Carillion plc
Annual Report and Accounts 2003

> Aligning our people and strengths with growth markets

Registered Number: 3782379

Our vision is to be the leader in delivering integrated solutions for infrastructure, buildings and services.

Our strategy is to deliver sustainable profitable growth through:

> growing Business Services and PPP Investments organically and by acquisition
> maintaining a strong and selective Construction Services capability focused on higher added value contracts for long-term customers
> developing and marketing integrated solutions tailored to our customers' needs, including project finance, design and construction, maintenance and life-time asset management.

Our values

> Openness
> Mutual dependency
> Collaboration
> Professional delivery
> Focus on sustainable profitable growth
> Innovation

Turnover
2002: £1,974.4m
£1,977.6m

Profit before tax*
2002: £50.2m
£50.8m

Earnings per share*
2002: 16.6p
16.8p

Forward order book and framework contracts
2002: £5.0bn
£5.0bn

Full year dividend per share
2002: 4.8p
6.75p

> Profit before tax, goodwill amortisation and exceptional items slightly ahead of 2002 despite the cost overrun on Nottingham Express Transit and substantial increases in pensions and insurance costs.

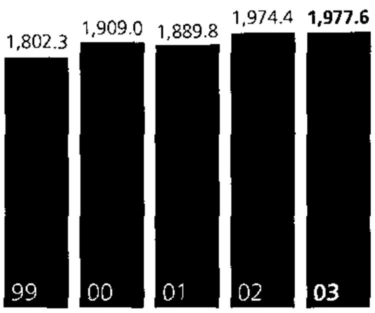
> Profit strongly cash-backed with net cash at 31 December 2003 of £75.8 million.

> Ordinary dividend up 5.2% to 5.05 pence per share.

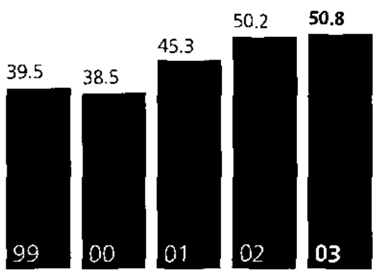
> Additional dividend of 1.7 pence per share from first PPP equity sale.

> Strong order book maintained with pipeline of probable new orders of £2.5 billion.

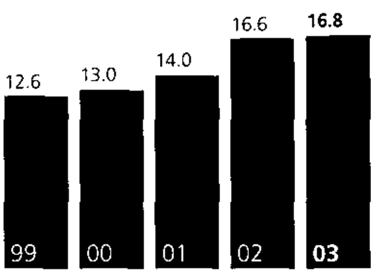
Total turnover
£millions



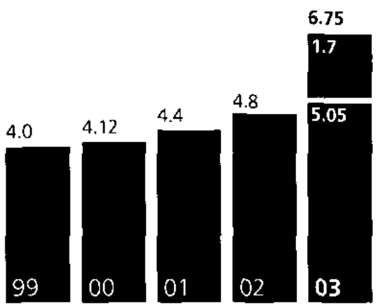
Profit before tax*
£millions



Earnings per share*
pence



Full year dividend per share
pence



*** Before exceptional items and goodwill amortisation.**

With its strong order book and focus on growing markets in which it holds well balanced positions, the Group expects to deliver healthy earnings growth in 2004 and beyond.

I am pleased to report that Carillion met the objective in my 2003 interim report to shareholders of delivering full-year profit before tax, goodwill and exceptional items of not less than the £50.2 million achieved in 2002, despite the cost overrun on the Nottingham Express Transit (NET) project and substantial unavoidable increases in pensions and insurance costs.

The Group also made an exceptional net profit of £11.2 million on its first PPP equity sale, the first in a planned programme of such sales to create a sustainable new profit stream. One third of the profit from this sale is being returned to shareholders by way of a dividend. The Board's current intention is to continue to return a proportion of the profit from future equity sales to shareholders, whilst re-investing in new PPP projects to generate further returns.

The Group's performance in 2003 demonstrates the benefits of its consistent and effective strategy for growth and its relentless focus on cost reduction and performance improvement. Equally, the Group's continued prosperity stems from the skills and commitment of all our people and the culture of success that has been developed throughout the business. The Board recognises that our people are an important differentiator and we are grateful for the contributions made by everyone in Carillion to its success.

The risk profile of the Group's activities has changed significantly over the last three years, following the introduction of new risk management criteria that govern project selection, bidding and delivery. This resulted in the Group withdrawing in 2002 from bidding for further light rapid transit projects such as NET, because the procurement model for such projects does not meet these new criteria. Today, the Group's UK civil engineering activities are focused exclusively on heavy rail and major road projects, where it has a track record of delivering more reliable earnings.

The leading role the Group has taken on Corporate Social Responsibility (CSR) has also made a significant contribution to risk management as well as to the value of the Carillion brand. This was recognised in 2003 when Carillion received Business in the Community's (BITC) 'Company of the Year' award for excellence in CSR and was ranked in the top quartile of BITC's first CSR Index. This Index attracted 122 entries, including many of the UK's leading companies.

The Group's commitment to Health and Safety remains paramount and we have continued to work hard to improve our own performance and that of our industry by working with others to develop and implement best practice. In 2003, the Group's Accident Frequency Rate was down to its lowest ever level, a performance that we expect to rank with the best in our industry. This was overshadowed by the tragic rail accident on the West Coast Main Line in February 2004, in which four of our employees were killed and three injured. While this accident remains the subject of formal independent investigations, it would be inappropriate to comment on it. However, the deep sense of shock and sadness felt by all our people throughout the Group has redoubled our commitment to Health and Safety. Our challenge is to continue to turn this absolute commitment into further real and measurable progress, so that our people can work safely wherever they are.

In line with the confidence I expressed in the Report and Accounts for the year ending 2002, I can now report that Carillion has already put in place the measures necessary to report against the recommendations of the Higgs review as adopted in the revised Combined Code, which will come into force for the financial year ending 31 December 2004.

The Group has continued to develop strong positions in its key growth markets to maintain its order book at around £5 billion and build its largest ever pipeline of probable orders worth around £2.5 billion, despite the loss of valuable rail maintenance contracts following Network Rail's surprise decision to take rail maintenance in-house. Even without this maintenance work, the Group will continue to have a substantial rail infrastructure business with opportunities for growth in the UK and in Scandinavia, following the acquisition of Swedish Rail Systems in 2003.

The Group has also significantly strengthened its ability to deliver its strategy for growth, having completed its restructuring to create three new market focused businesses – Health, Transport and Business Services – and disposed of four more non-core businesses.

Therefore, with its strong order book and focus on growing markets in which it holds well-balanced positions, the Group expects to deliver healthy earnings growth in 2004 and beyond.

The Board is recommending the payment of a final dividend of 3.475 pence per share, making the total ordinary dividend for the year 5.05 pence, an increase of 5.2 per cent on 2002. In addition, a dividend of 1.7 pence per share will be paid in respect of the exceptional profit arising from the first sale of PPP equity. The final ordinary dividend and special dividend will be paid together on 25 June 2004 to shareholders on the register at close of business on 30 April 2004.

Sir Neville Simms
Chairman, 10 March 2004

A number of significant achievements and events influenced our performance in 2003 and shaped the outlook for the Group going forward.

John McDonough
Chief Executive

The basis for our success is our strategy for sustainable long-term growth, supported by our ongoing drive for cost reduction and performance improvement. This not only enabled us to deliver profit before tax, goodwill and exceptional items of £50.8 million, backed by strong cash generation, but also positions the Group for further growth in 2004 and beyond, despite Network Rail's decision to take all rail maintenance contracts in-house.

Strong cash management resulted in a substantial second half cash inflow of almost £100 million and net cash at the year-end of £75.8 million.

Nottingham Express Transit (NET)
We have completed the infrastructure contract for NET and the tram system is now fully operational and open to the public. Returns on our £3.4 million (12.5 per cent) equity interest in this project are expected to be in line with our original investment model.

A sustainable new profit stream from PPP equity sales
In addition to ordinary profit before tax, goodwill and exceptional items of £50.8 million, we made an exceptional tax-free net profit of £11.2 million on the sale of our £4.1 million equity interest in the Darent Valley Hospital PPP project. The proceeds from this sale supported the Directors' previous valuation of the Group's total PPP equity portfolio of approximately £115 million. We plan to continue selling our PPP equity stakes in mature projects and the Board's current intention is to continue to return a proportion of the profits to shareholders, whilst re-investing in new PPP projects to generate further returns.

Further investment of between £20 million and £30 million is already planned in seven new projects, which have recently reached financial close or for which we are the preferred bidder. Re-cycling our PPP equity stakes in this way will create a new sustainable profit stream for the Group, which we expect to be tax-free in 2004 and 2005, given the Group has substantial capital tax losses and can claim tax relief by way of substantial shareholder exemption on certain projects.

Rail maintenance
Network Rail's announcement in October 2003 that all rail maintenance contracts are to be taken in-house by September 2004 came as a complete surprise to the industry, given earlier public assurances from Network Rail that it would not do this. As previously announced, we estimate that the loss of rail maintenance contracts will reduce our operating profit by around £7 million in 2004 and by £15 million in 2005. However, the precise effects will depend on the timing and terms under which contracts are transferred to Network Rail, which remain subject to negotiations with Network Rail.

1 We are creating some of the most exciting and effective spaces in the world. At the Great Western Hospital in Swindon, we have integrated our skills including project finance, design, construction, maintenance and life-time asset management to produce a state-of-the-art hospital that is also one of the UK's most sustainable buildings.

2 Carillion seeks to build relationships with the communities in which it operates. We do this through working with national and local environmental and community organisations. Pictured here are pupils from the Prince Albert School in Birmingham on a work experience visit.

Cost reduction and performance improvement

The pursuit of cost reduction and performance improvement is fundamental to the long-term success of our business. In 2003, unavoidable increases in pensions and insurance costs of £18 million were covered by cost reduction. Our drive to do things 'smarter, better, faster' will play a major part in helping us to achieve our target of improving the Group's operating margin by one per cent over the next three years.

Health and Safety

In 2003, the Group's Accident Frequency Rate reduced by 24 per cent to its lowest ever level of 0.34 (accidents reportable under the 'Reporting of Injuries, Diseases and Dangerous Occurrences Regulations' per 100,000 hours), which we expect to rank with the best in our industry. However, as the Chairman has commented in his statement, this has been overshadowed by the deep sense of shock and sadness felt by all our people following the tragic rail accident on the West Coast Main Line in February 2004. A summary of our Health and Safety, performance and programme for continuous improvement can be found on pages 14 to 17 of this report. As usual, we shall report in more detail in our 2003 Sustainability Report, which will be published in April.

Sustainability

Creating a more sustainable business through understanding, measuring and improving the impacts we have on society and the environment, is not only an important part of risk management, but a differentiator that is helping us to deliver our business objectives and our strategy for growth. A summary of our programme for sustainable development and our performance in 2003 can be found on pages 14 to 17 of this report. More detailed information will be published in our 2003 Sustainability Report in April.

Order book

In 2003, we continued to win work in all our key markets and maintained our year-end order book at £5 billion. The composition of our order book continues to reflect our strategy, with 70 per cent of the £5 billion now in our growth markets of Services and PPP Investments and 70 per cent for 2005 and beyond. In addition, our pipeline of probable new orders is at its highest ever level at around £2.5 billion.

Restructured for growth

In 2003, we completed our current restructuring programme to improve operational efficiency and accelerate the delivery of our growth strategy. We have created three major new business groups – Health, Transport and Business Services – aligned with our growth markets. Each is driven by the needs of its customers and capable of delivering fully integrated solutions, from project finance through design and construction to lifetime maintenance and facilities management. These three new businesses together with our Private Finance, Crown House, Building Developments and International Regional businesses are supported by common shared services and a lean head office function.

The acquisition of Swedish Rail Systems in June 2003 for £2.9 million has enhanced prospects for growth in our Transport business and the disposal of four more non-core businesses – Expanded Piling, Markfield Insurance and two materials testing facilities in the Middle East, for a total of £7.0 million – will help us focus senior management time and resources on our growth market sectors.

Aligning our people and strengths with growth markets

Transport

Our Transport business is one of the UK's leading providers of road and rail infrastructure services.

Carillion was the most successful contractor in the UK roads sector in 2003, winning long-term maintenance contracts for the Highways Agency and Surrey County Council with a combined value of nearly £400m and a £65m Early Contractor Involvement contract for the Highways Agency to upgrade the A74 to motorway standard in Cumbria. This success has continued in 2004 with the award of a maintenance contract for Warwickshire County Council and financial close on the A249 PPP project, together worth over £240m.

Aligning our people and strengths with growth markets

Health

Our Health business is one of the UK's leading providers of integrated infrastructure and services solutions and is focused on five market sectors – PPP hospitals, ProCure 21, Independent Sector Treatment Centres (ITSC), Local Improvement Finance Trust (LIFT) projects and non-PPP facilities management

In 2003, we reached financial close on our sixth UK PPP hospital and became preferred bidder for a further UK hospital and for Canada's first two PPP hospitals – four hospitals together worth around £2.3bn. We also reached financial close on our first ISTC, became preferred bidder for our first LIFT project and were selected as a framework contractor for ProCure 21.

Markets and outlook
Transport
In transport we are focused on the heavy rail and roads markets. Capital investment in the UK's heavy rail network is forecast to grow by between 5 per cent and 10 per cent per annum over the next three years. The outlook for enhancement projects and track renewals therefore remains positive. In particular, further investment in West Coast Route Modernisation, which is expected to be at least £5 billion, and being selected as a framework contractor by Network Rail for its new £2.5 billion track renewal programme, will continue to create significant opportunities for our rail business.

We will continue to have a strong presence in UK rail maintenance, because our contract to maintain the Channel Tunnel Rail Link, worth up to £120 million over 10 years, is unaffected by Network Rail's recent decision on maintenance. Following the acquisition of Swedish Rail Systems, we expect significant opportunities for growth in Scandinavia. For example, the Swedish rail authorities plan to outsource an additional £500 million per annum of infrastructure work by 2008.

The outlook for road construction and maintenance is continuing growth. In construction, we are targeting the £11 billion programme of projects being procured under the Government's Early Contractor Involvement and PPP initiatives and were awarded two major projects worth nearly £200 million in 2003. In maintenance, we are seeking to increase our 11 per cent share of the £800 million a year Highways Agency market, by expanding the range of services we provide. We also continue to target large maintenance contracts for Local Highway Authorities, a market worth around £800 million a year and growing at 5 per cent per annum. Our success in winning a major contract for Surrey County Council in 2003 has been followed by a similar contract for Warwickshire County Council, early in 2004, together worth over £240 million.

Health
The UK health market is set to grow rapidly as a result of the Government's commitment to increase annual spending on health by some £40 billion to £105 billion by 2008. Within this market we are targeting five specific sectors – PPP hospitals, Independent Sector Treatment Centres (ISTC), Local Improvement Finance Trust (LIFT) projects, ProCure 21 and non-PPP facilities management.

PPP hospitals will continue to be one of our most important growth sectors, with over 20 further concessions for major hospitals, worth around £15 billion, due to be let as early as 2005. We are a market leader in this sector and expect to build on the progress we made in 2003, which included reaching financial close on our sixth UK hospital and becoming the

Aligning our people and strengths with growth markets

Business Services

In Business Services we have brought together our Building and Services businesses to improve our ability to offer customers cost-effective, integrated solutions.

Our Building business is a UK leader focused on the retail, high-rise urban residential and office sectors of the commercial building market and on PPP construction. Our Services business provides integrated facilities management services for over 500,000m² of public and private sector estate. Its customers range from blue-chip companies, including Coca-Cola, HBOS and Microsoft to Government Departments, including the NHS, Ministry of Defence and the Royal Parks.

preferred bidder for a further UK hospital and for Canada's first two PPP hospitals. These four hospitals are together worth around £2.3 billion.

With planned new investment of some £12 billion in ISTCs, LIFT and ProCure 21 projects between 2004 and 2008, we shall be seeking to build on the presence we have established in these sectors. In 2003, we reached financial close on our first ISTC, became preferred bidder for our first LIFT project, were selected by the NHS as one of its principal partners for ProCure 21 and were awarded our first ProCure 21 contract. Non-PPP facilities management continues to be an important growth sector for us. With annual NHS expenditure of around £1 billion in this sector, we will be seeking to add to the four long-term contracts we already hold, worth around £42 million per annum.

Business Services
Our Business Services business is focused on two UK markets – private sector facilities management and commercial building. In commercial building, we continue to target the offices, retail and urban high-rise residential sectors. The downturn in the South East, particularly in office developments, continues to be offset by buoyant markets in the Midlands and North. Consequently, the order book is healthy and we expect growth in our commercial building activities in 2004.

In facilities management we are targeting a market worth around £5.5 billion a year and growing at 5 per cent per annum. The acquisition of Citex Management Services in 2002 considerably strengthened our presence and capability in this market. We therefore expect to build on the success we had in 2003 in winning a £90 million contract for Telewest Broadband and grow this area of our business in 2004.

Crown House, our mechanical and electrical engineering business, made good progress in 2003. It achieved an overall breakeven performance on substantially reduced turnover and it exited the year trading profitably with a very strong order book. Our Building Developments business once again delivered excellent results and we expect this performance to continue in 2004.

Overall, the outlook for our International Regional Businesses remains positive. In Canada, we expect further growth in our Business Services and PPP investment activities, following the good progress made in 2003. In the Middle East, we expect our traditional construction market to remain strong and to grow our facilities management business. In France, trading conditions in 2003 were the most positive for several years and this is expected to continue in 2004.

Therefore, the outlook for the Group is encouraging and we expect to deliver healthy growth in 2004 and beyond.

John McDonough
Chief Executive, 10 March 2004

A strong second half performance enabled us to deliver pre-tax profit of £50.8 million and a net operating cash inflow of £84.2 million.

Chris Girling
Finance Director

Growth in Business Services, particularly rail, enabled us to recover strongly in the second half of the year to deliver profit before tax, goodwill amortisation and exceptional items of £50.8 million, despite the cost overrun on the Nottingham Express Transit project. At the same time, increases in pension and insurance costs of approximately £18 million were offset by savings arising from the Group's on-going programme of cost reduction and performance improvement.

Interest and cash
Group net interest payable increased to £0.5 million from a credit of £0.6 million in 2002, largely as a result of a first-half cash outflow due to advance payments on a number of our large PPP contracts unwinding as these reached completion. However, late in the second half there was a substantial cash inflow from operating activities due to a strong performance in Business Services, resulting in a net operating cash inflow for the year of £84.2 million. In addition, there were cash receipts of £16.0 million from re-financing the Darent Valley PPP concession and subsequent disposal of the Group's equity interest in this project and £6.4 million from the disposal of four non-core businesses.

Capital expenditure amounted to £15.6 million and £14.9 million of loan advances were made to PPP joint ventures. Corporate tax was a net receipt of £0.5 million due largely to refunds of tax overpaid in prior years. Equity dividend payments amount to £10.1 million. Net cash at the year-end increased by £70.5 million to £75.8 million, excluding finance leases of £15.6 million.

Exceptional items
The net exceptional charge of £23.2 million comprises three main items. An exceptional net profit of £11.2 million was made on the sale of our £4.1 million equity interest in the Darent Valley Hospital PPP concession. A total provision of £33.1 million has been made due to the impairment of goodwill resulting from Network Rail's decision to take all rail maintenance work in-house. Maintenance work represented the majority of the business of GT Railway Maintenance (GTRM) when we acquired 49 per cent of that company in 1996 and the remaining 51 per cent in 2001. Accordingly, the goodwill arising on these acquisitions has been written down. A net book loss of £1.3 million arose from the disposal of four non-core businesses.

Goodwill amortisation
The increase in goodwill amortisation of £1.1 million to £3.8 million mainly reflects a full-year charge for the goodwill arising from the acquisition of Citex Management Services in September 2002.

Taxation
The Group's effective rate of tax on profit before exceptional items and goodwill amortisation fell to 28 per cent in 2003. This is below the UK standard rate of tax as we continued to access losses for which deferred tax assets had not previously been recognised.

Earnings per share
Earnings per share before exceptional items and goodwill amortisation were 16.8 pence compared to 16.6 pence in 2002.

Acquisitions and disposals
In June 2003, the Group acquired the entire share capital of Swedish Rail Systems Entreprenad (SRSE), Sweden and Norway's largest private sector rail infrastructure contractor. The consideration amounted to £2.9 million, which represented the net asset value of SRSE and therefore no goodwill arose on the acquisition. The disposal of four more non-core businesses in 2003 generated proceeds of £7.0 million and a net profit of £4.2 million, before writing back goodwill previously written off to reserves of £5.5 million.

Pensions

The Group continues to account for pension costs in accordance with SSAP 24. A full valuation of the Group's main defined benefit pension schemes, the Staff, 'B' and Public Sector schemes, was undertaken at 31 December 2002. The global fall in equity markets since September 2001 has reduced the funding position of these principal schemes since the previous full valuation in 2000. At 31 December 2002, the staff scheme had a deficit of £22 million, the 'B' scheme had a surplus of £1 million and the Public Sector scheme had a deficit of £3 million. As a result of this funding position, the Group recommenced contributions to the Staff and 'B' schemes, which were also closed to new members on 31 March 2003. The Group's pensions cost has therefore increased by approximately £14 million in 2003.

The transitional disclosures required by Financial Reporting Standard (FRS) 17 'Retirement benefits' continue to be made by the Group. On an FRS 17 basis the Group's various schemes had a net deficit at the end of 2003 of £76.6 million compared to a net deficit of £52.9 million in 2002. The increase in net deficit is due to the adoption of revised actuarial assumptions for life expectancy and lower bond yields. Had the Group adopted the requirements of FRS 17, the pensions cost would have been £22.2 million, compared to the SSAP 24 pension cost of £22.1 million.

A substantial number of Carillion employees are expected to transfer to Network Rail as a result of its decision to take all maintenance work in-house. Consequently, an appropriate proportion of the assets of the Railways Pension Scheme, which on a SSAP 24 basis is slightly in surplus, will transfer with these employees. The Group accounts include prepayments to the Railways Pension Scheme of some £13 million. Details of the transfer have yet to be finalised, but our objective is for the overall effect of the transfer on pensions to be neutral.

1 The refinancing of Darent Valley Hospital PPP concession and subsequent disposal of our equity interest in this project generated an £11.2 million profit for Carillion and reduced costs to the Dartford and Gravesham NHS Trust by around £11 million.

2 The new 100,000m² Government Communications Headquarters in Cheltenham is one of the UK's largest PPP projects and an outstanding example of how we can integrate our project finance, design and construction skills to provide a state-of-the-art facility to meet the most exacting of standards.

Reporting Segments

Investments

In this segment we report the equity returns on our investments in Public Private Partnership (PPP) projects.

£67.5m
Turnover (2002: £61.6m)

£8.6m
Operating profit* (2002: £7.8m)

£3.5m
Pre-tax profit** (2002: £2.5m)

£3.2m
PPP net bid costs (2002: £4.5m)

* Before goodwill amortisation of £0.1m (2002: nil)
** Before exceptional profit of £11.2m (2002: nil)

Pre-tax profit increased by 40 per cent primarily because bid costs reduced. This increase would have been higher, but profit from the Darent Valley hospital concession reduced because the Dartford and Gravesham NHS Trust is receiving its share of the gain made on re-financing this concession through lower availability payments.

Construction of the new Government Communications Headquarters was completed within budget, three months early in June 2003, and this concession is operating successfully.

In November 2003, the Group disposed of its £4.1 million equity shareholding in the Darent Valley Hospital concession for £5.2 million. The disposal also crystallised as profit the £10.8 million of cash received from the refinancing to generate total proceeds of £16.0 million and a net exceptional profit of £11.2 million. No tax was payable on this exceptional profit as the Group has substantial capital losses for the purposes of taxation. In accordance with HM Treasury Guidelines, the refinancing gain was shared with the Dartford and Gravesham NHS Trust, which will receive around £11 million, mainly in the form of reduced annual payments to the PPP concession company.

As expected, the flow of PPP projects reaching financial close and preferred bidder increased significantly in 2003. We reached financial close on the £700 million Oxford John Radcliffe Hospital in December 2003 and during the year were appointed preferred bidder for five further PPP projects that are expected to generate construction, maintenance and facilities management work for the Group worth around £1.8 billion. Our equity investment in these projects will be between £20 million and £30 million.

Our preferred bidder successes included four health projects – the £800 million William Osler and £60 million Royal Ottawa Hospitals, both in Canada, the new £1 billion Queen Alexandra Hospital in Portsmouth and the £80 million Birmingham and Solihull LIFT (Local Improvement Finance Trust) project, involving the development, construction and provision of facilities management for primary care facilities. We were also appointed preferred bidder for the £130 million A249 road improvement project, which reached financial close early in 2004, and short listed for a further five projects worth around £2.0 billion.

3 We continue to work closely with Network Rail to renew and upgrade the UK rail network. We are also building Phase II of the high-speed Channel Tunnel Rail Link and we have a 10-year contract to maintain Phase I of the Link.

4 In 2003, we won a 5-year facilities management contract for Telewest Broadband worth £90m. The contract covers 200 business locations from Dundee to Plymouth. Pictured is our customer services director Tom Robinson.

Business Services

In this segment we report the results of our activities in rail infrastructure, roads maintenance and facilities management and support services.

£933.5m
Turnover (2002: £821.7m)

£51.1m
Operating profit* (2002: £39.0m)

5.5%
Margin (2002: 4.7%)

£1.3m
PPP net bid costs (2002: £0.7m)

* Before exceptional operating charges of £33.1m (2002: Nil) and goodwill amortisation of £3.6m (2002: £2.6m)

Turnover increased by nearly 14 per cent primarily due to growth in heavy rail maintenance. Operating profit rose by 31 per cent, with around half this increase coming from improved margins and the remainder from higher volumes. The improvement in margins reflected a positive outcome from final settlements on a number of old Railtrack debts.

Rail

Carillion Rail continued to perform well in all areas of its activities, which together account for around £550 million of turnover in this segment. Its activities for Network Rail include maintenance of around 20 per cent of its network, major projects for West Coast Route Modernisation, a wide range of regional improvement projects, track renewals and specialist services. Carillion Rail is also constructing Phase II of the Channel Tunnel Rail Link (CTRL) and has a ten-year contract to maintain Phase I of the CTRL, which is not affected by Network Rail's decision to take its rail maintenance contracts in-house.

Despite Network Rail's decision on rail maintenance, we will continue to have a substantial rail projects, track renewals and maintenance business with good prospects for growth from increasing capital investment in the UK rail network and new opportunities overseas. In 2003, Carillion Rail was selected as one of Network Rail's framework contractors to deliver its new £2.5 billion, five-year track renewal programme and continues to be well positioned to benefit from further substantial investment in the West Coast Route Modernisation project.

The acquisition of Swedish Rail Systems Entreprenad (SRSE) in June 2003 provides access to the growing private sector rail market in Scandinavia. Sweden in particular offers good opportunities for growth as it plans to outsource all rail infrastructure work to the private sector by 2008, taking the current value of this market from around £100 million per annum to £600 million per annum.

Road Maintenance
Our roads maintenance business, which is focused on long-term maintenance contracts for the Highways Agency and large contracts for Local Authorities, continued to perform well in 2003. It maintained its position as a leading supplier to the Highways Agency, winning its second Managing Agent Contractor contract for Area 12. This contract, which is initially for five years, is extendable to seven years and worth up to £140 million.

Winning our first large Local Authority contract for Surrey County Council was a major success in 2003. This is a four-year contract, extendable to 10 years, with the maintenance element worth up to £160 million. In addition to maintenance work, we will carry out improvement schemes under this contract up to a value of £0.5 million. Early in 2004 we had a further success in this growing market, winning a four-year contract for Warwickshire County Council, which is extendable to seven years and worth up to some £84 million.

Facilities Management
The acquisition of Citex Management Services in the second half of 2002 significantly strengthened our offering for private sector customers and helped our facilities management business to make good progress in 2003. It was successful in winning a five-year national total facilities management contract for Telewest Broadband, worth around £90 million. This was awarded to Carillion specifically on the basis of our proven capability and ability to deliver a nationwide solution. Our facilities management business also secured contract extensions for a number of existing blue chip private sector customers, including Coca-Cola and HBOS that were in the portfolio acquired with Citex Management Services.

Reaching financial close on the Oxford John Radcliffe Hospital PPP project and securing preferred bidder positions on four more large PPP hospitals in 2003, will also lead to further valuable contracts for our facilities management business.

5 As part of our long-term road maintenance contracts for the Highways Agency and Local Authorities, we provide frontline incident support services 24 hours a day, 365 days a year.

Construction Services

In this segment we report the results of our UK Building and Capital Projects businesses, which includes our International Regional businesses.

£1,001.8m
Turnover (2002: £1,125.4m)

£5.6m
Operating profit* (2002: £17.1m)

0.6%
Margin (2002: 1.5%)

£7.9m
PPP net bid costs (2002: £10.6m)

* Before goodwill amortisation of £0.1m (2002 £0.1m)

Turnover reduced by 11 per cent during 2003, primarily because a number of large projects, including the GCHQ PPP project and the M6 Toll, were completed during the year and there were no new starts on construction projects of comparable size. Continuing our selective approach to construction also affected turnover, particularly in UK civil engineering.

Operating and Financial Review continued

The reduction in operating profit reflects the cost overrun on the Nottingham Express Transit (NET) project and lower turnover.

Building

Our UK building business performed soundly in 2003. Although turnover reduced as PPP building activity declined, this is expected to reverse in 2004 as several PPP projects for which we are preferred bidder are due to reach financial close and move into construction.

Work winning in our chosen sectors of the commercial building market, namely offices, retail and high-rise urban residential developments, was encouraging in 2003, with good progress in the North and Midlands more than offsetting a reduced activity in the South. We also continued to benefit from developing long-term relationships with our customers, with 75 per cent of turnover generated by 20 key customers. Consequently, our building business ended the year in a healthy position, having orders for 75 per cent of planned turnover for 2004 and 50 per cent of planned turnover for 2005, either secured or probable.

Our Building Developments business once again delivered excellent results by pursuing its strategy of specialising in the regeneration of brown field sites and developments where risk is minimised through pre-letting or sale to occupiers in sectors where there is continuing demand.

Capital Projects

The M6 Toll, one of the UK's largest ever road projects and which accounted for the majority of our UK civil engineering activity, was completed six weeks ahead of schedule in December 2003.

Our contract to build the infrastructure for the Nottingham Express Transit PPP project has also been completed and following a period of successful shadow running, the tram system is now fully operational.

In 2003, we won our first road construction contract under the UK Government's Early Contractor Involvement (ECI) programme – the *£65 million upgrade to the A74 in Cumbria to motorway standard.* We are specifically targeting the ECI and PPP programmes, under which some £11 billion of projects are planned over the period 2000 to 2010, because these procurement methods meet our risk management criteria. ECI contracts involve the development of a detailed design before the project moves into construction, which in the case of the A74 is scheduled for 2006. Our appointment as the preferred bidder for the A249 Design, Build, Finance and Operate PPP concession, which reached financial close early in 2004, is expected to generate over £100 million of construction work for the Group over the next three years, starting in 2004.

Our international regional businesses in Canada, the Middle East and France all performed well in 2003, as they continued to implement their strategy for growth, which mirrors our UK strategy. We made particularly good progress in Canada, where Government procurement is following the UK model for Public Private Partnerships (PPP) and for outsourcing infrastructure services. As well as our successes in the PPP health market (see Business Services, page 10), we also won two more highways maintenance contracts in Ontario, worth a total of £40 million.

6 Sovereign Harbour in Eastbourne is the largest composite marina development in the UK. The 300 acre site includes housing, retail and leisure developments around a series of harbours with berths for over 1,000 leisure craft.

7 The new Marks and Spencer headquarters and store being built by Carillion is part of the 80 acre, £500m Paddington Basin redevelopment in London. Designed by the Richard Rogers Partnership, this new 21,000m^2 building will feature an 11 storey high work of art.

By continuing to focus on project selectivity and operational efficiency, Crown House significantly improved its performance in 2003 and ended the year trading profitably with a strong order book.

Accounting policies
During the year, Financial Reporting Standard 5 Application Note G: 'Revenue Recognition', became effective. A review of the Group's revenue recognition policies was undertaken in the light of this and the Board considers the Group's existing revenue recognition policies to be consistent with the requirements of the Application Note.

Details of the Group's key accounting policies can be found in Note 1 to the financial statements.

International Financial Reporting Standards (IFRS)
On 29 September 2003, the European Commission adopted a Regulation endorsing existing International Financial Reporting Standards (IFRS) and Standing Interpretation Committee Guidance, with the exception of those relating to financial instruments. The adoption of this Regulation confirms the requirement for the compulsory use of IFRS from 2005.

The Group continues to implement its strategic plan for transition to IFRS developed in 2002. This has involved identifying the major differences between existing accounting policies and the policies and principles that will apply under IFRS in 2005. The major differences identified to date include:

- pension costs (accounting along the lines of FRS 17),
- share based payment (accounting for the fair value cost of share option schemes), and
- segmental disclosures (in line with internal reporting structures).

During 2004, the Group will be rolling out a programme of training for staff, revising systems and procedures, and restating comparative information. This will enable the Group to report the effect of the transition to IFRS on the 2004 financial statements during the first half of 2005.

Treasury policy and risk management
The Group has a centralised treasury function whose primary role is to manage funding, liquidity and financial risks. In addition, treasury provides contract bond and guarantee facilities to the Group. Treasury is not a profit centre and does not enter into speculative transactions. The Board of Directors sets policies within which Treasury operates that ensure the most effective financing of the Group's operations and limit exposure to financial risk.

The Group has access to committed credit facilities totalling £168.5 million, which mature in 2005. At 31 December 2003, £121.6 million remained un-drawn under these facilities.

The areas of significant financial risk exposure facing the Group relate to liquidity, foreign exchange and interest rates.

Funding and liquidity
The Group's policy is to avoid carrying significant net debt over the medium term. Carillion plc's principal borrowing facilities are provided by a group of core relationship banks in the form of syndicated and bi-lateral loans and short-term overdraft and money market facilities of which £161 million are committed facilities. Finance and operating lease facilities are also employed to fund longer-term assets. The quantum of committed borrowing facilities available to the Group is regularly reviewed and is designed to exceed the Group's forecast peak gross debt position.

Currency risk
The Group hedges all significant currency transaction exposures using forward foreign exchange contracts. In order to protect the Group's balance sheet from the impact of exchange rate volatility, a majority proportion of currency net assets are hedged using matching currency loans or forward foreign exchange contracts. Profits arising within overseas subsidiaries are not hedged unless it is planned to make a distribution. Such distributions are then treated as currency transactions and hedged accordingly.

Interest rate risk
Borrowing facilities are designed primarily to finance short-term working capital requirements and are at floating rates of interest linked to LIBOR. The Group has not entered into interest rate derivatives to fix or hedge interest rate risk and none are outstanding. Certain longer-term assets have been financed using fixed rate leases.

Carillion has equity in a number of joint venture Special Purpose Companies (SPC), which have concession contracts for Public Private Partnership Projects. SPCs obtain funding for these projects in the form of long-term bank loans or corporate bonds on a non-recourse basis to the joint venture partners and secured on the assets of the SPC. A number of SPCs have entered into interest rate derivatives as a means of hedging interest rate risk. These derivatives are interest rate swaps that fix the rate of interest payable.

Performance management
As well as routine business planning, budgeting and quarterly forecasts, the Group employs a number of comparative measures for assessing the performance of its business units. These include long-term contract profit and cash performance against original estimates, margin and net operating asset performance targets, internal rates of return on UK PPP and other investments versus the Group's weighted average cost of capital and controls over PPP bid costs by reference to expected future discounted cash flows. The primary tools in working capital management are outstanding debtor and trade creditor days.

Going concern
The Directors confirm that, after making enquiries, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Chris Girling
Finance Director, 10 March 2004

Becoming a more sustainable business
Delivering sustainable profitable growth through responsible business practice is driven by the Board, which is supported by a Sustainability Committee and a Group Safety Committee. Although improving Health and Safety is a fundamental part of sustainable development, having a separate Board committee for this aspect of our performance reflects the fact that the Health and Safety of our people will always be of paramount importance.

One of our core values is the delivery of sustainable profitable growth. We were therefore delighted to receive Business in the Community's (BITC's) 'Company of the Year' award in 2003 – its top award for Corporate Social Responsibility.

In 2003, Carillion was again the leading company in its sector in BITC's Corporate Social Responsibility Index and was ranked 33 out of the 139 companies that took part, which included 56 FTSE 100 companies and 49 from the FTSE 250.

Creating a more sustainable business is not only an important part of risk management, but increasingly a differentiator that is helping us to win more work and deliver better services to all our customers.

Our commitment to applying the principles of sustainable development began almost ten years ago. Since then, we have sought to understand, measure and improve our impacts on the environment and society and we have published our targets and performance annually. A copy of our 2003 Sustainability Report can be found on our website at www.carillionplc.com/sustainability.

Understanding how the principles of sustainable development benefit our business is fundamental, because if these principles are not economically sustainable they are not sustainable. We have therefore continued to develop the strategy model we first published in 2001, where we identified the key performance indicators that both improve our impacts on the environment and society and help us to deliver our business objectives.

1 We continue to be members of Business in the Community's Per Cent Club by contributing the equivalent of over one per cent of our profits to environmental and community initiatives. At the Graisley Primary School in Wolverhampton, a Carillion team transformed a disused medical room into a Sensory Room for the children.

2 In recognition of Carillion being Business in the Community's (BITC) 'Company of the Year' in 2003, it's top award for corporate social responsibility, Carillion Chief Executive, John McDonough, attended a reception hosted by HRH The Prince of Wales, President of BITC.

3 Horsepower makes a return to a sensitive woodlands development in Cumbria. Carillion Transport brought in a rare breeds Cumberland fell pony to haul timber during forest replanting near Killington Lake Services on the M6. Although part of the site was accessible by tractor, other areas needed more careful haulage to avoid damage to the woodland and wildlife. 4,000 saplings of native species, including cherry, oak, holly and rowan were planted.

In 2003, we focused on deepening our understanding of the links between sustainable development and the delivery of our corporate business objectives and set six sustainability objectives for the Group.

- Communicate and share our sustainability strategy, vision and policy with all and continually improve the way in which we engage with our stakeholders
- Minimise negative impacts of our services and activities on the environment
- Reduce waste production across the Group
- Reduce energy consumption across the Group
- Demonstrate the business case for sustainability
- Engage our supply chain in our sustainability programme to improve its sustainable development performance and help us to achieve our targets

We aimed to meet these objectives through delivering 18 specific targets. Our average score against these targets was 92 per cent compared with the 93 per cent we achieved against the targets we set in 2002. This slight reduction in performance does not reflect any weakening of our commitment, but rather the increasingly challenging targets we set year on year.

Supporting the environment
Ninety five per cent of Carillion's activities are now covered by Environmental Management Systems accredited to ISO14001 and we are pleased to report that during 2003 we had no environmental or ethical prosecutions.

In 2003, we focused on improving three areas of our performance in particular, namely biodiversity, the management and minimisation of waste and the materials we use.

Investigating the feasibility of creating a biodiversity action plan was one of our key targets. A guidance note has been produced on how such a plan can be developed and implemented and we intend to adopt this on a trial basis in 2004.

We also continued to work with a wide range of environmental organisations to improve our understanding, skills and practices. This included conservation projects in conjunction with The Wildlife Trusts, with whom we have been working in partnership since 2001. To date we have sponsored 14 conservation projects with the aim of creating links with local communities that give these communities and our own people opportunities to work together to deliver these projects by working together.

To develop our strategy for waste, we have been investigating how we can move forward from just managing waste to include the work we are doing to minimise waste and ultimately to achieve 'zero waste'. This highly aspirational objective is encouraging us to seek new levels of innovation and efficiency, an approach we are hoping to incorporate into the long-term objectives we are implementing in 2004.

Applying the principles of sustainable development effectively to the use of materials means working closely with our supply chain partners. One of the most pressing issues we need to address is the procurement of timber. Our policy is to procure timber from sustainable sources for all our UK projects. However, this is not straightforward when timber is purchased by others in the supply chain. Consequently, we have been working with Greenpeace and the WWF95+ Group to define the basic principles we need to adopt in order to help ensure that our policy is followed by our suppliers and sub-contractors.

Reducing carbon emissions and energy consumption continue to be important objectives. We reduced carbon emissions from our vehicle fleet by a further five per cent in 2003 and our head office carbon emissions have reduced by over 30 per cent.

4 Carillion continues to work in partnership with The Wildlife Trusts. Since 2001, we have financially sponsored 14 conservation projects around the UK and created opportunities for our own people to work with local communities to deliver these projects. Pictured here is Councillor Joan Williams, with some of the team involved in our project with the Staffordshire Wildlife Trust to protect endangered water voles on the Wom Brook in South Staffordshire.

Supporting people and communities
Almost everything we do affects people and the communities in which we operate.

Consequently, one of our key targets in 2003 was to create a new community policy and framework of guidelines, which build upon our current experience and which can be applied consistently across all our activities. Working with the support of Natural Step and Business in the Community, we have made progress towards developing a better understanding of how our business affects communities and wider social issues and how we can create more positive impacts. We aim to finalise and implement our new policy and guidelines in 2004.

As a member of the Business in the Community's 'Per Cent Club', we continue to contribute one per cent of our profits in cash or in kind to supporting environmental and community initiatives.

Carillion Construction Training is a UK leader in training and providing people with the skills they need to work in our industry, including brickwork, carpentry and joinery, plastering and painting and decorating. We train more Modern Apprentices than any other single organisation, with around 1,800 apprentices in training at anyone time and some 800 qualifying every year with our Construction Training NVQ.

The quality of our people is an important differentiator and key to our success. Their skills and commitment provide the vital link between our strategic intent and front line delivery. Consequently, attracting, developing and retaining excellent people to become an employer of choice are high on our list of corporate objectives. In 2003, we set a target to help us develop our employees to achieve their full potential through providing all our people with personal one-to-one performance appraisals. These appraisals include assisting people to understand and implement sustainability principles. Some 78 per cent of our staff received personal appraisals in 2003 and we shall be striving to raise this to 100 per cent in 2004.

5 Carillion is one of the UK's leading providers of training for the construction industry. Each year some 800 Modern Apprentices qualify with our Construction Training NVQ from our 18 UK training centres.

6 The Carillion Academy, our resource centre of learning excellence, provides a broad range of training and development courses for our people. The Academy ensures that all our people have access to high quality training tailored to the needs of our businesses.

Health and Safety
The Health and Safety of our employees and all those affected by our activities remains paramount. First class Health and Safety performance is also essential to the delivery of our strategy for sustainable profitable growth.

We therefore have an ongoing and determined commitment to improve our own performance and that of our industry by working with others, including the Health and Safety Executive, to develop and implement best practice into everything we do.

Across the Group in 2003, there were 350 injuries reportable under the Reporting of Injuries, Diseases an Dangerous Occurrences Regulations for a population of 40,000 people, including direct employees and subcontractors. Our Accident Frequency Rate (AFR) reached its lowest ever level of 0.34 per 100,000 hours in 2003, compared to 0.45 in 2002 when we had 408 reportable injuries. We therefore expect our performance to once again rank with the best in our industry.

Despite this improvement in our AFR, tragically there were three fatalities and 66 major injuries in 2003. In February 2004, four of our people were killed and four others injured in an accident on the West Coast Main Line railway, which is still the subject of formal independent investigations. Following this fatal accident and those in 2003, the deep sense of shock and sadness felt by all our people has redoubled our commitment to Health and Safety. Our challenge is to turn that absolute commitment into further real and measurable progress so that our people can work safely wherever they are.

Accident profiles are regularly analysed to identify better control measures to reduce accidents. For example, hand injuries were identified as a particular problem and a campaign was mounted to increase awareness and ensure that our people wear protective gloves in appropriate circumstances. This resulted in a 34 per cent reduction in hand injuries.

Our Health and Safety strategy in 2003 focused on the four target areas highlighted below, which were selected as a result of analysing accidents and incidents. We also aligned as many of our improvement targets as possible with current Health and Safety Executive campaigns to take full advantage of their promotional benefits. We made significant progress in all four areas.

Behavioural Safety
We recognise that we need to identify the behaviours that are likely to lead to accidents and address the root causes of these behaviours. All our business groups have developed and put in place behavioural safety plans, which address their specific business needs.

Safety by Design
We aim to eliminate hazards through the design process. A training programme has been implemented across the Group and 'Safety by Design' audits are now in place on all our major construction projects.

Accident Investigation
Improving our accident and investigation processes to identify the causes of accidents is an ongoing priority. In 2003, we introduced an improved protocol and new procedures, supported by training.

Occupational Health
Although health has always been an important part of our Health and Safety programme; we have increased its priority. A dedicated team has been created to promote awareness of occupational health, revitalise our health screening programmes and produce easy to use advice on occupational health.

Carillion has also been actively involved in producing Health and Safety information for internal and external use on a number of other specific areas, including working at height, workplace vehicle control, manual handling and hand-arm vibration syndrome. Carillion sites have acted as mentors for the Construction Industry Training Board scheme to produce a 'Good Practice Guide' for non-English speakers, and we participated in a project funded by the Health and Safety Executive to produce guidance for supervisors on the management of health on construction sites.

This summary is an outline of the progress we have made in the past 12 months. You can find out more from our detailed Sustainability Report 2003 on our website.

www.carillionplc.com/sustainability

The Board of Directors

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01 Sir Neville Simms
02 John McDonough
03 Chris Girling
04 Roger Robinson
05 Jean-Paul Parayre
06 Roger Dickens CBE DL
07 Andrew Parrish

Sir Neville Simms
Chairman, age 59.
Sir Neville's career has been spent in the construction industry having originally joined Tarmac in 1970, and going on to become Chief Executive in 1992 and Deputy Chairman in 1994. Sir Neville is also Chairman of International Power plc, a Director of Foundation for the Built Environment, and was until May 2002 a Member of the Court of the Bank of England. Sir Neville was appointed to the Board of Carillion plc in May 1999 and is Chairman of the Sustainability Committee and the Nominations Committee. He is a Chartered Engineer.

John McDonough
Chief Executive, age 52.
John was formerly Vice President, Integrated Facilities Management, Europe, the Middle East and Africa of Johnson Controls Inc. He was appointed as Carillion's Chief Executive in January 2001 and is a member of the CBI's Public Services Strategy Board. John was also appointed on 1 February 2004 as a non-executive director of Exel plc.

Chris Girling
Finance Director, age 50.
Chris was previously Group Finance Director of Vosper Thornycroft Holdings plc. He was appointed to the Carillion plc Board in November 1999. Chris is also a non-executive director of Barlow Group Limited, and is a Chartered Accountant and a Master of Business Administration.

Roger Robinson
Construction Services Director, age 52.
Roger joined Tarmac Construction as Contracts Director in 1989 subsequently becoming in 1996 Managing Director of Tarmac Civil Engineering, International and Rail. Roger was appointed to the Board of Carillion plc in May 1999 and has Groupwide responsibility for Construction and Health and Safety matters. He is a member of the Government Taskforce on Modern Apprenticeships and is a Fellow of the Institution of Civil Engineers.

Jean-Paul Parayre
Senior Independent Non-Executive Director, age 66.
Jean-Paul was appointed to the Board in May 1999 and is a member of the Audit, Remuneration and Nominations Committees. Jean-Paul is also Chairman of Vallourec S.A., a Director of Bollore Investissement, Stena UK, Stena Line and a Supervisory Board member of Peugeot S.A.

Roger Dickens
Non-Executive Director, age 56.
Appointed to the Board in May 2000, Roger is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees. Roger is the former Chairman of iSOFT Group PLC and is the current Chairman of West Bromwich Building Society and ASSA Training and Learning Limited. Roger is also a Director of Headlam Group plc. He is a Chartered Accountant.

Andrew Parrish
Non-Executive Director, age 58.
Andrew joined the Board in March 2000 and is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He was previously Group Chief Executive of Senior plc and is a member of the CBI's Manufacturing Council. He is also Chairman of the National Stud. Andrew is a Chartered Engineer.

General principles
The Board is firmly committed to high standards of corporate governance. During the year to 31 December 2003, the Company, as detailed below and in the Remuneration Report, complied with the provisions set out in Section 1 of the Combined Code other than in respect of the duration of two of the Executive Directors' service contracts. For the information of shareholders, so far as possible the Company, in this report and the Remuneration Report, also reports against the relevant provisions of the revised Combined Code which will come into effect for reporting years beginning on or after 1 November 2003.

In accordance with the Combined Code, the Chief Executive's service contract is terminable by one year's notice. The service contracts of Chris Girling and Roger Robinson are terminable in normal circumstances by two years' notice. These two-year contracts were entered into in good faith at a time when contracts of such a period were usual. The Board does not consider it appropriate to negotiate shorter periods, particularly as it has been the practice of the Group to require mitigation in the event of termination. It is likely that any new appointments will be made on the terms of one year's notice or on a longer period reducing within a defined interim period to one year.

Ethics and Business Integrity Policy
Carillion has a clear and unequivocal approach to business integrity and ethics which underlies the Group's values of openness, collaboration, mutual dependency, professional delivery, focus on sustainable, profitable growth and innovation. The policy requires Carillion to conduct its business to the highest ethical standards. It applies to all employees and the way Carillion delivers this policy is and will be reflected in the way the Group competes for business, through the quality and value of its work and the reputation of its employees.

The requirements of the policy are in summary:

- Business Integrity: we do not sanction or accept any illegal payments, allowances, or gifts-in-kind.
- Mutual Respect: we treat our people fairly and with respect at all times, avoiding discrimination and bullying. We provide a safe and healthy working environment, and respect sustainable principles in all our dealings.
- Trust: we engender trust within our work groups and companies, respecting diverse traditions and cultures. We respect the trust placed in us by others, not least when we are asked to take responsibility for aspects of their business or resources. We demand and maintain high professional standards and demand honesty and openness.
- Legality: we respect the rule of law in all our dealings. We maintain a system for confidential reporting of breaches of our standards and policies.
- Human Rights: we support the belief that human rights are universal and adhere to the principles of human rights in our operations. We support the United Nations Declaration on Human Rights.

Directors

The Board
The Company is led by a Board comprising three Executive and four Non-Executive Directors. Throughout 2003, the Chairman and the Non-Executive Directors comprised more than half of the Board and this continues to be the case. With the exception of the Chairman, who previously was Group Chief Executive, each of the Non-Executive Directors is considered to be independent of management. They each have wide areas of experience and have no business or other relationship that could materially interfere with their independent judgement. Jean-Paul Parayre is the Senior Independent Non-Executive Director.

A detailed internal review of the Board's structure, membership, procedures and effectiveness was conducted in 2003 by the Chairman in conjunction with the Company Secretary. The review took into account the views and preferences of each of the Directors and identified a number of areas where it was possible further to enhance the effectiveness of the Board's procedures and working practices. Changes were successfully introduced in those areas. This is the second year that such a review has taken place and it will be repeated annually. Additionally, reviews of the performance of the Directors and of the Board have taken place.

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Board and encompasses the following parameters:

- the primary job of the Chairman of a public company is to provide continuity, experience and governance while the Chief Executive provides leadership, energy, imagination and the driving force;
- the Chairman is viewed by investors as the ultimate steward of the business and the guardian of the interests of all the shareholders. Nonetheless, it is essential that the outline of their respective roles encourages the Chairman and Chief Executive to work well together to provide effective and complementary stewardship;
- the Chairman must:
  - take overall responsibility for the composition and capability of the Board;
  - consult regularly with the Chief Executive and be available on a flexible basis for providing advice, counsel and support to the Chief Executive.
- the Chief Executive must:
  - manage the Executive Directors and the Group's day to day activities;
  - prepare and present to the Board strategic options for growth in shareholder value;
  - set the operating plans and budgets required to deliver the agreed strategy;
  - ensure that the Group has in place appropriate risk management and control mechanisms.

The Board has a programme of seven meetings during the year and also meets on an ad hoc basis as required. A formal schedule of matters reserved to the Board for consideration and decision is maintained. The matters so reserved include:

- statutory matters such as the approval of final and interim financial statements and the recommendation of dividends;
- appointments to and removals from the Board and the terms of reference and membership of Board committees;
- approval of Group strategy and annual budgets;
- approval of authority levels, financial and treasury policies;
- authorisation for any acquisition or disposal;
- review of the internal control arrangements and risk management strategies; and
- review of corporate governance arrangements.

All Directors have access to the Company Secretary, who is responsible to the Board for ensuring that agreed procedures and applicable rules and regulations are observed. The appointment and removal of the Company Secretary are matters for the Board as a whole. Any Director may, in furtherance of his duties, take independent professional advice when necessary, at the expense of the Company.

The Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on other trading matters, markets, sustainability and other relevant issues.

Board Committees
The principal Board committees are the Remuneration Committee, the Audit Committee and the Nominations Committee. The Company Secretary acts as Secretary to each of these committees. The membership of each of the principal committees is as follows:

Remuneration Committee
Andrew Parrish, Chairman
Roger Dickens
Jean-Paul Parayre

The Committee consists entirely of independent Non-Executive Directors and has a key role in reviewing and advising the Board on the appropriate remuneration for the Executive Directors of Carillion plc. Further details on remuneration issues are given on pages 26 to 33.

Sir Neville Simms stood down from the Remuneration Committee on 9 September 2003.

Audit Committee
Roger Dickens, Chairman
Jean-Paul Parayre
Andrew Parrish

Sir Neville Simms stood down from the Audit Committee on 9 September 2003.

This Committee now consists entirely of independent Non-Executive Directors. For further information see the Report of the Audit Committee on page 23.

Nominations Committee
Sir Neville Simms, Chairman
Roger Dickens
Jean-Paul Parayre
Andrew Parrish

This Committee also comprises all Non-Executive Directors, the majority of whom are independent, under the chairmanship of Sir Neville Simms. It reviews the Board structure, size, composition, balance of skills, knowledge and experience of the Board and makes recommendations to the Board with regard to any changes that are deemed desirable. The Committee also reviews succession planning to ensure that processes and plans are in place with regard to both Board and senior appointments.

Whilst no Board appointments were made in 2003, the Committee has previously used an external search consultancy for this purpose.

The terms of reference of each of these committees are available on the Carillion website at www.carillionplc.com or on request from the Company Secretary.

Attendance at meetings in 2003

Each Director attended all meetings of the Board in 2003, save that Mr Robinson was unable to attend the January meeting, and Mr Dickens the October meeting, in each case as a result of illness.

The following tables show the attendance of Committee members at meetings of those Committees during the year ended 31 December 2003:

Audit Committee

Date of meeting	10 March 2003	4 September 2003	9 December 2003
	Roger Dickens	Roger Dickens	Roger Dickens
	Jean-Paul Parayre	Andrew Parrish	Jean-Paul Parayre
	Andrew Parrish	Sir Neville Simms	Andrew Parrish
	Sir Neville Simms		

Remuneration Committee

Date of meeting	28 January 2003	11 March 2003	8 December 2003
	Andrew Parrish	Andrew Parrish	Andrew Parrish
	Roger Dickens	Roger Dickens	Roger Dickens
	Jean-Paul Parayre	Jean-Paul Parayre	Jean-Paul Parayre

Nominations Committee

Date of meeting	*16 December 2003*
	Sir Neville Simms
	Roger Dickens
	Jean-Paul Parayre
	Andrew Parrish

Other Board matters

Policy on external appointments

Recognising that external appointments can broaden their knowledge and so be of benefit to the Company, Executive Directors are permitted, at the discretion of the Board, to accept a limited number of such appointments and retain the fees received for such appointments. John McDonough and Chris Girling have such appointments as Non-Executive Directors of Exel plc and Barlow Group Limited respectively.

Nomination and remuneration of Directors

The appointment of a Director is a matter for resolution by the Board as a whole, taking advice from the Nominations Committee.

In the case of Non-Executive Directors, initial appointments are normally for three years; re-appointment is subject to review and is not automatic. As an exception to this, the Chairman has a service contract which commenced on 1 February 2001 for a period of two years and which now continues by agreement unless and until terminated by either party giving one year's notice.

The fees of Non-Executive Directors are determined by the Board as a whole, taking into account the commitment required and participation in the work of committees and other advisory services in relation to the business of the Group. In advising the Board on such fees, it is the policy of the Executive Directors to seek independent external advice concerning the appropriateness of the amounts by comparison with general practice. The level of fees currently payable to the Non-Executive Directors is based on independent external advice.

The remuneration of the Directors is dealt with in the Remuneration Report on pages 26 to 33.

Retirement of Directors by rotation

The Articles of Association of the Company provide that each Director shall retire from office and shall be eligible for re-election at the third Annual General Meeting after the meeting at which he was elected or last re-elected.

All Directors appointed by the Board are subject to retirement and election by shareholders at the first Annual General Meeting following such appointment.

The Directors retiring and seeking re-election at the Annual General Meeting to be held on 12 May 2004 are Sir Neville Simms, Jean-Paul Parayre, Roger Dickens and John McDonough.

The service contract of John McDonough and the terms and conditions of appointment of Sir Neville Simms, Jean-Paul Parayre and Roger Dickens are available for inspection at the registered office of the Company during normal business hours on any weekday (bank holidays excepted) and at the Annual General Meeting.

Induction and development of Directors
An induction schedule for new Directors has been reviewed and approved by the Board. The schedule ensures the provision of information on the role of a Director of a listed company and summarises responsibilities and ongoing obligations under legislation, regulation and best practice. It also ensures that the operations of the Carillion Group are understood by new Directors.

The regular updating of Directors' skills and knowledge is encouraged and a procedure has been established whereby the Company Secretary is notified by Directors of their requirements in this respect.

Relations with shareholders
In addition to communicating with shareholders generally from time to time, the Executive Directors meet regularly with representatives of major shareholders in order to foster the mutual understanding of objectives. The details of these meetings are reported to the Board. The Chairman and the Senior Independent Director, Mr Parayre, are available for meetings with representatives of major shareholders as required.

Private and institutional shareholders are encouraged to attend the Company's Annual General Meeting.

The Company complies fully with the provisions of the Combined Code in respect of the notice, content of agenda and conduct of its Annual General Meetings. It also sets out to comply fully with the provisions of the revised Combined Code in this respect. The Chairmen of the Remuneration and Audit Committees will be present at the Annual General Meeting on 12 May 2004 to respond to shareholders' questions.

Accountability and Audit

Report of the Audit Committee
The Audit Committee now consists entirely of independent Non-Executive Directors:

Roger Dickens, Chairman
Jean-Paul Parayre
Andrew Parrish

Roger Dickens is a chartered accountant who is Chairman of West Bromwich Building Society and who formerly served on the Audit Committee of Tarmac plc. Roger was appointed to the Audit Committee in May 2000.

Jean-Paul Parayre is Chairman of Vallourec S.A. and was formerly a member of the Audit Committee of Tarmac plc. Jean-Paul became an Audit Committee member in July 1999.

Andrew Parrish was previously Chief Executive of Senior plc, is a member of the CBI's Manufacturing Council and is also Chairman of the National Stud. Andrew was appointed to the Audit Committee in March 2000.

Appointments to the Committee are made by the Board.

The Audit Committee has in attendance at meetings, by invitation of the Committee, Executive Directors, representatives of the external auditors, (KPMG Audit Plc), and the Head of Internal Audit. It is also able to invite others as it requires from time to time. The Committee also meets privately with both the external and internal auditors.

The responsibilities of the Audit Committee include:

- the review of the annual and interim financial statements;
- consideration of the impact of changes to accounting regulations and the financial and accounting policies of the Carillion Group;
- compliance with statutory and other external requirements;
- reviewing the role of the internal audit function and the results of its audit work and the response of management;
- reviewing the scope and results of the external audit and its cost-effectiveness;
- ensuring that the internal and external audit functions are complementary;
- monitoring the independence and objectivity of the external auditors and ensuring that the services provided (including non-audit services) provide a proper balance between objectivity and value for money;
- recommending to the Board the external auditors to be proposed to shareholders for appointment.

The Committee is authorised by the Board to (i) seek any necessary information to fulfil its duties (ii) call any member of staff to be questioned at a meeting of the Committee as and when required and (iii) obtain outside legal help and any professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties.

The members of the Committee receive fees for their Non-Executive Directorships which reflect their membership of the Audit Committee and other Board committees. See page 27 for details.

Main activities of the Audit Committee in the year to 31 December 2003

Financial statements

The Audit Committee reviews and discusses with management and the external auditors the annual and interim statements. In this context, the Committee also reviews the written reports of KPMG on issues arising from the annual audit and the review of the interim results.

Internal controls

The Board is ultimately responsible for the Group's system of internal control. This responsibility includes clearly determining the control environment and reviewing annually the effectiveness of the internal control system. However, such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

In accordance with the Turnbull Guidance for Directors Internal Control: *Guidance for Directors on the Combined Code*, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks (both financial and non-financial) faced by the Group (including joint ventures and overseas businesses). The process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts and is regularly reviewed by the Board.

Assurance over the design and operation of internal controls across the Group is provided through a mix of techniques:

- Internal Audit carries out audits to assess the adequacy and effectiveness of internal controls over the key risks faced by the business and reports its findings to management, the Executive Directors and the Audit Committee. The Audit Plan is presented to and approved by the Audit Committee annually;
- recommendations to improve the system of control are made by Internal Audit. The implementation of these recommendations is followed up and reported on quarterly;
- Internal Audit independently reviews the risk identification procedures and control processes implemented by management;
- a process of Control Risk Self-Assessment is used in the Group where Directors and senior managers are required to detail and certify controls in operation to mitigate risk in key process areas. They also confirm annually, in writing, that risk management processes and appropriate controls are in place and are operating effectively; and
- Internal Audit advises on aspects of the design and application of internal controls in key business projects and on policy and procedure changes.

Internal Audit reports to the Audit Committee on a regular basis. The Audit Committee reviews the assurance procedures and ensures that the level of confidence required by the Board is obtained. It also ensures the financial reporting process is credible and reliable. The Audit Committee presents its findings to the Board regularly and the Head of Internal Audit has direct access to the Audit Committee members.

The Group Head of Risk is responsible for advising on strategic risk issues across the Group, and for oversight of risk training. The Group Head of Risk is also responsible for carrying out an independent appraisal of all projects before submission to the Major Projects Committee (see below). This appraisal ensures that the differentiating factors of the Group's offer have been properly identified so maximising the opportunities available; it also involves ensuring that all inherent and residual risks associated with the project have been properly identified and considered.

The Major Projects Committee, a committee of the Board, acts as the sanctioning body for major commitments and transactions including capital expenditure, major contracts and company and business acquisitions and disposals. This committee has delegated authority up to specified levels, beyond which Board approval is required.

Practical guidance for all staff is maintained in Group policy and procedure documents regarding the authorisation levels for commitments, contract selectivity and bidding, the provision of guarantees and management accounting as well as reporting and resolution of suspected fraudulent activities. Wherever possible, the Board operates a policy of prosecuting individuals found to have defrauded the Company or its subsidiaries. Learning points for management are identified and action plans implemented to minimise the recurrence of fraud.

Employees are encouraged to raise genuine concerns about malpractice at the earliest possible stage and a confidential 'whistleblowing' hotline provided by an independent third party is available.

Management is responsible for the identification and evaluation of significant risks applicable to its areas of business together with the design, operation and monitoring of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources, including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements. Management is also responsible for timely and accurate reporting of business performance and for ensuring compliance with the policies set by the Board in its areas of business. Regular performance review meetings are held where management reports to the Executive Directors on business performance, risk and internal control matters. The results of these meetings are presented to the Board.

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Finance Director provides the Board with regular financial information, which includes key performance indicators (see the Operating and Financial Review on pages 8 to 13) and a summary of risk. Where areas for improvement are identified, the Board considers the recommendations made both by the Executive Directors and by the Audit Committee.

Audit independence

The Audit Committee and Board place great emphasis on the objectivity of the Group's auditor, KPMG, in their reporting to shareholders.

The KPMG audit director and manager are present at Audit Committee meetings to ensure full communication of matters relating to the audit.

The overall performance of the auditors is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided to senior members of KPMG unrelated to the audit. This activity also forms part of KPMG's own system of quality control. The Audit Committee also has discussions with the auditors, without management being present, on the adequacy of controls and on any judgmental areas. These discussions have proved satisfactory to date.

The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Audit Committee after discussions between the businesses and the local KPMG offices and are then referred to the Board for approval. Rotation of audit director's responsibilities within KPMG is required by their profession's ethical standards, is actively encouraged and has taken place. The current audit director responsible for the engagement has held his role for four years following the last rotation. There is also rotation within the audit teams.

Assignments awarded to KPMG and its associates have been and are subject to controls by management that have been agreed by the Audit Committee so that audit independence is not compromised. In summary, the procedures are:

- Audit related services: as auditors this is the main area of work of KPMG and its associates. If any additional accounting support is required then this is considered competitively;
- Tax consulting: in cases where they are best suited, Carillion uses KPMG and its associates but the Group also uses other tax consultancies. Significant pieces of tax work are evaluated competitively;
- General and systems consulting: all significant consulting projects are subject to competitive tender.

Other than audit, the Group Finance Director is required to give prior approval of work carried out by KPMG and its associates in excess of a predetermined threshold; part of this review is to determine that other potential providers of the services have been adequately considered.

These controls provide the Audit Committee with adequate confidence in the independence of KPMG in their reporting on the audit of the Group.

Health and safety

A review of the Group's progress on health and safety, environmental and social performance is contained in the Corporate and Social Responsibility section on pages 14 to 17.

R F Tapp
Secretary
10 March 2004

This report has been prepared in accordance with the Combined Code. For the information of shareholders, so far as possible the Company, in this report and the Corporate Governance Report also reports against the relevant provisions of the revised Combined Code which will come into effect for reporting years beginning on or after 1 November 2003.

The Board is responsible for determining policy for remuneration of the Directors of Carillion plc and key members of the senior management team. The Remuneration Committee comprises Roger Dickens, Jean-Paul Parayre and Andrew Parrish (Chairman), and is responsible for formulating policy and recommending to the Board the remuneration of the Executive Directors. Sir Neville Simms stood down from the Committee during the year. The Board determines the fees of the Non-Executive Directors based on independent external advice.

The Remuneration Committee is assisted in remuneration decisions by Susan Morton, Group HR Director and by John McDonough, Group Chief Executive.

Additionally, the Remuneration Committee uses The Monks Partnership (a business owned by PricewaterhouseCoopers LLP) to provide salary survey and benchmarking information. The Monks Partnership, which was appointed in 2001, has no other connections with the Company.

Remuneration policy
It is the policy of the Company to ensure that remuneration and other benefits attract, motivate and retain Executive Directors and senior managers of the required calibre to achieve the Board's objectives, including that of achieving growth in shareholder value. Remuneration and other benefits are determined with regard to competitive market practice and, where considered appropriate, are supported by external independent surveys. The main elements of remuneration of the Executive Directors are basic salary and pension benefits, together with annual performance bonuses linked to the Group's financial and share price performance to ensure that the interests of the Executive Directors are aligned to those of the shareholders. The Company intends to continue this approach to the structure of remuneration for the foreseeable future (subject to any changes in legislation with regard to pension provision).

The Group's remuneration policy is also based upon Carillion's strategic objectives, which specifically include achieving high standards in respect of sustainability, which encompasses Carillion's health and safety, environmental and social performance.

Service contracts
The Chief Executive's service contract is terminable by one year's notice from the Company. The other Executive Directors' service contracts are terminable in normal circumstances by two years' notice from the Company. The Combined Code sets as a principle that notice periods in Directors' contracts of service should be set at one year or less, or reduce to one year or less after an initial period. The Group's position to date has been that the two-year contracts which remain in place were entered into in good faith at a time when contracts of such a period had been acceptable and the Board does not consider it appropriate to negotiate shorter periods. In any event it has been the practice of the Group to require mitigation in the event of termination. It is likely that any new appointments will be made on the terms of one year's notice, or on a longer period reducing within a defined interim period to one year. Upon termination of their employment, Executive Directors of the Company have no additional entitlement to compensation for loss of their office as Directors. The service contracts contain provision for early termination.

Name	Commencement	Notice period	Term
John McDonough	1 January 2001	12 months	rolling
Chris Girling	13 September 1999	24 months	rolling
Roger Robinson	29 July 1999	24 months	rolling

Non-Executive Directors are not employed under contracts of service, but are generally appointed for fixed terms of three years renewable for further terms of one to three years if both parties agree. Each of the Non-Executive Director's appointments is presently in such renewed terms. As Chairman and in recognition of the associated responsibilities, Sir Neville Simms has a contract for services which commenced on 1 February 2001 for a period of two years and which now continues unless and until terminated by either party giving one year's notice.

Basic salary and other benefits
The basic salaries and other benefits of the Executive Directors are set by the Remuneration Committee and are determined taking into account individual performance and information provided by independent sources on the rate of salary for similar posts in comparable companies. The aim is to reward Directors fairly and competitively.

Other benefits typically include a company car, private healthcare and salary supplements (or contributions to a funded unapproved retirement benefit scheme (FURBS)) in place of approved pension provision for salary over the annual earnings cap.

Annual performance bonus and deferred bonus plan
Annual bonuses are reviewed each year by the Remuneration Committee, which sets performance targets geared to profit, key financial indicators and individual performance objectives. The Executive Directors have the potential to earn annual bonuses up to a maximum of 50% of their basic salary for outstanding performance. The bonus arrangement for 2003 set a financial performance target based on earnings per share and individual, detailed and confidential personal performance objectives that support the strategic objectives of the Company. The maximum bonus opportunity of 50% comprises an annual cash payment limited to 30% of salary with a deferred bonus of shares of the Company with a value of up to 20% of salary vesting after one year. The number of shares allocated is determined by the price prevailing at the date the bonus is confirmed and the amount by which the bonus earned exceeds 30% of basic salary at the end of the bonus year in question. The shares are released on the condition that the recipient makes funds available to the Company at the point of transfer to allow the Company to meet its tax and National Insurance obligations on the value of the shares transferred.

Pension benefits
The Group makes contributions to an Inland Revenue approved defined benefit scheme and, where applicable and where the individual has so elected, to FURBS on behalf of the Executive Directors. Alternatively, a payment equal to the contribution the Group would have made to the funded unapproved arrangement is paid to the Executive Director as a salary supplement. Contributions to the funded unapproved arrangements are reported as a benefit in kind on an annual basis. Salary supplements are taxed at source.

Directors' remuneration
The remuneration of the Directors of Carillion plc for the year ended 31 December 2003 is set out in the table below.

		Annual performance bonus				
£000	**Basic salary/fees**	**Cash payment**	**Value of deferred bonus shares**	**Other benefits**	**Total 2003**	**Total 2002**
Executive Directors						
John McDonough	385	116	–	118	619	616
Chris Girling	245	71	–	66	382	390
Roger Robinson	250	73	–	74	397	400
Total for Executive Directors	880	260	–	258	1,398	1,406
Non-Executive Directors						
Sir Neville Simms	150	–	–	27	177	178
Roger Dickens	38	–	–	–	38	30
John-Paul Parayre	38	–	–	–	38	30
Andrew Parrish	38	–	–	–	38	30
Total for Non-Executive Directors	264	–	–	27	291	268
Total for all Directors	1,144	260	–	285	1,689	1,674

The auditors are required to report on the information contained in the above table.

Included in 'Other benefits' are salary supplements in place of FURBS contributions for John McDonough of £96,247 (2002: £90,132) and Roger Robinson £Nil (2002: £12,147).

Contributions were payable to FURBS in respect of Chris Girling of £49,207 (2002: £46,906) and Roger Robinson of £50,887 (2002: £36,432).

John McDonough retains the fees of £40,000 per year that he is paid as a non-executive Director of Exel plc. Chris Girling retains the fees of £15,000 per year that he is paid as a non-executive Director of Barlow Group Limited.

Executive pensions
Until April 2003, it was the Company's policy to offer membership of the Carillion 'B' Pension Scheme to Executive Directors and other senior employees. This scheme was operational from 1 October 1999. The scheme is a funded, Inland Revenue approved, defined benefit scheme to which members contribute 7% of pensionable earnings. The main features are:

- pension payable at the normal retirement age of 60 (save in cases of ill health or early retirement)
- pension accrual rate for Executive Directors of 1/30th of final pensionable salary for each year of service targeting a pension (at normal retirement age) of two thirds of final pensionable salary (subject to twenty years' service after which employee contributions cease)
- increases to pensions in payment (in excess of the State Guaranteed Minimum Pension) in line with price indexation up to 5% per annum
- life assurance of four times pensionable salary
- pensions payable in the event of ill health, and
- on death (in service or after retirement), spouse's and/or dependent's pension at two thirds of member's pension.

Maximum pension benefits of two thirds of pensionable salary are offset by any pension benefits accruing from earlier pension arrangements.

The Carillion 'B' Pension Scheme was closed to new entrants with effect from 1 April 2003. Pension provision for senior managers and Executives is now through their existing Carillion scheme (for current employees) or the Carillion Pension Plan (for new employees and existing employees who opted for membership). The Carillion Pension Plan is a defined contribution pension arrangement that provides members with pensions at retirement based on the accumulated value of their notional pension account within the plan.

The current Executive Directors are subject to the Inland Revenue earnings cap and their pensionable salary is limited accordingly. They are provided with additional benefits by way of individual FURBS or a salary supplement equal to the contribution the Group would have made to a FURBS and with unapproved life cover of four times salary over the earnings cap. In all cases, any contributions made to these arrangements in respect of the year are disclosed separately above. As these additional arrangements are limited to the balance of basic salary in excess of the earnings cap, bonus paid to Executive Directors does not count towards pension benefits. The Company does not contribute to any pension arrangements of Non-Executive Directors.

Directors' pensions
Pensions accruing during the year to Executive Directors in their capacity as Directors of Carillion plc are set out below.

	Accrued pension at 31 Dec 03 £ per annum	Increase in accrued pension over year excluding inflation £ per annum	Increase in accrued pension over year including inflation £ per annum	Transfer value of increase in accrued pension at 31 Dec 03 less member contributions during the year £	Transfer value at start of year £	Transfer value at end of year £	Increase in transfer value over year after member contributions £
John McDonough	9,900	3,420	3,238	32,199	71,164	116,079	38,503
Chris Girling	13,750	3,490	3,203	28,679	102,606	147,913	38,895
Roger Robinson	43,832	3,865	2,643	26,646	461,087	538,390	70,891

The auditors are required to report on the information contained in the above table.

Share incentive schemes
The Company operates four share incentive schemes to motivate employees and to encourage them to invest in the future success of the Group. The Founders' Equity Plan, the Executive Share Option Schemes and the Long Term Incentive Plan all have challenging performance criteria which apply similarly to all participants. The Board believes that these schemes complement the strategy of achieving growth in shareholder value by directly aligning these incentives of the Executive Directors and senior employees to the interests of the shareholders. A Sharesave Scheme also operates to give UK employees the opportunity to have a financial stake in the Company.

The Founders' Equity Plan (FEP) is a one-off scheme which was established as an incentive for those employees capable of making a critical contribution to increasing shareholder value. The Executive Directors and certain senior managers were invited to join the FEP and invest a percentage of their basic salary in purchasing ordinary shares in Carillion plc. These shares, referred to as the Investment Shares, were purchased at an average market price of 137.74 pence per share. The Investment Shares are owned and controlled by the individual, who is free to choose whether to stay in the FEP or sell the shares at any time during the performance period. Where members of the FEP dispose of an element of their Investment Shares, the options they have been granted will be proportionately reduced.

For every Investment Share purchased, up to a maximum of four free shares can be awarded, subject to Carillion's share price performance. As the performance condition was not attained in the initial four year period, in accordance with the rules, the performance period is now the five years commencing 31 August 1999 and the performance condition has increased proportionately.

The benchmark share price against which performance will be measured is 138 pence, which was the mid-market price at close of business on 31 August 1999. At 31 August 2004, Carillion's average share price over the previous six weeks must have been at least 437.5 pence for the options to be exercisable in full. If the share price does not reach 221.5 pence, the options will not be exercisable. If the share price increases in between these two prices, options will become exercisable on a pro-rata basis. A nominal fee of £1 is payable on the exercise of options.

The performance condition which must be achieved before any free shares are allocated is challenging, but provides a real incentive to Directors and senior managers who can deliver increasing value for shareholders.

At 31 December 2003, Executive Directors and senior managers held a total of 1,390,653 Investment Shares and options over 5,562,615 shares. Those options not exercised by the tenth anniversary of their grant will lapse.

Executive Share Option Schemes

Share options have been granted to the Executive Directors and certain senior managers under two Executive Share Option Schemes. The options were granted at an exercise price equal to the market value of the Company's shares at the date of grant.

Options under the Inland Revenue Approved Executive Share Option Scheme 1999 (which carries certain tax advantages for UK employees) and the Executive Share Option Scheme 1999 are exercisable normally between three and ten years after the date of grant, subject to the achievement of the performance condition. For options granted between October 1999 and October 2002, the performance condition requires that the earnings per share of Carillion over a rolling three year period must increase by a percentage that is not less than the increase in the UK Retail Prices Index over the same period, expressed as a percentage, plus four percentage points per annum. This performance condition was selected in order to provide an incentive which aligns the interests of executives with those of shareholders in growing the Company's earnings per share. However, as this performance condition no longer complied with best practice, at the Company's AGM on 14 May 2003, shareholders were requested to approve, and did approve, that future options granted under both schemes become exercisable in accordance with the following table:

Average compound annual earnings per share growth (before exceptional items) in excess of RPI over the three year period following grant	Percentage of option that becomes exercisable
Less than 4%	0%
4%	30%
4% – 10%	30% – 100% (straight-line basis)
10% or more	100%

To the extent that the performance condition is not met in full at the end of the three year period following grant, there will be the opportunity for no more than one re-test of performance (from a fixed base) at the end of the following year.

The first grants of options using this new performance condition were made on 1 July 2003.

The aggregate value of options granted to an employee under the Executive Share Option Schemes cannot normally exceed their basic salary in any year without the prior approval of the Remuneration Committee.

At 31 December 2003, options were outstanding over 3,242,367 shares (2002: 2,068,486 shares) under both schemes at exercise prices ranging from 125.2 pence to 210.7 pence.

Long Term Incentive Plan
Conditional awards under the Long Term Incentive Plan are made to the Executive Directors and key members of senior management, in recognition of the contribution that these individuals can make to the Group's success.

There is no subscription price for the shares, the award of which is conditional on the Company's performance during a three-year period in delivering Total Shareholder Return (TSR) against a comparator group of ten companies in the Construction and Building Materials and Support Services sectors. The awards will vest in full only if Carillion achieves first place. If the Company's ranking is sixth, 30% of the awards will vest. If ranking is below sixth, none of the awards will vest. Conditional awards using this performance condition were made in the years 2000 to 2002.

However, as the Remuneration Committee considered that with a comparator group of ten companies, the removal of one company (through take-over or otherwise) would have a proportionately greater impact on the extent of the potential vesting of awards than would be the case if the comparator group was larger, shareholders at the 2003 AGM approved that future awards granted under the Long Term Incentive Plan would be subject to Carillion's TSR performance against an expanded group of 12 companies from the Construction and Building Materials and Support Services sectors, over the three years following grant. 30% of an award will vest at the median, with awards vesting in full for performance in the top 10% of the comparator group (with straight line vesting between these points).

The companies comprising the comparator group for Long Term Incentive Plan conditional awards made in January 2001 are Amec plc, WS Atkins plc, Balfour Beatty plc, Interserve plc, Jarvis plc, Kier Group plc, Alfred McAlpine plc, Mowlem plc and Taylor Woodrow plc. (Amey plc was in the comparator group but was removed as it delisted from the London Stock Exchange in June 2003.) The same comparator group is also used for the conditional awards made in 2003 with the addition of Morgan Sindall plc, John Laing plc and Serco plc.

The first awards with this performance condition were made on 1 July 2003.

The performance conditions were chosen in order to align the interests of Directors and senior managers with those of shareholders in growing total shareholder return against comparator companies operating in similar sectors.

It is intended that conditional awards under the Plan will be made annually.

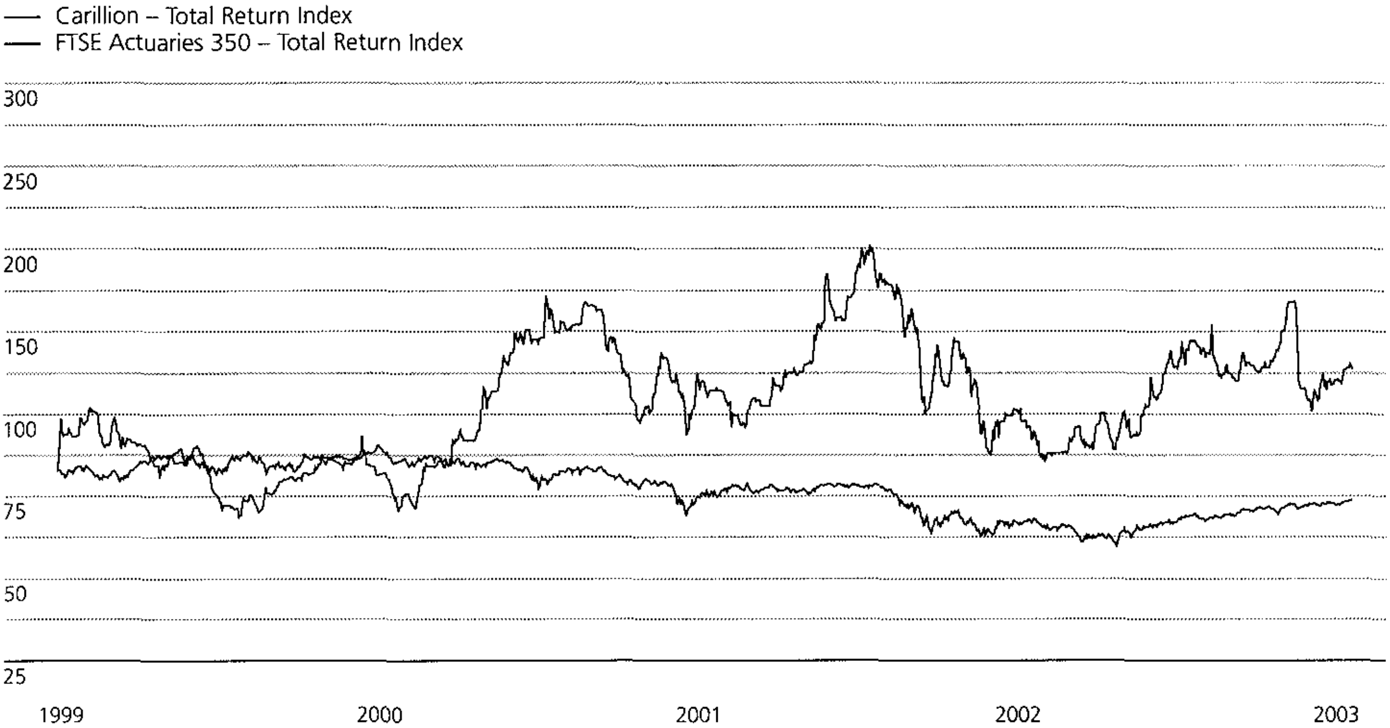
At 31 December 2003, conditional awards were outstanding over a total of 2,715,234 shares.

Conditional awards made to Executive Directors under these long-term incentive plans are set out in the table of share incentives below. The awards represent the maximum number of shares that could be awarded to Executive Directors under the performance periods commencing on 1 January 2001 and 1 July 2003. The monetary value of the conditional awards attributed to each Director was based on their annual basic salary at the date of award and the number of shares was calculated using the share prices of 120.3 pence and 162.1 pence, the average share prices over the six weeks immediately before the commencement of the respective performance periods.

Total Shareholder Return (TSR) Performance Graph

The following graph shows the TSR of Carillion plc compared with the TSR of the FTSE 350 Index for the period from 30 July 1999, the day dealings in Carillion shares commenced on the London Stock Exchange, to 31 December 2003.

Total Shareholder Return 30 July 1999 to 31 December 2003



The FTSE 350 was chosen as the comparator group in order to illustrate the Company's TSR performance against a broad equity market index of the UK's leading companies.

The Sharesave Scheme

The Company has established a Sharesave Scheme which provides a savings and investment opportunity for employees in the UK. *The options may normally be exercised on completion of a three or five year savings contract, at a price equivalent to not less than* 80% of the market value of the shares at the time of grant. Options were granted in November 1999 over 6,140,194 shares and in October 2002 over 3,995,803 shares.

The three-year options granted in November 1999 became exercisable on 1 January 2003 for a period of six months. Options over a total of 1,400,766 shares were exercised during the year.

At 31 December 2003, options over 4,839,716 ordinary shares of 50p each were outstanding under this scheme (2002: 7,302,280 ordinary shares of 50p each), exercisable on various dates up to June 2006 at exercise prices of either 109.1 pence or 126.6 pence.

Share incentives of Directors of Carillion plc

The number of awards or options held by Executive Directors of the Company under the Founders' Equity Plan or the Long Term Incentive Plans is detailed below:

	As at 1 January 2003	Conditional awards/options granted during the year	Lapsed	As at 31 December 2003	Date and mid-market price at date of award	
Sir Neville Simms						
FEP (maximum)	987,364	–	–	987,364	01.11.1999	125p
LTIP 2000 (maximum)	308,914	–	308,914	Nil	07.01.2000	112p
John McDonough						
LTIP 2001 (maximum)	270,157	–	–	270,157	09.01.2001	135.5p
LTI Agreement 2001 (maximum)	191,041	–	191,041	Nil	09.01.2001	135.5p
LTIP 2003 (maximum)	–	118,739	–	118,739	01.07.2003	159p
Chris Girling						
FEP (maximum)	580,804	–	–	580,804	01.11.1999	125p
LTIP 2000 (maximum)	183,142	–	183,142	Nil	07.01.2000	112p
LTIP 2001 (maximum)	187,032	–	–	187,032	09.01.2001	135.5p
LTIP 2003 (maximum)	–	75,561	–	75,561	01.07.2003	159p
Roger Robinson						
FEP (maximum)	609,844	–	–	609,844	01.11.1999	125p
LTIP 2000 (maximum)	191,968	–	191,968	Nil	07.01.2000	112p
LTIP 2001 (maximum)	191,188	–	–	191,188	09.01.2001	135.5p
LTIP 2003 (maximum)	–	77,103	–	77,103	01.07.2003	159p

The auditors are required to report on the information contained in the above table.

The number of options over Carillion plc shares held by Executive Directors of the Company under the Executive Share Option and Sharesave schemes is detailed below:

	As at 1 January 2003	Granted during the year	Exercised	As at 31 December 2003	Exercise price	Earliest date from which exercisable	Expiry date
John McDonough							
ESOS 2001	501,930	–	–	501,930	129.5p	09.01.04	09.01.11
ESOS 2002	254,532	–	–	254,532*	210.7p	07.01.05	07.01.12
ESOS 2003	–	188,494	–	188,494	163.4p	01.07.06	01.07.13
Chris Girling							
ESOS 2003	–	119,950	–	119,950	163.4p	01.07.06	01.07.13
Roger Robinson							
Sharesave	2,699	–	2,699	Nil	109.1p	–	–
ESOS 2003	–	122,398	–	122,398	163.4p	01.07.06	01.07.13

The auditors are required to report on the information contained in the above table.

*The option over 254,532 shares at an option price of 210.7p granted to John McDonough in March 2002 under the Executive Share Option Scheme 1999 was made later in the year than had been specified at the time of his appointment which resulted in an increased option price of 67.3p. Therefore, in order to ensure that he will be in no worse nor better a position as a result of the delay in the grant, a maximum cash adjustment of 67.3p per share (less tax) will be made when and if the option is exercised.

There have been no changes to the interests of Executive Directors in share incentives and options in the period 1 January to 10 March 2004. The performance conditions for the options shown in the table are as described under the summaries of the relevant schemes in this report and have been chosen for the reasons described in those paragraphs.

Employee Benefit Trusts

An employee benefit trust has been established to acquire shares in Carillion plc and hold them for the benefit of participants in the Founders' Equity Plan and the Long Term Incentive Plan. At 31 December 2003, the Trust held 4,892,592 Carillion shares (2002: 4,736,226 shares) (2.2% of the issued share capital and a nominal value of £2.5 million) acquired over a period in the open market for a consideration of £6.2 million. *The market value of the shares held at 31 December 2003 was £7.4 million* (2002: £5.3 million).

Additionally, a Qualifying Employee Share Ownership Trust (QUEST) operates in conjunction with Carillion in providing shares to employees under its Sharesave Scheme. At 31 December 2003, the QUEST held 1,313,936 Carillion shares (2002: 1,753,411 shares) (0.6% of the issued share capital and a nominal value of £0.7 million (2002: 0.8% and £0.9m)) at subscription prices of 117.5,115.5 and 155.0 pence per share, to enable it to satisfy, as and when required, options granted under the Sharesave Scheme. The market value of the shares held by the QUEST at 31 December 2003 was £2.0 million (2002: £1.9 million).

For details of dividends paid to the above trusts see Notes 15 and 24 to the Accounts on pages 55 and 62.

Directors' share interests

Ordinary shares

The beneficial interests of the Directors and their immediate families in the ordinary share capital of the Company are shown below:

Fully paid 50p ordinary shares owned:	**As at *1 January* 2003**	**As at *31 December* 2003**
Executive Directors		
John McDonough	374,976	386,682
Chris Girling	145,201	145,201
Roger Robinson	175,078	177,777
Non-Executive Directors		
Sir Neville Simms	427,041	427,041
Roger Dickens	22,043	22,043
Jean-Paul Parayre	153,349	155,007
Andrew Parrish	26,029	26,029

There has been no change in Directors' interests in the period 1 January to 10 March 2004.

The closing mid-market price of Carillion shares at 31 December 2003 and the highest and lowest mid-market prices during the year were as follows:

	Share price
31 December 2003	151.25 pence
High	186.5 pence (21 October 2003)
Low	111.5 pence (1 January 2003)

Approved by order of the Board

A R Parrish
Chairman of the Remuneration Committee
10 March 2004

The Directors of Carillion plc present their annual report, together with the audited financial statements for the year ended 31 December 2003.

Principal activities and business review
Carillion is one of the UK's leading Business and Construction Services groups, operating throughout the UK and in a number of overseas regional markets.

A review of the Group's businesses, financial performance and future developments is contained in the Chairman's Statement, Chief Executive's Review and Operating and Financial Review.

Analyses of turnover, results and net assets by business segment and geographical location are given in Note 2 on pages 46 and 47.

Profits and dividends
The consolidated profit and loss account is shown on page 38. The profit on ordinary activities before taxation amounted to £23.8 million (2002: £42.2 million). An interim dividend of 1.575 pence per ordinary share (2002: 1.5 pence) was paid in November 2003. It is proposed to pay a final dividend of 3.475 pence per ordinary share (2002: 3.3 pence), together with the additional dividend of 1.7p announced in November and due to Carillion's sale of its equity interest in the Darent Valley Hospital PPP concession, on 25 June 2004 to shareholders on the register at the close of business on 30 April 2004. The payment of these dividends amounts to £14.1 million (2002: £9.9 million).

A dividend reinvestment plan (DRIP) will also be offered.

Directors
The Directors of the Company who served during 2003 are shown on page 27 of the Remuneration Report. Biographical details for each Director at 31 December 2003 are given on page 19.

In accordance with the Articles of Association, Sir Neville Simms, Roger Dickens, John McDonough and Jean-Paul Parayre retire by rotation and, being eligible, offer themselves for re-election. John McDonough has a contract of service which is subject to a year's notice of termination by the Company.

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration Report on page 33.

Employees
Information relating to employee numbers and remuneration is given in Note 6 on page 49.

Employees are key to achieving Carillion's business strategy and the Group is committed to improving their skills through training and development and nurturing a culture in which employees feel valued for their contribution and are motivated to achieve their full potential.

In addition, Carillion's core values of openness, collaboration and mutual dependency have been developed to emphasise the changing working practices required to succeed in an environment where partnership and integrated solutions are becoming the norm.

It is the aim of Carillion to foster a working environment in which all employees are treated with courtesy, dignity and respect. Carillion continually strives to eliminate all bias and unlawful discrimination in relation to job applicants, employees, business partners and members of the public. Employees who become disabled are, wherever possible, retrained or provided with equipment so that they can continue their employment.

Carillion places great importance on open and regular communication with employees through both formal and informal processes. As part of this commitment, a Group newspaper, 'Spectrum', is produced on a regular basis for all employees. The views of employees on matters affecting their interests are also sought, and during the year a new initiative known as 'The Great Debate' was launched, under which a number of forums were held throughout the Group to encourage employees to express their views on a range of activities relating to their jobs and the Group. These views will be taken into account in the development of future work related initiatives as part of Carillion's strategy to become an employer of choice. Employees can also exchange best practice information on a Knowledge Management Forum on the Group intranet.

Involvement in the Group is also encouraged through means such as the periodic grant of share options under the Sharesave Scheme which gives all UK employees the opportunity to have a financial stake in the Company.

Carillion seeks to involve all employees in its leading edge programmes to integrate safety into everything it does and to improve its environmental performance, including the understanding and application of the principles of sustainability. Further information on Health and Safety, the Environment and Community is given in the Sustainability Review on pages 14 to 17.

Substantial share interests

At 10 March 2004, the Company had received formal notification of the following substantial interests in the ordinary share capital of the Company:

	Number of shares held	Percentage
Schroder Investment Management Limited	35,745,906	16.70
Fidelity Investment Services Limited	21,422,263	10.01
Morley Fund Management Limited	11,547,947	5.40

Policy for payment of suppliers
It is the policy of the Group that each business agrees terms and conditions for transactions with its suppliers and for payment to be made on these terms providing the suppliers meet their obligations to the businesses' satisfaction. The Group as a whole therefore *does not apply a general recognised code with regard to the payment of all suppliers. The Company does not have any trade creditors.*

The number of days credit outstanding for the Group averaged 67 days at 31 December 2003 (64 days at 31 December 2002).

Charitable and political contributions
Payments for charitable purposes made by the Group during the year ended 31 December 2003 amounted to £67,000 (2002: £96,000). The Company and its subsidiaries made no political donations during the period under review.

Annual General Meeting
The notice of and related information on the Company's Annual General Meeting *to be held on* 12 May 2004 *is included in separate* documents posted to shareholders with this annual report and accounts.

Amongst the business to be transacted is a proposal to renew the authority for the Company to purchase its own shares. As at 31 December 2003, the Company had authority from shareholders for the purchase of 21,299,201 of its own shares.

Auditor
Resolutions to re-appoint KPMG Audit Plc *as auditor and to authorise the Directors to determine its remuneration will be proposed at* the forthcoming Annual General Meeting.

Approved by order of the Board

Richard Tapp

R F Tapp
Secretary
10 March 2004

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 Group 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 Group 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 Group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the members of Carillion plc

We have audited the financial statements on pages 38 to 72. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual Report and the Directors' remuneration report. As described on page 36, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority, 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 whether the financial statements and the part of the Directors' remuneration report to be audited have been 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 Group is not disclosed.

We review whether the statement on page 20 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 and the part of the Directors' remuneration report to be audited. 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 Group'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 and the part of the Directors' remuneration report to be audited 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 and the part of the Directors' remuneration report to be audited.

Opinion
In our opinion:
- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

10 March 2004

Consolidated Profit and Loss Account

for the year ended 31 December 2003

		2003			2002		
	Note	Before exceptional items £m	Exceptional items (see Note 3) £m	Total £m	Before exceptional items £m	Exceptional items (see Note 3) £m	Total £m
Total turnover	2	**1,977.6**	–	**1,977.6**	1,974.4	–	1,974.4
Less: share of joint ventures' turnover	2	**(116.7)**	–	**(116.7)**	(127.1)	–	(127.1)
Group turnover		**1,860.9**	–	**1,860.9**	1,847.3	–	1,847.3
Cost of sales		**(1,693.2)**	–	**(1,693.2)**	(1,660.1)	–	(1,660.1)
Gross profit		**167.7**	–	**167.7**	187.2	–	187.2
Administrative expenses		**(129.6)**	**(33.1)**	**(162.7)**	(149.4)	–	(149.4)
Group operating profit		**38.1**	**(33.1)**	**5.0**	37.8	–	37.8
Share of operating profit in joint ventures	2	**14.3**	–	**14.3**	14.3	–	14.3
Total operating profit	2	**52.4**	**(33.1)**	**19.3**	52.1	–	52.1
Profit on sale of fixed asset investments	3	–	**11.8**	**11.8**	–	–	–
Profit/(loss) on sale of businesses	3						
Group		–	**(1.5)**	**(1.5)**	–	(0.3)	(0.3)
Joint ventures		–	**0.2**	**0.2**	–	(5.0)	(5.0)
		–	**(1.3)**	**(1.3)**	–	(5.3)	(5.3)
Profit on ordinary activities before interest	2	**52.4**	**(22.6)**	**29.8**	52.1	(5.3)	46.8
Net interest (payable)/receivable							
Group	4	**(0.5)**	–	**(0.5)**	0.6	–	0.6
Joint ventures	4	**(4.9)**	**(0.6)**	**(5.5)**	(5.2)	–	(5.2)
		(5.4)	**(0.6)**	**(6.0)**	(4.6)	–	(4.6)
Profit on ordinary activities before taxation	5	**47.0**	**(23.2)**	**23.8**	47.5	(5.3)	42.2
Taxation on profit on ordinary activities	8	**(13.8)**	–	**(13.8)**	(13.8)	0.9	(12.9)
Profit on ordinary activities after taxation		**33.2**	**(23.2)**	**10.0**	33.7	(4.4)	29.3
Equity minority interests		**(1.7)**	–	**(1.7)**	(2.1)	–	(2.1)
Profit for the financial year		**31.5**	**(23.2)**	**8.3**	31.6	(4.4)	27.2
Equity dividends	10	**(14.1)**	–	**(14.1)**	(9.9)	–	(9.9)
Retained (loss)/profit for the Group and its share of joint ventures	24	**17.4**	**(23.2)**	**(5.8)**	21.7	(4.4)	17.3
Earnings per ordinary share	11						
Basic		**15.2p**	**(11.2p)**	**4.0p**	15.3p	(2.1p)	13.2p
Diluted		**15.1p**	**(11.1p)**	**4.0p**	15.1p	(2.1p)	13.0p
Basic before all exceptional items and goodwill amortisation		**16.8p**			16.6p		
Dividends per ordinary share	10			**6.75p**			4.8p

The above results are wholly derived from continuing operations.

Consolidated Balance Sheet

	Note	At 31 December 2003 £m	At 31 December 2002 £m
Fixed assets			
Intangible assets	12	**21.3**	49.0
Tangible assets	13	**68.1**	56.9
Investments in joint ventures:	14		
Share of gross assets		**639.7**	646.1
Share of gross liabilities		**(599.7)**	(606.8)
		40.0	39.3
Loan advances		**33.1**	21.7
		73.1	61.0
Other investments	15	**6.3**	6.1
Total investments		**79.4**	67.1
		168.8	173.0
Current assets			
Stocks	16	**46.3**	43.7
Debtors	17	**511.3**	523.6
Investments	18	**4.7**	8.2
Cash at bank and in hand		**128.1**	85.1
		690.4	660.6
Creditors: amounts falling due within one year	19		
Borrowings		**(14.0)**	(20.4)
Other creditors		**(621.2)**	(574.9)
		(635.2)	(595.3)
Net current assets			
Due within one year		**26.1**	42.3
Debtors due after more than one year	17	**29.1**	23.0
		55.2	65.3
Total assets less current liabilities		**224.0**	238.3
Creditors: amounts falling due after more than one year	20		
Borrowings		**(53.9)**	(66.8)
Other creditors		**(7.6)**	(13.7)
		(61.5)	(80.5)
Provisions for liabilities and charges	22	**(4.7)**	(8.1)
Net assets		**157.8**	149.7
Financed by:			
Capital and reserves			
Called up share capital	23	**107.0**	106.5
Share premium account	24	**6.5**	5.5
Merger reserve	24	**8.2**	8.2
Profit and loss account	24	**33.8**	27.3
Equity shareholders' funds		**155.5**	147.5
Equity minority interests		**2.3**	2.2
		157.8	149.7

The financial statements on pages 38 to 72 were approved by the Board of Directors on 10 March 2004 and were signed on its behalf by:

John McDonough Chief Executive

Chris Girling Finance Director

Company Balance Sheet

	Note	At 31 December 2003 £m	At 31 December 2002 £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	14	**153.9**	166.3
Other investments	15	**6.2**	6.0
		160.1	172.3
Current assets			
Debtors	17	**92.1**	248.0
Cash at bank and in hand		**56.4**	2.9
		148.5	250.9
Creditors: amounts falling due within one year	19		
Borrowings		**(2.9)**	(23.4)
Other creditors		**(96.7)**	(191.7)
		(99.6)	(215.1)
Net current assets			
Due within one year		**12.3**	16.6
Debtors due after more than one year	17	**36.6**	19.2
		48.9	35.8
Total assets less current liabilities		**209.0**	208.1
Creditors: amounts falling due after more than one year	20		
Borrowings		**(50.0)**	(64.2)
Net assets		**159.0**	143.9

Financed by:			
Capital and reserves			
Called up share capital	23	**107.0**	106.5
Share premium account	24	**6.5**	5.5
Profit and loss account	24	**45.5**	31.9
Equity shareholders' funds		**159.0**	143.9

The financial statements on pages 38 to 72 were approved by the Board of Directors on 10 March 2004 and were signed on its behalf by:

John McDonough Chief Executive

J. McDonough

Chris Girling Finance Director

Consolidated Cash Flow Statement

	Note	**Year ended 31 December 2003 £m**	Year ended 31 December 2002 £m
Net cash inflow from operating activities	28(a)	**84.2**	1.1
Distributions received from joint ventures		**14.7**	3.8
Returns on investments and servicing of finance			
Dividend paid to minority interests		**(1.6)**	(3.2)
Interest paid		**(5.6)**	(5.3)
Finance lease charges		**(0.4)**	(0.1)
Interest received		**5.5**	5.9
Net cash outflow from returns on investments and servicing of finance		**(2.1)**	(2.7)
Corporate taxation received/(paid)		**0.5**	(9.0)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		**(15.6)**	(21.0)
Payments to acquire fixed asset investments		**–**	(0.1)
Sale of current asset investments		**3.5**	0.9
Purchase of own shares by ESOP		**(0.2)**	–
Sale of tangible fixed assets		**1.5**	4.8
Net cash outflow from capital expenditure and financial investment		**(10.8)**	(15.4)
Acquisitions and disposals			
Purchase of businesses	29(a)	**–**	(8.9)
Sale of businesses	29(b)	**4.6**	0.3
Purchase of equity investment in joint ventures	29(a)	**(0.4)**	(0.1)
Sale of equity investment in joint ventures	*29(b)*	**5.1**	–
Loan advances to joint ventures		**(14.9)**	(2.5)
Net cash outflow from acquisitions and disposals		**(5.6)**	(11.2)
Equity dividends paid		**(10.1)**	(9.3)
Net cash inflow/(outflow) before management of liquid resources and financing		**70.8**	(42.7)
Management of liquid resources			
Increase in short term deposits		**(25.4)**	(10.6)
Net cash outflow from management of liquid resources	28(c)	**(25.4)**	(10.6)
Financing			
Net (repayment)/drawdown of debt	28(c)	**(20.9)**	45.0
Repayment of finance leases	28(c)	**(2.2)**	(2.5)
Issue of share capital		**1.5**	0.4
Net cash (outflow)/inflow from financing		**(21.6)**	42.9
Increase/(decrease) in cash in the year	28(c)	**23.8**	(10.4)

Consolidated Statement of Total Recognised Gains and Losses

	2003 £m	2002 £m
Profit for the financial year		
Group	**2.7**	25.0
Joint ventures	**5.6**	2.2
	8.3	27.2
Exchange rate movements	**(1.3)**	(1.4)
Total recognised gains and losses for the year	**7.0**	25.8

Reconciliation of Movements in Consolidated Equity Shareholders' Funds

	2003 £m	2002 £m
Profit for the financial year		
Group	**2.7**	25.0
Joint ventures	**5.6**	2.2
	8.3	27.2
Equity dividends	**(14.1)**	(9.9)
Retained (loss)/profit for the Group and its share of joint ventures	**(5.8)**	17.3
Exchange rate movements	**(1.3)**	(1.4)
New share capital subscribed by QUEST	**1.5**	0.2
Other new share capital issued	**–**	0.2
Transfer arising on issue of shares to QUEST	**–**	(0.2)
Goodwill written back on disposal	**5.5**	–
Impairment of goodwill previously written off to reserves	**8.1**	–
Net addition to equity shareholders' funds	**8.0**	16.1
Opening equity shareholders' funds	**147.5**	131.4
Closing equity shareholders' funds	**155.5**	147.5

1. Principal accounting policies

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

On adoption of FRS 5 Application Note G: 'Revenue Recognition', the Directors have considered the Group's revenue recognition policies and believe them to be consistent with the requirements of the Application Note.

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain tangible fixed assets comprising land and buildings, and in accordance with applicable UK accounting standards.

Following the announcement made by Network Rail on 24 October 2003 that it intends to terminate rail maintenance contracts by September 2004, the Directors have performed a review of the Group's rail maintenance business and its associated assets. In light of the Network Rail contracts ending, an impairment of goodwill originally recognised on the acquisition of GT Railway Maintenance Holdings Limited has been made of £33.1m (see Note 12). In addition, there is a degree of uncertainty concerning the carrying value of certain fixed assets, stocks and debtors that relates to the Network Rail contracts. At the date of approval of the financial statements, the potential transfer of these assets to Network Rail is subject to on-going discussions. In the opinion of the Directors, the realisable value of these assets are not expected to be significantly different from their carrying values. Therefore, the financial statements have been prepared on the basis that there are no material adjustments required to the carrying value of these assets as at 31 December 2003.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to 31 December 2003. Unless otherwise stated the acquisition method of accounting has been applied. Under this method acquired subsidiaries are included from the date of acquisition. Disposals are accounted for up to the date control passes to a third party.

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets (other than goodwill) is included in investments in the consolidated balance sheet.

Where a Group company is party to a joint arrangement that is not an entity, that company accounts directly for its share of the income and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost, less provision for any impairment.

Company shares held by the Employee Share Ownership Plan (ESOP) Trust are included in both the Group and Company financial statements as a fixed asset investment until such time as the interest in the shares is transferred unconditionally to the employees. The purchase costs of the shares are charged to the profit and loss account where they cannot be recovered so as to spread the costs over the relevant performance period of the plans. Costs of administering the trust are charged to the profit and loss account as incurred. The ESOP trust is regarded as a quasi subsidiary under FRS 5 'Reporting the substance of transactions' and its assets, liabilities and results are consolidated into the financial statements of both the Company and the Group.

Goodwill

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets of an acquired company or business, including an interest in a joint venture, is capitalised and amortised in equal annual instalments over its useful economic life.

Prior to 1 January 1998, goodwill was written off to reserves on acquisition. In accordance with the transitional provisions of FRS 10 'Goodwill and intangible assets', this treatment has continued to be applied for those years. Any such goodwill previously written off to reserves is included in the calculation of any profit or loss on disposal in respect of businesses subsequently disposed of or terminated. Any impairment arising on goodwill that has previously been written off to reserves is taken to the profit and loss account.

1. Principal accounting policies (continued)

Long term contract balances
Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. Payments received on account of contracts are deducted from amounts recoverable on contracts in debtors or long term contract balances in stock. Where such amounts have been received and exceed amounts recoverable the net amounts are included in creditors.

Profit recognition
Profit on long term contracts is calculated in accordance with applicable accounting standards. In determining the attributable profit on contracts to a particular accounting period the Group utilises estimation techniques. The principal estimation technique used is the preparation of profit and cash flow forecasts on a contract by contract basis which enables an assessment to be made of the final out turn on each contract. Profit is then recognised when the outcome of the contract can be foreseen with reasonable certainty and is attributed in line with the degree of completion of each contract.

The result for each year includes settlement of claims on contracts completed in prior years. In preparing contract forecasts, a prudent and reasonable evaluation of claims is included in the assessment of the final out turn.

Property development profits are recognised on contractual completion.

Group turnover
Group turnover represents the fair value of consideration receivable, excluding value added tax, for goods and services supplied to external customers. In respect of long term contracting activities, turnover reflects the fair value of work executed during each year. It also includes the Group's proportion of work carried out under joint arrangements during the year.

Stocks
Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes appropriate overheads.

Tangible fixed assets
The Group has continued to follow the transitional provisions of FRS 15 'Tangible fixed assets' to retain the book value of freehold land and buildings, which were last revalued in 1985.

Depreciation is based on historical 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	50 years
Long leasehold land and buildings	50 years
Short leasehold land and buildings	Period of lease
Plant, machinery and vehicles	3–10 years

Leased assets
Operating lease rental charges are charged to the profit and loss account on a straight-line basis over the life of each lease.

Assets held under finance leases and hire purchase contracts are included in tangible fixed assets and are depreciated over the shorter of the contract term or their useful life. The capital element of outstanding finance leases and hire purchase contracts is included in creditors. The finance charge element of rentals is charged to the profit and loss account at a constant periodic rate of charge on the outstanding obligations.

Taxation
The charge for taxation is based on the result for each year and takes into account deferred taxation. Deferred tax assets or liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. Liabilities are calculated on a non-discounted full provision basis. Assets are calculated on the same basis, but are recognised only to the extent that it is probable that they will be recovered.

1. Principal accounting policies (continued)

Foreign currencies
Transactions denominated in foreign currencies are translated into sterling and recorded using the contracted exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the relevant balance sheet date and the gains and losses on translation are included in the profit and loss account.

The profit and loss accounts and balance sheets of overseas undertakings and joint ventures are translated into sterling at the rates of exchange ruling at the end of the financial year. Gains or losses arising on the translation of the opening net assets of such overseas undertakings are taken to reserves together with exchange differences on related foreign currency hedges.

Share incentive schemes
Where share incentives are granted with an exercise price of less than the market price at the date of grant the difference is charged to the profit and loss account over the period to the exercisable date of the incentives. Due regard is made to the likelihood of the stipulated performance criteria being attained with the charge being amended accordingly.

No cost is recognised in respect of SAYE schemes that are offered on similar terms to all or substantially all employees as permitted by UITF 17 'Employee Share Schemes'.

Pensions
Pension costs are recognised in the financial statements in accordance with the requirements of SSAP 24 'Accounting for pension costs'.

Regular pension costs in respect of the Group's defined benefit pension schemes 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 the Group. Current actuarial surpluses or deficits are amortised over the average expected remaining service lives of current employees on a systematic basis. The difference between the amounts charged or credited to the profit and loss account and the contributions made to the pension schemes is included within debtors or creditors as appropriate. Contributions to the Group's defined contribution schemes are charged to the profit and loss account as incurred.

The Group continues to follow the transitional provisions as permitted by FRS 17 'Retirement benefits' at 31 December 2003 which are disclosed in Note 30.

Bid costs
Pre-contract costs are expensed as incurred until the Group is appointed preferred bidder. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is virtually certain, pre-contract costs incurred post the appointment as preferred bidder are included in stocks. Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in stocks. Any excess recoveries are carried forward as deferred income and released to profit over the period of the contract to which the pre-contract costs relate.

Interest
Interest is written off to the profit and loss account as incurred by all subsidiaries in the Group.

Interest incurred on borrowings within the Group's joint ventures relating to the construction of assets in PPP projects is capitalised until the relevant assets are brought into operational use.

2. Analysis of turnover, profit before interest and net assets

	Total turnover		Net assets/(liabilities)	
Class of business	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Investments	**67.5**	61.6	**46.5**	32.2
Business services	**933.5**	821.7	**(22.4)**	60.9
Construction services	**1,001.8**	1,125.4	**106.3**	64.2
Internal trading	**(25.2)**	*(34.3)*	–	–
Corporate centre	–	–	**(48.4)**	(12.9)
Net cash	–	–	**75.8**	5.3
	1,977.6	1,974.4	**157.8**	149.7
Geographical origin:				
UK	**1,633.2**	1,694.4	**85.9**	153.4
Europe	**212.3**	146.9	**(17.5)**	(23.7)
Rest of the World	**132.1**	133.1	**13.6**	14.7
Net cash	–	–	**75.8**	5.3
	1,977.6	1,974.4	**157.8**	149.7

The analysis of turnover by geographical market served is not materially different from that by geographical origin.

Profit on ordinary activities before interest

	2003			2002		
Class of business	**Before exceptional items £m**	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Investments	**8.5**	**11.8**	**20.3**	7.8	–	7.8
Business services	**47.5**	**(32.8)**	**14.7**	36.4	–	36.4
Construction services	**5.5**	**(1.6)**	**3.9**	17.0	(5.3)	11.7
Corporate centre	**(9.1)**	**–**	**(9.1)**	(9.1)	–	(9.1)
	52.4	**(22.6)**	**29.8**	52.1	(5.3)	46.8
Geographical origin:						
UK	**48.6**	**(23.0)**	**25.6**	50.1	(5.3)	44.8
Europe	**3.9**	**–**	**3.9**	(0.9)	–	(0.9)
Rest of the World	**(0.1)**	**0.4**	**0.3**	2.9	–	2.9
	52.4	**(22.6)**	**29.8**	52.1	(5.3)	46.8

2. Analysis of turnover, profit before interest and net assets (continued)

The Group's share of the turnover and net assets in joint ventures was as follows:

	Turnover		Net assets/(liabilities)	
Class of business	**2003 £m**	2002 £m	**2003 £m**	2002 £m
Investments	**65.1**	60.9	**50.8**	38.8
Business services	**3.8**	0.6	**(1.6)**	–
Construction services	**47.8**	65.6	**23.9**	22.2
	116.7	127.1	**73.1**	61.0
Geographical origin:				
UK	**71.7**	89.4	**68.1**	56.7
Europe	**2.3**	3.6	**(2.8)**	(2.6)
Rest of the World	**42.7**	34.1	**7.8**	6.9
	116.7	127.1	**73.1**	61.0

The Group's share of the profit on ordinary activities before interest in joint ventures was as follows:

	2003			2002		
Class of business	**Before exceptional items £m**	**Exceptional items £m**	**Total £m**	Before exceptional items £m	Exceptional items £m	Total £m
Investments	**11.5**	**–**	**11.5**	12.5	–	12.5
Business services	**(1.9)**	**–**	**(1.9)**	–	–	–
Construction services	**4.7**	**0.2**	**4.9**	1.8	(5.0)	(3.2)
	14.3	**0.2**	**14.5**	14.3	(5.0)	9.3
Geographical origin:						
UK	**12.0**	–	**12.0**	13.0	(5.0)	8.0
Europe	**0.2**	**–**	**0.2**	–	–	–
Rest of the World	**2.1**	**0.2**	**2.3**	1.3	–	1.3
	14.3	**0.2**	**14.5**	14.3	(5.0)	9.3

3. Exceptional items

	2003		2002	
Operating items	**Gross £m**	**Tax £m**	Gross £m	Tax £m
Group:				
Impairment of goodwill (see Note 12)	**25.0**	**–**	–	–
Impairment of goodwill previously written off to reserves (see Note 12)	**8.1**	–	–	–
	33.1	–	–	–
Non-operating items:				
Group:				
Profit on sale of fixed asset investments	**(11.8)**	–	–	–
Loss on sale of businesses	**1.5**	**0.2**	0.3	–
	(10.3)	**0.2**	0.3	–
Joint ventures:				
(Profit)/loss on sale of businesses	**(0.2)**	–	5.0	(0.9)
Interest payable (see Note 4)	**0.6**	**(0.2)**	–	–
	(9.9)	**–**	5.3	(0.9)
	23.2	**–**	5.3	(0.9)

Further disclosure on the Group's sale of businesses and fixed asset investments during 2003 can be found in Note 29(b). The profit on sale of businesses of £0.2m in joint ventures relates to the disposal of a materials testing business in the Middle East.

4. Net interest (payable)/receivable

Group	**2003 £m**	2002 £m
Interest receivable:		
Bank interest receivable	**1.0**	2.0
Other interest receivable	**4.5**	3.9
	5.5	5.9
Interest payable and other similar charges:		
Interest payable on bank loans and overdrafts	**(4.4)**	(4.0)
Other interest payable and similar charges	**(1.6)**	(1.3)
	(6.0)	(5.3)
Net interest (payable)/receivable	**(0.5)**	0.6

Other interest payable and similar charges includes finance lease charges of £0.4m (2002: £0.1m).

Joint ventures	**2003 £m**	2002 £m
Interest receivable:		
PPP projects	**23.2**	13.1
Other joint ventures	**0.8**	0.7
	24.0	13.8
Interest payable and other similar charges:		
PPP projects (net of interest capitalised)	**(28.5)**	(17.1)
Other joint ventures	**(1.0)**	(1.9)
	(29.5)	(19.0)
Net interest payable	**(5.5)**	(5.2)

Included in interest payable and other similar charges relating to PPP projects is £0.6m (2002: £Nil) of previously capitalised finance arrangement costs. These costs were written off following the refinancing of Darent Valley Hospital PPP joint venture during the year.

Interest payable by joint ventures on PPP long term projects relates to non-recourse borrowings as detailed in Note 14. For 2003, the Group's share of interest capitalised by joint ventures on PPP long term projects amounted to £8.7m (2002: £15.3m).

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation has been arrived at after charging/(crediting):

	2003 £m	2002 £m
Depreciation	**15.0**	14.6
Reversal of past impairment of tangible fixed assets	**(2.2)**	–
Loss/(profit) on sale of tangible fixed assets	**0.1**	(0.8)
Amortisation of goodwill	**3.8**	2.7
Impairment of goodwill	**33.1**	–
Amortisation of own shares	**–**	(3.3)
Operating leases:		
Hire of plant and machinery		
– Short term	**20.8**	24.6
– Long term	**1.4**	1.3
Hire of other assets	**19.5**	17.1
Auditor's remuneration for Group audit services	**1.0**	1.0
Auditor's remuneration for non-audit services	**0.1**	0.1

Analysis of total fees payable to the Group's auditors:

	2003 £m	2002 £m
Audit services	**1.0**	1.0
Tax advisory services	**0.1**	0.1
	1.1	1.1

Audit fees for the parent company amounted to £25,000 (2002: £24,000). Fees paid to KPMG Audit Plc and its associates by Group joint venture companies in respect of audit services amounted to £0.1m (2002: £0.1m).

6. Employee numbers and payroll costs

	2003 Number	2002 Number
The average number of employees during each year including Directors was:		
Investments	**30**	39
Business services	**10,555**	9,526
Construction services	**6,853**	6,810
Corporate centre	**604**	584
	18,042	16,959
UK	**13,661**	13,584
Overseas	**4,381**	3,375
	18,042	16,959

The aggregate payroll costs during each year amounted to:

	2003 £m	2002 £m
Wages and salaries	**395.5**	377.9
Social security costs	**53.7**	44.8
Pension costs	**22.1**	8.2
	471.3	430.9

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in Note 30.

7. Directors' remuneration

Detailed information concerning Directors' remuneration, including their pension benefits and long term incentive arrangements, is set out in the Remuneration Report on pages 26 to 33.

8. Taxation

(a) Analysis of taxation charge

	2003 £m	2002 £m
UK taxation:		
Corporation tax	**7.1**	9.7
Adjustment in respect of previous periods	**4.1**	1.3
Attributable taxation of joint ventures	**3.4**	1.9
Overseas taxation:		
Current year	**2.7**	1.1
Adjustment in respect of previous periods	**(1.5)**	(0.2)
Total current taxation	**15.8**	13.8
Deferred taxation:		
Origination and reversal of timing differences	**5.8**	(0.2)
Adjustment in respect of previous periods	**(7.8)**	(0.7)
Total deferred taxation	**(2.0)**	(0.9)
Total taxation on profit on ordinary activities	**13.8**	12.9

(b) Reconciliation of current taxation charge

The UK standard rate of corporation tax for the year is 30% (2002: 30%). The actual tax rate differs from the standard rate for the reasons set out below:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	**23.8**	42.2
Taxation on profit on ordinary activities at UK standard rate of corporation tax	**7.1**	12.7
Permanent differences	**3.3**	2.4
Other timing differences	**(5.8)**	(0.2)
Other timing differences not recognised	**1.8**	(0.7)
Overseas profits not taxable	**(0.7)**	(0.5)
Utilisation of overseas losses not previously recognised	**(0.9)**	(1.0)
Unrelieved trade losses in the year	**1.3**	0.2
Capital items not taxable	**(3.5)**	0.1
Amortisation of own shares	**–**	(1.0)
Amortisation and impairment of goodwill	**10.6**	0.7
Adjustment in respect of previous periods	**2.6**	1.1
Current taxation charge for the year	**15.8**	13.8

(c) Factors that may affect future tax charges

The Group has brought forward tax losses in excess of £87m which have not yet been fully agreed by the Inland Revenue. In accordance with FRS 19 a deferred tax asset, valued in excess of £26m, has not been recognised in respect of these losses due to the lack of certainty regarding quantum and timing of future years taxable profits in the companies involved. In the event that such profits are realised this may result in the Group tax rate being lower than the standard rate of corporation tax in the UK.

The tax rate in the joint venture companies in which the Group has PPP investments may be greater than the standard rate of corporation tax in the UK. This is generally due to capital expenditure not qualifying for tax relief. As the PPP element of the Group's profit before taxation increases in future years it will have the effect of increasing the Group's tax rate above the standard rate of corporation tax in the UK. This may be offset by the developing trend for composite trade tax treatment whereby all income and expenditure is treated as on trading account for tax purposes.

9. Profit for the financial year

In accordance with Section 230 (4) of the Companies Act 1985 the Company has taken advantage of the exemption from the requirement to present its own profit and loss account. The profit for the financial year of the Company is £27.7m (2002: £15.0m).

10. Equity dividends

	2003		2002	
	£m	**Pence per share**	£m	Pence per share
Equity shares				
Ordinary shares:				
Interim	**3.3**	**1.575**	3.1	1.5
Final	**10.8**	**5.175**	6.8	3.3
Total equity dividends	**14.1**	**6.75**	9.9	4.8

The final dividend for 2003 includes 1.7 pence per share that represents a return to shareholders of a proportion of the profit generated on the disposal of the Group's equity shareholding in the Darent Valley Hospital PPP joint venture (see Note 29(b)).

11. Earnings per ordinary share

(a) Basic

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders, amounting to £8.3m (2002: £27.2m), by 207,622,166 (2002: 206,450,536) ordinary shares being the weighted average number of shares in issue during the year. The weighted average number of shares excludes shares held by the Employee Share Ownership Plan (see Note 15) and the QUEST (see Note 24), which amount to 6,206,528 shares in total (2002: 6,489,637).

(b) Basic before all exceptional items and goodwill amortisation

A reconciliation of the basic earnings per ordinary share to the adjusted amounts shown on the face of the profit and loss account is calculated below to show the impact of all exceptional items (as disclosed in Note 3) and the amortisation charge from goodwill (as disclosed in Note 12):

	2003		2002	
	£m	**Pence per share**	£m	Pence per share
Profit attributable to ordinary shareholders	**8.3**	**4.0**	27.2	13.2
Exceptional items:				
Impairment of goodwill	**33.1**	**15.9**	–	–
Profit on sale of fixed asset investments	**(11.8)**	**(5.6)**	–	–
Loss on sale of businesses	**1.3**	**0.6**	5.3	2.5
Interest payable	**0.6**	**0.3**	–	–
Less taxation in respect of the above	**–**	**–**	(0.9)	(0.4)
Profit before all exceptional items	**31.5**	**15.2**	31.6	15.3
Amortisation of goodwill	**3.8**	**1.8**	2.7	1.3
Less taxation in respect of the above	**(0.4)**	**(0.2)**	(0.1)	–
Profit before all exceptional items and goodwill amortisation	**34.9**	**16.8**	34.2	16.6

(c) Diluted

Diluted earnings per ordinary share have been calculated on both profit before and after all exceptional items, using the same earnings numerators as set out in (a) and (b) above and by reference to the following number of shares:

	Number of ordinary shares	
	2003 million	2002 million
Number of ordinary shares per basic earnings per share calculations	**207.6**	206.5
Adjustments to reflect dilutive shares under option	**1.7**	2.1
Number of ordinary shares per diluted earnings per share calculations	**209.3**	208.6

12. Intangible assets

Group	Goodwill £m
Cost:	
At 1 January 2003	52.4
Addition	1.1
At 31 December 2003	**53.5**
Amortisation:	
At 1 January 2003	3.4
Provision for year	3.8
Impairment	25.0
At 31 December 2003	**32.2**
Net book value:	
At 31 December 2003	**21.3**
At 31 December 2002	49.0

The cost of goodwill comprises:

	Year of acquisition	Amortisation period years	Cost £m
Minority interests in French subsidiaries	1998	20	**1.8**
GT Railway Maintenance Holdings Limited	2001	20	**41.7**
Citex Management Services contracts	2002	6	**8.9**
UK Highways Services Limited	2003	4	**1.1**
			53.5

The addition to goodwill relates to the acquisition of an additional 31% of the ordinary share capital of UK Highways Services Limited as disclosed in Note 29 (a). The goodwill relating to this acquisition is being amortised over four years which is the remaining period of the company's maintenance contract.

The impairment provision of £25.0m relates to the whole of the goodwill in respect of the rail maintenance business of GT Railway Maintenance Holdings Limited (GTRM). This impairment arises from the decision by Network Rail, announced on 24 October 2003, that it intends to take all rail maintenance contracts in-house by September 2004. In addition, there is a further £8.1m impairment relating to goodwill that had previously been written off to reserves on the acquisition of 49% of GTRM in 1996 (see Note 24).

The residual goodwill remaining in GTRM relates to its projects and renewals operations. As from 1 January 2004, this will be amortised over six years as in the opinion of the Directors this is the minimum period over which the Group will derive economic benefit from the business.

13. Tangible fixed assets

Group	Land and buildings *£m*	Plant, machinery and vehicles *£m*	Total *£m*
Cost or valuation:			
At 1 January 2003	19.2	58.5	77.7
Exchange rate movements	0.1	0.8	0.9
Acquisitions	–	1.4	1.4
Additions	1.7	24.3	26.0
Disposals	(1.3)	(25.0)	(26.3)
At 31 December 2003	**19.7**	**60.0**	**79.7**
Depreciation:			
At 1 January 2003	4.8	16.0	20.8
Exchange rate movements	–	0.7	0.7
Provision for year	1.3	13.7	15.0
Reversal of past impairment	(1.2)	(1.0)	(2.2)
Eliminated in respect of disposals	(0.3)	(22.4)	(22.7)
At 31 December 2003	**4.6**	**7.0**	**11.6**
Net book value:			
At 31 December 2003	**15.1**	**53.0**	**68.1**
At 31 December 2002	14.4	42.5	56.9

The reversal of past impairment of £2.2m arises from market improvements since the date of the original impairment in 2001.

Included in the net book value of plant, machinery and vehicles is £14.8m (2002: £6.5m) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year in respect of these assets amounted to £1.7m (2002: £1.9m).

The net book value of land and buildings comprises:

Group	2003 £m	2002 £m
Freehold	**7.2**	6.9
Long leasehold	**4.8**	4.5
Short leasehold	**3.1**	3.0
Net book value	**15.1**	14.4

The cost or valuation of land and buildings comprises:

Group	2003 £m	2002 £m
Cost	**18.6**	18.1
1985 valuation	**1.1**	1.1
	19.7	19.2

The 1985 valuation was on the basis of open market value for existing use.

Freehold land held by the Group amounting to £1.0m (2002: £1.0m) has not been depreciated.

14. Investments

Group	Loan advances £m	Equity investments £m	Total £m
Investments in joint ventures			
Cost:			
At 1 January 2003 (see below)	21.7	33.1	54.8
Equity investments (see Note 29 (a))	–	0.5	0.5
Disposals	(3.5)	(1.0)	(4.5)
Net loan advances	14.9	–	14.9
At 31 December 2003	**33.1**	**32.6**	**65.7**
Share of post acquisition results:			
At 1 January 2003		6.2	6.2
Exchange rate movements		(0.9)	(0.9)
Share of results for the year after taxation		5.6	5.6
Disposals		11.2	11.2
Distributions received		(14.7)	(14.7)
At 31 December 2003		**7.4**	**7.4**
Net book value:			
At 31 December 2003	**33.1**	**40.0**	**73.1**
At 31 December 2002	21.7	39.3	61.0

Distributions received comprises £10.8m relating to the re-financing of the Darent Valley Hospital PPP joint venture and £3.9m of dividends received.

During the year it was identified that £13.7m of subordinated loans invested in a number of PPP special purpose companies had been reported as equity investments in the financial statements for 31 December 2002. In line with UK GAAP these subordinated loans, previously regarded as 'quasi-equity', are more properly disclosed as loan advances. Accordingly, a transfer of £13.7m has been made from the cost of equity investments to loan advances within investments in joint ventures. There is no impact on the Group's reported net assets as at 31 December 2002 or on the Group's cumulative share of retained profits in the PPP special purpose companies.

The Group's aggregate share of joint venture net assets is analysed below. The borrowings within PPP projects totalling £516.0m (2002: £520.1m) are without recourse to the Carillion Group.

	2003			2002		
	PPP Projects £m	**Other joint ventures £m**	**Total £m**	PPP Projects £m	Other joint ventures £m	Total £m
Fixed assets	**125.1**	**6.4**	**131.5**	122.3	12.9	135.2
Cash	**41.2**	**8.4**	**49.6**	58.8	12.7	71.5
Other current assets	**401.4**	**57.2**	**458.6**	387.6	51.8	439.4
Share of gross assets	**567.7**	**72.0**	**639.7**	568.7	77.4	646.1
Borrowings due within one year	**(21.4)**	**(4.5)**	**(25.9)**	(22.5)	(10.9)	(33.4)
Other creditors due within one year	**(23.0)**	**(40.9)**	**(63.9)**	(22.0)	(41.7)	(63.7)
Borrowings due after one year	**(494.6)**	**(4.3)**	**(498.9)**	(497.6)	(1.2)	(498.8)
Other creditors due after one year	**–**	**–**	**–**	(1.1)	(1.3)	(2.4)
Provisions	**(11.0)**	**–**	**(11.0)**	(8.4)	(0.1)	(8.5)
Share of gross liabilities	**(550.0)**	**(49.7)**	**(599.7)**	(551.6)	(55.2)	(606.8)
	17.7	**22.3**	**40.0**	17.1	22.2	39.3
Loan advances	**33.1**	**–**	**33.1**	21.7	–	21.7
Share of net assets	**50.8**	**22.3**	**73.1**	38.8	22.2	61.0

Fixed assets and other current assets within PPP projects include cumulative capitalised interest amounting to £9.0m (2002: £7.6m) *and £45.3m (2002: £38.0m) respectively.*

14. Investments (continued)

Company	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost:			
At 1 January 2003	166.3	–	166.3
Additions	2.8	0.3	3.1
Disposals	(5.6)	–	(5.6)
Transfer from Group undertakings	0.1	–	0.1
At 31 December 2003	**163.6**	**0.3**	**163.9**
Provision:			
At 1 January 2003	–	–	–
Charge in year	10.0	–	10.0
At 31 December 2003	**10.0**	**–**	**10.0**
Net Book Value:			
At 31 December 2003	**153.6**	**0.3**	**153.9**
At 31 December 2002	166.3	–	166.3

The principal subsidiary undertakings and joint ventures included within these financial statements are shown on page 74.

The £10.0m provision in the year against subsidiary undertakings relates to the cost of investment in GT Railway Maintenance Holdings Limited. The provision represents impairment arising from Network Rail's announcement in October 2003 to take all rail maintenance contracts in-house (see Note 12).

15. Other investments

	Other £m	Group Own shares £m	Total £m	Company Own shares £m
Cost:				
At 1 January 2003	0.6	6.0	6.6	6.0
Additions	–	0.2	0.2	0.2
At 31 December 2003	**0.6**	**6.2**	**6.8**	**6.2**
Provisions/amortisation:				
At 1 January and 31 December 2003	**0.5**	–	**0.5**	**–**
Net book value:				
At 31 December 2003	**0.1**	**6.2**	**6.3**	**6.2**
At 31 December 2002	0.1	6.0	6.1	6.0

The investment in own shares represents shares in the Company held by the Carillion Employee Share Ownership Plan (ESOP), an employee share ownership trust, which may subsequently be awarded to Executive Directors and senior employees under the Founders' Equity Plan and the Long Term Incentive Plans. Details of the plans are given in the Remuneration Report on pages 26 to 33.

During the year the trust acquired 156,366 shares in the Company for a consideration of £0.2m. These shares were acquired to satisfy awards under a deferred Executive bonus scheme. At 31 December 2003 the trust held 4,892,592 (2002: 4,736,226) shares in the Company with a market value of £7.4m (2002: £5.3m). The nominal value of these shares is £2.5m (2002: £2.4m).

The ESOP trust has elected to waive all dividends except for a total payment of 1p at the time each dividend is paid.

16. Stocks

Group	2003 £m	2002 £m
Raw materials:		
Land for development	**0.4**	0.4
Other raw materials	**10.3**	15.0
	10.7	15.4
Long-term contract balances:		
Net cost less foreseeable losses	**8.9**	9.2
Work in progress	**25.5**	18.2
Finished goods and goods for resale	**1.2**	0.9
	46.3	43.7

Work in progress includes PPP bid costs amounting to £6.9m (2002: £1.9m).

17. Debtors

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Amounts falling due within one year				
Trade debtors	**194.9**	223.7	**–**	–
Amounts recoverable on contracts	**182.9**	185.0	**–**	–
Amounts owed by Group undertakings	**–**	–	**51.3**	227.5
Amounts owed by joint ventures	**19.3**	11.1	**–**	–
Amounts owed under joint arrangements	**29.1**	28.9	**–**	–
Other debtors	**15.4**	12.4	**4.0**	1.3
Pension prepayments	**3.8**	5.6	**–**	–
Other prepayments and accrued income	**36.8**	33.9	**0.2**	–
	482.2	500.6	**55.5**	228.8
Amounts falling due after more than one year				
Trade debtors	**1.5**	2.2	**–**	–
Amounts recoverable on contracts	**9.5**	7.3	**–**	–
Amounts owed by Group undertakings	**–**	–	**36.6**	19.2
Amounts owed by joint ventures	**–**	0.1	**–**	–
Other debtors	**1.7**	1.5	**–**	–
Pension prepayments	**16.4**	11.9	**–**	–
	29.1	23.0	**36.6**	19.2
Total debtors	**511.3**	523.6	**92.1**	248.0

In the Company, the amounts owed by Group undertakings falling due after more than one year includes £10.6m (2002: £2.7m) relating to finance lease transactions entered into with GT Railway Maintenance Limited and Carillion Fleet Management Limited. Further details are disclosed in Note 20.

18. Current asset investments

Group	2003 £m	2002 £m
Listed investments	**0.4**	0.4
Unlisted investments	**4.3**	7.8
	4.7	8.2

Listed investments comprise Eurotunnel units and warrants that had a market value at 31 December 2003 of £0.4m (2002: £0.4m).

19. Creditors: amounts falling due within one year

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Bank loans and overdrafts	**11.3**	18.3	**2.0**	23.2
Other loans	**0.3**	–	**–**	–
Net obligations due under finance leases	**2.4**	2.1	**0.9**	0.2
Borrowings	**14.0**	20.4	**2.9**	23.4
Payments received on account:				
Long-term contracts	**27.8**	44.6	**–**	–
Other	**6.2**	3.5	**–**	–
Trade creditors	**286.7**	276.7	**–**	–
Bills of exchange payable	**7.1**	4.1	**–**	–
Amounts owed to Group undertakings	**–**	–	**74.0**	184.4
Amounts owed to joint ventures	**15.9**	1.3	**11.0**	–
Amounts owed under joint arrangements	**10.3**	8.4	**–**	–
Corporation tax	**22.9**	10.0	**–**	–
Other taxation and social security costs	**46.4**	37.2	**–**	–
Proposed dividend	**10.8**	6.8	**10.8**	6.8
Other creditors	**45.1**	40.9	**0.3**	0.1
Accruals and deferred income	**142.0**	141.4	**0.6**	0.4
	635.2	595.3	**99.6**	215.1

Accruals and deferred income in respect of the Group includes £0.3m (2002: £1.0m) relating to deferred PPP bid cost recoveries.

20. Creditors: amounts falling due after more than one year

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Bank loans	**39.4**	61.5	**39.4**	61.5
Other loans	**1.3**	–	**–**	–
Net obligations due under finance leases	**13.2**	5.3	**10.6**	2.7
Borrowings	**53.9**	66.8	**50.0**	64.2
Payments received on account	**1.6**	3.5	**–**	–
Trade creditors	**0.4**	3.4	**–**	–
Amounts owed under joint arrangements	**–**	0.3	**–**	–
Accruals and deferred income	**5.6**	6.5	**–**	–
	61.5	80.5	**50.0**	64.2

Accruals and deferred income includes £2.9m (2002: £2.3m) relating to deferred PPP bid cost recoveries.

In the Company, net obligations due under finance leases relate to financing agreements for fixed assets currently used by GT Railway Maintenance Limited and Carillion Fleet Management Limited, both wholly owned subsidiaries. The assets have been recognised in the accounts of the subsidiaries in accordance with SSAP 21 'Accounting for leases and hire purchase contracts', together with corresponding liabilities to Carillion plc. Carillion plc recognises these inter-company debts within amounts owed by Group undertakings in Note 17.

Interest is charged on the above bank loans at floating rates linked to LIBOR.

All bank loans and overdrafts are unsecured. Other loans and net obligations due under finance leases are secured on the assets to which they relate.

The maturity profile of all borrowings is disclosed in Note 21.

21. Financial instruments and risk management

The main purpose of the Group's financial instruments is to provide finance for its operations. The Group's principal financial instruments, other than derivatives, include bank loans and overdrafts, cash and short term deposits and finance leases. In addition, various financial instruments, for example trade debtors and trade creditors, arise directly from the Group's operations. The Group's derivative transactions relate solely to forward foreign exchange contracts.

The Group's policies with regard to financial instruments have remained unchanged throughout the year.

The Group's treasury department manages the main financial risks within policies and operating parameters approved by the Board. These are discussed in detail below and in the Operating and Financial Review on pages 8 to 13 and are designed to reduce the financial risks affecting the Group. The Group's treasury department does not enter into speculative financial transactions. The Group's main financial risks are funding and liquidity risk, interest rate risk and currency risk.

Funding and liquidity

The financial assets and liabilities of the Group may be summarised as follows:

	2003			2002		
	Assets £m	**Liabilities £m**	**Weighted average period until maturity of liabilities years**	Assets £m	Liabilities £m	Weighted average period until maturity of liabilities years
Nil coupon:						
Sterling	**0.7**	**3.1**	**2.6**	2.9	9.6	1.8
Canadian dollars	**8.5**	**–**	**–**	5.3	0.1	1.5
European currencies	**0.6**	**–**	**–**	0.4	–	–
Other	**3.0**	**1.6**	**1.5**	2.6	1.7	1.5
	12.8	**4.7**	**2.2**	11.2	11.4	1.8
Floating rate:						
Sterling	**97.6**	**0.8**		50.4	50.5	
Canadian dollars	**6.5**	**16.9**		8.3	16.5	
United States of America dollars	**1.3**	**9.7**		1.3	–	
European currencies	**17.4**	**19.6**		19.5	12.7	
Other	**5.2**	**3.7**		5.5	0.1	
	128.0	**50.7**		85.0	79.8	
Fixed rate:						
Sterling	**–**	**15.8**		–	7.1	
Canadian dollars	**–**	**1.3**		–	–	
European currencies	**–**	**0.1**		–	0.2	
Other	**–**	**–**		–	0.1	
	–	**17.2**		–	7.4	
Total	**140.8**	**72.6**		96.2	98.6	
Summary by currency						
Sterling	**98.3**	**19.7**		53.3	67.2	
Canadian dollars	**15.0**	**18.2**		13.6	16.6	
United States of America dollars	**1.3**	**9.7**		1.3	–	
European currencies	**18.0**	**19.7**		19.9	12.9	
Other	**8.2**	**5.3**		8.1	1.9	
Total	**140.8**	**72.6**		96.2	98.6	

21. Financial instruments and risk management (continued)
The weighted average interest rate for fixed rate financial liabilities is 5.4% (2002: 6.0%). The weighted average period for which this interest is fixed is 7.4 years (2002: 6.5 years).

The Group's financial assets, which exclude short term debtors and pension prepayments, consist primarily of cash at bank and on deposit, that earn interest at money market related rates. The financial assets on which no interest is earned are primarily trade debtors and amounts recoverable on contracts that are expected to be received in more than one year.

The Group's financial liabilities exclude short term creditors and deferred income relating to PPP bid cost recoveries. Floating rate financial liabilities comprise bank borrowings that bear interest based upon money market or base rate related interest rates. Fixed rate financial liabilities comprise other loans and finance lease and hire purchase contract liabilities.

The Group's consolidated cash position at the balance sheet date is not representative of the position at other times of the year. Whilst material working capital movements and the resultant cash flows are a significant feature of the Group's cash profile throughout the year, a number of factors combine to exaggerate the year end position. Such factors include a reduction in the demand for working capital over the extended holiday period, shorter daylight and therefore working hours and a traditional industry focus on the settlement of contractual claims.

Interest rate risk
The Group's debt is predominantly currency borrowings for hedging against overseas investments and sterling borrowings related to working capital movements. These borrowings are subject to floating rate interest charges. No interest rate hedging is currently undertaken.

Currency exposure
The Group has small and infrequent transactional currency exposures. Group policy requires net exposures to be hedged using forward contracts or currency options as soon as a contractual commitment is made. The Group's policy on hedging currency net assets is to hedge, where practical, at least 50% of the net asset value of overseas investments where such net assets exceed £10m equivalent. Throughout the year hedging was achieved through currency borrowings and forward contracts. There were no material unrecognised gains or losses on instruments used for exchange rate hedging either during or at the end of the year.

At 31 December 2003 the total sterling value of currency borrowings for the purposes of hedging was £39.4m (2002: £16.5m). The increase has arisen from new borrowings to hedge against investments in Europe and investments whose currencies are closely linked to the United States of America dollar.

The Group's working capital currency exposures are:

	Net foreign currency monetary assets/(liabilities)				
Functional currency of Group operation	**US Dollars £m**	**Euro £m**	**Danish Kr £m**	**Other £m**	**Total £m**
At 31 December 2003					
Sterling	–	**0.3**	**2.1**	**(0.1)**	**2.3**
Other	**1.3**	–	–	**0.1**	**1.4**
Total	**1.3**	**0.3**	**2.1**	–	**3.7**
At 31 December 2002					
Sterling	–	0.2	1.4	1.8	3.4
Other	1.3	–	–	0.6	1.9
Total	1.3	0.2	1.4	2.4	5.3

21. Financial instruments and risk management (continued)
The maturity profile of financial liabilities, other than short term creditors such as trade creditors, accruals and deferred income relating to PPP bid cost recoveries, is as follows:

	Overdrafts £m	Bank & other loans £m	Finance leases £m	Other financial liabilities £m	Total £m
At 31 December 2003					
More than five years	–	–	**6.9**	–	**6.9**
Between two and five years	–	**0.9**	**3.9**	**1.8**	**6.6**
Between one and two years	–	**39.8**	**2.4**	**2.9**	**45.1**
More than one year	–	**40.7**	**13.2**	**4.7**	**58.6**
Less than one year	**11.3**	**0.3**	**2.4**	–	**14.0**
	11.3	**41.0**	**15.6**	**4.7**	**72.6**
At 31 December 2002					
More than five years	–	–	1.6	0.2	1.8
Between two and five years	–	61.5	2.2	2.6	66.3
Between one and two years	–	–	1.5	8.6	10.1
More than one year	–	61.5	5.3	11.4	78.2
Less than one year	18.3	–	2.1	–	20.4
	18.3	61.5	7.4	11.4	98.6

In addition, there were the following undrawn facilities with an average maturity of 1 year and 2 months in respect of which all conditions precedent had been met:

	2003 £m	2002 £m
Expiring in one year or less (but extendible by one year at the Group's option)	–	7.5
Expiring in one year or less (but extendible by two years at the Group's option)	**16.0**	16.0
Expiring between one and two years	**105.6**	–
Expiring between two and five years	–	83.5
	121.6	107.0

Credit risk and exposures
The Group considers that it is not exposed to a significant amount of credit risk.

Credit exposures on financial instruments arise through short term deposits and foreign exchange hedging. Such transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major rating agencies. Counterparty exposure positions are monitored regularly.

Fair values
The book and fair values of the Group's financial instruments at 31 December 2003 and 31 December 2002 are not materially different.

22. Provisions for liabilities and charges

Group	Deferred taxation £m	Other provisions £m	Total £m
At 1 January 2003	5.8	2.3	8.1
Exchange rate movement	0.2	–	0.2
Transfer to profit and loss account	(2.0)	(0.9)	(2.9)
Expenditure in year	–	(0.7)	(0.7)
At 31 December 2003	**4.0**	**0.7**	**4.7**

Details relating to deferred taxation are as follows:

	(Asset)/liability recognised	
	2003 £m	*2002 £m*
Accelerated capital allowances	**(5.2)**	0.9
Other timing differences	**9.2**	4.9
	4.0	5.8

23. Share capital

	2003 £m	*2002 £m*
Authorised		
Equity: 325,000,000 ordinary shares of 50p each	**162.5**	162.5

	Number *million*	Nominal value *£m*
Allotted, called up and fully paid		
At 1 January 2003	213.0	106.5
New share capital subscribed by QUEST (see Note 24)	1.0	0.5
At 31 December 2003	**214.0**	**107.0**

Details of options granted to Directors and employees under the Company's share option schemes during the year are set out in the Remuneration Report on pages 26 to 33.

In respect of the Sharesave Scheme there were issues of 50p ordinary shares during the year, being 10,640 shares at an option price of 109.1p and 631 shares at an option price of 126.6p.

24. Reserves

The movements on reserves are summarised as follows:

Group	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2003	5.5	8.2	27.3	41.0
Exchange rate movements	–	–	(1.3)	(1.3)
Retained loss for the year	–	–	(5.8)	(5.8)
Goodwill written back on disposal	–	–	5.5	5.5
Impairment of goodwill previously written off (see Note 12)	–	–	8.1	8.1
Premium arising on issue of shares	1.0	–	–	1.0
At 31 December 2003	**6.5**	**8.2**	**33.8**	**48.5**

At 31 December 2003 cumulative goodwill written off to the profit and loss account reserve amounted to £110.5m (2002: £124.1m). The merger reserve arose on the demerger from Tarmac plc on 29 July 1999.

On 26 September 2003 the Qualifying Employee Share Ownership Trust (QUEST) subscribed for 961,291 shares in the Company at market value for a consideration of £1.5m. During the year, 1,400,766 ordinary shares held by the QUEST were transferred to employees of the Group following the exercise of options under the November 1999 Sharesave Scheme.

At 31 December 2003 the total number of shares held by the QUEST amounted to 1,313,936 (2002: 1,753,411) and had a market value of £2.0m (2002: £1.9m). The QUEST elected to waive all dividends in excess of 0.01 pence per share.

Company	Share premium account £m	Profit and loss account £m	Total £m
At 1 January 2003	5.5	31.9	37.4
Retained profit for the year	–	13.6	13.6
Premium arising on issue of shares	1.0	–	1.0
At 31 December 2003	**6.5**	**45.5**	**52.0**

25. Other guarantees and contingent liabilities

	Group		Company	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Guarantees in respect of borrowings of subsidiaries, joint ventures and joint arrangements	**–**	–	**11.2**	9.4
Guarantees in respect of deferred equity payments in PPP joint ventures	**1.2**	6.7	**1.2**	6.7
Guarantees in respect of letters of credit issued by banks in respect of deferred equity payments in PPP joint ventures	**7.0**	9.8	**7.0**	9.8

Group

Guarantees and counter indemnities have been given to financial institutions in respect of the provision of performance and other contract related bonds that are issued in the normal course of business.

Claims under contracts and other agreements, including joint arrangements, are outstanding in the normal course of business.

The Group, in the normal course of its construction activities, is the subject of certain legal proceedings that are regarded as unlikely to succeed or to have a material effect on the Group's financial position.

Company

The Company has issued performance guarantees in respect of its subsidiaries, joint ventures and joint arrangements in the normal course of business.

26. Financial and capital commitments

Group commitments for capital expenditure	**2003 £m**	2002 £m
Contracts placed	**5.0**	6.0

Group commitments for investments	**2003 £m**	2002 £m
Equity and subordinated debt in PPP joint ventures	**8.2**	16.5

	2003		2002	
Group annual commitments under non-cancellable operating leases	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Annual commitments expiring:				
Within one year	**1.7**	**2.9**	1.8	2.7
In second to fifth year inclusive	**2.1**	**12.9**	2.1	11.0
Over five years	**2.4**	**0.1**	3.1	–
	6.2	**15.9**	7.0	13.7

27. Related parties

Group joint ventures

Sales and purchases between the Group and its joint ventures, which are in the normal course of business and on commercial terms, amounted to:

Sales to Group joint ventures	2003 £m	2002 £m
PPP projects		
Accommodation Services (Holdings) Limited	**20.8**	125.5
UK Court Services (Manchester) Holdings Limited	**16.9**	6.1
Ellenbrook Holdings Limited	**18.7**	42.5
The Hospital Company (Swindon & Marlborough) Holdings Limited	**18.0**	15.7
Others	**27.5**	20.5
	101.9	210.3
Other joint ventures	**0.8**	2.9
	102.7	213.2

Purchases from Group joint ventures	**–**	1.1

The debtor and creditor balances between the Carillion Group and its joint ventures are disclosed in Notes 17 and 19 respectively.

28. *Cash flow notes*

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2003 £m	2002 £m
Group operating profit before exceptional items	**38.1**	37.8
Depreciation	**15.0**	14.6
Reversal of impairment in tangible fixed assets	**(2.2)**	–
Loss/(profit) on disposal of fixed assets	**0.1**	(0.8)
Decrease in market value of listed current asset investments	**–**	0.3
Amortisation of goodwill	**3.8**	2.7
Amortisation of own shares	**–**	(3.3)
Decrease in stocks	**0.9**	9.7
Decrease in debtors	**22.6**	41.9
Increase/(decrease) in creditors due within one year	**10.4**	(96.9)
(Decrease)/increase in creditors due after more than one year	**(5.9)**	2.1
Decrease in provisions	**(0.9)**	–
Increase/(decrease) in bills of exchange	**3.0**	(3.5)
Net cash inflow from operating activities before exceptional items	**84.9**	4.6
Exceptional operating cash spend	**(0.7)**	(3.5)
Net cash inflow from operating activities	**84.2**	1.1

28. Cash flow notes (continued)

(b) Analysis of changes in net funds/(debt)

	As at 1 January 2003 £m	Cash flows £m	Exchange rate movements £m	Other non-cash movements £m	As at 31 December 2003 £m
Cash at bank and in hand	54.6	16.0	0.1	–	**70.7**
Bank overdrafts	(18.3)	7.8	(0.8)	–	**(11.3)**
	36.3	23.8	(0.7)	–	**59.4**
Short term deposits	30.5	25.4	1.5	–	**57.4**
Bank loans	(61.5)	22.5	(0.4)	–	**(39.4)**
Other loans	–	(1.6)	–	–	**(1.6)**
Finance leases	(7.4)	2.2	–	(10.4)	**(15.6)**
Net funds/(debt)	**(2.1)**	**72.3**	**0.4**	**(10.4)**	**60.2**

(c) Reconciliation of net cash flow to movement in net funds/(debt)

	2003 £m	2002 £m
Increase/(decrease) in cash in the year	**23.8**	(10.4)
Increase in short term deposits	**25.4**	10.6
Cash outflow/(inflow) from drawdown of debt	**20.9**	(45.0)
Cash outflow from finance leases	**2.2**	2.5
Movement in net funds resulting from cash flows	**72.3**	(42.3)
Exchange rate movements	**0.4**	(1.5)
Non cash movements from finance leases	**(10.4)**	(3.0)
Movement in net funds in the year	**62.3**	(46.8)
Net (debt)/funds at 1 January	**(2.1)**	44.7
Net funds/(debt) at 31 December	**60.2**	(2.1)

29. Acquisitions and disposals

(a) Acquisitions

In June 2003, the Group acquired the entire share capital of Swedish Rail Systems Entreprenad (SRSE), Sweden and Norway's largest private sector rail infrastructure contractor for consideration of £2.9m. In July 2003, the Group acquired an additional 31% of the ordinary share capital of UK Highways Services Limited for consideration of £1.4m. Details of these acquisitions are summarised in total below:

	Book value £m	Fair value adjustments £m	Total £m
Tangible fixed assets	1.4	–	1.4
Stocks	2.2	–	2.2
Debtors due within one year	6.2	(1.0)	5.2
Cash	3.9	–	3.9
Creditors due within one year	(9.4)	–	(9.4)
Creditors due after more than one year	(0.1)	–	(0.1)
Group share of net assets acquired	**4.2**	**(1.0)**	**3.2**
Goodwill arising on acquisition			**1.1**
Fair value of consideration			**4.3**

The fair value adjustment relates to a re-assessment of the recoverability of contract debtors. Of the fair value of consideration, £3.9m was satisfied in cash, which includes costs associated with the acquisitions of £0.1m. Contingent consideration of £0.4m is included in creditors due within one year.

The acquisitions have been reflected in the Group cash flow statement as follows:

	£m
Cash consideration paid (including acquisition costs)	3.9
Cash acquired in the businesses	(3.9)
Cash movement in respect of acquisitions	–

During the year the Group increased its equity investments in joint venture companies by £0.5m, of which £0.4m was satisfied in cash and £0.1m by way of capitalisation of a short-term loan advance. No goodwill arose on these transactions.

29. Acquisitions and disposals (continued)

(b) Disposals
During the year the Group disposed of a number of non-core businesses. The movements in total that relate to these disposals are summarised below:

	Book value £m
Tangible fixed assets	(2.0)
Stocks	(0.1)
Debtors due within one year	(6.4)
Cash	(1.8)
Creditors due within one year	8.7
Net assets disposed of	(1.6)
Fair value of consideration receivable	7.0
Closure costs	(1.4)
Goodwill written back on disposal	(5.5)
Loss on disposal	**(1.5)**

The consideration receivable is stated after deducting costs associated with the disposals of £0.5m and includes £0.6m held in debtors due within one year at the year end.

The disposals have been reflected in the Group cash flow statement as follows:

	£m
Cash consideration received (net of disposal costs)	6.4
Cash in businesses disposed of	(1.8)
Cash inflow in respect of disposals	**4.6**

In November 2003, the Group disposed of its 30% equity shareholding and its loan advances in the Darent Valley Hospital PPP joint venture. This followed the successful re-financing of the joint venture in March 2003 which generated £10.8m of cash for the Group. The carrying value of the investment at the date of disposal was negative at £6.7m, principally due to the receipt of the re-financing proceeds. The equity disposal generated cash consideration of £5.1m (after deducting disposal costs of £0.1m). Net profit generated from the disposal was therefore £11.8m.

30. Pension arrangements

Carillion operates a number of pension schemes in the United Kingdom for eligible employees. The main defined benefit schemes are:

The Carillion Staff Pension Scheme
The Carillion 'B' Pension Scheme
The Carillion Public Sector Pension Scheme
Shared Cost Sections of the Railways Pension Scheme (relating to GTRM and Centrac)

The key actuarial assumptions used in the latest valuations of these schemes were:

	Staff	'B'	Public Sector	GTRM	Centrac
Rate of increase in salaries	4.35%	5.35%	4.35%	4.75%	4.75%
Rate of increase in pensions	2.35%	2.35%	2.35%	2.50%	2.50%
Inflation rate	2.35%	2.35%	2.35%	2.50%	2.50%
Discount rate	5.50%	5.50%	6.00%	5.61%	5.53%

All the main defined benefit schemes in the United Kingdom were fully funded on the prescribed Minimum Funding Requirement (MFR) basis.

30. Pension arrangements (continued)

Carillion Staff and 'B' Pension Schemes
Actuarial valuations of the above schemes were undertaken by the Trustees' independent actuaries as at 31 December 2002 using the projected unit method. The market value of the schemes' assets at this date were £316.7m and £80.9m respectively, the value of which represented approximately 81% and 90% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £13.9m (2002: £1.1m) in respect of the Carillion Staff Pension Scheme and £1.8m (2002: £0.1m) in respect of the Carillion 'B' Pension Scheme. Both schemes are now closed to new entrants.

The increase in contributions during the year for the Staff and 'B' schemes reflects the cessation of the employer contribution holiday in December 2002 and the agreed new contribution rates for the schemes with effect from July 2003 following the most recent valuations. The contribution rates include an allowance for funding the past service deficits identified at the 2002 valuation date over the remaining average working life of the active scheme members. The contribution rates will normally be reviewed at the next valuation due at 31 December 2005.

Carillion Public Sector Pension Scheme
An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 December 2002 using the attained age method. The market value of the scheme's assets at that date was £58.2m, which represented approximately 90% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £2.2m (2002: £2.0m).

Shared Cost Sections of the Railways Pension Scheme
Employees of GTRM and Centrac and former employees of British Rail transferred to these businesses have pension provision via Shared Cost Sections of the Railways Pension Scheme. Both the GTRM and Centrac Sections are now closed to new entrants.

Shared cost arrangements are such that the employer and members share the cost of future service liabilities on a 60/40 split respectively and any surplus (or deficit) emerging over time is dealt with on a similar basis. The contributions paid by the employer during the year were £4.9m (2002: £4.2m) for GTRM and £0.1m (2002: £0.1m) for Centrac.

Independent actuaries appointed by the Railways Pension Trustee Company Limited carried out a formal valuation of the Railways Pension Scheme at 31 December 2001 using the projected unit method for GTRM and the attained age method for Centrac. The next full valuation is due as at 31 December 2004.

The market value of the assets of the GTRM Section at the valuation date was £263.4m. This represented 108% of the past service liabilities taking account of future increases in salaries.

The market value of the assets of the Centrac Section at the valuation date was £26.1m. This represented 115% of the past service liabilities taking account of future increases in salaries.

Following the announcement by Network Rail that it intends to take in-house all rail maintenance contracts during 2004, there is expected to be a bulk transfer of members and the associated assets and liabilities to the Network Rail Shared Cost Section of the Railways Pension Scheme. As the employees involved and the financial basis have not been agreed with Network Rail, no assessment of the effect of any transfer can be made at the current time.

Other UK and overseas schemes
The Group operates two UK defined contribution schemes, the Carillion Retirement Plan (closed to new entrants) and the Carillion Pension Plan.

The Carillion Pension Plan commenced on 1 April 2003. The majority of new employees are eligible to join this plan. Employees contribute a minimum of 5% and the employer a minimum of 7% of basic salaries. Up to 3% of any additional voluntary contributions paid by employees is matched by the employer, resulting in a maximum employer contribution of 10% of basic salary. Death in service lump sum benefits are provided in addition.

Employees of Carillion Services who are not eligible for other Carillion schemes are invited to participate in the Carillion Stakeholder Plus managed by Merrill Lynch Investment Management. Employees contribute 5% and the employer 6.5% of basic salaries. Death in service lump sum benefits are provided in addition.

Stakeholder pensions are provided by B&CE Insurance and Scottish Widows where required by Working Rule Agreements.

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc managed locally and supplemental arrangements in respect of certain executives. The Group also operates defined benefit and defined contribution schemes for employees of Carillion Rail Sverige AB again managed locally.

Contributions during the year were £1.1m (2002: £0.3m) in respect of UK defined contribution schemes, £Nil (2002: £Nil) in respect of the Canada defined benefit scheme and £0.2m (2002: £0.8m) in respect of other post-retirement benefits for senior Canadian employees. Contributions in respect of the Swedish and Norwegian defined benefit and defined contribution schemes during the period since acquisition were £0.6m.

30. Pension arrangements (continued)

SSAP 24 pension costs

Statement of Standard Accounting Practice (SSAP) 24 'Accounting for pension costs' requires that the cost of providing pensions is recognised over the period benefiting from the employees' services, with any differences between the charge to the profit and loss account and the contributions paid to the schemes being shown as an asset or liability on the balance sheet. The pension cost has been determined by the Directors in conjunction with the advice of independent qualified actuaries using the assumptions below:

	Staff	'B'	Public Sector	GTRM	Centrac
Rate of increase in salaries	4.00%	5.00%	4.00%	4.00%	4.00%
Rate of increase in pensions	2.25%	2.25%	2.25%	2.25%	2.25%
Inflation rate	2.25%	2.25%	2.25%	2.25%	2.25%
Discount rate	6.25%	6.25%	6.25%	7.00%	7.00%

The SSAP 24 position for the UK schemes is as follows:

	Staff	'B'	Public Sector	Railways Pension
Market value of assets (£m)	316.7	80.9	58.2	289.5
Level of funding (%)	93.5	101.2	95.0	176.7

The charge to the profit and loss account as disclosed in Note 6 on page 49, is analysed as follows:

	Staff £m	'B' £m	Public Sector £m	Railways Pension £m	Defined contribution and overseas schemes £m	Total £m
Regular cost	10.0	1.5	2.5	6.1	1.9	22.0
Variation in cost	1.8	0.1	0.4	(0.8)	–	1.5
Interest credit	(0.3)	(0.1)	(0.1)	(0.9)	–	(1.4)
Net pension cost	**11.5**	**1.5**	**2.8**	**4.4**	**1.9**	**22.1**

Amounts carried in the balance sheet in respect of pension prepayments are disclosed in Note 17.

FRS 17 Retirement benefits

Group

Whilst the Group continues to account for pension costs in accordance with SSAP 24, under FRS 17 'Retirement benefits' the following transitional disclosures are required.

The principal assumptions used by the independent qualified actuaries in providing the FRS 17 position were:

	31 December 2003		31 December 2002		31 December 2001	
	UK	**Canada**	UK	Canada	UK	Canada
Rate of increase in salaries	**4.06%**	**3.25%**	3.58%	3.50%	3.75%	3.75%
Rate of increase in pensions	**2.81%**	**2.25%**	2.33%	2.50%	2.50%	2.50%
Inflation rate	**2.81%**	**2.25%**	2.33%	2.50%	2.50%	2.50%
Discount rate	**5.36%**	**6.00%**	5.50%	6.25%	5.80%	5.80%

The market values of the schemes' assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised. The present values of the schemes' liabilities are calculated by reference to the investment return on Grade AA corporate bonds. The assumptions used do not necessarily represent the investment return that may be achieved.

30. Pension arrangements (continued)

The FRS 17 position for the schemes is as follows:

31 December 2003	UK %	Expected rate of return Canada %	Staff £m	'B' £m	Public Sector £m	Railways Pension £m	Canada £m	Total £m
Equities	**7.30**	**7.50**	**180.2**	**35.7**	**44.9**	**253.2**	**8.5**	**522.5**
Government bonds	**4.80**	**5.00**	**128.9**	**40.7**	**18.0**	**38.2**	**2.0**	**227.8**
Corporate bonds	**5.36**	**5.75**	**60.3**	**12.9**	**5.1**	**–**	**2.0**	**80.3**
Other	**4.00**	**2.50**	**5.9**	**1.5**	**0.9**	**0.1**	**0.2**	**8.6**
Market value			**375.3**	**90.8**	**68.9**	**291.5**	**12.7**	**839.2**
Present value of scheme liabilities			**(446.5)**	**(94.2)**	**(82.0)**	**(327.0)**	**(13.1)**	**(962.8)**
Deficit			**(71.2)**	**(3.4)**	**(13.1)**	**(35.5)**	**(0.4)**	**(123.6)**
Shared Cost Sections			**–**	**–**	**–**	**14.2**	**–**	**14.2**
Total deficit			**(71.2)**	**(3.4)**	**(13.1)**	**(21.3)**	**(0.4)**	**(109.4)**
Related deferred tax asset								**32.8**
Net pension liability								**(76.6)**
31 December 2002								
Equities	7.02	7.75	208.5	53.5	36.6	200.4	7.4	506.4
Government bonds	4.52	5.25	56.6	13.6	14.6	18.4	3.2	106.4
Corporate bonds	5.50	6.00	47.2	12.2	5.6	–	–	65.0
Other	4.00	2.75	4.7	1.7	1.5	18.0	0.2	26.1
Market value			317.0	81.0	58.3	236.8	10.8	703.9
Present value of scheme liabilities			(367.9)	(85.9)	(65.6)	(257.8)	(10.7)	(787.9)
(Deficit)/surplus			(50.9)	(4.9)	(7.3)	(21.0)	0.1	(84.0)
Shared Cost Sections			–	–	–	8.4	–	8.4
Total (deficit)/surplus			(50.9)	(4.9)	(7.3)	(12.6)	0.1	(75.6)
Related deferred tax asset								22.7
Net pension liability								(52.9)
31 December 2001								
Equities	7.25	7.25	261.0	66.7	45.8	261.7	10.1	645.3
Government bonds	4.75	4.75	53.0	13.7	12.9	23.8	5.8	109.2
Corporate bonds	5.75	5.75	60.5	15.3	1.5	–	–	77.3
Other	5.00	5.00	0.4	–	3.4	45.5	0.3	49.6
Market value			374.9	95.7	63.6	331.0	16.2	881.4
Present value of scheme liabilities			(360.0)	(82.0)	(58.0)	(254.4)	(11.8)	(766.2)
Surplus			14.9	13.7	5.6	76.6	4.4	115.2
Shared Cost Sections			–	–	–	(30.6)	–	(30.6)
Total surplus			14.9	13.7	5.6	46.0	4.4	84.6
Related deferred tax liability								(25.4)
Net pension asset								59.2

30. Pension arrangements (continued)

If FRS 17 had been adopted in full in the financial statements, the Group's net assets and profit and loss reserve would be as follows:

	2003 £m	2002 £m
Net assets per balance sheet	**157.8**	149.7
SSAP 24 prepayments reversed (net of related deferred tax)	**(14.5)**	(13.7)
Revised net assets excluding pension liability	**143.3**	136.0
Net pension liability	**(76.6)**	(52.9)
Net assets including pension liability	**66.7**	83.1

Profit and loss reserve per balance sheet	**33.8**	27.3
SSAP 24 prepayments reversed (net of related deferred tax)	**(14.5)**	(13.7)
Revised profit and loss reserve excluding pension reserve	**19.3**	13.6
Pension reserve	**(76.6)**	(52.9)
Profit and loss reserve including pension reserve	**(57.3)**	(39.3)

If FRS 17 had been adopted in full, the impact on the Group's profit and loss account and Statement of Total Recognised Gains and Losses (STRGL) would have been as follows:

	2003 £m	2002 £m
Charge to operating profit		
Current service cost	**(22.4)**	(23.1)
Past service cost	**–**	–
Total	**(22.4)**	(23.1)

Credit/(charge) to other finance income		
Expected return on pension scheme assets	**39.8**	48.7
Interest cost on pension scheme liabilities	**(37.9)**	(40.4)
Net finance return	**1.9**	8.3

30. Pension arrangements (continued)

Recognition in the STRGL

	2003 £m	2002 £m
Actual return less expected return on pension scheme assets	**66.3**	(139.0)
Experience gains and losses arising on pension scheme liabilities	**(0.1)**	(4.9)
Effects of changes in assumptions underlying the present value of pension scheme liabilities	**(102.3)**	(8.6)
Exchange rate movements	**(0.1)**	(0.4)
Total actuarial gains and losses	**(36.2)**	(152.9)

The analysis of the movement in the (deficit)/surplus during the year is as follows:

	2003 £m	2002 £m
(Deficit)/surplus at 1 January	**(75.6)**	84.6
Current service cost	**(22.4)**	(23.1)
Contributions	**22.9**	7.5
Past service costs	**–**	–
Other finance income	**1.9**	8.3
Actuarial gains and losses	**(36.2)**	(152.9)
Deficit at 31 December	**(109.4)**	(75.6)

History of experience gains and losses

	2003	2002
Difference between expected and actual return on scheme assets (£m)	**66.3**	(139.0)
Percentage of scheme assets	**7.9%**	(19.7%)
Experience gains and losses on scheme liabilities (£m)	**(0.1)**	(4.9)
Percentage of scheme liabilities	**–**	(0.6%)
Total amount recognised in STRGL (£m)	**(36.2)**	(152.9)
Percentage of scheme liabilities	**3.8%**	19.4%

Company
As the schemes are run for the Carillion Group as a whole, the Company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17, the schemes will be accounted for by the Company separately as if the schemes were defined contribution schemes, when the accounting standard is fully adopted.

Five Year Review

Profit and loss account	**2003 £m**	2002 £m	2001 £m	2000 £m	1999 £m
Total turnover	**1,977.6**	1,974.4	1,889.8	1,909.0	1,802.3
Less: share of joint ventures' turnover	**(116.7)**	(127.1)	(191.0)	(223.4)	(192.6)
Group turnover	**1,860.9**	1,847.3	1,698.8	1,685.6	1,609.7
Operating profit before exceptional items and goodwill amortisation					
Group	**41.9**	40.5	27.5	24.0	27.7
Joint ventures	**14.3**	14.3	21.1	17.8	18.0
	56.2	54.8	48.6	41.8	45.7
Net interest (payable)/receivable					
Group	**(0.5)**	0.6	0.3	(1.5)	(3.7)
Joint ventures	**(4.9)**	(5.2)	(3.6)	(1.8)	(2.5)
	(5.4)	(4.6)	(3.3)	(3.3)	(6.2)
Profit before exceptional items and goodwill amortisation	**50.8**	50.2	45.3	38.5	39.5
Exceptional operating items					
Group	**(33.1)**	–	(8.9)	(30.0)	(1.5)
Joint ventures	**–**	–	(1.2)	(2.0)	–
	(33.1)	–	(10.1)	(32.0)	(1.5)
Exceptional non-operating items					
Sale of fixed asset investments	**11.2**	–	–	–	–
Sale of businesses	**(1.3)**	(5.3)	–	3.1	–
	9.9	(5.3)	–	3.1	–
Goodwill amortisation	**(3.8)**	(2.7)	(0.5)	(0.1)	–
Profit on ordinary activities before taxation	**23.8**	42.2	34.7	9.5	38.0
Tax on profit on ordinary activities	**(13.8)**	(12.9)	(10.1)	(1.6)	(13.4)
Equity minority interests	**(1.7)**	(2.1)	(3.1)	(1.0)	0.1
Profit for the financial year	**8.3**	27.2	21.5	6.9	24.7
Balance sheet					
Intangible assets	**21.3**	49.0	42.8	1.6	1.7
Tangible assets	**68.1**	56.9	53.0	47.1	54.2
Investments in joint ventures:					
Share of gross assets	**639.7**	646.1	572.0	517.5	275.9
Share of gross liabilities	**(599.7)**	(606.8)	(530.4)	(487.9)	(250.7)
	40.0	39.3	41.6	29.6	25.2
Loan advances	**33.1**	21.7	19.2	19.4	10.6
	73.1	61.0	60.8	49.0	35.8
Other investments	**6.3**	6.1	2.7	1.9	–
Working capital	**(53.1)**	(11.9)	(59.3)	(32.5)	(101.5)
Investments	**4.7**	8.2	9.4	8.0	5.4
Tax and dividends	**(37.7)**	(22.6)	(20.5)	(8.8)	(11.7)
Cash (net)	**75.8**	5.3	51.6	50.8	132.2
	158.5	152.0	140.5	117.1	116.1
Equity shareholders' funds and minorities	**157.8**	149.7	134.7	116.2	112.2
Provisions for liabilities and charges	**0.7**	2.3	5.8	0.9	3.9
	158.5	152.0	140.5	117.1	116.1

Operating ratio					
Operating profit on turnover (%)	**2.8**	2.8	2.6	2.2	2.5
Financial ratios					
Interest covered by operating profit (times)	**10.4**	11.9	14.7	12.7	7.4
Dividend cover (times)	**0.6**	2.7	2.4	0.8	3.0
Share information					
Dividends per ordinary share	**6.75p**	4.8p	4.4p	4.12p	4.0p
Earnings per share on published earnings	**4.0p**	13.2p	10.5p	3.4p	12.1p
Adjusted earnings per share (excluding all exceptional items and goodwill amortisation)	**16.8p**	16.6p	14.0p	13.0p	12.6p

Principal subsidiary undertakings, joint ventures and joint arrangements

All subsidiary undertakings and joint ventures are incorporated in Great Britain and, except where shown, operate in the UK. All holdings are of ordinary shares and except where shown, all subsidiary undertakings are 100% owned (with equivalent voting rights) and joint ventures and joint arrangements are 50% owned. Shares of those undertakings marked with an asterisk are directly owned by Carillion plc.

Principal subsidiary undertakings		Nature of business
Carillion BTP S.A. (France)		Building and civil engineering
Carillion Canada Inc (Canada)		Construction and infrastructure services
Carillion (Caribbean) Ltd (Trinidad & Tobago)		Construction and infrastructure services
Carillion (Chelverton) Ltd		Holding company for property development
Carillion Construction Ltd*		Construction and infrastructure services
Carillion Fleet Management Ltd*		Supply and maintenance of vehicles
Carillion Highway Maintenance Ltd*		Roads and ground maintenance and repair
Carillion Private Finance Ltd*		Holding company for PPP project companies
Carillion Services Ltd*		Facilities management
GT Railway Maintenance Ltd		Railway infrastructure
Monteray Ltd	51%	Property and facilities management services
Postworth Ltd*		Supply of operatives to the construction industry

Principal joint ventures

Public Private Partnerships		Associated project
Accommodation Services (Holdings) Ltd	40%	GCHQ, Cheltenham
Arrow Light Rail Holdings Ltd	12.5%	Nottingham Express Transit
Education Care & Discipline Ltd		Medway Secure Training Centre
Education Care & Discipline Three Ltd		Rainsbrook Secure Training Centre
Ellenbrook Holdings Ltd		University of Hertfordshire student accommodation
Group 4 Carillion (Fazakerley) Ltd		HM Prison Altcourse
Group 4 Carillion (Onley) Ltd		HM Prison Rye Hill
The Hospital Company (Oxford John Radcliffe) Holdings Ltd		John Radcliffe Hospital,Oxford
The Hospital Company (Swindon & Marlborough) Holdings Ltd	33.3%	Great Western Hospital, Swindon
Town Hospitals (North Staffordshire) Holdings Ltd		Harplands Hospital
Town Hospitals (Southern General) Holdings Ltd		Glasgow Southern General Hospital
UK Court Services (Manchester) Holdings Ltd	33.3%	Manchester Magistrates Court
UK Highways A55 (Holdings) Ltd		A55 North Wales
UK Highways M40 (Holdings) Ltd		M40 Motorway
UK Highways Services Ltd		Motorway maintenance

Others		Nature of business
Al Futtaim Carillion (Pte) Ltd (UAE)	49%	Building and civil engineering
Carillion Alawi LLC (Oman)	49%	Building and civil engineering
Carillion Richardson Developments Ltd*	50%	Property development
Emrill Services LLC (UAE)*	49%	Facilities management
Servus Ltd (Trinidad & Tobago)		Facilities management

Principal joint arrangements

Name, proportion of interest held and address of principal place of business:

Name	**Proportion of interest held**	**Address of principal place of business**
CAMBBA Construction Group	25%	Mill Lane, Off Watling Street, Shenstone, Staffordshire, England
Carillion-URS Joint Venture	*70%*	*Pytchley Maintenance Compound, Pegasus Court,* Kettering South Business Park, Kettering, Northamptonshire, England
Carillion-WSP JV	60%	Bradford, West Yorkshire, England
GTBB	50%	Rugby, Warwickshire, England

A complete list of Group subsidiary undertakings will be attached to the Company's annual return to the Registrar of Companies.

Dividends
Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2003 – together with the additional dividend of 1.7p announced in November and due to Carillion's sale of its equity interest in the Darent Valley Hospital PPP concession – will be payable on 25 June 2004 to those shareholders on the register on 30 April 2004.

A dividend reinvestment plan (DRIP) will also be offered.

For those shareholders who prefer not to participate in the DRIP, arrangements can be made to pay your dividends automatically into your bank or building society account. This service has a number of benefits:

- there is no chance of the dividend cheque going missing in the post;
- the dividend payment is received quicker as the cash is paid directly into your account on the payment date without the need to wait for the cheque to clear; and
- you will be helping Carillion to improve its efficiency by reducing printing and cheque clearing costs.

If you wish to register for this service please call Lloyds TSB Registrars on the number detailed below to request a dividend mandate form.

Results
Half year to 30 June 2004: announced 8 September 2004
Full year to 31 December 2004: announced March 2005

Shareholder enquiries
Lloyds TSB Registrars maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone
0870 600 3953
Textphone for shareholders with hearing difficulties
0870 600 3950

Multiple accounts on the shareholder register
If you have received two or more sets of the documents concerning the Annual General Meeting this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account, please write to Lloyds TSB Registrars at the address given above.

Shareview (Electronic Communications)
www.shareview.co.uk is a service offered by Lloyds TSB Registrars that enables you to check your holdings in many UK companies and helps you to organise your investments electronically. You can register for this portfolio service, which is easy to use, secure and free as long as you have access to the internet, by logging on to www.shareview.co.uk and following a simple registration process.

Electronic proxy appointments
For the AGM to be held on 12 May 2004, you may, if you wish, register the appointment of a proxy electronically by logging on to the website www.sharevote.co.uk

You will need your voting reference numbers (the three 8-digit numbers shown on your form of proxy). Alternatively, if you have registered for a Shareview portfolio, log on to your portfolio at www.shareview.co.uk and click on 'Company Meetings'.

Please note that any electronic communication that is found to contain a computer virus will not be accepted.

Share Dealing Service
Carillion now offers its UK shareholders Shareview Dealing, a telephone and internet share sale service operated by Lloyds TSB Registrars. For telephone sales call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number, which is shown on your share certificate.

ShareGift
ShareGift is a charity share donation scheme for shareholders, administered by the Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomic to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Lloyds TSB Registrars.

Auditors
KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Bankers
National Westminster Bank plc
16 South Parade
Nottingham
NG1 2JX

Brokers
Cazenove & Co. Limited
12 Tokenhouse Yard
London
EC2R 7AN

Financial Advisers
Lazard Brothers & Co., Limited
21 Moorfields
London
EC2P 2HT

Legal Advisers
Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Share Registrars
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Internet
Carillion's website,
www.carillionplc.com

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carillion

Carillion plc
Birch Street
Wolverhampton WV1 4HY
United Kingdom

Registered number: 3782379

T +44 (0)1902 422431
F +44 (0)1902 316165

www.carillionplc.com