

Carillion Highway Maintenance Limited
(formerly Tarmak Limited)

Directors' report and financial statements

Year ended 31 December 1999

Registered number 3198709



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Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

Principal activities

Carillion Highway Maintenance Limited is principally engaged in the business of roads and ground maintenance and repair.

Business review and future developments

The company commenced trading on 31 July 1999 upon the transfer of the trade and assets of the roads and maintenance activities previously carried out by Tarmac Quarry Products Limited received as part of the demerger of Tarmac Construction Services from Tarmac plc. Turnover for 1999, which incorporates five months trading activity, amounted to £33,514,736. Included within exceptional operating items is a receipt of £2,481,000 for the trading activity for 1999 prior to the transfer of the trade and assets of the business, which was paid under the transfer agreement. On 25 February 2000 the share capital of the company was increased to £2,000,000.

The Company will continue to execute and tender for roads maintenance work into the foreseeable future.

Dividends

A dividend of £1,594,000 was paid during the year (1998: £Nil).

Creditor payment policy

The company does not adopt any specific code or standard, however it is the company's policy to pay its suppliers in accordance with the terms and conditions agreed prior to the commencement of trading provided that the supplier has met its contractual obligations. The number of days credit outstanding to suppliers at the year end was 48 days (1998: Nil).

Directors and directors' interests

The directors serving during the year were:

AR Gates	(appointed 9 November 1999)
C Girling	(appointed 8 November 1999)
PJ Kendall	(appointed 20 July 1999)
E McEwan	
RW Robinson	(appointed 12 October 1999)
C Scargill	(appointed 9 November 1999)
ER Sharples	(appointed 5 August 1999)
DL Cruddace	(appointed 20 July 1999, resigned 9 November 1999)
BS Engstrom	(resigned 20 July 1999)
BL Tock	(resigned 20 July 1999)

Directors' report *(continued)*

Directors and directors' interests *(continued)*

The directors who held office at the end of the financial year and their families, other than those whose interests are disclosed in the financial statements of the ultimate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Carillion plc, and Tarmac plc up to the date of demerger at which date all Tarmac plc share options either exercised or lapsed:

	Number of 50p ordinary shares		Share options		Movements in the period		
	At 31 December 1999	At 1 January 1999 (or later date of appointment)	Fully paid	Share options	Granted	Exercised	Lapsed
AR Gates							
Carillion plc	8,370	n/a	29,415	n/a	29,415	Nil	Nil
Tarmac plc	n/a	Nil	n/a	Nil	Nil	Nil	Nil
C Scargill							
Carillion plc	832	n/a	6,999	n/a	6,999	Nil	Nil
Tarmac plc	n/a	Nil	n/a	Nil	Nil	Nil	Nil
ER Sharples							
Carillion plc	40,163	n/a	142,642	n/a	142,642	Nil	Nil
Tarmac plc	n/a	14,293	n/a	131,711	Nil	127,602	4,109
PJ Kendall							
Carillion plc	8,712	n/a	34,848	n/a	34,848	Nil	Nil
Tarmac plc	n/a	Nil	n/a	Nil	Nil	Nil	Nil

No director had any beneficial interest in the share or loan capital of any subsidiary of Carillion plc.

Employees

The majority of employees are based at site on contracts. Communication and consultation within the working teams takes place, as appropriate, as part of the normal pattern of every operation.

Every employee will receive the annual Employee Report which explains the Carillion Group's financial performance and includes information on significant activities which are taking place. This report is supplemented by regular publications such as, "Spectrum", which provides information on activities throughout the Carillion Group and is published five times a year.

The establishment and maintenance of safe working practices at all work places are of greatest importance to the company and special training in health and safety is provided for all employees. In addition, competitions are held regularly to encourage greater awareness of and attention to safety.

Directors' report *(continued)*

Employees *(continued)*

The company is an active and enthusiastic supporter of training schemes of all types and is providing valuable training and experience to a large number of young people, as well as increasing its own training commitment to full-time employees.

Equal opportunities

The company is an equal opportunities employer.

It is the policy of the company to give the fullest consideration to the employment needs of all prospective and existing employees. To that end, no job applicant or employee receives less favourable treatment than another on grounds of colour, race, nationality, ethnic or national origin, sex, religion or disability where the work content is commensurate with the individual's particular disability. Full consideration is given to suitable applications for employment from disabled persons where they have the necessary abilities and skills for the position and wherever possible to re-train employees who become disabled, so that they can continue in their employment in another position.

Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of company policy. Promotion is based upon ability, merit and performance taking into account the future needs of the company. Where necessary training is carried out to assist employees to develop their full potential.

All aspects of employment are regularly reviewed by management to ensure this policy is achieved.

Year 2000

The Group undertook a comprehensive internal programme to ensure that all computer dependant systems continued to operate with the Y2K date change. Initial indications are that no major systems problems arose and that the Group's operations were unaffected as a result. Although the risk of problems now arising is low, vigilance is maintained and processes and procedures are in place to detect and rectify quickly any issues which may arise. The Group estimates that the total cost of modifying hardware and systems was approximately £3.6 million of which just over £1million was incurred in 1999.

European Economic and Monetary Union

The Group recognises the importance of the Euro, particularly for its businesses operating in France and Ireland which introduced the Euro on 1 January 1999. The introduction of the Euro has had little impact on the Group's internal systems and procedures. The related financial costs are not material to the Group.

Demerger from Tarmac

On 29 July 1999 Tarmac Construction Services was demerged from Tarmac plc. This resulted in the listing of Carillion plc on the London Stock Exchange on 30 July 1999.

Directors' report *(continued)*

Statement of directors' responsibilities

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

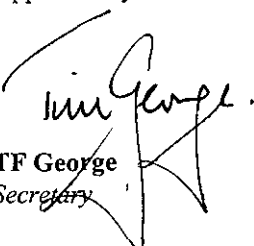
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare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

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

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution will be proposed at the forthcoming annual general meeting to re-appoint KPMG Audit Plc as auditors of the company for the forthcoming year.

Approved by order of the Board and signed on its behalf by:


TF George
Secretary

Birch Street
Wolverhampton
WV1 4HY

14 March 2000



KPMG Audit Plc

2 Cornwall Street
Birmingham B3 2DL
United Kingdom

Auditors' report to the members of Carillion Highway Maintenance Limited

We have audited the financial statements on pages 6 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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 the company's affairs as at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

14 March 2000

Profit and loss account

for the year ended 31 December 1999

	<i>Note</i>	Before exceptional item £	Exceptional item (See Note 7) £	1999 £	1998 £
Turnover	<i>1</i>	33,514,736	-	33,514,736	-
Cost of sales		(30,428,841)	-	(30,428,841)	-
Gross profit		3,085,895	-	3,085,895	-
Administrative expenses		(262,400)	-	(262,400)	-
Other income		-	2,481,000	2,481,000	-
Operating profit		2,823,495	2,481,000	5,304,495	-
Interest receivable	<i>5</i>	24,125	-	24,125	-
Profit on ordinary activities before taxation	<i>2</i>	2,847,620	2,481,000	5,328,620	-
Tax on profit on ordinary activities	<i>6</i>			(1,583,200)	-
Profit for the financial year				3,745,420	-
Dividend paid				(1,594,000)	-
Retained profit for the year				2,151,420	-

Movements in reserves are set out in note 14 to the financial statements.

The above results are all derived from continuing operations.

There are no recognised gains and losses other than those reported above.

Balance sheet
 at 31 December 1999

	Note	1999 £	1998 £
Fixed assets			
Tangible assets	8	1,942,820	-
Current assets			
Stocks	9	2,973,256	-
Debtors	10	17,617,430	-
Cash at bank and in hand		1,999	2
		<u>20,592,685</u>	<u>2</u>
Creditors: amounts falling due within one year	11	(20,352,483)	-
		<u>240,202</u>	<u>-</u>
Net current assets		240,202	-
Total assets less current liabilities		2,183,022	-
Provision for liabilities and charges	12	(31,600)	-
		<u>2,151,422</u>	<u>2</u>
Net assets		2,151,422	2
Capital and reserves			
Called up share capital	13	2	2
Profit and loss account	14	2,151,420	-
		<u>2,151,422</u>	<u>2</u>
Equity shareholders' funds	15	2,151,422	2

These financial statements were approved by the board of directors on 14 March 2000 and were signed on its behalf by:



ER Sharples
 Director

Notes

(forming part of the financial statements)

1 Principal accounting policies

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

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention, as modified for the revaluation of freehold land and buildings.

Turnover

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to United Kingdom customers and in respect of long term contracting activities, the value of work executed during the year.

Depreciation

Depreciation is based on historic cost or revaluation, less the estimated residual values, and the estimated economic lives of the assets concerned. Tangible assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Plant and machinery	- 3-20 years
Motor vehicles	- 3-10 years
Computer equipment	- 4 years

Stocks

Stocks are valued at the lower of cost and net realisable value.

Long term contracts

Amounts recoverable on contracts, which are included in debtors, are stated at cost plus attributable profit less any foreseeable losses. The profit on each individual contract is recognised when the outcome of the contract can be foreseen with reasonable certainty and is the lower of profit earned to date and the forecast at completion.

Payments received on account of contracts are deducted from those amounts recoverable on contracts. Such amounts which have been received and exceed amounts recoverable are included in creditors.

Leased assets

Assets held under operating leases are charged to the profit and loss account as incurred.

FRS 5 - Substance over form

As a result of the demerger and the need to change customer agreements certain transactions have been carried out by Tarmac plc and its related companies for the benefit of Carillion Highway Maintenance. Tarmac plc and its related companies are acting as Carillion Highway Maintenance's agent on these contracts awaiting novation, in line with the demerger separation Agreements. Accordingly Carillion Highway Maintenance has reflected the full value of the transactions in its accounts, thus reporting the substance of the transactions in accordance with FRS 5.

Notes (continued)

1 Principal accounting policies (continued)

Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that Carillion plc, the company's ultimate parent undertaking, includes the company's cash flows in its own published consolidated cash flow statement.

Deferred taxation

Deferred taxation, calculated using the liability method, is included only where the effects of timing differences between results as stated in the accounts and as computed for taxation purposes are likely to crystallise in the foreseeable future.

Pensions

Regular pension costs 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 Carillion Highway Maintenance Limited.

2 Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging the following:

	1999 £	1998 £
Depreciation of owned tangible fixed assets	328,633	-
Auditors' remuneration - audit work	10,712	-
Payment under operating leases:		
Plant and machinery	218,125	-
Other assets	305,880	-
	<u> </u>	<u> </u>

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was 529 (1998: Nil).

The aggregate payroll costs of these persons were as follows:

	1999 £	1998 £
Wages and salaries	5,040,948	-
Social security costs	491,441	-
Other pension costs	109,848	-
	<u> </u>	<u> </u>
	5,642,237	-
	<u> </u>	<u> </u>

Notes (continued)

4 Directors' remuneration

1999
£

Fees for services as director

Nil

One director exercised share options during the year, details of which are given in the directors' report.

5 Interest receivable

1999
£

Interest receivable from group undertakings:

24,125

6 Tax on profit on ordinary activities

1999
£

1998
£

UK corporation tax payable

1,551,600

-

Deferred tax

31,600

-

1,583,200

-

7 Exceptional items

During the year the company received £2,481,000 from Carillion plc as part of the demerger of Tarmac plc and Carillion plc in respect of profits earned in 1999 prior to the transfer of the trade and assets of the business.

Notes (continued)

8 Tangible fixed assets

	Plant, machinery and vehicles £
<i>Cost or valuation</i>	
At beginning of year	-
Group transfers	2,230,062
Additions	41,391
	<hr/>
As at 31 December 1999	2,271,453
	<hr/>
Gross amount of depreciable assets	2,271,453
	<hr/>
<i>Depreciation</i>	
At beginning of year	-
Charge for the year	328,633
	<hr/>
As at 31 December 1999	328,633
	<hr/>
<i>Net book value</i>	
As at 31 December 1999	1,942,820
	<hr/>
As at 31 December 1998	-
	<hr/>

9 Stock

	1999 £	1998 £
Raw materials and consumables	2,973,256	-
	<hr/>	<hr/>

10 Debtors

	1999 £	1998 £
Amounts falling due within one year:		
Trade debtors	2,696,193	-
Amounts recoverable on contracts	3,646,050	-
Amounts owed by group undertakings	9,641,283	-
Prepayments and accrued income	1,633,904	-
	<hr/>	<hr/>
	17,617,430	-
	<hr/>	<hr/>

Notes (continued)

11 Creditors: amounts falling due within one year

	1999 £	1998 £
Payments received on account	641,167	-
Trade creditors	4,380,265	-
Amounts owed to group undertakings	2,267,976	-
Corporation tax	1,551,600	-
Other tax and social security costs	2,287,110	-
Accruals and deferred income	9,224,365	-
	<u>20,352,483</u>	<u>-</u>

12 Provision for liabilities and charges

	1999 £	1998 £
Deferred taxation		
At 31 December 1998	-	-
Transfer from profit and loss account	31,600	-
	<u>31,600</u>	<u>-</u>
At 31 December 1999	31,600	-

Amounts not provided 1999 £	Provided in accounts 1999 £
--------------------------------------	--------------------------------------

Accelerated capital allowances	40,500	31,600
	<u>40,500</u>	<u>31,600</u>

13 Called up share capital

	1999 £	1998 £
<i>Authorised:</i>		
100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
<i>Allotted, called up and fully paid:</i>		
2 ordinary shares of £1 each	2	2
	<u>2</u>	<u>2</u>

On 25 February 2000, the authorised share capital was increased from £100 to £2,000,000 by the creation of £1,999,900 ordinary shares. On 25 February 2000, the allotted, called up and fully paid share capital was increased from £2 to £2,000,000 by the allotment of £1,999,998 shares.

Notes (continued)

14 Reserves

	1999 £	1998 £
Retained profit brought forward	-	-
Retained profit for the year	2,151,420	-
	<hr/>	<hr/>
Retained profit carried forward	2,151,420	-
	<hr/> <hr/>	<hr/> <hr/>

15 Reconciliation of movements in shareholders' funds

	1999 £	1998 £
Profit for the year	2,151,420	-
	<hr/>	<hr/>
Net increase in shareholders' funds	2,151,420	-
Shareholders' funds at beginning of year	2	2
	<hr/>	<hr/>
Shareholders' funds at end of year	2,151,422	2
	<hr/> <hr/>	<hr/> <hr/>

16 Capital commitments

The company has capital commitments as follows:

	1999 £
Contracts placed	29,000
	<hr/> <hr/>

17 Commitments under operating leases

Annual commitments under non-cancellable operating leases at 31 December 1999 are as follows:

	1999 Land and buildings £	1999 Other £	1998 Land and buildings £	1998 Other £
Operating leases which expire:				
Within one year	264,700	563,180	-	-
In the second to fifth years inclusive	170,353	168,968	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	435,053	732,148	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

18 Pension contribution

The pension schemes to which the company contributes are of both the defined benefit and defined contribution types and are for the benefit of all relevant employees of Carillion plc and its UK subsidiary and associated undertakings ("the group"). The assets of the schemes are held in trustee administered funds separate from those of the group. Details of the latest actuarial valuation of the principal schemes are given in the group's consolidated financial statements.

The pension charge of the defined contribution scheme was £27,133 (1998: £Nil). There were no contributions outstanding or paid in advance at 31 December 1999 (1998: £Nil).

19 Related party disclosures

As a 100% owned subsidiary of Carillion plc, the company has taken advantage of the exemption under Financial Reporting Standard 8 not to provide information on related party transactions with other undertakings within the Carillion group. Note 20 gives details of how to obtain a copy of the published financial statements of Carillion plc.

During the year ended 31 December 1999, Carillion Highway Maintenance Limited has received goods and services to a value of £2.1 million from Tarmac plc and its related companies. £1.8 million was payable at the year end. Carillion Highway Maintenance Limited have provided goods and services to Tarmac plc and its related companies to a value of £53,000, all of which was receivable at the year end.

In addition to the above, Tarmac plc and its related subsidiaries acting as Carillion Highway Maintenance Limited's agent held cash and debtors in excess of costs due to Carillion of £2.1 million. Under the transfer agreement Tarmac plc and its related subsidiaries received consideration for the Profits, Assets and Stock acquired by Carillion Highway Maintenance Limited to a value of £1,771,437.

20 Controlling and parent companies

The company's immediate controlling company is Carillion Construction Limited, its immediate parent company, whilst the company's ultimate controlling company is Carillion plc, its ultimate parent company, both of which are incorporated in Great Britain and registered in England and Wales.

Copies of the group financial statements of Carillion plc are available from 24 Birch Street, Wolverhampton, WV1 4HY.