

Carillion Services Limited

**Directors' report and financial
statements**

Registered number 3011791

Year ended 31 December 2007

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2007

Principal activities and business review

The company's principal activity is to provide property asset management and service delivery solutions to customers across a variety of sectors including Health, Government and Defence and Commercial sectors in particular. We are a management-led business with world class property information systems that add value to our core services, which include facilities management and project management for corporate estates.

Review of the year

The year has seen turnover increase by 31% primarily due to the full year effect of contracts won and implemented in 2006.

Management fees for the provision of administrative services carried out by the company on behalf of some Defence joint ventures has ceased in 2007. The administrative services were transferred to another Carillion legal entity. These fees were included as gross margin and account for the reduction in the gross margin percentage decreasing in 2007.

Administration expenses have fallen due to greater efficiencies been achieved and also successfully enabling recovery of some overheads from customers.

Key Performance Indicators ("KPI")

The directors monitor the performance of the company through the use of Key Performance Indicators which are related to Financial Performance, Health & Safety and Client KPI's.

The company is committed to providing a safe environment for its employees. The company monitors performance using the Accident Frequency Rate (AFR) as defined by RIDDOR 1995 on the number of reportable injuries that have occurred per 100,000 man hours worked, calculated over a rolling 12 month period. The company's performance against this measure was satisfactory.

In addition, client KPI's are monitored. Each contract monitors a variety of operational performance indicators specific to their client and the business monitors overall delivery of these KPI's.

Principal risk

The principal risks facing the business and the controls in place to mitigate these are follows:

Client retention – a number of contracts will be coming to an end over the next 2-3 years. We are seeking to retain these clients by instigating client retention strategies and have been successful in retaining all our work currently undertaken by Monteray Ltd.

Securing new contracts – the market is very competitive but prospects are good. The numbers of new contracts of significant size (say greater than £20 million revenue per annum) are limited. We continue to develop opportunities via Carillion Plc within the PFI markets. Under these schemes the FM would be delivered through Carillion Services Limited. We continue to invest in customer services via IT and additional services to create a competitive advantage.

Attracting and retaining skilled people for delivery and work winning. In order to attract, develop and retain excellent people and become an employer of choice, Carillion Plc has a wide range of policies and programmes in place. Further details are given in Carillion Plc Annual Report.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of their statements.

Profits and dividends

The profits on ordinary activities before taxation was £6,739,000 (2006 profit of £2,515,000). The directors do not recommend the payment of a dividend.

Directors' report *(continued)*

Directors

The directors who served during the year were

RJ Adam	(appointed 2 April 2007)
CFG Girling	(resigned 2 April 2007)
J McDonough	(resigned 11 September 2007)
RW Robinson	(resigned 11 September 2007)
RG Lumby	
TD Kenny	(resigned 11 September 2007)
AM Shepley	(resigned 11 September 2007)
DS Hurcomb	(resigned 11 September 2007)
RH Harris	(resigned 11 September 2007)

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 2007 were 27 days (2006 36 days)

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.

Disclosure of information to auditors

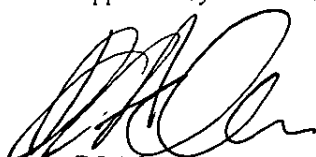
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

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 5 March 2008 and signed on its behalf by

A handwritten signature in black ink, appearing to be 'RJ Adam', written over a horizontal line.

RJ Adam
Director

24 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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.



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 2007 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

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 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

5 March 2008

Profit and loss account
for the year ended 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	<i>1</i>	231,627	176,988
Cost of sales		(217,893)	(163,216)
Gross profit		13,734	13,772
Administrative expenses		(10,340)	(13,970)
Operating profit/(loss)		3,394	(198)
Net interest receivable	<i>2</i>	1,050	418
Income from subsidiary undertaking		2,295	2,295
Profit on ordinary activities before taxation	<i>3</i>	6,739	2,515
Tax on profit on ordinary activities	<i>6</i>	(126)	(39)
Profit for the financial year	<i>15</i>	6,613	2,476

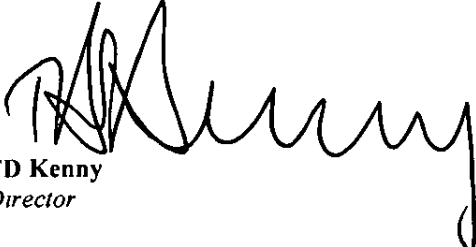
There were no recognised gains and losses in either the current or preceding financial year other than the profit for those years

All amounts relate to continuing operations

Balance sheet
at 31 December 2007

	<i>Note</i>	2007 £000	£000	2006 £000	£000
Fixed assets					
Intangible assets	7		1,023		2,517
Tangible assets	8		833		681
Investments	9		-		-
			<u>1,856</u>		<u>3,198</u>
Current assets					
Stocks	10	477		494	
Debtors	11	78,171		68,298	
Cash at bank and in hand		12		13	
		<u>78,660</u>		<u>68,805</u>	
Creditors: amounts falling due within one year	12	(79,314)		(77,668)	
Net current (liabilities)/assets					
Due within one year		(654)		(21,975)	
Debtors falling due after more than one year		-		6,556	
			<u>(654)</u>		<u>(8,863)</u>
Total assets less current liabilities			<u>1,202</u>		<u>(5,665)</u>
Creditors: amounts falling due after more than one year	13		(1,320)		(1,320)
Net liabilities			<u>(118)</u>		<u>(6,985)</u>
Capital and reserves					
Called up share capital	14		9,900		9,900
Profit and loss account	15		(10,018)		(16,885)
Shareholders' deficit			<u>(118)</u>		<u>(6,985)</u>

These financial statements were approved by the Board of directors on 5 March 2008 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 £118,000. 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 for at least a period of twelve months

Group financial statements

The company is exempt under Section 228 of the Companies Act 1985 from the requirement to prepare group financial statements and deliver them to the Registrar of Companies. The financial statements therefore present information about the company as an individual undertaking and not about its group. The company is included within the consolidated financial statements of Carillion plc, the company's ultimate parent undertaking

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.

Stocks

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes appropriate overheads.

Share based payments

The ultimate parent company, Carillion plc, grants options over shares to employees' share option schemes. Where grants were made after 7 November 2003, they have been accounted for as required by FRS 20 "Share based payment".

The fair values of ESOS, LEAP and Sharesave Schemes at the date of grant are estimated using the Black-Scholes pricing model. The fair value of the LTIP scheme is estimated using a bespoke model which factors in the probabilities of achieving Total Shareholder Return ("TSR") performance conditions. For all schemes, the fair value determined at grant date is expensed on a straight line basis over the vesting period, based on an estimate of the number of shares which will eventually vest.

2 Net interest receivable

	2007 £000	2006 £000
Interest receivable from group undertakings	1,050	418

3 Profit on ordinary activities before taxation

	2007 £000	2006 £000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Depreciation of tangible fixed assets	385	328
Goodwill amortisation	1,493	1,493
Auditors' remuneration		
Fees payable to the company's auditor for the audit of the annual financial statements	88	100
Rentals under operating leases		
Hire of vehicles	2,671	1,378
Property rental	1,285	628

Fees paid to the company's auditor, KPMG Audit Plc, and its associates for other than the statutory audit of the company are not disclosed in these accounts since the consolidated accounts of the company's parent, Carillion plc, are required to disclose non audit fees on a consolidated basis.

Notes (continued)

4 Directors' remuneration

	2007 £000	2006 £000
Aggregate directors' emoluments	1,019	1,024

The emoluments disclosed above include £311,626 paid to the highest director (2006 £321,578). At 31 December 2007, the highest paid director had accrued pension entitlement under the company's defined benefit pension scheme amounting to £20,871 (2006 £10,593).

During the year, the following number of directors

	Number of directors	
Accrued benefits under defined benefit schemes	2	8
Exercised share options	44,055	31,363

Details in respect of entitlements to receive shares in Carillion plc under long term incentive schemes are given in the consolidated financial statements of Carillion plc. The remuneration of the directors who are also directors of the company's ultimate parent undertaking, Carillion plc, are disclosed in the financial statement of that company.

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	
	2007	2006
Contract based	4,807	4,926
Administration	39	98
	4,846	5,024

The aggregate payroll costs of these persons were as follows

	£000	£000
Wages and salaries	81,260	78,488
Social security costs	6,640	6,664
Other post employment benefits	100	119
Other pension costs (see note 17)	3,509	3,720
Equity-settled transactions (see note 18)	363	144
	91,872	89,135

Notes (continued)

6 Tax on profit on ordinary activities

(a) Analysis of taxation charge in the year

The taxation charge is based on the profit for the year as follows

	2007 £000	2006 £000
<i>UK corporation tax</i>		
Current tax	315	198
Adjustment in respect of previous periods	(215)	(457)
Total current taxation	100	(259)
<i>Deferred taxation</i>		
Origination and reversal of timing differences	(52)	(74)
Adjustment in respect of previous periods	70	372
Adjustment in respect of change in rate	8	-
Total deferred tax	26	298
Tax on profit on ordinary activities	126	39

(b) Reconciliation of current taxation charge/(credit)

The UK standard rate of corporation tax for the year is 30% (2006 30%) The actual tax rate differs to the standard rate for the reasons set out below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before taxation	6,738	2,515
Tax on profit on ordinary activities at UK standard rate of corporation tax of 30% (2006 30%)	2,021	755
<i>Effects of</i>		
Non-taxable income from group undertakings	(689)	(689)
Permanently disallowable expenses	17	58
Capital allowances (in excess of)/less than depreciation	(15)	99
Other timing differences	67	(25)
Utilisation of losses on which no deferred tax is provided	(1,086)	-
Adjustment in respect of previous periods	(215)	(457)
Current tax charge/(credit) for the year (see note 6(a))	100	(259)

Notes (continued)

6 Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges

The company has tax losses of approximately £1,198,000 (2006 £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.

The company's future tax charge will be affected by the fall in the UK mainstream corporation tax rate from 30% to 28% from 1 April 2008. Deferred tax above has been calculated at 28% as it is expected that temporary differences will reverse after 1 April 2008.

7 Intangible assets

	Goodwill £000
<i>Cost</i>	
At beginning and end of year	8,958
<i>Amortisation</i>	
At beginning of year	6,442
Charged in year	1,493
At end of year	7,935
<i>Net book value</i>	
At 31 December 2007	1,023
At 31 December 2006	2,517

Goodwill relates to the acquisition of a portfolio of contracts from Citex Professional Services Limited in September 2003. 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.

Notes (continued)

8 Tangible fixed assets

	Plant, machinery and vehicles £000
<i>Cost</i>	
At beginning of year	4,343
Additions	592
Disposals	(516)
	<hr/>
At end of year	4,419
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<i>Depreciation</i>	
At beginning of year	3,662
Charged in year	385
Disposals	(461)
	<hr/>
At end of year	3,586
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<i>Net book value</i>	
At 31 December 2007	833
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At 31 December 2006	681
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9 Investments

Investment in subsidiary undertaking

The company's principal subsidiary undertakings at 31 December 2007 are detailed below. All are incorporated in Great Britain.

<i>Name of subsidiary undertaking</i>	<i>Ordinary shares of £1 each held</i>	<i>Proportion of nominal value of issued shares of that class</i>
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

	2007 £000	2006 £000
Raw materials and consumables	477	494
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Notes (continued)

11 Debtors

	2007 £000	2006 £000
Amounts falling due within one year		
Trade debtors	22,738	11,747
Amounts owed by group undertakings	50,181	31,913
Amounts owed by related parties	991	8,158
Other debtors	329	329
Prepayments and accrued income	3,816	7,257
Group tax relief	-	2,045
Deferred tax (see below)	116	293
	<u>78,171</u>	<u>61,742</u>
Amounts falling due after more than one year		
Amounts owed by group undertakings	-	6,556
	<u>-</u>	<u>6,556</u>
Total debtors	<u>78,171</u>	<u>68,298</u>

Deferred tax comprises

	£000	£000
Accelerated capital allowances	112	248
Other timing differences	4	45
	<u>116</u>	<u>293</u>

12 Creditors amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	10,443	10,022
Amounts owed to group undertakings	23,791	33,426
Other taxation and social security	5,598	6,128
Accruals	39,280	28,092
Corporation tax	202	-
	<u>79,314</u>	<u>77,668</u>

13 Creditors amounts falling due after more than one year

	2007 £000	2006 £000
Accruals	<u>1,320</u>	<u>1,320</u>

Notes (continued)

14 Share capital

	2007 £000	2006 £000
<i>Authorised, allotted, called up and fully paid.</i>		
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
	<u>9,900</u>	<u>9,900</u>

15 Reconciliation of movements in equity shareholders' deficit

	Share capital £000	Profit and loss account £000	2007 Total £000	2006 Total £000
At beginning of year	9,900	(16,885)	(6,985)	(9,562)
Profit/(loss) for the financial year	-	6,613	6,613	2,476
Equity – settled transaction (net of deferred tax)	-	254	254	101
At end of year	<u>9,900</u>	<u>(10,018)</u>	<u>(118)</u>	<u>(6,985)</u>

16 Commitments

Finance leases

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

	2007 £000	2006 £000
Within one year	-	7

Operating leases

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

	2007 Land and buildings £000	Other assets £000	2006 Land and buildings £000	Other assets £000
On leases which expire				
Within one year	269	81	1	13
In the second to fifth years inclusive	516	92	152	548
After five years	208	-	118	-
	<u>993</u>	<u>173</u>	<u>271</u>	<u>561</u>

The company had no capital commitments as at 31 December 2007 (2006 £Nil)

Notes (continued)

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 schemes are accounted for by the company as if the schemes were a defined contribution schemes.

At 31 December 2007, the staff, "B" and public sector schemes had deficits on an FRS 17 basis of £2.2 million (2006 £26.5 million), £5.0 million (2006 £6.2 million surplus) and £0.7 million (2006 £5.5 million) respectively, net of deferred taxation of 28% (2006 30%).

The last full actuarial valuation was carried out at 31 December 2005 and was updated for FRS 17 purposes to 31 December 2006. The market value of the scheme's assets at the date of valuation were £485 million, £106.4 million and £74.9 million respectively, which represented approximately 90% and 94% of the benefits that had been accrued to members at that date on an ongoing basis, after allowing for increases in salaries.

The company contributions to the defined benefit schemes for the year, totalled £2,508,000 (2006 £2,183,000). It has been agreed that an employer contribution rate of 20.1% of pensionable pay will apply in future years.

The company also participates in the Carillion Pension Plan, a defined contribution scheme, which commenced on 1 April 2004. 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 £1,001,000 (2006 £1,537,000). Contributions outstanding at 31 December 2007 were £83,416,000 (2006 £153,000).

Notes (continued)

18 Share based payments

The ultimate parent company, Carillion plc, has an established share option programme which entitles key management personnel and senior employees to purchase shares in the entity

The recognition and measurement principles in FRS 20 "Share based payment" have not been applied to grants of options before 7 November 2002 in accordance with the transitional provisions in FRS 20

The terms and conditions of option schemes within the scope of FRS 20, whereby all options are settled by physical delivery of shares, are as follows

Grant date	Number of instruments	Vesting conditions	Contractual life of options
ESOS option grant at 1 July 2003	114,978	3 years of service and increase in EPS of RPI plus a minimum of 4% over a rolling 3 year period	10 years
ESOS option grant at 31 March 2004	125,347	3 years of service and increase in EPS of RPI plus a minimum of 4% over a rolling 3 year period	10 years
LTIP option grant at 15 March 2005	81,637	3 years of service and increase in EPS of RPI plus a minimum of 3% over a rolling 3 year period	3 years
ESOS option grant at 15 March 2005	53,624	3 years of service and increase in EPS of RPI plus a minimum of 4% over a rolling 3 year period	10 years
LEAP option grant at 6 July 2006	98,100	3 years of service and increase in EPS of RPI plus a minimum of 3% over a rolling 3 year period	3 years
LEAP option granted 10 April 2007	151,514	3 years of service and increase in EPS or RPI plus a minimum of 3% over a rolling three year period	3 years
Share save option grant at 8 November 2006	2,520	Three years of service	3 years
Total share options	643,454		

Notes (continued)

18 Share based payments (continued)

The number and weighted average exercise prices of all of the Group's share options is as follows

	2007 Weighted average exercise price	Number of options	2006 Weighted average exercise price	Number of options
Outstanding at beginning of year	111 61p	621,077	125,46p	605,276
Forfeited during the year	225 33p	(30,949)	223 05p	(28,768)
Exercised during the year	-	(44,055)	-	(31,363)
Granted during the year	-	151,514	8 45p	100,620
Lapsed during the year	120 35p	(69,867)	42 54p	(24,688)
Outstanding at end of year	86.77p	627,720	111 61p	621,077
Exercisable at end of year		240,325		130,156

The options outstanding at 31 December 2007 have an exercise price in a range from nil to 337 5 pence and a weighted average contractual life of three years

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured on a Black-Scholes model in respect of the ESOS, Sharesave and LEAP and a TSR model in respect of LTIP using the following assumptions

Fair value of share options and assumptions

	2007 LEAP	2006 Sharesave	2006 LEAP	2005 LTIP	2005 ESOS
Fair value at grant date	392 0p	102 0p	295 0p	149 0p	76 0p
Share price at grant date	421 0p	385 0p	319 0p	245 0p	245 0p
Exercise price	-	337 5p	-	-	243 0p
Expected volatility	21 97%	27 44%	28 55%	40 07%	40 05%
Option life	3 years	3 years	3 years	3 years	4 years
Expected dividend yield	2.34%	2 45%	2 58%	2 55%	2 55%
Risk-free interest rate (based on national government bonds)	5.35%	5 00%	4 80%	N/A	4 86%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information

Notes (continued)

18 Share based payments (continued)

Employee expenses

Equity settled share options granted in

	2007 £000	2006 £000
2003	-	
2004	(27)	(9)
2005	67	26
2006	134	52
2007	189	75
Total expense recognised as employee costs	363	144

19 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 20 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

	2007 Turnover £000	Debtors £000	2006 Turnover £000	Debtors £000
The Hospital Company (Swindon & Marlborough) Limited	9,593		8,925	2,499
Ellenbrook Holdings	2,502	210	1,983	163
The Hospital Co (Oxford John Radcliffe)	13,532	22	8,603	845
Town Hospitals (North Staffs)	1,864	-	1,571	11
Town Hospitals (Southern General)	1,435	-	1,356	-
Modern Housing Solutions (HPC) Limited	-	-	183	39
Carillion Enterprise (RPC) Limited	-	-	147	2,276
The Hospital Co (QAH Portsmouth) Limited	19,683	759	17,098	2,015
The Hospital Co (Darenth) Limited	-	-	8,332	310
	48,609	991	48,198	8,158

20 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.