

CARILLION PLC

Registered number: 3782379

Annual Report and Accounts 2002
www.carillionplc.com

> making tomorrow a better place



> Turnover +4%

£1,974.4 million

2001: £1,889.8 million

> Profit before tax +11%

£50.2 million*

2001: £45.3 million

> Earnings per share +19%

16.6 pence*

2001: 14.0 pence

> Forward order book and framework contracts

£5.0 billion

2001: £5.2 billion

> Full year dividend per share +9%

4.8 pence

2001: 4.4 pence

*Before exceptional items and goodwill amortisation

Carillion made good progress in 2002 and the delivery of substantial earnings growth is a significant achievement. Carillion has made a good start to 2003, winning new work to add to its strong order book. We therefore believe that the Group's strategy remains sound and that despite the global uncertainty we will make further progress in 2003.

www.carillionplc.com/investors

We report our results in three segments – Investments, Business Services and Construction Services.

Investments

Equity returns on investments in Public Private Partnership projects.

page 8

Operating profit*

1 Investments	£7.8m
2 Business Services	£39.0m
3 Construction Services	£17.1m
Total	£63.9m

*Profit before exceptional items and goodwill amortisation; and excluding Corporate Centre costs of £9.1m

Delivering sustainable, profitable growth through

- > Growing our Business Services and PPP Investment activities organically and by acquisition
 - > Maintaining a strong Construction Services capability focused on higher added value contracts for long-term key customers
 - > Combining our skills to provide integrated solutions
-

> Turnover

£61.6 million

2001: £43.9 million

> Operating profit

£7.8 million

2001: £5.5 million

Business overview

- > Turnover up 40%
 - > Operating profit up 42%
 - > Committed equity investment in our maturing portfolio of 16 financially closed PPP projects increased from £45m to £48m
 - > Investments creating predictable long-term earnings, which the Directors believe have a Present Value in the region of £115m
-

Business Services

Rail and road infrastructure services, facilities management and support services, including those relating to Public Private Partnership projects.

page 9

Construction Services

All contracting and related activities, including mechanical and electrical engineering, in building and infrastructure, both on traditional and Public Private Partnership projects.

page 10

> Turnover

£821.7 million

2001: £609.3 million

> Operating profit**

£39.0 million

2001: £30.2 million

**Before exceptional items and goodwill amortisation

> Turnover

£1,125.4 million

2001: £1,335.9 million

> Operating profit**

£17.1 million

2001: £22.1 million (Restated for the effect of UITF34)

**Before exceptional items and goodwill amortisation

Business overview

- > Turnover up 35%
- > Operating profit before exceptional items and goodwill amortisation up 29%
- > Carillion Rail launched following successful acquisition of GT Railway Maintenance in September 2001
- > Acquisition of Citex Management Services

Business overview

- > Turnover reduced by 16% as expected, in-line with strategy of focusing on higher added value contracts for long-term key customers
 - > Operating profit also reduced as expected, but underlying margins before net bid costs increased from 2.4% to 2.5%
 - > As a result of our strategy, 80% of turnover in UK building and infrastructure projects was generated by 20 key customers
-

I am pleased to report that Carillion made good progress in 2002, with an 11 per cent increase in profit before tax, goodwill and exceptional items. Earnings per share before goodwill and exceptional items grew by 19 per cent.

The delivery of substantial earnings growth in 2002 is a significant achievement, especially as the general business climate became less certain during the year. This success reflects not only the Group's good overall operating performance, but the progress being made with implementation of the strategy we have developed and pursued since Carillion was launched as an independent company in 1999, namely to develop our Business Services and PPP Investment activities alongside a well positioned Construction Services business.

The Group has again delivered substantial growth in its Business Services and PPP Investment activities, both organically and through acquisitions, including Citex Management Services in 2002 together with the full year effect of the successful acquisition of GT Railway Maintenance and additional PPP project equity in the second half of 2001. This growth has more than offset a reduction in activity in Construction Services, resulting largely from our strategy to focus on higher added value contracts with long-term customers. This has involved downsizing in some markets and exiting others, including the disposal of our social housing business in the second half of 2001 and Maxxiom, our joint venture plant hire business, in 2002.

The Group's Business Improvement Programme is also playing a key part in the successful delivery of our strategy. By helping all our people to live up to our core values and deliver continuous improvement in the efficiency and quality of the services we provide for our customers, we are creating a culture for success. We owe our success therefore not only to the skills and commitment of our people, but also to their ability to embrace change and continually strive to exceed the expectations of our customers.

The Board is recommending the payment of a final dividend of 3.3 pence per share, making the total for the year 4.8 pence per share, an increase of 9 per cent on 2001. The final dividend will be paid on 27 June 2003 to shareholders on the register at the close of business on 2 May 2003.

The year saw significant developments in corporate governance with the publication of the Higgs Review of the role of non-executive directors and the Smith Report on audit committee governance.

The lead Carillion has taken within its sector on Sustainability shows the Board's commitment to taking a broadly based view of the effects of our business activities on society and the environment.

In the same way, the Board looks to adopt a balanced and forward thinking approach to all other aspects of corporate governance. We have carried out an initial review of compliance with the key recommendations of the Higgs and Smith reports and we believe that we are largely in compliance with their major procedural recommendations. Before these reports were published, we conducted our own detailed examination of the effectiveness of our Board and changed our working practices where it was judged appropriate to do so. We now propose to repeat this review annually.

At the time of writing, it seems that many of the recommendations of the Higgs review will be adopted into the Combined Code and will apply to Carillion from the 2004 financial year. However, we are confident of being in a position to report in our Report and Accounts for the year ending 2003 as if the revisions to the Code were in place.

Carillion works hard to maintain its position as an industry leader in health and safety and in managing and improving the environmental and social aspects of our business. We believe that the model we have developed to link our improvement programmes in each of these areas to the Group's business strategy and financial performance

has further differentiated us from our competitors and underlined our industry leadership in the development of a successful and sustainable business. This work is summarised later in this report and described in more detail in our separate Sustainability Report, which can be found on our website.

Carillion has made a good start to 2003 by winning a number of significant new contracts, particularly in our growth segments, adding to our substantial year end order book. We therefore believe that our strategy remains sound and that despite the global uncertainty the Group will make further progress in 2003.

Sir Neville Simms
Chairman
12 March 2003

In 2002, we built upon our success in 2001 by continuing to implement our strategy for growth, supported by our Business Improvement Programme, which is continuously improving the efficiency and quality of service delivery to our customers.

Our well balanced market and geographical positions enable us to target growth areas, particularly transport, health and defence in the UK and our International Regional businesses where there are increasing opportunities to export our PPP and Business Services skills. These four strategic growth areas are described in more detail later in this report.

Strategic overview

The key elements of our strategy remain unchanged, namely to grow our Business Services and PPP Investment activities, organically and by acquisition, alongside a well positioned Construction Services business focused selectively on higher added value contracts for long-term customers.

We have again delivered profitable growth in Business Services and PPP Investments, which generated over two thirds of the Group's pre-tax profit. By targeting growth markets in which we can use the strong positions we hold to promote our full range of services, we secured a number of significant new orders in 2002. We have also benefited from our maturing PPP portfolio and the acquisition of the remaining 51 per cent of GT Railway Maintenance in September 2001, which enabled us to integrate all our rail activities into one business, Carillion Rail, launched in March 2002.

The acquisition of Citex Management Services in August 2002 brought to the Group a portfolio of contracts with blue chip corporate customers and a successful management team that complements our existing facilities management business, which has an extensive portfolio of public sector contracts.

In line with our more selective approach in Construction Services, we disposed of three more non-core business – the hoists, accommodation and general plant businesses of our joint venture company Maxxiom, London Paving, which carried out minor civil engineering projects, and Neslo, an office fit-out and partitioning company. We continue to target higher added value contracts for long-term customers: over 80 per cent of our UK turnover in building and infrastructure projects comes from 20 key customers.

Financial Performance

The operational and strategic progress we made in 2002 is reflected in our strong financial performance. Profit before tax, goodwill and exceptional items increased by 11 per cent to £50.2 million, on turnover some 4 per cent higher at £1.97 billion. Earnings per share before goodwill

and exceptional items increased by 19 per cent to 16.6 pence. Our underlying tax rate reduced to 29 per cent before exceptional items (2001: 30 per cent) as we began to access available tax losses. Earnings per share after goodwill and exceptional items increased by 26% to 13.2 pence.

Net cash at the year-end was £5.3 million, which reflects a net cash outflow in the year of some £46 million. This was largely due to the unwinding of positive cash flow on several major construction contracts, including a number of large PPP projects, which reached or were nearing completion during the year. Despite this cash outflow and net investments of £72 million over the past eighteen months in acquisitions, plant and equipment, Group net interest remained positive for a second year, as a result of our continuing focus on cash management.

The development of our PPP portfolio continues to deliver long-term, high quality cash-backed earnings growth. Our total committed equity investment in our 16 financially closed projects, increased from £45 million to £48 million during 2002. In the light of recent transactions involving the sale of project equity, the Directors believe that Carillion's equity investments in PPP projects have a present value in the region of £115 million. The net cost of bidding for PPP projects in 2002 was £15.8 million (2001: £13.9 million) and we have continued to work with Government and other leaders in our industry to reduce these costs.

The good progress we have made with our Business Improvement Programme delivered £2 million of savings in 2002, as previously indicated. As a result of actions already taken we will deliver the £5 million of savings targeted for 2003. In addition, we have identified a further £3 million of cost savings in 2003.

Pensions

At December 2002, the various defined benefit schemes operated by Carillion had assets of £704 million (2001: £881 million), with a net deficit of £51 million (2001: £59 million surplus), calculated on an FRS 17 basis. The Group recommenced pension scheme contributions in December 2002, the full year cash effect of which is expected to be around £15 million in 2003. A full valuation of all the Group's pension schemes will be available in 2003.

As part of a continuing review of the various options for ensuring that the Group can continue to offer all our

employees good quality pension schemes, we have decided to close two of our defined benefit schemes to new employees from 1 April 2003 and to offer instead membership of competitive defined contribution schemes that rank in the upper quartile of such schemes in the UK.

Health and safety

Achieving the highest standards of health and safety is a key priority of the Board and the whole of the Group's management team. Although our health and safety record is amongst the best in the industry sectors in which we work, we continually strive to improve our own performance, measured against key performance indicators, and work with our partners, suppliers and other stakeholders to help improve the performance of our industry as a whole.

The Board sets our safety policies and targets and the Group's Safety Committee, through our Integrated Management System, manages implementation and delivery. In 2002, we also embarked upon a number of innovative behavioural safety programmes to complement our policies and procedures. These programmes are aimed at embedding health and safety into our culture so that all our people fully appreciate the importance and absolute priority that must be given to this key area.

Sustainability

We continue to take the lead in our sector on sustainability, because we believe it creates clear benefits for Carillion, our customers, our partners, our suppliers and our stakeholder communities. In 2002, we further developed our ability to offer sustainable solutions that not only incorporate best environmental and social practice, but also reduce whole life costs and improve value for money for our customers. We have done this by using the model we published in our 2001 Sustainability Report that links our sustainability targets to our strategic business and financial objectives, supported by analysis of the costs and benefits of sustainable solutions. PPP projects provide a major opportunity to demonstrate the business case for sustainability. For example, at the Great Western Hospital, Swindon, our latest PPP hospital, which received top marks from the Building Research Establishment as one of the UK's most sustainable buildings, we identified tangible and quantifiable savings of £1.8 million as a result of adopting a sustainable approach to its design, construction, maintenance and operation.

Carillion was the leading company in its sector and was ranked in the top quintile of 122 UK companies surveyed in Business in the Community's first Corporate Responsibility Index, published in March 2003.

Outlook

We entered 2003 with a strong order book and long term framework contracts together worth around £5.0 billion, of which 75 percent is for 2004 and beyond and 60 per cent is for 2005 and beyond. We also have a large pipeline of potential contracts, which we believe we are well positioned to secure in 2003. In the first two months of the year we have already secured contracts and preferred bidder positions for over £350 million of commercial building work and £350 million of road maintenance and construction.

Despite the global uncertainty, the overall outlook in all our main markets, both in the UK and our International Regions, remains positive with opportunities for further growth. In the UK, three sectors – health, transport and defence – in particular offer good prospects for growth, with confirmed Government investment in these sectors of some £75 billion over the next 10 years. In order to take full advantage of the opportunities arising from this investment, we have created new Health and Defence business units alongside our existing Transport infrastructure businesses.

Our fourth key growth opportunity lies in exporting our PPP Investment and Business Services skills to our International Regions, where we have well-established businesses. In Canada, for example, where we have developed a substantial highway maintenance business and been shortlisted for two large PPP hospitals in 2002, we expect increasing opportunities. In the Middle East and Caribbean we signed joint venture agreements in 2002 to provide extensive facilities management services to long-term key customers, worth up to £500 million over 10 years.

We therefore expect to make further progress in our growth areas in 2003 as a result of our well balanced geographical and market positions and our focus on working with long term key customers.

John McDonough
Chief Executive
12 March 2003

> GCHQ

The new GCHQ being built by Carillion under the Government PPP programme is one of the largest PPP projects to date and has won many awards for design, construction and safety.

> The Great Western Hospital

Carillion's fifth PPP hospital completed on time and to budget in just 37 months. This 490-bed hospital has been the focus of many leading edge construction and sustainability innovations, including energy saving and waste management solutions that will ensure this hospital consumes 30% less energy and emits 35% less carbon dioxide compared to existing hospitals.

Investments

Turnover

£61.6 million

2001: £43.9 million

Operating profit

£7.8 million

2001: £5.5 million

Pre-tax profit

£2.5 million

2001: £1.7 million

Pre-tax profit from our PPP Investments increased by 47 per cent, reflecting the maturing nature of our portfolio of 16 financially closed projects. Twelve of these projects are operating successfully with the remaining four currently in construction. Committed PPP equity increased from £45 million to £48 million during the year. Details of our 16 financially closed PPP projects are can be found in the Financial Review on page 30.

In November 2002, our fifth PPP hospital, the Great Western Hospital, Swindon, was handed over successfully and on time. This 490 bed acute general hospital was built at a cost of some £100 million under a 27-year concession, during which Carillion will also provide non-clinical support services. The Great Western not only set

new standards in hospital design, but also in Sustainable Development. Working in conjunction with The Natural Step, we have designed and constructed one of the UK's most sustainable buildings, which gained top marks for sustainability in a recent Building Research Establishment report. We were equally delighted to underline our position as a PPP market leader with five top PFI Awards in 2002, including the premier award of PFI Project of the Year, for our New Accommodation Project for GCHQ, Cheltenham.

Although the flow of PPP projects reaching preferred bidder and financial close in all sectors of the UK market slowed considerably over the last 18 months, we believe that this was temporary. With confirmed Government plans for over £75 billion of investment in our chosen PPP sectors of Health, Transport, Defence and Secure Establishments over the next 10 years, we expect the flow of projects to increase significantly in 2003 and beyond.

In December 2002, we were selected as the preferred bidder for the John Radcliffe PPP hospital project, in Oxford, adding to our successful appointment as preferred bidder for the North East Derbyshire social housing project in November 2002. The John Radcliffe project, which is expected to generate around £600 million of turnover

> Channel Tunnel Rail Link

Carillion Rail is playing a major role in the construction and maintenance of this high-speed rail link. The construction contract for Phase II, worth £120 million, is being undertaken by Carillion Rail and two joint venture partners. Carillion Rail has also been awarded the maintenance contract for Phase I of CTRL.

> FM Services for Healthcare

Carillion is developing innovative ways to help deliver excellent healthcare services, including the delivery of safe, clean, clinical environments and the support services that primary care professionals rely on to do their jobs effectively.

for Carillion, including construction, support services and our share of the Special Purpose Company's turnover, represents a further significant step in the development of our Healthcare Business.

Carillion is currently shortlisted for a further 14 projects with an estimated total construction and support services value of around £2.4 billion, including two major hospitals in Canada, where there is a growing PPP market from which our long established Canadian business is well placed to benefit.

Business Services

Turnover

£821.7 million

2001: £609.3 million

Operating profit

£39.0 million**

2001: £30.2 million*

Margin

4.7%

2001: 5.0%

Turnover increased by 35 per cent primarily as a result of growth in Carillion Rail and Carillion Services, our facilities management business. Around half

this growth was organic, maintaining the average compound annual growth rate in this segment at over 10 per cent during the last five years. The remaining growth resulted from the acquisition of GT Railway Maintenance in September 2001 and Citex Management Services in August 2002. Operating profit increased by 29 per cent. The slightly lower margin in 2002 reflects a revised method of extracting profit from Monterey, the effect of which is to reduce operating profit and the minority interest charge by similar amounts.

Rail

Carillion Rail performed well in 2002. It was voted the UK's best rail maintenance operator for the second year running in the 2002 National Rail Awards and recently won the 2003 Network Rail Security and Safety Award. Carillion Rail is now an established market leader with maintenance contracts for over 20 per cent of the UK's heavy rail network. It is also a leading provider of rail renewal and enhancement projects, together with a comprehensive range of design and consultancy services spanning all aspects of rail construction and maintenance.

Carillion Rail's success is based on its absolute commitment to safety, compliance and performance through the delivery of high-quality value for

money services. Securing a £200 million IMC 2000 maintenance contract for South Wales and Marches and £130 million of construction and maintenance contracts for the Channel Tunnel Rail Link (CTRL), were notable contract wins in 2002. The CTRL contracts were particularly significant as they substantially increased Carillion Rail's presence in South East England, one of the areas due to benefit from increased investment. A further important initiative was the development of Eurailscout GB, a Carillion Rail joint venture that will offer vehicle-mounted high-speed track inspection services throughout the UK. Services are expected to start by mid 2003 and will further improve the safety and quality of track inspection and maintenance.

Carillion Rail therefore remains well positioned to benefit from continuing high levels of expenditure on maintenance and from planned investment to upgrade the UK rail network, particularly the £7.0 billion programme for the West Coast Mainline, and in due course Public Private Partnership projects.

Facilities Management

The acquisition of Citex Management Services in August 2002 brought to the Group a portfolio of contracts with blue-chip corporate customers and an entrepreneurial management team with

* Before exceptional operating charges of £0.4m and goodwill amortisation of £0.4m

** Before goodwill of £2.6m

> London, Heathrow

The new £24 million hangar for Virgin Atlantic's Airbus A340-600, which is seven metres longer than a Boeing 747, has been designed by Carillion engineers.

> Marina Towers, Dubai

At the spectacular Marina Development south of Dubai city, six luxurious towers, between 16 and 37 storeys high, are being built alongside the three-kilometre marina, which will eventually be home to a population of 80,000.

> Manchester

The new magistrates' court under construction in Manchester, is a Carillion PPP project and will comprise 18 court rooms, a coroner's court and support facilities for 180 staff.

a successful track record. It therefore complements our well-established facilities management business, which has an extensive portfolio of public sector contracts, and strengthens our ability in the UK and overseas to deliver further growth in this sector.

In 2002 there were also a number of contract successes, including signing joint venture agreements to undertake facilities management in the Middle East and Caribbean, worth up to £500 million over 10 years, and a seven-year contract to provide non-clinical services to the North Lincolnshire and Goole Hospitals NHS Trust worth some £50 million.

Highways

Our highways maintenance business also performed well in 2002. With Highways Agency contracts for maintenance of over 20 per cent of the motorways and trunk road network in England, it continues to be a market leader in this sector. Our focus on skills and innovation to provide high-quality value for money services were key factors in two further successes in the first few weeks of 2003 – being awarded our second Managing Agent Contractor contract by the Highways Agency, a five year contract for Area 12, extendable to seven years and worth up to £140 million, and being appointed preferred bidder by

Surrey County Council for a long-term highways maintenance contract worth up to £150 million. The latter is a major success in the Local Authority market, where we are targeting long-term contracts for larger networks where we can offer high quality, competitive services.

Construction Services

Turnover
£1,125.4 million
2001: £1,335.9 million

Operating profit*
£17.1 million
2001: £22.1 million**

Margin
1.5%
2001: 1.7%

Margin before net PPP bid costs
2.5%
2001: 2.4%

Turnover reduced by 16 per cent as a result of our strategy to focus on higher added value work for long-term key customers. Well over half of this reduction is specifically due to the full-year effect of disposing of our social housing business in July 2001, downsizing of Crown House

Engineering and completing our exit from small-scale civil engineering projects. As a result of our strategy, over 80 per cent of turnover in UK building and infrastructure projects was generated from some 20 key customers. Maintaining a strong but selective construction capability, broadly at its current level, remains a key part of our strategy, as it enables us to provide integrated solutions, spanning design, construction, maintenance and operation, that maximise value for money and minimise whole-life-cost. We believe that this capability is essential to the successful delivery of PPP projects. PPP construction accounted for some 24 per cent of turnover in this segment.

Operating profit before exceptional items and goodwill reduced to £17.1 million, but margins before net PPP bid costs increased from 2.4 per cent to 2.5 per cent. As the detailed design of assets such as buildings or infrastructure, account for the majority of PPP bid costs, the greatest proportion of these costs, some £10.6 million in 2002 (2001: £9.5 million), continue to be taken in this segment.

Building

Carillion Building continues to be the UK market leader in commercial building, focused primarily on the office, retail and

* Before exceptional operating charges Enil (2001: £4.7m); and goodwill £0.1m (2001: £0.1m)
** Restated for the effects of UITF 34

> Canada

In Canada we have had a well-established business for over 30 years. Its operations include highway maintenance, building and civil engineering.

> Copenhagen

A Carillion led consortium has built a new metro in Copenhagen. The driverless, fully automated trains are carrying up to 300 passengers at such a frequency that timetables are a thing of the past.

city centre residential sectors. Our Building Developments business is similarly selective, specialising primarily in the regeneration of brown field sites and developments where risk is minimised by pre-letting or sale to occupiers in sectors where there is continuing demand.

In addition to maintaining successful relationships with a number of leading high street retailers and commercial and residential developers, new long-term contracts were secured with the Scottish Prison Service and the Ministry of Defence. The former is a framework agreement worth up to £90 million and the latter the largest PRIME contract let to date, worth around £43 million, for the reconstruction of Lucknow Barracks. Carillion Building has also made a good start to 2003, winning contracts and preferred supplier positions for over £350 million of work in the first eight weeks of the year. Therefore, with its good order book and well balanced geographical and market positions, the outlook for our building businesses remains positive.

Capital Projects

Capital Projects includes our UK civil engineering and our international businesses in Canada, the Middle East, the Caribbean, France and the Republic of Ireland.

In the UK, we remain highly selective, targeting larger projects where our skills and resources enable us to offer higher added value services. We had two projects of this kind under construction in 2002 – the £485 million M6 Toll, which we are building with three joint venture partners, and the Nottingham Express Transit (NET), a Carillion PPP project with a construction value of some £80 million. Early in 2003, we were awarded a £65 million contract by the Highways Agency to upgrade the A74 to motorway standard and complete the “missing M6 link” between Carlisle and Guardsmill. We expect an increasing number of similar opportunities in 2003 and beyond as the Government brings forward more transport schemes under its £185 billion 10-year Transport Plan.

Our International Regions have continued to make progress with their strategy, which mirrors that of our UK business, namely to grow their PPP Investments and Business Services activities alongside their selective and well-established traditional construction businesses.

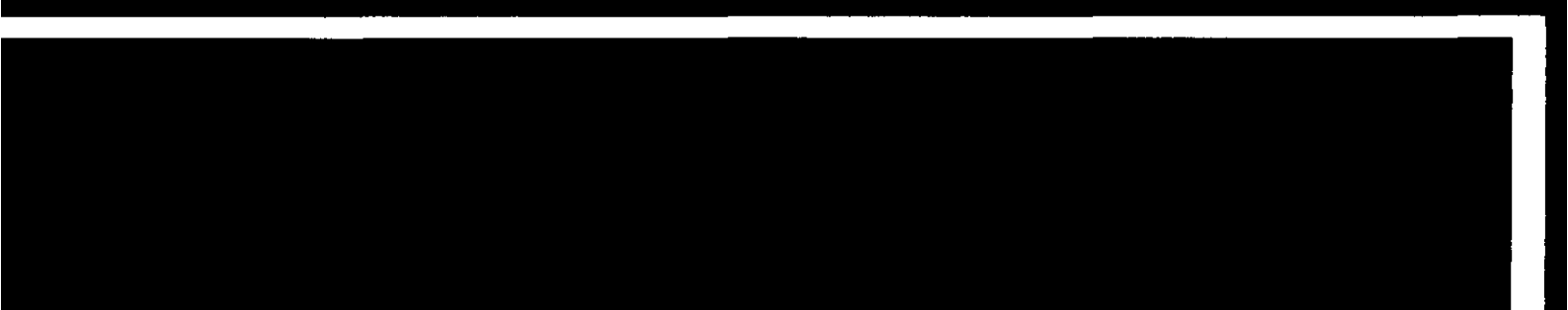
In Canada, the Government is following the UK model for PPPs and increasingly outsourcing other public services. Our joint venture highways maintenance business secured a further contract in Ontario, making it the second largest maintenance

contractor in the Province, with contracts for the maintenance of nearly 750 km of highway, worth around £34 million per annum. We are also currently shortlisted for two major PPP hospitals in Canada.

Other successes in 2002 include signing joint venture agreements for facilities management in the Middle East and Caribbean worth up to £500 million over the next 10 years and securing a prestigious three-year construction contract for the first phase of the Dubai Festival City development worth around £350 million.

Crown House

The performance of Crown House (CH), our specialist mechanical and electrical services business has continued to improve during 2002, following the strategic and operational changes begun in the second half of 2000 and fully implemented in 2001. In 2002, CH had a number of notable successes, including a 10-year framework agreement with BAA worth up to £200 million, a six-year framework with the Scottish Prison Service worth up to £30 million and its selection by BAA as a preferred supplier for the construction of Terminal 5 at Heathrow. Through the adoption of a highly selective approach to work winning CH is on course to return to overall profitability in 2003.



In hospitals and secure establishments...
On roads and railways... In offices and
universities... Wherever we operate, we strive
to improve quality of life for individuals and
communities. This commitment defines what
we do and how we do it. It means we work
with our customers, our suppliers and our
partners to provide competitive, high-quality
services. It's what we do every day.

We have a stable and effective strategy, which is delivering sustainable, profitable growth.

Whether it's project finance, buildings or infrastructure, facilities management or support services, we create teams and partnerships to deliver high-quality, competitive services for our customers.

Our well balanced geographical and market positions enable us to target growth areas while maintaining or developing our positions in other important markets.

We will continue to implement our strategy for growth, using our well balanced geographical and market positions to target four key areas: transport, health, defence and our international businesses, especially in Canada.

At the same time, we will develop our facilities management business in the UK's private sector outsourcing market, while maintaining a strong Construction Services business.

Increasingly, we will become a sector-focused business, using all our skills and resources to provide competitive, high-quality, sustainable solutions for our customers.

> Carillion

> we believe in the quality of life

Our commitment to safety, quality and innovation makes us a leading player in the UK's rail and road sectors. Currently, we maintain thousands of kilometres of railway, motorway and trunk road nationwide. We strive to develop new opportunities to enhance the UK's transport infrastructure.

We have strong positions in UK rail and road infrastructure markets. Carillion Rail maintains around 20 per cent of the UK's heavy rail network and it has an extensive portfolio of enhancement projects. For the second year running, Carillion Rail was voted best maintenance contractor in the 2002 National Rail Awards; and it recently won the 2003 Network Rail Security and Safety Award, reflecting its total commitment to safety, compliance and performance.

Carillion Highway Maintenance maintains over 20 per cent of the motorway and trunk road network in England and our Capital Projects business is a leader in major road construction, including PPP projects. Our success in these markets is due to our commitment to safety, innovation and the use of new technology to deliver high-quality, value-for-money services.

We aim to use our strong market positions to benefit from planned investment under the Government's £185-billion 10-Year Transport Plan. We will seek to increase rail volumes, particularly through adding to our portfolio of rail enhancement projects. We are also well positioned to take advantage of PPP rail projects when the Strategic Rail Authority brings them forward for tender.

In the roads market, we will be seeking to grow our maintenance business by extending the scope of our motorway and trunk road services and by securing new contracts to maintain large Local Authority road networks. We also expect more opportunities to bid for road construction projects as the Highways Agency begins to accelerate this element of the 10-Year Transport Plan.

> Transport

> we help people travel safely and more reliably

From project finance to design, construction and facilities management, our Healthcare Business is supporting the Government's efforts to improve healthcare in the UK. It's just another example of how we contribute to improving the quality of life for individuals and communities.

We are a leader in the provision of new hospitals under the UK Government's PPP programme. Our involvement encompasses project finance, construction and the provision of facilities management services. In November 2002, we successfully handed over our fifth PPP hospital – Swindon's 490-bed Great Western Hospital – on time and to budget.

In addition to providing facilities management services to PPP hospitals in which Carillion is an equity partner, we are also a leading supplier of integrated facilities management services to non-PPP hospitals and other NHS Trust properties.

We have established a new Healthcare Business – led by an experienced and highly qualified team – to develop our health sector activities.

We are seeking to develop our Healthcare business by targeting three growth markets:

- the creation of 150 Diagnostic and Treatment Centres (DTC) – worth around £3.5 billion annually – is an important new market. Having been awarded our first single DTC, we are now seeking to pre-qualify for a batch of 30 more
- the £6 billion PPP hospital programme will continue to provide growth opportunities for us. We are already shortlisted for three more PPP hospitals worth around £1.8 billion of construction, maintenance and facilities management
- the publicly funded ProCure 21 programme will continue to offer hospital construction and refurbishment opportunities, with up to 12 framework contracts worth some £1.4 billion per annum due to be let in 2003.

> Health

> we help people lead healthier lives

In the defence sector, our name is associated with some of the Government's most complex and important infrastructure projects. We are now preparing to play an even more important role in supporting our customers in this sector.

Over the years, we have carried out a number of complex, major infrastructure projects for the Ministry of Defence.

Recently, we secured the prestigious PRIME Contract for the construction and refurbishment of Lucknow Barracks, Tidworth, Wiltshire. This is our first contract under the PRIME contracting initiative and the largest PRIME contract let to date.

We are also an established supplier of property management services to the Ministry of Defence at numerous locations in the UK.

We have created a Defence Business Unit to develop our activities in this sector.

We are seeking to develop our Defence business by targeting three growth markets:

- the MoD has begun an extensive programme of outsourcing worth over £6 billion following the Defence Training Review. Carillion has recently pre-qualified with two partners to tender for contracts to provide non-military training that will arise as a result of this review
- the PPP programme will continue to offer long-term concessions, worth around £20 billion, including construction, maintenance and facilities management. We are currently shortlisted by the MoD for the Permanent Joint Headquarters, Northwood
- the PRIME Contracting programme, worth around £5 billion over seven years, involves a series of major design, construction and maintenance contracts, involving the use of whole-life cost models.

> Defence

> we are working to support a secure future

From Canada to the Caribbean, from Europe to the Middle East... We already have established businesses to provide services that touch the lives of people and communities in these international regions. Now we are seeking to raise our profile and grow these businesses by fostering long-term relationships with key customers.

> International

> we are determined to build a better world



We have well established businesses in Canada, the Middle East, the Caribbean, France and the Republic of Ireland. Our strategy in our International Regions mirrors our UK strategy: to develop Business Services and PPP Investment activities alongside a strong construction capability.

For example, in 2002 we established joint ventures in the Middle East and Caribbean to provide facilities management services potentially worth up to £500 million over ten years. In Canada, we have developed a substantial highway maintenance business, now responsible for maintaining around 750 km of highway in Ontario; and we are bidding for two major PPP hospitals. In the Republic of Ireland we are bidding for a privately financed toll road.

We will continue to seek opportunities to export our Business Services and PPP Investment skills to all our International Regions; and to develop our construction businesses by continuing to build relationships with long-term, key customers.

Canada, in particular, offers significant potential for growing Business Services and PPP Investments, as the Canadian Government is pursuing similar policies on outsourcing to those of the UK Government. We, therefore, expect further opportunities in the PPP hospital market and also in highway maintenance, where tendering opportunities for contracts worth over £1 billion are expected in 2003.

The progress we have made in the past 12 months towards developing a more sustainable business is summarised here. You can find out more from our detailed Sustainability Report 2002, which is published on our website:

www.carillionplc.com/sustainability

Being ranked in the top quintile of the 122 companies surveyed by Business in the Community in its first Corporate Social Responsibility Index, puts Carillion amongst those companies leading the way on socially responsible behaviour.

Introduction

We believe that our sector-leading sustainability performance differentiates us from our competitors.

We therefore remain committed to implementing the principles of Sustainable Development in our business. Providing more sustainable solutions for our customers benefits all our stakeholders, because improving the environmental and social aspects of our performance plays an important part in helping us to deliver our corporate business and financial objectives. We have continued to develop and refine the model first published in our 2001 Sustainability Report that links our sustainability objectives to our strategic business objectives. This is helping us to establish the business case for Sustainable Development. During 2002, we were especially pleased to be invited by Business in the Community to help some of its other members develop similar models for their businesses.

This is the third year in which we have reported our sustainability performance against published targets, having previously published five annual reports on our environmental performance. The summary reported here is supported by two more detailed reports – our 2002 Sustainability Review and our full Sustainability Report, both of which can be found on our website.

Sustainability policy

Carillion provides sustainable solutions for the way we live. We will achieve this by

Sharing our vision and policy with all

Turning our vision into reality by embedding sustainability into everything we do

Measuring and verifying our progress

Promoting our vision as an instrument of change

Our Sustainability Committee continues to be chaired by Sir Neville Simms, Carillion's Chairman. Membership of this committee includes Roger Robinson, the executive board director whose responsibilities include sustainability and other members of Carillion's senior management team. Independent external perspectives are provided by two special advisers, Jonathon Porritt and David Cowans, both of whom are recognised experts in sustainability. Jonathon Porritt is Chairman of the UK Government's Sustainable Development Commission and a Director of the sustainability charity, Forum for the Future. David Cowans, who we were pleased to welcome to our Sustainability Committee in 2002, is the Chief Executive of the housing association Places for People.

Health and safety continues to be a key priority for the Carillion Board and is therefore an important aspect of our sustainability programme. The Board is supported by the Group Safety Committee, which is chaired by Roger Robinson, our executive board director with responsibility for health and safety, and its membership includes the Managing Directors of Carillion's individual businesses and other senior staff.

We continue to use the Government's four objectives for sustainability to help us identify our most important sustainability impacts. These, together

with our key impacts and sustainability policy are summarised on pages 22 and 23 respectively.

2002 Performance

For 2002, we set six corporate sustainability objectives, supported by 14 sustainability targets, all of which relate directly to the Government's objectives for sustainability. We succeeded in meeting eight of our targets in full and scored 80 per cent or better in respect of the other six targets. The average target achievement was 93 per cent compared with 89 per cent in 2001.

The chart below shows our performance against our targets, which have been externally assessed and verified by Casella Stanger.

In addition to our corporate objectives and targets, each of our individual businesses have specific targets, thus ensuring that the principles of Sustainable Development are pursued across the Group and at all levels of activity and decision making.

2002 Highlights

- 57% of sustainability targets were fully achieved, with the remaining targets all scoring 80% or more
- By implementing our Green Transport Plan, our average business miles per car reduced by 15% in 2002
- Our head office energy consumption was reduced by approximately 5%
- 2,327 formal training days were provided to staff at our training resource 'Learning Works'

- 10 of our key suppliers attended a one-day sustainability workshop
- Over 1% of our profits were donated (in cash or in kind) to community or environmental initiatives
- Over 1.1 million accident free hours at The Great Western Hospital, Swindon
- We received seven RoSPA awards, including the President's Award and our GCHQ site won the British Safety Council Sword of Honour
- We developed and delivered 16 new sustainability 'toolbox talks' bringing the total to 30
- Carillion Services helped Colchester General Hospital to reduce their water bills from £2,500 to £120 per month by correcting inefficiencies in water distribution pipework

Supporting People and Communities

Our objective is to attract, develop and retain excellent people, to become an employer of choice. In a knowledge-based business our people are the differentiator and the key to success. Our core values support a culture that aims to build trust with our customers and suppliers, works to develop strong relationships with the communities in which we work and seeks to improve quality of life for our people and their families. Our 'Values Award' recognises the contributions made by our people who have 'gone the extra mile' in demonstrating their commitment to living up to our core values. In 2002, 321 awards were made.

During 2002 we provided 2,327 training days to staff through our dedicated shared learning resource Learning Works. In addition, project staff received training via inductions, toolbox talks, monthly health, safety and environment briefings and monthly Carillion Team Briefings.

We have initiated a review of our community links and policies and have developed a Stakeholder Map, which has enabled us, at both corporate and contract level, to identify the people affected by our activities or who may have an interest in them. The maps generated will be developed and implemented throughout 2003 to bring a more focused and positive approach to our community actions. This approach and the links created will also help our people to understand community issues and encourage our community stakeholders to express their views.

"Those organisations that can demonstrate clearly their contribution to and membership of broader society will prosper in the future."
David Cowans who joined our Sustainability Committee in 2002.

Business in the Community, an organisation committed to improving the positive impact of business on society, has helped several of our projects focus their community involvement where it is most needed. Some examples are shown below.

Carillion project staff helped to improve the reading skills of pupils from the St Thomas More Primary School, Cheltenham as part of the Business in the Community 'time to read' paired programme.

In order to broaden the pupils' experience as well as improve their reading skills, the pupils were invited to visit a Carillion project. 25 pupils visited the GCHQ site in Cheltenham for a lesson on site safety. "The children really enjoy the reading sessions and being allowed to come here is bound to broaden their outlook on life." Head Teacher Sarah Whittick.

As part of Carillion's Graduate induction programme a team of 70 of Carillion's graduates helped to refurbish St. Chad's Community Centre, in Wolverhampton. The project was organised by Business in the Community. The graduates repainted the sports hall, repaired fencing and piping, and cleared overgrown vegetation and litter. This exercise also gave our graduates a basic introduction to risk assessment and safety management.

To quote one of the graduates:
"It's inspiring that people make this commitment and work hard for the well being of local people and their surroundings."

Health and safety

Whilst our prime concern is the safety and well-being of all our employees and everyone affected by our activities, Carillion also recognises that first class health and safety standards are an essential element of our strategy for sustainable profitable growth.

Our health and safety policy is determined by the Board. The prime aim of our policy is to embed a strong health and safety culture into all our people at every level. Delivery of our policy is underpinned by specific and measurable

targets geared to delivering continuous performance improvement.

Our Business Groups are implementing Integrated Management Systems based on ISO 9000 and ISO 14000 (Environment), which integrate health and safety into each and every aspect of our activities. Our management systems are designed to be compliant with OHSAS 18001, which Carillion Building has achieved.

We work closely with industry bodies, the health and safety Executive and Government and share information and good practice. We fully support, and are working towards, meeting the challenges set out in the Government's 'Revitalising health and safety' report (June 2000) in conjunction with members of the Major Contractors Group.

Understanding how, through better design, we can influence construction, procurement and maintenance processes throughout the life of our involvement in projects, offers major opportunities to eliminate potential health and safety hazards. Early involvement and intervention is a fundamental part of our strategy and our "Safety By Design" campaign enables us to use our expertise to achieve cost effective designs that deal with Health and Safety issues at the earliest stage to eliminate or mitigate risks.

An increasing recognition of the importance of work-related health across all business sectors is redressing an historical imbalance by increasing the emphasis placed on this aspect of health and safety. A recognition of the importance of work related ill health must be an integral part of any policy that seeks to develop a successful and more sustainable business. We have therefore implemented programmes to increase awareness and improve control to avoid potential hazards and have started health screening programmes.

The effectiveness of any Health and Safety policy also depends upon the culture and behaviour of our employees, which can affect their willingness to follow agreed procedures and use the equipment supplied to best effect. We have therefore embarked upon a number of behavioural initiatives with the aid of external consultants, aimed at encouraging everyone we employ, control or influence to be more aware of health and safety. For example, our 'think safe' and 'don't walk by' campaigns drive home the message that everyone must consider the health and safety implications of not

only their own actions, but those of anyone they see who may be putting themselves or others at risk. Seeking feedback and listening to our employees is also an important part of all the initiatives we take.

Our contribution to improving Health and Safety has been recognised by the industries in which we operate. Our successes in 2001 in the Working Well Together Campaign (WWTC) and in winning the Contract Journal Silver Helmet award has been followed in 2002 with seven RoSPA Awards, including the prestigious President's Award. We also received a Highly Commended Award at WWTC and our New Accommodation Project for GCHQ, Cheltenham, won the British Safety Council Sword of Honour. Carillion Rail also won a number of awards, including RoSPA Gold and British Safety Council Awards.

More detailed information on our 2002 health and safety performance can be found in our Sustainability Report which is accessible on our website.

Our H&S Agenda for 2003 focuses on the following four issues:

- 1) Raising the profile of Health and producing good advice on preventing poor health due to work activities.
- 2) Engaging designers in our Safety By Design campaign and producing practical good practice guidance. (This is the HSE's top priority for the construction industry).
- 3) Improving our accident investigation techniques to get to the true root causes to enable preventative measures to be put into place.
- 4) Continuing with campaigns to ensure that agreed method statements and good practice becomes embedded in the behaviour and culture of people under our control.

Prince Albert School and Carillion plc Partnership

Carillion assisted pupils at Prince Albert School, in Birmingham, to develop ideas for the redevelopment of derelict land near the school into a multi-purpose community building.

Pupils were asked to develop a plan for the project which included:

- a cost breakdown (budget £5,000,000)
- basic floor design
- a scale model

To learn about the practical aspects of construction, the pupils visited Birmingham Business Site where they helped the project team to build a wall. During their visit the children learnt about health and safety, building materials and completed a drawing exercise. At the end of the project the teams presented their plan and models to a panel of judges, comprising staff from the school and Carillion, who awarded a prize for the best performance.

Supporting the Environment

Our activities have wide-ranging effects on the environment and contribute to the quality of life we expect from our

built environment. Therefore, we have a major opportunity to make buildings and infrastructure more sustainable, which in turn contributes to the development of sustainable communities.

Over the past eight years we have made significant progress in terms of both understanding and improving our environmental performance against specific targets and have reported the results annually. A full report on our environmental performance in 2002 can be found in our Sustainability Report accessible on our website. Below we have highlighted a few examples of our achievements in 2002.

Resource Consumption

- Our carbon dioxide (CO₂) emissions from company car mileage reduced by 20%.
- Our head office energy consumption reduced by 5%.
- Our commitment to preventing pollution continued, with Carillion Rail replacing traditional oils and greases used to lubricate rail points with a biodegradable alternative.
- We have developed a 'Supplier Score Card' to assess and improve the performance of our key suppliers, which helps us to manage the impacts of the supply chains we use to procure products and services.

Biodiversity and Wildlife

- We continued our successful partnership with The Wildlife Trusts, with our annual donation of £25,000 being used to support five new projects, building on the four projects started when the Carillion Natural Habitats initiative was launched in 2001.
- Carillion Highway Maintenance worked with the Highways Agency to develop a Biodiversity Action Plan.

Wom Brook Water Vole Project

Staffordshire Wildlife Trust won a £4,496 grant from the Carillion Natural Habitats Fund to help protect endangered water voles within the Wom Brook in Wombourne, South Staffordshire.

Since 1996 the number of water voles in the area had decreased by 73%. The Water Vole project included restoring two ponds by utilising willow weaving to protect the eroding bank. In addition, a notice board was erected to increase public knowledge and support of the project.

Carillion staff helped the team by digging ponds and clearing the site of silt.

"We hope this project helps the survival of this endearing mammal and raises awareness among the public about wildlife." Kate Dewey, Project Co-ordinator.

"The situation is critical for rare and declining species such as the water vole. Chalk grassland and limestone pavement is also in need of urgent help. I am delighted that Carillion have awarded grants to five of our Wildlife Trusts to help us protect these threatened species and habitats." Dr Simon Lyster, Director General for The Wildlife Trusts.

Waste Management

- We have appointed a Supply Chain Category Manager with responsibility for waste and established a task force to review how we gather waste management information across the Group. This will improve our understanding of the costs and benefits of waste management and help further minimise waste.
- We have developed new waste management guidance and set more challenging targets for reducing waste in our offices and on project and contract sites.

Sustainable Design

- The Great Western Hospital, Swindon, has been designed to consume 30% less energy and emit 35% less carbon dioxide.
- We have reviewed case studies within our businesses and our industry and developed practical guidance for use on all our projects to maximise the benefits of sharing best practice.
- Two of our staff became approved BREEAM and EcoHomes Assessors (assessment methods for the environmental performance of buildings or homes) enhancing our design capability. For example, the Land Registry office complex in Plymouth was able to boost its BREEAM rating from pass to excellent with our help.

Supporting Prosperity

Carillion, together with its partners, subcontractors and suppliers, has a considerable influence on the prosperity of the people we employ and the communities in which we work and our employees live. In 2002, we have focussed our efforts on demonstrating the benefits of becoming a more sustainable business, not only to Carillion and its investors, but also to our customers and suppliers. We have completed a DTI funded project, in partnership with Forum for the Future, Casella Stanger and the Construction Industry Research and Information Association (CIRIA), in which we researched and developed a process for quantifying the environmental and social costs and benefits of adopting sustainable solutions for construction projects. This has helped us to demonstrate the business case for sustainable construction. The full project report is available on our website.

The future

Our constant challenge is to ensure that of the advances we have made, the lessons we have learnt and the innovative solutions we have developed are properly assimilated into everything we do.

We will therefore continue to develop ways in which we can enhance shareholder value by improving our social, environmental and economic performance and to quantify the business benefits of this in terms of sustainable, profitable growth.

At Group level, we have set 18 sustainability targets for 2003 which reflect the business plans and sustainability targets set for our individual businesses. Our 2003 targets also focus on deepening our understanding of those activities that will help us to demonstrate the business case for sustainability and on their implementation.

We will continue to work with our customers, partners and suppliers to help us understand how we can deliver more sustainable solutions.

2002-2003 Objectives

Supporting Communities

- Communicate and share our sustainability strategy, vision and policy and continually improve the way in which we engage with our stakeholders

Supporting the Environment

- Minimise negative impacts of our services and activities on the environment
- Reduce waste production
- Reduce energy consumption

Supporting Prosperity

- Demonstrate the business case for sustainability
- Engage our supply chain in our sustainability programme to improve the sustainability performance of our suppliers to support our own sustainability targets

Sir Neville Simms

Chairman, age 58. Sir Neville was appointed to the Board in May 1999 and is Chairman of the Sustainability Committee, the Nominations Committee and is a member of the Audit and Remuneration Committees. His career has been spent in the construction industry having originally joined Tarmac in 1970 becoming Chief Executive in 1992 and Deputy Chairman in 1994. Sir Neville is also Chairman of International Power plc and a Director of the Foundation for the Built Environment and was until May 2002, a Member of the Court of the Bank of England. He is a Chartered Engineer.

John McDonough

Chief Executive, age 51. Appointed to the Board in January 2001, John was formerly Vice President, Integrated Facilities Management, Europe, the Middle East and Africa of Johnson Controls Inc. John is also a member of the CBI's Public Services Strategy Board.

Chris Girling

Finance Director, age 49. Appointed to the Board in November 1999, Chris was previously Group Finance Director of Vosper Thornycroft Holdings plc. Chris is also a Non-Executive Director of Barlow Group Limited. He is a Chartered Accountant and has a MBA.

Roger Robinson

Executive Director, Construction Services, age 51. Appointed to the Board in May 1999. Roger has responsibility for health and safety and Sustainability matters. He is a member of the Government Taskforce on Modern Apprenticeships and is a Lieutenant Colonel in the Royal Engineers Staff and Logistics Corp. Roger is a Fellow of the Institution of Civil Engineers.

Roger Dickens

Non-Executive Director, age 55. Appointed to the Board in May 2000, Roger is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees. Roger is Chairman of iSOFT Group PLC and West Bromwich Building Society and a Director of NEC Group Limited. He is a Chartered Accountant.

Jean-Paul Parayre

Senior Non-Executive Director, age 65. Jean-Paul was appointed to the Board in May 1999 and is a member of the Audit, Remuneration and Nominations Committees. Jean-Paul is also Chairman of Vallourec S.A., a Director of Bolloré Investissement, Stena UK, Stena Line and a Supervisory Board member of Peugeot S.A.

Andrew Parrish

Non-Executive Director, age 57. Andrew joined the Board in March 2000 and is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He was previously Group Chief Executive of Senior plc and is a member of the CBI's Manufacturing Council. Andrew is a Chartered Engineer.

- 
- 1 Sir Neville Simms
 - 2 John McDonough
 - 3 Chris Girling
 - 4 Roger Robinson
 - 5 Roger Dickens CBE DL
 - 6 Jean-Paul Parayre
 - 7 Andrew Parrish

Accounting policies

During the year, the Group has adopted Financial Reporting Standard (FRS) 19 'Deferred tax'. This requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the computation of tax. Under the previous policy, timing differences were recognised on a partial provision basis.

The impact of adopting FRS 19 is set out in Note 31 to the financial statements on page 76. There is no effect on the current year, but the cumulative impact of the prior year adjustment is an increase in the deferred tax provision of £9.1 million, which has been charged to the profit and loss account reserve brought forward.

The adoption of UITF 34 issued in May 2002, has resulted in a change in accounting policy in respect of pre-contract costs. These costs are expensed as incurred until the Group is appointed as preferred bidder. Where these costs are recovered at financial close, they are initially applied against the relevant asset included in stocks. Any surplus is then treated as deferred income and released to the profit and loss account over the period of the contract to which they relate. Costs incurred post our appointment as preferred bidder are included in stocks, provided the asset recognition criteria are met. The effect of adopting UITF 34 was to reduce reported profit before tax by £1.1 million in 2002 and by £0.3 million in 2001. It had no impact on the Group's cash flows.

Full details of the Group's accounting policy for bid costs is given in Note 1 to the financial statements on page 53 and the effect of the change is set out in Note 31 on page 76.

Details of the Group's other key accounting policies can also be found in Note 1 to the financial statements on pages 51 to 53.

International Accounting Standards

In June 2002 the European Council of Ministers finalised the legislation that requires listed European Union companies to adopt International Accounting Standards (IAS) by 2005. UK accounting standards are based on similar principles to IAS but there are some differences, which may ultimately require adjustments to reported results, presentation and disclosure. The Board and the Audit

Committee continue to be informed of the latest developments in this area to ensure that the Group is at the forefront of best practice. Following a detailed review in 2002, plans are being implemented in 2003 to ensure the Group makes the transition to IAS by the 2005 deadline in a considered and co-ordinated manner.

Acquisitions and Disposals

In August 2002, the Group acquired a portfolio of facilities management contracts from Citex Management Services for £8.9 million generating goodwill of the same amount, which is being amortised over six years. This amortisation period represents the minimum period over which the Group will derive economic benefit from the acquisition.

The Group's strategy of disposing of non-core businesses has continued in 2002. The Group's joint venture company, Maxxiom, sold its hoists, accommodation and general plant business to Hewden Stuart in September 2002 for £9.0 million. The sale, together with the costs associated with exiting from the remainder of the business gave rise to a £5.0 million exceptional charge. In addition, the Group sold a number of smaller non-core businesses generating total proceeds of £0.7 million and resulting in a loss on disposal of £0.3 million.

Taxation

The effective underlying rate of tax for the Group in 2002 is 29%. This is slightly below the UK standard rate of tax due primarily to the utilisation of losses for which deferred tax assets had not previously been recognised. A full reconciliation of the Group current year tax charge is given in Note 8 to the financial statements on page 58.

Dividends

The Board is proposing a final dividend for 2002 of 3.3 pence, bringing the total dividend to 4.8 pence compared to 4.4 pence in 2001. The total dividend represents a 9 per cent increase on 2001 and is covered 3 times by profit for the financial year before exceptional items.

Cash Flow

Net cash inflow from operating activities before exceptional operating expenditure amounted to £4.6 million. This shows a reduction of £56 million compared to 2001, due to the unwinding of positive cashflow on a number of large construction contracts either completed

or nearing completion in 2002. Major items of non-operating cash expenditure included £8.9 million on the acquisition of Citex Management Services and £21.0 million of capital expenditure relating primarily to rail maintenance plant and IT equipment. Corporate tax and equity dividend payments amounted to £9.0 million and £9.3 million respectively. Overall, net cash, which excludes finance leases, reduced by £46.3 million to £5.3 million at the year end.

Treasury Policy and Risk Management

The Group has a centralised treasury function which provides a service to the corporate centre and operating businesses. Its principal functions are to manage the funding and liquidity of the Group, to reduce the risks arising from foreign exchange and interest rate exposures and the provision of contract bond and guarantee facilities. Treasury is not a profit centre and does not enter into speculative transactions but operates within a series of treasury policies agreed by the Board. Full details of the Group's financial instruments and risk management strategies are given in Note 21 to the financial statements on page 65 to 67.

In January 2002, new revolving credit facilities totalling £145 million were put in place which mature in 2005. These new facilities give the Group access to committed credit facilities totalling £168.5 million, of which £107 million remained undrawn at 31 December 2002.

Pensions

The Accounting Standards Board announced in November 2002 that the transitional arrangements of Financial Reporting Standard (FRS) 17 'Retirement benefits' have been extended. As a result, the requirements of FRS 17 will not become mandatory until accounting periods beginning on or after 1 January 2005. The second phase transitional disclosures required by FRS 17 are given in Note 30 to the financial statements on pages 74 to 76.

The disclosures required by FRS 17 indicate that the Group's various schemes had assets of £703.9 million at December 2002 compared to £881.4 million at December 2001, and a net deficit of £50.9 million compared to a net surplus of £59.2 million. Had the Group adopted the requirements of FRS 17, the pension costs charged to the profit and loss account would have been £11.9 million, £3.7 million higher than the actual charge under SSAP 24.

The reduction in investment returns over the last 18 months caused by falls in equity markets has affected the funding position of the Group's pension schemes. The Group recommenced contributions to its Staff and 'B' pension schemes in December 2002 and intends to close both schemes to new employees on 31 March 2003. An actuarial valuation of these schemes at 31 December 2002 is being undertaken. The results will be known in April 2003 and will be incorporated into the financial statements for the 2003 year end.

Public Private Partnerships (PPP) and the Private Finance Initiative

In joint venture with its partners, Carillion forms Special Purpose Companies (SPCs) to deliver PPP projects under long-term concession agreements. The length of these concessions is typically between 25 and 30 years. The Group takes equity interests in these SPCs in the form of shares and loans, with the loans being subordinated to the SPCs external borrowings. Normally the Group limits its equity interest to 50 per cent. The loan advanced to an SPC is repaid during the course of the concession and, over that period, will yield a market rate of interest. Net loan advances of £2.5 million were made to SPCs during the year, bringing the total loan advances across our portfolio of investments to £8.0 million at the year end.

Funding for PPP projects is obtained by an SPC in the form of long term bank loans or corporate bonds on a non-recourse basis to the joint venture partners and is secured on the assets of the SPC. Consequently, the Group's financial exposure to the external borrowing in a particular SPC is limited to its equity interest in that particular SPC. At 31 December 2002 the Group's share of non-recourse debt within PPP SPCs amounted to £506.4 million as disclosed in Note 14 to the financial statements on page 62. Where Carillion undertakes construction, maintenance or facilities management contracts for SPCs, trading is on an arms length basis. Details of the major transactions in the year between the Group and its SPCs are given in Note 27 to the financial statements on page 71.

The income stream generated by an SPC from the customer during the operational phase is determined by the terms of the concession agreement with deductions being made should the SPC fail to achieve predetermined performance targets. The base income stream is

determined from a sound business model, which is agreed with the customer at the inception of the project. The income stream generated enables the debt within the SPC to be fully serviced and repaid over the life of the concession as well as delivering a return to the joint venture partners.

The Group's share of the operating profit in SPCs in 2002 amounted to £12.5 million compared to £10.4 million in 2001. After taking the SPC's net interest charge into account, the Group's share of profit before tax for its 12 operational SPC entities amounted to £8.5 million compared to £7.0 million in 2001. The table below summarises the details of our PPP projects.

Performance Measurement

As well as routine business planning, budgeting and quarterly forecasts, the Group employs a number of comparative measures for assessing business unit performance. These include comparisons of long-term contract profit and cash performance

to original estimates, sector margin and net operating asset performance targets, internal rates of return on UK PPP and other investments versus the Group's weighted average cost of capital and controls over PPP bid costs by reference to expected future discounted cash flows. The primary tools in working capital management are outstanding debtor and trade creditor days.

Going Concern

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

Chris Girling
Finance Director
12 March 2003

PPP Project Portfolio 31 December 2002								
PFI/PPP project	Financial Close Date	Status	Concession period Years	Carillion equity interest £m	Carillion equity % share	Carillion's share of non-recourse off balance sheet debt £m	Accounting*	FM & Maintenance Value to Carillion £m
Roads								
M40 Motorway	1997	Operational	30	13.6	50.0	64.1	FA	175.0
A55 North Wales	1998	Operational	27	6.3	50.0	55.0	FA	—
Other Transport								
Nottingham Express Transit (NET)	2000	In construction	30	3.4	12.5	20.2	FA	—
Hospitals/Healthcare								
Derwent Hospital	1995	Operational	40	—	25.0	—	N/A	2.0
Darent Valley Hospital	1997	Operational	25	4.8	30.0	28.7	FD	158.0
Glasgow Southern General	1999	Operational	27	0.8	50.0	5.9	FD	35.0
Great Western Hospital, Swindon	1999	Operational	27	4.6	33.3	40.1	FD	168.0
Harplands Hospital	1999	Operational	29	1.2	50.0	10.0	FD	44.0
Secure accommodation								
HMP Altcourse	1995	Operational	25	1.2	50.0	42.2	FD	8.0
Medway Secure Training Centre	1997	Operational	15	1.4	50.0	4.9	FD	1.0
Rainsbrook Secure Training Centre	1998	Operational	15	0.8	50.0	3.0	FD	—
HMP Rye Hill	1999	Operational	25	1.2	50.0	24.6	FD	5.0
Manchester Magistrates Court	2001	In construction	25	0.8	33.3	11.1	FD	—
Other accommodation								
University of Greenwich	1995	Operational	30	—	100.0	—	N/A	—
New Accommodation Project (GCHQ)	2000	In construction	30	11.8	40.0	165.9	FD	49.0
University of Hertfordshire	2002	In construction	32	3.2	50.0	30.7	FD	55.0
				55.1		506.4		700.0

*FA: Fixed Asset; FD: Finance Debtor

General principles

The Board is firmly committed to high standards of corporate governance. The provisions of the Combined Code, as adopted by the UK Listing Authority, have been applied by the Company as detailed below and in the Remuneration Report.

During the year to 31 December 2002, the Company complied with the provisions set out in Section 1 of the Combined Code other than in respect of the duration of two of the Executive Directors' service contracts. In accordance with the Combined Code, the Chief Executive's service contract is terminable by one year's notice. The service contracts of Chris Girling and Roger Robinson however are terminable in normal circumstances by two years' notice in recognition of the long term nature of many of the Group's project-related activities.

A detailed internal review of the Board's procedures and effectiveness was conducted during the year by the Chairman in conjunction with the Company Secretary. The review took into account the views and preferences of each of the Directors and identified a number of areas where it was possible further to enhance the effectiveness of the Board's procedures and working practices. Changes were successfully introduced in those areas, and it is the Board's intention to repeat the review annually.

Directors

The Board

The Company is headed by a Board comprising three Executive and four Non-Executive Directors. Throughout 2002, the Chairman and the Non-Executive Directors comprised more than half of the Board and this continues to be the case. With the exception of the Chairman, who previously was Group Chief Executive, each of the Non-Executive Directors is considered to be independent of management. They each have wide areas of experience and have no business or other relationship that could materially interfere with their independent judgement. Jean-Paul Parayre is the Senior Independent Non-Executive Director.

The Board has a programme of seven meetings during the year and also meets on an ad hoc basis as required. A formal schedule of matters reserved to the Board for consideration and decision is maintained and all Directors have access to the Company Secretary, who is responsible to the Board for ensuring that agreed procedures and applicable rules and regulations are observed. The appointment and removal of the Company Secretary are matters for the Board as a whole. Any Director may, in furtherance of his duties, take independent professional advice where necessary, at the expense of the Company.

The Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on other trading matters, markets, sustainability and other relevant issues. In addition, the Board reviews, determines and approves Company strategy, annual budgets and participation in major project undertakings as appropriate.

The Board has established a number of committees including the following:

The Remuneration Committee which comprises all the Non-Executive Directors is chaired by Andrew Parrish. It has a key role in reviewing and advising the Board on the appropriate remuneration for the Executive Directors of Carillion plc. Further details on remuneration issues are given on pages 35 to 41.

The Audit Committee which comprises all the Non-Executive Directors is chaired by Roger Dickens. Its terms of reference require that it meets at least three times each year and include the review of the annual and interim financial statements, consideration of the impact of changes to accounting regulations, the operating, financial and accounting policies of the Group and its statutory and other external compliance requirements. The Committee has responsibility for risk management and for the role of the internal audit function and reviews all aspects of internal audit activity. The Committee also reviews the scope and results of the external audit and its cost-effectiveness, and ensures that the internal and external audit functions are complementary. The independence and objectivity of the external auditors are monitored and their services, including non-audit services, are reviewed so as to ensure a proper balance between objectivity and value for money.

The Nominations Committee which comprises all the Non-Executive Directors is chaired by Sir Neville Simms. It considers the size and structure of, and any new appointments to, the Board.

Other Board Matters

Policy on external appointments

Recognising that external appointments can broaden the knowledge of the Executive Directors, and can therefore be of benefit to the Company, Executive Directors at the discretion of the Board, are permitted to accept a limited number of such external appointments and retain the fees received for them. Chris Girling has such an appointment as a Non-Executive Director of Barlow Group Limited.

Nomination and remuneration of Directors

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

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

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

The remuneration of the Directors is dealt with in the Remuneration Report on pages 35 to 41.

Retirement of Directors by rotation

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

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

Details of the Director retiring and seeking re-election at the Annual General Meeting to be held on 14 May 2003 are given in the Report of the Directors on pages 42 and 43 respectively.

Training of Directors

Training in matters relating to the directorship of a listed company is provided for all members of the Board where appropriate.

Relations with shareholders

In addition to communicating with shareholders generally from time to time, the Executive Directors regularly meet with representatives of major shareholders in order to foster the mutual understanding of objectives.

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

The Company complies fully with the provisions of the Combined Code in respect of the notice, content of agenda and conduct of its Annual General Meetings. The Chairmen of the Remuneration and Audit Committees will be present at the Annual General Meeting on 14 May 2003 to respond to shareholders' questions.

Accountability and Audit

Internal controls

The Board is ultimately responsible for the Group's system of internal control. This responsibility includes clearly determining the control environment, which is the foundation for an effective system of internal control, and reviewing annually the effectiveness of the internal control system. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

Following publication of the Turnbull Guidance for Directors *Internal Control: Guidance for Directors on the Combined Code*, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks (both financial and non-financial) faced by the Group. This process includes joint ventures (full risk assessments prior to financial close and during contract delivery) and the overseas businesses (as part of strategic and international risk assessment procedures). The process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board and accords with the Turnbull Guidance. It is policy to bring organisations acquired within the Group's system of internal control as soon as practicable and in any event within twelve months of acquisition. For example, the operational and financial controls at GT Railway Maintenance (the remaining 51 per cent of which was acquired in September 2001 and which now forms part of Carillion Rail) have been reviewed and are considered to meet Carillion standards.

The Board has reviewed the effectiveness of the system of internal control. In particular, during 2002 the process for identifying and evaluating the significant risks affecting the business has been reviewed and updated, together with the policies and procedures by which these risks are managed.

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

- Internal Audit carries out audits to assess the adequacy and effectiveness of internal controls and reports its findings to management, the Executive Directors and the Audit Committee. The scope of this work is planned primarily to cover the key risks faced by the business, but is supplemented by cyclical reviews of core financial processes. The Audit Plan is presented to and approved by the Audit Committee annually;
- recommendations to improve the system of control are made by Internal Audit. The implementation of these recommendations is followed up and progress regularly reported to the Executive Directors and the Audit Committee;
- Internal Audit independently reviews the risk identification procedures and control processes implemented by management;
- a process of Control Risk Self-Assessment is used in the Group. This process has been reviewed and changed during 2002 to enhance the quality of information received, facilitate validation of the information and enhance the development of best practice internal control across the Group. Directors and senior managers are required to confirm annually, in writing, that risk management processes and appropriate controls are in place and are operating effectively; and
- Internal Audit advises on aspects of the design and application of internal controls in key business projects and on policy and procedure changes.

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

The Group Head of Risk (a role separated from the Head of Internal Audit in 2002) is responsible for advising on strategic risk issues across the Group and within business groups and for oversight of risk training. The Group Head of Risk is also responsible for carrying out an independent appraisal of all projects before submission to the Major Projects Committee of the Board (see below). This appraisal ensures that the differentiating factors of the Group's offer have been properly identified, so maximising the opportunities available; it also involves ensuring that all inherent and residual risks associated with the project have been properly identified and considered.

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

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

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

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Finance Director provides the Board with regular financial information, which includes key performance indicators (see Financial Review on page 30) and a summary of risk. Where areas for improvement are identified, the Board considers the recommendations made both by the Executive Directors and by the Audit Committee.

Audit independence

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

The Audit Committee meets three times a year and the KPMG Audit Director and manager are present at these meetings to ensure full communication of matters relating to the audit.

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

The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Audit Committee after discussions between the businesses and the local KPMG offices and are then referred to the Board for approval. Rotation of Audit Director's responsibilities within KPMG is required by their profession's ethical standards and is actively encouraged and has taken place.

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

- audit related services: as auditors this is the main area of work of KPMG and its associates. If any additional accounting support is required then this is considered competitively;
- tax consulting: Carillion uses KPMG and its associates in cases where they are best suited, but the Group also uses other tax consultancies. Significant pieces of tax work are evaluated competitively; and
- general and systems consulting: all significant consulting projects are put out to competitive tender. Of the consulting work that has taken place in the Group in recent years, KPMG and its associates have had only a small part.

Apart from audit fees, the Group Finance Director must approve work carried out by KPMG and its associates anywhere in the Group in excess of a predetermined threshold and part of this review is to determine that other potential providers of the services have been adequately considered.

Taken together these procedures provide the Audit Committee with adequate confidence in the independence of KPMG in their reporting on the audit of the Group.

Health and safety

A review of the Group's progress on health and safety, environmental and social performance is contained in the Sustainability Review on pages 22 to 25.

RF Tapp
Secretary
12 March 2003

Carillion plc Remuneration Report

This report has been prepared in accordance with the Combined Code.

The Board is responsible for determining policy for remuneration of the Directors of Carillion plc and key members of the senior management team. The Remuneration Committee, which comprises the four Non-Executive Directors and which is chaired by Andrew Parrish, is responsible for formulating policy and recommending to the Board the remuneration of the Executive Directors. The Board determines the fees of the Non-Executive Directors based on independent external advice.

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

Additionally, the Remuneration Committee appointed in 2001 The Monks Partnership (a business owned by PricewaterhouseCoopers LLP) to provide salary survey information and in 2002 New Bridge Street Consultants to advise on share incentive matters.

Remuneration policy

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

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

Service contracts

The Chief Executive's service contract is terminable by one year's notice from the Company. The other Executive Directors' service contracts are terminable in normal circumstances by two years' notice from the Company. Whilst the Combined Code states there is a case for reducing notice periods to one year or less, the Board's policy in this respect reflects the long term nature of many of the Group's project-related activities. Upon termination of their employment, Executive Directors of the Company have no additional entitlement to compensation for loss of their office as Directors. The service contracts contain provision for early termination.

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

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

Basic salary and other benefits

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

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

Annual performance bonus

Annual cash bonuses are reviewed each year by the Remuneration Committee, which sets performance targets geared to key financial indicators and individual performance objectives. The Executive Directors have the potential to earn annual bonuses up to a maximum of 50% of their basic salary for outstanding performance. The bonus arrangement for 2002 set a financial performance target based on earnings per share and personal performance objectives that support the strategic objectives of the Company. The maximum bonus opportunity of 50%, comprises an annual cash payment limited to 30% of salary with a deferred bonus of shares of the Company with a value of up to 20% of salary vesting after one year.

Pension benefits

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

Carillion plc

Remuneration Report continued

Directors' remuneration

The remuneration of the Directors of Carillion plc for the year ended 31 December 2002 is set out in the table below.

£000	Basic salary/fees	Annual performance bonus		Other benefits	Total 2002	Total 2001
		Cash payment	Value of deferred bonus of shares			
Executive Directors						
John McDonough	365	110	31	110	616	543
Chris Girling	235	71	18	66	390	302
Roger Robinson	240	72	18	70	400	329
Total for Executive Directors	840	253	67	246	1,406	1,174
Non-Executive Directors						
Sir Neville Simms	150	–	–	28	178	195
Roger Dickens	30	–	–	–	30	25
John-Paul Parayre	30	–	–	–	30	25
Andrew Parrish	30	–	–	–	30	25
Total for Non-Executive Directors	240	–	–	28	268	270
Total for all Directors	1,080	253	67	274	1,674	1,444

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

Included in 'Other benefits' are salary supplements in place of FURBS contributions for John McDonough of £90,132 (2001: £73,473) and Roger Robinson £12,147 (2001: £21,563).

Contributions were payable to FURBS in respect of Chris Girling of £46,906 (2001: £41,760) and Roger Robinson of £36,432 (2001: £21,824).

The total 2001 remuneration for Sir Neville Simms includes £38,000 salary and other benefits paid to him as Chief Executive in January of that year.

The total remuneration in 2001 of former Directors was £1,084,000 (including £747,000 compensation for loss of office).

Executive pensions

It is the Company's policy to offer membership of the Carillion 'B' Pension Scheme to Executive Directors and other senior employees. This scheme was operational from 1 October 1999. The scheme is a funded, Inland Revenue approved, defined benefit scheme to which members contribute 5% of pensionable earnings. The main features are:

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

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

The Carillion 'B' Pension Scheme will be closed to new entrants after 31 March 2003. Pension provision for senior managers and executives in future will be through their existing Carillion scheme (current employees) or the Carillion Pension Plan (new employees and existing employees who opt for membership). The Carillion Pension Plan is a defined contribution pension arrangement that provides members with pensions at retirement based on the accumulated value of their notional pension account within the plan.

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

Directors' pensions

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

	Accrued pension at 31.12.02 £ per annum	Increase in accrued pension over year excluding inflation £ per annum	Increase in accrued pension over year including inflation £ per annum	Transfer value of increase in accrued pension at 31.12.02 less member contributions £	Transfer value at start of year £	Transfer value at end of year £	Increase in transfer value over year after member contributions £
John McDonough	6,480	3,300	3,206	25,103	36,387	71,164	29,940
Chris Girling	10,260	3,370	3,167	19,348	73,584	102,606	24,185
Roger Robinson	40,067	3,655	2,584	15,168	436,245	461,087	20,005

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

Share incentive schemes

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

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

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

The benchmark share price against which performance will be measured is 138 pence which was the mid-market price at close of business on 31 August 1999. At 31 August 2003, Carillion's average share price over the previous six weeks must have been at least 347.5 pence for the options to be exercisable in full. If the share price does not reach 201.5 pence, the options will not be exercisable. If the share price increases in between these two prices, options will become exercisable on a pro-rata basis. A nominal fee of £1 is payable on the exercise of options.

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

At 31 December 2002, Executive Directors and senior managers held a total of 1,439,961 Investment Shares and options over 5,759,845 shares. Those options not exercised by the tenth anniversary of their grant will lapse.

Executive Share Option Schemes

Share options have been granted to certain senior managers under two Executive Share Option Schemes. The options were granted at an exercise price equal to the market value of the Company's shares at the date of grant. Executive Share Options have not been granted to participants in the Founders' Equity Plan.

Options under the Inland Revenue Approved Executive Share Option Scheme 1999 (which carries certain tax advantages for UK employees) and the Executive Share Option Scheme 1999 are exercisable normally between three and ten years after the date of grant, subject to the achievement of the performance condition. The performance condition requires that the earnings per share (before exceptional items) of Carillion over a rolling three year period must increase by a percentage that is not less than the increase in the UK Retail Prices Index over the same period, expressed as a percentage, plus four percentage points per annum. This performance condition was selected in order to provide an incentive that aligns the interests of executives with those of shareholders in growing the Company's earnings per share.

The aggregate value of options granted to an employee under the Executive Share Option Schemes cannot normally exceed their remuneration in any year although this limit can be exceeded if the Directors so determine.

At 31 December 2002, options were outstanding over 2,068,486 shares under both schemes at exercise prices ranging from 125.2 pence to 210.7 pence which may, subject to achievement of the performance condition, be exercisable for up to ten years from the date of grant.

Long Term Incentive Plan

Conditional awards under the Long Term Incentive Plan are made to the Executive Directors and key members of senior management, in recognition of the contribution that these individuals can make to the Group's success. There is no subscription price for the shares, the award of which is conditional on the Company's performance during a three year period in delivering Total Shareholder Return (TSR) against a comparator group of ten companies in the construction to services sector. The awards will vest in full only if Carillion achieves first place. If the Company's ranking is sixth, 30% of the awards will vest. If ranking is below sixth, none of the awards will vest. This performance condition was chosen in order to align the interests of Directors and senior managers with those of shareholders in growing Total Shareholder Return against comparator companies operating in similar sectors.

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

At 31 December 2002, conditional awards were outstanding over a total of 4,205,073 shares.

Conditional awards made to Executive Directors under these plans are set out in the table of share incentives on page 39. The awards represent the maximum number of shares that could be awarded to Directors under the performance periods commencing on 1 January 2000 and 1 January 2001. The monetary value of the conditional awards attributed to each Director were based on their annual basic salary at the date of award and the number of shares were calculated using the share prices of 113.3 pence and 120.3 pence, the average share prices over the last six weeks of 1999 and 2000 respectively.

Total Shareholder Return Performance Graph

The following graph shows the TSR of Carillion plc compared with the TSR of the FTSE 350 Index for the period from 30 July 1999 (the day dealings in Carillion shares commenced on the London Stock Exchange), to 31 December 2002.

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

The Sharesave Scheme

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

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

The three year options granted in November 1999 became exercisable on 1 January 2003 for a period of six months.

Proposals for Share Incentive Schemes

The Remuneration Committee has reviewed the performance conditions applying to the Executive Share Option Schemes and the Long Term Incentive Plan. As described in the Notice of the forthcoming Annual General Meeting, the Company is seeking shareholder authority to apply different performance conditions for future grants and conditional awards, which both comply with best practice and are more demanding than the current performance requirements.

Share incentives of Directors of Carillion plc

	As at 1 January 2002	Conditional awards during the year	Lapsed	At 31 December 2002	Lapsed post 31 December 2002	At 12 March 2003
Sir Neville Simms						
FEP (maximum)	987,364	–	–	987,364	–	987,364
LTIP 2000 (maximum)	308,914	–	–	308,914	308,914	Nil
John McDonough						
LTIP Agreement 2001 (maximum)	191,041	–	–	191,041	191,041	Nil
LTIP 2001 (maximum)	270,157	–	–	270,157	–	270,157
Chris Girling						
FEP (maximum)	580,804	–	–	580,804	–	580,804
LTIP 2000 (maximum)	183,142	–	–	183,142	183,142	Nil
LTIP 2001 (maximum)	187,032	–	–	187,032	–	187,032
Roger Robinson						
FEP (maximum)	609,844	–	–	609,844	–	609,844
LTIP 2000 (maximum)	191,968	–	–	191,968	191,968	Nil
LTIP 2001 (maximum)	191,188	–	–	191,188	–	191,188

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

Carillion plc Remuneration Report continued

The companies comprising the comparator group for Long Term Incentive Plan conditional awards made in January 2000 and also the Long Term Incentive Agreement with John McDonough are Amec plc, Amey plc, WS Atkins plc, Balfour Beatty plc, Jarvis plc, Kier Group plc, John Laing plc, Alfred McAlpine plc, John Mowlem plc and Taylor Woodrow plc. The same comparator group is also used for the Long Term Incentive Plan conditional awards made in 2001 and 2002 except that Interserve plc replaces John Laing plc.

In January 2003, the performance condition pertaining to the Long Term Incentive Plan conditional awards made in January 2000 was not met and these awards have now lapsed. The conditional award made to John McDonough under the Long Term Incentive Agreement also lapsed at this time. This is shown in the table on page 39.

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

	As at 1 January 2002	Granted during the year	Exercised	Lapsed	As at 31 December 2002	Exercise price	Earliest date from which exercisable	Expiry date
John McDonough								
ESOS 2001	501,930	–	–	–	501,930	129.5p	09.01.04	09.01.11
ESOS 2002	–	254,532	–	–	254,532*	210.7p	07.01.05	07.01.12
Roger Robinson								
Sharesave	2,699	–	–	–	2,699	109.1p	01.01.03	30.06.03

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

*The option over 254,532 shares at an option price of 210.7 pence granted to John McDonough in March 2002 under the Executive Share Option Scheme 1999 was made later in the year than had been specified at the time of his appointment which resulted in an increased option price of 67.3 pence. Therefore, in order to ensure that he will be in neither a worse nor better position as a result of the delay in the grant, a maximum cash adjustment of 67.3 pence per share (less tax) will be made when and if the option is exercised.

Other than as shown in the tables above and the exercise by Roger Robinson of his Sharesave option over 2,699 shares in February 2003, there have been no changes to the interests of Executive Directors in share incentives and options in the period 1 January to 12 March 2003.

Employee Benefit Trusts

An employee benefit trust has been established to acquire shares in Carillion plc and hold them for the benefit of participants in the Founders' Equity Plan and the Long Term Incentive Plan. At 31 December 2001 and 2002, the Trust had acquired 4,736,226 Carillion shares (2.2% of the issued share capital and a nominal value of £2.4m) in the open market for a consideration of £6.0m. The market value of the shares held at 31 December 2002 was £5.3m (2001: £6.6m).

Additionally, a Qualifying Employee Share Ownership Trust (QUEST) operates in conjunction with Carillion in providing shares to employees under its Sharesave Scheme. At 31 December 2002, the QUEST held 1,753,411 Carillion shares (0.8% of the issued share capital and a nominal value of £0.9m) at subscription prices of 117.5 pence and 115.5 pence per share, to enable it to satisfy, as and when required, options granted under the Sharesave Scheme. The market value of the shares held by the QUEST at 31 December 2002 was £1.9m (2001: £2.2m).

For details of dividends paid to the above trusts see Notes 15 and 24 to the financial statements on pages 62 and 69 respectively.

Directors' share interests**Ordinary shares**

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

Fully paid 50p ordinary shares owned:	As at	As at
	1 January 2002	31 December 2002
Executive Directors		
John McDonough	200,000	374,976
Chris Girling	145,201	145,201*
Roger Robinson	175,078	175,078*
Non-Executive Directors		
Sir Neville Simms	427,041	427,041*
Roger Dickens	22,043	22,043
Jean-Paul Parayre	153,349	153,349
Andrew Parrish	10,101	26,029

*Including all Investment Shares acquired under the Founders' Equity Plan.

On 21 February 2003, Roger Robinson acquired 2,699 shares pursuant to the exercise of his Sharesave option granted in 1999. With this exception, there has been no change in Directors' interests in the period 1 January to 12 March 2003.

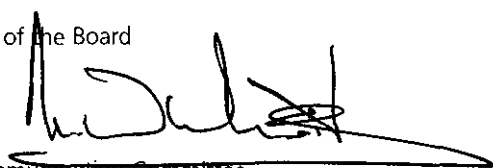
The closing mid-market price of Carillion shares at 31 December 2002 and the highest and lowest mid-market prices during the year were as follows:

	Share price
31 December 2002	111.5 pence
High	227 pence (29 April 2002)
Low	107 pence (12 December 2002)

Approved by order of the Board

Andrew Parrish

Chairman of the Remuneration Committee
12 March 2003



Carillion plc Report of the Directors

The Directors of Carillion plc present their annual report, together with the audited financial statements for the year ended 31 December 2002.

Principal Activities and Business Review

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

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

Analyses of turnover, results and net assets by business segment and geographical location are given in Note 2 on pages 54 and 55.

Profits and Dividends

The consolidated profit and loss account is shown on page 46. The profit on ordinary activities before taxation amounted to £42.2m (2001 as restated: £34.7m). An interim dividend of 1.5 pence per ordinary share (2001: 1.38 pence) was paid in November 2002 and it is proposed to pay a final dividend of 3.3 pence per ordinary share (2001: 3.02 pence) on 27 June 2003 to shareholders on the register at the close of business on 2 May 2003. The payment of these ordinary dividends amounts to £9.9m (2001: £8.9m).

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

Directors

The Directors of the Company who served during 2002 are shown on page 36 of the Remuneration Report. Biographical details for each Director at 31 December 2002 are given on page 26.

In accordance with the Articles of Association, Roger Robinson retires by rotation and, being eligible, offers himself for re-election. Roger has a contract of service that is subject to two year's notice of termination by the Company.

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration Report on page 41.

Employees

Information relating to employee numbers and remuneration is given in Note 6 on page 57.

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

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

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

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

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

Carillion seeks to involve all employees in its leading-edge programmes to integrate safety into everything it does and to improve its environmental performance, including the understanding and application of the principles of sustainability. Further information on Health and Safety, the Environment and Community is given in the Sustainability Review on pages 22 to 25.

Substantial Share Interests

At 12 March 2003, the Company had received formal notification of the following substantial interests in the ordinary share capital of the Company:

	Number of shares held	Percentage
Schroder Investment Management Limited and its affiliated companies	40,649,662	19.09
Fidelity International Limited and its direct and indirect subsidiaries	31,415,447	14.75
Zurich Financial Services and its Group	8,264,857	3.88
Legal & General Group Plc	6,652,559	3.12

Policy for Payment of Suppliers

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

The number of days credit outstanding for the Group's principal trading subsidiaries averaged 64 days at 31 December 2002 (73 days at 31 December 2001).

Charitable and Political Contributions

Payments for charitable purposes made by the Group during the year ended 31 December 2002 amounted to £96,000 (2001: £123,000). The Company and its subsidiaries made no political donations during the period under review.

Annual General Meeting

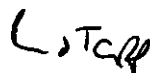
The notice of and related information on the Company's Annual General Meeting to be held on 14 May 2003 is included in separate documents posted to shareholders with this Annual Report and Accounts.

Amongst the business to be transacted is a proposal to renew the authority for the Company to purchase its own shares. As at 31 December 2002, the Company had authority from shareholders for the purchase of 21,272,463 of its own shares.

Auditors

Resolutions to reappoint KPMG Audit Plc as auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Approved by order of the Board



RF Tapp
Secretary
12 March 2003

Carillion plc
Statement of Directors' Responsibilities

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

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

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

Independent Auditors' Report to the members of Carillion plc

We have audited the financial statements on pages 46 to 76. We have also audited the information in the Directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report and the Directors' remuneration report. As described on page 44, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on page 31 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.


KPMG Audit Plc
Chartered Accountants
Registered Auditor

12 March 2003
Birmingham

Carillion plc
**Consolidated Profit and
Loss Account**
for the year ended 31 December 2002

		2002			2001		
	Note	Before exceptional items £m	Exceptional items (see Note 3) £m	Total £m	Before exceptional items as restated (see Note 31) £m	Exceptional items (see Note 3) £m	Total as restated (see Note 31) £m
Total turnover	2	1,974.4	–	1,974.4	1,889.8	–	1,889.8
Less: share of joint ventures' turnover	2	(127.1)	–	(127.1)	(191.0)	–	(191.0)
Group turnover		1,847.3	–	1,847.3	1,698.8	–	1,698.8
Cost of sales		(1,660.1)	–	(1,660.1)	(1,556.7)	–	(1,556.7)
Gross profit		187.2	–	187.2	142.1	–	142.1
Administrative expenses		(149.4)	–	(149.4)	(115.1)	(8.9)	(124.0)
Group operating profit		37.8	–	37.8	27.0	(8.9)	18.1
Share of operating profit in joint ventures	2	14.3	–	14.3	21.1	(1.2)	19.9
Total operating profit	2	52.1	–	52.1	48.1	(10.1)	38.0
Loss on sale of businesses	3						
Group		–	(0.3)	(0.3)	–	–	–
Joint ventures		–	(5.0)	(5.0)	–	–	–
		–	(5.3)	(5.3)	–	–	–
Profit on ordinary activities before interest	2	52.1	(5.3)	46.8	48.1	(10.1)	38.0
Net interest receivable/(payable)							
Group	4	0.6	–	0.6	0.3	–	0.3
Joint ventures	4	(5.2)	–	(5.2)	(3.6)	–	(3.6)
		(4.6)	–	(4.6)	(3.3)	–	(3.3)
Profit on ordinary activities before taxation	5	47.5	(5.3)	42.2	44.8	(10.1)	34.7
Tax on profit on ordinary activities	8	(13.8)	0.9	(12.9)	(13.4)	3.3	(10.1)
Profit on ordinary activities after taxation		33.7	(4.4)	29.3	31.4	(6.8)	24.6
Equity minority interests		(2.1)	–	(2.1)	(3.1)	–	(3.1)
Profit for the financial year		31.6	(4.4)	27.2	28.3	(6.8)	21.5
Equity dividends	10	(9.9)	–	(9.9)	(8.9)	–	(8.9)
Retained profit for the Group and its share of joint ventures	24	21.7	(4.4)	17.3	19.4	(6.8)	12.6
Earnings per ordinary share	11						
Basic		15.3p	(2.1p)	13.2p	13.8p	(3.3p)	10.5p
Diluted		15.1p	(2.1p)	13.0p	13.7p	(3.3p)	10.4p
Basic before all exceptional items and goodwill amortisation		16.6p			14.0p		
Dividends per ordinary share	10			4.8p			4.4p

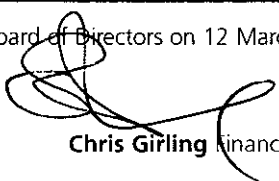
The results for the current and preceding years are wholly derived from continuing operations.

Carillion plc
Consolidated Balance Sheet

	Note	At 31 December 2002 £m	At 31 December 2001 as restated (see Note 31) £m
Fixed assets			
Intangible assets	12	49.0	42.8
Tangible assets	13	56.9	53.0
Investments in joint ventures:	14		
Share of gross assets		646.1	572.0
Share of gross liabilities		(593.1)	(516.7)
		53.0	55.3
Loan advances		8.0	5.5
		61.0	60.8
Other investments	15	6.1	2.7
Total investments		67.1	63.5
		173.0	159.3
Current assets			
Stocks	16	43.7	53.7
Debtors	17	523.6	572.2
Investments	18	8.2	9.4
Cash at bank and in hand		85.1	94.5
		660.6	729.8
Creditors: amounts falling due within one year	19		
Borrowings		(20.4)	(45.2)
Other creditors		(574.9)	(680.0)
		(595.3)	(725.2)
Net current assets/(liabilities)			
Due within one year		42.3	(26.6)
Debtors due after more than one year	17	23.0	31.2
		65.3	4.6
Total assets less current liabilities		238.3	163.9
Creditors: amounts falling due after more than one year	20		
Borrowings		(66.8)	(4.6)
Other creditors		(13.7)	(11.6)
		(80.5)	(16.2)
Provisions for liabilities and charges	22	(8.1)	(13.0)
Net assets		149.7	134.7
Financed by:			
Capital and reserves			
Called up share capital	23	106.5	106.3
Share premium account	24	5.5	5.3
Merger reserve	24	8.2	8.2
Profit and loss account	24	27.3	11.6
Equity shareholders' funds		147.5	131.4
Equity minority interests		2.2	3.3
		149.7	134.7

The financial statements on pages 46 to 76 were approved by the Board of Directors on 12 March 2003 and were signed on its behalf by:


John McDonough Chief Executive


Chris Girling Finance Director

Carillion plc
Company Balance Sheet

	Note	At 31 December 2002 £m	At 31 December 2001 £m
Fixed assets			
Investments in subsidiaries	14	166.3	147.4
Other investments	15	6.0	2.7
		172.3	150.1
Current assets			
Debtors	17	248.0	204.2
Cash at bank and in hand		2.9	1.2
		250.9	205.4
Creditors: amounts falling due within one year			
Borrowings		(23.4)	(40.1)
Other creditors		(191.7)	(177.0)
		(215.1)	(217.1)
Net current assets/(liabilities)			
Due within one year		33.1	(11.7)
Debtors due after more than one year	17	2.7	–
		35.8	(11.7)
Total assets less current liabilities			
		208.1	138.4
Creditors: amounts falling due after more than one year			
Borrowings	20	(64.2)	–
Net assets			
		143.9	138.4
Financed by:			
Capital and reserves			
Called up share capital	23	106.5	106.3
Share premium account	24	5.5	5.3
Profit and loss account	24	31.9	26.8
Equity shareholders' funds			
		143.9	138.4

The financial statements on pages 46 to 76 were approved by the Board of Directors on 12 March 2003 and were signed on its behalf by:



John McDonough Chief Executive



Chris Girling Finance Director

Carillion plc
**Consolidated Cash Flow
Statement**

	Note	Year ended 31 December 2002 £m	Year ended 31 December 2001 £m
Net cash inflow from operating activities	28(a)	1.1	53.8
Dividends received from joint ventures		3.8	13.8
Returns on investments and servicing of finance			
Dividend paid to minority interests		(3.2)	(0.8)
Interest paid		(5.3)	(4.5)
Finance lease charges		(0.1)	(0.2)
Interest received		5.9	5.0
Net cash outflow from returns on investments and servicing of finance		(2.7)	(0.5)
Corporate taxation paid		(9.0)	(2.3)
Capital expenditure and financial investment			
Payments to acquire fixed assets		(21.0)	(18.1)
Sale of/(payments to acquire) current asset investments		0.9	(1.4)
Payments to acquire fixed asset investments		(0.1)	(0.3)
Purchase of own shares by ESOP		—	(3.0)
Sale of tangible fixed assets		4.8	6.9
Net cash outflow from capital expenditure and financial investment		(15.4)	(15.9)
Acquisitions and disposals			
Purchase of business	29(a)	(8.9)	(31.3)
Sale of businesses	29(b)	0.3	5.1
Equity investment in joint ventures	29(a)	(0.1)	(17.6)
Loan (advances to)/repayments by joint ventures		(2.5)	2.6
Net cash outflow from acquisitions and disposals		(11.2)	(41.2)
Equity dividends paid		(9.3)	(5.3)
Net cash (outflow)/inflow before management of liquid resources and financing		(42.7)	2.4
Management of liquid resources			
(Increase)/decrease in short term deposits		(10.6)	4.2
Net cash (outflow)/inflow from management of liquid resources	28(c)	(10.6)	4.2
Financing			
Drawdown of debt	28(c)	45.0	—
Repayment of finance leases	28(c)	(2.5)	(1.9)
Issue of share capital		0.4	—
Net cash inflow/(outflow) from financing		42.9	(1.9)
(Decrease)/increase in cash in the year	28(c)	(10.4)	4.7

Carillion plc
**Consolidated Statement
of Total Recognised Gains
and Losses**

	2002 £m	2001 as restated (see Note 31) £m
Profit for the financial year		
Group	25.0	10.6
Joint ventures	2.2	10.9
	27.2	21.5
Exchange movements	(1.4)	0.5
Total recognised gains and losses for the year	25.8	22.0
Prior year adjustments (see Note 31)	(11.9)	
Total recognised gains and losses since previous year's financial statements	13.9	

Reconciliation of Movements in Consolidated Equity Shareholders' Funds

	2002 £m	2001 as restated (see Note 31) £m
Profit for the financial year		
Group	25.0	10.6
Joint ventures	2.2	10.9
	27.2	21.5
Equity dividends	(9.9)	(8.9)
Retained profit for the Group and its share of joint ventures	17.3	12.6
Exchange movements	(1.4)	0.5
New share capital subscribed by QUEST	0.2	—
Other new share capital issued	0.2	—
Transfer arising on issue of shares to QUEST	(0.2)	—
Scrip dividend alternative	—	3.3
Net addition to equity shareholders' funds	16.1	16.4
Opening equity shareholders' funds as restated (see below)	131.4	115.0
Closing equity shareholders' funds	147.5	131.4
Opening equity shareholders' funds as previously reported	143.3	127.7
Prior year adjustments (see Note 31)	(11.9)	(12.7)
Opening equity shareholders' funds as restated	131.4	115.0

1. Principal accounting policies

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

During the year, the Group adopted Financial Reporting Standard (FRS) 19 'Deferred tax' and Urgent Issues Task Force (UITF) abstract 34 'Pre-contract costs'. The impact of the changes in accounting policies on the current and preceding years' financial statements arising from the adoption of FRS 19 and UITF 34 is disclosed in Note 31.

Basis of accounting

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to 31 December 2002. Unless otherwise stated the acquisition method of accounting has been applied. Under this method acquired subsidiaries are included from the date of acquisition. Disposals are accounted for up to the date control passes to a third party.

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

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

Fixed asset investments

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

Company shares held by the Employee Share Ownership Plan (ESOP) Trust are included in both the Group and Company financial statements as a fixed asset investment until such time as the interest in the shares is transferred unconditionally to the employees. The purchase costs of the shares are charged to the profit and loss account so as to spread the costs over the relevant performance period of the plans. Costs of administering the trust are charged to the profit and loss account as incurred.

Goodwill

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets of an acquired company or business, including an interest in a joint venture, is capitalised and amortised in equal annual instalments over its useful economic life. Prior to 1 January 1998, goodwill was written off to reserves on acquisition. In accordance with the transitional provisions of FRS 10 'Goodwill and intangible assets', this treatment has continued to be applied for those years. Any such goodwill previously written off to reserves is included in the calculation of any profit or loss on disposal in respect of businesses subsequently disposed of or terminated.

1. Principal accounting policies (continued)

Long term contract balances

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

Profit recognition

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

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

Property development profits are recognised on contractual completion.

Group turnover

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

Stocks

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

Tangible fixed assets

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

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

Freehold buildings	50 years
Long leasehold land and buildings	50 years
Short leasehold land and buildings	Period of lease
Plant, machinery and vehicles	3-10 years

Leased assets

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

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

Taxation

The charge for taxation is based on the result for each year and takes into account deferred taxation, calculated in accordance with the requirements of FRS 19 'Deferred tax'. Deferred tax assets or liabilities, which arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, are calculated on a non-discounted full provision basis. This policy reflects a change from previous years, where deferred tax assets or liabilities were only recognised on a partial provision basis.

Foreign currencies

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

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

Share incentive schemes

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

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

The purchase cost of ESOP shares (see Note 15) is charged to the profit and loss account so as to spread the cost over the relevant performance period of the plans to which the trust relates. Costs of administering the trust are charged to the profit and loss account as incurred. The ESOP trust is regarded as a quasi subsidiary under FRS 5 and its assets, liabilities and results are consolidated into the financial statements of both the Company and the Group.

Pensions

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

The Group continues to follow the transitional provisions as permitted by FRS 17 'Retirement benefits' at 31 December 2002 which are disclosed in Note 30.

Bid costs

The Group has adopted UITF 34 'Pre-contract costs' which came into effect during the year. The abstract addresses the accounting treatment of pre-contract costs and represents best practice in accounting for these costs. Following adoption of the abstract, pre-contract costs are expensed as incurred until the Group is appointed preferred bidder. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is virtually certain, pre-contract costs incurred post the appointment as preferred bidder are included in stocks. Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in stocks. Any excess recoveries are carried forward as deferred income and released to profit over the period of the contract to which the pre-contract costs relate.

This policy reflects a change from previous years when the Group, once it had been selected as preferred bidder for a project and where in the opinion of the Directors the project was reasonably certain to achieve its financial close in the next twelve months, recognised the costs estimated to be refunded on completion in stocks.

Interest

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

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

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

Class of business	Total turnover		Net assets/(liabilities)	
	2002 £m	2001 £m	2002 £m	2001 as restated £m
Investments	61.6	43.9	32.2	27.6
Business services	821.7	609.3	60.9	45.9
Construction services	1,125.4	1,335.9	64.2	26.5
Internal trading	(34.3)	(99.3)	–	–
Corporate centre	–	–	(12.9)	(16.9)
Net cash	–	–	5.3	51.6
	1,974.4	1,889.8	149.7	134.7
Geographical origin				
UK	1,694.4	1,573.7	153.4	95.0
Europe	146.9	150.9	(23.7)	(23.8)
Other	133.1	165.2	14.7	11.9
Net cash	–	–	5.3	51.6
	1,974.4	1,889.8	149.7	134.7

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

Profit on ordinary activities before interest

Class of business	2002			2001		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items as restated £m	Exceptional items £m	Total as restated £m
Investments	7.8	–	7.8	5.5	–	5.5
Business services	36.4	–	36.4	29.8	(0.4)	29.4
Construction services	17.0	(5.3)	11.7	22.0	(4.7)	17.3
Corporate centre	(9.1)	–	(9.1)	(9.2)	(5.0)	(14.2)
	52.1	(5.3)	46.8	48.1	(10.1)	38.0
Geographical origin						
UK	50.1	(5.3)	44.8	40.9	(9.1)	31.8
Europe	(0.9)	–	(0.9)	1.6	(1.0)	0.6
Other	2.9	–	2.9	5.6	–	5.6
	52.1	(5.3)	46.8	48.1	(10.1)	38.0

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

Class of business	Turnover		Net assets/(liabilities)	
	2002 £m	2001 £m	2002 £m	2001 £m
Investments	60.9	43.7	38.8	33.4
Business services	0.6	108.2	–	–
Construction services	65.6	46.1	22.2	27.4
Internal trading	–	(7.0)	–	–
	127.1	191.0	61.0	60.8
Geographical origin				
UK	89.4	167.4	56.7	56.2
Europe	3.6	9.1	(2.6)	(2.3)
Other	34.1	14.5	6.9	6.9
	127.1	191.0	61.0	60.8

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

Class of business	2002			2001		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Investments	12.5	–	12.5	10.4	–	10.4
Business services	–	–	–	5.7	–	5.7
Construction services	1.8	(5.0)	(3.2)	5.0	(1.2)	3.8
	14.3	(5.0)	9.3	21.1	(1.2)	19.9
Geographical origin						
UK	13.0	(5.0)	8.0	20.1	(1.2)	18.9
Europe	–	–	–	0.3	–	0.3
Other	1.3	–	1.3	0.7	–	0.7
	14.3	(5.0)	9.3	21.1	(1.2)	19.9

3. Exceptional items

	2002		2001	
	Gross £m	Tax £m	Gross £m	Tax £m
Operating items				
Group:				
Reorganisation costs	–	–	8.9	(1.7)
Joint ventures:				
Reorganisation costs	–	–	1.2	–
	–	–	10.1	(1.7)
Non-operating items				
Group:				
Loss/(profit) on sale of businesses (see Note 29)	0.3	–	(5.3)	–
Provisions against retained contracts	–	–	5.3	(1.6)
	0.3	–	–	(1.6)
Joint ventures:				
Loss on sale of business	5.0	(0.9)	–	–
	5.3	(0.9)	10.1	(3.3)

The loss on the sale of business in joint ventures of £5.0m relates to the disposal of the hoists, accommodation and general plant business of Maxxiom Limited.

In 2002, the rate of tax on exceptional items is below the standard rate of UK corporation tax due to a deferred tax asset that has not been recognised relating to depreciation in excess of capital allowances.

4. Net interest receivable/(payable)

	2002 £m	2001 £m
Group		
Interest receivable:		
Bank interest receivable	2.0	2.7
Other interest receivable	3.9	2.1
	5.9	4.8
Interest payable and other similar charges:		
Interest payable on bank loans and overdrafts	(4.0)	(4.1)
Other interest payable and similar charges	(1.3)	(0.4)
	(5.3)	(4.5)
Net interest receivable	0.6	0.3

Other interest payable and similar charges includes finance lease charges of £0.1m (2001: £0.2m).

	2002 £m	2001 £m
Joint ventures		
Interest receivable:		
PPP projects	13.1	11.5
Other joint ventures	0.7	0.6
	13.8	12.1
Interest payable and other similar charges:		
PPP projects (net of interest capitalised)	(17.1)	(14.9)
Other joint ventures	(1.9)	(0.8)
	(19.0)	(15.7)
Net interest payable	(5.2)	(3.6)

Interest payable by joint ventures on PPP long term projects relate to non-recourse borrowings as detailed in Note 14. The Group's share of interest capitalised by joint ventures on PPP long term projects amounted to £15.3m (2001: £10.2m).

5. Profit on ordinary activities before taxation

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

	2002 £m	2001 £m
Depreciation of tangible fixed assets	14.6	12.5
Impairment of tangible fixed assets	–	3.5
Profit on sale of tangible fixed assets	(0.8)	(1.1)
Amortisation of goodwill	2.7	0.5
Amortisation of own shares	(3.3)	2.0
Operating leases:		
Hire of plant and machinery		
– Short term	24.6	30.4
– Long term	1.3	0.8
Hire of other assets	17.1	15.8
Auditor's remuneration for Group audit services	0.9	0.8

Audit fees for the parent company included in the above amounted to £24,000 (2001: £23,500). Fees paid to KPMG Audit Plc and its associates in 2002 for UK non-audit services (principally taxation advisory services, due diligence services and interim review) amounted to £0.2m (2001: £0.4m).

Fees paid to KPMG Audit Plc and its associates by Group joint venture companies in respect of audit services amounted to £0.1m (2001: £0.1m).

6. Employee numbers and payroll costs

	2002 Number	2001 Number
The average number of employees during each year including Directors was:		
Investments	39	43
Business services	9,526	6,357
Construction services	6,810	7,041
Corporate centre	584	268
	16,959	13,709
UK	13,584	10,430
Overseas	3,375	3,279
	16,959	13,709

The aggregate payroll costs during each year amounted to:

	2002 £m	2001 £m
Wages and salaries	377.9	288.7
Social security costs	44.8	35.1
Other pension costs	8.2	4.1
	430.9	327.9

As part of the Business Improvement Programme initiated in 2001, a number of employees were transferred in 2002 from the business segments to dedicated shared service functions within the corporate centre.

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

7. Directors' remuneration

Detailed information concerning Directors' remuneration, including their pension benefits and long term incentive arrangements, is set out in the Remuneration Report on pages 35 to 41.

8. Taxation

(a) Analysis of taxation charge in year

	2002 £m	2001 as restated £m
UK taxation:		
Corporation tax	9.7	2.4
Adjustment in respect of previous periods	1.3	(1.3)
Attributable taxation of joint ventures	1.9	5.4
Overseas taxation:		
Current year	1.1	0.9
Adjustment in respect of previous periods	(0.2)	0.1
Total current taxation	13.8	7.5
Deferred taxation:		
Origination and reversal of timing differences	(0.2)	0.4
Adjustment in respect of previous periods	(0.7)	2.2
Total deferred taxation	(0.9)	2.6
Total taxation on profit on ordinary activities	12.9	10.1

The tax charge for the year ended 31 December 2001 has been restated following adoption by the Group of FRS 19 'Deferred tax' and UITF 34 'Pre-contract costs' as disclosed in Note 31.

(b) Reconciliation of current taxation charge

The UK standard rate of corporation tax for the year is 30% (2001: 30%). The actual tax rate differs from the standard rate for the reasons set out below:

	2002 £m	2001 as restated £m
Profit on ordinary activities before taxation	42.2	34.7
Taxation on profit on ordinary activities at UK standard rate of corporation tax of 30% (2001: 30%)	12.7	10.4
Permanent differences	2.6	1.2
Other timing differences	(0.2)	0.4
Other timing differences not recognised	(0.7)	(2.8)
Overseas profits not taxable	(0.5)	(0.2)
Utilisation of overseas losses not previously recognised	(1.0)	0.1
Capital items not taxable	0.1	(1.2)
Amortisation of own shares	(1.0)	0.6
Amortisation of goodwill	0.7	0.2
Adjustment in respect of previous periods	1.1	(1.2)
Current taxation charge for the year	13.8	7.5

(c) Factors that may affect future tax charges

The Group has brought forward tax losses in excess of £100m which have not yet been fully agreed by the Inland Revenue. In accordance with FRS 19, a deferred tax asset, valued in excess of £30m, has not been recognised in respect of these losses due to the lack of certainty regarding quantum and timing of future years' taxable profits in the companies involved. In the event that such profits are realised this may result in the Group tax rate being lower than the standard rate of corporation tax in the UK.

The tax rate in the joint venture companies in which the Group has PPP investments is likely to be greater than the standard rate of corporation tax in the UK. This is generally due to capital expenditure not qualifying for tax relief. As the PPP element of the Group's profit before taxation increases in future years it will have the effect of increasing the Group's tax rate above the standard rate of corporation tax in the UK.

9. Profit for the financial year

In accordance with Section 230 (4) of the Companies Act 1985 the Company has taken advantage of the exemption from the requirement to present its own profit and loss account. The profit for the financial year of the Company is £15.0m (2001: £23.6m).

10. Equity dividends

	2002		2001	
	£m	Pence per share	£m	Pence per share
Equity shares				
Ordinary shares:				
Interim	3.1	1.5	2.8	1.38
Final	6.8	3.3	6.2	3.02
Dividends waived (see Note 15 and Note 24)	–	–	(0.1)	–
Total equity dividends	9.9	4.8	8.9	4.40

11. Earnings per ordinary share**(a) Basic**

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders, amounting to £27.2m (2001: £21.5m as restated), by 206,450,536 (2001: 205,485,587) ordinary shares being the weighted average number of shares in issue during the year. The weighted average number of shares excludes shares held by the Employee Share Ownership Plan (see Note 15) and the QUEST (see Note 24), which amount to 6,489,637 shares in total.

(b) Basic before all exceptional items and goodwill amortisation

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

	2002		2001	
	£m	Pence per share	£m as restated	Pence per share as restated
Profit attributable to ordinary shareholders	27.2	13.2	21.5	10.5
Exceptional items:				
Operating items	–	–	10.1	4.9
Loss/(profit) on sale of businesses	5.3	2.5	(5.3)	(2.6)
Provisions against retained contracts	–	–	5.3	2.6
Less taxation in respect of the above	(0.9)	(0.4)	(3.3)	(1.6)
Profit before all exceptional items	31.6	15.3	28.3	13.8
Amortisation of goodwill	2.7	1.3	0.5	0.2
Less taxation in respect of the above	(0.1)	–	–	–
Profit before all exceptional items and goodwill amortisation	34.2	16.6	28.8	14.0

(c) Diluted

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

	Number of ordinary shares	
	2002 million	2001 million
Number of ordinary shares per basic earnings per share calculations	206.5	205.5
Adjustments to reflect dilutive shares under option	2.1	1.3
Number of ordinary shares per diluted earnings per share calculations	208.6	206.8

12. Intangible assets

Group	Goodwill £m
Cost:	
At 1 January 2002	43.5
Addition	8.9
At 31 December 2002	52.4
Amortisation:	
At 1 January 2002	0.7
Provision for year	2.7
At 31 December 2002	3.4
Net book value:	
At 31 December 2002	49.0
At 31 December 2001	42.8

The addition to goodwill relates to the acquisition of a portfolio of contracts from Citex Management Services Limited as disclosed in Note 29. The goodwill relating to this acquisition is being amortised over six years as in the opinion of the Directors this is the minimum period over which the Group will derive economic benefit from the acquisition.

Goodwill at cost of £43.5m at 1 January 2002 relates to the acquisition of the minority interests in the Group's French subsidiaries in 1998 amounting to £1.8m and the acquisition of G T Railway Maintenance Holdings Limited in 2001 amounting to £41.7m. The goodwill arising on both acquisitions is being amortised over 20 years.

13. Tangible fixed assets

Group	Land and buildings £m	Plant, machinery and vehicles £m	Total £m
Cost or valuation:			
At 1 January 2002	21.3	46.8	68.1
Exchange rate adjustments	(0.4)	(1.5)	(1.9)
Additions	1.8	22.2	24.0
Disposals	(3.5)	(9.0)	(12.5)
At 31 December 2002	19.2	58.5	77.7
Depreciation:			
At 1 January 2002	5.2	9.9	15.1
Exchange rate adjustments	(0.3)	(1.1)	(1.4)
Provision for year	1.0	13.6	14.6
Eliminated in respect of disposals	(1.1)	(6.4)	(7.5)
At 31 December 2002	4.8	16.0	20.8
Net book value:			
At 31 December 2002	14.4	42.5	56.9
At 31 December 2001	16.1	36.9	53.0

Included in the net book value of plant, machinery and vehicles is £6.5m (2001: £5.4m) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year in respect of these assets amounted to £1.9m (2001: £0.9m).

The net book value of land and buildings comprises:

Group	2002 £m	2001 £m
Freehold	6.9	9.6
Long leasehold	4.5	3.8
Short leasehold	3.0	2.7
Net book value	14.4	16.1

The cost or valuation of land and buildings comprises:

Group	2002 £m	2001 £m
Cost	18.1	20.2
1985 valuation	1.1	1.1
	19.2	21.3

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

Freehold land held by the Group amounting to £1.0m (2001: £1.6m) has not been depreciated.

14. Investments

Group	Loans £m	Equity investments £m	Total £m
Investments in joint ventures			
Cost:			
At 1 January 2002	5.5	46.7	52.2
Equity investments (see Note 29)	–	0.1	0.1
Net loan advances	2.5	–	2.5
At 31 December 2002	8.0	46.8	54.8
Share of post acquisition results:			
At 1 January 2002		8.6	8.6
Exchange adjustments		(0.8)	(0.8)
Share of results for the year after taxation		2.2	2.2
Dividends paid		(3.8)	(3.8)
At 31 December 2002		6.2	6.2
Net book value:			
At 31 December 2002	8.0	53.0	61.0
At 31 December 2001	5.5	55.3	60.8

The Group's aggregate share of joint venture net assets is analysed on the following page. The borrowings within PPP projects totalling £506.4m (2001: £463.6m) are without recourse to the Carillion Group.

14. Investments (continued)

	PPP Projects 2002 £m	Other joint ventures 2002 £m	Total 2002 £m	PPP Projects 2001 £m	Other joint ventures 2001 £m	Total 2001 £m
Fixed assets	122.3	12.9	135.2	114.9	22.1	137.0
Cash	58.8	12.7	71.5	101.5	2.7	104.2
Other current assets	387.6	51.8	439.4	297.1	33.7	330.8
Share of gross assets	568.7	77.4	646.1	513.5	58.5	572.0
Borrowings due within one year	(22.5)	(10.9)	(33.4)	(11.3)	(0.8)	(12.1)
Other creditors due within one year	(22.0)	(41.7)	(63.7)	(15.1)	(24.8)	(39.9)
Borrowings due after one year	(483.9)	(1.2)	(485.1)	(452.3)	(0.8)	(453.1)
Other creditors due after one year	(1.1)	(1.3)	(2.4)	(0.1)	(1.8)	(1.9)
Provisions	(8.4)	(0.1)	(8.5)	(6.8)	(2.9)	(9.7)
Share of gross liabilities	(537.9)	(55.2)	(593.1)	(485.6)	(31.1)	(516.7)
	30.8	22.2	53.0	27.9	27.4	55.3
Loan advances	8.0	-	8.0	5.5	-	5.5
Share of net assets	38.8	22.2	61.0	33.4	27.4	60.8

Fixed assets and other current assets within PPP projects include cumulative capitalised interest amounting to £7.6m (2001: £6.5m) and £38.0m (2001: £23.8m) respectively.

Company	£m
Investments in subsidiaries	
Cost:	
At 1 January 2002	147.4
Transfer from Group undertakings	18.9
At 31 December 2002	166.3

The principal subsidiaries and joint ventures included within these financial statements are shown on page 78.

15. Other investments

	Other £m	Group Own shares £m	Total £m	Company Own shares £m
Cost:				
At 1 January 2002	0.5	6.0	6.5	6.0
Additions	0.1	-	0.1	-
At 31 December 2002	0.6	6.0	6.6	6.0
Provisions/amortisation:				
At 1 January 2002	0.5	3.3	3.8	3.3
Reversal of amortisation in prior years	-	(3.3)	(3.3)	(3.3)
At 31 December 2002	0.5	-	0.5	-
Net book value:				
At 31 December 2002	0.1	6.0	6.1	6.0
At 31 December 2001	-	2.7	2.7	2.7

The investment in own shares represents shares in the Company held by the Carillion Employee Share Ownership Plan (ESOP), an employee share ownership trust, which may subsequently be awarded to Executive Directors and senior employees under the Founders' Equity Plan and the Long Term Incentive Plans. Details of the plans are given in the Remuneration Report on pages 35 to 41.

At 31 December 2002 the trust held 4,736,226 (2001: 4,736,226) shares in the Company with a market value of £5.3m (2001: £6.6m). The nominal value of these shares is £2.4m (2001: £2.4m).

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

The ESOP trust is regarded as a quasi subsidiary under FRS 5 and its assets, liabilities and results are aggregated into the financial statements of both the Company and the Group.

16. Stocks

Group	2002 £m	2001 as restated £m
Raw materials:		
Land for development	0.4	0.4
Other raw materials	15.0	17.3
	15.4	17.7
Long term contract balances:		
Net cost less foreseeable losses	9.2	6.9
Work in progress	18.2	28.2
Finished goods and goods for resale	0.9	0.9
	43.7	53.7

Work in progress includes PPP bid costs amounting to £1.9m (2001 as restated: £1.8m).

17. Debtors

	Group		Company	
	2002 £m	2001 as restated £m	2002 £m	2001 £m
Amounts falling due within one year				
Trade debtors	223.7	203.2	–	–
Amounts recoverable on contracts	185.0	246.9	–	–
Amounts owed by group undertakings	–	–	244.0	201.5
Amounts owed by joint ventures	11.1	10.9	–	–
Amounts owed under joint arrangements	28.9	29.8	–	–
Other debtors	12.4	11.8	1.3	2.7
Pension prepayments	5.6	3.6	–	–
Other prepayments and accrued income	33.9	34.8	–	–
	500.6	541.0	245.3	204.2
Amounts falling due after more than one year				
Trade debtors	2.2	7.4	–	–
Amounts recoverable on contracts	7.3	10.1	–	–
Amounts owed by group undertakings	–	–	2.7	–
Amounts owed by joint ventures	0.1	–	–	–
Other debtors	1.5	0.2	–	–
Pension prepayments	11.9	13.5	–	–
	23.0	31.2	2.7	–
Total debtors	523.6	572.2	248.0	204.2

In the Company, the amounts owed by group undertakings falling due after more than one year relate to a finance lease transaction entered into with GT Railway Maintenance Limited (GTRM). Further details are disclosed in Note 20.

18. Current asset investments

Group	2002 £m	2001 £m
Listed investments	0.4	0.7
Unlisted investments	7.8	8.7
	8.2	9.4

Listed investments comprise Eurotunnel units and warrants that had a market value at 31 December 2002 of £0.4 m (2001: £0.8m).

19. Creditors: amounts falling due within one year

	Group		Company	
	2002 £m	2001 as restated £m	2002 £m	2001 £m
Bank loans and overdrafts	18.3	42.9	23.2	40.1
Net obligations due under finance leases	2.1	2.3	0.2	–
Borrowings	20.4	45.2	23.4	40.1
Payments received on account:				
Long term contracts	44.6	92.6	–	–
Other	3.5	7.8	–	–
Trade creditors	276.7	309.7	–	–
Bills of exchange payable	4.1	7.6	–	–
Amounts owed to group undertakings	–	–	184.4	170.1
Amounts owed to joint ventures	1.3	13.0	–	–
Amounts owed under joint arrangements	8.4	4.2	–	–
Corporation tax	10.0	7.1	–	–
Other taxation and social security costs	37.2	34.8	–	–
Proposed dividend	6.8	6.2	6.8	6.2
Other creditors	40.9	45.4	0.1	0.2
Accruals and deferred income	141.4	151.6	0.4	0.5
	595.3	725.2	215.1	217.1

Accruals and deferred income in respect of the Group includes £1.0m (2001 as restated: £1.3m) relating to deferred PPP bid cost recoveries.

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

	Group		Company	
	2002 £m	2001 as restated £m	2002 £m	2001 £m
Bank loans	61.5	–	61.5	–
Net obligations due under finance leases	5.3	4.6	2.7	–
Borrowings	66.8	4.6	64.2	–
Payments received on account	3.5	3.1	–	–
Trade creditors	3.4	1.5	–	–
Amounts owed under joint arrangements	0.3	0.3	–	–
Accruals and deferred income	6.5	6.7	–	–
	80.5	16.2	64.2	–

An analysis of the maturity of net obligations due under finance leases can be found in Note 21 on page 67.

Accruals and deferred income includes £2.3m (2001 as restated: £3.0m) relating to deferred PPP bid cost recoveries.

In the Company, net obligations due under finance leases relates to a financing agreement for fixed assets currently used by GTRM, a wholly owned subsidiary. The assets have been recognised in the accounts of GTRM in accordance with SSAP 21 'Accounting for leases and hire purchase contracts', together with a corresponding liability to Carillion plc. Carillion plc recognises this asset within amounts owed by Group undertakings in Note 17.

The above bank loans are repayable as follows:

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Between two and five years	61.5	–	61.5	–

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

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

21. Financial instruments and risk management

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

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

The Group's treasury department manages the main financial risks within policies and operating parameters approved by the Board. These are discussed in detail below and in the Financial Review on pages 28 to 30 and are designed to reduce the financial risks affecting the Group. The Group's treasury department does not enter into speculative financial transactions. The Group's main financial risks are funding and liquidity risk, interest rate risk and currency risk.

Funding and Liquidity

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

	2002			2001		
	Assets £m	Liabilities £m	Weighted average period until maturity of liabilities years	Assets £m	Liabilities £m	Weighted average period until maturity of liabilities years
Nil coupon:						
Sterling	2.9	9.6	1.8	7.6	5.8	1.9
Canadian dollars	5.3	0.1	1.5	7.3	0.4	1.5
Euro currencies	0.4	–	–	0.3	–	–
Other	2.6	1.7	1.5	2.6	2.4	1.5
	11.2	11.4	1.8	17.8	8.6	1.8
Floating rate:						
Sterling	50.4	50.5		55.5	17.1	
Canadian dollars	8.3	16.5		13.1	17.2	
Euro currencies	19.5	12.7		11.9	8.6	
Other	6.8	0.1		13.9	–	
	85.0	79.8		94.4	42.9	
Fixed rate:						
Sterling	–	7.1		–	6.5	
Euro currencies	–	0.2		–	0.2	
Other	–	0.1		–	0.2	
	–	7.4		–	6.9	
Total	96.2	98.6		112.2	58.4	
Summary by currency						
Sterling	53.3	67.2		63.1	29.4	
Canadian dollars	13.6	16.6		20.4	17.6	
Euro currencies	19.9	12.9		12.2	8.8	
Other	9.4	1.9		16.5	2.6	
Total	96.2	98.6		112.2	58.4	

21. Financial instruments (continued)

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

The Group's financial liabilities, which exclude short term creditors and deferred income relating to PPP bid cost recoveries, are set out above. No interest rate swaps or caps have been entered into by the Group. Floating rate financial liabilities comprise bank borrowings that bear interest based upon money market or base rate related interest rates. Fixed rate financial liabilities comprise finance lease and hire purchase contract liabilities.

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

Interest Rate Risk

The Group's debt is predominantly short term and related to working capital movements. No interest rate hedging is currently undertaken.

Currency Exposure

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

The Group's currency exposures are:

Functional currency of Group operation	Net foreign currency monetary assets/(liabilities)				Total £m
	US Dollars £m	Euro £m	Danish Kr £m	Other £m	
At 31 December 2002					
Sterling	–	0.2	1.4	1.8	3.4
Other	1.3	–	–	0.6	1.9
Total	1.3	0.2	1.4	2.4	5.3
At 31 December 2001					
Sterling	(0.1)	0.6	7.3	(1.0)	6.8
Other	7.3	–	–	–	7.3
Total	7.2	0.6	7.3	(1.0)	14.1

At 31 December 2002 the Group had forward foreign exchange contracts in place for the sale of US\$17.3m which acts as a hedge for assets denominated in currencies linked to the US dollar.

The maturity profile of the financial liabilities, other than short term creditors such as trade creditors, accruals and deferred income relating to PPP bid cost recoveries, is as follows:

	Overdrafts £m	Loans £m	Finance leases £m	Other financial liabilities £m	Group Total £m
At 31 December 2002					
More than five years	–	–	1.6	0.2	1.8
Between two and five years	–	61.5	2.2	2.6	66.3
Between one and two years	–	–	1.5	8.6	10.1
More than one year	–	61.5	5.3	11.4	78.2
Less than one year	18.3	–	2.1	–	20.4
	18.3	61.5	7.4	11.4	98.6

At 31 December 2001

Between two and five years	–	–	2.8	2.5	5.3
Between one and two years	–	–	1.8	6.1	7.9
More than one year	–	–	4.6	8.6	13.2
Less than one year	25.7	17.2	2.3	–	45.2
	25.7	17.2	6.9	8.6	58.4

In addition, there were the following undrawn facilities, with an average maturity of 1 year and 10 months in respect of which all conditions precedent had been met:

	2002 £m	2001 £m
Expiring in one year or less (but extendible by one year at the Group's option)	7.5	96.8
Expiring in one year or less (but extendible by two years at the Group's option)	16.0	43.5
Expiring between two and five years	83.5	–
	107.0	140.3

Credit Risk and Exposures

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

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

Fair Values

The book and fair values of the Group's financial instruments at 31 December 2002 and 31 December 2001 are not materially different.

22. Provisions for liabilities and charges

Group	Deferred taxation as restated £m	Other provisions £m	Total as restated £m
At 1 January 2002	7.2	5.8	13.0
Exchange rate movement	(0.5)	–	(0.5)
Transfer to profit and loss account	(0.9)	–	(0.9)
Expenditure in year	–	(3.5)	(3.5)
At 31 December 2002	5.8	2.3	8.1

Other provisions comprise property exit costs arising from the Business Improvement Programme that are expected to be utilised within 12 months.

Details relating to deferred taxation are as follows:

Liability recognised	2002 £m	2001 as restated £m
Accelerated capital allowances	0.9	0.4
Other timing differences	4.9	6.8
	5.8	7.2

23. Share capital

	2002 £m	2001 £m
Authorised		
Equity: 325,000,000 ordinary shares of 50p each	162.5	162.5
	Number million	Nominal value £m
Allotted, called up and fully paid		
At 1 January 2002	212.7	106.3
Options exercised under Sharesave scheme	0.1	0.1
New share capital subscribed by QUEST (see Note 24)	0.2	0.1
At 31 December 2002	213.0	106.5

Details of options granted to Directors and employees under the Company's share option schemes during the year are set out in the Remuneration Report on pages 35 to 41.

In respect of the Sharesave Scheme 146,599 ordinary shares of 50p were issued at various times throughout the year at the option price of 109.1p.

24. Reserves

The movements on reserves are summarised as follows:

Group	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 January 2002 (as previously reported)	5.3	8.2	23.5	37.0
Prior year adjustments (see Note 31)	–	–	(11.9)	(11.9)
At 1 January 2002 (as restated)	5.3	8.2	11.6	25.1
Exchange rate movements	–	–	(1.4)	(1.4)
Retained profit for the year	–	–	17.3	17.3
Transfer arising on issue of shares to QUEST	–	–	(0.2)	(0.2)
Premium arising on issue of shares	0.2	–	–	0.2
At 31 December 2002	5.5	8.2	27.3	41.0

At 31 December 2002 cumulative goodwill written off to the profit and loss account reserve amounted to £124.1m (2001: £124.1m). The merger reserve arose on the demerger from Tarmac plc on 29 July 1999.

On 4 December 2002 the qualifying employee share ownership trust (QUEST) subscribed for 180,646 shares in the Company at market value for a consideration of £0.2m which was funded by subsidiary undertakings. The cost of this transaction has been transferred directly to the profit and loss account reserve of the Group.

At 31 December 2002 the total number of shares held by the QUEST amounted to 1,753,411 (2001: 1,572,765) and had a market value of £1.9m (2001: £2.2m). The QUEST elected to waive all dividends in excess of 0.01 pence per share.

Company	Share premium account £m	Profit and loss account £m	Total £m
At 1 January 2002	5.3	26.8	32.1
Retained profit for the year	–	5.1	5.1
Premium arising on issue of shares	0.2	–	0.2
At 31 December 2002	5.5	31.9	37.4

25. Other guarantees and contingent liabilities

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Guarantees in respect of borrowings of subsidiaries, joint ventures and joint arrangements	–	–	9.4	7.0
Guarantees in respect of deferred equity payments in PPP joint ventures	6.7	6.3	6.7	6.3
Guarantees in respect of letters of credit issued by banks in respect of deferred equity payments in PPP joint ventures	9.8	9.8	9.8	9.8

Group

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

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

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

Company

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

26. Financial and capital commitments

	2002 £m	2001 £m
Group commitments for capital expenditure		
Contracts placed	6.0	3.9

	2002 £m	2001 £m
Group commitments for investments		
Equity and subordinated debt in PPP joint ventures	16.5	16.1

	2002		2001	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group annual commitments under non-cancellable operating leases				
Annual commitments expiring:				
Within one year	1.8	2.7	1.0	2.1
In second to fifth year inclusive	2.1	11.0	2.6	9.7
Over five years	3.1	–	5.3	–
	7.0	13.7	8.9	11.8

27. Related parties

Group joint ventures

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

	2002 £m	2001 £m
Sales to Group joint ventures		
PPP Projects		
Accommodation Services (Holdings) Limited	125.5	123.0
Ellenbrook Holdings Limited	42.5	–
The Hospital Company (Swindon & Marlborough) Holdings Limited	15.7	41.9
Others	26.6	42.5
	210.3	207.4
Other joint ventures	2.9	7.1
	213.2	214.5
Purchases from Group joint ventures	1.1	7.0

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

28. Cash flow notes

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

	2002 £m	2001 as restated £m
Group operating profit before exceptional items	37.8	27.0
Depreciation	14.6	12.5
Impairment of tangible fixed assets	–	3.5
Profit on disposal of fixed assets	(0.8)	(1.1)
Decrease in market value of listed current asset investments	0.3	–
Amortisation of goodwill	2.7	0.5
Amortisation of own shares	(3.3)	2.0
Provision against other fixed asset investments	–	0.5
Decrease/(increase) in stocks	9.7	(0.4)
Decrease/(increase) in debtors	41.9	(11.1)
(Decrease)/increase in creditors due within one year	(96.9)	25.8
Increase in creditors due after more than one year	2.1	0.8
(Decrease)/increase in bills of exchange	(3.5)	0.6
Net cash inflow from operating activities before exceptional items	4.6	60.6
Exceptional operating cash spend	(3.5)	(6.8)
Net cash inflow from operating activities	1.1	53.8

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

	As at 1 January 2002 £m	Cash flows £m	Exchange rate movements £m	Other non-cash movements £m	As at 31 December 2002 £m
Cash at bank and in hand	74.1	(18.4)	(1.1)	–	54.6
Bank overdrafts	(25.7)	8.0	(0.6)	–	(18.3)
	48.4	(10.4)	(1.7)	–	36.3
Short term deposits	20.4	10.6	(0.5)	–	30.5
Bank loans	(17.2)	(45.0)	0.7	–	(61.5)
Finance leases	(6.9)	2.5	–	(3.0)	(7.4)
Net funds/(debt)	44.7	(42.3)	(1.5)	(3.0)	(2.1)

28. Cash flow notes (continued)

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

	2002 £m	2001 £m
(Decrease)/increase in cash in the year	(10.4)	4.7
Increase/(decrease) in short term deposits	10.6	(4.2)
Cash inflow from drawdown of debt	(45.0)	–
Cash outflow from finance leases	2.5	1.9
Movement in net funds resulting from cash flows	(42.3)	2.4
Finance leases of subsidiary undertakings acquired	–	(7.0)
Exchange rate movements	(1.5)	0.3
Capital value of new finance leases	(3.0)	–
Movement in net funds in the year	(46.8)	(4.3)
Net funds at 1 January	44.7	49.0
Net (debt)/funds at 31 December	(2.1)	44.7

29. Acquisitions and disposals

(a) Acquisitions

On 6 September 2002, the Group acquired a portfolio of facilities management contracts from Citex Management Services Limited. The total consideration of £8.9m was satisfied in cash and includes costs of £0.5m that were associated with the acquisition. The acquisition did not give rise to the transfer of any fixed assets or working capital to the Group and therefore the consideration paid of £8.9m represents goodwill. The goodwill is being amortised over six years as disclosed in Note 12.

The Group made equity investments amounting to £0.1m (see Note 14) in joint venture companies during the year.

(b) Disposals

During the year, the Group disposed of a number of small non-core businesses. The movements in total that relate to these disposals are summarised in the table below:

	Net book value £m
Stock	(0.2)
Debtors	(1.4)
Cash	(0.2)
Creditors due within one year	1.1
Creditors due in more than one year	0.4
Net assets disposed of	(0.3)
Fair value of consideration received	0.7
Closure costs	(0.7)
Loss on disposal	(0.3)

The consideration received was satisfied in cash and is stated after deducting costs associated with the disposals of £0.1m.

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

	£m
Cash consideration received (net of disposal costs)	0.7
Cash in businesses disposed of	(0.2)
Closure costs	(0.2)
Cash inflow in respect of disposals per cash flow statement	0.3

The businesses disposed of do not have a material impact on the operating results and cash flows of the Group.

30. Pension arrangements

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

The Carillion Staff Pension Scheme
 The Carillion 'B' Pension Scheme
 The Carillion Public Sector Pension Scheme
 Shared Cost Sections of the Railways Pension Scheme

Carillion Staff and 'B' Pension Schemes

Actuarial valuations of the above schemes were undertaken by Carillion's independent actuaries as at 31 March 2000. The projected unit method was used and the key actuarial assumptions were:

	% per annum	
	Staff Scheme	'B' Scheme
Long term rate of investment return	6.0	6.0
General salary and wage inflation	5.0	6.0
Pension increase rate	3.0	3.0

The market value of the schemes' assets at this date were £443m and £114m, the value of which represented approximately 127% and 140% of the benefits that had accrued to members at that date, after allowing for assumed future increases in earnings. Having kept the funding position under regular review and in the light of the prevailing downturn in investment markets, the Group recommenced its contributions to the schemes in December 2002. The contributions paid during 2002 were £1.1m (2001: £nil) in respect of the Carillion Staff Pension Scheme and £0.1m (2001: £nil) in respect of the Carillion 'B' Pension Scheme. A full valuation of the schemes as at 31 December 2002 is under way.

Carillion Public Sector Pension Scheme

This scheme was established to accept transfers from public sector schemes where the Group tenders for public sector outsourcing or PPP contracts. It is generally a condition of such tenders that the contractor must offer pension arrangements for the employees concerned which are 'broadly comparable' to those provided in the public sector. The last formal valuation was carried out by independent actuaries as at 31 December 2000. The attained age method was used and the key actuarial assumptions were:

Long term rate of investment return	7%
Increases to pensionable salaries	5%
Real investment return above pay increases	2%
Real investment return above price inflation	4%
Increases to pensions in payment (in excess of GMPs)	3%
Price inflation	3%
Real pension increases above price inflation	0%

At 31 December 2000 the market value of the scheme's assets was £65.2m, which represented approximately 135% of the benefits that had accrued to members at that date, after allowing for assumed future increases in earnings. The employer contributes to this scheme at the rate of 14% of pensionable salaries. The contributions paid during 2002 were £2.0m (2001: £1.9m). A full valuation of the scheme as at 31 December 2002 is under way.

Shared Cost Sections of the Railways Pension Scheme

Employees of GTRM and Centrac who were previously employees of British Rail have pension provision via Shared Cost Sections of the Railways Pension Scheme. The Railways Pension Scheme is an industry-wide scheme administered by Pensions Management Limited on behalf of the Railways Pension Trust Company Limited.

Shared cost arrangements are such that the employer and members share the cost of future service liabilities on a 60/40 split respectively and any surplus emerging over time is dealt with on a similar basis. The current funding rate of these Shared Cost Sections is 12.5%, split 7.5% and 5% between the employer and scheme members respectively. This is a reduced rate and is being subsidised by existing surpluses in the Shared Cost Section. This approach is in common with the majority of the Shared Cost Sections of the Railways Pension Scheme. The contributions paid by the employer during 2002 were £4.2m (2001: £0.8m) for GTRM and £0.1m (2001: £0.1m) for Centrac.

Independent actuaries appointed by the Railways Pension Trust Company Limited carried out a formal valuation of the Railways Pension Scheme at 31 December 2001 using the projected unit method for GTRM and the attained age method for Centrac. Both valuations were carried out on a market value basis using the following key financial assumptions:

	% per annum	
	GTRM	Centrac
Return on investments	5.61	5.53
Pay inflation	4.00	4.00
Promotional salary scale	0.75	0.75
Increases in pensions and State basic pension increases	2.50	2.50

30. Pension arrangements (continued)

The value of the assets of the GTRM section at the valuation date was £263.4m. This represented 108% of the past service liabilities taking account of future salary increases and the value of reserves.

The value of the assets of the Centrac section at the valuation date was £26.1m. This represented 115% of the past service liabilities taking account of future salary increases and the value of reserves.

The next full valuation is due as at 31 December 2004.

Other UK and overseas schemes

The Group also operates two UK defined contribution schemes, the Carillion Operatives Retirement Plan and the Carillion Services Retirement Plan, both of which are closed to new entrants and are in the process of being merged within a single trust. Benefits similar to those previously offered through these arrangements are now provided via stakeholder pension schemes. For construction operatives, the stakeholder pension operated by the Building and Civil Engineering Trustee Limited is used. Employees may participate on a minimal level but for those who are prepared to commit to a percentage of salary, the Company will match an employee contribution rate of 2% of earnings (up to the upper earnings limit each year) for the first five years of membership and 3% thereafter. Death in service lump sum benefits are provided in addition.

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

Membership of the Carillion Stakeholder on a non-contributory basis by the employer is open to any Carillion employee subject to the requirements of the Inland Revenue on concurrent membership of pension schemes.

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc which is managed locally, and also provides other post retirement benefits for senior Canadian employees on a defined contribution basis.

Contributions during 2002 were £0.3m (2001: £0.3m) in respect of UK defined contribution schemes, £nil (2001: £nil) in respect of the Canada defined benefit scheme and £0.8m (2001: £nil) in respect of other post retirement benefits for senior Canadian employees.

SSAP 24 pension costs

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

	Staff	'B' Scheme	% per annum Public Sector	GTRM	Centrac
Return on investments	7.5	7.5	7.5	7.5	7.5
Pay inflation	4.2	5.2	4.2	4.2	4.2
Pension increase rate	2.5	3.0	3.0	2.5	2.5

Variations in cost have been spread over the estimated average remaining working lifetime of the members of each scheme. In addition to the contributions paid in the year, the SSAP 24 adjustment to the pension prepayments in respect of the Staff, 'B' and Public Sector schemes during the year under review was an increase of £1.2m (2001: £nil). In addition to the contributions paid in the year, the SSAP 24 adjustment to the pension prepayments in respect of the Shared Cost Sections of the Railways Pension Scheme was a reduction of £0.8m (2001: £0.7m) in respect of GTRM and £nil (2001: £0.3m) in respect of Centrac.

Based on the actuarial valuations dated 31 March 2000 and under the provisions of SSAP 24, the Group could have taken a credit to the profit and loss account for the current year in respect of the Staff, 'B' and Public Sector schemes. However, having taken actuarial advice following the fall in equity markets since the last full valuation, the Directors decided not to take a credit to the profit and loss account for the year ended 31 December 2002.

An interim valuation of the Staff and 'B' schemes was undertaken at 31 March 2002 using broadly similar assumptions to the 31 March 2000 valuation. The results of this valuation indicated that the current employer contribution holiday could continue and that a nil profit and loss charge for the year ended 31 December 2002 is still appropriate.

FRS 17 Retirement Benefits Group

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

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

	31 December 2002		% per annum	
	UK	Canada	UK	Canada
Rate of increase in salaries	3.58	3.50	3.75	3.75
Rate of increase in pensions	2.33	2.50	2.50	2.50
Inflation rate	2.33	2.50	2.50	2.50
Discount rate	5.50	6.25	5.80	5.80

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

The FRS 17 position for the schemes is as follows:

	Expected rate of return		Staff Scheme	'B' Scheme	Public Sector Scheme	Railways Pension Scheme	Canada	Total
31 December 2002	% UK	% Canada	£m	£m	£m	£m	£m	£m
Equities	7.02	7.75	208.5	53.5	36.6	200.4	7.4	506.4
Government bonds	4.52	5.25	56.6	13.6	14.6	18.4	3.2	106.4
Corporate bonds	5.50	6.00	47.2	12.2	5.6	–	–	65.0
Other	4.00	2.75	4.7	1.7	1.5	18.0	0.2	26.1
Market value			317.0	81.0	58.3	236.8	10.8	703.9
Present value of scheme liabilities			(367.9)	(85.9)	(65.6)	(257.8)	(7.8)	(785.0)
(Deficit)/surplus			(50.9)	(4.9)	(7.3)	(21.0)	3.0	(81.1)
Shared Cost Sections			–	–	–	8.4	–	8.4
Total (deficit)/surplus			(50.9)	(4.9)	(7.3)	(12.6)	3.0	(72.7)
Related deferred tax asset								21.8
Net pension liability								(50.9)

31 December 2001	% UK	Expected rate of return % Canada	Staff Scheme £m	'B' Scheme £m	Public Sector Scheme £m	Railways Pension Scheme £m	Canada £m	Total £m
Equities	7.25	7.25	261.0	66.7	45.8	261.7	10.1	645.3
Government bonds	4.75	4.75	53.0	13.7	12.9	23.8	5.8	109.2
Corporate bonds	5.75	5.75	60.5	15.3	1.5	—	—	77.3
Other	5.00	5.00	0.4	—	3.4	45.5	0.3	49.6
Market value			374.9	95.7	63.6	331.0	16.2	881.4
Present value of scheme liabilities			(360.0)	(82.0)	(58.0)	(254.4)	(11.8)	(766.2)
Surplus			14.9	13.7	5.6	76.6	4.4	115.2
Shared Cost Sections			—	—	—	(30.6)	—	(30.6)
Total surplus			14.9	13.7	5.6	46.0	4.4	84.6
Related deferred tax liability								(25.4)
Net pension asset								59.2

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

	2002 £m	2001 as restated £m
Net assets per balance sheet	149.7	134.7
SSAP 24 prepayments reversed (net of related deferred tax)	(13.7)	(13.9)
Revised net assets excluding pension (liability)/asset	136.0	120.8
Net pension (liability)/asset	(50.9)	59.2
Net assets including pension (liability)/asset	85.1	180.0
Profit and loss reserve per balance sheet	27.3	11.6
SSAP 24 prepayments reversed (net of related deferred tax)	(13.7)	(13.9)
Revised profit and loss reserve excluding pension reserve	13.6	(2.3)
Pension reserve	(50.9)	59.2
Profit and loss reserve including pension reserve	(37.3)	56.9

30. Pension arrangements (continued)

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

	31 December 2002 £m
Charge to operating profit	
Current service cost	(23.1)
Past service cost	–
Total	(23.1)
Credit/(charge) to other finance income	
Expected return on pension scheme assets	48.7
Interest cost on pension scheme liabilities	(37.5)
Net finance return	11.2
Recognition in the STRGL	
Actual return less expected return on pension scheme assets (representing 19.7% of scheme assets)	(139.0)
Experience gains and losses arising on pension scheme liabilities (representing 0.6% of scheme liabilities)	(4.9)
Effects of changes in assumptions underlying the present value of pension scheme liabilities (representing 1.1% of scheme liabilities)	(8.6)
Exchange rate movements	(0.4)
Total recognised gains and losses	(152.9)

The analysis of the movement in the surplus during the year is as follows:

	£m
Surplus at 1 January 2002	84.6
Current service cost	(23.1)
Contributions	7.5
Past service costs	–
Other finance income	11.2
Recognised gains and losses	(152.9)
Deficit at 31 December 2002	(72.7)

Company

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

31. Changes in accounting policies

As described in Note 1, the Group has changed its accounting policies in connection with deferred taxation (in accordance with FRS 19 'Deferred tax') and pre-contract costs (in accordance with UITF 34 'Pre-contract costs').

The impact of the new accounting policies on the financial statements for the year ended 31 December 2002 and on the previous year is as follows:

Group	Total operating profit £m	Profit before taxation £m	Taxation £m	Retained profit £m	Cumulative impact on net assets £m
Year ended 31 December 2002					
As would have been reported under previous accounting policies	53.2	43.3	(13.2)	18.1	162.4
FRS 19	–	–	–	–	(9.1)
UITF 34	(1.1)	(1.1)	0.3	(0.8)	(3.6)
As presented	52.1	42.2	(12.9)	17.3	149.7
Year ended 31 December 2001					
As previously reported	38.3	35.0	(11.2)	11.8	146.6
FRS 19	–	–	1.0	1.0	(9.1)
UITF 34	(0.3)	(0.3)	0.1	(0.2)	(2.8)
As restated	38.0	34.7	(10.1)	12.6	134.7

The comparative figures shown in these financial statements have been restated to reflect these changes in accounting policies.

	2002 £m	2001 as restated £m	2000 as restated £m	1999 as restated £m	1998 as restated £m
Profit and loss account					
Total turnover	1,974.4	1,889.8	1,909.0	1,802.3	1,866.1
Less: share of joint ventures' turnover	(127.1)	(191.0)	(223.4)	(192.6)	(171.1)
Group turnover	1,847.3	1,698.8	1,685.6	1,609.7	1,695.0
Group operating profit/(loss)					
Operating profit before exceptional items	37.8	27.0	23.9	27.7	18.1
Exceptional operating items	—	(8.9)	(30.0)	(1.5)	(4.5)
	37.8	18.1	(6.1)	26.2	13.6
Share of operating profit in joint ventures:					
Operating profit before exceptional items	14.3	21.1	17.8	18.0	22.0
Exceptional operating items	—	(1.2)	(2.0)	—	(1.4)
	14.3	19.9	15.8	18.0	20.6
Total operating profit	52.1	38.0	9.7	44.2	34.2
(Loss)/profit on sale of businesses	(5.3)	—	3.1	—	—
Net interest receivable/(payable):					
Group	0.6	0.3	(1.5)	(3.7)	(16.9)
Joint ventures	(5.2)	(3.6)	(1.8)	(2.5)	(0.7)
Profit on ordinary activities before taxation	42.2	34.7	9.5	38.0	16.6
Tax on profit on ordinary activities	(12.9)	(10.1)	(1.6)	(13.4)	(8.4)
Equity minority interests	(2.1)	(3.1)	(1.0)	0.1	(0.1)
Profit for the financial year	27.2	21.5	6.9	24.7	8.1
Balance sheet					
Intangible assets	49.0	42.8	1.6	1.7	1.7
Tangible assets	56.9	53.0	47.1	54.2	60.5
Investments in joint ventures:					
Share of gross assets	646.1	572.0	517.5	275.9	259.0
Share of gross liabilities	(593.1)	(516.7)	(485.8)	(259.8)	(223.6)
	53.0	55.3	31.7	16.1	35.4
Loan advances	8.0	5.5	17.3	19.7	4.4
	61.0	60.8	49.0	35.8	39.8
Other investments	6.1	2.7	1.9	—	—
Working capital	(11.9)	(59.3)	(32.5)	(101.5)	(163.8)
Investments	8.2	9.4	8.0	5.4	1.6
Tax and dividends	(22.6)	(20.5)	(8.8)	(11.7)	21.8
Cash (net)	5.3	51.6	50.8	132.2	135.4
	152.0	140.5	117.1	116.1	97.0
Equity shareholders' funds and minority interests	149.7	134.7	116.2	112.2	93.1
Provisions for liabilities and charges	2.3	5.8	0.9	3.9	3.9
	152.0	140.5	117.1	116.1	97.0
Operating ratio					
Operating profits on turnover (%)	2.6	2.0	0.5	2.5	1.8
Financial ratios					
Interest covered by operating profit (times)	11.3	11.5	2.9	7.1	1.9
Dividend cover (times)	2.7	2.4	0.8	3.0	n/a
Share information					
Dividends per ordinary share	4.8p	4.4p	4.12p	4.0p	n/a
Earnings per share on published earnings	13.2p	10.5p	3.4p	12.1p	n/a
Adjusted earnings per share (excluding exceptional items)	15.3p	13.8p	13.0p	12.6p	n/a

Carillion plc
**Principal subsidiary undertakings,
joint ventures and joint arrangements**

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

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

Principal joint ventures

Public Private Partnerships

		Associated project
Accommodation Services (Holdings) Ltd	40%	GCHQ, Cheltenham
Arrow Light Rail Holdings Ltd	12.5%	Nottingham Express Transit
Education Care & Discipline Ltd		Medway Secure Training Centre
Education Care & Discipline Three Ltd		Rainsbrook Secure Training Centre
Ellenbrook Holdings Ltd		University of Hertfordshire student accommodation
Group 4 Carillion (Fazakerley) Ltd		HM Prison Altcourse
Group 4 Carillion (Onley) Ltd		HM Prison Rye Hill
The Hospital Company (Dartford) Group Ltd	30%	Darent Valley Hospital
The Hospital Company (Swindon & Marlborough) Holdings Ltd	33.3%	Great Western Hospital, Swindon
Town Hospitals (North Staffordshire) Holdings Ltd		Harplands Hospital
Town Hospitals (Southern General) Holdings Ltd		Glasgow Southern General Hospital
UK Court Services (Manchester) Holdings Ltd	33.3%	Manchester Magistrates Court
UK Highways A55 (Holdings) Ltd		A55 North Wales
UK Highways M40 (Holdings) Ltd		M40 Motorway

Others

		Nature of business
Al Futtaim Tarmac (Pte) Ltd (UAE)	49%	Building and civil engineering
Carillion Alawi LLC (Oman)	49%	Building and civil engineering
Emril Services LLC (UAE)	49%	Facility management
P J Walls (Civil) Ltd (Ireland)		Civil engineering
Servus Ltd (Trinidad & Tobago)		Facility management
Weaverbridge Ltd	33.3%	Property development

Tarmac retain an indirect business interest in Al Futtaim Tarmac (Pte) Ltd.

Carillion plc
Principal joint arrangements

Name	Proportion of interest held	Address of principal place of business
CAMBBA Construction Group	25%	Mill Lane Off Watling Street Shenstone Staffordshire England
Carillion-URS Joint Venture	70%	Pytchley Maintenance Compound Pegasus Court Kettering South Business Park Kettering Northamptonshire England
The Copenhagen Metro Construction Group	27.5%	Refshalevej 157A DK-1432 Copenhagen K Denmark
A55 Tarmac/Laing JV	50%	Anglesey North Wales
Amec-Tarmac JV	50%	Manchester Airport Manchester England
Carillion-WSP JV	60%	Bradford West Yorkshire England

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

Carillion plc Shareholder Information

Results

Half year to 30 June 2003: announced 10 September 2003.
Full year to 31 December 2003: announced March 2004.

Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2002 will be payable on 27 June 2003 to those shareholders on the register on 2 May 2003.

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

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

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

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

Shareholder enquiries

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

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone

0870 600 3953

Textphone for shareholders with hearing difficulties

0870 600 3950

Multiple accounts on the shareholder register

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

Shareview (Electronic Communications)

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

Electronic proxy appointments

For the AGM to be held on 14 May 2003, you may, if you wish, register the appointment of a proxy electronically by logging on to the website www.sharevote.co.uk

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

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

ShareGift

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

Postal share dealing service

A low cost postal share dealing service is available through the Company's brokers, Cazenove & Co. Ltd. Details of this service may be obtained by telephoning 020 7606 1768.

Auditors

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Bankers

National Westminster Bank plc
16 South Parade
Nottingham
NG1 2JX

Brokers

Cazenove & Co Limited
12 Tokenhouse Yard
London
EC2R 7AN

Financial Advisers

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

Legal Advisers

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Internet

Carillion's website, www.carillionplc.com includes information on Carillion's activities, share price and financial performance.

Carillion plc
Birch Street
Wolverhampton WV1 4HY
United Kingdom
Registered number: 3782379
T +44 (0)1902 422431
F +44 (0)1902 316165
www.carillionplc.com