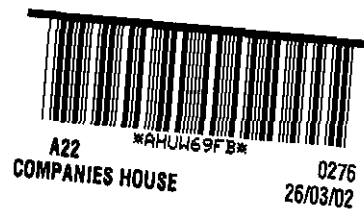


Carillion Water Limited

**Directors' report and financial
statements**

Registered number 2464479

Year ended 31 December 2001



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Directors' report

The directors present their annual report and audited financial statements for the year ended 31 December 2001.

Principal activity

The company is principally engaged in designing and constructing process plants for the clean and dirty water sectors of the water industry.

Business review and future developments

Turnover for the year amounted to £Nil (2000: £Nil) and the profit on ordinary activities before taxation was £10,248 (2000: loss £13,603).

Proposed dividend

The directors do not recommend the payment of a dividend (2000: £Nil).

Directors and directors' interests

The directors serving during the year were:

PJ Kendall (resigned 2 January 2001)
 E McEwan (resigned 30 April 2001)
 J Ledwidge (appointed 2 January 2001)
 DO FitzHugh (appointed 16 May 2001, resigned 1 December 2001)
 LJ Mills (appointed 16 May 2001)

The directors who held office at the end of the financial year and their families, other than those whose interests are disclosed in the financial statements of the ultimate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Carillion plc:

Number of shares	At 31 December 2001		At 1 January 2001		Share option movements in year		
	Shares Number	Share options Number	Shares Number	Share options Number	Granted Number	Exercised Number	Lapsed Number
J Ledwidge	486	-	486	-	-	-	-

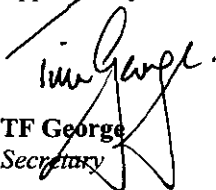
No other director had any interest in, or rights to subscribe for, the share or loan capital of Carillion plc.

No director had any beneficial interest in the share or loan capital of any subsidiary of Carillion plc.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors on 13 March 2002 and signed on its behalf by:


 TF George
 Secretary

Birch Street
 Wolverhampton
 WV1 4HY

Statement of directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Independent auditors' report to the members of Carillion Water Limited

We have audited the financial statements on pages 4 to 8.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 with the company 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 as at 31 December 2001 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

13 March 2002

Profit and loss account

for the year ended 31 December 2001

	<i>Note</i>	2001 £	2000 £
Turnover		-	-
Cost of sales		10,000	(14,718)
		<hr/>	<hr/>
Gross profit/(loss)		10,000	(14,718)
Other expenses		248	-
		<hr/>	<hr/>
Operating profit/(loss)	2	10,248	(14,718)
Other interest receivable		-	1,115
		<hr/>	<hr/>
Profit/(loss) on ordinary activities before taxation		10,248	(13,603)
Tax on profit/(loss) on ordinary activities	4	(3,100)	4,060
		<hr/>	<hr/>
Retained profit/(loss) for the financial year		7,148	(9,543)
		<hr/>	<hr/>

The operating profit arises from continuing operations.

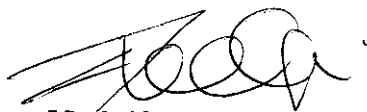
Movement in reserves are set out in note 9 to the financial statements.

The company has no recognised gains or losses in either the current or preceding year, other than those disclosed in the profit and loss account.

Balance sheet
at 31 December 2001

	<i>Note</i>		2001		2000
		£	£	£	£
Fixed assets					
Investments	5		2		2
Current assets					
Debtors	6	471,865		475,677	
Creditors: amounts falling due within one year	7	(19,740)		(30,700)	
Net current assets			452,125		444,977
Net assets			452,127		444,979
Capital and reserves					
Called up share capital	8		100,000		100,000
Profit and loss account	9		352,127		344,979
Equity shareholders' funds	9		452,127		444,979

These financial statements were approved by the board of directors on 13 March 2002 and were signed on its behalf by:


J Ledwidge
 Director

Notes

(forming part of the financial statements)

1 Principal accounting policies

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

Basis of accounting

These financial statements have been prepared in accordance with applicable accounting standards using the historical cost convention.

Deferred taxation

Deferred taxation, calculated using the liability method, is included only where the effects of timing differences between results as stated in the financial statements and as computed for taxation purposes are likely to crystallise in the foreseeable future.

Group financial accounts

The company is exempt from the requirement to prepare group financial statements and deliver them to the Registrar of Companies. The financial statements therefore present information about the undertaking and not about its group. The company is included within the consolidated financial statements of Carillion plc, the company's ultimate parent undertaking which is incorporated in Great Britain and registered in England and Wales.

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that Carillion plc, the company's ultimate parent undertaking, includes the company's cash flows in its own published consolidated cash flow statement.

2 Profit/(loss) on ordinary activities before taxation

	2001	2000
	£	£
<i>Profit/(loss) on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration – audit	-	-
	<hr/>	<hr/>

The audit fee for the year ended 31 December 2001 has been borne by Carillion Construction Limited.

3 Directors' remuneration

The directors, who were the only employees, neither received nor waived any emoluments during the year (2000: £Nil).

4 Taxation on profit/(loss) on ordinary activities

	2001	2000
	£	£
UK corporation tax at 30% (2000: 30.25%)	3,100	-
Group relief	-	(4,060)
	<hr/>	<hr/>
	3,100	(4,060)
	<hr/>	<hr/>

Notes (continued)

5 Fixed asset investments

The company owns 2 £1 ordinary shares (100%) of Carillion Water Overseas Limited, a company incorporated in England and Wales which is dormant.

6 Debtors

	2001	2000
	£	£
Amounts owed by group undertakings	471,865	471,011
Other debtors	-	4,666
	<u>471,865</u>	<u>475,677</u>

7 Creditors: amounts falling due within one year

	2001	2000
	£	£
Group tax relief	16,640	-
Corporation tax	3,100	20,700
Accruals	-	10,000
	<u>19,740</u>	<u>30,700</u>

8 Share capital

	2001	2000
	£	£
<i>Authorised:</i>		
10,000,000 ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
<i>Allotted, called up and fully paid:</i>		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

9 Reconciliation of movements in shareholders' funds

	Share capital £	Profit and loss account £	2001 Total £	2000 Total £
Retained profit/(loss) for the financial year	-	7,148	7,148	(9,543)
Net increase/(decrease) in shareholders' funds	-	7,148	7,148	(9,543)
Shareholders' funds at beginning of year	<u>100,000</u>	<u>344,979</u>	<u>444,979</u>	<u>454,522</u>
Shareholders' funds at end of year	<u>100,000</u>	<u>352,127</u>	<u>452,127</u>	<u>444,979</u>

Notes (continued)

10 Capital commitments

There were no capital commitments at 31 December 2001 or at 31 December 2000.

11 Contingent liabilities

There were no contingent liabilities at 31 December 2001 or at 31 December 2000.

12 Related party transactions

As a 100% owned subsidiary of Carillion plc, the company has taken advantage of the exemption under Financial Reporting Standard 8 not to provide information on related party transactions with other undertakings within the Carillion group. Note 13 gives details of how to obtain a copy of the published financial statements of Carillion plc.

13 Controlling and parent companies

The company's immediate controlling company is Carillion Construction (Contracts) Limited, its immediate parent company, whilst the company's ultimate controlling company is Carillion plc, its ultimate parent company, both of which are registered in England and Wales.

Copies of the group financial statements of Carillion plc are available from Birch Street, Wolverhampton, WV1 4HY.