

**ALFRED McALPINE UTILITY SERVICES GROUP
LIMITED**
(FORMERLY KENNEDY CONSTRUCTION GROUP LIMITED)
and its subsidiaries

REPORT AND ACCOUNTS

14 months to 31 December 2001



**ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
and its subsidiaries**

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REPORT OF THE DIRECTORS

Following a change in the accounting reference period from October to December, the directors now submit their report and the accounts for the 14 months ended 31 December 2001. On 31 December 2001 the company changed its name to Alfred McAlpine Utility Services Group Limited.

PRINCIPAL ACTIVITIES

The principal activities of the company and its subsidiaries comprise public works contracting and other ancillary activities.

REVIEW OF THE BUSINESS

Prior to the purchase of the Kennedy Group on 21 March 2001 by Alfred McAlpine PLC the company acted as an intermediate holding company for the Kennedy Group, with its ultimate parent company being Proby Limited. Following the acquisition, the group has been restructured and the company now acts as the parent company for all companies in the Alfred McAlpine Utility Services Group (formerly Kennedy Construction Group).

During the period the Group has made four acquisitions. The first of these was the purchase of Ryan Utility Services Limited on 27 November 2001 for the consideration of £5,773,670. This acquisition was to strengthen the groups position within the Utility sector by increasing market share and gaining entry to new strategic utility contracts. Also on 19 December the group purchased the remaining shares in its joint venture Encore Environmental Aggregates Limited for a consideration of £1. This company's main activity is the recycling of by-products arising from roadwork excavations and the acquisition was made to ensure that a full service provision from start to finish could be offered to contract clients, including the re-use and disposal of by-products. The acquisition also demonstrates the Groups commitment to continuously improving environmental practices within its operations as a whole.

The other two acquisitions were of Proby Limited, previously the ultimate holding company and Bertrem Limited, previously an intermediate holding company of Kennedy Construction Group. These acquisitions were made from Alfred McAlpine PLC and were undertaken to complete the restructuring of the Alfred McAlpine Utility Services Group.

After the period end two significant post balance sheet events took place. The first was the disposal of a subsidiary company Kennedy Asphalt Limited and the second was an investment in a new joint venture with Scottish Power. Both these strategic changes were made to ensure the company is clearly focused on providing high quality infrastructure services to its clients. Further details can be found in note 23.

The Group achieved a very good performance in the 14-month period. Turnover increased significantly to £177m in 14 months (2000: £131m – 12 months). Pro rata this is an increase of 15% on the previous year and the impact of Ryan Utility Services Limited was small as the acquisition was made late in the financial period. In the main the increase was due to the increasing workload on the two partnering gas contracts as Transco further accelerated their mains replacement program.

Gross profit margins on contracts were maintained at 9.9% (2000: 10.0% excluding exceptional charge) despite increasing competition in the sector. The focus has been to continuously offer clients a broader range of added value services to ensure margins are sustainable. Profit before tax has increased in the period to £7.2m in 14 months (2000: £6.0m – 12 months) a pro-rata increase of 3%.

REPORT OF THE DIRECTORS (continued)

RESULTS AND DIVIDENDS

The results of the group for the year are set out in detail on page 7.

Dividends of £405,000 were paid during the year (2000 - £4,000,000). No final dividend was recommended to be paid (2000 - £3,000,000). Details of dividends payable in relation to each class of share in issue are disclosed in note 10 to the accounts.

In the opinion of the directors, it is thought that the presentation of a consolidated profit and loss account and balance sheet, but not a cash flow statement, add more value to the understanding of the groups activities from the users perspective.

DIRECTORS

The directors who served during the year were as follows:

P V Carolan	
S E Atkinson	resigned 14 August 2001
P Carney	
S D B Carter	resigned 1 February 2002
J W Reid	
S J Doughty	resigned 21 March 2001
A P Jackson	appointed 21 March 2001
I M Grice	appointed 21 March 2001
N D Cocker	appointed 5 November 2001

DIRECTORS' INTERESTS

None of the directors had an interest in the share capital of the company during the period.

Directors' interests in the shares of Alfred McAlpine PLC, are detailed in note 7 of the financial statements.

EMPLOYEES

It is the Group's policy to communicate with and involve employees on matters affecting their interests at work, and inform them of the performance of the business.

The Group has an established policy of encouraging the employment of disabled persons wherever this is practicable. In compliance with the current legislation the company seeks to employ at least the quota of disabled persons required. The Group endeavours that disabled employees benefit from training and career development programmes in common with all employees.

SUPPLIER PAYMENT POLICY

It is the policy of both the Company and the Group to make payment on their standard terms to suppliers unless alternative terms are agreed. The Company and the Group both seek to abide by these payment terms, provided that they are satisfied that the supplier has complied with the agreed terms and conditions. The Company's average creditor days during the period were 45 days (2000 - 46 days)

CHARITABLE CONTRIBUTIONS

Contributions during the year to United Kingdom charitable organisations amounted to £4,831 (2000 - £4,290).

REPORT OF THE DIRECTORS (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 the group as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

AUDITORS

Deloitte & Touche resigned as auditors on 21 March 2001. PricewaterhouseCoopers were duly appointed and a resolution to re-appoint PricewaterhouseCoopers will be proposed at the annual general meeting.

By order of the board



G J Forster
Secretary

30 October 2002

**Independent Auditors' report to the members of Alfred McAlpine Utility Services Group Limited
(formerly Kennedy Construction Group Limited)**

We have audited the financial statements which comprise the Group profit and loss account, the balance sheets, the statement of total recognised gains and losses, note of historical cost profits and losses, the reconciliation of movements in the shareholders' funds, the accounting policies and the related notes to the accounts.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

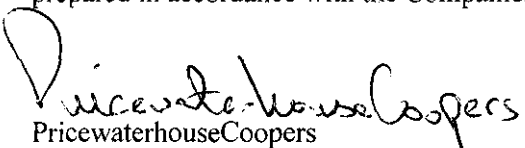
Basis of audit opinion

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 Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and Group at 31 December 2001 and of the profit of the Group for the 14 month period then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Manchester
30 October 2002

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
and its subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the 14 month period to 31 December 2001

	Note	14 months to 31 Dec 2001 £'000	12 months to 29 Oct 2000 £'000
TURNOVER	1		
-Continuing		173,414	131,451
-Acquisitions		<u>3,610</u>	<u>-</u>
		177,024	131,451
Cost of sales:			
Exceptional	2b	-	1,347
Other		<u>159,589</u>	<u>118,211</u>
		<u>(159,589)</u>	<u>(119,558)</u>
GROSS PROFIT			
-Continuing		17,026	11,893
-Acquisitions		<u>409</u>	<u>-</u>
		17,435	11,893
Administrative expenses		<u>(10,204)</u>	<u>(5,537)</u>
OPERATING PROFIT	2a		
-Continuing		7,413	6,356
-Acquisitions		<u>(182)</u>	<u>-</u>
		7,231	6,356
Share of profit/(loss) in joint venture		<u>172</u>	<u>(93)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST			
-Continuing		7,585	6,263
-Acquisitions		<u>(182)</u>	<u>-</u>
		7,403	6,263
Interest receivable and similar income	3	61	93
Interest payable and similar charges	4	<u>(315)</u>	<u>(372)</u>
		<u>(254)</u>	<u>(279)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			
Tax on profit on ordinary activities	8	<u>7,149</u>	<u>5,984</u>
		<u>(1,701)</u>	<u>(2,001)</u>
PROFIT FOR THE FINANCIAL YEAR			
Dividends on equity shares	10	<u>5,448</u>	<u>3,983</u>
		<u>(405)</u>	<u>(7,000)</u>
RETAINED PROFIT/(LOSS) FOR THE YEAR	20	<u>5,043</u>	<u>(3,017)</u>

All the activities relate to continuing operations and arise in the United Kingdom.

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
and its subsidiaries

CONSOLIDATED BALANCE SHEET

31 December 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	11	6,350	5,361
Intangible assets	13	32,435	149
Investments	12	<u>2</u>	<u>-</u>
		38,787	5,510
CURRENT ASSETS			
Stock	14	1,935	733
Debtors - due within one year	15	144,145	30,968
Debtors - due after more than one year	15	877	9,972
Cash at bank and in hand		<u>8,861</u>	<u>6,898</u>
		155,818	48,571
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	<u>(168,189)</u>	<u>(33,307)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(12,371)</u>	<u>15,264</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		26,416	20,774
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	(228)	(244)
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(1,206)</u>	<u>(859)</u>
NET ASSETS		<u>24,982</u>	<u>19,671</u>
CAPITAL AND RESERVES			
CALLED UP SHARE CAPITAL	19	219	219
RESERVES			
Revaluation reserve	20	547	287
Profit and loss account	20	<u>24,216</u>	<u>19,165</u>
		24,763	19,452
Equity shareholders' funds		24,981	19,670
Non-equity shareholders' funds		<u>1</u>	<u>1</u>
TOTAL SHAREHOLDERS' FUNDS		<u>24,982</u>	<u>19,671</u>

Approved by the board of directors on 30 October 2002

P V Carolan

N D Cocker

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
and its subsidiaries

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the 14 month period to 31 December 2001

	Note	2001 £'000	2000 £'000
Profit for the financial year		5,448	3,983
Surplus on revaluation of properties	20	<u>268</u>	<u>-</u>
Total recognised gains and losses for the 14 month period		<u>5,716</u>	<u>3,983</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES

for the 14 month period to 31 December 2001

	2001 £'000	2000 £'000
Reported profit on ordinary activities before taxation	7,149	5,984
Difference between historical cost depreciation and the actual depreciation charge	<u>8</u>	<u>23</u>
Historical cost profit on ordinary activities before taxation	<u>7,157</u>	<u>6,007</u>
Historical cost profit/(loss) for the year after taxation and dividends	<u>5,051</u>	<u>(2,994)</u>

**RECONCILIATION OF MOVEMENTS
IN SHAREHOLDERS' FUNDS**

for the 14 month period to 31 December 2001

	2001 £'000	2000 £'000
Profit for the financial year	5,448	3,983
Dividends	<u>(405)</u>	<u>(7,000)</u>
	5,043	(3,017)
Movement on revaluation reserve	<u>268</u>	<u>-</u>
Net movement in shareholders' funds	5,311	(3,017)
Opening shareholders' funds	<u>19,671</u>	<u>22,688</u>
Closing shareholders' funds	<u>24,982</u>	<u>19,671</u>

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
and its subsidiaries

PARENT COMPANY BALANCE SHEET

31 December 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	11	4,104	3,315
Investments	12	<u>104,831</u>	<u>725</u>
		108,935	4,040
CURRENT ASSETS			
Stock	14	-	28
Debtors - due within one year	15	22,874	9,930
Debtors - due after more than one year	15	-	8,925
Cash at Bank & in hand		<u>48</u>	<u>-</u>
		22,922	18,883
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	<u>(126,216)</u>	<u>(20,763)</u>
NET CURRENT LIABILITIES		<u>(103,294)</u>	<u>(1,880)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,641	2,160
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	-	(210)
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>(27)</u>	<u>(27)</u>
NET ASSETS		<u>5,614</u>	<u>1,923</u>
CAPITAL AND RESERVES			
CALLED UP SHARE CAPITAL	19	219	219
RESERVES			
Revaluation reserve	20	547	287
Profit and loss account	20	<u>4,848</u>	<u>1,417</u>
		5,395	1,704
TOTAL SHAREHOLDERS' FUNDS		<u>5,614</u>	<u>1,923</u>
Attributable to equity shareholders		5,613	1,922
Attributable to non-equity shareholders		<u>1</u>	<u>1</u>

Approved by the board of directors on 30 October, 2002

P V Carolan

N D Cocker



NOTES TO THE ACCOUNTS

31 December 2001

1. ACCOUNTING POLICIES

The Group accounts are prepared on the historical cost basis except for the revaluation of certain land and buildings and include the financial statements of the Company and all of its subsidiary undertakings made up to 31st December. They are prepared in accordance with applicable accounting standards. The Group and Company have implemented FRS 17 "Retirement Benefits" and FRS 18 "Accounting policies" which have had no material effect. The principle policies adopted by the company are detailed below;

BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of the company and all its subsidiaries and include the group share of the reserves of the joint venture company. The accounts of subsidiaries are made up to the same date as the parent company. The results of the joint venture company, which has a 31 December year end, are included based on management accounts as at the group's year end.

GOODWILL ON CONSOLIDATION

Purchased goodwill arising since 27 October 1996 is amortised on a straight line bases over its useful economic life which to date is considered to be 20 years, based on forecasts of future profitability and cash generation. Permanent diminutions are charged to the profit and loss account. Goodwill arising on consolidation in previous years was written off against reserves in the year of acquisition.

FOREIGN EXCHANGE

Exchange rates used to translate overseas profits and currency assets and liabilities (other than shares held in overseas subsidiaries) are at the rates ruling at the balance sheet date. The differences arising on the retranslation of the group's share at the beginning of the year of net assets of overseas subsidiaries are treated as movements on reserves. All other currency adjustments are included in the profit before taxation.

TURNOVER

Turnover represents the value of work carried out and goods and services provided during the year, in line with agreed contractual terms. Full provision is made for losses on a contract and no credit is taken for claims by the company until there is a firm agreement with the client.

DEPRECIATION

Depreciation is provided at rates estimated to write off fixed assets over their anticipated lives and is applied from the month following that in which they are first brought into use.

The rates are as follows:

Land and buildings:

Freehold land	- Nil%
Freehold buildings	- 2.5% on cost or revalued amount
Leasehold	- equal annual instalments over the period of the lease
Plant and machinery	- 10% to 50% on cost
Wagons and other vehicles	- 25% to 100% on cost

Surpluses on revaluation of properties are transferred to revaluation reserve. Shortfalls between cost and valuation on individual properties are charged to the profit and loss account.

NOTES TO THE ACCOUNTS

31 December 2001

1. ACCOUNTING POLICIES continued

FIXED ASSETS

Fixed assets are stated at historical cost less depreciation with the exception of land and buildings that are revalued in accordance with FRS15. Land and buildings have an interim valuation every 3 years and a full valuation every 5 years. Additions on subsidiary acquisitions are capitalised at fair value at the time of the acquisition.

Alfred McAlpine plc group policy is generally not to revalue property, however the directors believe that prior years policy of revaluing property should be continued to ensure consistency within the accounts, with valuations following FRS15 requirements.

INVESTMENTS

Investment income is included in the accounts of the year in which it is receivable. Fixed asset investments are stated at cost less provisions for permanent diminution in value.

STOCK

Stock is valued at the lower of cost and net realisable value. Cost is calculated on a first in first out basis.

REINSTATEMENT PROVISION

The reinstatement provision represents the group's estimate of the cost of final road surfacing still to be incurred on individual contracts otherwise complete.

The directors consider that the provision as a whole is the best estimate of the eventual cost to the group which can be made.

DEFERRED TAXATION

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

PENSIONS

The Group operates a contributory defined contribution scheme which covers a large proportion of its permanent salaried staff. Contributions to the scheme are charged to profit and loss account when they become payable.

LEASES

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

NOTES TO THE ACCOUNTS

31 December 2001

1. ACCOUNTING POLICIES continued

CASHFLOW

The Group has taken advantage of the exemptions afforded under FRS1 (revised) not to include a consolidated cash flow in the accounts.

This decision has been made from the point of view of the users of the accounts. It is thought that a consolidated Cash flow would not add value to the accounts from the users' perspective.

2. OPERATING PROFIT	2001	2000
	£'000	£'000
a) Operating profit is arrived at after charging/(crediting):		
Depreciation - assets held under finance lease	61	38
- other	1,468	1,441
Amortisation of regional development grant	-	(1)
Amortisation of goodwill	9	9
Profit on sale of tangible assets	(595)	(252)
Hire of plant and machinery	134	-
Auditors remuneration - audit fees	122	75
- non audit fees	66	18
	<hr/>	<hr/>
b) Exceptional costs on two contracts	-	1,347
	<hr/>	<hr/>
3. INTEREST RECEIVABLE AND SIMILAR INCOME	2001	2000
	£'000	£'000
Interest receivable:		
Bank deposits	43	89
Other interest	18	4
	<hr/>	<hr/>
	61	93
	<hr/>	<hr/>
4. INTEREST PAYABLE AND SIMILAR CHARGES	2001	2000
	£	£
On bank loans, overdrafts and other loans repayable within 5 years	140	331
On finance leases	91	8
Other interest	84	-
Other costs of financing	-	33
	<hr/>	<hr/>
	315	372
	<hr/>	<hr/>
5. EMPLOYEES	No.	No.
The average number employed by the group, which includes directors, within each category of persons was:		
Production staff	1,894	1,713
Administrative staff	337	196
	<hr/>	<hr/>
	2,231	1,909
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

31 December 2001

5. EMPLOYEES (continued)

The costs incurred in respect of these employees were:	2001	2000
	£'000	£'000
Wages and salaries	51,590	37,945
Social security costs	6,247	4,624
Other pension costs	<u>508</u>	<u>387</u>
	<u>58,345</u>	<u>42,956</u>

6. DIRECTORS

The remuneration of directors who served during the period included in employee costs were:

Emoluments	347	474
Pension contributions	<u>18</u>	<u>44</u>
	<u>365</u>	<u>518</u>

The emoluments of AP Jackson and IM Grice are paid by the parent company or various intermediate parent companies. Their services to this company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company and various intermediate parent companies. Accordingly the above details include no emoluments in respect of these directors.

The emoluments of SDB Carter, JW Reid and P Carney are disclosed in various subsidiary company accounts in which these directors carried executive responsibilities. Their services to this company are of a non-executive nature and their emoluments are deemed to be wholly attributable to the subsidiary companies. Accordingly the above details include no emoluments in respect of these directors.

During the 14 month period, the highest paid director received emoluments of £228,372 (12 months – 2000: £115,982) and pension of £13,763 (12 months – 2000: £12,338). Three of the directors that served during the period were members of the Group's pension schemes (2000: five)

7. DIRECTORS' INTERESTS

The shareholdings of IM Grice and AP Jackson in Alfred McAlpine PLC are shown in the notes to the financial statements of Alfred McAlpine PLC and Alfred McAlpine Support Services and Investments Limited. Other directors' interests in the ordinary shares of Alfred McAlpine PLC at 31 December were as follows:

NOTES TO THE ACCOUNTS

31 December 2001

7. DIRECTORS' INTERESTS (continued)

	2001	2000
	Number*	Number
Ordinary equity shares of 25p each		
P Carolan	301,844	-
J Reid	201,230	-
S D Carter	201,230	-
P Carney	150,992	-

* Each of the above shareholdings are held in a Grant Thornton Stonehage Nominee Account for the beneficial interest of the named directors, however the shareholding cannot be transferred or sold for a period of 2 years from date of allotment.

As at 31 December Directors held options and awards over shares in the ultimate parent Alfred McAlpine PLC undertaking as follows:

Alfred McAlpine PLC executive share option scheme 1991 & Alfred McAlpine PLC executive share option scheme 2000

Date of Grant	18 Apr 00	22 Mar 01	Total
Option Price (pence)	178.0p	280.5p	
N Cocker	7,500	6,000	13,500

Subject to Alfred McAlpine achieving specific performance targets, options issued at no consideration under the terms of the 1991 & 2000 Executive Share Option Schemes and are ordinarily exercisable between three and ten years from their date of grant.

The Alfred McAlpine Restricted Share Plan

Under terms of the Plan the Remuneration Committee of Alfred McAlpine PLC grants awards of restricted shares in Alfred McAlpine PLC to key executives. The shares may be released if Alfred McAlpine PLC achieves specified performance criteria and the executive remains in the Group's employment. The maximum value of the initial share awards that maybe made to a participant in any year may not exceed 50% of salary. In addition, the vesting of the awards of shares may be deferred and held in the Alfred McAlpine Employee Benefit Trust for a further three years and subject to the achievement of a further performance target, become eligible to be matched on a one for one basis.

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
and its subsidiaries

NOTES TO THE ACCOUNTS

31 December 2001

7. DIRECTORS' INTERESTS (continued)

Further details on the Plan and the performance criteria used can be found in the Report and Accounts of Alfred McAlpine PLC.

Name of Director	Date of Award of Initial Shares	Award of Initial Shares during the period	Awards of Exceptional Performance Shares during the period	Awards of shares vested and released during the period	Initial and Exceptional Performance awards of shares as at 31/12/01
P Carolan	22.03.01	25,000	0	0	25,000
Total		25,000	0	0	25,000
J Reid	22.03.01	10,000	0	0	10,000
Total		10,000	0	0	10,000
S D Carter	22.03.01	10,000	0	0	10,000
Total		10,000	0	0	10,000
P Carney	22.03.01	10,000	0	0	10,000
Total		10,000	0	0	10,000

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

Taxation is based on the profit for the period and comprises:

	2001	2000
	£'000	£'000
Corporation tax at 30% (2000 - 30%) of taxable profit	2,288	1,571
Group relief	-	432
Deferred Tax	<u>(45)</u>	<u>-</u>
	2,243	2,003
Prior year adjustments:		
Corporation tax	(23)	(27)
Group relief	-	25
Deferred Tax	<u>(519)</u>	<u>-</u>
	<u>1,701</u>	<u>2,001</u>

9. RESULT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE MEMBERS OF ALFRED McALPINE UTILITY SERVICES GROUP LIMITED

	2001	2000
	£'000	£'000
Dealt with in the accounts of the parent company	<u>3,423</u>	<u>8,226</u>

The company has taken advantage of Section 230 of the Companies Act 1985 and consequently a profit and loss account for the company alone is not presented.

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
and its subsidiaries

NOTES TO THE ACCOUNTS

31 December 2001

10. DIVIDENDS ON EQUITY SHARES

	2001	2000
	£'000	£'000
Ordinary shares:		
Paid - £1.86 per ordinary share (2000 - £18.36)	405	4,000
Payable - £nil per ordinary share (2000 - £13.77)	<u>-</u>	<u>3,000</u>
	<u>405</u>	<u>7,000</u>

11. TANGIBLE FIXED ASSETS

	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
(a) THE GROUP			
Cost/Valuation:			
At 29 October 2000	3,230	11,099	14,329
Additions	165	901	1,066
Additions on Acquisitions	675	1,613	2,288
Revaluation	1,038	-	1,038
Transfers to group undertakings	-	(2,681)	(2,681)
Disposals	<u>-</u>	<u>(4,403)</u>	<u>(4,403)</u>
At 31 December 2001	<u>5,108</u>	<u>6,529</u>	<u>11,637</u>
Depreciation:			
At 29 October 2000	268	8,700	8,968
Charge for the period	117	1,412	1,529
Revaluation	462	-	462
Transfer to group undertakings	-	(2,124)	(2,124)
On disposals	<u>-</u>	<u>(3,548)</u>	<u>(3,548)</u>
At 31 December 2001	<u>847</u>	<u>4,440</u>	<u>5,287</u>
Net book value:			
At 31 December 2001	<u>4,261</u>	<u>2,089</u>	<u>6,350</u>
At 29 October 2000	<u>2,962</u>	<u>2,399</u>	<u>5,361</u>

The net book value of plant and machinery includes £357,174 in respect of assets held under finance leases (2000 - £69,446). Depreciation for the year on these assets was £30,295 (2000 - £6,500)

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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NOTES TO THE ACCOUNTS

31 December 2001

11. TANGIBLE FIXED ASSETS continued	Land and buildings £	Plant and machinery £	Total £
(b) THE COMPANY			
Cost:			
At 29 October 2000	3,225	976	4,201
Additions	165	390	555
Revaluation	<u>1,038</u>	<u>-</u>	<u>1,038</u>
At 31 December 2001	<u>4,428</u>	<u>1,366</u>	<u>5,794</u>
Depreciation:			
At 29 October 2000	263	623	886
Charge for the period	117	225	342
	<u>462</u>	<u>-</u>	<u>462</u>
At 31 December 2001	<u>842</u>	<u>848</u>	<u>1,690</u>
Net book value:			
At 31 December 2001	<u>3,586</u>	<u>518</u>	<u>4,104</u>
At 29 October 2000	<u>2,962</u>	<u>353</u>	<u>3,315</u>

NOTES TO THE ACCOUNTS

31 December 2001

11. TANGIBLE FIXED ASSETS continued

(c) LAND AND BUILDINGS

	<u>GROUP</u>		<u>COMPANY</u>	
The net book value of land and buildings comprises:	2001 £	2000 £	2001	2000
Freehold	2,672	1,847	2,217	1,847
Long leasehold	<u>1,589</u>	<u>1,115</u>	<u>1,369</u>	<u>1,115</u>
	<u>4,261</u>	<u>2,962</u>	<u>3,586</u>	<u>2,962</u>
Land and buildings at cost or valuation are stated:				
At open market value with existing use	4,033	2,995	4,033	2,995
At cost	<u>1,075</u>	<u>235</u>	<u>395</u>	<u>230</u>
	<u>5,108</u>	<u>3,230</u>	<u>4,428</u>	<u>3,225</u>
If stated under historical cost principles the comparable amount for the total of land and buildings would be:				
Cost	3,876	3,036	3,201	3,036
Depreciation	<u>(470)</u>	<u>(361)</u>	<u>(470)</u>	<u>(361)</u>
Historical cost value	<u>3,406</u>	<u>2,675</u>	<u>2,731</u>	<u>2,675</u>

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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NOTES TO THE ACCOUNTS

31 December 2001

12. FIXED ASSET INVESTMENTS

(a) THE GROUP

(i) Investment in Associated Company

£'000

Cost:

At 29 October 2000

157

Divestment of associated Interest (see note 22d)

(157)

At 31 December 2001

-

Provisions:

At 29 October 2000

157

Release of associated provision

(157)

NBV at 29 October and 31 December 2001

-

(ii) Other investments

Cost:

As at 29 October 2000

-

Additions

2

As at 31 December 2001

2

Fixed asset investments

At 31 December 2001

2

At 29 October 2000

-

The fixed asset investments relate to listed shareholdings in various Utility Companies outside the group.

(b) THE COMPANY

Total

Shares in subsidiaries

£'000

Cost:

As at 29 October 2000

768

Additions

104,106

At 31 December 2001

104,874

Provision:

As at 29 October 2000

43

Provided during the year

-

As at 31 December 2001

43

Net book value:

As at 31 December 2001

104,831

As at 29 October 2000

725

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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31 December 2001

12. FIXED ASSET INVESTMENTS (continued)

- (c) The subsidiary companies of which the company holds 100% of ordinary shares issued, being the only class of shares in issue, as at 31 December are:

Name	Nature of business	Percentage holding	Incorporation
Alfred McAlpine Utility Services Limited (formerly Kennedy Utility Management Limited)	Provision of Utility contracting services	100%	England & Wales
Kennedy Asphalt Limited (see note 23)	Road surfacing and sale of asphalt compounds	100%	England & Wales
Kennedy Pipelining Services Limited	No longer trading	100%	England & Wales
STH Plant Limited	Hiring of self-drive motor vehicles	100%	England & Wales
Proby Limited (see note 22)	Formerly a holding company	100%	England & Wales
Bertrem Limited (see note 22)	Formerly an intermediate holding company	100%	England & Wales
Kennedy Group Investments Limited	Formerly an intermediate holding company	100%	England & Wales
Hale Brooks Limited	No longer trading	100%	Isle of Man
Encore Environmental Aggregates Limited (see note 22)	recycling of by-products arising from road work excavations	100%	England & Wales
Ryan Utility Services Limited (see note 22)	Provision of Utility contracting services	100%	England & Wales
Kennedy Utility Services (Scotland) Limited	No longer trading	100%	Scotland
Astley Self Drive Limited	No longer trading	100%	England & Wales
Kendat Cabling Services Limited	No longer trading	100%	England & Wales
Kennedy Brooks Limited *	No longer trading	100%	Ireland

* Kennedy Brooks Limited is in voluntary liquidation and has not been consolidated as in the opinion of the directors the amounts involved are not material.

13. INTANGIBLE ASSETS

THE GROUP	£'000
<u>Cost:</u>	
At 29 October 2000	192
Additions	<u>32,295</u>
As at 31 December 2001	<u>32,487</u>
<u>Amortisation:</u>	
At 29 October 2000	43
Charge in the year	<u>9</u>
At 31 December 2001	<u>52</u>
<u>Net book value:</u>	
At 31 December 2001	<u>32,435</u>
At 29 October 2000	<u>149</u>

Additions to goodwill are further analysed in note 22

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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NOTES TO THE ACCOUNTS

31 December 2001

14. STOCK

	<u>GROUP</u>		<u>COMPANY</u>	
	2001	2000	2001	2000
	£	£	£	£
Raw materials and consumables	<u>1,935</u>	<u>733</u>	<u>-</u>	<u>28</u>

The replacement value of stock and work in progress is estimated to be the same as book value.

15. DEBTORS

	<u>GROUP</u>		<u>COMPANY</u>	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Due within one year:				
Trade debtors	40,326	28,786	21	52
Amounts owed by group undertakings	99,451	530	22,072	9,659
Other debtors	2,452	473	692	27
Prepayments and accrued income	779	1,167	-	192
Deferred tax asset (see note 18a)	1,103	-	89	-
Corporation tax recoverable	<u>34</u>	<u>12</u>	<u>-</u>	<u>-</u>
	<u>144,145</u>	<u>30,968</u>	<u>22,874</u>	<u>9,930</u>
Due after more than one year:				
Trade debtors	877	1,047	-	-
Amounts owed by parent undertakings	<u>-</u>	<u>8,925</u>	<u>-</u>	<u>8,925</u>
	<u>877</u>	<u>9,972</u>	<u>-</u>	<u>8,925</u>

Amounts owed by group (i.e. parent companies) are unsecured, interest free and repayable on demand.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Bank loan (see note 17a)	409	1,152	-	181
Bank overdraft	-	-	-	1,317
Finance leases (see note 17b)	590	39	186	-
Trade creditors	21,417	19,462	216	42
Amounts owed to group undertakings	130,895	-	123,839	11,765
Corporation tax	-	1,743	76	857
Other taxation and social security	5,717	4,267	-	2,015
Other creditors	4,277	2,814	1,899	1,347
Accruals and deferred income	4,884	830	-	239
Dividend payable	<u>-</u>	<u>3,000</u>	<u>-</u>	<u>3,000</u>
	<u>168,189</u>	<u>33,307</u>	<u>126,216</u>	<u>20,763</u>

The company's overdraft is secured by fixed and floating charges on certain assets of the company and group.

Amounts owed to group undertakings for working capital loan amounts are charged at 1% above LIBOR.

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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NOTES TO THE ACCOUNTS

31 December 2001

17. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR	<u>GROUP</u>		<u>COMPANY</u>	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Bank loan	-	210	-	170
Finance leases payable between one and five years	228	34	-	-
Amounts owed by group undertakings	-	-	-	40
	<u>228</u>	<u>244</u>	<u>-</u>	<u>210</u>

- a) Bank loan
Interest is charged at 2¼% above LIBOR. All amounts due in more than one year are payable in the second year. The obligations are secured on certain of the Group's plant and machinery.

b) Finance leases		
The maturity of obligations under finance leases and hire purchase contracts is as follows:	2001 £'000	2000 £'000
Within one year	590	39
In the second year to fifth years	228	34
	<u>818</u>	<u>73</u>

18. PROVISION FOR LIABILITIES AND CHARGES	<u>GROUP</u>		<u>COMPANY</u>	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Reinstatement and other provisions	1,179	675	-	-
Provision for losses in associated company	-	157	-	-
Regional development grant	27	27	27	27
	<u>1,206</u>	<u>859</u>	<u>27</u>	<u>27</u>

The reinstatement provision represents the group's estimate of the cost of final road surfacing still to be incurred on individual contracts otherwise complete. The directors consider that the provision as a whole is the best estimate of the eventual cost to the group over the next year, which can be made.

Provision for losses were in relation to the Group share of the net losses of its associated company Encore Environmental Aggregates Limited. This company was wholly acquired in the period and acquisition accounting method has now been applied to the subsidiary (see note 22d)

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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NOTES TO THE ACCOUNTS

31 December 2001

18. PROVISION FOR LIABILITIES AND CHARGES (Continued)

a) Deferred taxation

A deferred taxation asset of £1,103,000 relating principally to accelerated capital allowances, short-term timing differences and trading taxation losses carried forward is included in other debtors.

	<u>Provided</u>		<u>Unprovided</u>	
i) THE GROUP	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Capital allowances in excess of depreciation	(371)	13	-	(223)
Short term timing differences	(421)	(13)	30	(301)
Capital losses	(311)	-	(117)	(123)
Deferred tax (asset)/liability	(1,103)	-	(87)	(647)

DEFERRED TAX ASSET

£'000

Movement in the period:

At 29 October 2000

-

Tax asset provided in the period

45

Tax asset provided in the period relating to prior years

519

Deferred tax balances on Subsidiary acquisitions:

Ryan Utility Services Limited

483

Encore Environmental Aggregates Limited

119

Deferred tax asset balance transferred to Group undertaking

(63)

At 31 December 2001

1,103

ii) THE COMPANY

A deferred taxation asset of £89,000 relating principally to accelerated capital allowances and short-term timing differences is included in other debtors.

	<u>Provided</u>		<u>Unprovided</u>	
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Capital allowances in excess of depreciation	18	-	-	-
Short term timing differences	(107)	-	(11)	(11)
Capital losses	-	-	(115)	(115)
Deferred tax (asset)/liability	(89)	-	(126)	(126)

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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NOTES TO THE ACCOUNTS

31 December 2001

18. PROVISION FOR LIABILITIES AND CHARGES (Continued)

(b) Reinstatement and other provisions

THE GROUP

£'000

Movement in the period:

At 29 October 2000

675

Provided in the period

835

Utilised in the period

(331)

Released in the period

-

At 31 December 2001

1,179

(c) Regional development grant

GROUP AND COMPANY

£'000

At 29 October 2000

27

Amortisation

-

At 31 December 2001

27

19. CALLED UP SHARE CAPITAL

	Ordinary shares of £1 each	"A" Ordinary shares of £1 each	Total
Authorised, allotted and fully paid:			
At 29 October 2000 and 31 December 2001	<u>217,800</u>	<u>1,000</u>	<u>218,800</u>

The ordinary shares of £1 each are equity shares.

The "A" Ordinary shares of £1 each are non equity shares.

The holders of the "A" Ordinary Shares:

(i) have no rights to dividends other than those recommended by the directors in respect of "A" Ordinary shares;

(ii) have no redemption rights;

(iii) rank parri-passu with the holders of the Ordinary shares in respect of repayment of paid-up capital on a winding-up but have no further right to participate in distribution of surplus assets;

(iv) have no voting rights.

ALFRED McALPINE UTILITY SERVICES GROUP LIMITED (Formerly Kennedy Construction Group Ltd)
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NOTES TO THE ACCOUNTS

31 December 2001

20. RESERVES

	Revaluation <u>reserve</u> £'000	Profit and <u>loss account</u> £'000	<u>Total</u> £'000
(a) THE GROUP			
At 29 October 2000	287	19,165	19,452
Retained profit for the period	-	5,043	5,043
Transfer of amount equivalent to additional depreciation on revalued assets	(8)	8	-
Revaluations*	<u>268</u>	<u>-</u>	<u>268</u>
At 31 December 2001	<u>547</u>	<u>24,216</u>	<u>24,763</u>

* The movement due to revaluation in the period of £268,000 is £308,000 lower than the movement shown in the fixed asset reconciliation (note 11a). The £308,000 has been recognised through the profit and loss account in the period as it relates to a prior year impairment of land and buildings below original cost, which has been restated following valuation.

(b) THE COMPANY

At 29 October 2000	287	1,417	1,704
Retained profit for the period	-	3,423	3,423
Transfer of amount equivalent to additional depreciation on revalued assets	(8)	8	-
Revaluation *	<u>268</u>	<u>-</u>	<u>268</u>
At 31 December 2001	<u>547</u>	<u>4,848</u>	<u>5,395</u>

The balances on the profit and loss account are all available for distribution.

* The movement due to revaluation in the period of £268,000 is £308,000 lower than the movement shown in the fixed asset reconciliation (note 11b). The £308,000 has been recognised through the profit and loss account in the period as it relates to a prior year impairment of land and buildings below original cost, which has been restated following valuation.

21. CONTINGENT LIABILITIES

The Company is liable under the group election scheme for the value added tax liabilities of other group companies. The contingent liability at 31 December 2001 amounted to £1,670,020 (2000 - £1,329,411).

Under the terms of a cross guarantee set up between Alfred McAlpine Utility Services Group Limited, its parent companies and its subsidiaries, the company has a contingent liability at 31 December 2001 of £nil for the bank overdrafts of other group companies (2000 - £11,272,193).

NOTES TO THE ACCOUNTS

31 December 2001

22. ACQUISITIONS

All acquisitions in year have been incorporated into the Group accounts using the acquisition accounting method.

a) Acquisition of Proby Limited

On 31 December 2001 the Group acquired Proby Limited, from Alfred McAlpine PLC for a consideration of £38,465,034. Goodwill arising on the acquisition will be amortised over a period of 20 years.

The following table sets out the net book values of the acquisition to the Group

	Net assets acquired
	£'000
Debtors	59,867
Creditors due within one year	(13,140)
Creditors due after more than one year	(12,875)
	<u>33,852</u>
Goodwill arising	4,613
	<u>38,465</u>
Consideration via group loan account	<u>38,465</u>

The results of the company to the date of acquisition and the prior years' comparatives are disclosed below: -

	14m to 31 Dec	12m to 31 Oct
	2001	2000
	£'000	£'000
Turnover	-	-
Operating Profit	405	7,000
(Loss)/Profit Before Taxation	(435)	5,562
Profit after Taxation	<u>7</u>	<u>5,789</u>

b) Acquisition of Bertrem Limited

On 31 December 2001 the Group acquired Bertrem Limited for a consideration of £59,867,277. Goodwill arising on the acquisition will be amortised over a period of 20 years.

The following table sets out the net book values of the acquisition to the Group;

	Net assets acquired
	£'000
Fixed Asset Investment	39,041
Debtors	3
Cash	1
	<u>39,045</u>
Goodwill arising	<u>20,822</u>
Consideration via Group loan account	<u>59,867</u>

NOTES TO THE ACCOUNTS

31 December 2001

22. ACQUISITIONS (continued)

The results of the company to the date of acquisition and the prior years' comparatives are disclosed below: -

	14m to 31 Dec 2001 £'000	12m to 31 Oct 2000 £'000
Turnover	-	-
Operating (loss)/Profit	(2)	6,999
(Loss)/Profit Before Taxation	(2)	6,999
Profit after Taxation	(2)	7,000

c) Acquisition of Ryan Utility Services Limited

On 27 November 2001, the Group acquired Ryan Utility Services Limited for a consideration of £5,773,670.

The following table sets out the net book values of the acquisition to the Group;

	Book Value £'000	Fair Value Adjustments £'000	Fair Value At Acquisition £'000
Fixed Assets (see note 11a)	2,808	(577)	2,231
Investments	2	-	2
Stocks	956	(177)	779
Debtors	14,881	(541)	14,340
Cash	5	-	5
Creditors due within one year	(18,088)	381	(17,707)
Creditors due after more than one year	(228)	-	(228)
Provisions for liabilities & charges	(102)	(180)	(282)
Net Assets	234	(1,094)	(860)
Goodwill arising			6,634
Cash Consideration			5,774

The following fair value adjustments were made to the book value of the assets on acquisition: -

	Fair Value Adjustments £'000
Alignment of Accounting Policy	
Fixed Assets	577
Stocks	177
Provisions for liabilities & charges	180
Revaluation	
Debtors	541
Creditors due within one year	(381)
Total Fair value Adjustments	1,094

NOTES TO THE ACCOUNTS

31 December 2001

22. ACQUISITIONS (continued)

The write down on fixed assets comprised the elimination of small value capitalised items that are not normally capitalised according to group policy and the recalculation of the vehicle fleet carrying value applying group depreciation rates.

According to group policy stock that is carried in vans at a period end is not included in the overall stock valuation, due to the inherent difficulty of valuation and the immateriality of the stock value.

Provisions were increased to bring the company into line with the group reinstatement provision policy.

A review of the amounts recoverable on contracts was undertaken leading to a downward valuation of the debtors book balance.

The taxation creditor has been reduced due to the taxation effect of the fair value adjustments described above.

The results of the company to the date of acquisition and the prior years' comparatives are disclosed below: -

	8 months to 27 Nov 2001 £'000	12 months to 31 March 2001 £'000
Turnover	36,162	52,848
Operating loss	(996)	(1,249)
Loss Before Taxation	(1,318)	(1,595)
Loss after Taxation	<u>(983)</u>	<u>(1,111)</u>

d) Acquisition of Encore Environmental Aggregates Limited

Encore Environmental Aggregates Limited was a joint venture in which the JV partner exited at the year end. It was acquired for the consideration of £1 at this time. The share of the profit for the year in the Joint Venture is disclosed on the face of the P&L and amounted to £172,026.

	£'000
Fixed Assets (see note 11a)	57
Debtors	245
Cash	69
Creditors due within one year	<u>(582)</u>
Net Assets acquired	(211)
Group adjustment on Joint venture elimination	<u>(15)</u>
	226

Goodwill on acquisition	<u>226</u>
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Goodwill is recognised as an asset on the balance sheet despite the negative reserves within the company due to the fact that the company showed a £287,684 profit before tax in the year to 31 December 2001 and is expected to continue in profitability for the coming year.

The profit/(loss) after tax for the company in the period to acquisition was £344,052 (12m to 31 Dec 2000: £(292,418)).

NOTES TO THE ACCOUNTS

31 December 2001

23. POST BALANCE SHEET EVENTS

The subsidiary Kennedy Asphalt Limited and some associated land and buildings were sold post year end on the 28 January 2002 for cash consideration of £2,550,000 yielding an exceptional profit on disposal of £1,700,000.

On 20 February 2002 the Group invested £1,000,000 into Core Utility Solutions Limited, a newly formed joint venture company with Scottish Power UK plc. Core Utility Solutions Limited main trading activity is that of new Utility connections for both domestic and commercial supply.

24. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Alfred McAlpine PLC, a company incorporated in Great Britain and registered in England and Wales. Copies of the group financial statements of Alfred McAlpine PLC are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

The group and company have taken advantage of the exemptions provided by FRS8 not to disclose transactions with entities that are part of the same group.