) |
| Related deferred tax asset | | | 2.4 | 2.5 |
| | | | <hr/> | <hr/> |
| Net scheme deficit | | | (5.7) | (5.9) |

If the above had been recognised in the financial statements, the group's net assets and profit and loss reserve at 31 December 2002 would be as follows:

| | 31.12.02 £m |
|---|------------------------|
| Net assets per balance sheet | 28.5 |
| Remove net SSAP 24 pension asset and its associated deferred tax | 2.7 |
| Include FRS 17 pension liability and its associated deferred tax | (5.7) |
| | <hr/> |
| Net Assets including FRS 17 pension shortfall | 25.5 |
| | <hr/> |
| Profit and loss reserve per balance sheet | 27.8 |
| Remove net SSAP 24 pension asset and its associated deferred tax | 2.7 |
| Include FRS 17 pension liability and its associated deferred tax | (5.7) |
| | <hr/> |
| Profit and loss reserve including FRS 17 pension shortfall | 24.8 |

NOTES TO THE ACCOUNTS

31 December 2002

25. PENSIONS (continued)

| | 10.09.02 to 31.12.02 £m |
|--|--|
| Analysis of the amount that would have been charged to operating profit | |
| Service cost | 0.5 |
| Past service cost | - |
| | <hr/> |
| Total operating charge | 0.5 |
| | <hr/> |
| Analysis of net return on pension scheme: | |
| Expected return on pension scheme | 0.6 |
| Interest on pension liabilities | (0.7) |
| | <hr/> |
| Net return | (0.1) |
| | <hr/> |
| Statement of total recognised gains and losses (STRGL): | |
| Actual return less expected return on pension scheme assets | 0.3 |
| Experience gains and losses arising on the scheme liabilities | 0.5 |
| Change in underlying present value of the scheme liabilities | - |
| | <hr/> |
| Actuarial loss in the STRGL | 0.8 |
| | <hr/> |
| Movement in deficit during period: | |
| Deficit in scheme on acquisition | (8.4) |
| Movement during year: | |
| Current service charge | (0.5) |
| Contributions | 0.1 |
| Other finance income | (0.1) |
| Actuarial gain | 0.8 |
| | <hr/> |
| Deficit in scheme as 31 December 2002 | (8.1) |
| | <hr/> |
| History of experience gains and losses: | |
| Difference between expected and actual return on assets: | |
| amount £ | 0.3 |
| % of scheme liabilities | 1.0% |
| Experience gains and losses on scheme liabilities: | |
| amount £ | 0.5 |
| % of scheme liabilities | 1.3% |
| Total amount in the STRGL: | |
| amount £ | 0.8 |
| % of scheme liabilities | 2.0% |

NOTES TO THE ACCOUNTS

31 December 2002

26. RELATED PARTY TRANSACTIONS

During the year Alfred McAlpine Utility Services Group 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 Interest received on working capital loans provided to Core Utility Solutions totalled £37,000. Interest was charged at a rate of 1% above LIBOR. The balance outstanding on loans at the yearend were £nil.

The total sales to Core Utility Solutions were £26,000 in the year. The other transactions were recharges of costs incurred by the group on behalf of Core Utility Solutions.

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

Sales ledger £64,040

Purchase ledger £nil.

27. 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, Maindy, Cardiff, CF4 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.