

A copy of this document, which comprises listing particulars relating to Carillion, prepared in accordance with the Listing Rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

Application has been made to the London Stock Exchange for the Carillion Shares to be admitted to the Official List. Subject, *inter alia*, to the Tarmac Scheme becoming effective and the New Tarmac Reduction of Capital occurring, it is expected that such Admission will become effective, and that dealings in Carillion Shares will commence, on 30 July 1999.

This document does not constitute an offer or invitation to any person to subscribe for or purchase any securities in Carillion.

All statements relating to the Carillion Group's business, financial position and prospects should be viewed in light of the Year 2000 compliance issues which are set out in Part I of this document.

Carillion plc

*Incorporated and registered in England and Wales
under the Companies Act 1985 registered no. 3782379*

INTRODUCTION TO THE OFFICIAL LIST SPONSORED BY LAZARD BROTHERS

Lazard Brothers, which is regulated by The Securities and Futures Authority Limited, is advising Tarmac, New Tarmac and Carillion and no-one else in connection with the proposals described in this document and will not be responsible to anyone else for providing the protections afforded to customers of Lazard Brothers nor for providing advice in relation to such proposals.

SHARE CAPITAL UPON ADMISSION

Authorised			Issued and fully paid (or credited as fully-paid)	
Number	Amount		Number	Amount
325,000,000	£162,500,000	ordinary shares of 50p each	198,510,849	£99,255,424

The Carillion Shares to be issued in connection with the Demerger will rank in full for all dividends and other distributions declared, made or paid on such shares after the date of Admission. Details of the basis of determination of the number of Carillion Shares in issue following the Demerger are set out in Paragraph 3 of Part 6 of this document.



INDEBTEDNESS

At the close of business on 4 May 1999, the indebtedness of the Carillion Group was as follows:

	£m
Secured loans and overdrafts	0.2
Unsecured loans and overdrafts	26.5
Obligations under hire purchase and finance leases (secured)	2.1
Amounts due to companies within the New Tarmac Group net of amounts receivable from the New Tarmac Group of £153.5 million (unsecured)	95.9

The Carillion Group at the above date had no contingent liabilities arising from guarantees given in respect of the indebtedness of joint ventures. The Carillion Group had, at 4 May 1999, a contingent liability of £30.9 million in respect of cross guarantees given in the normal course of business for the bank borrowings of the New Tarmac Group. These cross guarantees will be released on the Demerger becoming effective.

Save as disclosed above, and apart from intra-Carillion Group liabilities, at the close of business on 4 May 1999, the Carillion Group did not have any loan capital outstanding or created but unissued, term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases, contingent liabilities or guarantees.

At the close of business on 4 May 1999, the Carillion Group had cash balances and short term deposits of £91.4 million, of which £21.2 million was the Carillion Group's share of cash balances held by joint arrangements that are not entities.

As a result of the Demerger, certain transactions will occur which will have a material effect on indebtedness. The effect of these is illustrated in the pro forma statement of net assets in Part 4 of this document.

BONDING

The Carillion Group provides contract bonds issued by financial institutions in respect of certain contracts, as described in Part 1 of this document. The total maximum value of such bonds as at 4 May 1999 was £211.2 million.

OVERSEAS DISTRIBUTION

The Carillion Shares have not been and will not be registered under the US Securities Act, or under the securities laws of any state or other jurisdiction of the United States. The Carillion Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Carillion Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the US.

The distribution of this document in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Carillion Shares will be issued to holders of New Tarmac Shares in connection with the Demerger. Completion of the Demerger is subject to the Tarmac Scheme becoming effective and the New Tarmac Reduction of Capital occurring. The following is the expected timetable of the principal events connected with the Tarmac Scheme and the Demerger. All times are London times.

Tarmac Court Meeting	10.00am Thursday, 8 July
Tarmac Extraordinary General Meeting	10.05am Thursday, 8 July ⁽¹⁾
Court hearing of petition to sanction the Tarmac Scheme	Monday, 26 July
Last day of dealings in Tarmac Shares	Tuesday, 27 July
Latest time for the registration of transfer of Tarmac Shares prior to the Reorganisation and the Demerger	6.00pm Tuesday, 27 July
Tarmac Scheme becomes effective and New Tarmac becomes the ultimate holding company of the Tarmac Group	8.30am Wednesday, 28 July
De-listing of Tarmac Shares	9.00am Wednesday, 28 July
Court hearing of petition to confirm the New Tarmac Reduction of Capital	Wednesday, 28 July
New Tarmac Reduction of Capital occurs and the Demerger is completed	8.30am Thursday, 29 July
Dealings in Carillion Shares commence on the London Stock Exchange	9.00am Friday, 30 July
Crediting of Carillion Shares to CREST accounts	Friday, 30 July
Despatch of certificates for Carillion Shares and cheques in respect of fractional entitlements	Thursday, 5 August
Commencement of low cost dealing facility	Thursday, 5 August
Deadline for participation in low cost dealing facility	Friday, 10 September

(1) To commence at the time fixed or, if later, immediately following the conclusion or adjournment of the Tarmac Court Meeting.

TABLE OF CONTENTS

	Page
DIRECTORS, COMPANY SECRETARY AND ADVISERS.....	5
KEY INFORMATION	6
PART 1 THE CARILLION GROUP	11
Introduction	11
History of the Business	11
Industry Background.....	12
Strategy	13
Financial Reporting Structure.....	15
Financial Overview	15
Description of the Business	16
Relationship with New Tarmac	27
Risk Management	28
Environmental Policy	28
Health and Safety	29
Year 2000	29
Directors, Management and Employees	30
Corporate Governance	32
Bonds and Parent Company Guarantees	32
PART 2 ACCOUNTANTS' REPORT ON THE CARILLION GROUP	33
PART 3 ACCOUNTANTS' REPORT ON CARILLION PLC	68
PART 4 PRO FORMA STATEMENT OF NET ASSETS OF THE CARILLION GROUP.....	70
PART 5 SUMMARY OF THE TARMAC SCHEME AND THE DEMERGER	72
PART 6 ADDITIONAL INFORMATION	76
Responsibility	76
Incorporation and Registered Office	76
Share Capital	76
Memorandum and Articles of Association	76
Directors' and Other Interests	81
Directors' Service Agreements.....	85
Proposed Share Schemes	89
Pensions	94
Low Cost Dealing Facility	95
Subsidiaries and Associated Undertakings	96
Principal Establishments	97
Demerger Arrangements	97
Banking Arrangements	100
Material Contracts.....	101
UK and US Taxation	101
Working Capital	104
Significant Changes	104
Litigation	104
Contractual Claims	104
Information on CREST.....	105
Miscellaneous	105
Documents Available for Inspection	105
PART 7 DEFINITIONS.....	107

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Directors

Sir Neville Simms	Chairman
Roger Brooke	Non-Executive Deputy Chairman
Euan McEwan	Executive Director
Roger Robinson	Executive Director
John Sharples	Executive Director
Jean-Paul Parayre	Non-Executive Director
Alan Coppin	Non-Executive Director

Company Secretary

Dirk FitzHugh

all of the above of Construction House, Birch Street, Wolverhampton WV1 4HY

Registered Office and Head Office

Construction House, Birch Street, Wolverhampton WV1 4HY

Sponsor and Financial Adviser

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

Auditors and Reporting Accountants

KPMG Audit Plc
2 Cornwall Street, Birmingham B3 2DL

Stockbrokers

Cazenove & Co.
12 Tokenhouse Yard, London EC2R 7AN

Solicitors to Carillion

Linklaters & Alliance
One Silk Street, London EC2Y 8HQ

Solicitors to the Sponsor

Allen & Overy
One New Change, London EC4M 9QQ

Registrars

Lloyds TSB Registrars
54 Pershore Road South, Birmingham B22 1AF

Principal Bankers

National Westminster Bank Plc
Smiths Branch, 16 South Parade, Nottingham NG1 2JX

KEY INFORMATION

The following information should be read in conjunction with the full text of this document.

The Carillion Group

The Carillion Group is one of the UK's leading construction services groups. It provides clients with services and capabilities across all principal sectors of the construction industry, with the exception of private house building.

The Business Groups provide particular expertise in commercial and industrial building, refurbishment, social housing, civil engineering, road and railtrack construction and maintenance, mechanical and electrical services and facilities management.

In addition, the Carillion Group has a specialist Private Finance Unit which has built up a significant portfolio of projects in the secure establishment, transport and health sectors. This unit was set up in 1996 in response to the Private Finance Initiative established by the Government to minimize the costs to the public sector of serviced assets (eg roads, hospitals, prisons).

Carillion's professional services business is a multi-disciplinary consultancy offering a range of services from feasibility studies and design through to construction and project management.

The Carillion Group has a presence throughout Great Britain and in a number of overseas regional markets.

Strategy

Carillion's Board intends to accelerate the implementation of its strategy for growth in shareholder value which is based on six key drivers:

- continuing improvement in operating performance, leading to higher operating margins, and stronger cash flow management;
- re-positioning the existing Business Groups to increase and enhance the quality of earnings by pursuing new, profitable growth opportunities in existing and related market segments;
- further developing strong customer relationships based on partnering and the provision of innovative solutions;
- strengthening the Carillion Group's leading market positions including through complementary acquisitions and selective partnerships and disposals of non-core assets;
- leading the process of change in the UK construction industry; and
- promoting the Carillion Group's leading environmental programme.

To support this strategy and to enable shareholders to appreciate better the value of the Carillion Group's key activities, the Board intends to reorganise the financial reporting structure into the following five reporting segments: Building, Services, Infrastructure Management, Private Finance and Capital Projects.

The Directors believe that the pursuit of this strategy will continue the refocusing of the business away from cyclical, lower margin construction activities towards infrastructure management, maintenance, services and PFI related work. The Directors believe that this should create a business generating better returns and improved cash flows and with strong long-term growth prospects.

Key Strengths

Market leadership

The Carillion Group has developed a platform of core businesses and the Board believes it is a market leader in buildings for the retail and commercial sectors, refurbishment of social housing, road and rail maintenance, integrated facilities management for the health service and PFI projects.

Strong reputation

The Board believes that, in respect of its key customers, the Carillion Group has developed a strong reputation for timely completion of projects, high quality construction work and value adding relationships. This reputation is founded on the wide range of its services, leading technical skills, an innovative approach to construction and a highly motivated and committed management team which delivers projects through a spirit of openness and mutual co-operation.

Proven management of change in the business

The management of the Carillion Group embraces a culture of change as demonstrated by the successful integration of the Wimpey businesses. Furthermore, the response to the changing demands and opportunities in the market has resulted in a significant re-orientation of its engineering and construction business towards the rail industry and growth into facilities management and PFI work.

Investment in people

Carillion Group employees have strong technical and project management skills. Training is central to the development of its employees and it operates a variety of programmes for all levels of management and staff as well as having one of the construction industry's leading craft training organisations.

Leader in the PFI

The Carillion Group was a pioneer of the PFI notably in the hospital and prison sectors and established its PFU in 1996. This investment of financial resources, project management skills and technical expertise has, to date, resulted in eight PFI concession contracts with a total value to the Carillion Group of £656 million. In addition, the Carillion Group, with its consortia partners, is preferred bidder on six concession contracts providing further opportunities for growth in revenues and earnings.

Development of valuable customer relationships

The Carillion Group develops long-term customer relationships which lead to higher levels of repeat work. The Carillion Group management believes that relationships based on partnership rather than traditional, competitive tendering are beneficial to both Carillion and its customers, providing Carillion with more predictable operating margins and cash flow, and reduced overheads.

Effective risk management

The scale and diversity of the Carillion Group's business require effective management controls and procedures, covering all aspects of the tender, construction and operational phases. The increasingly rigorous application of these controls has resulted in a good record of assessing, managing and minimising risk thereby optimising the benefit from each project.

Efficient cash management

The Carillion Group management views efficient cash management as a fundamental element of contract performance and considers both the cash profile and the overall cash return to be key measures of the total economic return from a project. The Carillion Group's cash management procedures complement its risk management procedures and are applied at each stage of a project.

Safety

The safety of employees and the public is of paramount importance to the Carillion Group, from the boardroom to the site, in the development of its operations. The Carillion Group accident incident rate in 1998 compares favourably with figures produced by the Government's Health and Safety Executive for 1998 for the construction industry.

Commitment to the environment

The Carillion Group is in the forefront of environmental awareness and the implementation of environmental programmes in the UK construction industry. The judges who nominated the Carillion Group's Environmental Performance Improvement Programme as the 1998 winner of the Quality in Construction Award for Environmental Achievement stated that the Carillion Group was three years ahead of most of its competitors.

Investment Considerations

Market environment

The UK construction market has low barriers to entry and continues to be fragmented despite some recent consolidation and the entry of overseas competitors. The market is also closely linked to the economic cycle and has been particularly exposed to changes in Government policy. The Carillion Group continues to respond by increasingly differentiating itself through a higher quality and more diverse skills base, by moving into those markets with longer term income streams or with better growth characteristics, and by developing closer relationships with private sector customers.

Characteristics of construction activity

Construction activity has typically involved the winning of work through competitive tender, with total contract values high relative to many contractors' net worth such that potential losses can be significant to them. The Carillion Group is increasingly focused on negotiated work and will continue to apply strong management and risk control processes in all aspects of project selection and delivery.

Industry cash and earnings profiles

On long-term construction contracts, the basis of profit recognition can be subjective. In addition, in recent years, cash profiles in traditional contracting have been affected by extended claims settlement periods and reductions in advance payments, resulting in an unfavourable timing divergence in cash and earnings profiles. By placing greater emphasis on PFI and negotiated work, the Carillion Group is increasingly able to define and control the cash profiles of projects such that they more closely match earnings. This is reinforced by continued commitment to efficient cash management.

PFI projects

PFI projects characteristically require private sector participants to assume a broader range of risk than traditional UK construction work, including operations and maintenance risk and uncertain investment returns. In addition, such projects usually require that a higher level of cost be incurred in the period prior to the award of the contract. The Carillion Group, however, has successful experience of PFI projects and has developed extensive procedures to identify, assess, price and manage the range of risks involved for each project.

Exposure to major projects and overseas markets

Major projects, particularly those overseas, often present a significant challenge in terms of construction and project completion which, if not well managed, could fail to generate economic returns. In addition, the size and nature of such projects can have a material impact on profit in any one financial year. Whilst this risk cannot be eliminated, the Carillion Group will only compete for such major contracts if they satisfy the new Group's rigorous contract evaluation procedures. The risk inherent in the international business will be managed through a focused exposure to mature overseas regional markets where the Carillion Group currently has a presence and the usual management disciplines can be applied.

Availability of skilled staff

At various stages of the economic cycle there can be a shortage of skilled workers in the construction industry in the UK. The Carillion Group has in place management development procedures, extensive training programmes for managers and operatives and appropriate pay policies to ensure that it attracts and retains key personnel.

Rebranding

Following the Demerger, the Carillion Group will no longer trade under the Tarmac brand and will adopt its own corporate identity. Whilst there is an inherent risk for any business in adopting a new brand, the Directors consider that the adoption of the Carillion brand will offer the Group the opportunity for more effective communication to customers of its strategy and its changed position in the marketplace.

Financial Record

The table below sets out a summary of the combined financial performance of the Carillion Group, as extracted from the Accountants' Report set out in Part 2. Investors should read the whole of this document and should not just rely on this summary.

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Total turnover	1,688.2	1,795.9	1,866.1
Total operating profit before exceptional operating items	7.5	30.6	43.0
Total operating profit	7.5	30.6	37.1

Current Trading and Prospects

At the time of the 1999 Annual General Meeting, the Tarmac Board indicated that trading for the Tarmac Group was in line with management expectations. The management of the Carillion Group continues to believe that trading remains in line with these expectations and bases this upon an order book for the Carillion

Group which has been increasing steadily. As at 31 December 1998, it was £1.9 billion compared to £1.7 billion at the end of December 1997 and £1.5 billion at the end of December 1996. Between 1 January and 30 April 1999, orders worth £443 million have been received and a further £830 million are expected from the PFI during the remainder of the year.

In addition, orders for future years have been increasing as longer term contracts are obtained. Orders for 2000 and beyond as at 31 December 1998 were £694 million compared to £436 million for 1998 and beyond as at 31 December 1996, reflecting the increasing importance of longer-term PFI contracts and the re-positioning of the business towards operating, maintenance and service activities.

More contracts are being secured through negotiation and partnering rather than by traditional competitive tendering and the quality of the order book is also improving with 61 per cent. of all UK orders received in 1998 coming from key customers of the Carillion Group. This compares to only 44 per cent. in 1996.

The Board expects that this re-positioning of the business and the improvement in the order book will increase and enhance the quality of the Group's earnings.

Management

Following the Demerger, the Executive Directors of Carillion will be:

Sir Neville Simms, D. Tech — Chairman (aged 54)

Joined Tarmac in 1970 and became Chief Executive of Tarmac Construction in 1988. He was appointed a Director of Tarmac in 1988, Group Chief Executive in 1992 and Deputy Chairman in February 1994.

Euan McEwan — Executive Director (aged 43)

Appointed Finance Director of Tarmac Construction in 1995, joining the Group from Coopers & Lybrand Management Consultancy Division. He is a chartered accountant and management consultant.

Roger Robinson — Executive Director (aged 48)

Joined Tarmac as Contracts Director in 1989 and is currently Managing Director of the Engineering and Construction Business Group. He is a chartered engineer.

John Sharples — Executive Director (aged 51)

Joined Tarmac Construction in 1971 as a site engineer from the University of Manchester. He has held his present position as Managing Director of the Building Business Group since 1994. He is a chartered engineer.

In addition, the Board intends to appoint a Finance Director and discussions continue with a number of external candidates for the role. An appointment is expected in the near future.

Dividend Policy

The Directors will seek to provide growth in dividends per share in line with long term sustainable earnings, whilst maintaining an appropriate level of dividend cover to allow the Carillion Group to pursue its policies for growth.

The Directors intend that interim and final dividends will be paid in December and June each year and will represent approximately one third and two thirds, respectively, of the total annual dividend.

The first dividend will be the interim dividend in respect of the 1999 financial year which will be announced with the interim results on 5 October 1999 and paid in December 1999. The Directors intend that the total dividend for 1999 will reflect the results of the Carillion Group as if the Demerger had taken place on 1 January 1999.

The Directors consider that, had the Carillion Shares been listed for the whole of the year ended 31 December 1998, and had the capital structure of Carillion in place during that year been consistent with that which will be in place following completion of the Demerger, they would have paid a total dividend of 3.8 p per Carillion Share for that year (on the basis that Tarmac Shareholders receive one Carillion Share for every five Tarmac Shares held).

The Directors intend to operate a scrip dividend scheme identical to that currently operated by Tarmac.

Capital Structure

The Directors believe that, following the Demerger, Carillion will have sufficient capital resources to carry on its business and pursue the strategies set out in this document. Part 4 shows, for illustrative purposes, pro forma net assets for the Carillion Group following the Capital Reorganisation of £107.0 million and net cash of £147.0 million as at 31 December 1998. Further information on the Capital Reorganisation is set out in Part 5. The Directors intend that the Carillion Group will report a minimal net interest charge (before the share of interest charged in joint ventures) in the year to 31 December 2000.

Demerger

The Carillion Group (other than the Company itself) is, at the date of this document, part of the Tarmac Group. It is proposed to demerge the Carillion Group from the Tarmac Group. Admission will only occur if the Demerger becomes effective. A summary of the Demerger is set out in Part 5 of this document.

PART 1: THE CARILLION GROUP

INTRODUCTION

The Carillion Group is one of the UK's leading construction services groups, operating throughout Great Britain and in a number of overseas regional markets.

The Carillion Group's activities and financial reporting structure are currently divided into five Business Groups. However, it is the intention of the Directors to change the financial reporting structure of the Carillion Group as described in "Financial Reporting Structure" below. The current Business Groups are:

Building

The Building Business Group comprises Building and Contract Housing. Building focuses on general construction and related services comprising new build, re-development and refurbishment projects in Great Britain. It also includes Development Management which is responsible for the development, management and re-sale of a variety of commercial, retail and leisure properties and Special Projects which executes building projects under the PFI. Contract Housing undertakes construction, refurbishment and repair of social housing principally for local authorities, housing associations and Government departments in Great Britain.

Engineering and Construction

The Engineering and Construction Business Group comprises Infrastructure Management, Major Projects and overseas regional businesses. Infrastructure Management focuses on asset maintenance and renewal, the core contracts being rail maintenance contracts for Railtrack and road maintenance contracts with the Highways Agency. Major Projects focuses on roads and civil works, operates closely with the PFU and is supported by specialist businesses in piling and labour supply. The overseas regional businesses comprise long-standing operations in France, Canada, the Caribbean and the Middle East. Activities range from small civil engineering projects to large and complex infrastructure and engineering process projects.

Mechanical and Electrical Services

The Mechanical and Electrical Services Business Group which trades under the name "Crown House Engineering" operates in Great Britain and comprises mechanical engineering (including the design and installation of mechanical systems such as air conditioning, industrial pipework, heating and ventilation and plumbing); electrical engineering (including the design and installation of low and high voltage power, lighting, control systems and IT infrastructure); and a number of complementary businesses.

Private Finance Unit

The PFU was established in 1996 in response to the PFI to select and evaluate investment opportunities, arrange finance and manage concession contracts. With its co-investors, the PFU holds the concession contracts for eight projects, of which six have substantially completed the construction phase. The PFU (with its co-investors) is the preferred bidder for a further six contracts and the Board expects these will be signed in 1999. The combined value to the Carillion Group of the revenues from these fourteen projects is estimated by the Board to be approximately £1.5 billion over the life of the contracts.

Professional Services

The Professional Services Business Group is made up of three principal activities: Facilities Services, construction/project management and design consultancy. It also has a range of complementary businesses, including an environmental and materials science consultancy, which primarily serve the construction industry.

Further information on these five Business Groups is given in the section entitled "Description of the Business" below.

HISTORY OF THE BUSINESS

The roots of the Carillion Group business were established in the 1920s as the Tarmac Group (established in 1903) diversified from its origins as a road surfacing contractor to become a builder of local authority housing. During the 1930s, the business further developed with the establishment of a Civil Engineering division devoted to road construction, and the construction and repair of military airfields prior to and during World War Two.

The Civil Engineering business achieved steady growth during the post-war years building a significant proportion of the UK's motorway network and expanding its regional civil contracting activities through

PART 1: THE CARILLION GROUP — (Continued)

acquisition (including the purchase of Mitchell and Kinnear Moody, Fitzpatrick and Carmichael). It is now called the Engineering and Construction Business Group and has, since the 1960s, maintained a strong position in civil engineering in the UK, demonstrated by projects such as the Trident submarine base in Scotland, the Thames Barrier and the Channel Tunnel.

Now also part of the Engineering & Construction Business Group, the Carillion Group's international activities, which had been built up since the 1960s, were supplemented in the 1990s by regional acquisitions in France and, through the business swap with Wimpey in 1996, in Canada, the Middle East and the Caribbean.

A major step was taken in the expansion of the Building business through the acquisition of Holland Hannen and Cubitts in the 1970s. The Building business was significantly enlarged in 1996, both in the level of building activity and in the size of contracts, by the acquisition of the construction businesses of George Wimpey PLC. With a strong network of regional companies in Great Britain carrying out most types of building work including offices, industrial buildings, leisure and retail facilities, prisons and hospitals, the Building Business Group now has a significant presence in the UK building sector, undertaking projects for a range of established and key account customers.

The activities of the Building Business Group include the long-established social housing operations and were complemented by the acquisition of the specialist mechanical and electrical contractor, Crown House Engineering in 1989.

The Carillion Group's PFU was founded in 1996 and has been at the forefront of the PFI since that time. The Carillion Group is now a major builder, investor and operator in this market. With its joint venture partners, it holds the concessions for, and has constructed, the first prison, the first hospital and the first two Secure Training Centres under the PFI and has recently completed the widening of the M40 as part of its concession to maintain Junctions 1 to 15 of that motorway for 30 years.

As the outsourcing and refurbishment markets have grown in the UK, so the Carillion Group's maintenance and service businesses have expanded, resulting in leading market positions in road and rail infrastructure management and a strong position in facilities management for the National Health Service. The PFU and facilities management activities are supported by Carillion's Professional Services Business Group with its design consultancy, environmental consultancy and specialist construction management capabilities.

A predominant feature of the last 75 years of development of the Carillion Group has been its ability to recognise the need to change the products and services it offers and its approach to customers. The culture needed to achieve this change is deeply embedded in the organisation and will assist the Carillion Group in responding to the challenges of a changing market in the future.

INDUSTRY BACKGROUND

The total volume of work carried out in the construction industry in Great Britain during 1998 was £62 billion of which £45 billion was in market segments in which the Carillion Group operates. Government statistics divide this output as follows:

	£ billion
New private industrial and commercial*	13.7
New infrastructure*	6.3
New public non-housing*	4.2
New public housing*	1.0
Public housing repairs and maintenance*	6.4
Public other repairs and maintenance*	5.3
Private housing (new, repairs and maintenance)	17.0
Private other repairs and maintenance*	8.2
TOTAL	62.1

Source: DETR, Information Bulletin dated 5 March 1999

* Segments in which Carillion operates

Construction output represents approximately 9 per cent. of UK Gross Domestic Product which is significantly lower than the Western European average of 12 per cent. There was an annual average growth in

PART 1: THE CARILLION GROUP — (Continued)

UK construction output between 1994 and 1998 of approximately 1.7 per cent. The latest forecast by the National Council of Building Material Producers in April 1999 estimates that the total UK construction market will continue to grow by 1.5 per cent. in 1999, 3.0 per cent. in 2000 and 3.5 per cent. in 2001.

The industry is highly fragmented with a wide range of company sizes: contract values vary from a few hundred pounds to many millions and the industry generally has low barriers to entry at the level of small, single contracts which have minimal capital requirements. Traditionally, the majority of contracts are individual projects won through competitive tendering which are usually awarded on the basis of the lowest price. Much use is made of specialist subcontractors, with large contractors tending to have few directly employed operatives.

Customers, designers and contractors have historically pursued their own interests which has often led to an adversarial approach. Although much of the industry still operates in this manner, during the 1980s and 1990s there has been a significant shift, particularly for larger contracts and contractors, towards a more co-operative, flexible, innovative, longer-term and integrated approach. This is characterised by a greater incidence of design/construct contracts which offer significant cost savings, negotiated contracts which reduce the adversarial, "lowest-price" approach and partnering between customers and contractors which offers better continuity for the contractor and progressive savings for the customer.

Privatisation of many traditionally government-run organisations (e.g. utilities, steel and rail) has made these customers more focused on obtaining value for money. The PFI has spearheaded the lifetime asset approach by introducing long-term concessions which are performance rather than specification driven thus ensuring that overall lifetime costs are considered rather than just initial construction costs.

Market segmentation has also significantly changed during the last 10 years. In the post-war period, major civil engineering projects were concentrated on roads, defence, power stations and airports but this heavy infrastructure phase is substantially complete in the UK and the emphasis has moved to rail and refurbishment. Furthermore, instead of demolition, the trend is to maintain the structure of existing buildings and modernise the interior. Improvements in quality on larger projects have been significant with an increasing number of "defect-free" buildings now being handed over at completion. Finally, the construction industry has begun to adjust to the growth in outsourcing by a number of private and public sector bodies and to long-term maintenance and facilities management where contracts provide a growing source of predictable income.

STRATEGY

Carillion's Board intends to accelerate the implementation of its strategy for growth in shareholder value which is based on six key drivers:

- continuing improvement in operating performance, leading to higher operating margins, and stronger cash flow management;
- re-positioning the existing Business Groups to increase and enhance the quality of earnings by pursuing new, profitable growth opportunities in existing and related market segments;
- further developing strong customer relationships based on partnering and the provision of innovative solutions;
- strengthening the Carillion Group's leading market positions including through complementary acquisitions and selective partnerships and disposals of non-core assets;
- leading the process of change in the UK construction industry; and
- promoting the Carillion Group's leading environmental programme.

As a result, the Carillion Group will continue the Board's strategy of adding higher quality revenue to its existing core businesses, whilst maximising returns from the new opportunities offered by the dynamics of the UK construction and infrastructure markets.

The Directors believe that the pursuit of this strategy will continue the refocusing of the business away from cyclical, lower margin construction activities towards infrastructure management, maintenance, services and PFI related work. The Directors believe that this should create a business generating better returns and improved cash flows and with strong long term growth prospects.

PART 1: THE CARILLION GROUP — (Continued)

Continued operational improvement

Each of the Carillion Business Groups will continue to seek new ways of enhancing margins and cash flow through a balanced approach to process improvement, cost reduction and risk management and through changing the business mix. However, the Group will maintain its traditional core skills and build on the strong customer loyalty and focus which currently exist.

Re-positioning for growth

The Carillion Group is already operating in a number of profitable growth markets which are adjacent to its core building and engineering businesses. The moves into facilities management, road and rail maintenance, PFI work and services, have demonstrated that the Carillion Group, through development of its own skill base and distinctive approach, coupled with value-adding acquisitions and selective partnerships can capture new growth opportunities. These businesses, which are performance rather than specification driven, should provide Carillion with the benefit of better returns, longer term contracts, improved quality of earnings and the increased likelihood of repeat revenues.

The Directors expect to continue to capitalise on further opportunities presented in infrastructure maintenance, facilities management and PFI work with a resulting reduction in the dependency on the more cyclical traditional business. This will also mean that profit streams will be generated less from higher risk activities and more from those businesses with more stable characteristics.

Development of customer relationships

The customer focus of recent years has led to a smaller but better serviced customer base with whom the Carillion Group has developed mutually beneficial longer-term relationships. Through innovation and a partnered approach to meeting their requirements, the Carillion Group has delivered significant and measurable benefits to its customers. In return, the Carillion Group achieves the opportunity for a more consistent project flow with more predictable operating margins and cash flow and reduced overheads. The Carillion Group's customer focused approach involving a spirit of openness and mutual co-operation will continue to be a cornerstone of all its businesses.

Strengthening market positions

In addition to organic growth, the Carillion Group has a track record of consolidating leading market positions through acquisitions and joint ventures which management has successfully integrated into the mainstream business. Recent examples include the acquisition of the construction business of George Wimpey PLC in 1996 and the acquisition in partnership with GEC Alsthom of an Infrastructure Maintenance Unit from British Rail now operating as GTRM (one of Railtrack's key suppliers). Where suitable opportunities exist, the Directors will continue to develop the business through complementary and strategic acquisitions and through partnerships and alliances in the UK and overseas.

Leading change in the industry

The history of the Carillion Group has been one of continual development and change. Over the last five years it has developed its core operations and skills as one of the UK's largest construction contractors to embrace a customer-focused, flexible and innovative strategy with a broadly-based service culture.

The management style which has accompanied the changes to date has spread throughout the Group and is increasingly reflected in the industry as a whole. The Carillion Group attaches great importance to retaining the culture necessary to meet the challenges of future changes in the industry. In order to achieve this, the Carillion Group is committed to industry-leading training programmes and has appropriate pay policies including tailored incentivisation packages throughout the organisation.

Environmental programme

The Carillion Group has played a leading part in promoting the benefits of environmental awareness and sustainability in the UK construction industry. By minimising the adverse environmental impact of operations through reducing the effects of noise, dust and disturbance and by making efficient use of energy, water and raw materials (including recycling), the Carillion Group has demonstrated its commitment to the environment. With many customers, from government agencies to established private customers, aware of the need to ensure that their suppliers have strong environmental credentials, the Board believes that Carillion's ongoing commitment to its environmental programme will become an increasingly important feature, differentiating the Carillion Group from its competitors.

PART 1: THE CARILLION GROUP — (Continued)

FINANCIAL REPORTING STRUCTURE

The Board intends to reorganise the financial reporting structure to enable shareholders to appreciate better the value of the Carillion Group's key activities and to facilitate benchmarking. The Board intends to report the Group's results on this new basis with effect from the 1999 Preliminary Results.

At present there are five Business Groups: Building; Engineering and Construction; Mechanical and Electrical Services; the Private Finance Unit; and Professional Services. This structure reflects the development at different times of the various specialist groups.

The new financial reporting structure will have the following five reporting segments:

Building: This will comprise the regional building activity in Great Britain (excluding PFI activities), Contract Housing, Schal (construction management and project management), Consult (building design) and Stanger (environmental services). Turnover for the year ended 31 December 1998 was £775 million.

Services: This will cover building services and maintenance (including mechanical and electrical contracting), facilities management and insurance services (Markfield). Turnover for the year ended 31 December 1998 was £288 million.

Infrastructure Management: This will comprise the road maintenance and rail maintenance activities. Turnover for the year ended 31 December 1998 was £257 million.

Private Finance: This will bring all the PFI related work, profits and cash into one profit centre. It will, therefore, comprise the existing PFU with the interests in concession companies, the concession winning "overhead" team and the contracts carried out under PFI. Turnover for the year ended 31 December 1998 was £97 million.

Capital Projects: This will comprise the overseas regional businesses carrying out general construction work and the civil engineering and process projects both overseas and in the UK together with Maxxiom, the joint venture plant hire company. Turnover for the year ended 31 December 1998 was £534 million.

FINANCIAL OVERVIEW

The table below sets out a summary of the combined financial performance of the Carillion Group, as extracted from the Accountants' Report set out in Part 2. Investors should read the whole of this document and should not just rely on this summary.

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Total turnover	1,688.2	1,795.9	1,866.1
Total operating profit before exceptional operating items	7.5	30.6	43.0
Total operating profit	7.5	30.6	37.1
Net cash (outflow)/inflow from operating activities	(35.3)	47.5	(50.8)

Turnover increased by 11 per cent. over the two year period to 31 December 1998. Building increased steadily and the target areas for growth of rail and road maintenance, facilities management and PFI all performed strongly, whilst turnover reduced in non-rail civil engineering.

Operating profits before exceptional items increased fivefold to £43 million over the same period, demonstrating the benefits of the Carillion Group's management focus on higher added value services, improvement of returns and overhead control.

The net cash outflow in 1998 reflects the combined effect of the reduction in the level of advanced payments received on traditional contracting activity and the continued funding of contracts at an advanced stage of completion.

In 1997, settlement was reached on the Channel Tunnel contract which enabled the release of a surplus provision of £35 million. At the same time, the decision was taken to provide against £30.4 million of old contract balances in Mechanical and Electrical Services mainly relating to pre-1996 projects, and to provide £4.6 million for reorganisation costs in Professional Services. As a result, these exceptional items had no impact on the overall Carillion Group profit for that year. The 1998 exceptional costs of £5.9 million were in respect of reorganisations.

PART 1: THE CARILLION GROUP — (Continued)

The interest charges for the three years ended 31 December 1998 are unlikely to be comparable with subsequent periods, as explained in note 7.5 of the Accountants' Report in Part 2. Consequently, the profits after tax and earnings per share for the three years ended 31 December 1998 have not been included above.

Operating profits before and after exceptional items have been used in the descriptions of the Business Groups as a basis for illustrating their performance trends.

Capital Structure

The Directors believe that following the Demerger, Carillion will have sufficient capital resources to carry on its business and pursue the strategies set out in this document. Part 4 shows, for illustrative purposes, pro forma net assets for the Carillion Group, following the Capital Reorganisation of £107.0 million and net cash of £147.0 million as at 31 December 1998. Further information on the Capital Reorganisation is set out in Part 5. The Directors intend that the Carillion Group will report a minimal net interest charge (before the share of interest charged in joint ventures) in the year to 31 December 2000.

DESCRIPTION OF THE BUSINESS

The business is described below by reference to its five existing Business Groups: Building, Engineering and Construction, Mechanical and Electrical Services, the Private Finance Unit, and Professional Services.

Building Business Group

Overview

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Turnover.....	699.8	685.7	760.2
Operating profit.....	15.9	19.9	23.3

The Building Business Group comprises two separate business units:

- Building
- Contract Housing

Turnover increased by 9 per cent. for the two year period ended 31 December 1998 whilst operating margins grew to over 3 per cent. in that period reflecting the successful implementation of the Business Group's strategy, and demonstrating the benefit of the Building Business Group's focus on added value together with the increasing profits from joint ventures.

Building

Operations

Building operates in Great Britain through a network of regionally based offices, with its headquarters in Wolverhampton. This ensures comprehensive geographical coverage, and gives Building the flexibility of operating in local markets while enabling it to draw upon the Carillion Group's central resources to meet the needs of its customers.

Building has successfully pursued its policy of seeking to differentiate itself from its competitors by establishing long-term relationships with key customers. In the year ended 31 December 1998, 32 per cent. of Building's turnover was derived from six key accounts (Marks & Spencer, Boots, Argent, Richardsons, Asda and Arlington) and 43 per cent. of total new orders secured in that year were placed by the same six customers, reflecting the increasing success of this strategy. Key accounts are managed on a national basis by specific management teams drawing on operational resources from the regional businesses.

When tendering for contracts, Building's management exercises formal selection criteria based on historical contract performance characteristics to ensure that effort is concentrated on securing those projects that provide the best commercial potential while balancing risk and reward.

Examples of Building's recent projects include:

Marylebone Gate, London: A development for Banque Paribas, this high-specification, seven storey building was completed seven weeks ahead of schedule due to the partnering arrangements adopted by Building, the customer, key subcontractors and the design consultancy team.

PART 1: THE CARILLION GROUP — (Continued)

Oasis Holiday Village, Cumbria: Set in woodland on the edge of the Lake District National Park, this fast track project with complicated logistics was also highly environmentally sensitive. The project was delivered on time and was the Construction News Major Project of the Year in 1998.

RAF Cosford, Shropshire: Building was contracted to undertake the construction of this communications and electronics training facility. An essential element of the contract was the completion of services and data communications to meet the RAF's precise requirements.

The Special Projects group within Building was formed in 1995 as the vehicle for procuring, developing and delivering building projects within the PFI framework and is now one of the UK's leading providers. It has established a team that fosters innovative and specialist skills in design management, life cycle costing and project management, and works with the Private Finance Unit, consortia partners and other Carillion Group businesses during the selection, bidding and construction phases of PFI projects.

PFI Building Projects: Special Projects successfully delivered the first PFI prison in Fazakerley, six months ahead of schedule in 1997, using innovative construction techniques, and the first Secure Training Centre for young offenders at Rochester in Kent in 1998. It has recently completed the construction of a second Secure Training Centre and is well advanced in completing the first Acute General Hospital to be provided under the PFI for the Dartford and Gravesham NHS Trust.

Building is involved in five other PFI projects which are expected by the Board to be awarded as contracts during 1999. These projects have a total construction value of approximately £483 million over the next three years. Further information on the PFU is given below.

Building has a small group specialising in development management, which undertakes the development, management and re-sale of a variety of commercial, retail and leisure projects where the Carillion Group management can minimise its development risk. These projects are secured with the aims of gaining construction work for Building as well as generating development profit.

Markets

Building has identified and focuses on markets which it believes are sustainable or have growth prospects and provide the opportunity for Building to differentiate its services from those of its competitors.

The main sectors in which Building operates are: retail, office, leisure, PFI markets (secure establishments and health) and industrial (primarily high technology sites).

The Board estimates that the total market in which Building operates will be approximately £27 billion for 1999 and that Building's core markets in terms of sector, customers and project size are approximately £11 billion. The Board estimates that these core markets have grown at a rate of 5 per cent. in the last three years and expect these markets to continue to grow in the next three years.

Building has significant market share in the retail and office sectors and in the specific areas of the leisure sector that it targets. In the PFI market, the construction value to Building of concession contracts awarded to the PFU or where the PFU is preferred bidder is approximately £678 million.

Strategy

Building intends to continue to focus on the UK market and, in particular, on the retail, office and leisure sectors where it will use its experience and expertise to increase its success rates in winning new business, improve productivity and minimise costs. It is expected that the current level of market activity in the retail, office and leisure sectors will be sustained for the next three years in line with overall industry forecasts.

The Board expects the PFI market to be a profitable source of construction business in the future. The Building Business Group also intends to develop its lifetime asset approach by applying its PFI expertise to the private sector markets.

In accordance with the overall strategy of the Carillion Group, Building intends to continue to develop its existing strong customer relationships while forming further links with organisations identified by Building as major purchasers of construction services. Building also aims to continue to work in conjunction with customers and suppliers from an early stage in contracts to allow it to offer design improvements and cost savings and provide an added value service. This approach has enabled Building to reduce project completion times significantly while delivering specific buildings "defect free" at handover. For example, Asda store comparable construction periods have been nearly halved over a four year period.

PART 1: THE CARILLION GROUP — (Continued)

Close working relationships with key customers also increase the opportunities to win negotiated work. New orders secured on a negotiated basis represented approximately 60 per cent. of total new orders for Building in the year ended 31 December 1998 and it aims to reduce further its reliance on competitive tenders in the future.

Contract Housing

Operations

Contract Housing undertakes the construction, refurbishment and repair of social housing and accommodation principally for local authorities, housing associations and Government departments. Four regional businesses operate through a network of offices in Great Britain enabling Contract Housing to respond effectively to local housing issues. Contract Housing maintains close contact with industry representative bodies and trade associations which enable it to react quickly to changes in Government policy, from legislation through to development finance and funding. Contract Housing is committed to customer service and in the year ended 31 December 1998 nearly 70 per cent. of new orders were generated from existing customers.

Derwent Partnership Homes ("DPH"), part of Contract Housing, was formed in 1994 to act in partnership with the public sector and housing associations in the provision of new housing for sale usually as part of a refurbishment or regeneration project.

Markets

Contract Housing is one of the leaders in the market for the construction and refurbishment of social housing within Great Britain. The market is primarily dependent on central and local Government policy and expenditure. In the year ended 31 December 1998, almost 87 per cent. of Contract Housing's turnover was derived from local authorities and housing associations. In its report dated October 1998, the Chartered Institute of Housing estimated the backlog of repairs required to the UK social housing stock to be approximately £20 billion. The Government announced on 14 July 1998 provision for housing and regeneration in England of nearly £5 billion over the three years to March 2002.

Contract Housing's management believe the Government's approach to the provision of social housing is changing, with an increasing emphasis on private/public partnerships, the regeneration of communities and the creation of sustainable developments. Continued transfers of publicly-owned housing stock to housing associations and other bodies will present a further opportunity for Contract Housing as new owners invest in repairs and improvements to eliminate backlogs.

Strategy

Contract Housing's strategy is linked to the changes in Government policy and expenditure over the next three years. The scope and nature of the work undertaken by Contract Housing will change as Government spending increasingly targets regeneration. The management of Contract Housing believes it is well positioned to meet the change in emphasis to the development of sustainable communities in addition to traditional construction and refurbishment of social housing. It will continue to focus on customer service and strengthen training, environmental and partnering strategies. There will also be a greater drive for negotiated and self-generated work (including within the PFI framework).

Engineering and Construction Business Group

Overview

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Turnover.....	806.8	851.8	786.5
Operating profit before exceptional items.....	11.1	17.9	21.4
Operating profit.....	11.1	52.9	19.4

The Engineering and Construction Business Group comprises Infrastructure Management, Major Projects and overseas regional businesses.

Turnover in the Infrastructure Management and overseas regional businesses, over the two year period to 31 December 1998, showed steady growth whilst Major Projects was affected, primarily, by the reduction in

PART 1: THE CARILLION GROUP — (Continued)

Government spending on road construction. Operating profits before exceptional items improved by 93 per cent. over this period as a result of the growth in the rail maintenance market (due to privatisation of this sector), growth in the roads maintenance markets (due to increased outsourcing by the Highways Agency and local authorities) and improved performance from the overseas regional businesses. The exceptional profit of £35 million in 1997 arose on the settlement of the Channel Tunnel contract and the exceptional restructuring costs incurred in 1998 arose on the integration of the overseas businesses into Engineering and Construction.

Operations

Infrastructure Management

The Infrastructure Management business unit undertakes routine maintenance and reconstruction of the motorway, trunk road and local authority road networks in Great Britain and the routine maintenance, renewal and upgrade of the permanent way, signalling, overhead cabling and bridges and other structures within the rail sector.

Operating out of a head office in Wolverhampton with five regional offices, the roads maintenance and reconstruction business currently has approximately 20 per cent. of the available Highways Agency market in England and contracts with local authorities including Bradford, Epping and Basildon. The Carillion Group's Highways Agency contracts have between 10 months and 3 years to run.

The rail business is organised to serve the developing needs of the railway industry and is focused on two key clients, Railtrack and London Underground Limited ("LUL"). The rail business acts as a principal contractor for multi-disciplinary rail projects in Great Britain and has extensive expertise in trackwork such as the Channel Tunnel, Jubilee Line extension and the Heathrow Express. Major Railtrack improvement projects include the upgrade of Victoria Station in Manchester and the recently awarded development of Proofhouse Junction, near Birmingham on the West Coast Mainline. It is currently involved in the Corporate Track Alliance Programme with LUL and two other contractors in undertaking a three-year, track replacement programme.

GT Railway Maintenance Limited (a joint venture with Alstom in which the Carillion Group has a 49 per cent. interest) ("GTRM") and Centrac (a wholly-owned subsidiary of the Carillion Group) undertake rail maintenance, track renewals and trackwork projects for Railtrack. GTRM has recently retained its Cambrian and West Midlands contract with Railtrack as well as being awarded the Bristol and South Wales contracts and has approximately 25 per cent. of the rail infrastructure maintenance market in Great Britain. A GTRM/Balfour Beatty joint venture has also been awarded the development contract for the renewal and upgrade of overhead line electrification on the West Coast Mainline. Centrac is a track renewal business with a rail plant hire capability, operating primarily out of Rugby and Crewe.

To support Infrastructure Management's activities, the business has an in-house employment agency, NCS, which supplies skilled personnel and staff internally to the Carillion Group's businesses and externally to selected customers.

Major Projects

Major Projects carries out a wide range of projects in the UK covering roads, civil engineering, rail and process engineering. Major Projects overseas is mainly focused on the regional businesses which are supported by engineering expertise from the UK.

Through UK Highways plc ("UKH"), a joint venture with John Laing and Hyder, Major Projects is actively involved in Design Build Finance and Operate roads, having recently completed a PFI project to widen a section of the M40 between junctions 1a and 3. UKH now maintains most of the M40 under a thirty-year concession contract and commenced the upgrade of the A55 trunk road in North Wales in April 1999.

Other UK projects include the A13 viaduct at Dagenham, Manchester Airport Runway Two and the reconstruction of a dock at Devonport for the Trident submarine re-fuelling facility. Major Projects is also currently completing Canary Wharf and Canada Water stations on LUL's Jubilee Line extension and, in a joint venture, is the selected contractor on the Nottingham Express Transit project, a PFI scheme which is expected by the Board to reach financial close by the end of 1999. Within Major Projects, the Expanded Piling business provides foundation solutions (including bored and driven piling expertise) to internal and external customers across the construction industry.

PART 1: THE CARILLION GROUP — (Continued)

Engineering and Construction has also been involved in a number of major projects overseas, including, since 1983, the upgrading and extension of the sewer system in Cairo. It is also the lead contractor in a multi-national joint venture which is designing and constructing infrastructure for the Copenhagen Metro, a project which had an original tender value of £300 million. Two-thirds of the system is underground with 17 kilometres of bored tunnels, 7 deep stations and 5 stations on the elevated section.

TBV Power, a joint venture with Black and Veatch, has been involved in the construction of power stations in the global market including as a total turnkey engineering, procurement and construction (EPC) contractor. At present there are two such projects in the final settlement phase (Barry and Medway) and one project still under construction at Port Klang in Malaysia.

Regional Businesses

The overseas regional businesses are based in France, Canada, the Caribbean and the Middle East. The presence of Engineering and Construction in Canada and the Caribbean dates back to the mid-1950s whilst the Middle Eastern companies were established in the 1970s and the first of the French acquisitions was made in 1991.

In France, the Business Group operates through the Nicoletti and Thouraud businesses, both of which are established brand names in their local markets. In addition, a small Paris-based civil engineering business was acquired last year.

In the Middle East, the Carillion Group owns a 49 per cent. equity interest in each of Tarmac Alawi in Oman and Al Futtaim Tarmac (AFT) in Dubai. These are established operations with track records in building, civil engineering and marine works. AFT has long-standing relationships with key customers such as the Dubai Aluminium Company Ltd., Dubai Dry Docks and Dubai Port Authority.

The Canadian operations consist of McNamara Construction based in Newfoundland and Tarmac Construction Canada ("TCC") based in Ontario. McNamara has a strong position in its local market, with a record in highways and hydro schemes across Canada. TCC's main business is site preparation and underground services associated with housing development and it is also experienced in highway construction and industrial site preparation.

Tarmac Construction (Caribbean) Limited is based in Trinidad, carrying out a range of civil engineering, building and multi-discipline projects. Industrial growth in the gas sector has provided opportunities with key customers (e.g. BP Amoco, Conoco and Fluor Daniel). The Carillion Group is also managing the upgrade of the water supply network in the south of Trinidad.

Markets

In the UK, the Board estimates the infrastructure new build, repairs and maintenance market to be worth approximately £10 billion in 1999.

The UK Rail sector has grown since privatisation in 1996 and subsequent Railtrack Annual Network Management Statements have shown successive increases in investment plans to £27 billion of investment over the next 10 years (as outlined in the 1999 statement).

In addition, LUL is beginning to open its infrastructure work to the private sector. Engineering and Construction has formed a joint venture with Alstom, AMEC and Brown & Root (under the name of TubeRail) to pursue infrastructure renewal and maintenance franchises under LUL's proposed Public Private Partnership.

The UK market for capital projects has been one of reducing opportunity over recent years particularly as new road building is a low priority in the Government's policy to ease road congestion. However, the Government recognises that spending should increase to maintain and improve the existing road network to acceptable standards. This, added to the increasing trend for local authorities to outsource highway maintenance, represents a significant potential growth sector within the roads market.

The Directors estimate the roads maintenance element of the £10 billion infrastructure new build, repairs and maintenance market to be worth approximately £2 billion of which £300m relates to Highways Agency contracts, the balance relating to local authority contracts.

Procurement methods for major projects have changed significantly over recent years with more reliance now being placed on PFI and partnering.

PART 1: THE CARILLION GROUP — (Continued)

Overseas, the French construction market is showing signs of growth after several years of recession. In the Middle East, Dubai has reduced its economic dependence on oil revenue creating opportunities for AFT in other sectors. In Canada and the Caribbean, continuing growth is forecast in market sectors in which the Carillion Group is active.

Strategy

Infrastructure Management

Engineering and Construction will target road networks in areas geographically adjacent to its existing operations to facilitate efficiency in terms of management and resources. The combination of the Carillion Group's civil engineering and PFI skills provides a strong base to take advantage of planned increases in capital works associated with the introduction of Maintain Finance and Operate contracts for long-term road maintenance. Through GTRM, Engineering and Construction will build on its strong positions in the Midlands and South Wales rail markets to improve service levels. Engineering and Construction, through its capability across civil engineering, trackwork and overhead line electrification is well placed to take advantage of the £2.2 billion upgrade of the West Coast Mainline.

Major Projects

Engineering and Construction places emphasis on working with clients to develop and achieve their aims, in particular providing value for money. Engineering and Construction plans to take advantage of procurement methods such as partnering, forming strategic alliances and tendering for PFI work to improve the quality of earnings from this sector and to counteract the reduction in the market for large civil engineering projects. The current order book for Major Projects in the UK is healthy and should enable planned volumes to be achieved for this financial year and next.

Engineering and Construction has recently re-appraised the risk associated with the increasingly competitive turnkey power market and performance risk associated with process activities. It has concluded that it will not pursue turnkey power projects and will only continue to be active in process engineering work overseas where it is linked to the existing regional businesses and provides differentiation from local competition. As a result, there is likely to be a reduction in Major Project activity overseas but Engineering and Construction intends to maintain sufficient workload to ensure that resources are available to take advantage of attractive opportunities as they arise.

Regional Businesses

The overseas regional businesses complement the UK operations providing some balance against the UK economic cycle. The businesses will continue to respond to changes in their local markets whilst drawing on UK expertise to enhance their market position.

Mechanical and Electrical Services Business Group

Overview

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Turnover	165.0	187.5	210.8
Operating (loss)/profit before exceptional items	(8.7)	2.1	0.2
Operating (loss)/profit	(8.7)	(28.3)	0.2

The Mechanical and Electrical Services Business Group trades as Crown House Engineering, one of the UK's leading mechanical and electrical contractors. It specialises in the design, installation and maintenance of mechanical and electrical systems which are generally provided on a contract-specific basis for customers. Its key markets are hi-tech clean factories and other industrial sites, leisure, office, health, prisons and transport. It also has a number of complementary businesses providing ancillary services.

Turnover increased by 28 per cent. over the two years ending 31 December 1998, but the 1998 profit before exceptional items was reduced by a provision against old contract balances in addition to the £30.4 million written off against such contracts as an exceptional item in 1997. During this period, by following stringent policies, management has progressively improved the gross margin on new work.

PART 1: THE CARILLION GROUP — (Continued)

Operations

Crown House Engineering is a significant supplier of services to other parts of the Carillion Group and has a substantial part of its portfolio in PFI projects.

The main focus of the Business Group's mechanical engineering activities is on the design, pre-fabrication and installation of mechanical systems including air conditioning, industrial pipework, heating and ventilation and plumbing. A wide range of electrical engineering services are also provided, including the design and installation of low and high voltage power, lighting control systems and IT infrastructure. These core elements are complemented by a number of products and services including: clean room technology systems; instrumentation and control systems; medical gas and vacuum systems; and fixed and relocatable partitioning ("Neslo"). Crown House also has an off-site manufacturing facility producing pre-fabricated units which has helped maintain its high standards and reputation for successfully delivering innovative projects.

Examples of major contracts secured by the Business Group are:

Satellite 2 Building, Stansted Airport: The air conditioning system was installed by Crown House Engineering as part of its 5-year Framework Agreement with BAA. The chilled ceiling beams, ductwork and integrated light fittings were installed after being pre-fabricated off-site at Crown House Engineering's manufacturing centre in Wolverhampton for speed of installation.

PFI Projects: These include contracts for Dartford and Gravesham Hospital (in conjunction with the Building Business Group), Norfolk and Norwich Hospital and Hairmyres Hospital in Scotland.

Crown House has a strong order book: as at 30 April 1999 orders won represented approximately 70 per cent. of the 1999 projected turnover.

Markets

The mechanical and electrical services market is highly fragmented, with the ten largest contractors holding only approximately one-fifth of market share. Crown House generally targets markets where it can maximize the advantages of its size and technical expertise.

The Director's estimate the total available mechanical and engineering services market (which is included within the new-build, industrial and commercial market) is approximately £10 billion and that this Business Group's core markets are approximately half of this amount.

Strategy

Like other Carillion Business Groups, the Mechanical and Electrical Services Business Group intends to continue to focus on the UK market. Its policy is increasingly to select those sectors and customers which enable it to reduce its reliance on competitive tendering by increasing the amount of repeat business and work obtained on a negotiated basis. Over the two years to 31 December 1998, Crown House's conversion rate has improved from approximately one eighth of successful tenders by value to one quarter. The largest ten customers for the financial years 1997 and 1998 contributed approximately 50 per cent. of turnover in those years, which is in accordance with this policy of tender selectivity in preferred markets and with preferred customers. Whilst there is no dependence on any one particular customer, in each of the last two financial years, approximately 10 per cent. of turnover on average was derived from other Carillion Business Groups.

Private Finance Unit

Overview

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Turnover*	0.1	4.6	13.4
Operating loss*	(2.2)	(1.8)	(0.8)

* The non-concession elements of turnover and operating profit from PFI contracts are reported under other Business Groups.

The Carillion Group was a pioneer of the PFI in the hospital and prison sectors, and established a specialist Private Finance Unit ("PFU") in 1996 to select and evaluate investment opportunities, arrange finance and manage the concession contracts with its co-investors.

PART 1: THE CARILLION GROUP — (Continued)

The PFU grew strongly over the two year period ending 31 December 1998 although, as concessions were primarily in the construction phase, longer term revenue streams which normally commence when the asset is available for use were only starting to be achieved. Operating losses reduced as income arising from concessions rose to cover more of the overheads and bid costs incurred.

Operations

Typically, a PFI concession requires the successful bidder to design, build, finance, maintain and operate a public asset such as a hospital, road, government building or prison, in order to deliver a specified service for an agreed period typically between 15 and 30 years. Over this period, the public sector client will make payments for the service which cover the capital cost of the asset, the financing cost of the project and any operational costs (usually including facilities management) as specified in the concession agreement.

The basis of payment varies between different types of concession: for prisons and hospitals, payment is dependent on facility availability and the quality of services whilst for roads, payment is usually related to road usage. The concession contracts generate reliable, long-term income.

Partners

Each project involves a consortium typically involving a construction contractor and a facility operator, though other partners including investment companies may participate where appropriate.

For each concession, the consortium partners take an agreed shareholding in a special purpose company ("SPC") which enters into the concession contract with the public sector client. With the exception of the Avery Hill project, the Carillion Group has not historically acquired more than 50 per cent. of the shares in any SPC in order to share risk; the SPC's funding is not consolidated into the Carillion Group accounts.

The PFU has existing arrangements with a number of partners, the choice of partner depending on the nature of the project. It has entered into joint ventures with John Laing and Hyder on road projects, United Medical Enterprises on health projects and Group 4 on secure establishment projects.

The PFU selects partners on the basis that they will enable the SPC to gain an additional competitive advantage in the bidding process and have the required experience and resources to undertake the concession contract.

Concession Contracts

As at 15 June 1999, the PFI contracts awarded to SPCs in which the PFU has an equity interest are detailed below. Contracts marked with an asterisk are under construction as at 15 June 1999.

Health

Dartford & Gravesham Hospital, Kent. Construction value: £90 million with a 60 year service concession from the end of construction terminable at the option of the customer after 25 years.*

Derwent Hospital, Bournemouth (a small private patients unit). Construction value: £2 million with a concession period of up to 40 years.

Secure Establishments

Altcourse Prison, Liverpool (a 600 place prison near Fazakerley). Construction value: £77 million with a 25 year concession from the end of construction.

Medway Secure Training Centre, Rochester, Kent. Construction value: £9 million with a 15 year concession from the end of construction.

Rainsbrook Secure Training Centre, Onley, Northamptonshire. Construction value: £7 million with a 15 year concession from the end of construction.

Roads

M40, London to Birmingham. Construction value: £88 million. A 30 year concession which includes widening the M40 between junctions 1a and 3 and maintaining substantially the whole of the motorway, a 123km stretch between junctions 1 and 15.

A55, North Wales. Construction value: £102 million. A 30 year concession to upgrade and thereafter maintain the A55 trunk road across North Wales to Anglesey.*

PART 1: THE CARILLION GROUP — (Continued)

Education

Avery Hill, Greenwich (Student accommodation). Construction value: £10 million with a 30 year concession from September 1996.

The anticipated revenue generated for the Carillion Group by completed or current projects listed above is expected to be £656 million comprising:

Construction	£290 million
Facilities Management	£138 million
Maintenance	£228 million

This does not include any return from the PFU's equity investment in the SPCs. The total equity investment in SPCs as at 31 December 1998 was £6.2 million. In addition, the Board anticipates that further equity investment for current projects will be approximately £7 million. Further information on the effect of the Demerger on these investments is at paragraph 12 of Part 6 of this document.

Preferred bidder

Consortia involving the PFU have been selected as the preferred bidder for each of the projects listed below. "Preferred bidder" means a consortium involving the PFU which is negotiating exclusively with the relevant public sector body having been selected in preference to other bidders.

- GCHQ, Cheltenham (Estimated construction value: £322 million)
- Princess Margaret Hospital, Swindon (Estimated construction value: £98 million)
- Nottingham Express Transit (Estimated construction value: £68 million)
- Onley Prison, Northamptonshire (Estimated construction value: £37 million)
- North Staffordshire Mental Health Unit (Estimated construction value: £17 million)
- Glasgow Southern General Hospital (Unit for the elderly) (Estimated construction value: £9 million)

Concession contracts for these projects are expected by the Board to be entered into by the PFU (as part of the relevant consortia) in 1999, although there is no guarantee that this will happen. The total concession revenue generated by these projects for the Carillion Group is expected by the Board to be in excess of £830 million of which £360 million is expected to be generated by the GCHQ project. The Board does not expect the Demerger to adversely affect the Carillion Group's participation in the above projects.

Market

Since the introduction of the PFI in 1992, contracts representing an aggregate total capital investment of more than £11 billion have been awarded. Estimated Government capital investment under the PFI to 2001/02 includes:

Environment, Transport and the Regions	£2.6 billion
Health	£2.0 billion
Local authorities (including schools)	£2.6 billion
Defence	£0.7 billion
Home Office	£0.9 billion

Source: Financial Statement and Budget Report March 1999 (HM Treasury).

Strategy

The PFU believes it is a market leader in the designing and building of projects relating to the PFI. Secure establishments, health and transport have been targeted by the PFU as part of its overall strategy. In addition, the Carillion Group provides operating and maintenance facilities in both the health and roads sectors. The Carillion Group competes against other main UK construction and facilities management companies when tendering for PFI contracts.

The fundamentals of the PFU's strategic approach will continue to be as follows:

- sector selection driven by the commercial attractiveness of the underlying work to the Carillion Group's core businesses (being construction, and future operations and maintenance activities) and investment returns;
- commitment to innovation and working closely with partners to provide customers with imaginative, cost-effective solutions;

PART 1: THE CARILLION GROUP — (Continued)

- focus on project types which are expected to be repeated in the future, providing the opportunity to benefit from the application of developed experience;
- managing concession companies to maximise their future equity value.

PFI projects generally require significant amounts to be invested in the tendering process and there is no guarantee that these sums will be recovered (other than if the public sector customer cancels the project, when costs may be recoverable) nor that any particular contract will be awarded. In light of this, PFU selects only those projects which are in line with its strategy and have a reasonable prospect of financial close.

Professional Services Business Group

Overview

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Turnover.....	104.6	126.4	137.8
Operating (loss)/profit before exceptional items.....	(10.1)	(7.8)	0.6
Operating loss	(10.1)	(12.4)	(1.9)

The Professional Services Group is made up of three principal businesses: Facilities Services, construction and project management (Schal) and design consultancy (Consult). It also comprises ancillary businesses: an environmental and materials science consultancy (Stanger), materials testing (International) and electronic document management systems (Cimage). These businesses are complementary to the Carillion Group's other businesses and mostly serve the construction industry.

Turnover grew strongly throughout the period and increased by 32 per cent. reflecting the growth in Facilities Services. The operating results reflect this growth and the reduction in the overhead base in the other professional services businesses, although in 1997 losses were incurred as a result of unprofitable contracts.

In 1997 and 1998 exceptional costs of £4.6 million and £2.5 million respectively, were incurred during business reorganisations undertaken to streamline operations and reduce the cost base.

Operations

Facilities Services

Facilities Services comprises: Facilities Management, Management Services and Pasco and is based in Richmond, Surrey. The majority of its contract-related staff are based on clients' premises.

Facilities Management provides clients with a strategic partner to take responsibility for a wide range of non-core services, from cleaning and catering through to estates management and building maintenance.

Management Services provides a range of added-value services such as estates planning, property legislation advice, and specialist consultancy services which support the core facilities management activities.

Pasco provides engineering and project management staff on short-term contracts to the oil and gas, nuclear, Ministry of Defence and rail industries as well as internally within Carillion.

Facilities Services currently has major healthcare contracts at Chelsea & Westminster Hospital, Essex Rivers Trust, Thanet Healthcare Trust and Southern Derbyshire Acute General Hospital. Facilities Services has also taken advantage of the Government's decision to require both its own departments and local authorities to consider outsourcing facilities management. At present the majority of this revenue derives from Ministry of Defence contracts and the Royal Parks facilities, although in 1998, Facilities Services won the contract to provide facilities management services to the Metropolitan Police and is now actively pursuing other police contracts.

The Directors estimate that the value of the UK facilities services market in which the Business Group operates is approximately £4.5 billion. They believe this market to have been growing at approximately 18 per cent. per annum for the last three years and that a growth rate of approximately 14 per cent. per annum should continue.

Facilities Services is focused on markets which provide sustainable growth opportunities. Its principal operating sectors are healthcare, central and local government, retail and leisure, increasingly through PFI

PART 1: THE CARILLION GROUP — (Continued)

procurements. The business has a wide range of customers, many of which are firms with substantial property portfolios providing opportunities for repeat business.

The service mix within Facilities Services provides opportunities to enter into commercial relationships with clients at a number of points within their property life cycle, and enables new business to be secured using negotiation rather than competitive tendering. The national network of offices and general complexity of facilities management contracts gives a competitive advantage over other regional operators which are unable to meet larger clients' needs.

Construction and Project Management (Schal)

The majority of Schal's revenues are derived from fee-based construction management where Schal manages and co-ordinates projects through all their stages from procurement to construction. Schal also undertakes full project management responsibility on behalf of customers, acting as a single point of contact from an early stage in a project cycle.

Schal has several areas of expertise which include: airports, arts and heritage buildings, commercial and government offices and retail and distribution. Schal has an established client list, and in the year ended 31 December 1998, over 50 per cent. of turnover was derived from repeat business. Schal is currently the construction manager on the renovation of the Royal Opera House in London and has completed a number of similarly high-profile contracts.

Schal's strategy is to continue to increase its focus on existing key customer relationships and to broaden the range of consultancy services offered to clients.

Design Consultancy (Consult)

Consult provides a range of design and technical consulting services. The business is structured around four key areas: architectural design, structural engineering, mechanical and electrical engineering and civil engineering.

The construction design market is highly fragmented and the majority of work is won through existing customer relationships. Historically, public sector work has been a major component of Consult's turnover, although this source has declined in the last two financial years following the introduction of PFI. Approximately 30 per cent. of Consult's turnover was generated from work for other Carillion Group businesses in the 1998 financial year and this has grown recently as turnover derived from the PFI has increased.

Ancillary businesses

Stanger is an environmental and materials science consultancy. The principal sectors that Stanger services are government and construction. It has considerable expertise in environmental management and has supported the Tarmac Group's industry leading environmental initiatives.

Based in Hong Kong, Professional Services International provides materials testing, investigation and project management services to the private sector and governmental construction and property industries.

Cimage is a provider of specialist document management systems (through its own software product) to clients in the oil and gas, utilities and manufacturing sectors.

Other Operations

Overview

	Year ended 31 December		
	1996	1997	1998
	£m	£m	£m
Turnover.....	57.4	77.6	73.1
Operating profit before exceptional items.....	8.7	7.4	5.2
Operating profit.....	8.7	7.4	3.8

Other Operations provide services both within the Group and to external customers and cover plant hire, vehicle fleet management and insurance services. The main businesses are Maxxiom, Fleet Management and

PART 1: THE CARILLION GROUP — (Continued)

Markfield. The 1998 profits before exceptional items include losses of approximately £1.3 million on disposed businesses. The exceptional item was for reorganisation costs in Maxxiom.

Maxxiom

The Carillion Group had an internal plant group for 40 years, which supplied a large proportion of its plant hire requirements. In March 1998, this business and Bovis' plant company, Wyseplant Limited, were sold into a new joint venture company, Maxxiom Limited, owned equally by the Carillion Group and Bovis (whose holding was transferred to its parent, P & O in November 1998.)

For the nine months ended 31 December 1998, approximately 40 per cent. of Maxxiom's turnover of £45 million was derived from the Carillion Group and Bovis.

Fleet Management

Fleet Management manages the car fleets of both the Carillion Group and the New Tarmac Group. Fleet Management has no significant business outside the Tarmac Group. As a result of the Demerger, New Tarmac will no longer be required to use Fleet Management on renewals, but a service agreement will be entered into which will set the rates for any future trading.

Markfield Insurance

Markfield is an insurance broker and insurer. It has been a Tarmac company since 1974 and has extensive experience of the insurance requirements of the Tarmac Group. It covers Tarmac's main insurance requirements and is a part re-insurer for the Tarmac Group employers' liability and public and product liability insurances. As a result of the Demerger, an agreement will be entered into under which Markfield will provide insurance services to New Tarmac. The Carillion Group also has an insurance broker, Wergs Hall, which provides services to third parties.

RELATIONSHIP WITH NEW TARMAC

Following the Demerger, New Tarmac and Carillion will each operate as a separate listed company and neither New Tarmac nor Carillion will have any shareholding in the other. New Tarmac and Carillion will have no common directors.

Trading Relationship

The New Tarmac Group and the Carillion Group have entered into a memorandum of understanding, dated 24 May 1999 (the MOU), to govern the trading relationship between the two groups following the Demerger.

The MOU will govern the trading relationship between the two groups for two years after the Demerger in relation to road maintenance, the supply of aggregates and concrete products.

In relation to road maintenance, it is agreed that, following the Demerger, road maintenance contracts will be carried out by the Carillion Group and that the existing supplier and subcontractor arrangements in relation to that business shall continue to operate.

In relation to the other areas falling within the scope of the MOU, it is agreed that the existing arrangements between the New Tarmac Group and the Carillion Group shall continue to apply; namely that the New Tarmac Group shall be the supplier of first resort for the Carillion Group and the Carillion Group shall be the customer of first resort for the New Tarmac Group.

The New Tarmac Group and the Carillion Group have agreed a number of transitional arrangements for the provision by each of them to the other of certain services relating to the use of certain properties, the provision of leased vehicles and insurance broking services, the provision of pension administration services, training services and facilities.

Bonds and Parent Company Guarantees

The New Tarmac Group has provided parent company guarantees and third party bonding support in respect of the business of the Carillion Group. Such support will continue in the ordinary course of business up to the date of the Demerger and will also be provided in respect of certain bids submitted by the Carillion Group up to that date. No support will be provided in respect of subsequent bids. The obligation on the Carillion Group is to perform the underlying contracts.

PART 1: THE CARILLION GROUP — (Continued)

The Carillion Group has agreed to indemnify fully the New Tarmac Group against any liabilities incurred by the New Tarmac Group in relation to parent company guarantees and bonding support provided by the New Tarmac Group in respect of the business of the Carillion Group. To date the Carillion Group has incurred no material increase in liabilities arising from the provision of parent company guarantees or bonds.

Liabilities, Reciprocal Indemnities and Disputes

Subject to the Demerger becoming effective, New Tarmac and Carillion have agreed, subject to certain limitations, to indemnify each other against certain actual and contingent liabilities associated with their respective businesses. The resulting arrangements reflect the allocation of liabilities between the New Tarmac Group and the Carillion Group. The broad principle underlying these indemnities is to ensure that legal effect is given to the principles upon which it has been agreed that assets and liabilities should be allocated to one or other of the New Tarmac Group or the Carillion Group. Further details of the relevant agreements are set out in paragraph 12 of Part 6 of this document. The New Tarmac Group and the Carillion Group have agreed to enter into arrangements for dispute resolution, further details of which are set out in paragraph 12 of Part 6 of this document.

RISK MANAGEMENT

The Carillion Group carries out risk and opportunity assessments for each project. The precise level of analysis is determined by a number of factors including project complexity. This is assessed through understanding the technical, financial and contractual issues as well as economic considerations. Each Business Group has a project risk management procedure which assists in the structuring and elicitation of information to create a realistic view of the project risks and opportunities.

Generically, the process is:

- the identification and testing of project uncertainties;
- assessment of risks in qualitative and quantitative terms together with proposed responses; and
- risk ownership, control and feedback.

The information about the project risk and opportunity is available to assist in operations management as required. For high value, complex projects, computerised forecasting models are used by the bid team and senior management in quantifying the risks and opportunities during the bid review and approval process.

The approval process is related to project value and complexity. Reviews are carried out at the Business Group level by senior management, and by Executive Directors through the Major Projects Committee. When a major bid is successful, the procedures provide for senior level review through project review meetings, internal audit and Major Projects Committee updates as appropriate.

The Carillion Group also has a Risk Management Committee that focuses on key business risks. This comprises senior managers from the Carillion Group and the Business Groups together with input from finance, internal audit, insurance and risk management. The Risk Management Committee provides a forum to exchange information and intelligence and to set up specific initiatives such that recommendations on the means of managing particular business risks can be developed.

On Demerger, the Treasury Department will be responsible for recommending to the Board and implementing Carillion Group policy on currency and interest rate risk management to ensure that the balance sheet and profit and loss account of the business are protected from the impact of fluctuations in foreign exchange rates and interest rates. Policies on counterparty risk management will also be designed to protect the business in its financial exposures to banks and financial institutions.

ENVIRONMENTAL POLICY

The Carillion Group is committed to promoting its leading edge environmental programme to build on the work of the independent advisory panel formed in 1994 by Tarmac which set improvement targets and monitored environmental progress. Key points of the policy are:

- meeting all legal requirements, regulations and standards of the country of operation, and monitoring to ensure compliance;
- endeavouring to minimise the environmental impact of operations and reduce the effects of noise, dust, disturbance and inconvenience as far as practicable;

PART 1: THE CARILLION GROUP — (Continued)

- demonstrating the efficient use of energy, water and raw materials, taking appropriate opportunities to minimise waste and to re-use or recycle;
- working to improve the standards of the sectors in which the Carillion Group operates, enhancing awareness and commitment amongst staff through structured training, and encouraging the adoption of sound environmental principles amongst contractors, suppliers and customers;
- responding positively to the environmental developments in each Business Group by review of such issues with the appropriate authorities, the local communities and other bodies; and
- reporting the key environmental impact of operations, the improvements achieved, and targets for the future.

On Demerger, the Carillion Group will set up an environmental committee chaired by a Director, consisting of senior executives from within the Carillion Group and two external advisers. It is intended that this committee will operate in a similar manner to the existing advisory panel, meeting on a regular basis when it will review and consider progress on environmental issues with Carillion Group staff. It will advise the Board on environmental policy and targets to assist the Carillion Group to formulate a strategy and monitor performance in light of best practice and current trends. The committee will report annually to the Board and the Carillion Group will produce an annual environmental report.

At the operating level, systems are in place to provide a consistent framework for environmental management and audit across the Carillion Group.

HEALTH AND SAFETY

It is the policy of the Carillion Group to carry out all its activities in a way that provides healthy and safe working conditions for its employees and minimises the risk of injury to employees and others from the activities for which it is responsible.

Health and safety is a regular item on the agenda of the Carillion Group board meetings and is regularly discussed at senior management level.

Each Business Group has in place its own management systems to ensure compliance with all relevant health and safety legislation. Each Business Group seeks to achieve continual safety improvements through regular monitoring and review.

The overall responsibility for health and safety rests at Board level but it is impressed on all employees that they have important responsibilities and must participate in carrying out the Carillion Group policies. Appropriate training, supervision and information is provided to ensure that employees are competent to carry out their duties and responsibilities and are committed to implementing such policies.

On Demerger, the Carillion Group will set up a Health and Safety Committee which will be responsible for establishing policy and reviewing performance on health and safety across the Carillion Group. This Committee will report regularly to the Board.

YEAR 2000

The Carillion Group, like other companies, is faced with the Year 2000 issue which relates to the inability of information systems properly to recognise and process date sensitive information beyond 1 January 2000. Many computer systems and software products may not be able to interpret dates after 31 December 1999 because they allow only two digits to indicate the year. As a result, they are unable to distinguish 1 January 2000 from 1 January 1900 which could have adverse consequences on a company's operations and the integrity of its information processing. They may also encounter problems with other dates such as 29 February 2000.

In relation to Year 2000, there can be no assurance that steps taken by any company will successfully minimise the vulnerabilities of its software and systems, or those of its suppliers, to the problems associated with the transition to the Year 2000. No assurance can be given either that the Carillion Group's systems or third party systems will function satisfactorily or that, if problems occur, they will not have a material adverse effect on the Carillion Group's operations and financial performance.

The Carillion Group established a group-wide programme in 1998 to determine the extent to which the performance and functionality of its own and third party systems and equipment would be affected by dates prior to, during and after the Year 2000, and to ensure that the related risks are mitigated.

PART 1: THE CARILLION GROUP — (Continued)

The programme considers four main areas: critical computerised business systems and associated hardware; embedded chips in production facilities; key suppliers and joint venture activities; and customer solutions. In each area, an analysis of the relevant risks has been performed from which action plans have been developed. These plans are designed to address key aspects without disruption to the critical business processes. Testing of software changes including user acceptance testing is being carried out and business continuity plans for the Year 2000 have been developed. Progress with the programme, which is expected to be substantially complete by 30 September 1999, is regularly monitored by the Board.

The total cost of the programme to the Carillion Group is estimated at £4.2 million, of which approximately £2.5 million had been spent by 30 April 1999. These costs, which include replacement expenditure and an allocation of internal costs, are charged to the profit and loss account as incurred.

The Demerger is not expected to give rise to additional Year 2000 risks which are not currently being addressed by the Carillion Group.

DIRECTORS, MANAGEMENT AND EMPLOYEES

The Board of Carillion consists of a Chairman, a Non-Executive Deputy Chairman, three other Executive Directors and two other Non-Executive Directors.

Directors

Sir Neville Simms, D. Tech — Chairman (aged 54)

Joined Tarmac Group in 1970 and became Chief Executive of Tarmac Construction in 1988. He was appointed a Director of Tarmac in 1988, Group Chief Executive in 1992 and Deputy Chairman in February 1994. He is also a non-executive Director of National Power PLC, a Member of the Court of the Bank of England and was, until 30 March 1999, a Director of the The Private Finance Panel Limited and until 14 June 1999, Chairman of the Major Contractors Group.

Roger Brooke — Non-Executive Deputy Chairman (aged 68)

Appointed to the Board of Tarmac in 1994, he is also Chairman of Tarmac's Appointments and Remuneration Committee. He recently retired as Chairman of the Audit Commission and was the founder and Chairman of Candover Investments plc. After leaving Oxford University, he spent 10 years as a member of HM Diplomatic Service. He is a director of Lambert Fenchurch Group PLC and Slough Estates plc.

Euan McEwan — Executive Director (aged 43)

Joined Tarmac Construction as Finance Director in 1995 from Coopers & Lybrand Management Consultancy Division. He is a chartered accountant and management consultant. At Coopers & Lybrand, he advised a number of large companies on how to control all aspects of capital projects and property portfolios.

Roger Robinson — Executive Director (aged 48)

Joined Tarmac Construction as contracts Director in 1989. He subsequently became Operations Director at Major Projects and then Managing Director for Crown House Engineering. He was appointed to his present position of Managing Director of the Engineering and Construction Business Group in 1996. He is a chartered engineer.

John Sharples — Executive Director (aged 51)

Joined Tarmac Construction in 1971 from the University of Manchester as a site engineer. Progressing as Contracts Manager, Area Director and Business Development Director he has held his present position as Managing Director of Tarmac Building since 1994. He is a chartered engineer.

Jean-Paul Parayre — Non-Executive Director (aged 61)

Appointed to the Board of Tarmac in 1994. He is Vice-Chairman of Bolloré Group and a Director of Albatros Investissement S.A., Coflexip SA and Stena International B.V. and a Supervisory Board member of Peugeot S.A. and Vallourec S.A.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

1. Combined profit and loss accounts

	Note	Years ended 31 December		
		1996 £m	1997 £m	1998 £m
Total turnover	7.2	1,688.2	1,795.9	1,866.1
Deduct turnover of joint ventures		(146.5)	(169.1)	(183.6)
Carillion Group turnover		<u>1,541.7</u>	<u>1,626.8</u>	<u>1,682.5</u>
Operating profit				
Carillion Group:				
Operating profit before exceptional operating items		0.4	24.2	20.9
Exceptional operating items	7.2	—	—	(4.5)
Carillion Group operating profit	7.3	0.4	24.2	16.4
Share of joint ventures:				
Operating profit before exceptional items		7.1	6.4	22.1
Exceptional operating items	7.2	—	—	(1.4)
Total operating profit		7.5	30.6	37.1
Costs of fundamental restructuring	7.4	(46.9)	—	—
Net interest (payable)/receivable:				
Carillion Group	7.5	(10.0)	(12.2)	(17.1)
Joint ventures		(0.4)	0.8	(0.5)
(Loss)/profit on ordinary activities before taxation	7.6	(49.8)	19.2	19.5
Tax on (loss)/profit on ordinary activities	7.9	11.6	(5.4)	(13.6)
(Loss)/profit on ordinary activities after taxation		(38.2)	13.8	5.9
Equity minority interests		0.3	(0.2)	(0.1)
(Loss)/profit for the financial year	7.10	(37.9)	13.6	5.8
Dividends payable to New Tarmac Group	7.11	(8.3)	(1.5)	(5.5)
Retained (loss)/profit for the Carillion Group and its share of joint ventures	7.23	<u>(46.2)</u>	<u>12.1</u>	<u>0.3</u>
(Loss)/earnings per ordinary share	7.12(a)			
— Basic		(19.4p)	7.0p	3.0p
— Before all exceptional items		(3.3p)	7.0p	5.1p
Fully diluted (loss)/earnings per ordinary share	7.12(c)			
— Basic		(18.9p)	6.8p	2.9p
— Before all exceptional items		(3.2p)	6.8p	4.9p

The results set out above relate to continuing businesses.

Note: As explained more fully in note 7.5 interest payable and consequently loss or earnings per ordinary share for the three years ended 31 December 1998 are unlikely to be comparable with subsequent periods. The companies and businesses forming the Carillion Group have borne management charges in respect of head office services provided by the New Tarmac Group during the period as set out in note 7.2.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

2. Combined balance sheets

	Note	At 31 December		
		1996 £m	1997 £m	1998 £m
Fixed assets				
Goodwill	7.13	—	—	1.7
Tangible assets	7.14	89.5	86.3	60.5
Investments in joint ventures:				
Share of gross assets		146.7	165.8	268.6
Share of gross liabilities		(143.0)	(153.0)	(228.5)
	7.15	3.7	12.8	40.1
		<u>93.2</u>	<u>99.1</u>	<u>102.3</u>
Current assets				
Stocks	7.16	42.8	48.7	56.8
Debtors	7.17	722.6	697.6	552.3
Investments	7.18	1.7	—	1.6
Cash at bank and in hand		62.6	81.3	140.6
		<u>829.7</u>	<u>827.6</u>	<u>751.3</u>
Creditors: amounts falling due within one year	7.19	<u>(805.7)</u>	<u>(807.4)</u>	<u>(813.8)</u>
Net current assets/(liabilities)		<u>24.0</u>	<u>20.2</u>	<u>(62.5)</u>
Total assets less current liabilities		117.2	119.3	39.8
Creditors: amounts falling due after more than one year	7.20	(20.3)	(31.8)	(9.4)
Provisions for liabilities and charges	7.21	<u>(58.2)</u>	<u>(39.3)</u>	<u>(3.9)</u>
Net assets		<u>38.7</u>	<u>48.2</u>	<u>26.5</u>
Financed by capital and reserves				
Called up share capital	7.22	81.9	87.0	67.5
Share premium account	7.23	70.4	70.4	70.4
Revaluation reserve	7.23	0.3	0.2	0.1
Profit and loss account	7.23	<u>(114.0)</u>	<u>(109.8)</u>	<u>(111.6)</u>
Equity shareholders' funds		38.6	47.8	26.4
Equity minority interests		<u>0.1</u>	<u>0.4</u>	<u>0.1</u>
Total capital employed		<u>38.7</u>	<u>48.2</u>	<u>26.5</u>

Note: The capital structure of the Carillion Group, as shown in the balance sheets above will not be comparable with that prevailing following its demerger from the Tarmac Group because of the proposed capital reorganisation referred to in note 7.32.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

3. Combined cash flow statements

	Note	Years ended 31 December		
		1996 £m	1997 £m	1998 £m
Net cash (outflow)/inflow from operating activities	7.27(a)	(35.3)	47.5	(50.8)
Debtenture repayment from a joint venture		—	—	9.2
Returns on investments and servicing of finance				
Interest paid		(20.6)	(17.3)	(22.7)
Interest received		12.8	4.6	5.6
Dividends received from joint ventures		—	1.4	0.9
Net cash outflow from returns on investments and servicing of finance		(7.8)	(11.3)	(16.2)
Corporate taxation refunded/(paid)		9.5	2.1	(5.5)
Capital expenditure and financial investment				
Payments to acquire fixed assets		(17.2)	(19.4)	(12.3)
Payments to acquire trade investments		(0.2)	—	(1.6)
Sale of tangible fixed assets		9.0	5.5	4.9
Sale of trade investments		—	1.7	—
Net cash outflow from capital expenditure and financial investments		(8.4)	(12.2)	(9.0)
Acquisitions and disposals				
Purchase of businesses — Wimpey		22.2	—	—
— other		(20.4)	(8.5)	4.3
Sale of businesses		—	—	13.7
Purchase of joint ventures		(9.2)	(3.5)	(2.7)
Purchase of minorities		—	—	(1.3)
Net cash (outflow)/inflow from acquisitions and disposals		(7.4)	(12.0)	14.0
Equity dividends paid		(8.3)	(1.5)	(5.5)
Net cash (outflow)/inflow before management of liquid reserves and financing		(57.7)	12.6	(63.8)
Management of liquid resources				
Cash withdrawn from short term deposits		13.3	2.5	14.4
Investment in short term deposits		(11.6)	(11.5)	(14.5)
Net cash inflow/(outflow) from management of liquid resources	7.27(b)	1.7	(9.0)	(0.1)
Financing				
Repayment of debt		(0.1)	—	(0.1)
Movement in loan account — New Tarmac Group		71.3	5.7	120.3
Net cash inflow from financing		71.2	5.7	120.2
Increase in cash in the year	7.27(b)	15.2	9.3	56.3

4. Statements of total recognised combined gains and losses

	Note	Years ended 31 December		
		1996 £m	1997 £m	1998 £m
(Loss)/profit for the financial year	1	(37.9)	13.6	5.8
Unrealised surplus on revaluation of investments	7.23	66.9	—	—
Unrealised deficit on Housing Division divestment	7.28(a)	(8.7)	—	—
Total gains for the year before currency adjustments		20.3	13.6	5.8
Currency adjustments		(9.7)	(6.3)	(2.9)
Total recognised gains and losses for the year		10.6	7.3	2.9

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

5. Statements of historical combined cost profits and losses

	Years ended 31 December		
	1996	1997	1998
	£m	£m	£m
(Loss)/profit on ordinary activities before tax	(49.8)	19.2	19.5
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	(0.5)	0.4	0.1
Historical cost (loss)/profit on ordinary activities before tax	(50.3)	19.6	19.6
Historical cost retained (loss)/profit for the year	(46.7)	12.5	0.4

6. Reconciliations of movements in combined equity shareholders' funds

	Notes	Year ended 31 December		
		1996	1997	1998
		£m	£m	£m
Total recognised gains and losses	4	10.6	7.3	2.9
Dividends	7.11	(8.3)	(1.5)	(5.5)
New share capital subscribed	7.22	—	20.0	—
New share capital aggregated	7.22	56.0	—	—
Share capital reduction	7.22	—	(14.9)	(19.5)
Goodwill written off directly to reserves in the year	7.23	(27.8)	(4.5)	—
Capital contribution	7.23	6.1	6.3	—
Other		(1.1)	(3.5)	0.7
Movements in equity shareholders' funds		35.5	9.2	(21.4)
Equity shareholders' funds at beginning of the year		<u>3.1</u>	<u>38.6</u>	<u>47.8</u>
Equity shareholders' funds at end of the year		<u>38.6</u>	<u>47.8</u>	<u>26.4</u>

7. Notes

7.1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Carillion Group's combined financial information set out herein.

Basis of accounting

The financial information has been prepared under the historical cost convention, modified to include the revaluation of certain tangible assets comprising land and buildings, and in accordance with applicable UK accounting standards, on the basis of the aggregation of financial information as referred to below.

Basis of preparation

For the purposes of this report, combined financial information has been prepared for each of the three years ended 31 December 1998 by aggregating financial information from the applicable individual audited financial statements or consolidation schedules, as appropriate, of the individual companies and businesses forming the Carillion Group.

The combined financial information includes the results, cash flows and net assets of all of the companies and businesses in the Carillion Group made up to 31 December for each year. The results of the companies or businesses acquired or disposed of during the period under review are included from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Proceeds from the disposal of certain businesses and specific transfers of funds from the New Tarmac Group are treated as capital contributions. The revaluation surplus, realised on the transfer of investments to Tarmac Group is treated as a reserve movement.

Intra-Carillion Group trading and balances have been eliminated so that the aggregated amounts relate to external transactions of the Carillion Group only.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.1 Principal accounting policies (continued)

The principal companies and businesses forming the Carillion Group are set out in note 7.30 and are proposed to be owned 100 per cent. by Carillion on flotation unless otherwise stated.

Joint arrangements

The Carillion Group's interests in joint arrangements are included herein by accounting for the Carillion Group's share of their results, net assets and liabilities. Joint arrangements are unincorporated entities which are effectively an extension of the Carillion Group's business and do not carry on a trade or business of their own.

Joint ventures

The Carillion Group's joint ventures are accounted for under the equity accounting method. The principal joint ventures of the Carillion Group are set out in note 7.30.

Investments

Unlisted investments are stated at cost less amounts written off.

Goodwill

For the two years ended 31 December 1997, any goodwill arising on acquisition, 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, has been written off to reserves on acquisition. In accordance with the transitional provisions of Financial Reporting Standard 10: Goodwill and Intangible assets ("FRS10"), 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. From 1 January 1998, in accordance with FRS10, such goodwill arising on acquisition is capitalised and amortised in equal annual instalments over its useful service life, normally a period not exceeding 20 years.

Long term contracts

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

Turnover

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

Stocks

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

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.1 Principal accounting policies (continued)

Tangible fixed assets

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	3-7 years

Leased assets

All leases are accounted for as operating leases and rental charges are charged to the profit and loss account on a straight line basis over the life of each lease.

Assets held to generate income from operating leases are included in tangible fixed assets and depreciated over the lives of the assets concerned. Rentals receivable are credited to the profit and loss account on a straight line basis over the life of each lease.

Taxation

The charge for taxation is based on the result for each year and takes into account deferred taxation, calculated using the liability method, which is included only where the effects of timing differences between results as stated herein and as computed for taxation purposes are, in the opinion of the directors, likely to crystallise in the foreseeable future.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rates of exchange ruling at the dates of the transactions. 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 accounts of overseas undertakings and joint ventures are translated into sterling at the rates of exchange ruling at the relevant balance sheet date. 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 borrowings.

Pensions

Pension costs are provided in accordance with the regular annual contributions net of any refunds. Payments in respect of the Tarmac Group schemes are made to Tarmac. In relation to the other UK and overseas schemes, contributions are paid directly to the relevant pension funds.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.2 Segmental analysis

The combined profit and loss accounts for the three years ended 31 December 1998 represents the results of continuing operations under the requirements of FRS3. As set out in note 7.28, the results of the businesses acquired in 1996 have not been separately analysed.

(a) Turnover

Turnover analysed by Business Group is as follows:

Total	1996 £m	1997 £m	1998 £m
<i>Class of business</i>			
Building	699.8	685.7	760.2
Engineering and Construction	806.8	851.8	786.5
Mechanical and Electrical Services	165.0	187.5	210.8
Private Finance Unit	0.1	4.6	13.4
Professional Services	104.6	126.4	137.8
Other Operations	57.4	77.6	73.1
Less: Inter segmental	(145.5)	(137.7)	(115.7)
	<u>1,688.2</u>	<u>1,795.9</u>	<u>1,866.1</u>
 Carillion Group			
	1996 £m	1997 £m	1998 £m
<i>Class of business</i>			
Building	689.2	673.2	745.4
Engineering and Construction	687.3	709.3	653.0
Mechanical and Electrical Services	165.0	187.5	210.8
Private Finance Unit	0.1	—	0.6
Professional Services	88.2	116.9	137.8
Other Operations	57.4	77.6	50.6
Less: Inter segmental	(145.5)	(137.7)	(115.7)
	<u>1,541.7</u>	<u>1,626.8</u>	<u>1,682.5</u>
 Share of joint ventures			
	1996 £m	1997 £m	1998 £m
<i>Class of business</i>			
Building	10.6	12.5	14.8
Engineering and Construction	119.5	142.5	133.5
Mechanical and Electrical Services	—	—	—
Private Finance Unit	—	4.6	12.8
Professional Services	16.4	9.5	—
Other Operations	—	—	22.5
Less: Inter segmental	—	—	—
	<u>146.5</u>	<u>169.1</u>	<u>183.6</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.2 Segmental analysis (continued)

Total turnover for 1998 analysed in accordance with the new financial reporting structure as described in Part 1 of this document is as follows:

	<u>1998</u>
	<u>£m</u>
Building	774.6
Capital Projects	533.6
Services	287.6
Infrastructure Management	256.7
Private Finance	97.1
Less: Inter segmental	<u>(83.5)</u>
	<u><u>1,866.1</u></u>

(b) Operating profit analysed by Business Group comprises:

Operating profit before exceptional items:

Total	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
<i>Class of business</i>			
Building	15.9	19.9	23.3
Engineering and Construction	11.1	17.9	21.4
Mechanical and Electrical Services	(8.7)	2.1	0.2
Private Finance Unit	(2.2)	(1.8)	(0.8)
Professional Services	(10.1)	(7.8)	0.6
Other operations	8.7	7.4	5.2
Management charge by the New Tarmac Group	<u>(7.2)</u>	<u>(7.1)</u>	<u>(6.9)</u>
Total operating profit before exceptional items	<u><u>7.5</u></u>	<u><u>30.6</u></u>	<u><u>43.0</u></u>

Operating exceptional items comprise:

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Engineering and Construction			
Settlement of Channel Tunnel contract	—	35.0	—
Reorganisation costs	—	—	(2.0)
Mechanical and Electrical Services			
Provision against irrecoverable contract balances	—	(30.4)	—
Professional Services			
Reorganisation costs	—	(4.6)	(2.5)
Other operations			
Reorganisation costs in a joint venture company	<u>—</u>	<u>—</u>	<u>(1.4)</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(5.9)</u></u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

7. Notes — Continued

7.2 Segmental analysis (continued)

Operating profit after exceptional items:

Total	1996 £m	1997 £m	1998 £m
<i>Class of business</i>			
Building	15.9	19.9	23.3
Engineering and Construction	11.1	52.9	19.4
Mechanical and Electrical Services	(8.7)	(28.3)	0.2
Private Finance Unit.....	(2.2)	(1.8)	(0.8)
Professional Services.....	(10.1)	(12.4)	(1.9)
Other operations	8.7	7.4	3.8
Management charge by the New Tarmac Group	(7.2)	(7.1)	(6.9)
Total operating profit	7.5	30.6	37.1

Carillion Group	1996 £m	1997 £m	1998 £m
<i>Class of business</i>			
Building	13.7	19.4	17.5
Engineering and Construction	4.4	47.3	7.3
Mechanical and Electrical Services	(8.7)	(28.3)	0.2
Private Finance Unit.....	(2.2)	(3.1)	(3.5)
Professional Services.....	(8.3)	(11.4)	(1.9)
Other operations	8.7	7.4	3.7
Management charge by the New Tarmac Group	(7.2)	(7.1)	(6.9)
Total operating profit	0.4	24.2	16.4

Share of joint ventures	1996 £m	1997 £m	1998 £m
<i>Class of business</i>			
Building	2.2	0.5	5.8
Engineering and Construction	6.7	5.6	12.1
Mechanical and Electrical Services	—	—	—
Private Finance Unit.....	—	1.3	2.7
Professional Services.....	(1.8)	(1.0)	—
Other operations	—	—	0.1
Management charge by the New Tarmac Group	—	—	—
Total operating profit	7.1	6.4	20.7

(c) Geographical market served

Turnover analysed by geographical market served is as follows:

	Total			Share of joint ventures		
	1996 £m	1997 £m	1998 £m	1996 £m	1997 £m	1998 £m
UK	1,404.3	1,549.0	1,560.4	129.4	155.3	162.0
Europe	122.3	105.4	123.8	—	—	—
Other	161.6	141.5	181.9	17.1	13.8	21.6
	1,688.2	1,795.9	1,866.1	146.5	169.1	183.6

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.2 Segmental analysis (continued)

Operating profit analysed by geographical market served is as follows:

	Total			Share of joint ventures		
	1996	1997	1998	1996	1997	1998
	£m	£m	£m	£m	£m	£m
UK	4.4	33.1	25.9	5.7	5.6	19.9
Europe	(5.1)	(4.7)	0.3	—	—	—
Other	8.2	2.2	10.9	1.4	0.8	0.8
	<u>7.5</u>	<u>30.6</u>	<u>37.1</u>	<u>7.1</u>	<u>6.4</u>	<u>20.7</u>

Note: The directors consider that turnover by market served, both geographically and by class of business is not materially different from turnover by origin.

7.3 Gross profit and other expenses

	1996	1997	1998
	£m	£m	£m
Carillion Group turnover	1,541.7	1,626.8	1,682.5
Less: cost of sales	(1,420.6)	(1,468.0)	(1,532.5)
Gross profit	<u>121.1</u>	<u>158.8</u>	<u>150.0</u>
Other income and expenses:			
Distribution costs	2.6	1.4	1.5
Administrative expenses	118.2	133.2	132.4
Exchange gains less losses on foreign currency borrowings	0.2	0.4	—
Other operating income	(0.1)	(0.1)	(0.1)
Rental income	(0.2)	(0.3)	(0.2)
	<u>120.7</u>	<u>134.6</u>	<u>133.6</u>
Operating profit after exceptional operating items:	<u>0.4</u>	<u>24.2</u>	<u>16.4</u>

7.4 Costs of fundamental restructuring

Provision was made by the Tarmac Group during 1996 for the estimated costs of a fundamental restructuring following the disposal of its Housing Division and the acquisition of George Wimpey PLC's construction and minerals businesses. The costs attributable to the Carillion Group comprised redundancy and payroll related expenditure of £30.7 million and property relocation and other related costs of £16.2 million.

7.5 Net interest payable — Carillion Group

	1996	1997	1998
	£m	£m	£m
Interest receivable			
Interest receivable from the New Tarmac Group	6.5	2.3	2.2
Sundry interest receivable	<u>4.7</u>	<u>2.8</u>	<u>3.4</u>
	<u>11.2</u>	<u>5.1</u>	<u>5.6</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.5 Net interest payable — Carillion Group (continued)

	<u>1996</u> £m	<u>1997</u> £m	<u>1998</u> £m
Interest payable			
Interest payable to the New Tarmac Group	(14.4)	(15.9)	(21.2)
Interest payable on bank loans/overdrafts	(0.3)	(0.5)	(0.3)
Sundry interest payable	<u>(6.5)</u>	<u>(0.9)</u>	<u>(1.2)</u>
	<u>(21.2)</u>	<u>(17.3)</u>	<u>(22.7)</u>
Net interest payable	<u>(10.0)</u>	<u>(12.2)</u>	<u>(17.1)</u>

Net interest payable to the New Tarmac Group for the three years ended 31 December 1998 was based on arrangements in place during those years. Based on the proposed demerger, future financing arrangements are likely to be substantially different from those previously prevailing and interest payable and consequently loss or earnings per ordinary share for the three years ended 31 December 1998 are unlikely to be comparable with subsequent periods.

7.6 (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation has been arrived at after charging:

	<u>1996</u> £m	<u>1997</u> £m	<u>1998</u> £m
Depreciation of tangible fixed assets	15.9	17.5	13.5
Operating leases:			
Hire of plant and machinery	19.1	26.3	24.8
Hire of other assets	15.0	13.5	12.9
Auditors' remuneration	1.0	1.1	0.8
Directors' remuneration	0.4	0.5	0.5

Information on directors' remuneration is included in note 7.8.

Fees paid to KPMG Audit Plc and its associates in 1998 for UK non audit services amounted to £0.5 million (1997: £0.8 million, 1996: £0.3 million).

7.7 Employee numbers and payroll costs

	<u>1996</u> Number	<u>1997</u> Number	<u>1998</u> Number
The average number of employees during each year comprised:			
Building	2,400	2,481	2,388
Engineering and Construction	5,703	6,022	5,269
Mechanical and Electrical Services	1,529	1,577	1,854
Professional Services	1,636	2,583	3,228
Private Finance Unit	15	24	24
Other operations	<u>1,534</u>	<u>1,383</u>	<u>1,143</u>
	<u>12,817</u>	<u>14,070</u>	<u>13,906</u>
United Kingdom	9,134	9,665	10,196
Overseas	<u>3,683</u>	<u>4,405</u>	<u>3,710</u>
	<u>12,817</u>	<u>14,070</u>	<u>13,906</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.7 Employee numbers and payroll costs (continued)

The aggregate payroll costs during each year amounted to:

	1996	1997	1998
	£m	£m	£m
Wages and salaries	230.2	249.4	259.3
Social security costs	28.6	26.6	27.4
Other pension costs	11.1	6.6	6.6
	<u>269.9</u>	<u>282.6</u>	<u>293.3</u>

Other pension costs represent the net cost of providing pension benefits after including contribution refunds of £2.7 million in 1996, £7.6 million in 1997 and £9.3 million in 1998. See also note 7.31 below.

7.8 Directors' remuneration

Directors' emoluments

The emoluments of the Carillion executive directors who provided services for the Carillion Group and were remunerated by the Carillion Group during the period are set out below:

	1996			Total emoluments excluding pension contributions 1996
	Basic salary	Benefits in kind	Annual bonus	
	£000	£000	£000	£000
Directors' emoluments				
Euan McEwan	87	7	36	130
Roger Robinson	86	6	37	129
John Sharples	81	6	37	124
Total	<u>254</u>	<u>19</u>	<u>110</u>	<u>383</u>
	1997			Total emoluments excluding pension contributions 1997
	Basic salary	Benefits in kind	Annual bonus	
	£000	£000	£000	£000
Directors' emoluments				
Euan McEwan	95	7	35	137
Roger Robinson	110	8	29	147
John Sharples	110	7	54	171
Total	<u>315</u>	<u>22</u>	<u>118</u>	<u>455</u>
	1998			Total emoluments excluding pension contributions 1998
	Basic salary	Benefits in kind	Annual bonus	
	£000	£000	£000	£000
Directors' emoluments				
Euan McEwan	110	8	37	155
Roger Robinson	125	8	36	169
John Sharples	135	9	66	210
Total	<u>370</u>	<u>25</u>	<u>139</u>	<u>534</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.8 Directors' remuneration (continued)

Directors' share option details are set out in note 7.29.

Mid-term incentive bonus scheme

In addition to the annual bonus scheme referred to above the directors are also party to mid-term incentive arrangements. These arrangements were established for the directors and senior executives under which performance is assessed over three year periods, by reference to the increase in total shareholder value, measured by share price performance plus reinvested dividends, to emphasise the joint interests of executives and shareholders over the performance period. Any bonus earned under these arrangements is paid in the form of ordinary shares in Tarmac which are normally purchased in the market and held in an employee share trust, or held under option, pending the possibility of bonus award.

Under the schemes, bonuses accrue in accordance with Tarmac's ranking within an industry comparator group in terms of increase in total shareholder value over each performance period. The maximum potential bonus for a premier ranking is an award of shares having a value at the outset of the performance period varying between 30 per cent. and 50 per cent. of salary, according to executive grading. In the case of executive directors, the potential maximum of 50 per cent. is applicable.

Awards which crystallised under the 1995 to 1997 scheme at 31 December 1997 are shown below. The monetary value of the awards attributed to each director is based on the number of shares which were vested at a market value of 119p on 25 March 1998.

	<u>Number of shares</u>	<u>£000</u>
Euan McEwan	10,232	12
Roger Robinson	9,862	12
John Sharples	<u>8,876</u>	<u>11</u>

Awards which crystallised under the 1996 to 1998 scheme at 31 December 1998 are shown below. The monetary value of the awards attributed to each director is based on the number of shares which were vested at a market value of 113p on 16 March 1999.

	<u>Number of shares</u>	<u>£000</u>
Euan McEwan	35,244	40
Roger Robinson	34,133	39
John Sharples	<u>30,868</u>	<u>35</u>

The maximum number of shares which could be awarded to directors under the current performance periods of the schemes is as follows:

	<u>Performance period</u>	
	<u>1997-1999</u>	<u>1998-2000</u>
Euan McEwan	52,198	48,889
Roger Robinson	60,440	55,556
John Sharples	<u>60,440</u>	<u>60,000</u>

On demerger, awards under the mid-term incentive bonus schemes will crystallise and will be prorated based on the length of time the schemes have run. The bonus calculation will be based on the share value of Tarmac shares at the date of demerger and Tarmac's ranking in the industry comparator group at that date.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.8 Directors' remuneration (continued)

Pension benefits

Pensions accruing during the period under the Tarmac "B" Scheme, net of inflation, are set out below:

1996			
Age at end of year	Annual pension accruing		
	During the year	At end of year	
	£000	£000	
Euan McEwan	41	2	4
Roger Robinson	45	2	12
John Sharples	<u>48</u>	<u>6</u>	<u>45</u>
1997			
Age at end of year	Annual pension accruing		
	During the year	At end of year	
	£000	£000	
Euan McEwan	42	2	6
Roger Robinson	46	3	15
John Sharples	<u>49</u>	<u>9</u>	<u>54</u>
1998			
Age at end of year	Annual pension accruing		
	During the year	At end of year	
	£000	£000	
Euan McEwan	43	2	8
Roger Robinson	47	2	17
John Sharples	<u>50</u>	<u>22</u>	<u>76</u>

7.9 Taxation

	1996	1997	1998
	£m	£m	£m
UK Corporation Tax at 31 per cent. for 1998 (1997: 31.5 per cent.; 1996: 33 per cent.)	4.9	5.1	4.0
Overseas taxation	1.7	5.1	1.3
Amount receivable for group relief based on the (loss)/profit of the year	(24.6)	(14.6)	(10.3)
Transfers to deferred tax	4.0	3.0	2.8
Attributable taxation of joint ventures	<u>2.7</u>	<u>3.6</u>	<u>6.0</u>
	(11.3)	2.2	3.8
Adjustments in respect of previous years	<u>(0.3)</u>	<u>3.2</u>	<u>9.8</u>
Tax (credit)/charge	<u>(11.6)</u>	<u>5.4</u>	<u>13.6</u>

The tax (credit)/charge for the three years ended 31 December 1998 has been distorted by the impact of tax losses and the disclaimer of tax allowances.

In 1996, the tax credit was reduced by £4.2 million as a result of unutilised losses. In 1998 the tax charge has been increased by £9.8 million as a result of the reduction in group relief following the disclaimer of tax allowances, and has been reduced by £1.7 million by the utilisation of overseas tax losses and lower overseas corporate tax rates.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.10 (Loss)/profit for the financial year

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Dealt with in the accounts of:			
Carillion Group	(41.9)	11.4	(7.5)
Joint ventures	<u>4.0</u>	<u>2.2</u>	<u>13.3</u>
	<u>(37.9)</u>	<u>13.6</u>	<u>5.8</u>

7.11 Dividends

Dividends payable represents amounts payable to the New Tarmac Group.

7.12 Loss or earnings per ordinary share

(a) Basic

The calculations of the basic loss or earnings per ordinary share are based on the combined loss or profit for each financial year attributable to equity shareholders and on the weighted average number of shares applicable thereto.

The weighted average number of shares for each year as shown in (c) below is based on the number of ordinary shares in Carillion expected to be in issue at the date the listing will become effective, which takes account of the capital reorganisation referred to in note 7.32 but before the effect of the exercise of any share options in Tarmac prior to the capital reorganisation.

(b) Adjusted

A reconciliation of the basic loss or earnings per ordinary share to the adjusted amounts shown on the face of the profit and loss account is as follows:

	<u>1996</u>	<u>Pence</u>	<u>1997</u>	<u>Pence</u>	<u>1998</u>	<u>Pence</u>
	<u>£m</u>	<u>per share</u>	<u>£m</u>	<u>per share</u>	<u>£m</u>	<u>per share</u>
(Loss)/profit for the financial year	(37.9)	(19.4)	13.6	7.0	5.8	3.0
Exceptional items:						
Operating items	—	—	—	—	5.9	3.0
Costs of fundamental restructuring	46.9	24.0	—	—	—	—
Less taxation in respect of the above	<u>(15.5)</u>	<u>(7.9)</u>	—	—	<u>(1.8)</u>	<u>(0.9)</u>
(Loss)/earnings before all exceptional items	<u>(6.5)</u>	<u>(3.3)</u>	<u>13.6</u>	<u>7.0</u>	<u>9.9</u>	<u>5.1</u>

The adjusted (loss)/earnings per share have been included to demonstrate the effect of exceptional items on the results trend.

(c) Diluted

Fully diluted (loss)/earnings per ordinary share have been calculated on both of the above bases, using the same loss or earnings numerators as set out in (a) and (b) above, but by reference to the following numbers of shares:

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.12 Loss or earnings per ordinary share (continued)

	Carillion plc Number of ordinary shares		
	1996	1997	1998
	Million	Million	Million
Expected number of ordinary shares per basic loss or earnings per share calculations	195.3	195.3	195.3
Adjustments to reflect dilutive shares under option	4.8	4.8	4.8
Adjustments to reflect dilutive shares held by Employee Share Ownership Plan	0.2	0.2	0.2
Expected number of ordinary shares per fully diluted loss or earnings per share calculations	<u>200.3</u>	<u>200.3</u>	<u>200.3</u>

Convertible capital bonds of Tarmac are excluded from the above calculations on the basis that their effect would have been anti-dilutive.

7.13 Goodwill

From 1 January 1998, in accordance with FRS10, goodwill has been capitalised and amortised in accordance with the accounting policy set out in note 7.1.

	£m
Cost	
At 1 January 1998	—
Arising in respect of acquisitions during the year	1.8
Amortisation for the period	<u>(0.1)</u>
Net book value at 31 December 1998	<u>1.7</u>

Further details in respect of the acquisitions during the three years ended 31 December 1998 and the respective goodwill arising are given in note 7.28.

7.14 Tangible fixed assets

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation			
At 31 December 1995	22.1	87.7	109.8
Exchange rate adjustments	(0.9)	(4.3)	(5.2)
Additions	0.1	17.1	17.2
Revaluation	—	(3.8)	(3.8)
Businesses acquired	13.6	27.7	41.3
Disposals	<u>(3.1)</u>	<u>(24.4)</u>	<u>(27.5)</u>
At 31 December 1996	31.8	100.0	131.8
Exchange rate adjustments	0.1	(0.1)	—
Additions	0.4	19.0	19.4
Businesses acquired	—	0.6	0.6
Disposals	<u>(2.0)</u>	<u>(18.6)</u>	<u>(20.6)</u>
At 31 December 1997	30.3	100.9	131.2
Exchange rate adjustments	(0.1)	(0.4)	(0.5)
Additions	0.1	11.1	11.2
Businesses acquired	—	0.2	0.2
New Tarmac Group transfers	—	(8.6)	(8.6)
Disposals	<u>(6.6)</u>	<u>(53.4)</u>	<u>(60.0)</u>
At 31 December 1998	<u>23.7</u>	<u>49.8</u>	<u>73.5</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

7. Notes — Continued

7.14 Tangible fixed assets (continued)

	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
<i>Depreciation</i>			
At 31 December 1995	3.1	45.2	48.3
Exchange rate adjustments	(0.4)	(1.4)	(1.8)
Provision for year	0.7	15.2	15.9
Revaluation	—	(1.6)	(1.6)
Eliminated in respect of disposals	(0.8)	(17.7)	(18.5)
At 31 December 1996	2.6	39.7	42.3
Exchange rate adjustments	0.1	(0.3)	(0.2)
Provision for year	0.8	16.7	17.5
Eliminated in respect of disposals	(0.3)	(14.4)	(14.7)
At 31 December 1997	3.2	41.7	44.9
Exchange rate adjustments	(0.1)	(0.4)	(0.5)
Provision for year	0.7	12.8	13.5
New Tarmac Group transfers	—	(8.4)	(8.4)
Eliminated in respect of disposals	(2.0)	(34.5)	(36.5)
At 31 December 1998	<u>1.8</u>	<u>11.2</u>	<u>13.0</u>
<i>Net book value</i>			
At 31 December 1998	<u>21.9</u>	<u>38.6</u>	<u>60.5</u>
At 31 December 1997	<u>27.1</u>	<u>59.2</u>	<u>86.3</u>
At 31 December 1996	<u>29.2</u>	<u>60.3</u>	<u>89.5</u>

The gross book value at 31 December 1996 represents items at:

	£m	£m	£m
Cost	24.1	100.0	124.1
1985 valuation	<u>7.7</u>	<u>—</u>	<u>7.7</u>
	<u>31.8</u>	<u>100.0</u>	<u>131.8</u>
Gross book value of depreciable assets	<u>30.4</u>	<u>100.0</u>	<u>130.4</u>

The gross book value at 31 December 1997 represents items at:

	£m	£m	£m
Cost	26.9	100.9	127.8
1985 valuation	<u>3.4</u>	<u>—</u>	<u>3.4</u>
	<u>30.3</u>	<u>100.9</u>	<u>131.2</u>
Gross book value of depreciable assets	<u>23.5</u>	<u>100.9</u>	<u>124.4</u>

The gross book value at 31 December 1998 represents items at:

	£m	£m	£m
Cost	22.2	49.8	72.0
1985 valuation	<u>1.5</u>	<u>—</u>	<u>1.5</u>
	<u>23.7</u>	<u>49.8</u>	<u>73.5</u>
Gross book value of depreciable assets	<u>19.8</u>	<u>49.8</u>	<u>69.6</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

7. Notes — Continued

7.14 Tangible fixed assets (continued)

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
<i>Land and buildings comprise:</i>			
Freehold	24.6	22.6	17.7
Long leasehold	3.2	3.0	3.0
Short leasehold	<u>1.4</u>	<u>1.5</u>	<u>1.2</u>
Net book value	<u>29.2</u>	<u>27.1</u>	<u>21.9</u>

The total amounts for land and buildings, some of which are incorporated above on the basis of open market value for existing use, are determined according to the historical cost accounting rules as follows:

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
<i>Historical cost</i>			
Cost	36.6	35.6	28.8
Depreciation	<u>(7.7)</u>	<u>(8.7)</u>	<u>(7.0)</u>
Net book value	<u>28.9</u>	<u>26.9</u>	<u>21.8</u>

7.15 Investments

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Cost			
At beginning of year	0.9	(1.2)	5.7
Exchange adjustments	—	—	—
Acquisitions	9.2	3.5	22.7
Goodwill on acquisitions (note 7.28b)	(8.9)	—	—
Disposals	—	2.4	—
Debenture repayment	—	—	(9.2)
Transfer to other balance sheet categories	<u>(2.4)</u>	<u>1.0</u>	<u>0.5</u>
At end of year	<u>(1.2)</u>	<u>5.7</u>	<u>19.7</u>
Share of post acquisition results			
At beginning of year	0.9	4.9	7.1
Share of results of the year after taxation	4.0	3.6	14.2
Dividends paid	—	(1.4)	(0.9)
At end of year	<u>4.9</u>	<u>7.1</u>	<u>20.4</u>
Net book value	<u>3.7</u>	<u>12.8</u>	<u>40.1</u>

The aggregate share of joint ventures' net assets may be analysed as follows:

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Fixed assets	5.7	26.2	73.6
Current assets	141.0	139.6	195.0
Creditors due within one year	(108.2)	(69.1)	(106.5)
Creditors due after one year	<u>(34.8)</u>	<u>(83.9)</u>	<u>(122.0)</u>
Net assets	<u>3.7</u>	<u>12.8</u>	<u>40.1</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

7. Notes — Continued

7.16 Stocks

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Raw materials:			
Land for development	6.5	2.7	0.4
Other raw materials	<u>13.4</u>	<u>19.0</u>	<u>11.7</u>
	<u>19.9</u>	<u>21.7</u>	<u>12.1</u>
Long term contract balances:			
Net cost less foreseeable losses	22.3	13.4	27.2
Payments on account	<u>(11.4)</u>	<u>(6.8)</u>	<u>(16.8)</u>
	<u>10.9</u>	<u>6.6</u>	<u>10.4</u>
Work in progress — other	3.1	18.0	33.4
Finished goods and goods for resale	<u>8.9</u>	<u>2.4</u>	<u>0.9</u>
	<u><u>42.8</u></u>	<u><u>48.7</u></u>	<u><u>56.8</u></u>

7.17 Debtors

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Amounts falling due within one year			
Trade debtors	157.8	168.8	171.3
Amounts recoverable on contracts	195.9	196.2	175.6
Amounts owed by New Tarmac Group:			
Loan accounts	147.1	164.8	11.6
Current accounts	1.2	0.2	0.7
Group taxation relief	29.0	33.4	23.1
Amounts owed by joint ventures	22.8	—	30.6
Amounts owed by joint arrangements	13.3	4.9	22.6
Other debtors	63.5	33.6	52.2
Prepayments and accrued income	21.0	17.8	23.4
Deferred taxation asset (see note 7.21)	<u>16.2</u>	<u>13.2</u>	<u>11.4</u>
	<u>667.8</u>	<u>632.9</u>	<u>522.5</u>
Amounts falling due after more than one year			
Trade debtors	10.2	27.2	7.1
Amounts recoverable on contracts	42.8	33.6	18.8
Amounts owed by joint arrangements	—	0.2	0.3
Prepayments and accrued income	0.9	0.2	—
Other debtors	<u>0.9</u>	<u>3.5</u>	<u>3.6</u>
	<u>54.8</u>	<u>64.7</u>	<u>29.8</u>
Total debtors	<u>722.6</u>	<u>697.6</u>	<u>552.3</u>
Amounts owed by the New Tarmac Group	177.3	198.4	35.4
Other debtors	<u>545.3</u>	<u>499.2</u>	<u>516.9</u>
	<u>722.6</u>	<u>697.6</u>	<u>552.3</u>

7.18 Current asset investments

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Unlisted investments at cost	<u>1.7</u>	<u>—</u>	<u>1.6</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

7. Notes — Continued

7.19 Creditors: amounts falling due within one year

	1996	1997	1998
	£m	£m	£m
Bank loans and overdrafts	3.6	3.2	5.8
Payments received on account:			
Long term contracts	59.8	83.1	47.7
Other	0.2	0.8	4.3
Trade creditors	412.5	381.6	393.0
Bills of exchange payable	3.0	0.3	6.7
Amounts owed to the New Tarmac Group:			
Loan accounts	89.4	90.6	105.6
Current accounts	15.1	12.9	11.5
Amounts owed to joint ventures	4.5	30.8	40.5
Amounts owed to joint arrangements	6.3	—	14.0
Corporation tax	5.9	7.4	1.7
Other taxation and social security costs	31.7	34.7	36.3
Accruals	65.5	70.3	72.3
Other creditors	108.2	91.7	74.4
	<u>805.7</u>	<u>807.4</u>	<u>813.8</u>
Amounts owed to the New Tarmac Group	104.5	103.5	117.1
Other creditors	701.2	703.9	696.7
	<u>805.7</u>	<u>807.4</u>	<u>813.8</u>

The bank loans and overdrafts may be analysed between secured and unsecured items as follows:

	1996	1997	1998
	£m	£m	£m
Secured (on tangible fixed assets)	0.3	0.7	0.1
Unsecured	3.3	2.5	5.7
	<u>3.6</u>	<u>3.2</u>	<u>5.8</u>

7.20 Creditors: amounts falling due after more than one year

	1996	1997	1998
	£m	£m	£m
Bank loans	0.3	0.3	0.2
Payments received on account:			
Long term contracts	1.1	—	—
Trade creditors	—	3.8	5.1
Bills of exchange payable	—	—	1.0
Amounts owed to the New Tarmac Group:			
Loan accounts	14.8	25.5	—
Amounts owed to joint arrangements	0.4	0.4	0.4
Accruals	—	0.9	0.7
Other creditors	3.7	0.9	2.0
	<u>20.3</u>	<u>31.8</u>	<u>9.4</u>
Amounts owed to the New Tarmac Group	14.8	25.5	—
Other creditors	5.5	6.3	9.4
	<u>20.3</u>	<u>31.8</u>	<u>9.4</u>

All of the above creditors are payable within five years of the respective balance sheets dates.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.20 Creditors: amounts falling due after more than one year (continued)

The bank loans are secured on tangible fixed assets and are repayable as follows.

	1996	1997	1998
	£m	£m	£m
Between two and five years	0.3	0.2	0.1
In more than five years	—	0.1	0.1
	<u>0.3</u>	<u>0.3</u>	<u>0.2</u>

7.21 Provisions for liabilities and charges

	Deferred taxation	Other provisions
	£m	£m
At 1 January 1996	(8.8)	38.2
Exchange adjustments	(0.2)	—
Transfer to profit and loss account	4.0	—
Acquisitions	(11.3)	20.0
Other movements	0.1	—
At 31 December 1996	<u>(16.2)</u>	<u>58.2</u>
At 1 January 1997	(16.2)	58.2
Transfer to profit and loss account	3.0	—
Utilised during year	—	(18.9)
At 31 December 1997	<u>(13.2)</u>	<u>39.3</u>
At 1 January 1998	(13.2)	39.3
Transfer to profit and loss account	2.8	—
Utilised during year	(1.0)	(35.4)
At 31 December 1998	<u>(11.4)</u>	<u>3.9</u>

Other provisions principally comprised contract provisions associated with the Carillion Group's construction activities and dilapidation provisions.

The utilisation of provisions in 1997 and 1998 includes contract settlements, costs incurred, adjustments to asset carrying values and the transfer of outstanding liabilities to current assets and liabilities as appropriate.

Deferred taxation included within debtors:

	Asset recognised		
	1996	1997	1998
	£m	£m	£m
Accelerated capital allowances	2.3	0.2	(7.7)
Other timing differences	(18.5)	(13.4)	(3.7)
	<u>(16.2)</u>	<u>(13.2)</u>	<u>(11.4)</u>
	Asset not recognised		
	1996	1997	1998
	£m	£m	£m
Accelerated capital allowances	(0.2)	(1.6)	(2.0)
Other timing differences	(5.5)	(11.2)	(17.3)
	<u>(5.7)</u>	<u>(12.8)</u>	<u>(19.3)</u>

The deferred tax asset is included within debtors (see note 7.17).

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.22 Share capital

As part of the capital reorganisation referred to in note 7.32 the capital structure of the Carillion Group as shown in the combined balance sheets will be reorganised by, *inter alia*, the establishment of a new holding company and will not be comparable with subsequent periods. For the purposes of this report, the share capitals of the constituent companies within the Carillion Group have been aggregated and movements therein are shown below:

	£m
At 1 January 1996	25.9
New aggregated companies	56.0
At 31 December 1996	81.9
Shares issued	20.0
Capital reduction	(14.9)
At 31 December 1997	87.0
Capital reduction	(19.5)
At 31 December 1998	67.5

7.23 Reserves

The movements on reserves are summarised as follows:

	Share premium account £m	Revaluation reserve £m	Profit and loss account £m	Total £m
At 1 January 1996	70.4	0.3	(93.5)	(22.8)
Exchange rate movements	—	—	(9.7)	(9.7)
Loss for the year	—	—	(46.2)	(46.2)
Revaluation of investments	—	66.9	—	66.9
Transfer in respect of realisations	—	(66.9)	66.9	—
Goodwill written off — Wimpey (note 7.28(a))	—	—	(3.6)	(3.6)
— Others (note 7.28(b))	—	—	(24.2)	(24.2)
Capital contribution	—	—	6.1	6.1
Housing Division divestment	—	—	(8.7)	(8.7)
Other movements	—	—	(1.1)	(1.1)
At 31 December 1996	70.4	0.3	(114.0)	(43.3)
At 1 January 1997	70.4	0.3	(114.0)	(43.3)
Exchange rate movements	—	—	(6.3)	(6.3)
Retained profit for the year	—	—	12.1	12.1
Capital contribution	—	—	6.3	6.3
Other movements	—	(0.1)	(3.4)	(3.5)
Goodwill written off (note 7.28(c))	—	—	(4.5)	(4.5)
At 31 December 1997	70.4	0.2	(109.8)	(39.2)
At 1 January 1998	70.4	0.2	(109.8)	(39.2)
Exchange rate movements	—	—	(2.9)	(2.9)
Retained profit for the year	—	—	0.3	0.3
Other movements	—	(0.1)	0.8	0.7
At 31 December 1998	70.4	0.1	(111.6)	(41.1)

Cumulative goodwill written off to reserves at 31 December 1998 amounted to £124.1 million (1997: £124.1 million; 1996: £119.6 million).

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.23 Reserves (continued)

In 1996 investments in certain overseas companies were revalued by £66.9 million and then subsequently sold to a New Tarmac Group company generating a profit on sale of £6.1 million, which has been treated as a capital contribution, and realising the total revaluation surplus of £66.9 million as shown above.

The capital contribution of £6.3 million in 1997 represents a payment from an intermediate holding company within the New Tarmac Group.

7.24 Other guarantees and contingent liabilities

	1996	1997	1998
	£m	£m	£m
Guarantees in respect of borrowings of joint arrangements	<u>10.5</u>	<u>24.9</u>	<u>25.0</u>

The Carillion Group is the subject of certain legal proceedings which are regarded as unlikely to succeed or to have a material effect on the Carillion Group's financial position.

In the normal course of business, Carillion has performance bonds, guarantees and claims under contracting and other agreements, including joint arrangements.

7.25 Financial and capital commitments

<u>Commitments for capital expenditure</u>	1996	1997	1998
	£m	£m	£m
Contracts placed	<u>0.2</u>	<u>1.6</u>	<u>—</u>

	1996		1997		1998	
<u>Commitments under operating leases</u>	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>	<u>Land and buildings</u>	<u>Other</u>
	£m	£m	£m	£m	£m	£m
Annual commitments expiring:						
Within one year	2.0	2.1	2.2	1.8	0.5	1.0
In second to fifth year inclusive	1.5	4.3	2.8	5.1	1.4	6.6
Over five years	<u>3.0</u>	<u>—</u>	<u>4.7</u>	<u>—</u>	<u>3.9</u>	<u>—</u>
	<u>6.5</u>	<u>6.4</u>	<u>9.7</u>	<u>6.9</u>	<u>5.8</u>	<u>7.6</u>

7.26 Related parties

(a) *The New Tarmac Group*

During the three years ended 31 December 1996, 1997 and 1998 the Carillion Group purchased raw materials of £36.6 million, £46.8 million and £30.3 million respectively, from the New Tarmac Group at arm's length prices. Trade sales made by the Carillion Group to the New Tarmac Group during the three years ended 31 December 1996, 1997 and 1998 were £19.6 million, £12.3 million and £9.0 million respectively, at arm's length prices.

In addition the New Tarmac Group company car scheme is operated through one of the Carillion Group businesses. Income from the New Tarmac Group in the three years ended 31 December 1996, 1997 and 1998 for these services was £6.5 million, £6.6 million and £6.9 million respectively.

During the period the Carillion Group has made payments to the New Tarmac Group for management services and employee incentive scheme costs as noted below:

	1996	1997	1998
	£m	£m	£m
Management charges by the New Tarmac Group	<u>7.2</u>	<u>7.1</u>	<u>6.9</u>
Qualifying employee share trust charges/(credit)	<u>—</u>	<u>2.7</u>	<u>(0.4)</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

7. Notes — Continued

7.26 Related parties (continued)

(a) The New Tarmac Group (continued)

The net balances between the Carillion Group and the New Tarmac Group are set out below:

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Amounts due from the New Tarmac Group			
— loan accounts	147.1	164.8	11.6
— current accounts	1.2	0.2	0.7
— group relief	<u>29.0</u>	<u>33.4</u>	<u>23.1</u>
Amounts due to the New Tarmac Group within 1 year			
— loan accounts	89.4	90.6	105.6
— current accounts	<u>15.1</u>	<u>12.9</u>	<u>11.5</u>
Amounts due to the New Tarmac Group after 1 year			
— loan accounts	<u>14.8</u>	<u>25.5</u>	<u>—</u>
Net amounts due from/(to) the New Tarmac Group	<u>58.0</u>	<u>69.4</u>	<u>(81.7)</u>

(b) Carillion Group joint ventures

Sales made by the Carillion Group to joint ventures amounted to:

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Sales to the Carillion Group joint ventures	<u>27.0</u>	<u>48.4</u>	<u>80.8</u>

7.27 Cash flow notes

(a) Reconciliations of operating profit to net cash inflow/(outflow) from operating activities

	<u>1996</u>	<u>1997</u>	<u>1998</u>
	£m	£m	£m
Carillion Group operating profit before exceptional items	7.5	30.6	43.0
Share of operating profits of joint ventures	(7.1)	(6.4)	(22.1)
Depreciation	15.9	17.5	13.5
Amortisation of goodwill	—	—	0.1
Decrease in provisions	—	(18.9)	(35.4)
Increase in stocks	(11.4)	(1.3)	(14.6)
(Increase)/decrease in debtors	(47.1)	39.6	(6.3)
Increase/(decrease) in creditors due within one year	45.6	(6.7)	(34.0)
Increase in creditors due after more than one year	4.3	0.8	2.1
(Decrease)/increase in bills of exchange	<u>(1.1)</u>	<u>(2.7)</u>	<u>7.4</u>
Net cash inflow/(outflow) from operating activities before exceptional items	6.6	52.5	(46.3)
Exceptional operating cash spend	—	—	(4.5)
Fundamental restructuring spend	<u>(41.9)</u>	<u>(5.0)</u>	<u>—</u>
Net cash (outflow)/inflow from operating activities	<u>(35.3)</u>	<u>47.5</u>	<u>(50.8)</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP —
(Continued)

7. **Notes** — Continued

7.27 Cash flow notes (continued)

(b) *Analysis of changes in net funds*

	Cash at bank £m	Short term deposits £m	Short term bank overdrafts £m	Long term borrowings £m	Net funds £m
Net funds					
Increase/(decrease) in cash	17.5	—	(2.3)	—	15.2
Cash outflow from management of liquid resources	—	(1.7)	—	—	(1.7)
Repayment of debt	—	—	—	0.1	0.1
Effect of foreign exchange rate changes	1.8	—	0.1	0.1	2.0
Movement in net funds in the year	19.3	(1.7)	(2.2)	0.2	15.6
Net funds at 1 January 1996	26.3	18.7	(1.4)	(0.5)	43.1
Net funds at 31 December 1996	<u>45.6</u>	<u>17.0</u>	<u>(3.6)</u>	<u>(0.3)</u>	<u>58.7</u>
Net funds					
Increase in cash	9.3	—	—	—	9.3
Cash inflow from management of liquid resources	—	9.0	—	—	9.0
Effect of foreign exchange rate changes	0.4	—	0.4	—	0.8
Movement in net funds in the year	9.7	9.0	0.4	—	19.1
Net funds at 1 January 1997	45.6	17.0	(3.6)	(0.3)	58.7
Net funds at 31 December 1997	<u>55.3</u>	<u>26.0</u>	<u>(3.2)</u>	<u>(0.3)</u>	<u>77.8</u>
Net funds					
Increase/(decrease) in cash	58.7	—	(2.4)	—	56.3
Cash inflow from management of liquid resources	—	0.1	—	—	0.1
Repayment of debt	—	—	—	0.1	0.1
Effect of foreign exchange rate changes	0.5	—	(0.2)	—	0.3
Movement in net funds in the year	59.2	0.1	(2.6)	0.1	56.8
Net funds at 1 January 1998	55.3	26.0	(3.2)	(0.3)	77.8
Net funds at 31 December 1998	<u>114.5</u>	<u>26.1</u>	<u>(5.8)</u>	<u>(0.2)</u>	<u>134.6</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.28 Acquisitions and disposals

(a) 1996 — Wimpey

On 1 March 1996 the Tarmac Group's UK and US private sector housing business ("the Housing Division") was exchanged for the worldwide minerals and construction businesses of George Wimpey PLC ("Wimpey"). The effects of this exchange on the net assets of the Carillion Group relate to the acquisition of the Wimpey Construction businesses and the Carillion Group's share of the costs of the Housing Division divestment. The effects of this acquisition on the net assets of the Carillion Group are summarised below:

Wimpey Construction businesses acquired

	Book value	Revaluation of assets acquired	Fair value
	£m	£m	£m
Tangible fixed assets	36.2	(2.3)	33.9
Stocks	9.3	—	9.3
Debtors	128.9	(25.5)	103.4
Cash	22.3	—	22.3
Creditors	(151.2)	(11.2)	(162.4)
Provisions	(20.0)	—	(20.0)
Deferred tax	1.5	8.5	10.0
Intergroup loans	34.2	—	34.2
Net assets	<u>61.2</u>	<u>(30.5)</u>	30.7
Professional fees and other costs of transactions			(3.6)
			27.1
Directors' estimate of fair value of consideration for Wimpey Construction businesses acquired			<u>30.7</u>
Goodwill arising on acquisition of Wimpey Construction businesses, written off directly to reserves			<u>3.6</u>

Housing Division divestment

The Carillion Group's share of the unrealised reserve movement relating to the disposal of the Housing Division of £8.7 million less associated tax has been written off directly to reserves.

The cash and loan account movements in respect of the exchange may be analysed as follows:

	£m
Cash in business acquired	22.3
Inter group loan accounts in businesses acquired	34.2
Consideration (including costs) for businesses acquired paid through loan accounts	(34.3)
Cash inflow per cash flow statement (note 3)	<u>22.2</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.28 Acquisitions and disposals (continued)

(a) 1996 — Wimpey (continued)

The profit and loss account of the acquired Wimpey Construction businesses for the period from Wimpey's previous year end, 31 December 1995, to the date of acquisition is summarised as follows:

	Nine weeks ended 1 March 1996
	<u>£m</u>
Turnover	95.9
Loss before interest	(5.8)
Interest	<u>(0.3)</u>
Loss before taxation	(6.1)
Taxation and minority interests	<u>1.9</u>
Loss after taxation and minority interests	<u>(4.2)</u>

Following their acquisition, the acquired Wimpey Construction businesses were fully integrated into the Carillion Group and operated as indistinguishable units. Accordingly no reliable information exists on the separate turnover, operating profit, cash flows and results attributable to the acquisition which therefore have not been separately presented.

(b) Other acquisitions in 1996

On 1 March 1996, the Carillion Group acquired the Central Track Renewal Company ("Centrac") from the British Railways Board for a cash consideration of £3.1 million. On 8 March 1996, GT Railway Maintenance (Holdings) Limited ("GTRM,"), a joint venture of the Carillion Group with GEC Alsthom Limited, acquired the Central Infrastructure Maintenance Company from the British Railways Board for a total cash consideration of £18.8 million of which the Carillion Group's share was £9.2 million.

On 20 December 1996 an independent expert appointed under the terms of Tarmac's agreement with the Department of the Environment to acquire PSA Projects Limited, decided that the Carillion Group be required to repay £19.9 million from the cash received pursuant to the acquisition which had been made in 1992. Further related costs of £0.8 million were incurred. To the extent that this was in excess of a provision held to cover this eventuality, the payment represents an increase in the goodwill arising on the acquisition.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.28 Acquisitions and disposals (continued)

(b) Other acquisitions in 1996 (continued)

The above acquisitions excluding Wimpey Construction, are summarised as follows:

Other businesses acquired in 1996

	<u>Centrac</u> £m	<u>GTRM</u> £m	<u>PSA</u> £m	<u>Total</u> £m
Book value of net assets acquired				
Tangible fixed assets	6.7	—	—	6.7
Joint ventures	—	0.3	—	0.3
Stocks	0.8	—	—	0.8
Debtors	13.7	—	—	13.7
Cash, less overdrafts	—	—	—	—
Creditors, deferred liabilities and provisions	(19.8)	—	5.7	(14.1)
	<u>1.4</u>	<u>0.3</u>	<u>5.7</u>	<u>7.4</u>
Fair value adjustments				
Revaluation of assets acquired	(0.5)	—	—	(0.5)
Others	1.9	—	—	1.9
Fair value of assets acquired	2.8	0.3	5.7	8.8
Goodwill arising, written off directly to reserves	0.3	8.9	15.0	24.2
Cash outflow	<u>3.1</u>	<u>9.2</u>	<u>20.7</u>	<u>33.0</u>
Movement in deferred consideration				(3.4)
Cash outflow per cash flow statement (note 3)				<u>29.6</u>

(c) Businesses acquired in 1997

On 1 July 1997, the 50 per cent. of the issued share capital of Tarmac Service Master Limited which the Carillion Group did not previously own was acquired for a cash consideration of £1 million. The company, which was previously accounted for as a joint venture became a wholly owned subsidiary undertaking with effect from that date and was subsequently renamed Tarmac Facilities Services Limited.

	<u>Book Value</u> £m
Book value of net liabilities acquired	
Tangible fixed assets	0.6
Associated undertakings	2.4
Stocks	5.6
Cash, less overdrafts	(2.4)
Creditors and deferred liabilities	(9.0)
	(2.8)
Fair value adjustments	
Revaluation of assets acquired	(0.7)
Fair value of net liabilities acquired	(3.5)
Goodwill arising, written off directly to reserves	4.5
Fair value of consideration payable (including costs)	1.0
Overdraft in businesses acquired	2.4
	3.4
Movement in deferred consideration	5.1
Cash outflow in respect of acquisitions per cash flow statement (note 3)	<u>8.5</u>

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.28 Acquisitions and disposals (continued)

(c) Businesses acquired in 1997 (continued)

The net result before taxation of this business for the period immediately prior to acquisition and for the previous financial year were insignificant as regards the figures shown in the profit and loss account of the Carillion Group for 1997.

In addition, the Carillion Group invested £3.5 million in the joint venture, Group 4 Tarmac (Fazakerley) Limited.

(d) Acquisitions and disposals in 1998

On 1 June 1998, the Carillion Group acquired Nord France Travaux Publics S.A. ("NFTP"). The acquisition can be summarised as follows:

	<u>£m</u>
Book value of net assets acquired	
Tangible fixed assets	0.1
Stock	0.4
Debtors	16.1
Cash	4.3
Creditors	<u>(20.9)</u>
Fair value of consideration payable	—
Cash in businesses acquired	<u>4.3</u>
Cash inflow in respect of acquisitions per cash flow statement (note 3)	<u>4.3</u>

With effect from 31 March 1998, the plant hire business of Tarmac Construction Limited and Bovis Limited were merged. The assets of Tarmac Construction Limited's plant hire business, Castle Plant, were transferred into the new merged entity, Maxxiom Limited, at their book values.

The disposal of Castle Plant's assets in 1998 is summarised as follows:

	<u>1998</u> <u>£m</u>
Net assets disposed of:	
Tangible fixed assets	18.6
Stock	6.8
Debtors	8.5
Creditors	<u>(0.2)</u>
Consideration receivable, after costs:	33.7
Non-cash element of consideration (purchase of investment in joint venture, Maxxiom Limited)	<u>(20.0)</u>
Cash inflow in respect of divestment per cash flow statement (note 3)	<u>13.7</u>

The Carillion Group made investments in the joint venture companies, UK Highways M40 (Holdings) plc, of £2.2 million and in Education Care and Discipline Limited, of £0.5 million.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.28 Acquisitions and disposals (continued)

(d) Acquisitions and disposals in 1998 (continued)

In addition the Carillion Group bought out the minority shareholders in its French subsidiaries as summarised below:

	£m
Book value of net assets acquired	
Net assets acquired	0.5
Fair value adjustments	
Goodwill capitalised (note 7.13)	1.8
Fair value of consideration payable (including costs)	2.3
Deferred consideration	(1.0)
Cash outflow in respect of acquisition per cash flow statement (note 3)	1.3

7.29 Directors' interests

Fully paid shares owned

The beneficial interests of directors in office during the period and their families in the ordinary share capital of Tarmac are shown below:

	At 31 December		
	1996 Number	1997 Number	1998 Number
Euan McEwan	—	—	6,511
Roger Robinson	—	—	6,275
John Sharples	6,085	6,085	20,928

Share options

Details of share options held in the share capital of Tarmac by the directors during the period are shown below:

	1996				Exercised price (p)	
	Movements during year				Weighted average	Options granted in year
	At 1 January	Granted	Exercised	Lapsed		
Euan McEwan						
Executive share option scheme 1994	60,000	60,000	—	—	117.0	121.5
Roger Robinson						
Share option scheme 1985	44,541	—	—	—	154.9	—
Executive share option scheme 1994	60,000	60,000	—	—	117.0	121.5
Savings related share option scheme (1990) ...	12,591	—	—	—	137.0	—
	117,132	60,000	—	—		
John Sharples						
Share option scheme 1985	44,541	—	—	—	154.9	—
Executive share option scheme 1994	60,000	60,000	—	—	117.0	121.5
Savings related share option scheme (1990) ...	22,604	—	—	—	77.5	—
	127,145	60,000	—	—		

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.29 Directors' interests (continued)

	1997					Exercised price (p)	
	Movements during year					Weighted average	Options granted in year
	At 1 January	Granted	Exercised	Lapsed	At 31 December		
Euan McEwan							
Executive share option scheme 1994	120,000	120,000	—	—	240,000	114.5	112.0
Savings related share option scheme (1990) ...	—	9,848	—	—	9,848	99.0	99.0
	<u>120,000</u>	<u>129,848</u>	<u>—</u>	<u>—</u>	<u>249,848</u>		
Roger Robinson							
Share option scheme 1985	44,541	—	—	—	44,541	154.9	—
Executive share option scheme 1994	120,000	120,000	—	—	240,000	114.5	112.0
Savings related share option scheme (1990) ...	12,591	—	—	—	12,591	137.0	—
	<u>177,132</u>	<u>120,000</u>	<u>—</u>	<u>—</u>	<u>297,132</u>		
John Sharples							
Share option scheme 1985	44,541	—	—	—	44,541	154.9	—
Executive share option scheme 1994	120,000	120,000	—	—	240,000	114.5	112.0
Savings related share option scheme (1990) ...	22,604	—	—	—	22,604	77.5	—
	<u>187,145</u>	<u>120,000</u>	<u>—</u>	<u>—</u>	<u>307,145</u>		
	1998					Exercised price (p)	
	Movements during year					Weighted average	Options granted in year
	At 1 January	Granted	Exercised	Lapsed	At 31 December		
Euan McEwan							
Executive share option scheme 1994	240,000	80,000	—	—	320,000	115.2	117.4
Savings related share option scheme (1990) ...	9,848	—	—	—	9,848	99.0	—
	<u>249,848</u>	<u>80,000</u>	<u>—</u>	<u>—</u>	<u>329,848</u>		
Roger Robinson							
Share option scheme 1985	44,541	—	—	—	44,541	154.9	—
Executive share option scheme 1994	240,000	100,000	—	—	340,000	115.4	117.4
Savings related share option scheme (1990) ...	12,591	10,483	—	(12,591)	10,483	93.0	93.0
	<u>297,132</u>	<u>110,483</u>	<u>—</u>	<u>(12,591)</u>	<u>395,024</u>		
John Sharples							
Share option scheme 1985	44,541	—	—	—	44,541	154.9	—
Executive share option scheme 1994	240,000	100,000	—	—	340,000	115.4	117.4
Savings related share option scheme (1990) ...	22,604	5,935	—	(9,571)	18,968	90.9	93.0
	<u>307,145</u>	<u>105,935</u>	<u>—</u>	<u>(9,571)</u>	<u>403,509</u>		

During 1998, Tarmac's share price ranged between 77p and 130p (1997 — 94p and 133.5p, 1996 — 89p and 134p). At 31 December 1998, the share price was 112.5p (1997 — 114.5p, 1996 — 98p).

Options under the Share Option Scheme 1985 are exercisable normally between three and ten years after the date of grant, subject to the achievement of pre-determined increases in profit before taxation per ordinary share of Tarmac in respect of each option. No new options were capable of grant under this scheme after February 1995.

Options granted under the Executive Share Option Scheme 1994 are exercisable normally between three and ten years after the date of grant if, over any three year period during the currency of the option, the total shareholder return on ordinary shares of Tarmac is equal to or exceeds the percentage change over the same period in the total return for the FT-SE 100 Share Index. Options under the Scheme are normally granted annually, in tranches which vary according to the executive grade of each grantee, up to a maximum individual subscription cost of four times salary. Thus, each scheme member's maximum possible allocation is accumulated over a period of several years.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.29 Directors' interests (continued)

Options under the employee Savings-Related Share Option Scheme (1990) are linked with savings contracts having either a three or five year term. They are exercisable normally during the period of six months following the third or fifth anniversary, as appropriate, of the commencement of the associated savings contract.

No director is beneficially interested in the convertible capital bonds of Tarmac, or in the share or loan capital of any subsidiary undertaking of Tarmac.

7.30 Principal companies, joint ventures and joint arrangements of the Carillion Group

Principal companies, joint ventures and joint arrangements of the Carillion Group are set out below. The ultimate controlling party during the period was Tarmac.

Principal companies in the Carillion Group

Tarmac Construction Limited
Tarmac Professional Services Limited
Sovereign Harbour Marina Limited
The Expanded Piling Company Limited
Tarmac Construction Overseas Limited
Tarmac Construction (Contracts) Limited
Centrac Limited
Schal International Management Limited
Pasco International Limited
Stanger Limited
TPS Consult Limited
Tarmac Services Limited
Tarmac BTP SA (France)
Tarmac Canada Inc (Canada)
Markfield Insurance Brokers Limited
Tarmac Alawi LLC (Oman)

Principal joint ventures

Group 4 Tarmac (Fazakerley) Limited — 50 per cent.
UK Highways M40 (Holdings) plc — 20 per cent.
Star Site PLC — 33 per cent.
PJ Walls (Civil) Limited (Republic of Ireland) — 50 per cent.
GT Railway Maintenance (Holdings) Limited
("GTRM") — 49 per cent.
TBV Power Limited — 50 per cent.
Al Futtaim Tarmac Pte Limited (UAE) — 49 per cent.
Maxxiom Limited — 50 per cent.
RT (Bridgend) Limited — 50 per cent.

Principal joint arrangements

Cairo Wastewater Consortium (Egypt) — 18 per cent.
The Copenhagen Metro Construction Group
("COMET") — 27.5 per cent.
Transmanche Link (Channel Tunnel) — 20 per cent.
(now dormant)

The above companies in the Carillion Group are 100 per cent. owned and incorporated in Great Britain unless otherwise stated. The above joint ventures were incorporated in Great Britain unless otherwise stated. All holdings are ordinary shares.

7.31 Pension arrangements

The Carillion Group makes pension arrangements in respect of its employees in the UK and overseas.

The two principal pension schemes which relate to UK employees are the main Tarmac Group Staff Scheme and the Tarmac "B" Scheme, membership of which is offered to the most senior employees, including directors. The assets of the schemes are held in trustee administered funds, separate from those of the Tarmac Group, are of the defined benefit type and are funded.

A valuation of these schemes is undertaken by independent qualified actuaries every three years. At the date of the latest actuarial valuation, 31 December 1996, the market values of the assets of these schemes were £439.6 million and £155.0 million, respectively. The actuarial valuations have been made on the projected unit basis, and assume a return on investments between 1 per cent. and 2 per cent. per annum higher than the rate of annual salary increases and between 4 per cent. and 4.25 per cent. per annum higher than the rate of annual pension increases. At 31 December 1996, the actuarial values of scheme assets were £380.8 million and £137.0 million, sufficient to cover 113 per cent. and 115 per cent. respectively, of the benefits that had accrued to members at that date after allowing for expected future increases in pensionable pay.

The contributions to the schemes made by the Carillion Group represent the regular cost of providing the benefits under the scheme, less any refunds of contributions.

PART 2: ACCOUNTANTS' REPORT ON THE CARILLION GROUP — (Continued)

7. Notes — Continued

7.31 Pension arrangements (continued)

The regular cost to the Carillion Group of contributions was £13.8 million in 1996, £14.2 million in 1997, and £15.9 million in 1998 (before any refunds).

The principal overseas scheme is in Canada and is of the defined benefit type. The latest actuarial valuation as at 31 December 1995 indicated that the scheme was fully funded.

7.32 Subsequent events

On 2 February 1999, Tarmac announced its intention to separate its two business streams, Heavy Building Materials and Construction Services as described in the circular to the shareholders of Tarmac dated 15 June 1999.

The proposed demerger includes the following events:

- the establishment of a new holding company, for the Carillion Group, Carillion;
- the subscription for additional shares in the Carillion Group of £95.9 million by the New Tarmac Group satisfied by a reduction in the net loan due to the New Tarmac Group of £106.6 million offset by £23.1 million of group relief with the balance of £12.4 million being received by the Carillion Group in cash;
- transfer of legal ownership of certain businesses between the New Tarmac Group and the Carillion Group at market values. In addition certain assets and liabilities of unincorporated Carillion Group businesses are to be retained by the New Tarmac Group. The combined effect of these transfers will be to reduce the net assets of the Carillion Group by £15.4 million;
- the demerger of the Carillion Group effected through a reduction of the capital of New Tarmac. Under this capital reduction the nominal value of the New Tarmac shares will be reduced. New Tarmac will transfer the companies and businesses comprising the Carillion Group to Carillion and the New Tarmac shareholders will be allotted one share in Carillion for each share held in New Tarmac.

Yours faithfully

KPMG Audit Plc

PART 3: ACCOUNTANTS' REPORT ON CARILLION PLC

The following is the full text of a report on Carillion plc from KPMG Audit Plc, the reporting accountants, to the Directors and to Lazard Brothers.



KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

The Directors
Carillion plc
Construction House
Birch Street
Wolverhampton
West Midlands
WV1 4HY

The Directors
Lazard Brothers & Co., Limited
21 Moorfields
London
EC2P 2HT

15 June 1999

Dear Sirs

Carillion plc

Basis of preparation

The financial information set out in paragraphs 1 and 2 is based on the financial statements of Carillion plc ("Carillion") for the period from incorporation to 2 June 1999, to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of Carillion.

The directors of Carillion are responsible for the contents of the listing particulars of Carillion dated 15 June 1999 ("the Listing Particulars") in which this report is included.

It is our responsibility to compile financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to Carillion's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion the financial information gives, for the purposes of the Listing Particulars, a true and fair view of the state of affairs of Carillion as at 2 June 1999.

PART 3: ACCOUNTANTS' REPORT ON CARILLION PLC — (Continued)

1 Balance sheet

	As at 2 June 1999 £
Current assets	
Debtor: amount due from nominee shareholders	15,601
Net assets	<u>15,601</u>
Capital and reserves	
Called up share capital	15,601
Equity shareholders' funds	<u>15,601</u>

2 Notes

2.1 Carillion was incorporated as Cameron 1999 plc on 28 May 1999. It changed its name to Carillion plc on 11 June 1999. No audited financial statements have been made up and no dividends have been declared or paid since the date of incorporation. Carillion had not commenced business as at 2 June 1999 and accordingly no profit and loss account is presented.

2.2 Basis of preparation

The financial information has been prepared in accordance with applicable UK accounting standards using the historical cost convention.

2.3 Share capital

The authorised share capital at 2 June 1999 comprised 325,000,000 ordinary shares of 50 pence each. Shares of 50 pence each were allotted for cash and were paid up as follows:

- (i) 2 ordinary shares fully paid on incorporation, and
- (ii) 120,000 ordinary shares paid up as to £15,600 in aggregate on 2 June 1999.

2.4 Subsequent events

Subsequent to 2 June 1999, Carillion accepted an underwriting and mandate letter from Greenwich NatWest Limited and National Westminster Bank plc, dated 14 May 1999, as referred to in paragraph 13 of Part 6 of the Listing Particulars.

Yours faithfully

KPMG Audit Plc

PART 4: PRO FORMA STATEMENT OF NET ASSETS OF THE CARILLION GROUP

Basis of Pro Forma Statement

Set out below is a pro forma statement of net assets of the Carillion Group as at 31 December 1998, which has been prepared on the basis described in the notes below to illustrate the effect on the combined net assets of the Carillion Group of the Capital Reorganisation and Demerger as if those events had occurred on 31 December 1998. Because of the nature of the pro forma statement it may not give a true picture of the Carillion Group's financial position and has been prepared for illustrative purposes only.

Adjustments have been made to reflect the proposed financing arrangements for the Carillion Group arising from the Capital Reorganisation and certain adjustments consequent upon the Demerger.

	Carillion Group unadjusted	Business and asset transfers (Note 2)	Share and Loan account Adjustments (Note 3)	Pro forma
	£m	£m	£m	£m
Fixed assets				
Goodwill	1.7	—	—	1.7
Tangible assets	60.5	—	—	60.5
Investments	40.1	—	—	40.1
	<u>102.3</u>	<u>—</u>	<u>—</u>	<u>102.3</u>
Current assets				
Stocks	56.8	—	—	56.8
Debtors:				
Group relief	23.1	—	(23.1)	—
Loan account with Tarmac plc	11.6	—	(11.6)	—
Other debtors	517.6	(2.8)	—	514.8
Investments	1.6	—	—	1.6
Cash and short term deposits	140.6	—	12.4	153.0
	<u>751.3</u>	<u>(2.8)</u>	<u>(22.3)</u>	<u>726.2</u>
Creditors: amounts falling due within one year				
Loan account with Tarmac plc	(105.6)	(12.6)	118.2	—
Other creditors	(702.4)	—	—	(702.4)
Bank loans and overdrafts	(5.8)	—	—	(5.8)
	<u>(813.8)</u>	<u>(12.6)</u>	<u>118.2</u>	<u>(708.2)</u>
Net current (liabilities)/assets	<u>(62.5)</u>	<u>(15.4)</u>	<u>95.9</u>	<u>18.0</u>
Total assets less current liabilities	<u>39.8</u>	<u>(15.4)</u>	<u>95.9</u>	<u>120.3</u>
Creditors: amounts falling due after more than one year				
Other creditors	(9.2)	—	—	(9.2)
Secured loans	(0.2)	—	—	(0.2)
	<u>(9.4)</u>	<u>—</u>	<u>—</u>	<u>(9.4)</u>
Provisions for liabilities and charges	<u>(3.9)</u>	<u>—</u>	<u>—</u>	<u>(3.9)</u>
Net assets	<u>26.5</u>	<u>(15.4)</u>	<u>95.9</u>	<u>107.0</u>

Notes:

- The unadjusted net assets of the Carillion Group are extracted from the combined balance sheet as at 31 December 1998 included in The Accountants' Report on the Carillion Group set out in Part 2 of this document.
- Reduction in net assets of £15.4 million arising on the transfer, at market value, of the legal ownership of certain businesses between the New Tarmac Group and the Carillion Group and the retention of net debtors totalling £2.8 million by the New Tarmac Group in respect of unincorporated Carillion Group businesses.
- Subscription for additional shares in the Carillion Group of £95.9 million by the New Tarmac Group, satisfied by a reduction in the net loan due to the New Tarmac Group of £106.6 million offset by £23.1 million of group relief with the balance of £12.4 million being received by the Carillion Group in cash.
- No professional fees and transaction costs relating to the Demerger are expected to be borne by the Carillion Group.
- No adjustment has been made to reflect trading since 31 December 1998, nor any other event, save as disclosed above.



KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

The Directors
Carillion plc
Construction House
Birch Street
Wolverhampton
West Midlands
WV1 4HY

The Directors
Lazard Brothers & Co., Limited
21 Moorfields
London EC2P 2HT

15 June 1999

Dear Sirs

Pro forma statement of net assets of the Carillion Group

We report on the pro forma statement of net assets as at 31 December 1998 ("the pro forma financial information") set out in Part 4 of the listing particulars of Carillion plc ("Carillion") dated 15 June 1999, which has been prepared, for illustrative purposes only, to provide information about how the proposed capital reorganisation might have affected the combined financial information presented.

Responsibilities

It is the responsibility solely of the directors of Carillion to prepare the pro forma financial information in accordance with paragraph 12.29 of the Listing Rules.

It is our responsibility to form an opinion, as required by the Listing Rules of the London Stock Exchange, on the pro forma financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board. Our work, which involved no independent examination of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the directors of Carillion.

Opinion

In our opinion:

- the pro forma financial information has been properly compiled on the basis stated;
- such basis is consistent with the accounting policies of Carillion; and
- the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 12.29 of the Listing Rules of the London Stock Exchange.

Yours faithfully

KPMG Audit Plc

PART 5: SUMMARY OF THE TARMAC SCHEME AND THE DEMERGER

TARMAC SCHEME AND DEMERGER

Outline

If they are implemented in full, the proposals of the Tarmac Board will create two new listed companies, New Tarmac and Carillion. Broadly, New Tarmac will own the Tarmac Group's heavy building materials business and Carillion will own the Tarmac Group's construction services business. Tarmac Shareholders will exchange their Tarmac Shares for New Tarmac Shares and Carillion Shares, on the following basis:

For every five Tarmac Shares	One New Tarmac Share and One Carillion Share
-------------------------------------	---

The proposals comprise two elements: the Reorganisation (the introduction of a new holding company as the ultimate holding company of the Tarmac Group) and the Demerger.

The Reorganisation

New Tarmac will become the ultimate holding company of the Tarmac Group pursuant to a scheme of arrangement under section 425 of the Companies Act 1985. Under the Tarmac Scheme, Tarmac Shareholders will exchange their Tarmac Shares for New Tarmac Shares on the following basis:

For every five Tarmac Shares	One New Tarmac Share
-------------------------------------	-----------------------------

Under the Tarmac Scheme:

- (a) the Scheme Shares (expected to be all the issued Tarmac Shares and in a whole multiple of five) will be cancelled and the holders at the Scheme Record Time will be allotted one New Tarmac Share, credited as fully paid, for every five Scheme Shares then held; and
- (b) the credit arising in the books of account of Tarmac as a result of this cancellation will be applied in paying up in full at par such number of Tarmac Shares as is equal to the number of Scheme Shares. These will be issued to New Tarmac or its nominee as consideration for the issue of New Tarmac Shares to Tarmac Shareholders.

Fractional entitlements to New Tarmac Shares will not be issued to Tarmac Shareholders but will be aggregated and issued by New Tarmac to Cazenove Nominees Limited. These shares will be sold together with the Carillion Shares issued to Cazenove Nominees Limited as part of the Demerger in consequence of its holding New Tarmac Shares. The net proceeds of sale in respect of such shares will be remitted to former Tarmac Shareholders according to their fractional entitlements.

The Demerger

The Reorganisation is not conditional on the Demerger proceeding but the Demerger will not proceed unless the Reorganisation first occurs. If the Demerger proceeds Carillion will issue Carillion Shares to New Tarmac Shareholders on the following basis:

For each New Tarmac Share	One Carillion Share
----------------------------------	----------------------------

If the Demerger proceeds as contemplated, former Tarmac Shareholders will thus come to hold one New Tarmac Share and one Carillion Share for every five Tarmac Shares held at the Scheme Record Time.

Under the New Tarmac Reduction of Capital, capital will be repaid to New Tarmac Shareholders as follows:

- (a) The capital of New Tarmac will be reduced by reducing the nominal value of each New Tarmac Share by an amount to be determined as described below;
- (b) New Tarmac will transfer certain companies, businesses and rights to Carillion such that it comes to own all of the Tarmac Group's construction services business; and
- (c) The New Tarmac Shareholders at the Demerger Record Time will be allotted and issued one Carillion Share, credited as fully paid, for each New Tarmac Share held.

PART 5: SUMMARY OF THE TARMAC SCHEME AND THE DEMERGER — (Continued)

Conditions

The implementation of the Tarmac Scheme is conditional upon the following:

- (a) the approval of the Tarmac Scheme by a majority in number representing three fourths in value of the holders of the Scheme Shares present and voting either in person or by proxy at the Court Meeting;
- (b) the passing of Special Resolution 1 set out in the notice of the Tarmac Extraordinary General Meeting which enables the Reorganisation to proceed by making certain changes to the capital of Tarmac and authorising the allotment of shares pursuant to the Tarmac Scheme, making amendments to the Tarmac articles of association, (to ensure that shares allotted after the Tarmac Extraordinary General Meeting can be compulsorily acquired by New Tarmac and to remove the requirement that Directors hold shares in Tarmac), authorising the issue of the deferred share and changing the name of Tarmac (to permit New Tarmac to become known as "Tarmac plc");
- (c) the sanction of the Tarmac Scheme, and the confirmation of the reduction of capital of Tarmac which comprises part of the Tarmac Scheme, by the Court;
- (d) the registration by the Registrar of Companies of an office copy of the Court Order sanctioning the Tarmac Scheme and confirming the reduction of capital; and
- (e) the grant by the London Stock Exchange of permission for the whole of the issued ordinary share capital of New Tarmac to be admitted to the Official List, subject only to allotment, and such permission not being withdrawn prior to the Scheme Effective Time.

The Tarmac Board will not take the necessary steps to enable the Tarmac Scheme to be sanctioned by the Court unless, at the relevant time, they consider that it continues to be in Tarmac's best interests that the Reorganisation should occur.

The implementation of the Demerger is conditional upon the following:

- (a) the Tarmac Scheme becoming effective;
- (b) the passing of Special Resolution 2 set out in the notice of the Tarmac Extraordinary General Meeting which enables the Demerger to proceed by approving the New Tarmac Reduction of Capital;
- (c) the board of New Tarmac resolving, following the Tarmac Scheme becoming effective, that the Demerger is in the best interests of New Tarmac;
- (d) the confirmation of the New Tarmac Reduction of Capital by the Court;
- (e) the registration by the Registrar of Companies of an office copy of the Court Order confirming the New Tarmac Reduction of Capital; and
- (f) the grant by the London Stock Exchange of permission for the whole of the issued ordinary share capital of Carillion to be admitted to the Official List, subject only to allotment, and such permission not being withdrawn prior to the Demerger Effective Time.

The directors of New Tarmac will not take the necessary steps to enable the New Tarmac Reduction of Capital to become confirmed by the Court unless, at the relevant time, they consider that it continues to be in New Tarmac's best interests that the Demerger should occur.

Timetable

The Tarmac Scheme will only become effective when an office copy of the Court Order sanctioning it and confirming the related reduction of capital is registered by the Registrar of Companies. The New Tarmac Reduction of Capital will only become effective when an office copy of the Court Order confirming it is registered by the Registrar of Companies.

Assuming that the conditions set out above are satisfied, the Reorganisation is expected to be completed on 28 July 1999 and the Demerger on 29 July 1999. If the Tarmac Scheme has not become effective by 31 December 1999 (or such later date as Tarmac and New Tarmac may agree and the Court may allow), it will lapse and neither the Reorganisation nor the Demerger will proceed. If the Demerger has not occurred by that date, it will not proceed.

PART 5: SUMMARY OF THE TARMAC SCHEME AND THE DEMERGER — (Continued)

It is expected that Tarmac Shares will cease to be listed on the Official List at 9.00 am on 28 July 1999, the same day as the Scheme Effective Time. It is anticipated that both New Tarmac Shares and Carillion Shares will be admitted to the Official List at 9.00 am on 30 July 1999, the day after the Demerger Effective Time.

In the event that, after the Tarmac Scheme becomes effective, the conditions to the Demerger are not satisfied prior to the expected date for the admission of both New Tarmac Shares and Carillion Shares to the Official List or shortly thereafter, the Board of New Tarmac will nevertheless seek the admission of the New Tarmac Shares to the Official List. If this occurs, the New Tarmac Shares may initially trade on the London Stock Exchange "cum" the right to receive Carillion Shares in the event of the Demerger proceeding subsequently.

The Court Hearing to sanction the Tarmac Scheme is expected to be held on 26 July 1999. Shareholders will have the right to attend the Court Hearing to support or oppose the Tarmac Scheme and to appear in person or be represented by Counsel. The Court Hearing to confirm the New Tarmac Reduction of Capital is expected to be held on 28 July 1999. Shareholders will have the right to attend the Court Hearing to support or oppose the New Tarmac Reduction of Capital and to appear in person or be represented by Counsel.

Tarmac Shareholders will not be required to separately approve the New Tarmac Reduction of Capital once they have become New Tarmac Shareholders pursuant to the Tarmac Scheme.

Listing, settlement and mandates

Application has been made to the London Stock Exchange for the New Tarmac Shares and Carillion Shares to be admitted to the Official List. The last day of dealings in Tarmac Shares is expected to be 27 July 1999. The last time for registration of transfers of Scheme Shares is expected to be 6.00 pm on 27 July 1999. It is expected that admission of both the New Tarmac Shares and Carillion Shares to the Official List will become effective and that dealings in the New Tarmac Shares and Carillion Shares will commence at 9.00 am on 30 July 1999, the day after that on which the New Tarmac Reduction of Capital is expected to become effective.

It is proposed that both the New Tarmac Shares and the Carillion Shares be made eligible for settlement in CREST, the system for the paperless settlement of trades in securities listed on the London Stock Exchange.

New Tarmac Shares and Carillion Shares are expected to be credited to Scheme Shareholders who hold their Tarmac Shares in a CREST account on 30 July 1999. For those holding shares in certificated form, definitive certificates for the New Tarmac Shares and Carillion Shares are expected to be despatched on 5 August 1999. Pending despatch of share certificates, transfers of New Tarmac Shares and Carillion Shares will be certified by the Registrars against the share register.

All mandates (including scrip dividend mandates) relating to payment of dividends on Tarmac Shares and all instructions given to Tarmac in relation to notices and other communications in force at the Scheme Record Time will, unless and until varied or revoked, be deemed from the Scheme Effective Time to be valid and effective mandates or instructions to New Tarmac in relation to the corresponding holding of New Tarmac Shares.

All mandates (including scrip dividend mandates) relating to payment of dividends on New Tarmac Shares and all instructions given to New Tarmac in relation to notices and other communications in force (or deemed to be in force) at the Demerger Record Time will, unless and until varied or revoked, be deemed from the Demerger Effective Time to be valid and effective mandates or instructions to Carillion in relation to the corresponding holding of Carillion Shares.

Modifications

The Tarmac Scheme contains a provision for Tarmac and New Tarmac jointly to consent on behalf of all persons concerned to any modification of or addition to the Tarmac Scheme or to any condition which the Court may approve or impose.

NEW TARMAC REDUCTION OF CAPITAL

As indicated above, it is proposed that the Demerger will be effected by means of a reduction of capital of New Tarmac. The nominal amount of the New Tarmac Shares is currently £2.50 and the New Tarmac Shares to be issued pursuant to the Tarmac Scheme will be initially of the same nominal amount. However, at a general meeting held on 11 June 1999, the existing shareholders of New Tarmac (Tarmac and its nominee)

PART 5: SUMMARY OF THE TARMAC SCHEME AND THE DEMERGER — (Continued)

resolved to reduce the capital by repaying to the holders of New Tarmac Shares an amount to be determined by the Directors and reducing the nominal amount of each of the New Tarmac Shares accordingly. The resolution stipulates that the repayment to shareholders shall not be paid in cash but shall be effected by New Tarmac transferring, or procuring the transfer of certain companies, businesses and rights to Carillion such that Carillion comes to own the Tarmac Group's construction services businesses and also procuring the allotment and issue by Carillion to the holders of the issued New Tarmac Shares of one Carillion Share accepted as fully paid for each New Tarmac Share held by them.

The resolution to reduce New Tarmac's capital (the "Reduction Resolution") is conditional upon the approval of the reduction by a special resolution of Tarmac; Carillion and New Tarmac entering into certain agreements relating to the Demerger; Carillion agreeing to allot and issue Carillion Shares to New Tarmac Shareholders as contemplated by the Reduction Resolution; the Tarmac Scheme becoming effective and the Directors resolving (after the Tarmac Scheme has become effective) that it is in the best interests of New Tarmac to proceed with the Demerger. If these conditions are not fulfilled by 31 December 1999 the Reduction Resolution will lapse.

CAPITAL REORGANISATION

To facilitate the Demerger, the legal ownership of certain businesses was transferred between the New Tarmac Group and the Carillion Group at market value and net debtors of £2.8 million retained by the New Tarmac Group in respect of unincorporated Carillion Group businesses. The net effect of these transfers has been to reduce the net assets of the Carillion Group by £15.4 million.

Subsequently, the New Tarmac Group has increased the net assets of the Carillion Group by £95.9 million by subscribing for additional share capital. This subscription was satisfied by a reduction of £83.5 million in the net loan due to the New Tarmac Group and by a payment to the Carillion Group of £12.4 million.

The net effect of these adjustments is summarised in the pro forma statement of net assets of the Carillion Group in Part 4.

PART 6: ADDITIONAL INFORMATION

1. Responsibility

The Directors, whose names are set out on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation and Registered Office

The Company was incorporated as Cameron 1999 plc and registered in England and Wales on 28 May 1999 under the Companies Act as a public company limited by shares and with registered number 3782379. The Company changed its name to Carillion plc on 11 June 1999. The registered office of Carillion is Construction House, Birch Street, Wolverhampton WV1 4HY.

3. Share Capital

- 3.1 The authorised share capital of Carillion was on incorporation and remains, £162,500,000 divided into 325,000,000 shares of 50p each.
- 3.2 On incorporation, two Carillion Shares were subscribed for by Ogier Nominees Limited and Reigo Nominees Limited, being nominee companies which held their shares on trust for Keeper Limited, the trustee of a general charitable trust.
- 3.3 In addition to the initial subscriber shares, Ogier Nominees Limited applied on incorporation for a further 120,000 ordinary shares in Carillion and undertook to pay £15,600 representing over one quarter of the nominal value of those shares by no later than 8 October 1999. However, to the extent such shares are allotted to the shareholders of New Tarmac pursuant to the Tarmac Scheme becoming effective, the allotment to Ogier Nominees Limited will be cancelled and its obligation to take up and pay for such shares will lapse.
- 3.4 At an Extraordinary General Meeting of Carillion on 11 June⁴ 1999, the shareholders granted authority to the Directors to allot shares pursuant to section 80 of the Companies Act and disapplied the pre-emption provisions of section 89 of the Companies Act on equivalent terms as the authorities granted by the shareholders of Tarmac at the Annual General Meeting on 9 June 1998. The authorities granted to the Directors represent one fifth of the amounts of the authorities granted to the directors of Tarmac on the basis that Tarmac shareholders will receive, following the Demerger, one Carillion Share for every five Tarmac shares that they hold. At the Annual General Meeting of Tarmac it was resolved that the authority and power set out in Article 11(B) of Tarmac's Articles of Association be given to the directors of Tarmac for the period ending on 8 June 2003 and for such period the Section 80 Amount (as defined in the Articles of Association of Tarmac) would be £129 million and the Section 89 Amount (as defined in the Articles of Association of Tarmac) would be £23 million. Accordingly, the authority and power set out in Article 9 of the Articles was given to the Directors on 11 June 1999 for the period ending on 8 June 2003 and it was resolved that for such period the Section 80 Amount (as defined in the Articles) would be £25.8 million and the Section 89 Amount (as defined in the Articles) would be £4.6 million. In addition to such authorities, the Directors were authorised to allot relevant securities (within the meaning of section 80 of the Companies Act) up to an aggregate nominal amount of £162,500,000 pursuant to the New Tarmac Reduction of Capital. Upon the Demerger, Carillion will issue Carillion Shares, credited as fully paid, to the New Tarmac Shareholders on the basis of one Carillion Share for every New Tarmac Share.
- 3.5 The number of fully paid Carillion Shares in issue upon completion of the Demerger is based on the assumption that no Tarmac Shares are issued between 11 June 1999 and the Demerger either pursuant to the exercise of options under the Tarmac Share Schemes, the conversion of the Convertible Capital Bonds or otherwise and includes the Tarmac Shares to be issued on 21 June 1999 in connection with the Tarmac scrip dividend scheme.

4. Memorandum and Articles of Association

4.1 Memorandum of Association

The Memorandum of Association of Carillion provides that its principal objects, *inter alia*, are to:

- 4.1.1 carry on the business of a holding company; and

PART 6: ADDITIONAL INFORMATION — (Continued)

- 4.1.2** carry on construction services businesses of any kind including the businesses of a building contractor, civil engineering contractor, mechanical and electrical contractor, property dealer, developer or manager and design, technical, environmental, materials or other consultant and the businesses of asset maintenance and renewal, infrastructure management, facilities management, project management and construction management;

The objects of Carillion are set out in full in clause 4 of Carillion's Memorandum of Association which is available for inspection at the addresses specified in paragraph 22 below.

4.2 Articles of Association

New Articles of Association of Carillion (the "Articles") were adopted on the incorporation of Carillion. These contain, *inter alia*, the provisions summarised below.

4.2.1 Voting Rights

Subject to the restrictions referred to under sub-paragraph (b) below, and to any rights or restrictions attached to any Carillion shares, on a show of hands, every shareholder who is present in person (or, being a corporation, is represented by a duly authorised representative) has one vote. A proxy cannot vote on a show of hands. Upon a poll every shareholder present in person (or, being a corporation, represented by a duly authorised representative) or by proxy has one vote for every ordinary share held by him.

4.2.2 Restrictions on Voting

Voting rights may be restricted under the Articles, if (i) a notice requiring disclosure as to interests in shares is not complied with or (ii) a member has not paid all calls or other sums relating to his shares.

If any member has been served with a notice under Section 212 of the Companies Act and is in default for 14 days in supplying the relevant information then that member shall not be entitled to attend or vote either personally or by proxy at a shareholders' meeting or exercise any other right conferred by membership in relation to shareholders' meetings. Where the shares in question represent 0.25 per cent. or more of the issued shares of the relevant class, the Directors may direct that any dividend which would otherwise be payable in respect of those shares be retained by Carillion and/or no transfer of those shares shall be registered unless the transfer is an approved transfer or represents only part of the member's holding and the member is not himself in default.

4.2.3 Variation of Share Capital and Rights

Carillion may by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares;
- (iii) subdivide all or any of its share capital into shares of a smaller amount than that fixed by the Memorandum of Association (subject to the provisions of the Companies Act); or
- (iv) cancel any shares which have not been taken or agreed to be taken by any person at the date of the resolution and diminish the amount of its share capital by the amount of the shares so cancelled.

Subject to the provisions of the Companies Act, whenever the share capital of Carillion is divided into different classes of shares, the special rights attached to any class may, subject to the provisions of the Companies Act and unless provided by the terms of issue of the shares of that class, be varied or abrogated, whether or not Carillion is being wound up, either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of the class. At any such separate meeting (other than an adjourned meeting) the necessary quorum is two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class. Subject to the restrictions described in paragraph 4.2.2

PART 6: ADDITIONAL INFORMATION — (Continued)

above, any holder of shares of the class present in person or by proxy may demand a poll and every such holder has one vote for every share of the class held by him on a poll.

Subject to the Companies Act, Carillion may by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any way.

Subject to and in accordance with the provisions of the Companies Act, Carillion may purchase its own shares of any class (including any redeemable shares) but so that if there are in issue any shares convertible into equity share capital, Carillion shall not purchase them unless the terms of issue permit it or provide for adjustment to the conversion terms or with the approval by extraordinary resolution of the holders of such convertible shares.

To the extent that they are authorised by the Companies Act or by a resolution of the shareholders, the Directors may allot shares (with or without conferring a right of renunciation) or grant options to such persons, at such times and on such terms as they think proper.

4.2.4 *Dividends and Other Distributions*

Carillion may by ordinary resolution declare dividends. No dividend may be declared in excess of the amount recommended by the Board. The Board may also from time to time pay interim dividends on shares of any class of such amounts and on such dates and in respect of such periods as it thinks fit. Dividends will be paid pro rata in proportion to the amount paid up on the ordinary shares during any portion or portions of the period in respect of which the dividend is paid. The Board may, if authorised by an ordinary resolution, direct payment of a dividend in whole or in part by the distribution of specific assets. No dividend shall be paid otherwise than out of profits available for distribution under the Companies Act, the CREST Regulations and all other laws and regulations applying to Carillion.

Any dividend or other moneys payable in respect of a share may be paid by cheque, inter-bank transfer or any other method which the member agrees to.

Any dividend unclaimed after a period of twelve years from the date such dividend is payable shall be forfeited and shall revert to Carillion.

No dividend shall bear interest as against the Company.

4.2.5 *Distribution of Assets on Winding Up*

If Carillion is wound up, the liquidator may, with the authority of an extraordinary resolution passed by the shareholders, divide among the shareholders the whole or any part of the assets of Carillion and, for that purpose, set such values as he deems fair upon any property to be divided and may determine how such division shall be carried out as between shareholders or different classes of shareholders.

4.2.6 *Transfer of Shares*

A transfer of shares held in certificated form may be made in writing in any usual or common form or in any other form acceptable to the Directors and may be under hand only. The instrument of transfer must be signed by or on behalf of the transferor and, unless the shares are fully paid, by or on behalf of the transferee. A transfer of any shares held in uncertificated form may only be made by means of a relevant system. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered onto the register in respect of such shares.

The Directors may in their absolute discretion refuse to register any transfer of shares held in certificated form that are not fully paid provided that, where any such shares are admitted to the official list of the London Stock Exchange, such discretion may not be exercised in such a way so as to prevent dealings in the shares of that class from taking place on an open and proper basis. The Directors may also refuse to register any instrument of transfer unless, in the case of shares held in certificated form:

- (i) such instrument is lodged (duly stamped if required) at the transfer office accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and, if the instrument of

PART 6: ADDITIONAL INFORMATION — (Continued)

transfer is executed by some other person on his behalf, the authority of that person to do so; and

- (ii) such instrument is in respect of only one class of share.

The Directors may also refuse to register an allotment or transfer of shares held either in certificated or uncertificated form (whether fully paid or not) in favour of more than four persons jointly.

4.2.7 *Directors*

- (i) Unless otherwise determined by ordinary resolution of Carillion, there must be at least four Directors but not more than sixteen Directors.
- (ii) A Director need not be a shareholder, and a Director who is not a shareholder can still attend and speak at shareholders' meetings.
- (iii) The directors' fees payable to the Directors shall be determined by the Directors and shall not exceed £250,000 per annum in aggregate or such higher amount as Carillion may from time to time determine by special resolution.
- (iv) Any Director who holds an executive office or who serves on any committee of the Directors or who otherwise performs services outside the scope of the ordinary duties of a Director may be paid such extra remuneration as the Directors may determine.
- (v) The Directors may be repaid all reasonable expenses incurred in attending meetings of the Directors or any committee of the Directors or otherwise in connection with the business of Carillion.
- (vi) The Directors can decide to award gratuities, pension or other retirement, superannuation, death or disability benefits to any person who is or was a Director of Carillion. The Directors can decide to contribute to any scheme or fund or to pay premiums to a third party for these purposes.
- (vii) Subject to the provisions of the Statutes, and provided that he has disclosed to the Directors the nature and extent of any interest of his, a Director notwithstanding his office:
 - (a) may be a party to, or otherwise interested in, any contract, transaction or arrangement with the Company or in which the Company is otherwise interested;
 - (b) may be a director or other officer of, or employed by, or a party to any contract, transaction or arrangement with, or otherwise interested in, any body corporate promoted by the Company or in which the Company is otherwise interested;
 - (c) may (or any firm of which he is a partner, employee or member may) act in a professional capacity for the Company (other than as auditor) and be remunerated therefor; and
 - (d) shall not, save as otherwise agreed by him, be accountable to the Company for any benefit which he derives from any such contract, transaction or arrangement or from any such office or employment or from any interest in any such body corporate or for such remuneration and no such contract, transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit.
- (vii) Except as otherwise provided in the Articles, a Director cannot cast a vote on any contract, arrangement or any other proposal in which he has a material interest other than by virtue of his interest in shares or debentures or other securities of Carillion. A Director may not be included in the quorum of a meeting in relation to any resolution he is not allowed to vote on.
- (viii) Subject to the provisions of the Companies Act, a Director can vote, and be counted in the quorum, on any resolution about any of the following matters:
 - (a) the giving of a guarantee, security, or indemnity in respect of money lent at the request of, or for the benefit of, Carillion, or any of its subsidiary undertakings;

PART 6: ADDITIONAL INFORMATION — (Continued)

- (b) the giving of a guarantee, any security, or indemnity, for any obligation which is owed by Carillion, or any of its subsidiary undertakings, for which the Director has taken responsibility in whole or in part by giving a guarantee, indemnity or security;
- (c) any proposal relating to an offer of any shares or debentures or other securities of or by Carillion or any of its subsidiary undertakings, if the Director takes part because he is a holder of securities, or if he takes part in the underwriting or sub-underwriting of the offer;
- (d) any proposal involving any other company, if the Director (together with any person connected with the Director under Section 346 of the Companies Act) has a direct or indirect interest of any kind (including an interest by holding any position in that company or by being a shareholder of that company). However, this does not apply if he knows that he, and any other persons connected with him, hold an interest in shares (as defined for sections 198 to 211 of the Companies Act) representing one per cent. or more of:
 - any class of issued equity share capital; or
 - the voting rights in any such company;
- (e) any proposal relating to an arrangement for the benefit of employees of Carillion, or any of its subsidiary undertakings, which only gives him benefits which are also generally given to the employees to whom the arrangement relates; and
- (f) insurance which Carillion proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

4.2.8 *Age Limit*

A Director shall not be ineligible for appointment or re-election or be required to retire by reason only of his age.

4.2.9 *Borrowing Powers*

Subject to the Companies Act, the Directors may exercise all the powers of Carillion to borrow money and to mortgage or charge its undertaking, property (present and future) and uncalled capital or any part or parts of them and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Carillion or of any third party. The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by Carillion in relation to its subsidiary companies so as to secure that the aggregate amount outstanding of all moneys borrowed by the Group does not exceed an amount equal to five times the share capital and consolidated reserves, unless previously sanctioned by an Ordinary Resolution.

4.2.10 *Indemnity of Officers*

So far as the relevant legislation allows, every Director, Secretary and other officer of Carillion shall be indemnified by Carillion out of its own funds against all costs, charges, losses, expenses and liabilities incurred by him in performing his duties and/or exercising his powers and/or otherwise in relation to or in connection with his duties, powers or office. The liabilities covered include any liability incurred by him in defending proceedings, civil or criminal, which relate to anything done or omitted to be done by him as an officer or employee of Carillion, and in which judgement is given in his favour, or the proceedings are disposed of without any finding of any material breach of duty on his part, or he is acquitted.

4.2.11 *CREST*

The Articles allow for the holding and transfer of ordinary shares through CREST.

4.2.12 *Untraced Shareholders*

Carillion is entitled to sell, at the best price reasonably obtainable, the shares of a member or the shares to which a person is entitled by virtue of transmission on death or bankruptcy provided that:

PART 6: ADDITIONAL INFORMATION — (Continued)

- (i) at least three dividends in respect of the shares have become payable and remain unclaimed;
- (ii) Carillion inserts advertisements in both a national newspaper and a newspaper circulating in the area of the last known address of the member;
- (iii) during the three months following the publication of the above mentioned advertisement Carillion has received no communication from such member or person; and
- (iv) Carillion gives notice to the London Stock Exchange of its intention to make such sale.

The net proceeds of sale will belong to Carillion which will be obliged to account to the former member or other person previously entitled from an amount equal to the proceeds of sale of the shares and will enter the name of such former member or the person in the books of Carillion as a creditor for such amount.

4.2.13 *Dividend mandates*

All mandates and other instructions to Tarmac which, by virtue of a Scheme or otherwise, are deemed to be valid and effective mandates and instructions to New Tarmac in relation to the corresponding shares in New Tarmac allotted and issued pursuant to the Scheme will also be deemed to be valid and effective mandates and instructions to the Company in relation to the corresponding shares of the Company allotted and issued pursuant to the Demerger.

4.2.14 *Overseas Shareholders*

If, in respect of any holder or former holder of shares in Tarmac with a registered address outside the United Kingdom or who is a citizen, resident or national of a jurisdiction outside the United Kingdom, the Company, Tarmac or New Tarmac is advised that the allotment and issue of shares in the Company pursuant to the New Tarmac Reduction of Capital would or might infringe the laws of any jurisdiction outside the United Kingdom or would or might require the Company, Tarmac or New Tarmac to observe any governmental or other consent or any registration, filing or other formality, the Company will be entitled, prior to the issue of such shares pursuant to the New Tarmac Reduction of Capital, to determine that such shares should be sold (unless such shareholder satisfies the Company as appropriate that no such infringement or requirement would apply). The Company will appoint a person to procure that any shares in respect of which the Company has made such a determination will, as soon as practicable following the New Tarmac Reduction of Capital, be sold at the best price which can reasonably be obtained at the time of sale and the proceeds of such sale (net of the expenses of sale including commissions and value added tax) shall be paid to such holder.

5. **Directors' and Other Interests**

5.1 The full names of the Directors and their respective functions are as follows:

Sir Neville Simms	Chairman
Christopher Roger Ettrick Brooke	Non-Executive Deputy Chairman
Euan McEwan	Executive Director
Roger William Robinson	Executive Director
Bernard John Sharples	Executive Director
Jean-Paul Parayre	Non-Executive Director
Alan Charles Coppin	Non-Executive Director

The business address of each of the Directors is Construction House, Birch Street, Wolverhampton, WV1 4HY.

5.2 Immediately following the Demerger, by reference to their holdings in Tarmac Shares as at 11 June 1999 (the latest practicable date prior to the publication of this document) and on the basis that they receive one Carillion Share for five Tarmac Shares currently held and on the assumption that the Directors do not exercise any options under the Tarmac Share Schemes, the Directors and their immediate families are expected to have the beneficial interests in Carillion Shares shown in the table below, such interests being those: (i) which are required to be notified by each Director to Carillion pursuant to section 324 or 328 of the Companies Act; or (ii) which are required pursuant to section 325 of the Companies Act to be shown by the Register of Directors' Interests maintained under section 325 of the Companies Act or which are

PART 6: ADDITIONAL INFORMATION — (Continued)

interests of a connected person of a Director which would, if the connected person were a Director, be required to be disclosed under (i) or (ii) above, and the existence of which is known to or could, with reasonable diligence, be ascertained by that Director. These interests include Tarmac Shares which will be issued to certain Directors on 21 June 1999 in connection with the Tarmac scrip dividend scheme.

<u>Director</u>	<u>Carillion Shares Number</u>	<u>Percentage of issued share Capital of Carillion</u>
Sir Neville Simms	69,687	0.04
Roger Brooke	11,900	0.01
Euan McEwan	5,681	0.003
Roger Robinson	5,495	0.003
John Sharples	8,102	0.004
Jean-Paul Parayre	11,993	0.01
Alan Coppin	—	—
Total	112,858	0.07

In addition, the Executive Directors are expected to be interested in 495,635 Carillion Shares which are expected to be held by the trustee of the Tarmac Employee Share Trust (on the basis that it receives one Carillion Share for every five Tarmac Shares currently held) by virtue of their membership of a class of discretionary beneficiaries consisting of past and present employees of the Tarmac Group.

- 5.3 Save as set out in sub-paragraph 5.2 above, upon Admission no Director nor any person connected with a Director as aforesaid has at the date of this document or is expected to have any interest in the share capital of Carillion.
- 5.4 As at 11 June 1999 (the latest date practicable prior to the publication of this document), the Directors had the following options over Tarmac Shares under the following Tarmac share option schemes. No consideration was payable for the grant of these options.

<u>Directors</u>	<u>Scheme and date of grant</u>	<u>Number of Tarmac Shares</u>	<u>Option Price</u>	<u>Normal expiry date</u>
Sir Neville Simms ..	Tarmac Share Option Scheme 1985			
	30 April 1993	103,386	128.50p	29.04.03
	28 April 1994	100,000	170.50p	27.04.04
	Tarmac Share Option Scheme 1994			
	12 April 1995	100,000	112.50p	11.04.05
	4 April 1996	100,000	121.50p	03.04.06
	15 April 1997	400,000	112.00p	14.04.07
	27 March 1998	300,000	117.375p	26.03.08
	Tarmac Savings Related Share Option Scheme 1990			
	31 May 1994	6,295	137.00p	04.02.00
	29 April 1998	5,241	93.00p	31.12.01
		<u>1,114,922</u>		
Euan McEwan	Tarmac Share Option Scheme 1994			
	12 April 1995	60,000	112.50p	11.04.05
	4 April 1996	60,000	121.50p	03.04.06
	15 April 1997	120,000	112.00p	14.04.07
	27 March 1998	80,000	117.375p	26.03.08
	Tarmac Savings Related Share Option Scheme 1990			
	22 July 1997	9,848	99.00p	28.02.01
		<u>329,848</u>		

PART 6: ADDITIONAL INFORMATION — (Continued)

<u>Directors</u>	<u>Scheme and date of grant</u>	<u>Number of Tarmac Shares</u>	<u>Option Price</u>	<u>Normal expiry date</u>
Roger Robinson	Tarmac Share Option Scheme 1985			
	30 April 1993	16,541	128.50p	29.04.03
	28 April 1994	28,000	170.50p	27.04.04
	Tarmac Share Option Scheme 1994			
	12 April 1995	60,000	112.50p	11.04.05
	4 April 1996	60,000	121.50p	03.04.06
	15 April 1997	120,000	112.00p	14.04.07
	27 March 1998	100,000	117.375p	26.03.08
	Tarmac Savings Related Share Option Scheme 1990			
	29 April 1998	10,483	93.00p	31.12.01
		<u>395,024</u>		
John Sharples	Tarmac Share Option Scheme 1985			
	30 April 1993	16,541	128.50p	29.04.03
	28 April 1994	28,000	170.50p	27.04.04
	Tarmac Share Option Scheme 1994			
	12 April 1995	60,000	112.50p	11.04.05
	4 April 1996	60,000	121.50p	03.04.06
	15 April 1997	120,000	112.00p	14.04.07
	27 March 1998	100,000	117.375p	26.03.08
	Tarmac Savings Related Share Option Scheme 1990			
	16 May 1995	13,033	90.00p	31.01.01
	29 April 1998	5,935	93.00p	31.12.03
		<u>403,509</u>		

5.5 Based on interests in Tarmac as disclosed to Tarmac pursuant to section 198 of the Companies Act and registered pursuant to section 211 of the Companies Act as at 11 June 1999 (the latest practicable date prior to publication of this document) and the issued share capital of Carillion following the Demerger (assuming no shares are issued between the date of this document and the Demerger either pursuant to the exercise of options under the Tarmac Share Schemes, the conversion of the Tarmac Convertible Capital Bonds or otherwise) and assuming the Demerger becomes effective, the following persons would have the following interests in three per cent. or more of the issued share capital of Carillion immediately after Admission:

<u>Name</u>	<u>Percentage of issued share capital</u>
Phillips & Drew Holdings Limited	18.13
Sanford C. Bernstein & Co. Inc. and Associated Companies	7.83
FMR Corp. and its direct and indirect subsidiaries and Fidelity International Limited and its direct and indirect subsidiaries	4.00
AXA S.A. and its subsidiaries	3.50
Electricity Supply Pension Scheme	3.05

5.6 Save as disclosed in paragraph 3 and sub-paragraph 5.5 above, so far as is known to the Directors, there is no person who directly or indirectly is or will be interested in three per cent. or more of Carillion's issued share capital or any person who could directly or indirectly, jointly or severally, exercise control over Carillion immediately after Admission.

5.7 No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the Carillion Group and which were effected by any member of the

PART 6: ADDITIONAL INFORMATION — (Continued)

Carillion Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.

- 5.8 There are no outstanding loans granted by any member of the Carillion Group to any of the Directors nor has any guarantee been provided by any member of the Carillion Group for their benefit.
- 5.9 The following table shows in respect of each of the Directors the names of all companies and partnerships outside the Carillion Group of which he or she has, at any time in the five years prior to the date of this document, been a director or partner, as appropriate (excluding subsidiaries of any company of which he or she is also a director). Each directorship or partnership is currently held unless otherwise stated.

<u>Name of Director</u>	<u>Company/Partnership</u>	<u>Date of Resignation</u>
Sir Neville Simms . . .	Tarmac Group plc	
	Tarmac plc	
	Courtaulds Plc	31/07/1998
	Major Contractors Group Limited	
	Markfield (Pension Trustees) Limited	06/03/1996
	National Power PLC	
	Ruberoid PLC	31/01/1995
	Saudi Tarmac Company Limited	16/10/1997
	The Private Finance Panel Limited	30/03/1999
	UK Highways PLC	12/06/1996
Roger Brooke	Bank of England	
	Stafford Independent Grammar School	
	Tarmac plc	
	Advent 2 VCT plc	
	Advent VCT plc	07/07/1998
	ARI Network Services Inc	06/12/1995
	Benchwood Properties Limited	
	Cambria Limited	16/03/1999
	Candover Investments plc	11/05/1999
	CCL Developments plc	31/12/1995
	Centaur Communications Limited	
	Chawton Developments Limited (in liquidation)	31/12/1995
	Concept Investment Services NV	
	Cresco International plc	
	Domark Group Limited	28/09/1994
	FirstCorp Capital Investors (South Africa) (now Ethos Private Equity)	
	Friday's Court Limited	
	Heidemann-Werke GmbH (Germany)	08/10/1997
	Hoare Candover Limited	02/09/1998
	Innisfree Group Limited (previously Innisfree Limited)	
	Lambert Fenchurch Group PLC	
	Linguaphone Group plc	
	Orion Publishing Group Limited	21/08/1998
	Slough Estates plc	
	The Beaufort Hotel Limited	
	Toogood General Partner AG (Switzerland)	
	Wembley plc	14/05/1999
Euan McEwan	GT Railway Maintenance Holdings Limited	31/03/1999
	Maxxiom Limited	
	B.N.R.R. Limited	
	T Route Limited	
Roger Robinson	GT Railway Maintenance Holdings Limited	
	UK Highways M40 (Holdings) plc	

PART 6: ADDITIONAL INFORMATION — (Continued)

<u>Name of Director</u>	<u>Company/Partnership</u>	<u>Date of Resignation</u>
John Sharples	Blue Lamp Business Parks Limited Education Care and Discipline Limited Education Care and Discipline Three Limited Group 4 Tarmac (Fazakerley) Limited Friern Park Limited Group 4 Tarmac (Onley) Limited Group 4 Tarmac Limited RT (Bridgend) Limited The Hospital Company Limited Town Hospitals Limited	
Jean-Paul Parayre . . .	Tarmac plc Albatros Investissement S.A. Alcatel NV Bolloré Group Bolloré Technologies S.A. Coflexip S.A. Credit National S.A. Peugeot S.A. Stena International B.V. Vallourec S.A.	31/12/1995 07/04/1999 31/12/1997
Alan Coppin	Metroline plc Include Inclusion Ltd Wembley plc Business in Sport and Leisure Limited	 30/9/98 01/01/95

6. Directors' Service Agreements

6.1 Directors' Proposed Service Agreements

It is proposed that the Executive Directors will enter into service agreements with Carillion before the Demerger takes effect. The main terms of the proposed service agreements (which will come into effect on Demerger) are set out below:

6.1.1 Each of the Executive Directors (other than Sir Neville Simms) will be entitled to notice from Carillion of 24 months and will be required to serve 12 months' notice on Carillion to terminate his employment. Sir Neville Simms will be entitled to receive and required to give 12 months notice to terminate his employment. In any event, each Executive Director will be required to retire on the date on which he reaches 60 years of age.

6.1.2 The main elements of remuneration of the Executive Directors will be basic salary, annual performance bonus and long-term incentive. Basic salaries and other elements of the remuneration package have been determined by the Appointments and Remuneration Committee, having taken advice from remuneration consultants. Remuneration will be reviewed annually.

It is also intended to introduce the Founders Equity Plan described below in paragraph 7.5.

6.1.3 The salaries of the Executive Directors on Demerger will be:

<u>Directors</u>	<u>Basic Annual Salary</u>
Sir Neville Simms	£340,000
Euan McEwan	£190,000
Roger Robinson	£210,000
John Sharples	£210,000

6.1.4 The Appointments and Remuneration Committee will set annual bonus targets geared to profit, other key financial indicators and individual performance objectives. It is anticipated that the Executive Directors will have the opportunity to earn up to 50 per cent. of basic salary for outstanding performance.

PART 6: ADDITIONAL INFORMATION — (Continued)

- 6.1.5 In addition to the annual bonus schemes long-term incentive arrangements are to be established for the Executive Directors and other senior executives. Further details of the long-term incentive arrangements are to be found at paragraph 7.4 of this Part 6. The maximum potential bonus under these arrangements is an award of shares having the value of between 30 per cent. and 100 per cent. of basic salary according to executive grading. In the case of Executive Directors, the potential maximum available is 100 per cent. of basic salary for achieving the top position in the comparator group.
- 6.1.6 The Executive Directors will participate in the Founders Equity Plan described in paragraph 7.5 of this Part 6 and will be encouraged to invest 100 per cent. of their pre-tax basic salary.
- The Executive Directors will also be able to participate in the Save As You Earn Share Scheme, further details of which are set out in paragraph 7 below, but not in the Approved Executive Scheme or the Unapproved Executive Scheme (also described in paragraph 7).
- 6.1.7 The Executive Directors are also provided with a company car for business and private use; private medical insurance and death and disability insurance in accordance with group policy from time to time. If an Executive Director is not able to perform his duties for six months or more because of illness, the Company may terminate his employment and, if it does so, must pay to the Executive Director 12 months' salary and bonus (if any).
- 6.1.8 Other than Sir Neville Simms, who will cease to be an active member of the Tarmac 'B' Pension Scheme on the Demerger taking effect, the Executive Directors are members of the Tarmac 'B' Pension Scheme and will continue to be members of that scheme for approximately 6 months following the date of Demerger, after which time Carillion will establish its own replica pension arrangement to which the Executive Directors will be invited to transfer their accrued benefits under the Tarmac 'B' Scheme. The Tarmac 'B' Pension Scheme is a funded Inland Revenue approved defined benefit scheme to which members contribute 5 per cent. of pensionable earnings. Executive Directors retire at normal pension age of 60 and receive a pension at normal pension age of two thirds of pensionable salary, subject to their having completed 20 years' service with the Carillion Group (this will include prior service with Tarmac). Death in service cover of 4 times pensionable salary is also provided, as are dependants' pensions on death in service or following retirement. Pensions may be payable in the event of ill health. These benefits are offset by the retained benefits and earlier pension arrangements whether or not relating to service with the Tarmac Group.
- Pensionable Salary for members joining before 1 April 1998 under the Tarmac 'B' Pension Scheme, is the member's basic salary plus average bonus earned under group annual performance bonus arrangements subject, where relevant, to the "pensions cap".
- Euan McEwan and Roger Robinson joined the Tarmac Group after 1989 and, accordingly, are subject to the "pensions cap" in relation to the amount of pension benefit which can be provided through an Inland Revenue Approved Pension Scheme. In accordance with commitments previously given to Mr. McEwan and Mr. Robinson by the Carillion Group, the following arrangements will be established in respect of them with effect from 1 January 1999. Each year, Carillion will provide pension and life assurance benefits, agreed with Mr. McEwan and Mr. Robinson, equivalent to a total cost to Carillion of 32 per cent. of each of their basic salaries. Where Mr. McEwan and/or Mr. Robinson elect to have benefits provided under a defined benefit arrangement, the cost to Carillion of such benefits will be determined by an actuary and notified to Carillion to enable the balance of any benefit to be provided on a defined contribution basis.
- Sir Neville Simms will not be a member of any pension scheme operated by Carillion and will instead receive a salary supplement equal to 25 per cent. of his basic salary. He will, however, be provided with death in service cover equal to 4 times his basic salary.
- 6.2 Letters of appointment with each of the Non-Executive Directors will provide for the payment of the following annual fees, conditional upon the Demerger becoming effective.

PART 6: ADDITIONAL INFORMATION — (Continued)

<u>Director</u>	<u>Fee</u>
Roger Brooke.....	£35,000
Jean Paul Parayre.....	£25,000
Alan Coppin.....	£25,000

No additional fees are paid for sitting on committees.

The remuneration of the Non-Executive Directors is determined by the Board as a whole pursuant to recommendations formulated by the Executive Directors after taking account of external practice and the requirements of each position.

- 6.3 The aggregate remuneration paid and benefits in kind granted to Messrs. McEwan, Robinson and Sharples by any members of the Carillion Group for the year ended 31 December 1998 under any description whatsoever is estimated at £648,000, excluding pension costs which totalled £120,000.

The aggregate amount payable to Directors by any member of the Group under the arrangements in force at the date of the document is estimated to amount to £787,600 for the year ending 31 December 1999. The Executive Directors may be paid a bonus for the year ending 31 December 1999 but the amount (if any) will not be known until after the year end.

- 6.4 Save as set out in this paragraph, there are no existing or proposed service agreements between any Director and any member of the Carillion Group and the Directors' existing service arrangements (if any) with members of the Tarmac Group and the New Tarmac Group will be superseded with effect from the Demerger Effective Time by the proposed service agreements described in this paragraph.
- 6.5 The Board of Tarmac has requested that Sir Neville Simms become Chairman of Carillion if the Demerger proceeds, at which point he would resign as a director of Tarmac and cease to be Group Chief Executive and Deputy Chairman. If the Demerger occurs, the role of Chairman of Carillion will, however, carry a salary and benefits package which is significantly inferior to Sir Neville Simms's current package and, in addition, his pension expectation will be substantially reduced. Subject to the approval of Tarmac Shareholders and the Demerger proceeding, the Board of Tarmac has decided to allocate up to £1,370,000 (net of employers' national insurance) to provide the benefits and make the payments described in the rest of this paragraph, although the cash cost is likely to be substantially less. Part of this sum will be allocated to augment the benefits to which Sir Neville Simms is entitled under the Tarmac 'B' Pension Scheme so that they are augmented to the maximum level permitted by the Inland Revenue as at the Demerger Effective Time. The balance (after deduction of the cost of the augmentation determined by the Tarmac 'B' Pension Scheme Actuary), up to a maximum of £667,000, will be paid to Sir Neville Simms in cash (subject to the deduction of tax). Subject to this agreement becoming unconditional, Sir Neville Simms has agreed to become Chairman of Carillion. The necessary resolution will be put to Tarmac Shareholders at the Extraordinary General Meeting convened for 8 July 1999.
- 6.6 Dr. Leslie Atkinson is intending to leave Tarmac and the Carillion Group upon the Demerger occurring and will receive a payment of £495,000 (less tax) in connection with his departure.
- 6.7 Copies of the proposed service agreements referred to in this paragraph 6 and the terms of the other Directors will be available for inspection at the address detailed in paragraph 22 of this Part 6.
- 6.8 **Directors' Current Service Agreements**

Sir Neville Simms, and the other three executive Directors of Tarmac are currently employed by Tarmac on the following terms.

Each of the four executive Directors of Tarmac is entitled to 24 months' notice from Tarmac to terminate his employment and is required to give 12 months' notice to Tarmac. In any event, each is required to retire on his 60th birthday.

The main elements of remuneration of the executive Directors of Tarmac are basic salary, annual performance bonus and mid-term incentive. Basic salaries and other elements of the remuneration package have been determined by the Appointments and Remuneration Committee of Tarmac, having taken advice from remuneration consultants. Remuneration is reviewed annually. Sir Neville Simms' basic annual salary is £492,000.

PART 6: ADDITIONAL INFORMATION — (Continued)

Each year, the Appointments and Remuneration Committee of Tarmac establishes an annual performance bonus scheme which normally sets targets which are geared to profit, other financial indicators and individual performance objectives. The executive Directors of Tarmac have the opportunity to earn up to 60 per cent. of basic salary for outstanding performance.

In addition to the annual bonus scheme, the executive Directors of Tarmac (and other senior executives of Tarmac) participate in mid-term incentive arrangements. The maximum potential bonus under those arrangements is an award of shares having a value of between 30 per cent. and 50 per cent. of basic salary, according to executive grading. In the case of executive Directors of Tarmac, the potential maximum of 50 per cent. is applicable. The executive Directors of Tarmac may receive awards under the Tarmac mid-term incentive arrangements. The extent to which the performance condition is satisfied cannot be calculated until after the Demerger is complete. The executive Directors of Tarmac are also able to participate in Tarmac Share Schemes.

The executive Directors of Tarmac are provided with a company car, private medical insurance and death and disability cover in accordance with group policy from time to time. If an executive Director of Tarmac is not able to perform his duties because of illness, the Company may terminate his employment and, if it does so, the Company must pay to such executive Director 12 months' salary and bonus (if any).

The executive Directors of Tarmac (other than Dr. Leslie Atkinson) are members of the Tarmac 'B' Pension Scheme, which is a funded Inland Revenue Approved defined benefits scheme to which members contribute 5 per cent. of pensionable earnings. Executive Directors of Tarmac retire at normal pension age of 60 and receive a pension at that time of two thirds of pensionable salary, subject to their having completed 20 years' service with the Tarmac Group. Death in service cover of 4 times pensionable salary is provided under the scheme as are dependants' pensions on death in service or following retirement. Pensions may also be payable in the event of ill health. These benefits are offset by any retained benefits from earlier pension arrangements whether or not relating to service with the Tarmac Group.

- 6.9 The non-executive Directors of Tarmac do not have service agreements with the Company, they are not eligible to participate in the annual bonus scheme or the mid-term incentive arrangements and Tarmac does not contribute to any pension arrangements of non-executive Directors. The non-executive Directors of Tarmac who have joined the Board of Carillion received the following fees for the year ended 31 December 1998:

<u>Directors</u>	<u>Fee</u>
Roger Brooke.....	£25,000
Jean-Paul Parayre	£25,000

No additional fees are paid for sitting on committees. The remuneration of the non-executive Directors of Tarmac is determined by the Tarmac Board as a whole pursuant to recommendations formulated by the executive Directors of Tarmac after taking account of external practice and the requirements of each position.

- 6.10 Each of Euan McEwan, Roger Robinson and John Sharples are currently employed by Tarmac Construction Limited ("TCL") on the following terms.

Each of the three executive Directors of TCL is entitled to 20 months' notice from TCL to terminate his employment. Euan McEwan is required to serve 10 months' notice, whilst Roger Robinson and John Sharples are required to give 6 months' notice to terminate their employment.

The main elements of remuneration of the executive Directors of TCL are basic salary, annual performance bonus and mid-term incentive. The basic salary of each of the executive Directors of TCL is set out in the table below:

<u>Directors</u>	<u>Basic Annual Salary</u>
Euan McEwan	£120,000
Roger Robinson	£142,500
John Sharples	£142,500

PART 6: ADDITIONAL INFORMATION — (Continued)

Under the annual performance bonus scheme, the executive Directors of TCL have the opportunity to earn up to 60 per cent. of basic salary for outstanding performance. In addition to the annual bonus scheme, the executive Directors of TCL (and other senior executives of TCL) participate in mid-term incentive arrangements. The maximum potential bonus is an award of shares having the value of 50 per cent. of basic salary.

The three executive Directors of TCL are provided with a company car, private medical insurance and death and disability cover in accordance with group policy from time to time. If an executive Director of TCL is not able to perform his duties because of illness, the Company may terminate his employment and, if it does so, the Company must pay to such executive Director 6 months' salary and bonus (if any).

7. Proposed Share Schemes

The Company intends to establish the following employee share schemes:

7.1 The SAYE Scheme (the "SAYE Scheme")

7.1.1 Outline

The SAYE Scheme will offer employees based in the UK the opportunity to enter into a Save As You Earn contract and to use their savings to acquire shares in Carillion. The SAYE Scheme is to be approved by the UK Inland Revenue. Benefits under the SAYE Scheme will not be pensionable.

7.1.2 Eligibility

Full time executive Directors who are required to devote substantially the whole of their working time to their duties, and all employees of Carillion of and any subsidiaries designated by the Board, who have worked for Carillion or a participating subsidiary for a qualifying period as determined by the Board (not exceeding 5 years) will be eligible to join the SAYE Scheme.

7.1.3 Issue of Invitations

In any financial year in which the SAYE Scheme is to operate, invitations will normally be dispatched to all eligible employees within 42 days of the announcement of Carillion's results.

7.1.4 Savings contract

Employees joining the SAYE Scheme will be obliged to enter into a savings contract with a designated savings carrier under which they will make a monthly saving for a period of three or five years or, if the Directors so allow, any other period permitted under the relevant legislation. The monthly saving must not exceed such limit as is fixed by the Directors subject to the ceiling imposed by the relevant legislation (currently £250 per month).

7.1.5 Option Price

An option will be granted to each employee to acquire Carillion Shares, exercisable within six months after the bonus is payable under the savings contract. No consideration is payable for the grant of options. The option price will not be less than 80 per cent. of the market value of the Carillion Shares on the date when invitations are issued to employees (or, if shares are to be subscribed, their nominal value). Market value will mean the middle-market quotation on the immediately preceding business day or if the Board decides the average of the middle market quotations on the 3 or 5 immediately preceding business days.

7.1.6 Exercise of Options

Options will normally be exercisable for a six month period following the bonus date under the relevant savings contract. If the option is not exercised within this six month period, the option will lapse. Options may be exercised at other times, in certain circumstances, for example on an optionholder ceasing to be an employee due to injury, disability or redundancy, retirement, his employing company or business ceasing to be part of the group, and in the event of a take-over, reconstruction or winding up of Carillion. If an option is exercised early in one of these circumstances, the optionholder may only use the savings (and any interest) made under his savings contract at that time to exercise the option. Options held by employees whose employment

PART 6: ADDITIONAL INFORMATION — (Continued)

ceases for any other reason will lapse immediately. Options will not be transferable and may only be exercised by the person to whom they are granted.

7.1.7 Exchange of Options

In the event of a change of control of Carillion and in certain other circumstances, optionholders may exchange their options for options over shares in the acquiring company.

7.1.8 Issue of Shares

Shares issued on the exercise of options will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date. Application will be made to the London Stock Exchange for the shares to be admitted to listing.

7.1.9 Variation of share capital

Options may be adjusted to take account of a variation of Carillion's share capital.

7.1.10 Termination of the SAYE Scheme

No options may be granted under the SAYE Scheme after the tenth anniversary of the date of the adoption of the SAYE Scheme by Carillion.

7.1.11 Scheme limits

Options may only be granted to the extent that the shares issuable on their exercise will not exceed 10 per cent. of the Company's share capital on the proposed date of grant, taking account of shares issuable on the exercise of all other options granted in the previous ten years, or 5 per cent. of Carillion's share capital on the same date, taking account of shares issuable on the exercise of all other options granted within the previous five years.

7.1.12 Amendments

The Directors will have the power to amend the rules of the SAYE Scheme subject to prior Inland Revenue approval, and subject also to the approval of shareholders in respect of any amendments to the advantage of optionholders (except minor amendments or amendments to take account of a change in the law) which relate to eligibility to participate, the limits on the number of shares over which options may be granted, the maximum entitlement of any optionholder, the basis for determining an optionholder's entitlement to shares and the adjustment of options in the event of a variation of Carillion's share capital.

7.1.13 First operations of the SAYE Scheme

It is intended that UK based employees will be invited in September 1999 to acquire options over shares under the SAYE Scheme.

7.2 Inland Revenue Approved Executive Share Option Scheme (the "Approved Executive Scheme")

7.2.1 Eligibility

Full time executive Directors who are required to devote substantially the whole of their working time to their duties and all employees of Carillion and its subsidiaries will be eligible to participate in the Approved Executive Scheme, at the discretion of the Remuneration Committee. Employees and Directors who are within two years of their anticipated retirement date are not eligible to participate in the Approved Executive Scheme.

7.2.2 Grant of Options

Options will normally only be granted within 42 days of the announcement of Carillion's results for any period. Options will not be pensionable. No consideration is payable for the grant of options.

7.2.3 Performance Condition

The exercise of options will be made subject to satisfaction of a performance condition.

PART 6: ADDITIONAL INFORMATION — (Continued)

7.2.4 *Option Price*

The option price will not be less than the market value of the shares on the date of grant (or, if shares are to be subscribed, the nominal value). Market value will mean the middle-market quotation on the immediately preceding business day or if the Board decides the average of the middle market quotations on the 3 or 5 immediately preceding business days.

7.2.5 *Limitation on Employee Participation*

The aggregate price payable by each employee for shares under option at any one time will not be allowed to exceed £30,000, or such other maximum limit as the UK Inland Revenue may determine from time to time. This limit will apply to options granted under the Approved Executive Scheme and any other UK Inland Revenue approved executive share option scheme established by Carillion or its associated companies.

7.2.6 *Exercise of Options*

Options will normally be exercisable, subject to any performance condition being satisfied, between the third and tenth anniversaries of grant. Options may be exercised early, subject to satisfaction of the performance condition, if the optionholder ceases to be an employee due to ill-health, retirement, or redundancy, or in the event of a sale of the subsidiary or business which employs him. Options may be exercised early, without satisfaction of the performance condition, if the optionholder dies, or there is a take-over, reconstruction or winding up of Carillion. The Board may permit early exercise in certain other circumstances. Options will not be transferable and may only be exercised by the persons to whom they are granted, or their personal representatives.

7.2.7 *Exchange of Options*

In the event of a change of control of Carillion and in certain other circumstances, optionholders may exchange their options for options over shares in the acquiring company.

7.2.8 *Issue of Shares*

Shares issued on the exercise of options will rank equally with shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date. Application will be made to the London Stock Exchange for the shares to be admitted to listing.

7.2.9 *Scheme Limits*

The Approved Executive Scheme will be subject to the following overall limits on the number of shares which may be issued under it:

- (a) in any 10 year period, not more than 10 per cent. of the issued ordinary share capital of Carillion for the time being may in aggregate be issued or be issuable under the Approved Executive Scheme and any other employees' share scheme operated by Carillion;
- (b) in any 10 year period, not more than 5 per cent. of the issued ordinary share capital of Carillion for the time being may in aggregate be issued or be issuable under all executive share schemes adopted by Carillion;
- (c) in any 5 year period, not more than 5 per cent. of the issued ordinary share capital of Carillion for the time being may in aggregate be issued or be issuable under the Approved Executive Scheme and any other employees' share scheme adopted by Carillion.

For the purposes of these limits options which are released or lapse will cease to count.

7.2.10 *Variation in Share Capital*

Options may be adjusted to take account of a variation in Carillion's share capital.

7.2.11 *Amendments to the Rules*

The basic structure of the Approved Executive Scheme and, in particular, the limits on the number of shares which may be issued under it, will not be altered to the advantage of participants without the prior sanction of Carillion in general meeting. Alterations will be subject to the prior approval of the UK Inland Revenue.

PART 6: ADDITIONAL INFORMATION — (Continued)

7.2.12 Termination of the Approved Executive Scheme

No options may be granted under the Approved Executive Scheme after the tenth anniversary of its adoption.

7.3 Executive Share Option Scheme (the "Executive Scheme")

The Executive Scheme will not be approved by the Inland Revenue. It will be broadly the same as the Approved Executive Scheme, subject to the following principal differences:

7.3.1 Limitation on Employee Participation

The aggregate exercise price of options granted to an employee under the Executive Scheme and any other executive share option scheme in any year will not normally exceed his earnings for that year. However, this limit may be exceeded in special circumstances and in order to conform with local practices in different countries.

7.3.2 Exercise of Options

Options may be exercised early, without satisfaction of the performance condition, if the optionholder dies. If the optionholder ceases to be an employee for any other reason, options will lapse, subject to the discretion of the Board, which may permit the exercise of options on such terms as it considers appropriate in the circumstances.

Options may, where appropriate, be satisfied by the delivery of shares or cash to the value of the difference between the aggregate option price and the aggregate market value of the shares subject to the option.

The prohibition of transfer of options may be lifted by the Board in appropriate circumstances, for example to permit the transfer of options for the benefit of an optionholder's family.

7.3.3 First grants of options under the Executive Schemes

It is intended that options will be granted to selected employees and directors under both Executive Schemes as soon as practicable after Admission. Options may be granted over shares with a value of up to 2 times salary in the exceptional circumstances of the establishment of the Carillion Group. The performance condition will be that earnings per share of Carillion over a rolling period of 3 years must increase by a percentage which is not less than the increase in the Retail Prices Index over the same period, expressed as a percentage, plus 3 percentage points per annum compound. Future grants under the Executive Schemes will be determined by the Appointments and Remuneration Committee.

Options will not be granted to executives who participate in the Founders Equity Plan described below.

7.4 Long Term Incentive Plan (the "LTIP")

7.4.1 Eligibility

All executive Directors and employees of Carillion and its subsidiaries who are not within two years of their anticipated retirement date will be eligible to participate, subject to the discretion of the Appointments and Remuneration Committee.

7.4.2 Conditional Awards of shares

Awards of Carillion Shares will be made by the Board, on the recommendation of the Appointments and Remuneration Committee. The Awards will be conditional on satisfaction of one or more performance conditions set by the Appointments and Remuneration Committee. The value of shares which may be conditionally awarded to participants in any year will be limited to 100 per cent of base pay, calculated by reference to the average price over the 6 weeks preceding the first day of the performance period. Awards will not be pensionable.

7.4.3 Termination of employment

If a participant dies or leaves employment for any reason during the performance period, his conditional award will lapse, unless the Appointments and Remuneration Committee exercises its discretion to permit it to continue or to vest early, in whole or in part.

PART 6: ADDITIONAL INFORMATION — (Continued)

7.4.4 *Change of control*

In the event of a change of control or reconstruction of Carillion during a performance period, conditional awards will vest immediately, to the extent that the performance condition has been satisfied.

7.4.5 *Variation in Share Capital*

Awards may be adjusted following certain variations in the share capital of Carillion including a capitalisation or rights issue.

7.4.6 *Amendment*

The Appointments and Remuneration Committee will have the power to amend the rules, subject to prior shareholder approval for amendments relating to the basic structure of the LTIP, the eligibility of participants, the number of Carillion Shares which may be issued under the LTIP and the basis for determining awards. The Appointments and Remuneration Committee may also amend a performance condition if events happen which would make it necessary or desirable to do so, in order to ensure that the performance condition continues to be a fair measure of performance.

7.4.7 *Termination*

The Appointments and Remuneration Committee will have discretion to terminate the LTIP at any time and the LTIP will terminate on the tenth anniversary of its adoption, without prejudice to conditional awards already made.

7.4.8 *First awards under the LTIP*

It is intended that conditional awards will be made under the LTIP in respect of a three year performance period commencing on 1 January 2000. The performance condition will compare Carillion's total shareholder return ("TSR") with the TSR of a select comparator group comprising mainly construction services companies. If at the end of the performance period the TSR of Carillion is ranked first when compared to the TSR of the companies in the comparator group, awards will vest in full, at median 30 per cent of the shares will vest, and below median no shares will vest. All vesting will be subject to the Appointments and Remuneration Committee being satisfied that Carillion's underlying financial performance is satisfactory. The basis of future awards under the LTIP will be recommended by the Appointments and Remuneration Committee at the relevant time.

7.5 Founders Equity Plan ("Plan")

7.5.1 *Eligibility*

The Plan is intended to be operated for the most senior executives and Directors of the Carillion Group, although all employees of Carillion and its subsidiaries who are not within two years of their anticipated retirement date will be eligible to participate, subject to the discretion of the Appointments and Remuneration Committee. Awards will not be pensionable.

7.5.2 *Investment in shares*

Participants will be offered the opportunity to invest up to 100 per cent. of salary in shares in Carillion, on the basis that they will be awarded an option to acquire an additional four free shares for every share purchased which will be exercisable on the attainment of performance targets over a three year performance period, which may be extended to four or five years. The options will expire if not exercised by the tenth anniversary of their grant and will be proportionately reduced if a participant disposes of part of his original investment in shares.

7.5.3 *Termination of employment*

If a participant dies or leaves employment for any reason during the performance period, his option will lapse, unless the Appointments and Remuneration Committee exercises its discretion to permit it to continue or to vest early, in whole or in part.

PART 6: ADDITIONAL INFORMATION — (Continued)

7.5.4 *Change of control*

In the event of a change of control of Carillion during a performance period, options will vest immediately, to the extent that the performance condition has been satisfied.

7.5.5 *Variation in Share Capital*

If there is a variation in the share capital of Carillion, adjustments may be made to the performance targets, and to options.

7.5.6 *Amendment*

The Appointments and Remuneration Committee will have wide discretion in the operation of the Plan including the power to amend the rules, except that prior shareholder approval is required to amend rules relating to the basic structure of the Plan, the eligibility of participants, the number of shares which may be issued under the Plan and the basis for determining awards. The Appointments and Remuneration Committee may also amend a performance condition if events happen which would make it necessary or desirable to do so, in order to ensure that the performance condition continues to be a fair measure of performance.

7.5.7 *Termination*

The Appointments and Remuneration Committee will have a discretion to terminate the Plan at any time and the Plan will terminate on the tenth anniversary of its adoption, without prejudice to options already granted.

7.5.8 *Operation of the Plan*

It is intended that the Plan will only be operated once, as soon as practicable after Admission, and the performance condition which will apply will be that Carillion's share price must increase by a compounded average rate of 26 per cent. per annum over the performance period in order for options to become exercisable in full. If the share price increases at a compounded average rate of less than 10 per cent. per annum, options will not become exercisable at all. Options will become exercisable on a pro rata basis if the share price increases in between these two points.

7.6 Employee Benefit Trust

An employee benefit trust will acquire shares in Carillion and hold them for the benefit of the beneficiaries, who include all employees and former employees of Carillion together with their spouses and children under the age of 18. Carillion also intends to establish a Qualifying Employee Share Ownership Trust. The two trusts will operate in conjunction with Carillion in providing shares to employees under some or all of Carillion's share schemes. They will not hold shares which represent more than 5 per cent. of the Carillion's issued share capital.

The trustee may acquire shares by buying them on the market, or by subscribing for new shares. In any 10 year period following Admission, the number of new shares for which it may subscribe will not be more than 10 per cent. of the issued ordinary share capital of Carillion for the time being, after taking account of new shares issued or issuable under any other employee share scheme operated by Carillion in the same period.

It is intended that the trust will be funded by way of loans and other contributions from Carillion and from its subsidiaries.

8. Pensions

The main schemes in which the Carillion Group participates in the United Kingdom are The Tarmac Staff Pension Scheme and The Tarmac 'B' Pension Scheme. Both of these arrangements are defined benefit schemes. As at 31 December 1998, 9,597 of the members of the Tarmac Staff Pension Scheme were attributable to the Carillion Group, being 3,443 active members, 2,742 deferred pensioners and 3,412 pensioners, and 193 of the members of the Tarmac 'B' Pension Scheme were attributable to the Carillion Group, being 59 active members, 31 deferred pensioners and 103 pensioners.

In relation to both these schemes, Tarmac intends to procure that the Carillion Group be permitted to continue to participate in the schemes until 6 months after the date of Demerger. Carillion will, during the participation period, establish new pension arrangements which will provide identical benefits in respect of

PART 6: ADDITIONAL INFORMATION — (Continued)

service up to the Demerger Date (provided the appropriate transfer is received) to those provided under The Tarmac Staff Pension Scheme and The Tarmac 'B' Pension Scheme.

Based on membership data as at 31 December 1998, it is estimated that 60 per cent. of the assets of the Tarmac Staff Pension Scheme and 50 per cent. of the Tarmac 'B' Pension Scheme are likely to be transferred to the pension schemes established by Carillion in due course.

Although the demerger of the Tarmac Staff Pension Scheme and the Tarmac 'B' Pension Scheme will not occur until 6 months after completion of the Demerger, the assets and liabilities of the Tarmac Staff Pension Scheme and Tarmac 'B' Pension Scheme will be notionally apportioned on a share of fund basis as between Tarmac and the Carillion Group on a date close to the date of the Demerger and the demerger of the two schemes in accordance with the terms of the Separation Agreement.

The last actuarial valuations of the Tarmac Staff Pension Scheme and the Tarmac 'B' Pension Scheme were as at 31 December 1996 when the market value of each scheme was £439.6 million and £155.0 million respectively and the actuarial values were £380.8 million and £137 million which were sufficient to cover 113 per cent. and 115 per cent. respectively of accrued benefits allowing for future expected increases in pensionable pay. The assumptions used in the valuations assumed a rate of return on investments: 2 per cent. higher for the Tarmac Staff Pension Scheme and 1 per cent. higher for the Tarmac 'B' Pension Scheme than the rate of annual increase in salary and between 4 and 4.25 per cent. per annum higher (for both schemes) than the rate of annual pension increases.

In addition to participating in the Tarmac Staff Pension Scheme and the Tarmac 'B' Pension Scheme, Carillion also participates in the Tarmac Heavy Building Materials Retirement Plan which is a defined contribution arrangement. Carillion will carry on participating in this arrangement for a period of approximately six months after the date of the Demerger and in this period will establish a replacement arrangement.

Six other smaller pension schemes relate solely or mainly to Carillion Group members and accordingly will be Carillion Group pension schemes from the date of the Demerger. The schemes are the TCS Operatives Retirement Plan; the Tarmac Services Scheme; the Tarmac Retirement Scheme; Tarmac Public Sector Pension Scheme; the Crown House Engineering Staff Pension Fund and the Cubitt Group Staff Pension Scheme.

In addition, Carillion will establish funded unapproved retirement benefit plans to provide benefits for certain employees subject to the pensions earnings cap (to whom these benefits have been promised) who are transferred at the date of Demerger. For a period of approximately 6 months after the Demerger, Tarmac will provide administration services to Carillion in respect of these schemes.

The pension schemes outside the UK which are listed below relate solely or mainly to employees of the Carillion Group and accordingly will be Carillion Group liabilities with effect from the date of the Demerger: The Retirement Fund for employees of Tarmac Canada Inc., The Tarmac Caribbean Scheme, The Nicoletti Scheme, the TBV Stanger Provident Fund and a pension scheme in Ireland.

All of the defined benefit schemes are funded in accordance with local actuarial assumptions and are valued as required by law usually on a triennial basis.

9. Low Cost Dealing Facility

Carillion proposes to offer a low cost dealing facility to certain Carillion shareholders who wish to sell their entire holding of Carillion Shares. Further details of this facility will be sent to Carillion Shareholders with their Carillion Share certificates.

PART 6: ADDITIONAL INFORMATION — (Continued)

10. Subsidiaries and Associated Undertakings

Following the Demerger, the principal subsidiaries and associated undertakings of Carillion, all of which will be wholly-owned unless otherwise stated, will be:

<u>Name of Company and percentage of share capital owned by the Carillion Group (100 per cent. unless otherwise stated)</u>	<u>Registered Office</u>	<u>Principal activity</u>	<u>Issued share capital (fully paid)</u>
Tarmac Construction Limited	Construction House Birch Street Wolverhampton WV1 4HY	Construction	40,000,000 ordinary shares of £1
Tarmac Professional Services Limited	As above	Professional Services	19,394,308 ordinary shares of £1
Sovereign Harbour Marina Limited	As above	Development Management	2 ordinary shares of £1
The Expanded Piling Company Limited	As above	Building	95,275 ordinary shares of £1
Tarmac Construction Overseas Limited	As above	Construction	30,000,000 ordinary shares of £1
Tarmac Construction (Contracts) Limited	As above	Construction	256,000,000 deferred ordinary shares of 25p US\$256,000,000 ordinary shares of US\$0.01
Centrac Limited	As above	Rail Track Renewal	10,000,000 ordinary shares of £1
Schal International Management Limited	As above	Construction/ Project Management	148,500 A ordinary shares of £1 1,500 B ordinary shares of £1
Pasco International Limited	As above	Manpower Services	213,020 deferred ordinary shares of £1 23,520 B ordinary shares of £1
Stanger Limited	As above	Environment/ Materials Consultancy	950 A ordinary shares of £1 50 B ordinary shares of £1
TPS Consult Limited	As above	Building Design	44,368,002 ordinary shares of £1
Tarmac Services Limited	As above	Facilities Services	1,950,000 A ordinary shares of £1 1,950,000 B ordinary shares of £1
Tarmac BTP S.A.	Zone Industrielle, Iere Avenue, 06510 Carros Le Broc, France	Construction	1,801,882 ordinary shares (FF)
Tarmac Canada Inc.	80 North Queen Street, Toronto, Ontario M8Z 5Z6 Canada	Construction	115,000,000 common shares (\$Can)
Markfield Insurance Brokers Limited	Hilton Hall, Essington, Wolverhampton, WV1 2BQ	Insurance Broking	1,000 ordinary shares of £1
Group 4 Tarmac (Fazakerley) Limited (50%)	Construction House Birch Street Wolverhampton, WV1 4HY	PFI Special Purpose Company	100 ordinary shares of £1
UK Highways M40 (Holdings) plc (20%)	P O Box 295, Alexandra Gate, Rover Way, Cardiff CF2 2UE	PFI Special Purpose Company	11,050,000 ordinary shares of £1

PART 6: ADDITIONAL INFORMATION — (Continued)

<u>Name of Company and percentage of share capital owned by the Carillion Group (100 per cent. unless otherwise stated)</u>	<u>Registered Office</u>	<u>Principal activity</u>	<u>Issued share capital (fully paid)</u>
Star Site PLC (33%)	100 Dudley Road East, Oldbury, West Midlands B69 3DY	Development Management	1,000,000 ordinary shares of £1
PJ Walls (Civil) Limited (50%)	Rosemount Office Park, Clawdore Road, Griffith Avenue, Dublin 2 Ireland	Civil Engineering	8,000 A ordinary shares of IR£1 2,000 B ordinary shares of IR£1 10,000 C ordinary shares of IR£1
GT Railway Maintenance (Holdings) Limited (49%)	Borehamwood Industrial Park, Rowley Lane, Borehamwood, Hertfordshire WD6 5P2	Rail Track Maintenance	51,000 A ordinary shares of £1 49,000 B ordinary shares of £1
TBV Power Limited (50%)	Construction House Birch Street Wolverhampton, WV1 4HY	Civil Engineering	1,000,000 ordinary shares of £1
Al Futtaim Tarmac Pte Limited (49% (including New Tarmac Group's interest))	P O Box 152, Dubai United Arab Emirates	Construction	20,000 A ordinary shares of 1000 AED 20,000 B ordinary shares of 1000 AED
Maxxiom Limited (50%)	79 Pall Mall, London SW1Y 5EJ	Plant Hire	20,000,000 A ordinary shares of £1 20,000,000 B ordinary shares of £1
RT (Bridgend) Limited (50%)	100 Dudley Road East, Oldbury, Warley West Midlands B69 3DY	Development Management	100 ordinary shares of £1
Tarmac Alawi LLC (49% (including New Tarmac Group's interest))	Al Omran Street, Azaiba Height, P O Box 1436, Ruwi 112, Sultanate of Oman	Construction	2,000,000 ordinary shares of 10 Rials

11. Principal Establishments

The principal establishments owned or occupied by the Carillion Group following completion of the Demerger will be as follows:

Leasehold

<u>Location</u>	<u>Tenure</u>	<u>Size</u>
Westlink House, Brentford	35 years (Commenced 27 June 1981)	59,642 sq. ft.
Construction House, Wolverhampton	35 years (Commenced 23 March 1972)	59,734 sq. ft.
Derwent House, Wolverhampton	35 years (Commenced 4 December 1973)	28,651 sq. ft.
Roadstone House, Wolverhampton	10 years, 5 months, (Commenced 3 February 1998)	60,943 sq. ft.

12. Demerger Arrangements

It is intended that the following contracts, which are likely to be material, will be entered into by members of the Carillion Group in connection with the Demerger shortly before the Demerger, with such amendments as the parties may agree:

12.1 Separation Agreement

Under the Separation Agreement, which will be entered into by New Tarmac and Carillion, New Tarmac and Carillion will agree, conditional upon the New Tarmac Reduction of Capital becoming effective and conditional upon certain other documents which relate to the Demerger being executed

PART 6: ADDITIONAL INFORMATION — (Continued)

(including those under the contracts set out below in this paragraph 12), New Tarmac will, *inter alia*, transfer or procure the transfer of the issued share capital of those members of the Carillion Group in which it or its nominee holds shares and certain other assets and rights to Carillion or its nominee in exchange and in consideration for which Carillion will allot and issue Carillion Shares to the shareholders of New Tarmac as at the Demerger Record Time. The parties will agree to use all reasonable efforts to procure fulfilment of the conditions described above.

The parties will agree to establish a liaison committee to review and assist in the implementation of the Separation Agreement and to consider any additional issues arising from the implementation of the Demerger.

The Separation Agreement will provide for members of the Carillion Group and New Tarmac Group to enter into agreements pursuant to which the Carillion Group will provide certain services to the New Tarmac Group following the Demerger Effective Time, including the provision of services in connection with leased vehicles, insurance broking services and training and facilities services, and the New Tarmac Group will provide pensions administration services to the Carillion Group following the Demerger Effective Time.

The Separation Agreement will incorporate the terms of a memorandum of understanding, dated 24 May 1999 (the "MOU"), which will govern the trading relationship between the two groups in relation to road maintenance, the supply and laying of surfacing materials, the supply of ready-mixed concrete and water, the supply of aggregates and fills and the supply of pre-cast concrete products and blocks. The provisions of the MOU will apply for a period of two years following the Demerger Effective Time.

New Tarmac and Carillion will agree the basis on which costs relating to the Demerger are to be borne and will make provision for the storage and access to certain historical data and archives.

Carillion will agree that, subject to a transitional period following the Demerger Effective Time, no member of the Carillion Group will carry on any business under any name incorporating the word "Tarmac" or any Tarmac logo or trademark (together "Tarmac Marks") following the Demerger. New Tarmac will agree that it will not dispose of any rights in the Tarmac Marks without first offering to dispose of such Tarmac Marks to Carillion and, in any event, it will not dispose of any rights in respect of the name "Tarmac Construction".

The Separation Agreement contains a number of provisions in relation to pensions following the Demerger Effective Time, details of which are included in paragraph 8 of Part 6 of this document.

The parties will agree that each group will assume all rights and obligations in or incurred in connection with the properties which they respectively occupy to the extent that such rights and obligations are vested in or incurred by the New Tarmac Group and the Carillion Group.

New Tarmac and Carillion will agree, subject to certain limitations, to indemnify each other against certain actual and contingent liabilities associated with their respective businesses. The relevant provisions of the Separation Agreement will cover a range of matters including liabilities arising in respect of current and former employees and liabilities arising in respect of businesses or assets which have been discontinued or disposed of prior to the Demerger Effective Time. Employer liability will generally attach to the final or current employer of an employee, regardless of who the employer may have been at the time the relevant liability arose. Where a claim arises in relation to a discontinued business or in relation to businesses and assets which have been disposed of, liabilities will generally attach to the group which would have owned the business, company or asset had such discontinuation or disposal not taken place.

12.2 Deed of Counter Indemnity

Under the Deed of Counter Indemnity to be entered into between Carillion, New Tarmac and Tarmac, Carillion will agree to indemnify New Tarmac and Tarmac in respect of any losses, liabilities, obligations to pay damages, penalties, fines and charges which may be suffered or incurred by New Tarmac or Tarmac in connection with any guarantees or indemnities given by New Tarmac or Tarmac, prior to the Demerger Effective Time or pursuant to any undertaking to give such guarantees or indemnities prior to the Demerger Effective Time, in respect of the obligations of any member of the Carillion Group or any other joint venture or other body corporate in which any member of the Carillion

PART 6: ADDITIONAL INFORMATION — (Continued)

Group holds shares or which otherwise relates to any of the construction services businesses. Under the Deed of Counter Indemnity, Carillion undertakes that for so long as Tarmac or New Tarmac may suffer or incur any losses, liabilities, obligations to pay damages, penalties, fines or charges in respect of which they are entitled to be indemnified under the Deed of Counter Indemnity, Carillion will not and will not permit any subsidiary to enter into any material transaction or material group of related transactions with any affiliate (other than with Carillion or another subsidiary) except upon fair and reasonable terms no less favourable to Carillion or such subsidiary than would be obtainable in a comparable arm's-length transaction and that if Carillion comes under the control of a person or persons who do not have control of it at the Demerger Effective Time, then Carillion will either procure that such person or persons agree to be bound by the terms of the Deed of Counter Indemnity or Carillion will deposit with Tarmac and New Tarmac cash collateral in an amount equal to the aggregate amount payable under all bonds then outstanding which are subject to the Deed of Counter Indemnity. Carillion will agree to provide certain information which is relevant for the purposes of the Deed of Counter Indemnity for so long as New Tarmac or Tarmac may be entitled to indemnification under the Deed of Counter Indemnity.

12.3 Dispute Resolution Agreement

Under the Dispute Resolution Agreement to be entered into between New Tarmac, Carillion and various of their respective subsidiaries, the parties will enter into arrangements which are intended to limit the time and costs involved in resolving any disputes which may arise between them in connection with the Demerger. The Dispute Resolution Agreement only applies to disputes arising in connection with the Separation Agreement or certain other specified agreements entered into in connection with the Demerger.

12.4 Tax Deed

Under a Deed entered into by New Tarmac and Carillion, which is conditional upon the Separation Agreement becoming unconditional, each demerged group will be indemnified by the other in respect of certain taxation liabilities. It is agreed that each group should bear its own taxation liabilities, but to the extent that a taxation liability arises in the New Tarmac Group which relates to the business which is conducted by the Carillion Group, that cost should be borne by the Carillion Group, and vice versa. In these circumstances the Deed will provide that the Carillion Group will make a payment to the New Tarmac Group (or the New Tarmac Group will make a payment to the Carillion Group, as the case may be) equal to the amount of the liability which has arisen in the "wrong" group. Similar provisions will be made where tax reliefs arise in the "wrong" group, with the aim of putting both groups, so far as possible, back in the position in which they would have been had the relief arisen in the group which is conducting the relevant business.

The Tax Deed will also contain provisions allocating risk between the New Tarmac Group and the Carillion Group in relation to certain taxation costs which may arise in connection with the Reorganisation and Demerger. In addition the Tax Deed will put in place arrangements dealing with the surrender of group relief between the two groups.

12.5 Road Maintenance Business Sale Agreements

12.5.1 Under an agreement to be entered into between New Tarmac and Tarmac Heavy Building Materials (UK) Limited, (a member of the New Tarmac Group), Tarmac Heavy Building Materials (UK) Limited will agree to sell and New Tarmac will agree to purchase the road maintenance business of Tarmac Heavy Building Materials (UK) Limited, for a consideration equal to the book value of the assets being transferred on or about the date of transfer. Further payments are to be made in order to satisfy certain immediate working capital requirements of the business and in respect of the net budgeted profit of the business for the first seven months of 1999.

12.5.2 Under an agreement to be entered into between New Tarmac and Carillion, New Tarmac will transfer its rights and certain of its obligations in relation to the road maintenance business of the Tarmac Group to Carillion, pursuant to the Demerger.

PART 6: ADDITIONAL INFORMATION — (Continued)

12.6 PFI Sale Agreements

- 12.6.1 Under an agreement to be entered into between New Tarmac and Tarmac (PFI) Limited, Tarmac (PFI) Limited will agree to sell and New Tarmac will agree to purchase the shares in each of the joint venture companies in which Tarmac (PFI) Limited has invested together with certain other rights and obligations in each case relating to projects under the PFI (or alternatively if the parties agree the shares in Tarmac PFI Limited itself). The sale and purchase of such shares and relevant rights and obligations shall be subject to obtaining all necessary consents. The consideration payable in respect of such a sale and purchase shall be the book value of the investments in the relevant joint venture companies in the books of Tarmac (PFI) Limited which will be payable regardless of whether all the relevant consents have been obtained on the date for payment. If on 31 December 1999 all the relevant consents have not been obtained and as a result some or all of the relevant joint venture companies have not been transferred to New Tarmac, Tarmac PFI Limited will agree to make a payment to New Tarmac of an amount equal to the net assets of the relevant joint venture companies in the balance sheet of the Carillion Group as at 31 December 1998, set out in Part 2. In the event that Tarmac (PFI) Limited is obliged to make this payment, New Tarmac will agree to make a further payment to Tarmac (PFI) Limited of any difference between the amount it receives from New Tarmac and the amount of this subsequent payment by it.
- 12.6.2 Under an agreement to be entered into between New Tarmac and Carillion, New Tarmac will transfer to Carillion, pursuant to the Demerger, the shares to be transferred to New Tarmac under the agreement summarised at sub-paragraph 12.6.1 together with the benefit of that agreement.
- 12.6.3 It is intended that the future benefits of the relevant investments should be enjoyed by the Carillion Group following the Demerger, whether through their transfer to the Carillion Group or otherwise. The majority of the third parties whose consent is required for the transfers have given that consent in principle and the Board believes that all required consents will be formally obtained prior to the Demerger. All the relevant investments have, therefore, been treated as investments of the Carillion Group for the purposes of these listing particulars. If, however, in relation to any investment the necessary consents are not obtained prior to 31 December 1999, the relevant investment will not be transferred to the Carillion Group and the Carillion Group will instead receive a cash payment from the New Tarmac Group as stated above. The agreements provide for New Tarmac and Carillion to enter into arrangements designed to secure so far as is possible that, in such circumstances, the Carillion Group will enjoy the full economic benefit of the relevant investment in excess of its book value from 1 January 1999 but there can be no assurance that these arrangements will result in the Carillion Group enjoying the same benefit as it would have enjoyed had the investment been transferred to it.

13. Banking Arrangements

In connection with the Demerger, Tarmac entered into an underwriting and mandate letter dated 14 May 1999 (which was countersigned by Carillion on 3 June 1999) with Greenwich NatWest Limited as arranger and National Westminster Bank Plc as underwriter pursuant to which the arranger and underwriter have agreed to underwrite and arrange a facility of £110,000,000 subject to certain conditions including there being no material adverse change in the financial condition of Carillion. Carillion intends to enter into an unsecured Credit Facility Agreement for approximately £90,000,000 with Greenwich NatWest Limited (as Arranger), and a syndicate of banks (the "Credit Agreement"). The facilities granted under the Credit Agreement comprise a committed multicurrency revolving credit facility and a committed Sterling bankers' acceptance facility. The facilities are to be used for Carillion's general corporate purposes. The facilities are repayable on the date falling three years after the date of execution of the Credit Agreement. Carillion is liable under the Credit Agreement and ancillary fee letters to pay arrangement, facility and agency fees. Certain other terms and conditions usual for facilities of this type apply to the Credit Agreement (including conditions precedent, representations and warranties, covenants (including financial ratios), and events of default). If there is a change of control of Carillion, individual banks may require prepayment and cancellation of their participation in the facilities.

PART 6: ADDITIONAL INFORMATION — (Continued)

Carillion also intends to enter into unsecured revolving bilateral facility agreements with a number of banks. The facilities provided under the bilateral facility agreements are 364 day facilities with an option for Carillion to extend the term of those facilities by an additional 2 years.

The Carillion Group had, at the close of business on 4 May 1999, a contingent liability of £30,938,050 in respect of cross guarantees given in the normal course of business for the bank borrowings of the New Tarmac Group. These cross guarantees will be released on the Demerger becoming effective.

14. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) which are or may be material have been entered into by the Carillion Group within the two years immediately preceding the date of this document.

- 14.1 An agreement dated 14 April 1999 between Tarmac Professional Services Limited and New Tarmac, pursuant to which Tarmac Professional Services Limited agreed to sell and New Tarmac agreed to purchase the shares in certain subsidiaries of Tarmac Professional Services Limited, which are members of the Carillion Group. The consideration payable in respect of the sale and purchase of such shares is £10,953,017.
- 14.2 An agreement dated 14 June 1999 between Carillion, Tarmac and Lazard Brothers pursuant to which Lazard Brothers has agreed to act as sponsor for Carillion in connection with the admission of Carillion Shares to the Official List, pursuant to the Tarmac Scheme and the New Tarmac Reduction of Capital, and Carillion and Tarmac have each given certain warranties and Carillion has given certain indemnities to Lazard Brothers. No fees or expenses are payable by Carillion.
- 14.3 A shareholders' agreement dated 23 February 1998 between Tarmac Construction Limited ("TCL"), Bovis Limited and Castlewys Limited ("Castlewys") which sets out certain matters relating to TCL's and Bovis' respective shareholdings in Castlewys Limited (which subsequently changed its name to Maxxiom Limited) which company has been established for the purpose of running the businesses transferred to it by TCL and Wyseplant Limited (a wholly-owned subsidiary of Bovis). These businesses concern plant hire to the construction industry generally. The shareholders are to co-operate with each other in the running and operation of the company, which shall be done initially in accordance with the business plan prepared.
- 14.4 An agreement dated 23 February 1998 between TCL and Castlewys pursuant to which Castlewys purchased the assets and undertaking of the TCL Plant Hire Businesses for £27.1 million, with a view to carrying on such businesses as going concerns in succession to TCL.

15. UK and US Taxation

These comments are intended only as a general guide to certain aspects of the law and the practice of the relevant taxation authority as well as the income tax treaty between the United States and the United Kingdom (the "Treaty") all as currently in effect and all subject to change at any time, perhaps with retrospective effect. They are of a general nature and do not constitute tax advice. Carillion Shareholders who are in any doubt about their tax position or who are subject to tax in a jurisdiction other than the United Kingdom or United States should consult an appropriate professional adviser without delay.

15.1 United Kingdom Taxation

The following summary only applies to Carillion Shareholders who are the beneficial owners of their shares and who are resident or ordinarily resident in the United Kingdom for United Kingdom tax purposes. It does not address the position of certain classes of shareholders, such as dealers in securities.

15.1.1 Dividends

Under current United Kingdom taxation legislation, no tax will be withheld from dividend payments by the Company.

An individual Carillion Shareholder who is resident in the United Kingdom (for tax purposes) will be entitled to a tax credit in respect of any dividend received from the Company and will be taxable on the aggregate of the dividend and the tax credit (the "gross dividend"). The value of the tax credit (the "Tax Credit Amount") will be equal to 10 per cent. of the gross dividend.

PART 6: ADDITIONAL INFORMATION — (Continued)

In the case of United Kingdom resident individual Carillion Shareholders who are not liable to income tax at the higher rate, the tax credit will match their tax liability (if any) in respect of the dividend and there will be no further tax to pay. United Kingdom resident individual Carillion Shareholders who are liable to income tax at the higher rate will be subject to income tax at 32.5 per cent. of the gross dividend, to the extent that such sum when treated as the top slice of their income falls above the threshold for higher rate income tax. The 10 per cent. tax credit will be set against part of this liability.

Most categories of United Kingdom resident Carillion Shareholders will not be able to claim any repayment from the Inland Revenue in respect of the tax credit, although Carillion shares held in PEPs and ISAs will benefit from the payment of a 10 per cent credit on dividends paid during the five years from 6 April 1999.

United Kingdom resident corporate Carillion Shareholders will generally not be subject to corporation tax in respect of dividends paid by the Company.

The right of Carillion Shareholders who are not resident in the United Kingdom for tax purposes to reclaim any part of the tax credit will depend upon the existence and terms of any double taxation convention between the United Kingdom and the country in which they are resident. Carillion Shareholders who are not resident in the United Kingdom (for tax purposes) should consult their own professional advisers concerning their tax liabilities on dividends received and as to whether they are entitled to reclaim any part of the tax credit.

15.1.2 Capital Gains

United Kingdom resident individual holders of Carillion Shares will be liable to capital gains tax on any chargeable gain realised on the disposal of their Carillion Shares whilst they are resident or ordinarily resident for tax purposes in the United Kingdom, subject to any allowances, reliefs or exemptions that may be available to them. United Kingdom resident corporate holders of Carillion Shares will be liable to corporation tax on any chargeable gain realised on disposal of their holdings of Carillion Shares, subject to certain reliefs and exemptions. A Carillion Shareholder not resident in the United Kingdom but who carries on a trade, profession or vocation in the United Kingdom through a branch or agency, and has used, held or acquired the Carillion Shares for the purposes of such trade, profession or vocation or such agency, may be subject to United Kingdom taxation on chargeable gains arising from the sale of those Carillion Shares.

15.1.3 Stamp duty and stamp duty reserve tax

A transfer of Carillion Shares will generally be subject to *ad valorem* stamp duty on any instrument of transfer of (at current rates) 50p per £100 (or part thereof) on the value of the consideration for the relevant transfer. An unconditional agreement to transfer any Carillion Shares, or a transfer of Carillion Shares within CREST, will generally be subject to stamp duty reserve tax at the rate of 0.5 per cent. of the value of the consideration. Where a charge to stamp duty reserve tax arises on an unconditional agreement to transfer Carillion Shares and, before the expiry of six years beginning with the date of that agreement, an instrument of transfer is duly stamped, any liability to stamp duty reserve tax will be cancelled or repaid.

Stamp duty and stamp duty reserve tax are generally the liability of the transferee.

15.2 United States Taxation

The following is a summary of the material United States federal income tax consequences of the ownership and disposition of Carillion Shares by a US Holder (as defined below). This summary deals only with holders of Carillion Shares that are US Holders and that will hold the Carillion Shares as capital assets. The discussion does not cover all aspects of United States federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on the acquisition, ownership or disposition of Carillion Shares by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not address tax considerations applicable to investors that own (directly or indirectly) 10 per cent. or more of the Carillion Shares nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the United States federal income tax laws (such as banks, insurance

PART 6: ADDITIONAL INFORMATION — (Continued)

companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Carillion Shares as part of straddles, hedging transactions or conversion transactions for United States federal income tax purposes or investors whose functional currency is not the United States dollar).

As used herein, the term "US Holder" means a beneficial owner of Carillion Shares that is (i) a citizen or resident of the United States for United States federal income tax purposes, (ii) a corporation, or other entity treated as a corporation, created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to United States federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust.

The summary assumes that Carillion is not a passive foreign investment company ("PFIC") for United States federal income tax purposes, which Carillion believes to be the case. Carillion's possible status as a PFIC must be determined annually and therefore may be subject to change. If Carillion were to be a PFIC in any year, special, possibly materially adverse, consequences would result for US Holders.

15.2.1 Dividends

General. Dividends paid on Carillion Shares out of current or accumulated earnings and profits (as determined for United States federal income tax purposes) will generally be taxable to a US Holder as foreign source dividend income, and will not be eligible for the dividends received deduction allowed to corporations. Dividends in excess of current and accumulated earnings and profits will be treated as a return of capital to the extent of the US Holder's basis in the Carillion Shares and thereafter as capital gain.

Under the Treaty and domestic United States federal income tax law, a US Holder will be subject to United States federal income tax on the sum of the cash dividend paid by Carillion plus the Tax Credit Amount. For example, if a US Holder received a dividend payment of US \$90 from Carillion, the US Holder would include a total gross amount of US \$100 in United States taxable income. As a result of this rule, the amount of dividend income included in gross income for United States federal income tax purposes by a US Holder with respect to a payment of dividends may be greater than the amount of cash actually received (or receivable) by the US Holder from Carillion with respect to the payment. However, as discussed below, all or part of the Tax Credit Amount may be credited against the US Holder's United States federal taxable income as a deemed withholding tax.

Foreign Currency Dividends. Dividends paid in Pounds Sterling will be included in taxable income in a United States dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the US Holder, regardless of whether the Pounds Sterling are converted into United States dollars. If dividends received in Pounds Sterling are converted into United States dollars on the day they are received, the US Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income.

Effect of Deemed United Kingdom Withholding Taxes. Subject to certain limitations, a US Holder will generally be entitled to a credit against its United States federal income tax liability, or a deduction in computing its United States federal taxable income, equal to the Tax Credit Amount in respect of dividends received on the Carillion Shares. For purposes of the foreign tax credit limitation, foreign source income is classified into one of several "baskets", and the credit for foreign taxes on income in any basket is limited to United States federal income tax allocable to that income. Dividends paid on Carillion Shares generally will constitute foreign source income in the "passive income" basket or, in the case of certain holders, the "financial services income" basket. In certain circumstances, recently enacted legislation and other guidance issued by the United States Treasury may deny a US Holder foreign tax credits (and instead may allow deductions) for foreign taxes imposed on a dividend if the US Holder (i) has not held the Carillion Shares for at least 16 days in the 30-day period beginning 15 days before the ex dividend date, during which it is not protected from risk of loss; (ii) is obliged to make payments related to the dividends; or (iii) holds the Carillion Shares in arrangements in which the US Holder's expected economic profit, after non-United States taxes, is insubstantial.

PART 6: ADDITIONAL INFORMATION — (Continued)

15.2.2 Sale or Other Disposition

Upon a sale or other disposition of Carillion Shares, a US Holder generally will recognise capital gain or loss for United States federal income tax purposes equal to the difference, if any, between the amount realised on the sale or other disposition and the US Holder's adjusted tax basis in the Carillion Shares. This capital gain or loss will be long-term capital gain or loss if the US Holder's holding period in the Carillion Shares exceeds one year. Any gain or loss will generally be United States source, except that losses will be treated as foreign source to the extent that the US Holder received dividends that were includible in the financial services basket during the 24-month period prior to the sale. This 24-month period may be extended to cover periods in which the US Holder's risk of loss is hedged. Therefore, a US Holder may have insufficient foreign source income to utilise foreign tax credits attributable to the Tax Credit Amount imposed on any distribution.

15.2.3 Backup Withholding and Information Reporting

Payments of dividends and other proceeds with respect to Carillion Shares by a United States paying agent or other United States intermediary will be reported to the Internal Revenue Service and to the US Holder as may be required under applicable regulations. Backup withholding at a rate of 31 per cent may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of foreign or other exempt status or fails to report all interest and dividends required to be shown on its United States federal income tax returns. Certain US Holders (including, among others, corporations) are not subject to backup withholding. US Holders should consult their tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

16. Working Capital

Carillion is of the opinion that taking into account available bank and other facilities, the Carillion Group has sufficient working capital for its present requirements (that is, for at least the next 12 months from the date of this document).

17. Significant Changes

Save for the effects of and matters relating to the Capital Reorganisation and the Demerger there has been no significant change in the financial or trading position of the Carillion Group since 31 December 1998, the latest date reported upon in the Accountants' Report in Part 2 of this document.

18. Litigation

Save as mentioned below, the Carillion Group is not involved in any legal or arbitration proceedings which may have or have had during the 12 months immediately preceding the date of this document, a significant effect on the Carillion Group's financial position nor (so far as the Directors are aware) are any such proceedings pending or threatened by or against the Carillion Group.

Dredging International, a sub-contractor of a joint venture between the Carillion Group and PJ Walls has served notice of dispute in respect of claims on the River Lee project in Ireland. The project was undertaken in the normal course of business of the Carillion Group. The claims by Dredging International are approximately £17 million in addition to the contract value. Claims have also been registered by the joint venture with the employer. The Directors dispute the claim by Dredging International and are confident that the claims against the employer will be resolved satisfactorily and on this basis they believe that the claim by Dredging International will not have a material adverse impact on the Carillion Group.

19. Contractual Claims

The nature of traditional civil engineering, for example substantial infrastructure works, is that original tender values for such projects can be significantly exceeded through additional work content and scope which become the subject of contractual claims. Examples of the Carillion Group's current contracts of this nature include the Copenhagen Metro project and the Canary Wharf and Canada Water stations on LUL's Jubilee line extension. The Directors consider that the financial outcome of claims on its current portfolio of projects will be satisfactory.

PART 6: ADDITIONAL INFORMATION — (Continued)

20. Information on CREST

CREST, the computerised paperless system for settlement of securities transactions in the London and Irish securities markets, commenced operations in July 1996 and almost all listed companies have now joined CREST.

The Uncertificated Securities Regulations (or CREST Regulations) provide for the transfer of shares in the UK without stock transfer forms, and the evidencing of title to shares without share certificates, through a computer-based system and procedures, defined in the CREST Regulations as a "relevant system". CREST is the first "relevant system" and is operated by CRESTCo Limited.

Shareholders of Carillion will be able to hold eligible shares in uncertificated form in an account on the CREST system or to hold them in the physical form of certificates. Each shareholder will be able to choose whether or not to convert his eligible shares into uncertificated form and the Registrars will continue to register written instruments of transfer and issue share certificates in respect of Carillion Shares held in certificated form.

It is anticipated that the Carillion Shares will join CREST with immediate effect upon Admission.

21. Miscellaneous

- 21.1 The total costs and expenses (exclusive of VAT) relating to the Demerger payable by the Carillion Group are expected to be nil, although in certain limited circumstances, the Carillion Group may be obliged to pay certain fees and other costs in connection with specific aspects of the Demerger and its implementation in accordance with the terms of the Separation Agreement.
- 21.2 KPMG Audit Plc has given and not withdrawn its written consent to the inclusion in this document of its accountants' reports in Parts 2 and 3 and letter in Part 4 in the form and context in which they appear and has authorised the contents of its reports and letter for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- 21.3 Lazard Brothers has given and has not withdrawn its written consent to the issue of this document with the references to its name in the form and context in which they appear.
- 21.4 The financial information set out in this document relating to the Carillion Group does not constitute statutory accounts within the meaning of section 240(5) of the Companies Act. Other than in respect of Carillion which has not yet produced statutory accounts, KPMG Audit Plc has reported on the statutory accounts of the UK companies in the Carillion Group for the three financial years ended 31 December 1996, 1997 and 1998 within the meaning of section 235 of the Companies Act. Each such report was unqualified within the meaning of section 262 of the Companies Act and did not contain a statement under section 237(2) or (3) of the Companies Act. The statutory accounts of those companies for the two financial years ended 31 December 1996 and 1997 have been delivered to the Registrar of Companies in England and Wales pursuant to section 242 of the Companies Act and, in respect of the financial year ended 31 December 1998, the statutory accounts of Tarmac Construction Limited and Tarmac Professional Services Limited have been so delivered. The statutory accounts for that year of the remainder of such UK companies in the Carillion Group will be delivered to the Registrar of Companies in due course.
- 21.5 The source for the statement on page 12 that construction output represents approximately 9 per cent. of UK Gross Domestic Product which is significantly lower than the Western European average of 12 per cent. is the National Council of Building Material Producers Forecasts (Executive Summary) dated April 1999.
- 21.6 The source for the statement on page 13 that there was an annual average growth in UK construction output between 1994 and 1998 of approximately 1.7 per cent. is calculated from the figures provided in the DETR Information Bulletin dated 5 March 1999.

22. Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of Linklaters & Alliance, One Silk Street, London EC2Y 8HQ during normal business hours on any weekday (Saturdays and Public Holidays excepted) from the date of this document until Friday, 30 July 1999:

- (a) the Memorandum and Articles of Association;

PART 6: ADDITIONAL INFORMATION — (Continued)

- (b) the draft demerger documents, draft banking documents and the material contracts referred to in paragraphs 12, 13, and 14 above respectively;
- (c) the written consents referred to in sub-paragraphs 21.2 and 21.3 above;
- (d) the service contracts referred to in paragraph 6 above;
- (e) the accountants' report on Carillion contained in Part 3 of this document;
- (f) the accountants' report on the Carillion Group set out in Part 2 of this document;
- (g) the accountants' letter on the pro forma financial information set out in Part 4 of this document;
- (h) the written statement signed by KPMG Audit Plc setting out and explaining the adjustments made for the purposes of their report in Part 2 of this document;
- (i) the audited consolidated accounts of the Tarmac Group for the financial years ended 31 December 1997 and 1998;
- (j) this document;
- (k) the Circular;
- (l) the source documents referred to at sub-paragraphs 21.5 and 21.6 above and at pages 12 and 24 of this document;
- (m) a copy of the special resolution passed at the Extraordinary General Meeting of New Tarmac referred to in Part 5 of this document;
- (n) the rules of the Carillion Share Schemes described in paragraph 7 of Part 6 above.
- (o) the New Tarmac Listing Particulars.

Date: 15 June 1999

PART 7: DEFINITIONS

"Admission"	the admission of the Carillion Shares to the Official List becoming effective in accordance with the Listing Rules
"Articles"	the Articles of Association of Carillion as proposed to be in force on Admission
"Board" or "Directors"	the board of directors of Carillion listed as such on page 5 of this document (except in relation to paragraphs 3, 4 and 7 of Part 6 of this document in which "Directors" means the directors of Carillion from time to time)
"Business Group"	a Business Group within the Carillion Group
"Carillion" or "Company"	Carillion plc
"Carillion Group" or "Group"	(a) in relation to the period prior to the date the Demerger becomes effective, Carillion and each entity from time to time owning or owing any of the businesses or other assets or liabilities which, immediately following the Demerger will be owned or owed, directly or indirectly, by Carillion or any of its subsidiary undertakings, in their capacity as owners or the persons owing of the relevant businesses, assets and liabilities, (the relevant businesses being described in these listing particulars); and (b) in relation to the period after the date the Demerger becomes effective, Carillion and each of its subsidiary undertakings
"Carillion Share Schemes"	the Carillion SAYE Scheme, the Carillion Inland Revenue Approved Executive Share Option Scheme, the Carillion Executive Share Option Scheme, the Carillion Long Term Incentive Plan and the Founders Equity Plan all as described in Part 6 of this document
"Carillion Shareholder"	a holder of Carillion Shares
"Carillion Shares"	ordinary shares in Carillion
"Capital Reorganisation"	the changes to the capital of the Carillion Group effected prior to the Demerger described in Part 5 of these listing particulars
"Circular"	the circular to Tarmac Shareholders dated 15 June 1999 relating to the Reorganisation and the Demerger
"Combined Code"	the Combined Code as set out in the Listing Rules
"Companies Act"	the Companies Act 1985, as amended
"Court"	the High Court of Justice in England and Wales
"Court Hearing"	the hearing of the petition to sanction the Tarmac Scheme or the hearing of the petition to sanction the New Tarmac Reduction of Capital, as the context requires
"Court Meeting"	the meeting of Tarmac Shareholders convened by order of the Court, notice of which is set out in the Circular
"CREST"	the system for the paperless settlement of trades and the holding of uncertificated securities operated by CRESTCo Limited in accordance with the Uncertificated Regulations 1995 (SI 1995 No. 3272)
"Demerger"	the proposed demerger of the construction services business from the remainder of the Tarmac Group described in these listing particulars at Part 5

PART 7: DEFINITIONS — (Continued)

“Demerger Effective Time”	the time at which the Demerger becomes effective, expected to be 8.30 am on 29 July 1999
“Demerger Record Time”	the time at which the New Tarmac Reduction of Capital occurs
“DETR”	Department of the Environment, Transport and the Regions
“Executive Director”	an executive director of the Board
“Government”	the Government of the United Kingdom from time to time
“Great Britain”	England, Wales and Scotland
“ICTA 1988”	UK Income and Corporation Taxes Act 1988
“Lazard Brothers”	Lazard Brothers & Co., Limited
“Linklaters & Alliance”	Linklaters & Paines, a member firm of Linklaters & Alliance
“Listing Rules”	the Listing Rules of the London Stock Exchange
“London Stock Exchange”	London Stock Exchange Limited
“Memorandum”	the Memorandum of Association of Carillion
“New Tarmac”	Tarmac Group plc, proposed to be re-named “Tarmac plc” upon the Tarmac Scheme becoming effective
“New Tarmac Board”	the board of directors of New Tarmac
“New Tarmac Group”	(a) in relation to the period prior to the Tarmac Scheme becoming effective the Tarmac Group and; (b) in relation to the period after the Tarmac Scheme becomes effective, New Tarmac and its subsidiary undertakings, in each case excluding the Carillion Group
“New Tarmac Listing Particulars”	the listing particulars relating to New Tarmac dated 15 June 1999
“New Tarmac Reduction of Capital”	the proposed reduction of capital of New Tarmac under Section 135 of the Companies Act described in Part 5 of this document and the Circular
“New Tarmac Shares”	ordinary shares in New Tarmac
“Non-Executive Director”	a non-executive director of the Board
“Official List”	the official list of the London Stock Exchange
“PFI”	the Private Finance Initiative established by the Government in 1992 with the aim of minimising the cost to the public sector of serviced assets (eg. roads, hospitals, prisons)
“PFU”	the Private Finance Unit established by the Carillion Group in 1996
“Registrars”	Lloyds TSB Registrars of 54, Pershore Road South, Birmingham B22 1AF
“Reorganisation”	the proposed introduction of New Tarmac as the ultimate holding company of the Tarmac Group as described in Part 5 of this document
“Scheme Effective Time”	the time at which the Tarmac Scheme becomes effective, expected to be 8.30 am on 28 July 1999

PART 7: DEFINITIONS — (Continued)

“Scheme Record Time”	6.00 pm on the business day immediately preceding the day on which the Tarmac Scheme becomes effective; expected to be 6.00 pm on 27 July 1999
“Scheme Shares”	<p>(i) the Tarmac Shares in issue at the date of the Tarmac Scheme;</p> <p>(ii) any Tarmac Shares issued after the date of the Tarmac Scheme and prior to 6.00 pm on the day immediately preceding the day of the Court Meeting or any adjournment thereof; and</p> <p>(iii) any Tarmac Shares issued on or after the passing of the Special Resolution and prior to the confirmation by the Court of the reduction of capital pursuant to Clause 1.1 of the Tarmac Scheme in respect of which the original or any subsequent holders shall be bound or shall have agreed in writing to be bound by the Tarmac Scheme</p>
“Separation Agreement”	the agreement to be entered into by New Tarmac and Carillion shortly prior to the Demerger Effective Time governing certain matters arising in connection with the Demerger
“Special Resolution”	the first resolution set out in the notice convening the Tarmac Extraordinary General Meeting
“subsidiary undertaking”	has the meaning ascribed to it in the Companies Act
“Tarmac”	Tarmac plc
“Tarmac Board”	the board of directors of Tarmac
“Tarmac Extraordinary General Meeting”	the extraordinary general meeting of Tarmac, notice of which is set out in the Circular
“Tarmac Group”	Tarmac and its subsidiary undertakings prior to the Tarmac Scheme becoming effective
“Tarmac Scheme”	the scheme of arrangement under Section 425 of the Companies Act 1985 set out in the Circular in its present form or with or subject to any modification, addition or condition approved or imposed by the Court
“Tarmac Shareholder”	a holder of Tarmac Shares
“Tarmac Share Schemes”	the Tarmac Savings Related Share Option Scheme 1990, the Tarmac Share Option Scheme 1985, the Tarmac Executive Share Option Scheme 1990, and the Tarmac Share Option Scheme 1994
“Tarmac Shares”	ordinary shares in Tarmac
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“uncertificated form”	recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
“UK GAAP”	accounting principles generally accepted in the UK
“US”, “USA” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“US Securities Act”	US Securities Act of 1933, as amended

LISTING PARTICULARS

COMPANY NAME: FRANKINGTON SECOND DUAK TRUST PLC

COMPANY NUMBER: 3739055

DATE OF DOCUMENT: 15-6-99

DATE OF RECEIPT: 15-6-99