Carillion Services Limited

Directors' report and financial statements

Registered number 3011791

For the year ended 31 December 2005

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities and business review

The company's principal activity during the year was the provision of facility management services.

The directors anticipate that the company will continue its present role during 2006.

Profits and dividends

The loss on ordinary activities before taxation was £4,882,000 *(2004: £6,336,000).*

The directors do not recommend the payment of a dividend for the year *(2004: £Nil).*

Directors and directors' interests

The directors who served during the year were:

CFG Girling	
J McDonough	
RW Robinson	
RG Lumby	
RS Ross	(resigned 21 March 2005)
TD Kenny	
AM Shepley	
OJ Jones	(resigned 11 November 2005)
DS Hurcomb	(appointed 21 March 2005)
RH Harris	(appointed 21 March 2005)

The directors who held office at the end of the financial year and their families, other than those whose interests are disclosed in the financial statements of the ultimate holding company, had the following interests in, and options to subscribe for, ordinary shares of 50p each in Carillion plc:

Number of shares	**At 31 December 2005**		At 1 December 2004 (or later date of appointment)		Share option movements in year (or since appointment)		
	Shares	**Share options**	Shares	Share options	Granted	Exercised	Lapsed
TD Kenny	-	477,323	-	384,396	92,927	-	-
RG Lumby	27,427	85,639	32,427	62,910	22,729	-	-
DS Hurcomb	-	30,895	-	-	30,895	-	-
RH Harris	-	35,203	-	35,203	-	-	-

At 31 December 2005 no director had any beneficial interest in the share or loan capital of any subsidiary of Carillion plc.

No director was materially interested during the year in any contract which was significant in relation to the business of the company.

Payment to suppliers

The company negotiates payments terms with its suppliers when it enters into binding purchase contracts. The company seeks to abide by these terms when it is satisfied that the supplier has provided goods or services in accordance with the agreed terms and conditions.

The company does not have a standard code which deals specifically with the payment of suppliers.

Trade creditor days at 31 December 2005 were 34 days *(2004: 25 days).*

Directors' report *(continued)*

Employees

Communication and consultation within working teams takes place, as appropriate, as part of the normal pattern of every operation.

Every employee receives the annual Employee Report which explains the Carillion Group financial performance and includes information on significant activities which are taking place. This report is supplemented by a regular publication, "Spectrum", which provides information on activities throughout the Carillion Group.

The establishment and maintenance of safe working practices at all work places is of greatest importance to the company and special training in health and safety is provided for all employees.

The company is an active and enthusiastic supporter of training schemes of all types and is providing valuable training and experience to a large number of young people, as well as increasing its own training commitment to full-time employees.

Equal opportunities

Carillion Services Limited is an equal opportunities employer.

It is the policy of the company to give the fullest consideration to the employment needs of all prospective and existing employees. To that end, no job applicant or employee receives less favourable treatment than another on grounds of colour, race, nationality, ethnic or national origin, sex, religion or disability where the work content is commensurate with the individual's particular disability.

Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of company policy. Promotion is based upon ability, merit and performance taking into account the future needs of the company. Where necessary, training is carried out to assist employees to develop potential.

All aspects of employment are regularly reviewed by management to ensure this policy is achieved.

Auditor

In accordance with Section 385 of the Companies Act 1985 a resolution to re-appoint KPMG Audit Plc as auditor of the company will be proposed at the Annual General Meeting.

Approved by the Board on 8 March 2006 and signed on its behalf by:

TD Kenny
Director

Birch Street
Wolverhampton
WV1 4HY

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

The financial statements are required by law to 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Under applicable law the directors are also responsible for preparing a Directors' Report that complies with that law.

KPMG

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Carillion Services Limited

We have audited the financial statements of Carillion Services Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 3, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Carillion Services Limited *(continued)*

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 March 2006

Profit and loss account
for the year ended 31 December 2005

	Note	2005 £000	2004 £000
Turnover	1	149,980	139,229
Cost of sales		(140,519)	(130,287)
Gross profit		9,461	8,942
Administrative expenses		(17,088)	(17,268)
Operating loss		(7,627)	(8,326)
Net interest receivable/(payable)	2	42	(101)
Income from subsidiary undertaking		2,703	2,091
Loss on ordinary activities before taxation	3	(4,882)	(6,336)
Tax on loss on ordinary activities	6	2,223	2,532
Loss for the financial year	15	(2,659)	(3,804)

There were no recognised gains and losses in either the current or preceding financial year other than the loss for those years.

All amounts relate to continuing operations.

Balance sheet
at 31 December 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
Fixed assets					
Intangible assets	7	4,011		5,504	
Tangible assets	8	740		874	
Investments	9	-		-	
			4,751		6,378
Current assets					
Stocks	10	363		293	
Debtors	11	54,424		44,161	
Cash at bank and in hand		15		12	
		54,802		44,466	
Creditors: amounts falling due within one year	12	(69,108)		(57,735)	
Net current (liabilities)/assets					
Due within one year		(14,622)		(13,850)	
Debtors falling due after more than one year		316		581	
			(14,306)		(13,269)
Total assets less current liabilities			(9,555)		(6,891)
Creditors: amounts falling due after more than one year	13		(7)		(12)
Net liabilities			(9,562)		(6,903)
Capital and reserves					
Called up share capital	14		9,900		9,900
Profit and loss account	15		(19,462)		(16,803)
			(9,562)		(6,903)

These financial statements were approved by the Board of directors on 8 March 2006 and were signed on its behalf by:

TD Kenny
Director

Notes
(forming part of the financial statements)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards.

The company has net liabilities of £9,562,000. Carillion plc, the company's immediate parent undertaking, has indicated that it will provide or procure such funds as are necessary to enable the company to settle all external liabilities as they fall due.

Cash flow statement

In accordance with Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that Carillion plc, the company's ultimate parent undertaking includes the company's cash flows in its own published consolidated cash flow statement.

Turnover

Turnover represents the net amount receivable, excluding value added tax for the provision of services supplied to customers during the year. Where the company acts as an agent it recognises as turnover only the amounts received for the provision of agency services and excludes the amounts for which it merely acts as paying agent. All turnover arises within the UK.

Tangible fixed assets

Depreciation is based on historic cost less the estimated residual value and the estimated useful economic lives of the assets. The estimated economic lives of the plant and machinery held is between 3 and 10 years.

Taxation

The charge for taxation is based on the result for each year and takes into account deferred taxation, calculated in accordance with the requirements of FRS19 "Deferred tax". Deferred tax assets or liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. Liabilities are calculated on a non-discounted full provision basis. Assets are calculated on the same basis, but are recognised only to the extent that it is probable that they will be recovered.

Investments

Fixed asset investments are stated at cost less provision for any impairment in the carrying value of the investment.

Goodwill

Goodwill arising on acquisitions, being the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets of an acquired company or business is capitalised and amortised in equal annual instalments over its useful economic life.

Leased assets

Assets acquired under finance leases are capitalised and the outstanding future lease obligations shown in creditors.

Operating lease rental charges are charged to the profit and loss account in equal annual instalments over the life of the related lease.

Notes *(continued)*

1 Principal accounting policies *(continued)*

Pensions

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the company.

The company also participates in group wide defined contribution schemes. Contributions to these schemes are charged to the profit and loss account as incurred.

Employees of Carillion Services who are not eligible for other Carillion schemes are invited to participate in the Carillion Stakeholder Plus managed by Merrill Lynch Investment Management. The pension cost charge to the company represents contributions payable to the scheme.

2 Net interest receivable/(payable)

	2005	2004
	£000	£000
Interest receivable from/(payable to) group undertakings	**42**	(101)
	42	(101)

3 Loss on ordinary activities before taxation

	2005	2004
	£000	£000
The loss on ordinary activities before taxation is stated after charging		
Depreciation of tangible fixed assets	**477**	568
Goodwill amortisation	**1,493**	1,493
Auditors' remuneration:		
Audit work	**73**	56
Rentals under operating leases:		
Hire of vehicles	**1,266**	669
Property rental	**118**	357
Profit on disposal of fixed assets	**-**	6

Notes *(continued)*

4 Directors' remuneration

	2005	2004
	£000	£000
Aggregate directors' emoluments	**972**	765
Compensation for loss of office	**100**	-
	1,072	765

The emoluments disclosed above include £281,885 paid to the highest director *(2004: £262,380)*. At 31 December 2005, the highest paid director had accrued pension entitlement under the company's defined benefit pension scheme amounting to £7,822 *(2004: £5,289)*.

	Number of directors	
Number of directors who were members of defined benefit pension schemes	**8**	8

Details in respect of share options are given in the directors' report on page 1.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2005	2004
Contract based	**3,816**	4,019
Administration	**144**	152
	3,960	4,171

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**65,125**	60,902
Social security costs	**5,834**	5,394
Other post employment benefits	**81**	-
Other pension costs (see note 17)	**2,571**	2,080
	73,611	68,376

Notes *(continued)*

6 Tax on loss on ordinary activities

(a) Analysis of taxation credit in the year

The taxation credit is based on the loss for the year as follows:

	2005 £000	2004 £000
United Kingdom corporation tax based on the loss for the year at 30% *(2004: 30%)*		
Group relief receivable	**(1,786)**	(2,518)
Total current taxation	**(1,786)**	(2,518)
Deferred taxation:		
Reversal of other timing differences	**(436)**	(15)
Adjustment in respect of previous years	**(1)**	1
Total deferred tax	**(437)**	(14)
Tax on loss on ordinary activities	**(2,223)**	(2,532)

(b) Reconciliation of current taxation credit

The UK standard rate of corporation tax for the year is 30% *(2004: 30%)*. The actual tax rate differs to the standard rate for the reasons set out below:

	2005 £000	2004 £000
Loss on ordinary activities before taxation	**(4,882)**	(6,336)
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30% *(2004: 30%)*	**(1,464)**	(1,901)
Non-taxable income from group undertakings	**(811)**	(627)
Permanently disallowable expenses	**53**	47
Other timing differences	**436**	(37)
Current tax credit for the year (see note 6(a))	**(1,786)**	(2,518)

(c) Factors that may affect future tax charges

The company has tax losses of approximately £4,818,000 carried forward, as agreed with the Inland Revenue. A deferred tax asset has not been recognised in respect of these losses due to the lack of certainty regarding quantum and timing of future years taxable profits. In the event that such profits are realised this may result in the company's future tax rate being lower than the standard rate of corporation tax in the UK.

Notes *(continued)*

7 Intangible assets

	Goodwill £000
Cost	
At 1 January 2005 and 31 December 2005	**8,958**
Amortisation	
At 1 January 2005	3,454
Charged in year	1,493
At 31 December 2005	**4,947**
Net book value	
At 31 December 2005	**4,011**
At 31 December 2004	5,504

Goodwill relates to the acquisition of a portfolio of contracts from Citex Professional Services Limited in September 2002. The goodwill relating to this acquisition is being amortised over 6 years as in the opinion of the Directors this is the minimum period over which the Group will derive economic benefit from the acquisition.

8 Tangible fixed assets

	Plant, machinery and vehicles £000
Cost	
At 1 January 2005	4,425
Additions	343
Disposals	(693)
At 31 December 2005	**4,075**
Depreciation	
At 1 January 2005	3,551
Charged in year	477
Disposals	(693)
At 31 December 2005	**(3,335)**
Net book value	
At 31 December 2005	**740**
At 31 December 2004	874

The net book value of fixed assets includes £nil *(2004: £22,484)* in respect of assets held under finance leases.

Notes *(continued)*

9 Investments

Investment in subsidiary undertaking

The company's principal subsidiary undertakings at 31 December 2005 are detailed below. All are incorporated in Great Britain.

Name of subsidiary undertaking	*Ordinary shares held*	*Proportion of nominal value of issued shares of that class*
Carillion Specialist Services Limited	2	100%
Monteray Limited	102	51%

These undertakings were engaged in the provision of architectural and engineering technical consultancy and facility management services.

10 Stocks

	2005	2004
	£000	£000
Raw materials and consumables	358	288
Finished goods and goods for resale	5	5
	363	293

11 Debtors

	2005	2004
	£000	£000
Amounts falling due within one year		
Trade debtors	**7,844**	5,749
Amounts owed by group undertakings	**34,237**	29,049
Amounts owed by related parties	**6,877**	2,250
Other debtors	**379**	338
Prepayments and accrued income	**2,394**	3,522
Group tax relief	**1,786**	2,518
Deferred tax (see below)	**591**	154
	54,108	43,580
Amounts falling due after more than one year		
Other debtors	**316**	581
Total debtors	**54,424**	44,161

Deferred tax comprises:

	£000	£000
Accelerated capital allowances	**161**	143
Other timing differences	**430**	11
	591	154

Notes *(continued)*

12 Creditors: amounts falling due within one year

	2005 £000	2004 £000
Trade creditors	**9,172**	5,825
Amounts owed to group undertakings	**36,798**	32,748
Other taxation and social security	**4,088**	3,159
Obligations under finance leases	**7**	24
Accruals	**19,043**	15,979
	69,108	57,735

13 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Obligations under finance leases	**7**	12

14 Share capital

	2005 £000	2004 £000
Authorised, allotted, called up and fully paid:		
4,950,000 'A' ordinary shares of £1 each	**4,950**	4,950
4,950,000 'B' ordinary shares of £1 each	**4,950**	4,950
	9,900	9,900

15 Reconciliation of movements in equity shareholders' deficit

	Share capital £000	Profit and loss account £000	2005 Total £000	2004 Total £000
At beginning of year	**9,900**	**(16,803)**	**(6,903)**	(3,099)
Retained deficit for the financial year	**-**	**(2,659)**	**(2,659)**	(3,804)
At end of year	**9,900**	**(19,462)**	**(9,562)**	(6,903)

Notes *(continued)*

16 Commitments

Finance leases

Amounts payable in respect of finance leases and hire purchase contracts are as follows:

	2005 £000	2004 £000
Within one year	7	24
In the second to fifth years inclusive	7	12
	14	36

Operating leases

Amounts payable in respect of non-cancellable operating leases are as follows:

	2005		2004	
	Land and buildings £000	Other assets £000	Land and buildings £000	Other assets £000
On leases which expire:				
Within one year	102	63	11	76
In the second to fifth years inclusive	210	333	79	120
After five years	162	-	28	-
	474	396	118	196

The company had no capital commitments as at 31 December 2005 *(2004: £Nil)*.

17 Pension contributions

The pension schemes to which the company contributes are of both the defined benefit and defined contribution types and are for the benefit of all relevant employees of Carillion plc and its UK subsidiary undertakings, associates and joint ventures ("the group"). Details of the latest actuarial valuation of the principal schemes are given in the Carillion plc consolidated financial statements.

The company participates in the Carillion Staff Pension Scheme, the Carillion "B" scheme and the Carillion public sector scheme which are funded defined benefit schemes. Details of the latest actuarial valuations, which were performed by a qualified actuary, of these defined benefit schemes are given in the group's consolidated financial statements. Note 19 gives details of how to obtain a copy of the financial statements of Carillion plc.

As the schemes are run for the Carillion group as a whole the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17: *Retirement benefits* the scheme is accounted for by the company as if the scheme was a defined contribution scheme.

At 31 December 2005 the staff, "B" and public sector schemes had deficits on an FRS 17 basis of £27.2 million *(2004: £40.3 million)*, £0.8 million surplus *(2004: £0.1 million surplus)* and £9.5 million deficit *(2004: £8.8 million deficit)* respectively, net of deferred taxation of 30%.

Notes *(continued)*

17 Pension contributions *(continued)*

The contributions to the defined benefit schemes made by the company represent the regular cost of providing the benefits without any recognition of fund surpluses or deficits which are dealt with by Carillion plc. The pension cost for the year was £2,183,000 *(2004: £1,449,000).*

The company also participates in the Carillion Pension Plan, a defined contribution scheme, which commenced on 1 April 2003. The pension cost charge for the period represents contributions payable by the company to the scheme.

The pension charge of the defined contribution schemes was £388,000 *(2004: £631,000).* Contributions outstanding at 31 December 2005 were £236,000 *(2004: £167,000).*

18 Related party disclosures

As a wholly owned subsidiary of Carillion plc the company has taken advantage of the exemption under Financial Reporting Standard 8 not to provide information on related party transactions with other undertakings within the Carillion plc group. Note 19 gives details of how to obtain a copy of the published financial statements of Carillion plc.

Joint ventures

Sales to and balances outstanding from joint ventures in which Carillion plc has an interest, which are in the normal course of business and on commercial terms, amounted to:

		2005		2004
	Turnover £000	**Debtors £000**	Turnover £000	Debtors £000
The Hospital Company (Swindon & Marlborough) Ltd	**8,552**	**2,285**	7,312	2,021
Thanet LLP	**75**	**-**	-	-
Ellanbrook Holdings	**2,149**	**335**	1,964	147
The Hospital Co (Oxford John Radcliffe)	**1,951**	**667**	-	-
Town Hospitals (North Staffs)	**1,461**	**1**	1,186	(33)
Town Hospitals (Southern General)	**1,359**	**128**	1,231	81
Modern Housing Solutions (HPC) Limited	**1,245**	**1,311**	-	-
Carillion Enterprise (RPC) Limited	**955**	**942**	-	-
The Hospital Co (QAH Portsmouth) Ltd	**893**	**1,049**	-	-
Other	**-**	**-**	372	34
	18,640	**6,718**	12,065	2,250

19 Ultimate holding company

The company's immediate and ultimate controlling company is Carillion plc which is incorporated in Great Britain.

Copies of the group financial statements of Carillion plc are available from 24 Birch Street, Wolverhampton, WV1 4HY.