

Centrac Limited

Directors' report and financial statements

Year ended 31 December 1998

Registered number 2995364



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

Principal activities

The company is principally engaged in the provision of specialised on-site engineering work mainly in respect of track renewals and the hire of on-track plant principally to the rail infrastructure maintenance units, solely within the United Kingdom.

Business review and future developments

Turnover for the year amounted to £58,639,577 (1997: £52,267,043) and the loss on ordinary activities before taxation was £742,554 (1997: £1,454,403).

During the second half of the year, senior management reviewed the business operations and identified areas where restructuring would be beneficial to the company in the future. This gave rise to an exceptional charge, principally redundancy costs, of £840,140 (1997: £Nil).

During 1999 the directors are confident that Centrac will secure additional long term contracts to supplement its existing substantial work-bank, and that the company will continue to deliver a safe and quality service to its customers.

The company's ultimate controlling party, Tarmac plc, has announced that it intends to separate its two business streams; Construction Services, of which Centrac Limited is a part and Heavy Building Materials. Construction Services will be a separately listed company and the Board believes that with a strong order book, Construction Services will continue to improve its performance as a separate business.

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 1998 (1997: £Nil).

Creditor payment policy

The company does not adopt any specific code or standard, however it is the company's policy to pay its suppliers in accordance with the terms and conditions agreed prior to the commencement of trading provided that the supplier has met its contractual obligations. The number of days credit outstanding to suppliers at the year end was 54 days.

Directors and directors' interests

The directors serving during the year were:

EJ Bridgewood	(resigned 31 December 1998)
JS Rushton	
JDH Russell	(resigned 31 January 1998)
ER Sharples	
IB Webb	
DL Cruddace	(appointed 31 December 1998)

Directors' report *(continued)*

Directors and directors' interests *(continued)*

Beneficial interests of the directors and their families in the ordinary share capital of Tarmac plc were as follows:

	Number of 50p ordinary shares		Share options		Movements in the period		
	At 31 December 1998	At 1 January 1998 (or later date of appointment)	Fully paid	Share options	Granted	Exercised	Lapsed
JS Rushton	18,811	120,958	17,738	127,129	25,241	14,871	16,541
ER Sharples	14,293	131,711	17,347	91,711	40,000	-	-
IB Webb	-	9,848	-	9,848	-	-	-
DL Cruddace	592	2,516	-	2,516	-	-	-

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

Employees

The majority of employees are based at site on contracts. Communication and consultation within the working teams takes place, as appropriate, as part of the normal pattern of every operation.

Every employee will receive the annual Employee Report which explains the Construction Services Business Stream's financial performance and includes information on significant activities which are taking place. This report is supplemented by regular publications such as, Tarmac World, which provides information on activities throughout the Tarmac Group and is published five times a year and Vision magazine published twice a year providing information on the Construction Services Business Stream.

The establishment and maintenance of safe working practices at all work places are of greatest importance to the company and special training in health and safety is provided for all employees. In addition, competitions are held regularly to encourage greater awareness of and attention to safety.

The company is an active and enthusiastic supporter of training schemes of all types and is providing valuable training and experience to a large number of young people, as well as increasing its own training commitment to full-time employees.

Equal opportunities

The company is an equal opportunities employer.

It is the policy of the company to give the fullest consideration to the employment needs of all prospective and existing employees. To that end, no job applicant or employee receives less favourable treatment than another on grounds of colour, race, nationality, ethnic or national origin, sex, religion or disability where the work content is commensurate with the individual's particular disability. Full consideration is given to suitable applications for employment from disabled persons where they have the necessary abilities and skills for the position and wherever possible to re-train employees who become disabled, so that they can continue in their employment in another position.

Directors' report *(continued)*

Equal opportunities *(continued)*

Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of company policy. Promotion is based upon ability, merit and performance taking into account the future needs of the company. Where necessary training is carried out to assist employees to develop their full potential.

All aspects of employment are regularly reviewed by management to ensure this policy is achieved.

Year 2000

Tarmac recognises the importance of the Year 2000 problem and has established a Group-wide programme to ensure that the related risks are mitigated.

The programme, which is monitored regularly at Board level covers five main areas: business systems and associated hardware, embedded chips in buildings and production facilities, key suppliers, joint ventures and client solutions.

In each area an analysis of the risks has been performed, from which corrective action plans have been developed. These plans are designed to address all key issues well in advance of 31 December 1999, without disruption to the underlying business processes.

The company is one of many which is included within the Tarmac Construction Services Business Stream. The total cost of the programme to the business stream as a whole, along with the amount spent in 1998, is included in the financial statements of Tarmac Construction Limited, the company's controlling entity. The company shares its business systems with Tarmac Construction Limited and for this reason it is not possible to directly apportion costs associated with the Year 2000 problem to this company.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 the 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.

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution will be proposed at the forthcoming annual general meeting to re-appoint KPMG Audit Plc as auditors of the company for the forthcoming year.

Approved by order of the Board and signed on its behalf by:



E McEwan
Secretary

Construction House
Birch Street
Wolverhampton
WV1 4HY

16 March 1999

1. The first part of the document is a list of names and their corresponding dates of birth. The names are listed in alphabetical order, and the dates are given in the format of day, month, and year. The list includes names such as John Doe, Jane Smith, and Robert Johnson, with dates ranging from 1920 to 1980.



KPMG Audit Plc

2 Cornwall Street
Birmingham B3 2DL
United Kingdom

Auditors' report to the members of Centrac Limited

We have audited the financial statements on pages 6 to 15.

Respective responsibilities of directors and auditors

As described on page 4, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 the company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'KPMG Audit Plc', written in a cursive, stylized script.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

16 March 1999

1. The first part of the document is a list of names and their corresponding dates. The names are listed in a column on the left, and the dates are listed in a column on the right. The names are: John Doe, Jane Smith, and Bob Johnson. The dates are: 1/1/2020, 2/1/2020, and 3/1/2020.

Profit and loss account

for the year ended 31 December 1998

	<i>Note</i>	Before exceptional item £	Exceptional item (See Note 7) £	1998 £	1997 £
Turnover	<i>1</i>	58,639,577	-	58,639,577	52,267,043
Cost of sales		(55,441,653)	(840,140)	(56,281,793)	(50,435,000)
		<hr/>	<hr/>	<hr/>	<hr/>
Gross profit/(loss)		3,197,924	(840,140)	2,357,784	1,832,043
Administrative expenses		(2,489,901)	-	(2,489,901)	(2,776,674)
		<hr/>	<hr/>	<hr/>	<hr/>
Operating profit/(loss)		708,023	(840,140)	(132,117)	(944,631)
		<hr/>	<hr/>	<hr/>	<hr/>
Loss before interest and taxation				(132,117)	(944,631)
Interest payable	<i>5</i>			(610,437)	(509,772)
				<hr/>	<hr/>
Loss on ordinary activities before taxation	<i>2</i>			(742,554)	(1,454,403)
Tax on loss on ordinary activities	<i>6</i>			(6,319)	283,550
				<hr/>	<hr/>
Retained loss for the year				(748,873)	(1,170,853)
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Movements in reserves are set out in note 15 to the financial statements.

The above results are all derived from continuing operations.

There are no recognised gains and losses other than those reported above.

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Balance sheet

at 31 December 1998

	Note	1998 £	£	1997 £	£
Fixed assets					
Tangible assets	8		4,673,370		5,382,018
Current assets					
Stocks	9	1,855,486		2,988,791	
Debtors due within one year		24,921,380		14,241,383	
Debtors due after more than one year		2,876,000		3,164,000	
Total debtors	10	27,797,380		17,405,383	
Cash at bank and in hand		2,327		1,670	
		29,655,193		20,395,844	
Creditors: amounts falling due within one year	11	(28,481,009)		(20,809,539)	
Net current assets/(liabilities)			1,174,184		(413,695)
Total assets less current liabilities			5,847,554		4,968,323
Creditors: amounts falling due after more than one year	12		(2,157,196)		(1,135,712)
Provision for liabilities and charges	13		(1,341,940)		(735,320)
Net assets			2,348,418		3,097,291
Capital and reserves					
Called up share capital	14		2,800,000		2,800,000
Profit and loss account	15		(451,582)		297,291
Equity shareholders' funds	16		2,348,418		3,097,291

These financial statements were approved by the board of directors on 16 March 1999 and were signed on its behalf by:



DL Cruddace
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

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention, as modified for the revaluation of freehold land and buildings.

Turnover

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to United Kingdom customers and in respect of long term contracting activities, the value of work executed during the year.

Depreciation

Depreciation is based on historic cost or revaluation, less the estimated residual values, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold buildings	- 20 years
Leasehold buildings	- 40 years
Plant and machinery	- 3-20 years
Motor vehicles	- 3-10 years
Computer equipment	- 4 years

Stocks

Stocks are valued at the lower of cost and net realisable value.

Long term contracts

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. The profit on each individual contract is recognised when the outcome of the contract can be foreseen with reasonable certainty and is the lower of profit earned to date and the forecast at completion. Profit for the year includes settlement of claims arising on contracts completed in prior years.

Payments received on account of contracts are deducted from those amounts recoverable on contracts. Such amounts which have been received and exceed amounts recoverable are included in creditors.

Leased assets

Assets held under finance lease arrangements and similar hire purchase contracts are included in fixed assets. The obligations under such agreements, excluding finance charges, are shown under creditors.

Assets held under operating leases are charged to the profit and loss account as incurred.

Notes (continued)

1 Principal accounting policies (continued)

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 Tarmac plc, the company's ultimate parent undertaking, includes the company's cash flows in its own published consolidated cash flow statement.

Deferred taxation

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

Pensions

Regular pension costs are established in accordance with the recommendations of independent actuaries and are charged to the profit and loss account based on the expected pension costs over the employees' service lives with Centrac Limited.

2 Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging the following:

	1998 £	1997 £
Depreciation of owned tangible fixed assets	798,357	510,987
Depreciation of tangible fixed assets held under finance leases	313,268	583,011
Auditors' remuneration - audit work	30,000	20,000
Payment under operating leases:		
Plant and machinery	190,000	26,342
Other assets	237,035	199,336
	<u> </u>	<u> </u>

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was 487 (1997: 544).

The aggregate payroll costs of these persons were as follows:

	1998 £	1997 £
Wages and salaries	10,991,896	12,153,145
Social security costs	872,585	899,797
Other pension costs	258,023	276,397
	<u> </u>	<u> </u>
	12,122,504	13,329,339
	<u> </u>	<u> </u>

Notes (continued)

4 Directors' remuneration

	1998 £	1997 £
Fees for services as director	129,021	119,000
	<u> </u>	<u> </u>

Included in the above is £110,021 paid by the company to its immediate parent company, representing the emoluments of directors who were directly employed by that company.

Retirement benefits are accruing to two directors under a defined benefits scheme.

Two directors exercised share options during the year, details of which are given in the directors' report.

5 Interest payable

	1998 £	1997 £
Amounts payable on all other loans:		
Interest payable to group undertakings	426,734	252,928
Finance lease charges	84,218	205,948
Other interest	99,485	50,896
	<u> </u>	<u> </u>
	610,437	509,772
	<u> </u>	<u> </u>

6 Tax on loss on ordinary activities

	1998 £	1997 £
Amount receivable for group relief	(11,827)	(616,470)
Deferred tax	(233,520)	163,820
Adjustment in respect of previous years:		
Corporation tax	251,666	202,600
Deferred tax	-	(33,500)
	<u> </u>	<u> </u>
	6,319	(283,550)
	<u> </u>	<u> </u>

7 Exceptional item

The exceptional charge relates to restructuring costs, principally redundancy costs, committed to at the year end following a management review of the business operations.

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings £	Long leasehold properties £	Short leasehold properties £	Total Land and buildings £	Plant, machinery and vehicles £	Total £
Cost or valuation						
At 31 December 1997	750,000	1,675,000	165,000	2,590,000	19,589,285	22,179,285
Additions	-	-	-	-	409,309	409,309
Disposals	-	-	-	-	(266,169)	(266,169)
As at 31 December 1998	750,000	1,675,000	165,000	2,590,000	19,732,425	22,322,425
Gross amount of depreciable assets	250,000	1,675,000	165,000	2,090,000	19,732,425	21,822,425
Depreciation						
As at 31 December 1997	28,606	94,794	10,468	133,868	16,663,399	16,797,267
Charge for the year	12,500	41,875	4,125	58,500	1,053,125	1,111,625
Disposals	-	-	-	-	(259,837)	(259,837)
As at 31 December 1998	41,106	136,669	14,593	192,368	17,456,687	17,649,055
Net book value						
As at 31 December 1998	708,894	1,538,331	150,407	2,397,632	2,275,738	4,673,370
As at 31 December 1997	721,394	1,580,206	154,532	2,456,132	2,925,886	5,382,018
Net book value of assets held under finance leases at 31 December 1998	-	-	-	-	1,691,817	1,691,817

9 Stock

	1998 £	1997 £
Raw materials and consumables	1,855,486	2,988,791

Notes (continued)

10 Debtors

	1998 £	1997 £
Amounts falling due within one year:		
Trade debtors	870,899	681,077
Amounts recoverable on contracts	17,166,891	8,656,704
Amounts owed by group undertakings	6,211,900	4,308,379
Group relief receivable	-	10,860
Other debtors	291,909	293,515
Prepayments and accrued income	379,781	290,848
	<hr/>	<hr/>
	24,921,380	14,241,383
Amounts falling due after one year:		
Other debtors	2,876,000	3,164,000
	<hr/>	<hr/>
	27,797,380	17,405,383
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11 Creditors: amounts falling due within one year

	1998 £	1997 £
Obligations under hire purchase and finance lease contracts	479,587	2,300,602
Payments received on account	244,846	-
Trade creditors	5,173,714	6,140,655
Amounts owed to group undertakings	7,401,864	2,764,110
Corporation tax	412,960	409,390
Other tax and social security costs	1,733,689	1,859,358
Accruals and deferred income	12,808,940	7,335,424
Group relief payable	225,409	-
	<hr/>	<hr/>
	28,481,009	20,809,539
	<hr/> <hr/>	<hr/> <hr/>

12 Creditors: amounts falling due after more than one year

	1998 £	1997 £
Obligations under hire purchase and finance lease contracts	1,511,196	272,712
Accruals and deferred income	646,000	863,000
	<hr/>	<hr/>
	2,157,196	1,135,712
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Notes (continued)

13 Provision for liabilities and charges

	Deferred taxation £	Restructuring £	Total £
At 31 December 1997	735,320	-	735,320
Transfer (to)/from profit and loss account	(233,520)	840,140	606,620
	<hr/>	<hr/>	<hr/>
At 31 December 1998	501,800	840,140	1,341,940
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Deferred taxation	Amounts not provided		Provided in accounts	
	1998 £	1997 £	1998 £	1997 £
Accelerated capital allowances	-	22,000	(252,672)	-
Other timing differences	-	3,680	670,000	735,320
	<hr/>	<hr/>	<hr/>	<hr/>
	-	25,680	417,328	735,320
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

14 Called up share capital

	1998 £	1997 £
Authorised:		
10,000,000 ordinary shares of £1 each	10,000,000	10,000,000
	<hr/>	<hr/>
Allotted, called up and fully paid:		
2,800,000 ordinary shares of £1 each	2,800,000	2,800,000
	<hr/> <hr/>	<hr/> <hr/>

15 Reserves

	1998 £	1997 £
Retained profit brought forward	297,291	1,468,144
Retained loss for the year	(748,873)	(1,170,853)
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Retained (loss)/profit carried forward	(451,582)	297,291
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1. The first part of the document is a list of names and titles, including "The Hon. Mr. Justice" and "The Hon. Mr. Justice".

Notes (continued)

16 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Loss for the year	(748,873)	(1,170,853)
Net decrease in shareholders' funds	(748,873)	(1,170,853)
Shareholders' funds at beginning of year	3,097,291	4,268,144
Shareholders' funds at end of year	2,348,418	3,097,291

17 Commitments

The company has commitments under finance leases and similar hire purchase contracts as follows:

	1998 £	1997 £
Amount payable:		
Within one year	479,587	2,300,602
Between one and five years	1,511,196	272,712
	1,990,783	2,573,314

The obligations under finance leases and similar hire purchase agreements are secured on the assets to which they relate.

18 Commitments under operating leases

Annual commitments under non-cancellable operating leases at 31 December 1998 are as follows:

	1998 Land and buildings £	1998 Other £	1998 Total £	1997 £
Operating leases which expire:				
Within one year	258,101	19,367	277,468	23,239
In the second to fifth years inclusive	-	90,293	90,293	178,031
Over five years	3	-	3	3
	258,104	109,660	367,764	201,273

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Notes (continued)

19 Pension contributions

The company participates in the Railways Pension Scheme which provide defined benefits for the majority of employees based on final pay. Scheme assets are administered by trustees and are held separately from the company.

A valuation of the Railways Pension Scheme was carried out as at 1 April 1996 by independent actuaries using the Attained Age method. The main financial assumptions used for the valuation were a future investment return of 8.5% per annum, future increases in earnings of 6.5% per annum, and future increases in dividend of 4.5% per annum.

A shared cost section has been established for the company by a transfer of assets and liabilities to a separate section of the Railways Pension Scheme under the provisions of the statutory transfer order.

The market value of assets at the valuation date of around £25 million for the shared cost section was sufficient to provide 109% of the benefits accrued to members based on projected final pay, after reserving for continuation of a joint contribution rate of 12.5% to continue until September 2003. A pensions prepayment on acquisition is included in debtors, and the pension charge is calculated allowing for the prepayment to run off over employees future working lives.

20 Related party disclosures

As a 100% owned subsidiary of Tarmac 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 Tarmac group. Note 21 gives details of how to obtain a copy of the published financial statements of Tarmac plc.

21 Controlling and parent companies

The company's immediate controlling company is Tarmac Construction Limited, its immediate parent company, whilst the company's ultimate controlling company is Tarmac plc, its ultimate parent company, both of which are incorporated in Great Britain and registered in England and Wales.

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

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