Carillion (Denmark) Limited

Directors' report and financial statements

31 December 1999
Registered number 3256112

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

The company is principally engaged in the construction of an underground railway in Denmark as part of the Copenhagen Metro joint venture.

Business review and future developments

Turnover for the year amounted to £34,187,000 *(1998: £25,197,000)* and the loss on ordinary activities before taxation was £143,000 *(1998: profit £658,000)*.

The Directors provide full details of the current status of the contract in note 9 to the financial statements and they are confident of making satisfactory progress throughout 2000.

Proposed dividend

The directors do not recommend the payment of a dividend for the year *(1998: £Nil)*.

Directors and directors' interests

The directors serving during the year were:

AB Lovell	(appointed 7 March 2000)
RD MacIver	
RW Robinson	(appointed 2 July 1999)
FM Kennedy	(resigned 2 July 1999)

There is no officially appointed chairman of the company.

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 were either exercised or lapsed:

Number of shares

	At 31 December 1999		At 1 January 1999		Share option movements in year		
	Shares Number	Share options Number	Shares Number	Share options Number	granted Number	exercised Number	lapsed Number
RD MacIver							
Carillion plc	**21,591**	**78,132**	n/a	n/a	78,132	-	-
Tarmac plc	**n/a**	**n/a**	-	150,454	-	143,580	6,874

Directors' report *(continued)*

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 joint arrangement in which the company has an interest has no such policy, however the number of days billings from suppliers outstanding at the year end was 50 *(1998: 50 days)*.

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 year 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

A resolution will be proposed at the forthcoming annual general meeting to re-appoint KPMG Audit Plc for the forthcoming year.

Approved by the Board and signed on its behalf by:

DO FitzHugh
Secretary

Birch Street
Wolverhampton
WV1 4HY

14 March 2000

KPMG

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL
United Kingdom

Report of the auditors to the members of Carillion (Denmark) Limited

We have audited the financial statements on pages 5 to 12.

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. 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 loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

14 March 2000

Profit and loss account

for the year ended 31 December 1999

	Note	**1999**	1998
		£000	£000
Turnover	*1*	**34,187**	25,197
Cost of sales		**(33,298)**	(24,524)
Gross profit		**889**	673
Administrative expenses		**(882)**	-
Operating profit		**7**	673
Interest payable and similar charges	*5*	**(150)**	(15)
(Loss)/profit on ordinary activities before taxation	*6*	**(143)**	658
Tax on (loss)/profit on ordinary activities	*7*	**(26)**	(461)
Retained (loss)/profit for the financial year	*15*	**(169)**	197

The above results are all derived from continuing operations.

The company has no recognised gains or losses in the current year or preceding period, other than those disclosed in the profit and loss account.

Balance sheet
at 31 December 1999

	Note		1999		1998
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*8*		**3,388**		5,189
Current assets					
Stocks	*10*	**1,665**		3,067	
Debtors: due within one year		**5,434**		5,528	
Debtors: due after more than one year		**188**		42	
Total debtors	*11*	**5,622**		5,570	
Cash at bank and in hand		**163**		688	
		7,450		9,325	
Creditors: amounts falling due within one year	*12*	**(11,570)**		(15,077)	
Net current liabilities			**(4,120)**		(5,752)
Net liabilities			**(732)**		(563)
Capital and reserves					
Called up share capital	*14*		**-**		-
Profit and loss account	*15*		**(732)**		(563)
Equity shareholders' funds	*15*		**(732)**		(563)

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

RD MacIver
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 accounting rules and on a going concern basis. The going concern basis assumes that the company will continue to trade, since Carillion Construction Limited has indicated that it will provide or procure such funds as are necessary to enable the company to continue its development activities for a period of at least twelve months and enable the company to continue to pay its debts on this basis. The directors consider it appropriate to prepare the financial statements on a going concern basis.

The company's interest in its joint arrangement is included in the financial statements using the proportional consolidation method. Joint arrangements are unincorporated entities which participate in their own trade or business where no contractual management agreement exists between investors.

Turnover

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to all customers including fellow subsidiary undertakings and, in respect of long term contracting activities, the value of work executed during the year. It also includes the company's proportion of work carried out by joint arrangements during the year.

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 that forecast at completion. Payments received on account are deducted from amounts recoverable on contracts. Such amounts which have been received and exceed amounts recoverable are included in creditors.

Stocks

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

Tangible fixed assets

Depreciation is based on historic cost, less the estimated residual values, and the estimated economic lives of the assets concerned. Depreciation is provided in equal instalments over the period of their estimated economic lives which for all assets are between two and four years.

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.

Notes *(continued)*

1 Principal accounting policies *(continued)*

Foreign currencies

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

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.

2 Segmental reporting

All turnover and losses before taxation are derived from a single class of business, being building construction, civil engineering and related activities, including associated professional services and arise solely from the company's activities in Denmark.

3 Directors' remuneration

The directors, who were the only direct employees of the company, neither received nor waived any emoluments during the year *(1998: £Nil)*.

4 Staff numbers and costs

The company's share of the average number of persons employed during the year through its interest in its joint arrangement was as follows:

	1999	As restated 1998
	Number	Number
Construction and related operations	**302**	245

The aggregate payroll costs of these persons were as follows:

	1999	As restated 1998
	£000	£000
Wages and salaries	**9,816**	9,619
Social security costs	**898**	1,443
	10,714	11,062

5 Interest payable and similar charges

	1999	1998
	£000	£000
On bank loans and overdrafts	**150**	15

Notes *(continued)*

6 Profit on ordinary activities before taxation

	1999 £000	1998 £000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	**1,875**	962
Auditors' remuneration:		
- Audit	**-**	7

The audit fee for the year ended 31 December 1999 has been borne by Carillion Construction Limited.

7 Taxation on profit on ordinary activities

	1999 £000	1998 £000
The tax charge for the financial year is made up as follows:		
UK corporation tax at 31% *(1998: 31%)*	**172**	503
Transfer from deferred tax	**(146)**	(42)
	26	461

8 Tangible fixed assets

	Plant, machinery and vehicles £000
Cost	
At 1 January 1999	6,542
Exchange rate adjustment	(754)
Additions	672
At end of year	6,460
Depreciation	
At 1 January 1999	1,353
Exchange rate adjustment	(156)
Charge for year	1,875
At end of year	3,072
Net book value	
At 31 December 1999	**3,388**
At 31 December 1998	5,189

Notes *(continued)*

9 The contractor and the contract

(a) The joint arrangement

The Copenhagen Metro Construction Group ("COMET") is a joint venture set up by an agreement dated 25 January 1996 for the purpose of entering into a contract with Orestadsselskabet I/S and Frederiksberganeselskabet I/S described below.

The joint venture parties and their respective shares are:

Carillion (Denmark) Limited	27.5%
SAE International	27.5%
Bachy Soletanche Limited	12.5%
Astaldi SpA	15.0%
ILBAU Gesellschaft GmbH	10.0%
NCC Rasmussen & Shiotz Anlaeg A/S	7.5%

The address of its principal place of business is Reftshalevej 147, PO Box 1920, 1023 Copenhagen, Denmark.

(b) The contract

On 3 October 1996, COMET entered into a contract for the design and construction of the civil works associated with the first two phases of an automated metro for Copenhagen running underground from Frederiskberg to Islands Brygge/Lergravsparken, then above ground to Vestamager on viaducts and embankments.

(c) Claims

The contract is technically complex involving 15 kilometres of underground tunnels, interchanges, six deep underground stations and seven further stations at or above ground level. A number of problems have been experienced to date, which is not unusual for contracts of this size and nature, and as a result the construction programme has been extended and costs have increased significantly.

The directors of Carillion (Denmark) Limited and the management of COMET remain confident of a satisfactory outcome although there remains much still to be resolved in COMET achieving a breakeven position and in the anticipation of the contract generating a profit. As the result cannot be foreseen with reasonable certainty at the present time, the company's interest in the contract is being traded at break even in its accounts for the current year. This result is dependent on recovering as yet unagreed contractual claims, variations and other disputed items of which the company's share amounts to some £23.8 million *(1998: £17.5 million)* and which have been included in amounts recoverable on contracts.

0 Stocks

	1999	1998
	£000	£000
Raw materials and consumables	**1,665**	3,067

Notes *(continued)*

11 Debtors

	1999 £000	1998 £000
Amounts falling due within one year:		
Amounts recoverable on contracts	**5,341**	2,715
Amounts owed by group undertakings	**20**	752
Other debtors	**73**	2,061
	5,434	5,528
Amounts falling due after one year:		
Deferred tax asset (see note 13)	**188**	42
	5,622	5,570

12 Creditors: amounts falling due within one year

	1999 £000	1998 £000
Bank loans and overdrafts	**1,240**	3,890
Trade creditors	**4,250**	4,632
Payments on account	**-**	-
Amounts owed to group undertakings	**755**	-
Accruals and deferred income	**2,000**	3,158
Other creditors	**-**	2,723
Group relief payable	**-**	171
Corporation tax	**172**	503
Amounts owed to participating interests	**-**	-
Other taxation and social security	**3,153**	-
	11,570	15,077

3 Deferred taxation asset

The movement in the deferred taxation asset, all of which arises from accelerated capital allowances and has been recognised in full, is as follows:

	Deferred taxation £000
At beginning of year	42
Transfer to profit and loss account	146
At end of year	**188**

Notes *(continued)*

14 Share capital

	1999 £	1998 £
Authorised:		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid:		
2 ordinary shares of £1 each	2	2

15 Reconciliation of movements in shareholders' funds

	Share capital £000	**Profit and loss account £000**	**1999 Total £000**	1998 as restated Total £000
Retained profit for the financial year	-	**(169)**	**(169)**	197
Net increase in shareholders' funds	-	**(169)**	**(169)**	197
Shareholders' funds at beginning of year	-	**(563)**	**(563)**	(760)
Shareholders' funds at end of year	-	**(732)**	**(732)**	(563)

16 Contingent liabilities

The company has contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other agreements, including joint ventures, entered into in the normal course of business.

17 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 18 gives details of how to obtain a copy of the published financial statements of Carillion plc.

8 Controlling and parent companies

The company's immediate controlling entity is Carillion Construction Limited, its immediate parent company, whilst its ultimate controlling entity is Carillion plc, its ultimate parent company, both of which are incorporated in Great Britain. Copies of the group financial statements are available from 24 Birch Street, Wolverhampton, WV1 4HY.