

Carillion Highway Maintenance Limited

**Directors' report and financial
statements**

Registered number 3198709

Year ended 31 December 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

Principal activities and business review

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

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

Profits and dividends

The profit on ordinary activities before taxation was £4,957,000 (2001: £4,108,000).

A dividend of £3,552,000 was paid during the year (2001: £3,242,000). No final dividend is proposed (2001: £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 60 days (2001: 24 days).

Directors and directors' interests

The directors serving during the year were:

AR Gates	
C Girling	
RW Robinson	
C Scargill	
ER Sharples	(resigned 13 August 2002)
JJ Ledwidge	(resigned 29 November 2002)
J McDonough	
RG Lumby	(appointed 13 August 2002, resigned 11 November 2002)
S Weatherson	(appointed 29 November 2002)

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:

	Number of 50p ordinary shares		Share options		Movements in the period		
	At 31 December 2002	At 1 January 2002 (or later date of appointment)	Fully paid	Share options	Granted	Exercised	Lapsed
AR Gates	9,219	29,415	8,973	29,415	-	-	-
C Scargill	6,233	8,820	6,339	6,999	1,821	-	-
S Weatherson	6,965	28,476	6,965	26,655	1,821	-	-

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

No director was materially interested during the year in any contract which was significant in relation to the business of the company.

Directors' report *(continued)*

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 receives 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.

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. 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.

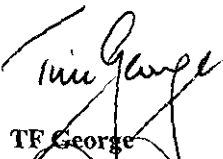
Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of Company policy. Promotion is based upon ability, merit and performance taking into account the future needs of the Company. Where necessary training is carried out to assist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

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

Auditor

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company will be proposed at the Annual General Meeting.

Approved by the Board on 12 March 2003 and signed on its behalf by:


TF George
Secretary

Birch Street
Wolverhampton
WV1 4HY

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.



KPMG Audit Plc

2 Cornwall Street
Birmingham B3 2DL
United Kingdom

Independent auditors' report to the members of Carillion Highway Maintenance Limited

We have audited the financial statements on pages 5 to 13.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the 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 2002 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

12 March 2003

Profit and loss account

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Turnover	1	119,038	100,084
Cost of sales		(110,749)	(93,925)
Gross profit		8,289	6,159
Administrative expenses		(4,315)	(2,951)
Operating profit		3,974	3,208
Interest receivable	5	983	900
Profit on ordinary activities before taxation	2	4,957	4,108
Tax on profit on ordinary activities	6	(1,586)	(1,089)
Profit for the financial year		3,371	3,019
Dividend paid		(3,552)	(3,242)
Retained loss for the year	13	(181)	(223)


There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis in either the current or preceding financial year.

There were no recognised gains and losses in either the current or preceding financial year other than the profit or loss for those years. All amounts relate to continuing operations.

Balance sheet
 at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	7	2,056	5,032
Current assets			
Stocks	8	1,999	2,147
Debtors due within one year	9	31,465	23,948
Debtors due after more than one year	9	160	285
Total debtors	9	31,625	24,233
Cash at bank and in hand		2,010	1,397
		35,634	27,777
Creditors: amounts falling due within one year	10	(32,985)	(27,923)
Net current assets/(liabilities)			
Due within one year		2,489	(431)
Due after more than one year		160	285
		2,649	(146)
Total assets less current liabilities		4,705	4,886
Net assets		4,705	4,886
Capital and reserves			
Called up share capital	12	2,000	2,000
Profit and loss account	13	2,705	2,886
Equity shareholders' funds	14	4,705	4,886

These financial statements were approved by the board of directors on 12 March 2003 and were signed on its behalf by:



S Weatherston
 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 except the company has adopted FRS 19 "Deferred Tax" in these financial statements. The adoption of FRS 19 has had no effect on the results for the current or prior year.

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Joint arrangements

The Company's interests in joint arrangements are included by accounting directly for the Company's share of revenue, expenditure, assets and liabilities. The Company's joint arrangements are businesses, which are effectively an extension of its trade and do not carry on a trade or business of their own. The only joint arrangements of the Company are Carillion-URS and Carillion-WSP.

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.

Tangible fixed assets

Depreciation is based on historic cost, 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. Profit on an individual contract is recognised when the outcome of the contract can be foreseen with reasonable certainty and is attributed in line with the degree of completion of each contract.

The result for each year includes settlement of claims on contracts completed in prior years.

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.

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.

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.

Notes (continued)

1 Principal accounting policies (continued)

Taxation

The charge for taxation is based on the result for each year and takes into account deferred taxation, calculated in accordance with the requirements of FRS19 "Deferred taxation". Deferred tax assets or liabilities are calculated on a non-discounted full provision basis in respect of timing differences that are expected to reverse in future years. This policy reflects a change from previous years where deferred tax assets or liabilities were only recognised to the extent that timing differences were expected to reverse in the foreseeable future.

Pensions

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company.

2 Profit on ordinary activities before taxation

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

	2002 £000	2001 £000
Depreciation of owned tangible fixed assets	780	841
Auditors' remuneration - audit work	18	18
Payment under operating leases:		
Plant and machinery	7,686	5,468
Other assets	374	394
	<u>7,878</u>	<u>5,721</u>

3 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was 868 (2001: 738).

The aggregate payroll costs of these persons were as follows:

	2002 £000	2001 £000
Wages and salaries	21,549	18,270
Social security costs	1,943	1,713
Other pension costs	768	631
	<u>24,260</u>	<u>20,614</u>

4 Directors' remuneration

	2002 £000	2001 £000
Fees for services as director	Nil	Nil

Notes (continued)

5 Interest receivable

	2002 £000	2001 £000
Interest receivable from group undertakings	941	882
Bank interest receivable	42	18
	<u>983</u>	<u>900</u>

6 Tax on profit on ordinary activities

(a) Analysis of taxation charge in the year

	2002 £000	2001 £000
UK taxation:		
Corporation tax	1,496	1,134
Total current taxation	<u>1,496</u>	<u>1,134</u>
Deferred taxation:		
Origination and reversal of timing differences	90	(90)
Adjustments in respect of previous periods	-	45
Total deferred taxation	<u>90</u>	<u>(45)</u>
Total taxation on profit on ordinary activities	<u>1,586</u>	<u>1,089</u>

(b) Reconciliation of current taxation charge

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

	2002 £000	2001 £000
Profit on ordinary activities before tax	<u>4,957</u>	<u>4,108</u>
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30% (2001: 30%)	1,487	1,232
Permanent differences	20	23
Other timing differences	(90)	90
Other	79	(166)
Adjustments to tax charge in respect of previous periods	-	(45)
Current tax charge for the year	<u>1,496</u>	<u>1,134</u>

Notes (continued)

7 Tangible fixed assets

	Plant, machinery and vehicles £000
<i>Cost</i>	
At beginning of year	6,639
Additions	516
Group transfers	(3,998)
Eliminated in respect of disposals	(428)
As at 31 December 2002	2,729
<i>Depreciation</i>	
At beginning of year	1,607
Charge for the year	780
Group transfers	(1,409)
Eliminated in respect of disposals	(305)
As at 31 December 2002	673
<i>Net book value</i>	
As at 31 December 2002	2,056
As at 31 December 2001	5,032

8 Stock

	2002 £000	2001 £000
Raw materials and consumables	1,999	2,147

9 Debtors

	2002 £000	2001 £000
Amounts falling due within one year:		
Trade debtors	378	776
Amounts recoverable on contracts	7,898	5,262
Amounts owed by group undertakings	22,396	17,242
Other debtors	454	432
Prepayments and accrued income	339	236
	31,465	23,948
Amounts falling due after more than one year:		
Amounts recoverable on contracts	160	195
Deferred tax (note 11)	-	90
	160	285
Total debtors	31,625	24,233

Notes (continued)

10 Creditors: amounts falling due within one year

	2002 £000	2001 £000
Payments received on account	338	2,607
Trade creditors	7,003	3,021
Amounts owed to group undertakings	7,108	3,418
Group tax relief	-	3,761
Corporation tax	1,495	1,134
Other creditors	52	325
Other tax and social security costs	4,072	1,352
Accruals and deferred income	12,917	12,305
	<u>32,985</u>	<u>27,923</u>

11 Deferred taxation

	2002 £000	2001 £000
At beginning of year	(90)	(45)
Transfer from profit and loss account	90	(45)
	<u>-</u>	<u>(90)</u>
At end of year	-	(90)

The elements of deferred taxation are as follows:

	2002 £000	2001 £000
Other timing differences	-	(90)
	<u>-</u>	<u>(90)</u>

The deferred tax asset is included in debtors (note 9).

12 Called up share capital

	2002 £000	2001 £000
<i>Authorised:</i>		
2,000,000 ordinary shares of £1 each	2,000	2,000
	<u>2,000</u>	<u>2,000</u>
<i>Allotted, called up and fully paid:</i>		
2,000,000 ordinary shares of £1 each	2,000	2,000
	<u>2,000</u>	<u>2,000</u>

Notes (continued)

13 Reserves

	2002 £000	2001 £000
Retained profit brought forward	2,886	3,109
Retained loss for the year	(181)	(223)
Retained profit carried forward	2,705	2,886

14 Reconciliation of movements in shareholders' funds

	2002 £000	2001 £000
Profit for the financial year	3,371	3,019
Dividend paid	(3,552)	(3,242)
Net decrease in equity shareholders' funds	(181)	(223)
Equity shareholders' funds at beginning of year	4,886	5,109
Equity shareholders' funds at end of year	4,705	4,886

15 Capital commitments

The company has capital commitments as follows:

	2002 £000	2001 £000
Contracts placed	-	143

16 Commitments under operating leases

Annual commitments under non-cancellable operating leases are as follows:

	2002 Land and buildings £000	2001 Land and buildings £000	2001 Other £000
Operating leases which expire:			
Within one year	180	136	42
In the second to fifth years inclusive	115	45	452
	295	181	494

Notes (continued)

17 Pension contributions

SSAP 24

The company participates in the Carillion staff pension scheme which is a funded defined benefit scheme. Details of the latest actuarial valuation, which was performed by a qualified actuary, of the principal defined benefit schemes are given in the group's consolidated financial statements. Note 19 gives details of how to obtain a copy of the financial statements of Carillion plc.

The contributions to the defined benefit schemes made by the company represent the regular cost of providing the benefits without any recognition of fund surpluses or deficits which are dealt with by Carillion plc. The pension cost for the year was £767,960 (2001: £630,843). There were no prepayments or outstanding contributions at 31 December 2002 or 2001.

FRS 17

As the scheme is run for the Carillion group as a whole the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17: Retirement Benefits the scheme will be accounted for by the company as if the scheme was a defined contribution scheme when the accounting standard is fully adopted.

At 31 December 2002 the scheme had a deficit on an FRS 17 basis of £50,900,000 (2001: surplus £14,900,000).

18 Related party transactions

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 19 gives details of how to obtain a copy of the published financial statements of Carillion plc.

19 Controlling and parent companies

The company's immediate and ultimate holding company is Carillion plc, which is 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.

