

John Laing plc
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England

John Laing plc

Annual Report 1997

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A five-bedroom detached Waverley type house at West Byfleet.



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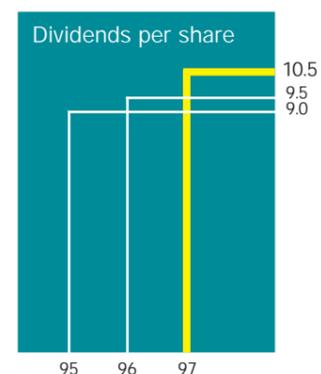
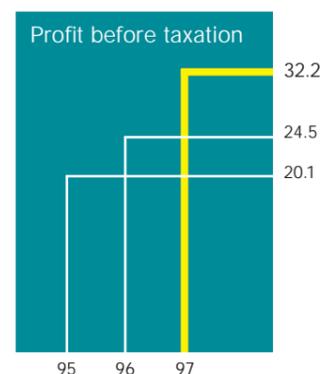
John Laing plc

Over the past 150 years, the John Laing Group has gained an **internationally-recognised track record of success** in construction, engineering and housebuilding and as a developer and investor in property and infrastructure.

Laing's mission is to be a leader in **delivering total solutions** to accommodation and infrastructure needs. In a spirit of partnership, Laing will provide **a high and dependable level of service** and value to customers, at the same time generating commensurate rewards for shareholders, employees and other business associates. This will be achieved through **excellence, innovation and continuous improvement** across all activities, with a particular emphasis on quality, reliability, safety and a **sensitivity towards the environment**.

Financial highlights

		1997	1996
Turnover	£ million	1,461.4	1,254.9
Profit before taxation	£ million	32.2	24.5
Shareholders' funds	£ million	214.3	198.5
Cash and cash equivalents net of borrowings	£ million	26.3	74.6
Earnings per Share	pence	25.7	17.7
Dividends per share	pence	10.5	9.5
Net assets per equity share	pence	191	175



Chairman's statement

"I expect to see further improvement in the overall performance of the Group during the current year."



1998 is a notable year in our history because we celebrate our 150th anniversary. We are proud of the achievements over these years and we are determined to build on that success.

1997 has seen a further improvement in the results achieved by the Group. Turnover was £1,461.4 million (1996 - £1,254.9 million) and profit before taxation was £32.2 million (1996 - £24.5 million) - an increase of 31%. The Board is recommending a final dividend of 7.0 pence (1996 - 6.5 pence) which includes 0.25 pence as a special payment to mark the 150th anniversary. This gives a total of 10.5 pence for the year (1996 - 9.5 pence). The dividend is covered 2.4 times (1996 - 1.9 times) by Earnings per Share of 25.7 pence (1996 - 17.7 pence).

The net cash balance at 31 December 1997 was £26.3 million (1996 - £74.6 million). The outflow of cash in the year arose partly in Construction and, partly, in Homes, where more land was acquired to support the sales of the larger houses that are contributing to the improvement in results. Although an operating cash outflow is expected in the first half of 1998 as a result of the seasonal increase in the land bank of Homes UK, this will be largely balanced by the cash inflow from the USA.

I advised you last year that good progress was being made towards achieving the goal of an Initial Public Offering of our business operations in the US. I am announcing today that we have reached agreement for the merger of our US activities with those of Watt Residential Partners, conditional only on the arrangement of interim financing, which is expected shortly. We will then be invested in an entity that has the critical mass to enable the Initial Public Offering to proceed in due course. We will be contributing net assets of US\$42 million to the newly combined business in exchange for a 50% equity interest. The new company, 'W L Homes', will replace US\$88 million of Laing funding with non-recourse debt, thereby allowing us to repatriate funds and to improve our net cash position. It is expected that an additional US\$48 million of inter-group loans would be repaid, dependent upon the cash generation of the joint venture in future years. It is our intention to invest this cash in the development of other activities of the Group - i.e. UK housebuilding, property development and infrastructure investment.

Construction

The progress achieved during the year is evident from the improved results. However, there remains over capacity in the sector and the risk reward ratio is still out of balance. While we anticipate a further recovery in margins this year, we expect to see the pattern of the work we win continue to

change with even more construction work being secured through a partnering approach.

Among the highlights of the year were:

- the timely completion of the Convention and Exhibition Centre in Hong Kong - a project that was managed in joint venture and was completed on time for the hand-over ceremony
- the signing of the contract, at a value of £100 million, for the Millennium Stadium at Cardiff Arms Park - where good progress is being made on construction
- the securing of a prestigious construction industry award for the information technology system at the £80 million Heathrow Express project for BAA which is due to open later this year
- the securing, in joint venture, of the construction management contract for the dome at The Millennium Experience at Greenwich with a project value of £200 million, and
- the signing of partnering agreements with several major UK companies - in furtherance of our strategy of targeting partnership opportunities with prestigious clients.

The pursuit of a settlement on the disputed valuation of the M25 Junctions 7 and 8 road widening contract is being progressed in accordance with the formal contractual procedure and our confidence in a satisfactory resolution is undiminished.

The crisis that began in the financial markets of Asia is spreading to the real economy there and, as the urgent need for economic restructuring is addressed, tumbling growth rates will have a significant effect on the prospects for our construction activities in South East Asia. Work in hand is mainly in Hong Kong - where the US dollar-pegged currency enables us to achieve expected profit margins. Our joint venture construction contract in the Philippines is substantially protected from the devaluation of the currency and, in the absence of further shocks, a positive result should be achieved. As the crisis has spread, so our contract in Dunfermline, Scotland, for the construction of a semiconductor facility for Hyundai has been affected by the economic situation in Korea. Some construction work has been suspended for a limited period by Hyundai - in accordance with the terms of the contract - to enable the project to be financed internally, and we are assisting the client in rescheduling the programme.

Early in 1998, Octagon Healthcare, in which Laing is the leading sponsor, reached financial close on the 809-bed Norfolk and Norwich Hospital. The construction of this £200 million Private Finance Initiative project has begun and completion is planned for the year 2002. This project also provides an investment opportunity which will be added to our portfolio on completion of construction.

Homes

It is evident from the excellent results from Homes that our strategy of changing the product range was well founded. The results of this Division are moving towards the upper quartile for UK housebuilders.

Homes' product range has been significantly broadened and now extends from products for first-time buyers through to large detached houses. The diversity of such a broad mix enables us to respond more easily to market changes. It is expected that profit growth should be sustainable in the future.

Innovation and adapting the Homes' product to match the individual lifestyles of its customers have both played a key role in moving the Division into the upper end of the market. This factor was reinforced during 1997 when Homes secured planning permission for the development of a prime site in Virginia Water, Surrey, where it will build homes with a purchase price of over £700,000. Homes also completed the purchase of another key site, at Beckenham in Kent, which was formerly owned by GlaxoWellcome. In addition, the Division started work on the second phase at Wimbledon Parkside, where there is a planned two-year development programme.

Emphasis is being placed, by the Government, on the increasing need to ensure that the principles of sustainable development are applied to housebuilding. This has always been our policy and, in 1997, 65% of Laing Homes' UK turnover was attributable to former commercial and industrial sites - known as 'brownfield'. This exceeds the Government's current objective of building at least 60% of all developments on brown or recycled land.

Unfortunately, planning delays continue to affect the Homes' business and it is unlikely that this situation will be resolved with any great speed. However, despite such delays, we continued to achieve excellent sales and increased visitor numbers throughout the year.

Property

The 183,000 square feet Thistle Marches shopping mall in Stirling, Scotland, opened in September. This project, which is an excellent example of a public/private partnership, is now 86% let and a sale to an institutional investor is expected in the near future.

At Borehamwood, the 40,700 square feet Phase 1 industrial development was pre-sold to an institutional investor.

Investment

Inevitably, the new Government's review of policies has impacted the flow of new Private Finance Initiative projects - however, we are advised that high priority will be given to education and public sector housing. The Group is well positioned to respond to new opportunities for the transfer

of services from the public sector to the private. A consortium, in which Laing is a partner, was awarded the concession, under the Private Finance Initiative, to build an extension to the successful Manchester Metrolink light rail system and, thereafter, to operate the system for a period of 17 years.

Our investment team in Hong Kong completed its due diligence on the 2,000 megawatt Loy Yang Power project - the largest power generator in Victoria, Australia - and we took a small equity stake. It is expected that this project will be listed on the Australian Stock Market. In my 1997 Interim Statement I said that the gain on the valuation of our investment in YTL Power - the Malaysian power project - following its listing on the Stock Exchange in Kuala Lumpur would be reviewed at the year end. There has recently been a recovery in the Malaysian currency and in the Stock Market value of this investment and the current value of the investment is, again, in excess of its original cost to the Group. We have nevertheless decided to hold the investment at original cost. In the emerging markets of Asia Pacific, the slow-down in economic growth and the volatile currency exchange rates increase investment risk but, conversely, these factors may also generate opportunities to acquire equity in existing, good quality, assets which have a robust cash flow.

Employees

I would like to take this opportunity of expressing my sincere thanks to all our employees - their commitment is a vital part of the progress that the Group is making.

Our graduate and other trainee recruitment programmes were substantially increased in 1997 and our projected intake of 150 people in 1998 will be the highest in recent years.

We actively support the objectives of the Government's new employment scheme 'The New Deal' which was introduced in January 1998 to raise the employment prospects of young people.

Outlook

We await the anticipated statement by the Government on its integrated transport policy - for new projects in this sector will make important contributions to growth. With our diverse experience in construction and investment we are well placed to benefit.

Margins continue to increase in construction and housing and I expect to see further improvement in the overall performance of the Group during the current year.

Sir Martin Laing CBE
Chairman
18 March 1998

Board of Directors

Sir Martin Laing CBE, MA, FRICS, FICE
Chairman, John Laing plc, 1985
Member of the Group Executive
Chairman, British Overseas Trade Board
President, Construction Confederation
Chairman, Construction Industry
Employers Council
Member of the Council, Confederation
of British Industry
Member of the Board, Business in
the Community
Member, World Business Council for
Sustainable Development
Joined Laing, 1966

Robert Wood LLB
Deputy Chairman, John Laing plc, 1993
Member of the Group Executive
Director, John Laing plc, 1981
Director, Severn River Crossing Plc, 1990
Director, Europistas Concesionaria
Española SA, 1983
Joined Laing, 1971

James Armstrong FCCA
Director, John Laing plc, 1990
Director, John Laing Property
Developments, 1990
Director, Severn River Crossing Plc, 1995
Director, UK Highways plc, 1995
Joined Laing, 1990

David Blair FRICS, FCIQB
Director, John Laing plc, 1994
Chairman, Laing Construction plc, 1995
Chairman, John Laing Construction, 1995
Director, John Laing Construction, 1988
Director, John Laing International, 1988
Joined Laing, 1962

Stephen Lidgate FCIM
Director, John Laing plc, 1995
Chief Executive, Laing Homes, 1992
Chairman, Laing Holdings Inc, 1995
Joined Laing, 1992

Denis Madden FIPD
Director, John Laing plc, 1994
Group Personnel Director, 1989
Chairman, John Laing Pension Fund, 1992
Director, John Laing Services, 1989
Joined Laing, 1970

Brian Chilver FCA, FCMA
Non-executive Director,
John Laing plc, 1988
Chairman, Forward Technology
Industries plc, 1991

David Edwards MA, LLM
Non-executive Director,
John Laing plc, 1982
Non-executive Director, Eskmuir
Properties, 1990

Peter Harper FCA
Non-executive Director,
John Laing plc, 1996
Chairman, Eversholt Leasing Ltd, 1996
Deputy Chairman (Non-executive),
Vitrex plc, 1995
Non-executive Director,
Lonrho plc, 1993
Director, Parliamentary Affairs,
Hanson plc, 1994



From left to right
James Armstrong, Sir Martin Laing, Robert Wood,
David Edwards, David Blair, (above) Peter Harper,
Brian Chilver, Stephen Lidgate, Denis Madden

Part of the Heathrow Express's five-mile tunnel
carrying purpose-built trains between Heathrow
Airport and central London.



Big Ben stands watch over giant tower cranes at the New Parliamentary Building.



Preston Temple
The new temple at Chorley in Lancashire for The Church of Jesus Christ of Latter-day Saints

Working in partnership with our customers

A seamless combination of traditional skills with technology and innovation enables Laing to provide building, engineering and management solutions in key sectors around the world. During 1997, the Group's skills were employed on numerous challenging and prestigious projects. In line with its strategy, these were increasingly secured through special relationships, joint ventures and the Private Finance Initiative (PFI). Resulting from a major customer focus initiative, Laing Construction reinforced its commitment to offering customers value for money and single point access to the total Laing capability.

Transport

Upgrading work commenced on the M40 motorway, where a Laing/Tarmac joint venture is undertaking widening and maintenance under a £100 million PFI contract for UK Highways, in which Laing is a stakeholder.

In joint venture with Ansaldo Trasporti, Laing is constructing Line 1 of the Midland Metro light railway between Birmingham and Wolverhampton. The joint venture was also awarded the £63 million contract for the design and construction of an extension to the Manchester Metrolink to Salford Quays and Eccles. Both light rail contracts are for Altram, in which Laing is a stakeholder.

The Jubilee Line Extension provided the opportunity for Laing to execute a bold and futuristic design for the line's new train depot. Stratford Market Depot occupies 11 hectares, stables 33 trains and provides maintenance facilities for the line's 59-strong fleet. The £18 million contract involved extensive steelwork for the trapezium-shaped roof and the construction of 11 eye-level service bays. Stratford Market Depot won the British Construction Industry Awards Building Award for 1997.

Three Laing businesses are involved in the innovative Heathrow Express rail link between Paddington Station and Heathrow Airport. In joint venture with NG Bailey, Laing is fitting out tunnels, platforms, concourse areas and ticket halls. Laing's design and IT skills have been fully employed on the project, providing tunnel visualisation and electronic information-sharing between customer, consultants and contractors.

Laing technology also played a part in the £250 million British Airways World Cargo Centre being constructed by Laing at Heathrow Airport.

To ensure a clear understanding of the project by all concerned, the company created a virtual reality programme which was used to 'walk' interested parties around the building.

Numerous contracts were carried out for Railtrack under extended arm agreements in the north of England and Scotland and, recently, the dualling of the Chiltern Line.

Ashgabat Airport in Turkmenistan was revisited by Laing. With its Turkish joint venture partner, the company has constructed a new runway for international flights. The same joint venture built the airport's terminal building two years ago.

Commercial

Laing met the key date for completing the Hong Kong Convention and Exhibition Centre - the second largest of its kind in Asia - which was purpose-built specifically for the Hong Kong hand-over ceremony. The project was managed by Laing, in joint venture with Hyder Consultants, for the Hong Kong Trade Development Council.

Laing returned to the National Exhibition Centre in Birmingham in 1997 to design and construct four new exhibition halls under a £52 million contract.

International Finance Centre, London

The 42-storey NatWest Tower, renamed the International Finance Centre, was refurbished after suffering extensive bomb damage





National Bank of Dubai
Myriad colours reflect across the Dubai Creek from the curved façade of the new HQ for the National Bank of Dubai

The development of No 1 Poultry in the City of London provided a major building challenge for Laing. Restricted access, difficult ground conditions and an on-going archaeological dig brought together many areas of Laing expertise in a building which occupies an important position among some of London's major architectural triumphs.

A bomb-damaged London landmark provided another important City project for Laing. An £82 million refurbishment of the 42-storey NatWest Tower was completed during the year.

Other projects in the financial sector were carried out for Britannic Assurance, Marks & Spencer Financial Services and the National Bank of Dubai. Britannic Assurance's new £45 million headquarters near Birmingham is one of the largest in the Midlands. In Chester, Laing designed and built a £20 million office for Marks & Spencer Financial Services and the £30 million new headquarters for the National Bank of Dubai is one of the most striking elevations in the Middle East.

The 40-year relationship between Laing and Grosvenor Estates continued with the award of a £35 million partnership contract for offices and shops at Hobart House, Belgravia in London - in addition

to projects at Old Broad Street, London, and Basingstoke, Hampshire.

Retail and Residential

Department stores, shops and a bus station comprise the £21 million Stirling Thistle Marches completed by Laing in an extension to the city's 1970s shopping centre. The Group's property skills were a key factor in securing its participation.

In Glasgow, Laing was chosen by The John Lewis Partnership to fit out its new £23 million department store at the Buchanan Galleries, the retailer's third store in Scotland.

The US\$160 million Rockwell Centre commercial and residential scheme, the Group's first major project in the Philippines, is being executed with local partner DMCI and is part of the Rockwell Land Corporation's US\$1 billion showcase scheme in central Manila.

Leisure

One of the Group's highest profile contracts in 1997 was to manage, in joint venture with Sir Robert McAlpine, the construction of the Greenwich Millennium Experience. The customer, The New Millennium Experience Company, wanted Laing's proven strengths to ensure delivery on time of what has become the public's central focus for the millennium.

In Cardiff, Laing is constructing the £100 million Millennium Stadium, a hi-tech replacement for the Arms Park, which must be completed for the 1999 Rugby World Cup finals. The stadium is being reoriented and will have a retractable roof.

Celebrating the scientific impact of the discovery of DNA, the £54 million International Centre for Life is being

built by Laing in Newcastle. The design for the centre, which is being part funded by National Lottery money from the Millennium Commission, includes visitor and bio-science centres and a genetics institute.

A partnering agreement with Whitbread involves hotel construction at Heathrow, Manchester and Bradford. Substantial pay backs have already highlighted the true benefits to the customer offered by partnering arrangements of this type.

Government

Laing is involved in a major research project into construction procurement, sponsored by the Department of Environment, Transport and the Regions and the Ministry of Defence. As part of the project, entitled the Construction Supply Network Project, Laing will design, build and maintain an MoD training centre at Wattisham, Suffolk. The results will be collated by the Tavistock Institute in a best practice guide for the industry.

Construction management of Portcullis House, the new £200 million parliamentary building facing the Palace of Westminster, is currently being undertaken by Laing. Primarily for the use of Members of Parliament, Portcullis House incorporates accommodation, conference facilities, shops and restaurants.

Utilities

Laing's strength in this market is exemplified by the signing of a £10 million-a-year framework agreement with Thames Water to reline water mains. Laing has similar arrangements with Cable & Wireless in Manchester and The Wirral to manage cable installation.

Øresund Tunnel, Denmark



1 The Øresund Tunnel's 20 concrete elements, each weighing 55,000 tonnes and the size of two football pitches, are manufactured in a purpose-built factory



2 Completed elements are jacked into a special lock - the biggest in Scandinavia - for the start of their journey to the channel bed



3 Four tugs tow the element into the channel while a global positioning system pinpoints its final position to within a few centimetres

- Retail, Residential and Leisure
- Superstores for Asda
- Department store fit-out for The John Lewis Partnership
- Showcase scheme in Philippines
- Greenwich Millennium Experience
- Millennium Stadium, Cardiff
- International Centre for Life, Newcastle
- Partnering agreement with Whitbread

- Transport
- M40 motorway upgrading
- Midland Metro light rail system
- Manchester Metrolink light rail system
- Jubilee Line Extension maintenance depot
- Heathrow Express rail link
- World Cargo Centre
- Ashgabat Airport, Turkmenistan

- Commercial
- Hong Kong Convention and Exhibition Centre
- National Exhibition Centre new halls
- No 1 Poultry
- Britannic Assurance new headquarters
- Marks & Spencer Financial Services office

- Government and Utilities
- MoD training centre, Wattisham
- Framework agreements with Thames Water and Cable & Wireless

Homes

Clockhouse Place, Putney, where the Victorian street scene is accurately reflected in this mixed development of houses and apartments.



Bonus room
Bonus rooms are popular for their flexibility and increased floorspace



The market

A general upturn in the housing market in 1997 created a fertile environment for Laing Homes and the company responded by further broadening its product range and successfully introducing a number of innovations.

Following a familiar pattern, south-eastern England led the market revival and the region was particularly buoyant. Three development sites in north-west London - one in Stanmore and two in Mill Hill - sold luxury homes for over £500,000. There was, however, a strong demand for new homes elsewhere throughout the country, with steady growth for the company in the Midlands. The Scottish market, however, remained flat.

Product development

Responding to customer demand, confirmed through a continuing programme of market research, Laing Homes introduced further innovations to its product range which have met with house buyers' approval. Among the most successful was the 'bonus room' concept, which utilises roof space to create around 20 per cent more flexible living space, and a large family living area which links kitchen, dining and recreational rooms. Laing Home Style, an options scheme offering purchasers upgrades and extra fittings, was also expanded after successful trials the previous year.

At Cuffley, Hertfordshire, Laing Homes' first venture into offering basement accommodation proved popular with prospective customers and resulted in a great deal of customer and press interest. Interpreting a popular American practice for the British market, a 2,800 square feet, five-bedroom house was constructed with a 1,100 square feet basement suitable for use as a recreational area, music room, fitness centre or occasional accommodation.

A further innovation proving popular with large families has been incorporated into larger homes at West Byfleet and Thames Ditton, Surrey. A 'principal suite' of over 550 square feet, comprising bedroom, sitting room with fireplace, en suite bathroom, walk-in closet and eaves storage, occupies the second floor and offers luxury accommodation for guests or a self-contained quiet area for parents. Other features being trialed at the West Byfleet development are video security surveillance, a centrally controlled audio system, hidden garden sprinklers and gas-fuelled barbecue cooking.

Future development

Laing Homes continues to strengthen its reputation for expertise in land acquisition and gained planning approval for other major sites in the south-east. At Virginia Water, Surrey, planning permission was granted for 41 luxury detached houses and apartments. It is

anticipated that these houses will be sold for a price in excess of £700,000. This prestigious development is set within a gated environment with 24-hour manned security. Residents will have exclusive use of a leisure complex which includes a swimming pool, gym, tennis courts and a sauna.

North of London, following on from the success of sites at St Albans and Mill Hill, planning permission was secured for two other developments in these areas. More than 40 four and five-bedroom detached houses will be built on the outskirts of St Albans and an exclusive development of 14 luxury homes - each with an estimated sales price of over £500,000 - is nearing completion adjacent to Finchley Golf Club.

In Wimbledon, south London, plans to build 175 houses and apartments on a prime site overlooking the Common were approved. These will form phase two of the Wimbledon Parkside development - the first phase having been successfully completed earlier in the year.



Innovation and business mix drive higher margins

Luxury kitchen
The luxury kitchen in the 'Waverley' at West Byfleet

Page Street, London NW7

A mixed development of houses and apartments ideally positioned for access to central London



Autumn Chase, Virginia
Nine miles from Washington DC, a community of family homes

In the Midlands, a major land holding of 13 acres is being developed as part of a large consortium project and a phased, three-year building programme for 175 houses on the site at Dickens Heath, near Solihull, will launch a new village of almost 1,000 homes.

In central Birmingham, work also started on the development of 24 luxury apartments located on the banks of the Birmingham Canal.

Customer service

Staff and customers alike benefited from new initiatives launched last year. 'The Laing Homes Commitment' is dedicated to ensuring the smooth delivery of customer service and promises improved communication, guaranteed dates for hand-overs, a new home familiarisation programme and a guaranteed fast response to complaints.

Staff development

At the end of the year, a new careers structure was launched for site-based sales staff - offering them a more structured career path with enhanced opportunities for job satisfaction and further training. This initiative will also contribute towards developing the profile and professionalism of Laing Homes' sales staff and will help them to meet the demands of increasingly discerning customers.

Partnership housing

The change of name, in 1997, from Laing Homes Special Projects to Laing Partnership Housing (LPH) and the adoption of a new corporate style reflects this business's role as a market leader in urban regeneration. A number of significant regeneration projects in partnership with the public and voluntary sectors was secured, with LPH being nominated the housebuilder partner for projects at Cardwell Estate, Greenwich, and Cangle School, Haverhill, Suffolk. A key factor in the success of LPH during the year has been its ability to add value to projects through community-based programmes - including training initiatives through Laing Training Services which successfully trained 250 unemployed people last year. LPH was rewarded with eight major housing sector and training awards - including the Lord Mayor of London's Dragon Award for work in the community and the National Housing and Town Planning Council's Partnership Award.

John Laing Homes USA

In the United States, Laing Homes operates in California and Virginia and sales of new homes in both states were higher in 1997 than in the previous year.

Major land acquisitions in California included a 900-acre site in San Clemente and a second site in Coto de Caza. The company began six new

developments and completed the sales of 485 new homes on 15 other sites. It also sold 149 homes under joint venture initiatives. An innovative interior design centre, dealing with the increasing demand for customisation of new homes, was opened and attracted 1,170 visitors in 1997 - the majority of them being prospective new home owners.

In Virginia, the company was active on 17 developments - from which it sold 309 houses. New designs for high specification homes were introduced and well received. John Laing Homes Virginia collected a number of awards during the year - including one from subcontractors. Innovations introduced in 1997 included the installation of data cabling - which enables home owners to access networks for computers and security. The year saw the acquisition of prime land, including one site which will accommodate nearly 200 new homes.

Mayfair, California
A John Laing home in Tanglewood, Coto de Caza



Product development

Bonus rooms provide around 20 per cent more living space
Large family areas link kitchen, dining and recreational rooms
Basement accommodation offers extra and flexible living space
A 'principal suite' provides luxury self-contained accommodation or a quiet area for parents

Future development

41 luxury apartments and houses at Virginia Water, Surrey
More than 40 detached houses will be built on a prime site on the edge of St Albans
An exclusive development of 14 luxury homes adjacent to Finchley Golf Club
175 luxury houses and apartments at Wimbledon due to be completed in 2000
175 houses to launch a new village at Dickens Heath, Solihull, Birmingham

Laing Partnership Housing

New projects at Cardwell Estate, Greenwich, and Haverhill, Suffolk
250 unemployed people trained through community-based programmes
Eight major housing sector awards

USA

Sales in California and Virginia up on previous year
Major land acquisitions
Innovative new interior design centre in California

The contribution to the Group by John Laing Property is wider than profit generation alone. While it provided £4.7 million from operating profit and the disposal of fixed assets in 1997 - and a total of £34 million over the past five years - its activities exploited synergies with John Laing Construction, Laing Homes and John Laing Investments to their, and its own, advantage.

Developed by John Laing Property and providing a negotiated contract for John Laing Construction, the Thistle Marches shopping centre in Stirling was completed during the year. Subject to planning approval, another deal set up by Property - a £15 million residential and school development near Marble Arch - will result in a contract being awarded to Holloway White Allom.

Laing Homes was the beneficiary of Group land at Mill Hill and Borehamwood, transferred for housing development, and it is envisaged that other, similar, deals will provide future growth opportunities.

John Laing Property's expertise in the commercial sector was combined with the PFI experience of John Laing Investments to improve bids - including

the £80 million contract at the National Physical Laboratory at Teddington where a Laing/Serco consortium was nominated preferred bidder.

Group property costs are also kept under tight control through John Laing Property, and a space rationalisation programme, completed during the year, saved the Group property overheads of around £1.2 million per annum.

Current market conditions have made development opportunities more difficult to identify and have bred fierce competition - with land purchase in advance of development now an essential prerequisite. In such a market, a mix of tendered and off-market schemes provides the most effective formula - evidenced, in 1997, by successful deals involving industrial warehousing at Milton Keynes, retail warehousing in Plymouth and headquarters offices near Heathrow.

Recent performance reflects the risk-managed approach adopted by John Laing Property, with pre-letting, pre-funding and limited-equity strategies combining with off-market opportunities to maximise profit while minimising risk. Industrial units at Borehamwood, developed for WH Smith and SRG plc,

were pre-let; Thistle Marches shopping centre was almost 85 per cent occupied on completion and a further development at Borehamwood (of 40,000 square feet) was pre-funded for investment by Britannia Life.

The success of Stirling's Thistle Marches shopping centre is a tribute to development and construction expertise working hand in hand.

Residential and school development near Marble Arch
Stirling Thistle Marches shopping centre
Group land at Mill Hill transferred for housing development
National Physical Laboratory
Industrial and retail warehousing

Investments



Manchester Metrolink, which carries 14 million passengers a year, is being extended.

Through private funding of infrastructure, John Laing Investments is extending the Group's role as a shareholder as well as its traditional one as a designer and contractor. Laing has considerable experience of PFI and points to a 30-year track record in this type of the investment. With a strategy of investing in infrastructure which to date includes roads and bridges, light and heavy rail, airports, energy, water and hospitals, John Laing Investments has built a substantial and diversified portfolio. The Group's policy of investment in projects without construction work being a precondition ensures total objectivity and sets it apart from competitors.

Particular emphasis is being placed on investment opportunities in Asia Pacific through the company's Hong Kong subsidiary, John Laing Investment (Hong Kong). Laing is seeking actively to expand its investments through a range of transportation and utility deals throughout the region.

Power

The first independent power producer in Malaysia, YTL Power, was floated on the Kuala Lumpur Stock Exchange during 1997 as YTL Power International and Laing is an investor in that company. Towards the end of 1997, John Laing Investment Pte took an equity stake in the Loy Yang A power plant and coal mine in Victoria, Australia.

Investment Portfolio

- UK
Severn River Crossing, UK Highways, Birmingham Airport Holdings, Altram LRT, Altram (Manchester), Octagon Healthcare, M40 Trains
- Europe
Europistas, Eurovias
- Asia Pacific
YTL Power, Loy Yang Power

Roads and Bridges

A concession company maintains and operates both crossings of the River Severn, including the Second Severn Crossing, a project designed and built by Laing in joint venture with GTM Entrepouse and completed in 1996. Early in 1997, the debt element of a complex financing package, developed for the Severn crossings project, was refinanced on improved terms. Laing also has a stake in UK Highways, the consortium carrying out the improve, operate and maintain 30-year concession for a 123 km section of the M40 motorway. Payment will be received from Government in the form of traffic-related 'shadow tolls'.

Airports and Rail

During 1997, the Eurohub terminal at Birmingham International Airport was integrated with the main terminal and runway operations under a new company, Birmingham Airport Holdings. Laing's investment in Eurohub was exchanged for an interest in the new company.

The private sector consortium of Laing, Ansaldo Trasporti and Travel West Midlands is investing over £9 million in the Midland Metro light rail system in the West Midlands. In addition, Laing, in consortium with Ansaldo Trasporti, Serco and 3i Group, has recently taken over the franchise to operate the Manchester Metrolink light rail system

Benefiting from strategic decisions

and to design, construct and operate the extension to Salford Quays and Eccles.

In the heavy rail sector, Laing has a minority interest in M40 Trains which operates services on the Chiltern Railway between London and Birmingham under a seven-year franchise.

Healthcare and Government

Leading the consortium, Octagon Healthcare, Laing has invested in the new £200 million Norfolk and Norwich Hospital, the largest ever PFI contract in the UK health sector. The contract for the design and construction of the hospital was awarded to John Laing Construction, and infrastructure and enabling works for the four-year project commenced early in 1998.

A new £64 million training facility at the MoD's Joint Service Command and Staff College at Shrivenham in Oxfordshire is to be provided under a PFI contract, with Laing and its facilities manager partner, Serco, attaining preferred bidder status. The Laing/Serco consortium has also been nominated by the DTI as preferred bidder for the £80 million redevelopment of laboratory buildings for the National Physical Laboratory at Teddington.



Loy Yang A
Loy Yang Power is at the forefront of environmental management; dust emissions average just 25 per cent of regulatory limits

Community involvement

Laing has a long-standing commitment to contribute to the wider community and continues to take an active role in community affairs.

A business is an integral part of the community within which it operates. The interests of its shareholders are important, but the company also has the responsibility to embrace the wider concerns of the community. Laing considers it wholly proper, therefore, to utilise the many resources and personal talents within the Group to help improve the quality of life for current and future generations.

By being in work and contributing to the success of the business, our staff and those who work with us are among the fortunate in our society able to exercise choices denied to the less fortunate. Laing believes in extending these choices and the community support that we give is aimed at providing opportunities for the disadvantaged to realise their goals.

Laing's community affairs policy is based on the reality of working life where success comes through teamwork. The Company has identified a number of key 'team players' and works alongside a wide range of organisations including Business in the Community, The Prince's Trust and the Community Development Foundation.

In support of its work to regenerate urban estates, Laing established two training centres in east London dedicated to training local people. These were established prior to the introduction of The New Deal, the Government's new employment scheme, which was introduced in January 1998, to raise the employment prospects of young people between the ages of 18 and 24 who have been out of work for more than six months. The Company actively supports the objectives of the scheme.

Employees at all levels are encouraged to use personal and collective skills to help the disadvantaged. Homeless people, for example, have benefited through the resources and talent within the Company which have been used to provide facilities - including cold weather shelters.

In the United States, the staff of John Laing Homes has become involved in an ambitious project to build a 14,000 square feet hospice for homeless AIDS patients. The Laing team is encouraging others in the California housebuilding industry to join it in raising funds and pooling expertise and resources to enable the Emmanuel House project to become a reality.

In addition to providing practical assistance, Laing people raise funds for numerous charities through group and individual endeavours, running marathons, tackling army assault courses, climbing mountains and abseiling buildings to help others. Money raised in this way is frequently matched by contributions from Laing's Charitable Trust.

A long-standing
commitment to the
wider community

Supporting the Government's New Deal initiative
A champion of Business in the Community
Homeless AIDS patients benefit from hospice project



One of Laing Training Services' training centres in London, helping members of the community back to work on local projects.

Environment

A rigorous approach to environmental concerns

Increasing demands for products and services to be environmentally sustainable, call for a reduction in pollution levels and more thoughtful land use, as well as the inevitable impact of construction and civil engineering projects on the environment, were addressed by Laing during 1997. The rigorous application of the Group's established environmental policy, together with the development of a highly qualified and experienced team of environmental scientists, has ensured continuing participation and contribution in this important area.

The skills and specialities of Laing's environmental experts are increasingly used throughout the business to profitable effect, particularly in the area of land use. Renewed calls from Government for greater development of 'brownfield' sites for the location of new homes were answered by Laing Homes - which, in 1997, achieved 65 per cent of UK turnover from sales of homes on such land and thereby exceeded the Government's present target. The Group's risk assessment procedures were critical in developing such sites - with the sampling and analysis of buildings, ground and groundwater ensuring the safety of future house buyers and

playing a significant role in fixing land and property values and in loss prevention management.

Multi-disciplined project management teams were formed for three major pharmaceutical and laboratory research sites in the south of England. Environmental challenges raised by radiation, asbestos, pathogens and toxic chemicals in old buildings and site landfills were successfully overcome. Large land and property acquisitions are assessed through all phases, from pre-acquisition environmental audits to post-remedial validation reporting. Laing's standard remedial methodology documents have been received with enthusiasm by the waste and groundwater sections of the Environment Agency (EA) and by local councils' planning and environmental health departments. These were accepted for co-ordinating EA guidance - including site worker health and safety - using Laing occupational hygienists and standard site health and safety plans.

Laing's environmental consultancy services are also in demand externally, currently being used by major banks on loan security assessment of potentially contaminated land and property.

In Europe, a US-based corporation has engaged Laing to carry out environmental compliance audits on a number of industrial sites.

Throughout 1997, Laing continued to investigate and implement innovations which offer potential environmental improvements. Laing Homes, for example, carried out assessments on a water recycling system which collects, stores, chemically treats and re-uses 'grey' water (previously used for bathing) for toilet flushing, with a potential fresh water saving of 30 per cent. The system is now under consideration for incorporation into the division's building programme.

Energy efficiency continues to occupy a high profile, and a 'Michigan' four-bedroom house built by Laing Homes at Cobham, Surrey, achieved a score of 99 per cent under the Department of Environment, Transport and the Regions' Standard Assessment Procedure. Older homes average 35 per cent.

- Government target of 'brownfield' development exceeded
- Multi-disciplined project management teams formed
- Environmental consultancy services in demand externally
- New homes innovations explored

Operating and financial review

James Armstrong
Finance Director



Group profit before taxation for the year ended 31 December 1997 rose by 31% to £32.2 million (1996 - £24.5 million). Turnover for the year was £1.46 billion (1996 - £1.25 billion) and a profit before interest of £32.5 million (1996 - £22.6 million) was reported.

Construction

	1997 £ million	1996 £ million
Turnover	1,122.6	970.4
Profit on ordinary activities before interest	4.9	1.3
Net liabilities	(42.5)	(69.9)
Employees (average number)		
UK	5,424	5,453
Overseas	2,603	2,345

The 16% increase in Construction turnover, in comparison with 1996, arose mainly in Civil Engineering and Laing Management.

A slowly improving trend in the construction margin on the secured work in the UK is emerging in the operating result.

Work in hand increased in the year by 20% to £1,316 million (1996 - £1,093 million), the increase being mainly attributable to Laing Management and the £200 million contract for the semiconductor facility in Dunfermline, Scotland, for Hyundai. Since the end of the year, the award of the construction contract for the £200 million Norfolk and Norwich Hospital has further increased the level of secured work.

Building

Turnover for the year was £533.0 million (1996 - £507.2 million).

The recovery in the market has had a geographic bias towards the South and the Midlands, and our activities in the North returned to profit - despite the absence of much improvement in the market.

The award of the concession for the new Norfolk and Norwich Hospital to Laing-led Octagon Healthcare represents another major construction opportunity. It is likely that another two projects within the Private Finance Initiative (PFI) - the Joint Service Command and Staff College at Shrivenham and the National Physical Laboratory at Teddington - will shortly be awarded to consortia led by the Group.

Major projects that have reached practical completion include the £82 million NatWest Tower refurbishment, the £45 million Britannic Assurance office in Birmingham and the £47 million Central Science Laboratory for the Ministry of Agriculture, Fisheries and Food in York.

Management

Turnover of £212.1 million (1996 - £152.9 million) represents a 39% increase over the previous year.

This growth in turnover is expected to continue in the current year - mainly as a result of the Hyundai semiconductor facility contract. This contract has been affected by the economic situation in Korea and some construction work has been suspended for a limited period - by Hyundai and in accordance with the terms of the contract - to enable the project to be financed internally. We are assisting the client to reschedule the programme.

Construction management - where fees only are taken into turnover - is increasing to a similar level as that of management contracting due to this alternative form of contract being increasingly adopted - e.g. the New Parliamentary Building in Westminster, the Millennium Experience, Greenwich, and the World Cargo Centre for British Airways at Heathrow. The strategy in this area of our business is to focus on market sectors where the Group has long experience - e.g. in transportation, pharmaceuticals and commercial property.

Civil engineering

The turnover for the year of £128.8 million reversed the decline reported last year (1996 - £92.5 million).

The secured work in this Activity has been maintained at a higher level than in 1996. The level of new work opportunities has reduced as a result of the roads review being conducted by the Government, and by the delaying of the Channel link rail project. Other opportunities for infrastructure work in transportation - airports in partnership with BAA, and heavy and light rail - should, however, maintain our workload.

The £100 million Millennium Stadium now under construction in Wales - as the replacement for Cardiff Arms Park - is currently the most significant contract in this Activity and good progress is being achieved.

Overseas

The turnover for the year was £144.3 million (1996 - £137.3 million).

In the Middle East, the senior management of our long established business in the United Arab Emirates has recently been reorganised and we are restructuring the operations in order to rebuild a profitable business. This sector of our business also includes the Near East and Central Asia where the profitable completion of two major projects - Ashgabat Airport in Turkmenistan and a factory in Uzbekistan - has benefited our results. In joint venture with a long established Turkish partner, this area offers considerable potential for new infrastructure - but the availability of finance is a continual constraint.

In the Far East, the majority of our business is in Hong Kong where the limited 'backlash' from the recent economic turmoil in South East Asia has had little effect on current construction work. In the Philippines, however, the effect of the regional

economic problems on the economy has increased the demands on the joint venture management team in the context of the construction of an £80 million commercial and residential development. We benefit enormously from the strength of the client, our joint venture partner, a favourable cash position and a currency hedge on the contract liabilities.

Other construction

Other construction turnover for the year was £104.4 million (1996 - £80.1 million) - from Laing Engineering, O C Summers, Laing Technology Group and EPL Plant Hire. Each of these Activities achieved growth in profits by comparison with the prior year.

Homes

	1997 £ million	1996 £ million
Turnover	315.4	275.8
Profit on ordinary activities before interest	21.9	14.3
Net assets	225.8	190.8
Employees (average number)		
UK	494	438
USA	154	146
Unit sales (number)		
UK	1,531	1,831
USA direct units	794	838
joint venture units	149	2

United Kingdom

It is evident from a 56% increase in profit before interest that we have the right strategy for taking advantage of the recovery in the UK housing market.

The recovery is strong in the South East, where our land bank is concentrated, and a number of prominent development sites in this area - e.g. Stanmore, Wimbledon and Thames Ditton - are achieving superior returns. The operating margin is lower in the Midlands while, in Scotland, the results are disappointing. Additional investment will be directed towards those areas where the best returns can be achieved.

Private housing sales of 1,531 units were achieved for the year in comparison with 1,831 units in 1996 and forward sales at the end of the year were more than 25% in excess of those of the previous year.

It was reported in 1996 that the strategy for the Homes business had changed and that the product range had been widened to include larger detached houses. We are, as a result, seeing a rising trend in the average prices - which increased to £117,000 in the year compared with £89,500 in 1996.

The objective for Laing Homes is to achieve a return on assets such as to place it in the upper quartile of housing companies in the UK. Our aim is to be regarded by our customers as one of the premier house builders in the areas and market segments within which we operate - with a high reputation for customer service, quality, design and environmental awareness.

United States

The profit before interest from US housing increased by 40% to £3.5 million in comparison with £2.5 million in 1996 - and the improvement was entirely attributable to the strong market in California. In Virginia, a small profit in 1996 reversed into a loss in 1997 - but there are signs that the market is improving. The merger of our entire US housing business with that of Watt Residential Partners - conditional only on the arrangement of interim financing - has been announced. This will result in our consolidation, in future, of 50% of the earnings from that larger entity. We will also thereby reduce our net assets in US housing by £54 million and we should benefit from the wider geographic spread of the joint business - operating, as it will, in

some seven states. As reported in the Chairman's Statement - "We will be investors in an entity that has the critical mass to enable the Initial Public Offering to proceed in due course".

Property

	1997 £ million	1996 £ million
Profit on ordinary activities before interest	4.7	5.7
Net assets	4.6	4.7

Occupational demand is at its highest level for many years and the commercial property market is in a strong up-swing which is expected to be sustained for another year, at least, before moderating. In this favourable economic environment, John Laing Property achieved good lettings and sales and secured new developments which should provide a continuing contribution to profit.

Among the highlights of the year were:

- substantially completing the letting programme on Stirling Thistle Marches - with a rent roll that should enable a satisfactory sale in the near future
- pre-selling the Borehamwood industrial development
- negotiating new developments in Milton Keynes, Slough, Plymouth and London's West End - conditional upon planning approval, and
- a reduction of £1.2 million in property overheads and a rationalisation of the space occupied by the Group - resulting in the transfer of 9.5 acres of land, with planning permission, at our head office in Mill Hill for development by Laing Homes.

The results for Property Division include £1.5 million (1996 - £5.3 million) profit from the deferred sale proceeds of Castlecourt, a retail development in Belfast.

Investments

	1997 £ million	1996 £ million
Profit on ordinary activities before interest	4.9	4.2
Net assets	36.4	30.8

A specialist investment team has been engaged on opportunities arising from PFI in the UK. The Group is one of the market leaders in this area and the team is also producing new work for our Construction Division as well as new investment opportunities.

The economic turmoil in the Asia Pacific region will result in few new infrastructure projects in the near future but the 'shake out' of the infrastructure sector is resulting in opportunities for investment in situations where existing assets are being refinanced or privatised. Our investment team, based in Hong Kong, is responsible for identifying sound projects with major international partners that are capable of producing better than average returns.

Three investments were made during the year:

- an investment in the Birmingham International Airport project following its acquisition of our investment in Eurohub and on which a profit of £2.8 million has been included in the results for the year
- a consortium in which the Group has a leading role was awarded the concession for Manchester Metrolink light rail project - which requires the extension of the existing

successful system and the management of the operation over a period of 17 years, and

- the investment of £6.4 million in the largest power generating company in the State of Victoria, Australia, as a result of the privatisation programme being pursued by the Government of Australia. It is expected that the value of this investment will benefit not only from the growing profitability of the company but also from the eventual listing of the shares.

The Investment Division received the first capital repayment of £2.5 million from Europistas and, coupled with the 1996 final dividend, that took the total return on the Group's interest in Europistas up to £4.0 million (1996 - £4.3 million). The Europistas concession is due to end in the year 2003 and we anticipate a rising level of capital repayment over the remaining concession life. In view of the capital repayments, it is unlikely that there will be any further dividends.

Early in 1998, and after a long period of negotiation, financial close was achieved on the Norfolk and Norwich Hospital contract and construction work has now begun.

Profit on disposal of investments and other fixed assets

The net profit for the year on disposal of investments and other fixed assets was £9.3 million (1996 - £7.5 million). These profits arose within the investments and property sectors and are included within the profit on ordinary activities before interest referred to throughout this Operating and Financial Review as follows:

	1997 £ million	1996 £ million
Investments	5.5	2.1
Property	3.8	5.4
Total	9.3	7.5

Interest

The Group's principal exposure to interest rate fluctuations is on UK deposit rates and US borrowing rates. During 1997, UK deposit rates increased modestly as the Bank of England eased rates upwards to counter inflationary pressures. US interest rates remained relatively stable throughout 1997. The Group interest charge for the year was £0.3 million (1996 - credit of £1.9 million) which reflects the higher volume of average net borrowings compared with 1996.

Taxation

The tax charge for 1997 was £6.0 million - which equates to an effective tax rate of 19% (1996 - 24%). The tax charge is low in relation to profits - principally due to the use of Advance Corporation Tax previously written off and to the use of tax losses brought forward to shelter capital gains. These savings are partly offset by unrelieved overseas losses.

Foreign Currency

The US\$ denominated assets in the US housing operations are matched by US\$ denominated borrowings, in order to minimise the effect of exchange rate movements on net assets. Decisions on whether to cover exposure to exchange rate fluctuations on other foreign investments are taken on a case by case basis. By so doing, full consideration is given to the size of the investment, the availability of a cost effective hedging instrument and the exit strategy for the relevant investment. Where the Group invests in developing markets, a risk premium is added to the hurdle rate of return to cover country and exchange rate risk.

The book value of overseas assets, excluding US housing assets at 31 December 1997, was £17.0 million (1996 - £1.7 million). The most significant items are the Group's investment in Europistas, which is included at a cost of £7.5 million, the investment in YTL Power at a cost of £5.0 million, and the investment in Loy Yang Power at a cost of £6.4 million.

The Group seeks to cover exposure to exchange rate fluctuations on trade receivables and payables - provided that the costs of doing so would not, in the opinion of the Directors, be prohibitive.

Group Treasury provides a service to the corporate centre and to the operating divisions to enable risk to be managed at the lowest possible cost. It is not a profit centre.

Operating and financial review continued

Finance

Net Group funds at the beginning of 1997 were £74.6 million and reduced to a closing position of £26.3 million. The profile of cash flow in the Construction Division is such that the Group normally experiences a net cash outflow during the early months of the year, followed by a net inflow in the latter part of the year. The Homes Division experiences a similar cash flow trend due to the higher volume of conveyances during the second half year. During 1997, these trends resulted in a first half Group net cash outflow of £40.7 million and we anticipate a similar cash flow profile in the first half of 1998.

Housing assets in the UK and USA increased in 1997 by £35.0 million, property sales contributed cash receipts of £10.8 million and sales of investments contributed £5.9 million. New investments absorbed cash of £6.6 million.

The Group's core banking facilities are utilised principally in providing a currency hedge against US\$ denominated assets. The scheduled repayments on these facilities were re-negotiated during the year and are now repayable in February 2000.

The Group has announced that the net assets of its US housing operations in California and Virginia will be contributed to a joint venture company with Watt Residential Partners. The joint venture company, W L Homes, is raising debt finance of US\$88 million which is without recourse to the Group. As a condition of the transaction, W L Homes will repay US\$88 million of Laing Group funding and an equivalent amount will be utilised to repay Group US\$ borrowings.

The Group will account for the results of W L Homes using the gross equity method in accordance with Financial Reporting Standard 9 - Associates and Joint Ventures. Accordingly, the borrowings of W L Homes will not be reported within Group loans and Group cash will, therefore, increase by US\$88 million as a result of the transaction.

The Group's net cash position enhances its ability to pursue a strategy of investment in UK and international infrastructure projects.

Year 2000

The Group has established a working party to identify the business risks relevant to Year 2000 compliance. All critical systems are being tested and, where the possibility of non-compliance has been identified, a programme of corrective action is being implemented. The Group has advised all major suppliers of their responsibility to ensure Year 2000 compliance on recent and future equipment purchases.