Today for tomorrow

Registered number 3782379

Annual Report and Accounts 2001
www.carillionplc.com

Carillion plc

carillion

Today

Carillion is one of the UK's leading **construction to services companies**

Tomorrow

Our vision is to be a company renowned for working in a spirit of openness, collaboration and mutual dependency **to ensure that our customers' success becomes our success**

A vision and strategy **delivering profitable growth, improved financial returns and enhanced value for shareholders**

In 2001, Carillion's new senior management team made substantial progress with the Group's strategy for growing visible and predictable earnings through developing our growth sectors of Public Private Partnerships (PPP), Infrastructure Management and Facilities Management services, while continuing to focus selectively on higher value-added work in construction.

The acquisition of GT Railway Maintenance Holdings Limited, the signing of a £500 million contract to provide facilities management services to BT and the continued development of our portfolio of PPP projects, were particular highlights. These successes not only contributed to improved financial performance in 2001, but strengthened the foundations for further sustainable success in 2002 and beyond.

In order to bring greater clarity and consistency to the way we report our results and to assist shareholders in understanding the origin and quality of our earnings, we are now reporting our results in three segments: Investments, Business Services and Construction Services.

Financial Performance
Although turnover was broadly unchanged at £1.9 billion, profit before tax and exceptional items increased by 8 per cent to £45.1 million, of which over 60 per cent came from our Investments and Business Services activities. As indicated at the half

Total turnover

£1,889.8m

1999	£1,802.3m
2000	£1,909.0m
2001	£1,889.8m

Pre-tax profit
Pre-exceptional items

£45.1m

1999	£35.1m
2000	£41.9m
2001	£45.1m

Full year dividend per share

4.4 pence

1999	4.0 pence
2000	4.12 pence
2001	4.4 pence

Record order book

£5.2bn

1999	£3.2 billion
2000	£4.0 billion
2001	£5.2 billion

year, an exceptional charge of £10.1 million has been taken, largely to meet the costs of restructuring as a result of the major Business Improvement Programme launched during the year by our new Chief Executive.

A continuing focus on cash management resulted in positive Group net interest, excluding interest payable on debt associated with our expanding portfolio of PPP projects. Furthermore, strong cash flow from operating activities resulted in net cash at 31 December 2001 of £51.6 million (2000 £50.8 million), after investing £34.5 million in the purchase of GT Railway Maintenance, £17.6 million in PPP concessions and the receipt of £5.3 million from the sale of Carillion Housing.

As a result of the Group's financial performance and the positive outlook and prospects for sustainable profitable growth in 2002, the Board is recommending the payment of a final dividend of 3.02 pence, making the total for the year of 4.4 pence, a 7 per cent increase on 2000. The final dividend will be paid on 28 June to shareholders on the register at close of business on 3 May. A Dividend Reinvestment Plan will also be offered.

Order Book
The success of our strategy continues to be reflected in the size and length of our record £5.2 billion order book, which has increased by around 30 per cent since 31 December 2000. Significantly, 83 per cent of the order book is in our growth segments of Investments and Business Services and 75 per cent is for 2003 and beyond.

Corporate Responsibility
Carillion continues to be an industry leader in Health and Safety and in seeking to improve the Environmental and Social aspects of our performance, on which we shall be reporting separately in our Sustainability Report. We believe that the emphasis we place on Sustainability differentiates us from our competitors and will play an increasingly important role in the long-term success of our business.

Business Improvement
During the year our new senior management team launched a major Business Improvement Programme aimed at improving the way we live up to our core Values and the efficiency and effectiveness of service delivery to our customers. This has involved extensive changes to the way we do business and it is testimony to the enthusiastic response and commitment of our employees that we are on course to deliver in full the objectives and benefits of this programme over the next two years.

Board Membership
Executive Directors Euan McEwan and John Sharples resigned in May and September, respectively. Roger Brooke, Senior Non-Executive Director and Deputy Chairman, and Alan Coppin, Non-Executive Director, both retired in December. Our Company Secretary, Dirk FitzHugh, also retired during the year. On behalf of the Board, I should like to thank them all for the valuable contributions they have made to Carillion's success. Richard Tapp has been appointed Company Secretary and we are delighted to welcome him to the Group.

Outlook and Prospects.
I am pleased to report that the outlook for Carillion is encouraging. The size and quality of our order book continues to improve. We have leading positions in all our main markets, which, overall, are expected to grow. Therefore, with the benefits of our Business Improvement Programme yet to come, the Group is in a good position to deliver further sustainable profitable growth in 2002 and beyond.

Sir Neville Simms
Chairman
13 March 2002

01 **Sir Neville Simms**
Non-Executive Chairman, age 57
Appointed to the Board in May 1999, Sir Neville is Chairman of the Nominations Committee and became a member of the Audit Committee in February 2001. He has spent his career in the construction industry having originally joined Tarmac in 1970 becoming Chief Executive in 1992 and Deputy Chairman in 1994. He was, until March 1999 a member of the Private Finance Panel and until June 1999, Chairman of the Major Contractors Group. Sir Neville is currently Chairman of International Power plc and a Member of the Court of the Bank of England. He is a Chartered Engineer.

02 **John McDonough**
Chief Executive, age 50
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. In this role he led the development of integrated facilities management including involvement in private finance projects and in the provision of a range of integrated solutions for the outsourcing market.

A team with experience **and industry knowledge to deliver our strategy**

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

03 **Chris Girling**
Finance Director, age 48
Appointed to the Board in November 1999, Chris was previously Group Finance Director of Vosper Thornycroft Holdings plc. He is a Chartered Accountant and has a MBA.

04 **Roger Robinson**
Executive Director, responsible for Operations, age 50
Appointed to the Board in May 1999. Roger joined Tarmac Construction as Contracts Director in 1989 and subsequently in 1996 became Managing Director of Tarmac Civil Engineering International and Rail. He is a Chartered Engineer.

05 **Roger Dickens**
Non-Executive Director, age 54
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 Birmingham Economic Development Partnership Limited and NEC Group Limited.

06 **Jean-Paul Parayre**
Senior Non-Executive Director, age 64
Jean-Paul is the Senior Non-Executive Director who was appointed to the Board in May 1999. He is a member of the Audit, Remuneration and Nominations Committees. Jean-Paul is also Chairman of Vallourec SA., a Director of Bollore Investissement, Stena UK, Stena Line and a Supervisory Board member of Peugeot S.A.

07 **Andrew Parrish**
Non-Executive Director, age 56
Andrew joined the Board in March 2000 as a Non-Executive Director 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.

In addition, the following two Directors served during 2001 until they stood down on 31 December 2001:

Roger Brooke
Age 71
Roger joined the Board in May 1999 and was Deputy Chairman, Senior Non-Executive Director, Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. He is Chairman of Accord plc, Innisfree Limited and Advent 2 VCT plc.

Alan Coppin
Age 51
Alan was appointed to the Board in June 1999 and served on the Audit, Remuneration and Nominations Committees. He is Chief Executive of Historic Royal Palaces and a Director of Expocentric plc and Protocol Associates N.V.

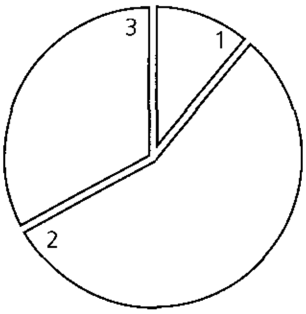
Carillion at a glance
Our core operations

Our three new reporting segments – Investments, Business Services and Construction Services – make our strategic progress more visible and bring greater clarity and consistency to the way we report our results, because all activities of a similar nature are now reported in the same segment

Operating Profit
(Before exceptional items)

1 Investments 11%
2 Business Services 56%
3 Construction Services 33%

Total £48.4m



Investments
Refer to page 16

Equity returns on investments in Public Private Partnership projects

£43.9m

Turnover (2000: £25.8m)

£5.5m

Operating Profit (2000: £4.9m)

Segment highlights

- Turnover up 70%
- 16 financially closed projects: 11 operating successfully and construction of the other five progressing well
- Committed equity investment up from £30m to £45m
- Creating a valuable portfolio of projects to deliver more predictable long-term earnings

Investments
Carillion is an equity partner in the Special Purpose Company formed to finance, design, build and operate the 400-bed Darent Valley Hospital, in Kent, over a 25-year concession period. Carillion Building was responsible for the construction of the hospital and Carillion Services is providing facilities management services.

Business Services
Refer to page 18

Rail and road infrastructure services, facilities management and support services, including those relating to Public Private Partnerships

£609.3m

Turnover (2000: £524.9m)

£29.8m

Operating Profit before exceptional items (2000: £22.8m)

Segment highlights

- Turnover up 16%, continuing strong year on year growth
- Operating profit before exceptional items up 30%
- Acquisition of GT Railway Maintenance completed successfully
- £500m facilities management contract signed and performing well

Construction Services
Refer to page 20

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

£1,335.9m

Turnover (2000: £1,487.5m)

£22.3m

Operating Profit before exceptional items (2000: £25.7m)

Segment highlights

- Turnover reduced by 10% due to disposal of Carillon Housing and continuing project selectivity
- Underlying margins (before net bid costs on Public Private Partnership projects) improved from 1.9% to 2.4%
- All major projects on schedule or ahead of schedule

Business Services
In September 2001 we purchased the remaining 51 per cent of GT Railway Maintenance to become sole owner of one of Britain's leading rail maintenance companies.

Construction Services
Carillion companies are working with BAA on projects at Heathrow, Stansted, Southampton, Glasgow and Edinburgh. TPS Consult is a member of the design team working on the Terminal Five project at Heathrow, whilst Crown House Engineering is a framework contractor for mechanical and electrical services at BAA airports around the UK.

A restructured business **embracing a new culture for growth and success**

In 2001, we made further progress with our strategy for growing good quality earnings through changing the Group's business mix, increasing efficiency and strengthening our focus on delivering solutions that exceed our customers' expectations.

This progress is evident in our improved financial performance, our leading positions in all our main markets, which are growing or firm, and our record order book that put us in a strong position to deliver more predictable long-term earnings.

Our new reporting segments will make our strategic progress more visible and bring greater clarity and consistency to the way we report our financial results, as all activities of a similar nature are now reported in the same segment. The new segments are:

Investments – the equity returns on our investments in Public Private Partnership projects.

Business Services – rail and road infrastructure services, facilities management and support services, including Public Private Partnership projects.

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

Strategic progress
Through organic growth and acquisition, we have accelerated the development of our Private Finance and Business Services activities, which generated over 60 per cent of the Group's profit before tax, exceeding our initial target of 50 per cent.

In March, we signed a five-year contract worth over £500 million to provide facilities management services to BT. This ground-breaking contract is the largest FM contract to be awarded by the private sector in the UK to date and is therefore a major addition to our Business Services activities, where the compound annual growth rate in turnover has been over 10 per cent for the last five years.

Consistent with adopting a more selective approach in Construction Services, we sold our social housing business in July 2001 for £5.3 million.

In September 2001, we purchased the remaining 51 per cent of GT Railway Maintenance for £34.5 million, to become the sole owner of one of the UK's leading rail maintenance companies. This not only strengthened our position in the growing rail maintenance market, but enabled us to bring all our rail activities together into one business, releasing synergies and improving our ability to offer fully integrated solutions.

In Construction Services, we have continued to target higher added-value work in our chosen market sectors. For example, around 80 per cent of turnover in Building and Infrastructure Projects in this segment came from 20 key customers. Our more selective approach, together with improved risk management, has continued to generate better quality earnings.

We are using the leading positions we have in all our markets to promote our full range of services and our ability to offer integrated solutions – from project finance, through design, construction and maintenance to facilities management and support services – a capability that underpins our success in delivering Public Private Partnership projects on time and to budget.

We have increased our order book to a new record level of £5.2 billion, most of which relates to longer-term contracts in Business Services and Investments.

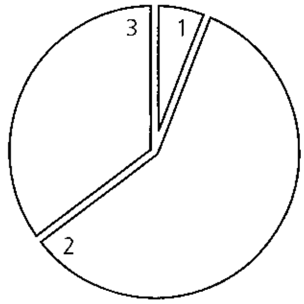
Financial performance
A stronger second-half performance increased full year profit before exceptional items and tax by 8 per cent. The quality of our earnings also continued to improve as a result of our strategic progress coupled with strong cash management. Group net interest was positive, excluding interest payable on debt associated with our portfolio of PPP projects of £3.4 million.

Pre-tax profit

(before exceptional items)

1 Investments £1.9m (4%)
2 Business Services £27.0m (60%)
3 Construction Services £16.2m (36%)

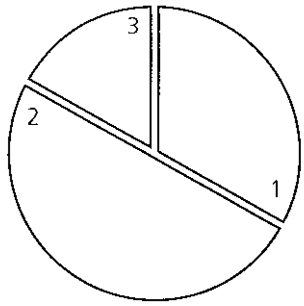
Total £45.1m



Order book

1 Investments £1.7bn (33%)
2 Business Services £2.6bn (50%)
3 Construction Services £0.9bn (17%)

Total £5.2bn



Net cash at the year end was broadly unchanged at £51.6 million, despite significant investment in the development of the business, including the purchase of GT Railway Maintenance and equity investments in PPP projects, totalling £52.1 million.

Adding to our portfolio of sixteen financially closed PPP projects has continued to be a key part of our strategy for long-term, quality earnings growth. Our committed equity investment in these projects increased from £30 million to £45 million in 2001. Although the net cost of bidding for a growing number of PPP projects increased substantially in 2001, this increase was more than offset by improved performances in a number of our businesses, including Building Developments, Rail and Facilities Management.

Pensions
The 2001 Annual Report and Accounts includes the disclosures required under FRS 17 (see Note 30 on pages 71 and 72) which will be fully implemented for the year ending 31 December 2003 when defined benefit pension scheme surpluses or deficits will be recognised in the employer's balance sheet. At 31 December 2001, the various defined benefit schemes operated by Carillion had assets of £881 million with a surplus of £85 million, both valued on an FRS 17 basis.

Management
In May 2001, we restructured our senior management team, including a reduction in the number of Executive Directors from five to three and the introduction of a flatter and more efficient structure. We also launched a major Business Improvement Programme during the year that is on course to deliver significant benefits: these include driving forward the cultural changes necessary to "live" our core Values and deliver solutions that consistently exceed our customers' expectations, as well as reducing costs and increasing efficiency.

As indicated at the half year, an exceptional charge of £10.1 million has been taken, £8.9 million of which was needed to meet the costs of restructuring arising from our Business Improvement Programme. In 2002, the savings from this programme will be largely reinvested in upgrading our Information and Knowledge Management Systems, which will play a major role in improving efficiency and the quality of service delivery. In addition, a charge of £1.2 million has been taken for restructuring our joint venture plant hire company Maxxiom.

Health and Safety
In Health and Safety we have continued to improve our own performance as well as working with other companies and stakeholders to help improve the overall performance of our industry. Improving our Health and Safety performance is one of our key strategic objectives. Responsibility for this rests at main Board level and is exercised through our Safety Policy and integrated management system, based on a Total Quality Management approach, in order to ensure that Health and Safety is a priority for every employee.

Sustainability
We continue to be the leader in our sector in targeting, monitoring, measuring and reporting the environmental and social aspects of our performance and how they can affect our financial performance. In 2001, Carillion was selected for membership of FTSE 4 Good, an index of leading companies doing the most to take account of social responsibility and sustainable development. We believe that this is making an increasingly significant contribution to delivering sustainable, profitable growth, through offering customers solutions that incorporate best environmental and social practice and minimise the whole-life costs of the services we provide.

John McDonough
Chief Executive
13 March 2002

Hospital sisters Shelly Knight and Kelly Graham test one of the ward mock-ups at the new Great Western Hospital, in Swindon, where Carillion is an equity partner in the 30-year PPP project. Carillion companies have been responsible for the design and construction of the hospital, where Carillion Services will provide facilities management.

Highway Maintenance crewman Andy Carrol in action at an incident on the M25, where Carillion is responsible for maintaining the whole length of the motorway. In total we maintain around a quarter of the motorway and trunk road network in England.

Growing Investments and Business Services

Continuing growth in these segments is generating more predictable long-term earnings.

Carillion is the UK market leader in commercial building. We continue to focus selectively on higher value-added contracts for long-term key customers, primarily in the office and retail sectors.

Our retail client base includes most of the prime store groups, many of whom value our strong design and construction capability to fast-track new stores to market.

Providing Integrated Solutions

A strong construction capability means we can provide a fully integrated service, from project finance through design and construction to whole-life asset management and operation.

Today for tomorrow

One of our key objectives is to attract, develop and retain excellent people. Every manager identifies the learning needs of their team and develops each member accordingly, to the benefit of our people and our customers.

Our 'Learning Works' training centre is core to our Business Improvement Programme. Last year over 3,000 staff attended courses at the centre, which guarantees easy access to quality training for all our people.

Creating a culture for success

Learning to 'live' our Values of Openness, Collaboration, Mutual Dependency, Professional Delivery, Sustainable Profitable Growth and Innovation is essential to the successful delivery of our strategy.

Operational Review
Investments

	2001	2000
Turnover	£43.9m	£25.8m
Operating profit	£5.5m	£4.9m

The results in this segment reflect the equity returns from our investments in PPP projects. They do not include profits from the construction and facilities management of these projects that are now reported in our Construction Services and Business Services segments, respectively.

Our success in delivering PPP projects is based on our ability to offer integrated solutions, from project finance through design and construction to maintenance and facilities management, that minimise the whole-life costs of providing high quality services. We have extended our portfolio of financially-closed projects to 16, 11 of which are now fully operational with construction of the remaining five progressing well. This growing and maturing portfolio is generating more predictable, long-term earnings.

Turnover increased by 70 per cent as a result of four more projects moving successfully from construction to operation, the point at which we begin to receive payments from our customers for the services we provide and profit on our equity investments begins to accrue. However, the benefit of this increase in turnover is not yet fully reflected in operating profit and margins, because the net cost of bidding for a growing number of projects also increased significantly. Going forward, we expect to accelerate profit growth as investment revenues increase.

We achieved financial close on our fifteenth project, Manchester Magistrates' Court, worth £30 million, and we were selected as the preferred bidder for a project to provide accommodation and sports facilities for the University of Hertfordshire – a £190 million project, which reached financial close in February 2002. Our committed equity investment in PPP projects rose during 2001 from £30 million to £45 million. In addition to the investment made in the Manchester Magistrates' Court project on reaching financial close, we have purchased additional equity from our partners in two operational road projects, the M40 and A55. We have also made further scheduled investments in financially closed projects on completion of the construction phase.

16 financially closed projects:
Fully operational

- M40 Motorway
- A55 North Wales
- HM Prison Altcourse
- HM Prison Rye Hill
- Rainsbrook Secure Training Centre
- Medway Secure Training Centre
- Avery Hill Student Accommodation
- Derwent Hospital
- Darent Valley Hospital

Our skills in providing innovative PPP solutions have helped create a state-of-the-art Acute Psychiatric Unit at Harplands Hospital in North Staffordshire. The design encompasses the specific needs of the clinicians and support services management to provide a domestic, flexible arrangement that will significantly improve care of the 148 patients, reducing in-patient time and thereby allowing increased numbers of patients to be treated.

Carillion and its partner have created a new dual carriageway across the island of Anglesey in North Wales. After upgrading the existing A55, which is a key link with Ireland, through the port of Holyhead, the Special Purpose Company will maintain the new A55 over a 27-year period.

- Harplands Hospital
- Glasgow Southern General Hospital (Medicine for the Elderly Unit)

Under Construction

- New Accommodation Project, GCHQ Cheltenham
- Great Western Hospital, Swindon
- Nottingham Express Transit
- Manchester Magistrates Court
- University of Hertfordshire

Future turnover from our equity investments in the 16 projects we have financially closed to date is estimated to be around £1.73 billion, which represents some 33 per cent of our total order book.

We are also currently shortlisted for 15 further projects with an estimated value of some £3 billion, particularly in the transport, health, secure establishments and defence sectors, where there is growing demand as the Government expands its PPP programmes. Interest in PPP projects in our International Regions has also continued to grow and the projects for which we are currently shortlisted include three toll roads in the Republic of Ireland and the Triservices Defence College in Oman.

As four more PPP projects moved successfully into the operational phase in 2001, Carillion and its joint venture partners are delivering on time the high quality services our customers expect.

HM Prison Rye Hill

Rye Hill, our second PPP prison, is a 25-year concession to build a 600-place Category B prison and to operate the facility over the life of the concession. Built by Carillion, the new £38 million prison opened on time in January 2001 and set new standards in design, cost effectiveness and prisoner management. Rye Hill also received the UK's 'Most Considerate Site' award, in recognition of the outstanding levels of care and site management adopted during construction.

A55 North Wales

The A55, the first trunk road to be built in Wales under the Government's Public Private Partnership Programme, is our second PPP highways project. This is a 27-year concession for the construction and operation of 35 km of new dual carriageway across Anglesey. Built by Carillion and its consortium partner, the £100 million new road opened to traffic ahead of schedule in March 2001 and is now maintained and operated by the consortium. Considerable attention was paid to the design to ensure that the road blends well with the environment. The good working relationships established with local community groups helped to minimise disruption during construction and mitigate environmental impacts and win a Considerate Constructor Award.

Glasgow Southern General Hospital

This was the third of our four PPP hospitals and is a 27-year concession for the construction of a 210 bed Medicine for the Elderly Unit and the provision of non-clinical facilities management services. The £9 million Unit was designed and built by Carillion and opened ahead of schedule. Carillion is also providing non-clinical services for the new hospital, which is operating successfully, serving patients in South West Glasgow. Signed on the first day of the new Scottish Parliament in July 1999, it was the first PPP Unit of its kind in Scotland.

Harplands Hospital

This 29-year concession is for a new £17 million Acute Psychiatric Unit in North Staffordshire which has replaced outdated Victorian buildings. Carillion designed and built the new Unit, which opened on time in August 2001, and is now supplying non-clinical facilities management services. The innovative design, tailored to meet the specific needs of clinicians and support services managers, enables the new Unit to provide state-of-the-art patient care in a flexible, non-institutional environment.

Our joint venture partnership is a leader in the provision of secure establishments. HMP Rye Hill is a 600-place Category B prison designed and built by Carillion and completed in just 18 months.

The Nottingham Express Transit will transform transportation in and around the city. The £200 million PPP scheme utilises the pathway of the existing Robin Hood railway line for part of its route before moving onto the streets of Nottingham. A key feature of the scheme is the integration of bus and tram services along the route, with buses feeding passengers to tram stops. Carillion is a member of the Arrow consortium, the Special Purpose Company responsible for the design and construction of the new system and its maintenance and operation over the 30-year concession.

Operational Review
Business Services

	2001	2000
Turnover	£609.3m	£524.9m
Operating profit*	£29.8m	£22.8m
Margin	4.9%	4.3%

* Before exceptional items

In this segment we report the results of our facilities management, support services and infrastructure services businesses.

Growth in facilities management, primarily as a result of Monteray's contract with BT, and in rail infrastructure services, resulted in a 16 per cent increase in turnover in this segment. Operating profit before exceptional items rose by over 30 per cent, with margins increasing to 4.9 per cent, as a result of this growth and improved operating performances.

Our success in this segment continues to be driven by a total commitment to exceeding our customers' expectations through the highest standards of safety, quality and service delivery.

Facilities Management and Support Services

Carillion Services had a very successful year, securing a number of new contracts and almost doubling its turnover. Monteray, a company 51 per cent owned and led by Carillion, signed the largest ever private sector outsourcing contract in March 2001. Under this five-year contract with BT, worth over £500 million, Monteray is now successfully providing a wide range of property and facilities management services to around 8,000 BT properties.

Carillion Services also consolidated its position in other key markets, securing new contracts for the provision of non-clinical FM services for two new hospitals – Glasgow Southern General and Princess Margaret Hospital, Swindon – and successfully re-tendering its Royal Parks Agency contract for property management services.

Rail

In 2001, the performance of all our rail businesses continued to improve, maintaining a clear focus on providing efficient, high-quality maintenance, enhancement and track renewal services to our customers. Our trading with Railtrack has not been directly affected by the company being placed in Railway Administration. The new forms of contract, under which we are working in alliance with Railtrack, are delivering significant benefits through improving the efficiency and effectiveness of infrastructure service delivery.

GTRM was awarded contracts worth over £360 million during the year, the largest being a five-year contract for maintenance of the West Coast Mainline, and now maintains around 21 per cent of the rail network. We also benefited from increasing expenditure on maintenance work, especially in

As one of the country's leading suppliers of high-quality maintenance, enhancement and track renewal services, Carillion Rail is playing an important role in helping to improve the UK rail network.

London's 17 Royal Parks will be in the safe hands of Carillion Services for a further five years, thanks to the company's successful re-tendering of its property management contract. The 28-strong team is headed by contract manager Ian Fothergill, whose work takes in Hyde Park, Richmond Park, St James Park and Green Park amongst others.

the fourth quarter of the year. As the Government has publicly reaffirmed its commitment to spending £31 billion on the national rail network over the next 10 years and to securing £30 billion of private sector investment, the outlook in the rail market appears very positive in both the short and longer term.

Sole ownership of GTRM is enabling us to release synergies through consolidating all our rail activities into one business – Carillion Rail – capable of offering integrated solutions spanning design and consultancy services, maintenance, track renewal, enhancement projects, including signalling, overhead electrification and permanent way. Carillion Rail is therefore well positioned to take advantage of the increasing investment forecast for all areas of the rail market, including PPP projects.

Highways
Our highways maintenance business also had a successful year, reinforcing its position as a leading supplier in this important growth market. We were awarded a number of major new contracts and contract extensions by the Highways Agency, worth over £300 million, and now have contracts for maintaining more than 25 per cent of the motorway and trunk road network in England.

Carillion was also appointed as a Technology Framework Contractor by the Highways Agency and renewed its contract for maintenance of 123 km of the M40 between the M25 and Warwick, a PPP project in which Carillion is an equity partner.

We were especially pleased to be awarded two ground-breaking 7–year contracts with the Highways Agency for Maintenance Areas 5 and 8, each worth over £100 million and covering 1500 km of motorway and trunk roads in the Home Counties and East Midlands, including the whole of the M25. Quality of service, not price, was the main factor in awarding these contracts, which recognised our commitment to innovation and professional delivery, 7 days a week, 365 days a year, through working in open relationships and using the latest GPS technology.

The contract for Area 8 is the first of a new generation of contracts under which a Carillion-led joint venture is providing a 'one-stop-shop' service working in partnership with the Highways Agency, both to identify the maintenance work necessary and carry it out.

Carillion now has six Area Maintenance contracts for the Highways Agency under which we provide routine maintenance services and rapid response support to the emergency services to deal with the effects of accidents and incidents.

Recruitment, Fleet Management and Insurance Services
2001 saw our national recruitment business rebranded and launched as SkyBlue. This business, which supplies skilled people for the infrastructure and construction services industries, is performing well. Given the skills shortage in these markets, we plan to develop SkyBlue, using our Craft Training and Learning Works facilities to enhance our ability to supply the skilled people needed for these markets. Carillion Fleet Management and Markfield Insurance also continued to perform well and develop the services they offer, including expanding their external customer base.

Terry Deveney is one of the team working at BT's Grand Island offices in Manchester, for our Monteray joint venture, which is responsible for the facilities management of around 8,000 BT properties nationwide.

A successful year for Carillion Highways Maintenance brought in new contracts and contract extensions, worth over £300 million, awarded by the Highways Agency. This vehicle is one of a fleet of special incident support units operating on our M25 contract. All vehicles carry global positioning equipment which, thanks to satellite tracking, enables us to ensure a speedy response to incidents around the motorway network.

Operational Review
Construction Services

	2001	2000
Turnover	£1,335.9m	£1,487.5m
Operating profit*	£22.3m	£25.7m
Margin	1.7%	1.7%
Margin before net PPP bid costs	2.4%	1.9%

* Before exceptional items

In this segment we report the results of all our construction activities, including construction work associated with Public Private Partnership projects.

Turnover was some 10 per cent lower, primarily as a result of disposing of Carillion Housing in July 2001, curtailing our UK civil engineering activities on smaller projects and rigorously adopting a more selective approach by targeting larger, higher value-added projects and minimising our exposure to risk. For example, in 2001 around 80 per cent of turnover in Building and Infrastructure Projects in this segment came from 20 key customers.

Margins before net PPP bid costs improved from 1.9 per cent to 2.4 per cent, largely due to a good performance in Building Developments, coupled with the effect of continuing project selectivity. However, our design and construction businesses incurred significantly higher costs in 2001 in bidding for a growing number of PPP projects in order to develop our PPP portfolio, a key part of our strategy for future growth. These design costs are written off until we become the preferred bidder, at which point they are capitalised. As we became preferred bidder on only one project in 2001, few of these costs were capitalised during the year. Consequently, overall operating profit reduced in 2001, but we expect it to move ahead in 2002 as margins improve.

Maintaining a strong construction capability in our chosen market sectors enables us to promote our full range of services and offer integrated solutions, from design through construction to maintenance and operation, that minimise the whole-life costs of the services we provide.

Market leadership depends on delivering high quality services that meet or exceed our customers' expectations. We were therefore delighted that our commitment to quality was recognised in 2001 by a special Quality in Construction Award. Given to mark the fifth anniversary of these national awards, this award was for exceptional performance over the last five years, in terms of quality, safety, environmental achievement and leadership in improving the performance of our industry.

Building
Carillion Building, the UK market leader in commercial building, continued to focus selectively on higher value-added contracts for long-term key customers, primarily in the office and retail sectors. Building Developments, which specialises in managing developments where risk is minimised by pre-letting to occupiers and

Crown House Engineering staff have been playing a key role in bringing digital broadcasting to the UK by installing services in transmitters at 50 locations around the country.

Carillion Building helped to continue the transformation of Glasgow's river front with a contract to build the stunning Glasgow Science Centre. The impressive range of buildings, some clad in titanium – a first for the UK – opened to the public in 2001.

by focusing on sectors where there is strong institutional demand, had a good year. It also manages the regeneration of brownfield sites, where the Group's extensive specialist skills can be used to offer integrated solutions.

Our construction and project management business, Schal, and Consult, our design and technical services consultancy business, are now fully integrated with our Building business, strengthening our ability to provide total solutions both for traditional and PPP projects.

Building activity on PPP projects has continued to increase and now accounts for around a third of the output of our building businesses. We believe that our strong design and construction capability and track record for quality and delivery on time, is fundamental to continuing our success in securing and delivering PPP projects – a very visible area where our success is essential to the success of our customers, who are ultimately responsible for ensuring that public services meet the high standards we all expect.

Infrastructure Projects
Carillion's infrastructure activities in the UK are increasingly focused on larger contracts where our skills and resources enable us to offer higher added-value services and minimise our exposure to risk. Our recently completed £100 million-plus contract to refurbish a large submarine dry dock at Devonport is an excellent example of higher quality work. Managed in alliance with our customer, DML, this complex and sensitive project was completed to an exacting timetable and to the highest standards.

The £485 million M6 Toll motorway, currently being built by Carillion and its three joint venture partners, is a good example of a major contract for which relatively few contractors could offer the skills and resources necessary to deliver the project. Construction started in Spring 2001 and is ahead of schedule.

Our infrastructure design and construction skills are also important to our success in delivering PPP projects, such as the A55 in North Wales, which was completed during the year, and Nottingham Express Transit, a light rail project in which we are an equity partner and on which good progress is being made.

International Regions
Our International Business, which has well-established operations in Canada, the Middle East, the Caribbean, France and the Republic of Ireland, has continued to perform well. This business has built a strong reputation for quality, safety and efficiency, which provides an excellent basis for promoting our PPP and Business Services skills to overseas customers. In 2001, our Canadian joint venture highways maintenance company was awarded a further highways maintenance contract in Ontario worth £25 million. We are also partners in consortia that have been shortlisted for four overseas private finance projects – three major toll roads in the Republic of Ireland and the Triservices Defence College in Oman. Early in 2002, we formed joint ventures with Emaar Properties PJSC in Dubai and Guardian Properties in Trinidad, which together could lead to facilities management business worth up to £500 million over the next 10 years.

Crown House Engineering (CHE)
The restructuring of our mechanical and electrical engineering business, CHE, was completed successfully and on time in 2001. The management team has implemented the strategic and operational changes we announced in 2000 and is building a profitable portfolio of new contracts, which is driving a steady improvement in CHE's performance.

Several Carillion businesses teamed up to build a massive nuclear submarine dry dock at Devonport. The 200-metre long dock is designed to withstand shockwaves greater than a major earthquake.

Our Caribbean business has won a range of prestigious building projects including the National Library in Port of Spain, Trinidad. The eight-storey building was completed in record time for client London Street Project Company Limited.

Sustainable solutions
For the way we live today

This summary is an outline of the progress we have made in the past 12 months. You can find out more from our detailed Sustainability Report 2001 on our website

www.carillionplc.com/sustainability

2001 was a year of significant change and development for our sustainability programme, which has evolved from the environmental programme we started in 1994.

This is the second year in which we have reported on our sustainability performance and the summary here is supported by two more detailed reports – a 16-page Sustainability Review and a full review of our performance during 2001, which is published on our website www.carillionplc.com/sustainability.

Here we have summarised our new sustainability policy, the scope of our programme, how we manage its implementation and our performance in 2001. Our performance is reported against specific targets and in wider qualitative terms in accordance with the UK Government's four objectives for sustainable development:
- effective protection of the environment
- prudent use of natural resources
- social progress and
- economic growth and prosperity.

Managing the programme
Our Sustainability Committee was reconstituted in 2001 to refresh and strengthen its role in providing strategic focus, setting targets and driving our sustainability programme. Chaired by Sir Neville Simms, Carillion's Chairman, the Committee includes Roger Robinson, the main Board Director, whose responsibilities include Sustainability, and other members of Carillion's senior management team. An independent external perspective is provided by Jonathan Porritt, who is also Chairman of the UK Government's Sustainable Development Commission. In 2002, we intend to appoint a second independent member with further experience in the area of corporate social responsibility.

Reporting to the Sustainability Committee, our Sustainability Operations Group comprises operational and support staff from across all our businesses. It is responsible for overseeing the implementation of our annual programmes and for advising all Carillion's businesses on the challenges and opportunities they encounter in delivering their targets.

Vision and Strategy
In 2001, we developed our formal sustainability policy and communicated this to the Group. Our new policy provides a better basis upon which to develop our sustainability targets and has enabled us to link these to the Group's business strategy and objectives. This link is vital if we are to embed the principles of sustainable development into all our business activities to the benefit of all our stakeholders.

A history of Carillion's sustainability strategy
Eight years of change

1994 > 1999

- Independent Advisory panel established
- First environmental policy adopted
- First environmental report published
- First construction company to join WWF' 95+ group supporting sustainable timber
- Crown House (Manufacturing Centre) achieved ISO 14001 and awarded H & V News Environment Achievement Award
- Joined Natural Step Pathfinder Programme
- Winner of Quality in Construction Environmental Achievement Award
- 55% of environmental targets achieved

2000 >

- Published first Environmental Community and Social report, for 1999-2000, and won ACCA Award for 1st time reporting
- West Midlands Index of Corporate Environmental Engagement (Business in the Community) placed Carillion in the top quintile overall and first in the Construction Sector
- Joined the BiTC pilot scheme 'Winning with Integrity' to measure Corporate Social Responsibility
- 69% of environmental targets achieved and ISO 14001 extended to 75% of businesses

2001 >

- Sustainability Policy and Strategy introduced
- Carillion was the only Construction to Services company featured in the FTSE4Good UK Index
- First Sustainability Report – published on the Internet www.carillionplc.com/sustainability
- Carillion Natural Habitats introduced in partnership with The Wildlife Trust; Schal instrumental in setting up the South London Construction Best Practice Group
- 84% of targets fully or substantially achieved and ISO 14001 extended to 83% of businesses

2001 Highlights

Protection of the Environment

Emissions to Atmosphere
Through robust management systems and by providing all our people on project sites with appropriate guidelines and training, we are committed to the effective control of all on-site activities in order to prevent environmental nuisance. For example, in 2001 an environmental briefing detailing the hazards and control methods associated with dust management was given on over 70 per cent of contracts in Infrastructure Services and Infrastructure Projects.

Discharges to Water
Carillion recognises that onsite activities may have the potential to cause environmental risks to watercourses. Strict procedures, often developed in partnership with the Environment Agency, are designed and implemented to reduce this risk.

Discharges to Land
We are committed to providing guidance on the best way to deal with contamination that may already exist on a site. In the case of our Nottingham Express Transit contract, following the identification of six hectares of contaminated land we safely removed, treated and disposed of 2,400 tonnes of material.

Preventing contamination occurring due to any of our activities is also a priority. For example, Carillion Rail uses biodegradable hydraulic oil in on-track plant to limit the impact of any spillages.

Biodiversity
Carillion places great importance on protecting and enhancing biodiversity at all operational sites, often through partnership with local interest groups.

In 2001, we launched a sponsorship partnership – The Carillion Natural Habitats Scheme – with the national conservation charity The Wildlife Trusts. Through the partnership, 47 Wildlife Trusts across the country are able to apply for grants to fund conservation projects. Environmental projects in Nottingham, Berkshire and Gloucestershire have already benefited from the scheme. Carillion on-site and office-based staff are also encouraged to become involved in these projects.

During the demolition of a Victorian hospital in Dartford, three species of bats were found to have made their home in the building's window frames. To avoid harming the bats – a protected species – hundreds of window frames were carefully removed and the bats re-housed in specially constructed bat boxes placed in trees surrounding the site. The progress of the bats will be monitored for the next five years.

Prudent Use of Natural Resources
Carillion is committed to minimising the use of non-renewable materials in its operations. We do this through our environmental management system (83 per cent of our businesses are accredited to ISO 14001), our supply chain management system, our waste reduction procedures and our sustainable design systems.

Use of Energy/Carbon Dioxide (CO_2) Production
We are taking active steps to reduce energy use across the Group by increasing the number of offices supplied by hydroelectric power, a renewable source of electricity. A total of 52 facilities now use hydroelectric power, compared with only our head office facilities in 2001.

We are also committed to the continued reduction of energy and CO_2 by reducing the need to travel and encouraging the use of LPG vehicles. Carillion's company cars are currently responsible for 7,500 tonnes of carbon dioxide emissions per year. Our challenge is to reduce average annual business mileage for our car fleet by 20 per cent, by the end of 2003.

Carillion is the first company in the construction sector to publish a Sustainability Policy.

Girls from St.Mary's Brownies at Moorbridge pond in Nottinghamshire. Moorbridge Pond Nature Reserve – a wetland site of considerable importance – was the first to benefit from the Carillion Natural Habitats scheme, which helps local wildlife trusts to promote and develop understanding of the delicate ecological balance of local wildlife.

Carillion plc
Sustainability Policy carillion

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

John McDonough – Chief Executive

For the way we live today

continued

Sustainable Supply Chain Management

We recognise that to be fully effective, our sustainability programme has to extend both up and down the supply chain. We are working with our customers and suppliers to promote the environmental and business benefits of 'greening' our supply chain.

"Waterloo plc has recently completed the Acorn Programme leading to a proposed accreditation to ISO 14001. Carillion and its Mechanical and Electrical Engineering business, Crown House Engineering, both initially motivated and gave welcome guidance throughout the process. Their appreciation and understanding of the demands of the construction industry ensured that their advice was both relevant and appropriate. Without this support it is unlikely that Waterloo Air Management would have achieved ISO accreditation for at least another twelve months. By working in partnership with Crown House Engineering, Waterloo has now gained significant competitive advantage by reducing waste throughout the supply chain."
Waterloo Air Management, Crown House Engineering supplier.

Sustainable Design

Innovation and smart thinking about how we design, build and maintain buildings for our customers are key to delivering sustainable buildings that minimise whole-life costs. Our designers are committed to ensuring that sustainable issues are considered in the early stages of design. We believe that the design phase is the real starting point for major decision making in the construction and maintenance process and this is pivotal for the delivery of many aspects of sustainability. To help in delivering better solutions we have developed a procedure for lifecycle analysis to be applied at the earliest stages of all design and build projects, particularly those we also finance under the Government's Public Private Partnership programme.

Resource Consumption/Wastage

Reduce, re-use and recycle are the principles upon which we have based our position statement for waste minimisation. These principles are applied on our project sites and in our offices where waste management is an important issue.

Economic Growth and Prosperity

We aim to maintain our position as a leader in the construction to services sectors by using sustainable development principles to deliver enhanced shareholder value.

"The University has high expectations in the context of sustainability. We were pleased to find that Carillion's proposals met those expectations and this was an important factor in Carillion's selection as our private sector partner in the development of the de Havilland Campus."
Professor Ann Smith, Co-ordinator of the University of Hertfordshire's Environmental Strategy.

Investment in Environmental and Community Initiatives

Carillion is a member of the PerCent Club and contributes over one per cent of its profits (cash or in-kind support) to environmental and community activities.

We are instrumental in supporting environmental initiatives throughout the industry. As a core member of the Construction Industry and Information Association we provide funding, expertise and experience to project steering committees and publications. Carillion is also part of the government and industry funded Partners in Innovation Scheme.

Environmental Accounting

We believe that by applying accounting methods to environmental practices the link between financial and environmental performance will become more visible. The Nottingham Express Transit Line One Contract is actively assessing the financial costs and savings of environmental management. The environmental accounts show that during 2001 almost £500,000 was saved on waste disposal costs by reusing and recycling excavated materials.

Health and Safety

Policies, Procedures and Verification

In addition to our prime concern for the safety and well being of our employees, there are sound commercial reasons for improving health and safety performance. Carillion fully recognises the value to the company, both financial and reputational, of achieving this through the rigorous application of its health and safety policies and management procedures.

The Construction Task Force report (Egan, 1998) acknowledged that it is not easy to sustain major improvements in an industry as diverse as construction, but nevertheless concluded that this must be achieved in order to secure the future of the industry. Therefore, an understanding of the industry itself must lie at the heart of any strategy to address health and safety. In addition to the risks attendant during the operational delivery phase of projects, significant exposures to risk can be created at the design, tender and procurement stages.

Intervention at all stages of a project, particularly those where significant risks exist, to identify and manage risk is logically the most efficient and effective approach to improving health and safety performance. However, a corporate decision to adopt this approach must be accompanied by processes to avoid conflicts of interest and ensure proper implementation.

The construction and services industries have a poor record in managing work-induced ill health. As a result, a significant amount of work time is lost through absence and quality of life is reduced for those affected. Health issues can create potential off-balance sheet risks that can jeopardise long-term value. Carillion therefore recognises the fundamental importance of adopting strategies to control and manage exposures to risk that could result in work-induced ill health.

Carillion has helped to lead many of the changes within our sector, by ensuring that the approach adopted towards health and safety complements the aims and values of the company and is fully recognised as adding value to the business, not merely compliance with statutory requirements.

The approach currently adopted towards health and safety legislation in the UK is one of self-regulation, based on the concept of goal setting through risk assessment. Duty holders should not simply focus on the control of a specific hazard, but address the capability of the organisation to tackle risk proactively in a systematic manner. Application of these requirements draws heavily on ideas from Total Quality Management, which promotes continuous improvement in all aspects of an organisation's activities. The emphasis is on identifying the key processes, setting performance standards, measuring achievement against these standards, identifying opportunities for improvement and taking the appropriate corrective action.

Our policy reflects decisions made at the highest level within the Company, starting with the commitment of the Chief Executive and the Board towards health and safety. The Directors have also subscribed to a 'Safety Charter', which sets out a number of measurable aspects of our performance and continues to provide a sound foundation for delivering continuous performance improvement, and this will be incorporated into our general Policy in 2002.

Business Groups implement management systems based on ISO 9000 and ISO 14001, which focus on health and safety at the point of delivery and ensure issues are dealt with as an integral part of operational activity. In 2001, the Board decided that our Business Groups should also work towards compliance with OHSAS 18001, within an integrated management system. Carillion acknowledges the challenges set out in the Governments 'Revitalising Health and Safety' strategy and supports the objects of setting targets and reporting performance, as advised in the Health and Safety Commission's publication 'Health and Safety in Annual Reports'. We believe that these documents set a positive framework for performance evaluation and ensure transparency in relation to the health and safety elements of an organisation's social and ethical responsibilities. Carillion is working towards these objectives and is striving to demonstrate how these matters contribute to overall business performance.

For a number of years, Carillion has set health and safety targets and reported performance in the public domain. However, we also recognise the benefits of working with other major companies to assist in the delivery of an agreed set of targets across our industry sector. For example, as a member of the Major Contractors Group, an organisation representing 23 of the UK's largest construction companies, Carillion is a signatory to the Group's 'Health and Safety Charter' and the targets that it supports.

More detailed information on our performance in 2001 can be found on our website www.carillionplc.com/safety.

Social impact
Carillion seeks to improve the quality of life for employees, their families and the local communities where it operates.

What a business produces, how it buys and sells, how it affects the environment, how it recruits, trains and develops its own people, how it invests in the community and respects the rights of people – all these add together to form the impact of that business on society.

People
Carillion has joined 'Impact on Society' a pilot project sponsored by Business In The Community to assist businesses in managing all areas of their impact on society in a practical, consistent and effective manner. This also supports our efforts to improve the quality of life for all our stakeholders – employees, their families, customers, suppliers, shareholders and the communities in which we work.

Learning Development
We recognise our employees are our greatest assets and that we can enhance their value and offer greater opportunities for our people by striving to be a learning organisation.

Our employees have the opportunity for personal development and training, which includes sustainability and our programme for sustainable development. This is provided through Learning Works, Carillion's internal learning resource. Over 3,000 employees attended training courses during 2001 at Learning Works – more than a 1,000 of these people attended environmental courses. Many others attended external courses and were involved in 'toolbox talks' and inductions, developed and delivered at site level.

In conjunction with the CITB we have also developed an interactive web-based course to increase awareness of sustainable development. This has been on trial in Carillion and will be made available to the industry in general during 2002.

Communication
We understand the importance of communicating with our people at all levels. In response to employee requests for increased face-to-face communication, in 2001 we introduced monthly Team Briefing. This enables us to cascade news and information to all our people on Group- wide initiatives, including sustainability, as well as issues specific to individual businesses. Most importantly, it provides a regular forum for two-way communication and a direct route for issues to be raised with any member of our senior management team.

We are currently rolling out our Valuing the Future workshops across the whole of the business, helping our people to understand and live our core Values throughout the business. Living our Values every day in the way we work with each other and with our customers and suppliers, will help Carillion to greater success.

2001 Performance – Objectives and Targets
2001 saw the completion of 13 two-year objectives, which were first adopted at the beginning of 2000. These objectives were supported by annual milestone targets and in 2001, 32 targets were adopted for delivery across Carillion. We are pleased to report that 84.4 per cent of the targets were fully or substantially achieved, compared to 78.9 per cent in 2000. Despite making our targets increasingly challenging, we have continued to improve our performance.

A detailed breakdown of our performance against 2001 targets and our two-year objectives can be found in our Internet Report – www.carillionplc.com/sustainability

Challenges for 2002

New two-year sustainability objectives have been set, together with annual targets for 2002. The scope and relevance of these targets was reviewed by our Sustainability Committee and senior management to ensure that they are aligned with strategic business objectives to deliver real benefits to the Group.

Our 2002 objectives are based around the Government's four objectives for sustainable development and are detailed below:

Protection of the Environment
Minimise negative impacts of Carillion's services and activities on the environment.

Prudent use of Natural Resources
Reduce waste production across Carillion.

Reduce energy consumption across Carillion.

Social Progress
Communicate and share Carillion's sustainability strategy, vision and policy and continually improve the way in which we engage with all our stakeholders.

Economic Growth and Prosperity
Demonstrate the business case for sustainability and engage Carillion's supply chain in the sustainability programme to improve the sustainable development performance of our suppliers to help us achieve our targets.

"Whichever way you cut it, the concept of 'sustainable construction' is going to become an increasingly important differentiator in this sector. With billions of pounds going into new hospitals, new schools, new infrastructure, let alone the normal flow of new buildings for work, leisure and retail, it's vitally important that these inputs into the UK economy produce not just economic benefits, but lasting social and environmental benefits. Carillion has an impressive track record in responding proactively to that challenge, and a clear leadership commitment to driving that agenda even harder in the future. It's an exciting time for me to be joining its Sustainability Committee."
Jonathan Porritt, Chairman of UK Government's Sustainable Development Commission and independent member of Carillion's Sustainability Committee.

Summary
The business case for sustainable development continues to increase, year on year. We recognise that companies offering more sustainable services and solutions will increasingly differentiate themselves from competitors.

Our achievements during the year have been substantial and we have made real progress towards becoming a more sustainable business. For example,
- 84.4 per cent of targets were fully or substantially achieved
- accident frequency rate improved by 16 per cent
- we strengthened our understanding and the delivery of economic benefits from environmental management
- we received over 30 awards.

We are looking forward to the next phase of our sustainable development in 2002. This will involve our stakeholders to ensure that we continue to advance and demonstrate that we can provide truly sustainable solutions for the way we live.

For a more detailed explanation of our sustainability strategy, targets and achievements please access our website on www.carillionplc.com/sustainability.

Strong cash flow from operations **enabled us to fund substantial acquisitions**

Reporting Segments
The most significant change to the presentation of the financial statements is the way in which we segment our results. The change to three segments has been made in order to report the results of businesses with similar risk profiles and returns in the same segment. This improves clarity and consistency and makes it easier to value our earnings, as well as facilitating comparison with our peers. The new segments are detailed elsewhere in the Annual Report but the following describes the major changes.

Investments reflect our share of turnover, profits and net assets coming from our equity stakes in Public Private Partnership projects.

Business Services includes the previous services segment (excluding Crown House Engineering) and our Infrastructure Management business (road and rail) as well as Facilities Management activities previously reported in Private Finance.

Construction Services includes the majority of those businesses previously in the Building and Capital Project segments plus Crown House Engineering (previously in Services) and the construction related PPP activities previously in the Private Finance segment.

The majority of profits reported in the new segments come from self-standing

Operating profit
(Before exceptional items)

£48.4m

Operating cash inflow
(Before exceptional items)

£60.6m

Acquisitions

£52.1m

Net cash

£51.6m

businesses (which trade with each other at arms length) and are easily identifiable. Common overheads are spread across businesses/segments based on usage of any particular service. Each segment bears its own PPP bid costs.

Treasury
The Group continues to operate a centralised treasury function, which is not a profit centre and does not enter into speculative financial transactions. Since the year-end, new revolving credit facilities totalling £145 million have been put in place, with maturities of three years. Facilities totalling £110 million maturing in 2002 have been cancelled.

In addition, there is substantial debt within Special Purpose Companies in which we have minority stakes relating to PPP projects. The lenders have no rights of recourse to Carillion for repayment. Full details of these schemes are contained in Note 14 on pages 57 and 58 of the accounts. Trading between these Special Purpose Companies and Carillion is strictly on an arms length basis controlled by independent boards with representatives of our other trade and financial investors. Certain interest rate exposures within the Special Purposes Companies relating to this non-recourse debt are hedged using interest rate derivatives.

Accounting Policies
As reported last year, our PPP assets are accounted for either as a debtor or a fixed asset dependent on the balance of risk attendant on the asset concerned (as required by FRS 5). Whilst this has little effect on overall PBT, the differing treatment does result in marked differences in the split between operating profit and interest. During the year four projects moved from construction into service operation, three of which are now accounted for as a contract debtor. The effect of this versus fixed asset accounting in the year has been a decrease of around £4.6 million in joint venture operating profit and a broadly corresponding decrease in joint venture net interest payable. PPP bid costs continue to be written off until we reach preferred bidder at which stage they are capitalised. Our historic success rate in getting from preferred bidder to financial close is 100 per cent.

Pensions
Note 30 on pages 71 and 72 to the accounts shows the disclosures required under FRS 17 'Retirement Benefits', which will be fully implemented for the year ending 31 December 2003. FRS 17 brings a radically different approach to accounting for defined benefit pension schemes requiring surpluses or deficits to be recognised in the employer's balance sheet and for scheme assets to be valued at market value at the balance sheet date. Liabilities are to be valued using appropriate corporate bond rates.

At 31 December 2001, the various schemes operated by Carillion had assets of £881.4 million and a surplus of £84.6 million.

Cashflow and Acquisitions
Operating cash inflow in the year before exceptional items was £60.6 million, compared to an operating profit before exceptional items of £48.4 million. Major non-operating expenditure in the year consisted of the acquisition of the remaining 51 per cent of GT Railway Maintenance for £34.5 million and the purchase of further equity in our PPP concessions of £17.6 million as detailed in Note 29 on page 68 of the accounts. The GT Railway Maintenance acquisition generated goodwill of £41.7 million, which will be written off over a 20-year period. Within the profit and loss account, interest relating to the Group is shown separately to that relating to joint ventures. Net interest for the Group was positive reflecting the improved cash performance in the year. Interest payable relating to joint ventures is largely attributable to non-recourse funding of PPP projects.

Chris Girling
Finance Director
13 March 2002

Corporate Governance Report

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 2001, the Company complied with the provisions set out in Section 1 of the Combined Code other than in respect of the duration of Executive Directors' service contracts. Whilst the Combined Code recommends the objective of reducing notice periods to one year (or less), the Board's current policy in this respect reflects the long term nature of many of the Group's project-related activities. As an exception to this, the Chief Executive's service contract is terminable by one year's notice.

With the appointment of John McDonough as Chief Executive on 1 January 2001, the roles of Chairman and Chief Executive both previously held by Sir Neville Simms were separated. Sir Neville became Non-Executive Chairman on 1 February 2001.

Directors

The Board

Following the reorganisation of the Board during the year, the Company is now headed by a Board comprising three Executive and four Non-Executive Directors (for details of the Board structure during 2001 see the Chairman's Statement on page 3). Throughout 2001, 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 Chief Executive, each of the Non-Executive Directors are considered to be independent of management: they each have wide areas of experience and have no business or other relationship which could materially interfere with their independent judgement. Jean-Paul Parayre is the senior independent Non-Executive Director in succession to Roger Brooke who stood down as a Director on 31 December 2001.

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 (with the exception of Sir Neville Simms) and, following the retirement of Roger Brooke at the end of 2001, is now 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 31 to 37.

The Audit Committee which comprises all the Non-Executive Directors and 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 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 are reviewed, including non-audit services, so as to ensure a proper balance between objectivity and value for money.

The Nominations Committee was established during 2001, its role having previously been undertaken by the Appointments and Remuneration Committee. The Nominations Committee comprises all the Non-Executive Directors and 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 their knowledge and therefore be of benefit to the Company, Executive Directors are permitted, at the discretion of the Board, to accept a limited number of such appointments and retain the fees received for such appointments. No Executive Director currently has such an external appointment.

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, the Chairman has a service contract initially for the period up to 31 January 2003.

The fees of Non-Executive Directors are for determination 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 fee levels, 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 page 32.

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.

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 meet regularly 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.

Accountability and Audit

Internal controls
The Board is ultimately responsible for the Group's system of internal control encompassing all significant financial and non-financial risks and for reviewing 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 guidance for Directors on internal control *Internal Control: Guidance for Directors on the Combined Code* (the 'Turnbull guidance'), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, including its joint ventures, that this 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.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed. 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. In reviewing the system of internal control, the Board has been mindful of the impact of the corporate restructuring as a part of the Business Improvement Programme.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

A process of control risk self-assessment and hierarchical reporting are established which provides for a documented and auditable trail of accountability. These procedures are relevant across Group operations and provide for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. This process is facilitated by Internal Audit which also reviews the operation and validity of the system of internal control. Planned corrective actions are independently monitored for timely completion.

At regular performance review meetings the management report to the Executive Directors, whose main role is to review, on behalf of the Board, the key risks inherent in the business and the system of control necessary to manage such risks. The results of these meetings are presented to the Board. Internal Audit independently reviews the risk identification procedures and control processes implemented by management, and reports to the Audit Committee on a regular basis. The Audit Committee reviews the assurance procedures ensuring that an appropriate mix of techniques is used to obtain the level of confidence required by the Board. The Audit Committee presents its findings to the Board on a regular basis and the Head of Internal Audit has access to the Audit Committee members if and when required.

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

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

Health and safety
The Board recognises that the social and ethical responsibilities in relation to the effective management of health and safety can lead to long term financial and non-financial benefits for the organisation and its stakeholders.

Health and safety is an item in the schedule of matters reserved for the Board and Roger Robinson, the Operations Director, has Board responsibility for these matters.

The Board has identified, evaluated and is managing significant risks in relation to health and safety. Controls provide a reasonable but not an absolute level of assurance that the risks identified are adequately managed to achieve business objectives and minimise losses or breaches of statutory requirements. Health and safety standards and performance expectations are constantly changing and the Board reviews how best to ensure that on-going processes for risk-focused health and safety management are integrated within the overall internal control framework.

Health and safety matters are reported at every meeting of the Board. The reporting and review process provides assurance to the Board as to the adequacy and effectiveness of internal controls. This process is facilitated by the Company's Health and Safety Committee, which is chaired by Roger Robinson. The managing directors and key senior managers of the Group's businesses attend this committee where policy and performance is reviewed.

Training in health and safety issues relevant to Executive Directors' responsibilities is provided on a regular basis.

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

Going concern
After making due enquiries, the Directors have a reasonable expectation that 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.

RF Tapp
Secretary
13 March 2002

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 all of the Non-Executive Directors (with the exception of Sir Neville Simms) 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.

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; annual performance bonus and share incentive schemes are 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.

Service contracts

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 current policy in this respect reflects the long term nature of many of the Group's project-related activities. As an exception to this, the Chief Executive's service contract is terminable by one year's notice from the Company. Upon termination of their employment, Executive Directors of the Company have no additional entitlement to compensation for loss of their office as Directors.

Euan McEwan and John Sharples left the employment of Carillion plc on 30 April and 30 September 2001 respectively. Whilst no ex-gratia payments were made to either for loss of office as a Director of the Company, John Sharples received cash compensation of £303,000 in respect of his terminated contract of employment. An additional payment of £110,000 was made to the Carillion 'B' Pension Scheme to provide additional pension. Euan McEwan received cash compensation of £333,800. At the discretion of the Remuneration Committee, the former Directors were allowed to retain a conditional interest to benefit from the Founders' Equity Plan and the Long Term Incentive Plan. Their interests were reduced pro-rata by reference to the total performance period for each Plan.

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 initially for a period of two years which commenced on 1 February 2001 and which will continue thereafter if both parties agree 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.

Annual performance bonus

Annual cash bonuses are reviewed each year by the Remuneration Committee which sets performance targets geared to profit, key financial indicators and individual performance objectives. The Executive Directors have the potential to earn annual bonuses up to a maximum of 50% of their basic salary for outstanding performance. The bonus arrangement for 2002 sets a financial performance target based on earnings per share and personal performance objectives that support the strategic objectives of the Company. While Executive Directors retain the maximum bonus opportunity of 50%, cash payments are limited to 30% with any bonus earned in excess of 30% being invested in the shares of the Company 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 funded unapproved retirement benefit schemes (FURBS) on behalf of the Executive Directors. Alternatively, a payment equal to the contribution the Group would have made to the FURBS is paid to the Executive Directors as a salary supplement. Contributions to the FURBS are reported as a benefit in kind on an annual basis. Salary supplements are taxed at source.

Directors' remuneration

The remuneration of the Directors of Carillion plc for the year ended 31 December 2001 is set out in the table below.

£000's	Basic salary/fees	Annual performance bonus	Other benefits	Total 2001	Total 2000
Executive Directors					
Sir Neville Simms (until 31 January 2001)	29	–	9	38	452
John McDonough	325	94	124	543	–
Chris Girling	225	63	14	302	246
Roger Robinson	230	62	37	329	230
Euan McEwan* also see below	72	–	8	80	208
John Sharples* also see below	172	–	10	182	228
Total for Executive Directors	1,053	219	202	1,474	1,364
Non-Executive Directors					
Sir Neville Simms (from 1 February 2001)	137	–	20	157	–
Roger Brooke*	35	–	15	50	50
Alan Coppin*	25	–	–	25	25
Roger Dickens	25	–	–	25	15
John-Paul Parayre	25	–	–	25	25
Andrew Parrish	25	–	–	25	19
Total for Non-Executive Directors	272	–	35	307	134
Total for all Directors	1,325	219	237	1,781	1,498

* Messrs McEwan and Sharples left the Company on 30 April and 30 September 2001 respectively and Messrs Brooke and Coppin both retired as Directors on 31 December 2001.

£000's	Compensation for loss of office
Euan McEwan	334
John Sharples	413
Total	747

The total emoluments in 2001 of Euan McEwan and John Sharples were respectively £414,000 (2000: £208,000) and £595,000 (2000: £228,000).

Included in Other benefits for John McDonough are relocation expenses of £35,750 and salary supplements in place of FURBS contributions paid in respect of John McDonough of £73,473 (2000: not applicable) and Roger Robinson £21,563 (2000: not applicable).

Contributions were payable to FURBS in respect of Chris Girling £41,760 (2000: £37,023), Roger Robinson £21,824 (2000: £59,465) and Euan McEwan £13,141 (2000: £46,289).

Whilst an Executive Director, Sir Neville Simms was not a member of the pension schemes operated by Carillion. He instead received a salary supplement equal to 25% of his basic salary which is included in Other benefits in the table above.

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

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

The 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.

	Age at 31.12.01	Years of pensionable service at 31.12.01	Increase in accrued pension during year	Total accrued pension at 31.12.01	Cash equivalent transfer value of increase in pension during the year
John McDonough	50	1	3,180	3,180	32,075
Chris Girling	47	2	3,295	6,890	30,879
Roger Robinson	50	12	3,952	36,412	42,833
Euan McEwan	46	6	1,586	19,334	14,454
John Sharples	53	26	24,422	133,335	329,599

The figures above for Chris Girling in the 2000 accounts assumed 1/45th accrual rate. The figures above have been restated to a 1/30th accrual rate.

Euan McEwan left active service on 30 April 2001 and retains a deferred pension of £19,334 as at the date of leaving.

John Sharples took early retirement from the Carillion 'B' Pension Scheme on 30 September 2001. His pension on that date, prior to reduction for early payment was £133,335 per annum. After reduction, John Sharples' pension (prior to commutation) was £109,334 per annum plus an additional benefit of £5,060 per annum.

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. The Board believes that these schemes complement the strategy of achieving growth in shareholder value by directly aligning the remuneration of the Executive Directors and senior employees to the interests of the shareholders. A Sharesave Scheme also operates to give UK employees the opportunity to have a financial stake in the Company.

The Founders' Equity Plan (FEP) is a one-off scheme which was established as an incentive for those employees who can contribute most 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 which 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 over a three year period. If the performance condition is not attained in full in the initial three year period, the FEP members have the option to remain in the FEP and extend the performance period by one or two years. In this instance, the performance condition is increased proportionately.

The initial performance period is the three years commencing 31 August 1999. 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 2002, Carillion's average share price over the previous six weeks must have been at least 276 pence for the options to be exercisable in full. If the share price does not reach 183.5 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.

At 31 December 2001, Executive Directors and senior managers held a total of 1,503,079 Investment Shares and options over 6,012,315 shares. Those options which have not been exercised by the tenth anniversary of their grant will lapse.

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.

At 31 December 2001, options over 4,060,463 ordinary shares of 50p each were outstanding under this scheme, exercisable on various dates up to June 2005 at an exercise price of 109.1p.

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 that 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 of Carillion over a rolling three year period must increase on a compound basis by at least four percentage points more than the increase in the Retail Prices Index over the same period. The aggregate value of options granted to an employee under the Executive Share Option Schemes would not normally exceed their basic salary in any year without the prior approval of the Remuneration Committee.

At 31 December 2001, options were outstanding over 1,401,126 shares under both schemes at exercise prices ranging from 129.5 pence to 186.4 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 closely aligned to Carillion's strategy, 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 against a comparator group of 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 the median, only 30% of the awards will vest. If ranking is below the median, none of the awards will vest. It is intended that conditional awards under the Plan will be made annually.

At 31 December 2001, conditional awards were outstanding over a total of 4,103,880 shares.

Conditional awards made to Executive Directors under these plans are set out in the following table of share incentives. The awards represent the maximum number of shares which 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 1 January 2000 and 1 January 2001 and the number of shares subject to the conditional awards were calculated using the share prices of 113.3p and 120.3p, the average share prices over the last six weeks of 1999 and 2000 respectively.

Share incentives of Directors of Carillion plc

	As at 1 January 2001	Conditional awards during the year	Lapsed	At 31 December 2001
Sir Neville Simms				
FEP (maximum)	987,364	–	–	987,364
LTIP (maximum)	308,914	–	–	308,914
John McDonough				
LTIP (maximum)	–	270,157	–	270,157
LTI Agreement (maximum)	–	191,041	–	191,041
Chris Girling				
FEP (maximum)	580,804	–	–	580,804
LTIP (maximum)	183,142	187,032	–	370,174
Roger Robinson				
FEP (maximum)	609,844	–	–	609,844
LTIP (maximum)	191,968	191,188	–	383,156
Euan McEwan*				
FEP (maximum)	580,804	–	580,804	Nil
LTIP (maximum)	174,315	178,719	275,561	77,473
John Sharples*				
FEP (maximum)	609,844	–	254,102	355,742
LTIP (maximum)	191,968	191,188	292,505	90,651

* Messrs McEwan and Sharples left the Group on 30 April and 30 September 2001 respectively.

Additionally, on 9 January 2001, the Company entered into a Long Term Incentive Agreement with John McDonough. Under this Agreement he was granted an award of 191,041 ordinary shares, conditional on the Company's total shareholder return over a two year performance period achieving certain levels relative to the total shareholder return achieved by a comparator group of companies over the same period. If John McDonough's employment ceases for any reason during the performance period, his award will lapse, unless the Remuneration Committee exercises its discretion to permit it to continue, or to vest early, in whole or part. In the event of a change of control or reconstruction of the Company during the performance period, the award will vest immediately, to the extent that the performance condition has been satisfied. The award may be adjusted if there is a variation in the Company's share capital. The award is not pensionable.

This Agreement forms part of the arrangements under which John McDonough agreed to accept the position of Chief Executive, and was designed to facilitate his recruitment.

It is intended that a grant under the Executive Share Option Schemes will be made to John McDonough in the period following the announcement of results for the year to 31 December 2001.

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

	As at 1 January 2001	Granted during the year	Exercised	Lapsed	As at 31 December 2001	Exercise Price	Earliest date from which exercisable	Expiry date
John McDonough								
ESOS (maximum)	–	501,930	–	–	501,930	129.5p	09.01.04	09.01.11
Roger Robinson								
Sharesave	2,699	–	–	–	2,699	109.1p	01.01.03	30.06.03
Euan McEwan								
Sharesave	2,699	–	1,432	1,267	Nil	109.1p	n/a	n/a
John Sharples								
Sharesave	4,702	–	–	–	4,702	109.1p	30.09.01	30.03.02

Euan McEwan was able to exercise a proportion of his Sharesave option under the Scheme's early leaver provisions. At the date Euan McEwan exercised his option, he had made a gain of £564.

There has been no change to the interests of Executive Directors in share incentives in the period 1 January to 13 March 2002.

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, the Trust had acquired 4,736,226 Carillion shares (2.23% of the issued share capital and a nominal value of £2.4 million) in the open market for a consideration of £6.0 million (2000: 3,236,226 Carillion shares (1.54% of the issued share capital and a nominal value of £1.6 million) at an open market consideration of £3.0 million). The market value of the shares held at 31 December 2001 was £6.6 million (2000: £4.0 million).

For details of dividends paid to the employee benefit trust see Note 15 to the Accounts on pages 58 and 59.

Additionally, a Qualifying Employee Share Ownership Trust (QUEST) has been established to operate in conjunction with Carillion in providing shares to employees under its Sharesave Scheme. At 31 December 2001, the QUEST held 1,572,765 Carillion plc ordinary shares at a subscription price of 117.5 pence per share, to enable it to satisfy, as and when required, options granted under the Sharesave Scheme. The QUEST elected to waive all dividends in excess of 0.01 pence per share. The market value of the shares held by the QUEST at 31 December 2001 was £2.2 million (2000: £1.9 million).

Directors' share interests
Ordinary shares
The Company's register of Directors' interests, which is open to inspection at the registered office, contains full details of Directors' shareholdings and share incentives. The beneficial interests of the Directors and their immediate families in the ordinary share capital of the Company are shown below:

Fully paid 50p ordinary shares owned:	As at 1 January 2001	As at 31 December 2001
Executive Directors		
John McDonough	–	200,000
Chris Girling	145,201	145,201*
Roger Robinson	173,248	175,078*
Non-Executive Directors		
Sir Neville Simms	416,473	427,041*
Roger Brooke	60,000	60,000
Alan Coppin	22,500	22,500
Roger Dickens	22,043	22,043
Jean-Paul Parayre	208,021	153,349
Andrew Parrish	10,101	10,101

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

There has been no change in Directors' interests in the period 1 January to 13 March 2002.

The closing mid-market price of Carillion shares at 31 December 2001 and the highest and lowest mid-market prices during the year were as follows:

	Share Price
31 December 2001	140p
High	205.5p (30 March 2001)
Low	124p (2 January 2001)

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 2001.

Principal Activities and Business Review
The Carillion Group is one of the UK's leading support services and construction groups, operating throughout the UK and in a number of overseas regional markets.

A review of the Group's businesses and financial performance is contained in the Operational Review on pages 16 to 21.

Analyses of turnover, results and net assets by business segment and geographical location are given in Note 2 on page 50.

Profits and Dividends
The consolidated profit and loss account is shown on page 42. The profit on ordinary activities before taxation amounted to £35.0 million (2000: £13.0 million). An interim dividend of 1.38 pence per ordinary share (2000: 1.34p) was paid in November 2001 and it is proposed to pay a final dividend of 3.02 pence per ordinary share (2000: 2.78p) on 28 June 2002 to shareholders on the register at the close of business on 3 May 2002. The payment of these ordinary dividends amounts to £8.9 million (2000: £8.6 million).

The Directors have resolved to no longer offer the scrip dividend alternative, with immediate effect. The Board believes this to be in the best interests of the Company as it will avoid the dilutive effect of issuing new shares under the scrip dividend scheme. A dividend reinvestment plan (DRIP) will however be offered commencing with the 2001 final dividend. Details of the DRIP are contained in 'Shareholder Information' on page 76.

Directors
The Directors of the Company during 2001 are shown on page 32 of the Remuneration Report. Biographical details for each Director at 31 December 2001 are given on pages 4 and 5.

John McDonough was appointed Chief Executive on 1 January 2001 and was elected at the Annual General Meeting held on 16 May 2001.

In accordance with the Articles of Association, Chris Girling and Andrew Parrish retire by rotation and, being eligible, offer themselves for re-election. Andrew Parrish is a member of the Remuneration, Nominations and Audit Committees and has a fixed term of appointment with the Company. Chris Girling has a contract of service which 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 pages 35 to 37.

Employees
Information relating to employee numbers and remuneration is given in Note 6 on page 54.

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 have been developed to emphasise the changing working practices required to succeed in an environment where partnership and integrated solutions are becoming the norm. These values of openness, collaboration and mutual dependency have been developed with input from both customers and employees.

It is policy for every employee to be treated with respect and dignity in a culture of equal opportunities in which personal success and the associated rewards depend on merit and performance. People with disabilities receive the same consideration as others with regard to recruitment, retention and personal development. 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. 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 Report on pages 22 to 25.

Substantial Share Interests
At 13 March 2002, the Company had received formal notification of the following substantial interests in the ordinary share capital of the Company:

	Number of shares held	Percentage
Fidelity International Limited and its direct and indirect subsidiaries	29,721,234	13.97
Schroder Investment Management Limited	27,954,841	13.14
Diageo Pension Trust Limited	7,883,170	3.71

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 those 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.

Charitable and Political Contributions
Payments for charitable purposes made by the Group during the year ended 31 December 2001 amounted to £123,000 (2000: £77,000). 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 15 May 2002 is included in separate documents posted to shareholders with this annual report and accounts.

Auditor
A resolution to reappoint KPMG Audit Plc as auditor and to authorise the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

By order of the Board

RF Tapp
Secretary
13 March 2002

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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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 Auditor's Report to the members of Carillion plc

We have audited the financial statements on pages 42 to 72.

Respective responsibilities of Directors and auditors
The Directors are responsible for preparing the Annual Report. As described on page 40, 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 28 to 30 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 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. 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

KPMG Audit Plc

13 March 2002
Birmingham

Carillion plc
Consolidated Profit and Loss Account
for the year ended 31 December 2001

	Note	2001 Before exceptional items £m	2001 Exceptional items (see Note 3) £m	2001 Total £m	2000 Before exceptional items as restated (see Note 14) £m	2000 Exceptional items (see Note 3) £m	2000 Total as restated (see Note 14) £m
Total turnover	2	**1,889.8**	–	**1,889.8**	1,909.0	–	1,909.0
Less: share of joint ventures' turnover	2	**(191.0)**	–	**(191.0)**	(223.4)	–	(223.4)
		1,698.8	–	**1,698.8**	1,685.6	–	1,685.6
Continuing operations		**1,627.6**	–	**1,627.6**	1,685.6	–	1,685.6
Acquisitions		**71.2**	–	**71.2**	–	–	–
Group turnover		**1,698.8**	–	**1,698.8**	1,685.6	–	1,685.6
Cost of sales		**(1,556.4)**	–	**(1,556.4)**	(1,542.9)	(25.0)	(1,567.9)
Gross profit		**142.4**	–	**142.4**	142.7	(25.0)	117.7
Administrative expenses		**(115.1)**	**(8.9)**	**(124.0)**	(115.3)	(5.0)	(120.3)
Group operating profit/(loss)		**27.3**	**(8.9)**	**18.4**	27.4	(30.0)	(2.6)
Continuing operations		**20.8**	**(8.9)**	**11.9**	27.4	(30.0)	(2.6)
Acquisitions		**6.5**	–	**6.5**	–	–	–
Share of operating profit in joint ventures	2	**21.1**	**(1.2)**	**19.9**	17.8	(2.0)	15.8
Total operating profit	2	**48.4**	**(10.1)**	**38.3**	45.2	(32.0)	13.2
Result/profit on sale of businesses	3	–	–	–	–	3.1	3.1
Net interest receivable/(payable)							
Group	4	**0.3**	–	**0.3**	(1.5)	–	(1.5)
Joint ventures	4	**(3.6)**	–	**(3.6)**	(1.8)	–	(1.8)
		(3.3)	–	**(3.3)**	(3.3)	–	(3.3)
Profit on ordinary activities before taxation	5	**45.1**	**(10.1)**	**35.0**	41.9	(28.9)	13.0
Tax on profit on ordinary activities	8	**(14.5)**	**3.3**	**(11.2)**	(13.8)	9.2	(4.6)
Profit on ordinary activities after taxation		**30.6**	**(6.8)**	**23.8**	28.1	(19.7)	8.4
Equity minority interests		**(3.1)**	–	**(3.1)**	(1.0)	–	(1.0)
Profit for the financial year		**27.5**	**(6.8)**	**20.7**	27.1	(19.7)	7.4
Equity dividends	10	**(8.9)**	–	**(8.9)**	(8.6)	–	(8.6)
Retained profit/(loss) for the Group and its share of joint ventures	24	**18.6**	**(6.8)**	**11.8**	18.5	(19.7)	(1.2)
Earnings per ordinary share	11						
– Basic		**13.4p**	**(3.3p)**	**10.1p**	13.3p	(9.7p)	3.6p
– Diluted		**13.3p**	**(3.3p)**	**10.0p**	13.3p	(9.7p)	3.6p
Dividends per ordinary share				**4.4p**			4.12p

Carillion plc
Consolidated Balance Sheet

	Note	At 31 December 2001 £m	At 31 December 2000 as restated (see Note 14) £m
Fixed assets			
Intangible assets	12	**42.8**	1.6
Tangible assets	13	**53.0**	47.1
Investments in joint ventures:	14		
Share of gross assets		**572.0**	517.5
Share of gross liabilities		**(516.7)**	(485.8)
		55.3	31.7
Loan advances		**5.5**	17.3
		60.8	49.0
Other investments	15	**2.7**	1.9
Total investments		**63.5**	50.9
		159.3	99.6
Current assets			
Stocks	16	**53.4**	46.4
Debtors	17	**572.5**	517.4
Investments	18	**9.4**	8.0
Cash at bank and in hand		**94.5**	84.3
		729.8	656.1
Creditors: amounts falling due within one year	19		
Borrowings		**(45.2)**	(16.3)
Other creditors		**(678.3)**	(584.0)
		(723.5)	(600.3)
Net current assets/(liabilities)			
Due within one year		**(24.9)**	36.1
Debtors due after more than one year	17	**31.2**	19.7
		6.3	55.8
Total assets less current liabilities		**165.6**	155.4
Creditors: amounts falling due after more than one year	20		
Borrowings		**(4.6)**	(19.0)
Other creditors		**(8.6)**	(6.8)
		(13.2)	(25.8)
Provisions for liabilities and charges	22	**(5.8)**	(0.9)
Net assets		**146.6**	128.7
Financed by:			
Capital and reserves			
Called up share capital	23	**106.3**	105.3
Share premium account	24	**5.3**	3.0
Revaluation reserve	24	–	0.1
Merger reserve	24	**8.2**	8.2
Profit and loss account	24	**23.5**	11.1
Equity shareholders' funds		**143.3**	127.7
Equity minority interests		**3.3**	1.0
		146.6	128.7

The accounts on pages 42 to 72 were approved by the Board of Directors on 13 March 2002 and were signed on its behalf by:

John McDonough Chief Executive

J. McDonough

Chris Girling Finance Director

Carillion plc

Company Balance Sheet

	Note	At 31 December 2001 £m	At 31 December 2000 £m
Fixed assets			
Investments in subsidiaries	14	**147.4**	112.9
Other investments	15	**2.7**	1.7
		150.1	114.6
Current assets			
Debtors due within one year	17	**204.2**	186.9
Cash at bank and in hand		**1.2**	16.0
		205.4	202.9
Creditors: amounts falling due within one year	19		
Borrowings		**(40.1)**	(55.6)
Other creditors		**(177.0)**	(123.6)
		(217.1)	(179.2)
Net current (liabilities)/assets		**(11.7)**	23.7
Total assets less current liabilities		**138.4**	138.3
Creditors: amounts falling due after more than one year	20		
Borrowings		**–**	(17.9)
Net assets		**138.4**	120.4
Financed by:			
Capital and reserves			
Called up share capital	23	**106.3**	105.3
Share premium account	24	**5.3**	3.0
Profit and loss account	24	**26.8**	12.1
Equity shareholders' funds		**138.4**	120.4

The accounts on pages 42 to 72 were approved by the Board of Directors on 13 March 2002 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 2001 £m	Year ended 31 December 2000 as restated (see Note 14) £m
Net cash inflow/(outflow) from operating activities	28(a)	**53.8**	(64.6)
Dividends received from joint ventures		**13.8**	7.9
Returns on investments and servicing of finance			
Dividend paid to minority interests		**(0.8)**	–
Interest paid		**(4.5)**	(5.9)
Finance lease charges		**(0.2)**	(0.1)
Interest received		**5.0**	5.2
Net cash outflow from returns on investments and servicing of finance		**(0.5)**	(0.8)
Corporate taxation paid		**(2.3)**	(1.1)
Capital expenditure and financial investment			
Payments to acquire fixed assets		**(18.1)**	(8.3)
Payments to acquire current asset investments		**(1.4)**	(2.7)
Payments to acquire fixed asset investments		**(0.3)**	(0.2)
Purchase of own shares by ESOP		**(3.0)**	(3.0)
Sale of tangible fixed assets		**6.9**	2.0
Net cash outflow from capital expenditure and financial investment		**(15.9)**	(12.2)
Acquisitions and disposals			
Purchase of business	29(a)	**(31.3)**	–
Sale of businesses	29(b)	**5.1**	3.4
Equity investment in joint ventures	29(a)	**(17.6)**	(3.5)
Loan repayments by/(advances to) joint ventures		**2.6**	(6.8)
Net cash outflow from acquisitions and disposals		**(41.2)**	(6.9)
Equity dividends paid		**(5.3)**	(4.6)
Net cash inflow/(outflow) before management of liquid resources and financing		**2.4**	(82.3)
Management of liquid resources			
Decrease/(increase) in short term deposits		**4.2**	(0.3)
Net cash inflow/(outflow) from management of liquid resources	28(c)	**4.2**	(0.3)
Financing			
Drawdown of debt		–	6.4
Repayment of finance leases	28(c)	**(1.9)**	(0.8)
Net cash (outflow)/inflow from financing		**(1.9)**	5.6
Increase/(decrease) in cash in the year	28(c)	**4.7**	(77.0)

Carillion plc
Consolidated Statement of Total Recognised Gains and Losses

	2001 £m	2000 £m
Profit for the financial year		
Group	**9.8**	(2.8)
Joint ventures	**10.9**	10.2
	20.7	7.4
Exchange movements	**0.5**	1.0
Total recognised gains and losses for the year	**21.2**	8.4

Reconciliation of Movements in Consolidated Equity Shareholders' Funds

	2001 £m	2000 £m
Profit for the financial year		
Group	**9.8**	(2.8)
Joint ventures	**10.9**	10.2
	20.7	7.4
Dividends	**(8.9)**	(8.6)
	11.8	(1.2)
New share capital subscribed by QUEST	**–**	1.8
Scrip dividend alternative	**3.3**	3.7
Exchange movements	**0.5**	1.0
Transfer arising on issue of shares to QUEST	**–**	(1.8)
Net addition to equity shareholders' funds	**15.6**	3.5
Opening equity shareholders' funds	**127.7**	124.2
Closing equity shareholders' funds	**143.3**	127.7

Notes to the Accounts

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 information set out herein.

Basis of accounting

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

On adoption of Financial Reporting Standard (FRS) 18 'Accounting policies' the Directors have considered the accounting policies and believe them to be the most appropriate policies for the Group.

Basis of preparation

Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to 31 December 2001. 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.

Joint arrangements

Where a Group company is party to a joint arrangement, that company accounts directly for its share of the revenue and expenditure, assets, liabilities and cash flows. Such arrangements are reported in the consolidated financial statements on the same basis.

Joint ventures

The Group's joint ventures are accounted for under the gross equity method. The principal joint ventures of the Group are set out on page 74.

Investments

Investments are stated at cost less provisions for impairment losses.

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.

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 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 results 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.

Turnover
Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to external customers. In respect of long term contracting activities, 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	3-7 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 using the liability method. Deferred tax assets or liabilities are only recognised to the extent that timing differences are expected to reverse in the foreseeable future.

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 accounts of overseas undertakings and joint ventures are translated into sterling at the rates of exchange ruling at the relevant balance sheet date. Gains or losses arising on the translation of the opening net assets of such overseas undertakings are taken to reserves together with exchange differences on related foreign currency borrowings.

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

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

Pensions
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.

On adoption of FRS 17 'Retirement benefits', the Group has followed the transitional provisions at 31 December 2001 as disclosed in Note 30.

PPP bid costs
Where the Group has been selected as preferred bidder for a PPP project and where, in the opinion of the Directors, the project is reasonably certain to achieve its financial close in the next twelve months, those costs estimated to be refunded on completion are included 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, operating profit and net assets

As described in the Financial Review on page 26 the definition of segments has been amended to bring the Group's reporting in line with most of our peers and to bring greater consistency and clarity to the way the Group reports its results by reflecting all activities of a similar nature in the same segment.

	Total turnover		Net assets/(liabilities)	
Class of business	**2001 £m**	2000 £m	**2001 £m**	2000 £m
Investments	**43.9**	25.8	**28.7**	12.9
Business services	**609.3**	524.9	**45.9**	5.0
Construction services	**1,335.9**	1,487.5	**29.4**	50.5
Internal trading	**(99.3)**	(129.2)	–	–
Corporate centre	–	–	**(9.0)**	9.5
Net cash	–	–	**51.6**	50.8
	1,889.8	1,909.0	**146.6**	128.7
Geographical origin:				
UK	**1,573.7**	1,573.1	**106.9**	78.7
Europe	**150.9**	157.3	**(23.8)**	(39.2)
Other	**165.2**	178.6	**11.9**	38.4
Net cash	–	–	**51.6**	50.8
	1,889.8	1,909.0	**146.6**	128.7

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

	2001			2000		
Operating profit	**Before exceptional operating items £m**	**Exceptional operating items £m**	**Total £m**	Before exceptional operating items £m	Exceptional operating items £m	Total £m
Investments	**5.5**	–	**5.5**	4.9	–	4.9
Business services	**29.8**	**(0.4)**	**29.4**	22.8	(2.0)	20.8
Construction services	**22.3**	**(4.7)**	**17.6**	25.7	(30.0)	(4.3)
Corporate centre	**(9.2)**	**(5.0)**	**(14.2)**	(8.2)	–	(8.2)
	48.4	**(10.1)**	**38.3**	45.2	(32.0)	13.2
Geographical origin:						
UK	**41.2**	**(9.1)**	**32.1**	35.0	(32.0)	3.0
Europe	**1.6**	**(1.0)**	**0.6**	2.9	–	2.9
Other	**5.6**	–	**5.6**	7.3	–	7.3
	48.4	**(10.1)**	**38.3**	45.2	(32.0)	13.2

Total turnover and operating profit of the Business services segment disclosed above includes turnover of £71.2m and operating profit of £6.5m arising solely in the UK relating to the post acquisition trading of GT Railway Maintenance Holdings Limited and its subsidiaries which was acquired on 26 September 2001 (see Note 29). Cost of sales and administrative expenses for the same period amounted to £62.6m and £2.1m respectively.

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

Class of business	Turnover 2001 £m	Turnover 2000 as restated £m	Net assets/(liabilities) 2001 £m	Net assets/(liabilities) 2000 as restated £m
Investments	**43.7**	25.1	**33.4**	15.7
Business services	**108.2**	128.8	**–**	8.3
Construction services	**46.1**	79.2	**27.4**	25.0
Internal trading	**(7.0)**	(9.7)	**–**	–
	191.0	223.4	**60.8**	49.0
Geographical origin:				
UK	**167.4**	176.1	**56.2**	45.2
Europe	**9.1**	7.1	**(2.3)**	(2.5)
Other	**14.5**	40.2	**6.9**	6.3
	191.0	223.4	**60.8**	49.0

The Group's share of the operating profit in joint ventures was as follows:

Class of business	2001 Before exceptional operating items £m	2001 Exceptional operating items £m	2001 Total £m	2000 Before exceptional operating items as restated £m	2000 Exceptional operating items £m	2000 Total as restated £m
Investments	**10.4**	**–**	**10.4**	5.1	–	5.1
Business services	**5.7**	**–**	**5.7**	8.1	(2.0)	6.1
Construction services	**5.0**	**(1.2)**	**3.8**	4.6	–	4.6
	21.1	**(1.2)**	**19.9**	17.8	(2.0)	15.8
Geographical origin:						
UK	**20.1**	**(1.2)**	**18.9**	15.0	(2.0)	13.0
Europe	**0.3**	**–**	**0.3**	0.7	–	0.7
Other	**0.7**	**–**	**0.7**	2.1	–	2.1
	21.1	**(1.2)**	**19.9**	17.8	(2.0)	15.8

3. Exceptional items

Group	2001 Gross £m	2001 Tax £m	2000 Gross £m	2000 Tax £m
Operating items:				
Exceptional cost of sales				
Provision against contract losses in Crown House Engineering	–	–	25.0	(7.1)
Exceptional administrative expenses				
Reorganisation costs	**8.9**	**(1.7)**	5.0	(1.5)
	8.9	**(1.7)**	30.0	(8.6)
Joint ventures:				
Reorganisation costs	**1.2**	–	2.0	(0.6)
	10.1	**(1.7)**	32.0	(9.2)
Non-operating items:				
Profit on sale of businesses	**(5.3)**	–	(3.1)	–
Provisions against retained contracts	**5.3**	**(1.6)**	–	–
	10.1	**(3.3)**	28.9	(9.2)

4. Net interest receivable/(payable)

Group	2001 £m	2000 £m
Interest receivable:		
Bank interest receivable	**2.7**	3.1
Other interest receivable	**2.1**	0.6
	4.8	3.7
Interest payable:		
Interest payable on bank loans and overdrafts	**(4.1)**	(4.8)
Other interest payable	**(0.4)**	(0.4)
	(4.5)	(5.2)
Net interest receivable/(payable)	**0.3**	(1.5)

Other interest payable includes finance lease charges of £0.2m (2000: £0.1m).

Joint ventures	2001 £m	2000 £m
Interest receivable:		
PPP projects	**11.5**	5.8
Other joint ventures	**0.6**	1.1
	12.1	6.9
Interest payable:		
PPP projects (net of interest capitalised)	**(14.9)**	(7.0)
Other joint ventures	**(0.8)**	(1.7)
	(15.7)	(8.7)
Net interest payable	**(3.6)**	(1.8)

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 £10.2m (2000: £9.3m).

5. Profit on ordinary activities before taxation

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

	2001 £m	2000 £m
Depreciation of tangible fixed assets	**12.5**	13.7
Impairment of tangible fixed assets	**3.5**	–
Profit on sale of tangible fixed assets	**(1.1)**	(0.3)
Amortisation of goodwill	**0.5**	0.1
Amortisation of own shares	**2.0**	–
Operating leases:		
Hire of plant and machinery		
– Short term	**30.4**	26.9
– Long term	**0.8**	0.7
Hire of other assets	**15.8**	15.2
Auditor's remuneration:		
Audit	**0.8**	0.8

Audit fees for the parent company included in the above amounted to £23,500 (2000: £23,000). Fees paid to KPMG Audit Plc and its associates in 2001 for UK non-audit services (principally taxation advisory services) amounted to £0.4m (2000: £0.4m).

6. Employee numbers and payroll costs

	2001 Number	2000 Number
The average number of employees including Directors during each year comprised:		
Investments	**43**	45
Business services	**6,357**	3,800
Construction services	**7,041**	8,510
Corporate centre	**268**	247
	13,709	12,602
UK	**10,430**	9,257
Overseas	**3,279**	3,345
	13,709	12,602

The aggregate payroll costs during each year amounted to:

	2001 £m	2000 £m
Wages and salaries	**288.7**	270.0
Social security costs	**35.1**	33.0
Other pension cost/(credit)	**4.1**	(0.9)
	327.9	302.1

Other pension cost/(credit) represents amounts in respect of the Group's UK and overseas schemes. The net credit of £0.9m in 2000 includes a £4.3m credit in respect of the principal UK schemes which results from the surpluses identified from an independent actuarial review of the schemes. As described in Note 30, no such credit has been recognised in 2001.

7. Directors' remuneration

Detailed information concerning Directors' remuneration, including their pension benefits and long term incentive arrangements, is set out in the report on remuneration and related matters on pages 31 to 37.

8. Taxation

	2001 £m	2000 £m
UK Taxation:		
Corporation tax at 30% (2000: 30%)	**2.5**	(1.8)
Transfers to/(from) deferred tax	**0.4**	(0.6)
Attributable taxation of joint ventures	**5.4**	3.8
Prior year adjustments		
– Corporation tax	**(0.3)**	(0.7)
– Transfers to deferred tax	**2.2**	1.2
Total UK taxation	**10.2**	1.9
Overseas taxation:		
Current year	**0.9**	2.6
Prior year adjustments	**0.1**	0.1
Total overseas taxation	**1.0**	2.7
Total tax on profit on ordinary activities	**11.2**	4.6

The tax charge for the year ended 31 December 2001 was increased by £1.2m (2000: £1.1m) relating to permanent tax disallowable expenditure and reduced by £0.4m (2000: £0.4m) relating to overseas profits not taxable and differences in overseas tax rates.

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 £23.6m (2000: £13.2m).

10. Dividends

	2001 £m	2000 £m
Equity shares		
Ordinary shares:		
Interim 1.38p per share paid (2000: 1.34p)	**2.8**	2.8
Final 3.02p per share proposed (2000: 2.78p)	**6.2**	5.8
Dividends waived (see Note 15 and remuneration report on page 36)	**(0.1)**	–
	8.9	8.6

11. Earnings per ordinary share

(a) Basic

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders, amounting to £20.7m (2000: £7.4m) by 205,485,587 (2000: 204,212,811) ordinary shares being the weighted average number of shares in issue during the year excluding those held by the Employee Share Ownership Plan (see Note 15) and the QUEST (see remuneration report on page 36).

(b) Adjusted

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):

	2001 £m	Pence per share	2000 £m	Pence per share
Profit attributable to ordinary shareholders	**20.7**	**10.1**	7.4	3.6
Exceptional items:				
Operating items	**10.1**	**4.9**	32.0	15.7
Result/profit on sale of businesses	**–**	**–**	(3.1)	(1.5)
Less taxation in respect of the above	**(3.3)**	**(1.6)**	(9.2)	(4.5)
	27.5	**13.4**	27.1	13.3

(c) Diluted

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

	Carillion plc Number of ordinary shares 2001 m	2000 m
Number of ordinary shares per basic earnings per share calculations	**205.5**	204.2
Adjustments to reflect dilutive shares under option	**1.3**	–
Number of ordinary shares per diluted earnings per share calculations	**206.8**	204.2

12. Intangible assets

Group	Goodwill £m
Cost:	
At 31 December 2000	1.8
Addition	41.7
At 31 December 2001	**43.5**
Amortisation:	
At 31 December 2000	0.2
Provision for year	0.5
At 31 December 2001	**0.7**
Net book value:	
At 31 December 2001	**42.8**
At 31 December 2000	1.6

The addition to goodwill relates solely to the acquisition of GT Railway Maintenance Holdings Limited as disclosed in Note 29. The goodwill relating to this acquisition is being amortised over 20 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 £1.8m at 31 December 2000 relates to the acquisition of the minority interests in the Group's French subsidiaries in 1998. The goodwill relating to this acquisition is being amortised over 20 years.

13. Tangible fixed assets

Group	Land and buildings £m	Plant, machinery and vehicles as restated £m	Total as restated £m
Cost or valuation:			
At 31 December 2000	22.8	45.5	68.3
Exchange rate adjustments	–	(0.4)	(0.4)
Acquisitions	0.9	9.2	10.1
Additions	1.2	16.9	18.1
Disposals	(3.6)	(24.4)	(28.0)
At 31 December 2001	**21.3**	**46.8**	**68.1**
Depreciation:			
At 31 December 2000	2.4	18.8	21.2
Exchange rate adjustments	–	(0.3)	(0.3)
Provision for year	0.9	11.6	12.5
Impairment	2.5	1.0	3.5
Eliminated in respect of disposals	(0.6)	(21.2)	(21.8)
At 31 December 2001	**5.2**	**9.9**	**15.1**
Net book value:			
At 31 December 2001	**16.1**	**36.9**	**53.0**
At 31 December 2000	20.4	26.7	47.1

Included in the net book value of plant, machinery and vehicles is £5.4m (2000: £1.5m) in respect of assets held under finance leases and hire purchase contracts. Depreciation for the year in respect of these assets amounted to £0.9m (2000: £0.4m).

The net book value of land and buildings comprise:

Group	2001 £m	2000 £m
Freehold	**9.6**	14.9
Long leasehold	**3.8**	3.3
Short leasehold	**2.7**	2.2
Net book value	**16.1**	20.4

The cost or valuation of land and buildings comprise:

Group	2001 £m	2000 £m
Cost	**20.2**	21.7
1985 valuation	**1.1**	1.1
	21.3	22.8

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

Freehold land held by the Group amounting to £1.6m (2000: £2.4m) has not been depreciated.

14. Investments

Group	Loans £m	Equity investments as restated £m	Total as restated £m
Investments in joint ventures			
Cost:			
At 31 December 2000	17.3	20.0	37.3
Equity investments (see Note 29)	–	17.6	17.6
Repayment of loans	(2.6)	–	(2.6)
Transfer on becoming a subsidiary	(9.2)	9.1	(0.1)
At 31 December 2001	**5.5**	**46.7**	**52.2**
Share of post acquisition results:			
At 31 December 2000		11.7	11.7
Exchange adjustments		0.2	0.2
Share of results for the year after taxation		10.9	10.9
Dividends paid		(13.8)	(13.8)
Transfer on becoming a subsidiary		(0.4)	(0.4)
At 31 December 2001		**8.6**	**8.6**
Net book value:			
At 31 December 2001	**5.5**	**55.3**	**60.8**
At 31 December 2000	17.3	31.7	49.0

Following the completion and settlement of certain power and process contracts of the kind the Group no longer undertakes, it has been determined that the joint ventures involved were acting as agent for the principal companies and therefore the contracts should be accounted for as joint arrangements. As a result, the joint venture balances have been reclassified primarily into stock, debtors and creditors with the comparative figures adjusted accordingly The profit and loss account and cash flow statement have also been restated. This reclassification has no effect on the Group's profit or net assets for either the current or preceding year.

The Group's aggregate share of the joint venture net assets are analysed below. The borrowings within PPP Projects totalling £463.6m (2000: £369.4m) are without recourse to the Carillion Group.

14. Investments (continued)

	PPP Projects 2001 £m	Other joint ventures 2001 £m	Total 2001 £m	PPP Projects 2000 £m	Other joint ventures 2000 as restated £m	Total 2000 as restated £m
Fixed assets	**114.9**	**22.1**	**137.0**	60.9	34.8	95.7
Cash	**101.5**	**2.7**	**104.2**	139.2	7.2	146.4
Other current assets	**297.1**	**33.7**	**330.8**	194.8	80.6	275.4
Share of gross assets	**513.5**	**58.5**	**572.0**	394.9	122.6	517.5
Borrowings due within one year	**(11.3)**	**(0.8)**	**(12.1)**	(5.5)	(2.4)	(7.9)
Other creditors due within one year	**(15.1)**	**(24.8)**	**(39.9)**	(15.3)	(82.6)	(97.9)
Borrowings due after one year	**(452.3)**	**(0.8)**	**(453.1)**	(363.9)	(7.6)	(371.5)
Other creditors due after one year	**(0.1)**	**(1.8)**	**(1.9)**	(0.7)	(0.3)	(1.0)
Provisions	**(6.8)**	**(2.9)**	**(9.7)**	(1.9)	(5.6)	(7.5)
Share of gross liabilities	**(485.6)**	**(31.1)**	**(516.7)**	(387.3)	(98.5)	(485.8)
	27.9	**27.4**	**55.3**	7.6	24.1	31.7
Loan advances	**5.5**	**–**	**5.5**	8.1	9.2	17.3
Share of net assets	**33.4**	**27.4**	**60.8**	15.7	33.3	49.0

Fixed assets and other current assets within PPP Projects include cumulative capitalised interest amounting to £6.5m (2000: £5.4m) and £23.8m (2000: £14.7m) respectively.

Company	2001 £m
Investments in subsidiaries	
Cost:	
At 31 December 2000	112.9
Acquisition	34.5
At 31 December 2001	**147.4**

The principal subsidiaries, joint ventures and associated undertakings which are included within these accounts are shown on page 74.

15. Other investments

	Other £m	Group Own shares £m	Total £m	Company Own shares £m
Cost:				
At 31 December 2000	0.2	3.0	3.2	3.0
Additions	0.3	3.0	3.3	3.0
At 31 December 2001	**0.5**	**6.0**	**6.5**	**6.0**
Provisions/amortisation:				
At 31 December 2000	–	1.3	1.3	1.3
Amortisation in year	–	2.0	2.0	2.0
Provision in year	0.5	–	0.5	–
At 31 December 2001	**0.5**	**3.3**	**3.8**	**3.3**
Net book value:				
At 31 December 2001	–	**2.7**	**2.7**	**2.7**
At 31 December 2000	0.2	1.7	1.9	1.7

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 Plan. Details of the plans are given in the Remuneration Report on pages 31 to 37.

During the year the trust acquired 1,500,000 shares in the Company for a consideration of £3.0m. At 31 December 2001 the trust held 4,736,226 (2000: 3,236,226) shares in the Company with a market value of £6.6m (2000: £4.0m).

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

The purchase cost of the shares is charged to the profit and loss account so as to spread the cost over the relevant performance period of the plans. Costs of administering the trust are charged to the profit and loss account as incurred.

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

16. Stocks

Group	**2001 £m**	2000 as restated £m
Raw materials:		
Land for development	**0.4**	0.4
Other raw materials	**17.3**	10.9
	17.7	11.3
Long term contract balances:		
Net cost less foreseeable losses	**6.9**	2.3
Work in progress – other	**27.9**	32.0
Finished goods and goods for resale	**0.9**	0.8
	53.4	46.4

17. Debtors

	Group		**Company**	
	2001 £m	2000 as restated £m	**2001 £m**	2000 £m
Amounts falling due within one year				
Trade debtors	**203.2**	136.8	**–**	–
Amounts recoverable on contracts	**246.9**	272.7	**–**	–
Amounts owed by group undertakings	**–**	–	**201.5**	186.0
Amounts owed by joint ventures	**10.9**	16.4	**–**	–
Amounts owed under joint arrangements	**29.8**	30.5	**–**	–
Other debtors	**13.8**	12.4	**2.7**	0.9
Prepayments and accrued income	**34.8**	21.4	**–**	–
Deferred taxation asset (see Note 22)	**1.9**	7.5	**–**	–
	541.3	497.7	**204.2**	186.9
Amounts falling due after more than one year				
Trade debtors	**7.4**	2.7	**–**	–
Amounts recoverable on contracts	**10.1**	9.6	**–**	–
Other debtors	**9.4**	3.1	**–**	–
Pension prepayment	**4.3**	4.3	**–**	–
	31.2	19.7	**–**	–
Total debtors	**572.5**	517.4	**204.2**	186.9

In respect of the Group, other debtors include pension prepayments in respect of the Shared Cost Sections of the Railways Pension Scheme amounting to £3.6m (2000: £0.3m) in less than one year and £9.2m (2000: £2.3m) after more than one year.

18. Current asset investments

Group	2001 £m	2000 £m
Listed investments	**0.7**	0.7
Unlisted investments	**8.7**	7.3
	9.4	8.0

Listed investments comprise Eurotunnel units and warrants which had a market value at 31 December 2001 of £0.8m (2000: £0.7m).

19. Creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 as restated £m	2001 £m	2000 £m
Bank loans and overdrafts	**42.9**	15.6	**40.1**	55.6
Net obligations due under finance leases	**2.3**	0.7	**–**	–
Borrowings	**45.2**	16.3	**40.1**	55.6
Payments received on account:				
Long term contracts	**92.6**	47.2	**–**	–
Other	**7.8**	4.1	**–**	–
Trade creditors	**309.1**	314.0	**–**	–
Bills of exchange payable	**7.6**	7.0	**–**	–
Amounts owed to group undertakings	**–**	–	**170.1**	117.5
Amounts owed to joint ventures	**13.0**	12.5	**–**	–
Amounts owed under joint arrangements	**4.2**	3.8	**–**	–
Corporation tax	**8.3**	1.5	**–**	–
Other taxation and social security costs	**34.8**	31.6	**–**	–
Proposed dividend	**6.2**	5.8	**6.2**	5.8
Other creditors	**48.4**	58.1	**0.2**	–
Accruals and deferred income	**146.3**	98.4	**0.5**	0.3
	723.5	600.3	**217.1**	179.2

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

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	**–**	17.9	**–**	17.9
Net obligations due under finance leases	**4.6**	1.1	**–**	–
Borrowings	**4.6**	19.0	**–**	17.9
Trade creditors	**4.6**	3.8	**–**	–
Amounts owed under joint arrangements	**0.3**	0.3	**–**	–
Accruals and deferred income	**3.7**	2.7	**–**	–
	13.2	25.8	**–**	17.9

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

The above bank loans are repayable as follows:

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Between one and two years	**–**	17.9	**–**	17.9

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

All bank loans and overdrafts are unsecured.

21. Financial instruments

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 principal 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, which are discussed in detail below 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:

	2001 Assets £m	2001 Liabilities £m	2001 Weighted average period until maturity of liabilities years	2000 Assets as restated £m	2000 Liabilities as restated £m	2000 Weighted average period until maturity of liabilities years
Nil coupon:						
Sterling	**7.6**	**5.8**	**1.9**	4.2	4.3	1.9
Canadian dollars	**7.3**	**0.4**	**1.5**	6.5	–	–
Euro currencies	**0.3**	**–**	**–**	0.3	–	–
Other	**2.6**	**2.4**	**1.5**	3.3	2.5	1.5
	17.8	**8.6**	**1.8**	14.3	6.8	1.8
Floating rate:						
Sterling	**55.5**	**17.1**		40.9	15.0	
Canadian dollars	**13.1**	**17.2**		10.0	18.1	
Euro currencies	**11.9**	**8.6**		14.2	0.4	
Other	**13.9**	**–**		18.0	–	
	94.4	**42.9**		83.1	33.5	
Fixed rate:						
Sterling	**–**	**6.5**		–	1.4	
Euro currencies	**–**	**0.2**		–	0.2	
Other	**–**	**0.2**		–	0.2	
	–	**6.9**		–	1.8	
Total	**112.2**	**58.4**		97.4	42.1	

Summary by currency

	Assets 2001	Liabilities 2001	Assets 2000	Liabilities 2000
Sterling	**63.1**	**29.4**	45.1	20.7
Canadian dollars	**20.4**	**17.6**	16.5	18.1
Euro currencies	**12.2**	**8.8**	14.5	0.6
Other	**16.5**	**2.6**	21.3	2.7
Total	**112.2**	**58.4**	97.4	42.1

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, are set out above. No interest rate swaps or caps have been entered into by the Group. Floating rate financial liabilities primarily 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 an 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 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:

	Net foreign currency monetary assets/(liabilities)					
Functional currency of Group operation	**Sterling £m**	**US Dollars £m**	**Irish Punts £m**	**Danish Kr £m**	**Other £m**	**Total £m**
At 31 December 2001						
Sterling	**–**	**(0.1)**	**0.3**	**7.3**	**(0.7)**	**6.8**
Euro currencies	**–**	**–**	**–**	**–**	**–**	**–**
Other	**–**	**7.3**	**–**	**–**	**–**	**7.3**
Total	**–**	**7.2**	**0.3**	**7.3**	**(0.7)**	**14.1**
At 31 December 2000						
Sterling	–	0.7	0.1	0.6	1.1	2.5
Euro currencies	–	–	–	–	–	–
Other	0.1	4.2	–	–	–	4.3
Total	0.1	4.9	0.1	0.6	1.1	6.8

At 31 December 2001 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 Group's financial liabilities, other than short term creditors such as trade creditors and accruals, is as follows:

	Overdrafts £m	Loans £m	Finance leases £m	Other financial liabilities £m	Total £m
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**
At 31 December 2000					
Between two and five years	–	–	0.4	1.7	2.1
Between one and two years	–	17.9	0.7	5.1	23.7
More than one year	–	17.9	1.1	6.8	25.8
Less than one year	15.6	–	0.7	–	16.3
	15.6	17.9	1.8	6.8	42.1

In addition, there were the following undrawn facilities, with an average maturity of 0.5 years in respect of which all conditions precedent had been met:

	2001 £m	2000 £m
Expiring in one year or less	**96.8**	–
Expiring in one year or less (but extendible by two years at the Group's option)	**43.5**	43.5
Expiring between one and two years	–	72.1
	140.3	115.6

In January 2002 new facilities totalling £145m were put in place which mature in 2005. Facilities totalling £110m have been cancelled. The new facilities, in addition to continuing existing facilities of £23.5m, now gives the Group access to committed credit facilities totalling £168.5m with maturities between 2004 and 2005. If the borrowings at 31 December 2001 are compared with the new facilities, there would be undrawn facilities with an average maturity of 2.8 years.

Fair Values
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.

The book and fair values of the Group's financial instruments at 31 December 2001 and 31 December 2000 are not materially different.

22. Provisions for liabilities and charges

	Deferred taxation £m	Other provisions £m
At 31 December 2000	(7.5)	0.9
Exchange rate movement	(0.1)	–
Transfer from profit and loss account	2.6	8.9
Acquisitions	3.1	–
Expenditure in year	–	(4.0)
At 31 December 2001	**(1.9)**	**5.8**

Deferred tax arising from acquisitions represents the combination of the book value of deferred tax at acquisition together with that element of the provision for deferred tax at fair value attributable to the acquisition of the remaining 51% of the share capital of GT Railway Maintenance Holdings Limited as described in Note 29.

Other provisions comprise redundancy and property exit costs arising from the Business Improvement Programme which are expected to be utilised within six months in respect of redundancy costs and two years in respect of property exit costs.

Deferred taxation included within debtors:

Asset recognised	**2001 £m**	2000 £m
Accelerated capital allowances	**0.3**	–
Other timing differences	**(2.2)**	(7.5)
	(1.9)	(7.5)

Asset not recognised	**2001 £m**	2000 £m
Accelerated capital allowances	**(5.0)**	(4.5)
Other timing differences	**(17.0)**	(19.8)
	(22.0)	(24.3)

The deferred tax asset is included within debtors (see Note 17).

23. Share capital

	2001 £m	2000 £m
Authorised		
Equity: 325,000,000 ordinary shares of 50p each	**162.5**	162.5

	Number m	Nominal Value £m
Allotted, called up and fully paid		
At 31 December 2000	210.7	105.3
Scrip dividend alternative	2.0	1.0
At 31 December 2001	**212.7**	**106.3**

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 31 to 37.

On 29 June 2001 1,221,272 ordinary shares of 50p each were issued at 186.6p following the scrip dividend alternative offered to shareholders in respect of the 2000 final dividend. On 16 November 2001 697,742 ordinary shares of 50p each were issued at 130.6p following the scrip dividend alternative offered to shareholders in respect of the 2001 interim dividend. In addition 78,014 ordinary shares of 50p each were issued at various times throughout the year at 109.1p in respect of the sharesave scheme.

24. Reserves

The movements on reserves are summarised as follows:

Group	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 31 December 2000	3.0	0.1	8.2	11.1	22.4
Exchange rate movements	–	–	–	0.5	0.5
Retained profit for the year	–	–	–	11.8	11.8
Scrip dividend alternative	2.3	–	–	–	2.3
Transfer	–	(0.1)	–	0.1	–
At 31 December 2001	**5.3**	**–**	**8.2**	**23.5**	**37.0**

Cumulative goodwill written off to reserves at 31 December 2001 amounted to £124.1m (2000: £124.1m). The merger reserve arose on the demerger from Tarmac plc on 29 July 1999.

Company	Share premium account £m	Profit and loss account £m	Total £m
At 31 December 2000	3.0	12.1	15.1
Retained profit for the year	–	14.7	14.7
Scrip dividend alternative	2.3	–	2.3
At 31 December 2001	**5.3**	**26.8**	**32.1**

25. Other guarantees and contingent liabilities

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Guarantees in respect of borrowings of subsidiaries, joint ventures and joint arrangements	–	–	**7.0**	–
Guarantees in respect of deferred equity payments in PPP joint ventures	**6.3**	9.3	**6.3**	9.3
Guarantees in respect of letters of credit issued by banks in respect of deferred equity payments in PPP joint ventures	**9.8**	12.2	**9.8**	12.2

Group
Guarantees and counter indemnities have been given to financial institutions for 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
Carillion plc 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

Commitments for capital expenditure	2001 £m	2000 £m
Contracts placed	**3.9**	0.2

Commitments for investments	2001 £m	2000 £m
Equity and subordinated debt in PPP joint ventures	**16.1**	21.0
Other fixed asset investments	–	0.3
	16.1	21.3

Commitments under non-cancellable operating leases	2001 Land and buildings £m	2001 Other £m	2000 Land and buildings £m	2000 Other £m
Annual commitments expiring:				
Within one year	**1.0**	**2.1**	1.5	1.9
In second to fifth year inclusive	**2.6**	**9.7**	1.3	5.2
Over five years	**5.3**	–	4.7	–
	8.9	**11.8**	7.5	7.1

27. Related parties
Group joint ventures
Sales and purchases between the Group and its joint ventures amounted to:

	2001 £m	2000 £m
Sales to Group joint ventures	**214.5**	118.5
Purchases from Group joint ventures	**7.0**	9.7

The debtor and creditor balances between the 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/(outflow) from operating activities

	2001 £m	2000 as restated £m
Group operating profit before exceptional items	**27.3**	27.4
Depreciation	**12.5**	13.7
Impairment of tangible fixed assets	**3.5**	–
Profit on disposal of fixed assets	**(1.1)**	(0.3)
Decrease in market value of listed current asset investments	–	0.1
Amortisation of goodwill	**0.5**	0.1
Amortisation of own shares	**2.0**	–
Provision against other fixed asset investments	**0.5**	–
Decrease in provisions	**–**	(3.0)
Decrease in stocks	**0.1**	13.5
Increase in debtors	**(11.2)**	(6.0)
Increase/(decrease) in creditors due within one year	**25.8**	(110.3)
Increase in creditors due after more than one year	**0.1**	1.2
Increase in bills of exchange	**0.6**	0.8
Net cash inflow/(outflow) from operating activities before exceptional items	**60.6**	(62.8)
Exceptional operating cash spend	**(6.8)**	(1.8)
Net cash inflow/(outflow) from operating activities	**53.8**	(64.6)

(b) Analysis of changes in net funds

	As at 1 January 2001 as restated £m	Cash flows £m	Acquisitions £m	Exchange rate movements £m	As at 31 December 2001 £m
Cash at bank and in hand	59.4	14.8	–	(0.1)	**74.1**
Bank overdrafts	(15.6)	(10.1)	–	–	**(25.7)**
	43.8	4.7	–	(0.1)	**48.4**
Short term deposits	24.9	(4.2)	–	(0.3)	**20.4**
Bank loans	(17.9)	–	–	0.7	**(17.2)**
Finance leases	(1.8)	1.9	(7.0)	–	**(6.9)**
Net funds	49.0	2.4	(7.0)	0.3	**44.7**

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

	2001 £m	2000 as restated £m
Increase/(decrease) in cash and bank overdrafts	**4.7**	(77.0)
(Decrease)/increase in short term deposits	**(4.2)**	0.3
Cash inflow from drawdown of debt	**–**	(6.4)
Cash outflow from finance leases	**1.9**	0.8
Movement in net funds resulting from cash flows	**2.4**	(82.3)
Finance leases of subsidiary undertakings acquired	**(7.0)**	–
Exchange rate movements	**0.3**	1.7
Other non-cash movements	–	(0.3)
Movement in net funds in the year	**(4.3)**	(80.9)
Net funds at 1 January	**49.0**	129.9
Net funds at 31 December	**44.7**	49.0

29. Acquisitions and disposals

(a) Acquisitions

The Group made equity investments amounting to £17.6m (see Note 14) in the following PPP joint venture companies:

	£m
Group 4 Carillion (Onley) Limited	0.7
The Hospital Company (Swindon & Marlborough) Holdings Limited	1.7
Town Hospitals (North Staffordshire) Holdings Limited	0.5
UK Highways M40 (Holdings) Limited	8.8
UK Highways A55 (Holdings) Limited	5.9
	17.6

On 26 September 2001, the Group acquired the remaining 51% of the issued share capital of GT Railway Maintenance Holdings Limited (GTRM).

The summarised profit and loss account of GTRM and its subsidiaries for the period 1 April 2001 to 26 September 2001 was as follows:

	£m
Turnover	140.9
Operating profit	7.5
Net interest receivable	0.6
Profit before taxation	8.1
Taxation	(2.4)
Profit after taxation	5.7
Preceding financial year ended 31 March 2001 – profit after taxation	13.8

Details of the acquisition are summarised below:

	Book value £m	Fair value adjustments £m	Fair value to the Group of 100% of GTRM £m
Tangible fixed assets	10.1	–	10.1
Stocks	8.0	–	8.0
Debtors due within one year	50.4	7.3	57.7
Cash	3.2	–	3.2
Creditors due within one year	(82.6)	(0.3)	(82.9)
Creditors due after more than one year	(6.2)	–	(6.2)
Deferred taxation	(2.1)	(1.9)	(4.0)
Net liabilities	(19.2)	5.1	(14.1)
Group share of net liabilities acquired (51%)			(7.2)
Goodwill arising on acquisition			41.7
Fair value of consideration			34.5

The fair value adjustments principally relate to a re-assessment of the Company's share of its pension scheme surplus.

Prior to becoming a subsidiary, GTRM was accounted for as a joint venture. In accordance with FRS 2 'Accounting for Subsidiary Undertakings', and in order to give a true and fair view, goodwill arising on acquisition has been calculated as the difference, at the date of each purchase, between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities attributable to the interest purchased. This represents a departure from the statutory method, under which goodwill is calculated as the difference between cost and fair value on the date GTRM became a subsidiary undertaking. The statutory method would not give a true and fair view because it would result in the Group's share of GTRM's retained reserves during the period that it was a joint venture being recharacterised as goodwill. The effect of this departure is to reduce retained profits and goodwill by £16.1m.

The total consideration of £34.5m was satisfied in cash and includes costs associated with the acquisition of £0.5m.

The effect of the above acquisition is disclosed in the cash flow statement as follows:

Consideration paid in respect of GTRM	34.5
Cash acquired	(3.2)
Cash outflow in respect of acquisitions per cash flow statement	31.3

GTRM and its subsidiaries made the following contribution to cash flows from the date of acquisition to 31 December 2001:

	£m
Net cash outflow from operating activities	(0.3)
Net cash outflow from returns on investments and servicing of finance	(0.1)
Corporate taxation paid	(0.8)
Net cash outflow from capital expenditure and financial investment	(3.1)
Net cash outflow from financing	(0.2)
Decrease in cash	(4.5)

(b) Disposals

During the year the Group disposed of Carillion Housing for consideration of £5.3m before disposal costs.

Details of the disposal are summarised below:

	£m
Book value of net assets disposed:	
Stocks	(0.6)
Debtors	(4.5)
Creditors	5.3
Net liabilities disposed	0.2
Fair value of consideration (net of disposal costs)	5.1
Provisions against retained contracts	(5.3)
Result on disposal	–
Cash inflow in respect of disposals per cash flow statement	5.1

Consideration received of £5.1m is stated net of disposal costs of £0.2m.

Carillion Housing did 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, the Group continued to suspend its contributions to the schemes throughout the year ended 31 December 2001.

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:

	% per annum	
	Staff Scheme	**'B' Scheme**
Interest rate	7.5	7.5
General salary and wage inflation	5.0	6.0
Pension increase rate	2.5	3.0

Variations in costs have been spread over the estimated average remaining working lifetime of the members of each scheme. The total pension credit in respect of these schemes during the year under review was £nil (2000: £4.3m).

Based on the actuarial valuation dated 31 March 2000 and under the provisions of a SSAP 24, the Group is able to take a credit to the profit and loss account for the current year of £3.6m. However, having taken actuarial advice following the fall in equity markets during late 2001, the Directors do not consider it appropriate to take a credit or a charge to the profit and loss account for the year ended 31 December 2001. An interim valuation of the schemes will be carried out at 31 March 2002.

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 schemes' 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 2001 were £1.9m (2000: £1.8m).

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 Trustee Company Limited. As GTRM was previously a joint venture with Alstom, members of the GTRM section only passed to Carillion in October 2001.

Shared cost arrangements are such that the employer and members share the cost of future service liabilities on a 60/40 split 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 2001 were £0.8m for GTRM and £0.1m for Centrac.

Independent actuaries appointed by the Railways Pension Trustee Company Limited carried out a formal valuation of the Railways Pension Scheme at 31 December 1998 using the attained age method and a discounted income basis using the following key financial assumptions:

Return on investments	6.75%
Pay inflation	4.50%
Increases in pensions and State basic pension increases	3.00%
Dividend growth	3.75%

The value of the assets of the GTRM section at the valuation date was £230.9m. These were adjusted to an actuarial value of £193.0m which represented 116% of the past service liabilities (taking account of future salary increases).

The value of the assets of the Centrac section at the valuation date was £34.9m. These were adjusted to an actuarial value of £29.3m which represented 115% of the past service liabilities (taking account of future salary increases).

The SSAP 24 charge in respect of these sections was £1.5m in respect of GTRM and £0.4m in respect of Centrac.

The next full valuation is due as at 31 December 2001.

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. 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.

Contributions to these schemes during 2001 were £0.3m (2000: £1.6m) in respect of defined contribution schemes and £nil in respect of the Canada scheme.

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

The principal assumptions used by the independent qualified actuaries in providing the FRS 17 position as at 31 December 2001 were:

Rate of increase in salaries	3.75%
Rate of increase in pensions	2.50%
Inflation rate	2.50%
Discount rate	5.80%

The market value 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 value 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 assets in the schemes as at 31 December 2001 were:

	Expected rate of return %	Staff Scheme £m	'B' Scheme £m	Public Sector Scheme £m	GTRM £m	Centrac £m	Canada £m	Total £m
Equities	7.25	261.0	66.7	45.8	233.9	27.8	10.1	645.3
Government bonds	4.75	53.0	13.7	12.9	20.2	3.6	5.8	109.2
Corporate bonds	5.75	60.5	15.3	1.5	–	–	–	77.3
Other	5.00	0.4	–	3.4	40.4	5.1	0.3	49.6
Market value		374.9	95.7	63.6	294.5	36.5	16.2	881.4
Present value of scheme liabilities		(360.0)	(82.0)	(58.0)	(221.0)	(33.4)	(11.8)	(766.2)
Surplus		14.9	13.7	5.6	73.5	3.1	4.4	115.2
Shared Cost Sections		–	–	–	(29.4)	(1.2)	–	(30.6)
Total surplus		**14.9**	**13.7**	**5.6**	**44.1**	**1.9**	**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 at 31 December 2001 would be as follows:

	£m
Net assets per balance sheet	**146.6**
SSAP 24 prepayment reversed (net of related deferred tax)	(13.9)
Revised net assets excluding pension asset	132.7
Net pension asset	59.2
Net assets including pension asset	**191.9**
Profit and loss reserve per balance sheet	**23.5**
SSAP 24 prepayment reversed (net of related deferred tax)	(13.9)
Revised profit and loss reserve excluding pension reserve	9.6
Pension reserve	59.2
Profit and loss reserve including pension reserve	**68.8**

Five Year Review

Profit and loss account	2001 £m	2000 as restated £m	1999 as restated £m	1998 as restated £m	1997 as restated £m
Total turnover	**1,889.8**	1,909.0	1,802.3	1,866.1	1,795.9
Less: share of joint ventures' turnover	**(191.0)**	(223.4)	(192.6)	(171.1)	(133.7)
Group turnover	**1,698.8**	1,685.6	1,609.7	1,695.0	1,662.2
Group operating profit/(loss)					
Operating profit before exceptional items	**27.3**	27.4	24.8	21.0	22.8
Exceptional operating items	**(8.9)**	(30.0)	(1.5)	(4.5)	–
	18.4	(2.6)	23.3	16.5	22.8
Share of operating profit in joint ventures:					
Operating profit before exceptional items	**21.1**	17.8	18.0	22.0	7.8
Exceptional items	**(1.2)**	(2.0)	-	(1.4)	-
Total operating profit	**38.3**	13.2	41.3	37.1	30.6
Result/profit on sale of businesses	–	3.1	-	-	-
Net interest receivable/(payable):					
Group	**0.3**	(1.5)	(3.7)	(16.9)	(11.6)
Joint ventures	**(3.6)**	(1.8)	(2.5)	(0.7)	0.2
Profit on ordinary activities before taxation	**35.0**	13.0	35.1	19.5	19.2
Tax on profit on ordinary activities	**(11.2)**	(4.6)	(11.6)	(13.6)	(5.4)
Equity minority interests	**(3.1)**	(1.0)	0.1	(0.1)	(0.2)
Profit for the financial year	**20.7**	7.4	23.6	5.8	13.6
Balance sheet					
Intangible assets	**42.8**	1.6	1.7	1.7	–
Tangible assets	**53.0**	47.1	54.2	60.5	86.3
Investments in joint ventures:					
Share of gross assets	**572.0**	517.5	275.9	259.0	146.9
Share of gross liabilities	**(516.7)**	(485.8)	(259.8)	(223.6)	(147.7)
	55.3	31.7	16.1	35.4	(0.8)
Loan advances	**5.5**	17.3	19.7	4.4	13.6
	60.8	49.0	35.8	39.8	12.8
Other investments	**2.7**	1.9	-	-	-
Working capital	**(55.3)**	(29.0)	(101.5)	(160.9)	(129.5)
Investments	**9.4**	8.0	5.4	1.6	-
Tax and dividends	**(12.6)**	0.2	0.3	32.8	39.2
Cash (net)	**51.6**	50.8	132.2	135.4	78.7
	152.4	129.6	128.1	110.9	87.5
Shareholders' funds and minority interests	**146.6**	128.7	124.2	107.0	48.2
Provisions for liabilities and charges	**5.8**	0.9	3.9	3.9	39.3
	152.4	129.6	128.1	110.9	87.5
Operating ratio					
Operating profits on turnover %	**2.0**	0.7	2.3	2.0	1.7
Financial ratios					
Gearing %	**Nil**	Nil	Nil	Nil	Nil
Interest covered by operating profit times	**11.6**	4.0	6.7	2.1	2.7
Dividend cover times	**2.3**	0.9	2.9	n/a	n/a
Share information					
Dividends per ordinary share	**4.4p**	4.12p	4.0p	n/a	n/a
Earnings per share on published earnings	**10.1p**	3.6p	11.5p	n/a	n/a
Adjusted earnings per share (excluding exceptional items)	**13.4p**	13.3p	12.0p	n/a	n/a

Carillion plc

Principal subsidiaries, associated undertakings and joint ventures

All subsidiary, associated undertakings, joint ventures and joint arrangements 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 and all associated undertakings, joint ventures and joint arrangements are 50% owned. Shares of those undertakings marked with an asterisk are directly owned by Carillion plc.

Principal subsidiaries undertakings	Nature of business
Avery Hill Developments Holdings Ltd	Facility management services
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 Construction Ltd*	Construction and infrastructure management
Carillion Fleet Management Ltd*	Agent for hire and lease 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 services
GT Railway Maintenance Ltd†	Maintenance of railway infrastructure
Monteray Ltd 51%	Property and facility management services
Postworth Ltd*	Supply of operatives to the construction industry
Schal International Management Ltd*	Construction and project management
Stanger Asia Ltd*	Environmental consultancy services
The Expanded Piling Company Ltd*	Contract piling and associated works
The Markfield Group Ltd*	Insurance broking

† Annual accounts made up to 31 March.

Principal joint ventures & associated undertakings

Public Private Partnerships

Accommodation Services (Holdings) Ltd	40%
Arrow Light Rail Holdings Ltd	12.5%
Education Care & Discipline Ltd	
Education Care & Discipline Three Ltd	
Group 4 Carillion (Fazakerley) Ltd	
Group 4 Carillion (Onley) Ltd	
The Hospital Company (Darenth) Holdings Ltd	30%
The Hospital Company (Swindon & Marlborough) Holdings Ltd	33.3%
Town Hospitals (North Staffordshire) Holdings Ltd	
Town Hospitals (Southern General) Holdings Ltd	
UK Court Services (Manchester) Holdings Ltd	33.3%
UK Highways A55 (Holdings) Ltd	50%
UK Highways M40 (Holdings) Ltd	50%

Others

Al Futtaim Tarmac (Pte) Ltd (UAE)	49%**
Maxxiom Ltd	
PJ Walls (Civil) Ltd (Ireland)	
RT (Bridgend) Ltd	
Star Site plc*	33%
Tarmac Alawi LLC (Oman)	49%
TBV Power Ltd	
Weaverbridge Ltd	33%

** Tarmac retain an indirect business interest

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 147 PO Box 1920 1023 Copenhagen Denmark
A55 Tarmac/ Laing JV	50%	Anglesey North Wales
Amec-Tarmac JV	50%	Manchester Airport Manchester England

Shareholder Information

Dividends
Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2001 will be payable on 28 June 2002 to those shareholders on the register on 3 May 2002.

The Directors have resolved to no longer offer the scrip dividend alternative, with immediate effect. The Board believes this to be in the best interests of the Company as it will avoid the dilutive effect of issuing new shares under the scrip dividend scheme. A dividend reinvestment plan (DRIP) will however be offered commencing with the 2001 final dividend. The DRIP differs from the scrip dividend scheme in that no new shares are issued to shareholders, rather existing shares are purchased in the market with dividend monies. Details including information on how fractional entitlements will be dealt with will be sent to shareholders in due course.

Results
Half year to 30 June 2002: announced 11 September 2002
Full year to 31 December 2002: announced March 2003

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
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 Annual General Meeting to be held on 15 May 2002 you may, if you wish, register the appointment of a proxy electronically by logging onto 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 onto 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.

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

Auditor
KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

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

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

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

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Linklaters & Alliance
One Silk Street
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Internet
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carillion

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Printed CTD Capita on Zanders Mega Matt – a paper manufactured using 50% recycled de-inked fibre and 50% TCF (totally chlorine free) pulp, and is sourced from sustainable forests. The paper has been awarded the Nordic Swan environmental label for low emissions during production.