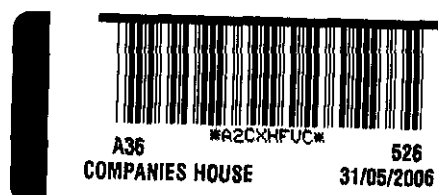


JOHN LAING REINFORCED ITS POSITION AS  
A MARKET LEADER IN THE UNITED KINGDOM...

AS AN ORIGINATOR, INVESTOR AND MANAGER  
OF PROJECT INVESTMENTS...

THAT GENERATE ATTRACTIVE AND ROBUST  
RETURNS OVER THE LONGER TERM.

1343570



**> Forward-looking statements**

Certain statements contained in this document, including those in the "Operating & Financial Review" constitute statements that are, or may be deemed to be, "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "forecasts", "plans", "anticipates", "targets", "aims", "continues", "expects", "intends", "may", "will", "would" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements involve known and unknown risks, uncertainties and other factors and include statements regarding the Group's intentions, beliefs or current expectations concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the industries in which the Group operates. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. A number of factors

could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation: conditions in the operating margins, anticipated investments and capital expenditures, changing business or other market conditions and general economic conditions. Such risks, uncertainties and other factors are set out more fully in the "Business and Financial Risks". These forward-looking statements based on past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Readers should not place undue reliance on forward-looking statements, which speak only as of the date of this document. The Group will not undertake any obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances, or unanticipated events occurring after the date of this document except as required by law or by any appropriate regulatory authority.

2005

# *our achievements*

## BUSINESS HIGHLIGHTS

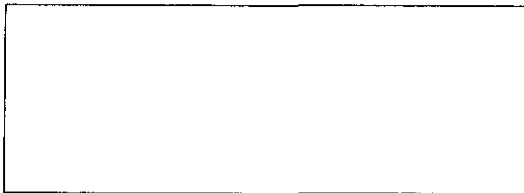
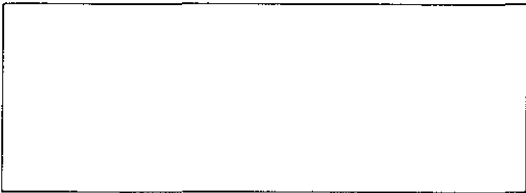
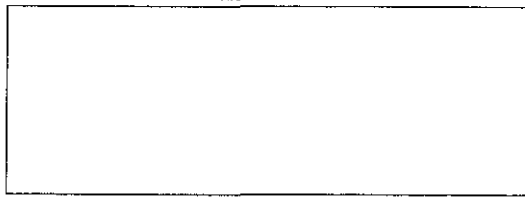
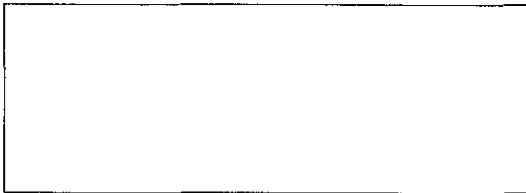
- › WE REMAIN COMMITTED TO A STRATEGY OF DELIVERING SUSTAINABLE PROJECT EARNINGS TOGETHER WITH CONTINUING GROWTH IN THE VALUE OF INFRASTRUCTURE ASSETS
- › INCREASED GROUP PROFIT BEFORE TAX OF £35.8 MILLION (2004 - £25.0 MILLION AS RESTATED FOR IFRS)
- › SUCCESSFUL RIGHTS ISSUE IN JULY RAISED £95.5 MILLION AFTER COSTS TO SUPPORT FUTURE GROWTH
- › DISPOSAL OF A 50% INTEREST IN THREE OPERATIONAL POLICE SECTOR ASSETS FOR PROFIT OF £13.0 MILLION
- › DISPOSAL OF JOHN LAING'S 50% INTEREST IN THE JOINT SERVICES COMMAND AND STAFF COLLEGE FOR A PROFIT OF £7.9 MILLION
- › PORTFOLIO OF 48 LONG-TERM CONCESSIONS AT 31 DECEMBER 2005 (2004 - 42) WITH 27 FULLY OPERATIONAL
- › 20% GROWTH IN PORTFOLIO VALUATION TO £330.1 MILLION OVER THE DECEMBER 2004 VALUATION, AFTER INTERVENING TRANSACTIONS ARE TAKEN INTO ACCOUNT

# *in 2005...*

- > 44,500 pupils attended our schools*
- > we invested in more than 430 km of road in Europe*
- > 17.7 million passenger journeys were made on our railway services*
- > in excess of 567,000 people used our hospitals*
- > we operated 26 police stations and 2 police training centres with another 6 stations under construction*
- > we installed 15,713 street-lights*

*AND WE ARE RESPONDING TO FURTHER OPPORTUNITIES...*

# partner



The business philosophy underpinning these partnerships is one that emphasises joint working with strong partners on the basis of shared values, a commitment to quality delivery and clearly defined roles.

S

*"continuing to  
develop through  
strong alliances..."*

# Chairman's Statement

“John Laing continues to reinforce its financial and organisational capacity to take advantage of trends related to infrastructure development and investment.”

*INFRASTRUCTURE MARKETS  
ARE ATTRACTING SIGNIFICANT  
INTEREST AND THERE IS STRONG  
EVIDENCE OF A CONTINUING  
APPETITE FOR ACQUIRING  
OPERATIONAL ASSETS IN THE  
SECONDARY MARKET*

*DEVELOPMENTS IN THE  
FINANCIAL MARKETS HAVE  
INCREASED THE VALUE OF THE  
GROUP'S EXISTING ASSETS AND  
OPERATIONS AND ENSURED  
SIGNIFICANT INNOVATION AND  
A DEPTH OF COMPETITIVE  
INTEREST IN THE SECTORS  
IN WHICH WE OPERATE*

W W FORRESTER  
CHAIRMAN



# IN 2005 JOHN LAING WAS PRINCIPALLY FOCUSSED ON EXPANSION OF EXISTING PROJECTS AND ORGANIC GROWTH IN EQUION, LAING ROADS AND LAING RAIL

I am pleased to report that 2005 was another year of progress and growth for the Company. We reinforced our position as a market leader in the UK and continued with our strategy of selective expansion in growing overseas markets.

Across these markets, the Company acts as an originator and manager of project investments, a long-term partner of government entities and an investor in Project Companies which generate attractive and robust returns over the longer term.

Private financing and delivery of the serviced infrastructure assets required for improving public services, and partnerships between the public and private sectors to meet a wide variety of service needs, are now firmly established in a growing number of the world's most advanced economies.

Accelerating change in the financial markets and the prominence of infrastructure as an asset class have been of great significance for our operating environment in 2005, increasing the value of the Group's existing assets and operations on the one hand, and, on the other, ensuring significant innovation and a depth of competitive interest in the sectors in which we operate.

Accommodation, Roads and Rail remain the key areas in which the Company operates and in each area further opportunities became evident during 2005. Fresh opportunities have arisen in new sectors, and through additional joint ventures, partnerships and innovative structures, we have further developed our competitive capacity to meet these challenges.

John Laing continues to reinforce its financial and organisational capacity to take advantage of trends related to infrastructure development and investment; and your Board remains committed to a strategy of delivering sustainable project earnings together with continuing growth in the value of the infrastructure assets developed and managed by the Group.

## RESULTS

The Group profit before tax on continuing operations for the year ended 31 December 2005 was £35.8 million, compared to £25.0 million in the prior year.\*

This result reflects underlying growth in the profitability of the operational investments portfolio together with profits on disposal of selected assets and was achieved after allowing for a significant increase in business development expenditure and costs relating to an expanded programme of bidding.

\* All comparative figures have been restated to comply with International Financial Reporting Standards.

## DIVIDENDS

In July 2005, the Company conducted a well supported rights issue to support future growth, raising £95.5 million after costs. As a result there were 233,154,341 Ordinary Shares in issue as of 31 December 2005 (2004 – 182,836,621). The 2005 interim dividend of 1.2 pence per share (2004 – 1.1 pence) was paid on the enlarged post-rights share capital.

The Board continues to adopt a policy of growing future dividends, provided that they are fully covered by earnings. The Board is proposing a final dividend of 2.45 pence per Ordinary Share. Taken with the interim dividend, this increases the proposed full year dividend to 3.65 pence per share (2004 – 3.3 pence), an increase of 10%.

Subject to shareholder approval, the final dividend for 2005 will be paid on 1 June 2006 to shareholders registered at the close of business on 24 March 2006.

## PORTFOLIO REVIEW

At the year end our portfolio included 48 project interests of which 27 are fully operational and a further 11 partially operational. The Group reached financial close on eight new project concessions during 2005 and a further six projects are currently at preferred bidder stage.

One disappointment was the decision in late January 2006 of Surrey County Council not to proceed as expected with their new office accommodation project on which we had been working as preferred bidder. We are examining options for recovery of costs incurred under current government policy, but as a matter of prudence have written off £4.6 million of capitalised bid costs within the 2005 results.

Our serviced accommodation projects in health, education, local and central government sectors have continued to perform well. These are predominantly governed by availability based payment mechanisms. The risk management strategies embedded in our approach to sourcing construction and ongoing servicing have continued to prove robust.

In the Roads division, new projects in Finland and Poland reached financial close. Our first Norwegian investment became fully operational and the traffic volumes across our operational "shadow toll" UK roads met aggregate forecasts.

Chiltern Railways' performance was adversely affected by the collapse of third party building works at Gerrards Cross which severely interrupted services for a seven week period in July and August 2005. Liability for costs and lost revenues flowing from these events has been accepted by the counterparty to the relevant access agreements.

## VALUATION

A valuation of the portfolio has been conducted in line with the independently validated methodology which the Company has consistently applied since 2000. The results indicate a portfolio valuation of £330.1 million, a 20% growth over the December 2004 valuation after intervening transactions are taken into account.

## ACQUISITIONS AND DISPOSALS

The Group undertook no major portfolio acquisitions during 2005, being principally focussed on the development of existing projects and organic growth in Equion, Laing Roads and Laing Rail.

However, acquisitions from co-investors during the year included the purchase of further stakes in Edinburgh and Glasgow Schools through a pre-emption opportunity and acquisition of the remaining 50% stake in the Walsall street-lighting project for a combined consideration of £10.9 million. On 9 March 2006 Equion Limited sold 14.23% of the Glasgow Schools project and 21.43% of the Edinburgh Schools project to the Secondary Market Infrastructure Fund. The total proceeds were £14.6 million, giving rise to profits on disposal of £3.4 million. Equion Limited retains a 20% holding in each of the two assets.

In December 2005 the Company announced the formation of Laing Capital Management and the conclusion of an initiating transaction with the Allianz Group, whereby a 50% interest in three operational police sector assets was disposed of to Allianz Specialist Investments with an initial profit on disposal of £13.0 million. Post disposal, Laing Capital Management continues to manage these assets on behalf of Allianz in a structure which offers continuity to our public sector clients and increased flexibility for the Group.

One other disposal of an operational interest took place during the year in a transaction whereby Serco Investments Limited purchased John Laing's 50% interest in Defence Management (Holdings) Limited, the project company for the operational Joint Services Command and Staff College project. The Group recorded a profit on disposal of £7.9 million in a transaction which facilitated integration of the College's operations with those of the surrounding defence estate also serviced by Serco.

## PENSION OBLIGATIONS

The Group retains responsibility for The John Laing Pension Fund, which is closed to new entrants and has less than 100 contributory active members, but more than 9,000 deferred members and pensioners.

During 2005 the assumptions used for calculating the deficit have been reviewed, with the discount rate utilised to calculate future liabilities reduced in line with historically low long-term bond rates, current life expectancy projections incorporated and membership details updated following the triennial actuarial valuation. As a result of these changes the net deficit for all post retirement obligations, net of the related deferred tax asset, stood at £144.1 million as at 31 December 2005 (2004 – £135.5 million).

It is the Group's strategy to manage reduction of this deficit over time, an approach that matches 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 additional contribution of £10 million is to be made in 2006 (2005 – £6 million) to address the deficit. The additional contribution will increase by 3% per annum, unless agreed otherwise by the Company and Trustees, until the deficit has been eliminated.

## FINANCING STRATEGY

Having successfully refinanced its corporate facilities in December 2004, the Group raised further resources through the rights issue which successfully concluded in July 2005.

The subsequent launch of Laing Capital Management reinforces the Group's ability to realise cash from part disposal of interests in operational projects while retaining the asset management responsibility. 2005 exhibited further strong evidence of the significant continuing appetite for acquiring operational assets in the secondary market.

As a result of these actions, the Group has resources in hand and the means to support continuing organic growth and expansion. As at 31 December 2005, the Group had cash balances of £108.6 million (2004 – £42.7 million), excluding non-recourse debt and cash in our PFI Project Companies.

## DIRECTORS AND STAFF

2005 presented major challenges and significant opportunities for John Laing, the Board and its employees. There were no changes to Board membership during the year and I would like to thank my Director colleagues for their continued support and application in overseeing the Company's strategic direction and corporate governance. I would also once again like to pay a warm tribute to the enthusiasm and commitment of the staff who are contributing to excellent performance across a wide range of activity.

## PROSPECTS

During 2006 John Laing expects to make substantial progress in bringing a number of major new projects to financial close and in further developing activity in new growth sectors for PFI/PPP investment. The Company remains satisfied that all the major hospital projects it has at preferred bidder stage will proceed to financial close and has received assurances from all the relevant Trusts that they remain committed to implementing these schemes. Both the financial strength and the operational skill base of the Company were augmented during the year with a view to taking advantage of new fields of opportunity in new markets, and our expanded programme of bidding reflects the breadth of the relevant opportunities now available.

More broadly, infrastructure markets are attracting considerable interest as governments seek to address economic development, social policy and environmental objectives with enhanced investment programmes, structured to ensure certainty of delivery and quality of operation. These trends underpin our ability to create shareholder value and this is further reinforced by better recognition of the attractions of infrastructure investment as an asset class.

The Board believes that John Laing is well placed to take advantage of emerging opportunities through innovation in relation to new activities and further optimising the performance of the existing portfolio of activities and project investments. In line with this outlook, the Company approaches the coming period confident of the prospects for sustaining the pattern of profitable growth which has been established over recent years.

*With W. Forrester*

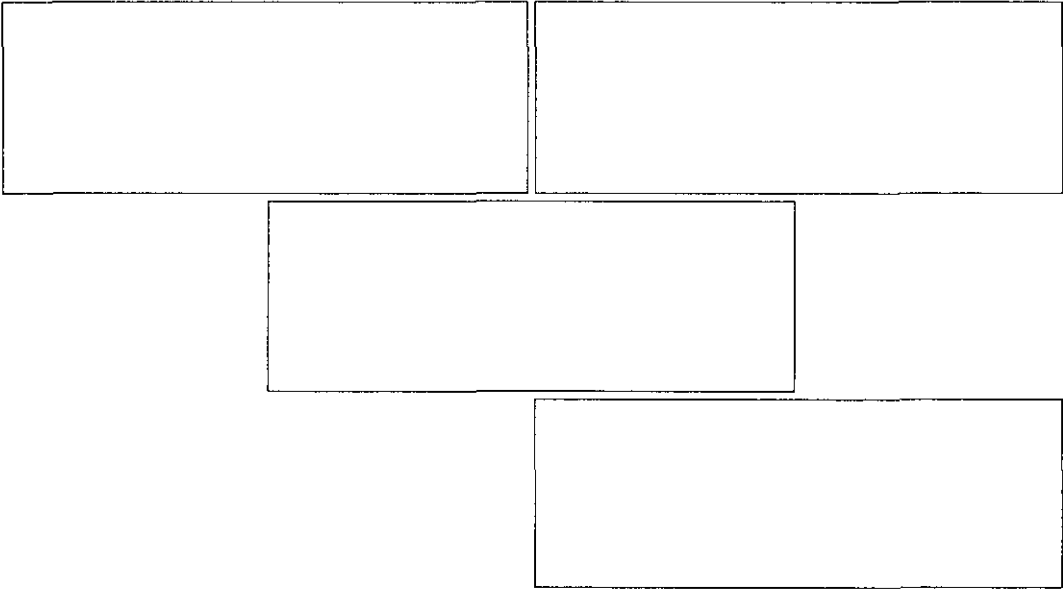
W W Forrester  
Chairman  
13 March 2006

# market

*“the emergence  
of infrastructure  
investment as a  
more distinct  
asset class...”*

S

Secondary market appetite for acquisition of interests in operational project assets has increased noticeably as liability matching, encouraged by tightening pension fund regulation in the UK and elsewhere, has led to a significant and continuing diversion of funds from equity investment.



## Operating & Financial Review

“The John Laing business model will continue to adapt to create further internal capacity and additional partnerships and joint ventures.”

*JOHN LAING MAINTAINS AND REFRESHES A DIVERSE POOL OF SKILLS AND RECRUITS EXPERIENCED STAFF FROM A WIDE RANGE OF DISCIPLINES AND BACKGROUNDS IN ORDER TO FULFIL THESE ROLES*

*STRONG GROWTH IN THE NUMBER AND VALUE OF PFI/PPP OPPORTUNITIES COMING TO THE MARKET WAS EVIDENT IN A NUMBER OF MARKETS OUTSIDE THE UK*

ANDY FRIEND  
CHIEF EXECUTIVE

# THE GROUP SPECIALISES IN ORIGINATING PROJECTS, INTEGRATING ALL THE FINANCIAL AND TECHNICAL *ELEMENTS REQUIRED FOR THEIR DELIVERY AND MANAGING THE INVESTMENT PHASE TOGETHER WITH SUBSEQUENT OPERATIONAL RISKS*

## BUSINESS MODEL

John Laing is unique among UK listed companies in that its core business is to create shareholder value by acting as an investing developer of substantial serviced infrastructure assets utilised in the provision of public services. These assets are privately financed and in general subject to long-term concessions with 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, as market sectors develop, increased emphasis is being placed on the credibility and track record of sponsors in delivering high quality operations for the longer term, post construction.

The Group specialises in originating projects, integrating all the financial and technical elements required for their delivery and managing the investment phase together with subsequent operational risks. John Laing maintains and refreshes a diverse pool of skills and recruits experienced staff from a wide range of disciplines and backgrounds in order to fulfil these roles.

Project delivery, from bidding to management of operation stage concessions, is organised through three sector focussed subsidiaries – Equion, Laing Roads and Laing Rail. A regulated entity, Laing Capital Management, manages investment interests in operational projects on behalf of co-investment partners.

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

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 employs a team of technical and operational specialists allowing the Group to manage operational risks in specific circumstances on some police, education and local authority projects where Equion Facilities Management ('Equion FM') is the appointed sub-contractor. Equion FM's capacity and activity enables the Group to price service inputs more broadly and, by creating the option of direct provision, contributes to cost efficiency and 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 2005 was Chiltern Railways.

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.

The John Laing business model has developed as part of a sector of activity responding to opportunities created by government needs for efficient and cost effective delivery of major investments which underpin public services. The market itself is now internationalising rapidly, even as the demand profile in different public service activities shifts and new organisational combinations emerge from the competitive process. As in former years, it is likely that the John Laing model will flex to create further internal capabilities, partnerships and additional joint ventures in response to these trends.

- > SUBSTANTIAL GROWTH IN PRIMARY MARKETS IN EUROPE AND NORTH AMERICA
- > IN THE UK, THE TREND OF REDUCTION IN SCALE OF NHS MAJOR PFI/PPP ACUTE HOSPITAL PROCUREMENT OFFSET BY EXPANDING INVESTMENT IN PRIMARY CARE FACILITIES THROUGH THE LIFT PROGRAMME

## REVIEW OF 2005

### MARKET DEVELOPMENTS IN 2005

The year was strongly marked by trends in the financial markets which accelerated the emergence of infrastructure investment as a more distinct asset class. Pension funds and life companies have furthered this development by placing increased emphasis on matching assets to long-term liabilities. This trend in itself has both been reinforced by, and contributed to, the decline in long-term gilt and corporate bond rates. This development has been particularly pronounced in the UK (where the yield curve inverted from October 2005), but the demand for longer term investments – particularly that giving index-linked protection against inflation – has been evident in all major economies, leading to a substantial increase in long-term bond issuance by governments.

This financial and investment backdrop has in turn had a variety of consequences for both the primary and secondary markets that John Laing operates in.

Secondary market appetite for acquisition of interests in operational project assets has increased noticeably as liability matching, encouraged by tightening pension fund regulation in the UK and elsewhere, has led to a significant and continuing diversion of funds from equity investment into fixed-interest assets. This flow was estimated at £40 billion in the UK in the year to mid 2005 by the Investment Management Association, and in the context of the accompanying fall in corporate bond and gilt yields, appears to have triggered a concomitant search for alternatives capable of yielding similarly steady but more attractive returns. As a consequence, acquisition prices for regulated infrastructure assets rose markedly during 2005, driven by well funded secondary market intermediaries that either came into being during the year or conducted new fund-raising. International institutional interest in UK infrastructure assets was noticeably strong.

This broad financial market environment also impacted on the debt structuring of major projects reaching financial close and those in competition. In particular the relative attraction of bond financing for project investments increased further by comparison with alternative bank debt solutions. Analytical evidence increasingly shows that PFI investments have a low correlation with non-infrastructure equities and corporate bonds, rendering exposure to the sector increasingly attractive as a portfolio diversifier. This in turn led to extremely keen competition for project bonds issued as part of infrastructure debt financing, whether for new projects or for acquisitions and refinancing of existing project investments.

While this backdrop has theoretically created more options for governments to access long-term funds at historically attractive rates of interest, the public policy focus continues to emphasise the value for money benefits inherent in the risk transfer achievable through PFI/PPP. This has been the key principle behind UK Government procurement of privately financed serviced assets underpinning public services for some time. While financial market developments have sharpened the competition between PFI and conventional procurement, and policy developments are leading to differential changes in the volume of new opportunities across various public service sectors, current policy plans suggest that more than 10% of Public Sector Net Investment will continue to be procured utilising private finance.

Outside the UK, strong growth in the number and value of PFI/PPP opportunities coming to the market was evident in a number of markets, with new PFI debt for projects reaching financial close totalling the equivalent of £5.7 billion as against £3.6 billion in the UK. Within Europe, the market for transport projects, particularly roads, was strong, but substantial growth was also evident in the social infrastructure sector with schools, hospitals and prisons projects coming to market in core EU markets such as Germany, Italy, Spain and France. In the accession states, roads projects continue to figure most prominently, although countries such as the Czech Republic and Hungary are now actively promoting accommodation projects.

The most striking primary market development of 2005 was the burgeoning of the USA roads pipeline which grew in scale as many states completed enabling legislation and substantial transactions were put to the market attracting significant international interest. These included privatisations with improvement obligations of existing assets (Chicago, Indiana), as well as programmes of primary development opportunities (Virginia, Texas). During the year it became clear that a tipping point had been reached whereby the traditional pattern of municipal-bond financing and conventional public sector procurement for roads will now be regularly evaluated against the privately financed alternative. Increasingly, state and city authorities will be looking to realise the latent value of operational infrastructure assets, especially existing toll roads. The extent to which this will lead on to other categories of transport infrastructure and local facilities being procured through mechanisms similar to PFI/PPP is as yet unclear. Such a broadening of primary demand is evident in Canada where pilot programmes are being either established or significantly expanded in a number of provinces including Ontario, British Columbia, Alberta and Quebec.



2005 was a General Election year in the UK and, as in 1997 and 2001, some slow down in key procurement processes was evident prior to the calling of the poll. While the election saw the return of a Government strongly committed to reinvestment in the asset base underpinning public service delivery (and all major parties campaigned in support of this objective), the post election period has seen significant policy reviews launched in major spending areas such as transport, education, local government spending and health.

In particular, all major PFI health projects have been subject to some delay as a variety of change initiatives and delivery innovations have impacted on the National Health Service as a whole. Furthermore, previously promoted schemes have been reviewed for affordability in the light of the changing role of acute, intermediate and primary care provision. Scheme review processes are generally leading to re-confirmation that projects already in procurement will proceed to implementation (often with marginally reduced scope), but the Government has indicated that the future acute hospitals PFI pipeline is likely to be of the order of £7-9 billion as opposed to a previously projected £12 billion. Offsetting this in England and Wales are initiatives in relation to expanding investment in primary care facilities through the LIFT programme, community hospitals, intermediate treatment centres and the supply of outsourced support services. In addition, while it is likely that acute hospital PFI schemes in England and Wales will tend to be of lower average size than in the past, and may be fewer in number, a growing number of health projects are evident in Scotland, Northern Ireland and in the EU outside the UK. Other sectors exhibiting significant growth in primary demand in the UK during 2005 included waste, social housing and regeneration.

#### THE COMPETITIVE ENVIRONMENT

The financial trends discussed above have had a variety of impacts on the competitive environment in which John Laing operates.

Broad institutional interest in the infrastructure sector has not only reinforced liquidity in the secondary market (and increased the number of secondary market participants) but has also led to new alliances and approaches to bidding for primary opportunities in PFI/PPP sectors and the related infrastructure market. These have included investment banks acting directly as sponsors procuring construction and service subcontracts; contractors forming co-investment partnerships with investment banks (some pooling existing project investments and sponsoring new bids, others for new bids alone); and primary funds drawing on institutional, local authority and other pension fund interest in investing in assets under construction.

These developments reflect the fact that access to a steady supply of operational project assets is the major constraining factor for intermediaries seeking to meet the

extended institutional appetite for investment in such assets. Under the impact of these influences, pricing for project equity interests traded in the secondary market has continued to advance with lower discount rates being applied to future secured cash flows and a tendency for purchasers to be more willing to place value on the potential for future refinancing, project optimisation and benefits which arise during projects lifecycles.

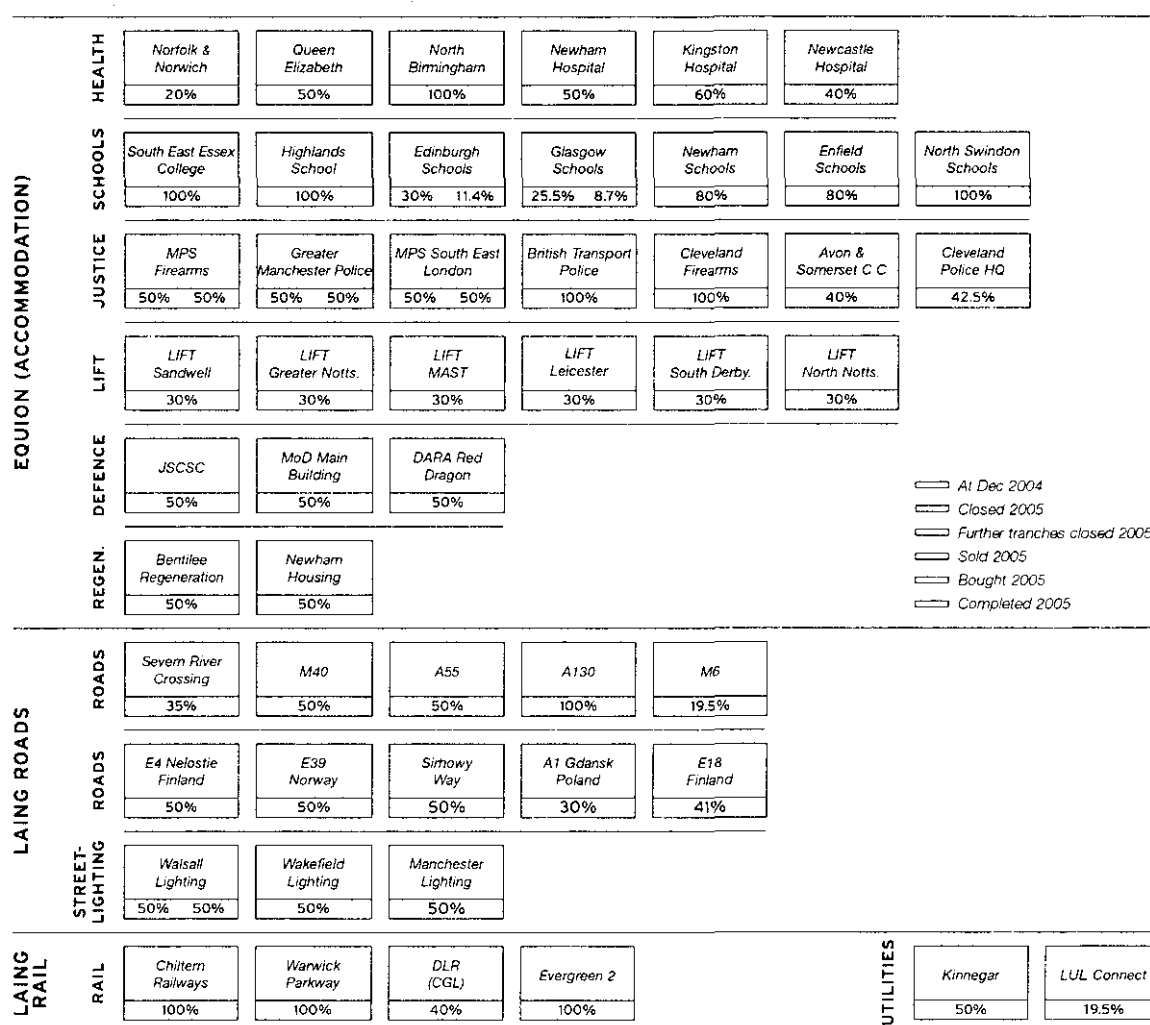
This competitive environment is having some impact on hurdle rates for project equity investments, but these are uneven between sectors and markets. Public authorities, including the UK Treasury, have observed that the development of the secondary market should have the effect of reducing the base case returns required by equity investors in the primary market. However it should be noted that equity returns are not the key driver of value for money from the public sector perspective, given the highly leveraged nature of project structures, and that returns will be related to the degree of operational stage risk that is retained by equity sponsors. Where lower risk, project models are put to the market in known sectors, competition is likely to lead to a "commoditisation effect" and a lowering of projected equity returns. However, barriers to entry continue to exist in relation to large projects, projects in new sectors and project models that require management of new risks. Set against the broader context of growing government demand in an internationalising market, and application of private financing in new sectors, there is no evidence of a substantial and general reduction in equity return expectations.

While significant barriers to entry exist in many sectors, competition is likely to be at its most intense where government authorities articulate and adequately resource a programme of procurement of substantial size embracing numbers of projects over a protracted period. On this basis, the UK's Building Schools For The Future Programme, covering England and Wales, has attracted many bidding groups. Equally the corporate approach of devolved authorities in Scotland and Northern Ireland has led to substantial market interest because the need for PFI/PPP procurement has been set within a broader context of public sector investment planning. Conversely, where large projects are inadequately resourced from a procurement perspective, or are subject to repeated delays and uncertain national backing, market interest will be repelled. This differential effect is now evident at an international scale and national, regional and city governments seeking to utilise private finance to accelerate infrastructure investment are increasingly subject to pressures to render themselves competitive, particularly where very substantial programmes are envisaged that require implementation and financial resources only available to major consortia and leading companies.

BROAD INSTITUTIONAL INTEREST IN THE INFRASTRUCTURE SECTOR  
HAS NOT ONLY REINFORCED LIQUIDITY IN THE SECONDARY MARKET  
(AND INCREASED THE NUMBER OF SECONDARY MARKET PARTICIPANTS)  
*HAS ALSO LED TO NEW ALLIANCES AND APPROACHES TO BIDDING  
FOR PRIMARY OPPORTUNITIES IN PFI/PPP SECTORS AND THE  
RELATED INFRASTRUCTURE MARKET*

## OUR PROJECT INVESTMENTS

At 31 December 2005, there were 48 investments in our portfolio. These are illustrated in the following chart:





Financial Highlights	2005 £ million	2004 £ million
Profit before taxation		
- normal operations	16.1	13.7
- profit on sale of interests in PFI/PPP Project Companies	20.9	-
Net assets	172.3	109.0
Portfolio valuation	152.9	120.7*

\* rebased for intervening transactions

Equion develops serviced accommodation projects for a wide variety of public service providers. Equion projects include schools and colleges, local health facilities, police stations, court and defence facilities and hospitals.

The Newcastle Hospitals PFI (capital expenditure £304 million), the largest of Equion's projects currently in the construction phase, has made good progress since financial close in May 2005, with initial facilities management services in operation and overall construction is on programme and budget across both the Freeman and the Royal Victoria Infirmary sites.

ExcellCare reached financial close on six further tranches of local health facilities during 2005, involving £105 million of capital expenditure under the LIFT programme. In aggregate, ExcellCare – a joint venture with Bank of Scotland – now has ten local health centres in operation and 25 under construction involving £176 million of capital expenditure. In aggregate ExcellCare's six local LIFTCos – the local joint venture bodies formed in partnership with the public sector – have an additional 15 facilities at detailed design stage, with a further 40 programmed for implementation over coming years. As these facilities come into use, Equion FM mobilises supporting facilities management and ExcellCare has the opportunity to develop additional support servicing to facilities that typically deliver a wide range of primary health services. These include dental care and mental health care in addition to improved general practice medical services, which are supported by co-location of other retail and community services.

During 2005 Regenter, Equion's social housing and regeneration joint venture, reached financial close on an initial two schemes in Stoke and Newham both of which are progressing well in the implementation stage. Regenter has recently been appointed provisional preferred bidder by the London Borough of Lewisham for the refurbishment of 1,600 housing units with a capital works value in the order of £70 million.

Equion has interests in 22 operational and partially operational projects and a further seven with facilities still at the construction phase.



Financial Highlights	2005 £ million	2004 £ million
Profit before taxation		
- normal operations	6.5	6.9
- purchase and sale of 50% of M40 road project	-	6.4
Net assets	100.1	82.1
Portfolio valuation	91.7	77.7*

\* rebased for intervening transactions

Laing Roads develops and invests in major road projects, highways maintenance and renewal projects including related servicing activities, such as investment in street-lighting renewal for city and regional authorities.

During 2005, two roads completed construction and entered into operation:

- Norway's £140 million E39 Klett to Bardshaug road, the first PPP in the country, opened to traffic two months early; and
- the Sirhowy Enterprise Way (£43 million total funding) road project in South Wales was successfully opened to traffic on 23 December 2005, three and a half months ahead of schedule.

This brings the number of fully operational projects in the Laing Roads portfolio to nine, seven of which are in the UK and two in the rest of Europe. During 2005, aggregate traffic volumes across the portfolio were in line with overall projections.

In addition, during the second half of the year, construction commenced in respect of the E18 in Finland (€300 million capital cost) and Phase 1 of the A1 in Poland (€500 million capital cost). Further to these, street-lighting projects are at the implementation stage in Wakefield and Manchester.

- > SIRHOWY ENTERPRISE WAY IN SOUTH WALES AND E39 IN NORWAY OPENED EARLY TO TRAFFIC
- > CONSTRUCTION COMMENCED ON E18 IN FINLAND AND PHASE 1 OF A1 IN POLAND
- > WAKEFIELD AND MANCHESTER STREET-LIGHTING PROJECTS AT THE IMPLEMENTATION STAGE

## LAING RAIL

Financial Highlights	2005 £ million	2004 £ million
Profit before taxation		
- normal operations	7.3	9.5
- bid costs on new franchise	(1.4)	(0.7)
- sale of development land	0.2	2.9
Net assets	56.8	54.9
Portfolio valuation	71.1	62.3*

\* rebased for intervening transactions

Laing Rail operates Chiltern Railways through a 100% subsidiary (M40 Trains) under a long-term franchise. Laing Rail delivers enhancement projects for Chiltern Railways and is a leader in practical application of project finance techniques in the rail environment. Its subsidiary, Laing Rail Projects Limited, delivers third party enhancement projects and also specialist rail consultancy services.

After a prolonged period of relatively smooth growth in patronage sustained by excellent operational performance, Chiltern Railways had an exceptionally difficult year, with seven weeks of major disruption caused by the collapse of third party building works at Gerrards Cross resulting in great inconvenience to the travelling public. Laing Rail is confident it will obtain full compensation for both the 2005 and longer term revenue and cost impacts of this event under the relevant legal agreements. Subsequent to re-opening a reliable service was swiftly restored.

Other key initiatives for Laing Rail in 2005 included:

- overseeing delivery of Evergreen 2 – Laing Rail's innovative £80 million Design, Build, Finance and Transfer project creating new station capacity, signalling and line enhancements for the Chiltern route;
- commissioning the new £20 million Wembley Depot, designed to support improved rolling stock utilisation and improve the cost-effectiveness of train maintenance; and
- project development work for new stations at Coleshill, Aylesbury Vale and West Hampstead.

- > 91.9% OF CHILTERN TRAINS ON TIME (2004 - 91.8%)
- > STRONG RECOVERY OF OPERATIONAL PERFORMANCE FOLLOWING COLLAPSE OF THIRD PARTY BUILDING WORKS AT GERRARDS CROSS
- > £20 MILLION WEMBLEY LIGHT MAINTENANCE DEPOT COMPLETED DURING 2005
- > EVERGREEN 2, LAING RAIL'S SIGNIFICANT TRACK, SIGNALLING AND CAPACITY ENHANCEMENT PROJECT, PROCEEDED TO SCHEDULE

DURING 2005 EQUION,  
LAING ROADS AND LAING RAIL  
ALL TRADED SUCCESSFULLY  
AND MADE GOOD PROGRESS  
IN SECURING NEW PROJECTS  
AND DEVELOPING NEW LINES  
OF BUSINESS

### DEVELOPMENT OF KEY RELATIONSHIPS

In order to deliver the most appropriate project solutions to public authorities, and in order to service and manage an expanding portfolio of operational investments, John Laing works in alliance with a wide range of different organisations. The business philosophy underpinning these partnerships is one that emphasises joint working with strong partners on the basis of shared values, a commitment to quality delivery and clearly defined roles.

During 2005 we continued to work closely with the Commonwealth Bank of Australia progressing a number of major projects towards financial close. Laing Capital Management also initiated joint activity with the Allianz Group, initially through co-investment in existing John Laing projects but with the intention of exploring wider infrastructure opportunities. Prominent among other co-investment relationships is our equal partnership with HBOS in ExcellCare – delivering LIFT schemes – and Excellearn – now bidding on the Building Schools For The Future Programme.

During the year our construction partners for projects in construction phase and at preferred bidder included Laing O'Rourke, Skanska, Carillion, AMEC, Costain, Mowlem and Wates amongst others, while lead service partners included Amey, Interserve, ISS, Serco and Sodexo.

During 2005 we also initiated new bidding activity with Autostrade, the Macquarie Infrastructure Group and selected local partners in the US market, and continued joint bidding activity with Skanska and Bilfinger Berger in Europe and Vinci in the UK. Our range of local and regional partners in the UK market continues to broaden.

We have a strong preference for forming ongoing partnerships and alliances which focus on the opportunities in specific sectors or public service activity. By doing this, bidding efficiencies are enhanced, best practice is transmitted from project to project and working relationships are deepened.

## 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.

A significant number of listed players in the European PFI/PPP market have started to publish valuations of their own investments. Whilst each company has adopted its own methodology, all are based on similar principles to the method that John Laing has been using for the last five years.

### 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 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'); and
- 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 48 investments for the December 2005 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 and any cash flows resulting from interest bearing loan notes are 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% or 2% to a base discount rate 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 post-tax discount rate is 10.6% (2004 – 10.6%). 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 2005 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 48 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 (2004 – 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 2005 valuation have been validated by Ernst & Young LLP\* in line with a brief requiring them to ensure that the financial analysis used to generate the valuation is both accurate and in accordance with the adopted methodology.

\* The calculations that underpin the portfolio valuation have been made by, and are the sole responsibility of, John Laing. Ernst & Young LLP has performed agreed-upon procedures to confirm that the aspects of the calculations have been performed correctly and the methodology set out by John Laing has been correctly applied. Ernst & Young LLP has not given an opinion as to value. Ernst & Young LLP performed the work exclusively for John Laing and has reported its findings to John Laing. Ernst & Young LLP accepts responsibility for its work solely to John Laing and to no other party. Ernst & Young LLP has not reviewed each of the financial forecasts approved at Project Company level by the relevant Project Company entities.

## CHANGES IN VALUATION

Movements in the portfolio valuation are set out below:

Portfolio	Portfolio Valuation December 2004 £ million	Acquisi- tions £ million	Disposals £ million	Equity and loan note subscrip- tions £ million	Refinancing and distri- butions £ million	Rebased Dec 2004 value at Dec 2005 £ million	Growth on valuation £ million	Portfolio valuation December 2005 £ million	Growth on valuation %
Portfolio									
Accommodation	152.2	8.2	(29.9)	16.2	(26.0)	120.7	32.2	152.9	27
Roads	76.1	2.6	-	2.8	(3.8)	77.7	14.0	91.7	18
Rail	67.9	-	-	-	(5.6)	62.3	8.8	71.1	14
Utilities	5.0	-	-	8.3	-	13.3	1.1	14.4	8
<b>Total</b>	<b>301.2</b>	<b>10.8</b>	<b>(29.9)</b>	<b>27.3</b>	<b>(35.4)</b>	<b>274.0</b>	<b>56.1</b>	<b>330.1</b>	<b>20</b>

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

- › AFTER REBASING TO TAKE CASH FLOWS INTO ACCOUNT, THE PORTFOLIO VALUATION REFLECTS UNDERLYING GROWTH OF 20% OR £56.1 MILLION ON A REBASED DECEMBER 2004 VALUATION OF £274.0 MILLION. THIS GROWTH INCLUDES THE POSITIVE EFFECT OF TAKING PROJECTS TO FINANCIAL CLOSE, THE EXCESS OVER PORTFOLIO VALUATION ACHIEVED ON DISPOSALS, CASH FLOW IMPROVEMENTS TO THE PROFILE OF DISTRIBUTIONS FROM OPERATIONAL PROJECTS AND THE UNWINDING OF ONE YEAR'S DISCOUNT ON PROJECTED CASH FLOWS

The cash movement relating to acquisitions in 2005 reflects the purchase of additional stakes in the Edinburgh and Glasgow Schools projects in November, and the acquisition of the remaining 50% stake in the Walsall street-lighting project also in November.

The cash movements relating to disposals in 2005 were the sale of a 50% interest in the Joint Services Command and Staff College project in September, and the cash receipt from the sale of three police projects in December.

Equity and loan note subscriptions relate to projects where commitments to invest equity and loan notes have crystallised, or to new investment in further tranches of schemes in existing LIFT concessions.

There were no cash receipts from refinancings in 2005. The proceeds and distributions include investment receipts from yielding projects whether dividend distributions, loan repayments or interest received.

At sector level, the Accommodation sector exhibited a £32.2 million rebased growth in value and accounts for 46% of the portfolio total (2004 – 51%). This outturn is the net effect of a number of factors, including:

- the successful closing of Newcastle Hospital, North Swindon Schools and further tranches of investment in LIFT schemes;
- the purchase of further stakes in Edinburgh and Glasgow Schools through pre-emption opportunities; and
- the disposal of the 50% stakes in the police assets to Allianz AG.

Taking these various transactions into account, the rebased growth for the Accommodation sector was 27% (2004 – 15%).

The Roads sector showed rebased growth of 18% and accounts for 28% of the portfolio total (2004 – 25%). Contributing factors to this growth were the successful closing of the E18 road project in Finland and the A1 road project in Poland.

The Rail sector exhibited rebased growth of 14% and accounts for 22% of the portfolio total (2004 – 23%). The Chiltern investment accounts for 73% of the sector total and increased in value by 4%.

The Utilities sector valuation increased by 8% on a rebased basis, reflecting the investment made in the London Underground Connect project. Kinnegar (the small waste water treatment plant in Northern Ireland) continues to be valued on a more prudent basis because, although steps have been taken to improve performance levels that previously reduced client payments, it is currently too early to forecast the longer term outcome accurately.

DCF valuation underpins 98% of the total portfolio valuation of £330.1 million.

### ESTIMATED FUTURE JOHN LAING CASHFLOW

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

£ million	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Accommodation	11.2	3.7	13.6	11.3	4.7	16.9	15.8	16.4	14.6	14.3
Roads	(0.4)	(0.9)	2.4	9.4	9.7	8.8	9.1	13.9	19.2	11.8
Rail	5.1	3.7	5.3	9.2	11.1	15.3	11.2	11.9	13.2	14.6
Utilities	(0.2)	(0.1)	4.9	2.1	2.2	2.4	2.5	1.5	2.3	2.3
<b>Total</b>	<b>15.7</b>	<b>6.4</b>	<b>26.2</b>	<b>32.0</b>	<b>27.7</b>	<b>43.4</b>	<b>38.6</b>	<b>43.7</b>	<b>49.3</b>	<b>43.0</b>

£ million	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Accommodation	13.5	15.0	14.9	15.7	17.1	18.2	21.0	21.3	19.9	21.0
Roads	12.6	8.9	10.0	10.1	7.7	4.9	7.4	14.1	20.2	24.2
Rail	16.1	17.3	18.4	19.1	13.9	28.8	7.3	-	-	-
Utilities	5.0	8.7	3.7	3.6	-	-	-	-	-	-
<b>Total</b>	<b>47.2</b>	<b>49.9</b>	<b>47.0</b>	<b>48.5</b>	<b>38.7</b>	<b>51.9</b>	<b>35.7</b>	<b>35.4</b>	<b>40.1</b>	<b>45.2</b>

£ million	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Accommodation	28.0	37.7	35.9	49.6	28.6	35.1	36.8	14.5	10.0	9.3
Roads	34.3	31.4	16.6	20.3	16.1	8.4	4.1	2.9	2.9	2.7
Rail	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>62.3</b>	<b>69.1</b>	<b>52.5</b>	<b>69.9</b>	<b>44.7</b>	<b>43.5</b>	<b>40.9</b>	<b>17.4</b>	<b>12.9</b>	<b>12.0</b>

£ million	2036	2037	2038	2039	2040	2041	2042	2043
Accommodation	19.8	8.1	6.5	4.3	2.3	13.2	17.8	9.9
Roads	1.5	0.9	0.8	1.1	-	-	-	-
Rail	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-
<b>Total</b>	<b>21.3</b>	<b>9.0</b>	<b>7.3</b>	<b>5.4</b>	<b>2.3</b>	<b>13.2</b>	<b>17.8</b>	<b>9.9</b>





## FUTURE MARKETS AND OUTLOOK

The private financing of new and modernised assets to support better public services is a growth activity both in the UK, John Laing's home market, and in other major economies. 2005 saw the Group initiate activity in a number of new markets and additional sectors and the outlook for 2006 and beyond remains encouraging.

2005 was marked by substantial growth in the number of international bidding opportunities and, while the Group will continue to be highly selective, the outlook for further activity in the enlarged EU is strongly positive over both the short and medium term. The most significant near term opportunities within the EU outside the UK are in the roads sector. Accommodation projects are becoming more numerous and widespread in the EU outside the UK, and rail offers potential project opportunities of significant size. Beyond Europe, North America as a whole is currently the international market that is most attractive from a John Laing perspective.

Within the UK, the health sector, followed by education and local government are likely to be the sectors with the most substantial flow of new opportunities in the near term, with waste, housing and regeneration all exhibiting both growth and substantial longer term opportunity. During 2005 the Group created additional capacity to pursue opportunities in all of these areas where bidding opportunities tend to have a long lead time. A limited number of substantial major project opportunities exist in the UK transport sector (including the current M25 procurement initiated by the Highways Agency)\* but road maintenance, street-lighting and rail infrastructure projects will also provide a continuing stream of individual opportunities of an attractive scale.

The waste sector represents a significant opportunity in the coming years, driven by the requirements of EU directives on landfill reduction during 2005. John Laing announced a partnership with Viridor to bid for the Greater Manchester waste management PFI project.

\* Laing Roads has been prequalified for the £1.5 billion M25 Design, Build, Finance and Operate ('DBFO') project in consortium with Autoroutes du Sud de la France, Carillion, Costain, and Vinci.

The Group has a substantial programme of bidding under way. A total of 24 projects are currently at shortlist stage as at 10 March 2006 which, assuming a 40% future success rate, involve a total projected potential equity and loan investment of £82 million. £76 million is due to be invested in primary projects currently at the preferred bidder stage and £48 million as further equity and loan contributions to already signed projects. In order to take full advantage of the opportunities for further investment the Group secured additional funds in July 2005 through a rights issue that raised £95.5 million net of costs.



### PPP TRANSPORT SUMMIT

In October 2005 John Laing played a lead role in organising a PPP Summit as part of the UK Presidency of the EU. Structured as a high level dialogue between the private sector, the Member States and EU institutions, this focussed on the transport investment opportunities arising from the economic and environmental pressures that must be addressed at the community level and on the potential for more effective promotion of PPP structures. Further urgency has been added to this dynamic by the outcome of the EU Budget process.

A E Friend  
13 March 2006

THE COMPANY APPROACHES  
THE COMING PERIOD  
CONFIDENT IN THE PROSPECTS  
FOR SUSTAINING THE PATTERN  
OF PROFITABLE GROWTH  
WHICH HAS BEEN ESTABLISHED  
OVER RECENT YEARS

# Financial Review

The Group profit  
before tax for the year  
to 31 December 2005  
was £35.8 million  
(2004 – £25.0 million).

**ADRIAN EWER**  
GROUP FINANCE DIRECTOR

PROFITS FROM OPERATIONS IN  
PFI/PPP PROJECTS IN LINE WITH  
MANAGEMENT'S EXPECTATIONS AT  
*£30.8 MILLION (2004 – £28.7 MILLION)*  
*INCLUDING NET INTEREST INCOME OF*  
*£6.5 MILLION (2004 – NET INTEREST COST*  
*OF £1.4 MILLION)*

## SUMMARY OF RESULTS

The Group profit before tax for the year to 31 December 2005 was £35.8 million (2004 – £25.0 million). The results have, for the first time, been prepared in accordance with International Financial Reporting Standards ('IFRS') and the comparatives restated accordingly. Details of the effects of IFRS transition and adoption of IAS32 ('Financial Instruments: Disclosure and Presentation') and IAS39 ('Financial Instruments: Recognition and Measurement') as at 1 January 2005 are set out in the note on accounting policies on page 86.

The table below analyses the profit before tax between PFI/PPP projects, central management services including bidding activities and corporate finance:

### SUMMARY GROUP INCOME ANALYSIS

	Profit 2005 £ million	Profit 2004 £ million
<b>PFI/PPP projects – profit before tax</b>		
Accommodation – normal operations	16.1	13.7
– profits from disposals	20.9	-
Roads – normal operations	6.5	6.9
– profits from disposals	-	6.4
Rail – normal operations	7.3	9.5
– sale of development land	0.2	2.9
Utilities	0.9	(1.4)
	51.9	38.0
<b>Management services, overheads and bid costs</b>		
– bid costs, PFI/PPP	(6.3)	(0.9)
– franchise bid costs, rail	(1.4)	(0.7)
– overheads	(12.3)	(11.8)
	(20.0)	(13.4)
<b>Corporate finance income (net)</b>	3.7	0.1
Non-core activities – Octagon Developments	0.2	0.3
<b>Profit before tax</b>	35.8	25.0
Tax	(13.0)	(7.3)
<b>Discontinued operations (after tax)</b>	(1.5)	(2.5)
<b>Profit for the period (after tax)</b>	21.3	15.2

Continuing businesses include the Group's portfolio of PFI/PPP infrastructure assets, the central bidding activities and Octagon Developments. The discontinued operations include the residual liabilities relating to the disposed construction and house building businesses, including the run off of liabilities in the Group's captive insurance company.

The significant events that have influenced the results for 2005 are noted below:

- increased bid activity and write-off of bid costs on the Surrey County Council project, where in late January 2006 the Council's Executive decided not to proceed with the project. This resulted in a charge of £4.6 million to the income statement and explains the significant increase to bid costs as set out in note 1 to the accounts; and
- increase in corporate finance income to £3.7million (2004 – £0.1 million) following the rights issue, which raised £95.5 million net of issue expenses.

### CONTINUING OPERATIONS

- profit of £20.9 million from sale of interests in PFI infrastructure projects (2004 – £6.4 million);
- profits from operations in PFI/PPP projects, excluding disposal profits, were in line with Directors' expectations at £30.8 million (2004 – £28.7million) including net interest income of £6.5 million (2004 – net interest cost of £1.4 million);

### DISCONTINUED OPERATIONS

- Great Eastern Hotel claim settled within existing provisions, at a cash cost to the Group of £19.8 million. Residual insurance issues could result in further cash flows either to or from the Company and have become the subject of a dispute between the Company and its insurers; and
- run off liabilities in the captive insurance company increased by £1.7 million following an increase in number and value of disease claims related to former construction activities.

# THE BOARD REVIEWED THE FUTURE FUNDING OPTIONS, IN LIGHT OF AN EXPANDING PIPELINE OF BIDDING OPPORTUNITIES, AND CONCLUDED THAT THE CAPITAL BASE OF THE GROUP SHOULD BE INCREASED BY WAY OF A RIGHTS ISSUE

The consolidated balance sheet includes the Group's share of the assets and liabilities of PFI/PPP Project Companies, including the non-recourse project debt. The financial assets and liabilities of PFI/PPP Project Companies have been included at fair values in accordance with IAS32 and IAS39, resulting in an increase to net assets of £58.5 million after accounting for deferred tax. Since it is only the financial instruments that are included at fair value, and not the value of future service margins, there will be little, if any, correlation between the net assets included in the consolidated balance sheet and the portfolio valuation that is set out on pages 20 to 24 of the Operating & Financial Review.

The following table re-analyses the balance sheet and shows the recourse assets and liabilities separately from non-recourse assets and liabilities as at 31 December 2005:

## BALANCE SHEET ANALYSIS

	2005						2004	
	Recourse			Non-recourse			Total	Total
	Amortised cost £ million	Fair value adjustments £ million	Total recourse £ million	Amortised cost £ million	Fair value adjustments £ million	Total non- recourse £ million		
PFI/PPP investments	184.9	-	184.9	-	-	-	184.9	176.3
Homes assets	15.3	-	15.3	-	-	-	15.3	15.9
Fixed assets and working capital balances	14.8	-	14.8	1,461.6	240.7	1,702.3	1,717.1	1,443.3*
Discontinued businesses	5.5	-	5.5	-	-	-	5.5	(20.4)
Current tax	(5.2)	-	(5.2)	(0.7)	-	(0.7)	(5.9)	(7.7)
Deferred tax	(7.7)	-	(7.7)	(56.4)	(24.9)	(81.3)	(89.0)	(58.8)
Post retirement obligations (net of tax asset)	(135.9)	-	(135.9)	(8.2)	-	(8.2)	(144.1)	(135.5)
Net cash/(debt)	108.6	-	108.6	(1,396.3)	-	(1,396.3)	(1,287.7)	(1,326.0)
Derivatives and commodity swaps	-	-	-	-	(157.3)	(157.3)	(157.3)	-*
<b>Net assets</b>	<b>180.3</b>	<b>-</b>	<b>180.3</b>	<b>-</b>	<b>58.5</b>	<b>58.5</b>	<b>238.8</b>	<b>87.1</b>

\* In accordance with the transitional arrangements for implementation of IFRS, the comparative balance sheet as at 31 December 2004 does not include an IAS 39 fair value adjustment in respect of financial assets and liabilities. The effective date for implementation of the IAS39 fair valuation of financial instruments was 1 January 2005.

## CAPITAL STRUCTURE AND RESERVES

The Group's financial resources are primarily sourced from equity and internally generated funds, while debt facilities are mainly used for the issue of letters of credit to support the Group's forward commitments to provide equity and loan capital to special purpose PFI/PPP infrastructure companies ('SPC'). SPCs are funded by a mix of shareholder equity, shareholder loans and third party debt.

The Board operates a policy of maintaining adequate financial resources to fund future equity and loan capital commitments to SPCs on PFI/PPP projects that have reached financial close, plus anticipated future commitments on projects at the preferred bidder stage. When considering the adequacy of financial resources, the Board also takes into account the likely future commitments to projects for which the Group has been short-listed during the competitive bid process.

During the second quarter of 2005, the Board reviewed the future funding options, in light of an expanding pipeline of bidding opportunities, and concluded that the capital base of the Group should be increased by way of a rights issue in preference to either accelerated asset disposals or increased debt facilities. This culminated in a rights issue that raised £95.5 million net of expenses in July 2005 through the issue of 50,049,585 new Ordinary Shares at 200 pence each. The exercise of share options yielded a further £0.3 million, resulting in total proceeds from share issue of £95.8 million.

As a consequence of funding the retained construction contract liabilities, for which accounting provision was made on the sale of Laing Construction in 2001, and of increased contributions to The John Laing Pension Fund, the Company was facing a potential deficit in distributable reserves. In order to address this issue the shareholders approved a £50 million capital reduction which was approved by the courts in June 2005.

## CAPITAL AND RESERVES

	Group*		Company**	
	2005	2004	2005	2004
<b>Share Capital</b>				
Ordinary Share capital	58.3	45.7	58.3	45.7
Preference Share capital	39.4	39.4	39.4	39.4
Share premium account	121.0	87.4	121.0	87.4
	<b>218.7</b>	<b>172.5</b>	<b>218.7</b>	<b>172.5</b>
<b>Reserves</b>				
Deficit relating to post retirement obligations	(144.1)	(135.5)	-	-
Other profit and loss reserves	104.6	46.9	46.0	8.0
Non-distributable reserves	3.1	2.3	-	-
Hedging, revaluation and translation reserves	56.5	0.9	-	-
	<b>20.1</b>	<b>(85.4)</b>	<b>46.0</b>	<b>8.0</b>
<b>Total equity</b>	<b>238.8</b>	<b>87.1</b>	<b>264.7</b>	<b>180.5</b>

\* based on IFRS accounting policies

\*\* based on UK GAAP accounting policies

## RECEIPTS FROM AND RETURNS TO SHAREHOLDERS

With the exception of the rights issue referred to above, there were no other capital raising exercises in 2005.

The Board continues to adopt a policy of growing future dividends, provided that they are fully covered by earnings. To this end the full year dividend on the Ordinary Shares, on the assumption that shareholders approve the Board's proposed final dividend, will increase from 3.3 pence for 2004 to 3.65 pence for 2005, an increase of 10%. The interim dividend for 2005 was paid on the enlarged share capital following the rights issue, resulting in full year dividends paid on Ordinary Shares of £6.8 million.

In addition to the dividend on the Ordinary Shares, the Company also paid dividends of £2.5 million on the 39.4 million 6.4% Convertible Cumulative Preference Shares in issue.

Following the sale of Laing Construction in 2001 and Laing Homes in 2002, shareholder returns have principally been derived from the increase in the value of the portfolio and only to a limited degree from dividend yield. While the Group continues to expand its business focussed on PFI/PPP investment and operations, it is unlikely that shareholder returns will be driven primarily by dividend yield.

## TREASURY POLICIES AND INTEREST COST

### 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 project financing agreements of the PFI/PPP 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. Under our accounting policies, the income of a Project Company is a combination of interest received on the financial assets and the turnover from the provision of services. Expenditure comprises interest paid on monies borrowed to finance the project and expenditure associated with the provision of services.

The net of investment income less finance costs resulted in a credit of £10.2 million for the year ended 31 December 2005 (2004 - credit £3.9 million), of which £3.7 million related to corporate financing and £6.5 million related to PFI/PPP Project Companies. Corporate finance income includes the net finance income on the pension funds. The following analysis sets out the significant elements of the net credit:

## INVESTMENT INCOME AND FINANCE COSTS

	2005			2004		
	Recourse funds £ million	Non-recourse funds £ million	Total £ million	Recourse funds £ million	Non-recourse funds £ million	Total £ million
<b>PFI/PPP Project Companies</b>						
Receivable on finance debtors and deposits	-	117.0	117.0	-	75.6	75.6
Payable on project finance and shareholder loans	-	(106.9)	(106.9)	-	(75.0)	(75.0)
Debt issue costs amortised	-	(2.9)	(2.9)	-	(1.9)	(1.9)
Debt issue costs written off on refinancing	-	(0.6)	(0.6)	-	(0.1)	(0.1)
Ineffectiveness of derivatives	-	(0.1)	(0.1)	-	-	-
<b>IAS19 financing income on pension funds</b>	2.0	-	2.0	1.1	-	1.1
<b>Corporate funds</b>						
Payable on corporate loans	(0.8)	-	(0.8)	(1.9)	-	(1.9)
Receivable on deposits and loans to PFI/PPP Project Companies	2.8	-	2.8	8.4	-	8.4
Amortisation of debt issue costs	(0.3)	-	(0.3)	(1.6)	-	(1.6)
Payable on unpaid tax	-	-	-	(0.7)	-	(0.7)
<b>Net credit/(charge)</b>	<b>3.7</b>	<b>6.5</b>	<b>10.2</b>	<b>5.3</b>	<b>(1.4)</b>	<b>3.9</b>

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

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.

Since the interest rate on PFI/PPP Project Company debt has been largely fixed, the impact of changes to interest rates on the finance cost is minimal. There is, however, an impact on the investment income on monies held on deposit both at Group level and in PFI/PPP Project Companies. Such an effect has not been, and is unlikely to be, significant in the context of the Group income statement.

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 on new facilities was reduced to 100 bps. Debt issue costs of £1.2 million brought forward in respect of the cancelled facilities were written off in 2004 and debt issue costs of £0.9 million on the new facilities were capitalised. The Group has operated with net deposit balances throughout 2005 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.

## DEBT FACILITIES

The Group's 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.

## FOREIGN CURRENCY

The Group has a relatively small balance sheet exposure to foreign currency fluctuations and no currency hedges were in place at 31 December 2005. However, the Board has an agreed policy of hedging foreign currency investments with a Sterling equivalent value in excess of £5.0 million. The Board intends to draw foreign currency borrowings to match significant foreign currency investments as and when such investments are made, normally upon completion of the construction phase on PFI/PPP projects.

As the Group increases the scale of its overseas investment activity it is likely that the value of foreign currency investments and the matching foreign currency borrowings will increase.

The Group seeks to cover significant transactional exposures arising from receipts and payments in foreign currencies, where appropriate and cost effective. The value of such exposures and the corresponding hedges has been relatively low and is expected to continue as such. No foreign currency transaction hedges were in place as at 31 December 2005.

## CASH FLOWS

The Board monitors the cash flows relevant to the Group's recourse funds for the purpose of assessing the adequacy of financial resources. In particular the Board pays close attention to the sums committed to and invested in PFI/PPP Project Companies and the cash distributions thereon.

Divisional management monitors the cash flows within PFI/PPP Project Companies, since this provides a good indication of the operating performance at Project Company level.

During 2005 the Group received distributions and capital repayments of £35.4 million from PFI/PPP Project Companies (2004 – £18.2 million), including a special dividend. Such a special dividend is unlikely to be repeated at the same level in the future.

The Group also realised significant cash on the sale of PFI/PPP assets to the now well developed secondary market. The Board expects there to be a continuation of asset sales to the secondary market. It is probable that the flow of future asset sales will be irregular, giving rise to some volatility in terms of both cash flow and profits across different accounting periods.

The following table analyses cash flows affecting the recourse funds separately from those affecting non-recourse funds.

A summarised presentation of the projections of future running yields from the existing portfolio of PFI/PPP assets is set out on page 23.

Cash generated from the portfolio of PFI/PPP assets will primarily be re-employed in the business through further bid development.

## CASH FLOW ANALYSIS

	Recourse funds/ (borrowings)		Non-recourse funds/ (borrowings)		Total Group	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million	2005 £ million	2004 £ million
<b>Net funds at 1 January</b>	<b>42.7</b>	<b>67.4</b>	<b>(1,368.6)</b>	<b>(1,168.7)</b>	<b>(1,325.9)</b>	<b>(1,101.3)</b>
<b>Continuing operations – Portfolio cash flow</b>						
PFI/PPP investment	(27.3)	(38.8)			(27.3)	(38.8)
Distributions from PFI/PPP Project Companies	35.4	18.2			35.4	18.2
Purchase of PFI Project Companies	(10.9)	-			(10.9)	-
Sale of PFI Project Companies and investments	29.8	10.4			29.8	10.4
Purchase and sale of 50% interest in M40 road project	-	6.4			-	6.4
Purchase of fixed assets	(3.0)	(0.1)			(3.0)	(0.1)
Rail projects – on balance sheet	2.4	(1.8)			2.4	(1.8)
Distributions from rail joint venture	-	2.4			-	2.4
Equion FM net cash flows	(2.1)	2.1			(2.1)	2.1
	<b>24.3</b>	<b>(1.2)</b>	<b>(1,368.6)</b>	<b>(1,168.7)</b>	<b>24.3</b>	<b>(1.2)</b>
Cash flows of PFI project subsidiaries			<b>(27.7)</b>	<b>(199.9)</b>	<b>(27.7)</b>	<b>(199.9)</b>
<b>Bidding activity and Group overheads</b>						
Bid costs and overheads net of recoveries on financial close	(14.1)	(13.3)			(14.1)	(13.3)
Pension contributions towards the deficit	(6.1)	(4.0)			(6.1)	(4.0)
<b>Discontinued operations</b>	<b>(27.5)</b>	<b>(5.6)</b>			<b>(27.5)</b>	<b>(5.6)</b>
<b>Other non-operating movements</b>						
Net interest received	3.6	(0.2)			3.6	(0.2)
Taxation	(0.8)	1.5			(0.8)	1.5
Group dividends paid	(9.3)	(8.1)			(9.3)	(8.1)
Share issues	95.8	6.1			95.8	6.1
Exchange rate movements	-	0.1			-	0.1
<b>Net funds at 31 December</b>	<b>108.6</b>	<b>42.7</b>	<b>(1,396.3)</b>	<b>(1,368.6)</b>	<b>(1,287.7)</b>	<b>(1,325.9)</b>



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

#### LIQUIDITY

The Board intends to maintain sufficient financial resources to fund its commitments to invest in the existing portfolio of PFI/PPP projects and the pipeline of projects on which the Group has been appointed preferred or sole bidder.

The syndicated facilities as at 31 December 2005 reach maturity on 31 March 2010 and the bilateral facilities and overdraft are set to mature between October and December 2006.

#### ANALYSIS OF FINANCIAL RESOURCES

	31 December 2005			31 December 2004		
	Recourse funds £ million	Non-recourse funds £ million	Total £ million	Recourse funds £ million	Non-recourse funds £ million	Total £ million
<b>Consolidated net funds</b>						
Cash and bank deposits	108.6	278.3	386.9	44.2	146.8	191.0
Bank and other loans - amortised cost	-	(1,674.6)	(1,674.6)	(1.5)	(1,515.4)	(1,516.9)
<b>Net funds</b>	<b>108.6</b>	<b>(1,396.3)</b>	<b>(1,287.7)</b>	<b>42.7</b>	<b>(1,368.6)</b>	<b>(1,325.9)</b>
<b>Corporate bank facilities</b>						
Syndicated	115.0			115.0		
Bilateral	25.0			25.0		
Overdraft	5.0			5.0		
	145.0			145.0		
Less: letters of credit drawn	(49.2)			(39.5)		
<b>Undrawn corporate facilities</b>	<b>95.8</b>			<b>105.5</b>		
<b>Net financial resources</b>	<b>204.4</b>			<b>148.2</b>		

There is no particular seasonality to the Group's cash flow profile. Cash flows will depend largely upon the timing and quantum of new investments and asset disposals, both of which are likely to follow an irregular pattern.

There are no restrictions on the transferability of cash balances. The Group has free access to draw on its corporate bank facilities providing certain covenant tests are being met. 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.

Within the £49.2 million of letters of credit drawn, £44.4 million is in support of forward investment

commitments (2004 - £33.4 million) and £4.8 million is to counter-indemnify performance bonds (2004 - £6.1 million).

In addition to the letters of credit issued in support of existing investment commitments, the Board monitors the likely equity and loan requirements on projects for which the Group has been appointed preferred or sole bidder and on the potential investment that will be required on projects where the Group has been shortlisted. In the case of projects at the preferred or sole bidder stage, the Board assumes a 100% future success rate and in the case of shortlisted projects the Board assumes a 40% success rate by reference to potential investment value. The following table shows the potential future investments associated with the bid pipeline as at 31 December.

#### POTENTIAL FUTURE INVESTMENT COMMITMENTS

	2005 £ million	2004 £ million
Preferred bids	75.0	90.0
Shortlisted bids (40% by value)	69.0	47.0
<b>Total</b>	<b>144.0</b>	<b>137.0</b>

## TAXATION

The Group's tax charge on continuing businesses for 2005 was £13.0 million, representing an effective tax rate of 36% (2004 charge of £7.3 million – effective rate of 29%).

For some of the earlier PFI/PPP Project Companies, no tax deduction is available for the cost of buildings and civil engineering works, other than for the plant element on which capital allowances can be claimed. Since these assets have little or no residual value the depreciation charge can far outweigh the capital allowances, resulting in a high effective tax rate on reported profits over the whole asset life. Where this is likely to occur, the high tax rate is reflected fully 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.

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. These assets do not generate the high effective tax rate referred to above. For certain assets, application of IAS12 results in a relatively low tax charge in the earlier years of operation and a higher tax charge towards the end of the concession. This partly explains the increase in the effective tax rate in 2005.

Capital gains from the disposal of PFI/PPP investments have been sheltered by current year losses and losses brought forward in the parent company.

## TAXATION ANALYSIS

	2005			2004		
	Profit before tax £ million	Tax charge £ million	Effective tax rate %	Profit before tax £ million	Tax charge £ million	Effective tax rate %
<b>Continuing Businesses</b>						
PFI/PPP Project Companies	31.4	(10.8)	34	24.3	(5.4)	22
Capital gains on sale of investments	20.9	-	-	6.6	-	-
Holding companies, bid costs and overheads	(16.5)	(2.2)	(13)	(5.9)	(1.9)	(32)
<b>Total</b>	<b>35.8</b>	<b>(13.0)</b>	<b>36</b>	<b>25.0</b>	<b>(7.3)</b>	<b>29</b>

The consolidated balance sheet incorporates a deferred tax asset of £58.7 million (2004 – £58.1 million) on the IAS19 deficit relating to post retirement obligations. This reflects the tax deduction that the Board believes will be available on future pension contributions and post retirement medical insurance premiums.

The consolidated balance sheet also includes a deferred tax liability of £24.9 million on the net fair value adjustment to financial instruments of £83.4 million (2004 – £nil).

reconciliation of the 2004 key financial statements on the two bases of UK GAAP and IAS. A copy of the separate publication was posted to shareholders and is available on the website, [www.laing.com](http://www.laing.com).

The Group has had concerns about the application of IAS39 in relation to service concessions and raised these concerns, along with other industry participants, with IFRIC early in 2005. IFRIC took these concerns into consideration when issuing, for comment, draft interpretation guidelines on accounting for service concessions in May 2005. The guidelines partially assisted in that they placed an interpretation on service concessions that removed them from the leasing standard. However, the draft guidelines attempted to set an accounting model for service concessions within the existing framework of IAS39 and this received considerable criticism. The draft guidelines have not been codified. The Group believes that a new IFRS is required to deal specifically with accounting for service concessions and that it should, in specific circumstances, override IAS39. Until such a standard is developed, the implementation of existing IFRS must continue and this will lead to continued volatility in the balance sheet fair values of financial instruments that may not reflect commercial reality.

## CRITICAL ACCOUNTING POLICIES

### International Financial Reporting Standards ('IFRS')

The financial statements for the year ended 31 December 2004 and the preceding years were prepared in accordance with UK Accounting Standards. The Group has complied with International Accounting Standards ('IAS') and IFRS, insofar as they have been adopted by the EU, for the year commencing 1 January 2005 and the 2004 comparatives have been restated. In order to assist with understanding the impact of the transition we prepared a separate publication "John Laing – Implementation of International Accounting and Financial Reporting Standards". This includes a

#### 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 financial assets 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 financial asset on a systematic basis to spread the related costs over the life of the concession. Where financial asset accounting is employed, the Group's income is generated from interest receivable on the asset 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.

The following table sets out the basis of revenue and asset recognition for the Group's 48 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 capital employed* £ million
Accommodation	23	Availability fee	Financial asset	72.5
	6	Availability fee and property revenues	Fixed asset	6.3
Roads	9	Shadow toll/availability	Financial asset	49.0
Bridge	1	Real toll	Financial asset	5.4
Heavy rail	3	Farebox	Fixed asset	22.3
Light rail	1	Availability fee	Financial asset	11.2
Street-lighting	3	Performance	Long-term contract	3.5
Utilities	1	Output	Fixed asset	14.5
	1	Availability fee/output	Financial asset	0.2
	<b>48</b>			<b>184.9</b>

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

#### Accounting for joint ventures

IAS31 ('Financial Reporting of Interests in Joint Ventures') provides a choice in the presentation of accounting for joint ventures: equity accounting or proportional consolidation.

The nature of John Laing's investment business is the facilitation of one or more venturers to form a consortium to design, build, finance and subsequently to operate PFI/PPP infrastructure projects. Thus much of the Group's business is carried out as a member of a number of joint ventures. In order to present primary financial statements which provide a high degree of transparency on the scale of the Group's operations, the Group has opted to use proportional consolidation of the results of joint ventures. Within both the income statement and the balance sheet a columnar presentation is given from which the reader can see the total values consolidated on a proportional basis in respect of joint ventures.

#### Pension and other post retirement liabilities accounting

The Group has adopted IAS19 ('Employee Benefits') in 2005 and has elected to use the option of including actuarial gains and losses in full in the balance sheet. This has resulted in a gross deficit of £202.8 million (2004 - £194.0 million) being recognised in the Group balance sheet. Against this the Group has recognised a deferred tax asset of £58.7 million (2004 - £58.1 million) to reflect the tax deduction that should be obtained as the deficit is funded. The value of the deficit is highly dependent upon some critical assumptions and is likely to vary significantly from year to year. The impact of possible future changes to some of those assumptions is shown on page 35.

## CRITICAL PENSION ASSUMPTIONS

	Impact on gross pension deficit	
	Increase in assumption £ million	Decrease in assumption £ million
0.25% on discount rate	37.4	(40.1)
0.25% on inflation	(39.9)	37.4
1 year post retirement longevity	(30.5)	31.2

During 2005 the assumptions used for calculating the deficit have been reviewed. The assumed long-term rate of inflation has been left unchanged at 2.75%. However, the discount rate that is applied to future liabilities has been reduced from 5.3% to 4.8% to reflect the movement in AA corporate bond rates. This has had the effect of increasing the deficit. The pension deficit has been calculated using the Institute and Faculty of Actuaries' current mortality tables for life expectancy. These were updated during 2005 to reflect the latest statistics on longevity. The membership details underlying the calculation of the IAS19 deficit have been updated following the 31 March 2005 triennial actuarial valuation.

### Recognition and measurement of financial instruments

The Group has adopted IAS39. While clear guidance on interpretation has been given for the valuation of financial liabilities and derivatives, there is a range of possible interpretations in respect of valuing the financial assets of PFI/PPP Project Companies.

Group policy is to include financial assets available for sale in the balance sheet at fair value. The fair value is estimated by discounting the anticipated future cash flows at an appropriate discount rate, which is set by adding an appropriate risk premium for the asset class to the long-term gilt rate. The discount rates that have been applied to financial assets at 31 December 2005 were in the range of 4.33% to 6.10%.

To the extent that long-term gilt rates either increase or reduce, the fair value of financial assets will either fall or rise. During 2005 the reference gilt rates fell by approximately 50 bps and this reduction had the effect of increasing the fair value of financial assets.

The marking to market of derivatives and fair value adjustment on financial assets has been implemented with effect from 1 January 2005, as permitted under the transitional arrangements for implementation of IFRS, and is not therefore reflected in the 2004 comparative balance sheet. The impact of valuing financial instruments for the first time has been summarised in the accounting policy notes accompanying these accounts on page 86.



A J H Ewer  
13 March 2006

## BUSINESS AND FINANCIAL RISKS

This section of the Operating & Financial Review sets out the Directors' opinion of the principal risks related to the business of the Group and to the PFI/PPP markets in general.

Additional risks and uncertainties not presently known to the Directors, or that the Directors currently consider to be immaterial, may also have an adverse effect on the Group.

### 1 RISKS RELATING TO THE BUSINESS OF THE GROUP

#### Availability of investments

The success of the Group depends upon its ability to identify, select and execute investments which offer the potential for satisfactory returns and the continuing availability of cost effective finance to SPCs. The availability of such investment opportunities will depend, in part, upon conditions in the PFI/PPP market. There can be no assurance that the Group will be able to identify and execute a sufficient number of opportunities to permit the Group to continue with the historic rate of expansion of its portfolio of PFI/PPP development projects.

The Directors' approach to this risk is to monitor all potential bidding opportunities and to track new market developments both in the UK and overseas.

#### Capacity of sub-contractors

The Group is dependent upon construction and service sub-contractors for the delivery of PFI/PPP projects. The Group's ability to invest in, develop and operate PFI/PPP projects could be adversely affected if the construction and service sub-contractors with whom the Group wishes to work do not have sufficient capacity to work with the Group on its chosen projects. In addition, if a sub-contractor's work was not of the requisite quality or a sub-contractor became insolvent, this could have a material effect on projects managed by the Group and might not only reduce financial returns but could adversely affect the Group's reputation and reduce its ability to win business in the future. To the extent that John Laing uses a single sub-contractor on a number of projects, these risks would be increased.

The Directors' approach to this risk is to monitor the Group's exposure to individual contractors and to work in partnership with a range of contractors.

#### Retained construction liabilities

Under the terms of the disposal of Laing Construction in 2001, John Laing agreed to indemnify Laing Construction in respect of certain liabilities (including contract losses and latent defect liability) on 13 specific construction projects. At the time of the disposal, provisions were made for the potential liabilities. To the extent that these provisions prove to be inadequate, John Laing will incur losses.

With regard to all other Laing Construction projects, John Laing has been indemnified by the purchaser of Laing Construction in respect of latent defects arising post-sale. To the extent that John Laing is primarily liable for these defects and the purchaser of Laing Construction is unable to meet its obligations under this indemnity, losses will have to be met by John Laing.

The Directors have received regular and detailed reports on each of the retained construction liabilities and review the level of provisioning against each significant potential liability on a quarterly basis.

#### Self insurance

John Laing established a captive insurance company which underwrote certain Group risks between 1987 and 2001. The Group has made provisions for unpaid claims and related expenses in respect of reported claims and incurred but not reported claims. In assessing the level of provisions required, the Group has taken into account independent actuarial assessment of historical trends in reserving patterns and loss payments and funding levels of unpaid claims and awards. However, there can be no assurance that the ultimate losses will not materially exceed the provisions made by the Group which could have an adverse effect on the Group's financial position.

The Directors have commissioned an independent actuarial review of insurance reserves in each of the last three years and have based the reserving policy on the reported findings.

#### Pension deficit and other post retirement liabilities

As at 31 December 2005, the Group had a gross deficit of £144.1 million in relation to the Group's pension schemes and post retirement benefit obligations, comprising a £197.3 million gross deficit on its pension schemes, a deficit of £0.5 million in the pension scheme of a joint venture and a £5.0 million gross deficit on its post retirement medical insurance scheme. The value of the pension deficit is highly dependent upon the assumptions used to calculate the pension liability and is likely to vary significantly from year to year. These assumptions include assumptions of long-term future inflation rates, of AA-rated corporate bond yields and of mortality rates of the scheme's beneficiaries. Should these assumptions prove to be invalid, there is a risk that this deficit could increase.

The level of contribution towards funding the deficit which the Company has agreed with the Trustees of the Group's pension fund for the 2006 financial year is £10.0 million. The Company proposes to increase this contribution rate by 3.0% per annum, subject to regular review, to address the deficit over time. There is a risk that this increased funding rate may prove insufficient to address the deficit and/or that

the Trustees or the Pensions Regulator may require the deficit to be addressed over a different time period to that currently agreed by the Company and the Trustees, in which case there may be a material impact on the Group's financial position.

The Directors have appointed independent actuaries to advise the Company on a funding strategy that is designed to address the deficit over a reasonable period and to comply with the Regulator's draft guidance. The Company has reached agreement with the Trustees on the funding strategy.

#### Deferred tax asset

The Group recognises a deferred tax asset in respect of future pension contributions, including the contributions towards funding its pension deficit. The Group makes the following key assumptions in this respect:

- that group relief will remain available;
- that the Group will earn sufficient taxable profits against which to claim a tax deduction for pension contributions; and
- that HM Revenue & Customs application of tax legislation relating to pension contributions remains unchanged in practice.

There is a risk that the deferred tax asset, relating to the pension deficit, which stood at £58.7 million as at 31 December 2005, may be overstated if the assumptions made by the Group prove to be invalid.

The Directors review the forecasts of future taxable profit on a regular basis so as to satisfy themselves that the deferred tax asset reflects future contributions on which tax deduction should be achieved.

#### Rail franchise

The Group has a 20-year train operating franchise on the Chiltern Line under which poor performance could lead to increased costs. Furthermore, failure to meet certain franchise obligations could lead to a reduction in the franchise term. Should either of these risks prove to be the case, they could have an adverse effect on the Group's financial results. During 2005 the Chiltern Line operations were adversely affected by the collapse of third party development works at Gerrards Cross. The Group is indemnified against additional costs and loss of past and future revenues in relation to the development works. While the developer has admitted liability there is a risk that the negotiations on quantum might lead to a dispute that has to be litigated. If such litigation does not result in full compensation for lost revenues, the Group's future results might be adversely affected.

The Directors monitor operating performance on a regular basis, including performance relating to franchise obligations. The Group has appointed legal and forensic accounting advisers to assist with assessment of the quantum of the compensation claim.

#### Reputation

John Laing's projects often involve activities in the public sector, providing facilities and services that are used by members of the public. To the extent that the Group failed to provide a facility or service to the appropriate standard, or there occurred a major health and safety incident, this could generate adverse publicity and have an adverse effect on the Group's reputation and its ability to win new business.

The Directors have implemented health and safety policies that help to mitigate against any such major health and safety incident. The Board receives regular reports on health and safety issues and monitors trends very closely.

#### Future funding

The existing financial resources available to John Laing, including bank facilities, are sufficient for the Group's foreseeable requirements, that is, until at least June 2007. After that time, the Group's funding requirements will depend on many factors and, to the extent that available financial resources in the future are insufficient to fund its activities, John Laing may need to raise additional funds or facilities. No assurance can be given that additional financing will be available or that, if available, the terms of such financing will be favourable to John Laing. If adequate funds are not available to satisfy its requirements, John Laing may be required to curtail its operations, refinance its outstanding obligations, forego investment and acquisition opportunities or sell assets.

The Board monitors actual and forecast cash flows each quarter. It operates a policy of ensuring that financial resources are maintained to satisfy committed and likely future investment requirements on PFI/PPP projects that have achieved financial close or are at the preferred bidder stage.

#### Liquidity

The majority of investments made by the Group comprise unquoted interests in PFI/PPP Project Companies which are not publicly traded and are often subject to restrictions on transfer and may, therefore, be difficult to realise at the value attributed to such investments by the Directors, or at all.

The Company's planning assumes that a market for realising value from these investments has developed and will be sustained and the valuations attributed to such investments will increase. Should this not be the case, this could adversely impact the value expected to be realised over time from the current portfolio and consequently the ability of the Group to participate in new investment opportunities.

The Board monitors trends in secondary market values and sales are transacted when the conditions are considered to be optimal.

# THE BOARD HAS APPROVED A STRATEGY THAT LIMITS DEPENDENCE UPON ANY SINGLE SUB-SECTOR OF THE UK PFI/PPP MARKET AND WHICH INCREASINGLY TARGETS OVERSEAS MARKETS, PROVIDED THE RISK PROFILE AND RETURNS ARE ACCEPTABLE

## Failure of information systems

The Group is dependent on the efficient and uninterrupted operation of its information technology and computer systems, which are vulnerable to damage or interruption from power loss, telecommunications failure, sabotage, vandalism or similar misconduct. Any such damage or interruption could have a material adverse effect on the Group's business.

The Directors ensure that an IT disaster recovery plan is maintained.

## 2 RISKS ASSOCIATED WITH PFI/PPP PROJECTS

### Competition

The Group competes against other PFI/PPP investors to win PFI/PPP contracts from public authorities. Competition for appropriate investment opportunities may increase, thus reducing the number of opportunities available and adversely affecting the terms upon which investments can be made by the Group.

The Group operates in a diversity of sectors and geographical areas in order to prevent an over-dependence on one sub-sector where competitive pressures might be concentrated.

### Failure of contracting parties

The performance of PFI/PPP investments can be adversely affected by the failure of parties with which the SPCs have contracted to fulfil their contractual obligations. The failure of a single sub-contractor could adversely affect a number of SPCs in which the Group has invested.

The performance and financial stability of the SPC's sub-contractors is regularly monitored. The Group works with a number of such sub-contractors so as to limit the dependence on any one.

### Defects in contractual documentation

The contractual arrangements for PFI/PPP projects are structured so as to minimise the risks inherent to projects which are retained by the SPC. However, the contractual documentation may be ineffective in distributing or mitigating risks to the degree expected at signing of the documentation relating to the project, resulting in unexpected costs or reductions in revenues which could impact adversely on investment returns. Due to commonalities in the drafting of such contractual documentation, such issues could affect a number of SPCs in which the Group has invested.

The Group has standard procedures for the appointment of legal advisors to SPCs. Through these procedures the Board is satisfied that the SPCs appoint competent legal advisors with the relevant skills.

## Costs overrun, construction delay

During the construction period of a project, there are risks that either the works are not completed within the agreed time-frame or construction costs overrun. To the extent that such risks are not borne by sub-contractors, or that sub-contractors fail to meet their commitments, delays or cost overruns may adversely affect the return on the investment in the SPC.

The Group has procedures in place to ensure that SPCs appoint competent sub-contractors with relevant experience and financial stability.

## SPC performance dependent on long-term forecasting

Investment decisions are based upon assumptions as to timing and cost of major asset maintenance and other ongoing SPC costs over the term of the PFI/PPP contract (typically up to 30 years). To the extent that the actual costs incurred differ from the forecast costs and cannot be passed on to sub-contractors, the expected investment returns may be adversely affected.

The Board receives reports on major maintenance and life cycle costs from divisional management on a six monthly basis. Through this process, the Directors are able to satisfy themselves that such costs are being monitored and potential exposures are identified.

## Termination

PFI/PPP contractual agreements give the relevant public authority and the SPC rights of termination. The compensation which the SPC receives on termination will depend on the reason for termination. In some cases, notably default by the SPC, the compensation will not include amounts specifically to repay the equity investment and is likely only to cover a portion of the debt in the relevant SPC. In other cases (e.g. termination for force majeure events) only the nominal value of the equity is compensated and, in such circumstances, the Group would be unlikely to recover either the expected returns on its investment or the amount invested.

The risk management processes operated by the Group should identify any possibilities of future SPC default to the Directors such that corrective actions could be taken.

## Service performance and availability

Following completion or construction, each service provided by the SPC to the project will be monitored against agreed service performance criteria. Deficient performance can lead to deductions from payments receivable by the SPC which are only recoverable from a sub-contractor up to the liability limit agreed with that sub-contractor. In certain circumstances, poor performance may lead to termination of the concession

or to the relevant public authority requiring the SPC to terminate the contract with the sub-contractor and retender the contract, which may result in a higher cost to the SPC and have an adverse effect on the investment returns.

Through Equion FM, the Group has in-house facility management capability which provides the opportunity to step into the services sub-contractor position on accommodation projects should the need arise.

#### **Provision of facilities management services**

On certain projects, John Laing is responsible for providing facility management services to the SPC. In the event that operating margins are over-estimated when bidding to provide these services, this will have an adverse effect on the Group's expected financial performance.

The Group only takes on this responsibility in projects where the service specification is within the core-competence of the Group. All facilities management contracts are reviewed by senior management prior to contract signature.

#### **Financing terms**

When structuring a PFI/PPP investment, the terms of the senior debt generally impose financial ratio tests on the SPC. Adverse financial performance by the SPC may result in the SPC being unable to make distributions to John Laing if ratio tests are not met.

Prior to financial close, all proposed PFI/PPP investments are scrutinised by the Investment Committee and by the Executive Committee. This scrutiny includes the review of sensitivities to adverse performance on investment returns and financial ratio tests.

#### **Revenue risk**

In the circumstances where the revenue derived by an SPC is related to patronage (i.e. customer usage) or pricing risk, the revenue may vary from that forecast by the Group at the time the relevant contractual documentation was entered into. To the extent that revenues fall short of the forecasts on which the investment decisions are based, the expected investment returns on the SPC may be adversely affected.

Group strategy is to restrict the value of investments on which the SPC's revenue is exposed to patronage risk. Where such risk is taken, the Directors review the assumptions and sensitivities to patronage shortfall prior to commitment.

#### **LUL Connect PFI Project**

This project was acquired as part of the portfolio purchase from Hyder plc in 2001. The project is running over two years late due to delayed completion of enabling works. There is a dispute between the relevant SPC and the client over the cause for the delay which is the subject of a formal arbitration process. The Group's investment returns may be adversely impacted if a reasonable extension of time to complete the project is not agreed between the SPC and the client or if the construction sub-contractor fails to pay liquidated damages to the SPC in respect of delays. Further information on this dispute is set out in note 22 to the accounts.

The Board receives regular updates on the status and progress of the claim for the extension of time.

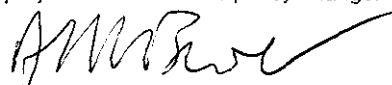
#### **Government policy**

PFI/PPP is not the only way of funding government projects. Governments may in future decide to favour alternative funding mechanisms. In addition, governments may reduce the overall level of funding allocated to major capital projects. Both of these factors may reduce the number of investment opportunities for the Company and/or reduce the returns from available investments.

The Group capitalises bid costs on PFI/PPP projects on which it has been appointed as preferred bidder. If, due to a change in government policy, the projects do not proceed to financial close, there is a risk that capitalised bid costs may not be recoverable.

Governments may in future decide to change the basis upon which project SPCs and government counterparties share any gains arising either on refinancing or on the sale of project equity, in which case the returns available to the Group from PFI/PPP project investments may be reduced.

The Board has approved a strategy that limits dependence upon any single sub-sector of the UK PFI/PPP market and which increasingly targets overseas markets, provided the risk profile and returns are acceptable. Divisional management seeks, where necessary, to limit the levels of bid cost that are speculated. Current processes also seek to ensure that costs incurred after selection as preferred bidder are either expressly covered by compensation arrangements or covered by government policy pronouncements in the event that the public sector body decides to abandon the project for reasons of policy change.



A J H Ewer  
13 March 2006



# Corporate Social Responsibility

WITH OVER 150 YEARS HISTORY OF  
WORKING IN THE BUILT ENVIRONMENT  
AND AS A SIGNIFICANT EMPLOYER,

*JOHN LAING HAS ALWAYS ACKNOWLEDGED  
ITS RESPONSIBILITIES TO COMMUNITIES,  
STAFF AND THE ENVIRONMENT*

This is even more important in today's world when we have all the advantages of modern transport systems, communications technology and global markets, and yet there are continuing sharp divides between those who are fortunate and those who are not. The impact of global warming is all too evident and the stresses at the modern workplace continually threaten a healthy and balanced lifestyle. John Laing recognises its corporate social responsibilities ('CSR') and is setting high standards so that the Group can make a positive contribution to sustainability and social welfare.

Over the last five years John Laing has restructured itself and this has resulted in a significant change to its operations. The Group is heavily involved in the planning, procurement and operation of social infrastructure and transport systems including schools, hospitals, police stations, roads, bridges and rail systems. Our CSRs are just as important as they ever were and we aim to further develop the culture of social responsibility that has been instilled in the Group over many decades.

## **CSR WORKING GROUP AND CHAMPIONS**

We have recently re-examined our processes for ensuring that CSR is a high priority in everything we do. We have been doing a huge amount of good work in this area but, as in all organisations, we could do more. We have formed a CSR working group which comprises 12 managers representing the four operating divisions of the Group and the centralised functions. This includes three executive Directors of John Laing.

The CSR working group has identified the key elements of CSR on which we will strive to improve on current practice. For each key element we are identifying a **CSR Champion** whose mission will be to focus on a specific aspect of CSR and make a difference. Each Champion will bring a degree of personal commitment and enthusiasm to his or her specified field. The Champions will focus on key objectives within their respective business units but through the CSR working group their knowledge and experience will be pooled so as to encourage the spreading of best practice across all Group operations.

The CSR working group is conscious that it is not possible to run a large number of initiatives at any one time. The task has therefore been broken down into a manageable number of initiatives on which we can identify easily measurable targets. The benchmarks will be agreed early in 2006 and we will be reporting our achievements against the targets in the 2006 CSR review.

Each CSR Champion will report to the CSR working group on a six monthly basis. A summary report will be presented to and considered by the Board twice a year.

The key elements of CSR for which CSR Champions are being appointed, and on which targets are now being set are as follows:

- improve energy efficiency;
- reduce waste at sites under construction;
- optimise use of recycled materials at sites under construction;
- optimise use of renewable materials at sites under construction;
- reduce paper consumption in all activities;
- formalise supply chain policies and monitor compliance;
- every business activity office employing more than three staff to identify a local charity to support on an annual basis;
- all new PFI/PPP bid teams to include a CSR Champion and investment proposals to include a CSR report;
- through the Laing Charitable Trust, the Company will operate a fund matching policy;
- adopt the government childcare voucher initiative for staff; and
- offer a staff training programme that encourages all staff to develop the depth and range of their skills.

In the important areas of Health and Safety, Community Support and Staff Welfare, the Group has well established procedures and arrangements. A Group Health and Safety Committee has been in place for a number of years and will continue to oversee the operation of the Group Health and Safety policies across all business activities.

## REVIEW OF 2005

### THE LAING CHARITABLE TRUST

The Laing Charitable Trust was established over 40 years ago to make donations to individuals and charities. The Company is an active member of Business in the Community ('BitC') and is also a member of BitC's Per Cent Club, which recognises companies that donate at least 1% of pre-tax profits to charitable organisations.



### LAING IN THE COMMUNITY

In 2005, the Laing Charitable Trust donated £535,600 to charitable organisations, with particular focus given to those working with the homeless, young disadvantaged people, and education and environmental projects.

Further donations were made through a variety of schemes in which the Laing Charitable Trust participates, including:

- > MATCHED FUNDING FOR EMPLOYEE FUNDRAISING
- > MAKE A DIFFERENCE, WHEREBY £250 IS DONATED TO VOLUNTARY OR CHARITABLE PROJECTS THAT STAFF AND/OR THEIR FAMILIES ARE ACTIVELY INVOLVED WITH
- > A £100,000 DONATION TO THE NATIONAL TENANTS RESOURCE CENTRE TO ASSIST THEIR PURCHASE OF THEIR BUILDING'S FREEHOLD
- > A THREE YEAR PARTNERSHIP WITH CRIME CONCERN WHEREBY THE LAING CHARITABLE TRUST HAS PLEDGED £25,000 A YEAR IN A PROJECT TO HELP YOUNG PEOPLE TAKE ACTION ON COMMUNITY SAFETY
- > ANOTHER THREE YEAR PARTNERSHIP WITH EDUCATION CHARITY CONTINYOU WITH A PLEDGE OF £25,000 A YEAR TO SUPPORT THE INVOLVEMENT OF PARENTS WITH THEIR EDUCATION AT FOUNDATION LEVEL
- > THE PROVISION OF BUSINESS AND FINANCIAL SUPPORT TO HERTFORDSHIRE GROUNDWORK TRUST FOR ITS SERVICES TO SCHOOLS
- > CONTINUING FINANCIAL SUPPORT FOR SCHOOL GOVERNORS ONE-STOP-SHOP, A CHARITY SET UP BY THE DfES TO PROMOTE AND ENCOURAGE PEOPLE TO BECOME SCHOOL GOVERNORS

Through the Laing Charitable Trust, financial support is available to over 750 former John Laing employees.

As part of Chiltern Railways' ongoing involvement in the local community, Chiltern Railways driver David Newell, along with retired colleague, Mick Benson, conduct regular visits to schools along the route.

The purpose of the visits is to help increase awareness of the dangers associated with trespass and the safety implications of anti-social behaviour on or around the railway.

The teaching is varied to suit the various group sizes and age groups, which range, for example, from St Mary's School at Haddenham, where small groups of 5-11 year olds are taught, through to larger schools such as Misbourne School, Great Missenden, where 1,200 students aged between 11 and 18 years old recently attended the talks.

At Upper Heyford, in Oxfordshire, David and Mick work in conjunction with other local organisations, helping lead the Junior Citizen Scheme encouraging local youngsters to be responsible members of the local community.

#### **HUMAN RESOURCES AND STAFF WELFARE**

The Company is thoroughly committed to the welfare of its employees, both current and former. Staff members have access to support from a welfare team and to a free, confidential counselling service.

##### **Retired employees**

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

##### **Training**

Going forward, it is vital that the Group is able to attract, develop and retain highly skilled, experienced and talented people. To that end, we have an ongoing commitment to encouraging and supporting the on going learning and development of all staff, and have developed an in-house training programme offering business-focussed training and development.

##### **Equal opportunities**

The Group respects and values diversity and strives to ensure the fair treatment of all staff, where they feel respected, valued and that they have the opportunity to contribute and progress on their own merit.

#### **HEALTH AND SAFETY**

The Board receives and considers a health and safety report at all of its scheduled meetings. The Group's Health and Safety Committee meets quarterly to review changes to legislation, examine accident statistics, recommend training where required and review contractor performance in respect to health and safety implementation across all projects. The Committee ensures all SPC boards have an appointed director responsible for health and safety. Where the

company is involved in a joint-equity arrangement, the company representative will encourage the appointment of a director responsible for health and safety.

All employees are required to attend a health and safety course during the first three months of their employment. This is supplemented with additional training initiatives that were introduced in 2005, including:

- ensuring each major project (wherever necessary) includes an employee qualified to the National Examining Board in Occupational Safety certificate standard;
- managers attending the four day Institute of Occupational Safety and Health managing safely course; and
- further job specific courses planned for managers in areas where there have been changes in legislation, i.e. fire precautions, working at heights, legionnaires disease and lifting operations.

Specific training is also provided to SPC directors on health and safety responsibilities based on the Health and Safety Executive recommendations.

In 2005, John Laing was proud to receive the silver award for health and safety from the Royal Society for the Prevention of Accidents.

Safety on Chiltern Railways was characterised by two key events in 2005. First, the widely reported collapse of a tunnel onto the railway line at Gerrards Cross which due to the swift action of two train drivers who, following safety procedures, brought their trains to a halt before the obstruction and avoided any injuries.

Secondly, the terrorist attacks in July reiterated the need for constant vigilance. In conjunction with the British Transport Police, our security processes have been stepped up and we remain on a high state of alert, and work hard to fight against "vigilance fatigue".

In early 2006, Chiltern Railways responded to public anxiety in London in relation to unstaffed stations after dark. Chiltern has four such stations and has ordered a review into all security features, consulting with station users and the communities in their recent vicinity, and will thereafter implement an agreed plan. As an interim measure, we are ensuring a security presence at these stations during the hours of darkness while trains are in service and are examining options for permanent staffing as part of the review.

We continue to develop new initiatives for dealing with trespassing and vandalism, with particular focus given to critical "hot-spot" locations. This is supported by publicity and education aimed at local communities and school children.

Whilst we suffer comparatively low passenger and staff accident rates, we continue to hone our safety activity with new work streams being implemented during 2006. Amongst these is the installation and continued development of an accident/incident database and recommendation tracking tool, which rates safety events on a risk based scale, allowing quick analysis of higher risk incidents requiring mitigating action.

The installation of our driver simulator has helped to mitigate against SPAD (signals passed at danger) incidents.

## THE ENVIRONMENT

The Group seeks to incorporate our understanding of environmental issues and raise awareness of sustainability through our investment in specific projects, some examples of which follow:

- the Company saved 2,084 trees in 2005 through the recycling of confidential waste;
- through the Laing Charitable Trust, financial support was given to Waste Watch, the charity that helps inform children about the principles of recycling;
- Equion had its multi-site environmental management system registration to ISO14001 renewed for all its business units and had its quality management ISO9001 registration renewed, whilst Laing Roads achieved this registration in 2005; and
- through its projects, Equion is demonstrating excellent examples of energy saving measures, including: the innovative use of extruded Texlon polymer for the roof covering of South East Essex College (as used by the Eden project in Cornwall), which is a solar control device; the development of projects for PhD students at Norfolk & Norwich Hospital focussed on waste, the carbon footprint at the hospital, animal biodiversity, ISO14001 registration and energy management; energy saving techniques being used at Equion's regeneration project in London's Canning Town to install condensing boilers, thermostatic radiator valves, wall and loft insulation and double glazed windows into 1,262 dwellings; the production of a design including a ground source heating and cooling system for its bid for the MoD's Corsham project; and the appraisal of renewable energy options following the low carbon design initiative promoted by the Carbon Trust for our school bids.

There are many examples of environmental protection within our Laing Roads business, including: the installation of Kestrel boxes along the M40 road to encourage population

growth of this endangered species; for the A130 road around Chelmsford, the road was re-routed during construction to protect an oak tree of local and historical interest, whilst wildlife culverts were installed along paths of natural movement to allow access for badgers to habitats and territories either side of the road project; the Sirhowy Way road, north of Cardiff in Wales, saw the inclusion of bat and dormice crossings and tree felling was kept to a minimum to allow safe movement for these species. Measures are also being introduced to address light spillage on the Chartis Bridge which may affect bat movement in the area.

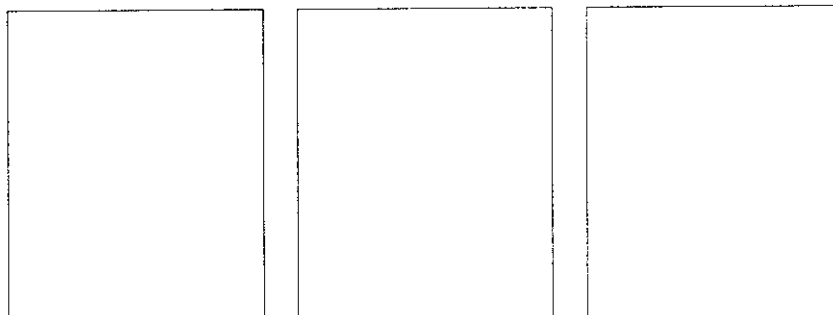
## ETHICAL CODE

The Board aims to ensure all Group representatives work to high ethical standards. The Code of Conduct we employ covers the following six headings: legal requirements, business ethics, health and safety, employment practices, environment and relationships with external parties. This Code of Conduct is made available to suppliers, staff and other stakeholders.

The Group also operates a fraud policy, incorporating a Whistleblowers' Charter. Both the fraud policy and the Code of Conduct are available to view on the Company website: [www.laing.com](http://www.laing.com).

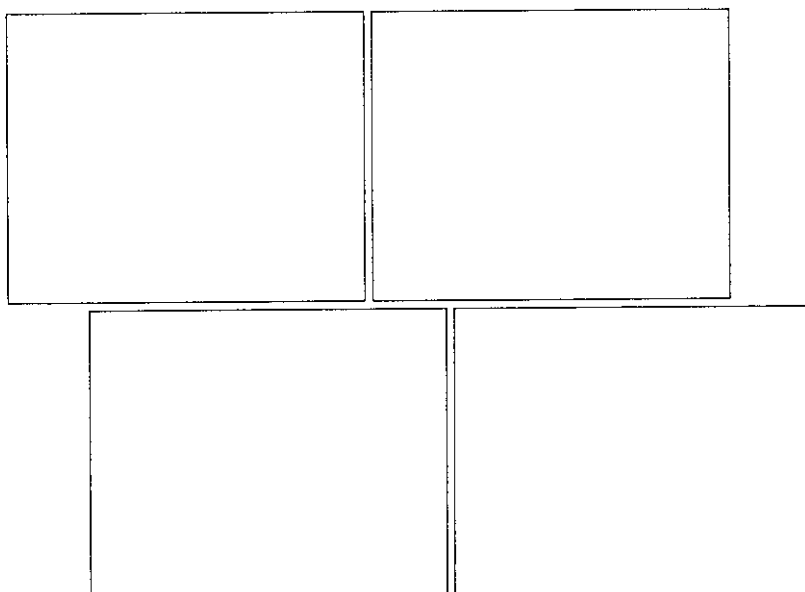
## CORPORATE RESPONSIBILITY EXCHANGE ('CRE')

In 2005, the Company subscribed to the London Stock Exchange's CRE, an online communications platform through which companies can disclose their policies and approach to corporate governance and CSR. The disclosures provide a consistent database of answers to the most commonly asked questions. CRE is accessible to analysts, fund managers, representative bodies and research agencies, and provides them with consistent data to enable research into the Company's policies and practices in the area of corporate responsibility.



# innovat

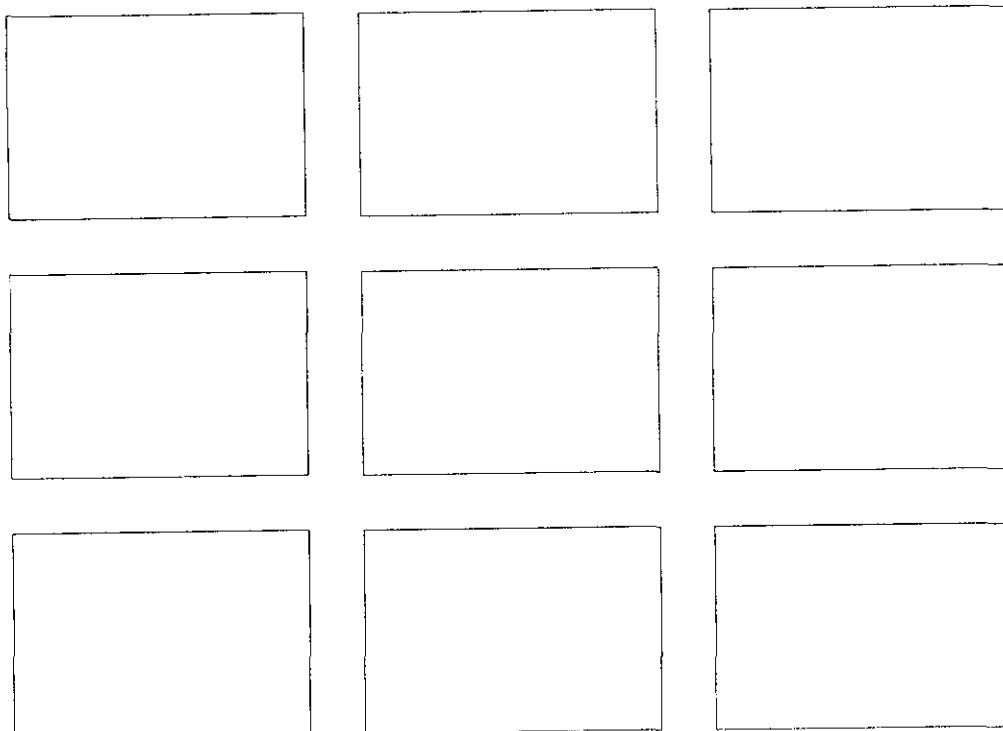
The Group specialises in originating projects integrating all the financial and technical elements required for their delivery and managing the investment phase.



ion

*"we adapt to  
change when  
the underlying  
business  
needs it..."*

# Board of Directors



left to right, top to bottom

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

**William Forrester M.Inst.M (65)**  
Non-executive Chairman, July 2003

In 1981 Bill joined SIG plc (formerly Sheffield Insulations Group plc) as a Divisional Managing Director. He was Group Managing Director between 1985 and 1995 and then appointed Group Chief Executive, a position he held until his retirement in December 2001. Bill took SIG on to become Europe's largest distributor of insulation, ceiling, partitioning and roofing products operating in Germany, France, Poland, Belgium, the Netherlands and the USA, as well as the UK.

Bill joined John Laing as a Director on 1 January 2002, becoming Executive Chairman on 1 February 2002.

He reconstituted the Board and led a strategic review of the Group's businesses which resulted in the decision to place PFI/PPP infrastructure investments, development and operation at the core of the business and divest the Group's major house building interests. Following completion of the divestment programme, Bill became non-executive Chairman on 1 July 2003. He is Chairman of the Nominations Committee.

Bill is also the Chairman of both Unipac Group Limited and The Waterproofing Group PLC and a Director of Dignity PLC.

**Derek Potts MA, ACA (47)**  
Director, Roads and Utilities, September 2004

Derek is a Chartered Accountant and graduate engineer and previously held senior positions with Jardine Matheson UK, GB Railways Group plc and Virgin Group.

Derek joined John Laing in 2001, where he is Managing Director of Laing Roads Limited and heads the European Roads and Utilities PPP Investment Division, whose growth is targeted in a number of European and North American markets. He is currently responsible for a portfolio of 15 investments and is a member of the Executive Committee.

**Tim Matthews BA (54)**  
Non-executive Director

Tim began his career within the health sector in 1974 at the Department of Health and Social Security, culminating in his appointment as Chief Executive of Guy's & St Thomas's Hospital Trust in 1993. For the period from 2000 to 2003 he served as the Chief Executive of the Highways Agency which is part of the Department for Transport. In 2003, Tim became the Managing Director of Parsons Brinckerhoff Limited, an engineering consultancy company whose focus includes transportation, light rail and facilities management.

Tim joined John Laing in September 2004 as an independent non-executive Director and is a member of the Audit and Remuneration Committees.

Tim is also Managing Director of Parsons Brinckerhoff Limited

**Andy Friend MA (53)**  
Chief Executive, July 2003

Andy's early career included being Policy Adviser on Industry and Employment for the Greater London Council, which led him to working for the City of Melbourne, Australia, from 1985, in a variety of roles culminating in Chief Executive between 1995 and 1997. Through his 12 year tenure, Andy gained an in-depth insight into the public sector and major infrastructure projects. Andy joined Macquarie Bank, London, as an Associate Director in July 1997 where he was involved in infrastructure financing across a range of public sector projects.

Andy joined John Laing as Managing Director of its UK investment division in August 1999. He was appointed to the Board in March 2001. Throughout his period of office he has been instrumental in building strength and depth in the Group's infrastructure investment interests.

Andy was appointed Chief Executive on 1 July 2003. He is Chairman of the Executive Committee.

**Richard Weston MCIOB (57)**  
Director, Accommodation, September 2004

Richard is a Director of John Laing and Managing Director of Equion Limited, a division of John Laing. Richard has been Managing Director of Equion Limited since its inception in 1998 and the Equion portfolio of investments has now grown to a value in excess of £150 million with a number of other projects at preferred bidder stage.

Prior to his appointment at Equion, Richard held a number of senior posts within the Group. Richard has been with the Group since 1967 and is a Member of the Institute of Building. Richard is a member of the Executive Committee.

**Michael Medlicott MA, FRSA (62)**  
Non-executive Director

Michael began his career at P&O as a management trainee in 1965 and after a series of central and international management roles became the Director for Europe of P&O Cruises in 1983. From 1986 to 1993, he was the Chief Executive of the British Tourist Authority before joining Delta Air Lines as Vice-President of Europe and Asia. From 1997 to 2002, Michael was Chief Executive of Servus Holdings Limited and a Transaction Director of Nomura International plc's principal finance group.

Michael joined John Laing in September 2004 as an independent non-executive Director and is a member of the Remuneration Committee.

Michael is also non-executive Director of Heritage of London Trust Limited, Manchester Airport Group plc and HM Treasury, National Savings and Investments.

**Adrian Ewer FCA (52)**  
Group Finance Director, June 1999

After qualifying as a member of the Institute of Chartered Accountants, Adrian pursued his finance career with key posts in Chloride Group plc, Akai (UK) Limited, the Ratcliffe Group Limited and as Group Treasurer for Litley plc prior to joining John Laing in 1991. Adrian was appointed the Group's Deputy Finance Director in March 1995 and Group Finance Director in June 1999.

Adrian was instrumental in shaping and securing a future for the Company following the difficult divestment of the construction division in 2001. Following a decision by the new Board early in 2002, Adrian led the successful divestment of the Group's house building businesses. He is a member of the Executive Committee.

**Tim Boatman FCA (64)**  
Non-executive Director

Tim joined Cooper Brothers (later Coopers & Lybrand and subsequently PricewaterhouseCoopers) in 1965 and was a partner from 1974 until his retirement in December 2001. Subsequently he acted as a consultant with PwC in Central and Eastern Europe and Russia. Tim held a range of positions including partner in charge of the London Audit Division and Chairman of the African panel. Tim has a broad range of industry sector knowledge, insight and experience including financial services, telecommunications, entertainment and media, distribution, utilities and property.

Tim joined John Laing in April 2002 as an independent non-executive Director. He is Chairman of the Audit Committee and is a member of the Nominations Committee.

Tim is also an independent member of the Supervisory Board of Telekomunikacja Polska S.A. and Chairman of its Audit Committee.

**Paul Meredith FIA (60)**  
Senior non-executive Director

Paul was Chairman and Chief Executive of Phillips & Drew Fund Management ('PDFM') from 1990 to 1999 and a member of the UBS European Executive. He originally joined PDFM in 1979 as a fund manager after training as an actuary following eight years as an officer in the Royal Navy. He was a non-executive Director of IMRO from 1995 to 2000. He acts as investment advisor to three public sector pension funds and to one major charity.

Paul joined John Laing in June 2002 as an independent non-executive Director. He is the senior independent non-executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee and of the Nominations Committee.



# Directors' Report

The Directors submit their Report and audited Financial Statements for the year ended 31 December 2005 which they approved on 13 March 2006.

## RESULT AND DIVIDENDS FOR CONTINUING OPERATIONS

The profit before taxation for the year was £35.8 million (2004 – £25.0 million). After taxation and discontinued operations the profit for the year was £21.3 million (2004 – £15.2 million).

The Directors recommend a final dividend of 2.45 pence per Ordinary Share to be paid on 1 June 2006 to shareholders whose names appear on the register at the close of business on 24 March 2006.

With the interim dividend of 1.2 pence per share paid on 3 October 2005 the total recommended dividend for the year is 3.65 pence per share (2004 – 3.3 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, and in the Operating & Financial Review.

The principal risks and uncertainties facing the Company are set out in the Operating & Financial Review on pages 36 to 39.

## 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 35 to the accounts.

## DIRECTORS

The Directors who served throughout the year were:

W W Forrester  
A E Friend  
A J H Ewer  
D Potts  
R Weston  
T G Boatman  
T Matthews  
M G Medlicott  
P M C Meredith

There were no changes in the membership of the Board between 31 December 2005 and 13 March 2006.

The Directors retiring by rotation in accordance with the Articles of Association are A E Friend and P M C Meredith who, being eligible, offer themselves for re-election.

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

Name	Notice period
A E Friend	12 months
P M C Meredith	3 months

Biographical details of the Directors offering themselves for re-election are shown on page 47 and in the circular sent to shareholders.

## 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 2005		At 1 January 2005	
	Ordinary Shares 25 pence each	6.4% Convertible Cumulative Preference Shares £1 each	Ordinary Shares 25 pence each	6.4% Convertible Cumulative Preference Shares £1 each
W W Forrester	179,374	-	50,000	-
A E Friend	46,976	-	6,786	-
A J H Ewer	97,489	-	46,711	-
D Potts	10,526	-	500	-
R Weston	12,920	-	1,540	-
T G Boatman	5,127	-	500	-
T Matthews	3,254	-	1,000	-
M G Medlicott	5,000	-	500	-
P M C Meredith	10,000	-	500	-

# Directors' Report

## DIRECTORS' INTERESTS (CONTINUED)

### SHARES (CONTINUED)

On 16 January 2006 W W Forrester acquired a further 93,568 Ordinary Shares of 25p each following the exercise of share options granted to him on 16 January 2003. In addition, the conditional awards made to executive Directors in 2003 under the John Laing Long-Term Incentive Plan 2001 ('LTIP') have vested in full resulting in the transfer of shares to them on 17 February 2006 as follows:

	Ordinary Shares of 25 pence each
A E Friend	107,345
A J H Ewer	107,345
D Potts	21,715
R Weston	22,702

Full details of these transactions and the outstanding share options and awards under the LTIP are set out in the Directors' Remuneration Report on pages 64 to 66.

### SUBSTANTIAL SHAREHOLDINGS

As at 13 March 2006, the Directors had received the following notifications of substantial interests in the shares of the Company:

	Ordinary Shares of 25 pence each	%
Legal & General Investment Management	35,351,318	15.13
MLIM	23,209,107	9.94
Schroder Investment Management	22,335,212	9.56
Majedie Asset Management	18,584,884	7.96
Aegon Asset Management	18,049,234	7.73
Morley Fund Management	11,764,902	5.04
SG Asset Management	10,434,586	4.47
Fidelity Investments	10,317,559	4.42*

\* On 22 March 2006 Fidelity Investments notified the Company that its interest in the Company's issued Ordinary Share capital had fallen to 2.83%.

### 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 2005 were equivalent to 106 days (2004 – 89 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 reappointment as auditors of the Company is to be proposed at the forthcoming AGM.

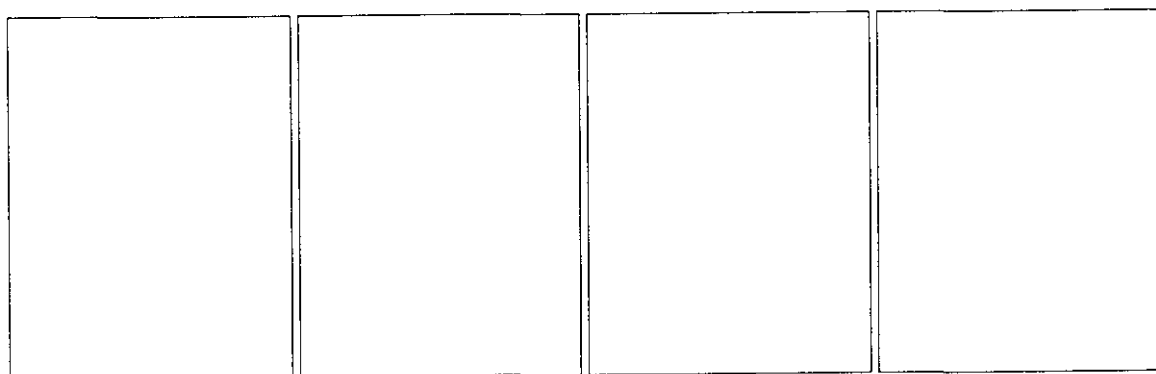
On behalf of the Board



R K Miller  
Group Company Secretary  
13 March 2006

# commu

*“delivering value to  
our public sector  
clients and the  
community...”*



Our corporate social responsibilities are just as important as they ever were and we aim to further develop the culture of social responsibility that has been instilled in the Group over many decades.

# unities

## Corporate Governance

In July 2003, the Financial Reporting Council published a revised version of the 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 led 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 revised 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 2005, the Group has been in compliance with the Code, except for the following matter.

Code provision D1.1 The independent non-executive Directors have not attended formal meetings with major shareholders during 2005. However, the Chairman has had informal dialogue with several institutional investors throughout the course of the year.

On 18 August 2005 the Board adopted the new Model Code in the format issued by the FSA following the changes made to the Listing Rules with effect from 1 July 2005.

The Group has complied with the Revised Guidance for Directors on the Combined Code relating to internal control, as published by the Financial Reporting Council in October 2005.

### 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 2005 was as follows:

NUMBER OF MEETINGS	Board	Audit Committee	Nominations Committee	Remuneration Committee
Meetings held in 2005	14	3	-	3
<b>Attended by:</b>				
W W Forrester - non-executive Chairman				
- Ch. Nominations Committee	12			
A E Friend - Chief Executive	14			3 <sup>#</sup>
A J H Ewer - Group Finance Director	14	3 <sup>#</sup>		
D Potts - Divisional Managing Director	14			
R Weston - Divisional Managing Director	13			
T G Boatman - independent non-executive Director				
- Ch. Audit Committee	14	3		
T Matthews - independent non-executive Director	13	2		2
M G Medicolt - independent non-executive Director	12			3
P M C Meredith - senior independent non-executive Director				
- Ch. Remuneration Committee	14	3		3

<sup>#</sup> in attendance only

# Corporate Governance

## **DIRECTORS (CONTINUED)**

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

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. A schedule of the Matters Reserved for the Board is included on the website at [www.laing.com](http://www.laing.com). 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 42.

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 the Board to submit themselves for re-election, on a rotational basis, every three years from their date of election or re-election. 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 59 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 presentation of the interim and full year accounts, the appointment of Directors and Directors' remuneration. 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 58.

All of the sub-committees of the Board operate to clearly defined terms of reference which are reviewed and updated to reflect best practice and the Code during 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](http://www.laing.com).

The reports of the Board sub-committees are set out on pages 57 to 69.

## **RELATIONSHIP WITH SHAREHOLDERS**

Throughout the year, executive Directors 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, on the launch of a rights issue in June 2005 and at other times where requested. The Chairman has also had informal conversations with several institutional shareholders. Feedback from meetings with major institutional shareholders has been reported to the Board. 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 2005 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 6 to 9 sets out the Group's strategy and the corporate actions that have been taken in furtherance of the strategy. The Operating & Financial Review on pages 12 to 39 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:

### Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare accounts for the Group in accordance with IFRS and have chosen to prepare Company financial statements in accordance with UK GAAP.

In the case of UK GAAP accounts, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

In the case of IFRS accounts, IAS1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements". In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985 and Directors' Remuneration Report Regulations.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the UK governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

### Going concern

The Directors confirm that, having made appropriate enquiries, they have a reasonable expectation that the Group and Company have 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.

# Corporate Governance

## ACCOUNTABILITY AND AUDIT (CONTINUED)

### 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 employed within Group operations and joint ventures 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 recommendations arising from the ongoing review of risk management procedures and systems of internal control. Risk management and internal controls are now well embedded in the day to day management of the Group.

The principal risk management procedures and systems of internal controls that operated throughout 2005 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 critical processes has been assessed by means of "walkthrough tests" of a sample of transactions, the results of which were reported to and considered by the Audit Committee;
- 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 including the approval of all investments and disposals as set out below; and
- 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.

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 PF/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.



# Corporate Governance

## ACCOUNTABILITY AND AUDIT (CONTINUED)

### 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 2005, 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 was agreed and 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.

Now that the Group's scale of operations has increased, the Board is giving consideration to the formation of an internally resourced internal audit department that would undertake certain of the functions hitherto provided by the outsourced internal auditor. The Board believes that this is likely to provide a more cost effective solution to increasing the coverage of internal audit than relying wholly upon an outsourced solution.

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](http://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 pages 67 and 68.

All but one of the Group's subsidiaries are audited by Deloitte & Touche LLP. 49 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.

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 on the financial statements and, where required, the Directors' Remuneration Report, is set out on pages 72 and 73. In addition, the external auditors report 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 members of the Committee. During 2005, there were no changes to the composition of the Committee. The members of the Committee are:

P M C Meredith (Chairman of the Committee)  
T Matthews  
M G Medicott

The Chief Executive, A E Friend, is not a member of the Committee; he attends the meetings by invitation but is not present when his personal remuneration is discussed and reviewed. In addition, the 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, 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 2005 there were three meetings of the Committee. Attendance at these meetings is shown on page 52. 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'). New Bridge Street was appointed by the Committee and undertakes 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 comply with the Combined Code and were 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 the dialogue that it has with major shareholders on remuneration matters.

## REMUNERATION POLICY

The Committee sets and monitors the overall remuneration policy for the 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 2005, 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 2006 and going forward to be appropriate to the Group'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 and 66.

The 2005 review of basic pay for A E Friend, A J H Ewer, D Potts and R Weston resulted in increases to £340,000, £300,000, £153,000 and £153,000 respectively. The variable pay element for 2005 revolves around a cash bonus scheme and details are provided below. The review of salaries for 2006 has resulted in the salaries of A E Friend, A J H Ewer, D Potts and R Weston being increased to £390,000, £312,000, £180,000 and £180,000 respectively. The increases were 14.7%, 4%, 17.6% and 17.6% respectively. The level of increases given to A E Friend, D Potts and R Weston results from a review of market comparisons. In the case of D Potts and R Weston this review was anticipated in the 2004 Report.

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.

# Directors' Remuneration Report

## REMUNERATION POLICY (CONTINUED)

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 LTIP conditional awards and share option grants existing at 19 January 2005. For members of the Executive Committee, the guidelines apply to all new LTIP conditional awards or share option grants subsequent to that date.

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.

W W Forrester received 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. With effect from 1 January 2006 his fixed fee was increased to £110,000 per annum. A differential in the fees paid to Committee Chairmen and other Committee members was established with effect from 29 June 2005. 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 62.

Executive Directors wishing to take up external appointments as non-executive Directors will seek the consent of the 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.

## REMUNERATION COMPONENTS

### Basic salary

Salaries for executive Directors and senior executives take account of external market data, the individual's responsibilities, experience and performance and are reviewed annually. When the Committee reviews these salaries, 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 2006 resulted in an aggregate increase of 4.1% 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 2005 for executive Directors provided A E Friend with maximum bonus potential of 60% and the other executive Directors with maximum bonus potential of 50% of basic salary. One half of their bonus entitlement was related to achievement of pre-determined profit targets. The other half was 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 20. Movements in the IAS19 pension deficit will not be taken into account. The Committee feels that this aligns the executives' incentives with the Group's strategies. 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 62.

In respect of 2006, similar bonus arrangements will apply, except that all of the bonus for the executive Directors will be determined by reference to a sum of the parts valuation. The maximum bonus potential for A E Friend has been increased to 70% of basic salary for 2006 onwards reflecting the increased responsibility attached to this role.

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 was 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 was related to performance against personal objectives. The Company bonus scheme for other staff is related to the achievement of pre-determined profit targets either at Group and/or divisional level and is also based on personal performance.

For the Executive Committee, similar bonus arrangements will apply for 2006 except that one half of the bonus entitlement will be related to the achievement of target growth in the sum of the parts valuation of the business.

# Directors' Remuneration Report

## REMUNERATION COMPONENTS (CONTINUED)

### 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 re-commenced from 1 January 2004 at a rate of 2% of salary and rose to 4% from 1 January 2005 and 6% from 1 January 2006. 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 taxable 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 the Company continues to apply a self-imposed pensions cap increasing in line with RPI. Currently this level is £105,600. 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 63. The Committee does not envisage any significant changes to its pension policy (and specifically does not envisage any increase in costs) in the light of the introduction of the new pension rules in April 2006.

### 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 2005. D Potts and R Weston had six month notice periods during 2005.

### Contract details

	Effective Date	Expiry
W W Forrester	1/7/03	1/7/06
A E Friend	31/08/99	25/6/12
A J H Ewer	1/7/91	19/9/13
D Potts	11/7/01	20/10/18
R Weston	4/9/67	19/4/08
T G Boatman	16/4/05	16/4/08
T Matthews	1/9/04	1/9/07
M G Medicott	1/9/04	1/9/07
P M C Meredith	2/6/05	2/6/08

A E Friend, A J H Ewer and D Potts may terminate their contracts upon six months notice. R Weston may terminate his contract upon three months notice.

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 retained share options granted during his executive Chairman tenure), nor its pension arrangements and they do not receive any benefits in kind. The Group is obliged to give three months notice to terminate the appointment of a non-executive Director.

### Share plan strategy

On 19 July 2005 the Group successfully concluded a rights issue, full details of which are set out on page 28. On 23 November 2005 the Committee ratified the adjustment of existing awards under the Group's LTIP and the outstanding options (and the related option price) under the Option Plan and the John Laing Senior Executive Share Option Scheme in accordance with HM Revenue and Customs guidelines.

During 2005, awards of up to 1 x salary were made under the Group's LTIP that was approved by shareholders in 2001. In addition, the awards made in 2002 vested and full details are set out on pages 65 and 66. 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 2005 under the Group's LTIP, the performance condition was relative to Total Shareholder Return ('TSR').

The Group has completed, prior to 2005, 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 had been considered an appropriate measure for conditional awards. On the advice of New Bridge Street, the Committee decided that, from 2005 onwards, the

# Directors' Remuneration Report

## REMUNERATION COMPONENTS (CONTINUED)

comparator group for the LTIP would 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.

For the conditional awards made in 2005, the TSR performance condition compares the Group's performance against the TSR's of all the companies in the comparator group, set out above, over a performance period from 1 January 2005 to 31 December 2007. 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 4.41% capacity within the 5% limit under the ABI guidelines.

### The John Laing plc Executive Share Option Plan 2002 (the 'Option Plan')

No options were granted under the Option Plan in 2005.

On 11 March 2005 the Committee recommended to the Board that the performance criteria in respect of the options granted on 1 July 2002 had been met and that 44.1546% of the grant could be exercised by the participants from the maturity date of 1 July 2005. From that date options over 58,198 Ordinary Shares of 25 pence each in the share capital of the Company became exercisable under the Option Plan at an option price of 168.00 pence per share. However, as described in note 29 on page 112, the options under the Option Plan and awards under the LTIP were adjusted following the completion of the rights issue in accordance with HM Revenue and Customs guidelines. This resulted in those options exercisable in respect of the 2002 grant increasing to 60,850 with the related option price falling to 160.67 pence per share.

In addition to the Option Plan, 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 13,402 (after rebasing as described above) which are capable of being exercised by one Director and one senior executive at an option price of 283.80 pence. The options cease to be exercisable on 21 April 2006.

In 1996 the 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

Under the LTIP, conditional share awards were made to the executive Directors and other senior executives in April 2005. In respect of the conditional awards made in April 2002, the Committee recommended to the Board that the performance conditions described above had been met to the extent of 44.1546%. As a consequence 264,865 new Ordinary Shares of 25 pence each in the share capital of the Company were vested to the Directors and other senior executives participating in the LTIP at nil cost.

In respect of the conditional awards made in April 2003, the Committee has recommended to the Board that the performance conditions described above have been met in full. As a consequence 600,356 new Ordinary Shares of 25 pence each in the share capital of the Company were vested to the Directors and other senior executives participating in the LTIP at nil cost.

Full details of the LTIP share awards made to the executive Directors and the awards that have vested are set out on pages 65 and 66.

## Directors' Remuneration Report

### 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 five 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 Index of the Support Services Sector, to provide a more appropriate basis for performance assessment.

The following graph charts the total cumulative shareholder return of the Group over the past five years using both comparator groups.

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The information on pages 62 to 66 has been audited.

# Directors' Remuneration Report

## DIRECTORS' REMUNERATION

	Salary and fees £	Bonus <sup>2</sup> £	Benefits and allowances £	Taxable pension supplement <sup>1</sup> £	Total 2005 £	Total 2004 £
W W Forrester	100,000	-	-	-	100,000	100,000
A E Friend	340,000	202,300	18,393	65,884	626,577	600,942
A J H Ewer	300,000	148,750	18,116	54,684	521,550	506,034
D Potts <sup>4</sup>	153,000	75,863	12,985	12,860	254,708	76,486
R Weston <sup>4</sup>	153,000	75,863	11,738	-	240,601	73,620
T G Boatman <sup>1</sup>	37,500	-	-	-	37,500	35,000
T Matthews <sup>4</sup>	30,000	-	-	-	30,000	10,000
M G Medlicott <sup>4</sup>	30,000	-	-	-	30,000	10,000
P M C Meredith <sup>1</sup>	36,250	-	-	-	36,250	35,000
	<b>1,179,750</b>	<b>502,776</b>	<b>61,232</b>	<b>133,428</b>	<b>1,877,186</b>	<b>1,477,082</b>

### Notes

1. The fees paid to T G Boatman and P M C Meredith during the year reflect the increase that was effective from 1 July 2005 and created a differential in the fees paid to committee chairmen and the other non-executive Directors.
2. Annual bonus payments included within total Directors' Remuneration amounted to £502,776 (2004 - £378,600). Annual bonuses are calculated by reference to achievement of pre-determined profit targets and a target growth in the sum of the parts valuation of the business, as reflected in the Group's audited accounts, drawing all component values from the audited consolidated balance sheet except for the value of the PFI/PPP investments, for which purpose the portfolio valuation is used as described on page 20. The Committee recommended the individual bonus arrangements.
3. A E Friend, A J H Ewer and D Potts are affected by HM Revenue and Customs earnings cap. 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. 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.
4. D Potts, R Weston, T Matthews and M G Medlicott were each appointed to the Board on 1 September 2004 and therefore their remuneration for 2004 is for the four months for which they were appointed.
5. During the period, remuneration of £9,436 (2004 - £80,272) was received by J Armstrong, a former Director, as fees for consultancy services specifically related to the National Physical Laboratory project. It is not expected that any future payments will be made under the arrangement as the outstanding matters on the project have been resolved. J Armstrong was not engaged on any other work.

# Directors' Remuneration Report

## DIRECTORS' PENSION ENTITLEMENTS

Year to 31 December 2005

Executive Directors	Accumulated total accrued pension at 31 December 2004 (per annum) £	Accumulated total accrued pension at 31 December 2005 (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 2005 (per annum) £
A E Friend	16,005	19,800	354	3,441	3,795
A J H Ewer	41,250	45,026	912	2,864	3,776
D Potts	5,950	7,920	132	1,838	1,970
R Weston <sup>5</sup>	108,076	121,248	2,390	10,781	13,171

Executive Directors	Transfer value of accrued pension at 31 December 2004 £000s	Transfer value of accrued pension at 31 December 2005 £000s	Member contributions during 2005 £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	184.4	249.4	4.2	60.8	38.7
A J H Ewer	432.8	512.4	4.2	75.4	27.4
D Potts	31.2	43.9	4.2	8.5	5.9
R Weston	1,636.3	2,052.7	5.0	411.4	174.1

### Notes

1. Throughout 2005, 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 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 2005.
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 in respect of Directors 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. The accrued pension that would have been paid annually to R Weston on his retirement based on service to 31 December 2004 was restricted by the HM Revenue and Customs maximum limits. This restriction did not apply to his accrued pension as at 31 December 2005.



# Directors' Remuneration Report

## SHARE OPTIONS

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

	At 1 January 2005	Rights issue adjustment <sup>1</sup>	Granted	Exercised	Lapsed	At 31 December 2005	Exercise price (pence) <sup>2</sup>	Earliest date of exercise	Expiry date
<b>W W Forrester:</b>									
Individual Share Option Agreement	379,746	-	-	(379,746) <sup>3</sup>	-	-			
The John Laing plc Executive Share Option Plan 2002 <sup>1</sup>	235,294	10,739	-	-	-	246,033	121.93	16/1/06	15/1/13
<b>R Weston:</b>									
John Laing Senior Executive Share Option Scheme <sup>4</sup>	6,409	292	-	-	-	6,701	283.80	1/1/06	21/4/06

### Notes

- Following approval by the shareholders and the successful completion of a rights issue on 19 July 2005, the number of options outstanding and the related option price have been adjusted in line with HM Revenue and Customs practice as shown above.
- 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 was relative TSR. The options could not be exercised unless the TSR of the Group ranked 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.

On 19 January 2005 the Committee determined that the performance criterion had been met and the option had become 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 25 pence 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 gain arising was £250,935.30 based on the number of shares issued at the price prevailing at the date of exercise. The exercise took place when the middle market price of the Company's Ordinary Shares was 270.00 pence.

- 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.

On 16 January 2006 the Committee determined that the performance criterion had been met and the option had become exercisable in full on that date. W W Forrester elected to exercise the options on 16 January 2006 and, with the agreement of the Committee, this was dealt with on a share settled basis. As a consequence 93,568 Ordinary Shares of 25 pence each were allotted to him on 16 January 2006 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 gain arising was £311,581.44 based on the number of shares issued at the price prevailing at the date of exercise. The exercise took place when the middle market price of the Company's Ordinary Shares was 333.00 pence.

- These options were granted to R Weston on 22 April 1996 and are exercisable up until 21 April 2006.

## Directors' Remuneration Report

### SHARE OPTIONS (CONTINUED)

No options have lapsed or been exercised by the Directors during the year or between 31 December 2005 and the date of this report, except as set out in notes 1 and 3 on page 64. There was no variation in the terms of any options during the year except for the rebasing of options following the completion of the rights issue as previously described. 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 341.00 pence and 224.74 pence respectively. The price of the Company's Ordinary Shares at the year end was 332.00 pence.

The Group's Register of Directors' Interests contains full details of Directors' shareholdings, LTIP awards 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 2005	Award 14 April 2005 <sup>1</sup>	Money value £	Rights issue adjustment <sup>2</sup>	Vested <sup>3</sup>	Lapsed	At 31 December 2005	Period of qualifying conditions
<b>A E Friend</b>	117,647				(30,648)	(86,999)	-	
	174,000			7,941			181,941	1/1/03 31/12/05
	151,769			6,927			158,696	1/1/04 31/12/06
	443,416			14,868	(30,648)	(86,999)	340,637	
	-	137,373	340,000	6,270			143,643	1/1/05 31/12/07
	443,416	137,373		21,138	(30,648)	(86,999)	484,280	
<b>A J H Ewer</b>	118,907				(30,976)	(87,931)	-	
	174,000			7,941			181,941	1/1/03 31/12/05
	108,340			4,944			113,284	1/1/04 31/12/06
	401,247			12,885	(30,976)	(87,931)	295,225	
	-	96,969	240,000	4,425			101,394	1/1/05 31/12/07
	401,247	96,969		17,310	(30,976)	(87,931)	396,619	
<b>D Potts</b>	30,285				(7,889)	(22,396)	-	
	35,200			1,606			36,806	1/1/03 31/12/05
	24,283			1,108			25,391	1/1/04 31/12/06
	89,768			2,714	(7,889)	(22,396)	62,197	
	-	49,454	122,400	2,257			51,711	1/1/05 31/12/07
	89,768	49,454		4,971	(7,889)	(22,396)	113,908	
<b>R Weston</b>	33,613				(8,756)	(24,857)	-	
	36,800			1,679			38,479	1/1/03 31/12/05
	26,151			1,193			27,344	1/1/04 31/12/06
	96,564			2,872	(8,756)	(24,857)	65,823	
	-	49,454	122,400	2,257			51,711	1/1/05 31/12/07
	96,564	49,454		5,129	(8,756)	(24,857)	117,534	

# Directors' Remuneration Report

## LONG-TERM INCENTIVE SCHEMES (CONTINUED)

### Notes

1. Following approval by the shareholders and the successful completion of the rights issue on 19 July 2005, the number of awards outstanding has been rebased in line with HM Revenue and Customs practice as shown on page 65.
2. The executive Directors were awarded the shares detailed on page 65 at nil cost when the share price was 247.50 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 FTSE Mid 250 Index as a whole over the performance period set out on page 65. 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. For awards made in 2004 and earlier the comparator group is all the Sterling denominated companies in the Support Services Sector of the FTSE Mid 250 Index over a three year performance period.
3. The awards made to the executive Directors in 2002 vested on 19 April 2005 when the share price was 234.30 pence, the Committee having resolved that 44.1546% of the performance criteria had been met. The Directors elected to sacrifice 41% of the number of shares to which they were entitled, equating to their Income Tax and National Insurance Contribution liabilities which the Company undertook to settle on their behalf. Thus the number of shares vesting represented 59% of 44.1546% of the original award.

No awards have been made between 31 December 2005 and the date of this report.

The awards made to the executive Directors in 2003 vested on 26 January 2006 when the share price was 319.50 pence, the Committee having resolved that the performance criteria had been met in full.

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. The effect of this is set out in the table on page 65. There are currently no proposals to further vary the terms and conditions of the LTIP.

Further details of the interests of the Directors in the Group's share capital can be found on pages 48 and 49.

Approved by the Board and signed on its behalf by



P M C Meredith  
Chairman, Remuneration Committee  
13 March 2006

# Audit Committee Report

## MEMBERSHIP AND MEETINGS

Throughout 2005 the Audit Committee (the 'Committee') membership was as follows:

T G Boatman (Chairman of the Committee)  
T Matthews  
P M C Meredith

The Chairman of the Audit 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 met three times in 2005 and from 2006 onwards the Committee will meet four 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 internal and external audit plans, the interim results and the full year results. Regular reviews of significant risks identified as a result of the risk management processes are undertaken at meetings 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.

## 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 Company including circulars and announcements;
- selection of suitable accounting policies; and
- 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.

The terms of reference of the Audit Committee were reviewed during 2005. 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](http://www.laing.com).

## REVIEW OF 2005

During 2005, 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. There is an ongoing process of refinement and improvement of these procedures. The Committee has focussed on the level of compliance with these processes both within Group companies and in joint ventures throughout 2005. Compliance has been monitored, on a sample basis, through the internal audit function. The Committee also reviewed the level of compliance with the Revised Guidance for Directors on the Combined Code relating to internal control.

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 not only its effectiveness but also that it 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.

# Audit Committee Report

## REVIEW OF 2005 (CONTINUED)

During 2005 the Committee considered the effectiveness of the internal audit function and specifically reviewed the advantages of continuing with use 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 aimed to cover all key internal control processes on a three year rolling basis.

Early in 2006, the Committee reviewed the resourcing of internal audit for the future and recommended to the Board that the Group should establish an internally resourced internal audit function. This will be established during 2006.

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

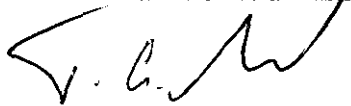
During 2004 the Group established a process for monitoring compliance with critical internal control processes ('walk through tests'). This process was continued and the scope extended in 2005. In this connection, the Committee has reviewed a report from Ernst & Young LLP on compliance with the Group's documented internal control procedures associated with work winning, financial reporting and treasury operations.

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 which includes a "whistleblowers" charter.

The Committee receives and considers written reports from the Group 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 Committee met with the independent actuary to the John Laing pension schemes and discussed the range of assumptions that might be considered appropriate for the purposes of the actuarial assessment of pension fund liabilities as at 31 December 2005. As a result, the Committee recommended to the Board the assumptions that have been adopted.

During 2005, the Committee has paid particular attention to the Group's preparations for the implementation of IFRS, which have been adopted in full for the year ended 31 December 2005. The Committee has considered the choice of suitable accounting policies in accordance with IFRS and has brought the significant differences between application of IFRS and UK GAAP to the attention of the Board. The Committee reviewed a separate publication to shareholders that set out a reconciliation of the 2004 financial statements under existing UK GAAP and under IFRS. This publication, "John Laing – Implementation of International Accounting and Financial Reporting Standards", formed the basis of a process of preparation for analysts and was issued to all shareholders. It is also available on the website at [www.laing.com](http://www.laing.com).



T G Boatman  
Chairman, Audit Committee  
13 March 2006

# 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 2005, there were no changes to the composition of the Committee. The members of the Committee during the year were:

W W Forrester (Chairman of the Committee)

T G Boatman

P M C Meredith

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.

All new appointments to the Board would be led by the Committee in a formal and transparent manner with the assistance of external recruitment consultants where necessary. It has not been necessary for the Committee to meet during the year to consider possible candidates for appointment to the Board 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](http://www.laing.com).



W W Forrester

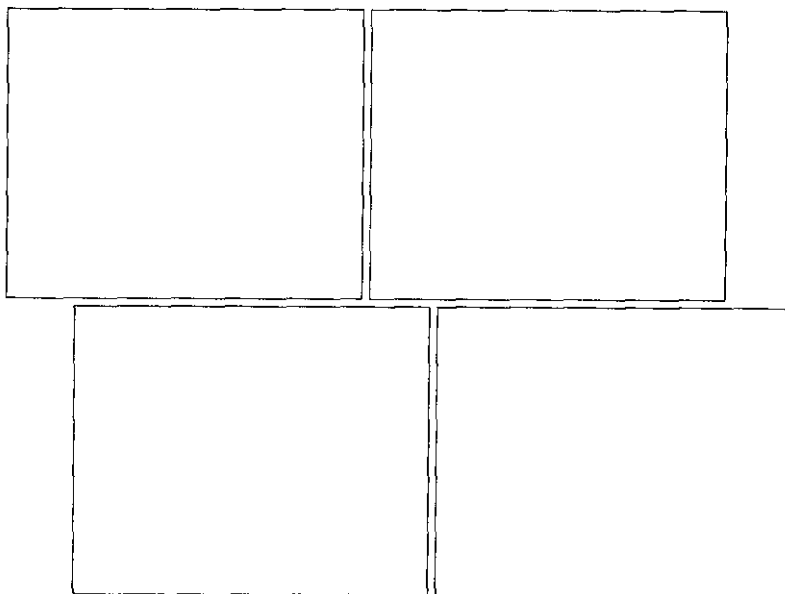
Chairman, Nominations Committee

13 March 2006

growth

*"the Group is continuing  
to grow to the benefit  
of today's shareholder..."*

Private financing and delivery of the serviced infrastructure assets required for improving public services, and partnership between the public and private sectors to meet a wide variety of service needs, are now firmly established in a growing number of the world's most advanced economies.





## Independent Auditors' Report to the Members of John Laing plc

We have audited the Group financial statements of John Laing plc for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated statement of recognised income and expenditure, the consolidated statement of change in shareholders' equity, the consolidated balance sheet, the consolidated cash flow statement, the accounting policies and the related notes 1 to 35. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the individual Company financial statements of John Laing plc for the year ended 31 December 2005.

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

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group 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 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the nine Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 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 statement on internal control covers 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 we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

### BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group 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 Group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group 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 Group financial statements and the part of the Directors' remuneration report described as having been audited.

# Independent Auditor's Report to the Members of John Laing plc

## OPINION

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Group 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 and Article 4 of the IAS Regulation.

## SEPARATE OPINION IN RELATION TO IFRS

As explained in accounting policies of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRSs as adopted for use in the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

13 March 2006

## Group Income Statement

For the year ended 31 December	Notes	Total £ million	2005 Group £ million	Joint ventures £ million	Total £ million	2004* Group £ million	Joint ventures £ million
<b>Continuing operations</b>							
Revenue	1	407.8	228.1	179.7	451.1	249.3	201.8
Cost of sales		(349.0)	(188.0)	(161.0)	(384.5)	(201.0)	(183.5)
<b>Gross profit</b>		<b>58.8</b>	<b>40.1</b>	<b>18.7</b>	<b>66.6</b>	<b>48.3</b>	<b>18.3</b>
Administrative expenses		(54.1)	(51.9)	(2.2)	(52.7)	(51.4)	(1.3)
Other operating income	2	21.3	21.1	0.2	6.9	6.9	-
Share of results of associate	13	(0.4)	(0.4)	-	0.3	0.3	-
<b>Profit from operations</b>	3	<b>25.6</b>	<b>8.9</b>	<b>16.7</b>	<b>21.1</b>	<b>4.1</b>	<b>17.0</b>
Investment income	5	121.8	35.3	86.5	90.4	32.4	58.0
Finance costs	5	(111.6)	(30.1)	(81.5)	(86.5)	(24.3)	(62.2)
<b>Profit before tax</b>		<b>35.8</b>	<b>14.1</b>	<b>21.7</b>	<b>25.0</b>	<b>12.2</b>	<b>12.8</b>
Tax	6	(13.0)	(5.6)	(7.4)	(7.3)	(3.7)	(3.6)
<b>Profit for the period from continuing operations</b>	1	<b>22.8</b>	<b>8.5</b>	<b>14.3</b>	<b>17.7</b>	<b>8.5</b>	<b>9.2</b>
<b>Discontinued operations</b>							
Loss for the period from discontinued operations (after tax)	7	(1.5)	(1.5)	-	(2.5)	(2.5)	-
<b>Profit for the period</b>		<b>21.3</b>	<b>7.0</b>	<b>14.3</b>	<b>15.2</b>	<b>6.0</b>	<b>9.2</b>
<b>Earnings per share</b>							
From continuing operations							
Basic and diluted	8	9.9p			8.2pt		
From continuing and discontinued operations							
Basic and diluted	8	9.1p			6.8pt		

\* all comparative information, including relevant notes, has been restated to reflect implementation of IFRS

† recalculated for the impact of the rights issue

# Group Statement of Recognised Income and Expenditure

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENDITURE 2005	Hedging, revaluation and translation reserve £ million	Post retirement obligations £ million	Retained earnings £ million	Total £ million
Exchange differences on translation of foreign operations	(0.1)	-	0.1	-
Fair value of financial assets and derivatives on disposal	(11.9)	-	-	(11.9)
Net increase in fair value of financial assets	47.8	-	-	47.8
Net reduction in fair value of hedging derivatives	(39.8)	-	-	(39.8)
De-designation of hedging relationship	0.1	-	-	0.1
Actuarial loss on post retirement obligations	-	(15.6)	-	(15.6)
Deferred tax on actuarial loss on post retirement obligations	-	2.4	-	2.4
Reserve category transfer	-	4.6	(4.6)	-
Profit for the period	-	-	21.3	21.3
<b>Total recognised income and expenditure attributable to equity shareholders</b>	<b>(3.9)</b>	<b>(8.6)</b>	<b>16.8</b>	<b>4.3</b>

RECONCILIATION OF MOVEMENTS IN EQUITY IN 2005	Note	Share capital £ million	Share premium £ million	Non- distributable reserve £ million	Hedging, revaluation and translation reserve £ million	Post retirement obligations £ million	Retained earnings £ million	Total £ million
Balance at 1 January 2005 (as previously reported)		85.1	87.4	2.3	0.9	(135.5)	46.9	87.1
Adoption of IAS39		-	-	-	59.5	-	-	59.5
<b>Restated balance at 1 January 2005</b>		<b>85.1</b>	<b>87.4</b>	<b>2.3</b>	<b>60.4</b>	<b>(135.5)</b>	<b>46.9</b>	<b>146.6</b>
<b>Total recognised income and expenditure attributable to equity shareholders</b>		-	-	-	(3.9)	(8.6)	16.8	4.3
Employee share option and LTIP schemes		0.2	0.5	-	-	-	0.2	0.9
Redemption of preference shares		(0.1)	0.1	-	-	-	-	-
Capital reduction		-	(50.0)	-	-	-	50.0	-
Rights issue		12.5	87.6	-	-	-	-	100.1
Rights issue costs		-	(4.6)	-	-	-	-	(4.6)
Share premium in joint ventures		-	-	0.8	-	-	-	0.8
Dividends paid	9	-	-	-	-	-	(9.3)	(9.3)
<b>Balance at 31 December 2005</b>		<b>97.7</b>	<b>121.0</b>	<b>3.1</b>	<b>56.5</b>	<b>(144.1)</b>	<b>104.6</b>	<b>238.8</b>

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENDITURE 2004	Hedging, revaluation and translation reserve £ million	Post retirement obligations £ million	Retained earnings £ million	Total £ million
Exchange differences on translation of foreign operations	0.9	-	-	0.9
Actuarial loss on post retirement obligations	-	(67.5)	-	(67.5)
Deferred tax on actuarial losses on post retirement obligations	-	22.0	-	22.0
Tax relief on pension contribution	-	-	1.2	1.2
Reserve category transfer	-	4.2	(4.2)	-
Profit for the period	-	-	15.2	15.2
<b>Balance at 31 December 2004</b>	<b>0.9</b>	<b>(41.3)</b>	<b>12.2</b>	<b>(28.2)</b>

RECONCILIATION OF MOVEMENTS IN EQUITY IN 2004	Note	Share capital £ million	Share premium £ million	Non- distributable reserve £ million	Hedging, revaluation and translation reserve £ million	Post retirement obligations £ million	Retained earnings £ million	Total £ million
Balance at 1 January 2004		83.6	82.8	2.3	-	(94.2)	42.1	116.6
<b>Total recognised income and expenditure attributable to equity shareholders</b>		-	-	-	0.9	(41.3)	12.2	(28.2)
Employee share option and LTIP schemes		-	-	-	-	-	0.6	0.6
Warrants exercised		1.5	4.6	-	-	-	-	6.1
Dividends paid	9	-	-	-	-	-	(8.0)	(8.0)
<b>Balance at 31 December 2004</b>		<b>85.1</b>	<b>87.4</b>	<b>2.3</b>	<b>0.9</b>	<b>(135.5)</b>	<b>46.9</b>	<b>87.1</b>

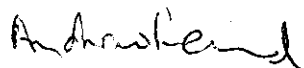
# Group Balance Sheet

	Notes	31 December 2005 Total £ million	Group £ million	Joint ventures £ million	31 December 2004**† Total £ million	Group £ million	Joint ventures £ million
<b>Non-current assets</b>							
Intangible assets	10	13.0	12.3	0.7	11.9	11.6	0.3
Property, plant and equipment	11	104.5	64.9	39.6	68.1	45.2	22.9
Investments	12	26.7	-	26.7	25.4	-	25.4
Interest in associate	13	15.3	15.3	-	15.9	15.9	-
Deferred tax assets	14	56.9	50.9	6.0	50.1	50.1	-
Total financial assets - available for sale	15	1,733.7	278.1	1,455.6	1,463.3	400.5	1,062.8
- at cost		168.7	59.9	108.8	154.8	73.9	80.9
- at amortised cost		1,324.3	186.2	1,138.1	1,308.5	326.6	981.9
- fair value adjustment		240.7	32.0	208.7	-	-	-
Trade and other receivables	16	67.0	9.5	57.5	63.8	5.7	58.1
		2,017.1	431.0	1,586.1	1,698.5	529.0	1,169.5
<b>Current assets</b>							
Inventories	17	30.6	19.8	10.8	15.3	2.1	13.2
Financial assets - available for sale	15	31.4	3.4	28.0	35.9	9.0	26.9
Trade and other receivables	16	88.9	41.4	47.5	89.1	44.5	44.6
Tax recoverable		0.5	0.3	0.2	0.1	0.1	-
Cash and cash equivalents	18	386.9	140.8	246.1	191.0	94.5	96.5
		538.3	205.7	332.6	331.4	150.2	181.2
Assets classified as held for sale or discontinued	7	23.6	23.6	-	18.3	18.3	-
<b>Total assets</b>		2,579.0	660.3	1,918.7	2,048.2	697.5	1,350.7
<b>Current liabilities</b>							
Bank overdrafts and loans	18,20	49.5	9.2	40.3	48.4	23.6	24.8
Trade and other payables	19	133.1	68.2	64.9	108.0	69.4	38.6
Tax liabilities		6.4	5.6	0.8	7.8	7.8	-
		189.0	83.0	106.0	164.2	100.8	63.4
<b>Non-current liabilities</b>							
Bank loans	20	1,625.1	281.0	1,344.1	1,468.5	401.2	1,067.3
Fair value of derivatives	20	157.7	38.9	118.8	-	-	-
Trade and other payables	19	57.3	4.0	53.3	41.6	3.5	38.1
Retirement benefit obligations	21	202.8	202.3	0.5	194.0	193.6	0.4
Deferred tax liabilities	14	87.2	6.8	80.4	50.8	6.8	44.0
Long-term provisions	22	3.0	0.7	2.3	3.3	0.8	2.5
		2,133.1	533.7	1,599.4	1,758.2	605.9	1,152.3
Liabilities classified as held for sale or discontinued	7	18.1	18.1	-	38.7	38.7	-
<b>Total liabilities</b>		2,340.2	634.8	1,705.4	1,961.1	745.4	1,215.7
<b>Net assets</b>		238.8	25.5	213.3	87.1	(47.9)	135.0
<b>Equity</b>							
Share capital	24	97.7			85.1		
Share premium account		121.0			87.4		
Non-distributable reserve		3.1			2.3		
Hedging, revaluation and translation reserve	26	56.5			0.9		
Accumulated losses		(39.5)			(88.6)		
- post retirement obligations	21	(144.1)			(135.5)		
- other reserves		104.6			46.9		
<b>Total equity</b>		238.8			87.1		

\* all comparative information, including relevant notes, has been restated to reflect implementation of IFRS.

† the Group was required to adopt IAS32 ('Financial Instruments: Disclosure and Presentation') and IAS39 ('Financial Instruments: Recognition and Measurement') (fair value of financial assets and marking to market of derivatives) with effect from 1 January 2005. Due to an exemption provided in IFRS1, the comparative information for 2004 is not restated.

The accounts on pages 74 to 122 were approved by the Board of Directors and authorised for issue on 13 March 2006 and were signed on its behalf by



A E Friend  
Chief Executive



A J H Ewer  
Group Finance Director

## Group Cash Flow Statement

	Notes	2005 £ million	2004* £ million
<b>Net cash outflow from operating activities</b>	27	<b>(48.2)</b>	<b>(62.2)</b>
<b>Investing activities</b>			
Interest received		0.4	0.4
Dividends received from associate		0.4	-
Proceeds on disposal of investments		0.1	32.9
Disposal of subsidiaries		16.6	-
Loan repayments and disposal of joint ventures		10.5	6.1
Proceeds on disposal of property, plant and equipment		0.2	-
Purchases of property, plant and equipment		(40.4)	(29.4)
Purchase of investment		-	(19.7)
Acquisition of subsidiary		(1.3)	-
Purchase of joint ventures		(17.9)	(20.4)
<b>Net cash used in investing activities</b>		<b>(31.4)</b>	<b>(30.1)</b>
<b>Financing activities</b>			
Dividends paid		(9.3)	(8.1)
Interest paid		(101.2)	(86.1)
Finance income		13.9	9.3
Proceeds from borrowings		323.1	231.7
Repayments of borrowings		(40.3)	(32.6)
Proceeds on issue of share capital		95.8	6.1
<b>Net cash from financing activities</b>		<b>282.0</b>	<b>120.3</b>
<b>Net increase in cash and cash equivalents</b>		<b>202.4</b>	<b>28.0</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>238.6</b>	<b>210.9</b>
Effect of foreign exchange rate changes		-	(0.3)
<b>Cash and cash equivalents at end of year</b>	28	<b>441.0</b>	<b>238.6</b>

\* all comparative information, including relevant notes, has been restated to reflect implementation of IFRS.

# Accounting policies

## GENERAL

The Group has adopted accounting policies that are compliant with IFRS in so far as it has been codified and endorsed by EU member states and therefore these accounts comply with Article 4 of the EU IAS regulation. These accounts also comply with IFRS as issued by the International Accounting Standards Board.

## ACCOUNTING POLICIES

### a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company, entities controlled by the Company (its subsidiaries) and jointly controlled (its joint ventures which are proportionally consolidated i.e. with the Group's share of individual line items being reflected within the income statement and balance sheet) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### b) Investment in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The investment in associates are carried in the balance sheet at cost as adjusted by post acquisition changes in the Group's share of the net assets of associates, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in an associate are not recognised.

### c) Non-current assets held for sale and discontinued operations

Non-current assets classified as held for sale and discontinued operations are measured at the lower of the carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The Directors must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets and liabilities associated with the disposal of the Group's Construction, Homes and Property businesses are classified as discontinued operations. These include retained onerous contracts and warranties which will take a number of years to bring to a conclusion.

### d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity investments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 are recognised at their fair value at the acquisition date.

An intangible arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss.

## Accounting policies

### e) Revenue recognition

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

#### *Revenue 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 financial asset;
- availability fees and usage fees on PFI projects where the principal asset is accounted for as a fixed or intangible asset;
- third party revenues on PFI projects; and
- revenues from the provision of facilities management services to PFI Project Companies.

#### *Revenue from Train Operating Companies*

- Income generated by ticket sales, rail franchise authority subsidy, advertising and retail revenues generated as part of rail activities; and
- the attributed share of season ticket income is deferred within creditors and released to the income statement over the life of the relevant season ticket.

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

### f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### **The Group as lessor**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

#### **The Group as lessee**

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see accounting policy h).

Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

### g) Foreign currencies

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

Exchange differences arising in the ordinary course of trading are reflected in the income statement; those arising on translation of net equity are transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

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 income statement. The exception to this is long-term shareholder loans where any difference arising on the retranslation of these amounts is taken to a translation reserve on the balance sheet.



## Accounting policies

### h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of amounts drawn under specific borrowings, pending their expenditure on qualifying assets, is deducted from the borrowing costs eligible for capitalisation.

Where the property of PFI/PPP Project Companies is accounted for as a financial asset in the course of construction, the sale is deemed to take place as construction commences and borrowing costs on the project finance are recognised in the income statement in the period in which they are incurred.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

### i) Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out every three years which are updated at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expenditure.

The retirement benefit obligations recognised in the balance sheet represent the present value of the defined benefit obligations as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost plus the present value of available refunds and reductions in future contributions to the plan.

### j) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities (other than in a business combination) in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Accounting policies

### k) Financial Instruments

#### *Derivative financial instruments and hedge accounting (with effect from 1 January 2005)*

##### i) Group and recourse subsidiaries

The Group operates a central treasury operation for John Laing and its recourse subsidiaries, and has a Board approved policy for hedging its foreign exchange and interest rate risks. There are currently no derivatives outstanding for John Laing or its recourse subsidiaries.

##### ii) Non-recourse subsidiaries

Due to the nature of PFI/PPP projects, it is important that all financial risks are hedged at the inception of the project, and indeed the funders of projects insist on this. Therefore each PFI/PPP project fixes the interest rate on its debt. In a minority of cases, this is achieved by either financing the project with a fixed rate bond or fixed rate bank debt. In a majority of cases, this is achieved by funding the project with variable rate bank debt which is fully swapped into fixed rate at the inception of the project. In addition, and where appropriate, inflation risk is hedged by the use of RPI swaps and the risk of rising fuel prices is hedged by the use of commodity swaps.

These swaps, or other derivatives, are tested both retrospectively and prospectively for ineffectiveness and if both results are within the range of 80% to 125% then hedge accounting can be applied, and they are treated as cash flow hedges. These derivatives are marked to market and differences are taken directly to equity if judged to be fully effective.

Where ineffectiveness is judged to have occurred, either a proportion or the full amount of the ineffectiveness is taken to the income statement depending on the level of ineffectiveness experienced.

Hedge accounting is discontinued when the hedging instrument expires or is terminated, for example when a project is refinanced. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement.

#### *Financial assets classified as available for sale*

Financial assets classified as available for sale are included in the balance sheet at fair value. For this purpose, fair value is calculated by discounting the future cash flows at an appropriate discount rate.

The discount rates used to fair value financial assets available for sale are calculated by adding an appropriate premium to the relevant gilt yield for each PFI/PPP project. The gilt yield reflects the unexpired term of the project agreement and the premium reflects market spread that would be required by investors in bonds issued by PFI/PPP Project Companies with similar risk profiles, plus the market wrapping fee, that would normally be charged to enhance the project cash flows to investment grade. As at 1 January 2005 and 31 December 2005 this premium, including the wrapping fee, was 100 basis points. In addition, a further premium is added to reflect the risk to the cash flows where they are related to usage. The further premium is 50 basis points for cash flows that are exposed to shadow toll risk and 100 basis points for real toll or total usage risk.

The amount by which the fair value element of financial assets classified as available for sale changes, as a result of changes to the discount rate during any accounting period, is taken directly to equity. The net cumulative gain or loss that has been taken directly to equity is transferred to the income statement when the financial asset is either sold or derecognised.

#### *Derivative financial instruments and hedge accounting (comparatives 31 December 2004)*

The comparatives shown as at 31 December 2004 are prepared under UK GAAP. For financial instruments, which include derivatives, the Group has applied the exemption in IFRS1 and adopted IAS32 and IAS39 with effect from 1 January 2005. Hence comparatives for these items are as at 1 January 2005 and are reported under a consistent IAS basis.

Financial instruments reported as at 31 December 2004, which are shown on the balance sheet and related notes, were accounted for under FRS13 of UK GAAP. The accounting policies for these items were shown in full in the 2004 Report and Accounts.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

## Accounting policies

### I) PFI/PPP Project Companies

In the absence of an accounting standard relating to service concessions, the Group has interpreted the provisions of IFRS 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 financial asset and is classified as available for sale, otherwise it is accounted for 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:

- **Financial assets**

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 financial assets. In this case income is allocated to interest receivable and revenue, using a constant margin on service costs, and the remainder allocated to the amortisation of the financial asset. Amortisation rates are set between the average cost of borrowing for the project as the base value and the appropriate long-term gilt yield + 3% as the ceiling.

Profits on long-term contracts are calculated in accordance with IAS11 ('Construction Contracts') and do not therefore relate directly to revenue. 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.

During construction the financial assets are stated at cost, plus attributable profit to the extent that this is reasonably certain, 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. Depreciation is charged over the life of the concession or specific asset life if shorter.

- **Major maintenance**

For financial asset accounted projects, the cost of major maintenance is recorded in cost of sales and an appropriate amount of revenue that would otherwise have been available to amortise the financial asset is transferred to revenue. This has the effect of increasing the financial asset by the cost of major maintenance. No profit margin is likely to be recognised on major maintenance since the principal profit recognition on PFI/PPP projects is derived from provision of routine services.

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 charged to the income statement until such time as the Group is virtually certain that it will enter into contracts for the relevant PFI project. Virtual certainty is achieved at the time the Group is selected as preferred bidder or in certain circumstances, sole 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 income statement on one of two bases:

- i) in respect of projects using financial asset accounting, over the period of construction during which the financial asset is established; or
- ii) in respect of projects using fixed asset accounting, over the period of the concession/project agreement.

## Accounting policies

### l) PFI/PPP Project Companies (continued)

- **Finance costs**

Project specific finance costs are expensed as incurred. During the construction phase, the John Laing policy is not to recognise any profit, hence the finance income on the increasing financial asset is deemed to be the matching amount to the finance costs incurred in the period.

- **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.

- **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.

### m) Inventories

Inventories are stated at the lower of cost, including production overheads, and net realisable value.

### n) Share based payments

In accordance with the transitional provisions of IFRS1, IFRS2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The Group issues share option and long-term incentive plan awards to certain senior executives on a periodic basis. The awards are valued at fair value at the date of the grant and are expensed over the vesting period, based on the Group's estimate of shares that will eventually vest.

The share awards are valued using the Black-Scholes option valuation method.

### o) Preference Shares

The Group has Convertible Cumulative Preference Shares in issue. These are undated, not redeemable, have no voting rights and their rights on winding up are restricted to repayment of the nominal value and may be converted into ordinary shares at a specified rate. These are classified as equity instruments due to their irredeemable nature and the fact that the Directors have the discretion to cancel the dividend.

### p) Intangible assets

The Chiltern Railways franchise is classified as an intangible asset, as per IAS38. As such, it is recognised on the balance sheet at its carrying value as at the date of transition to IFRS and thereafter amortised on a straight line basis over the remaining life of the franchise, subject to impairment. The intangible asset recognised on the acquisition of service concession arrangements is amortised on a straight line basis over the operational period of the concession. Computer software that is classified as an intangible asset is amortised over three years on a straight line basis.

## Accounting policies

### q) Property, plant and equipment

Plant and equipment, including fixtures and fittings and computer equipment, are stated at cost less accumulated depreciation and any impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives using the straight line method on the following bases:

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

### r) Provisions

Provisions for restructuring costs, legal claims and environmental restoration are recognised when;

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole.

### s) Financial risk management

The Group has exposures to a variety of financial risks which are managed with the purpose of minimising the potential adverse effects of these risks on the Group's financial performance. For John Laing and its recourse subsidiaries these are managed by a central treasury operation which operates within Board approved policies. For the non-recourse subsidiaries and joint ventures, due to the nature of PFI/PPP projects, financial risks are hedged at the inception of the project. How the various types of financial risk are managed are explained below:

#### *Market risk - foreign exchange*

As at 31 December 2005 the Group only has four projects which are not in the UK, two of which are in the early stages of construction, and so has a relatively small balance sheet exposure which is unhedged. Future significant investments overseas will be hedged by currency borrowings.

The Group seeks to cover significant transactional exposures arising from receipts and payments in foreign currencies, where appropriate and cost effective. There are no foreign exchange derivatives outstanding as at 31 December 2005.

#### *Market risk - interest rate risk*

Each PFI/PPP project will hedge its interest rate risk at the inception of the project. This will either be done by issuing a fixed rate bond or if the project is bank financed, with fixed rate bank debt or variable rate debt which will be swapped into fixed rate by the use of interest rate swaps.

John Laing and its recourse subsidiaries currently have no debt outstanding and have surplus cash which is placed on short-term deposit at variable rates of interest. Falling interest rates would reduce the interest income earned on this surplus cash. This exposure is not hedged.

#### *Market risk - inflation risk*

Each PFI/PPP project will typically have part of its revenue and some of its costs linked to inflation risk at the inception of the project. In most cases this results in the project being insensitive to inflation. However in a minority of cases where the project is sensitive to inflation, this risk will be hedged by entering into RPI inflation swaps.

## Accounting policies

### s) Financial Risk Management (continued)

#### *Market risk - price risk*

The Group owns listed debenture stock of one of its PFI projects which is subject to price risk. This is unhedged. Chiltern Railways is a train operating company and is exposed to fuel price increases. This risk is hedged by the use of derivatives by purchasing a proportion of its fuel requirement forward at a fixed sterling price per litre.

#### *Credit risk*

The Group's projects receive revenue from government departments, public sector or local authority clients or directly from the public via farebox or real tolls. Therefore the Group is not exposed to significant credit risk.

Cash investments and derivative transactions are limited to financial institutions of a suitable credit quality. The Group's surplus cash is invested in line with a policy approved by the main Board.

#### *Liquidity risk*

The Group adopts a prudent approach to liquidity management by maintaining sufficient cash and available committed facilities to meet its obligations. Due to the nature of PFI/PPP projects the large cash outflows are reasonably predictable and so this is not a major risk for the Group.

### t) Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in active markets is derived in two ways:

#### i) Financial assets

Fair value is calculated by discounting future cash flows at an appropriate discount rate. The discount rates used are calculated by adding an appropriate premium to the relevant gilt yield for each PFI/PPP project. The gilt yield reflects the unexpired term of the project agreement and the premium reflects market spread that would be required by investors in bonds issued by PFI/PPP project companies with similar risk profiles, plus the market wrapping fee that would normally be charged to enhance the project cash flows to investment grade.

As at 1 January 2005 and 31 December 2005 this premium, including the wrapping fee, was 100 basis points. In addition, a further premium is added to reflect the risk to the cash flows where they are related to usage. The further premium is 50 basis points for cash flows that are exposed to shadow toll risk and 100 basis points for real toll or total usage risk. The discount rates that have been applied to the financial assets at 31 December 2005 were in the range of 4.33% to 6.10%.

#### ii) Derivatives

The fair values of derivatives as at the balance sheet date are obtained from the banks or financial institutions with which the derivatives have been transacted.

Where these are not available the fair value of the derivative is calculated as the present value of the estimated future flows. In these calculations the market forward six month LIBOR curve for an interest rate swap or the forward RPI inflation curve for an RPI swap as at the balance sheet date are used. All amounts are discounted using the zero coupon yield curve as at the balance sheet date.

## Accounting policies

### IMPLEMENTATION OF IAS39 - MEASUREMENT OF FINANCIAL INSTRUMENTS

The impact of adoption of the new accounting policies relating to IAS39 and service concession arrangements on the previously disclosed IFRS balance sheet as at 31 December 2004 is set out below. The net increase of £59.5 million to net assets and total equity represents the marking to market of derivatives and fair value adjustments of financial assets, less associated deferred tax.

	Closing balance sheet at 31 December 2004 £ million	Adoption of IAS39 and accounting policy for service concession arrangements £ million	Opening balance sheet at 1 January 2005 £ million
<b>Non-current assets</b>			
Deferred tax assets	50.1	(2.1)	48.0
Total financial assets - available for sale	1,463.3	195.6	1,658.9
- at cost	154.8	-	154.8
- at amortised cost	1,308.5	-	1,308.5
- fair value adjustment	-	195.6	195.6
Trade and other receivables	63.8	-	63.8
Other non-current assets	121.3	-	121.3
	1,698.5	193.5	1,892.0
<b>Current assets</b>			
Financial assets - available for sale	35.9	-	35.9
Trade and other receivables	89.1	-	89.1
Cash and cash equivalents	112.0	-	112.0
Other current assets	94.4	-	94.4
	331.4	-	331.4
Assets classified as held for sale or discontinued	18.3	-	18.3
<b>Total assets</b>	2,048.2	193.5	2,241.7
<b>Current liabilities</b>	164.2	-	164.2
<b>Non-current liabilities</b>			
Bank loans	1,468.5	-	1,468.5
Fair value adjustment of derivatives	-	110.7	110.7
Deferred tax liabilities	50.8	23.3	74.1
Other non-current liabilities	238.9	-	238.9
	1,758.2	134.0	1,892.2
Liabilities classified as held for sale or discontinued	38.7	-	38.7
<b>Total liabilities</b>	1,961.1	134.0	2,095.1
<b>Net assets</b>	87.1	59.5	146.6
<b>Equity</b>			
Share capital	85.1	-	85.1
Share premium account	87.4	-	87.4
Non-distributable reserve	2.3	-	2.3
Hedging, revaluation and translation reserve	0.9	59.5	60.4
Accumulated losses	(88.6)	-	(88.6)
- post retirement obligations	(135.5)	-	(135.5)
- other reserves	46.9	-	46.9
<b>Total equity</b>	87.1	59.5	146.6

# Notes to the Accounts

## 1 SECTOR AND GEOGRAPHICAL SEGMENTS

### Sector analysis

For management purposes, the Group is currently organised into five operating sectors – Accommodation, Roads, Rail, Utilities and Management services. These sectors are the basis on which the Group reports its primary segment information.

Sector information about the Group's continuing operations is presented below. Sector information about the Group's discontinued operations is presented in note 7.

REVENUE	2005 £ million	2004 £ million
Accommodation	218.6	265.1
Roads	71.2	57.3
Rail – normal operations	102.8	103.8
– sale of development land	-	5.3
Utilities	8.1	8.2
Management services	7.1	11.4
	<b>407.8</b>	<b>451.1</b>

Revenue (as per the accounting policy note on page 79) in the Accommodation and Roads sectors is primarily generated from recognition of financial assets where the project infrastructure is in the course of construction. The reduction to revenue in the Accommodation sector reflects a lower level of construction activity.

RESULT	2005 £ million	2004 £ million
Accommodation – normal operations	16.1	13.7
– profit on sale of interests in PFI/PPP Project Companies	20.9	-
Roads – normal operations	6.5	6.9
– purchase and sale of 50% interest in the M40 road project	-	6.4
Rail – normal operations	7.3	9.5
– bid costs on new franchise	(1.4)	(0.7)
– sale of development land	0.2	2.9
Utilities	0.9	(1.4)
Management services, overheads and bid costs (net)	(18.6)	(12.7)
– bid costs (net of deferred income release)	(6.3)	(0.9)
– overheads	(12.3)	(11.8)
Corporate finance income	3.7	0.1
Non-core business	0.2	0.3
Profit before tax	<b>35.8</b>	<b>25.0</b>
Tax	(13.0)	(7.3)
Profit for the period from continuing operations	<b>22.8</b>	<b>17.7</b>

The profit before tax disclosed in relation to the core sectors is shown after adding or deducting interest received and paid on project specific funds. Corporate finance income excludes interest on project funds and includes interest on funds available for general corporate purposes.

OTHER INFORMATION 2005	Capital additions £ million	Depreciation and amortisation £ million
Accommodation	17.2	(0.2)
Rail	21.6	(2.4)
Utilities	-	(0.4)
Management services	0.2	(0.4)
	<b>39.0</b>	<b>(3.4)</b>



# Notes to the Accounts

## 1 SECTOR AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Sector analysis

31 DECEMBER 2005	Sector assets £ million	Interest in associate £ million	Consolidated total assets £ million
Accommodation	1,322.8	-	1,322.8
Roads	712.3	-	712.3
Rail	206.1	-	206.1
Utilities	134.7	-	134.7
Management services	105.5	-	105.5
Non-core business	1.3	15.3	16.6
<b>Sector assets</b>	<b>2,482.7</b>	<b>15.3</b>	<b>2,498.0</b>
Deferred and current tax assets	57.4	-	57.4
Discontinued operations	23.6	-	23.6
<b>Total assets</b>	<b>2,563.7</b>	<b>15.3</b>	<b>2,579.0</b>

31 DECEMBER 2005	Sector liabilities £ million	Consolidated total net assets £ million
Accommodation	(1,150.5)	172.3
Roads	(612.2)	100.1
Rail	(149.3)	56.8
Utilities	(118.3)	16.4
Management services	(197.1)*	(91.6)
Non-core business	(1.1)	15.5
<b>Sector (liabilities)/assets</b>	<b>(2,228.5)</b>	<b>269.5</b>
Deferred and current tax liabilities	(93.6)	(36.2)
Discontinued operations	(18.1)	5.5
<b>Total (liabilities)/assets</b>	<b>(2,340.2)</b>	<b>238.8</b>

\* includes pension deficit

OTHER INFORMATION 2004	Capital additions £ million	Depreciation and amortisation £ million
Accommodation	18.1	(0.3)
Rail	16.4	(2.4)
Management services	0.1	(0.4)
	<b>34.6</b>	<b>(3.1)</b>

31 DECEMBER 2004	Sector assets £ million	Interest in associate £ million	Consolidated total assets £ million
Accommodation	1,041.0	-	1,041.0
Roads	592.2	-	592.2
Rail	182.0	-	182.0
Utilities	100.5	-	100.5
Management services	49.0	-	49.0
Non-core business	(0.9)	15.9	15.0
<b>Sector assets</b>	<b>1,963.8</b>	<b>15.9</b>	<b>1,979.7</b>
Deferred and current tax assets	50.2	-	50.2
Discontinued operations	18.3	-	18.3
<b>Total assets</b>	<b>2,032.3</b>	<b>15.9</b>	<b>2,048.2</b>

# Notes to the Accounts

## 1 SECTOR AND GEOGRAPHICAL SEGMENTS (CONTINUED)

### Sector analysis

31 DECEMBER 2004	Sector liabilities £ million	Consolidated total net assets £ million
Accommodation	(932.0)	109.0
Roads	(510.1)	82.1
Rail	(127.1)	54.9
Utilities	(93.5)	7.0
Management services	(200.9)	(151.9)
Non-core business	(0.2)	14.8
Sector (liabilities)/assets	(1,863.8)	115.9
Deferred and current tax liabilities	(58.6)	(8.4)
Discontinued operations	(38.7)	(20.4)
Total (liabilities)/assets	(1,961.1)	87.1

### Geographical analysis

The Group's operations are located in the UK, other European Countries and America. The following table provides an analysis of the Group's revenue and profit before tax for continuing operations. Geographic information about the Group's discontinued operations is presented in note 7.

2005	Revenue £ million	Profit before tax £ million
United Kingdom	363.1	33.0
Rest of Europe	44.7	2.6
America	-	0.2
	407.8	35.8
	Carrying amount of sector assets £ million	Capital additions £ million
2005		
United Kingdom	2,369.7	39.0
Rest of Europe	128.3	-
	2,498.0	39.0
	Revenue £ million	Profit before tax £ million
2004		
United Kingdom	423.0	22.6
Rest of Europe	28.1	2.4
	451.1	25.0
	Carrying amount of sector assets £ million	Capital additions £ million
2004		
United Kingdom	1,900.2	34.6
Rest of Europe	79.5	-
	1,979.7	34.6

# Notes to the Accounts

## 2 OTHER OPERATING INCOME

	2005 £ million	2004 £ million
Disposals of subsidiaries and joint venture	20.9	6.6
Other	0.4	0.3
	<b>21.3</b>	<b>6.9</b>

### Disposals of subsidiaries and joint venture

The Group made the following disposals during 2005:

A 50% equity interest in the Defence Management (Holdings) Limited on 30 September 2005.

A 50% equity interest in Services Support (Manchester) Holdings Limited, Services Support (SEL) Holdings Limited and Services Support (Gravesend) Holdings Limited (the 'police assets') on 6 December 2005.

The 2004 comparative includes a profit of £6.4 million on the purchase and sale of a 50% interest in the M40 road project.

Net assets at the date of disposals were as follows:

	Defence Management (Holdings) Limited £ million	Police assets £ million	Total £ million
Cost of financial assets and other receivables	45.6	113.8	159.4
Bank balances and cash	4.8	7.3	12.1
Deferred tax liability	(4.4)	(1.1)	(5.5)
Income tax liability	-	(0.3)	(0.3)
Trade payables	(4.2)	(4.9)	(9.1)
Bank loans and overdraft	(43.8)	(111.2)	(155.0)
Net assets disposed of	(2.0)	3.6	1.6
Consideration	5.9	24.0	29.9
Settlement of intercompany loans	-	(7.3)	(7.3)
Cost of disposal	-	(0.1)	(0.1)
Net sale proceeds	5.9	16.6	22.5
Gain on disposal	7.9	13.0	20.9
Satisfied by:			
Cash proceeds	5.9	24.0	29.9
Cash cost of disposal	-	(0.1)	(0.1)
Net cash inflow arising on disposal	5.9	23.9	29.8

On the police assets, the Group is entitled to receive conditional deferred consideration of up to £2.7 million if two of the projects are refinanced within 18 months and on a future police project, if client clearance for the change of control is granted within nine months from the date of sale. No profit will be recognised in respect of the deferred consideration until it becomes unconditional.

# Notes to the Accounts

## 3 PROFIT FOR THE YEAR

	2005 £ million	2004 £ million
Profit for the year has been arrived at after (charging)/crediting:		
Group auditors' remuneration in respect of statutory audit services	(0.5)	(0.4)
Non-audit fees paid to Group Auditor		
- advice on the transition to IFRS	(0.1)	(0.2)
- advice on the rights issue	(0.2)	-
- other services relating to taxation	(0.1)	-
- other assurance work	(0.1)	(0.1)
Gain on sale of interest in Defence Management (Holdings) Limited	7.9	-
Gain on sale of part interest in the police assets	13.0	-
Gain on purchase and sale of 50% interest in the M40 road project	-	6.4
Gain/(loss) on sale of fixed assets	0.2	(0.3)
Release of deferred income	4.3	4.5
Write off of capitalised bid costs	4.6	-
Amortisation of Chiltern Franchise costs	(0.8)	(0.7)
Track access charges	(24.0)	(23.2)
Payments under operating leases:		
- rentals of land and buildings	(0.6)	(0.9)
- rentals of rolling stock, plant and equipment	(13.0)	(13.5)
Net foreign exchange gains	-	0.1
Depreciation of property, plant and equipment	(2.6)	(2.4)

## 4 DIRECTORS AND EMPLOYEES

	2005 £ million	2004 £ million
Employee costs, including Directors' emoluments, comprise:		
Wages and salaries	45.7	37.1
Share incentive scheme	1.0	1.4
Social security costs	4.7	4.4
Pension charge		
- defined benefit schemes (see note 21)	4.7	4.2
- defined contribution schemes	0.6	0.5
	<b>56.7</b>	<b>47.6</b>

Annual average employee numbers (including executive Directors):

	2005 No.	2004 No.
Staff - monthly paid all based in the United Kingdom	1,272	1,125

ACTIVITY	2005 No.	2004 No.
Bidding activity, asset management and Group costs	254	167
Equion Facilities Management	267	213
Rail - Chiltern/M40 Trains	751	745
	<b>1,272</b>	<b>1,125</b>

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

# Notes to the Accounts

## 5 INVESTMENT INCOME AND FINANCE COSTS

	Total £ million	2005 Group £ million	Joint ventures £ million	Total £ million	2004 Group £ million	Joint ventures £ million
<b>INVESTMENT INCOME</b>						
Interest on bank deposits						
- recourse	3.1	3.1	-	8.2	8.2	-
- non-recourse	8.5	1.9	6.6	17.0	2.0	15.0
Financial asset interest						
- non-recourse	108.2	28.3	79.9	64.0	21.0	43.0
Pension finance income (net)	2.0	2.0	-	1.2	1.2	-
<b>Total investment income</b>	<b>121.8</b>	<b>35.3</b>	<b>86.5</b>	<b>90.4</b>	<b>32.4</b>	<b>58.0</b>
<b>FINANCE COSTS</b>						
Interest on bank overdrafts and loans						
- recourse	(0.8)	(0.8)	-	(2.5)	(2.5)	-
- non-recourse	(110.7)	(29.7)	(81.0)	(108.5)	(25.7)	(82.8)
Amortisation of debt issue costs						
- recourse	(0.3)	(0.3)	-	(0.5)	(0.5)	-
- non-recourse	(2.9)	(0.8)	(2.1)	(1.7)	(0.7)	(1.0)
Refinancing						
- recourse	-	-	-	(1.1)	(1.1)	-
- non-recourse	(0.6)	-	(0.6)	(0.1)	(0.1)	-
Interest capitalised						
- non-recourse	3.8	1.6	2.2	27.9	6.3	21.6
Change in fair value of ineffective derivatives	(0.1)	(0.1)	-	-	-	-
<b>Total finance costs</b>	<b>(111.6)</b>	<b>(30.1)</b>	<b>(81.5)</b>	<b>(86.5)</b>	<b>(24.3)</b>	<b>(62.2)</b>
<b>Net finance income</b>	<b>10.2</b>	<b>5.2</b>	<b>5.0</b>	<b>3.9</b>	<b>8.1</b>	<b>(4.2)</b>

## 6 TAX

	2005 £ million	2004 £ million
<b>Current tax:</b>		
UK corporation tax	(2.1)	(1.5)
Foreign tax	(0.3)	(0.7)
	(2.4)	(2.2)
<b>Deferred tax</b>		
	(10.6)	(5.1)
<b>Tax</b>	<b>(13.0)</b>	<b>(7.3)</b>

# Notes to the Accounts

## 6 TAX (CONTINUED)

UK corporation tax is calculated at 30% of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 £ million	2004 £ million
Profit before tax	35.8	25.0
Tax at the UK corporation tax rate of 30%	(10.7)	(7.5)
Notional tax at 30% on the results of PFI companies	5.1	4.9
Sale of tax losses of PFI joint ventures to third parties	-	2.5
Losses not utilised	(0.4)	(0.7)
Difference between taxable gain and book gain	0.5	(0.3)
Capital allowances in excess of depreciation	2.2	0.8
Pensions and other items taken through reserves	1.2	1.0
Disallowed expenses and similar items	(1.3)	(2.0)
Prior year adjustments (net)	1.0	(1.0)
Equity accounting for associate	-	0.1
<b>Current tax charge for the year</b>	<b>(2.4)</b>	<b>(2.2)</b>
Deferred tax liability of PFI companies	(8.5)	(5.5)
Accelerated capital allowances of Chiltern and non-PFI companies	(2.2)	(0.7)
Spread deduction for pension contribution	(0.4)	0.7
Prior year deferred tax adjustments (net)	0.5	0.4
<b>Total tax charge for the year</b>	<b>(13.0)</b>	<b>(7.3)</b>

In addition to the above there is a tax credit of £0.2 million (2004 – charge of £2.3 million) in respect of discontinued activities, a tax charge of £nil million (2004 – £0.6 million) in respect of the associate and an increase in the deferred tax asset in respect of the pension deficit of £0.6 million (2004 – £22.0 million), making the total tax movement for the year £37.1 million (2004 – £11.8 million net credit). The 2005 movement also includes deferred tax on the fair value of the derivatives of £24.9 million.

Under IAS12 'Income Taxes', the Group is obliged to account for deferred tax by reference to the tax written down values and book values of assets and liabilities at the balance sheet date. This gives rise to a lower effective tax rate in the early years of operation of certain PFI/PPP Project Companies because the rate of disallowed expenditure increases towards the latter years of the project's life. It follows that the effective rate of tax on the total PFI/PPP portfolio is likely to increase in future years. This effect is likely to be mitigated because new projects are generally taxed on the composite trade basis at an effective tax rate of about 30%.

## 7 AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS

In October 2001, the Group commenced the refocussing of the business through the sale of the Construction division. This was followed by the disposal of the Property division in April 2002 and the Homes division in October 2002. Within the respective sale agreements, a number of contracts and liabilities were identified and retained as a liability of John Laing, hence provisions were made for the completion of these contracts. As a consequence of these disposals, Woodcroft Insurance Company Limited, the captive insurance company, ceased writing any new business, such that its remaining activity relates to the run off of claims. These disposals are all part of the single disposal plan that the Group had and has substantially implemented. The major disposals were completed in 2001 and 2002, although it is taking some time for the remaining contracts and liabilities to be completed.

# Notes to the Accounts

## 7 AVAILABLE FOR SALE AND DISCONTINUED OPERATIONS (CONTINUED)

The results of the discontinued operations, which have been included in the consolidated income statement, were as follows:

	2005 £ million	2004 £ million
Revenue	0.6	0.8
Expenses and investment income	(2.3)	(1.0)
Loss before tax	(1.7)	(0.2)
Attributable tax credit/(charge)	0.2	(2.3)
Net loss attributable to discontinued operations	(1.5)	(2.5)

The tax credit in 2005 consists mainly of a prior year adjustment for a foreign subsidiary. The charge in 2004 arose on the profits of the Group's offshore captive insurance company.

The major classes of assets and liabilities comprising the operations classified as held for sale and discontinued are as follows:

	31 December 2005 £ million	31 December 2004 £ million
Trade and other receivables	1.2	0.8
Cash and cash equivalents	22.4	17.5
Total assets classified as held for sale	23.6	18.3
Trade and other payables	(3.1)	(3.2)
Provisions	(15.0)	(35.5)
Total liabilities associated with assets classified as held for sale	(18.1)	(38.7)
Net assets/(liabilities)	5.5	(20.4)

During the year ended 31 December 2005, net cash outflow from operating activities included £22.4 million (2004 – £5.0 million) in respect of discontinued operations. In addition the discontinued operations received £0.7 million (2004 – £0.9 million) in respect of financing activities.

The reduction in the provisions relating to the discontinued businesses principally reflects the full and final settlement of the Great Eastern Hotel claim with the client, although insurance issues related to that project remain to be settled (see note 22).

SECTOR ANALYSIS	Revenue		Loss before tax	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Construction	-	-	(1.4)	1.2
Homes	-	-	(0.1)	(0.9)
Property	0.6	0.8	(0.2)	(0.5)
	0.6	0.8	(1.7)	(0.2)

	Sector assets		Sector liabilities	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
Construction	22.8	17.5	(14.7)	(34.7)
Homes	-	0.1	(1.7)	(2.2)
Property	0.8	0.7	(1.3)	(1.4)
	23.6	18.3	(17.7)	(38.3)
Tax liabilities			(0.4)	(0.4)
Total liabilities			(18.1)	(38.7)

GEOGRAPHICAL ANALYSIS	Loss before tax		Net assets/(liabilities)	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million
United Kingdom	(1.6)	(0.1)	6.2	(20.0)
Rest of Europe	(0.1)	(0.1)	(0.7)	(0.4)
	(1.7)	(0.2)	5.5	(20.4)

# Notes to the Accounts

## 8 EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

<b>EARNINGS</b>	<b>2005 £ million</b>	<b>2004 £ million</b>
Profit for the year	21.3	15.2
Preference shareholders' dividend	(2.5)	(2.5)
Earnings for the purposes of diluted earnings per share	18.8	12.7
<b>NUMBER OF SHARES</b>	<b>2005 Number</b>	<b>2004 Number</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	205,933,417	187,088,129*
Basic and diluted earnings per share from continuing and discontinued operations	9.1p	6.8p*
<b>FROM CONTINUING OPERATIONS</b>	<b>2005 £ million</b>	<b>2004 £ million</b>
Net profit attributable to equity holders of the parent	18.8	12.8
Adjustments to exclude losses for the period from discontinued operations	1.5	2.5
Earnings from continuing operations for the purpose of basic earnings per share excluding discontinued operations	20.3	15.3
Basic and diluted earnings per share from continuing operations	9.9p	8.2p*
<b>FROM DISCONTINUED OPERATIONS</b>	<b>2005</b>	<b>2004</b>
Basic and diluted earnings per share from discontinued operations	(0.8)p	(1.4)p*

\* The denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations and have been adjusted for the rights issue on 19 July 2005 (see note 24).

## 9 DIVIDENDS

	<b>2005 £ million</b>	<b>2004 £ million</b>
Amounts recognised as distributions to ordinary shareholders in the year:		
Final dividend for the year ended 31 December 2004 of 2.2 pence per share (31 December 2003 of 2.0 pence per share)	4.0	3.5
Interim dividend for the year ended 31 December 2005 of 1.2 pence per share (31 December 2004 of 1.1 pence per share)	2.8	2.0
	6.8	5.5
On 6.4% Convertible Cumulative Preference Shares	2.5	2.5
	9.3	8.0

The proposed final dividend for the year ended 31 December 2005 is 2.45 pence per share amounting to £5.7 million, and is subject to approval by shareholders at the AGM to be held on 19 May 2006 and has not been included as a liability in these financial statements. If approved, it will be paid on 1 June 2006 to shareholders who are on the register on 24 March 2006.



# Notes to the Accounts

## 10 INTANGIBLE ASSETS

	2005			2004
	Computer software £ million	Cost of franchise £ million	Cost of service concession £ million	Total £ million
<b>Original cost</b>				£ million
At 1 January	-	16.6	-	16.6
Arising on acquisition	-	-	1.5	1.5
Additions	0.4	-	-	0.4
At 31 December	0.4	16.6	1.5	18.5
<b>Accumulated amortisation</b>				
At 1 January	-	4.7	-	4.7
Amortisation for the year	-	0.8	-	0.8
At 31 December	-	5.5	-	5.5
<b>Net book value at 31 December</b>	0.4	11.1	1.5	13.0

## 11 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings Freehold land £ million	Freehold buildings £ million	Leasehold less than 50 years £ million	Rail infrastructure £ million	Vehicles, plant and machinery* £ million	Total £ million
<b>Original cost/valuation</b>						
At 1 January 2004	-	2.3	0.3	20.8	16.0	39.4
Additions	-	17.5	-	11.5	5.6	34.6
Disposals - sale of assets	-	-	-	(0.4)	(0.3)	(0.7)
At 1 January 2005	-	19.8	0.3	31.9	21.3	73.3
Additions	4.9	11.7	0.8	16.1	5.5	39.0
Disposals - sale of assets	-	-	-	-	(0.2)	(0.2)
At 31 December 2005	4.9	31.5	1.1	48.0	26.6	112.1
Comprising:						
At cost	-	-	1.1	48.0	26.6	75.7
Valuation	4.9	31.5	-	-	-	36.4
At 31 December 2005	4.9	31.5	1.1	48.0	26.6	112.1
<b>Accumulated depreciation</b>						
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)	(0.3)	(0.6)
At 1 January 2005	-	-	0.3	1.9	3.0	5.2
Charge for the year	-	-	-	0.8	1.8	2.6
Disposals - sale of assets	-	-	-	-	(0.2)	(0.2)
At 31 December 2005	-	-	0.3	2.7	4.6	7.6
<b>Carrying amount</b>						
At 31 December 2005	4.9	31.5	0.8	45.3	22.0	104.5
At 31 December 2004	-	26.8	-	23.0	18.3	68.1

Included in rail infrastructure assets are finance costs capitalised in the year of £1.6 million (2004 - £0.7 million).

Cumulative finance costs capitalised included in the cost of tangible fixed assets amount to £5.4 million (2004 - £3.6 million).

The capitalisation rate was 6.3465% (2004 - 6.44%).

\* includes IT equipment and fixtures and fittings

# Notes to the Accounts

## 12 INVESTMENTS - HELD TO MATURITY

	2005 £ million	2004 £ million
At 1 January	25.4	24.2
Investment income	1.3	1.2
<b>At 31 December</b>	<b>26.7</b>	<b>25.4</b>

One of the Group's joint ventures, UK Highways M40 Limited holds seven EIB zero coupon bonds which mature between 2010 and 2021. The average yield on these bonds is 5%. The bonds will be used to fund major maintenance works on the motorway as and when they fall due.

The interest is being recognised in the income statement even though no interest is received in cash to spread the receipt of interest over the life of the bonds. The interest is being rolled up into the fixed asset investment and will be realised in cash when the bonds mature.

## 13 INTEREST IN ASSOCIATE

	31 December 2005 £ million	31 December 2004 £ million
Aggregated amounts relating to associate		
Total assets	35.9	46.4
Total liabilities	(20.6)	(30.5)
Interest in associate	15.3	15.9
Revenue	23.2	24.2
Operating profit	2.7	3.7
Net finance cost	(3.1)	(2.8)
Attributable tax expense	-	(0.6)
Share of results of associate	(0.4)	0.3

The Group owns a 30% shareholding in Octagon Group Limited which is a builder of luxury homes in the United Kingdom.

## 14 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year to 31 December 2005.

	Accelerated tax deduction for PFI projects £ million	Additional temporary differences on business combinations £ million	PFI tax losses £ million	Tax reserves on overseas subsidiaries £ million	Other taxable temporary differences £ million	Retirement benefit obligations £ million	IAS39 fair value of derivatives and financial assets £ million	Other deductible temporary differences £ million	Total £ million
Balance at 1 January 2005 (as previously reported)	(109.3)	(4.9)	64.3	(6.8)	(3.4)	58.1	-	1.3	(0.7)
Adoption of IAS39	-	-	-	-	-	-	(25.4)	-	(25.4)
<b>Restated balance at 1 January 2005</b>	<b>(109.3)</b>	<b>(4.9)</b>	<b>64.3</b>	<b>(6.8)</b>	<b>(3.4)</b>	<b>58.1</b>	<b>(25.4)</b>	<b>1.3</b>	<b>(26.1)</b>
(Charge)/credit - current year	(13.7)	0.3	5.5	-	(2.1)	-	-	(0.5)	(10.5)
(Charge)/credit - prior year	(1.0)	-	0.9	-	-	-	-	-	(0.1)
Tax movement on pension contributions	-	-	-	-	-	(1.8)	-	-	(1.8)
Credit/(charge) to equity, acquisitions and disposals	8.1	-	(2.8)	-	-	2.4	0.5	-	8.2
<b>At 31 December 2005</b>	<b>(115.9)<sup>1</sup></b>	<b>(4.6)</b>	<b>67.9<sup>2</sup></b>	<b>(6.8)</b>	<b>(5.5)</b>	<b>58.7</b>	<b>(24.9)</b>	<b>0.8</b>	<b>(30.3)</b>

<sup>1</sup> this includes deferred tax in respect of joint ventures of £114.6 million (2004 - £94.6 million).

<sup>2</sup> this includes deferred tax in respect of joint ventures of £67.0 million (2004 - £51.7 million).

## Notes to the Accounts

### 14 DEFERRED TAX (CONTINUED)

At the balance sheet date, the Group has estimated unused tax losses of £28.5 million available to offset against future profits. A deferred tax asset has not been recognised in respect of these losses due to the unpredictability of future profit streams. These losses may be carried forward indefinitely.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year to 31 December 2004.

	Accelerated tax deduction for PFI projects £ million	Additional temporary differences on business combinations £ million	PFI tax losses £ million	Tax reserves on overseas subsidiaries £ million	Other taxable temporary differences £ million	Retirement benefit obligations £ million	IAS39 fair value of derivatives and financial assets £ million	Other deductible temporary differences £ million	Total £ million
Balance at 1 January 2004	(99.5)	(6.1)	61.3	(6.8)	(2.7)	36.1	-	0.1	(17.6)
(Charge)/credit to income - current year	(9.8)	1.2	3.0	-	(0.9)	-	-	1.0	(5.5)
Credit to income - prior year	-	-	-	-	0.2	-	-	0.2	0.4
Credit to equity	-	-	-	-	-	22.0	-	-	22.0
At 31 December 2004	(109.3) <sup>1</sup>	(4.9)	64.3 <sup>2</sup>	(6.8)	(3.4)	58.1	-	1.3	(0.7)

<sup>1</sup> this includes deferred tax in respect of joint ventures of £114.6 million (2004 - £94.6 million).

<sup>2</sup> this includes deferred tax in respect of joint ventures of £67.0 million (2004 - £51.7 million).

#### Netting of deferred tax balances

	31 December 2005 £ million	31 December 2004 £ million
Deferred tax assets	56.9	50.1
Deferred tax liabilities	(87.2)	(50.8)
	(30.3)	(0.7)

### 15 FINANCIAL ASSETS - AVAILABLE FOR SALE

#### a) Maturity of financial assets

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

	31 December 2005			31 December 2004		
	Less than 1 year £ million	Greater than 1 year £ million	Total £ million	Less than 1 year £ million	Greater than 1 year £ million	Total £ million
Financial assets - available for sale						
- at cost	3.2	168.7	171.9	6.1	154.8	160.9
- at amortised cost	28.2	1,324.2	1,352.4	29.8	1,308.5	1,338.3
- fair value adjustment	-	240.8	240.8	-	-	-
<b>Total financial assets - available for sale</b>	<b>31.4</b>	<b>1,733.7</b>	<b>1,765.1</b>	<b>35.9</b>	<b>1,463.3</b>	<b>1,499.2</b>
Cash and cash equivalents	386.9	-	386.9	191.0	-	191.0
<b>Total financial assets</b>	<b>418.3</b>	<b>1,733.7</b>	<b>2,152.0</b>	<b>226.9</b>	<b>1,463.3</b>	<b>1,690.2</b>

## Notes to the Accounts

### 15 FINANCIAL ASSETS - AVAILABLE FOR SALE (CONTINUED)

#### b) Interest rate profile of financial assets

CURRENCY	Financial assets - 31 December 2005				Financial assets - 31 December 2004			
	Floating rate £ million	Fixed rate £ million	Non-interest bearing £ million	Total £ million	Floating rate £ million	Fixed rate £ million	Non-interest bearing £ million	Total £ million
Sterling	103.4	-	5.1	108.5	41.2	-	2.7	43.9
Euros	0.1	-	-	0.1	0.3	-	-	0.3
<b>Recourse</b>	<b>103.5</b>	<b>-</b>	<b>5.1</b>	<b>108.6</b>	<b>41.5</b>	<b>-</b>	<b>2.7</b>	<b>44.2</b>
Sterling	269.3	1,507.6	145.4	1,922.3	145.0	1,313.2	113.9	1,572.1
Euros	6.5	22.3	26.5	55.3	1.6	25.1	-	26.7
Norwegian Kroner	2.5	63.3	-	65.8	0.2	-	47.0	47.2
<b>Non-recourse</b>	<b>278.3</b>	<b>1,593.2</b>	<b>171.9</b>	<b>2,043.4</b>	<b>146.8</b>	<b>1,338.3</b>	<b>160.9</b>	<b>1,646.0</b>
<b>Total</b>	<b>381.8</b>	<b>1,593.2</b>	<b>177.0</b>	<b>2,152.0</b>	<b>188.3</b>	<b>1,338.3</b>	<b>163.6</b>	<b>1,690.2</b>

The fixed rate financial assets represent finance debtors. The weighted average interest rate of these fixed rate financial assets is 5.2% (2004 - 5.7%) and the weighted average period for which the interest rates are fixed is 21.6 years (2004 - 21.8 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 and cash in current accounts. The weighted average period for which no interest is paid on the sterling non-interest bearing assets is 1.9 years (2004 - 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	Total
<b>Sterling- 31 December 2005</b>	<b>5.2</b>	<b>7.8</b>	<b>13.0</b>
- 31 December 2004	3.8	5.2	9.0

The Group's foreign currency assets comprise the Euro shareholdings in Gdansk Transport Co. SA, Tiehytio Ykkostie Oy and Tiehytio Nelostie Oy. Orkdalsvegen AS is denominated in Norwegian Kroner.

### 16 TRADE AND OTHER RECEIVABLES

	31 December 2005 £ million	31 December 2004 £ million
<b>Current assets</b>		
PFI/PPP bid costs	6.5	11.8
Trade debtors	30.0	30.2
Corporation tax recoverable	0.5	0.1
Other taxation	3.4	4.4
Other debtors	8.8	6.3
Prepayments and accrued income	39.7	36.3
	<b>88.9</b>	<b>89.1</b>
<b>Non-current assets</b>		
Forward derivative contracts	0.4	0.1
Other debtors and accrued income	66.6	63.7
	<b>67.0</b>	<b>63.8</b>

Included within the above amounts were 11 outstanding season ticket loans to officers and managers of the Company to a total value of £26,450 (2004 - £16,915).

# Notes to the Accounts

## 17 INVENTORIES

	31 December 2005 £ million	31 December 2004 £ million
Raw materials and consumables	2.0	1.6
Other	28.6	13.7
	<b>30.6</b>	<b>15.3</b>

At 31 December 2005 the balance is principally in respect of lighting columns and capitalised maintenance on the street-lighting projects.

## 18 ANALYSIS OF GROUP FUNDS

	Recourse funds £ million	31 December 2005 Non-recourse funds £ million	Total £ million	Recourse funds £ million	31 December 2004 Non-recourse funds £ million	Total £ million
Cash and bank deposits	108.6	278.3	<b>386.9</b>	44.2	146.8	191.0
Bank and other loans falling due within one year	-	(49.5)	<b>(49.5)</b>	(1.5)	(46.9)	(48.4)
Bank and other loans falling due after more than one year	-	(1,625.1)	<b>(1,625.1)</b>	-	(1,468.5)	(1,468.5)
	<b>108.6</b>	<b>(1,396.3)</b>	<b>(1,287.7)</b>	<b>42.7</b>	<b>(1,368.6)</b>	<b>(1,325.9)</b>

The recourse funds shown above do not include cash balances held in discontinued operations which are identified in note 7.

Non-recourse debt is secured against assets in the underlying projects.

## 19 TRADE AND OTHER PAYABLES

	31 December 2005 £ million	31 December 2004 £ million
Current liabilities		
Trade creditors	67.0	53.9
Other taxation	3.0	4.5
Accruals	53.8	42.8
Deferred income	9.3	6.8
	<b>133.1</b>	<b>108.0</b>
Non-current liabilities		
Trade creditors	0.5	-
Accruals	25.3	31.5
Amounts due to construction contract customers	6.2	4.0
Held for trading liability	0.2	-
Deferred income	25.1	6.1
	<b>57.3</b>	<b>41.6</b>

# Notes to the Accounts

## 20 FINANCIAL INSTRUMENTS

### a) Fair value adjustments for derivatives and financial assets

	31 December 2005 £ million	1 January 2005 £ million
<b>Derivatives</b>		
<b>Non-current liabilities</b>		
Interest rate swaps	(149.9)	(106.6)
Inflation swaps	(7.8)	(4.2)
	(157.7)	(110.8)
<b>Non-current assets</b>		
Commodity swap	0.4	0.1
	(157.3)	(110.7)
<b>Financial assets (see note 15)</b>	240.7	195.6
<b>Total fair value adjustment of derivatives and financial assets</b>	83.4	84.9
Net deferred tax thereon	(24.9)	(25.4)
<b>Net remeasurement of financial instruments</b>	58.5	59.5

	31 December 2005 £ million	1 January 2005 £ million
<b>Derivatives</b>		
Interest rate swaps £	(141.0)	(98.9)
Interest rate swaps €	(1.5)	(0.9)
Interest rate swaps NOK	(7.4)	(6.8)
Total derivatives	(149.9)	(106.6)
Inflation swaps £	(7.8)	(4.2)
Commodity swaps £	0.4	0.1
<b>Total</b>	(157.3)	(110.7)

Reconciliation of movement in derivatives balance	£ million
Balance at 1 January 2005	(110.7)
Disposals	14.1
Acquisition	(5.0)
Movement	(55.7)
<b>Closing position at 31 December 2005</b>	<b>(157.3)</b>

Financial assets and liabilities have been fair valued in accordance with accounting policy k. The movement in fair value reflects the reduction in long-term interest rates and the effect that would have on fair value of financial assets attracting a fixed rate of interest.

In order to manage exposure to movements in interest rates, Project Companies financed by floating rate debt swap their floating rate exposure for fixed rates using interest rate swaps. Of the 48 projects currently undertaken, 38 of these are financed by floating rate debt and so have transacted interest rate swaps.

The fixed interest rates on the swaps range from 4.5% to 6.6% and maturities range from 2006 to 2034. A breakdown by notional value of the interest rate swaps is shown below:

	31 December 2005 £ million	1 January 2005 £ million
<b>Notional value of interest rate swaps</b>		
Interest rate swaps £	(1,038.9)	(1,024.5)
Interest rate swaps €	(11.1)	(8.5)
Interest rate swaps NOK	(55.3)	(40.2)
<b>Total</b>	<b>(1,105.3)</b>	<b>(1,073.2)</b>

# Notes to the Accounts

## 20 FINANCIAL INSTRUMENTS (CONTINUED)

### a) Fair value adjustments for derivatives and financial assets (continued)

The notional value of RPI swaps as at 31 December 2005 was £37.7 million (2004 – £34.1 million).

In order to reduce its exposure to rising fuel costs, Chiltern Railways has fixed the cost of its estimated usage of fuel until March 2006 by entering into a commodity swap. At 31 December 2005 3.6 million litres of fuel were hedged on a straight line basis until 31 March 2006 (2004 – 18 million litres).

The fair value of swaps entered into as at 31 December 2005 is estimated at £157.3 million. The swaps have been designated for hedge accounting as cash flow hedges from 1 January 2005. As at 1 January 2005 and 31 December 2005 the hedges have been tested for effectiveness. All the hedges were designated highly effective as of this date. However, some swaps have an ineffective portion due to over hedging. Ineffective portions totalling £0.1 million have been recognised in the income statement and the effective portions of £46.5 million transferred directly to the hedging reserve.

### b) Interest rate profile of financial liabilities

The Group's financial liabilities at 31 December 2005 are £1,674.6 million (2004 – £1,516.9 million), of which £1,674.6 million (2004 – £1,515.4 million) are non-recourse liabilities. These principally comprise borrowings of Project Companies which are required to be consolidated. In these Project Companies the lenders have recourse solely to that Project Company itself and hence there is no recourse to the Group.

The financial liabilities shown comprise borrowings of under one year of £49.5 million (2004 – £48.4 million), borrowings of over one year of £1,625.1 million (2004 – £1,468.5 million).

	Financial liabilities – 31 December 2005			Financial liabilities – 31 December 2004		
	Floating rate £ million	Fixed rate £ million	Total £ million	Floating rate £ million	Fixed rate £ million	Total £ million
Overdrafts	-	-	-	1.5	-	1.5
<b>Total recourse</b>	-	-	-	1.5	-	1.5
Project Companies – borrowings < 1 year	11.8	37.7	49.5	9.1	37.8	46.9
Project Companies – borrowings > 1 year	46.3	1,578.8	1,625.1	42.7	1,425.8	1,468.5
<b>Total non-recourse</b>	<b>58.1</b>	<b>1,616.5</b>	<b>1,674.6</b>	<b>51.8</b>	<b>1,463.6</b>	<b>1,515.4</b>
<b>Total</b>	<b>58.1</b>	<b>1,616.5</b>	<b>1,674.6</b>	<b>53.3</b>	<b>1,463.6</b>	<b>1,516.9</b>

There are no recourse borrowings in 2005 (2004 – £1.5 million). 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 2005 is £0.6 million (2004 – £0.9 million) which is included as a prepayment within debtors, of which £0.5 million (2004 – £0.7 million) is over 1 year, as these facilities are undrawn.

Seven projects are financed through bond financing totalling £493.2 million (2004 – £375.6 million). The bonds have fixed interest ranging from 4.5% to 9.4% and maturities from 2013 to 2041. The interest rates for the remaining projects are fixed using either interest rate swaps or fixed rate debt. The maturities range from 2006 to 2034 and the all-inclusive interest rates varying from 5.5% to 7.5%. The weighted average all-inclusive interest rate for these non-recourse fixed rate financial liabilities is 6.8% (2004 – 6.5%) and the weighted average period for which interest rates are fixed is 18.8 years (2004 – 20.5 years).

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

### c) Maturity of financial liabilities

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

	31 December 2005 Non- recourse £ million	31 December 2004 Non- recourse £ million
In one year or less, or on demand	49.5	48.4
In more than 1 year but less than 2 years	54.9	33.7
In more than 2 years but less than 5 years	133.4	133.0
In more than 5 years	1,436.8	1,301.8
<b>Total</b>	<b>1,674.6</b>	<b>1,516.9</b>

# Notes to the Accounts

## 20 FINANCIAL INSTRUMENTS (CONTINUED)

### d) 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 (2004 – £115.0 million), two bilateral committed facilities totalling £25.0 million (2004 – £25.0 million) and a committed overdraft facility of £5.0 million (2004 – £5.0 million). The facilities are summarised below:

	31 December 2005		
	Total facility £ million	Letters of credit drawn £ million	Total undrawn £ million
Syndicated committed revolving credit facility (with letter of credit option)	115.0	33.4	81.6
Committed overdraft	5.0	-	5.0
	<b>120.0</b>	<b>33.4</b>	<b>86.6</b>
Bilateral letter of credit facilities	25.0	15.8	9.2
<b>Total committed Group facilities (recourse)</b>	<b>145.0</b>	<b>49.2</b>	<b>95.8</b>

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 2006 and the letter of credit facilities are due for renewal in December 2006 and April 2007.

Of the letters of credit drawn, £44.4 million (2004 – £33.4 million) back future capital and loan commitments and £4.8 million (2004 – £6.1 million) counter indemnify performance bonds issued by other banks.

## 21 POST RETIREMENT OBLIGATIONS

	31 December 2005 £ million	31 December 2004 £ million
Pension Plans		
- Group	(197.3)	(189.3)
- Joint venture	(0.5)	(0.4)
Post retirement medical benefit	(5.0)	(4.3)
<b>Retirement benefit obligations</b>	<b>(202.8)</b>	<b>(194.0)</b>

### a) Pension Plans

#### The Laing Schemes

John Laing plc operates two primary 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 2005 by a qualified independent actuary, Towers Perrin. The valuation takes into account the Institute and Faculty of Actuaries' latest projections of mortality.

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

#### The Fund

For the period 1 January 2004 to 31 December 2005, John Laing plc has made contributions to the Fund at the rate of 18% of pensionable salaries. With effect from 1 January 2006 this contribution rate has increased to 21.9% of pensionable salaries. Employee contributions made by active members of the Fund rose from 2% of their pensionable salary to 4% in 2005. These will escalate to 6% of pensionable salary in 2006. In addition to the regular contributions, John Laing has agreed to make additional annual cash payments toward funding the deficit. The additional contributions made were £4.0 million in 2004 and £6.0 million in 2005. A payment of £6.6 million was made in January 2006 with a further £3.4 million to be paid, bringing the total of additional contributions for 2006 to £10.0 million. This additional contribution will increase by 3% per annum, unless agreed otherwise by the Company and the trustees, until the deficit has been eliminated.



# Notes to the Accounts

## 21 POST RETIREMENT OBLIGATIONS (CONTINUED)

### a) Pension Plans (continued)

#### The Plan

No contributions were made to the Plan in 2005.

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.

An analysis of members at 31 December 2005 is shown below:

	Actives	Deferred	Pensioners	Total
The John Laing Pension Fund	88	6,238	3,146	9,472
The John Laing Pension Plan	-	219	316	535

#### 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.

Under a shared cost scheme the cost of providing the benefits are split between the members and the employer in the ratio 40:60, therefore the current service charge and finance income reflect 60% of the costs and income. On the balance sheet, in the case of the deficit on the Chiltern Schemes, account can be taken of any additional contributions which it is expected will be required from members to finance their share of the deficit. The deficit is thus shown net of the members' share.

The full actuarial valuation of the Chiltern Schemes has been carried out as at 31 December 2004 by a qualified independent actuary, Watson Wyatt, the results of which have been incorporated into the 31 December 2005 accounts.

The assets of the Chiltern Schemes are held in separate trustee administered funds. Contributions to the Chiltern 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. Following the valuation as at 31 December 2004, a new contribution pattern will be agreed from 2006. 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 13.5% of Section Pay until 31 March 2005. From 1 April 2005 the employer contributions were 13.86% of Section Pay. Following the valuation as at 31 December 2004, a new contribution pattern will be agreed.

An analysis of members at 31 December 2005 is shown below:

	Actives	Deferred	Pensioners	Total
Chiltern Railway Company Limited Section	627	237	106	970
Chiltern Railway Company Limited (Maintenance) Section	119	42	18	179

The weighted average financial assumptions used in the IAS19 actuarial valuation were:

	2005 %	2004 %
Discount rate	4.80	5.30
Rate of increase in salaries	4.25	4.25
Rate of increase in non-GMP pensions in payment	2.75	2.75
Rate of increase in non-GMP pensions in deferment	2.75	2.75
Inflation	2.75	2.75

# Notes to the Accounts

## 21 POST RETIREMENT OBLIGATIONS (CONTINUED)

### a) Pension Plans (continued)

#### Mortality

The table below summarises the life expectancy implied by the mortality assumptions used for the year ends 2005 and 2004.

	2005		2004	
	Male Years	Female Years	Male Years	Female Years
Life expectancy - for an active/deferred member reaching age 65	21.0	23.9	19.8	22.8
Life expectancy - for a 65 year old pensioner	19.4	22.4	19.0	21.9

The 2005 mortality assumptions were based on the tables published by the Institute and Faculty of Actuaries.

Mortality before retirement – AM92 and AF92 ultimate mortality table for men and women respectively.

Mortality after retirement (for active and deferred members) – PMA92C2040 and PFA92C2040 mortality tables for men and women respectively.

Mortality table for current pensioners – PMA92C2015 and PFA92C2015 mortality tables for men and women respectively.

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 were:

	2005		2004	
	£ million	%	£ million	%
Bonds	262.5	4.59	197.2	5.00
Equities	297.3	8.25	308.1	8.50
Property	110.3	8.25	88.0	8.50
Cash	18.5	4.50	16.5	4.95
<b>Total market value of assets</b>	<b>688.6</b>		<b>609.8</b>	
Present value of schemes liabilities	(882.0)		(794.9)	
<b>Deficit in the schemes</b>	<b>(193.4)</b>		<b>(185.1)</b>	
Unrecoverable surplus in Plan	(3.9)		(4.2)	
<b>Net pension deficit</b>	<b>(197.3)</b>		<b>(189.3)</b>	
Associated deferred tax asset	57.2		56.8	
<b>Net pension liability</b>	<b>(140.1)</b>		<b>(132.5)</b>	

#### Analysis of scheme assets

The major categories of plan assets as a percentage of total assets at the year end are as follows:

	2005 %	2004 %
Bonds	38.1	32.4
Equities	43.2	50.5
Property	16.0	14.4
Cash	2.7	2.7
	<b>100.0</b>	<b>100.0</b>

#### Analysis of amounts charged to profit from operations

	2005 £ million	2004 £ million
Current service cost	(4.7)	(4.2)

# Notes to the Accounts

## 21 POST RETIREMENT OBLIGATIONS (CONTINUED)

### a) Pension Plans (continued)

#### Analysis of amounts credited/(charged) to investment income

	2005 £ million	2004 £ million
Expected return on scheme assets	42.7	38.0
Interest on scheme liabilities	(40.5)	(36.7)
<b>Net credit to investment income</b>	<b>2.2</b>	<b>1.3</b>

#### Analysis of the amount recognised in the Group Statement of Recognised Income and Expenditure

	2005 £ million	2004 £ million
Actual return less expected return on pension scheme assets	50.5	22.3
Experience gains/(losses) arising on the scheme liabilities	28.6	(0.7)
Changes in assumptions underlying the present value of the scheme liabilities	(94.3)	(89.6)
Decrease in unrecoverable surplus	0.3	0.5
<b>Actuarial losses</b>	<b>(14.9)</b>	<b>(67.5)</b>
Deferred tax asset	0.4	22.1
<b>Actuarial losses recognised in Group statement of recognised income and expenditure</b>	<b>(14.5)</b>	<b>(45.4)</b>

#### Changes in the present value of the defined benefit obligation

	2005 £ million	2004 £ million
Opening defined benefit obligation	(800.8)	(697.4)
Service cost	# (6.4)	(6.0)
Interest cost	# (41.7)	(37.6)
Experience gains/(losses) on the scheme liabilities	# 29.2	(1.1)
Changes in assumptions underlying the present value of the scheme liabilities	# (98.2)	(90.5)
Benefits paid	28.6	31.8
<b>Total defined benefit obligation</b>	<b>(889.3)</b>	<b>(800.8)</b>
Members share of deficit	7.3	5.9
<b>Closing defined benefit obligation</b>	<b>(882.0)</b>	<b>(794.9)</b>

#### Changes in the fair value of plan assets

	2005 £ million	2004 £ million
Opening fair value of plan assets	609.8	571.2
Expected return	# 43.9	38.9
Actual return less expected return on pension scheme assets	# 52.5	22.8
Contributions by employer	9.3	7.1
Contributions by members	# 1.7	1.6
Benefits paid	(28.6)	(31.8)
<b>Closing fair value of plan assets</b>	<b>688.6</b>	<b>609.8</b>

# costs and income that were reflected on the shared cost basis in the income statement and statement of recognised income and expenditure for the Chiltern Schemes have been grossed up to 100%. Chiltern members contributions of £1.6 million (2004 - £1.5 million) are excluded from net analysis of the movement in the deficit of the year shown on page 107.

## Notes to the Accounts

### 21 POST RETIREMENT OBLIGATIONS (CONTINUED)

#### a) Pension Plans (continued)

Analysis of the movement in the deficit during the year

	2005 £ million	2004 £ million
Deficit at 1 January	(185.1)	(121.5)
Current service cost	(4.7)	(4.2)
Other finance income	2.2	1.0
Contributions	9.4	7.2
Actuarial losses	(15.2)	(67.6)
<b>Deficit in the scheme at 31 December</b>	<b>(193.4)</b>	<b>(185.1)</b>
Unrecovered surplus in Plan	(3.9)	(4.2)
<b>Pension deficit at 31 December</b>	<b>(197.3)</b>	<b>(189.3)</b>

A net pension deficit of £0.5 million has been proportionally consolidated into the Group accounts in respect of the joint venture, Severn River Crossing plc.

In accordance with the transitional provisions for the amendments to IAS19 'Employee Benefits' in December 2004, the disclosures above are determined prospectively from the 2004 reporting period.

HISTORY OF THE WEIGHTED AVERAGE EXPERIENCE GAINS AND LOSSES	2005	2004
<b>Difference between actual and expected returns on assets:</b>		
Amount (£ million)	50.5	22.3
% of scheme assets	7%	4%
<b>Experience gains/(losses) on scheme liabilities</b>		
Amount (£ million)	28.6	(0.7)
% of present value of the scheme liabilities	3%	0%
<b>Total amount recognised in the Statement of Recognised Income and Expenditure (excluding deferred tax)</b>		
Amount (£ million)	(14.9)	(67.5)
% of present value of the scheme liabilities	(2%)	(8%)

#### Experience adjustments

The estimated amount of contributions expected to be paid to the schemes during the 2006 financial year is £13.7 million.

#### b) Post retirement medical benefit

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

The present value of the future liabilities under this arrangement have been assessed by the actuary, Mercer Human Resource Consulting 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:

	2005 £ million	2004 £ million
Post retirement medical liability at 1 January	(4.3)	(4.2)
Other finance cost	(0.2)	(0.2)
Contributions	0.2	0.2
Actuarial loss	(0.7)	(0.1)
<b>Post retirement medical liability at 31 December</b>	<b>(5.0)</b>	<b>(4.3)</b>
Associated deferred tax asset	1.5	1.3
<b>Net post retirement medical liability</b>	<b>(3.5)</b>	<b>(3.0)</b>

# Notes to the Accounts

## 21 POST RETIREMENT OBLIGATIONS (CONTINUED)

### b) Post retirement medical benefit (continued)

The annual rate of increase in the per capita cost of medical benefits was assumed to be 8% in 2005. It is assumed to remain at 8% in 2006, falling to 4.25% over the next five years and remaining at 4.25% thereafter. Assumed medical cost trend rates have a significant effect on the liability reported for this scheme. A 1% change in assumed medical cost trend rates would have had the following effect:

	1% increase	1% decrease
Effect on service cost plus interest cost	(0.3)	0.2
Effect on defined benefit obligation	(5.6)	4.6

## 22 PROVISIONS

	1 January 2005 £ million	Charged to profit and loss account £ million	Transfer and other adjustments £ million	Utilised £ million	31 December 2005 £ million
Retained liabilities	34.4	2.2	-	(22.6)	14.0
Property dilapidations	0.9	0.1	-	(0.2)	0.8
Onerous lease	0.6	-	-	(0.3)	0.3
Other	2.9	0.3	(0.1)	(0.2)	2.9
<b>Total provisions</b>	<b>38.8</b>	<b>2.6</b>	<b>(0.1)</b>	<b>(23.3)</b>	<b>18.0</b>
Disclosed:					
Long-term provisions	3.3				3.0
Discontinued (see note 7)	35.5				15.0

**RETAINED LIABILITIES** provisions include amounts for retained liabilities in respect of the disposed businesses. £3.7 million (2004 – £24.2 million) for Construction and £1.6 million (2004 – £1.6 million) for Homes. 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 £8.7 million (2004 – £8.5 million) in respect of self insurance which are calculated using historical data and are based on the advice of loss adjusters and an independent actuary.

The provision for retained liabilities covers a number of construction contracts for which the Group retained financial responsibility following the sale of Laing Construction in 2001. The majority of the issues, for which provision was initially made in 2001, have now been resolved including full and final settlement of the Great Eastern Hotel claim with the client. However some insurance related issues remain to be settled in respect of that claim and these could result in payments either to or from the Group.

The Directors believe that, subject to a reasonable outcome on the matters still to be determined, the provisions at 31 December 2005 are sufficient to meet the likely outcome of all retained liability contracts.

**PROPERTY DILAPIDATION** provisions relate mainly to leasehold properties previously occupied by the discontinued construction and house building businesses.

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

**OTHER** balances principally relate to provisions held in the accounts of joint ventures.

**LUL CONNECT PROJECT:** the Group owns a 19.5% interest in Citylink Telecommunications Limited ('Citylink'), the special purpose company ('SPC') that was awarded a contract to upgrade the telecommunications network on the London Underground. Citylink is in dispute with London Underground Limited in relation to delays in delivering enabling works. The dispute failed to be resolved through negotiation. In November 2004 formal mediation procedures began and, subsequently, arbitration proceedings have now commenced with a view to establishing responsibility for the delays. This will in turn establish where the financial responsibility lies as between the contractor, the client and the SPC. The claim relating to the delays has not been quantified in terms of a monetary sum. A decision is expected in late summer 2006. The Group has invested £10.9 million in the LUL Connect project and has accounted for post acquisition reserves of £3.6 million (excluding IAS39 fair value adjustments on derivatives). The Directors believe that the carrying value of the Group's investment in the project is fairly stated.

## Notes to the Accounts

### 23 GUARANTEES, CONTINGENT ASSET AND 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 £44.4 million were outstanding at 31 December 2005 (see note 20d) (2004 – £33.4 million).

As at 31 December 2005 there are capital commitments of £37.5 million (2004 – £32.0 million) for the uncalled capital and loan funding for PFI/PPP Project Companies, none of which relates to the Company.

	2005 £ million	2004 £ million
Commitments for uncalled capital, loans, design and construction costs	48.0	40.0
The Group's share of the capital commitments for design and construction costs of its joint ventures, all of which is to be financed by committed non-recourse project debt	408.5	134.3

At 31 December 2005 the Directors had not authorised any capital expenditure other than provided for in the above figures (2004 – £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 Group also has the following annual commitments under non-cancellable operating leases expiring as follows:

	Land and buildings 31 December 2005 £ million	31 December 2004 £ million	Rolling stock, plant and machinery 31 December 2005 £ million	31 December 2004 £ million
In less than one year	1.0	0.8	0.1	0.1
In more than 1 year but less than 5 years	1.8	3.1	0.1	0.1
After more than 5 years	-	0.6	15.2	14.6

#### Chiltern Railway Company Limited

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 £29.2 million in the next financial year, including £3.8 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.

Included in revenue for the year ended 31 December 2005 is an amount to reflect compensation for lost revenue during 2005 as a result of the tunnel collapse at Gerrards Cross. The Chiltern Railway Company Limited is in discussion with the developer over loss of future revenues for 2006 and beyond, for which no debtor has been included at 31 December 2005.

## Notes to the Accounts

### 24 SHARE CAPITAL

	Ordinary Shares of 25 pence each	6.4% Convertible Cumulative Preference Shares of £1 each	Total
<b>£ million</b>			
At 1 January 2005	45.7	39.4	85.1
Issued	12.6	-	12.6
<b>At 31 December 2005</b>	<b>58.3</b>	<b>39.4</b>	<b>97.7</b>
<b>Number of shares issued and fully paid up</b>			
At 1 January 2005	182,836,621	39,416,427	
Converted	18,088	(53,625)	
Rights issue	50,049,585	-	
Issued in relation to share based incentive schemes	250,047	-	
<b>At 31 December 2005</b>	<b>233,154,341</b>	<b>39,362,802</b>	
<b>Number of shares authorised</b>	<b>310,000,000</b>	<b>40,151,313</b>	

Rights issue costs of £4.6 million have been offset against the share premium account.

On 19 July 2005 50,049,585 Ordinary Shares were issued at £2 under terms of the rights issue.

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. These are undated and have a fixed coupon of 6.4% (2004 – 6.4%). Their market value at 31 December 2005 was £50.0 million (2004 – £43.9 million).

### 25 CAPITAL REDUCTION

At the Company's AGM held on 19 May 2005, shareholders approved a resolution to reduce the Company's share premium account by £50.0 million in order to increase distributable reserves, giving the Company additional flexibility to pay dividends in the future. The capital reduction was approved by the High Court on 24 June 2005.

### 26 HEDGING, REVALUATION AND TRANSLATION RESERVE

	Hedging reserve £ million	Revaluation reserve £ million	Translation reserve £ million	Total £ million
Balance at 1 January 2005	-	-	0.9	0.9
Adoption of IAS39	(77.4)	136.9	-	59.5
<b>Restated balance at 1 January 2005</b>	<b>(77.4)</b>	<b>136.9</b>	<b>0.9</b>	<b>60.4</b>
Exchange difference on translation of overseas operations	-	-	(0.1)	(0.1)
Fair value of financial assets and derivatives on disposal	9.8	(21.7)	-	(11.9)
Net increase in fair value of financial assets	-	47.8	-	47.8
Net reduction in fair value of hedging derivatives	(39.8)	-	-	(39.8)
De-designation of hedging relationship <sup>#</sup>	0.1	-	-	0.1
<b>Balance at 31 December 2005</b>	<b>(107.3)</b>	<b>163.0</b>	<b>0.8</b>	<b>56.5</b>

The fair value of derivatives, inflation and commodity swaps, net of deferred tax is recognised in the hedging reserve.

The fair value of the financial assets, net of deferred tax is recognised in the revaluation reserve.

<sup>#</sup> on one project the derivatives no longer meet the criteria to be accounted for as hedges under IAS39. Accordingly, a portion of the 1 January 2005 balance has been recycled to the income statement.

# Notes to the Accounts

## 27 NOTES TO THE GROUP CASH FLOW STATEMENT

	2005 £ million	2004 £ million
<b>Profit from operations</b>	<b>25.6</b>	21.1
<b>Adjustments for:</b>		
Discontinued operations	(2.5)	(0.9)
Other operating income	(21.3)	(6.9)
Share of results of associate	0.4	(0.3)
Depreciation of property, plant and equipment	2.6	2.5
Amortisation of intangible assets	0.8	0.7
Additional contribution to pension fund	(6.1)	(4.0)
Decrease in provisions	(20.8)	(8.7)
<b>Operating cash flows before movements in working capital</b>	<b>(21.3)</b>	3.5
Increase in receivables	(48.5)	(101.4)
Increase in payables	23.2	35.8
<b>Cash outflow from operations</b>	<b>(46.6)</b>	(62.1)
Income taxes paid	(1.6)	(0.1)
<b>Net cash outflow from operating activities</b>	<b>(48.2)</b>	(62.2)

## 28 RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE GROUP BALANCE SHEET

	2005 £ million	2004 £ million
Cash and cash equivalents	386.9	191.0
Investments (see note 12)	26.7	25.4
Severn River Crossing Debentures	5.0	4.7
Cash and cash equivalents in discontinued operations (see note 7)	22.4	17.5
<b>Cash and cash equivalents per Group cash flow</b>	<b>441.0</b>	238.6

## 29 SHARE BASED PAYMENTS

### Equity-settled share option and long-term incentive scheme plans

The John Laing Executive Share Option Plan 2002 (the 'Plan') provides options over John Laing plc Ordinary Shares of 25p each at an option price calculated on the average closing mid-market share price over the three business days immediately preceding the date of the grant. Provisional awards are also made under the 2001 LTIP whereby conditional awards are made to individuals at nil cost. The performance conditions are set out in the report of the Remuneration Committee on pages 60 to 61.

On 28 April 2005, an LTIP award under the Executive unapproved Plan 2002 was made. The share awards were valued using the Black-Scholes option valuation method. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation were as follows:

Grant date	28 April 2005
Share price at grant date	247.5p
Exercise price	nil
Number of employees	12
Shares under award	489,356
Vesting period (years)	3
Expected life (years)	3
Expected volatility	40%
Risk-free rate	4.50%
Dividend yield	1.4545
Fair value per share award	236.932p



# Notes to the Accounts

## 29 SHARE BASED PAYMENTS (CONTINUED)

### Equity-settled share option and long-term incentive scheme plans (continued)

Expected volatility is based on historical volatility of the Group's share price over the last three years. The risk-free rate of return is the yield on 4.5% treasury gilts of a term consistent with the assumed award life.

Following the rights issue on 19 July 2005, the share options and awards were rebased, using a factor of 1.045643 on the number of shares and 0.956349 on the option price.

A reconciliation of the option and awards movements over the year to 31 December 2005 is shown below:

### Share based schemes

	2005			2004		
	Number of LTIP awards	Number of share options	Weighted average exercise price (pence)	Number of LTIP awards	Number of share options	Weighted average exercise price (pence)
Outstanding at beginning of period	1,056,701	546,557	126.076	616,620	546,557	126.076
Granted during the period	489,356	-	-	483,840	-	-
Adjustment due to rights issue	70,534	24,929	-	-	-	-
Forfeited during the period	-	-	-	(43,759)	-	-
Outstanding at the end of the period	1,616,591	571,486	120.573	1,056,701	546,557	126.076

The total charge for the year to 31 December 2005 relating to employee share based payment plans was £1.0 million (2004 – £0.6 million) plus a provision of £0.3 million (2004 – £0.2 million) for the national insurance liability thereon.

At 31 December 2005, the average remaining contractual life was 272 days with the exercise price of 125-127.5 pence per share.

## 30 ACQUISITIONS

During the year, the Group acquired 29.69% of the issued share capital of Gdansk Transport Company SA, Poland on 14 March 2005 for cash consideration of £1.1 million.

On 4 November 2005, the Group acquired 11.429% and 8.728% of the issued share capital of ESP Holdings Limited and 3ED Holdings Limited respectively ('Edinburgh and Glasgow schools') for cash consideration of £8.3 million. These acquisitions when added to the Group's existing interests increased its overall interest in Edinburgh and Glasgow schools to 41.43% and 34.23% respectively.

In addition on 4 November 2005 the Group acquired the remaining 50% of Amey Highways Lighting (Holdings) Limited, ('Walsall street lighting'), for the purchase price of £1.5 million.

Net assets acquired in the respective transactions, and the fair value arising, were as follows:

	Walsall street lighting £ million	Gdansk Trading Company £ million	Edinburgh and Glasgow schools £ million	Total £ million
<b>Book and fair value</b>				
Intangible asset	1.1	-	0.4	1.5
Deferred tax asset	0.3	-	-	0.3
Inventories	8.0	-	-	8.0
Trade receivables	0.2	2.4	34.5	37.1
Fair value adjustment on financial assets	-	-	7.9	7.9
Bank and cash balances	0.1	-	5.0	5.1
Bank loans	(7.2)	-	(32.2)	(39.4)
Fair value of derivatives	(0.8)	-	(4.2)	(5.0)
Trade payables	(1.0)	(1.3)	(4.8)	(7.1)
Deferred tax liability	-	-	(1.6)	(1.6)
	0.7	1.1	5.0	6.8
Equity loan stock	0.8	-	3.3	4.1
Total consideration	1.5	1.1	8.3	10.9
Satisfied by:				
Cash	1.5	1.1	8.3	10.9
Cash and cash equivalents acquired	(0.1)	-	(5.0)	(5.1)
Net cash outflow arising on acquisition	1.4	1.1	3.3	5.8

## Notes to the Accounts

### 30 ACQUISITIONS (CONTINUED)

#### Post acquisition results

	Acquisitions £ million	Existing business £ million	Total £ million
Revenue	21.5	386.3	407.8
Cost of sales	(21.4)	(327.6)	(349.0)
<b>Gross profit</b>	0.1	58.7	58.8
Administrative expenses	-	(54.1)	(54.1)
Other operating income	-	21.3	21.3
Share of results of associate	-	(0.4)	(0.4)
<b>Profit from operations</b>	0.1	25.5	25.6
Investment income	-	121.8	121.8
Finance costs	(0.1)	(111.5)	(111.6)
<b>Profit before tax</b>	-	35.8	35.8
Tax	-	(13.0)	(13.0)
<b>Profit for the period from continuing operations</b>	-	22.8	22.8

If the acquisitions had been completed on 1 January 2005, total Group revenue would have been £411.2 million for the year and profit before tax would have been £36.1 million.

### 31 TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries and joint ventures, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of the remuneration of Directors is disclosed in the Directors' Remuneration Report, see pages 62 to 66. Details of transactions between the Group and remaining related party are disclosed below.

#### Trading transactions

During the year the Group entered into the following trading transactions with related parties that are not members of the Group:

	Finance income		Dividend income		Amounts owed by related parties	
	2005 £ million	2004 £ million	2005 £ million	2004 £ million	31 December 2005 £ million	31 December 2004 £ million
Octagon Group Limited	0.4	0.4	0.4	0.4	4.0	4.0

### 32 EVENTS AFTER BALANCE SHEET DATE

On 9 March 2006 Equion Limited sold 14.23% of the Glasgow Schools project ('3ED') and 21.43% of the Edinburgh Schools project ('ESP') to the Secondary Market Infrastructure Fund ('SMIF'). The total proceeds were £14.6 million comprising £9.8 million in respect of 3ED and £4.8 million in respect of ESP, giving rise to estimated profit before tax on disposal of £1.9 million and £1.5 million respectively and £3.4 million in aggregate. After the disposal Equion Limited retains a 20% holding in each of the two assets.

### 33 DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS

The Group operates 48 service concession arrangements in the Accommodation, Roads, Utilities and Rail sectors. The concessions vary on the obligations required but typically require the construction and operation of an asset during the concession period. The concession may require the acquisition or replacement of an existing asset or the construction of a new asset. The operation of the asset may include the provision of facilities management services like cleaning, catering and caretaking and major maintenance. At the end of the concession period on the majority of the concessions the assets are returned back to the concession provider. However on nine of the projects the Group has a right to retain the asset.

The rights of both the concession provider and concession operator are stated within the specific project agreement. The standard rights of the provider to terminate the project include poor performance and in the event of force majeure. The operator's rights to terminate include the failure of the provider to make payment under the agreement, a material breach of contract and relevant changes of law which would render it impossible for the service company to fulfill its requirements.

## Notes to the Accounts

### 33 DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Sector	Company name	Project name	% owned	Short description of concession arrangement	PERIOD OF CONCESSION			Obligations to property, plant and equipment
					Start date	End date	No. years	
Accommodation								
Hospitals	Healthcare Support (Erdington) Limited	North Birmingham Mental Health Hospitals	100%	Design, build, finance and operate mental health facilities in Birmingham.	15/8/00	31/3/37	37	Refurbishment and construction at the All Saints & Highcroft Hospital costing £12 million.
	Healthcare Support (Newcastle) Limited	Newcastle Hospitals	40%	Design, build, finance and operate hospitals in Newcastle.	4/5/05	3/5/43	38	Refurbishment and construction at the Freeman Hospital and Royal Victoria Infirmary and construction of a multi-storey car park for the Freeman Hospital, costing £304 million.
	Healthcare Support (Newham) Limited	Newham Hospital	50%	Design, build, finance and operate extensions at Newham General Hospital.	27/1/04	30/1/39	35	Refurbishment and construction of two extensions costing £35 million.
	Meridian Hospital Company Limited	Queen Elizabeth Hospital, Greenwich	50%	Design, build, finance and operate new hospital in the Greenwich area of London.	8/7/98	31/10/30	32	Construction of hospital costing £96 million.
	Octagon Healthcare Limited	Norfolk and Norwich Hospital	20%	Design, build, finance and operate new hospital in Norwich.	5/1/98	8/1/37	39	Construction of hospital costing £229 million.
	Prime Care Solutions (Kingston) Limited	Kingston Hospital	60%	Design, build, finance and operate extension to Kingston Hospital.	23/11/04	22/7/36	32	Construction of extension and temporary car park costing £29 million.
Schools	Education Support (Swindon) Limited	Swindon schools	100%	Design, build, finance and operate seven new schools in Swindon.	1/4/05	30/6/32	27	New schools construction costing £70 million.
	Education Support (Enfield) Limited	Highlands School	100%	Design, build, finance and operate one secondary school in Enfield.	25/2/99	31/8/25	27	New school construction costing £17 million.
	Education Support (Newham) Limited	Newham Schools	80%	Design, build, finance and operate one secondary school in Newham.	24/9/03	31/8/29	26	New school construction costing £22 million.
	Education Support (Enfield2) Limited	Enfield Schools	80%	Design, build, finance and operate three schools in Enfield, two primary and one secondary.	24/9/03	31/8/29	26	New schools construction costing £27 million.
	3ED Glasgow Limited	Glasgow Schools	34.23%	Design, build, finance and operate 29 secondary schools and one primary school in Glasgow.	26/7/00	30/6/30	30	Major refurbishment and extension of 18 schools - £135 million. Construction of 11 new secondary schools and one new primary school - £90 million.
	The Edinburgh School Partnership Limited	Edinburgh Schools	41.43%	Design, build, finance and operate 17 schools in total, 10 new primaries, two new secondary schools, three refurbished secondary schools and two special schools.	15/11/01	30/9/33	32	Refurbishment of three secondary schools and one special school - £25 million. New build of 10 primary schools, two secondary and one special schools - £82 million.

## Notes to the Accounts

### 33 DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Sector	Company name	Project name	% owned	Short description of concession arrangement	PERIOD OF CONCESSION		No. years	Obligations to property, plant and equipment
					Start date	End date		
Police and Criminal Justice	Cleveland FM Services Limited	Cleveland Police HQ	42.5%	Design, build, finance and operate five police stations.	1/4/05	31/1/32	27	Construction costing £26 million.
	Service Support (Avon & Somerset) Limited	Avon & Somerset	40%	Design, build, finance and operate two new courts in Worle and Bristol, offices, a podium and a bus station.	23/8/04	5/3/34	30	Construction costing £43 million.
	Service Support (BTP) Limited	BTP (British Transport Police)	100%	Design, build, finance and operate one office and operate a further six BTP premises.	26/3/99	28/2/22	23	Construction costing £2 million.
	Services Support (Cleveland) Limited	Cleveland Firearms	100%	Design, build, finance and operate firearms training facility in Cleveland.	18/4/00	31/3/26	26	Construction costing £6 million.
	Services Support (Gravesend) Limited	MPS Firearms & P.O.T.	50%	Design, build, finance and operate firearms training facility in Gravesend.	20/4/01	10/2/28	27	New training facility and refurbishment of accommodation blocks construction costing £40 million.
	Services Support (Manchester) Limited	Greater Manchester Police	50%	Design, build, finance and operate 16 new police stations in Manchester.	4/12/02	31/3/30	27	Construction costing £82 million.
	Services Support (SEL) Limited	South East London	50%	Design, build, finance and operate four police stations in South East London.	26/10/01	16/1/29	27	Construction costing £80 million.
Defence	Defence Support (St Athan) Limited	Red Dragon	50%	Design, build and finance aircraft maintenance facilities at RAF St Athan.	1/8/03	17/12/19	16	Construction costing £89 million.
	Modus Services Limited	Modus	50%	Design, build, finance and operate Ministry of Defence offices in Whitehall.	4/5/00	3/5/30	30	Refurbishment of existing buildings costing £416 million.
Regeneration	Bentilee Hub (Project Company) Limited	Bentilee Hub	50%	Design, build, finance and operate joint services community facility.	24/2/05	31/1/32	27	£8.3 million construction cost.
	London City East Partnership Limited	Canning Town - Newham Housing	50%	Refurbish, finance and operate council housing in Newham.	3/6/05	30/1/39	34	Refurbishment of existing buildings costing £20 million.

# Notes to the Accounts

## 33 DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Sector	Company name	Project name	% owned	Short description of concession arrangement	PERIOD OF CONCESSION			Obligations to property, plant and equipment
					Start date	End date	No. years	
LIFT	GRT Nottingham Lift Company Limited	Greater Nottingham LIFT	30%	LIFT scheme for the design, build, finance and operation of local primary and social care facilities.	14/6/04	31/3/32	28	Five new care centres costing £46 million.
	Leicester Lift Company Limited	Leicester LIFT	30%	LIFT scheme for the design, build, finance and operation of local primary and social care facilities.	18/8/04	13/2/32	28	Three new care centres costing £16 million.
	LiftCo Midco (Mast) Limited	MasT LIFT	30%	LIFT scheme for the design, build, finance and operation of local primary and social care facilities.	1/7/04	30/9/32	28	Nine new care centres costing £38 million.
	North Nottingham Lift Company Limited	North Notts LIFT	30%	LIFT scheme for the design, build, finance and operation of local primary and social care facilities.	1/12/05	22/11/32	27	Seven new care centres costing £32 million.
	Sandwell Lift Company Limited	Sandwell LIFT	30%	LIFT scheme for the design, build, finance and operation of local primary and social care facilities.	15/1/04	5/7/31	27	Four new care centres costing £10 million.
	Southern Derbyshire Lift Company Limited	South Derby LIFT	30%	LIFT scheme for the design, build, finance and operation of local primary and social care facilities.	3/12/04	8/3/32	27	Six new care centres and one extension costing £34 million.
Roads	Amey Highways Lighting (Manchester) Limited	Manchester Street Lighting	50%	Installation and maintenance of street lighting.	31/3/04	30/6/29	25	Replacement column programme costing £33 million.
	Amey Highways Lighting (Wakefield) Limited	Wakefield Street Lighting	50%	Installation and maintenance of street lighting.	23/12/03	2/2/29	25	Replacement column programme costing £26 million.
	Amey Highways Lighting (Walsall) Limited	Walsall Street Lighting	100%	Installation and maintenance of street lighting.	30/4/02	30/4/28	26	Replacement column programme costing £16 million.
	Autolink Holdings (M6) Limited	M6	19.5%	Design, build, finance and operate project to maintain 90 km of the M6 and M74 (from Gretna, on the Scottish border to Millbank, 30 miles south of Glasgow). Project includes the upgrade of the A74 to a 29 km stretch of dual three lane motorway.	1/12/96	29/7/27	31	Upgrade and maintain existing motorway costing £95 million.
	CountyRoute (A130) plc	A130	100%	Design, build, finance and operate the A130 bypass linking the A12 and A127 in Essex.	1/2/00	31/1/30	30	New build at a cost of £76 million.
	Gdansk Transport Co. SA	A1 Road Poland	29.69%	Design, build, finance and operate the A1 Motorway in Poland.	31/8/04	24/8/39	35	New build at a cost of €500 million.
	Orkdalsvegen AS	Orkdalsvegen	50%	The project, the E39 between Klett and Bårdshaug, near Trondheim, is the main arterial road for the western part of Norway. Construction involved a new grade separated route of over 22 km, of which 10 km is tunnels.	1/4/03	30/6/30	27	New build at a cost of £140 million.

## Notes to the Accounts

### 33 DISCLOSURE - SERVICE CONCESSION ARRANGEMENTS (CONTINUED)

Sector	Company name	Project name	% owned	Short description of concession arrangement	PERIOD OF CONCESSION			Obligations to property, plant and equipment
					Start date	End date	No. years	
	Severn River Crossing plc	SRC	35%	Design, build, finance and operate a second crossing over the Severn River plus operate and maintain existing crossing.	26/4/92	No later than 26/4/22	The earlier of 30 years or until a pre-determined level of revenue achieved	Cost of new second crossing approximately £320 million.
	Sirhowy Enterprise Way Limited	Sirhowy Way	50%	Design, build, finance and operate improvements to the A4048/A472 Strategic Highway Network between the north of Blackwood and the east of Ponllanfraith, South Wales.	21/1/04	20/1/34	30	Upgrade and maintain part of existing road and build new carriageway at a cost of £43 million.
	Tiehytio Nelostie Oy	Nelostie	50%	Design, build, finance and operate the E4 Motorway in Finland. The project has involved the upgrading of an existing road and the construction of a new 69 km shadow toll motorway from Helsinki to Lahti in the north.	1/9/97	30/8/12	15	Upgrade and maintain part of existing road and build new motorway at a cost of £59 million.
	Tiehytio Ykkostie Oy	Ykkostie	41%	Design, build, finance and operate the E18 Muurla-Lohja Motorway Project in Finland.	27/10/05	15/11/29	24	Upgrade and maintain existing road at a cost of €300 million.
	UK Highways (A55) Limited	A55	50%	Design, build, finance and operate the A55, a trunk road running across the Island of Anglesey (Ynys Môn), North Wales.	16/12/98	15/12/28	30	Build new trunk road and maintain existing Menai and Britannia Bridges at a cost of £102 million.
	UK Highways M40 Limited	M40	50%	Design, build, finance and operate the M40 Motorway.	8/10/96	7/10/26	30	Upgrade and maintain existing motorway at a cost of £90 million.
<b>Utilities</b>	Citylink Telecommunications Limited	LUL Connect	19.5%	Upgrade of London Underground's existing radio and telecommunications systems and implementing and operating a new system.	21/11/99	21/11/19	20	Maintain the existing radio and communications systems and replace at a cost of £198 million.
	Coastal Clearwater Limited	Kinnegar	50%	Design, build, finance and operate an upgrade to the waste treatment plant, Belfast, Northern Ireland.	30/4/99	30/4/24	25	Upgrade at a cost of £15 million.
<b>Rail</b>	City Greenwich Lewisham Rail Link plc	CGL Rail	40%	Construction and operation of infrastructure on Lewisham extension of the Docklands Light Railway.	1/10/96	31/3/21	25	Build 4.2 km extension of the DLR from Isle of Dogs to Lewisham, including boring of tunnels beneath the Thames at a cost of £205 million.
	M40 Trains Limited	Chiltern Rail Franchise	100%	Operation of railway line between Marylebone - Aylesbury and Marylebone - Kidderminster.	1/3/02	31/12/21	20	The Franchise Agreement includes commitments to build c. £140 million of assets including Wembley Depot, extending Aylesbury Depot, redevelopment of High Wycombe and Birmingham Moor Street Stations and the Evergreen 2 project.

## Notes to the Accounts

### 34 EXPLANATION OF TRANSITION TO IFRS

The full reconciliations of equity at 1 January 2004 (date of transition to IFRS) and at 31 December 2004 (date of the last UK GAAP financial statements) and the reconciliation of profit for 2004, as required by IFRS1, including the significant accounting policies and notes, have been published on the Company's website [www.laing.com](http://www.laing.com), on 19 April 2005.

The most significant impact to Group reporting has been the election to adopt the proportional consolidation presentation in respect of the joint ventures, whereby the results of the joint ventures and balances at year end are consolidated on a line-by-line basis (the John Laing share). In addition, IAS10 ('Post Balance Sheet events') (with respect to the reversal of the 2004 final dividend) and IAS12 ('Income Taxes'), have an effect.

#### Opening balance sheet as at 1 January 2004 - reconciliation UK GAAP to IFRS

UK GAAP balances in UK GAAP format	£ million	Presentational changes £ million	£ million	UK GAAP balances in IFRS format	IFRS adjustments £ million	IFRS £ million
<b>Fixed assets</b>				<b>Non-current assets</b>		
Intangible assets	12.2	-	12.2	Intangible assets	0.1	12.3
Tangible assets	31.2	-	31.2	Property, plant and equipment	0.2	31.4
Investments	0.5	(0.5)	-			
Investment in joint ventures	101.1	(8.8)	92.3	Investment in joint ventures	(92.3)	-
Investment in associate	15.8	-	15.8	Interests in associate	-	15.8
		32.0	32.0	Deferred tax assets	(4.2)	27.8
		318.5	318.5	Trade and other receivables	1,023.8	1,342.3
	160.8	341.2	502.0		927.6	1,429.6
<b>Current assets</b>				<b>Current assets</b>		
Stocks	2.8	-	2.8	Inventories	13.2	16.0
Debtors	380.2	(322.0)	58.2	Trade and other receivables	57.3	115.5
Short-term investments	2.2	(2.2)	-			
Cash and bank deposits	121.1	(19.4)	101.7	Cash and cash equivalents	79.8	181.5
	506.3	(343.6)	162.7		150.3	313.0
		23.3	23.3	Assets classified as held for sale or discontinued	-	23.3
				<b>Total assets</b>	1,077.9	1,765.9
<b>Creditors: amounts falling due within one year</b>				<b>Current liabilities</b>		
Bank and other loans	4.0	-	4.0	Bank overdrafts and loans	78.9	82.9
Other creditors	68.4	(7.5)	60.9	Trade and other payables	34.4	95.3
		2.4	2.4	Tax liabilities	-	2.4
	72.4	(5.1)	67.3		113.3	180.6
<b>Creditors: amounts falling due after more than one year</b>				<b>Non-current liabilities</b>		
Bank and other loans	325.3	-	325.3	Bank overdrafts and loans	874.6	1,199.9
Other creditors	3.8	-	3.8	Trade and other payables	39.9	43.7
		129.5	129.5	Retirement benefit obligations	1.2	130.7
		0.6	0.6	Deferred tax liabilities	45.4	45.4
				Long-term provisions	0.9	1.5
	329.1	130.1	459.2		962.0	1,421.2
		47.5	47.5	Liabilities classified as discontinued	-	47.5
<b>Provisions for liabilities and charges</b>						
Investment in joint venture	8.8	(8.8)	-			
Other provisions	49.1	(49.1)	-			
				<b>Total liabilities</b>	1,075.3	1,649.3
Pensions and other post retirement liabilities	93.7	(93.7)	-			
<b>Net assets</b>	114.0	-	114.0	<b>Net assets</b>	2.6	116.6
				<b>Equity</b>		
Called up share capital	83.6	-	83.6	Share capital	-	83.6
Share premium account	82.8	-	82.8	Share premium account	-	82.8
Other reserves	2.3	-	2.3	Non-distributable reserve	-	2.3
Profit and loss account	(54.7)	-	(54.7)	Accumulated losses	2.6	(52.1)
Pension reserve	(93.7)	-	(93.7)	Pension reserve	(0.5)	(94.2)
Other	39.0	-	39.0	Other	3.1	42.1
<b>Shareholders' funds</b>	114.0	-	114.0	<b>Total equity</b>	2.6	116.6

# Notes to the Accounts

## 34 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

Opening balance sheet as at 31 December 2004 - reconciliation UK GAAP to IFRS

UK GAAP balances in UK GAAP format	£ million	Presentational changes £ million	£ million	UK GAAP balances in IFRS format	IFRS adjustments £ million	IFRS £ million
<b>Fixed assets</b>				<b>Non-current assets</b>		
Intangible assets	11.6	-	11.6	Intangible assets	0.3	11.9
Tangible assets	45.2	-	45.2	Property, plant and equipment	22.9	68.1
				Investments	25.4	25.4
Investment in joint ventures	130.8	(8.7)	122.1	Investment in joint ventures	(122.1)	-
Investment in associate	15.9	-	15.9	Interests in associate	-	15.9
		52.8	52.8	Deferred tax assets	(2.7)	50.1
		406.2	406.2	Trade and other receivables	1,120.9	1,527.1
	203.5	450.3	653.8		1,044.7	1,698.5
<b>Current assets</b>				<b>Current assets</b>		
Stocks	2.1	-	2.1	Inventories	13.2	15.3
Debtors	460.5	(407.0)	53.5	Trade and other receivables	71.5	125.0
		0.1	0.1	Tax recoverable	-	0.1
Cash and bank deposits	112.0	(17.5)	94.5	Cash and cash equivalents	96.5	191.0
	574.6	(424.4)	150.2		181.2	331.4
		18.3	18.3	Assets classified as held for sale or discontinued	-	18.3
				<b>Total assets</b>	1,225.9	2,048.2
<b>Creditors: amounts falling due within one year</b>				<b>Current liabilities</b>		
Bank and other loans	23.6	-	23.6	Bank overdrafts and loans	24.8	48.4
Other creditors	84.3	(10.9)	73.4	Trade and other payables	34.6	108.0
		7.8	7.8	Tax liabilities	-	7.8
	107.9	(3.1)	104.8		59.4	164.2
<b>Creditors: amounts falling due after more than one year</b>				<b>Non-current liabilities</b>		
Bank and other loans	401.2	-	401.2	Bank loans	1,067.3	1,468.5
Other creditors	3.5	-	3.5	Trade and other payables	38.1	41.6
		192.9	192.9	Retirement benefit obligations	1.1	194.0
		0.9	0.9	Deferred tax liabilities	50.8	50.8
				Long-term provisions	2.4	3.3
	404.7	193.8	598.5		1,159.7	1,758.2
		38.7	38.7	Liabilities classified as discontinued	-	38.7
<b>Provisions for liabilities and charges</b>						
Investment in joint venture	8.7	(8.7)	-			
Other provisions	41.5	(41.5)	-			
				<b>Total liabilities</b>	1,219.1	1,961.1
Pensions and other post retirement liabilities	135.0	(135.0)	-			
<b>Net assets</b>	80.3	-	80.3	<b>Net assets</b>	6.8	87.1
				<b>Equity</b>		
Called up share capital	85.1	-	85.1	Share capital	-	85.1
Share premium account	87.4	-	87.4	Share premium account	-	87.4
Other reserves	2.3	-	2.3	Non-distributable reserve	-	2.3
				Translation reserves	0.9	0.9
Profit and loss account	(94.5)	-	(94.5)	Accumulated losses	5.9	(88.6)
Pension reserve	(135.0)	-	(135.0)	Pension reserve	(0.5)	(135.5)
Other	40.5	-	40.5	Other	6.4	46.9
<b>Shareholders' funds</b>	80.3	-	80.3	<b>Total equity</b>	6.8	87.1



## Notes to the Accounts

### 34 EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

Income statement for the year ended 31 December 2004 - reconciliation UK GAAP to IFRS

UK GAAP balances in UK GAAP format	£ million	Presentational changes £ million	UK GAAP balances £ million	in IFRS format	IFRS adjustments £ million	IFRS £ million
				<b>Continuing operations</b>		
Turnover	250.1	(0.8)	249.3	Revenue	201.8	451.1
Cost of sales	(202.0)	1.0	(201.0)	Cost of sales	(183.5)	(384.5)
<b>Gross profit</b>	<b>48.1</b>	<b>0.2</b>	<b>48.3</b>	<b>Gross profit</b>	<b>18.3</b>	<b>66.6</b>
Operating and administration expenses	(52.5)	0.8	(51.7)	Administrative expenses	(1.0)	(52.7)
Other operating income	6.7	0.2	6.9	Other operating income	-	6.9
Share of profits of:						
joint ventures	17.0	-	17.0	Share of results of joint ventures	(17.0)	-
associate	3.7	(3.4)	0.3	Share of results of associate	-	0.3
<b>Operating profit</b>	<b>23.0</b>	<b>(2.2)</b>	<b>20.8</b>	<b>Profit from operations</b>	<b>0.3</b>	<b>21.1</b>
Profit on disposal and amounts written off investments	0.1	(0.1)	-			
Profit on the disposal of operations	0.1	(0.1)	-			
<b>Profit on ordinary activities before interest</b>	<b>23.2</b>	<b>(2.4)</b>	<b>20.8</b>			
Interest receivable	86.3					
Group	33.6					
Joint ventures	52.7					
Interest and other finance costs payable	(84.4)					
Group	(24.7)					
Joint ventures	(56.9)					
Associate	(2.8)					
Net interest	1.9	2.0	3.9	Finance income (net)	-	3.9
<b>Profit before tax</b>	<b>25.1</b>	<b>(0.4)</b>	<b>24.7</b>	<b>Profit before tax</b>	<b>0.3</b>	<b>25.0</b>
Taxation	(13.7)	2.9	(10.8)	Tax	3.5	(7.3)
			13.9	<b>Profit for the period from continuing operations</b>	<b>3.8</b>	<b>17.7</b>
			(2.5)	<b>Discontinued operations</b>		
			(2.5)	Loss for the period from discontinued operations	-	(2.5)
<b>Profit after taxation</b>	<b>11.4</b>	<b>-</b>	<b>11.4</b>	<b>Profit for the period</b>	<b>3.8</b>	<b>15.2</b>
Dividends	(8.6)					
<b>Retained profit for the year</b>	<b>2.8</b>					

#### Explanation of IFRS Cash Flow adjustments

The move from UK GAAP to IFRS does not change any of the cash flows of the Group subsidiaries, however due to the Group's decision to proportionally consolidate its joint ventures, the joint ventures' cash flows are incorporated in the Group Cash Flow Statement. Payments to and from Group subsidiaries and joint ventures have been eliminated on consolidation. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK GAAP Cash Flow Statement.

# Notes to the Accounts

## 35 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED UNDERTAKINGS

### Investments

#### United Kingdom

<b>Laing Investments Limited*</b> Holding company for the investments business	<b>Education Support (Southend) Limited</b> PFI accommodation operator	<b>Services Support (BTP) Limited</b> PFI accommodation operator
<b>3ED Glasgow Limited</b> Ordinary shares of £1 (34.23%) PFI accommodation operator Financial year end 30 September	<b>Education Support (Swindon) Limited</b> PFI accommodation operator	<b>Services Support (Cleveland) Limited</b> PFI accommodation operator
<b>Amey Highways Lighting (Manchester) Limited</b> Ordinary shares of £1 (50%) Street lighting concession operator	<b>Equion Facilities Management Limited</b> Provision of facilities management services	<b>Services Support (Gravesend) Limited</b> Ordinary shares of £1 (50%) PFI accommodation operator
<b>Amey Highways Lighting (Wakefield) Limited</b> Ordinary shares of £1 (50%) Street lighting concession operator	<b>Equion Limited</b> Holding company for the accommodation investments	<b>Services Support (Manchester) Limited</b> Ordinary shares of £1 (50%) PFI accommodation operator
<b>Amey Highways Lighting (Walsall) Limited</b> Street lighting concession operator	<b>ExcellCare Limited</b> Ordinary shares of £1 (50%) Holding company for PFI accommodation operator	<b>Services Support (SEL) Limited</b> Ordinary shares of £1 (50%) PFI accommodation operator
<b>Argon Ventures Limited</b> Holding company	<b>Healthcare Support (Erdington) Limited</b> PFI accommodation operator	<b>Services Support (Surrey) Limited</b> PFI accommodation operator
<b>Autolink Concessionaires (M6) plc</b> Ordinary shares of £1 (19.5%) PFI road concession operator	<b>Healthcare Support (Newcastle) Limited</b> Ordinary shares of £1 (40%) PFI accommodation operator	<b>Severn River Crossing Plc</b> Ordinary shares of £1 (35%) Toll bridge concessionaire
<b>Bentilee Hub (Project Company) Limited</b> Ordinary shares of £1 (50%) Holding company for PFI accommodation operator	<b>Healthcare Support (Newham) Limited</b> Ordinary shares of £1 (50%) PFI accommodation operator	<b>Sirhowy Enterprise Way Limited</b> Ordinary shares of £1 (50%) Road concession operator Financial year end 31 March
<b>The Chiltern Railway Company Limited</b> Rail franchise operator	<b>Hyder Investments Limited</b> Holding company for the investments business	<b>Transcend Property Limited</b> Ordinary shares of £1 (50%) Property development
<b>City Greenwich Lewisham Rail Link plc</b> Ordinary shares of £1 (40%) Light rail concession operator	<b>Laing Infrastructure Holdings Limited</b> Holding company for the infrastructure business	<b>UK Highways A55 Limited</b> Ordinary shares of £1 (50%) Road concession operator Financial year end 31 March
<b>Citylink Telecommunications Limited</b> Ordinary shares of £1 (19.5%) Utility concession operator Financial year end 31 March	<b>Laing Investment Company Limited</b> Property development	<b>UK Highways M40 Limited</b> Ordinary shares of £1 (50%) Road concession operator
<b>Cleveland FM Services Limited</b> Ordinary shares of £1 (42.5%) PFI accommodation operator	<b>Laing Rail Limited</b> Holding company rail investments	<b>UK Highways Limited</b> Ordinary shares of £1 (25 pence paid up) (50%) Manage road concession operators Financial year end 31 March
<b>Coastal Clearwater Limited</b> Ordinary shares of £1 (50%) PFI wastewater treatment plant operator in Northern Ireland Financial year end 31 March	<b>Laing Rail Project Evergreen Limited</b> Rail infrastructure development	
<b>CountyRoute (A130) Plc</b> Road concession operator	<b>Laing Rail Projects Limited</b> Rail infrastructure development	
<b>Defence Support (St Athan) Limited</b> Ordinary shares of £1 (50%) PFI accommodation operator	<b>Laing Roads Limited</b> Holding company for roads investments	
<b>The Edinburgh School Partnership Limited</b> Ordinary shares of £1 (41.43%) PFI accommodation operator Financial year end 31 March	<b>Meridian Hospital Company plc</b> Ordinary shares of £1 (50%) PFI accommodation operator Financial year end 31 March	<b>Overseas</b>
<b>Education Support (Enfield) Limited</b> PFI accommodation operator	<b>Modus Services Limited</b> Ordinary shares of £1 (50%) PFI accommodation operator Financial year end 31 March	<b>Gdansk Transport Company SA</b> B series shares PLN 10 each (29.69%) C series shares PLN 10 each (29.69%) Road concession operator - operating in Poland (29.69%)
<b>Education Support (Enfield 2) Limited</b> Ordinary shares of £1 (80%) PFI accommodation operator	<b>Octagon Healthcare Limited</b> Ordinary shares of 1p (20%) PFI accommodation operator	<b>Orkdalsvegen AS</b> Ordinary shares NOK 1,000 (50%) Road concession operator - operating in Norway
<b>Education Support (Newham) Limited</b> Ordinary shares of £1 (80%) PFI accommodation operator	<b>Primecare Solutions (Kingston) Limited</b> Ordinary shares of £1 (60%) PFI accommodation operator	<b>Tieyhtio Nelostie Oy</b> Ordinary A shares Euro 6,055 (50%) Ordinary B shares Euro 2,355 (25%) Road concession operator - operating in Finland (41%)
	<b>Regenter Limited</b> Ordinary shares of £1 (50%) Holding company for regeneration investments	<b>Tieyhtio Ykkostie Oy</b> Ordinary shares Euro 1 (41%) Road concession operator - operating in Finland
	<b>Services Support (Avon &amp; Somerset) Limited</b> Ordinary shares of £1 (40%) PFI accommodation operator	

\*shares owned by the Company

## Notes to the Accounts

### 35 PRINCIPAL SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED UNDERTAKINGS (CONTINUED)

#### 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

##### Laing Capital Management Limited\*

Investment management company

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

\*shares owned by the Company

# Independent Auditors' Report to the Members of John Laing plc

We have audited the individual Company financial statements of John Laing plc for the year ended 31 December 2005 which comprise the balance sheet and the related notes 1 to 8. These individual Company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the Directors' remuneration report are included in the Group annual report of John Laing plc for the year ended 31 December 2005. We have reported separately on the Group financial statements of John Laing plc for the year ended 31 December 2005 and on the information in 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

The Directors' responsibilities for preparing the annual report and the individual Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' report is not consistent with the individual Company financial statements. We also report to you 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 other transactions is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

## BASIS OF AUDIT OPINION

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

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

## OPINION

In our opinion:

- the individual Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005;
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

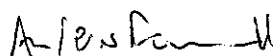
13 March 2006

# Company Balance Sheet

At 31 December 2005	Notes	2005 £ million	2004 Restated* £ million
<b>Fixed assets</b>			
Interests in subsidiary undertakings	3	154.6	120.1
Investment in joint venture	4	6.4	6.4
		<b>161.0</b>	<b>126.5</b>
<b>Current assets</b>			
Debtors - due within one year	5	165.9	183.0
- due after more than one year	5	0.4	0.7
Cash at bank and in hand		101.7	39.5
		<b>268.0</b>	<b>223.2</b>
<b>Creditors: amounts falling due within one year</b>			
Bank and other loans		-	1.0
Other creditors	6	163.8	167.9
		<b>163.8</b>	<b>168.9</b>
<b>Net current assets</b>		<b>104.2</b>	<b>54.3</b>
<b>Total assets less current liabilities</b>		<b>265.2</b>	<b>180.8</b>
Provisions for liabilities and charges	7	0.5	0.3
<b>Net assets</b>		<b>264.7</b>	<b>180.5</b>
<b>Capital and reserves</b>			
Called up share capital		97.7	85.1
Share premium account	8	121.0	87.4
Profit and loss account	8	46.0	8.0
<b>Shareholders' funds</b>		<b>264.7</b>	<b>180.5</b>
Equity		<b>226.6</b>	<b>142.4</b>
Non-equity	8	<b>38.1</b>	<b>38.1</b>
		<b>264.7</b>	<b>180.5</b>

\*restated refer to note 1.

The accounts on pages 124 to 127 were approved by the Board of Directors and authorised for issue on 13 March 2006 and were signed on its behalf by



A E Friend  
Chief Executive



A J H Ewer  
Group Finance Director

# Notes to the Company financial statements

## 1 SIGNIFICANT ACCOUNTING POLICIES

### Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below.

### Change in accounting policy

The Company has adopted FRS21 ('Events after Balance Sheet date') in relation to proposed dividends and has restated the prior year accordingly. The effect of the change on the 2004 comparatives is as follows:

	As reported £ million	31 December 2004 Restatement £ million	As restated £ million
<b>Profit and loss account</b>			
Profit on ordinary activities after taxation	20.1	-	20.1
Dividends paid and proposed	(8.6)	0.5	(8.1)
Retained profit for the year transferred to reserves	11.5	0.5	12.0
<b>Balance sheet</b>			
Creditors: amounts falling due within one year	(171.9)	4.0	(167.9)
Net current assets	50.3	4.0	54.3
Total assets less current liabilities	176.8	4.0	180.8
Profit and loss account	4.0	4.0	8.0
Equity shareholders' funds	176.5	4.0	180.5

### Investments

Investments in subsidiary undertakings and a joint venture are stated at historical cost, adjusted for any impairment.

## 2 PROFIT FOR THE YEAR

In accordance with Section 230 of the Companies Act 1985, no separate profit and loss account has been presented for the Company. For the year ended 31 December 2005, the Company reported a profit of £3.2 million (2004 – £20.1 million). The Directors paid dividends of £9.3 million (2004 – £8.1 million) during the year.

The auditors' remuneration for audit services to the Company was £0.1 million (2004 – £0.1 million).

## 3 INTERESTS IN SUBSIDIARY UNDERTAKINGS

	Investments £ million	Loans £ million	Total £ million
<b>INCLUDED AS FIXED ASSETS</b>			
<b>Original cost</b>			
At 1 January 2005	201.1	4.2	205.3
Additions	126.2	12.0	138.2
Dissolved	(82.3)	-	(82.3)
Decrease in retained profits	(8.1)	-	(8.1)
Exchange	(1.3)	-	(1.3)
<b>At 31 December 2005</b>	<b>235.6</b>	<b>16.2</b>	<b>251.8</b>
<b>Provisions made against investments</b>			
At 1 January 2005	(81.0)	(4.2)	(85.2)
Increase in the year	-	(12.0)	(12.0)
<b>At 31 December 2005</b>	<b>(81.0)</b>	<b>(16.2)</b>	<b>(97.2)</b>
<b>At 31 December 2005</b>	<b>154.6</b>	<b>-</b>	<b>154.6</b>
<b>Valuation</b>			
At 31 December 2004	120.1	-	120.1

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

## Notes to the Company financial statements

### 4 INVESTMENTS

	2005 £ million	2004 £ million
At 1 January and 31 December - Unlisted	6.4	6.4

### 5 DEBTORS

	2005 £ million	2004 £ million
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	164.9	182.0
Other taxation	0.7	0.7
Prepayments and accrued income	0.3	0.3
	165.9	183.0
Amounts falling due after more than one year:		
Prepayments and accrued income	0.4	0.7
	0.4	0.7

### 6 OTHER CREDITORS

	2005 £ million	2004 £ million
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	162.0	159.0
Dividends proposed	0.4	0.4
Accruals	1.4	8.5
	163.8	167.9

### 7 PROVISIONS FOR LIABILITIES AND CHARGES

	At 1 January 2005 £ million	Charged to profit and loss account £ million	Utilised £ million	At 31 December 2005 £ million
Other	0.3	0.4	(0.2)	0.5
Total other provisions	0.3	0.4	(0.2)	0.5

# Notes to the Company financial statements

## 8 RECONCILIATIONS OF THE MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005			2004	
	Share capital £ million	Share premium account £ million	Profit and loss account £ million	Total £ million	Total £ million
Profit after tax for the financial year including intercompany dividends	-	-	3.2	3.2	20.1
Dividends	-	-	(9.3)	(9.3)	(8.6)
Retained (loss)/profit for the financial year	-	-	(6.1)	(6.1)	11.5
Employee share option and LTIP schemes	0.2	0.5	-	0.7	-
Redemption of preference shares	(0.1)	0.1	-	-	-
Capital reduction #	-	(50.0)	50.0	-	-
Rights issue	12.5	87.6	-	100.1	-
Rights issue costs	-	(4.6)	-	(4.6)	-
Other recognised gains and losses relating to the year (net)	-	-	(5.9)	(5.9)	(3.1)
Warrants exercised	-	-	-	-	6.1
<b>Net increase in shareholders' funds</b>	<b>12.6</b>	<b>33.6</b>	<b>38.0</b>	<b>84.2</b>	<b>14.5</b>
Opening shareholders' funds as previously stated	85.1	87.4	4.0	176.5	162.0
Prior year adjustment	-	-	4.0	4.0	4.0
Opening shareholders' funds as restated	85.1	87.4	8.0	180.5	166.0
<b>Closing shareholders' funds</b>	<b>97.7</b>	<b>121.0</b>	<b>46.0</b>	<b>264.7</b>	<b>180.5</b>

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

	2005 £ million	2004 £ million
Preference Shares	39.4	39.4
Less: expenses of issue	(1.3)	(1.3)
<b>Non-equity shareholders' funds</b>	<b>38.1</b>	<b>38.1</b>

# at the Company's AGM held on 19 May 2005, shareholders approved a resolution to reduce the Company's share premium by £50 million in order to increase distributable reserves, giving the Company additional flexibility to pay dividends in the future. The capital reduction was approved by the High Court on 24 June 2005.



## Shareholder services

### ACCOUNT ENQUIRIES AND ELECTRONIC COMMUNICATION

By visiting the Capita Registrars website ([www.capitaregistrars.com](http://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; and
- 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](http://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 the opposite page.

### 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 the opposite page.

### 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 the opposite page.

### FINANCIAL CALENDAR

Annual General Meeting	19 May 2006
Announcement of results	
Half year results – 2006	24 August 2006
Results for the year – 2006	March 2007
Issue of report and accounts	April 2007
Dividends	
Final – 2005	June 2006
Interim – 2006	October 2006
Final – 2006	June 2007

## 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

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email: [marketing@laing.com](mailto:marketing@laing.com)  
[www.laing.com](http://www.laing.com)

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Further copies of this statement are  
available from the above address or  
by visiting the Company's website at  
[www.laing.com](http://www.laing.com).

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