

Directors' report

The Directors submit their report and the accounts for the year ended 31 December 1998 which they approved on 18 March 1999.

Results and dividends

The profit before taxation for the year was £20.1 million. After taxation the profit attributable to shareholders was £15.5 million.

The Directors recommend a final dividend of 7.0 pence per Ordinary and Ordinary A (non-voting) share to be paid on 2 July 1999 to shareholders whose names appear on the register at the close of business on 6 April 1999.

With the interim dividend of 3.75 pence per share paid on 20 November 1998 the total dividend for the year is 10.75 pence per share. The Directors are again offering a scrip dividend option whereby shareholders may receive further shares rather than a cash dividend. Full details of this arrangement are set out in the accompanying letter from the Chairman.

More detailed comments on events during the year and on the development of the business are given in the Chairman's Statement and in the Operating and Financial Review.

Group activities

The activities of individual Group companies, both in the UK and overseas, are briefly described in the Operating and Financial Review. They are related mainly to construction, the building of homes for sale, property development and investment in infrastructure.

Directors

The Directors at any time during the year were:

Sir Martin Laing	D H Blair – retired 6 November 1998
R A Wood	D C Madden
D Edwards	R S Lidgate
B O Chilver	P J Harper
J Armstrong	D Ardern – appointed 1 October 1998

The Directors retiring by rotation in accordance with the Articles of Association are Sir Martin Laing and R A Wood and, being eligible, they each offer themselves for re-election. D Ardern, having been appointed subsequent to the last Annual General Meeting, retires in accordance with the Articles of Association and, being eligible, offers himself for election.

The service agreements of Sir Martin Laing and R A Wood are terminable on two years' notice from the Company. The service agreement of D Ardern is terminable on one year's notice.

Remuneration report

Remuneration policy

Our policy is to set Directors' overall remuneration and benefits at market levels comparable with companies of similar size and scope of activities in order to be able to attract, retain and motivate individuals of above average ability.

The main components of our Directors' remuneration package are basic salary, annual bonus and long-term incentive schemes, membership of pension scheme, company car, executive share option scheme and provision of health insurance.

We operate a Directors' bonus scheme related to pre-tax profit. The 1998 scheme provides for the payment of up to 40% of basic salary subject to the achievement of pre-determined performance targets.

A long-term Performance Share Plan was approved by shareholders at an EGM in October 1996. The first three-year performance period commenced on 1 January 1997. The threshold at which any award will vest is 5% annual compound growth in Earnings per share (EPS) in excess of the Retail Prices Index (RPI). The maximum award will vest on the achievement of 15% annual compound growth in EPS in excess of RPI.

The Group had a policy of granting share options selectively to Directors and Senior Executives under the terms of a Revenue Approved Scheme within the provisions of the Finance Act 1984. The final allocations under that scheme were granted in 1996.

With the exception of D Ardern whose contract is terminable on the service of one year's notice, current contracts for Executive Directors provide for two years' notice from the Company. We consider it appropriate in the current climate to continue this arrangement. All future Directors will have contracts that are terminable in no more than one year. Arrangements relating to early termination are dealt with on the merits of individual cases.

Directors participate in a separate defined benefit occupational pension scheme. This provides for accrual of benefits based on total years of service and is calculated on basic salary. The Inland Revenue pension cap is accommodated through the payment of a separate cash sum to individuals in appropriate cases to cover additional pension provision.

Membership of the Remuneration Committee is set out in the Statement of Corporate Governance on page 31.

Particulars of Directors' emoluments, pension entitlements, share interests and share options are set out below:

Directors' emoluments

	Salary and fees £	Benefits £	Annual bonus £	Total 1998 £	Total 1997 £	Pensions	
						1998 £	1997 £
Executive							
Sir Martin Laing	305,000	7,789	27,450	340,239	391,822	27,450	24,750
R A Wood	280,000	15,884	25,200	321,084	364,340	25,200	22,500
J Armstrong	220,000	13,277	19,800	253,077	292,699	45,127	40,126
D H Blair	169,863	11,180	15,288	196,331	264,262	15,288	16,200
D C Madden	155,000	12,360	13,950	181,310	207,762	13,950	12,600
R S Lidgate	190,000	7,676	17,100	214,776	245,070	36,727	31,726
D Ardern	35,000	2,561	6,728	44,289	-	5,619	-
Non-executive							
D Edwards	37,000	683	-	37,683	34,662	-	-
B O Chilver	24,000	1,038	-	25,038	21,928	-	-
P J Harper	24,000	-	-	24,000	21,000	-	-
				1,637,827	1,843,545	169,361	147,902

The emoluments of D H Blair are for the period from 1 January 1998 to 6 November 1998, the date on which his directorship ceased. Since that date D H Blair has received remuneration under his employment contract of £34,832. D Ardern was appointed to the Board on 1 October 1998 and the emoluments shown above are stated for the three months commencing on that date.

Pension contributions stated above include a notional charge of 9% (1997 – 9%) on pensionable salaries. This is shown in order to reflect the normal cost of providing accrued pension benefits.

Annual bonus payments included within total Directors' emoluments amounted to £125,516 (1997 – £486,000). Annual bonuses are calculated by reference to achievement of pre-determined profit targets as measured by the Group's management accounts. Such profit targets are approved by the Board and individual annual bonus arrangements are approved by the Remuneration Committee.

Directors' pension entitlements

Pension benefits earned by the Directors ⁽¹⁾

	Accumulated total accrued annual pension 31 December 1998 £	Increase in accrued annual pension during the year ⁽²⁾ £	Transfer value of increase ⁽³⁾ £
Executive Directors			
Sir Martin Laing	226,775	27,548	470,900
R A Wood	201,777	28,298	483,700
J Armstrong	23,002	5,167	101,500
D C Madden	119,186	18,870	368,200
R S Lidgate	4,380	1,850	27,500
D Ardern	17,520	976	14,500 ⁽⁴⁾
	592,640	82,709	1,466,300

Directors' report continued

Notes for pension benefits

- (1) The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 1998.
- (2) The increase in accrued pension during the year excludes any increases on account of inflation.
- (3) These transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11.
- (4) All Directors, with the exception of R S Lidgate, are members of both the John Laing Pension Fund (the Fund) and the John Laing Supplementary Scheme (the Scheme). R S Lidgate is a member of the Fund only. The Fund and the Scheme are both tax-approved schemes.
- (5) Members of the Fund and the Scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
- (6) Membership of the Fund and the Scheme is non-contributory.

Directors' interests

The number of shares of the Company in which each Director of the Company is deemed to be interested is shown below in accordance with the requirements of the Companies Act 1985, and includes family interests and holdings in which Directors are interested solely as Trustees.

	On 31 December 1998			On 1 January 1998 Or later date of appointment		
	Ordinary Shares 25p each	Ordinary A (non-voting) Shares 25p each	6.4% Convertible Preference Shares £1 each	Ordinary Shares 25p each	Ordinary A (non-voting) Shares 25p each	6.4% Convertible Preference Shares £1 each
Beneficial						
Sir Martin Laing	1,049,592	16,151	154,067	1,049,592	16,151	154,067
R A Wood	7,179	–	–	9,309	3,149	–
D Edwards	3,750	–	–	3,750	–	–
B O Chilver	1,080	–	–	1,080	–	–
J Armstrong	16,345	–	465	1,209	–	465
D C Madden	1,128	–	900	1,128	–	900
R S Lidgate	1,053	–	–	1,043	–	–
P J Harper	10,483	–	–	10,182	–	–
D Ardern	1,029	–	–	1,019	–	–
As Trustees						
Sir Martin Laing	2,618,401	1,849,878	500,000	2,618,401	1,849,878	500,000
R A Wood	1,493,914	1,163,763	150,000	1,493,914	1,163,763	150,000
D C Madden	1,493,914	1,163,763	150,000	1,493,914	1,163,763	150,000
D Edwards	6,282,425	127,434	–	6,282,425	127,434	–
B O Chilver	9,565,536	761,558	400,000	9,565,536	761,558	400,000
P J Harper	6,282,425	127,434	–	6,282,425	127,434	–
Directors' interests as Trustees	18,063,269	2,735,186	800,000	18,063,269	2,735,186	800,000

By reason of common interests some shares are included against the names of more than one Director. After eliminating such duplications the total number of shares in which the Directors are interested as Trustees is shown below.

Directors' share options

The Directors participated in the Senior Executive Share Option Scheme and Savings Related Share Option Scheme relative to the Ordinary A (non-voting) Shares as follows:

	At 1 January 1998	Granted during the year	Lapsed during the year	Exercised during the year	At 31 December 1998	Exercise price	Mid-market price on date of exercise	Date from which exercisable	Expiry date
Sir Martin Laing	70,000	–	–	70,000	–	305p	367.5p		
	85,000	–	–	–	85,000	346p		11/05/97	11/05/04
	4,074	–	–	–	4,074	†210p		31/01/02	31/07/02
R A Wood	57,000	–	–	57,000	–	356p	396.5p		
	50,000	–	–	–	50,000	346p		11/05/97	11/05/04
	2,302	–	–	–	2,302	†210p		31/01/00	31/07/00
J Armstrong	25,000	–	–	25,000	–	292p	396.5p		
	65,000	–	–	–	65,000	*331p		11/05/97	15/05/06
	2,302	–	–	–	2,302	†210p		31/01/00	31/07/00
D C Madden	50,000	–	–	–	50,000	*331p		11/05/97	15/05/06
	4,074	–	–	–	4,074	†210p		31/01/02	31/07/02
R S Lidgate	50,000	–	–	–	50,000	*331p		11/05/97	15/05/06
	4,074	–	–	–	4,074	†210p		31/01/02	31/07/02
D Ardern**	50,000	–	–	–	50,000	*331p		11/05/97	15/05/06
	4,074	–	–	–	4,074	†210p		31/01/02	31/07/02
	522,900	–	–	152,000	370,900				

*Average exercise price Senior Executive Share Option Scheme.

† Exercise price Savings Related Share Option Scheme.

** Opening position reflected from date of appointment

The mid-market price of Ordinary A (non-voting) Shares on 31 December 1998 was 248.5 pence. The range of share prices during 1998 was 247.5 pence to 396.5 pence.

The Register of Directors' Interests contains full details of Directors' shareholdings and options. Since 31 December 1998, D Ardern purchased 1,203 Ordinary Shares on 13 January, and P J Harper purchased 10,000 Ordinary Shares on 14 January.

Long-term Performance Share Plan

Under the terms of the long-term Performance Share Plan, the total maximum conditional award to Directors in respect of the scheme years commenced on 1 January 1997 and 1 January 1998 are shown in the accompanying table. The maximum award will vest on achievement of 100% of target. A threshold target is set at which 50% of the award will vest; a linear scale operates for performance between the two targets.

	Maximum award Ordinary A (non-voting) Shares	
	Scheme years commencing 1 January 1998	Scheme years commencing 1 January 1997
Sir Martin Laing	50,274	51,886
R A Wood	46,153	47,169
J Armstrong	36,263	37,735
D C Madden	25,549	26,415
R S Lidgate	31,318	32,075
D Ardern	12,857	14,088

Directors' report continued

Substantial shareholdings

At 18 March 1999, the Directors were aware of the following substantial interests in the shares of the Company:

	Ordinary Shares 25p each	%	Ordinary A (non-voting) Shares 25p each	%	6.4% Convertible Preference Shares £1 each	%
Eskmuir Limited	2,866,368	6.2	–	–	–	–
Stewards Company Limited	242,994	0.5	3,778,000	8.2	4,000	0.0
Kirby Laing Foundation	1,797,621	3.9	–	–	500,000	1.2
Rufford Foundation	3,222,778	7.0	–	–	–	–
Sir Maurice Laing/J H Laing*	1,510,700	3.3	–	–	–	–
The John Laing Pension Trust Limited	1,800,000	3.9	–	–	–	–

*subject to the interests of both Sir Maurice Laing and J H Laing.

Eskmuir Limited and Stewards Company Limited are companies formed for charitable purposes and limited by guarantee.

Employees

The Group seeks to ensure employee commitment to its objectives in a number of ways. It has adopted a system of twice-yearly presentations whereby parent company Directors visit Laing offices around the country to brief staff on the Group's financial performance and strategic plans. In addition, regular team briefings at local level provide employees with information about the performance of their part of the business and about other topics of local interest. Many other formal and informal meetings are held and a wide range of Group publications is made available – including a monthly newspaper, *Team Spirit*, and an annual financial report for employees.

The Staff Pension Fund Advisory Committee is a consultative group which draws its membership from different parts of the Group. It meets twice a year to discuss current matters concerning the Fund and also nominates three of its members to act as trustees of the Fund.

A Savings Related Share Option Scheme provides the opportunity for many employees to become shareholders.

The framework within which decisions about people are made is set out in the Group's Personnel Policy which is published in the staff handbook. It is part of that policy to employ and train disabled people whenever their skills and qualifications allow and when suitable vacancies are available. If existing employees become disabled, every effort is made to find them appropriate work and training is provided if necessary.

Political and charitable contributions

No contributions were made by the Group to any political party. Charitable contributions made during the year by the Company

and its subsidiaries amounted to £9,839. In addition, contributions of £726,000 were made on behalf of the Group by Laing's Charitable Trust. The Trust is funded separately and derives its income from investments which are held and managed independently from the Group.

Payment policy

The Group is a registered supporter of the CBI Prompt Payers Code of Good Practice. Payment terms are clearly stated in contracts between Group companies and their suppliers or subcontractors from the outset. The Group has a consistent policy to pay in accordance with the contracted terms, provided the supplier is also complying with all the relevant terms of the contract. More information about the Code may be obtained from the CBI. The number of days' billings outstanding from suppliers to the Group at 31 December 1998 was 69 days. The Company does not carry on a trade.

Auditors

Our auditors, KPMG Audit Plc, are willing to continue in office and a resolution concerning their reappointment in accordance with Section 385 of the Companies Act 1985 is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



Sir Martin Laing CBE

Chairman

18 March 1999

Corporate governance

The Code

The Company complied with the combined Code issued by the Committee on the Financial Aspects of Corporate Governance throughout the year with the exception that from 1 October 1998 to 6 November 1998 the non-executive Directors comprised less than one-third of the Board.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future – and, for that reason, they continue to adopt the going concern basis in preparing the accounts.

The Board of Directors

The Board of John Laing plc comprises six executive and three independent non-executive Directors. The Board meets on a regular basis and has the responsibility for strategic and financial policies. The Board has delegated executive control to the Group Executive, a sub-committee of the Board that currently consists of the Chairman and the Deputy Chairman. The Group Executive meets once a month and reviews divisional performance with senior divisional management. All Directors are equally accountable under law for the proper stewardship of the Company's affairs. Policies and procedures are in place to ensure that the decisions of the Chairman and Deputy Chairman are considered by the Board.

The Directors take independent professional advice from the Group's consultants as necessary and procedures exist for the appointment of such consultants at the Group's expense.

The Company Secretary is responsible to the Board for ensuring that Board procedures and the applicable rules and regulations are complied with. Decisions requiring urgent consideration by the Group Executive or the Board are notified to all members for consultation.

The Nominations Committee recommends all new Board appointments and comprises Sir Martin Laing, R A Wood and the three non-executive Directors.

The non-executive Directors are appointed by the Board. As main Board Directors they bring an independent judgement to bear on all issues of policy but take no functional responsibility for operational matters.

Directors retire by rotation every third year.

Audit

All of the Group's major subsidiaries are audited by KPMG Audit Plc. Joint ventures and associated companies are also audited by

KPMG Audit Plc unless arrangements with our partners stipulate an alternative appointment. In addition to the auditors' report to the members of John Laing plc on the financial statements set out in the annual report and accounts, the auditors report to the Directors any findings on the procedures and controls within the operating activities which have come to their notice during the course of their normal audit work.

A report from the auditors on their review of the interim accounts is published with the statement of interim results issued to shareholders.

Audit Committee

The Audit Committee comprises the three non-executive Directors. The Committee meets at least twice a year and will normally request the attendance of the Group Finance Director and representatives of the external auditors. However, at least once a year, the Committee meets with the external auditors without the Group Finance Director being present. The Committee is authorised by the Board to obtain outside legal or other independent professional advice if it considers that to be necessary. Copies of the Minutes of all Audit Committee meetings are distributed to Board members.

Remuneration Committee

The Remuneration Committee comprises the three non-executive Directors. The meetings are attended by the Chairman and by the Group Personnel Director – the latter in the capacity of Secretary. The Committee also employs the services of an independent consultant. The Remuneration Committee is responsible for determining the terms of employment of Executive Directors of the Board of John Laing plc.

Internal financial controls

The Board of Directors has responsibility for the Group's system of internal financial control.

The Group has an established internal financial control framework, which is designed to provide reasonable but not absolute assurance against material misstatement or loss. Following the recognition of a significant loss associated with the Cardiff Millennium Stadium, these controls are being reviewed and have already been strengthened.

Controls include:

- a comprehensive budgeting system with a detailed annual budget and outline plan for the following two years approved by the Board;
- the regular comparison of actual results against the approved budget and against updated forecasts of the outturn for the year under review;

- a corporate manual of financial management and accounting policies;
- business unit manuals of financial procedures and controls within the Group's core businesses;
- a system of continuous self-assessment of controls is carried out within businesses, and is supplemented by internal audit review and assistance from our external auditors;
- within Construction written authorisation is required
 - prior to work being commenced on any proposed bid
 - prior to submission of any authorised bid.

Clear guidelines on acceptable work streams and profit flows have been set down for implementation across Construction Divisions.

A formal sign-off procedure operates centrally with all construction bids of over £20 million being sanctioned by the Central Executive of Laing Limited.

In parallel with existing controls, a comprehensive Risk Management programme is under development;

- business managers are held accountable for the performance of their division;
- regular reporting to the Board on significant treasury, legal, pension and insurance matters;
- clearly defined investment control guidelines and procedures.

The Directors have undertaken a comprehensive review of the key financial risks. The potential areas of significant risk and the financial controls that are employed as a safeguard against those risks have been identified and documented. Responsibility for ensuring compliance with certain Group policies has been delegated by the Board to nominated senior management, other aspects remain the reserve powers of the Board. The Directors

have reviewed the effectiveness of the Group's system of internal financial control through a formal mechanism of self-assessment by the business units and through a detailed review of the self-assessment responses. Self-assessment is supplemented by both internal financial audit and assistance from our external auditors. The internal audit function reviews procedures on a systematic basis throughout the Group and submits detailed reports on its findings to the Group Executive and to the Audit Committee. The resources allocated to this function are being examined with a view to broadening its activities.

Pensions

The Group operates pension schemes for its employees. The assets of the schemes are held in trustee administered funds which are separate from the assets of the Group.

The trustees of the main pension fund consist of three Directors, the Pensions Manager, three employees, two retired members of staff and an independent member who was formerly with Noble Lowndes, Financial Advisers and Pension Consultants. In addition, the Law Debenture Trust Corporation plc was appointed in 1994 as an entrenched independent Reference Trustee.

Investment management of the Fund is shared among five specialist independent investment management companies.

On 31 December 1998, the investment in John Laing plc represented less than 2% of the pension funds' total investment portfolio.

Statement of Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

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

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

Auditors' report

to the members of John Laing plc

We have audited the financial statements on pages 34 to 56 and 58 to 59. We have also examined the amounts disclosed relating to emoluments, share options, long-term incentive scheme interests and Directors' pension entitlements which form part of the Directors' Report on pages 26 to 30.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 32 the financial statements. Our responsibilities as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, 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 or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 31 to 32 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

18 March 1999

Group profit and loss account

John Laing plc and subsidiary undertakings

For the year ended 31 December 1998	Notes	1998 £ million	1997 Restated £ million
Turnover	1	1,606.6	1,461.4
Deduct:			
Share of associates' turnover		(5.5)	(0.2)
Share of joint ventures' turnover		(124.6)	(51.2)
Group turnover		1,476.5	1,410.0
Cost of sales		(1,385.8)	(1,309.6)
Gross profit		90.7	100.4
Exceptional cost of restructuring		(5.1)	-
Other operating and administrative expenses		(81.5)	(82.1)
Total operating and administrative expenses		(86.6)	(82.1)
Other operating income	6	2.0	2.3
Operating profit	2	6.1	20.6
Share of operating profit of:			
Joint ventures		6.4	2.2
Associates		0.5	-
Operating profit including associates and joint ventures		13.0	22.8
Profit on disposal of and amounts written off fixed assets	3	5.9	10.4
Loss on disposal of operations	1	(1.6)	-
Profit on ordinary activities before interest	1	17.3	33.2
Interest receivable:			
Group		8.3	7.9
Joint ventures		0.6	-
Interest payable:			
Group		(4.7)	(8.8)
Joint ventures		(1.4)	(0.1)
Net interest		2.8	(1.0)
Profit on ordinary activities before taxation		20.1	32.2
Taxation	7	(4.6)	(6.0)
Profit on ordinary activities after taxation		15.5	26.2
Minority interests		-	(0.1)
Profit attributable to shareholders		15.5	26.1
Dividends on equity and non-equity shares	8	(12.4)	(12.2)
Retained profit for the year		3.1	13.9
Earnings per share – Basic	9	14.0p	25.7p
– Diluted	9	13.8p	24.7p

All items in the profit and loss account relate to continuing operations.

1997 comparatives and the notes thereto have been restated to comply with Financial Reporting Standard 9, Associates and Joint Ventures (see Accounting Policies section (b)).

Group statement of total recognised gains and losses

John Laing plc and subsidiary undertakings

For the year ended 31 December 1998	1998 £ million	1997 Restated £ million
Profit attributable to shareholders	15.5	26.1
Unrealised surpluses on revaluation of properties	0.5	0.8
Currency translation differences on foreign currency net investments	-	(0.6)
Total gains recognised in the year	16.0	26.3

Group statement of historical cost profits and losses

John Laing plc and subsidiary undertakings

For the year ended 31 December 1998	1998 £ million	1997 Restated £ million
Profit on ordinary activities before taxation	20.1	32.2
Difference between an historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	-	(0.1)
Realisation of property revaluation gains of previous years	0.2	0.5
Historical cost profit before taxation	20.3	32.6
Historical cost retained profit for the year	3.3	14.3

1997 comparatives and the notes thereto have been restated to comply with Financial Reporting Standard 9, Associates and Joint Ventures (see Accounting Policies section (b)).

Group balance sheet

John Laing plc and subsidiary undertakings

At 31 December 1998	Notes	1998 £ million	1997 Restated £ million
Assets employed			
Fixed assets			
Intangible assets	27	4.2	–
Tangible assets	11	43.5	50.0
Investments	12	41.4	31.2
Investments in joint ventures			
Share of gross assets		260.6	69.9
Share of gross liabilities		(195.7)	(64.3)
	12	64.9	5.6
Investments in associates		3.0	0.3
		157.0	87.1
Current assets			
Land and developments	13	235.5	271.6
Stocks and work in progress	13	2.8	8.9
Debtors – due within one year	14	247.4	212.3
– due in more than one year	14	14.9	30.1
		262.3	242.4
Short-term investments	15	2.6	2.9
Cash at bank and in hand	16	120.5	178.6
		623.7	704.4
Creditors: amounts falling due within one year			
Bank and other loans	17	44.4	83.6
Other creditors	18	448.4	383.0
		492.8	466.6
Net current assets			
		130.9	237.8
Total assets less current liabilities			
		287.9	324.9
Creditors: amounts falling due after more than one year			
Bank and other loans	17	32.3	75.3
Other creditors	18	13.9	12.0
		46.2	87.3
Provisions for liabilities and charges			
	19	22.6	22.8
		219.1	214.8
Financed by			
Capital and reserves			
Called up share capital	22	63.1	63.0
Share premium account	23	21.9	20.9
Property revaluation reserve	23	3.3	3.0
Profit and loss account	23	130.8	127.4
Shareholders' funds			
– equity		180.4	175.6
– non-equity	23	38.7	38.7
		219.1	214.3
Minority interests – equity			
		–	0.5
		219.1	214.8

1997 comparatives and the notes thereto have been restated to comply with Financial Reporting Standard 9, Associates and Joint Ventures (see Accounting Policies section (b)).

Company balance sheet

John Laing plc

At 31 December 1998	Notes	1998 £ million	1997 £ million
Assets employed			
Fixed assets			
Interests in subsidiary undertakings	10	359.6	352.5
Investments	12	1.6	0.5
		361.2	353.0
Current assets			
Debtors – due within one year	14	19.9	70.3
Cash at bank and in hand		70.8	93.3
		90.7	163.6
Creditors: amounts falling due within one year			
Bank and other loans	17	60.1	42.6
Other creditors	18	139.8	183.8
		199.9	226.4
Net current liabilities		(109.2)	(62.8)
Total assets less current liabilities		252.0	290.2
Creditors: amounts falling due after more than one year			
Bank and other loans	17	32.3	75.3
Provisions for liabilities and charges	19	0.6	0.6
		219.1	214.3
Financed by			
Capital and reserves			
Called up share capital	22	63.1	63.0
Share premium account	23	21.9	20.9
Revaluation of shares in subsidiary undertakings	23	119.0	121.2
Profit and loss account	23	15.1	9.2
Shareholders' funds			
– equity		180.4	175.6
– non-equity	23	38.7	38.7
		219.1	214.3

The accounts on pages 34 to 59 were approved by the Board of Directors on 18 March 1999 and were signed on its behalf by



Sir Martin Laing CBE

Chairman

Group cash flow

John Laing plc and subsidiary undertakings

For the year ended 31 December 1998	Notes	1998 £ million	1997 Restated £ million
Net cash inflow/(outflow) from operating activities	24	59.1	(30.8)
Dividends received from joint ventures and associates		0.6	0.9
Returns on investments and servicing of finance			
Interest received		9.1	7.1
Interest paid		(4.1)	(8.7)
Dividends received		1.2	2.1
Dividends paid to non-equity shareholders		(2.6)	(2.6)
Net cash inflow/(outflow) from returns on investments and servicing of finance		3.6	(2.1)
Taxation			
UK corporation tax paid		(5.6)	(0.6)
Overseas tax paid		(2.0)	(3.0)
		(7.6)	(3.6)
Capital expenditure and financial investment			
Purchase of fixed assets		(13.5)	(19.1)
Sale of fixed assets		9.9	29.5
Purchase of investments		(10.5)	(6.6)
Sale of investments		7.0	5.9
Net cash (outflow)/inflow from investing activities		(7.1)	9.7
Acquisitions and disposals			
Purchase of interests in and loans to associated undertakings and joint ventures		(23.5)	(10.0)
Sale of interests in and repayment of loans by associated undertakings and joint ventures		0.4	1.8
Sale of operations		6.6	–
Net cash outflow from acquisitions and disposals		(16.5)	(8.2)
Equity dividends paid		(9.6)	(8.2)
Net cash inflow/(outflow) before use of liquid resources and financing		22.5	(42.3)
Management of liquid resources			
Net cash transfer from bank deposits	25	42.6	3.9
Net cash inflow from management of liquid resources		42.6	3.9
Financing			
Issue of ordinary share capital		1.0	0.7
(Decrease)/increase in bank borrowings falling due within one year	25	(2.1)	41.0
Decrease in bank borrowings falling due after more than one year	25	(42.8)	–
Net cash (outflow)/inflow from financing		(43.9)	41.7
Increase in cash in the period	25	21.2	3.3

The Group includes term deposits of less than a year, government securities and corporate bonds as liquid resources.

1997 comparatives and the notes thereto have been restated to comply with Financial Reporting Standard 9, Associates and Joint Ventures (see Accounting Policies section (b)).

Accounting policies

(a) Basis of preparation of accounts

These accounts have been prepared under the historical cost convention, modified to include the revaluation of certain land and buildings and investments in subsidiary undertakings, and in accordance with reporting requirements of the Companies Act 1985, together with applicable accounting standards, except as stated in policy note (g) overleaf and note 12.

In accordance with Section 230 of the Companies Act 1985 no separate profit and loss account has been presented for the Company.

(b) Basis of consolidation

The Group profit and loss account and balance sheet include the financial statements of John Laing plc and its subsidiary undertakings made up to 31 December. Where subsidiaries are acquired, and acquisition accounted, or sold during the year, or where joint arrangements are entered into or terminated during the year, the Group profit and loss account includes the results for the part of the year for which they were subsidiaries or joint arrangements.

Interests in subsidiary undertakings and joint arrangements are included in the parent company balance sheet, at the Group's share of net assets of these undertakings.

Where the accounts of overseas subsidiaries do not conform with the Group's accounting policies, adjustments are made on consolidation in order to present the Group accounts on a uniform basis.

Associates and joint ventures are accounted for using the equity basis, except as stated in note 12 where the Directors consider a different treatment is required in order to show a true and fair view. Where the operations of the Group's associates and joint ventures form part of the Group's core businesses the Group's share of the results of such undertakings is included within the Group's operating result. Interests in such companies are shown in the consolidated balance sheet at cost, including advances, plus the appropriate shares of post-acquisition retained profits and reserves.

The Group has adopted FRS 9 in respect of accounting for associates and joint ventures. The comparative figures for the year ended 31 December 1997 have been restated accordingly. The overall effect of restatement for FRS 9 on the comparative profit and loss account is minimal.

Certain investments previously categorised as associates have been incorporated in the accounts as joint arrangements. This has the effect of reducing the comparative net Group funds for the year ended 31 December 1997.

The effect of adopting FRS 9 on the accounts for the year ended 31 December 1997, which have been restated, are shown in note 28.

The Group has adopted FRS 10 such that purchased goodwill is now capitalised and amortised over its useful economic life. Goodwill previously eliminated against reserves, and amounting to £2.1 million, has not been reinstated. On disposal of a business any associated goodwill that has been written off will be reversed.

During the year ended 31 December 1998 the Group combined its US housing activities with those of Watt Residential Partners. The two parties to the transaction contributed an equal amount of assets on a US GAAP basis. The Group also invested in Octagon Developments Limited, giving rise to capitalised goodwill of £4.3 million. This will be amortised over a period of 20 years subject to future reviews for impairment of value.

The Group has reviewed the valuation of fixed assets and goodwill in accordance with FRS 11.

Earnings per share has been calculated for 1998 and restated for 1997 in accordance with FRS 14.

Accounting policies *continued*

(c) Turnover

Turnover comprises the value of work executed by construction activities, fees received on construction management, rental income and invoiced sales after excluding intra-group transactions. In the case of private housing and other property developments, sales are recognised at the date of legal completion.

(d) Investments

Investments, excluding investments in subsidiaries, are stated at the lower of cost and market value. Income from investments is included in the Group profit and loss account as declared and, where the Group's interest has arisen within its core businesses, such income is included within the Group's operating results.

(e) Depreciation

Tangible assets, including freehold properties but excluding land and investment properties, are depreciated at appropriate rates on a straight-line basis to write down the cost or valuation of assets to residual value over their estimated lives, making due allowance for obsolescence in addition to normal wear and tear.

Depreciation, except in the case of investment properties and land with a book value of approximately £6.4 million which are not depreciated, is provided on the basis that the estimated lives of assets are:

Offices and depot buildings	20 to 50 years
Vehicles, plant and machinery	3 to 10 years

Goodwill on acquisition has previously been written off to reserves, only that arising during 1998 has been capitalised and is being amortised over 20 years, which in the opinion of the Directors represents its useful economic life.

(f) Taxation

The amount included for taxation takes into account taxation deferred because of timing differences in the treatment of certain items for taxation and accounting purposes. Provision for deferred taxation is not made unless there is reasonable evidence that it will be payable or receivable in the foreseeable future.

Deferred tax is not provided in respect of liabilities which might arise on the distribution of retained profits of overseas subsidiaries and associates, except where distributions of such profits are planned.

(g) Investment properties

Investment properties are included at open market value. Properties are revalued annually and surpluses or deficits are taken to revaluation reserve.

In accordance with Statement of Standard Accounting Practice No 19 (as amended):

- (i) investment properties are revalued annually at open market values determined in accordance with the Guidance Notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. All surpluses and deficits arising on valuation are taken directly to the revaluation reserve, except that any permanent diminution in the value of an investment property is taken to the profit and loss account;
- (ii) no depreciation or amortisation is provided in respect of freehold investment properties and leasehold investment properties with over 20 years remaining on the lease.

This treatment, as regards certain of the Group's investment properties, may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the Directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

(h) Long-term contracts

Profits on long-term contracts are calculated in accordance with industry standard accounting practice and do not therefore relate directly to turnover. Profit on current contracts is only taken at a stage near enough to completion for that profit to be reasonably certain. Provision is made for all losses incurred to the accounting date together with any further losses that are foreseen in bringing contracts to completion.

Amounts recoverable on contracts which are included in debtors are stated at cost, plus attributable profit to the extent that this is reasonably certain after making provision for contingencies, less any losses incurred or foreseen in bringing contracts to completion, and less amounts received as progress payments. Costs for this purpose include valuation of all work done by subcontractors, whether certified or not, and all overheads other than those relating to the general administration of the relevant companies. For any contracts where receipts exceed the book value of work done, the excess is included in creditors as payments on account.

(i) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost, including production overheads, and net realisable value.

(j) Foreign currencies

Translations into sterling are made at the average of rates ruling throughout the year for profit and loss account items and at the rates ruling at 31 December for assets and liabilities.

Exchange differences arising in the ordinary course of trading are reflected in the profit and loss account; those arising on translation of net equity are dealt with as a movement in reserves.

(k) Pension costs and post-retirement benefits

These are provided systematically over the average remaining future service lives of employees (see note 5). Differences between the amounts charged in the profit and loss account and payments made are treated as assets or liabilities in the balance sheet. Deferred tax is accounted for on these assets and liabilities.

(l) Leases

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