LAING

CREATING VALUE...

JOHN LAING plc ANNUAL REPORT AND ACCOUNTS 2004

2004 John Laing is creating value…

POSITIONED AS THE UK'S LEADING LISTED DEVELOPER OF PRIVATELY FINANCED PUBLIC SECTOR INFRASTRUCTURE PROJECTS…

WE ARE DELIVERING NEW INVESTMENT THROUGH A WIDE RANGE OF PUBLIC PRIVATE PARTNERSHIPS…

GIVING PRIORITY TO HIGH QUALITY AND DELIVERING ON OUR SERVICE COMMITMENTS AND…

INNOVATING THROUGH NEW APPROACHES, PROJECT STRUCTURES AND JOINT VENTURES…

THIS REPORT EXPLAINS HOW WE CREATE VALUE BY MANAGING RISKS AND PURSUING OPPORTUNITIES, HOW WE DELIVER VALUE TO OUR PUBLIC SECTOR CLIENTS AND THE COMMUNITY AND HOW THE GROUP IS GROWING TO THE BENEFIT OF TODAY'S SHAREHOLDERS…

through strong alliances

16
with GOVERNMENTS & PUBLIC AUTHORITIES…

we work in long-term partnership with public sector bodies who require modern infrastructure to support their public service objectives locally and nationally. As the private sector investment partner of publicly accountable bodies faced with changing needs, we must deliver value for money over the long-term. As needs change and services develop, flexible structures and new ways of working are required

20
with INVESTMENT & SERVICE PARTNERS…

complex projects involve managing many risks in order to ensure delivery of facilities on time and within budget – and good quality operation over the longer term. Working with high calibre partners we can deliver the most complex projects. John Laing has a range of strong partners drawn from among the best construction groups and service specialists as well as investment partners to co-finance the largest projects

24
for COMMUNITIES & SERVICE USERS…

people have high expectations of today's public services and fulfilling them requires not only modernised facilities but state-of-the-art customer and stakeholder relations; our role is to create facilities that support those delivering vital services such as health, education, policing and defence; where we deliver services direct – as on the Chiltern line – exceeding our customers' expectations is the aim

28
for SHAREHOLDERS…

as a specialist in a growing field, we are able to focus on significant pipelines of opportunity in the most promising sectors; by precise management of implementation risks, we are able to deliver on project obligations and establish steady returns, which in turn increases the value of the project equity invested

Contents

1 Introduction
2 2004 Highlights
4 Chairman's Statement
8 Operating Review & Chief Executive's Report
32 Portfolio Valuation
36 Financial Review
44 Corporate Social Responsibility
48 Board of Directors
50 Directors' Report
53 Corporate Governance
57 Directors' Remuneration Report
66 Audit Committee Report
68 Nominations Committee Report
69 Independent Auditor's Report to the Members of John Laing plc
70 Group Profit and Loss Account
71 Group Statement of Total Recognised Gains and Losses
72 Group Balance Sheet
73 Company Balance Sheet
74 Group Cash Flow
75 Accounting Policies
79 Notes to the Accounts
108 Five-year Review
108 Advisors
ibc Shareholder Services

2004 Highlights

Financial Highlights

	2004 £ million	2003 £ million
Turnover	**265.6**	237.6
Profit before taxation	**13.7**	10.5
Net assets	**370.2**	261.4

- SIGNIFICANT PROFIT GROWTH WITH £13.7 MILLION PROFIT BEFORE TAXATION (2003 – 10.5 MILLION)
- £440 MILLION MINISTRY OF DEFENCE MAIN BUILDING PROJECT COMPLETE AND IN SERVICE EARLY
- PRACTICAL COMPLETION AND ON-TIME HANDOVER ACHIEVED ON TIME FOR 17 PUBLIC SECTOR FACILITIES
- FIVE LIFT BUNDLED PRIMARY CARE SCHEMES, TWO HOSPITALS AND ONE COURTS PROJECT REACH FINANCIAL CLOSE
- NEW PREFERRED BIDDER POSITIONS TO DELIVER £900 MILLION OF CAPITAL INVESTMENT
- EQUION FACILITIES MANAGEMENT ('EQUION FM') DELIVERING SUPPORT SERVICES TO 31 SITES

Financial Highlights

	2004 £ million	2003 £ million
Turnover	**57.3**	37.3
Profit before taxation		
– normal operations	**6.9**	6.6
– purchase and sale of 50% interest in the M40 road project	**6.4**	–
Net assets	**129.2**	126.3

- CONSTRUCTION ON FIVE PROJECTS PROGRESSED TO PLAN, WITH E39 NORWAY TO OPEN IN MID-2005
- ENTERED INTO AN AGREEMENT TO PURCHASE A 30% SHAREHOLDING IN GDANSK TRANSPORT COMPANY RESULTING IN PREFERRED BIDDER STATUS FOR THE EURO 700 MILLION A1 ROAD PROJECT IN POLAND
- BIDDING PROGRAMME FOR FURTHER PROJECTS EXTENDED TO INCLUDE NORWAY, FINLAND, HUNGARY, AUSTRIA, GERMANY AND IRELAND
- PURCHASE AND SUBSEQUENT SALE OF 50% M40 ROAD PROJECT INTEREST FOR £6.4 MILLION NET PROFIT
- SUCCESSFUL REFINANCING OF A130 SECURES PROJECT VALUE
- FINANCIAL CLOSE REACHED ON TWO FURTHER INVESTMENTS

FINANCIAL HIGHLIGHTS

	2004 £ million	2003 £ million
Turnover (including joint ventures and associate)*	**480.7**	481.5
Profit before taxation*	**25.1**	21.2
Shareholders' funds	**80.3**	114.0
Net cash/(borrowings) - recourse	**60.2**	86.8
- non-recourse	**(373.0)**	(295.0)
Earnings per share	**4.9p**	3.1p
Dividends per share	**3.3p**	3.0p

* see sector analysis, note 1

Financial Highlights

	2004 £ million	2003 £ million
Turnover	**109.0**	96.6
Profit before taxation		
- normal operations	**9.5**	8.8
- bid costs on new franchise	**(0.7)**	-
- sale of development land	**2.9**	0.2
- sale of Altram Manchester	**-**	1.1
Net assets	**45.1**	44.3

- REVENUE GROWTH ON CHILTERN 13% (2003 - 9%)
- 91.8% OF CHILTERN TRAINS ON TIME (2003 - 90.7%)
- £100 MILLION + OF FRANCHISE INVESTMENTS REACH CLOSE, INCLUDING A NEW DEPOT AT WEMBLEY AND TWO NEW PLATFORMS AT MARYLEBONE
- LAING RAIL PROJECTS ACHIEVES BREAKEVEN IN FIRST FULL YEAR
- DISPOSAL OF INTEREST IN AYLESBURY DEVELOPMENT SITE FOR £2.9 MILLION NET PROFIT
- EVERGREEN 2 REACHES FINANCIAL CLOSE, PIONEERING DBFT ON UK RAIL

BUSINESS HIGHLIGHTS

- INCREASED GROUP PROFIT BEFORE TAX OF £25.1 MILLION (2003 - £21.2 MILLION)
- 43% UPLIFT IN PROFIT BEFORE TAX FROM CORE OPERATIONS AFTER SUPPORTING 31% INCREASE IN BUSINESS DEVELOPMENT AND ASSET MANAGEMENT COSTS
- PORTFOLIO OF 42 LONG-TERM CONCESSIONS AT 31 DECEMBER 2004 (2003 - 33) WITH 24 FULLY OPERATIONAL
- 18% GROWTH IN PORTFOLIO VALUATION TO £301.2 MILLION
- 69% OF VALUE EMBEDDED IN CONCESSIONS WITH MORE THAN 20 YEARS TO RUN
- AT 21 MARCH 2005 STRONG PIPELINE WITH FUTURE EQUITY OPPORTUNITY ESTIMATED AT £137 MILLION (2003 - £98 MILLION)*

* equity required for 10 preferred bidder projects and 40% of equity required for projects in competition at short-list stage.

Chairman's Statement

"We remain committed… to

OUR FOCUS ON PUBLIC SERVICE ACCOMMODATION, ROADS AND RAIL HAS PROVED TO BE A SOUND BASIS FOR SIGNIFICANT GROWTH

Last year, I was able to report a return to profitability for the Group after a difficult period of restructuring. I was also able to tell shareholders about the excellent progress made in our fast growing business of infrastructure development, investment and operations.

I am pleased to report that 2004 saw a continuation of our strong performance and our focus on public service accommodation, roads and rail has proved to be a sound basis for significant growth.

During 2004 we were able to create new partnerships and pursue innovative solutions against a background of continuing Government commitment to investment in public services, and increasing appreciation that infrastructure investment is creating an asset class of significance for the future. At the same time the growing international interest in PFI/PPP is facilitating our entry into new markets.

Your Board remains committed to a strategy of delivering sustainable project earnings together with continuing growth in value of the infrastructure assets developed and managed by the Group.

RESULTS

The Group profit before tax for the year ended December 2004 was £25.1 million, compared to £21.2 million in the prior year.

The profit before tax attributable to the core continuing businesses increased by 43% to £23.4 million compared to £16.4 million in the prior year.*

This result reflects underlying growth in the profitability of the investments portfolio. It was achieved after allowing for increases in business development and asset management expenditure and costs relating to an expanded programme of bidding.

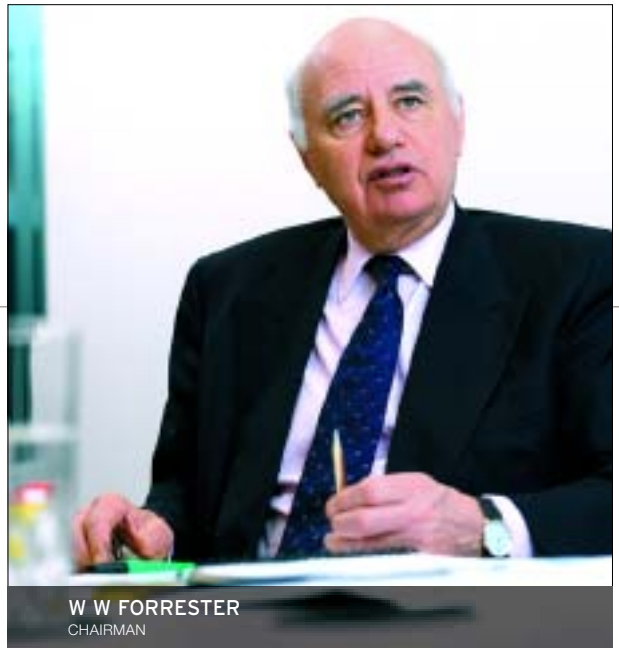
DIVIDENDS

Shareholder returns from the Group's principal infrastructure development and operations businesses derive from capital as well as earnings growth, and the John Laing dividend policy now reflects this in accordance with our aim of establishing a platform for future growth.

For the year ended 31 December 2004 the Board is recommending a final dividend of 2.2 pence per Ordinary Share (2003 – 2.0 pence), bringing the total for the year to 3.3

* Profit before tax from core investment businesses; excludes results of non-core businesses; retained businesses £1.6 million (2003 – £0.3 million) and discontinued businesses of £0.1 million (2003 – £4.5 million).

delivering value”



W W FORRESTER
CHAIRMAN

pence per Ordinary Share (2003 – 3.0 pence). Subject to shareholder approval, the final dividend will be paid on 1 June 2005 to shareholders registered at the close of business on 1 April 2005.

PORTFOLIO REVIEW AND VALUATION

At the year end, our portfolio included 42 project interests of which 24 are fully operational and a further seven partially operational.

Operational projects continue to perform well, with the risk management strategies embedded in our approach to sourcing construction and ongoing service activities proving robust. The value of the portfolio remains heavily weighted towards less risky projects with availability based payment mechanisms. Our most significant exposure to volume risk relates to Chiltern Railways where, once again, both passenger revenues and profits grew ahead of expectations during 2004.

A valuation exercise has been conducted in line with the methodology which we have consistently applied since 2000 and the application of that methodology has been independently validated by Ernst & Young LLP. The results indicate a portfolio valuation of £301.2 million, an 18% growth over the December 2003 valuation after intervening transactions are taken into account.

ACQUISITIONS AND DISPOSALS

After several years in which Group restructuring saw a series of major disposals matched by acquisition of two significant PFI portfolios (from Hyder and Amey), 2004 was a year that focussed primarily on organic growth of our key project interests.

As an existing shareholder in the successful M40 road project, we acquired the remaining 50% interest from Carillion in June 2004 for £19.7 million. Following management action to optimise the project structure, we disposed of a 50% interest in the project for £26.3 million to the Secondary Market Infrastructure Fund in October 2004 resulting in a £6.4 million profit after costs. This transaction was a further demonstration of liquidity in a now competitive secondary market for project investments.

During the first half, Laing Rail realised £2.9 million profit from the disposal of its 50% interest in a development site identified as a result of Chiltern Railway activity and assembled for housing by the Transcend joint venture with Kier Property.

…DELIVERING SUSTAINABLE PROJECT EARNINGS TOGETHER WITH CONTINUING GROWTH IN VALUE OF THE INFRASTRUCTURE ASSETS DEVELOPED AND MANAGED BY THE GROUP

OUR CHOSEN MARKETS ARE INCREASINGLY PROVIDING SCOPE FOR FURTHER GROWTH AND WE ARE WELL PLACED TO TAKE ADVANTAGE OF EMERGING OPPORTUNITIES

JOINT VENTURES

More broadly, joint venture activity with our chosen partners in key sectors progressed strongly during the year.

In June 2004 we announced a ground breaking co-investment partnership with the Commonwealth Bank of Australia ('CBA'). The John Laing-CBA joint venture is targeting project equity investment opportunities of up to £300 million in the UK Health and European Roads sectors over a three to five year period. Bidding activity is jointly supported and good progress has been made in the first half year with four projects currently at the preferred bidder stage. John Laing selected CBA as a partner after a highly competitive process, which demonstrated strong international interest in the UK infrastructure market. This joint venture gives us the ability to pursue a broader range of large project investments in alliance with a partner that has an enviable track record of innovation and performance over the long-term.

ExcellCare, our 50:50 joint venture with HBOS, is active in the market for primary care and other local health facilities and reached financial close on five local LIFT ('Local Infrastructure Finance Trust') schemes during the year. Regenter, our 50:50 joint venture with UK Pacific Investment Management Limited focussing on housing and regeneration initiatives, became active during the year with two schemes at preferred bidder stage.

Chiltern's operational success and Laing Rail's infrastructure expertise are well suited to further opportunities emerging in the UK rail sector following the Government's Rail Review and Network Rail's improving stewardship of the underlying system. Laing Rail Projects, focussed on delivering rail enhancements for third parties with the same efficiency achieved elsewhere through PFI, produced a breakeven performance in its first full year of trading. Together with chosen partners we are currently evaluating further operations and infrastructure opportunities in the UK market.

Strategic alliances are also central to John Laing's approach to the growing PPP market in Europe, outside the UK. Our evaluation of these opportunities is based principally on the strength of the relevant Government authority's commitment and covenant, the level of risk-adjusted returns likely to be available and the strength of our chosen partners. In this regard we were fortunate during 2004 to be developing bids in Europe with Skanska, Vinci, Bilfinger Berger and other high quality local partners.

RETAINED LIABILITIES

During 2004 considerable progress was made in finalising residual obligations relating to construction activities undertaken by former Laing Construction entities, closing out a number of historical disputes in relation to projects such as the Cardiff Millennium Stadium and the Second Severn River Crossing.

The one major outstanding legacy issue relating to Laing Construction, concerns its conduct of construction management activities at the Great Eastern Hotel during the period 1998 to

2000. As set out in a press release last month, these have been the subject of litigation heard in the Construction Court, defended at the direction of our insurers, and judgement in this matter has been handed down since the balance sheet date (see note 20). The Directors are satisfied that the remaining construction liability provision is sufficient to cover this judgement and all other unresolved construction issues. Provisions and reserves relating to such issues reduced from £44.4 million at the end of 2003 to £34.3 million at the current year end.

PENSION LIABILITIES

The Group retains responsibility for The John Laing Pension Fund, which is closed to new entrants and has approximately 50 contributory active members, but some 9,500 deferred members (now working elsewhere) and pensioners drawing pensions.

The Group adopted the FRS 17 accounting standard relating to retirement benefits in 2003, ahead of its mandatory implementation, which results in a net deficit of £135.0 million (2003 – £93.7 million) being recognised in the balance sheet. This number is highly sensitive to some critical assumptions, and the increase in the net deficit over the last year results from the combined impact of taking a more cautious view of future inflation and the reduction in the AA corporate bond yield.

It is Group strategy to manage reduction of this deficit over 20 years. This approach is well matched to the long run nature of the robust cash flows generated by John Laing's project investment activity.

The Group has reached an agreement with the Trustees under which an enhanced contribution of £6 million is to be made in 2005 (2004 – £4 million).

FINANCING STRATEGY

PFI/PPP and related infrastructure investment is associated with long lead times followed by long running predictable returns. The Group's funding requirements can therefore be predicted well ahead of the final commitment to investment and it is the Board's strategy to ensure that the financial resources are in place to meet actual and likely investment commitments.

In December 2004, the Group successfully refinanced its main borrowing and letter of credit facilities on more favourable terms. It now has access to £145 million of committed facilities, £115 million of which extend to March 2010.

DIRECTORS & STAFF

As I foreshadowed at the half year, your Board was reinforced with four new appointments becoming effective on 1 September 2004. Tim Matthews and Michael Medlicott joined the Board as independent non-executive Directors and at the same time Derek Potts and Richard Weston, the Managing Directors of Laing Roads and Equion respectively, joined the Board as executive Directors. The reconstituted Board team can now draw on a wider range of skills and experience and evaluation of performance to date suggests that Board composition is now well aligned to the needs of an expanding John Laing.

Progressing value creation on behalf of shareholders is crucially dependant on the skills and dedication of staff. 2004 saw a continuation of both the challenges and the opportunities of recent years and, on behalf of the Board, I would like to pay tribute to the enthusiasm and commitment of the many staff contributing to improved performance across the business. If John Laing has established a leading position in a number of growing sectors, it is in no small measure due to the determination to succeed and focus on quality characterising the approach of so many staff.

PROSPECTS

The early months of 2005 have seen a continuation of successful bidding, with new preferred bidder positions including Leicester Hospital, together with pre-qualification and short-listing for future opportunities. In each of our key sectors the identified pipeline of future opportunities for asset creation and related servicing requirements either remains strong or is growing. After reaching financial close on 11 projects in 2004, we expect to close at least eight in 2005, including major investments in the health sector.

Favourable Government policies in many OECD countries are contributing to the continuing spread and growth of private financing and delivery of major assets required as part of public service provision, and within the UK better managed procurement programmes of considerable value are emerging. Government and audit authority concentration on value for money issues is to be welcomed and assists companies such as John Laing which are focussed on delivering sustainable long running returns from quality outcomes.

Opportunities in the primary market are growing and broader awareness of the investment dynamics relating to infrastructure and service concessions has progressed. This is partly due to the scale of PFI/PPP investments now committed and delivered, and the growing number of operational PFI/PPPs. Greater transparency on the part of market participants and the development of a liquid secondary market for PFI equity as well as debt have also assisted this process.

Our chosen markets are increasingly providing scope for further growth and we are well placed to take advantage of emerging opportunities. We approach these prospects determined to maintain our leading position established in recent years and to build further on our reputation for innovation and delivery.

W W Forrester
Chairman
21 March 2005

Operating Review & Chief Executive's Report

"A focussed developer… of substan

OUR CORE BUSINESS IS CREATING SHAREHOLDER VALUE THROUGH ITS ROLE AS A FOCUSSED DEVELOPER OF PFI/PPP PROJECTS AND OPERATIONS

OUR BUSINESS MODEL

John Laing acts as a developer of substantial infrastructure assets utilised in the provision of public services. These assets are privately financed and in general subject to long-term concessions, which have a public authority as the counterparty.

Competitiveness in this market is determined by the ability to offer the public sector value for money solutions and, in the UK in particular, increased emphasis is being placed on the credibility and track record of sponsors in delivering high quality operating assets beyond the construction phase.

John Laing is unique among listed companies in that its core business is creating shareholder value through its role as a focussed developer of PFI/PPP projects and operations.

Project delivery, from bidding to management of operation stage concessions, is organised through three sector focussed subsidiaries – Equion, Laing Roads and Laing Rail.

John Laing specialises in originating projects, integrating all the financial and technical elements required for their delivery and managing the investment phase and the subsequent operational risks.

Within the contractual arrangements that underpin such projects, John Laing does not bear construction risk, but rather it works with a range of construction partners with strong track records of delivery and the capacity to adequately guarantee construction outcomes.

Although such projects are typically highly geared (with debt to equity ratios of 9:1 in relation to availability fee based accommodation projects), debt finance raised by special purpose Project Companies is non-recourse to John Laing.

Projected returns from project investments are subject to performance deductions if required service standards are not met, but service related sub-contracts generally provide for such deductions to be passed through to contracted providers.

John Laing assumes such operational risks in limited circumstances on some police, education and local authority projects where Equion FM is the appointed sub-contractor. Equion FM's capacity and activity assists the Group to price

tial infrastructure assets”

ANDREW FRIEND
CHIEF EXECUTIVE

service inputs more broadly and, by creating the option of direct provision, contributes to risk mitigation across the portfolio as a whole.

Similarly, the Group is selective in its exposure to volume based payment mechanisms and concessions with a significant degree of patronage risk. The principal case in point during 2004 was our Chiltern Railways investment where both passenger revenues and profitability once again developed ahead of expectations.

The Group’s business model places emphasis on rigorous targeting of the most appropriate opportunities and selective partnering to assemble the most suitable response to these opportunities. John Laing adopts active management of projects and the relationships that underpin them in order to both enhance the quality of its partnerships with the public sector and the community, and to preserve and enhance returns on its project investments.

OUR PROJECT INVESTMENTS

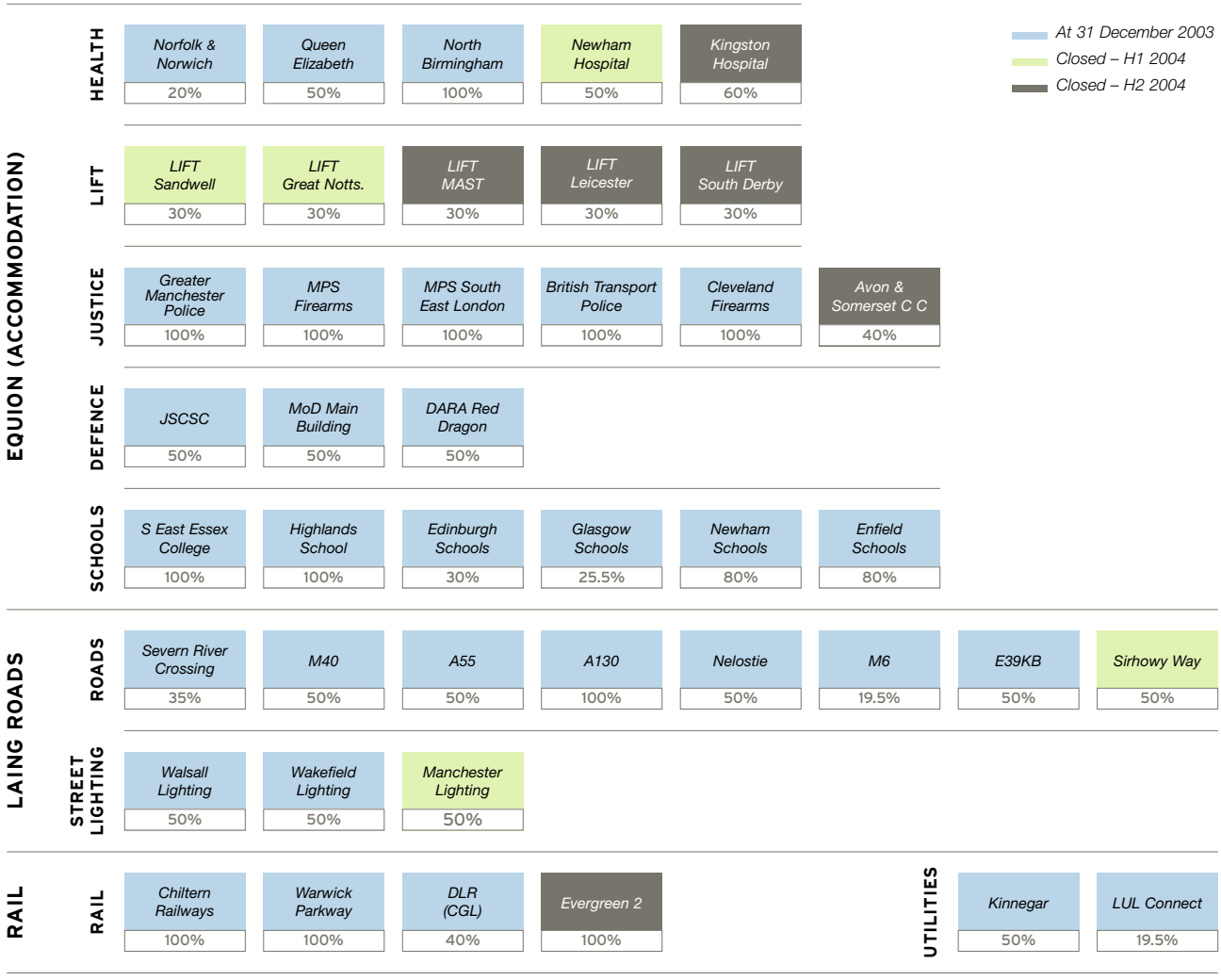
John Laing is a long-term developer, investor in and operator of facilities and serviced assets and as such, will often take a position of between 50% and 100% of total equity at financial close. While the Group will not generally seek to fully exit from significant operational investments, it may sell down a proportion of its holding in a project once the crucial early phases of risk management and delivery have been successfully completed. However, non-core interests are disposed of as the opportunity arises.

Thus 11 new projects reached financial close during 2004, and we disposed of our holding in Horizon Energy (this now de-listed Australian entity previously owned a 25% share of the Loy Yang A electricity generation project in Victoria).

Brisbane Air Rail Link, our final Australian asset subsequent to the 2003 disposal of the Adelaide and Northern Territory Airports, is also no longer enumerated within the portfolio total of 42 projects. The Group ascribed no value to it when it was acquired in 2001 and it has been held at nil book value since then as a consequence of John Laing purchasing the wider Hyder portfolio.

OUR PROJECT INVESTMENTS

At 31 December 2004, there were 42 investments in the portfolio. These are illustrated in the following chart:



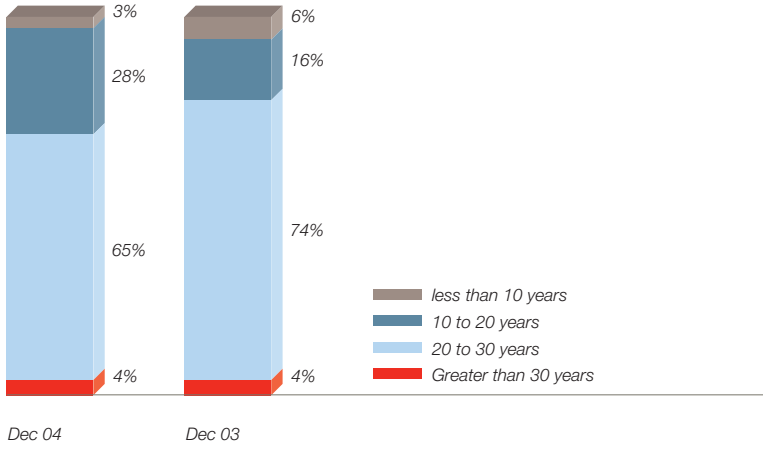
Since year end, the joint venture between Equion and UK Pacific Investment Management Limited, Regenter, has reached financial close on a £16.9 million urban regeneration project known as Bentilee Hub, thus bringing the total to 43 projects.

- OF THE 43 PROJECTS, 24 ARE FULLY OPERATIONAL AND 7 PARTIALLY OPERATIONAL
- MOST SIGNIFICANTLY, CONSTRUCTION COMPLETION WAS REACHED AT THE MINISTRY OF DEFENCE MAIN BUILDING AND THIS FACILITY BECAME FULLY OPERATIONAL IN JULY 2004 AFTER MORE THAN £440 MILLION OF REFURBISHMENT AND UPGRADING OVER THE LAST FOUR YEARS; RE-OCCUPATION WAS ACHIEVED SMOOTHLY AND THE PROJECT HAS BEEN VERY WELL RECEIVED BY THE USERS
- 10 OF THE 17 POLICE STATIONS IN THE GREATER MANCHESTER POLICE AUTHORITY SCHEME ARE NOW OPERATIONAL WITH OTHERS UNDER CONSTRUCTION

There was no instance during 2004 in which performance deductions impacted on projected cash flows to equity in any of our availability based projects, and the roads projects (with volume related payment mechanisms including real tolls) performed well. In particular the Laing Roads result was underpinned by the strong financial performance of the Second Severn River Crossing and the M40 road project. Traffic volumes on the A130, which were below expectations after its opening in February 2002, have run marginally ahead of the revised projections which supported the successful refinancing of the project in January 2004.

John Laing's activities in the Utilities sector comprise two investments, a 19.5% stake in the London Underground Connect project and a 50% stake in the Kinnegar waste water treatment plant in Northern Ireland. Rephasing of profit recognition on the Connect project, due to late delivery of enabling works, resulted in a £1.1 million loss in the first half of 2004. This was not repeated in the second half of the year but there is a dispute between the Project Company and the client over responsibility for the delays.

VALUE BY CONCESSION LIFE REMAINING



DEVELOPING OUR ORGANISATION

The Group's Portfolio Management capacity was strengthened during 2004. This team supports the investment evaluation and approval process, secondary market acquisitions and disposals, and the portfolio valuation process. In addition it conducts annual in-depth asset reviews on behalf of the Investment Committee and assists subsidiary businesses on key transactions including assisting the financial close process on complex projects.

During 2004 Equion FM's management capacity was also strengthened as 19 further sites that were previously under construction became operational. Equion FM was providing services at a total of 31 sites by year end, half of these being police stations in Manchester and London. A similar number of sites are scheduled to become operational during 2005, including a housing and regeneration project and educational, local health and additional police facilities. Equion FM has the strategic management capacity to intervene if service sub-contractor performance falls below the standards required under concession agreement with public authorities.

Within Laing Rail additional project management capacity has supported delivery of investment projects forming part of Chiltern's franchise commitments and the work of Laing Rail Projects in developing and delivering enhancements for third party clients.

- THE GROUP'S CORE HUMAN RESOURCES CAPACITY WAS ALSO ENHANCED DURING 2004, WITH THE FORMATION AND STAFFING OF A NEW TEAM THAT IS BETTER ALIGNED TO SUPPORTING THE OPERATING BUSINESSES AND IN FURTHERING TRAINING AND DEVELOPMENT THROUGHOUT THE GROUP (SEE PAGE 45 FOR FURTHER DETAIL)
- SUCCESSFUL PROJECT FINANCING AND PARTNERSHIP WORKING WITH OUR CLIENTS REQUIRES A UNIQUE BLEND OF COMMERCIAL SKILLS AND TECHNICAL DISCIPLINES MATCHED BY KNOWLEDGE OF A DIVERSE RANGE OF PUBLIC SERVICES AND THE CAPACITY TO WORK WITH A DIVERSITY OF SUPPLIERS, PARTNERS AND COMMUNITIES. THE ABILITY OF JOHN LAING TO DELIVER ON ITS STRATEGY IS THEREFORE DEPENDENT ON ATTRACTING, DEVELOPING AND RETAINING A DIVERSITY OF HIGHLY SKILLED, EXPERIENCED AND TALENTED PEOPLE WHO SHARE SIMILAR VALUES AND A COMMITMENT TO DELIVER
- THE GROUP CURRENTLY EMPLOYS APPROXIMATELY 1,130 PEOPLE; 170 OF THESE ARE DEPLOYED IN RELATION TO THE ACCOMMODATION AND ROADS PROJECT INVESTMENTS BUSINESS, AND IN RELATION TO CORE GROUP FUNCTIONS; 750 ARE EMPLOYED IN LAING RAIL (730 OF WHOM ARE IN CHILTERN); AND 210 ARE EMPLOYED IN EQUION FM

2004 saw continued progress in the development of the Group's quality and environmental management systems and in refining internal controls and risk management processes throughout the Group. Equion was successful in maintaining its ISO 9001 registration for its quality management system and ISO 14001 for its environmental management system.

MARKET DEVELOPMENTS IN 2004

John Laing's business is developing against a background of strong demand for PFI/PPP investment in the UK and growing demand in Europe. There is also growing interest in the private financing and delivery of projects to meet government and public authority infrastructure needs in other OECD nations – including the United States – and developing nations, although John Laing's activity is currently focussed on the UK and Europe.

Within the UK the outcome of the 2004 Comprehensive Spending Review, as it impacts on PFI/PPP, was broadly consistent with the policy established by the Treasury in the publication "PFI: Meeting the Investment Challenge" (July 2003). Departmental spending estimates, especially in sectors such as health and education, are consistent with the expectation that between 10% and 15% of public sector net investment is likely to be procured through PFI/PPP mechanisms. Continuation of demand in the acute hospital, primary care facilities and schools sector (expanding in England and Wales through Building Schools for the Future and in Scotland through extended Scottish Executive activity) is being matched by increased activity in local regeneration and housing schemes and the waste sector. John Laing's sector strategy remains well matched to UK Government demand and the better managed, more clearly defined pipelines of opportunity that have emerged in recent years.

The over-arching focus of Government policy is the pursuit of better value for money and, to this end, 2004 saw a series of policy refinements, including the issue of new guidance to the public sector on evaluating value for money as part of the procurement process. The Group responded to early drafts of this guidance and remains in dialogue with relevant Government entities that impact on PFI/PPP policy, including the National Audit Office, believing that a focus on outcomes that are sustainable for both the public and the private sectors is essential. As more and more PFI/PPP projects become operational, it is inevitable that there will be continuing scrutiny of the quality of the outcomes being achieved and debate on these is welcomed, as is continuing Government refinement of the procurement process.

Laing Rail responded to each stage of the Rail Review announced by the Secretary of State for Transport in January 2004. The conclusions, published in July 2004, rationalise the regulatory superstructure of the industry and clarify the respective roles of Network Rail and train operators such as Chiltern. These changes are being implemented as a prelude to the re-letting and rationalisation of significant franchises during 2005 and 2006.

In parallel with the Rail Review, the Government published a number of policy documents including a White Paper on Transport and a Feasibility Study on Road Pricing which, while looking to the long-term, could have a significant impact in providing the basis for accelerated investment in both the road system and other modes such as rail and light rail.

2004 also saw the continued development of a secondary market for project equity with a number of funds becoming active or conducting further fundraisings in order to finance purchases of project interests from developers and contractors. To date, transactions involving operational projects have predominated with the discount rate applied to projected future equity cash flows from projects decreasing to below 10%. Reported fundraisings suggest that institutional interest in these types of assets, including that from pension funds, is growing as is international interest in acquiring UK PFI/PPP, utility and infrastructure assets.

The number of primary market opportunities in Europe continues to increase. At sector level, roads and related infrastructure predominates but social infrastructure projects such as schools, hospitals and prison projects are also now being put to market by an increasing number of EU governments including those of Germany, France, Portugal, Spain and Italy.

2004 Delivering value across our three

EQUION IS JOHN LAING'S SPECIALIST PROVIDER OF ACCOMMODATION PROJECTS, INVESTING IN MODERN FACILITIES THAT SUPPORT A WIDE RANGE OF UK PUBLIC SERVICES.

EQUION INVESTS TO MEET THE NEEDS OF LOCAL EDUCATION AUTHORITIES, PRIMARY CARE TRUSTS, POLICE AUTHORITIES, THE DEFENCE FORCES, LOCAL AUTHORITIES, SOCIAL HOUSING PROVIDERS AND ACUTE HOSPITAL TRUSTS.

OVER FIVE YEARS, EQUION HAS BECOME WELL KNOWN ACROSS THE PUBLIC SECTOR AND IS ASSOCIATED WITH A HIGH QUALITY OF DELIVERY.

EQUION WILL TAKE THE LEAD ROLE IN DEVELOPING NEW PROJECTS WITH OTHER JOINT VENTURES. EQUION WILL TAKE UP TO 100% OF THE EQUITY INVESTMENT IN A PROJECT.

+

LAING ROADS IS AN ACTIVE INVESTOR IN ROAD RELATED CONCESSIONS BOTH IN THE UK AND IN AN INCREASING NUMBER OF MARKETS ACROSS EUROPE. THE DIVISION MANAGES A PORTFOLIO OF 11 ROAD CONCESSIONS, NINE IN THE UK AND TWO IN THE NORDIC REGION. IN ADDITION, LAING ROADS MANAGES TWO UTILITY CONCESSIONS IN THE UK.

LAING ROADS INVESTS IN MAJOR NEW HIGHWAYS, ROAD IMPROVEMENTS, BRIDGES, AND LOCAL IMPROVEMENT AND MAINTENANCE SCHEMES INCLUDING STREET LIGHTING. THE CONCESSIONS HAVE A VARIETY OF PAYMENT MECHANISMS, RANGING FROM REAL TOLLS AND SHADOW TOLLS TO AVAILABILITY AND PERFORMANCE BASED REVENUES.

LAING ROADS DELIVERS INVESTMENT REQUIRED BY NATIONAL AGENCIES AND LOCAL AUTHORITIES AND LAING ROADS MANAGES THE ASSOCIATED PROJECT COMPANIES, ENSURING ONGOING MAINTENANCE AND SERVICING OF CAPITAL INVESTMENTS AS THEY BECOME OPERATIONAL.

Equion

Some Equion Projects

- Ministry of Defence Main Building
- Norfolk & Norwich Hospital
- Glasgow Schools
- Greater Manchester Police Stations
- Sandwell LIFT primary care facilities

LAING ROADS

Some Laing Roads Projects

- E39, Norway
- Second Severn River Crossing
- Manchester Street Lighting
- Nelostie Highway, Finland
- Sirhowy Way

divisions

LAING RAIL IS BUILDING ON THE EXPERIENCE OF DELIVERING CHILTERN RAIL'S INDUSTRY LEADING PERFORMANCE.

LAING RAIL IS UNIQUE AMONG UK TRAIN OPERATING COMPANIES IN COMBINING TRAIN OPERATOR EXPERIENCE WITH IN-HOUSE PROJECT FINANCING AND INFRASTRUCTURE ENHANCEMENT CAPACITY.

LAING RAIL AND CHILTERN WORK IN POSITIVE PARTNERSHIP WITH NETWORK RAIL AND ALL THE KEY PLAYERS THAT MAKE UP THE CHANGING STRUCTURE OF UK RAIL.

IN JOINT VENTURE WITH CHOSEN PARTNERS, LAING RAIL WILL BID FOR FURTHER UK RAIL FRANCHISES WHERE CHILTERN'S EXPERIENCE – OF PROFITABLE GROWTH, HIGH CUSTOMER SATISFACTION, AND IMPROVED SERVICES – CAN BE REPLICATED.

+

=

Public Sectors

Partners

Communities

Shareholders

LAING RAIL

Some Laing Rail Projects

- Chiltern Railways Clubman services
- New capacity at London Marylebone
- Warwick Parkway station
- Docklands Light Rail CGL extension
- Wembley Depot

Responding to opportunities…
by establishing strong partnerships

Governments & Public Authorities

AROUND THE WORLD, PRIVATE SECTOR FINANCE IS RESPONDING TO THE NEEDS OF NATIONAL GOVERNMENTS AND PUBLIC AUTHORITIES TO PROVIDE NEW SOCIAL INFRASTRUCTURE. THESE COUNTRIES ARE GENERALLY FOLLOWING THE PRIVATE FINANCE INITIATIVE MODEL DEVELOPED IN THE UK.

In the UK, this form of public sector procurement has become well established during the last decade through the Private Finance Initiative ('PFI') and Public Private Partnerships ('PPP') programmes. These programmes have led to more than £50 billion of new investment being committed to a wide range of public services from transport systems to healthcare and housing. This use of private sector funding has allowed public authorities to redress previous under investment in capital works programmes.

PFI has a proven record of delivering capital works projects on time and to budget and crucially, investors' long-term returns are linked to the successful delivery and operation of public buildings and transport systems.

PFI has progressively developed over the last decade in the UK with Government and Local Authorities seeking increasing value for money and improved standards of service. In response, private sector promoters and investors continually develop innovative solutions to meet these requirements and improve their competitiveness.

JOHN LAING AIM TO BE AT THE FOREFRONT OF THIS PROCESS OF INNOVATION BY DEVELOPING HIGH QUALITY, AFFORDABLE AND VALUE FOR MONEY SOLUTIONS FOR PUBLIC AUTHORITIES. WE WELCOME PUBLIC DEBATE AND ANALYSIS THAT IS CRITICAL FOR CONTINUAL IMPROVEMENT IN PARTNERSHIP WORKING. THIS IS KEY TO THE INNOVATIVE WORKING OF PRIVATE FINANCE SOLUTIONS.

One such area of innovation is the move from individually negotiated single site projects to complex programmes and multi-phase schemes procured through long-term partnerships and framework agreements such as primary care facilities through the LIFT programme and new schools through the Building Schools for the Future initiative. These arrangements provide for phased investment to suit the change in needs of the public sector. Further variants of this more flexible approach to private sector involvement in the delivery of public services are likely to be adopted in both the waste and transport sectors in the UK. It is likely that these new initiatives will also be adopted over time by the other governments that are developing PFI programmes.

John Laing is responding to the opportunities outside the UK by establishing strong partnerships in those markets where conditions are attractive and where deliverable future pipelines exist. PPP programmes are increasingly being developed, in some cases for fiscal reasons, but often with strong value for money objectives. A good example of the latter is Norway, which is strong in fiscal terms, and which is pursuing its pilot PPP roads programme to optimise value for money over the lifetime of the project. John Laing is or has recently been actively involved in bidding in Norway, Finland, Ireland, Poland, Austria and Hungary and is preparing for the upcoming PPP programmes in Germany and other markets.

Projects

> **EVERGREEN 2 DBFT – SIGNALLING AND STATION WORKS AND TRACK REALIGNMENT**

Value: £80 million

> **WARWICK PARKWAY STATION**

Period: 40 years
Value: £5 million

> **DOCKLANDS LIGHT RAIL CGL EXTENSION**

Period: 16 years
Value: £17 million

> **WEMBLEY DEPOT**

Period: 40 years
Value: £21 million

OUR BUSINESS PHILOSOPHY IS TO WORK WITH STRONG PARTNERS ON THE BASIS OF SHARED VALUES, A COMMITMENT TO QUALITY DELIVERY AND CLEARLY DEFINED ROLES.

During 2004, after an international competition, John Laing set up a ground breaking co-investment partnership with the Commonwealth Bank of Australia targeted to jointly deliver £300 million of project equity investment in the European Roads and UK Health sectors over three to five years.

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We are als

We ar

Projects

> **GREATER MANCHESTER POLICE STATIONS**

Period: 25 years
Value: £74 million

> **SANDWELL LIFT PRIMARY CARE FACILITIES**

Period: 25 years
Value: £15 million

> **E39, NORWAY**

Period: 27 years
Value: £140 million

Creating innovative and robust structures
by working closely with users and the local community...

Communities & Service Users

JOHN LAING'S APPROACH TO PARTNERSHIP WORKING EXTENDS TO THE COMMUNITIES IN WHICH PROJECT INVESTMENTS ARE SITED. WE ASPIRE NOT ONLY TO RUN SUCCESSFUL PROJECTS THAT ARE SUPPORTIVE OF THE LOCAL PUBLIC SECTOR AS WELL AS BEING COMMERCIALLY ROBUST, BUT ALSO TO WORK CLOSELY WITH USERS AND LOCAL COMMUNITY STAKEHOLDERS IN DELIVERING AREA WIDE IMPROVEMENTS.

The LIFT schemes, that are now producing new primary care and social service facilities in the same locations as other services in urban areas with high levels of social need, are a case in point.

Through ExcellCare, 15 such one-stop-shop health centres are now under construction, 29 are under design and a further 50 are planned across the six area LIFT schemes that we have secured.

Local LIFT companies include a 40% public sector stakeholding split equally between local stakeholders and the national organisation Partnerships For Health.

The local LIFT companies are innovative structures that straddle the public and private sectors. Developing these new organisations to their full potential is challenging for all parties. The schemes themselves include numerous planning, property and delivery issues which can only be resolved by a commitment to working together. Strategic health planning processes need to take into account evolving NHS strategies and changing local authority needs and all of these can impact on the speed of implementation and local partners' collective ability to deliver benefits to the community.

WITH ITS PARTNERS, JOHN LAING IS COMMITTED TO MEETING THESE CHALLENGES AND DURING 2005 WILL SEEK TO BUILD ON THE LOCAL LIFT INFRASTRUCTURE TO DELIVER A WIDER RANGE OF SERVICES AND SUPPORT WIDER LOCAL REGENERATION AND RE-INVESTMENT IN THE HOST COMMUNITIES.

As the Chairman of Partnerships For Health wrote in autumn 2004:

"LIFT plans are visionary, but they are also realistic. Look at Manchester Salford & Trafford (MAST)... it is the largest of the LIFT schemes covering a population of 1 million people with six Primary Care Trusts and three local authorities. Having already selected their private partner (ExcellCare), the genuine opportunity for both the public and private sectors is now helping to shape the local vision for primary care in the 21st century". David Colin-Thome, PfH, 30 September 2004

Projects

> **SECOND SEVERN RIVER CROSSING**

Period: 30 years
Value: £320 million

> **MANCHESTER STREET LIGHTING**

Period: 25 years
Value: £33 million

> **NELOSTIE HIGHWAY, FINLAND**

Period: 15 years
Value: £59 million

> **SIRHOWY WAY**

Period: 30 years
Value: £43 million

Enhancing earnings and capital returns
by establishing a platform for future growth...

Shareholders

JOHN LAING OFFERS ITS SHAREHOLDERS ACCESS TO THE VALUE CREATION THAT FLOWS FROM PLAYING A LEADING ROLE IN A NUMBER OF GROWTH SECTORS WITHIN THE PFI/PPP MARKET, BY ACTING AS A FOCUSSED DEVELOPER, INVESTOR AND OPERATOR BOTH WITHIN AND OUTSIDE THE UK.

Infrastructure assets – including equity positions in relation to operational, steady state projects with long running concessions – are increasingly recognised as an attractive alternative by those seeking to match stable returns to long-term liabilities.

The recent growth of the secondary market in the UK reflects this heightened awareness of infrastructure as an asset class. Experience in other markets suggests that such assets may in due course also become attractive to retail investors.

AS A SPECIALIST IN A GROWING FIELD WITH A SIGNIFICANT SKILL BASE INCORPORATING A WIDE RANGE OF DISCIPLINES WE ARE ABLE TO FOCUS ON SIGNIFICANT PIPELINES OF OPPORTUNITY GENERATED BY GOVERNMENT AND COMMUNITY NEEDS.

The Group is able to increase the value of the project equity invested by careful management of implementation risks and ensuring that assets are created on time and to cost and that project performance is sustained in the operational phase.

Projects

> **MINISTRY OF DEFENCE MAIN BUILDING**

Period: 30 years
Value: £439 million

> **NORFOLK & NORWICH HOSPITAL**

Period: 25 years
Value: £118 million

> **GLASGOW SCHOOLS**

Period: 3 years
Value: £205 million

PORTFOLIO VALUATION

A valuation of the John Laing portfolio has been carried out on a consistent basis for each half-year period since June 2000. The exercise does not seek to estimate the changing market value of the assets in the portfolio in the light of the development of the secondary market. However, through application of a consistent methodology, the process serves to illustrate movements in value between periods and the impact of intervening transactions and its publication provides shareholders and analysts with information that can be compared to individual transactions in the broader market, where these have been made public.

METHODOLOGY

Each run of the valuation process is based on using one of four methods to establish a value for each of the projects in the portfolio:

- the principal method is the discounted cash flow analysis ('DCF') which is applied to the future forecast cash flows to which John Laing as shareholder, or holder of subordinated debt, is entitled.

The exceptions to the application of the DCF are:

- where investments are listed, the closing price on the period end date is used ('market value');
- where a current independent third party value is available, usually because of a recent transaction ('third party valuation');
- where there are no long-term financial forecasts available, or where the asset has been written down to zero, a current book value is used ('book value').

DCF was utilised on all of the 42 investments for the December 2004 valuation. In this exercise the detailed financial models, approved and updated at Project Company level in line with operational experience and lenders' requirements, are scrutinised to determine forecast future cash flows to John Laing. A post-tax DCF analysis is then applied, any cash flows resulting from interest bearing loan notes taxed at a notional 30%. Forecast cash flows as evidenced in the approved models are never varied positively, but may be further discounted if John Laing believes additional uncertainties have emerged since the last approved model update.

No value is ascribed to any proposed variations extending or expanding project scope because, whilst the variation scale may be known and they may be projected to yield substantial additional future cash flows, they are not contractually certain. Similarly no value is derived from projected refinancings, which although projected as creating additional value through accelerating cash release from projects, have yet to reach financial close. No value is ascribed to preferred bidder positions in the portfolio valuation.

The discount rate utilised is arrived at by adding risk premia of 6%, 4%, 2% to an approximation of the John Laing post tax Weighted Average Cost of Capital ('WACC') of 7.5% depending on the distribution of project cash flows between the construction phase, ramp-up (two years from the start of operations) and subsequent operations. Additional risk premia will be added if the future performance of the project is subject to particular uncertainties, in relation to a payment mechanism incorporating significant volume risk or other unusual risks.

For those investments valued by DCF the weighted average annual discount rate is 10.6% (2003 – 10.8%). Projected Chiltern equity cash flows are discounted, as before, at 15%.

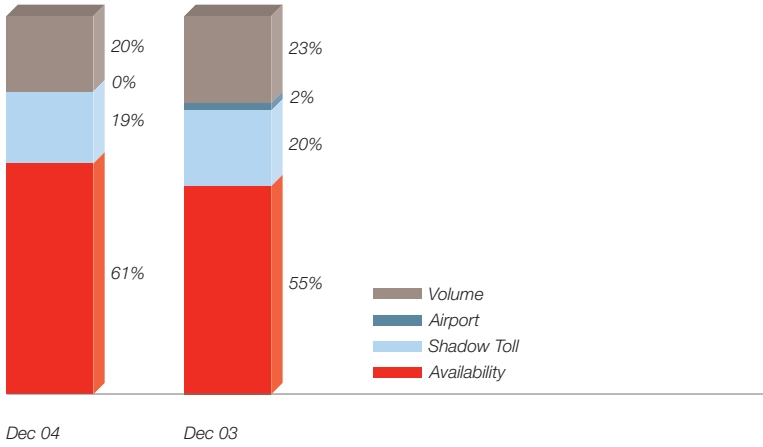
In the case of the Second Severn River Crossing ('SRC') debenture stock, market valuation as at 31 December 2004 has been used for the current exercise. The remaining SRC equity interest has been valued on a DCF basis. In addition to the portfolio of 42 investments, there are a further two projects, Brisbane Airlink in Australia and Midland Metro. Both of these projects have a net book value of nil (2003 – nil) and the portfolio valuation ascribes no value to them. They have therefore been excluded from the portfolio list. In no cases have third party valuations been used in the current exercise.

As in previous years, the calculations underpinning the 2004 valuation have been validated by Ernst & Young LLP in line with a brief requiring them to ensure that the valuation is both accurate and in accordance with the adopted methodology. Ernst & Young LLP has not reviewed each of the financial forecasts approved at Project Company level by the relevant Project Company entities.

2004 VALUATION RESULTS

- AT DECEMBER 2004, THE PORTFOLIO VALUATION IS £301.2 MILLION, AS AGAINST £250.3 MILLION IN DECEMBER 2003 GIVING AN ABSOLUTE GROWTH OF 20% OVER 2003
- AFTER RE-BASING, TO TAKE CASH FLOWS INTO ACCOUNT THE PORTFOLIO VALUATION REFLECTS UNDERLYING GROWTH OF 18% OR £46.9 MILLION ON A RE-BASED DECEMBER 2003 VALUATION OF £254.3 MILLION. THIS INCLUDES £6.4 MILLION FROM THE PURCHASE AND SALE OF A 50% INTEREST IN THE M40 ROAD PROJECT, EXCLUDING THAT THE GROWTH WAS 15%
- AT DECEMBER 2004, 61% OF THE TOTAL VALUATION RELATES TO AVAILABILITY BASED PAYMENT STREAMS (2003 - 55%), 19% TO ROAD PROJECT SHADOW TOLLS (2003 - 20%) AND 20% VOLUME RELATED REVENUE STREAMS (2003 - 23%)

VALUE BY PAYMENT TYPE



CHANGES IN VALUATION

Movements in the portfolio valuation are set out below:

Portfolio	Portfolio valuation December 2003 £ million	Acquisitions £ million	Disposals £ million	Equity & loan note subscriptions £ million	Refinancing and distributions £ million	Rebased December 2003 £ million	Growth on valuation £ million	Portfolio valuation December 2004 £ million	Growth on valuation %
Accommodation	112.8	-	(3.6)	31.1	(7.6)	132.7	19.5	152.2	15
Roads	59.8	19.7	(26.3)	8.1	(5.1)	56.2	19.9	76.1	35
Rail	64.3	-	-	-	(5.5)	58.8	9.1	67.9	15
Utilities & Airports	13.4	-	(6.8)	-	-	6.6	(1.6)	5.0	(24)
TOTAL	**250.3**	**19.7**	**(36.7)**	**39.2**	**(18.2)**	**254.3**	**46.9**	**301.2**	**18**
TOTAL EXCLUDING M40 SALE	**250.3**	**-**	**(10.4)**	**39.2**	**(18.2)**	**260.9**	**40.3**	**301.2**	**15**

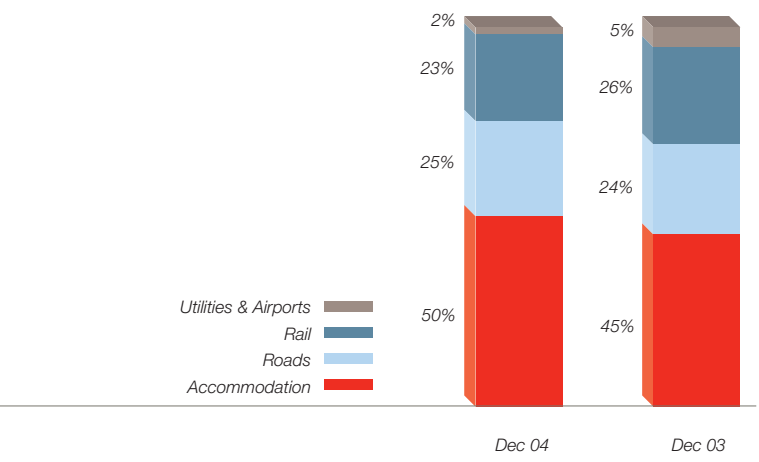
The cash movement relating to acquisitions in 2004 was the purchase of a 50% holding of the M40 road project in the first half of the year.

The cash movements relating to disposals in 2004 were the sale of a 50% interest in the M40 road project, the cash receipt from the sale of 9.9% of the Ministry of Defence Main Building project and the cash receipt from the contracted sale of the Northern Territories Airports in 2003.

Equity and loan note subscriptions relate principally to the investment in the Ministry of Defence Main Building project of £26.5 million.

There were no refinancing proceeds in 2004. The proceeds and distributions include investment receipts from yielding projects, whether dividend distributions, loan repayments or interest received.

VALUE BY SECTOR



At sector level, the **Accommodation** sector exhibited a £39.4 million growth in value and accounts for 51% of the portfolio total (2003 – 45%). This principally reflects the increased investment in the Ministry of Defence Main Building project, the five LIFT bundled primary care schemes and two hospitals reaching financial close.

The **Roads** sector valuation increased by 27% and accounts for 25% of the portfolio total (2003 – 24%). A contributor to this growth was the purchase and subsequent resale of 50% of the M40 road project in 2004. The A130 road traffic volumes have increased ahead of expectations and two projects reached financial close in the year.

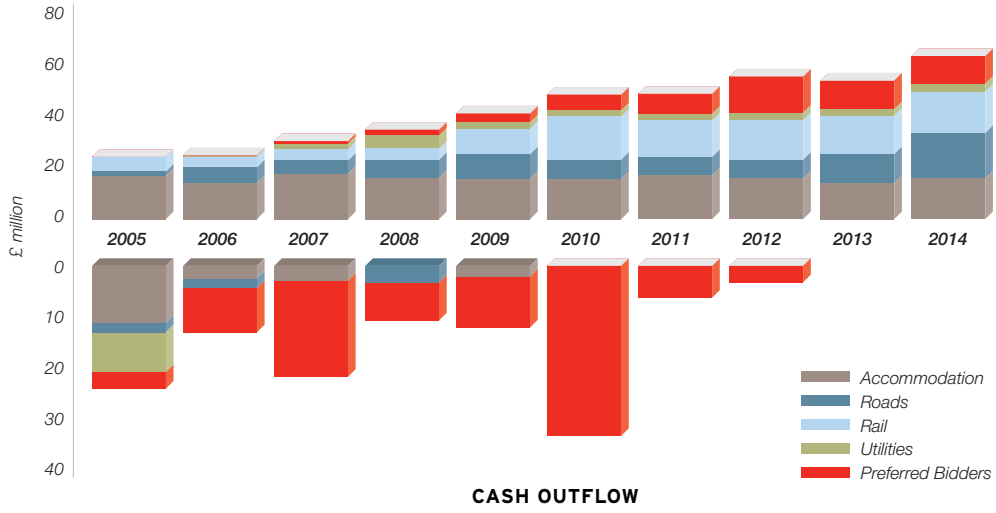
The **Rail** sector valuation increased by 6% and accounts for 23% of the portfolio total (2003 – 26%). This overall movement reflects growth in line with the portfolio as a whole and one-off distributions relating to a land sale on the City Greenwich Lewisham Link. The Chiltern investment accounts for 73% of the sector total and increased in value by 7%.

The **Utilities & Airports** sector valuation decreased by 63% reflecting a reduction in valuation being used on the London Underground Connect project and the disposal of the Northern Territories Airports. Kinnegar has been valued on a more prudent basis pending resolution of performance issues that have reduced client payments at this waste water treatment plant in Northern Ireland.

DCF valuation underpins 98% of the total portfolio valuation of £301.2 million.

The long-term cash flows analysed as part of the DCF analysis are shown below (excludes acquisitions, disposals, bid costs and overheads):

CASH INFLOW (POST TAX ON SUB-DEBT INTEREST)



CASH OUTFLOW

The long-term cash flows analysed as part of the DCF analysis are shown below (excludes cash flows associated with preferred bidder projects):

ESTIMATED FUTURE JOHN LAING CASHFLOW

Year £ million	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Accommodation	5.5	11.3	14.2	15.5	13.3	15.1	16.6	15.3	13.6	15.3
Roads	(0.2)	4.1	5.0	3.6	9.2	7.2	6.9	7.0	10.8	17.1
Rail	5.5	4.0	4.3	4.2	9.6	16.2	13.6	15.0	14.5	15.6
Utilities & Airports	(7.6)	(0.2)	2.0	4.9	2.3	2.3	2.6	2.7	2.4	3.0
TOTAL	**3.2**	**19.2**	**25.5**	**28.2**	**34.4**	**40.8**	**39.7**	**40.0**	**41.3**	**51.0**

Year £ million	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Accommodation	12.3	12.9	12.9	12.7	14.4	16.0	15.3	17.9	18.8	18.9
Roads	10.2	12.0	7.5	8.5	8.8	6.7	4.4	5.0	5.9	16.9
Rail	14.6	17.1	18.2	18.5	19.6	20.5	3.1	0.2	-	-
Utilities & Airports	2.2	1.4	3.0	2.5	2.3	-	-	-	-	-
TOTAL	**39.3**	**43.4**	**41.6**	**42.2**	**45.1**	**43.2**	**22.8**	**23.1**	**24.7**	**35.8**

Year £ million	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Accommodation	20.7	28.4	39.0	40.2	68.6	27.2	24.5	9.9	9.1	6.5
Roads	17.8	27.8	24.6	9.4	9.8	3.6	1.1	0.2	0.3	0.2
Rail	-	-	-	-	-	-	-	-	-	-
Utilities & Airports	-	-	-	-	-	-	-	-	-	-
TOTAL	**38.5**	**56.2**	**63.6**	**49.6**	**78.4**	**30.8**	**25.6**	**10.1**	**9.4**	**6.7**

PROSPECTS

2004 saw further significant development of John Laing's forward pipeline in each of our core sectors and the outlook for 2005 and beyond remains encouraging.

New Parliaments, with or without changes of Government, can often bring a hiatus due to uncertainty in markets that are shaped by Government programmes but this would appear unlikely in the present climate. While points of emphasis may change between programmes, there is broad agreement as to both the need for continuing investment in the asset base underpinning public services and the effectiveness of private sector delivery mechanisms. In addition, markets outside the UK are generating an increasing number of attractive propositions.

During 2004, we achieved preferred bidder status on a further four projects, including the Euro 700 million A1 road project in Poland in which Laing Roads will have a 30% equity interest.

Since the year end, the InspirED consortium (John Laing interest 33%) has been appointed preferred bidder for the £261 million South Lanarkshire schools project involving construction of 17 new schools and refurbishment of a further two. John Laing has also been appointed preferred bidder for the Leicester Hospital project which has a capital value of £765 million and in which the John Laing-CBA joint venture will have a 40% interest.

In addition, Regenter has reached financial close on a £16.9 million urban regeneration project in Stoke-on-Trent, Bentilee Hub.

As at 21 March 2005, the Group is preferred bidder for 11 projects, which have an estimated combined capital value of £3.3 billion and, in aggregate, John Laing expects to provide £90 million of the equity and loan funding required in these projects. During the balance of 2005, it is expected that financial close will be achieved on at least eight further projects.

As at 21 March 2005, the Group is short-listed on 16 projects, which have a combined capital value of £2.5 billion. Since the beginning of the year, prequalification and short-listing has been achieved in relation to the Euro 725 million Ostregion Package 1 road project (John Laing interest 40%), the £110 million Bristol Building Schools for the Future project (John Laing interest 50%) and the Birmingham Highways Maintenance project with an initial investment amount of £170 million (John Laing interest 33%). As at 21 March 2005, the total future funding requirements are £32.9 million committed on signed projects; and in addition there is a potential £137 million as follows:

- £90 million on preferred bids; and
- £47 million on shortlist (assuming a 40% success rate).

The above figures are all shown net of the Commonwealth Bank of Australia's likely contribution to forward funding commitment.

A E Friend
Chief Executive
21 March 2005

Financial Review

"Profit growth… in our core

THE GROUP PROFIT BEFORE TAX FOR THE YEAR TO 31 DECEMBER 2004 WAS £25.1 MILLION

SUMMARY OF RESULTS

The Group profit before tax for the year to 31 December 2004 was £25.1 million (2003 – £21.2 million). Within the continuing operations, the core businesses of Accommodation, Roads and Rail have all reported profit growth. However, the Utilities & Airports sector shows a decline due to the disposal of Australian airport interests towards the end of 2003 and due to the re-phasing of profit on the London Underground Connect project.

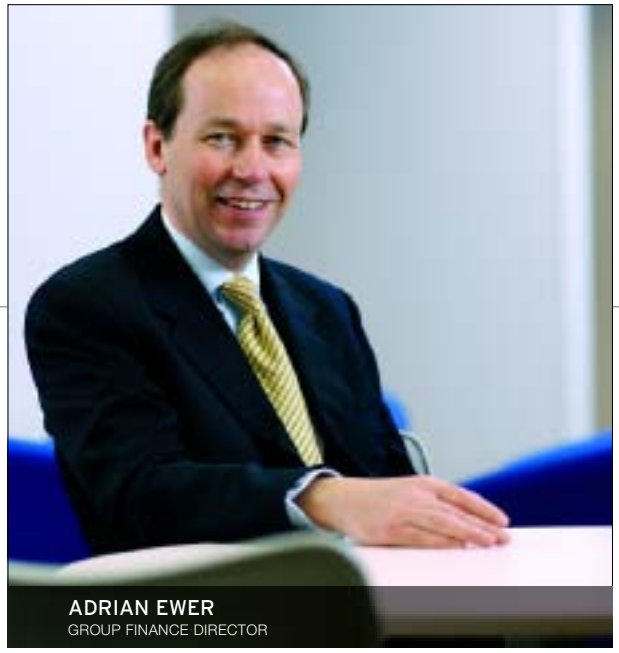
When monitoring the profitability of the Group's operations, the Directors focus on the profit before tax of each operation after deducting interest on non-recourse project finance:

ANALYSIS OF PROFIT BEFORE TAX

	Profit before tax[1] 2004 £ million	2003 £ million
CORE CONTINUING OPERATIONS		
Accommodation	**13.7**	10.5
Roads	**6.9**	6.6
Rail	**9.5**	9.9
Utilities & Airports	**(1.4)**	6.2
Purchase and sale of 50% interest in M40 road project	**6.4**	–
Sale of development land	**2.9**	0.2
Bidding activity and Group costs	**(14.7)**	(13.4)
Interest on Group funds[1]	**0.1**	(3.6)
GROUP CORE OPERATIONS	**23.4**	16.4
NON-CORE BUSINESSES		
Retained businesses (including Octagon Homes) – continuing	**1.6**	0.3
Sold or held for sale – discontinued	**0.1**	4.5
TOTAL GROUP	**25.1**	21.2

(1) Profit before tax is shown against each of the Group operations after deducting net interest payable on non-recourse project finance. The Group interest credit/(charge) excludes interest on non-recourse project finance.

businesses”



ADRIAN EWER
GROUP FINANCE DIRECTOR

SIGNIFICANT EVENTS IMPACTING THE 2004 RESULTS

The significant events that have impacted on the results during 2004 were:

- The completion of construction on the Ministry of Defence Main Building project which came into full operation in the third quarter, thus increasing the profits in the accommodation business.
- The re-phasing of profit recognition on the London Underground Connect project due to delays to enabling works, resulting in a loss of £1.4 million within the Utilities business.
- Revenue growth of 13% on the Chiltern Railways line, partly due to the diversion of passengers from the West Coast Mainline while engineering works were ongoing.
- The purchase and sale of a 50% interest in the M40 road project, generating a net profit on sale of £6.4 million.
- The sale of development land adjacent to Aylesbury railway station, generating a net profit of £2.9 million.
- Significant reduction to interest charges due to the final receipt of deferred consideration on the sale of Laing Homes at the end of 2003.
- A significant increase to the FRS 17 valuation of future pension liabilities stemming from a higher assumption for future RPI and a lower corporate bond yield, the latter being used to discount the liabilities to present values.

The run-off of the previously disposed businesses has been taken further towards conclusion through the resolution of a number of the retained construction liabilities. In particular, a final settlement was reached on all the outstanding matters concerning the Cardiff Millennium Stadium. With regard to the Great Eastern Hotel, the client’s claim for damages was taken through a court process. Further details are set out in note 20. The provision held against the Great Eastern Hotel claim reflects the Directors’ prudent assessment of the likely outcome based on a reasonable conclusion to the outstanding issues of cost interest and insurance.

...WITHIN THE CONTINUING OPERATIONS, THE CORE BUSINESSES OF ACCOMMODATION, ROADS AND RAIL HAVE ALL REPORTED PROFIT GROWTH

INTEREST COSTS AND THE EFFECT OF RATE CHANGES

The net interest credit of £1.9 million for the year ended 31 December 2004 (2003 – charge £1.1 million) includes interest on the non-recourse funds of PFI/PPP projects undertaken through both subsidiaries and joint ventures as well as the finance credit on the pension funds and amortisation of debt issue costs. The following analysis sets out the significant elements of the net interest charge:

INTEREST ANALYSIS

	2004 Group funds £ million	2004 Non-recourse funds £ million	2004 Total £ million	2003 Group funds £ million	2003 Non-recourse funds £ million	2003 Total £ million
PFI/PPP PROJECT COMPANIES						
Payable on project finance and shareholder loans	**-**	**(75.0)**	**(75.0)**	-	(66.5)	(66.5)
Receivable on finance debtors and deposits	**-**	**75.6**	**75.6**	-	69.0	69.0
Debt issue costs amortised	**-**	**(1.9)**	**(1.9)**	-	(2.8)	(2.8)
Debt issue costs written off on refinancing	**-**	**(0.1)**	**(0.1)**	-	(0.7)	(0.7)
ASSOCIATES - SHARE OF NET INTEREST PAYABLE	**-**	**(2.9)**	**(2.9)**	-	(2.8)	(2.8)
SALE OF LAING HOMES						
Payable on bridging finance	**-**	**-**	**-**	-	(4.9)	(4.9)
Debt issue costs amortised	**-**	**-**	**-**	-	(2.5)	(2.5)
Release of discount on deferred consideration	**-**	**-**	**-**	-	6.3	6.3
FRS 17 FINANCING INCOME/(COST) ON PENSION FUNDS	**1.1**	**-**	**1.1**	(3.0)	-	(3.0)
CORPORATE FUNDS						
Payable on corporate loans	**(1.9)**	**-**	**(1.9)**	(1.8)	-	(1.8)
Receivable on deposits and loans to PFI/PPP Project Companies	**9.3**	**-**	**9.3**	9.1	-	9.1
Amortisation of debt issue costs	**(1.6)**	**-**	**(1.6)**	(0.5)	-	(0.5)
Payable on unpaid tax	**(0.7)**	**-**	**(0.7)**	-	-	-
NET INTEREST CREDIT/(CHARGE)	**6.2**	**(4.3)**	**1.9**	3.8	(4.9)	(1.1)

The interest rate on the debt of PFI/PPP Project Companies is, in almost all circumstances, fixed on financial close, either through the issue of a long dated bond or through the purchase of an interest rate swap where the project has been financed using variable rate bank debt.

Interest income in PFI/PPP Project Companies mainly represents the interest receivable on finance debtor balances. John Laing accounting policy is to set the finance debtor interest rate for the term of the project agreement at or soon after financial close. This rate is normally higher than the cost of senior debt, up to a maximum of 300 basis points ('bps') above the long-term gilt rate.

The comparatives for 2003 include interest on non-recourse bridging finance that was arranged in respect of the deferred consideration from the sale of Laing Homes. The last instalment of the deferred consideration was received on 31 December 2003.

Interest on Corporate debt was charged at 175 bps above LIBOR prior to arranging new debt facilities in December 2004, from which date the margin reduced to 100 bps. Debt issue costs of £1.2 million brought forward in respect of the cancelled facilities have been written off in 2004 and debt issue costs of £0.9 million on the new facilities have been capitalised. The Group has operated with net deposit balances throughout 2004 such that the primary interest rate exposure is to changes in deposit rates. Use of facilities has been largely restricted to the issue of letters of credit in support of forward funding commitments on PFI/PPP projects. These are charged at the relevant debt margin, i.e. 175 bps until December 2004 and 100 bps thereafter.

TAXATION

The Group's tax charge for 2004 was £13.7 million, representing an effective tax rate of 55% (2003 charge of £13.3 million – effective rate of 63%). The high effective rate is attributable to the fact that for many PFI/PPP Project Companies no tax deduction is available for the cost of buildings and civil engineering works, other than for the plant element. Since these assets revert to public ownership at the end of the project term for little or no payment, the profit and loss account suffers a full depreciation charge over the life of the project that exceeds the capital allowances, thus causing a high effective tax rate. Where this is likely to occur, the high tax rate is fully reflected in our financial appraisal ahead of commitment to invest in the project and our required return is calculated after allowing for the high level of taxes to be paid. In addition, releases of insurance reserves relating to the disposed construction business are taxable while compensating increases to the retained construction liability provision are not eligible for tax deduction because the related trade has ceased.

TAXATION ANALYSIS

	2004 Profit before tax £ million	2004 Tax charge £ million	2004 Effective tax rate %	2003 Profit before tax £ million	2003 Tax (charge) /credit £ million	2003 Effective tax rate %
CONTINUING BUSINESSES						
PFI/PPP Project Companies	**24.3**	**(8.9)**	**37**	24.1	(10.2)	42
Capital gains on sale of investments	**6.6**	**(2.0)**	**30**	7.1	(1.0)	14
Holding companies, bid costs and overheads	**(5.9)**	**(0.4)**	**(7)**	(14.5)	1.4	10
	25.0	**(11.3)**	**45**	16.7	(9.8)	59
DISCONTINUED BUSINESSES	**0.1**	**(2.4)**	**-**	4.5	(3.5)	-
TOTAL	**25.1**	**(13.7)**	**55**	21.2	(13.3)	63

An increasing number of projects are taxed using a 'Composite Trade' basis for taxation. These projects are taxed at 30% on booked profits after allowance for a relatively small level of disallowed expenditure. As the proportion of projects taxed on the Composite Trade basis increases, the effective Group tax rate is expected to reduce.

The consolidated balance sheet incorporates a deferred tax asset of £57.9 million (2003 – £35.8 million) on the FRS 17 deficit to reflect the tax deduction that the Directors believe will be available on future pension contributions and post retirement medical insurance premiums.

CRITICAL ACCOUNTING POLICIES

International Financial Reporting Standards

The financial statements for the year ended 31 December 2004 and the preceding years have been prepared in accordance with UK Accounting Standards. The Group will comply with International Accounting Standards and International Financial Reporting Standards for the year commenced 1 January 2005. In order to assist with understanding the impact of the transition we have prepared a separate publication 'John Laing – Preliminary Results of the Implementation of International Accounting and Financial Reporting Standards'. This includes a reconciliation of the 2004 key financial statements on the two bases of UK and International Accounting Standards. A copy of the separate publication has been posted to shareholders and is available on the website, www.laing.com.

Accounting for the results of PFI/PPP Project Companies

The Group accounts are compiled using consistent accounting policies for all of our PFI/PPP projects. In many instances this requires the restatement of Project Company accounts to comply with John Laing policies for asset and revenue recognition. These restatements are principally concerned with ensuring that assets in PFI/PPP Project Companies are recognised as finance debtors where there is limited volume or property value risk to the revenues of the Project Company, and to ensure that major maintenance costs are built into the finance debtor on a systematic basis to spread the related costs over the life of the concession. Where finance debtor accounting is employed, the Group's income is generated from interest receivable on the finance debtor and from a profit margin on the services provided by the Project Company to the public sector client.

If Project Companies are exposed to significant revenue risk, e.g. if revenues are derived from real tolls, or if the project returns are dependent upon significant residual property values, the assets are generally recognised as fixed assets, which are fully depreciated over the concession length. In the case of street lighting projects, profit recognition is in accordance with SSAP9 accounting for long-term contracts.

The following table sets out the basis of revenue and asset recognition for the Group's 42 PFI/PPP projects and the net book value of assets employed in each of our key sub-sectors:

ANALYSIS OF REVENUE AND ASSET RECOGNITION POLICIES

Project type	Number	Revenue basis	Asset recognition	Net assets employed at 31 December 2004* £ million
Accommodation	20	Availability fee	Finance debtor	**80.0**
	5	Availability fee and property revenues	Fixed asset	**2.6**
Roads	7	Shadow toll/availability	Finance debtor	**44.4**
Bridge	1	Real toll	Finance debtor	**3.1**
Heavy rail	3	Farebox	Fixed asset	**27.5**
Light rail	1	Availability fee	Finance debtor	**11.2**
Street lighting	3	Performance	Long-term contract	**1.5**
Utilities	1	Output	Fixed asset	**0.2**
	1	Availability fee/output	Finance debtor	**5.8**
	42			**176.3**

* Net assets employed are shown after deducting the Group's share of project specific net debt.

Pension and other post retirement liabilities accounting

The Group adopted FRS 17 ('Retirement Benefits') in 2003, ahead of the mandatory implementation period. This has resulted in a net deficit of £135.0 million (2003 – £93.7 million) being recognised in the Group balance sheet. The value of the deficit is highly dependent upon some critical assumptions and is likely to vary significantly from year to year. An increase of £41.2 million to the net pension deficit in 2004 includes £38.5 million increase in the value of scheme assets but the present value of liabilities has increased by £102.2 million due to a changed assumption for long-term future inflation rates from 2.28% to 2.75% and from a reduction in the AA rated corporate bond yield from 5.5% to 5.3%, this being the stipulated discount rate applied to calculate the net present value of future liabilities. Comment on the funding implications of the deficit is given in the cash flow section at the end of this review and the assumptions are set out in greater detail in note 5 to the accounts.

The pension deficit has been calculated using the Institute and Faculty of Actuaries' current mortality tables for life expectancy. These are due to be updated in the first half of 2005 and it is expected that the revised tables will show increased longevity. The pension fund liabilities are therefore likely to increase.

With effect from April 2005, new legislation will oblige the Group to pay a levy to the Pension Protection Fund. This is expected to amount to approximately £130,000 in the first year and double that amount in the second year. Thereafter the levy will be calculated on a risk weighted basis, which remains to be determined.

CAPITAL STRUCTURE, RESOURCES AND COMMITMENTS

There has been no significant change to the capital structure of the Group. However, during 2004 the holders of warrants, which were issued at the time of the Group's refinancing in September 2001, have exercised their right to subscribe for 6.1 million shares at a subscription price of £1 per share. There are no outstanding warrants in issue.

The Group's corporate funding requirement is to support its investment in special purpose PFI/PPP Project Companies, to finance the costs of bidding and asset management and, from time to time, to finance acquisitions. Typically, the total of shareholder equity and loans in PFI/PPP Project Companies represents between 5% and 15% of the total funding required, with the balance of the project finance being secured by either bank debt or a capital bond issue. The lenders/investors in project finance have no recourse to the Group in the event of default by the Project Company.

On financial close the Group commits to provide equity and loan funding to PFI/PPP Project Companies. However, in many instances the funding is not drawn down until construction of the project assets has been completed. In these circumstances it is usual for the Group to procure letters of credit to secure the funding commitment. These letters of credit are issued, by the Group's bankers, out of general corporate debt facilities. Due to the very long lead times associated with bidding for PFI/PPP projects, it is possible to project the likely forward funding commitments with a high degree of confidence once the Group has secured preferred bidder status. The Group's borrowing and letter of credit requirements can therefore be predicted well ahead of final commitment to investments and it is the Board's strategy to ensure that financial resources are in place to meet both actual and likely investment commitments.

Following the sale of Laing Homes in 2002, the Group has been able to finance its investment programme wholly out of equity and retained profits. Since the Group has no significant working capital requirement, the Group has operated with net funds on deposit and has not drawn significant amounts of bank debt. However the corporate debt facilities have been utilised for the issue of letters of credit, as described above.

The Group has a wholly owned captive insurance company that maintains cash backed reserves for claims relating to the previously owned construction businesses. At 31 December this asset backing stood at £17.3 million. In addition, the Group is required to maintain cash backing for other contingent liabilities amounting to £2.5 million. These amounts are not available for general corporate use.

The Group holds a controlling interest in a number of PFI/PPP Project Companies which are accounted for as subsidiaries. The project finance provided to these subsidiaries is included within bank debt in the Group balance sheet but the lenders have no recourse to the Group in the event of Project Company default.

ANALYSIS OF FINANCIAL RESOURCES

	31 December 2004			31 December 2003		
	Corporate funds £ million	Non-recourse funds £ million	Total £ million	Corporate funds £ million	Non-recourse funds £ million	Total £ million
CONSOLIDATED NET FUNDS						
Cash and bank deposits	**61.7**	**50.3**	**112.0**	86.8	34.3	121.1
Bank and other loans	**(1.5)**	**(423.3)**	**(424.8)**	-	(329.3)	(329.3)
Net funds	**60.2**	**(373.0)**	**(312.8)**	86.8	(295.0)	(208.2)
Less: Cash reserved as asset backing	**(19.8)**			(21.7)		
Net liquid funds available for use	**40.4**			65.1		
CORPORATE BANK FACILITIES						
Syndicated	**115.0**			90.0		
Bilateral	**25.0**			25.0		
Overdraft	**5.0**			5.0		
	145.0			120.0		
Less: Letters of credit drawn	**(39.5)**			(73.1)		
Undrawn corporate facilities	**105.5**			46.9		
NET FINANCIAL RESOURCES	**145.9**			112.0		

The financial resources available are principally earmarked for the funding of future equity and loan commitments on PFI/PPP projects. At 31 December 2004, the potential equity and loan requirements on preferred bids and the short-list is estimated at £137 million (2003 – £98 million).

The syndicated facilities as at 31 December 2004 reach maturity on 31 March 2010 and the bilateral facilities and overdraft are set to mature between October and December 2005.

Within the £39.5 million of letters of credit drawn, £33.4 million is in support of forward investment commitments (2003 – £56.5 million) and £6.1 million is to counter-indemnify performance bonds (2003 – £16.6 million).

TREASURY POLICIES

Foreign Currency

The Group has a relatively small balance sheet exposure to foreign currency fluctuations and the Board has endorsed a policy of remaining unhedged throughout 2004. However, with the Group's increasing activity in mainland Europe, the Board has agreed that future foreign currency investments having a sterling equivalent value in excess of £5.0 million should be hedged. The Group seeks to cover significant transactional exposures arising from receipts and payments in foreign currencies, where appropriate and cost effective.

Interest Rates

The Group is not a significant borrower at the corporate level and does not, therefore, seek to hedge exposure to interest rate movements. However, there are significant levels of non-recourse borrowing within the PFI/PPP Project Companies in which the Group invests. In almost all circumstances the financing agreements of the Project Companies require the debt to be on a fixed interest rate basis or, where variable rate debt has been arranged, to be swapped to fixed rate for the full value and term of the loan.

Debt Facilities

The Group treasury function seeks to ensure that the Group has access to funds and committed bank facilities that cover, as a minimum, the forward investment commitments on both signed PFI/PPP projects and the potential commitments estimated in respect of projects where the Group has been confirmed as preferred or sole bidder. Detailed medium-term cash flow forecasts are prepared and reviewed on a regular basis. The corporate debt facilities contain financial covenants that set minimum interest cover, minimum adjusted tangible net worth and maximum levels of gearing. The current cash flow forecasts indicate that the Group will comply with these covenants for the foreseeable future.

CASH FLOWS

An analysis of the cash flows for 2004 is shown below. This shows the cash flows affecting the recourse funds of the Group separately from the cash flows affecting the consolidated non-recourse funds.

CASH FLOW SUMMARY 2004

	Recourse funds/(borrowings) £ million	£ million	Non-recourse funds/ (borrowings) £ million	Total Group £ million
NET FUNDS AT 1 JANUARY 2004		**86.8**	**(295.0)**	**(208.2)**
CONTINUING OPERATIONS – PORTFOLIO CASH FLOW				
PFI/PPP investment	(38.8)			(38.8)
Dividends from PFI projects	7.0			7.0
Interest received from PFI projects	6.8			6.8
Loans repaid by PFI/PPP Project Companies	4.4			4.4
Sale of PFI Project Companies	10.4			10.4
Purchase and sale of 50% interest in M40 road project	6.4			6.4
Purchase of fixed assets	(0.1)			(0.1)
Rail projects – on balance sheet	(1.8)			(1.8)
Distributions from rail property joint venture	2.4			2.4
Equion FM net cash flows	2.1			2.1
		(1.2)		
Cash flows of PFI project subsidiaries			(78.0)	(78.0)
BIDDING ACTIVITY AND GROUP OVERHEADS				
Bid costs, net of recoveries on financial close		(4.6)		(4.6)
Overheads		(8.7)		(8.7)
Pension contributions towards the deficit		(4.0)		(4.0)
DISCONTINUED OPERATIONS		(7.5)		(7.5)
OTHER NON-OPERATING MOVEMENTS				
Net interest received		(0.2)		(0.2)
Taxation		1.5		1.5
Group dividends paid		(8.1)		(8.1)
Share issues		6.1		6.1
Exchange rate movements		0.1		0.1
NET FUNDS AT 31 DECEMBER 2004		**60.2**	**(373.0)**	**(312.8)**

The running yield derived from the PFI/PPP portfolio, (dividends, interest and loan repayments) amounted to £18.2 million (2003 – £15.7 million) and was in line with expectations, thereby underlining the predictability of cash flows from the portfolio. Presentation of future cash flow forecasts associated with the existing portfolio of PFI/PPP projects is set out on pages 34 and 35.

The Group has an existing agreement with the Trustees of The John Laing Pension Fund to provide additional contributions of £4.0 million per annum towards funding of the pension deficit. Due to recent adverse movement in actuarial assumptions we are in renewed discussion with the Trustees, which is likely to result in an increase in these additional contributions. The Group intends to fully fund the deficit over a period of 20 years and the additional contribution is likely to vary over this period. However, the Group has committed to increase the additional contribution to £6.0 million in 2005, and subject to review regularly thereafter. In order to progressively remove the Pension Fund, and hence the Group, from volatility to the value of equities, the Trustees have agreed on a strategy to shift the balance from approximately 50% currently invested in equities to 40% by the end of 2005 and to a fully non-equity investment portfolio over the next 25 years. This strategy has been agreed following consultation between the Trustees and the Group and reflects the advice of the actuaries to the Trustees and the independent actuaries to the Group.

A J H Ewer
Group Finance Director
21 March 2005

Corporate Social Responsibility

THE GROUP FOLLOWS A HEALTH AND SAFETY POLICY OF CONTINUAL IMPROVEMENT AND IS COMMITTED TO SAFEGUARDING THE HEALTH AND SAFETY OF ITS EMPLOYEES, OF OTHERS WHO CARRY OUT WORK ON ITS BEHALF AND OF THOSE WHO MAY BE AFFECTED BY ITS WORK

Business in the Community %2004

HISTORY

Corporate Social Responsibility ('CSR') is not new to John Laing plc. John Laing's Community Policy was set more than 10 years ago and is still as relevant to our current business activities as it was then. The Group set up a charitable trust (the 'Trust') more than 40 years ago in order to make charitable donations to individuals and charities. The Group covenanted money to the Trust for a number of years and it now has a sizeable asset base that enables it to continue to support organisations, often in long-term partnerships.

The Group has been an active member of Business in the Community ('BitC') since 1986 and in 2004 was awarded continued membership of BitC's Per Cent Club. The Per Cent Club recognises those companies that donate at least 1% of their pre-tax profits in cash or in kind to charitable organisations.

COMMUNITY POLICY

The Group has tried to ensure a close fit in the creation and implementation of its Community Policy with its business activities. The Group gives consideration to social, environmental and ethical issues when bidding for new projects. Highlighted below are the principles of the Community Policy and some practical examples of putting them into action:

- Work in partnership with voluntary organisations and other agencies to bring hope and help to disadvantaged people in the community – support was given to more than 20 different charities that help homeless people.
- Encourage young people to get maximum benefit from education and training opportunities – through the Trust, the Group continued to support the merger costs of two educational charities to help create a new charity, 'Continyou', and the development and expansion of Young Enterprise in London.
- Promote the participation of local people and groups in decisions affecting the regeneration of their communities – the Group continued support for the Community, Development Foundation and Crime Concern.
- Create a better living and working environment – the Group continued to support Hertfordshire Groundwork's Service to Schools involving parents, teachers, governors and especially pupils in junior and special needs schools.
- Encourage a spirit of enterprise as a basis for economic well being in the community – through the Trust, the Group continued to fund a Children's Society project to develop models for sustainable community enterprise based on its successful childcare initiative in Thanet.

HUMAN RESOURCES AND STAFF WELFARE

The delivery of John Laing's business strategy is dependent upon the Group's ability to attract, develop and retain highly skilled, experienced and talented people.

The Group is committed to creating an environment in which all staff are encouraged and supported in developing their skills and knowledge further. Staff training and development needs are assessed on a regular basis and a range of development methods, from formal training through to supported practical learning, are widely used.

As a part of the Group's performance culture, individual performance is assessed on a regular basis. Individual performance objectives are set and progress against these is formally reviewed.

The Group values and respects diversity and actively strives to create a work environment where everyone is treated with dignity and respect. The Group is committed to ensuring that all staff are treated on their individual merit and have the opportunity to realise their full potential. This commitment is supported by an Equal Opportunities policy, which is issued to all new staff as part of the induction process.

The Group strives to ensure that it has effective communication processes, which encourage the engagement and participation of all staff. Strategic changes and developments are communicated directly to all staff. Regular management and staff meetings are held across the business, which facilitate two-way communication and involvement. Internal communication is further supported through the Group's Intranet and Staff Newsletter. Where appropriate, the Group consults with staff and/or their elected representatives as part of more formal consultation programmes. During 2004, staff within various parts of the Group were surveyed for their feedback and views on a range of issues including training and development, reward and the new Intranet site.

The Human Resources ('HR') team is aligned to work in partnership with the Group's business divisions and central support functions, ensuring that all staff are managed in accordance with the Group's HR Policies. The Head of Human Resources reports directly to the Chief Executive of John Laing. The Group has always been concerned for the welfare of both its current and former staff. All staff members have access to support from a welfare team and to a free, confidential counselling service.

Contact with former staff is maintained through a network of retirement clubs, a quarterly news magazine and through the Trust's welfare staff who make home visits. Financial assistance is directed, as necessary, towards former staff in need.

REVIEW OF ACHIEVEMENTS

- GENERAL DONATIONS, THROUGH THE GROUP'S CHARITABLE TRUST, TO CHARITABLE ORGANISATIONS OF £206,623 CONCENTRATING ON THE PLIGHTS OF HOMELESS PEOPLE, DISADVANTAGED YOUNG PEOPLE, EDUCATION AND THE ENVIRONMENT
- MEMBER OF THE PER CENT CLUB WHICH RECOGNISES COMPANIES THAT DONATE AT LEAST 1% OF PRE-TAX PROFITS IN CASH OR IN KIND
- MATCHED EMPLOYEE FUNDRAISING OF £7,988 AND CONTINUED THE 'GIVE AS YOU EARN' SCHEME
- RE-LAUNCHED THE 'MAKE A DIFFERENCE' SCHEME WHICH PROVIDES SUPPORT TO EMPLOYEES AND/OR THEIR IMMEDIATE FAMILIES WHO ACTIVELY ASSIST A LOCAL VOLUNTARY OR CHARITABLE ORGANISATION WITH DONATIONS OF £250
- FINANCIAL SUPPORT THROUGH THE GROUP'S CHARITABLE TRUST TO MORE THAN 850 FORMER EMPLOYEES
- PROVIDED FINANCIAL AND BUSINESS SUPPORT TO HERTFORDSHIRE GROUNDWORK TRUST FOR ITS SERVICE TO SCHOOLS
- CONTINUING FINANCIAL AND BUSINESS SUPPORT FOR 'SCHOOL GOVERNORS ONE STOP SHOP', A CHARITY SET UP BY THE DfES TO PROMOTE AND ENCOURAGE BUSINESS PEOPLE TO BECOME SCHOOL GOVERNORS
- CHILTERN RAILWAYS HAS BEEN AWARDED SUCCESSIVE CHARTER MARKS SINCE 1995, ACKNOWLEDGING CONTINUED DELIVERY OF EXCELLENT PUBLIC SERVICE
- ACHIEVED BRONZE AWARD FROM THE ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS
- DEVELOPED AND IMPLEMENTED A NEW PERFORMANCE APPRAISAL PROCESS ACROSS THE GROUP
- EQUION FM COMMENCED WORKING TOWARDS INVESTORS IN PEOPLE ACCREDITATION
- INTRODUCED A NEW UNPAID LEAVE POLICY, AS PART OF THE GROUP'S COMMITMENT TO CREATING A WORK ENVIRONMENT WHICH RECOGNISES THE IMPORTANCE OF WORK/LIFE BALANCE AND OF RETAINING HIGH CALIBRE PEOPLE

HEALTH AND SAFETY

The Group's Health and Safety Policy is determined and monitored by the Board. The Chief Executive is accountable to the Board for the Group's health and safety performance. In addition, a committee has been set up to review health and safety regularly and report to the Board. All areas of the Group's business activities and its staff are represented on the Committee. A full time, dedicated, health and safety manager monitors and advises on health and safety matters.

Each of the Group's projects is reviewed at least biannually and health and safety issues are monitored via a system of management procedures and risk registers maintained at project level. Significant risks are escalated to Board level via stated procedures.

The Group is committed to safeguarding the health and safety of its employees, of others who carry out work on its behalf and of those who may be affected by its work. The Group follows a Health and Safety Policy of continual improvement. This policy is employed throughout all areas of the business which carry out operations for clients as part of the health and safety management system. Local management are actively encouraged to obtain an appropriate qualification in this area. The policy is available to all clients, contractors and, when requested, to the local community.

The safe operation of the Group's services is of paramount importance and the Board recognises that health and safety standards are a key contributor to the sustainable growth of the business.

The Group continues to monitor all issues relating to its market place closely and takes action where appropriate in updating its policy statement as required. The Group also reviews the health and safety performance and policies of its partners and appointed contractors.

The Group actively promotes positive compliance with legal and other requirements through an action programme that sets individual annual objectives and, whenever appropriate, adopts openness in respect of the disclosure of its health and safety performance.

Chiltern Railways' trained staff visit schools on the Chiltern route to educate children of all ages about safety and the dangers of railway crime.

The effectiveness of any health and safety policy depends upon the culture encouraged by the Group and its clients and the behaviour and willingness of employees to follow the Group's stated procedures. All employees receive awareness training during induction and are expected to support the Group's policies and procedures.

A consistent documented health and safety management system is maintained at every level of the Group to describe how these issues are dealt with in practice. The system follows the guidelines laid out in HSE publication HS(G)65 'Successful Health and Safety Management' and BSI standard BS8800:2004 'Occupational Health and Safety Management Systems – Guide'. The health and safety management system, together with the environment and quality systems, are designed to complement each other.

The Group works closely with industry bodies, clients, the Health and Safety Executive and Government and responds to their requirements wherever possible. The Group shares information and best practice in the interest of furthering these relationships and improving its health and safety performance. The Group fully supports the Government's 'Revitalising Health and Safety' Report and following the implementation of proposed legislation on corporate killing, the Group will consider what actions may need to be taken to comply with its requirements.

The Group's accident rate is already below the figures published by the Health and Safety Executive for its industry sector but it intends to emphasise its health and safety performance in the short-term by applying for the 'Silver Award' given by The Royal Society for the Prevention of Accidents, to demonstrate its commitment to maintaining and improving health and safety standards across the Group.

2004 provided a year of continuous improvement in Chiltern's safety record. The company was well below the national average on national indices with perhaps the most important being the SPAD (signals passed at danger) rate per 100 drivers.

Much work has been carried out both during 2003 and 2004 to arrest the adverse trend on SPADs which Chiltern had suffered over the previous two years.

The drivers' training course was completely rewritten and evaluated independently. It has been used for the the drivers' training course in 2004 and has been very successful.

A major review of the emergency plan was undertaken drawing on best practice throughout the industry and from role models elsewhere, in particular the airlines.

A review of the way Chiltern manage safety was carried out during the year which has occasioned a new set of key performance indicators designed to be more proactive than reactive.

Plans were developed to bring about a drive in 2005 to underpin the open safety culture which will bring about a more informed workforce on the root causes of accidents and incidents.

In 2004 only two SPADs were recorded with none from March onwards.

ENVIRONMENT

Given the long-term nature of many of the Group's projects and the need to work closely with Government departments, local authorities and local communities, the environment is an important consideration in all of the Group's proposed activities. Each area of the business takes account of such matters and provides training to its staff where necessary.

Many projects have been designed to the BREEAM 'good' standard.

At head office, paper, toner cartridges and old computers are recycled and the Group operates an electronic document management system, accessible from the office and remote sites to significantly reduce the volume of paper. Confidential waste is shredded and recycled.

Through Equion, and as part of its commitment to ISO 14001, all sites are recording water, gas, electricity and oil consumption and are monitoring CO_2 emissions. All of Equion's projects are internally and externally audited and part of this process concerns a review of compliance with its environmental policy. The project teams work closely with each client to minimise the impact of its activities on the environment and often project specifications include enhancements identified by

the Group that will improve the sustainability and quality of the local environment. Equion is committed to producing year on year improvements on the environmental targets that are set. In 2005, it intends to reduce its level of waste and CO_2 emissions.

In Laing Roads, proposals for the refurbishment of existing roads or the creation of new roads in ecologically and environmentally sensitive areas are thoroughly reviewed by all interested parties. Where appropriate, meetings are convened with local councils and specific interest groups. In addition, newsletters, schools liaison advice and 24-hour help lines have been put in place. Often licences are required from Government departments or the Environment Agency before any work can commence. Such licences are only granted following input from both national and local environmental agencies and specialists. Full consultation takes place throughout the process and often the Group will not only protect but also improve the local environment.

On the M40 road between junctions 11 and 15, 25 kestrel boxes have been sited. This was filmed by the BBC's Natural History Unit during the year.

On the A55 road, newts were successfully relocated to newly created newt ponds, which are monitored and, in spring and autumn, the areas are protected with concave amphibian barriers.

During the winter it is planned that a total of 60,500 new trees and shrubs together with 200,000 bulbs will be planted on the Sirhowy Way project in Caerphilly, South Wales.

Chiltern Railways maintain an extensive environmental policy and set objectives under the requirements of its operating licence which have to be approved by the Rail Regulator. The objectives and targets set follow the ISO Standard Specification for Environmental Management Systems and are monitored by the management responsible. Chiltern Railways already has well-established safety and quality systems in place and seeks to make its environmental standards compatible with these.

GROUP TARGETS

- THROUGH THE TRUST, TO DOUBLE ITS DONATIONS TO CHARITABLE ORGANISATIONS
- SUSTAINABILITY/ENVIRONMENTAL DEVELOPMENT POLICY TO BE REVISED
- CONTINUE THE INTEGRATION OF CSR POLICY WITHIN NEW BUSINESS

Supporting Art in our Community

When John Laing plc, moved into new premises, the new, bare walls of the meeting rooms inspired an idea which would see students from 30 schools in Glasgow and Edinburgh take part in a competition. Students were briefed to create paintings suitable for a corporate environment. Eleven finalists were selected and their paintings are now displayed around the John Laing offices.

1ST PRIZE
Maureen Rukundo

2ND PRIZE
Patrick John Cunningham

3RD PRIZE
Dominique Sinclair

Board of Directors

left to right, top to bottom

WILLIAM FORRESTER
ANDREW FRIEND
ADRIAN EWER
DEREK POTTS
RICHARD WESTON
TIM BOATMAN
TIM MATTHEWS
MICHAEL MEDLICOTT
PAUL MEREDITH

1 Member of Nominations Committee
2 Member of Audit and Remuneration Committees
3 Member of Remuneration Committee
4 Member of Audit, Nominations and Remuneration Committees
5 Member of Audit and Nominations Committees

WILLIAM FORRESTER M.Inst.M (64)[1]

Non-executive Chairman, July 2003

- Executive Chairman, February 2002 to June 2003
- Director, John Laing plc, January 2002
- Chairman, Linpac Group Limited, August 2004
- Director, Dignity PLC, March 2004
- Chairman, Dualwise Group Limited, March 2004 to September 2004
- Director, The Waterproofing Group Limited, 2000
- Group Chief Executive, SIG plc, 1986 to 2001
- Director, SIG plc, 1980 to 1986

ANDREW FRIEND MA (52)

Chief Executive, July 2003

- Director, John Laing plc, March 2001
- Joined John Laing plc, August 1999
- Associate Director, Macquarie Bank, London, 1997 to 1999
- Chief Executive, City of Melbourne, 1995 to 1997

ADRIAN EWER FCA (51)

Group Finance Director, John Laing plc, 1999

- Joined John Laing plc, 1991

DEREK POTTS MA, ACA (46)

Director, Roads & Utilities, September 2004

- Joined John Laing plc, July 2001
- Finance Director, Jardine Motors Group, 1999 to 2001 (and 1994 to 1997)
- Finance Director, GB Railways Group plc, 1998 to 1999
- Managing Director, Passport Alliance Limited, 1997 to 1998
- Finance Director (initially Financial Controller), Virgin Group, 1989 to 1994

RICHARD WESTON MCIOB (56)

Director, Accommodation, September 2004

- Managing Director, Equion Limited, October 1998
- Director, Laing Investments Limited, October 1997
- Director, UK Highways plc, July 1997 to October 1998
- Joined John Laing plc, September 1967

TIM BOATMAN FCA (63)[5]

Non-executive Director

- Joined John Laing plc, April 2002
- Audit Partner, PriceWaterhouseCoopers, 1974 to 2001

TIM MATTHEWS BA (53)[2]

Non-executive Director

- Joined John Laing plc, September 2004
- Managing Director, Parsons Brinckerhoff Limited, 2003
- Chief Executive, Highways Agency 2000 to 2003
- Chief Executive, Guys & St Thomas Hospital Trust, 1993 to 2000

MICHAEL MEDLICOTT MA (Oxon), FRSA (61)[3]

Non-executive Director

- Joined John Laing plc, September 2004
- Non-executive Director, Heritage of London Trust Limited, 1987
- Non-executive Director, Manchester Airport Group plc, 2002
- Non-executive Director, HM Treasury, National Savings & Investments, 2003
- Transaction Director, Principal Finance Group, Nomura International plc, 1997 to 2002
- Vice President International, Delta Air Lines, Inc., 1993 to 1997
- Chief Executive, British Tourist Authority, 1986 to 1993

PAUL MEREDITH FIA (59)[4]

Senior non-executive Director

- Joined John Laing plc, June 2002
- Chairman, Phillips and Drew Fund Management, 1990 to 1999
- Director, Investment Management Regulatory Organisation, 1995 to 2000

Directors' Report

The Directors submit their Report and audited Financial Statements for the year ended 31 December 2004 which they approved on 21 March 2005.

RESULT AND DIVIDENDS

The profit before taxation for the year was £25.1 million (2003 – £21.2 million). After taxation and minority interests the profit attributable to shareholders was £11.4 million (2003 – £7.9 million).

The Directors recommend a final dividend of 2.2 pence per Ordinary Share to be paid on 1 June 2005 to shareholders whose names appear on the register at the close of business on 1 April 2005.

With the interim dividend of 1.1 pence per share paid on 1 October 2004 the total recommended dividend for the year is 3.3 pence per share (2003 – 3.0 pence per share).

REVIEW OF BUSINESS DEVELOPMENTS

A commentary on events during the year and on the development of the business is given in the Chairman's Statement, the Operating Review and Chief Executive's Report and in the Financial Review.

GROUP ACTIVITIES

John Laing is a focussed developer, investor and operator in PFI/PPP projects in the growing UK and overseas markets.

A list of principal subsidiaries, joint ventures and associated undertaking can be found in note 29 to the accounts.

DIRECTORS

The Directors who served throughout the year were:

W W Forrester	
A E Friend	
A J H Ewer	
D Potts	(appointed 1 September 2004)
R Weston	(appointed 1 September 2004)
T G Boatman	
T Matthews	(appointed 1 September 2004)
M G Medlicott	(appointed 1 September 2004)
P M C Meredith	
Sir Martin Laing	(resigned 30 April 2004)
The Baroness Noakes	(resigned 10 February 2004)

There were no changes in the membership of the Board between 31 December 2004 and 21 March 2005.

The Director retiring by rotation in accordance with the Articles of Association is A J H Ewer who, being eligible, offers himself for re-election. T Matthews, M G Medlicott, D Potts and R Weston are also retiring in accordance with the Articles of Association and, having been appointed to the Board since the last AGM, are offering themselves for election.

The Directors being elected or re-elected have appointment terms providing for the following notice periods from the Company:

NAME	NOTICE PERIOD
A J H Ewer	12 months
D Potts	6 months
R Weston	6 months
T Matthews	3 months
M G Medlicott	3 months

Biographical details of Directors offering themselves for re-election are shown on page 49 and in the circular sent to shareholders.

Directors' Report

DIRECTORS' INTERESTS

SHARES

The number of shares of the Company in which each Director of the Company holds an interest is shown in accordance with the requirements of the Companies Act 1985.

	At 31 December 2004		At 1 January 2004*	
	Ordinary Shares 25p each	**6.4% Convertible Cumulative Preference Shares £1 each**	Ordinary Shares 25p each	6.4% Convertible Cumulative Preference Shares £1 each
BENEFICIAL				
W W Forrester	50,000	-	50,000	-
A E Friend	6,786	-	6,786	-
A J H Ewer	46,711	-	46,711	-
D Potts	500	-	-	-
R Weston	1,540	-	1,540	-
T G Boatman	500	-	500	-
T Matthews	1,000	-	-	-
M G Medlicott	500	-	-	-
P M C Meredith	500	-	500	-

* *or date of appointment if later.*

On 21 January 2005 W W Forrester acquired a further 92,939 Ordinary Shares of 25p each following the exercise of share options granted to him on 18 January 2002. Full details are set out in the Directors' Remuneration Report on page 64.

Details of Directors share options and awards under the John Laing Long-Term Incentive Plan 2001 are set out in the Directors' Remuneration Report on pages 64 to 66.

SUBSTANTIAL SHAREHOLDINGS

As at 21 March 2005, the Directors had received the following notifications of substantial interests in the shares of the Company.

	Ordinary Shares 25p each	**%**
Legal and General Group and its subsidiaries	**23,363,949**	**12.77**
Schroders plc	**19,981,665**	**10.92**
Fidelity International Limited and its subsidiaries	**17,388,120**	**9.51**
M & G Asset Management	**8,156,190**	**4.46**
Aviva Plc and its subsidiaries	**12,768,203**	**6.98**
AEGON UK plc Group of Companies	**9,291,275**	**5.08**

Directors' Report

EMPLOYEES

The Group seeks to ensure employee commitment to its objectives in a number of ways. Strategic changes are communicated directly to all staff and resultant queries handled by the business head or executive Director as appropriate. Regular team briefings at local level provide employees with information about the performance of and initiatives in their part of the business. A wide range of information is also communicated across the Group's Intranet, including the electronic publication of the Group's financial results and all press releases.

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 arise. If existing employees become disabled, every effort is made to find them appropriate work and training is provided if necessary.

PAYMENT POLICY

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by those terms of payment. Trade creditors at 31 December 2004 were equivalent to 89 days (2003 – 66 days), based on the average daily amount invoiced by suppliers during the year. The Company does not carry on a trade.

AUDITORS

The external auditors Deloitte & Touche LLP, are willing to continue in office and, in accordance with Section 385 of the Companies Act 1985, a resolution for their appointment as auditors of the Company is to be proposed at the forthcoming AGM.

On behalf of the Board

R K Miller
Group Company Secretary
21 March 2005

Corporate Governance

In July 2003, the Financial Reporting Council issued the new Combined Code on Corporate Governance, embracing the recommendations from the Higgs Report "Review of the Role and Effectiveness of Non-Executive Directors" and the report of a group lead by Sir Robert Smith on "Audit Committees Combined Code Guidance". The following report sets out how the Company has complied with the Code provisions set out in Section 1 of the new Combined Code on Corporate Governance (the 'Code').

This report on corporate governance, incorporating the Directors' Report on Internal Controls, should be read in conjunction with the Directors' Remuneration Report, the Audit Committee Report and the Nominations Committee Report. References in this report to internal control are to internal control processes including risk management.

Throughout the year ended 31 December 2004, the Group has been in compliance with the Code, except for the following matters:

Code provision D1.1 The independent non-executive Directors have not attended formal meetings with major shareholders during 2004. However the senior independent non-executive Director corresponded with the 12 largest institutional investors towards the end of the year, thereby giving them the opportunity to comment on performance. In addition, the senior independent non-executive Director and the Chairman have had informal dialogue with several institutional investors throughout the course of the year.

Code provision C3.1 Following the resignation of The Baroness Noakes on 10 February 2004, the Audit Committee included only two independent non-executive Directors. T Matthews was appointed to the Board with effect from 1 September 2004 and also became a member of the Audit Committee from that date, bringing the membership of the Audit Committee into line with the provisions of the Code.

DIRECTORS

The Board meets on a regular basis throughout the year and as needed to deal with special business. The Board has appointed an Audit Committee, a Remuneration Committee and a Nominations Committee which consider issues relevant to their specific terms of reference. Attendance of Directors at meetings of the Board and by members of the Board sub-committees during 2004 was as follows:

		Number of Meetings			
		Board	Audit Committee	Nominations Committee	Remuneration Committee
MEETINGS HELD IN 2004		10	3	1	3
Attended by:					
W W Forrester	- non-executive Chairman				
	- Ch. Nominations Committee	8		1	2#
A E Friend	- Chief Executive	10		1#	3#
A J H Ewer	- Group Finance Director	10	3#		
D Potts	- Divisional Managing Director				
	- appointed 1 September 2004	4			
R Weston	- Divisional Managing Director				
	- appointed 1 September 2004	4			
T G Boatman	- independent non-executive				
	- Ch. Audit Committee	9	3	1	1*
T Matthews	- independent non-executive				
	- appointed on 1 September 2004	3	1		1
M G Medlicott	- independent non-executive				
	- appointed on 1 September 2004	4			1
P M C Meredith	- senior independent non-executive				
	- Ch. Remuneration Committee	10	3	1	3
Sir Martin Laing	- non-executive				
	- resigned 30 April 2004	2	1		1
The Baroness Noakes	- independent non-executive				
	- resigned 10 February 2004				1

When Directors are unable to attend meetings they receive the relevant papers and are invited to comment in advance of the relevant meetings.

In attendance only.

* *T G Boatman until 1 September 2004.*

Corporate Governance

The Baroness Noakes resigned from the Board and the Board sub-committees on 10 February 2004. Sir Martin Laing resigned his directorship and membership of Board sub-committees on 30 April 2004. Four new appointments to the Board were made on 1 September 2004; D Potts and R Weston were appointed as executive Directors; T Matthews and M G Medlicott were appointed as non-executive Directors and members of the Remuneration Committee. Also on 1 September 2004, T Matthews was appointed to the Audit Committee and T G Boatman resigned from the Remuneration Committee.

Board meetings follow a formal agenda of matters reserved for decision and approval by the Board as well as any special business. Matters reserved for the Board include the review of strategy and organisational change, the review of internal controls and risk management processes, the approval of significant investments and disposals, the approval of budgets and the regular review of current trading and the financial position of the Group. The Board receives regular reports prior to meetings on current trading, the financial position and forecasts of the Group. In addition, the Board receives relevant information on business, corporate and strategic issues. Formal procedures exist to ensure that the Board is made aware of any significant health and safety issues and non-compliance with statutory regulations. A E Friend is the Board member responsible for health and safety issues. Further details of the Company's approach to health and safety are set out in the report on Corporate Social Responsibility on page 46.

All Directors may take independent professional advice at the Group's expense in the furtherance of their duties and have full access to the Group Company Secretary.

Upon appointment the independent non-executive Directors undertake an induction process to familiarise themselves with the Group's activities, policies and key issues.

The Chairman meets with the other non-executive Directors to discuss the performance of the Board and the Board sub-committees including reviewing their effectiveness. The senior independent non-executive Director has met all the Directors to discuss the performance of the Chairman. These meetings are held at least once a year shortly following the end of the calendar year being reviewed. The performance of executive Directors is measured against a predetermined set of objectives that are agreed with each executive Director at the start of the calendar year.

The Company's Articles of Association require one third of the Board to submit themselves for re-election, on a rotational basis, every year. No Director is exempt from seeking re-election. Non-executive Directors are appointed for an initial term of three years subject to three months' notice. The termination period of service contracts of executive Directors are referred to on page 60 of the Directors' Remuneration Report.

BOARD SUB-COMMITTEES

Sub-committees of the Board have been constituted to consider and make recommendations to the Board regarding matters relating to external and internal audit, internal control and risk management processes, the selection of appropriate accounting policies, the appointment of Directors and Directors' remuneration and the presentation of the interim and full year accounts. The membership and duties of the Board sub-committees are set out in the individual Board sub-committee reports. The policies for setting Directors' remuneration are set out in the Directors' Remuneration Report on pages 57 and 66.

All of the sub-committees of the Board operate to clearly defined terms of reference which were reviewed and updated to reflect best practice and the Code in the course of the period under review. The terms of reference of the sub-committees are available on request from the Group Company Secretary and are included on the website at www.laing.com.

The reports of the Board sub-committees are set out on pages 57 to 68.

RELATIONSHIP WITH SHAREHOLDERS

Throughout the year, executive Directors and, on certain occasions, the Chairman have met with the Group's major institutional shareholders to whom presentations were made after the announcement of the Group's preliminary and interim results and at other times where requested. Feedback from meetings with major institutional shareholders has been reported to the Board. The Group has provided analysts with the opportunity to visit an operating activity at which the senior executive management provided detailed briefings on the scope and performance of a PFI/PPP project. The Board has adopted the practice of releasing a trading update approximately two months before the announcement of preliminary results. Care is taken to ensure that any price sensitive information released is available to all shareholders, institutional or private, at the same time in accordance with the Listing Authority requirements.

All Directors, including the Chairmen of the Audit Committee, the Nominations Committee and the Remuneration Committee, attended the Group's AGM on 19 May 2004 and were available to answer questions from those shareholders present. The Group Chairman, after the show of hands on each resolution, indicated the number of proxy votes for, against and abstaining on each resolution.

Corporate Governance

ACCOUNTABILITY AND AUDIT

The Chairman's statement on pages 4 to 7 sets out the Group's strategy and the corporate actions that have been taken in furtherance of the strategy. The Operating and Financial Review on pages 8 to 43 provides an assessment of the Group's position and prospects relative to its objectives. The Statement of Directors' Responsibilities for preparing the accounts is set out below:

Statement of Director's Responsibilities

UK 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 as at the end of the financial year and of the Group's profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select the most appropriate accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Group 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.

Going Concern

The Directors confirm that, having made appropriate enquiries, they have a reasonable expectation that the Group has adequate financial 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.

Internal Control

The Board is responsible for the Group's whole system of internal control, including risk management, and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board reviews the system of internal control and monitors risk through a variety of measures which have been designed to identify all forms of risk including financial, reputational, social, ethical and environmental. As part of the year end procedures, the Board has reviewed the effectiveness of the system of internal control during the last year and up to the date of this report. In conducting this review, the Board considers that good progress has been made in implementing the recommendations arising from the review of risk management procedures and systems of internal control carried out in 2003, as set out in last year's annual report, and in 2004. Risk management and internal controls are increasingly becoming embedded in the day to day management of the Group.

The principal risk management procedures and systems of internal controls, that operated throughout 2004 and continue to this date, are as follows:

- The risk management procedures, which form part of the overall systems of internal control, are designed to align identification and management of the risks with key business objectives.
- Clearly defined and documented internal control processes relating to work winning and financial reporting. Compliance with the documented processes has been assessed by means of a 'walkthrough test' of a sample of transactions, the results of which were reported to and considered by the Audit Committee. This process of assessment will be extended in future years to cover other critical internal control procedures.
- Risk reporting that is embedded in the regular management reporting of business units and reports to the Board. Thus the Board undertakes a continuous review of risks.
- An organisational structure, which provides direct access to operations for senior executive management and clearly defined lines of accountability, delegated authority and reporting, this includes the approval of all investments and disposals as set out below.
- An independent outsourced internal audit function, which reports to the Audit Committee in the first instance. The external auditors also report to the Audit Committee on control weaknesses, which they find during their financial statement audit.

These procedures and controls are underpinned by a control environment which is supported by a culture of openness of communication between operational management and the executive management on matters relating to risk and control, including procedures for bringing such matters to the attention of the Board.

Corporate Governance

While the Board seeks to ensure an appropriate system of Corporate Governance, it has delegated certain executive responsibilities to executive management. A management structure has been developed to ensure that key investment proposals receive a high level of scrutiny throughout the bid process. The executive Directors and heads of business units constitute an Executive Committee that meets regularly to consider operational matters and approve transactions. In addition, an Investment Committee, comprising senior executives that are independent of the business units, reviews all investment proposals prior to submitting priced bids and again prior to commitment. All investments require the approval of the Executive Committee and all new commitments in excess of £5.0 million require Board approval. Proposed sales of investments undergo the same rigorous review and approval process.

Risk Management

Risk registers are maintained for all PFI/PPP projects and are regularly updated and reviewed. Risk registers are also maintained for business units and for the Group as a whole. Significant risks, both pre and post mitigation, are identified and reported to the Board for its consideration.

Investment Decisions and Performance Monitoring

All new investment proposals are measured against pre-determined criteria including minimum equity IRR, cash yield and payback requirements.

The performance of existing investments is reviewed on a quarterly basis by the executive management of the business unit holding the investment and once a year the performance is reviewed in detail by the Investment Committee. The Board receives quarterly reports on the financial performance of investments.

Delegated Authorities

Delegated authorities for the approval of commitments and expenditure are clearly documented and provide an adequate level of assurance that costs are properly incurred.

Assurance

During 2004, the Board reviewed whether or not it would be appropriate to continue with the appointment of an outsourced internal auditor. The Board concluded that the independent internal audit function should be maintained and retained Ernst & Young LLP as internal auditor. A detailed programme of internal audit review has been agreed and continues to be implemented. The internal auditor reports to the Audit Committee and makes recommendations for improvements to internal control and risk management processes. The internal auditor reviews and reports on progress with implementation of agreed management actions. As part of the annual audit cycle, the external auditor also reviews and reports on internal control processes. Through the Audit Committee, the Board monitors progress with the implementation of agreed management actions.

The Board, through the Audit Committee, has reviewed the Group's processes for the prevention and reporting of potential or actual fraud. The Group maintains a documented fraud policy and a 'whistleblowers' charter', which has been communicated to and is constantly available to all staff and which is available on the website at www.laing.com.

Management Reporting

The Board approves a phased annual budget in the November preceding the start of the financial year. Executive management reviews monthly management accounts and monitors the actual performance against budget. Significant variances are explained and further investigations initiated as appropriate. The Board reviews actual results and forecast updates on a quarterly basis.

Audit

The report of the Audit Committee is set out on page 66.

As a consequence of the restructuring of the Group and the transformation to a focussed developer, investor and operator of infrastructure assets, the Board decided to review the approach to the audit and conducted a tender process for the position of external auditor during 2003. Following that review, Deloitte & Touche LLP was appointed as the external auditor for the year ended 31 December 2003 and has maintained that position throughout 2004.

All of the Group's subsidiaries are audited by Deloitte & Touche LLP. Six of the Group's joint ventures are also audited by Deloitte & Touche LLP, however some of the Group's joint ventures and an associate are audited by other firms of accountants due to the arrangements agreed with our partners. For certain joint ventures and an associate where Deloitte & Touche LLP are not the auditor, the appointed auditor is required to complete an audit review questionnaire for Deloitte & Touche LLP. In a limited number of cases, joint ventures do not have coterminous year ends with the Group. In these circumstances the external auditor reviews the latest available audited accounts and the management accounts for the subsequent period up to 31 December.

Corporate Governance

The Group employs rigorous procedures to ensure the continued independence of the external auditor. These include the prior approval of the Audit Committee for the appointment of the external auditor for provision of non-audit services where the fee is to be above a pre-determined threshold. Wherever appropriate, competitive quotes are obtained from other firms. The Audit Committee reviews the fees payable to the external auditor for non-audit services on a regular basis and seeks to ensure that the external auditor's independence is not compromised.

The Auditors' Report to the Members of John Laing plc on the financial statements and, where required, the Directors' Remuneration Report, is set out on page 69. In addition, the external auditor reports to the Directors any relevant findings on procedures and controls within the business units which have come to their notice during the course of their normal audit work.

A report from the external auditor on its review of the interim accounts is published with the statement of interim results issued to shareholders.

Directors' Remuneration Report

THE REMUNERATION COMMITTEE

The Remuneration Committee (the 'Committee') comprises three of the non-executive Directors of the Group. Only independent non-executive Directors are now members of the Committee. During 2004, there have been six changes to the composition of the Committee, as set out in the table below. The members of the Committee during the year were:

P M C Meredith	(Chairman of the Committee)
T Matthews	(appointed 1 September 2004)
M G Medlicott	(appointed 1 September 2004)
T G Boatman	(until 1 September 2004)
W W Forrester	(until 11 February 2004)
Sir Martin Laing	(resigned 30 April 2004)
The Baroness Noakes	(resigned 10 February 2004)

From 11 February 2004, W W Forrester attended meetings by invitation only and was not present when his personal remuneration was discussed and reviewed. The Chief Executive, A E Friend, is not a member of the Committee; he also attends the meetings by invitation but is not present when his personal remuneration is discussed and reviewed. In addition, the Group Finance Director, A J H Ewer is also invited to attend for certain limited items, none of which relate to his own remuneration. The Head of Human Resources, L Poulter (and formerly A J Emerson), attends in an advisory capacity. R K Miller, Group Company Secretary, acts as Secretary to the Committee.

The Committee has three scheduled meetings per year and meets additionally as circumstances require. In 2004 there were three meetings of the Committee. Attendance at these meetings is shown on page 53. The Committee has authority to appoint professional advisors. Other consultants, not formally appointed by the Committee, provide advice on specific matters arising and provide other services to the Group only as identified below. During the year, professional advice was sought from the following external consultants. Other relevant services provided by them to the Group during the financial year are also shown.

- New Bridge Street Consultants LLP ('New Bridge Street') – appointed as advisors to the Committee on 8 December 2003. New Bridge Street undertake no other work for the Group.
- Towers Perrin – actuaries to The John Laing Pension Fund and the John Laing Pension Plan.

The Committee was provided with information and data from national surveys on executive pay and conditions by New Bridge Street. Information and proposals were also provided to the Committee by the Group Chairman, the Chief Executive and the Head of Human Resources. These were discussed thoroughly, and when appropriate, amended by the Committee prior to recommendation to the Board. Throughout the year the recommendations of the Committee have been accepted by the Board without substantial amendment.

The Terms of Reference of the Committee were revised to comply with the new Combined Code and adopted by the Board on 12 March 2004. They are available on the Company's website. In addition, the terms of reference for New Bridge Street are available on request from the Group Company Secretary.

The Committee acknowledges that it is accountable to shareholders through the Directors' Remuneration Report and the vote on it at the Group's AGM. It welcomes and values its dialogue with major shareholders on remuneration matters.

Corporate Governance

REMUNERATION POLICY

The Committee sets and monitors the overall remuneration policy for the Group Chairman, executive Directors and other senior executives, and makes recommendations to the Board on these matters. Remuneration and benefits are set at market levels comparable with companies of similar size and scope of activity in order to be able to attract, retain and motivate high calibre individuals. During 2004 and following completion of the Group's strategic change in direction, the review of remuneration, share plans and pensions has continued. With advice from New Bridge Street, the Committee believes that it has shaped the approach taken on remuneration for 2005 to be appropriate to the Company's current profile. Nevertheless the Committee keeps the remuneration policy under close and regular review and hence the current policy set out in this report may change over time.

The components of the remuneration package for A E Friend, A J H Ewer, D Potts and R Weston are basic salary, annual cash bonus, a Long-Term Incentive Plan ('LTIP'), membership of a pension scheme, car allowance and fuel card, provision of a health insurance scheme and the provision of a pension cap related supplement to all executive Directors other than R Weston whose long period of service negates the need for this. Entitlements under the bonus scheme and LTIP are subject to the achievement of performance conditions. Full details of the LTIP awards are given under the Long-Term Incentive Schemes section on page 65.

The 2004 review of basic pay for A E Friend and A J H Ewer resulted in no increase for either executive Director. On appointment to the Board on 1 September 2004 the salaries of D Potts and R Weston were each £150,000 per annum. The variable pay element for 2004 revolves around a cash bonus scheme and details are provided below. However, the review of salaries for 2005 has resulted in the salaries of A E Friend, A J H Ewer, D Potts and R Weston being increased to £340,000, £300,000, £153,000 and £153,000 respectively. A E Friend and A J H Ewer who served throughout the year received increases of 4.6% and 3.4% respectively. The increase for D Potts and R Weston took account of their mid year review on appointment to the Board and it is intended to review market comparisons in respect of these positions later in the year.

The structure of remuneration for executive Directors under the remuneration policy (excluding pensions) is such that for achievement of maximum performance, over 50% of the total package would be directly performance related i.e. short-term cash and long-term share arrangements and the Committee feels that the split remains appropriate with a significant element being at risk.

On 19 January 2005, the Committee approved guidelines for share ownership applying to executive Directors and members of the Group's Executive Committee. From that date, they are required to build a shareholding of 1 x salary (1.5 x for the Chief Executive) through the continuing policy of retaining shares equal to 50% of the after tax gain arising from LTIP awards or share option exercises. The number of shares to be retained is recalculated based upon the market value of the Company's shares from time to time. For executive Directors, the guidelines apply to all existing LTIP conditional awards and share option grants. For members of the Executive Committee, the guidelines apply to all new LTIP conditional awards or share option grants.

The Board as a whole determines the non-executive Directors' fees and these are reviewed in alternate years. Non-executive Directors make no input to the process when their own fees are being discussed. These fees are set at a level that will attract individuals with the necessary experience and ability to make a significant contribution to the affairs of the Group and are benchmarked with available market data. A review took place on 1 January 2004, which included the Group Chairman's fee, and this resulted in no increase to the fees in payment.

W W Forrester receives a fixed fee of £100,000 per annum, with all benefits in kind and payments other than existing options ceasing from 1 July 2003 when he became non-executive Chairman. Following the recruitment of T Matthews and M G Medlicott as non-executive Directors with effect from 1 September 2004 at an annual fee of £30,000 each, a differential in the fees paid to Committee Chairmen and other Committee members was established. This reflects the additional work and time commitment expected of Committee Chairmen and is now Group policy. Details of the fees paid to non-executive Directors are shown in the table on page 63.

Executive Directors wishing to take up external appointments as non-executive Directors will seek the consent of the Group Chairman before accepting such an appointment. The Company's policy is that no more than one such appointment should be held. No executive Director currently holds any external non-executive directorship.

Corporate Governance

REMUNERATION COMPONENTS

Basic salary

Salaries for executive Directors take account of external market data, the individual's responsibilities, experience and performance and are reviewed annually. When the Committee reviews the salaries of executive Directors, it assesses performance and personal objectives and sets pay following consideration of external market rates, internal relativities and other factors reflective of the Company and the industry. The Company's annual pay review for staff (excluding executive Directors) undertaken on 1 January 2005 resulted in an aggregate increase of 4.2% to the pay bill including the cost of promotions.

Benefits in kind and allowances

Benefits in kind comprise membership of private health insurance (provided by BUPA), provision of a fuel card for business and personal purposes, and a car allowance. These benefits are in line with those offered by peer group companies and to other middle and senior managers in the Group. None of these form part of pensionable earnings.

Annual cash bonus arrangements

The executive Directors participate in a performance related scheme that is entirely linked to annual financial objectives for the business and is self-financing. The financial targets are reviewed and set annually by the Committee and are ratified by the Board. The arrangement in 2004 for A E Friend and A J H Ewer was entirely Group profit related and provided A E Friend and A J H Ewer with maximum bonuses of 60% and 50% respectively, of basic salary. For D Potts and R Weston, the 2004 bonus arrangement was a maximum of 40% of basic salary with 20% relating to Group profits and 20% on personal objectives. Bonuses earned by the executive Directors are paid in March of the year following the full financial year and after the results have been audited. Details of the payments to executive Directors are included in the Directors' Remuneration table on page 63. From 2005, the bonus arrangement for D Potts and R Weston have been increased to a maximum of 50% of basic salary to reflect the additional responsibilities and duties of Board membership.

The 2005 cash bonus arrangements have been amended for all executive Directors. One half of their bonus entitlement will be related to achievement of pre-determined profit targets. The other half will be related to achievement of target growth in the sum of the parts value of the business. For this purpose, the value attributed to PFI/PPP investments will be independently validated and calculated using the methodology described on page 32 and movements in the FRS 17 pension deficit will not be taken into account. The Committee feels that this will more closely align the executive's incentives with the Group's revised strategies.

The 2005 cash bonus arrangements for the Executive Committee members (except for the main Board Directors and the member from Laing Rail) comprise two equally weighted elements. One half of their bonus entitlement will be related to the achievement of pre-determined profit targets and the achievement of target growth in the sum of the parts value of the business. The other half will be related to personal objectives. The 2005 company bonus scheme for other staff is related to the achievement of pre-determined profit targets either at Group or divisional level and is also based on personal performance.

Retirement benefits

The executive Directors are members of a contributory senior executive pension scheme which is a funded, tax approved and defined benefit pension arrangement. Employee contributions to the defined benefit pension arrangement were required from 1 January 2004 at a rate of 2% of salary and rose to 4% from 1 January 2005. With the exception of R Weston, the executive Directors' pensionable pay has been limited by the earnings cap provisions of the Finance Act 1989. In such cases, the Group pays the Director a salary supplement above the pensions cap to reflect the loss of pension coverage. This supplement is recorded in the executive Directors' remuneration and is not taken into account in calculating bonuses or any other form of remuneration. The Committee has reviewed the pension arrangements in light of the planned changes in taxation of pension benefits and has agreed that the Company should continue to apply a self-imposed cap at a level of £102,000 plus RPI. On his appointment to the Board, R Weston agreed that his pre-Board appointment salary of £140,000 per annum would be used for the purposes of calculating final pensionable salary subject to escalation at 2.5% per annum. Details of the individual executive Directors' pension arrangements are shown on page 64. The Committee does not envisage any significant changes to its pensions policy in the light of the introduction of the new pension rules in April 2006.

Corporate Governance

Service contracts

The Group's policy is for all executive Directors to have contracts of employment that terminate on the attainment of the normal retirement age of 60. The contracts do not provide for liquidated damages and the Committee fully recognises the duty to mitigate in determining any arrangements for a departing executive. In order to mitigate its liability on early termination, the Group's policy is that it should be able to terminate such contracts on no more than 12 months notice, and that payments for loss of executive office are restricted to the value of salary and other contractual entitlements for the notice period. A E Friend and A J H Ewer had 12 month notice periods during 2004. D Potts and R Weston had 6 month notice periods during 2004.

Contract details

	Effective date	Expiry
W W Forrester	01.07.03	01.07.06
A E Friend	31.08.99	25.06.12
A J H Ewer	01.07.91	19.09.13
D Potts	11.07.01	20.10.18
R Weston	04.09.67	19.04.08
T G Boatman	15.04.02	15.04.05
T Matthews	01.09.04	01.09.07
M G Medlicott	01.09.04	01.09.07
P M C Meredith	01.06.02	01.06.05
Sir Martin Laing	01.02.02	30.04.04 resigned
The Baroness Noakes	01.06.02	10.02.04 resigned

A E Friend and A J H Ewer may terminate their contracts upon 6 months notice. D Potts and R Weston may terminate their contracts upon 6 and 3 months notice respectively.

The non-executive Directors do not have service contracts but letters of appointment. The terms of such letters are available for inspection on request and may be found on the Company's website. They do not participate in the Group's annual cash bonus scheme, its LTIP or Share Option Plan (except W W Forrester who retains share options granted during his executive Chairman tenure), nor its pension arrangements and they do not receive any benefits in kind. Sir Martin Laing, who was not deemed to be independent, received private health insurance until his resignation on 30 April 2004. The Group is generally obliged to give 3 months' notice to terminate the appointment of a non-executive Director.

SHARE PLAN STRATEGY

At the AGM held on 15 May 2002, the shareholders approved a new executive share option scheme called The John Laing plc Executive Share Option Plan 2002 (the 'Option Plan'). Prior to 2004, the Group did not grant options under the Option Plan to executives (including executive Directors) who participated in the Group's LTIP. Following a change in the policy no options were granted under the Option Plan during 2004 with awards being made only under the Group's LTIP. The prime reason for this change of policy was that the performance condition was the same for both Schemes resulting in there being no benefit in running two separate Schemes. The performance conditions for all share plans are set by the Committee so as to be challenging and include incentivising performance hurdles. For conditional share awards made in 2004, as in 2003 under the Group's LTIP, the performance condition was relative to total shareholder return ('TSR') whereas the measure used in 2002 was based on an earnings per share ('EPS') target, which had become inappropriate given the profound change in the business. Therefore, the Committee decided that the EPS base figure for the 2002 LTIP should be recalculated to reflect the structural change of the business following the sale of Laing Construction, Laing Homes, Laing Property Developments and the Group's interest in Europistas. The profits and losses associated with these businesses have been excluded from the earnings base and substituted with notional interest on the disposal proceeds, resulting in a revised EPS base of 4.1p. Due to the delay in addressing this, major institutional shareholders and their representative bodies (ABI and RREV) were consulted. Those who responded favoured a change in basis and were assured that the new focus of the business would ensure that no future adjustments would be required and that appropriate steps have been taken to ensure developments are reported to the Committee on a timely basis. The Committee asked Ernst & Young LLP to provide an independent review of the rebased EPS. Whilst it was accepted that a significant degree of subjective assessment was necessary to identify the adjustments underlying the rebasing and that adoption of different assumptions would result in a wide range of possible outcomes, Ernst & Young LLP concluded that the revised EPS base of 4.1p was not unreasonable for the standalone PFI/PPP investment business. On this basis and taken with the EPS performance over the three years to 31 December 2004, the Committee has certified that 40% of the 2002 LTIP award has vested.

Corporate Governance

The Group has completed its strategic change in direction and is now listed in the Support Services Sector of the FTSE All Share Index. As a consequence, TSR against the Support Services Sector was considered an appropriate measure for the conditional awards made in 2004. However, on the advice of New Bridge Street, the Committee has decided that, from 2005 onwards, the comparator group for the LTIP will be the FTSE Mid 250 Index (excluding investment trusts) which, it is believed, has a closer correlation to the Group's TSR than the Support Services Sector of the FTSE All Share Index. In addition, awards will only be made where the Committee certifies that TSR performance was also reflective of the Group's underlying financial performance. The TSR calculations are independently calculated by Towers Perrin and verified by the Committee.

In respect of new awards, the Option Plan rules were amended to provide for time pro-rating of awards in a good leaver or change of control situation.

For the conditional awards made in 2004, the TSR performance condition compares the Group's performance against the TSR's of all the companies in the comparator group, namely all the Sterling denominated companies in the Support Services Sector of the FTSE All Share Index, over a performance period from 1 January 2004 to 31 December 2006. The percentage of share award vesting is calculated as follows:

Ranked in top quartile: 100% of the total award
Ranked between median and top quartile: straight line apportionment
Ranked at median: one third of the total award
Ranked below median: zero

The Group policy is to use new issue shares to satisfy awards and currently has 3.71% capacity within the 5% limit under the ABI guidelines.

Option Plan

No options were granted under the Option Plan in 2004. Options granted in the previous years will lapse to the extent that they do not become exercisable as described above and no re-test applies.

In addition, the Company has also operated the John Laing Senior Executive Share Option Scheme since 1987. No grants have been made to Directors or senior executives since 1996 and there is no current intention to seek shareholder approval to renew the Scheme. However, there are still grants totalling 23,500 which are capable of being exercised by one Director and two senior executives. The options cease to be exercisable on 21 April 2006.

In 1996 shareholders approved The John Laing Savings-Related Share Option Scheme aimed at encouraging all employees to participate in the Group as shareholders by offering share options funded by a Save-As-You-Earn contract. The Group has only made one invitation to participate which was in 1996 and which has run its course. The Company has no current intention to introduce an all-employee share scheme in the short-term as it prefers to incentivise staff through a Company-wide bonus scheme.

Long-Term Incentive Plan

Full details of the LTIP share awards made to the executive Directors are set out on page 65.

Under the LTIP approved by shareholders in 2001, conditional share awards were made to the executive Directors and other senior executives in 2004. The share awards are conditional upon the performance conditions described above.

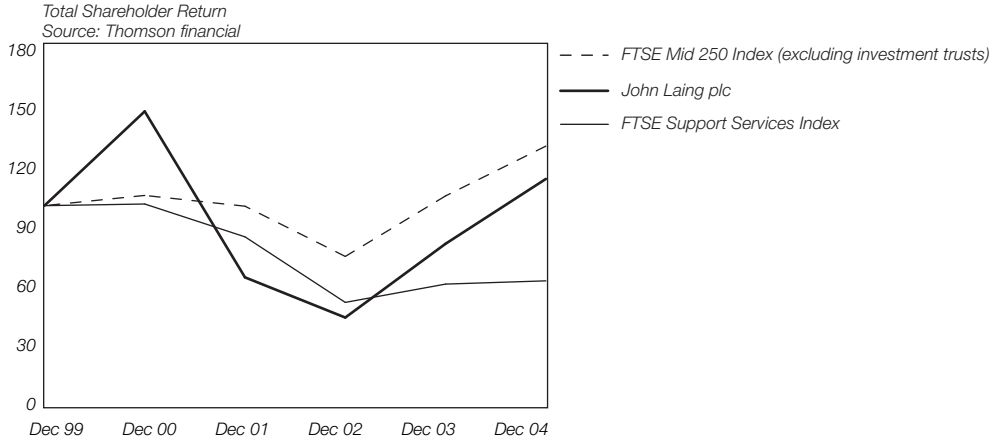
Corporate Governance

TSR PERFORMANCE GRAPHS

Owing to major corporate restructuring and a strategic change in business direction, the Group has not remained in the same sector of the FTSE All Share Index over the last 5 years. From 2005 onwards, the Group considers it more appropriate to use the FTSE Mid 250 Index (excluding investment trusts) in preference to the FTSE All Share indices of the Support Services Sector, to provide a more appropriate basis for performance assessment. This index is currently believed to be the most relevant going forward.

The following graphs chart the total cumulative shareholder return of the Group over the past five years and two years respectively using the existing and proposed comparator groups.

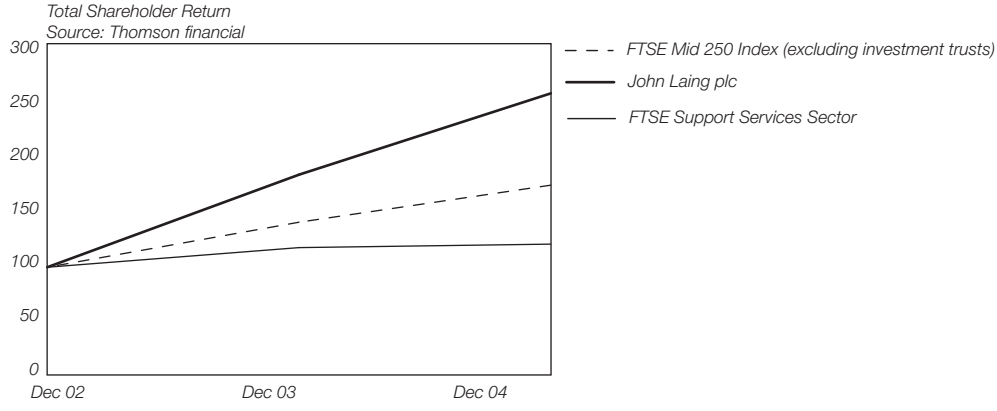
FIVE-YEAR HISTORICAL TSR PERFORMANCE
GROWTH IN THE VALUE OF A HYPOTHETICAL £100 HOLDING OVER FIVE YEARS
FTSE SUPPORT SERVICES SECTOR AND FTSE MID 250 INDEX (EXCLUDING INVESTMENT TRUSTS) COMPARISON
BASED ON 30 TRADING DAY AVERAGE VALUES



This graph shows the value, by the end of 2004, of £100 invested in John Laing plc on 31 December 1999 compared with the value of £100 invested in the FTSE Support Services Sector Index and the FTSE Mid 250 Index (excluding investment trusts). The other points plotted are the values at intervening financial year ends.

Although not required by legislation, the Committee feels that the following chart, showing the Group's total cumulative shareholder return against the FTSE Support Services Index and FTSE Mid 250 Index (excluding investment trusts) is useful to show the Group's performance over the past two financial years following the Group's major strategic review and the adoption of its new business strategy.

TWO-YEAR HISTORICAL TSR PERFORMANCE
GROWTH IN THE VALUE OF A HYPOTHETICAL £100 HOLDING OVER TWO YEARS
FTSE SUPPORT SERVICES SECTOR AND FTSE MID 250 INDEX (EXCLUDING INVESTMENT TRUSTS) COMPARISON
BASED ON 30 TRADING DAY AVERAGE VALUES



This graph shows the value, by the end of 2004, of £100 invested in John Laing plc on 31 December 2002 compared with the value of £100 invested in the FTSE Support Services Sector Index and the FTSE Mid 250 Index (excluding investment trusts). The other points plotted are the values at the intervening financial year end.

Corporate Governance

The information on pages 63 to 66 has been audited.

DIRECTORS' REMUNERATION

	Salary & fees £	Bonus[4] £	Benefits & allowances £	Taxable Pension supplement[5] £	Total 2004 £	Total 2003 £	Pensions 2004 £	Pensions 2003 £
W W Forrester	100,000	-	-	-	100,000	197,537	-	-
A E Friend	325,000	195,000	18,292	62,650	600,942	555,108	18,225	17,739
A J H Ewer	290,000	145,000	18,184	52,850	506,034	468,930	18,225	17,739
D Potts [1]	50,000	19,000	4,286	3,200	76,486	-	6,120	-
R Weston [1]	50,000	19,600	4,020	-	73,620	-	8,400	-
T G Boatman	35,000	-	-	-	35,000	35,000	-	-
T Matthews [1]	10,000	-	-	-	10,000	-	-	-
M G Medlicott [1]	10,000	-	-	-	10,000	-	-	-
P M C Meredith	35,000	-	-	-	35,000	35,000	-	-
Sir Martin Laing [2]	20,417	-	4,691	-	25,108	39,428	-	-
The Baroness Noakes [3]	5,833	-	-	-	5,833	35,000	-	-
	931,250	378,600	49,473	118,700	1,478,023	1,366,003	50,970	35,478
Executive Committee (7 executives) [6]	833,982	313,877	61,244	-	1,209,103	-	128,837	-

Notes

1. The remuneration of D Potts, R Weston, T Matthews and M G Medlicott was for part of the year following their appointment as Directors on 1 September 2004.
2. The remuneration of Sir Martin Laing was for the year to the date of his resignation on 30 April 2004. The benefits figure shown for Sir Martin Laing relates to private medical insurance cover in retirement – a benefit provided historically to a number of senior executives.
3. The remuneration of The Baroness Noakes was for the year to the date of her resignation on 10 February 2004.
4. Annual bonus payments included within total Directors' Remuneration amounted to £378,600 (2003 – £277,963). Annual bonuses are calculated by reference to achievement of pre-determined profit targets set for the Group as a whole, as measured by the Group's audited accounts. The Committee recommended the individual bonus arrangements.
5. Pension contributions stated above include an employer contribution rate of 18% (2003 – 18%) on pensionable salaries. This is shown in order to reflect the normal cost of providing accrued pension benefits. The 2004 pension figures for A E Friend, A J H Ewer and D Potts show only 18% cost of the earnings cap. A E Friend, A J H Ewer and D Potts are affected by the Inland Revenue earnings cap. The Government Earnings Cap on pensions applies to those who joined a new company after 1 June 1989. As R Weston joined John Laing before this date his pension benefits are not limited by this particular restriction. A taxable pension supplement is provided and is 28% of basic salary over the earnings cap for A E Friend and A J H Ewer and 20% for D Potts.
6. The remuneration of the Executive Committee comprises the six members who are not executive Directors and also the remuneration of the Chairman of Laing Rail. It does not include the remuneration of D Potts and R Weston, who also serve on the Executive Committee, for the period prior to their appointment to the Board on 1 September 2004.
7. During the period, remuneration of £80,272 (2003 – £64,603) was received by J Armstrong, a former Director, as fees for consultancy services specifically related to the National Physical Laboratory project. This payment was higher than expected due to some unscheduled work being required to move the claim towards a final resolution. It is expected that future payments under the arrangement will reduce as the outstanding matters on the project are resolved. J Armstrong was not engaged on any other work.

Corporate Governance

DIRECTORS' PENSION ENTITLEMENTS

Year to 31 December 2004

Executive Directors	Accumulated total accrued pension at 31 December 2003 (per annum) £	Accumulated total accrued pension at 31 December 2004 (per annum) £	Increase in accrued pension due to inflation (per annum) £	Increase in accrued pension in excess of inflation (per annum) £	Total increase in accrued pension during 2004 (per annum) £
A E Friend	14,299	16,005	493	1,213	1,706
A J H Ewer	41,250	41,250[5]	1,424	(1,424)	-
D Potts	4,125	5,950	142	1,683	1,825
R Weston	89,388	108,076	3,089	15,599	18,688

Executive Directors	Transfer value of accrued pension at 31 December 2003 £000s	Transfer value of accrued pension at 31 December 2004 £000s	Member contributions during 2004 £000s	Increase in transfer value, less members contributions £000s	Transfer value of increase in accrued pension (excluding inflation), less members contributions £000s
A E Friend	152.6	184.4	2.0	29.8	12.0
A J H Ewer	404.3	432.8	2.0	26.5	(17.0)
D Potts	20.6	31.2	2.0	8.6	6.8
R Weston	1,216.1	1,636.3	2.8	417.4	234.5

Notes

1. Throughout 2004, the executive Directors were members of The John Laing Pension Fund (the 'Fund') which is a defined benefit and tax-approved scheme. Membership of the Fund was non-contributory throughout 2003, but became contributory from 1 January 2004.
2. The pension entitlements shown are those that would be paid annually on retirement, based on service to 31 December 2004.
3. The figures, representing the increase to accrued pension during the year in excess of inflation, exclude statutory increases on both the Guaranteed Minimum Pension ('GMP') and non-GMP components of pension.
4. The transfer values of non-pensioners have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values do not allow for any reduction that might be applied by the Trustees of the Fund where the member elects to transfer out of the Fund.
5. A J H Ewer has not accumulated any pension benefit in 2004. His pension is capped by Government regulation and the 2003 figures quoted reflect the maximum allowed under these regulations. The John Laing Pension Fund applies more strict rules in the absence of specific augmentation funded by the Company. The Company does not provide such augmentation and the figures shown for 2004 therefore reflect the lower accrued pension figure based solely on The John Laing Pension Fund Rules. The above situation will only affect 2004 and for 2005 the reporting will fairly reflect the ongoing arrangements with no Director receiving any additional benefits.

SHARE OPTIONS

Details of the share options held by those Directors who served during the year are as follows:

	At 1 January 2004[1]	Granted	Exercised	Lapsed	At 31 December 2004	Exercise price (pence)	Earliest date of exercise	Expiry date
W W Forrester:								
Individual Share Option Agreement	379,746[2]	-	-	-	379,746	158.0	18/01/05	17/01/12
The John Laing plc Executive Share Option Plan 2002	235,294[3]	-	-	-	235,294	127.5	16/01/06	15/01/13
R Weston:								
John Laing Senior Executive Share Option Scheme	6,409[4]	-	-	-	6,409	296.75	21/03/05	21/04/06

Corporate Governance

Notes to Share Option table

1. Or date of appointment if later.
2. As the Group did not have a performance related share option scheme in place at the time of the grant to W W Forrester, an Individual Share Option Agreement was the vehicle for the grant. The performance condition applying to this option is relative TSR. The options may not be exercised unless the TSR of the Group ranks in the top quartile of the TSR of all the companies comprised in the comparator group, namely all the Sterling denominated companies in the Construction and Building Materials and Support Services Sectors of the FTSE All Share Index, over a performance period from 1 January 2002 to 31 December 2004.

   Since 31 December 2004 the Committee has determined that the performance criterion has been met and the option became exercisable in full on 18 January 2005. W W Forrester elected to exercise the options on 20 January 2005 and, with the agreement of the Committee, this was dealt with on a share settled basis. As a consequence 92,939 Ordinary Shares of 25p each were allotted to him on 21 January 2005 with the Company undertaking to settle the Income Tax and National Insurance Contribution liabilities arising. The number of shares allotted, being lower than the total number of shares under option, equates to the gain W W Forrester would have made had the options been exercised in the usual way after deducting the exercise price and the tax and National Insurance Contribution liabilities arising. The exercise took place when the middle market price of the Company's Ordinary Shares was 270p.
3. Options were granted to W W Forrester on 16 January 2003 and are exercisable from 16 January 2006 to 15 January 2013 if the TSR of the Group is in the top quartile of the TSR's of all of the companies comprised in the comparator group, namely all the Sterling denominated companies in the Support Services Sector of the FTSE All Share Index, over the performance period from 1 January 2003 to 31 December 2005.
4. These options were granted to R Weston on 22 April 1996 and are exercisable up until 21 April 2006.

No options have lapsed or been exercised by the Directors during the year or between 31 December 2004 and the date of this report, except as set out in Note 2 above, and there was no variation in the terms of any options during the year. Had any Director exercised an option, the price paid for the options would have been the exercise price set out in the table above.

The highest and lowest prices of the Company's Ordinary Shares during the year were 247.75 pence and 173.00 pence respectively. The price of the Company's Ordinary Shares at the year end was 247.75 pence.

The Group's Register of Directors' Interests contains full details of Directors' shareholdings and options to subscribe.

LONG-TERM INCENTIVE SCHEMES

Under the LTIP approved by shareholders in 2001, further conditional share awards were made to the executive Directors and other senior executives during the year. Details of the entitlements of those Directors who served during the year are set out below:

	At 1 January 2004[1]	Award 14 April 2004[2]	Money value £	Vested	Waived	At 31 December 2004	Period of qualifying conditions	
A E Friend	117,647						01/01/02	31/12/04
	174,000						01/01/03	31/12/05
	291,647	-	-	-	-	291,647		
	-	151,769	325,000			151,769	01/01/04	31/12/06
						443,416		
A J H Ewer	118,907						01/01/02	31/12/04
	174,000						01/01/03	31/12/05
	292,907	-	-	-	-	292,907		
	-	108,340	232,000	-	-	108,340	01/01/04	31/12/06
						401,247		
D Potts	30,285						01/01/02	31/12/04
	35,200						01/01/03	31/12/05
	24,283						01/01/04	31/12/06
	89,768	-	-	-	-	89,768		
R Weston	33,613						01/01/02	31/12/04
	36,800						01/01/03	31/12/05
	26,151						01/01/04	31/12/06
	96,564	-	-	-	-	96,564		

Corporate Governance

Notes to LTIP table

1. Or date of appointment if later.
2. The executive Directors were awarded the shares detailed above at nil cost when the share price was 214.416 pence. The awards are conditional upon satisfaction of a TSR performance condition. This ranks the TSR of the Company against the TSR's of all the companies in the comparator group, namely all the Sterling denominated companies in the Support Services Sector of the FTSE All Share Index, over the performance period set out above. The conditional awards vest fully if the Company's TSR is ranked in the top quartile. One third will vest if ranked at median and nothing vests if ranked below median. A ranking between median and the top quartile will trigger a straight line apportionment.

No awards made to the executive Directors have vested during the year. No awards have been made between 31 December 2004 and the date of this report.

On 28 February 2005, the Committee resolved to rebase the EPS performance criteria against which the conditional awards made during 2002 were ranked in recognition of the Group completing its strategic change of direction and for consistency with awards made in subsequent years. Full details are set out on page 60. There are currently no proposals to further vary the terms and conditions of the LTIP. The awards made to the executive Directors in 2002 will vest on 21 March 2005 resulting in 51,946, 52,502, 13,372 and 14,841 Ordinary Shares being awarded at nil cost to A E Friend, A J H Ewer, D Potts and R Weston respectively.

Further details of the interests of the Directors in the Group's share capital can be found on page 51.

Approved by the Board and signed on its behalf by

P M C Meredith
Chairman, Remuneration Committee
21 March 2005

Audit Committee Report

Membership and meetings

During 2004 the Audit Committee (the 'Committee') membership was as follows:

T G Boatman	–	(Chairman of the Committee)
T Matthews	–	(appointed 1 September 2004)
P M C Meredith		
Sir Martin Laing	–	(resigned 30 April 2004)
The Baroness Noakes	–	(resigned 10 February 2004)

The Chairman of the Committee, T G Boatman, has extensive and up to date relevant experience as a former senior partner of a major international firm of accountants.

The Committee meets three times a year. One meeting is dedicated to the review of internal control procedures, including risk management processes, while the others include the review of the interim results and full year results. A review of significant risks identified as a result of the risk management processes is undertaken at every meeting of the Committee and the Committee's observations are reported to the Board.

The Group Finance Director is normally invited to attend the meetings, along with other members of management as appropriate. The external auditor and internal auditor are also invited to attend the meetings as appropriate. At the end of the annual audit cycle, the Committee ensured that at least part of the meeting was attended by the external auditor and part by the internal auditor without management being present.

Audit Committee meetings are minuted and copies of the minutes are provided to the Directors and the external auditor.

Corporate Governance

Responsibilities

The Audit Committee is a sub-committee of the Board and has been set up to consider and make recommendations to the Board regarding the following:

- Appointment of the external auditor
- Appointment of the internal auditor
- Compliance with the Companies Acts, accounting standards and Financial Services Authority regulations
- Financial statements issued by the Group including circulars and announcements
- Selection of suitable accounting policies
- Internal control procedures including risk management processes

The Committee reports to the Board, through the Chairman of the Committee, any relevant issue that should be brought to the attention of the Directors.

Review of 2004

During 2004, the Audit Committee monitored the continued implementation of risk management procedures. This project commenced in the second half of 2002 and was completed, with the revised processes being fully operational, by 30 June 2003. The Committee has focussed on the level of compliance with these processes both within Group companies and in joint ventures throughout 2004. Compliance has been monitored, on a sample basis, through the internal audit function.

The Committee reviewed and approved the external audit approach and the audit plan proposals put forward by the external auditor, with a view to ensuring that these fully reflected the nature and scale of the activities of the Group.

The Committee has reviewed the procedures adopted in order to ensure that the independence of the external auditor is not compromised. The Committee has given specific approval to proposals for the provision of non-audit services by the external auditor where the fee was expected to be above a pre-determined threshold of £20,000. The Committee has reviewed total fees payable to the external auditor for non-audit services at each of its meetings. The Committee is satisfied that the non-audit work carried out by Deloitte & Touche LLP has not compromised their independence. The external auditor has also confirmed to the Audit Committee that it is satisfied that it has maintained independence since appointment.

The Committee considered the effectiveness of the internal audit function and specifically reviewed advantages of continuing with appointment of an outsourced internal auditor. Following this review, the Committee recommended to the Board that Ernst & Young LLP should continue to provide independent outsourced internal audit services. The Committee reviewed, and recommended to the Board, the internal audit programme proposals of Ernst & Young LLP, which aim to cover all key internal control processes on a three year rolling basis.

The Committee has received reports from the internal and external auditors and has reviewed management's response to recommendations. The Committee has a process for reviewing the progress on implementing agreed management actions.

The Committee has reviewed a report from the internal auditors on compliance with the Group's documented internal control procedures associated with work winning and financial reporting ('walkthrough test').

The Committee has reviewed the process for prevention and reporting of potential or actual fraud. The Committee has reviewed the fraud policy which is implemented throughout the organisation and includes a 'whistleblowers' charter'.

The Committee receives and considers written reports from the Finance Director and the external auditor to coincide with the review of draft interim and draft full year results, prior to their approval by the Board. The Committee reviews the significant judgements exercised by management, the appropriateness of accounting policies adopted by the Group and unadjusted audit differences. Following these reviews, the Committee reports the significant issues to the Board prior to the Board's approval of the half year and full year accounts.

The terms of reference of the Audit Committee were reviewed during 2004. No revisions to the terms of reference were considered to be necessary. The terms of reference are available on request from the Group Company Secretary, who also acts as Secretary to the Committee, and are included on the website at www.laing.com.

Corporate Governance

During 2004, the Committee has paid particular attention to the Group's preparations for implementation of International Financial Reporting Standards (IFRS), which will be adopted in full for the year ending 31 December 2005. The Committee has considered the choice of suitable accounting policies in accordance with IFRS and has brought the significant variances from UK GAAP to the attention of the Board. The Committee has reviewed a separate publication to shareholders that sets out a reconciliation of the 2004 financial statements under existing UK GAAP and under IFRS. This publication, *John Laing – Preliminary Results of the Implementation of International Accounting and Financial Reporting Standards,* forms the basis of a process of preparation for analysts and has been issued to all shareholders. It is also available on the website at www.laing.com. The Committee has noted that the International Financial Reporting Interpretations Committee is considering how the international standards are to be applied to Service Concessions. The Committee awaits clarification of the interpretation.

T G Boatman
Chairman, Audit Committee
21 March 2005

Nominations Committee Report

The Nominations Committee (the 'Committee') comprises three of the non-executive Directors. The Committee reviews and evaluates the skills, knowledge and experience of the Board and, taking into account the requirements of the new Combined Code (the 'Code'), will identify and recommend to the Board, where appropriate, any changes to its structure.

During 2004, there were three changes to the composition of the Committee as set out in the table below. The members of the Committee during the year were:

W W Forrester	(Chairman of the Committee – appointed 11 February 2004)
The Baroness Noakes	(Chairman of the Committee – resigned 10 February 2004)
T G Boatman	
P M C Meredith	
Sir Martin Laing	(resigned 30 April 2004)

Following the resignation of The Baroness Noakes from the Board on 10 February 2004, W W Forrester was appointed as Chairman of the Committee with effect from 11 February 2004 as an interim measure whilst the Board reviewed its structure and considered the appointment of further independent non-executive Directors to ensure compliance with the Code. T G Boatman and P M C Meredith are considered to be fully independent and, since they form the majority of the Committee, the Group believes it is compliant with the Code in this respect.

Following a review, as described above, and on the recommendation of the Committee, the Board resolved that it should appoint D Potts and R Weston as executive Directors with effect from 1 September 2004. As a consequence, and to satisfy the requirements of the Code in respect of the balance between executive Directors and independent non-executive Directors, the Board further resolved that T Matthews and M G Medlicott be also appointed to the Board with effect from 1 September 2004 as independent non-executive Directors.

In respect of each of the above new appointments, the Committee led the process in a formal and transparent manner and made recommendations to the Board. The Committee engaged an external search consultancy to identify candidates for the role of independent non-executive Directors but not for the two new executive Director positions where internal candidates who were suitably qualified for the roles had been identified. The Committee met formally once during the year to consider the possible candidates for appointment to the Board. All Committee members received copies of the candidates Curriculum Vitae's which were discussed informally prior to formal interviews and the meeting of the Committee.

The Committee has not met again since it considered these new appointments and, as a consequence, W W Forrester continues to be interim Chairman of the Committee. This position and the membership of the Committee will be reviewed in due course.

The Committee's terms of reference and the terms and conditions of appointment for non-executive Directors are available on request from the Group Company Secretary, who also acts as Secretary to the Committee, and are posted on the Company's website, www.laing.com.

W W Forrester
Chairman, Nominations Committee
21 March 2005

Independent Auditors' Report to the Members of John Laing plc

We have audited the financial statements of John Laing plc for the year ended 31 December 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement, the statement of accounting policies and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report described as having been audited have been 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 and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and 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 United Kingdom 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 and the part of the directors' remuneration report described as having been audited. 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 circumstances of the company and the group, 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 and the part of the directors' remuneration report described as having been audited 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 and the part of the directors' remuneration report described as having been audited.

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 2004 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
21 March 2005

Group Profit and Loss Account

FOR THE YEAR ENDED 31 DECEMBER 2004	Notes	2004 Continuing £ million	2004 Discontinued+ £ million	2004 Total £ million	2003 £ million
TURNOVER	1	**479.9**	**0.8**	**480.7**	481.5
DEDUCT:					
Share of joint venture turnover	13	**(206.4)**	**-**	**(206.4)**	(170.5)
Share of associate turnover	13	**(24.2)**	**-**	**(24.2)**	(62.5)
GROUP TURNOVER		**249.3**	**0.8**	**250.1**	248.5
Existing operations		**249.3**	**-**	**249.3**	212.6
Discontinued		**-**	**0.8**	**0.8**	35.9
Cost of sales		**(201.0)**	**(1.0)**	**(202.0)**	(211.7)
GROSS PROFIT		**48.3**	**(0.2)**	**48.1**	36.8
Operating and administrative expenses		**(51.9)**	**(0.6)**	**(52.5)**	(43.2)
Other operating income		**6.7**	**-**	**6.7**	0.9
Profit on purchase and sale of 50% interest in M40 road project		**6.4**	**-**	**6.4**	-
Other		**0.3**	**-**	**0.3**	0.9
OPERATING PROFIT/(LOSS)	2	**3.1**	**(0.8)**	**2.3**	(5.5)
Share of operating profit of:					
Joint ventures		**17.0**	**-**	**17.0**	14.3
Associates		**3.7**	**-**	**3.7**	3.7
OPERATING PROFIT INCLUDING JOINT VENTURES AND ASSOCIATES		**23.8**	**(0.8)**	**23.0**	12.5
Existing operations		**23.8**	**-**	**23.8**	10.4
Discontinued		**-**	**(0.8)**	**(0.8)**	2.1
Profit on disposal of, and amounts written off investments and other fixed assets	3	**0.2**	**-**	**0.2**	4.9
Profit on disposal of operations	3	**-**	**-**	**-**	4.9
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST	1	**24.0**	**(0.8)**	**23.2**	22.3
Interest receivable		**85.4**	**0.9**	**86.3**	84.5
Group		**32.7**	**0.9**	**33.6**	31.7
Joint ventures		**52.7**	**-**	**52.7**	52.7
Associates		**-**	**-**	**-**	0.1
Interest and other finance costs payable	6	**(84.4)**	**-**	**(84.4)**	(85.6)
Group - refinancing costs		**(1.2)**	**-**	**(1.2)**	(2.0)
- other		**(23.4)**	**-**	**(23.4)**	(27.0)
Joint ventures - refinancing costs		**-**	**-**	**-**	(0.7)
- other		**(56.9)**	**-**	**(56.9)**	(53.0)
Associates		**(2.9)**	**-**	**(2.9)**	(2.9)
Net finance income/(charge)	6	**1.0**	**0.9**	**1.9**	(1.1)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1	**25.0**	**0.1**	**25.1**	21.2
Tax on profit on ordinary activities	7			**(13.7)**	(13.3)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS				**11.4**	7.9
Dividends on equity and non-equity shares	8			**(8.6)**	(7.8)
RETAINED PROFIT FOR THE FINANCIAL YEAR	25			**2.8**	0.1
Earnings per share - basic	9			**4.9p**	3.1p
- diluted	9			**4.9p**	3.0p
Dividends per share	8			**3.3p**	3.0p

+ *the results of discontinued businesses include the winding down costs of the disposed construction, house building and property development businesses.*

There is no material difference between the results stated in the profit and loss account and their historical cost equivalents, therefore no separate note of historical cost profits and losses has been presented.

Group Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 DECEMBER 2004	Notes	2004 £ million	2003 £ million
Profit attributable to shareholders		**11.4**	7.9
Group		**3.8**	0.8
Joint ventures and associate	13	**7.6**	7.1
Currency translation differences on foreign currency net investments		**0.9**	(0.9)
Tax relief on pension contribution	7	**1.2**	–
Actuarial (losses)/gains on post retirement obligations	5	**(45.5)**	8.4
TOTAL (LOSSES)/GAINS RECOGNISED IN THE YEAR		**(32.0)**	15.4

Group Balance Sheet

AT 31 DECEMBER 2004	Notes	2004 £ million	2003 £ million
FIXED ASSETS			
Intangible assets	10	**11.6**	12.2
Tangible assets	11	**45.2**	31.2
Investments	13	**–**	0.5
Investments in joint ventures:	13	**130.8**	101.1
Share of gross assets		**1,304.4**	1,126.3
Share of gross liabilities		**(1,173.6)**	(1,025.2)
Investment in associates	13	**15.9**	15.8
		203.5	160.8
CURRENT ASSETS			
Stocks	14	**2.1**	2.8
Debtors		**460.5**	380.2
– due within one year	15	**54.3**	59.3
– due after more than one year	15, 23b	**406.2**	320.9
Short-term investments	16	**–**	2.2
Cash at bank and in hand	17,18, 23b	**112.0**	121.1
		574.6	506.3
CREDITORS: amounts falling due within one year			
Bank and other loans	18, 23a,d	**23.6**	4.0
Other creditors	19	**84.3**	68.4
		107.9	72.4
NET CURRENT ASSETS		**466.7**	433.9
TOTAL ASSETS LESS CURRENT LIABILITIES		**670.2**	594.7
CREDITORS: amounts falling due after more than one year			
Bank and other loans	18, 23a	**401.2**	325.3
Other creditors	19	**3.5**	3.8
		404.7	329.1
PROVISIONS FOR LIABILITIES AND CHARGES			
Investment in joint venture	13,20	**8.7**	8.8
Share of gross assets		**53.2**	55.1
Share of gross liabilities		**(61.9)**	(63.9)
Other provisions	20	**41.5**	49.1
		50.2	57.9
NET ASSETS EXCLUDING POST RETIREMENT BENEFITS		**215.3**	207.7
Pensions and other post retirement liabilities (net)	5	**135.0**	93.7
NET ASSETS INCLUDING POST RETIREMENT BENEFITS		**80.3**	114.0
CAPITAL AND RESERVES			
Called up share capital	24	**85.1**	83.6
Share premium account	25	**87.4**	82.8
Other reserves	25	**2.3**	2.3
Profit and loss account	25	**(94.5)**	(54.7)
Deficit relating to pensions and other post retirement obligations (net)	5	**(135.0)**	(93.7)
Other		**40.5**	39.0
SHAREHOLDERS' FUNDS		**80.3**	114.0
Equity		**42.2**	75.9
Non-equity	25	**38.1**	38.1
		80.3	114.0

Company Balance Sheet

At 31 December 2004		Notes	2004 £ million	2003 Restated* £ million
FIXED ASSETS				
Interests in subsidiary undertakings		12	**120.1**	120.0
Investment in joint venture		13	**6.4**	6.4
			126.5	126.4
CURRENT ASSETS				
Debtors	– due within one year	15	**183.0**	127.6
	– due after more than one year	15	**0.7**	1.2
Cash at bank and in hand			**39.5**	62.4
			223.2	191.2
CREDITORS: amounts falling due within one year				
Bank and other loans		23d	**1.0**	–
Other creditors		19	**171.9**	155.6
			172.9	155.6
NET CURRENT ASSETS			**50.3**	35.6
TOTAL ASSETS LESS CURRENT LIABILITIES			**176.8**	162.0
PROVISIONS FOR LIABILITIES AND CHARGES		20	**0.3**	–
			176.5	162.0
CAPITAL AND RESERVES				
Called up share capital		24	**85.1**	83.6
Share premium account		25	**87.4**	82.8
Profit and loss account		25	**4.0**	(4.4)
SHAREHOLDERS' FUNDS			**176.5**	162.0
Equity			**138.4**	123.9
Non-equity		25	**38.1**	38.1
			176.5	162.0

** restated for change in accounting policy, refer to accounting policy note (A).*

The accounts on pages 70 to 107 were approved by the Board of Directors on 21 March 2005 and were signed on its behalf by

A E Friend
Chief Executive

A J H Ewer
Group Finance Director

Group Cash Flow

FOR THE YEAR ENDED 31 DECEMBER 2004	Notes	2004 £ million	2003 £ million
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26	**(61.3)**	(102.1)
DIVIDENDS RECEIVED FROM JOINT VENTURES AND ASSOCIATE		**7.7**	7.7
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**10.9**	9.1
Interest and other financing costs paid		**(31.7)**	(29.4)
Dividends received		**-**	0.5
Dividends paid to non-equity shareholders	8	**(2.5)**	(2.5)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(23.3)**	(22.3)
TAXATION		**(0.1)**	(2.3)
UK corporation tax received/(paid)		**1.7**	(0.1)
Overseas tax paid		**(1.8)**	(2.2)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Purchase of fixed assets		**(0.1)**	(2.0)
Construction of infrastructure assets		**(15.8)**	(13.9)
Purchase of short-term investment		**(19.7)**	-
Sale of fixed assets		**-**	0.3
Sale of short-term investments		**35.1**	12.8
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS		**(0.5)**	(2.8)
ACQUISITIONS AND DISPOSALS			
Purchase of subsidiary undertakings		**-**	(32.8)
Net overdraft acquired with subsidiaries		**-**	(20.7)
Purchase of interests in and loans to joint ventures and associated undertakings		**(33.8)**	(5.4)
Sale of subsidiary undertakings		**-**	220.0
Net overdraft balance disposed with subsidiaries		**-**	27.8
Sale of interests in and repayment of loans by joint ventures and associated undertakings		**6.1**	49.3
NET CASH (OUTFLOW)/INFLOW FROM ACQUISITIONS AND DISPOSALS		**(27.7)**	238.2
EQUITY DIVIDENDS PAID		**(5.6)**	(10.2)
NET CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		**(110.8)**	106.2
MANAGEMENT OF LIQUID RESOURCES			
Net cash transfer from bank deposits	27	**(17.2)**	-
NET CASH OUTFLOW FROM MANAGEMENT OF LIQUID RESOURCES		**(17.2)**	-
FINANCING			
Issue of ordinary share capital	24	**6.1**	-
Increase/(decrease) in bank borrowings falling due within one year	27	**18.2**	(192.3)
Increase in bank borrowings falling due after more than one year	27	**75.9**	118.9
NET CASH INFLOW/(OUTFLOW) FROM FINANCING		**100.2**	(73.4)
(DECREASE)/INCREASE IN CASH IN THE YEAR	27	**(27.8)**	32.8

Accounting Policies

(A) BASIS OF PREPARATION OF ACCOUNTS

These accounts have been prepared under the historical cost convention and in accordance with the reporting requirements of the Companies Act 1985, together with applicable United Kingdom accounting standards.

In accordance with Section 230 of the Companies Act 1985, no separate profit and loss account has been presented for the Company. However, the profit for the year has been disclosed in note 25.

Except as noted below, the following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the accounts.

During the year the Company changed its accounting policy for accounting for interests in subsidiary undertakings.

The Company now carries its interests in subsidiary undertakings at historical cost, adjusted for any impairment in value.

In the prior year subsidiary undertakings were recorded at the Group's share of net assets of these undertakings. The prior year has been restated accordingly.

The change in accounting policy only affects the John Laing plc Company balance sheet and not the consolidated position.

The effect of the restatement is as follows:

	At 31 December 2003		
	As reported £ million	Restatement £ million	As restated £ million
Interests in subsidiary undertakings and joint venture	78.4	48.0	126.4
Net assets	114.0	48.0	162.0
Revaluation of shares in subsidiary undertakings	(90.2)	90.2	–
Profit and loss account	37.8	(42.2)	(4.4)
Shareholders' funds	114.0	48.0	162.0

(B) BASIS OF CONSOLIDATION

The Group profit and loss account and balance sheet include the financial accounts of John Laing plc and its subsidiary undertakings made up to 31 December each year. Where subsidiaries are acquired 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. The financial accounts of joint arrangements are used for the Group consolidation except where the year end is not coterminous when management accounting information is consolidated.

Joint ventures and associates are accounted for using the equity basis where the Group has joint control and significant influence. Interests in such companies are shown in the consolidated balance sheet at cost, including advances, plus the appropriate share of post acquisition retained profits and reserves. Where the share of post acquisition retained losses exceeds the cost of the investment, after deduction of provisions, the excess retained losses are included in the consolidated balance sheet.

Where the accounting policies of joint ventures and associates 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.

The following accounting policies apply to the Group in general. For policies applied specifically to the Group's PFI/PPP Project Companies, refer to (D) below.

(C) TURNOVER

Turnover excludes the value of intra-group transactions, VAT and includes the Group's share of turnover of joint ventures and associates.

Turnover in the continuing operations comprises the Group's share of:

Turnover in PFI/PPP Project Companies

- The value of construction work in progress on PFI projects where the principal asset is to be accounted for as a finance debtor.
- Availability fees and usage fees on PFI projects where the principal asset is to be accounted for as a fixed asset.
- Third party revenues on PFI projects.
- Revenues for the provision of facilities management services to PFI Project Companies.
- Income generated in respect of ticket sales, Strategic Rail Authority subsidy, advertising and retail revenues in the rail activities.
- The attributed share of season ticket income, which is deferred within creditors and released to the profit and loss account over the life of the relevant season ticket.

Turnover in non-PFI/PPP Project Companies

- The value of work executed by John Laing Partnership Limited, a constructor of social housing, prior to its sale on 23 September 2003.
- Private housing sales, which are recognised at the date of legal completion, prior to the sale of Beechcroft plc on 1 May 2003 and the Group's share of private housing sales of its associate, WL Investors LLC, prior to disposal on 1 July 2003.

Accounting Policies

(D) PFI/PPP PROJECT COMPANIES

The Group has adopted the provisions of FRS 5 (Application Note F) in determining the appropriate treatment of the principal assets of, and income streams from, PFI and similar contracts. Where it can be demonstrated that the balance of risks and rewards derived from the underlying asset are not borne by the Group, the asset created and/or provided under the contract is accounted for as a finance lease receivable under SSAP 21 or as a financial asset under FRS 5; otherwise, it is classified as a fixed asset.

The Group restates, where applicable, the results of PFI/PPP Project Companies to reflect consistent accounting policies across the Group. Results of all PFI/PPP companies therefore conform to the following policies:

- **Finance debtors and amounts recoverable on contracts**

  Where risks and rewards derived from the underlying asset do not reside with the Group, these assets are accordingly disclosed in the balance sheet as amounts recoverable on contracts while in construction and reclassified to finance debtors when operational. In this case income is allocated to interest receivable and turnover using a constant margin on costs and the remainder allocated to the finance debtor.

  Profits on long-term contracts are calculated in accordance with SSAP 9 ('Stocks and Long-Term Contracts') 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.

- **PFI Fixed Asset**

  Where the benefits and risks associated with the asset reside with the PFI Project Company these assets are accordingly disclosed in the balance sheet as fixed assets at cost less depreciation. Straight line depreciation is charged over the life of the concession which is currently 25 years, or specific asset life if shorter.

- **Major Maintenance**

  For finance debtor accounted projects, the capital element of major maintenance is treated as part of the cost of project financing and for fixed asset accounted projects, the capital element of major maintenance is capitalised and depreciated over the shorter of the remaining concession or asset's useful life.

- **PFI Bid Costs**

  PFI bid costs are accounted for under UITF 34. PFI bid costs are charged to the profit and loss account until such time as the Group is virtually certain that it will enter into contracts for the relevant PFI project. Virtual certainty is generally achieved at the time the Group is selected as preferred bidder. From the point of virtual certainty, bid costs are held in the Group balance sheet as a debtor prior to achieving financial close. On finalisation of PFI project and financing agreements (financial close), the Group recovers bid costs by charging a fee to the relevant Project Company. If the fee exceeds the amount held by the Group in debtors, the excess is credited to the balance sheet as deferred income.

  Deferred income is released to the profit and loss account on one of two bases:

  (i) In respect of projects using finance debtor accounting, over the period of construction during which the finance debtor is established; or

  (ii) In respect of projects using fixed asset accounting, over the period of the concession/project agreement.

- **Finance costs**

  Project specific finance costs are added to amounts recoverable on contracts until the asset to which the finance relates becomes operational. Finance costs incurred on borrowings to fund the construction of PFI assets are included as part of the cost of those assets commencing at the start of construction and ceasing when the asset is complete and ready for use.

- **Debt**

  Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Accounting Policies

(D) PFI/PPP PROJECT COMPANIES (CONTINUED)

- **Non-recourse debt**

  Non-recourse loans are those which are secured solely on a specific asset and its future income (usually contained in a single entity). The terms of the finance agreements provide that the lender will not seek in any way to enforce repayment of either principal or interest from the rest of the Group and the Group is not obliged, nor does it intend, to support any losses.

- **Refinancing**

  On refinancing of PFI Project Company debt, the Group recognises its share of debt issue costs written off. Where the terms of existing debt are amended, the issue costs associated with re-negotiating those terms are written off. Where new debt is arranged, the capitalised debt issue costs on retiring debt are written off and the debt issue costs of the new debt are capitalised and amortised over the term of the new debt.

(E) DEPRECIATION

Tangible assets excluding land, 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 useful lives, making due allowance for obsolescence in addition to normal wear and tear.

Depreciation is provided on the basis that the estimated useful lives of assets are:

Leasehold offices	Lesser of period of lease or 50 years
Rail infrastructure	Remaining length of franchise
Fixtures and fittings	3 to 5 years
Vehicles, plant and machinery	3 to 10 years
IT equipment	3 years

(F) LEASES

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

(G) INTANGIBLE ASSETS

Goodwill on acquisition has been capitalised and is being written off over 20 years which, in the opinion of the Directors, represents its useful economic life.

Capitalised bidding costs incurred in securing the Chiltern rail franchise are being amortised on a straight line basis over the life of the franchise.

(H) TAXATION

- **Current Tax**

  The charge for current taxation for the year is based on the result for the year. The charge for taxation in respect of PFI Project Companies is calculated by applying the estimated whole life effective tax rate for individual Project Companies to the profit before tax included in the Group profit and loss account. The effective tax rate is adjusted to reflect disallowable items.

  Where there is a difference between the tax charge in the consolidated accounts and the tax charge arising from the Group's share of the charge in the underlying PFI Project Company, the difference is accounted for as deferred tax.

- **Deferred Tax**

  The charge for deferred tax incorporates the requirements of FRS 19 ('Deferred Tax') as provision has been made for deferred tax in respect of timing differences that have originated but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future.

  Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

  Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates enacted at the balance sheet date.

Accounting Policies

(I) PENSION COSTS AND OTHER POST RETIREMENT BENEFITS

For the Group's defined benefit schemes, in accordance with FRS 17 ('Retirement Benefits'), the service cost of the pension provision relating to the period, together with the cost of any benefits relating to past service, is charged to the profit and loss account. A charge equal to the increase in the present value of the scheme liabilities (because the benefits are closer to settlement) and a credit equivalent to the Group's long-term expected returns on assets (based on the market value of the scheme assets at the start of the period), are included in the profit and loss account under 'interest'.

The difference between the market value of the assets of the scheme and the present value of the accrued pension liabilities is shown as an asset or liability on the balance sheet net of recognised deferred tax (refer to (H) above). Any difference between the expected return on assets and that actually achieved is recognised in the statement of total recognised gains and losses along with differences arising from experience or assumption changes.

Further information on pension arrangements is set out in note 5 to the accounts.

(J) TANGIBLE FIXED ASSETS

Tangible fixed assets are initially recorded at cost and are depreciated in accordance with accounting policy (E). Subsequent expenditure on tangible fixed assets is capitalised to the extent that it provides an enhancement to the economic benefits of the asset above its previously assessed standard of performance. All other subsequent expenditure is charged to the profit and loss account as incurred.

(K) INVESTMENTS

Fixed asset investments, excluding investments in subsidiaries, are stated at cost less provision for impairment. Current asset investments are stated at 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.

Interests in subsidiary undertakings, joint ventures and associates are included in the parent company balance sheet at the Group's share of historical cost adjusted for impairment.

(L) IMPAIRMENT REVIEW

An annual impairment review of investments in Project Companies and other fixed assets is undertaken by using the company's weighted average cost of capital to discount future cash flows from the asset to calculate its intrinsic value. If the intrinsic value is less than the carrying value of the asset an impairment charge is taken through the profit and loss account to reduce the carrying value of the asset to its estimated recoverable amount.

(M) STOCKS

Stock is stated at the lower of cost, and net realisable value.

(N) DERIVATIVE INSTRUMENTS

The Group uses swaps to hedge the risk of increases in interest rates, inflation or commodity prices. Amounts payable or receivable in respect of swaps are recognised on an accruals basis and are shown as interest expense.

The Group uses forward foreign currency contracts to hedge its exposure to fluctuations to foreign exchange movements. Gains and losses are offset against the foreign exchange gains or losses on the related assets or liabilities.

The Group does not enter into speculative derivative contracts.

(O) FOREIGN CURRENCIES

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

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.

Monetary assets and liabilities expressed in foreign currency are reported at the rate of exchange prevailing at the balance sheet date, or if appropriate, at the forward contract rate. Any difference arising on the retranslation of these amounts is taken to the profit and loss account. The exception to this is long-term shareholders' loans where any difference arising on the retranslation of these amounts is taken to a translation reserve on the balance sheet and capitalised to the shareholders' loan.

(P) CASH AND LIQUID RESOURCES

Cash for the purpose of the cash flow statement comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise term deposits of less than one year, other than cash and investments in money market managed funds.

Notes to the Accounts

1. SECTION ANALYSIS

		Profit/(loss) on ordinary activities before interest		Profit/(loss) on ordinary activities before taxation	
		2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
ACTIVITY					
Accommodation		**8.0**	6.6	**13.7**	10.5
Roads	- normal operations	**4.7**	5.5	**6.9**	6.6
	- purchase and sale of 50% interest in the M40 road project	**6.4**	-	**6.4**	-
Rail	- normal operations	**9.8**	9.9	**9.5**	9.9
	- bid costs on new franchise	**(0.7)**	-	**(0.7)**	-
	- sale of development land	**2.9**	0.2	**2.9**	0.2
Utilities & Airports		**2.9**	6.6	**(1.4)**	6.2
Bidding activity and Group costs		**(14.0)**	(13.4)	**(13.9)**	(17.0)
		20.0	15.4	**23.4**	16.4
Non-core businesses sold or held for resale					
Homes		**3.0**	3.8	**0.6**	0.3
Construction		**0.6**	1.8	**1.5**	2.7
Property		**(0.4)**	1.3	**(0.4)**	1.8
		23.2	22.3	**25.1**	21.2
ACTIVITY					
Accommodation	- Group	**3.8**	2.4	**9.5**	6.5
	- Joint ventures	**4.2**	4.2	**4.2**	4.0
		8.0	6.6	**13.7**	10.5
Roads	- Group	**6.4**	0.9	**8.7**	2.2
	- Joint ventures	**4.7**	4.6	**4.6**	4.4
		11.1	5.5	**13.3**	6.6
Rail	- Group	**6.3**	5.1	**6.0**	5.4
	- Joint ventures	**5.7**	5.0	**5.7**	4.7
		12.0	10.1	**11.7**	10.1
Utilities & Airports	- Group	**-**	5.3	**(0.2)**	5.2
	- Joint ventures	**2.9**	1.1	**(1.2)**	0.8
	- Associate	**-**	0.2	**-**	0.2
		2.9	6.6	**(1.4)**	6.2
Bidding activity and Group costs	- Group	**(13.5)**	(13.4)	**(13.4)**	(17.0)
	- Joint ventures	**(0.5)**	-	**(0.5)**	-
		(14.0)	(13.4)	**(13.9)**	(17.0)
Non-core businesses sold or held for resale	- Group	**(0.5)**	3.2	**0.9**	4.0
	- Associate	**3.7**	3.7	**0.8**	0.8
		3.2	6.9	**1.7**	4.8
TOTAL	**- GROUP**	**2.5**	3.5	**11.5**	6.3
	- JOINT VENTURES	**17.0**	14.9	**12.8**	13.9
	- ASSOCIATES	**3.7**	3.9	**0.8**	1.0
		23.2	22.3	**25.1**	21.2

Notes to the Accounts

1. SECTOR ANALYSIS (CONTINUED)

	Turnover including joint ventures and associate		Net assets/ (liabilities) +	
	2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
ACTIVITY				
Accommodation	**265.6**	237.6	**370.2**	261.4
Roads	**57.3**	37.3	**129.2**	126.3
Rail	**109.0**	96.6	**45.1**	44.3
Utilities & Airports	**8.2**	4.7	**6.0**	12.8
Bidding activity and Group costs	**15.6**	5.6	**11.4**	(2.5)
Non-core businesses sold or held for resale				
Homes	**24.2**	98.4	**10.8**	15.6
Construction	**-**	0.3	**(42.8)**	(43.1)
Property	**0.8**	1.0	**(1.8)**	(1.1)
	480.7	481.5	**528.1**	413.7

ACTIVITY					
Accommodation	- Group	**133.4**	113.0	**303.3**	225.3
	- Joint ventures	**132.2**	124.6	**66.9**	36.1
		265.6	237.6	**370.2**	261.4
Roads	- Group	**1.7**	1.8	**92.0**	92.3
	- Joint ventures	**55.6**	35.5	**37.2**	34.0
		57.3	37.3	**129.2**	126.3
Rail	- Group	**98.6**	90.9	**33.7**	30.0
	- Joint ventures	**10.4**	5.7	**11.4**	14.3
		109.0	96.6	**45.1**	44.3
Utilities & Airports	- Group	**-**	-	**-**	5.6
	- Joint ventures	**8.2**	4.7	**6.0**	7.2
		8.2	4.7	**6.0**	12.8
Bidding activity and Group costs	- Group	**15.6**	5.6	**10.8**	(3.2)
	- Joint ventures	**-**	-	**0.6**	0.7
		15.6	5.6	**11.4**	(2.5)
Non-core businesses sold or held for resale	- Group	**0.8**	37.2	**(49.7)**	(44.4)
	- Associate	**24.2**	62.5	**15.9**	15.8
		25.0	99.7	**(33.8)**	(28.6)
TOTAL	**- GROUP**	**250.1**	248.5	**390.1**	305.6
	- JOINT VENTURES	**206.4**	170.5	**122.1**	92.3
	- ASSOCIATE	**24.2**	62.5	**15.9**	15.8
		480.7	481.5	**528.1**	413.7

\+ *net assets/(liabilities) exclude cash of £112.0 million (2003 – £121.1 million), short-term investments of £nil (2003 – £2.2 million), total borrowings (see note 23a,d) of £424.8 million (2003 – £329.3 million) and pensions and other post retirement liabilities of £135.0 million (2003 – £93.7 million), which have not been allocated across the sectors. In the prior year, short-term investments were included in Construction.*

Notes to the Accounts

1. SECTOR ANALYSIS (CONTINUED)

	Profit on ordinary activities before interest		Profit on ordinary activities before taxation	
	2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
GEOGRAPHIC AREA (BY ORIGIN AND DESTINATION)				
United Kingdom	**22.4**	13.5	**22.6**	11.2
Rest of Europe	**0.8**	0.7	**2.4**	2.0
America	**-**	2.7	**0.1**	2.6
Australasia	**-**	5.4	**-**	5.4
	23.2	22.3	**25.1**	21.2

	Turnover including joint ventures and associate		Net assets/ (liabilities) +	
	2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
GEOGRAPHIC AREA (BY ORIGIN AND DESTINATION)				
United Kingdom	**452.6**	426.6	**520.5**	402.4
Rest of Europe	**28.1**	20.0	**7.6**	5.4
America	**-**	34.6	**-**	(0.4)
Australasia	**-**	0.3	**-**	6.3
	480.7	481.5	**528.1**	413.7

\+ *net assets/(liabilities) exclude cash of £112.0 million (2003 – £121.1 million), short-term investments of £nil (2003 – £2.2 million), total borrowings (see note 23a,d) of £424.8 million (2003 – £329.3 million) and pensions and other post retirement liabilities of £135.0 million (2003 – £93.7 million), which have not been allocated across the sectors. In the prior year, short-term investments were included in Construction.*

	2004				2003
	Turnover including joint ventures and associate £ million	**Profit/(loss) on ordinary activities before interest £ million**	**Net finance income £ million**	**Profit/(loss) on ordinary activities before taxation £ million**	Profit/(loss) on ordinary activities before taxation £ million
CONTINUING OPERATIONS					
Accommodation	**265.6**	**8.0**	**5.7**	**13.7**	10.5
Roads	**57.3**	**11.1**	**2.2**	**13.3**	6.6
Rail	**109.0**	**12.0**	**(0.3)**	**11.7**	10.1
Utilities & Airports	**8.2**	**2.9**	**(4.3)**	**(1.4)**	6.2
Bidding activity and Group costs	**15.6**	**(14.0)**	**0.1**	**(13.9)**	(17.0)
Retained businesses#	**24.2**	**4.0**	**(2.4)**	**1.6**	0.3
	479.9	**24.0**	**1.0**	**25.0**	16.7
DISCONTINUED OPERATIONS					
Homes	**-**	**(0.9)**	**-**	**(0.9)**	-
Construction	**-**	**0.4**	**0.9**	**1.3**	2.7
Property	**0.8**	**(0.3)**	**-**	**(0.3)**	1.8
	0.8	**(0.8)**	**0.9**	**0.1**	4.5
TOTAL	**480.7**	**23.2**	**1.9**	**25.1**	21.2

\# *includes Octagon Developments Limited*

Notes to the Accounts

2. OPERATING PROFIT/(LOSS)

	2004 £ million	2003 £ million
Operating profit/(loss) is stated after charging/(crediting):		
Group auditors' remuneration in respect of statutory audit services	**0.4**	0.4
Non-audit fees paid to Group Auditor		
– Advice on the transition to IFRS	**0.2**	–
– Other assurance work	**0.1**	0.1
Profit on purchase and sale of 50% interest in the M40 road project	**(6.4)**	–
Release of deferred income	**(4.5)**	(4.9)
Depreciation	**2.4**	1.6
Goodwill and amortisation of Chiltern franchise costs	**0.7**	0.8
Foreign exchange (gains)/losses	**(0.1)**	0.2
Loss on sale of fixed assets	**0.3**	–
Track access charges	**23.2**	24.5
Payments under operating leases:		
Rentals of land and buildings	**0.9**	0.9
Rentals of rolling stock, plant and machinery	**13.5**	13.0

Included in the auditors' remuneration is an amount in respect of the Company of £0.1 million (2003 – £0.1 million).

3. PROFIT ON DISPOSAL OF AND AMOUNTS WRITTEN OFF INVESTMENTS, OPERATIONS AND OTHER FIXED ASSETS

	2004			2003
	Investments and other fixed assets £ million	Operations disposed £ million	Total £ million	£ million
CONTINUING OPERATIONS				
INVESTMENTS				
Profit on sale of operations	**–**	**0.1**	**0.1**	2.1
Profit on sale of investments	**0.1**	**–**	**0.1**	4.9
Profit on sale of associate	**–**	**–**	**–**	0.2
Impairment in value of investments	**–**	**–**	**–**	(0.1)
	0.1	**0.1**	**0.2**	7.1
DISCONTINUED OPERATIONS				
HOMES				
Profit on sale of operations	**–**	**–**	**–**	1.2
PROPERTY				
Profit on sale of properties	**–**	**–**	**–**	0.1
Profit on sale of operations	**–**	**–**	**–**	1.4
	–	**–**	**–**	2.7

Tax at 30% has been charged on the sale of operations. No tax was due on the sale of investment.

Notes to the Accounts

4. DIRECTORS AND EMPLOYEES

		2004 £ million	2003 £ million
Employee costs, including Directors' emoluments, comprise:			
Wages and salaries		**37.1**	32.6
Share incentive scheme		**1.4**	0.3
Social security costs		**4.4**	3.7
Pension charge	– defined benefit schemes (see note 5)	**4.2**	3.3
	– defined contribution schemes	**0.5**	0.1
		47.6	40.0

Annual average employee numbers (including executive directors):

	2004 No.	2003 No.
Staff – monthly paid	**1,125**	1,057
Operatives – weekly paid	**–**	44
	1,125	1,101
UK	**1,125**	1,097
Overseas	**–**	4
	1,125	1,101
ACTIVITY		
Bidding activity and Group costs	**167**	144
Equion – Equion Facilities Management	**213**	109
Rail – Chiltern/M40 Trains	**745**	715
Homes – Beechcroft/Partnership	–	133
	1,125	1,101

A detailed analysis of Directors' remuneration is set out within the Directors' Remuneration Report on pages 57 to 66.

5. POST RETIREMENT OBLIGATIONS

(a) Pension Plans

The Laing Schemes

John Laing plc operates two defined benefit schemes in the UK (the 'Laing Schemes') – The John Laing Pension Fund (the 'Fund') and The John Laing Pension Plan (the 'Plan').

Full actuarial valuations of the Laing Schemes were carried out as at 31 March 2002 and were updated to 31 December 2004 by a qualified independent actuary, Towers Perrin.

The assets of these schemes are held in separate trustee administered funds.

John Laing plc has reached agreement with the trustees of the Fund to increase contributions to address the Fund's deficit over time. Since 1 January 2004, John Laing plc has made contributions to the Fund of 18% of pensionable salaries. Active members of the Fund re-commenced employee contributions from 1 January 2004, at a rate of 2% of their pensionable salary, which has escalated to 4% of pensionable salary from 1 January 2005 and will increase to 6% of pensionable salary in 2006. In addition to the 18% regular contributions, John Laing plc has agreed to make a cash payment to the Fund of £6.0 million for 2005 (2004 – £4.0 million). No contributions were made to the Plan in 2003 or 2004.

Both schemes are now closed to new members and there are no active members remaining in the Plan. Therefore under the Projected Unit method of valuation, the current service cost for the Fund will increase as a percentage of pensionable payroll as the members approach retirement. Staff employed since 1 January 2002, who are entitled to retirement benefits, can choose to be members of a defined contribution Stakeholder scheme sponsored by the Group in conjunction with Legal and General Assurance Society Limited.

Notes to the Accounts

5. POST RETIREMENT OBLIGATIONS (CONTINUED)

(a) Pension Plans (continued)

An analysis of members at 31 December 2004 is shown below:

	Actives	Deferred	Pensioners	Total
The John Laing Pension Fund	92	6,378	3,104	9,574
The John Laing Pension Plan	–	234	316	550

The Chiltern Schemes

The Chiltern Railway Company Limited Section and the Chiltern Railway Company Limited (Maintenance) Section (the 'Chiltern Schemes') form part of the Railways Pension Scheme (the 'Scheme') but their assets and liabilities are identified separately from the remainder of the Scheme. The Scheme is a defined benefit shared cost scheme.

The last full actuarial valuation of the Chiltern Schemes was carried out as at 31 December 2001 and these were updated to 31 December 2004 by a qualified independent actuary, Watson Wyatt.

The assets of these schemes are held in separate trustee administered funds. Contributions to the schemes are assessed in accordance with the advice of a qualified actuary using the Projected Unit funding method.

The Chiltern Schemes remain open to new members.

Employer contributions to the Chiltern Railway Company Limited Section were 15.54% of Section Pay. This rate is expected to continue until 30 September 2009, reducing to 13.56% thereafter. In addition, the employer makes contributions to this section of an amount equal to any additional voluntary contributions being paid by members, subject to a maximum of 5% of each member's Pensionable Pay.

Employer contributions to the Chiltern Railway Company Ltd (Maintenance) Section were 11.25% of Section Pay until 30 June 2004. From 1 July 2004 to 31 March 2005 the employer contributions are 13.5% of Section Pay, thereafter increasing to 13.86% of Section Pay from 1 April 2005.

An analysis of members at 31 December 2004 is shown below:

	Actives	Deferred	Pensioners	Total
Chiltern Railway Company Limited Section	633	209	94	936
Chiltern Railway Company Limited (Maintenance) Section	111	38	16	165

Pension Valuations

The valuation of the Group's defined benefit schemes used for the FRS 17 disclosures are based upon the most recent actuarial valuations. These have been updated by the respective schemes' professionally qualified actuaries to take into account the requirements of FRS 17 and to assess the liabilities of the schemes at 31 December 2004. Scheme assets are stated at their market value at 31 December 2004.

The weighted average financial assumptions used in the actuarial valuation were:

	2004 %	2003 %	2002 %	2001 %
Discount rate	**5.30**	5.50	5.51	6.00
Rate of increase in salaries	**4.25**	4.09	3.57	3.80
Rate of increase in non-GMP pensions in payment	**2.75**	2.28	2.03	2.30
Rate of increase in non-GMP pensions in deferment	**2.75**	2.25	2.00	2.30
Inflation	**2.75**	2.28	2.02	2.30

Notes to the Accounts

5. POST RETIREMENT OBLIGATIONS (CONTINUED)

(a) Pension Plans (continued)

The aggregate fair values of the assets in the Group's defined benefit schemes, the aggregate net pension liabilities and their expected weighted average long-term rates of return at 31 December 2004 were:

	2004 £ million	**%**	2003 £ million	%	2002 £ million	%	2001 £ million	%
Bonds	**197.4**	**5.00**	167.0	4.76	174.3	4.51	162.5	5.00
Equities	**308.6**	**8.50**	321.3	8.04	291.5	7.56	399.7	7.50
Property	**88.0**	**8.50**	74.5	7.97	61.7	7.48	54.9	7.50
Cash	**16.6**	**4.95**	9.3	4.74	11.8	4.50	16.0	5.00
TOTAL MARKET VALUE OF ASSETS	**610.6**		572.1		539.3		633.1	
Present value of schemes liabilities	**(794.9)**		(692.7)		(678.2)		(615.3)	
(DEFICIT)/SURPLUS IN THE SCHEMES	**(184.3)**		(120.6)		(138.9)		17.8	
Unrecoverable surplus in Plan	**(4.3)**		(4.7)		(3.9)		(4.9)	
NET PENSION (DEFICIT)/SURPLUS	**(188.6)**		(125.3)		(142.8)		12.9	
Associated deferred tax asset/(liability)	**56.6**		34.5		41.8		(3.9)	
NET PENSION (LIABILITY)/ASSET	**(132.0)**		(90.8)		(101.0)		9.0	

Analysis of amounts charged to operating profit

	2004 £ million	2003 £ million
Current service cost	**(4.2)**	(4.5)
Credit arising from curtailment of membership	**-**	1.2
	(4.2)	(3.3)

Analysis of amounts credited/(charged) to other finance income

	2004 £ million	2003 £ million
Expected return on scheme assets	**38.0**	33.5
Interest on scheme liabilities	**(36.7)**	(36.2)
NET CREDIT/(CHARGE) TO OTHER FINANCE INCOME	**1.3**	(2.7)

Analysis of the amount recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2004 £ million	2003 £ million
Actual return less expected return on pension scheme assets	**22.3**	41.0
Experience (losses)/gains arising on the scheme liabilities	**(0.7)**	3.8
Changes in assumptions underlying the present value of the scheme liabilities	**(89.6)**	(28.3)
Decrease/(increase) in unrecoverable surplus	**0.4**	(0.8)
	(67.6)	15.7
Associated deferred tax asset/(liability)	**22.1**	(7.3)
ACTUARIAL (LOSSES)/GAINS RECOGNISED IN STRGL	**(45.5)**	8.4

Notes to the Accounts

5. POST RETIREMENT OBLIGATIONS (CONTINUED)

(a) Pension Plans (continued)

History of the weighted average experience gains and losses

	2004	2003	2002
DIFFERENCE BETWEEN ACTUAL AND EXPECTED RETURNS ON ASSETS:			
Amount (£ million)	**22.3**	41.0	(105.2)
% of scheme assets	**4%**	7%	(20%)
EXPERIENCE (LOSSES)/GAIN ON SCHEME LIABILITIES			
Amount (£ million)	**(0.7)**	2.3	(26.1)
% of present value of the scheme liabilities	**0%**	0%	(4%)
TOTAL AMOUNT RECOGNISED IN STRGL (EXCLUDING DEFERRED TAX)			
Amount (£ million)	**(67.6)**	15.7	(154.0)
% of present value of the scheme liabilities	**(9%)**	2%	(23%)

Analysis of movement in deficit during the period

	2004 £ million	2003 £ million
Deficit at 1 January	**(120.6)**	(138.9)
Contributions	**7.2**	9.3
Current service cost	**(4.2)**	(4.5)
Curtailment gain	**–**	1.2
Other finance income	**1.3**	(2.7)
Actuarial (loss)/gain	**(68.0)**	15.0
DEFICIT IN SCHEME AT 31 DECEMBER	**(184.3)**	(120.6)
Unrecovered surplus in the Plan	**(4.3)**	(4.7)
NET PENSION DEFICIT AT 31 DECEMBER	**(188.6)**	(125.3)

(b) Post retirement medical insurance

The Group provides post retirement medical insurance to a group of 71 past and present employees. This scheme was closed to new members in 1991 and only two of the members remain in the employment of the Group. This scheme is unfunded.

The present value of the future liabilities under this arrangement have been assessed by our actuary Mercer Human Resource Consultancy Limited and this amount has been included on the balance sheet, net of deferred taxation under the pensions and other post retirement liabilities as follows:

	2004 £ million	2003 £ million
Post retirement medical liabilities	**(4.3)**	(4.2)
Associated deferred tax asset	**1.3**	1.3
NET POST RETIREMENT MEDICAL LIABILITY	**(3.0)**	(2.9)

Notes to the Accounts

6. NET FINANCE INCOME/(CHARGE)

	2004 £ million	2003 £ million
Group interest receivable/(payable) includes the following:		
group funds	**6.6**	8.7
pension finance income/(cost)	**1.1**	(3.0)
non-recourse debt	**3.0**	(2.2)
non-recourse interest added to amounts recoverable on contracts	**0.7**	4.3
debt issue costs written off on refinancing	**(1.2)**	–
amortisation non-recourse debt	**(0.7)**	(2.1)
amortisation and non-utilisation fees group debt	**(0.5)**	(3.0)
	9.0	2.7
Joint ventures		
refinancing	**–**	(0.7)
other	**(4.2)**	(0.3)
Associate	**(2.9)**	(2.8)
NET FINANCE INCOME/(CHARGE)	**1.9**	(1.1)

Analysis of interest payable and similar charges:		
Group		
– bank loans and overdrafts	**(13.5)**	(11.1)
– bank loans repayable after more than one year	**(13.8)**	(15.2)
– other	**(3.6)**	(5.0)
– interest capitalised	**7.5**	4.3
– refinancing costs	**(1.2)**	(2.0)
Joint ventures		
– refinancing costs	**–**	(0.7)
– other	**(56.9)**	(53.0)
Associates	**(2.9)**	(2.9)
INTEREST AND OTHER FINANCE COSTS PAYABLE	**(84.4)**	(85.6)

Notes to the Accounts

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax charge on ordinary activities

		2004 Continuing £ million	2004 Discontinued £ million	2004 Total £ million	2003 £ million
The taxation charge comprises:					
Group UK corporation tax at 30% (2003 - 30%)					
	- current	**(2.3)**	**(2.7)**	**(5.0)**	-
	- prior year	**(0.7)**	**-**	**(0.7)**	(0.5)
Overseas tax	- current	**(0.4)**	**-**	**(0.4)**	(1.4)
	- prior year	**(0.3)**	**-**	**(0.3)**	0.6
Group deferred tax		**(1.5)**	**0.2**	**(1.3)**	(4.1)
Joint ventures and associate	- current	**(6.9)**	**-**	**(6.9)**	(6.5)
	- prior year	**0.9**	**-**	**0.9**	(1.4)
		(11.2)	**(2.5)**	**(13.7)**	(13.3)

The Group UK corporation tax current year charge for continuing businesses includes £nil million (2003 – £1.1 million) in respect of double tax relief.

Total deferred tax of £8.6 million (2003 – £10.5 million) includes tax for joint ventures and associate of £7.3 million (2003 – £6.4 million) and Group tax of £1.3 million (2003 – £4.1 million).

During the year an additional pension contribution of £4 million was paid to reduce the deficit on the Fund. Tax relief at 30% of this contribution is recognised in the statement of recognised gains and losses as the original provision for the Pension Fund deficit was recognised in the statement of recognised gains and losses.

Factors affecting tax charge for the year

The current tax charge assessed for the year is lower than that resulting from applying the 30% standard rate of corporation tax in the UK, even though the total tax charge is higher. The differences are explained as follows:

	2004 £ million	2003 £ million
Profit on ordinary activities before taxation	**25.1**	21.2
Tax at 30% (2003 - 30%) thereon	**(7.5)**	(6.4)
Effects of:		
Tax losses in PFI companies	**4.9**	5.0
Sale of tax losses of PFI joint ventures to third parties	**2.5**	-
Tax losses not utilised	**(0.7)**	(5.1)
Chargeable gains in excess of book profits	**(0.3)**	2.8
Capital allowances in excess of depreciation	**0.8**	0.6
Disallowed expenses and similar items	**(3.7)**	0.6
Prior year adjustments	**(1.1)**	0.9
Other differences	**-**	(1.2)
CURRENT TAX CHARGE FOR THE YEAR	**(5.1)**	(2.8)
Deferred tax of PFI Companies	**(10.0)**	(7.0)
Accelerated capital allowances of PPP/non-PFI Companies	**(0.7)**	(0.6)
Spread deduction for pension contribution	**0.7**	-
Prior year deferred tax adjustments	**1.4**	(2.9)
TOTAL TAX CHARGE FOR THE YEAR	**(13.7)**	(13.3)

Notes to the Accounts

8. DIVIDENDS

			2004 £ million	2003 £ million
The following have been paid or are proposed:				
EQUITY				
On Ordinary Shares:				
Interim	– paid	1.1 pence per share (2003 – 1.0 pence)	**2.0**	1.8
Final	– proposed	2.2 pence per share (2003 – 2.0 pence)	**4.1**	3.5
			6.1	5.3
NON-EQUITY				
On 6.4% Convertible Cumulative Preference Shares			**2.5**	2.5
			8.6	7.8

Included within the non-equity dividend is an accrual of £0.4 million (2003 – £0.4 million).

9. CALCULATION OF EARNINGS PER SHARE

	2004 Basic	2004 Diluted	2003 Basic	2003 Diluted
Earnings per share (pence)	**4.9**	**4.9**	3.1	3.0
Basis of calculation				
Profit attributable to shareholders (£ million)	**11.4**	**11.4**	7.9	7.9
Preference dividends	**(2.5)**	**–**	(2.5)	–
Profit after tax and preference dividends	**8.9**	**11.4**	5.4	7.9
Weighted average number of shares (millions)	**180.4**	**180.4**	176.7	176.7
Weighted average number of warrants adjusted for issue of shares at fair value	**–**	**–**	–	2.2
Weighted average number of options adjusted for issue of shares at fair value	**–**	**0.4**	–	0.6
Average number of LTIPs	**–**	**1.3**	–	0.8
Weighted average number of unexercised preference share conversions	**–**	**13.3**	–	13.3
Weighted average number of shares used for EPS	**180.4**	**195.4**	176.7	193.6

Earnings per share have been calculated by reference to 180.4 million basic shares (2003 – 176.7 million) and 180.4 million diluted shares (2003 – 179.5 million), being the average number of shares in issue during the year. Share awards under the share option scheme totalling 0.4 million (2003 – nil), share awards under the LTIP scheme totalling 1.3 million (2003 – 0.8 million) and Convertible Cumulative Preference Shares totalling 13.3 million shares (2003 – 13.3 million) have been excluded from the calculation as they are anti-dilutive.

10. INTANGIBLE ASSETS

	2004 Cost of franchise £ million	2004 Goodwill on acquisition £ million	2004 Total £ million	2003 £ million
ORIGINAL COST				
At 1 January	**4.5**	**11.7**	**16.2**	22.6
Additions	**0.1**	**–**	**0.1**	0.4
Disposals	**–**	**–**	**–**	(6.8)
At 31 December	**4.6**	**11.7**	**16.3**	16.2
ACCUMULATED AMORTISATION				
At 1 January	**0.5**	**3.5**	**4.0**	9.3
Charge for the year	**0.2**	**0.5**	**0.7**	0.8
Disposals	**–**	**–**	**–**	(6.1)
At 31 December	**0.7**	**4.0**	**4.7**	4.0
NET BOOK VALUE AT 31 DECEMBER	**3.9**	**7.7**	**11.6**	12.2

Notes to the Accounts

11. TANGIBLE ASSETS

	Land and buildings Freehold land £ million	Leasehold less than 50 years £ million	Rail Infra-structure £ million	Vehicles, plant and machinery# £ million	Total £ million
ORIGINAL COST/VALUATION					
At 1 January 2004	**2.3**	**0.3**	**20.8**	**11.2**	**34.6**
Additions	**6.4**	**-**	**4.5**	**5.6**	**16.5**
Disposals – sale of assets	**-**	**-**	**(0.4)**	**(0.4)**	**(0.8)**
At 31 December 2004	**8.7**	**0.3**	**24.9**	**16.4**	**50.3**
ACCUMULATED DEPRECIATION					
At 1 January 2004	**-**	**0.3**	**1.3**	**1.8**	**3.4**
Charge for the year	**-**	**-**	**0.9**	**1.5**	**2.4**
Disposals – sale of assets	**-**	**-**	**(0.3)**	**(0.4)**	**(0.7)**
At 31 December 2004	**-**	**0.3**	**1.9**	**2.9**	**5.1**
NET BOOK VALUE AT 31 DECEMBER 2004	**8.7**	**-**	**23.0**	**13.5**	**45.2**
Net book value at 31 December 2003	2.3	-	19.5	9.4	31.2

Included in rail infrastructure assets are finance costs capitalised in the year of £0.7 million (2003 – £0.9 million).

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £1.6 million (2003 – £0.9 million).

The capitalisation rate was 6.44% (2003 – 6.40%).

includes IT equipment and fixtures and fittings

12. INTERESTS IN SUBSIDIARY UNDERTAKINGS - RESTATED*

Included as fixed assets

	Investments £ million	Loans £ million	Total £ million
ORIGINAL COST			
At 1 January 2004	**125.0**	**73.8**	**198.8**
Conversion of loan to equity	**73.8**	**(73.8)**	**-**
Additions	**2.3**	**4.2**	**6.5**
At 31 December 2004	**201.1**	**4.2**	**205.3**
PROVISIONS MADE AGAINST INVESTMENTS			
At 1 January 2004	**(5.0)**	**(73.8)**	**(78.8)**
Reclassification	**(73.8)**	**73.8**	**-**
Increase in the year	**(2.2)**	**(4.2)**	**(6.4)**
At 31 December 2004	**(81.0)**	**(4.2)**	**(85.2)**
AT 31 DECEMBER 2004	**120.1**	**-**	**120.1**
At 31 December 2003	120.0	-	120.0

Short-term trading balances with subsidiaries are included in the parent company balance sheet in debtors or creditors as appropriate.

The Group's principal subsidiaries, joint ventures and associated undertakings at 31 December 2004 are listed in note 29. To avoid particulars of excessive length, the names of a number of companies which did not significantly affect the profitability or assets of the Group are omitted.

* *restated for change in accounting policy, refer to accounting policy note (A).*

Notes to the Accounts

13. INVESTMENTS

GROUP	2004 Joint ventures and associated undertakings						2003
	Equity £ million	Loans £ million	Reserves £ million	Total £ million	Other investments £ million	Total £ million	Total £ million
AT 1 JANUARY							
Listed	-	4.7	-	4.7	0.5	5.2	5.2
Unlisted	51.8	45.6	6.0	103.4	-	103.4	138.4
Shares and loans at net book value	51.8	50.3	6.0	108.1	0.5	108.6	143.6
MOVEMENTS IN THE YEAR							
Acquisitions/additions	13.3	20.8	(0.5)	33.6	-	33.6	30.5
Disposals/repayment	-	(1.9)	-	(1.9)	(0.5)	(2.4)	(47.9)
Impairment in value	-	-	-	-	-	-	(0.1)
Refinancing	-	-	-	-	-	-	(16.0)
Decrease in retained profits	-	-	(1.9)	(1.9)	-	(1.9)	(1.4)
Exchange differences	-	-	0.1	0.1	-	0.1	(0.1)
	13.3	18.9	(2.3)	29.9	(0.5)	29.4	(35.0)
AT 31 DECEMBER							
Listed	-	4.8	-	4.8	-	4.8	5.2
Unlisted	65.1	64.4	3.7	133.2	-	133.2	103.4
Shares and loans at net book value	65.1	69.2	3.7	138.0	-	138.0	108.6

Other listed investments

The market value of listed investments at 31 December 2004 was £5.9 million (2003 – £6.2 million) of which £5.9 million (2003 – £5.7 million) is listed on the London Stock Exchange. If these investments had been sold at market value on 31 December 2004, this would have given rise to a tax charge of £0.4 million.

Unlisted investments

In the opinion of the Directors the total value of unlisted investments is not less than their net book value of £138.0 million.

Notes to the Accounts

13. INVESTMENTS (CONTINUED)

Investments in joint ventures and associate

	2004 Joint ventures						
	City Greenwich Lewisham Rail plc £ million	Citylink Telecomm-unications Limited £ million	Modus Services plc £ million	Severn River Crossing plc £ million	Transcend Property Limited £ million	Other £ million	Total joint ventures £ million
Turnover	**5.1**	**7.2**	**67.9**	**5.6**	**5.3**	**115.3**	**206.4**
Profit before tax	**2.8**	**(0.8)**	**3.1**	**2.8**	**2.9**	**2.0**	**12.8**
Taxation	**(1.0)**	**-**	**(1.5)**	**(1.4)**	**(0.9)**	**(0.7)**	**(5.5)**
Profit after tax	**1.8**	**(0.8)**	**1.6**	**1.4**	**2.0**	**1.3**	**7.3**
Fixed assets	**0.1**	**-**	**-**	**-**	**-**	**23.1**	**23.2**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**0.3**	**0.3**
Current assets	**84.6**	**94.9**	**296.4**	**185.4**	**1.1**	**671.7**	**1,334.1**
Total liabilities							
- less than one year	**(2.6)**	**(7.7)**	**(8.2)**	**(11.5)**	**(0.9)**	**(39.2)**	**(70.1)**
- greater than one year	**(67.1)**	**(77.2)**	**(230.5)**	**(142.3)**	**-**	**(588.9)**	**(1,106.0)**
Provisions	**(3.8)**	**(4.2)**	**(8.4)**	**(27.2)**	**-**	**(15.8)**	**(59.4)**
	11.2	**5.8**	**49.3**	**4.4**	**0.2**	**51.2**	**122.1**

		2004			2003
			Associate		
		Total joint ventures £ million	Octagon Group Limited £ million	Total £ million	Total £ million
Turnover		**206.4**	**24.2**	**230.6**	233.0
Profit before tax		**12.8**	**0.8**	**13.6**	14.2
Taxation		**(5.5)**	**(0.5)**	**(6.0)**	(7.1)
Profit after tax		**7.3**	**0.3**	**7.6**	7.1
Fixed assets		**23.2**	**1.3**	**24.5**	1.5
Intangible assets		**0.3**	**5.3**	**5.6**	5.8
Current assets		**1,334.1**	**39.8**	**1,373.9**	1,206.9
Total liabilities	- less than one year	**(70.1)**	**(15.3)**	**(85.4)**	(135.3)
	- greater than one year	**(1,106.0)**	**(15.2)**	**(1,121.2)**	(920.4)
Provisions		**(59.4)**	**-**	**(59.4)**	(50.4)
		122.1	**15.9**	**138.0**	108.1

Investments in joint ventures are analysed on the Group balance sheet between fixed assets of £131.7 million (2003 – £101.1 million) and provisions for liabilities and charges £8.7 million (2003 – £8.8 million), a net £123.0 million (2003 – £92.3 million).

COMPANY	2004 Joint venture loans £ million	2003 Joint venture loans £ million
AT 1 JANUARY		
Unlisted	**6.4**	-
MOVEMENTS IN THE YEAR		
Acquisitions	**-**	6.4
SHARES AND LOANS AT NET BOOK VALUE AT 31 DECEMBER	**6.4**	6.4

Notes to the Accounts

14. STOCKS

	31 December 2004 £ million	31 December 2003 £ million
Raw materials and consumables	**2.1**	2.8

15. DEBTORS

	31 December 2004		31 December 2003	
	Group £ million	**Company £ million**	Group £ million	Company £ million
Amounts falling due within one year:				
Finance debtors	**8.3**	**-**	5.9	-
Amounts recoverable on contracts	**0.7#**	**-**	6.2	-
PFI/PPP bid costs	**10.4**	**-**	9.6	-
Trade debtors	**13.6**	**-**	10.0	-
Amounts owed by subsidiary undertakings	**-**	**182.0**	-	126.8
Amounts owed by joint ventures and associated undertakings	**4.7**	**-**	4.5	0.3
Corporation tax recoverable	**0.1**	**-**	2.4	-
Other taxation	**2.5**	**0.7**	3.3	-
Other debtors	**5.5**	**-**	9.7	-
Prepayments and accrued income	**8.5**	**0.3**	7.7	0.5
	54.3	**183.0**	59.3	127.6
Amounts falling due after more than one year:				
Finance debtors	**326.6**	**-**	257.2	-
Amounts recoverable on contracts	**73.9#**	**-**	55.0	-
Trade debtors	**-**	**-**	3.6	-
Prepayments and accrued income	**5.7**	**0.7**	5.1	1.2
	406.2	**0.7**	320.9	1.2

The finance debtors are amounts relating to PFI/PPP Project Companies in which the Group holds controlling interest.

Included within the above amounts were 10 outstanding season ticket loans to officers and managers of the Company to a total value of £16,915 (2003 – £8,164).

these are the assets of PFI Project Subsidiaries which are in the course of construction and on completion these will transfer to finance debtors.

Deferred Tax (included in other taxation above)

	Provided at		**Not provided at**	
	31 December 2004 Company £ million	31 December 2003 Company £ million	**31 December 2004 Company £ million**	31 December 2003 Company £ million
Opening balance	**-**	-	**11.5**	8.8
Credit to profit and loss account	**0.7**	-	**-**	-
Other movements	**-**	-	**1.0**	2.5
Closing balance	**0.7***	-	**12.5#**	11.3

* *the deferred tax balance relates to short-term timing differences.*

\# *the unprovided deferred tax asset of £12.5 million (2003 – £11.3 million) is in respect of losses available to offset against future profits.*

Notes to the Accounts

16. SHORT-TERM INVESTMENTS

	31 December 2003 £ million	Additions £ million	Disposals £ million	31 December 2004 £ million
At cost or net realisable value:				
Listed – London Stock Exchange	**2.2**	**-**	**(2.2)**	**-**
UK Highways M40 (Holdings)	**-**	**19.7**	**(19.7)**	**-**
	2.2	**19.7**	**(21.9)**	**-**

On 29 June 2004, M40 Limited Partnership, for which Laing Roads Limited is the Limited Partner acquired 50% of the share capital in UK Highways M40 (Holdings) Limited for £19.7 million. On 14 October 2004 Laing Roads Limited disposed of its interest in M40 Limited Partnership with a profit on disposal of £6.4 million.

17. CASH AT BANK AND IN HAND

Cash balances at 31 December 2004 were £112.0 million (2003 – £121.1 million). This included £50.3 million (2003 – £34.3 million) held by non-recourse Project Companies. Group cash of £61.7 million (2003 – £86.8 million) included £17.3 million (2003 – £19.2 million) which was held by the Group's captive insurance company, £2.3 million (2003 – £2.2 million) held against future rental payments and £0.2 million (2003 – £0.3 million) held against performance bonds which are not immediately available.

18. ANALYSIS OF GROUP FUNDS

	31 December 2004			31 December 2003		
	Recourse funds £ million	Non-recourse funds £ million	Total £ million	Recourse funds £ million	Non-recourse funds £ million	Total £ million
Cash and bank deposits	**61.7**	**50.3**	**112.0**	86.8	34.3	121.1
Loans repayable within 1 year	**(1.5)**	**(22.1)**	**(23.6)**	–	(4.0)	(4.0)
Loans repayable after more than 1 year	**-**	**(401.2)**	**(401.2)**	–	(325.3)	(325.3)
	60.2	**(373.0)**	**(312.8)**	86.8	(295.0)	(208.2)

19. OTHER CREDITORS

	31 December 2004		31 December 2003	
	Group £ million	Company £ million	Group £ million	Company £ million
Amounts falling due within one year:				
Trade creditors	**25.0**	**2.7**	19.9	-
Amounts owed to subsidiary undertakings	**-**	**156.3**	-	151.4
Amounts owed to joint ventures and associated undertakings	**3.3**	**-**	3.5	-
Corporation tax payable	**7.7**	**-**	4.8	-
Other taxation	**5.3**	**-**	6.0	-
Dividends proposed	**4.4**	**4.4**	3.9	3.9
Accruals	**33.5**	**8.5**	24.4	0.3
Deferred income	**5.1**	**-**	5.9	-
	84.3	**171.9**	68.4	155.6
Amounts falling due after more than one year:				
Trade creditors	**-**	**-**	0.5	-
Accruals	**0.9**	**-**	2.4	-
Deferred income	**2.6**	**-**	0.9	-
	3.5	**-**	3.8	-

Notes to the Accounts

20. PROVISIONS FOR LIABILITIES AND CHARGES

Investment in joint venture

Following the refinancing of the Norfolk and Norwich PFI Project Company in 2003, the Group has received cash distributions that exceeded the Group's initial investment and share of reserves in the joint venture. The resulting net liability of £8.7 million is included in provisions (2003 – £8.8 million). The net liability will reduce as the Project Company generates retained profits over the life of the project agreement.

Other provisions

	At 1 January 2004 £ million	Charged/ (released) to profit and loss account £ million	Utilised £ million	At 31 December 2004 £ million
GROUP				
Retained liabilities	44.4	(0.4)	(9.7)	34.3
Reorganisation costs	0.5	0.1	(0.4)	0.2
Onerous lease costs	0.3	1.2	-	1.5
Other	0.1	0.3	-	0.4
TOTAL OTHER PROVISIONS	45.3	1.2	(10.1)	36.4
Deferred tax	3.8	1.3	-	5.1
TOTAL PROVISIONS	49.1	2.5	(10.1)	41.5

	At 1 January 2004 £ million	Charged to profit and loss account £ million	Utilised £ million	At 31 December 2004 £ million
COMPANY				
Other	-	0.3	-	0.3
TOTAL OTHER PROVISIONS	-	0.3	-	0.3

RETAINED LIABILITIES provisions include amounts for retained liabilities in respect of the disposed businesses. £24.2 million (2003 – £23.3 million) for Construction, £1.6 million (2003 – £1.1 million) for Homes and £0.1 million (2003 – £1.0 million) for Property. These are assessed regularly on a contract by contract basis and are expected to be utilised over the next few years. In addition, there are provisions of £8.4 million (2003 – £19.0 million), in respect of self insurance which are calculated using historical data and are based on the advice of loss adjustors and an independent actuary. While it is expected that it will take some years to finalise these matters, the Directors are satisfied that the overall level of provisions is adequate.

The Group has made provision for the sum that the Directors prudently consider to be the likely outcome of a dispute with the Great Eastern Hotel relating to the construction management contract performed between 1998 and 2000 and entered into by the Group's former construction subsidiary, John Laing Construction Limited. The dispute has been the subject of legal proceedings on which judgement was handed down, after the balance sheet date, on 24 February 2005. The final damages claimed amounted to £14.8 million against which the judge has awarded damages of £8.2 million and has left a further £3.8 million to be finally decided following further input from independent experts. In addition to damages, the claimant is seeking recovery of costs and interest which have yet to be agreed. John Laing (and its insurers who had conduct of the defence), are considering whether to appeal against the judgement. The provision included in the accounts does not assume any reduction in the damages as a result of an appeal process. However it does assume a reasonable outcome on the issues of costs, interest and insurance.

REORGANISATION COSTS provisions are expected to be utilised during 2005.

ONEROUS LEASE costs will be utilised over the remaining life of the leases.

DEFERRED TAX provisions are reviewed with regard to changing legislation.

Notes to the Accounts

20. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

	Provided at 31 December		Not provided at 31 December	
	2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
Opening balance	**3.8**	1.7	**(11.9)#**	(9.2)
Credit to profit and loss account	**1.3**	4.1	**–**	–
Other movements	**–**	(2.0)	**(1.0)**	(2.7)
Closing balance	**5.1**	3.8	**(12.9)**	(11.9)

	Provided at 31 December		Not provided at 31 December	
	2004 £ million	2003 £ million	**2004 £ million**	2003 £ million
Excess of capital allowances over depreciation and other long term timing differences	**3.9**	1.9	**–**	–
Short-term timing differences	**1.2**	1.9	**(12.9)**	(11.9)
	5.1	3.8	**(12.9)#**	(11.9)

 # the unprovided deferred tax asset of £12.9 million (2003 – £11.9 million) is in respect of losses available to offset against future profits.

21. TRANSACTIONS WITH RELATED PARTIES

The Group supplies managerial, commercial and accounting services to Project Companies for which it receives fees. In addition, interest bearing loans are invested in the Project Companies.

	2004 £ million	2003 £ million
SALES OF GOODS, SERVICES AND INTEREST RECEIVABLE IN SUBSIDIARY COMPANIES TO RELATED PARTIES:		
Staff secondment	**1.8**	0.7
Management buy-out	**–**	50.4[1]
Management services	**1.4**	1.4
Interest	**4.5**	6.4
Preferred bidder costs and fees recovered from PFI Project Companies	**10.2**	5.2
Other	**0.9**	0.9
Balances due from/(to) related parties:		
Debtors	**3.7**	4.2
Creditors	**(2.8)**	(3.5)

Details of loans to and equity investments in joint ventures and associated undertakings are set out in note 13.

(1) on 1 May 2003 a management buy-out team, including Directors of subsidiary companies, purchased Beechcroft Developments Limited for £34.0 million and on 23 September 2003 a management buy-out team, including Directors of subsidiary companies, purchased John Laing Partnership Limited for £16.4 million.

Notes to the Accounts

22. GUARANTEES, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

Certain of the Group's principal subsidiary undertakings and the Company are guarantors under the Group's banking facilities.

The Group's bankers have issued letters of credit on behalf of the Company or its subsidiaries of which £39.5 million were outstanding at 31 December 2004 (see note 23 (e)) (2003 – £73.1 million).

These letters of credit are mainly in support of capital commitments of £32.0 million (2003 – £58.0 million) for the uncalled capital and loans funding of unlisted investments, none of which relate to the Company. These mature as follows:

	2004 £ million	2003 £ million
Less than one year	**19.2**	41.8
Greater than 1 year but less than 2 years	**8.0**	16.0
Greater than 2 years but less than 5 years	**4.8**	0.2
	32.0	58.0

At 31 December 2004 the Directors had not authorised any capital expenditure other than provided for in the above figures (2003 – £nil).

The Group has given guarantees of a normal trading nature including performance bonds, some of which may be payable on demand.

As is usual, there are claims arising in the normal course of trading, which are in the process of settlement and, in some cases, involve or may involve litigation. Full provision has been made in these accounts for all amounts which the Directors consider will become payable on account of such claims.

The Chiltern Railway Company Limited has signed contracts with Network Rail Infrastructure Limited and London Underground for access to the railway infrastructure (track, stations and depots). These contracts are for a remaining period of seven and six years respectively. The contracts may be terminated by joint agreement between the companies.

The Chiltern Railway Company Limited is committed to pay a fixed charge of £27 million in the next financial year, including £3.6 million in respect of station and depot leases. Thereafter Network Rail contracts will rise by RPI+5% and London Underground contracts by RPI. In addition, a variable charge is levied on the basis of train miles actually run.

The Group also has the following annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings		**Rolling stock, plant and machinery**	
	31 December 2004 £ million	31 December 2003 £ million	**31 December 2004 £ million**	31 December 2003 £ million
In less than one year	**0.8**	-	**0.1**	0.4
In more than 2 years but less than 5 years	**3.1**	1.9	**0.1**	-
After more than 5 years	**0.6**	0.6	**14.6**	12.9

Notes to the Accounts

23. FINANCIAL INSTRUMENTS

The Group's policies on interest rate risk management and foreign currency risk management are explained in the Financial Review.

(a) Interest rate profile of financial liabilities

The Group's financial liabilities at 31 December 2004 are £428.3 million (2003 – £333.1 million), of which £425.0 million (2003 – £332.5 million) are non-recourse liabilities. These principally comprise borrowings of Project Companies which are required to be consolidated as they are either wholly or majority owned. In these Project Companies the lenders have recourse solely to that Project Company itself and hence there is no recourse to the Group. The recourse liabilities of £3.3 million represent £1.5 million of overdrafts (2003 – £nil) and £1.8m of deferred income (2003 – £0.6 million).

The financial liabilities shown comprise borrowings of under one year of £23.6 million (2003 – £4.0 million), borrowings of over one year of £401.2 million (2003 – £325.3 million), and creditors maturing over one year of £3.5 million (2003 – £3.8 million). All items are sterling denominated.

	Financial liabilities - 31 December 2004				Financial liabilities - 31 December 2003			
	Floating rate £ million	**Fixed rate £ million**	**Non-interest bearing £ million**	**Total £ million**	Floating rate £ million	Fixed rate £ million	Non-interest bearing £ million	Total £ million
Overdrafts	**1.5**	**-**	**-**	**1.5**	-	-	-	-
Creditors > 1 year - deferred income	**-**	**-**	**1.8**	**1.8**	-	-	0.6	0.6
TOTAL RECOURSE	**1.5**	**-**	**1.8**	**3.3**	-	-	0.6	0.6
Project Companies - borrowings < 1 year	**6.8**	**15.3**	**-**	**22.1**	2.8	1.2	-	4.0
Project Companies - borrowings > 1 year	**7.4**	**393.8**	**-**	**401.2**	8.2	317.1	-	325.3
Project Companies - creditors > 1 year	**-**	**-**	**1.7**	**1.7**	-	-	3.2	3.2
TOTAL NON-RECOURSE	**14.2**	**409.1**	**1.7**	**425.0**	11.0	318.3	3.2	332.5
TOTAL	**15.7**	**409.1**	**3.5**	**428.3**	11.0	318.3	3.8	333.1

The recourse borrowings of £1.5 million outstanding at 31 December 2004 (2003 – £nil) represents bank overdrafts. The Company paid arrangement fees for the syndicated committed revolving credit facility and committed bilateral facilities which were renegotiated in December 2004. These are written off over the period of the relevant facility, and the amount remaining to be amortised at 31 December 2004 is £0.9 million (2003 – £1.5 million) which is included as a prepayment within debtors, of which £0.7 million (2003 – £1.1 million) is over 1 year, as these facilities are undrawn.

The non-recourse Sterling fixed rate liabilities relate to 13 Project Companies, 10 of which are 100% owned, 2 are 80% owned and 1 is 60% owned (2003 – 11 Project Companies, 9 of which are 100% owned and 2 of which are 80% owned). In each case the interest rates for the project are fixed using interest rate swaps with maturities ranging from 2006 to 2034 and all-inclusive interest rates varying from 5.9% to 8.5%. The weighted average all-inclusive interest rate for these non-recourse fixed rate financial liabilities is 6.5% (2003 – 6.8%) and the weighted average period for which interest rates are fixed is 20.5 years (2003 – 21.4 years).

The non-recourse floating rate liabilities relate to short-term or junior facilities within certain Project Companies with rates related to LIBOR.

The non-interest bearing financial liabilities relate to creditors over 1 year and have a weighted average period until maturity of 2.4 years (2003 – 2.6 years).

Notes to the Accounts

23. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Interest rate profile of financial assets

Financial assets of £523.0 million (2003 – £449.4 million) comprise £112.0 million (2003 – £121.1 million) of cash, £406.2 million (2003 – £320.9 million) of debtors due after more than one year and £4.8 million (2003 – £4.7 million) of listed debenture stock included within investments in joint ventures, £nil (2003 – £2.2 million) of short-term investments and £nil (2003 – £0.5 million) of fixed asset investments.

	Financial assets - 31 December 2004				Financial assets - 31 December 2003			
	Floating rate £ million	**Fixed rate £ million**	**Non-interest bearing £ million**	**Total £ million**	Floating rate £ million	Fixed rate £ million	Non-interest bearing £ million	Total £ million
CURRENCY								
Sterling	**58.5**	**4.8**	**3.4**	**66.7**	83.7	6.9	11.0	101.6
Euros	**0.3**	**-**	**-**	**0.3**	-	-	0.2	0.2
Norwegian Kroner	**-**	**-**	**0.1**	**0.1**	-	-	-	-
Others	**-**	**-**	**-**	**-**	0.5	-	0.6	1.1
Non-recourse (Sterling)	**42.5**	**326.6**	**86.8**	**455.9**	34.3	257.2	55.0	346.5
	101.3	**331.4**	**90.3**	**523.0**	118.5	264.1	66.8	449.4

The fixed rate financial assets represent finance debtors and listed debenture stock. The weighted average interest rate of these fixed rate financial assets is 7.2% (2003 – 7.7%) and the weighted average period for which the interest rates are fixed is 24.4 years (2003 – 24.9 years)

The floating rate financial assets are cash and deposits placed principally with banks or highly rated money market funds at rates related to LIBID.

The non-interest bearing assets comprise amounts recoverable on PFI contracts, prepayments and accrued income, and cash in current accounts. The weighted average period for which no interest is paid on the sterling non-interest bearing assets is 2.0 years (2003 – 2.0 years).

(c) Currency exposures

The Group's foreign currency net assets are set out below:

Net foreign currency assets – £ million

		Norwegian Kroner	**Euro**	**Other**	**Total**
Sterling	- 31 December 2004	**3.8**	**5.2**	**-**	**9.0**
	- 31 December 2003	1.4	4.2	6.7	12.3

The Group's foreign currency assets principally comprise the Finnish road investment which is denominated in Euros and the Norwegian road investment denominated in Norwegian Kroner. The main item in Other currencies at 31 December 2003 was the £6.3 million Australian receivable due from the sale of Northern Territories Airport, which was received in January 2004.

(d) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities was as follows:

	31 December 2004				31 December 2003	
	Recourse £ million	**Non-recourse £ million**	**Group £ million**	**Company £ million**	Group £ million	Company £ million
In one year or less, or on demand	**1.5**	**22.1**	**23.6**	**1.0**	4.0	-
In more than 1 year but less than 2 years	**0.3**	**9.9**	**10.2**	**-**	13.0	-
In more than 2 years but less than 5 years	**1.5**	**29.2**	**30.7**	**-**	23.7	-
In more than 5 years	**-**	**363.8**	**363.8**	**-**	292.4	-
TOTAL	**3.3**	**425.0**	**428.3**	**1.0**	333.1	-

Notes to the Accounts

23. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Borrowing and letter of credit facilities – Group recourse

The Group has requirements for both borrowings and letters of credit and these are met by a combination of a £115.0 million syndicated committed facility (2003 – £90.0 million), two bilateral committed facilities totalling £25.0 million (2003 – £25.0 million) and a committed overdraft facility of £5.0 million (2003 – £5.0 million). The facilities are summarised below:

	31 December 2004			
	Total facility £ million	**Borrowings drawn £ million**	**Letters of credit drawn £ million**	**Total undrawn £ million**
Syndicated committed revolving credit facility (with letter of credit option)	**115.0**	**-**	**22.2**	**92.8**
Committed overdraft	**5.0**	**-**	**-**	**5.0**
	120.0	**-**	**22.2**	**97.8**
Bilateral letter of credit facilities	**25.0**	**-**	**17.3**	**7.7**
TOTAL COMMITTED GROUP FACILITIES (RECOURSE)	**145.0**	**-**	**39.5**	**105.5**

The syndicated committed facility was signed on 13 December 2004 and can be used for either drawing down borrowings or for issuing letters of credit. It expires on 31 March 2010. The overdraft is due to be renewed in December 2005, and the letter of credit facilities are due for renewal in October and December 2005.

Of the letters of credit drawn, £33.4 million (2003 – £56.5 million) back future capital and loan commitments and £6.1 million (2003 – £16.6 million) counter indemnify performance bonds issued by other banks.

The £1.5 million of overdrafts at 31 December 2004 comprise unpresented cheques and temporary overdrawn balances and were not drawn under the overdraft facility above.

The non-recourse borrowings of £423.3 million (2003 – £329.3 million) relate to Project Companies that are required to be consolidated and are drawn under facilities specific to each project to which the funding relates. These items are shown in financial liabilities net of arrangement fees of £5.2 million (2003 – £4.9 million).

(f) Fair values of financial assets and liabilities

	31 December 2004		31 December 2003	
	Book value £ million	**Fair value £ million**	Book value £ million	Fair value £ million
Fixed asset investments	**-**	**-**	0.5	0.5
Listed debenture stock	**4.8**	**5.9**	4.7	5.7
Long-term borrowings	**(401.2)**	**(437.5)**	(325.3)	(351.2)
Non-equity share capital	**(38.1)**	**(43.9)**	(38.1)	(43.2)

The fair values of short-term borrowings, cash deposits, short-term investments and other financial liabilities are not materially different from their book values.

Contingent liabilities such as guarantees given by the Company (see note 22) have no book value, and as contingent items it is not practicable to estimate their fair value.

The methods and assumptions used by the Directors to estimate fair values of financial instruments are as follows:

(i) investments maturing after three months are valued at either quoted market prices, or the net present value of estimated future cash flows discounted at appropriate rates;

(ii) long-term borrowings and non-equity share capital are valued at market prices where available, or the net present value of future cash flows discounted at an appropriate rate, taking into account any related interest rate swaps. The discount rate used is the swap rate for the relevant maturity adjusted by an assumed credit spread of 1.0%; and

(iii) forward exchange contracts are valued at market rates, however there are none outstanding at 31 December 2004.

Notes to the Accounts

23. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair values of financial assets and liabilities (continued)

	Book value £ million	Notional Fair value £ million	Gain/(loss) £ million	Gross Gain £ million	Gross (Loss) £ million
Forward foreign currency contracts					
31 DECEMBER 2004	**-**	**-**	**-**	**-**	**-**
31 December 2003	5.9	5.9	-	-	-

The Group operates a policy of hedging against significant balance sheet exposures to foreign currency fluctuations where a cost effective and efficient hedging instrument is available. The Group's investment in overseas assets is considered immaterial at present and hence no hedging is in place. This policy is subject to review on a regular basis.

As at 31 December 2004, no foreign exchange forward contracts were outstanding, and the Company and its recourse subsidiaries have no derivative transactions outstanding. There are interest rate swaps taken out by the Project Companies in connection with the non-recourse borrowings. In these cases the non-recourse Project Company enters into an interest rate swap to protect itself from fluctuations in movements in interest rates, usually for the full term of the debt, as shown in note 23 (a) above. In addition M40 Trains has entered into an RPI swap to hedge against movement in inflation, and a commodity swap outstanding which hedges the cost of fuel for its trains. The fair values of these swaps are £(1.1) million (2003 – £(1.5) million) and £0.1 million (2003 – £0.1 million) respectively.

(g) Non-equity share capital

The Group has £39.4 million of £1 Convertible Cumulative Preference Shares in issue (2003 – £39.4 million). These are undated and have a fixed coupon of 6.4% (2003 – 6.4%). Their market value at 31 December 2004 was £43.9 million (2003 – £43.2 million).

(h) Short-term debtors and creditors

Short-term debtors and creditors are excluded from the above analyses, except for the currency risk disclosures.

24. SHARE CAPITAL

	Number of shares	Authorised Nominal value 2004 £ million	Nominal value 2003 £ million	Allotted, called up and fully paid At 31 December 2004 £ million	At 31 December 2003 £ million
EQUITY					
Ordinary Shares of 25 pence each	**182,836,621**	**45.7**	44.2	**45.7**	44.2
Unissued shares of 25 pence each	**42,031,097**	**10.5**	12.1	**-**	-
NON-EQUITY					
6.4% Convertible Cumulative Preference Shares of £1 each	**40,151,313**	**40.2**	40.1	**39.4#**	39.4
		96.4	96.4	**85.1**	83.6

Convertible Cumulative Preference Shares in issue 39,416,427 (2003 – 39,417,341).

The unissued shares are available for designation, allotment and issue from time to time as Ordinary Shares.

Notes to the Accounts

24. SHARE CAPITAL (CONTINUED)

The following options over the Company's Ordinary Shares are outstanding:

	At 31 December 2004	At 31 December 2003	Earliest date of exercise	Expiry date	Exercise price (pence)
Senior Executive Share Option Scheme	**23,500**	44,864	21/03/2005	22/04/2006	296.8
Executive Share Option Scheme – W W Forrester	**379,746**	379,746	18/01/2005	17/01/2012	158.0
The John Laing plc Executive Share Option Plan 2002	**678,375**	678,375	01/07/2005	15/04/2013	125.0-168.0
John Laing Long-Term Incentive Plan 2001	**1,656,575**	1,414,609	21/03/2005		
	2,738,196	2,517,594			

On 20 January 2005 W W Forrester exercised options over 379,746 Ordinary Shares at an exercise price of 158.0 pence per share under his Executive Share Option Scheme. Further details of the Directors share options and awards under the John Laing Long-Term Incentive Plan 2001 that are contained in the above numbers, together with details of any related performance criteria, can be found in the Directors Remuneration Report on pages 64 to 66.

The Group is taking advantage of the exemption on the application of UITF 17, ('Employee Share Schemes'), in relation to the above schemes.

In addition to the above, on 23 October 2001 warrants over 8,716,482 Ordinary Shares in the Company were issued of which 2,297,610 had been exercised by 31 December 2003. During 2004 a further 6,165,274 warrants were exercised at an option price of £1 each and 253,598 warrants lapsed being no longer exercisable. Accordingly there were no warrants outstanding at the end of the year.

The 6.4% Convertible Cumulative Preference Shares are not redeemable, have no voting rights and their rights on winding up are restricted to repayment of the nominal value. During 2004, holders of 914 Convertible Cumulative Preference Shares exercised their options to convert to 308 Ordinary Shares. These shares are convertible to Ordinary Shares based on 33.7322 Ordinary Shares for every 100 Preference Shares.

25. RECONCILIATIONS OF THE MOVEMENTS IN SHAREHOLDERS' FUNDS

	2004					2003
	Share capital £ million	**Share premium account £ million**	**Profit and loss account £ million**	**Other reserves £ million**	**Total £ million**	£ million
GROUP						
Profit attributable to shareholders	**-**	**-**	**11.4**	**-**	**11.4**	7.9
Dividends	**-**	**-**	**(8.6)**	**-**	**(8.6)**	(7.8)
Retained profit for the financial year	**-**	**-**	**2.8**	**-**	**2.8**	0.1
Other recognised gains and losses						
– foreign exchange	**-**	**-**	**0.9**	**-**	**0.9**	(0.9)
Tax relief on pension contribution	**-**	**-**	**1.2**	**-**	**1.2**	-
Long-term share incentive scheme	**-**	**-**	**0.8**	**-**	**0.8**	0.3
Warrants exercised	**1.5**	**4.6**	**-**	**-**	**6.1**	-
Net experience (losses)/gains on post retirement obligations	**-**	**-**	**(45.5)**	**-**	**(45.5)**	8.4
NET (DECREASE)/INCREASE IN SHAREHOLDERS' FUNDS	**1.5**	**4.6**	**(39.8)**	**-**	**(33.7)**	7.9
Opening shareholders' funds	**83.6**	**82.8**	**(54.7)**	**2.3**	**114.0**	106.1
CLOSING SHAREHOLDERS' FUNDS	**85.1**	**87.4**	**(94.5)**	**2.3**	**80.3**	114.0

Notes to the Accounts

25. RECONCILIATIONS OF THE MOVEMENTS IN SHAREHOLDERS' FUNDS (CONTINUED)

The cumulative retained loss of £93.6 million (2003 – £54.7 million) is after the inclusion of positive post acquisition retained profits of joint ventures and associated undertakings amounting to £3.7 million (2003 – £6.0 million).

	2004					2003
	Share capital £ million	**Share premium account £ million**	**Revaluation of shares in subsidiary undertakings, joint ventures and associates £ million**	**Profit and loss account £ million**	**Total £ million**	Restated* £ million
COMPANY						
Profit after tax for the financial year including intercompany dividends	**-**	**-**	**-**	**20.1**	**20.1**	19.0
Dividends	**-**	**-**	**-**	**(8.6)**	**(8.6)**	(7.8)
Retained profit for the financial year	**-**	**-**	**-**	**11.5**	**11.5**	11.2
Other recognised gains and losses relating to the year (net)	**-**	**-**	**-**	**(3.1)**	**(3.1)**	44.7
New share capital subscribed	**1.5**	**4.6**	**-**	**-**	**6.1**	-
NET INCREASE IN SHAREHOLDERS' FUNDS	**1.5**	**4.6**	**-**	**8.4**	**14.5**	55.9
Opening shareholders' funds as previously stated	**83.6**	**82.8**	**(90.2)**	**37.8**	**114.0**	106.1
Prior year adjustment *	**-**	**-**	**90.2**	**(42.2)**	**48.0**	-
Opening shareholders' funds as restated	**83.6**	**82.8**	**-**	**(4.4)**	**162.0**	106.1
CLOSING SHAREHOLDERS' FUNDS	**85.1**	**87.4**	**-**	**4.0**	**176.5**	162.0

The non-equity portion of shareholders' funds is calculated as follows:

	2004 £ million	2003 £ million
Preference shares	**39.4**	39.4
Less: expenses of issue	**(1.3)**	(1.3)
NON-EQUITY SHAREHOLDERS' FUNDS	**38.1**	38.1

** restated for change in accounting policy, refer to accounting policy note (A).*

Notes to the Accounts

25. RECONCILIATIONS OF THE MOVEMENTS IN SHAREHOLDERS' FUNDS (CONTINUED)

Parent Company Reserves

The Company has identified that the previously reported revaluation reserves included a £36.2 million negative reserve arising on a restructuring of the Group in 1978. It is now clear that this reserve should have been set against distributable reserves in the past. Had the reserve been set against distributable reserves, the balance sheet would have shown a net profit and loss deficit. However, that deficit could, at any point in time, have been covered by upstream dividends paid out of distributable reserves then held in subsidiary companies. The Company has now changed its accounting policy for valuing investments in subsidiaries and set the reserve against distributable profits (see accounting policy note A). Upstream dividends have now been received from subsidiary companies in 2004, to cover the effect of setting the negative reserve against distributable reserves in the Company, thereby regularising the position as at 31 December 2004.

As a result of setting off the negative reserve against distributable profits, the restated balance sheet for the year ended 31 December 2003 shows a negative balance on profit and loss account as at that date. This does not, however, retrospectively affect the ability of the Company to pay the dividends paid in 2004 since the relevant accounts by reference to which the dividends were paid (which were the accounts approved at the AGM held on 19 May 2004) showed a positive balance on profit and loss account. The Directors have, however, also become aware that, on the basis of that balance sheet and notwithstanding that positive balance, the dividends paid in the calendar year 2004 should not have been paid because the amount of the Company's net assets, as disclosed by the balance sheet as at that date, was less than the aggregate of its called-up share capital and undistributable reserves. This was also the case in respect of the Company's balance sheet at 31 December 2002 with a similar effect on the dividends paid in the calendar year 2003. The Directors are advised that these were technical breaches of the Companies Act 1985. In the light of this, shareholders will be asked to ratify the payment of the dividends paid in 2003 and 2004 at the Company's AGM to be held on 19 May 2005.

26. RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2004 £ million	2003 £ million
Operating profit/(loss)	**2.3**	(5.5)
Depreciation and amortisation charges	**3.1**	2.5
Profit on sale of vehicles, plant and machinery	**–**	(0.1)
Profit on sale of investments	**(6.6)**	–
Dividends received	**(0.2)**	(0.9)
Decrease/(increase) in stocks	**0.7**	(7.1)
Increase in debtors	**(62.5)**	(69.6)
Share award schemes	**0.9**	0.3
Pension payment less FRS 17 charge	**(2.9)**	(2.1)
Exchange (gain)/loss in trading profit	**(0.1)**	0.2
Increase/(decrease) in creditors	**12.7**	(7.0)
Decrease in provisions	**(8.7)**	(12.8)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(61.3)**	(102.1)

Notes to the Accounts

27. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2004 £ million	2003 £ million
(Decrease)/increase in cash in the year	(27.8)	32.8
Net cash outflow to management of liquid resources	17.2	–
(Increase)/decrease in bank borrowings due within one year	(18.2)	192.3
Increase in bank borrowings due in more than one year	(75.9)	(118.9)
Exchange movement	0.1	(0.3)
MOVEMENT IN NET DEBT IN THE YEAR	(104.6)	105.9
Net debt at 1 January	(208.2)	(314.1)
NET DEBT AT 31 DECEMBER	(312.8)	(208.2)

28. ANALYSIS OF NET DEBT

	At 1 January 2004 £ million	Cash flow £ million	Non-cash movements £ million	At 31 December 2004 £ million
Cash in hand and at bank	20.4	(9.5)	0.1	11.0
Bank deposits maturing in one day	30.9	(16.9)	–	14.0
Overdrafts repayable on demand	–	(1.4)	–	(1.4)
Increase in cash in the year		(27.8)		
Bank deposits maturing in:				
more than one day	69.8	17.2	–	87.0
Bank loans repayable in:				
less than one year	(4.0)	(18.2)	–	(22.2)
more than one year	(325.3)	(75.9)	–	(401.2)
NET GROUP DEBT	(208.2)	(104.7)	0.1	(312.8)
Current asset investments	2.2	(2.2)	–	–
TOTAL	(206.0)	(106.9)	0.1	(312.8)

Notes to the Accounts

29. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED UNDERTAKINGS

INVESTMENTS

United Kingdom

Laing Investments Limited*
Holding company for the investments business

3ED Glasgow Limited
Ordinary shares of £1 (25.5%)
PFI accommodation operator
Financial year end 30 September

Amey Highways Lighting (Manchester) Limited
Ordinary Shares of £1 (50%)
Street lighting concession operator

Amey Highways Lighting (Wakefield) Limited
Ordinary Shares of £1 (50%)
Street lighting concession operator

Amey Highways Lighting (Walsall) Limited
Ordinary Shares of £1 (50%)
Street lighting concession operator

Argon Ventures Limited
Holding company

Autolink Concessionaires (M6) plc
Ordinary shares of £1 (19.5%)
PFI road concession operator

The Chiltern Railway Company Limited
Rail franchise operator

City Greenwich Lewisham Rail Link plc
Ordinary shares of £1 (40%)
Light rail concession operator

Citylink Telecommunications Limited
Ordinary shares of £1 (19.5%)
Utility concession operator
Financial year end 31 March

Coastal Clearwater Limited
Ordinary shares of £1 (50%)
PFI wastewater treatment plant operator in Northern Ireland
Financial year end 31 March

CountyRoute (A130) plc
Road concession operator

Defence Management (Watchfield) Limited
Ordinary shares of £1 (50%)
PFI accommodation operator

Defence Support (St Athan) Limited
Ordinary shares of £1 (50%)
PFI accommodation operator

The Edinburgh School Partnership Limited
Ordinary shares of £1 (30%)
PFI accommodation operator

Education Support (Enfield) Limited
PFI accommodation operator

Education Support (Enfield 2) Limited
Ordinary shares of £1 (80%)
PFI accommodation operator

Education Support (Newham) Limited
Ordinary shares of £1 (80%)
PFI accommodation operator

Education Support (Southend) Limited
PFI accommodation operator

Equion Facilities Management Limited
Provision of facilities management services

Equion Limited
Holding company for the accommodation investments

ExcellCare Limited
Ordinary Shares of £1 (50%)
Holding company for PFI accommodation operator

Healthcare Support (Erdington) Limited
PFI accommodation operator

Healthcare Support (Newcastle) Limited
PFI accommodation operator

Healthcare Support (Newham) Limited
Ordinary shares of £1 (50%)
PFI accommodation operator

Hyder Investments Limited
Holding company for the investments business

Laing Infrastructure Holdings Limited
Holding company for the infrastructure business

Laing Investment Company Limited
Property development

Laing Rail Limited
Holding company rail investments

Laing Rail Project Evergreen Limited
Rail infrastructure development

Laing Rail Projects Limited
Rail infrastructure development

Laing Roads Limited
Holding company for roads investments

Meridian Hospital Company plc
Ordinary shares of £1 (50%)
PFI accommodation operator
Financial year end 31 March

Modus Services Limited
Ordinary shares of £1 (50%)
PFI accommodation operator
Financial year end 31 March

Octagon Healthcare Limited
Ordinary shares of 1p (20%)
PFI accommodation operator

Primecare Solutions (Kingston) Limited
Ordinary shares of £1 (60%)
PFI accommodation operator

Regenter Limited
Ordinary shares of £1 (50%)
Holding company for regeneration investments

Services Support (Avon & Somerset) Limited
Ordinary shares of £1 (40%)
PFI accommodation operator

Notes to the Accounts

29. PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED UNDERTAKINGS (CONTINUED)

INVESTMENTS

United Kingdom

Services Support (BTP) Limited
PFI accommodation operator

Services Support (Cleveland) Limited
PFI accommodation operator

Services Support (Gravesend) Limited
PFI accommodation operator

Services Support (Manchester) Limited
PFI accommodation operator

Services Support (SEL) Limited
PFI accommodation operator

Severn River Crossing plc
Ordinary shares of £1 (35%)
Toll bridge concessionaire

Sirhowy Enterprise Way Limited
Ordinary shares of £1 (50%)
Road concession operator
Financial year end 31 March

Transcend Property Limited
Ordinary shares of £1 (50%)
Property development

UK Highways A55 Limited
Ordinary shares of £1 (50%)
Road concession operator
Financial year end 31 March

UK Highways M40 Limited
Ordinary shares of £1 (50%)
Road concession operator

UK Highways Limited
Ordinary shares of £1 (25 pence paid up) (50%)
Manage road concession operators
Financial year end 31 March

Overseas

Orkdalsvegen AS
Road concession operator
– operating in Norway (50%)

Tieyhtio Nelostie Oy
Ordinary A shares Euro 6.055 (50%)
Ordinary B shares Euro 2.355 (25%)
Road concession operator
– operating in Finland (41%)

HOMES

John Laing Homes Limited*
Holding company for the housing businesses

Octagon Group Limited
Preference 'B' shares of £1
Ordinary shares of 25p (30%)
Private housing

GROUP SERVICE COMPANIES

John Laing Services Limited*
Management of retained construction liabilities

Laing Investments Management Services Limited
Management, staff and administrative services

Woodcroft Insurance Company Limited
Insurance company
-regulated in Guernsey

Except where indicated, all companies are wholly owned, have 31 December year ends, are incorporated in Great Britain and registered in England, Wales and Scotland, and operate mainly in the country of incorporation.

** shares owned by the Company*

Five-year Review

			2004	2003	2002	2001	2000
Turnover (including joint ventures and associates)		£ million	**480.7**	481.5	744.9	1,389.0	1,574.4
Profit/(loss) before taxation		£ million	**25.1**	21.2	(14.1)	(30.3)	5.7
Profit/(loss) attributable to shareholders		£ million	**11.4**	7.9	(25.3)	(42.6)	2.9
Shareholders' funds		£ million	**80.3**	114.0	106.1	260.6	240.7
Net cash /(borrowings)	- recourse	£ million	**60.2**	86.8	69.5	(167.4)	(30.0)
	- non-recourse	£ million	**(373.0)**	(295.0)	(383.6)	(105.1)	-
Profit/(loss) before taxation as a % of							
	- turnover	%	**5.2**	4.4	(1.9)	(2.2)	0.4
	- shareholders' funds	%	**31.3**	18.6	(13.3)	(11.6)	2.4
Earnings/(losses) per share		pence	**4.9**	3.1	(15.8)	(38.3)	0.4#
Dividends per share		pence	**3.3**	3.0	6.8	7.6	13.0
Dividend cover		times	**1.5**	1.0	-	-	-
Employees (average)		number	**1,125**	1,101	1,724	5,656	7,729

restated for the Rights Issue of shares on 26 November 2001.

Advisors

PRINCIPAL BANKERS

Lloyds TSB Bank plc
25 Gresham Street
London EC2V 7HN

Bank of Scotland
155 Bishopsgate
London EC2M 3YB

AUDITOR

Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR

REGISTRAR

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: 0870 162 3100

JOHN LAING PLC

Registered No. 1345670
Registered Office
Allington House
150 Victoria Street
London SW1E 5LB
Telephone: 020 7901 3200
Fax: 020 7901 3520
email: marketing@laing.com
www.laing.com

Shareholder Services
Account Enquiries and Electronic Communication

By visiting the Capita Registrar's website www.capitaregistrars.com and selecting "Shareholder Account Services" you can benefit from the following services:–

- View your account on-line
- View your share transactions
- View the details of dividends you have received
- Set up or amend a dividend payment mandate
- Change your registered postal address

Shareholders can also now elect to receive shareholder documents, such as annual and interim reports electronically from the Company's website rather than in hard copy through the mail. This has the advantage of improving the speed of communications and reducing administrative costs of printing and postage. If you would like to receive future communications from the Company by e-mail or to vote electronically if you are an institutional shareholder and your shares are held in CREST, you can register directly at the above website or by using the link to that address via the Company's website, www.laing.com.

To access these facilities you will need to input a unique User ID (for which you can apply on your first visit to the site) or, for certain of the facilities, your Investor Code which can be found on your dividend stationery and share certificates.

The use of electronic communications is, however, entirely voluntary and if you wish to continue to receive communications from us by post then you need take no further action.

All enquiries concerning your account or if you are experiencing difficulties with the electronic services mentioned above, should be made initially with the Company's Registrar whose contact details are set out on page 108.

SHARE DEALING SERVICE

The Directors have arranged for a share dealing service to be available for use by shareholders and employees. The arrangement enables shareholders and employees to buy and sell the Company's shares, if they so wish, at a competitive dealing cost. Transactions can be arranged either by telephone or on the Capita Registrars website. For further information please contact Capita Registrars whose details are set out on page 108.

SHARE GIFT

For shareholders who only have a small number of shares whose value makes it uneconomical to sell them, the Directors have made available the opportunity to donate such shares to charity through Sharegift, an independent charity share donation scheme. Donations can be made by completion of a simple share transfer form which is available from the Company's Registrar whose contact details are set on page 108.

FINANCIAL CALENDAR

ANNUAL GENERAL MEETING	19 May 2005
ANNOUNCEMENT OF RESULTS	
Half year results – 2005	25 August 2005
Results for the year – 2005	March 2006
ISSUE OF REPORT AND ACCOUNTS	April 2006
DIVIDENDS	
Final – 2004	June 2005
Interim – 2005	October 2005
Final – 2005	June 2006

Designed and produced by **MAGEE**
Printed by the colourhouse

JOHN LAING plc

Registered Office:
Allington House,
150 Victoria Street,
London SW1E 5LB
England

Registered No. 1345670

Tel: +44 (0)20 7901 3200
Fax: +44 (0)20 7901 3520

email: marketing@laing.com
www.laing.com

Further copies of this statement are available from the above address or by visiting the Company's website at www.laing.com.