carillion

CARILLION plc

Company No. 3782379

Making tomorrow a better place

Carillion plc Annual Report and Accounts 2005

Section

Our mission
Making tomorrow a better place.

Our vision
To be the leader in delivering integrated solutions for infrastructure, buildings and services.

Our strategy is to deliver sustainable profitable growth through:

Growing support services and Public Private Partnerships (PPP) organically and by acquisition;

Maintaining a strong and selective construction capability focused on higher added-value contracts for long-term customers;

Developing and marketing integrated solutions tailored to the needs of customers, including project finance, design and construction, maintenance and lifetime asset management.

Financial Highlights

Revenue
2004: £1,985.1 million

£2.3bn

Revenue, including joint ventures, increased by 15 per cent, with organic growth and the acquisition of PME more than offsetting the effects of disposing of non-core businesses and of transferring rail maintenance to Network Rail.

Profit
2004: £48.1 million

£55.5m

Underlying* profit before tax increased by 15 per cent.

Earnings per share
2004: 18.6 pence

20.4p

Underlying* earnings per share increased by 10 per cent.

Net cash
2004: £128.8 million

£90.8m

Operating cash flow remained strong and we had substantial net cash at 31 December 2005, after investing £47 million in the acquisition of PME in March 2005.

Final dividend
2004: 4.825 pence

5.2p

The Board is recommending a final dividend of 5.2 pence per share.

Total dividend
2004: 7.5 pence

8.0p

Based on the recommended final dividend, the total full year dividend of 8 pence per share represents an increase of approximately 7 per cent on the total dividend paid in respect of 2004.

Order book
2004: £5.0 billion

£7.0bn

Our year-end order book increased by 40 per cent and we have continued to maintain a strong pipeline of probable new orders worth approximately £1.6 billion.

*Underlying profit and underlying earnings per share, which are defined on page 60, are used to report our financial performance in 2005 on a comparable basis to that of 2004.

Revenue
£ millions

05	2,284.2
04	1,985.1
03	1,972.7
02	1,975.2
01	1,890.7

Profit
£ millions

05	55.5
04	48.1
03	47.2
02	44.3
01	40.5

Earnings per share
pence

05	20.4
04	18.6
03	17.2
02	14.1
01	14.3

Dividend per share
pence

05	8.0
04	7.5
03	6.75
02	4.8
01	4.4

Chairman's Statement

I am pleased to report that in 2005 Carillion achieved all its key financial targets and made substantial strategic progress to deliver further profitable growth, both organically and through the acquisition of mechanical and electrical engineering maintenance company, PME.

In December 2005, we announced the terms of a recommended cash and shares offer for the acquisition of Mowlem plc. This acquisition, which received the overwhelming support of Carillion and Mowlem shareholders, was completed in February 2006 and, in line with our strategy, represents a step change in Carillion's transformation.

In this report, Carillion has presented for the first time its full-year financial results under International Financial Reporting Standards. In 2005, revenue increased by 15 per cent to £2,284 million, including joint ventures, (2004: £1,985 million), despite the impact of transferring to Network Rail maintenance contracts that generated £150 million of revenue in 2004. Underlying* profit before tax also increased by 15 per cent to £55.5 million (2004: £48.1 million). Operating cash flow remained strong and at 31 December 2005 net cash amounted to £90.8 million (2004: £128.8 million).

The intake of new orders in 2005 was particularly strong and by the year end the value of the Group's order book and framework contracts had increased by 40 per cent to £7 billion (2004: £5 billion).

The integration of PME, which we acquired in March 2005, has been completed successfully. This has significantly strengthened our building management and support services capability and enhanced our earnings in 2005.

Three non-executive directors, Sir Neville Simms, our previous chairman, Andrew Parrish and Roger Dickens, retired from the Board in 2005. I should like to record the Board's thanks and recognition for their contributions to the development and success of Carillion and in particular to record the Board's deep sadness at the death of Roger Dickens early in 2006. During 2005, we were pleased to welcome to the Board two new non-executive directors. The appointment of Vanda Murray OBE in June, which I reported to shareholders in my Interim Report, was followed by the appointment in November of David Maloney, who brings to the Board considerable experience in a number of service industry sectors.

With a record order book and strong presence in our key growth markets, the outlook was already positive for Carillion to deliver sustainable growth. However, the acquisition of Mowlem will accelerate growth substantially and create significant value for shareholders. It brings together two companies of a similar size with an excellent strategic fit, complementary skills and market strengths, to create one of the largest support services and construction companies in the UK and with substantial international businesses. Combining the two companies will generate opportunities for cost savings and strengthen Carillion's ability to compete successfully in its chosen markets. As a result, we expect the acquisition of Mowlem to enhance earnings materially in 2007, the first full year of operation following the acquisition.

The strong platform that has enabled us to acquire Mowlem and move forward into 2006 with considerable confidence is due to the leadership of Carillion's senior management team and the commitment and professionalism of all its people. On behalf of the Board I should like to offer our thanks to everyone in Carillion for the contributions they have made to our success.

In view of the financial performance in 2005 and enhanced prospects for future growth, the Board is recommending a final ordinary dividend for 2005 of 5.2 pence per share, making the total full year dividend 8 pence per share, an increase of some 7 per cent on the total dividend paid in respect of 2004 (7.5 pence per share). The final ordinary dividend for 2005 will be paid on 23 June 2006 to shareholders on the register at close of business on 28 April 2006.

Philip Rogerson
Chairman
8 March 2006

*Underlying profit and underlying earnings per share, which are defined on page 60, are used to report our financial performance in 2005 on a comparable basis to that of 2004.

Making tomorrow a better place

Carillion's success is driven by our commitment to providing a first-class customer experience using our wide range of skills and resources to provide integrated solutions

A balanced and more resilient business

In 2005, Carillion made a major breakthrough in the UK Defence market. With our joint venture partners we won two support services contracts for Defence Estates, together worth around £1.2 billion over a period of up to 10 years. These contracts involve maintaining and upgrading Ministry of Defence family accommodation comprising some 45,000 properties in England and Wales and the maintenance, refurbishment and replacement of around 8,500 other buildings and infrastructure in central England and Wales.

We also made good progress in the fast-growing education sector winning new contracts worth over £300 million. These included a Public Private Partnership (PPP) project to build nine new schools in Renfrewshire, with a construction value of around £100 million and in which we will invest approximately £4 million of equity, and a £100 million contract to provide design and construction services for six new schools in Leeds. A Carillion joint venture was also appointed preferred bidder for a PPP project in Ayrshire to provide six new schools with a construction value of over £70 million and in which we expect to invest some £3 million of equity.

Improving the lives of our customer's customer

Carillon is one of the leaders in Public Private Partnership (PPP) projects and Health is one our key growth sectors. In December 2005, we secured our ninth PPP hospital contract, the Queen Alexandra hospital, Portsmouth, which is expected to generate around £1.1 billion of revenue for Carillion over the 33-year concession contract. This includes approximately £250 million of construction, over £500 million of maintenance and support services and around £350 million of revenue relating to our £12 million equity investment in this project.

In 2005, a Carillion joint venture was appointed preferred bidder by Bedfordshire and Hertfordshire Primary Care Trust to provide two new Independent Sector Treatment Centres, involving some £48 million of construction and £119 million of clinical and non-clinical services over a five-year period.

Our reputation is helping us to win contracts

Carillion is a recognised leader in developing and adopting socially responsible business practices and for demonstrating the measurable benefits this has for our business. To measure and benchmark our performance, we take part in Business in the Community's annual survey of sustainability performance. Since the Index was launched in 2003, Carillion has each year been ranked first in its sector and also in the top quartile of companies participating in the Index.

Carillion is one of the UK's leading providers of training for support services and construction. In 2005, around 3,000 people attended courses at our 16 training centres across the UK and some 800 apprentices qualified with NVQs.

Chief Executive's Review

In 2005 we delivered substantial profitable growth and with the acquisition of Mowlem laid the foundations for a step change in the development of our business

In our 2004 annual report, I said that 2005 marked the beginning of a new phase of growth for Carillion. Having completed our programme of major disposals and built a well-balanced, customer-focused business, delivering good quality earnings backed by strong operating cash flows, we were ready to accelerate the development and growth of our business. That growth will continue to be driven by implementing our consistent and effective strategy through customer-focused businesses, supported by a culture based on "living" our core values in everything we do.

Strategic development

Over the past few years we have been seeking acquisitions to fill capability gaps in order to improve the scope and quality of our integrated services solutions and also to deliver a step change in the development of our business. We apply the same criteria to all potential acquisitions, namely that they must be consistent with our strategy for delivering sustainable, profitable growth and deliver financial returns equivalent to those we expect from other investments.

Acquisition of PME

The acquisition of PME, one of the largest privately owned mechanical and electrical (M&E) engineering maintenance businesses in the UK, for approximately £47 million (including a £10 million payment to the PME pension fund) in March 2005 filled an important capability gap. M&E maintenance accounts for up to 40 per cent of a typical building management and support services contract. Having an in-house M&E maintenance capability has therefore considerably strengthened our integrated service offering for both new and existing customers. PME is performing well as an integral part of our business, with cost synergies now expected to reach approximately £3 million by the end of 2006, exceeding the £2 million originally identified.

Acquisition of Mowlem plc

Carillion announced its cash and shares offer for the acquisition of Mowlem in December 2005. It was recommended by the Mowlem Board and received the overwhelming support of Carillion and Mowlem shareholders. The acquisition valued Mowlem's share capital at £313 million and was completed successfully on 23 February 2006. 65.8 million new Carillion shares were issued on 23 February 2006 as a result of the acquisition.

Mowlem is an outstanding strategic fit, particularly in support services and private finance, and we are confident that it will deliver a step change in the development of our business and materially enhance our earnings in 2007, the first full year after acquisition.

The addition of Mowlem's complementary skills and market strengths in support services makes Carillion one of the largest support services businesses in the UK and significantly enhances our ability to provide customers with high quality, integrated solutions in our key market sectors.

Chief Executive's Review continued

The addition of Mowlem's portfolio of Public Private Partnership (PPP) projects to Carillion's own substantial portfolio will create a very large and valuable portfolio of equity investments. Mowlem also has a large pipeline of new PPP projects for which it is the preferred bidder or shortlisted, with the potential to add considerable further value to our investment portfolio. Furthermore, the acquisition of Mowlem will increase the number of specialist people we have with private finance skills, which has been the main constraint to our growth in this market.

Mowlem's considerable strengths in construction services will add to the breadth and scale of our own construction capabilities. Going forward, Mowlem's approach to construction will be subject to the same selectivity criteria that we have consistently applied to our own construction activities. Furthermore, our rigorous and proven risk management policies and processes will underpin every aspect of the enlarged group's operations.

On 18 January 2006, Carillion announced that it had agreed to sell two Mowlem businesses, Charter, the US construction management company and Edgar Allen, the UK rail track products manufacturer to Balfour Beatty plc for a total consideration of approximately £20.5 million, subject to due diligence by Balfour Beatty. Completion of these sales is expected in the second quarter of 2006.

In early March 2006, the Office of Fair Trading (OFT) visited two Mowlem offices. We have fully co-operated with the OFT and will continue to do so as appropriate.

The integration of Carillion and Mowlem is being led by a dedicated team comprising senior people from both companies to ensure we achieve the synergy benefits we have identified and create a business that will deliver accelerated growth, materially enhanced earnings and strong cash generation. We expect to deliver cost savings at a running rate of £10 million per annum by the end of 2006, rising to £15 million per annum by the end of 2007. The one-off cost of delivering these savings is expected to be £10 million in 2006.

Our business model for the enlarged group will continue to be based on delivering our existing strategy through market focused business units, each equipped with the skills and resources necessary to provide customers with solutions tailored to meet their specific needs.

Business performance
Total revenue in 2005 increased by 15 per cent to £2,284 million (2004: £1,985 million), including revenue from joint ventures of £259 million (2004: £126 million).

01 Carillion is using its specialist skills and resources to provide integrated solutions to the NHS, including PPP hospitals and Independent Sector Treatment Centres.

02 The acquisition of PME, a mechanical and electrical engineering maintenance business, in March 2005, has significantly strengthened our ability to provide fully integrated solutions for building maintenance and services.

Financial reporting segments

Investments
In this segment we report the equity returns on our investments in Public Private Partnership (PPP) projects.

Support Services
In this segment we report the results of our activities in rail infrastructure, roads maintenance, facilities management and other support services.

Construction Services
In this segment we report the results of our UK building and construction activities and our International Regional businesses.

Underlying* profit before tax also increased by 15 per cent to £55.5 million (2004: £48.1 million), with underlying earnings per share of 20.4 pence (2004: 18.6 pence). Underlying earnings per share grew by 10 per cent, after the Group's effective tax rate returned to a more normal level of 27 per cent, having reduced temporarily in 2004 to 21 per cent, due to a number of one-off tax settlements.

Our relentless focus on cash management has again resulted in a strong cash flow from operations of £84 million. Average weekly net cash was £37 million, net of finance lease liabilities of £31 million. At 31 December 2005 Carillion had net cash of £90.8 million, net of finance leases of £37.7 million (2004: £128.8 million net of finance leases of £24.2 million), having invested approximately £47 million in the acquisition of PME.

Delivering improved results in 2005 was a particularly significant achievement, given the impact of transferring to Network Rail during 2004 profitable maintenance contracts that contributed around £150 million of revenue in 2004.

We continue to report our financial results in three segments – Support Services, Construction Services and Investments – in which we group together activities of a similar type and risk profile to make it easier for the Market to value our earnings on a consistent basis. Our performance in each of these segments is summarised below and a more detailed explanation follows later in this review.

In Support Services, revenue (including joint ventures) increased by over seven per cent to £989 million, with the effect of losing £150 million of rail maintenance revenue more than offset by the acquisition of PME and organic growth. An increase in operating profit of two per cent, to £40.6 million, lagged growth in revenue, reflecting the loss of rail maintenance contracts, which had higher than average margins in this segment.

In Construction Services, revenue (including joint ventures) increased by 22 per cent to £1,230 million, driven mainly by growth in our International Regions, particularly the Middle East and Canada, UK Building and our Developments business. Operating profit in this segment increased by 35 per cent to £16.9 million.

Investments contributed revenue of £65.4 million. Operating profit increased by 36 per cent to £8.3 million, due to an improved performance across our portfolio of equity investments in PPP projects and reductions in bid costs and overheads. As explained later in this review, we are also creating long-term value by investing in these projects and the Directors' current valuation of our portfolio is £89 million, based on discounting at 10 per cent the cash flows that will be generated by these investments over the next thirty years or more.

Total operating profit from our three financial reporting segments was £65.8 million, including joint ventures. After corporate centre costs of £10.4 million, net financing income of £5.1 million and tax on joint venture profits of £5.0 million, underlying profit before tax was £55.5 million. Non-operating items, amortisation of intangible assets and goodwill impairment amounted to £3.6 million, leaving profit before tax of £51.9 million. Profit after tax was £40.8 million and basic earnings per share were 18.7 pence.

2005 was an outstanding year for new orders, which increased the value of the Group's order book and framework contracts at the year-end by some 40 per cent to around £7 billion (2004: £5 billion). Despite converting a high proportion of potential new orders into contracts in 2005, we also maintained a healthy pipeline of probable orders, worth up to £1.6 billion at the year-end (2004: £2.2 billion).

Our strategy for growth continues to be reflected in our order book, with Support Services and PPP concession contracts accounting for some 84 per cent of order book value (2004: 78 per cent). The longer-term nature of these contracts also significantly improves the visibility of future revenues, with around 74 per cent of our order book expected to generate revenues in 2007 and beyond. At the same time, through our selective approach, we have continued to improve the quality of our construction order book and focused on long-term relationships with key customers. For example, in 2005 our UK building business generated around 84 per cent (2004: 80 per cent) of its revenue from 20 key customers.

Risk management
The rigorous policies and processes we have established to identify, mitigate and manage risk are a cornerstone of our business. Our Group Head of Risk is responsible for advising on all risk issues, including our policies and processes and their application to all our business activities.

We address strategic risks and risks specific to individual businesses and contracts, including social, environmental and ethical risks. Our risk management processes apply to every aspect of our business, from choosing the markets in which we operate to the contracts we bid for and the selection of our suppliers and sub-contractors. They apply to every stage of a contract from inception to completion, in order to deliver the cash-backed profit we expect and a service that meets or exceeds the expectations of our customers.

2004

£5 billion

2005

£7 billion

Investments
Support Services
Construction Services

Order book 2004-2005
Our order book at 31 December 2005, increased by 40% to £7.0bn.

*Underlying profit and underlying earnings per share, which are defined on page 60, are used to report our financial performance in 2005 on a comparable basis to that of 2004.

Chief Executive's Review continued

The more significant areas of risk, where our failure to perform well or changes to macro economic or market specific environments that would adversely affect our business, are summarised below:

Integration of Mowlem. The efficient and professional integration of Carillion and Mowlem is essential to the success of this acquisition and to the delivery of cost synergies, sustainable, profitable growth and materially enhanced earnings;

Attracting, developing and retaining excellent people. The success of our business depends primarily on the quality of our people;

Management of major contracts. Completing contracts on time and to the required standards, avoids financial penalties and damage to our brand and reputation;

Closing out existing contracts. Settling completed contracts and collecting the cash we are owed is essential to reducing debt and delivering the earnings growth we expect;

Pension scheme management. The cost to Carillion of funding its pension schemes depends on the macro-economic environment, equity market stability and regulatory requirements;

Government investment and outsourcing. With a substantial proportion of our business and future growth dependent on planned investment and outsourcing of services, it is important to maintain an effective presence in a number of growth sectors to support the resilience of our business;

A more detailed description of our risk management structure can be found in our Corporate Governance Report on page 33.

Our people
Our people are the key source of competitive advantage and it is through their efforts each day that we meet or exceed our customers' expectations.

The success of our business and the value of the Carillion brand depend primarily upon the performance of our people. We therefore remain totally committed to attracting, developing and retaining excellent people by becoming an employer of choice and have a wide range of measures in place to make this a reality across all our businesses.

Above all we strive to communicate well with all our people and to listen to and act upon what they tell us. We do this through a structured approach to communication, including individual performance and development reviews, monthly Team Talks and regular surveys through which everyone can share their views openly and frankly, in line with our core value of 'Openness'. These surveys culminate annually in "The Great Debate" in which around 1,400 people from across the Group took part in 2005.

01 Part of the new Westwood Cross retail development in Thanet, Kent, which opened in 2005. This 20 acre site, which is home to 35 retail outlets, was developed by the Carillion/Richardson partnership and built by Carillion.

02 Carillion manages and maintains the Royal Parks for the Royal Parks Agency.

This enables us to monitor and measure our progress on a wide range of issues, including how well we engage with our people to recognise and value the contributions they make to our business, to help them develop and fulfil their potential.

Specifically in response to feedback from the Great Debate, in 2005 we redoubled our efforts to improve the way we communicate, beginning with around 250 of our senior managers attending workshops designed to demonstrate the "Power of Engagement". By the end of 2005 around 2,000 managers and supervisors had attended these workshops. Good two-way communication must be the hallmark of our business leaders and the benefits of this are increasingly evident in the satisfaction and performance of our people.

Health and Safety
Carillion has an absolute commitment to ensuring that all our people can work safely at all times, wherever they are. This commitment extends to those who work with us and those who could be affected by our activities, including members of the public. This requires the continual vigilance and commitment of everyone involved in our activities to ensure that safe working practices are always used. This is supported by rigorous reviews, inspections, training and education, all of which are actively promoted and led by the Board.

At the end of 2004, we launched a radical new initiative, Target Zero, aimed at eliminating reportable accidents by 2010. This is an ambitious target, but we are determined to create a culture of zero tolerance to accidents, not only within Carillion, but also within our stakeholders, including customers, suppliers and partners. Tragically, five people were killed while working on projects under Carillion's management control during 2005. These accidents reinforce our commitment to make Target Zero a reality and its benefits are already evident. Our Accident Frequency Rate (AFR), reduced by 35 per cent in 2005 to 0.24 (2004: 0.37). The number of RIDDOR accidents (Reporting of Injuries Diseases and Dangerous Occurrences Regulations 1995) for the Group reduced by 27 per cent in 2005 to 255 (2004:348). We say more about Health and Safety in the Corporate Social Responsibility section of this report on page 26. More detailed information can also be found in our 2005 Sustainability Report, which has been published on our website at www.carillionplc.com/sustainability.

Sustainability
We believe that our commitment to responsible business practices that create positive impacts on the environment and on the communities in which we operate, is not only good for our own people and for society in general, but also makes good business sense. It is fundamental to delivering sustainable, profitable growth.

Our commitment to becoming a more sustainable company began over ten years ago. Today, we are one of the recognised leaders in developing and adopting socially responsible business practices and for demonstrating that these practices can have measurable business benefits. We benchmark our performance in a number of ways, including participating in Business in the Community's Corporate Responsibility Index, an independent annual survey of sustainability performance. Since its inception in 2003, Carillion has each year been ranked first in its sector and in the top quartile of all companies participating in the Index.

Our strategy model, which helps us to map and quantify the links between our business objectives and our impacts on the environment and society, continues to form the basis for our sustainability programme by identifying the areas where we need to improve our performance.

You can read more about this programme and the benefits it delivers for our business in the Corporate Social Responsibility section of this report on page 26. More detailed information can also be found in our 2005 Sustainability Report, which has been published on our website at www.carillionplc.com/sustainability.

Strategic objectives
In order to build on our success in 2005, we have set the following strategic objectives for 2006:

Attract, develop and retain excellent people, by becoming an employer of choice;

Successfully integrate Carillion and Mowlem;

Achieve cost synergies at a minimum running rate of £10 million per annum by the end of 2006, and be on course to achieve a minimum running rate of £15 million per annum by the end of 2007;

Reduce net debt to circa £200 million by the end of 2006 and be on course to reduce it to below £100 million by the end of 2007;

Be on track to deliver materially enhanced earnings for the enlarged Group in 2007;

Be the recognised leader in the delivery of safety and sustainability.

John McDonough
Chief Executive
8 March 2006

Markets and Outlook Business Services

Carillion Business Services comprises our UK building, facilities management (FM) and other Support Services activities.

These activities generated approximately £1.2 billion of revenue (including joint ventures) in 2005 (2004: £769 million), a 56 per cent increase on 2004, driven mainly by a strong performance in UK building and the acquisition of PME.

Business Services had a very successful year, more than doubling the value of its order book at the year-end to £2 billion (2004: £821 million), as a result of winning a number of significant new orders and the acquisition of PME, which contributed some £180 million to our year-end order book. In the Defence sector, we made a major breakthrough by winning, with our joint venture partners, two support services contracts for Defence Estates, together worth around £1.2 billion over a period of up to 10 years. In addition, Carillion's joint venture, Monteray, won a three-year extension to its contract with BT to provide integrated facilities management services, worth some £350 million.

In UK building, we won substantial new orders in our chosen sectors, worth some £1.1 billion. We were particularly successful in the education sector: we reached financial close on a PPP project to build nine new schools in Renfrewshire, with a construction value of £100 million and in which we expect to invest approximately £4 million of equity; we secured a £100 million contract to provide design and construction services for six new schools in Leeds; and a Carillion joint venture was appointed preferred bidder for a PPP project to build six new schools in South Ayrshire. We expect to invest around £3 million of equity in the latter project, which will

In 2005, CarillionEnterprise, a joint venture in which Carillion has a 50% interest, was awarded the Regional Prime Central contract by Defence Estates. This contract involves the maintenance and refurbishment of around 8,500 buildings and other infrastructure for the Ministry of Defence, stretching from the Scottish boarder south through the North of England to the Humber, Midlands and all of Wales. RAF valley, Anglesey, one of the UK's busiest military airfields, is pictured opposite.

The provision of these services, which include planned and reactive maintenance of buildings and other facilities, is expected to generate over £500 million of revenue for the joint venture over the life of the contract, initially 7 years, but extendable to 10 years.

In addition to providing a wide range of support services under the Regional Prime Central contract, Carillion also expects to carry out construction work to provide new buildings and infrastructure with a potential value of up to £200 million over the life of the contract.

Financial reporting segments

Support Services

Construction Services

also add over £73 million to our construction order book when it reaches financial close in 2006.

In addition, our UK building business was awarded a £230 million contract to provide three new printing plants for News International and a £118 million contract for the British Nuclear Group to construct a store for materials arising from decommissioning at Sellafield.

In 2005, our building business generated some 84 per cent of its revenue from 20 customers, reflecting our focus on long-term key customers. With around 80 per cent of our UK building order book for 2006 already secure, we expect a similarly high percentage of revenue to come from our top 20 customers in 2006.

Business Services entered 2006 in a strong position to deliver further growth, particularly from integrated solutions for public sector customers in the Defence, Education and Health markets, as well as from the retail, offices and mixed use developments sectors of the commercial building market. Notable new opportunities in 2006 include reaching financial close on two major PPP projects for which Mowlem is the preferred bidder – the £7 billion Allenby Connaught project to provide Army accommodation in the South of England and a £1.1 billion project to provide a new Permanent Joint Headquarters for the Ministry of Defence – for which the concession periods are 35 years and 25 years, respectively. We also expect new opportunities in the growing nuclear market, following the creation of the Nuclear Decommissioning Authority. Carillion has considerable experience as a supplier of construction and support services in this market and Mowlem also has useful skills and experience, which complement those of Carillion.

With the acquisition of Mowlem enhancing the strong positions we already hold in our existing UK building and support services markets, and creating a strong presence in other markets, such as Defence and UK regional building, the outlook for Business Services is positive.

01

02

01 The 48 storey Manchester Hilton, one of the UK's tallest buildings, is being built by Carillion for the Beetham Organization Limited.

02 Originally a contaminated brownfield site, reclaimed and developed by Carillion and now home to prestige car showrooms for Mercedes-Benz.

Markets and Outlook
Health

In the health market, we provide a range of construction and facilities management services, including integrated solutions focused primarily on PPP hospitals and Independent Sector Treatment Centres (ISTC).

These activities generated £146 million of revenue (including joint ventures) in 2005 (2004: £119 million), with the increased contributions from both construction and support services. Carillion Health made good progress in 2005, winning new orders that nearly doubled the value of its order book to £1.1 billion at the year end (2004: £592 million), including two particularly notable successes. In December 2005, we reached financial close on the Queen Alexandra hospital PPP project in Portsmouth, worth approximately £1.1 billion to Carillion over the 33-year concession period, of which some £470 million is included in our Health order

Public Private Partnership (PPP) hospitals, like The Great Western in Swindon, shown here, are examples of how Carillion can provide fully integrated solutions, including private finance, design, construction, maintenance and facilities management services throughout the lives of these hospitals.

Carillion is a joint venture partner and equity holder in The Hospital Company, which has the 27-year concession contract with the Swindon and Marlborough NHS Trust, under which it has overall responsibility for the construction and maintenance of the hospital and for the provision of non-clinical services.

We have invested some £6 million of equity in this project. This investment is one of a portfolio of 29 investments in PPP projects, including nine hospitals, that is creating substantial value for Carillion.

At The Great Western hospital, Carillion is providing a wide range of non-clinical services including building and grounds maintenance, catering, cleaning, portering, reception and helpdesk. The provision of these services is expected to generate over £200 million of revenue for Carillion over the 27-year concession contract.

Carillion designed and built The Great Western hospital at a capital cost of some £100 million. The contract for this 490-bed acute hospital was completed on time and to budget in 2002. A major benefit of PPP procurement is that it encourages innovation. At The Great Western, Carillion used its sector leading knowledge and skills in sustainable development to create one of the UK's most sustainable buildings.

Financial reporting segments

Investments

Support Services

Construction Services

book. In addition, Carillion will invest some £12 million of equity in this project, on which we expect to make financial returns in line with our normal PPP investment criteria. A Carillion joint venture was also appointed the preferred bidder by the Bedfordshire and Hertfordshire Primary Care Trust for new ISTC facilities, involving some £48 million of construction and services worth around £119 million over a five-year period.

The outlook for our Health business continues to be positive, particularly in our two key market sectors of PPP acute hospitals and ISTCs. The UK Government has reaffirmed its commitment to a substantial programme of PPP hospitals, worth between £7 billion and £9 billion. Carillion Health is currently shortlisted for one new PPP hospital and will be bidding for further hospitals in this programme as they come to market. The Government is also committed to a second wave of ISTCs, including 24 surgical centres, plus eight regional contracts and one national contract for diagnostic services, with a combined value of some £3 billion over the next five years.

We expect to bid for a number of these new centres and contracts in 2006.

Carillion's strong presence and successful track record will be further enhanced by the acquisition of Mowlem, which has six Local Improvement Finance Trust (LIFT) contracts. The acquisition of Mowlem will also increase the number of people we have with specialist private finance skills and therefore our capacity to bid for PPP hospitals and ISTCs. Consequently, the outlook for our Health business also remains positive.

01

01 The Queen Alexandra hospital in Portsmouth, our ninth PPP hospital, is a 1,200 bed hospital that will replace three existing acute treatment centres when it fully opens in July 2010.

02 Carillion's CafeBlue restaurants are becoming a welcome feature of the facilities management services we provide in NHS hospitals.

02

Markets and Outlook
Transport

Carillion Transport is focused on the provision and maintenance of rail and road infrastructure. These activities contributed some £580 million of revenue (including joint ventures) to the Group in 2005 (2004: £713 million), with the reduction on 2004 due to the effect of transferring to Network Rail maintenance contracts that generated around £150 million of revenue in 2004.

At 31 December 2005, the value of our Transport order book and framework contracts was £817 million (December 2004: £888 million). The reduction in order book reflects the expected trend in the UK rail infrastructure market, particularly for major projects, as we indicated in our 2005 interim results announcement. Nevertheless, during 2005 a joint venture, in which Carillion has a 50 per cent interest, was awarded a £110 million contract for rail electrification on the West Coast Mainline and orders for smaller regional rail projects and track renewals have remained at a satisfactory level.

The Public Private Partnership (PPP) project for the A249 improvement, pictured opposite, is another example of how Carillion can use its wide range of skills and resources to provide a fully integrated solution, including private finance, design, construction, and maintenance.

Carillion is a joint venture partner and equity holder in Sheppey Route Limited, which has a 30-year concession contract with the Highways Agency, under which it has overall responsibility for the design, construction and maintenance of the project. We have a commitment to invest some £3 million of equity in this project.

Carillion is already maintaining part of the A249 project route and will maintain all 17 km of the route when construction work is completed in June 2006. This will include inspections, routine maintenance and repairs. These services are expected to generate £18 million of revenue for Carillion over the life of the concession.

Carillion is also responsible for the design and construction of the A249 project at a capital cost of some £82 million. This involves building 5.6 km of new road, including the 1.3 km Swale Crossing, connecting the Isle of Sheppey with North Kent. The project also involves extensive archaeological and ecological protection and improvement measures.

While the outlook in the UK rail market is expected to remain challenging, planned investment by Network Rail is still substantial at approximately £11 billion over the period 2006 to 2008. The acquisition of Mowlem will increase Carillion's already strong presence in this market, where we remain focused on increasing our market share and on reducing costs to protect margins. After a slower than expected start to the outsourcing of rail infrastructure work in Scandinavia, we are now making progress in this market. We expect this to continue in 2006, as the market is forecast to double in size over the next two years to around £600 million per annum.

In highways maintenance, we expect to maintain our 10 per cent share of the £1 billion per annum Highways Agency market and to target opportunities for further growth in the Local Authority market, worth around £750 million per annum.

In road construction, the £122 million Early Contractor Involvement (ECI) project to upgrade the A74 between Carlisle and Guardsmill to motorway standard is expected to move into the construction phase during the second quarter of 2006. The acquisition of Mowlem, which has been particularly successful in winning six ECI road contracts to date with a total value of over £350 million, will significantly strengthen our presence in this market.

Overall, the outlook in Transport remains stable.

01

02

01 Carillion is making good progress with the first private finance project on the the UK rail network to extend and upgrade Marylebone Station and sections of track and signalling to improve the speed and frequency of passenger services for Chiltern Railways.

02 Carillion Roads helps to keep traffic flowing on 20 per cent of the UK's motorways and trunk roads.

Markets and Outlook International Regions

Our international regional businesses in the Middle East, Canada and the Caribbean are focused on selected construction markets and on their growing support services and PPP activities. These businesses contributed £299 million of revenue to the Group in 2005 (2004: £349 million). The reduction in revenue was due to the sale in November 2004 of our contracting business in France, which contributed some £160 million of revenue in that year. However, this reduction was offset by substantial growth in our remaining international regions, notably in the Middle East and Canada.

2005 was another successful year for new orders. The value of our international order book increased by over 11 per cent to £1.23 billion at 31 December 2005 (2004: £1.1 billion) and more than treble its value at December 2003. Notable successes in 2005 included construction orders for Dubai Festival City worth around £150 million and new highways maintenance contracts in Ontario, Canada worth £130 million. This was followed early in 2006 by our

Carillion is providing two of the first Public Private Partnership (PPP) hospitals in Canada – the New Brampton hospital (part of the William Osler Health Centre) pictured right, a 608 bed acute care hospital near Toronto, and the Royal Ottawa hospital, a 188 bed psychiatric hospital.

Carillion is a joint venture partner and equity holder in The Healthcare Infrastructure Company of Canada Inc., which has the concession contracts with the William Osler Health Centre and the Royal Ottawa Health Care Group. Under these concessions, the joint venture has overall responsibility for the construction and maintenance of the hospitals and the provision of non-clinical services. We are committed to invest some £5.4 million of equity in these projects.

When the New Brampton and Ottawa hospitals open, Carillion will provide a wide range of non-clinical services for these hospitals, including catering, laundry, housekeeping, portering, security, waste management and building maintenance.

Provision of these services is expected to generate some £500 million of revenue for Carillion over the 25-year concession contract for the New Brampton hospital, and around £75 million over the 21-year concession contract for the Royal Ottawa hospital.

Construction of both the New Brampton and Royal Ottawa hospitals is being carried out in joint venture with a local partner. At the New Brampton hospital, we are providing diagnostic, treatment and in-patient facilities at a capital cost of some £225 million, with construction due for completion in July 2007. At the Royal Ottawa, we are providing psychiatric in-patient facilities at a capital cost of around £63 million that are due for completion in December 2006.

Financial reporting segments

Investments

Support Services

Construction Services

appointment as preferred bidder for a further highway maintenance contract in Canada worth £137 million, which will extend our operations to Alberta.

With a strong order book, our international regional businesses are already on track to deliver further growth in 2006. They also remain well positioned in good growth markets, especially in Canada and the Middle East. In Canada, where construction of our two PPP hospitals – the William Osler in Toronto and the Royal Ottawa – is progressing well, we expect to bid for further PPP hospitals as the next wave of projects comes to market in 2006. Our highways maintenance business in Canada will also be targeting further contracts in Alberta and in British Columbia as these Provinces progressively outsource highways maintenance work to the private sector.

In the Middle East, growth in construction activity is forecast to continue, with much of this being generated by the Dubai Festival City development for which our joint venture business is well positioned. In addition, we shall be targeting opportunities in other countries in the region, such as Abu Dhabi, where construction activity is also forecast to grow.

The acquisition of Mowlem brings new international businesses to the Group in Australia and South East Asia. The sale of Charter, Mowlem's US construction business, to Balfour Beatty was announced on 18 January 2006 and we expect this to be completed in the second quarter of 2006, subject to due diligence by Balfour Beatty.

01

01 The Crowne Plaza hotel in Festival City is part of a magnificent mixed-use development covering 1,600 acres adjacent to Dubai Creek, much of which is being built by Carillion and its joint venture partner, the Al Futtaim Group.

02 The Shangri-La Barr Al Jissah Resort and Spa in Oman, built by Carillion Alawi, consists of three hotels with a total of 680 bedrooms.

02

Financial Review

Revenue by business activity and financial reporting segments

Business activities		Financial reporting segments (£m)		
		Investments	**Support Services**	**Construction Services**
Transport	Rail		408.7	
	Roads		147.7	24.3
Health			56.8	89.2
Business Services	UK Building			813.1
	FM & Services		369.5	39.2
International Regions			34.6	264.3
Private Finance		65.4		
Total*		**65.4**	**1,017.3**	**1,230.1**

*Includes internal trading of £28.9 million.

Accounting policies

These are the Group's first annual consolidated financial statements prepared in accordance with IFRS.

The Group's IFRS accounting policies have been applied in preparing the consolidated financial statements for the year to 31 December 2005, the comparative information for the year to 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the date of transition from UK GAAP to IFRS).

Profit allocation

On construction contracts profit is recognised broadly in proportion to revenue after taking into account the remaining risks and uncertainties. In addition, on major construction contracts we take no profit on the first 20 per cent of revenue and this profit is deferred until contracts are completed. This method, which better reflects the risk profile of our construction activities, reduced reported profit in Construction Services by £5.4 million in 2005 (2004: £3.3 million). The total deferral of £8.7 million is carried forward at 31 December 2005.

Interest and cash

The Group net interest credit of £4.0 million (2004: £4.1 million) reflects an average net cash position of £37 million, net of average finance leases of £31 million.

Net cash at 31 December 2005 was £90.8 million after finance lease liabilities of £37.7 million (31 December 2004: net cash £128.8 million, after finance leases of £24.2 million). Strong cash generation of £84 million from operations and dividends of £8 million received from jointly controlled businesses continue to demonstrate our focus on cash management and the resilience of our business.

Capital expenditure of £38 million included £13 million of investment in our previously announced project to outsource business processes in Human Resources and Finance, which is progressing well and on schedule for completion in 2006.

Dividend payments in 2005 were £16 million and corporate tax paid was £19 million.

Jointly controlled businesses

An important part of our strategy for Public Private Partnership (PPP) and large construction projects is the development of jointly controlled businesses that enable us to structure the resource and risk profiles of these activities to generate reliable returns. Our share of these businesses generated £259 million of turnover and £20.3 million of operating profit during 2005. The interest credit of £1.1 million relating to joint ventures is £4.5 million ahead of 2004 and reflects the effects of selling our equity interest in the M40 project in June 2004 and of reclassifying our joint venture interest in the Nottingham Express Transit project as a trade investment.

Growth in construction joint ventures, notably that responsible for our Dubai Festival City projects, and in profit from PPP projects, resulted in profit before tax of £21.4 million (2004: £9.6 million) and profit after tax of £16.4 million (2004: £7.4 million).

Taxation

The Group's effective rate of tax on underlying profit returned to a more normal level of 27 per cent in 2005, having reduced to 21 per cent in 2004 due to a number of one-off tax settlements in 2004 relating to prior years. We have £65 million of corporate tax losses in the UK, none of which are recognised as a deferred tax asset, that are potentially available to reduce future tax liabilities.

Amortisation of intangible assets

Amortisation of intangible assets relating to business acquisitions was £2.5 million, which relates to the £6.2 million of intangible assets arising from the acquisition of PME.

Non-operating items

The Group's share of results of jointly controlled entities includes an exceptional loss of £0.8 million relating to the disposal of the remainder of our joint venture plant hire business (2004: profit of £1.7 million, which included a related tax credit of £0.2million).

Pensions

The Group's ongoing pensions charge in 2005, calculated on the basis of IAS19, was £21.3 million (2004: £27.0 million). The reduction on 2004 mainly reflects a reduction in number of active scheme members. The Group's pension schemes had a net deficit of £47.5 million at 31 December 2005 (2004: £59.7 million) and we propose to discuss with the trustees proposals to reduce this deficit.

Acquisitions

On 8 March 2005 we acquired the entire share capital of PME for approximately £47 million, which included a one-off contribution to the PME pension scheme of £10 million. Since acquisition, the performance of PME has met our expectations, contributing £3.5 million towards Group operating profit on revenue of £148.7 million.

Following the acquisition of Mowlem plc on 23 February 2006 for a total consideration of approximately £341 million, comprising £117 million in cash and 65.8 million new ordinary Carillion shares, we are in the process of evaluating the fair value of net assets acquired. This process is progressing satisfactorily.

Financial reporting segments

Investments

£million	2005	2004
Revenue		
Group	**0.8**	0.8
JV's	**64.6**	61.7
	65.4	62.5
Operating profit*	**8.3**	6.1
JV Interest & tax	**(0.6)**	(4.9)
Profit from operations*	**7.7**	1.2

*Before goodwill impairment of £0.3 million in both years and after tax on joint ventures of £3.1m (2004: £2.7m).

In this segment we report the equity returns on our investments in Public Private Partnership (PPP) projects.

At 31 December 2005, we had 19 financially closed projects in our portfolio, having added two new projects during the year – Renfrewshire schools and Queen Alexandra hospital, Portsmouth – in which we will invest a total of approximately £16 million of equity.

Our portfolio of equity investments continues to generate significant value for the Group. The increase in operating profit reflects an improved performance across our portfolio, together with a reduction in overheads and bid costs. This improvement more than offset the effect on operating profit of selling our investment in the M40 motorway project in 2004. Due to this sale, the interest charge relating to joint ventures also reduced, resulting in a substantial increase in profit from operations.

Equity investments in PPP projects are typically valued by discounting the cash flows they will generate over the lives of concession contracts. Based on discounting cash flows at 10 per cent and 8 per cent, our portfolio of investments in financially closed projects had valuations at December 2005 of £89 million and £115 million, respectively. These valuations have increased (2004: £83 million and £103 million) as a result of reaching financial close on the Renfrewshire schools and Queen Alexandra hospital projects. The value we are creating through our PPP equity portfolio will continue to increase, because we are committed to invest a further £31 million of equity in our financially closed projects, in addition to the £29 million already invested. Beyond this, we have a good pipeline of new projects, including two for which we are the preferred bidder, in which we expect to invest around £7 million of equity, and five for which we are shortlisted, with a potential equity requirement of up to £33 million.

The acquisition of Mowlem also adds substantial value to our PPP portfolio. Mowlem has 10 financially closed PPP projects in which it has either already invested, or commitments to invest, some £51 million. It also has three projects for which it is the preferred bidder, in which it expects to invest around £77 million of equity and is shortlisted for two projects with a potential equity requirement of up to £29 million.

Construction Services

£million	2005	2004
Revenue		
Group	**1,050.1**	949.3
JV's	**180.0**	56.1
	1,230.1	1,005.4
Operating profit*	**16.9**	12.5
JV Interest & tax	**(3.1)**	(0.3)
Profit from operations*	**13.8**	12.2

*Before a JV non operating loss of £0.8m (2004 non-operating profit £1.7m) and after tax on joint ventures of £1.8m (2004: £0.7m credit)

In this segment we report the results of our UK building and construction activities and International Regional businesses.

Revenue in Construction Services increased by 22 per cent, despite the disposals in 2004 of Crown House and our contracting business in France, which together contributed over £200 million of revenue in 2004. Progress in this segment is due to healthy growth in the Middle East and Canada, continuing success in our chosen sectors of the UK commercial building market and a strong performance by our Developments business.

Financial Review continued

On the UK's road network we provide integrated solutions for maintenance, aimed at improving value for money for customers and minimising disruption for road users.

Operating profit increased by 35 per cent and the operating margin rose from 1.2 per cent to 1.4 per cent. This was achieved despite the effect of introducing, in the second half of 2004, a new method by which we recognise profit on major construction contracts. Previously, profit was recognised broadly in proportion to revenue after taking account of risks and uncertainties. In addition, we now take no profit on the first 20 per cent of revenue and this profit is deferred until contracts are completed. The effect of this in 2005 has been to reduce reported operating profit by £5.4 million (2004: £3.3 million). Total deferred profit relating to this change at 31 December 2005 was £8.7 million, which we expect to begin releasing to profit in 2007 as contracts reach completion.

Support Services

£million	2005	2004
Revenue		
Group	**974.6**	908.9
JV's	**14.1**	8.3
	988.7	917.2
Operating profit*	**40.6**	39.7†
JV Interest & tax	**(0.2)**	(0.2)
Profit from operations*	**40.4**	39.5

*Before amortisation of intangible assets of £2.5 m (2004: nil) and after tax on joint ventures of £0.1m (2004: nil).
†Excluding a one-off increase of £7.2m relating to the transfer of rail maintenance to Network Rail.

In this segment we report the results of our activities in rail infrastructure, roads maintenance, facilities management and other support services.

Revenue in Support Services increased by nearly 8 per cent, as the acquisition of PME and organic growth more than offset a reduction in revenue from our rail infrastructure activities. The latter was largely due to transferring to Network Rail maintenance contracts that generated around £150 million in 2004. Organic growth was driven primarily by road maintenance in Canada and the UK. Growth in Canada has been particularly strong following our success in winning contracts in Ontario, where we have established a market leading position. Since the year-end, we have built on that success by winning a further contract that will extend our operations to Alberta.

Operating profit increased by £0.9 million (excluding the £7.2 million one-off increase in profit in 2004, relating to the transfer of rail maintenance to Network Rail) and the operating margin reduced from 4.3 per cent to 4.1 per cent, reflecting the loss of rail maintenance contracts, which had higher than average margins in this segment.

PME performed in line with our expectations, contributing £149 million of revenue and £3.5 million of operating profit in the year, following its acquisition in March 2005.

New bank facility

In connection with the acquisition of Mowlem plc a new committed bank facility totalling £490 million has been arranged. Of this amount, £190 million is repayable at the end of five years, £250 million is repayable over five years and £50 million is available for 364 days with a six month term-out option.

Treasury policy and risk management
The Group has a centralised Treasury function whose primary role is to manage funding, liquidity and financial risks. In addition, Treasury sources and administers contract bond and guarantee facilities for the Group. Treasury is not a profit centre and does not enter into speculative transactions. The Board sets policies within which Treasury operates that ensure the most effective financing of the Group's operations and limit exposure to financial risk. The areas of significant financial risk facing the Group relate to funding and liquidity, foreign exchange and interest rates.

Funding and liquidity risk
The Group's policy is to avoid carrying significant net debt over the long term. Carillion plc's principal borrowing facility is a syndicated loan facility led by The Royal Bank of Scotland plc and short term overdraft and money market facilities are provided by a group of relationship banks. Finance and operating leases are also employed to fund longer-term assets. The quantum of committed borrowing facilities available to the Group is regularly reviewed and is designed to satisfy the requirements of the Group's business plan.

Currency risk
The Group hedges all significant currency transaction exposures using foreign exchange risk management techniques. In order to protect the Group's balance sheet from the impact of exchange rate volatility, foreign currency net assets are hedged using matching currency loans, where these assets exceed the equivalent of £10 million. Profits arising within overseas subsidiaries are not hedged unless it is planned to make a distribution. Such distributions are then treated as currency transactions and hedged accordingly.

On the UK rail network we carry out a wide range of projects to upgrade and renew the infrastructure, including track, signalling, electricification and stations.

Interest rate risk
Borrowing facilities are designed primarily to finance the acquisition of Mowlem plc and short-term working capital requirements and are at floating rates of interest linked to LIBOR. The Group has not entered into interest rate derivatives to fix or hedge interest rate risk and none are outstanding. Certain longer-term assets have been financed using fixed rate leases.

Carillion has equity in a number of PPP joint venture Special Purpose Companies (SPC). SPCs obtain funding for these projects in the form of long-term bank loans or corporate bonds without recourse to the joint venture partners and secured on the assets of the SPC. A number of SPCs have entered into interest rate derivatives as means of hedging interest rate risk. These derivatives are interest rate swaps that fix the rate of interest payable and an interest rate cap and collar that limits the maximum and minimum interest rates payable.

Going concern
The Directors confirm that, after making enquiries, they have a reasonable expectation that the Company and the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Chris Girling
Finance Director
8 March 2006

Corporate Social Responsibility

For more than 10 years we have set the pace in our sector when it comes to applying the principles of sustainable development. We have consistently demonstrated that sustainable and responsible business practices help us to deliver our business objectives. Our ability to have a positive effect on the environment and on the communities in which we work is a key differentiator for Carillion, helping us to win orders, minimise our Social, Environmental and Ethical Risks, control costs and deliver better services to customers.

The following summary of the progress we have made towards becoming a more sustainable business is supported by a more detailed account in our 2005 Sustainability Report, which has been published on our website at www.carillionplc.com/sustainability.

In 2005, we continued to base our sustainability programme and objectives on the strategy model we first published in 2001. This model helps us understand how the delivery of our business objectives is supported by improving the effects we have on the environment and the communities in which we operate. Our 2005 sustainability objectives were based on nine specific and measurable Group targets against which our average, externally verified, score was 91 per cent. We have also continued to benchmark our performance through participating in Business in the Community's Corporate Social Responsibility Index: in the 2005 Index, Carillion was ranked first in its sector and in the top quartile of all participating companies, positions we have held since the inception of this Index in 2003.

A new challenge
In March 2005, the UK Government set a new challenge for business when it published its Sustainable Development Strategy, Securing the Future. This strategy identifies four priority areas for sustainable development:

Sustainable communities;
Natural resource protection and environmental enhancement;
Climate change and energy; and
Sustainable consumption and production.

To strengthen our leadership in sustainable development we have realigned our own sustainability strategy and programme for 2006 with the Government's new strategy. To do this we consulted widely, both externally and internally, engaging all our people in the task, because becoming a more sustainable business ultimately depends on their understanding and commitment.

As a result, we have identified the business behaviours and activities that have most impact on the four priority areas of Securing the Future, as illustrated in the "Sun" diagram above. Our sustainability strategy model has been redefined to relate these behaviours and impacts to the Group's business objectives and we have also identified new ways of measuring the benefits of becoming a more sustainable business. In 2005, we also developed a "Tool Kit" specifically to help our marketing and work-winning teams demonstrate to customers the benefits of choosing sustainable solutions that meet their business needs.

Our new Sun diagram shows the business behaviours and activities that have most impact on the four priority areas of the UK Government's Sustainable Development Strategy, Securing the Future.

Managing Sustainability
Our commitment to sustainability continues to be driven by our Board, which is advised by a Sustainability Committee. Following the retirement in 2005 of Sir Neville Simms, this committee is now chaired by our chief executive, John McDonough and a number of managing directors of our business units have joined the committee to strengthen its links with the Group's operational activities. The committee also continues to benefit from expert guidance and advice provided by two external advisors – Jonathon Porritt, Chair of the UK Government's Sustainable Development Commission, and David Cowans, Chief Executive of Places for People Group, a major social housing association.

The new Toyota Prius – a hybrid petrol/electric car – is now available as an option for Carillion company car drivers. With excellent fuel economy and low CO_2 emissions, the Prius is kind to the pocket and to the environment.

Health and Safety

Target Zero is the high-profile campaign we launched in October 2004 with the aim of reducing reportable injuries to zero by 2010.

Target Zero takes a structured approach to managing Health and Safety and to creating a safety focused culture. To do this we introduced a Health and Safety management model that enables us to develop plans to improve and measure our performance. This model, which is based on British Standard 8800 (Occupational health and safety management systems – Guide), has the four main principles or elements to which we aspire, namely:

Awareness – all our people and stakeholders should have an awareness and understanding of Health and Safety hazards and risks that affect our business;
Competence – all our people and stakeholders should have the competence to undertake their work with minimum risks to Health and Safety;
Compliance – our work activities must comply with legislation, and our people are empowered to take action to minimise Health and Safety risks;
Excellence – Carillion will become recognised for excellence in the way it manages Health and Safety.

Within each element of the model, we have identified a number of specific actions and targets. Having adopted the model within Carillion, we are now rolling it out to our supply chain, with suppliers having to demonstrate that they are achieving the standards we require.

The results of Target Zero have been significant. In 2005, we achieved our lowest ever Accident Frequency Rate of 0.24, which represents the number of injuries per 100,000 hours worked, as reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR), a 35 per cent reduction on 2004.

In 2005, we reported 255 injuries under RIDDOR, 162 involving Carillion employees and 93 involving subcontractors and others, an overall reduction of 27 per cent on 2004. Tragically there were five fatal injuries, including one Carillion employee and four employees of sub-contractors, and 62 other major injuries, involving 34 Carillion employees and 28 employees of sub-contractors. We therefore have some way to go to eradicate reportable injuries, but we are determined to do so and our commitment to Target Zero remains absolute.

Environment

Our partnership with The Wildlife Trusts is now in its fifth year. The Carillion Natural Habitats Fund continues to go from strength to strength. In 2005, we worked on five new projects with Trusts local to Carillion's business activities. For example, we are working with The Wildlife Trust for Birmingham and the Black Country to produce an atlas of reptiles and amphibians in the area. To date, we have contributed £125,000 to the Wildlife Trusts, sponsoring 26 projects and providing opportunities for our people to work with a number of different Trusts.

Managing and reducing waste is an important aspect of environmental protection and we are working hard to minimise the waste we generate and send to landfill. On projects such as the new John Radcliffe hospital in Oxford, we are now re-using or recycling over 90 per cent of construction waste.

We have developed a biodiversity framework along with simple guidance for everyone working in locations where they need to consider plants, natural habitats and the behaviours of animals. For example, a highways maintenance team is working with local wildlife groups to encourage biodiversity along the M40 motorway, which Carillion maintains between its junction with the M25 and Warwick. This includes supporting and monitoring the kestrel population, an initiative featured on the BBC programme British Isles: A Natural History.

Carbon emissions are a significant measure of environmental performance. We have continued to reduce CO_2 emissions from Carillion buildings and CO_2 emissions per vehicle in our company car fleet, through awareness, energy management and Group-wide transport and car policies.

Communities

Carillion continues to be a member of Business in the Community's (BitC) PerCent Club of companies that contribute over one per cent of their profits in cash or in kind to community activities. The new community engagement strategy we introduced in 2004 continues to provides practical guidance to our people on how we can be a force for good in the locations where we work. From on-site job centres and training, to involvement with local schools like St John's, in Caterham, Surrey, where we built an agility trail and quiet area in the school grounds. In another initiative, we supported the Lollipop Appeal at Darent Valley hospital, Carillion's first PPP hospital that opened in 2000, by arranging a five-a-side football competition to raise funds for a children's High Dependency Unit. In Wales, a team from Carillion Roads worked in partnership with the Construction Industry Training Board (CITB) and Ferndale School to trial the first pilot GCSE Construction course.

As one of the UK's leading providers of training for support services and construction skills, Carillion makes a major contribution to the development of individuals and communities. In 2005, around 3000 people attended courses at our 16 UK training centres and some 800 apprentices qualified with NVQs.

Further afield, in response to the Tsunami disaster on Boxing Day 2004, Carillion became a corporate sponsor of the charity RedR, which sources, trains and places people with the professional skills and resources required by the main aid agencies to provide disaster relief and recovery. In addition to donating cash, our support included seconding one of our own water engineers to Oxfam to work in Sri Lanka for six months immediately after the Tsunami struck.

The year also saw our third successful Sustainability Week, which was arranged to coincide with World Environmental Day in June. Over 150 events took place across the Group, demonstrating that corporate social responsibility and a culture of sustainability are embedded more firmly than ever at the heart of our organisation. Success in creating a successful and sustainable business depends primarily on the quality and commitment of our people. In 2005, 518 Carillion employees won Values awards in recognition of their efforts in "going the extra mile" to exceed the expectations of our customers. They showed that by living our values we can make a real, tangible difference to the quality of the services we provide and to the performance of our business.

Board of Directors

1

3

2

4

1. Philip Rogerson
Chairman
Age 61. Philip was appointed to the Board in October 2004 and became the Chairman, in succession to Sir Neville Simms, on 11 May 2005. Philip is Chairman of the Nominations Committee. He is also Chairman of Aggreko plc and THUS Group plc and is a Non-Executive Director of The Davis Service Group plc and Northgate plc. He was an Executive Director of BG plc from 1992 to 1998, latterly as Deputy Chairman.

2. John McDonough
Chief Executive
Age 54. John was appointed Chief Executive in January 2001 and is a member of the Nominations Committee. He is a member of the CBI's Public Services Strategy Board and was a Non-Executive Director of Exel plc until he retired from the Board on 13 December 2005 following that company's takeover. He was formerly Vice President, Integrated Facilities Management, Europe, the Middle East and Africa of Johnson Controls Inc.

3. Chris Girling
Finance Director
Age 52. Chris was appointed to the Carillion plc Board in November 1999. Chris is a Non-Executive Director of Elementis plc and is a Chartered Accountant and holds the degree of Master of Business Administration. He was previously Group Finance Director of Vosper Thornycroft Holdings plc.

4. Roger Robinson
Executive Director Construction Services
Age 54. Roger joined Tarmac Construction as Contracts Director in 1989 subsequently becoming Managing Director of Tarmac Civil Engineering, International and Rail. Roger was appointed to the Board of Carillion plc in May 1999 and has Groupwide responsibility for commercial and Health and Safety matters. He is a Fellow of the Institution of Civil Engineers and was a member of the Government Taskforce on Modern Apprenticeships.

5

7

6

5. David Garman
Senior Independent
Non-Executive Director
Age 54. Appointed to the Board in September 2004, David is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. David is Group Chief Executive of TDG plc which he joined in 1999 from Associated British Foods where he was an executive director, having previously held senior positions in a number of leading UK food companies.

6. Vanda Murray OBE
Non-Executive Director
Age 45. Vanda was appointed to the Board in June 2005 and is a member of the Audit, Nominations and Remuneration Committees. Vanda is a Director of Ultraframe plc prior to which she was Chief Executive of Blick plc. She is a Trustee and Non-Executive Director of The Manufacturing Institute, a registered charity, and is a Fellow of the Chartered Institute of Marketing. She was appointed OBE in 2002 for Services to Industry and to Export. Additionally, Vanda will join the Board of the North West Regional Development Agency in April 2006 as a Non-Executive Director.

7. David Maloney
Non-Executive Director
Age 50. David was appointed to the Board in November 2005 and is Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees. David is a Non-Executive Director of Micro Focus International plc and of Virgin Mobile Holdings (UK) plc. Before taking up these appointments, David held senior positions in a number of services sector companies, including Chief Financial Officer for Le Meridien Hotels and Resorts, Chief Financial Officer for the Thomson Travel Group (Holdings) plc and Group Finance Director of Avis Europe plc.

In May 2005, Sir Neville Simms retired as Chairman and as a Director of the Company. Sir Neville was Chairman and Chief Executive of Carillion from its launch as an independent company in 1999 until January 2001, when he became Non-Executive Chairman. Sir Neville's leadership was a key factor in establishing Carillion as one of the UK's leading support services and construction companies.

Two other Non-Executive Directors, Roger Dickens and Andrew Parrish, retired from the Board in 2005, having made valuable contributions to Carillion's success. It was with deep sadness that we learnt of the death of Roger Dickens in January 2006. Roger joined the Board in May 2000 and had served as Senior Independent Non-Executive Director, Chairman of the Audit Committee and as a member of the Remuneration and Nominations Committees.

Corporate Governance Report

General principles

The Board is firmly committed to high standards of corporate governance. During the year to 31 December 2005, the Company complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (July 2003), as detailed below and in the Remuneration Report.

Ethics and Business Integrity Policy

Carillion has a clear and unequivocal approach to business integrity and ethics which underlies the Group's values of openness, collaboration, mutual dependency, professional delivery, focus on sustainable, profitable growth and innovation. The policy requires Carillion to conduct its business to the highest ethical standards. It applies to all employees and the way Carillion delivers this policy is and will be reflected in the way the Group competes for business, through the quality and value of its work and through the reliability and reputation of its employees.

The policy is:

- business integrity: we do not give or accept bribes. We do not sanction or accept any illegal payments, allowances, or gifts-in-kind. We will investigate fully all alleged breaches. We will dismiss any employee who has breached this policy;
- mutual respect: we do what we say we will do. We treat our people fairly and with respect at all times, avoiding discrimination and bullying. We provide a safe and healthy working environment, and respect sustainable principles in all our dealings;
- trust: we engender trust within our work groups and companies, respecting diverse traditions and cultures. We respect the trust placed in us by others, not least when we are asked to take responsibility for aspects of their business or resources. We maintain and demand high professional standards and demand honesty and openness. We avoid conflicts of interest wherever possible, and we proactively declare any unavoidable conflicts for open scrutiny and resolution;
- legality: we respect the rule of law in all our dealings. We clearly communicate procedures for disciplining those who do not comply with the law or our standards and policies. We maintain a system for confidential reporting of breaches of our standards and policies; and
- human rights: we support the belief that human rights are universal and adhere to the principles of human rights in our operations. We support the United Nations Universal Declaration on Human Rights.

Our policy is carried into our business through a series of detailed procedures. They allow us to carry into practice our reputation for conducting business to the highest ethical standard which is essential to our relationships with customers, business partners, employees, shareholders and the public.

The Ethics and Business Integrity Policy and its implementation is reviewed annually by the Board.

Directors

The Board

The Company is led by a Board comprising three Executive and four Non-Executive Directors. Throughout 2005, the Chairman and the Non-Executive Directors comprised more than half of the Board and this continues to be the case. The Chairman and each of the Non-Executive Directors is considered to be independent of management. They each have wide areas of experience and have no business or other relationship that could materially interfere with their independent judgement. David Garman is the Senior Independent Non-Executive Director.

In accordance with the Combined Code, the Executive Directors' service contracts are terminable by one year's notice.

A detailed internal evaluation of the Board's corporate governance procedures and compliance was again conducted in 2005 by the Chairman in conjunction with the Company Secretary. The internal evaluation took into account the views of each of the Directors on (i) the role of Directors, (ii) the performance of the Board, the Chairman and the Non-Executive Directors, (iii) Board Committees, (iv) leadership and culture, (v) Corporate Governance (vi) Directors' remuneration, (vii) relations with shareholders and (viii) Board accountability and audit. The Board at its meeting in October 2005 reviewed the results of the internal evaluation and, where required, issues were acted upon in order to further enhance the effectiveness of the Board's procedures and working practices.

This is the fourth year that this process has taken place and will be repeated annually as the Board considers it satisfactory. In addition, reviews of the performance of each of the Directors has taken place.

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Board and encompasses the following parameters:

- the primary job of the Chairman of a public company is to provide continuity, experience and governance while the Chief Executive provides leadership, energy, imagination and the driving force;
- the Chairman is viewed by investors as the ultimate steward of the business and the guardian of the interests of the shareholders. Nonetheless, it is essential that the outline of their respective roles encourages the Chairman and Chief Executive to work well together to provide effective and complementary stewardship;
- the Chairman must:
  - take overall responsibility for the composition and capability of the Board;
  - consult regularly with the Chief Executive and be available on a flexible basis for providing advice, counsel and support to the Chief Executive;
- the Chief Executive must:
  - manage the Executive Directors and the Group's day to day activities;
  - prepare and present to the Board strategic options for growth in shareholder value;
  - set the operating plans and budgets required to deliver the agreed strategy;
  - ensure that the Group has in place appropriate risk management and control mechanisms.

Corporate Governance Report continued

The Board usually has a programme of seven meetings during the year and also meets on an ad hoc basis as required. A formal schedule of matters reserved to the Board for consideration and decision is maintained. These matters include:

- statutory matters such as the approval of final and interim financial statements and the recommendation of dividends;
- appointments to and removals from the Board and the terms of reference and membership of Board committees;
- approval of Group strategy and annual budgets;
- approval of authority levels, financial and treasury policies;
- authorisation for any acquisition or disposal;
- review of the internal control arrangements and risk management strategies; and
- review of corporate governance arrangements.

All Directors have access to the Company Secretary, who is responsible to the Board for ensuring that agreed procedures and applicable rules and regulations are observed. The Board approves the appointment and removal of the Company Secretary.

Any Director may, in furtherance of his duties, take independent professional advice when necessary, at the expense of the Company. No such advice was sought during the year.

The Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on trading matters, markets, sustainability and other relevant issues.

Board Committees
The principal Board committees are the Remuneration Committee, the Audit Committee and the Nominations Committee. The Company Secretary acts as secretary to each of these committees. The terms of reference of each of the Board committees are available on the Carillion website at www.carillionplc.com or on request from the Company Secretary.

The membership of each of the principal committees is as follows:

Remuneration Committee
David Garman, Chairman
David Maloney
Vanda Murray

The Committee consists entirely of independent Non-Executive Directors and has a key role in reviewing and advising the Board on the appropriate remuneration for the Executive Directors of Carillion plc. Further details on remuneration issues are given on pages 35 to 41.

Audit Committee
David Maloney, Chairman
David Garman
Vanda Murray

This Committee consists entirely of independent Non-Executive Directors. For further information see the Report of the Audit Committee on page 32.

Nominations Committee
Philip Rogerson, Chairman
David Garman
David Maloney
John McDonough
Vanda Murray

The Committee reviews the structure, size, composition, balance of skills, knowledge and experience of the Board and makes recommendations to the Board with regard to any changes that are deemed desirable. The Committee also reviews succession planning to ensure that processes and plans are in place with regard to both Board and senior appointments.

Sir Neville Simms was Chairman of the Nominations Committee until he retired from the Board on 11 May 2005. Both Andrew Parrish and Roger Dickens served on the Remuneration, Audit and Nominations Committees during the year under review until they stood down as a Directors on 11 May and 2 December 2005 respectively.

Attendance at meetings in 2005
The number of full scheduled Board and Committee meetings attended by each Director during 2005 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	8	4	2	4
Roger Dickens****	2	2	0	0
David Garman	8	4	2	4
Chris Girling	8			
John McDonough	8			
David Maloney***	1	1	1	
Vanda Murray**	4	2	1	2
Andrew Parrish*	3	2	1	1
Roger Robinson	8			
Philip Rogerson	8			3
Sir Neville Simms*	2			1

* Retired 11 May 2005
** Appointed 1 June 2005
*** Appointed 1 November 2005
**** Retired 2 December 2005

Corporate Governance Report continued

Other Board matters

Policy on external appointments

Recognising that external appointments can broaden their knowledge and so be of benefit to the Company, Executive Directors are permitted, at the discretion of the Board, to accept a limited number of such appointments and retain the fees received for such appointments. John McDonough was a Non-Executive Director of Exel plc until he retired from the Board on 13 December 2005 following that company's takeover. Chris Girling is a Non-Executive Director of Elementis plc.

Nomination and remuneration of Directors

The appointment of a Director is a matter for resolution by the Board as a whole, taking advice from the Nominations Committee.

For the Board appointments made in 2005, the Nominations Committee used the services of executive recruitment consultants, Odgers Ray & Berndtson. Details of potential candidates were provided by Odgers Ray & Berndtson and initially reviewed by a sub-committee of the Nominations Committee. Meetings with selected candidates were then held with Directors. Subsequently, the Nominations Committee met to recommend appointments which were then approved by the Board.

In the case of Non-Executive Directors, initial appointments are for three years; reappointment is subject to review and is not automatic.

The fees of Non-Executive Directors are determined by the Board as a whole, taking into account the commitment required and participation in the work of committees and other advisory services in relation to the business of the Group. In advising the Board on such fees, it is the policy of the Executive Directors to seek independent external advice concerning the appropriateness of the amounts by comparison with general practice. The level of fees currently payable to the Non-Executive Directors is based on independent external advice.

The remuneration of the Directors is dealt with in the Remuneration Report on pages 35 to 41.

Retirement of Directors by rotation

All Directors are required to submit themselves for re-election at least every three years. The Director retiring and seeking re-election at the Annual General Meeting to be held on 10 May 2006 is Roger Robinson.

Additionally, new Directors are subject to election by shareholders at the first opportunity following their appointment. Accordingly, Vanda Murray and David Maloney will seek election at the 2006 Annual General Meeting.

The service contracts of the Executive Directors and the terms and conditions of appointment of the Non-Executive Directors are available for inspection at the registered office of the Company during normal business hours on any weekday (bank holidays excepted) and at the Annual General Meeting.

Induction and development of Directors

Directors are provided with a comprehensive information pack on joining the Company and are advised of their legal and other duties and obligations as a Director of a listed company. In addition, all new Directors receive induction on their appointment covering such matters as the operation and activities of the Group, the role of the Board, the Company's corporate governance procedures and social, environmental and ethical (SEE) matters. Directors are also briefed by the Company's external advisors, where appropriate, on changes to legislation or regulation or market practice as well as receiving briefings from business groups throughout the year.

At least once a year, the Board visits an operational site and in October 2005 the Directors visited the Group's operations in Canada. Directors are also encouraged to visit other operations and staff.

The regular updating of Directors' skills and knowledge is encouraged and a procedure has been established whereby the Company Secretary is notified by Directors of their requirements in this respect.

Relations with shareholders

In addition to communicating with shareholders generally from time to time, the Executive Directors and the Director of Group Corporate Communications meet regularly with representatives of major shareholders in order to foster the mutual understanding of objectives. The details of these meetings are reported to the Board. The Chairman is available for meetings with representatives of major shareholders as required.

Private and institutional shareholders are encouraged to attend the Company's Annual General Meeting.

The Company complies fully with the provisions of the Combined Code in respect of the notice, content of agenda and conduct of its Annual General Meetings. The Chairmen of the Remuneration and Audit Committees will be present at the Annual General Meeting on 10 May 2006 to respond to shareholders' questions.

Accountability and Audit

Report of the Audit Committee

The Audit Committee consists entirely of independent Non-Executive Directors:

David Maloney, Chairman
David Garman
Vanda Murray

David Maloney is an accountant who previously held a number of senior finance posts including Chief Financial Officer for Le Meridien Hotels and Resorts, Chief Financial Officer for the Thomson Travel Group (Holdings) plc and Group Finance Director of Avis Europe plc. David was appointed to the Audit Committee in December 2005.

David Garman is Chief Executive of TDG plc and was appointed to the Audit Committee in October 2004.

Corporate Governance Report continued

Vanda Murray is a Director of Ultraframe plc. Vanda was appointed to the Audit Committee in July 2005.

Appointments to the Committee are made by the Board.

The Audit Committee has in attendance at meetings, by invitation of the Committee, Executive Directors, representatives of the external auditor, (KPMG Audit Plc), the Group Head of Risk and the Head of Internal Audit. It is also able to invite others as it requires from time to time. The Committee also meets privately with both the external and internal auditors.

The responsibilities of the Audit Committee include:

- the review of the annual and interim financial statements;
- consideration of the impact of changes to accounting regulations and the financial and accounting policies of the Carillion Group;
- compliance with statutory and other external requirements;
- reviewing the role of the internal audit function and the results of its audit work and the response of management;
- reviewing the scope and results of the external audit and its cost-effectiveness;
- ensuring that the internal and external audit functions are complementary;
- monitoring the independence and objectivity of the external auditor and ensuring that the services provided (including non-audit services) provide a proper balance between objectivity and value for money;
- recommending to the Board the external auditor to be proposed to shareholders for appointment.

The Committee is authorised by the Board to (i) seek any information necessary to fulfil its duties (ii) call any member of staff to be questioned at a meeting of the Committee as and when required and (iii) obtain external professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties.

The members of the Committee receive fees as Non-Executive Directors which also reflect their membership of the Audit Committee and other Board committees. See page 36 for details.

Main activities of the Audit Committee in the year to 31 December 2005

Financial statements

The Audit Committee reviews and discusses with management and the external auditors the annual and interim statements. In this context, the Committee also reviews the written reports of KPMG on issues arising from the annual audit and the review of the interim results.

Internal controls

The Board is ultimately responsible for the Group's system of internal control. This responsibility includes clearly determining the control environment and reviewing annually the effectiveness of the internal control system. However, such a system can provide only reasonable and not absolute assurance against material misstatement or loss. In accordance with the Turnbull Guidance for Directors *Internal Control: Guidance for Directors on the Combined Code*, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks (both financial and non-financial and including Corporate Social Responsibility risks) faced by the Group (including joint ventures and overseas businesses). The process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts and is regularly reviewed by the Board.

Assurance over the design and operation of internal controls across the Group is provided through a mix of techniques:

- Internal Audit carries out audits to assess the adequacy and effectiveness of internal controls over the key risks faced by the business and reports its findings to management, the Executive Directors and the Audit Committee. The Audit Plan is presented to and approved by the Audit Committee annually;
- recommendations to improve the system of control are made by Internal Audit. The implementation of these recommendations is followed up and reported on quarterly;
- Internal Audit independently reviews the risk identification procedures and control processes implemented by management;
- a process of Control Risk Self-Assessment is used in the Group where Directors and senior managers are required to detail and certify controls in operation to ensure the control environment in their business areas is appropriate. They also confirm annually, in writing, that risk management processes and appropriate controls are in place and are operating effectively; and
- Internal Audit advises on aspects of the design and application of internal controls in key business projects and on policy and procedure changes.

Internal Audit reports to the Audit Committee on a regular basis. The Audit Committee reviews the assurance procedures and ensures that the level of confidence required by the Board is obtained. It also ensures the financial reporting process is credible and reliable. The Audit Committee presents its findings to the Board regularly and the Head of Internal Audit has direct access to the Audit Committee members.

An internal appraisal of Internal Audit was carried out during 2004 to ensure that it continued to meet the needs of its stakeholders and fulfill its governance role. This exercise involved extensive consultation across the Carillion Group. As a result, minor amendments to the resourcing and processes of Internal Audit were implemented in 2005.

Risk Management

The Group Head of Risk is responsible for advising on strategic risk issues across the Group, and for oversight of risk training. The Group Head of Risk is also responsible for carrying out an independent appraisal of all projects before submission to the Major Projects Committee (see page 34). This appraisal ensures that the differentiating factors of the Group's offer have been properly identified so maximising the opportunities available; it also involves ensuring that all inherent and residual risks associated with the project have been properly identified and considered.

Corporate Governance Report continued

In addition, the Risk Forum, a committee of risk professionals from each of the business groups, meets on a quarterly basis to assess the strategic risks facing the Carillion Group. The conclusions of the Risk Forum are reported to the Audit Committee.

The Major Projects Committee, a committee of the Board, acts as the sanctioning body for major commitments and transactions including capital expenditure, major contracts and company and business acquisitions and disposals. This committee has delegated authority up to specified levels, beyond which Board approval is required.

Practical guidance for all staff is maintained in Group policy and procedure documents regarding the authorisation levels for commitments, contract selectivity and bidding, the provision of guarantees, management accounting as well as reporting and resolution of suspected fraudulent activities. Wherever possible, the Board operates a policy of prosecuting individuals found to have defrauded the Company or its subsidiaries. Learning points for management are identified and action plans implemented to minimise the recurrence of fraud.

Employees are encouraged to raise genuine concerns about malpractice at the earliest possible stage and a confidential 'whistleblowing' hotline provided by an independent third party is available.

Management is responsible for the identification and evaluation of significant risks applicable to its areas of business together with the design, operation and monitoring of suitable internal controls. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources, including control breakdowns, disruption in information systems, competition, corporate social responsibility, natural catastrophe and regulatory requirements. Management is also responsible for timely and accurate reporting of business performance and for ensuring compliance with the policies set by the Board in its areas of business. Regular performance review meetings are held where management reports to the Executive Directors on business performance, risk and internal control matters. The results of these meetings are presented to the Board.

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Finance Director provides the Board with regular financial information, which includes key performance indicators and a summary of risk. Where areas for improvement are identified, the Board considers the recommendations made both by the Executive Directors and by the Audit Committee.

This report is reviewed and approved by the Audit Committee.

Audit independence
The Audit Committee and Board place great emphasis on the objectivity of the Group's auditor, KPMG Audit Plc, in their reporting to shareholders.

The KPMG audit director and manager are present at Audit Committee meetings to ensure full communication of matters relating to the audit.

The overall performance of the auditor is reviewed annually by the Audit Committee, taking into account the views of management, and feedback is provided to senior members of KPMG unrelated to the audit. This activity also forms part of KPMG's own system of quality control. The Audit Committee also has discussions with the auditor, without management being present, on the adequacy of controls and on any judgmental areas. These discussions have proved satisfactory to date.

The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Audit Committee after discussions between the businesses and the local KPMG offices and are then referred to the Board for approval. Rotation of audit director's responsibilities within KPMG is required by their profession's ethical standards. The current audit director responsible for the Carillion engagement is in his first year of signing the report following appointment at the 2005 Annual General Meeting. There is also rotation of key members within the audit team.

Assignments awarded to KPMG and its associates have been and are subject to controls by management that have been agreed by the Audit Committee so that audit independence is not compromised. In summary, the procedures are:

- audit related services: as auditor this is the main area of work of KPMG and its associates. If any additional accounting support is required then this is considered competitively;
- tax consulting: in cases where they are best suited, Carillion uses KPMG and its associates but the Group also uses other tax consultancies. Significant pieces of tax work are evaluated competitively;
- general and systems consulting: all significant consulting projects are subject to competitive tender.

Other than audit, the Group Finance Director is required to give prior approval of work carried out by KPMG and its associates in excess of a predetermined threshold; part of this review is to determine that other potential providers of the services have been adequately considered.

These controls provide the Audit Committee with adequate confidence in the independence of KPMG in their reporting on the audit of the Group.

Health and safety
A review of the Group's progress on health and safety, environmental and social performance is contained in the Corporate Social Responsibility section on pages 26 to 27.

R F Tapp
Secretary
8 March 2006

Remuneration Report

This report has been prepared in accordance with the Combined Code on Corporate Governance (July 2003).

The Board is responsible for determining policy for remuneration of the Directors of Carillion plc and key members of the senior management team. The Remuneration Committee consists exclusively of independent Non-Executive Directors, namely David Garman (Chairman), David Maloney and Vanda Murray and is responsible for formulating policy and recommending to the Board the remuneration of the Executive Directors. The Board determines the fees of the Non-Executive Directors based on independent external advice.

The Remuneration Committee is assisted in remuneration decisions by Susan Morton, Group HR Director and by John McDonough, Group Chief Executive. The Group Chief Executive is consulted on the remuneration of his direct reports and other senior executives. No Executive Director or employee is present when his or her remuneration is being discussed.

Additionally, the Remuneration Committee uses Deloitte & Touche LLP to provide salary survey and benchmarking information. Deloitte & Touche LLP which was appointed in 2005 has no other connections with the Company.

Remuneration policy

It is the policy of the Company to ensure that remuneration and other benefits attract, motivate and retain Executive Directors and senior managers of the required calibre to achieve the Board's objectives, including that of achieving growth in shareholder value. Remuneration and other benefits are determined with regard to competitive market practice and, where considered appropriate, are supported by external independent surveys. The main elements of remuneration of the Executive Directors are basic salary and pension benefits, together with an annual bonus and share based incentives linked to financial performance to ensure that the interests of the Executive Directors are aligned to those of shareholders. The Company intends to continue this approach to the structure of remuneration for the foreseeable future.

The Group's remuneration policy is also based upon Carillion's strategic objectives, which specifically include achieving high standards in respect of sustainability, which encompasses Carillion's health and safety, environmental and social performance.

Service contracts

Each of the Executive Directors' service contracts are terminable by one year's notice from the Company. On termination of their employment, Executive Directors of the Company have no additional entitlement to compensation for loss of their office as Directors. The service contracts contain provision for early termination. In determining compensation for early termination of a service contract, the Remuneration Committee will consider the specific circumstances together with the Company's commitments under the individual's contract (including future bonuses).

Name	Commencement	Notice Period	Term
John McDonough	1 January 2001	12 months	Rolling
Chris Girling	13 September 1999	12 months	Rolling
Roger Robinson	29 July 1999	12 months	Rolling

Non-Executive Directors are not employed under contracts of service, but are generally appointed for fixed terms of three years renewable for further terms of one to three years if both parties agree. David Garman, David Maloney, Vanda Murray and Philip Rogerson are in their initial three year terms.

Basic salary and other benefits

The basic salaries and other benefits of the Executive Directors are set by the Remuneration Committee and are determined taking into account individual performance and information provided by independent sources on the rate of salary for similar posts in comparable companies. The aim is to reward Directors fairly and competitively.

Other benefits typically include a company car, private healthcare and salary supplements (or contributions to a funded unapproved retirement benefit scheme (FURBS)) in place of approved pension provision for salary over the annual earnings cap.

Annual performance bonus and deferred bonus plan

Annual bonuses are reviewed each year by the Remuneration Committee, which sets performance targets geared to key financial indicators and individual performance objectives. In 2005, the Executive Directors had the potential to earn annual bonuses up to a maximum of 75% of their basic salary for outstanding performance. The bonus arrangement for 2005 set a financial performance target based on earnings per share and individual, detailed and confidential personal performance objectives that support the strategic objectives of the Company. The maximum bonus opportunity of 75% comprises an annual cash payment limited to 30% of salary with a deferred bonus of shares of the Company with a value of up to 45% of salary vesting after two years. The number of shares allocated is determined by the price prevailing at the date the bonus is confirmed and the amount by which the bonus earned exceeds 30% of basic salary at the end of the bonus year in question. The shares are released on the condition that the recipient makes funds available to the Company at the point of transfer to allow the Company to meet its tax and National Insurance obligations on the value of the shares transferred. The potential bonus available in 2006 will be 100% of basic salary comprised of a cash payment of up to 30% of basic salary with a deferred bonus of shares in the Company up to the value of 70% of salary vesting after two years.

Remuneration Report continued

In relation to the 2004 bonus arrangement, the Executive Directors, on 7 April 2005 received a deferred bonus of shares as follows:

	Number of shares
John McDonough	29,395
Chris Girling	17,479
Roger Robinson	18,870

These shares have been held in Trust for a year and will be transferred in April 2006 following payment of the tax and National Insurance obligations.

Directors' remuneration

The remuneration of the Directors of Carillion plc for the year ended 31 December 2005 is set out in the table below.

Pension benefits

The Group makes contributions to an Inland Revenue approved defined benefit scheme and, where applicable and where the individual has so elected, to FURBS on behalf of the Executive Directors. Alternatively, a payment equal to the contribution the Group would have made to the funded unapproved arrangement is paid to the Executive Director as a salary supplement. Contributions to the funded unapproved arrangements are reported as a benefit in kind on an annual basis. Salary supplements are taxed at source.

£000	Basic salary/fees	Annual performance bonus	Other benefits	Total 2005	Total 2004
John McDonough	430	195	126	**751**	645
Chris Girling	270	120	72	**462**	395
Roger Robinson	275	125	75	**475**	406
Total for Executive Directors	975	440	273	**1,688**	1,446
Sir Neville Simms	67		13	**80**	187
Roger Dickens	42			**42**	45
Philip Rogerson	107			**107**	19
Andrew Parrish	23			**23**	45
David Garman	43			**43**	13
Vanda Murray	23			**23**	–
David Maloney	7			**7**	–
Total for Non-Executive Directors	312		13	**325**	309
Total for all Directors	1,287	440	286	**2,013**	1,755

The auditor is required to report on the information contained in the above table.

Sir Neville Simms and Andrew Parrish stood down as Directors on 11 May 2005 and Roger Dickens on 2 December 2005. Philip Rogerson succeeded Sir Neville as Chairman of the Company on 11 May 2005. David Garman became Chairman of the Renumeration Committee on 1 June 2005 in succession to Andrew Parrish. Vanda Murray was appointed a Director on 1 June 2005 and David Maloney on 1 November 2005.

Included in 'Other benefits' is a salary supplement for John McDonough of £109,300 (2004: £102,060) in respect of salary over the Inland Revenue pensions earnings cap. Contributions were payable to FURBS in respect of Chris Girling of £55,540 (2004: £51,660) and Roger Robinson of £57,220 (2004: £53,340).

Remuneration Report continued

The bonus figures shown on page 36 are paid in two elements; up to 30% of basic salary is paid in cash and the balance in the form of deferred shares in the Company vesting after two years. The amounts shown above were therefore split as follows:

£000	Cash payment	Value of deferred shares
Executive Director		
John McDonough	122	73
Chris Girling	77	43
Roger Robinson	78	47

John McDonough retained the fees of £40,000 per year that he was paid as a non-executive Director of Exel plc until he retired from the Board on 13 December 2005. Chris Girling retains the fees of £35,000 per year that he is paid as a Non-Executive Director of Elementis plc.

Executive pensions

Until April 2003, it was the Company's policy to offer membership of the Carillion 'B' Pension Scheme to Executive Directors and other senior employees. This scheme was operational from 1 October 1999. The scheme is a funded, Inland Revenue approved, defined benefit scheme to which members contribute 7% of pensionable earnings. The main features are:

- pension payable at the normal retirement age of 60 (save in cases of ill health or early retirement);
- pension accrual rate for Executive Directors of 1/30th of final pensionable salary for each year of service targeting a pension (at normal retirement age) of two thirds of final pensionable salary (subject to twenty years' service after which employee contributions cease);
- increases to pensions in payment (in excess of the State Guaranteed Minimum Pension) in line with price indexation up to 5% per annum for service to 5 April 2006 and 2.5% per annum for service after that date;
- life assurance of four times pensionable salary;
- pensions payable in the event of ill health; and
- on death (in service or after retirement), spouse's and/or dependent's pension at two thirds of member's prospective pension.

Maximum pension benefits of two thirds of pensionable salary are offset by any pension benefits accruing from earlier pension arrangements.

The Carillion 'B' Pension Scheme was closed to new entrants with effect from 1 April 2003. Pension provision for senior managers and Executives is now through their existing Carillion scheme (for current employees) or the Carillion Pension Plan (for new employees and existing employees who opted for membership). The Carillion Pension Plan is a defined contribution pension arrangement that provides members with pensions at retirement based on the accumulated value of their notional pension account within the plan.

The current Executive Directors are subject to the Inland Revenue earnings cap and their pensionable salary is limited accordingly. They are provided with additional benefits by way of individual FURBS or a salary supplement equal to the contribution the Group would have made to a FURBS and with unapproved life cover of four times salary over the earnings cap. In all cases, any contributions made to these arrangements in respect of the year are disclosed separately on page 36. As these additional arrangements are limited to the balance of basic salary in excess of the earnings cap, bonus paid to Executive Directors does not count towards pension benefits. The Company does not contribute to any pension arrangements for Non-Executive Directors. The Company has agreed with the Trustees of the Carillion pension schemes that it will continue to operate an earnings cap after April 2006 when the external cap is removed. The Carillion cap will commence at the level of £110,000 for the tax year 2006/07 and rise in line with the published increases in the Life Time Allowance up until 2010 in line with the table below.

Year	Cap
2006–07	£110,000
2007–08	£117,400
2008–09	£121,100
2009–10	£128,500
2010–11	£132,200

All the Executive Directors will be subject to this cap on salary pensioned through the Carillion 'B' Pension Scheme but they will be provided with a salary supplement on the same basis as currently or equal to the funding currently made to FURBS. FURBS funding will cease in March 2006.

The following additional changes have been made to the provisions of the Carillion 'B' Pension Scheme:

- in respect of benefits arising from service after 6 April 2006, increases to pensions in payment (in excess of the State Guaranteed Minimum Pension) will be in line with price indexation up to 2.5% per annum;
- life assurance of four times basic salary will be made through the scheme (subject to the Life Time Allowance);
- the twenty year limit on contributory service is removed and replaced with an overall benefit limit of two thirds of pensionable salary (subject to the Carillion cap).

These changes closely replicate the current position while using the available efficiencies regarding life assurance and reducing the Company's liabilities in respect of pension increases.

Remuneration Report continued

Directors' pensions
Pensions accruing during the year to Executive Directors in their capacity as Directors of Carillion plc are set out below.

	Accrued pension at 31 Dec 05 £ per annum	Increase in accrued pension over year excluding inflation £ per annum	Increase in accrued pension over year including inflation £ per annum	Value of increase in accrued pension at 31 Dec 05 less member contributions during the year £	Transfer value at start of year £	Transfer value at end of year £	Increase in transfer value over year after member contributions £
John McDonough	17,600	4,000	3,699	49,130	182,669	265,309	75,311
Chris Girling	21,707	4,140	3,751	46,146	218,540	305,405	79,536
Roger Robinson	53,203	4,928	3,860	53,994	677,431	835,559	105,799

The auditor is required to report on the information contained in the above table.

Share incentive schemes
The Company now operates three share incentive schemes to motivate employees and to encourage them to invest in the future success of the Group. The Executive Share Option Scheme (Approved and Unapproved) and the Long Term Incentive Plan have challenging performance criteria which apply similarly to all participants. In addition, a Sharesave Scheme operates to give UK employees the opportunity to have a financial stake in the Company.

Executive Share Option Scheme
Share options have been granted to the Executive Directors and certain senior managers under the Executive Share Option Scheme. The options were granted at an exercise price equal to the average market price of the Company's shares on the three business days immediately preceding the date of grant.

Options under the Inland Revenue Approved Executive Share Option Scheme 1999 (which carries certain tax advantages for UK employees) and the Executive Share Option Scheme 1999 are exercisable normally between three and ten years after the date of grant, subject to the achievement of the performance condition. For options granted between October 1999 and October 2002, the performance condition requires that the earnings per share of Carillion over a rolling three year period must increase by a percentage that is not less than the increase in the UK Retail Prices Index over the same period, expressed as a percentage, plus four percentage points per annum. This performance condition was selected in order to provide an incentive which aligns the interests of executives with those of shareholders in growing the Company's earnings per share. However, as this performance condition no longer complied with best practice, at the 2003 Annual General Meeting, shareholders resolved that future options granted under both schemes become exercisable in accordance with the following table:

Average compound annual earnings per share growth (before exceptional items) in excess of RPI over the three year period following grant	Percentage of option that becomes exercisable
Less than 4%	0%
4%	30%
Above 4% and below 10%	30% to 100% (straight-line basis)
10% or more	100%

To the extent that this performance condition is not met in full at the end of the three year period following grant, there is the opportunity for no more than one re-test of performance (from a fixed base) at the end of the following year.

The first grants of options using this new performance condition were made on 1 July 2003 and subsequently on 31 March 2004 and 15 March 2005.

The aggregate value of options granted to an employee under the Executive Share Option Scheme cannot normally exceed their basic salary in any year without the prior approval of the Remuneration Committee.

At 31 December 2005, Executive Share Options were outstanding over 3,391,236 shares (2004: 3,653,138 shares) at exercise prices ranging from 125.2 pence to 242.75 pence.

Long Term Incentive Plan
Conditional awards under the Long Term Incentive Plan have been made to the Executive Directors and key members of senior management, in recognition of the contribution that these individuals can make to the Group's success.

There is no subscription price for the shares, the award of which is conditional on the Company's performance during a three-year period in delivering Total Shareholder Return (TSR) against a comparator group of companies in the Construction and Building Materials and Support Services sectors or, in respect of the awards made in 2005, the FTSE 250 index.

The companies comprising the comparator group for Long Term Incentive Plan awards made in January 2002 were Amec plc, WS Atkins plc, Balfour Beatty plc, Interserve plc, Jarvis plc, Kier Group plc, Alfred McAlpine plc, Mowlem plc and Taylor Woodrow plc. (Amey plc was in the comparator group but was removed as it delisted from the London Stock Exchange in June 2003).

Carillion subsequently came second in this comparator group at the end of the three year performance period for these 2002 awards with the result that 85% of the awards vested and a total of 172,913 shares transferred to two participants in March 2005.

Remuneration Report continued

Following review in 2003, the Remuneration Committee considered that with a comparator group of ten companies, the removal of one company (through takeover or otherwise) would have a proportionately greater impact on the extent of the vesting of awards than if the comparator group was larger. Consequently, shareholders at the 2003 AGM approved that future awards granted under the Long Term Incentive Plan would be subject to Carillion's TSR performance against an expanded group of 12 companies as follows:

Carillion ranking at end of three years	Percentage of award that will vest
First place	100%
Between the median and first place	Straight line vesting between 30% at the median and 100% for first place
Median	30%
Below the median	No award

The comparator group for awards made following the 2003 shareholder approval is Amec plc, WS Atkins plc, Balfour Beatty plc, Interserve plc, Jarvis plc, Kier Group plc, Alfred McAlpine plc, Mowlem plc, Morgan Sindall plc, John Laing plc and Serco Group plc. (Again, Amey plc was in this comparator group until it was delisted. Mowlem plc was also delisted in February 2006.)

To date awards with this performance condition have been made on 1 July 2003 and 31 March 2004.

Awards equivalent to 100% of annual salary were also made to Executive Directors on 15 March 2005: the Remuneration Committee resolved that these 2005 awards will have a performance condition based on Carillion's TSR performance against the FTSE 250.

The performance conditions were chosen in order to align the interests of Directors and senior managers with those of shareholders in growing total shareholder return against comparator companies and sectors.

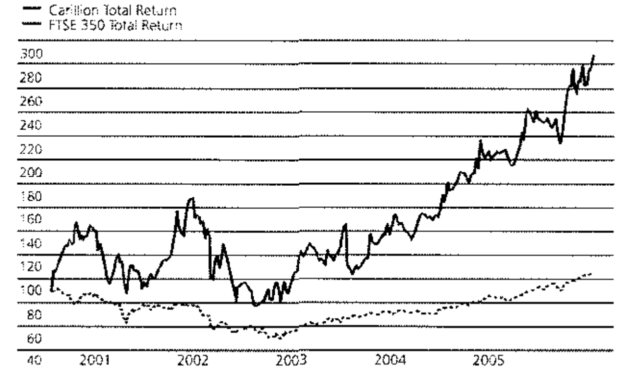
At 31 December 2005, Long Term Incentive Plan awards were outstanding over a total of 2,221,874 shares (2004: 1,431,327 shares).

Conditional awards made to Executive Directors under the Long Term Incentive Plan are set out in the table of share incentives on page 40. The awards represent the maximum number of shares that could be awarded to Executive Directors under the performance periods commencing on 1 July 2003, 1 January 2004 and 1 January 2005. The monetary value of the conditional awards attributed to each Director was based on their annual basic salary at the date of award and the number of shares was calculated using the share prices of 162.1 pence, 143 pence and 225 pence, the average share prices over the six weeks immediately before the commencement of the respective performance periods.

Following a review of the share incentives currently offered by the Company, the Remuneration Committee has recommended the implementation of a new long term incentive plan, the Carillion plc 2006 Long Term Incentive Plan, for senior executives. Shareholder approval of this new long term incentive plan will be sought at the Annual General Meeting on 10 May 2006.

Total Shareholder Return (TSR) Performance Graph
The following graph shows the TSR of Carillion plc compared with the TSR of the FTSE 350 Index for the period from 1 January 2001 to 31 December 2005.

Total Shareholder Return 1 January 2001 to 31 December 2005



The FTSE 350 was chosen as the comparator group in order to illustrate the Company's TSR performance against a broad equity market index of the UK's leading companies.

The Sharesave Scheme
The Company operates a Sharesave Scheme which provides a savings and investment opportunity for employees in the UK. The options may normally be exercised on completion of a three or five year savings contract, at a price equivalent to not less than 80% of the market value of the shares at the time of grant. Options were granted in November 1999 over 6,140,194 shares and in October 2002 over 3,995,803 shares.

The five year options granted in November 1999 became exercisable for a six month period commencing 1 January 2005 at an option price 109.1 pence. A total of 983,369 shares were issued following maturity.

The three year options granted in October 2002 became exercisable for a six month period commencing 1 January 2006 at an option price of 126.6 pence. To date, the market price of Carillion shares has not been less than 299 pence during this latter period of exercise.

At 31 December 2005, options over 1,895,908 ordinary shares of 50 pence each were outstanding under the Sharesave Scheme (2004: 3,481,966 ordinary shares of 50 pence each), exercisable up to June 2006 at an exercise price of 126.6 pence.

The Carillion share option and share incentive schemes comply with the share dilution guidelines.

Remuneration Report continued

Share incentives of Directors of Carillion plc

The awards held by Executive Directors of the Company under the Long Term Incentive Plan are detailed below:

	As at 1 January 2005	Long Term Incentive Plan awards granted during the year	Awards vesting during the year	Awards lapsing during the year	**As at 31 December 2005**	Date of award	Mid market share price on date of award
John McDonough							
LTIP 2003 (maximum)	118,739	–	–	–	**118,739**	01.07.2003	159p
LTIP 2004 (maximum)	141,608	–	–	–	**141,608**	31.03.2004	187p
LTIP 2005 (maximum)	–	191,043	–	–	**191,043**	15.03.2005	244.5p
Chris Girling							
LTIP 2003 (maximum)	75,561	–	–	–	**75,561**	01.07.2003	159p
LTIP 2004 (maximum)	89,160	–	–	–	**89,160**	31.03.2004	187p
LTIP 2005 (maximum)	–	119,957	–	–	**119,957**	15.03.2005	244.5p
Roger Robinson							
LTIP 2003 (maximum)	77,103	–	–	–	**77,103**	01.07.2003	159p
LTIP 2004 (maximum)	90,909	–	–	–	**90,909**	31.03.2004	187p
LTIP 2005 (maximum)	–	122,178	–	–	**122,178**	15.03.2005	244.5p

The auditor is required to report on the information contained in the above table.

The number of options over Carillion plc shares held by Executive Directors of the Company under the Executive Share Option and Sharesave schemes is detailed below:

	As at 1 January 2005	Granted during the year	Exercised	**As at 31 December 2005**	Exercise price	Earliest date from which exercisable	Expiry date	Mid market share price on date of grant
John McDonough								
ESOS 2001	501,930	–	–	**501,930**	129.5p	09.01.04	09.01.11	135.5p
ESOS 2002	254,532	–	–	**254,532***	210.7p	19.03.05	19.03.12	197.5p
ESOS 2003	188,494	–	–	**188,494**	163.4p	01.07.06	01.07.13	159.0p
ESOS 2004	175,229	–	–	**175,229**	184.9p	31.03.07	31.03.14	187.0p
Chris Girling								
ESOS 2003	119,950	–	–	**119,950**	163.4p	01.07.06	01.07.13	159.0p
ESOS 2004	110,329	–	–	**110,329**	184.9p	31.03.07	31.03.14	187.0p
Roger Robinson								
ESOS 2003	122,398	–	–	**122,398**	163.4p	01.07.06	01.07.13	159.0p
ESOS 2004	112,493	–	–	**112,493**	184.9p	31.03.07	31.03.14	187.0p

The auditor is required to report on the information contained in the above table.

*The option over 254,532 shares at an option price of 210.7 pence granted to John McDonough in March 2002 under the Executive Share Option Scheme was made later in the year than had been specified at the time of his appointment which resulted in an increased option price of 67.3 pence. Therefore, in order to ensure that he will be in no worse nor better a position as a result of the delay in the grant, a maximum cash adjustment of 67.3 pence per share (less tax) will be made when and if the option is exercised.

There have been no changes to the interests of Executive Directors in share incentives and options in the period 1 January to 8 March 2006. The performance conditions for the options shown in the table are as detailed in this Remuneration Report in the summaries of the relevant schemes.

Employee benefit trusts

An employee benefit trust has been established to acquire shares in Carillion plc and hold them for the benefit of participants in the share incentive and share option schemes. At 31 December 2005, the Trust held 3,715,612 Carillion shares (2004: 4,238,013 shares) (1.73% of the issued share capital and a nominal value of £1.9 million) (2004: 1.98% and £2.1 million) acquired over a period in the open market and which have a carrying value of £5.4 million. The market value of the shares held at 31 December 2005 was £11.4 million (2004: £9.6 million).

Remuneration Report continued

Additionally, a Qualifying Employee Share Ownership Trust (QUEST) operates in conjunction with Carillion in providing shares to employees under its Sharesave Scheme. At 31 December 2005, the QUEST held 390,334 Carillion shares (2004: 819,383 shares) (0.18% of the issued share capital and a nominal value of £0.2 million) (2004: 0.38% and £0.4 million) at subscription prices ranging from 115.5 pence to 269.0 pence per share, to enable it to satisfy, as and when required, options granted under the Sharesave Scheme. The market value of the shares held by the QUEST at 31 December 2005 was £1.2 million (2004: £1.9 million).

For details of dividends paid to the above trusts see Note 23 to the Consolidated Financial Statements on page 70.

Directors' share interests

Ordinary shares

The beneficial interests of the Directors and their immediate families in the ordinary share capital of the Company are shown below:

Fully paid 50p ordinary shares owned:	As at 1 January 2005	**As at 31 December 2005**
Executive Directors		
John McDonough	467,100	**480,223**
Chris Girling	58,258	**58,258**
Roger Robinson	50,343	**50,343**
Non Executive Directors		
Sir Neville Simms	427,041	**N/A**
Roger Dickens	22,043	**N/A**
David Garman	10,000	**10,000**
Andrew Parrish	37,529	**N/A**
Philip Rogerson	10,033	**10,033**
Vanda Murray	N/A	**–**
David Maloney	N/A	**–**

There has been no change in Directors' interests in the period 1 January to 8 March 2006.

The closing mid-market price of Carillion shares at 31 December 2005 and the highest and lowest mid-market prices during the year were as follows:

	Share price
31 December 2005	306.0 pence
High (2 December 2005)	318.0 pence
Low (4 May 2005)	223.5 pence

Approved by order of the Board

D N C Garman
Chairman of the Remuneration Committee
8 March 2006

Report of the Directors

The Directors of Carillion plc present their annual report, together with the audited financial statements for the year ended 31 December 2005.

Principal activities and business review
Carillion is a leading company delivering integrated solutions for infrastructure, buildings and services and operating throughout the UK and in a number of overseas regional markets.

A review of the Group's businesses, financial performance and future developments is contained in the Chairman's Statement and Operating and Financial Review.

Analyses of revenue, results and net assets by business segment and geographical location are given in Note 2 on page 55.

Profits and dividends
The consolidated income statement is shown on page 46. The pre-tax profit on ordinary activities was £51.9 million (2004: £66.8 million).

A 2005 interim dividend of 2.8 pence per ordinary share (2004: 2.675 pence) was paid in November 2005. It is proposed to pay a final dividend of 5.2 pence per ordinary share (2004: 4.825 pence) on 23 June 2006 to shareholders on the register at the close of business on 28 April 2006. The payment of these 2005 interim and final dividends amounts to £20.6 million (2004: £15.7 million).

A dividend reinvestment plan (DRIP) will also be offered.

Directors
The Directors of the Company who served during 2005 are shown on page 36 of the Remuneration Report. Biographical details for each Director at 31 December 2005 are given on pages 28 and 29.

Vanda Murray was appointed a Non-Executive Director on 1 June 2005 and David Maloney on 1 November 2005. Mrs Murray and Mr Maloney will hold office until the Annual General Meeting at which, being eligible, they offer themselves for election.

Both Mrs Murray and Mr Maloney have three year terms of appointment and are members of the Audit, Nominations and Remuneration Committees. Mr Maloney is Chairman of the Audit Committee.

In accordance with the Articles of Association, Roger Robinson retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting on 10 May 2006. Roger Robinson has a contract of service which is subject to one year's notice of termination by the Company.

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration Report on page 41.

Employees
Information relating to employee numbers and remuneration is given in Note 7 on page 58.

Employees are key to achieving Carillion's business strategy and the Group is committed to improving their skills through training and development and nurturing a culture in which employees feel valued for their contribution and are motivated to achieve their full potential.

Carillion's core values of openness, collaboration, mutual dependency, innovation, professional delivery and sustainable profitable growth have been developed to emphasise the changing working practices required to succeed in an environment where partnership and integrated solutions are becoming the norm.

It is Carillion's aim to foster a working environment in which all employees are treated with courtesy, dignity and respect. Carillion continually strives to eliminate all bias and unlawful discrimination in relation to job applicants, employees, business partners and members of the public. Employees who become disabled are, wherever possible, retrained or provided with equipment so that they can continue their employment.

The objectives of Carillion's Equal Opportunity and Diversity Policy are:
- to have a workforce that represents and responds to the diversity of customers and today's society;
- improved safety and quality provided by a balanced and productive workforce;
- better public image and market position, leading to improved links with the community in which Carillion works;
- adherence to legal requirements;
- lower staff turnover, absenteeism and sickness levels leading to cost savings;
- to provide a fair working environment in which discrimination will not be tolerated;
- to create a working environment free from discrimination, harassment, victimisation and bullying;
- to work towards finding ways for under represented groups to fully realise their potential within Carillion and to take reasonable steps to help such groups;
- to ensure that all employees are aware of the Group Equal Opportunities and Diversity Policy and to provide any necessary ongoing training to enable them to meet their responsibilities under it; and
- Carillion also recognises the merit of developing a workforce that incorporates the many diverse skills and backgrounds available from within the total population and accordingly, will strive to become an organisation that will recognise, value and understand diversity and provide its employees with genuine opportunities to improve and reach their full potential.

Carillion places great importance on open and regular communication with employees through both formal and informal processes. As part of this commitment, a Group newspaper, 'Spectrum', is produced on a regular basis for all employees.

The views of employees on matters affecting their interests are also sought through 'The Great Debate'. This is a major exercise which was undertaken by the Group in 2003, 2004 and 2005 to capture the feelings and views of as wide a range of employees as possible. These views are then taken into account in the development of work related initiatives as part of Carillion's strategy to become an employer of choice. In 2005, around 1,400 employees attended 'The Great Debate' sessions.

Report of the Directors continued

Carillion stages 'The Great Debate' as part of the ongoing quest for cultural change and to produce step changes which:

- raise understanding of what drives motivation, morale, engagement and performance;
- allows employees to take ownership and be empowered to build and implement solutions; and
- demonstrates Carillion's desire to change attitudes and behaviours based on listening to the views of its employees.

Additionally, 'Team Talk' which is held monthly provides Carillion employees with a face to face communication with their line managers and facilitates two-way communication, discussion and feedback. It focuses on local issues and key corporate messages and information.

One to one meetings between individual employees and their line managers are also held to discuss performance and progress.

Employees can also exchange best practice information on a Knowledge Management Forum on the Group intranet.

Carillion seeks to involve all employees in its leading edge programmes to integrate safety into everything it does and to improve its environmental performance, including the understanding and application of the principles of sustainability. Further information on Health and Safety, the Environment and Community is given in the Corporate Social Responsibility report on pages 26 and 27.

Carillion also involves, engages and consults with employees through 'People Forums' across the Group which give employees the opportunity to express their views on business issues. Specifically, the objectives of the 'People Forums' are:

- to improve employee information and consultation;
- to help employees feel more involved and valued;
- to support the continued education and development of employees;
- improve business performance by enabling employees to be better aware of the business climate in which they operate; and
- to help employees to be responsive to and better prepared for change.

Substantial share interests

At 8 March 2006, the Company had received formal notification of the following substantial interests in the ordinary share capital of the Company:

	Number of shares held	Percentage
Schroder Investment Management Limited, its subsidiaries and affiliated companies	42,177,184	15.03%
Fidelity International Ltd and its direct and indirect subsidiaries	13,869,292	4.94%

Policy for payment of suppliers

It is the policy of the Group that each business agrees terms and conditions for transactions with its suppliers and for payment to be made on these terms providing the suppliers meet their obligations to the businesses' satisfaction. The Group as a whole therefore does not apply a general recognised code with regard to the payment of all suppliers. The Company does not have any trade creditors.

The number of days credit outstanding for the Group averaged 62 days at 31 December 2005 (63 days at 31 December 2004).

Charitable and political contributions

Payments for charitable purposes made by the Group during the year ended 31 December 2005 amounted to £84,000 (2004: £76,000). The primary beneficiaries of these charitable donations were The Wildlife Trust, Business in the Community, the British Heart Foundation and CRASH, the construction and property industry charity for the homeless.

The Carillion Group also contributes more than one per cent of profits per annum in cash or in-kind (staff time on community projects) to community activities and is a member of the Business in the Community PerCent Club.

The Company and its subsidiaries made no political donations during the period under review.

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Wednesday 10 May 2006 at Austin Court, 80 Cambridge Street, Birmingham B1 2NP. The notice of the Annual General Meeting accompanies this annual report and accounts.

Amongst the business to be transacted is a proposal to renew the authority for the Company to purchase its own shares. As at 31 December 2005, the Company had authority from shareholders for the purchase of 21,451,268 of its own shares.

Auditor

Resolutions to reappoint KPMG Audit Plc as auditor and to authorise the Directors to determine its remuneration will be proposed at the Annual General Meeting.

Approved by order of the Board

R F Tapp

R F Tapp
Secretary
8 March 2006

Statement of Directors' Responsibilities in Respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company. In preparing each of the Group and Parent Company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent 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 Parent 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 Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Carillion plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Carillion plc for the year ended 31 December 2005 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Statement of Cash Flows, the Consolidated Statement of Recognised Income and Expense and the related notes. These 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.

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 Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU, and for preparing the Parent Company financial statements and the Directors' Remuneration Report 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 44.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited 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 whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. 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 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 statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 and the part of the Directors' Remuneration Report to be audited. 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 Group's and 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 and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, 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 have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2005; and
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham
8 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 £m	2004 £m
Total revenue		**2,284.2**	1,985.1
Less: Share of jointly controlled entities revenue		**(258.7)**	(126.1)
Revenue	2	**2,025.5**	1,859.0
Cost of sales		**(1,888.6)**	(1,698.9)
Gross profit		**136.9**	160.1
Administrative expenses		**(104.6)**	(116.6)
Group operating profit	4	**32.3**	43.5
Jointly controlled entities			
Operating profit		**20.3**	13.0
Net financing income/(expense)		**1.1**	(3.4)
Non-operating items	5	**(0.8)**	1.5
Income tax		**(5.0)**	(2.0)
Share of results of jointly controlled entities	3	**15.6**	9.1
Profit from operations		**47.9**	52.6
Non-operating items	5	**–**	10.1
Financial income	6	**54.4**	52.3
Financial expenses	6	**(50.4)**	(48.2)
Net financing income		**4.0**	4.1
Profit before tax*		**51.9**	66.8
Income tax	8	**(11.1)**	(8.6)
Profit for the year		**40.8**	58.2
Attributable to:			
Equity holders of the parent		**39.3**	56.4
Minority interests		**1.5**	1.8
Profit for the year		**40.8**	58.2
Earnings per share*	10		
Basic		**18.7p**	27.1p
Diluted		**18.4p**	26.7p
Total dividend declared for the year	9	**8.0p**	7.5p

The above results for both years derive from continuing operations.
*A reconciliation of the reported result to the underlying result is given in Note 10(b).

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2005

	2005 £m	2004 £m
Foreign exchange translation adjustments	**1.6**	(1.1)
Actuarial gains and losses on defined benefit pension schemes	**6.7**	26.3
Group share of change in fair value of cash flow hedges within jointly controlled entities (net of tax)	**(1.3)**	–
	7.0	25.2
Tax in respect of the above	**(1.5)**	(8.3)
Income and expense recognised directly in equity	**5.5**	16.9
Profit for the year	**40.8**	58.2
Total recognised income and expense for the year	**46.3**	75.1
Effect of adoption of IAS 32 and IAS 39 (net of tax) on 1 January 2005		
Hedging reserve	**(9.7)**	
Fair value reserve	**0.9**	
	37.5	
Attributable to:		
Equity holders of the parent	**44.8**	73.3
Minority interests	**1.5**	1.8
Total recognised income and expense for the year	**46.3**	75.1

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 £m	2004 £m
Assets			
Non-current assets			
Property, plant and equipment	11	**100.9**	69.9
Intangible assets	12	**62.3**	20.3
Retirement benefit assets	31	**6.4**	4.6
Investments in jointly controlled entities	13	**62.7**	65.1
Other investments	14	**4.7**	6.8
Deferred tax assets	15	**35.2**	35.3
Total non-current assets		**272.2**	202.0
Current assets			
Inventories	16	**21.2**	18.0
Income tax receivable		**0.2**	0.4
Trade and other receivables	17	**459.7**	389.1
Cash and cash equivalents	18	**180.9**	202.7
Total current assets		**662.0**	610.2
Total assets		**934.2**	812.2
Liabilities			
Current liabilities			
Borrowings	19	**(17.0)**	(17.4)
Derivative financial instruments	27	**(0.3)**	–
Trade and other payables	20	**(600.4)**	(486.2)
Provisions	21	–	(1.8)
Income tax payable		**(13.3)**	(24.4)
Total current liabilities		**(631.0)**	(529.8)
Non-current liabilities			
Borrowings	19	**(73.1)**	(56.5)
Retirement benefit liabilities	31	**(74.3)**	(89.8)
Deferred tax liabilities	15	**(6.0)**	(8.1)
Provisions	21	–	(0.4)
Total non-current liabilities		**(153.4)**	(154.8)
Total liabilities		**(784.4)**	(684.6)
Net assets		**149.8**	127.6
Equity			
Issued share capital	22	**107.4**	107.1
Share premium	23	**8.2**	6.8
Reserves	23	**(1.0)**	6.8
Retained earnings	23	**34.1**	4.8
Equity attributable to equity holders of the parent		**148.7**	125.5
Minority interests		**1.1**	2.1
Total equity		**149.8**	127.6

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

J McDonough

John McDonough
Chief Executive

Chris Girling
Finance Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2005

	Note	2005 £m	2004 £m
Cash flows from operating activities			
Profit for the year		**40.8**	58.2
Depreciation, amortisation and impairment		**20.5**	16.8
Profit on disposal of property, plant and equipment		**(0.9)**	–
Share-based payment expense		**1.2**	0.6
Other non-cash movements		**(3.2)**	3.0
Share of results of jointly controlled entities		**(15.6)**	(9.1)
Non-operating profit on disposal of property, plant and equipment		–	(2.9)
Profit on disposal of investments in jointly controlled entities		–	(7.7)
Loss on disposal of businesses		–	0.5
Net financing income		**(4.0)**	(4.1)
Income tax expense		**11.1**	8.6
Operating profit before changes in working capital and provisions		**49.9**	63.9
Increase in inventories		**(2.6)**	(1.9)
(Increase)/decrease in trade and other receivables		**(26.4)**	16.5
Increase in trade and other payables		**65.1**	13.7
Decrease in provisions		**(2.2)**	(0.3)
Cash generated from operations before pension scheme contribution		**83.8**	91.9
Contribution to PME pension scheme		**(10.0)**	–
Cash generated from operations		**73.8**	91.9
Financial expenses paid		**(4.6)**	(3.5)
Income taxes paid		**(19.5)**	(12.7)
Net cash flows from operating activities		**49.7**	75.7
Cash flows from investing activities			
Disposal of property, plant and equipment		**7.3**	6.9
Disposal of investments in jointly controlled entities		**0.6**	20.2
Disposal of other non-current investments		**3.4**	0.9
Financial income received		**7.4**	7.2
Dividends received from jointly controlled entities		**8.4**	7.3
Disposal of businesses, net of cash disposed of		–	(4.3)
Acquisition of subsidiary, net of cash acquired	30	**(37.1)**	–
Acquisition of property, plant and equipment		**(34.2)**	(14.8)
Acquisition of intangible assets		**(4.3)**	(0.2)
Acquisition of equity in and loan advances to jointly controlled entities		**(2.3)**	(1.0)
Net cash flows from investing activities		**(50.8)**	22.2
Cash flows from financing activities			
Proceeds from the issue of share capital		**1.7**	0.4
Draw down of other loans		**3.4**	2.2
Repayment of bank loans		**(2.8)**	(5.6)
Payment of finance lease liabilities		**(3.7)**	(2.9)
Dividends paid to equity holders of the parent		**(16.1)**	(16.4)
Dividends paid to minority interests		**(2.5)**	(2.0)
Net cash flows from financing activities		**(20.0)**	(24.3)
Net (decrease)/increase in cash and cash equivalents		**(21.1)**	73.6
Cash and cash equivalents at beginning of year		**189.6**	116.2
Effect of exchange rate fluctuations on cash held		**1.2**	(0.2)
Cash and cash equivalents at end of year		**169.7**	189.6
Cash and cash equivalents comprise:			
Cash and cash equivalents		**180.9**	202.7
Bank overdrafts		**(11.2)**	(13.1)
		169.7	189.6

Notes to the Consolidated Financial Statements

1 Significant accounting policies
Carillion plc (the 'Company') is a company domiciled in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in jointly controlled entities.

The consolidated financial statements were authorised for issuance on 8 March 2006.

(a) Statement of compliance
The Group's financial statements as approved by the Directors have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP. These are presented on pages 85 to 91.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group was published on 30 June 2005 and is available on the Group's website at www.carillionplc.com. These consolidated financial statements include reconciliations of total equity and profit or loss for the comparative period reported under UK GAAP (previous GAAP) to those reported under IFRS (see note 35).

(b) Basis of preparation
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments and financial instruments classified as available-for-sale.

As permitted by IFRS 1, the Group has adopted IAS 32 'Financial instruments: disclosure and presentation' and IAS 39 'Financial instruments: recognition and measurement' prospectively from 1 January 2005. Consequently, comparative information for 2004 has been prepared in accordance with UK GAAP. A reconciliation of total equity at 1 January 2005 following the adoption of IAS 32 and IAS 39 is given in note 35.

As permitted by the standard, the Group has opted to adopt the requirements of IAS 19 (revised 2004) 'Employee benefits' early rather than from its effective date of 1 January 2006.

In March 2005, the International Financial Reporting Interpretations Committee (IFRIC) issued draft guidance on accounting for service concession arrangements (drafts D12 to D14). IFRIC are currently considering the comments received on this draft guidance, with the final guidance expected to be issued in late 2006. Until the final guidance is issued and endorsed by the EU and in the absence of specific guidance within IFRS, the Group has, from 1 January 2005, recognised the FRS 5 'Reporting the substance of transactions' finance debtors relating to concession arrangements held by PPP jointly controlled entities at amortised cost as defined by IAS 39. FRS 5 fixed assets relating to concession arrangements are accounted for in accordance with IAS 16 'Property, plant and equipment'. The effect of adopting this policy is to maintain the accounting within PPP jointly controlled entities in line with existing UK GAAP (with the exception of the treatment of interest rate derivatives under IAS 39), whilst ensuring that the accounting treatment complies with existing IFRS.

Basis of consolidation
(a) Subsidiaries
The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 31 December 2005. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The purchase method is used to account for the acquisition of subsidiaries.

(b) Joint ventures
A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties.

The Group's interests in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the interest in the entity the carrying amount is reduced to nil and recognition of further losses is discontinued. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

Where a Group company is party to a jointly controlled operation, that company accounts for the assets it controls, the liabilities and expenses it incurs and its share of the income. Such arrangements are reported in the consolidated financial statements on the same basis.

Notes to the Consolidated Financial Statements continued

1 Significant accounting policies continued

Other non-current asset investments

Other non-current asset investments are classified as available-for-sale financial assets and are recognised at fair value. Changes in fair value in the year are recognised directly in the statement of recognised income and expense. Dividend income from investments is recognised when the right to receive payment is established.

Goodwill and other intangible assets

Goodwill arising on acquisitions that have occurred since 1 January 2004 represents the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets and contingencies of an acquired entity. Consideration includes the attributable costs of the acquisition. In respect of acquisitions prior to 1 January 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. This is in accordance with the transitional provisions of IFRS 1.

Positive goodwill is recognised as an asset in the consolidated balance sheet and is subject to annual impairment review. Goodwill arising on the acquisition of subsidiaries is recognised separately as an intangible asset in the consolidated balance sheet. Goodwill arising on the acquisition of jointly controlled entities is included within the carrying value of the investment. Negative goodwill is recognised in the income statement immediately.

Under previous UK GAAP, goodwill arising on acquisitions prior to 1 January 1998 was written off to reserves. In accordance with the transitional provisions of IFRS 3 'Business combinations', this treatment has continued to be applied for those years. Any goodwill previously written off to reserves remains in reserves.

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on the useful economic lives of the assets concerned, which are principally as follows:

Computer software and licences	Straight line over 3-5 years
Customer contracts and lists (PMG)	Reducing balance over 6 years

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets subject to depreciation and amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement based on the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the degree of completion of each contract, as measured by the proportion of total costs at the balance sheet date to the estimated total cost of the contract.

Insurance claims and incentive payments arising from construction contracts are included where they have been agreed with the client. Variations and other claims are included where there is reasonable certainty that the amount will be settled. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. Contract costs are recognised as expenses in the period in which they are incurred.

Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is shown as due from customers on construction contracts within trade and other receivables. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is shown as due to customers on construction contracts within trade and other payables.

Pre-contract costs

Pre-contract costs are expensed as incurred until the Group is appointed preferred bidder. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is probable, pre-contract costs incurred post the appointment as preferred bidder are included in amounts owed by customers on construction contracts. Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in amounts owed by customers on construction contracts. Any excess recoveries are carried forward as deferred income and released to profit over the period of the contract.

Notes to the Consolidated Financial Statements continued

1 Significant accounting policies continued

Revenue recognition

Revenue represents the fair value of consideration receivable, excluding value added tax, for services supplied to external customers. It also includes the Group's proportion of work carried out under jointly controlled operations during the year. Revenue from service contracts is recognised by reference to the stage of completion, as measured by reference to services performed to date as a percentage of total services to be performed. Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts.

Property, plant and equipment

Depreciation is based on historical or deemed cost, less the estimated residual values, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated in equal annual installments over the period of their estimated economic lives, which are principally as follows:

Freehold buildings	40-50 years
Leasehold buildings and improvements	*Period of lease*
Plant, equipment and vehicles	3-10 years

Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the asset.

Leasing

Operating lease rental charges are charged to the income statement on a straight-line basis over the life of each lease.

Assets held under finance leases are included in property, plant and equipment at the lower of fair value at the date of acquisition or present value of the minimum lease payments. The capital element of outstanding finance leases is included in financial liabilities. The finance charge element of rentals is charged to the income statement at a constant periodic rate of charge on the outstanding obligations.

Inventories

Inventories comprise raw materials and land for development and are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currencies

In individual entities, transactions denominated in foreign currencies are translated into sterling and recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains and losses on translation are included in the income statement.

On consolidation, the balance sheets of overseas entities are translated into sterling at the rates of exchange ruling at the balance sheet date. Income statements and cash flows of overseas entities are translated into sterling at rates approximating to the foreign exchange rates at the date of the transaction. Gains or losses arising from the consolidation of overseas entities are recognised in the translation reserve.

In accordance with the transitional provisions of IFRS 1 exchange differences that arose prior to 1 January 2004 are presented within the opening retained earnings reserve at that date.

Notes to the Consolidated Financial Statements continued

1 Significant accounting policies continued
Employee benefits
(a) Retirement benefit obligations
For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

For defined benefit pension schemes, the cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the income statement reflects the current service cost of such obligations. The expected return on plan assets and the interest cost on scheme liabilities are included within financial income and expenses in the income statement.

The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of scheme liabilities over the fair value of scheme assets. Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of recognised income and expense in the year. In accordance with the transitional provisions of IFRS 1 cumulative actuarial gains and losses at 1 January 2004 are presented within the opening retained earnings reserve at that date.

The Group's contributions to the schemes are paid in accordance with the rules of the schemes and the recommendation of the actuary.

(b) Other post-retirement benefit obligations
Certain Group companies provide post-retirement healthcare benefits to its employees. The expected costs of providing these benefits are accrued over the period of employment and are calculated by independent actuaries based on the present value of the expected liability.

(c) Share-based payments
In accordance with the transitional provisions, IFRS 2 'Share-based payments' has been applied to share options granted after 7 November 2002 that had not vested at 1 January 2005. Members of the Group's senior management team are entitled to participate in the Executive Share Option Scheme (ESOS) and the Long Term Incentive Plan (LTIP). In addition, UK employees are able to participate in the Sharesave scheme.

The fair values of the ESOS 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 that 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 that will eventually vest.

Borrowing costs
Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

Borrowing costs incurred within the Group's jointly controlled entities relating to the construction of assets in PPP projects are capitalised until the relevant assets are brought into operational use.

Share capital
The ordinary share capital of the Company is recorded at the proceeds received, net of directly attributable incremental issue costs.

Consideration paid for shares in the Company held by the Employee Share Ownership Plan (ESOP) Trust are deducted from the retained earnings reserve. Where such shares subsequently vest in the employees under the terms of the Group's share option schemes or are sold, any consideration received is included in the retained earnings reserve.

Provisions
A provision is recognised on the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation.

Provisions for restructuring are recognised when the Group has an approved restructuring plan that has either commenced or been announced publicly. Future operating costs are not provided for.

Financial instruments
Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

(a) Trade receivables
Trade receivables are initially recognised at fair value and then are stated at amortised cost.

Notes to the Consolidated Financial Statements continued

1 Significant accounting policies continued

(b) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at nominal value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less. Bank overdrafts are also included as they are an integral part of the Group's cash management.

(c) Trade payables

Trade payables are initially recognised at fair value and then are stated at amortised cost.

(d) Bank and other borrowings

Interest bearing bank loans and overdrafts and other loans are recognised initially at fair value. All borrowings are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the income statement over the period to redemption.

(e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. The method of recognising the resulting change in fair value is dependent on whether the derivative is designated as a hedging instrument.

A number of the Group's PPP jointly controlled entities have entered into interest rate derivatives as a means of hedging interest rate risk. The effective part of the change in fair value of these derivatives is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date.

The Group also enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied movements in fair value are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Notes to the Consolidated Financial Statements continued

2 Segment reporting

Segment information is presented in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis. Segment trading results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Business segments

The Group is comprised of the following main business segments:

- Construction Services: UK building, development and civil engineering activities and international regional construction services.
- Support Services: Rail infrastructure, roads maintenance, facilities management and other support services.
- Investments: Equity returns on investments in Public Private Partnership (PPP) projects.

	Construction Services		Support Services		Investments		Eliminations and unallocated head office		Consolidated	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Revenue from external customers	**1,050.1**	949.3	**974.6**	908.9	**0.8**	0.8	**–**	–	**2,025.5**	1,859.0
Inter-segment revenue	**0.3**	0.5	**28.6**	25.9	**–**	–	**(28.9)**	(26.4)	**–**	–
Segment revenue	**1,050.4**	949.8	**1,003.2**	934.8	**0.8**	0.8	**(28.9)**	(26.4)	**2,025.5**	1,859.0
Segment trading result	**4.8**	10.5	**39.9**	46.3	**0.8**	(4.3)	**–**	–	**45.5**	52.5
Amortisation/impairment of intangible assets	**–**	–	**(2.5)**	–	**(0.3)**	(0.3)	**–**	–	**(2.8)**	(0.3)
Unallocated expenses	**–**	–	**–**	–	**–**	–	**(10.4)**	(8.7)	**(10.4)**	(8.7)
Group operating profit	**4.8**	10.5	**37.4**	46.3	**0.5**	(4.6)	**(10.4)**	(8.7)	**32.3**	43.5
Share of results of jointly controlled entities	**8.2**	3.2	**0.5**	0.4	**6.9**	5.5	**–**	–	**15.6**	9.1
Profit from operations	**13.0**	13.7	**37.9**	46.7	**7.4**	0.9	**(10.4)**	(8.7)	**47.9**	52.6
Non-operating items									**–**	10.1
Net financing income									**4.0**	4.1
Income tax expense									**(11.1)**	(8.6)
Profit for the year									**40.8**	58.2
Segment assets	**306.3**	304.3	**323.0**	185.0	**5.3**	7.3	**–**	–	**634.6**	496.6
Investment in jointly controlled entities	**33.6**	26.7	**1.2**	0.6	**28.3**	38.2	**(0.4)**	(0.4)	**62.7**	65.1
Unallocated assets	**–**	–	**–**	–	**–**	–	**236.9**	250.5	**236.9**	250.5
Total assets	**339.9**	331.0	**324.2**	185.6	**33.6**	45.5	**236.5**	250.1	**934.2**	812.2
Segment liabilities	**(340.7)**	(276.4)	**(229.0)**	(205.1)	**(4.3)**	(8.4)	**–**	–	**(574.0)**	(489.9)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**(210.4)**	(194.7)	**(210.4)**	(194.7)
Total liabilities	**(340.7)**	(276.4)	**(229.0)**	(205.1)	**(4.3)**	(8.4)	**(210.4)**	(194.7)	**(784.4)**	(684.6)
Net assets/(liabilities)	**(0.8)**	54.6	**95.2**	(19.5)	**29.3**	37.1	**26.1**	55.4	**149.8**	127.6
Capital expenditure	**4.0**	14.4	**29.9**	11.3	**–**	–	**20.1**	1.5	**54.0**	27.2
Depreciation and amortisation	**2.4**	3.7	**12.7**	7.9	**–**	–	**4.1**	4.7	**19.2**	16.3
Impairment losses	**–**	–	**1.0**	–	**0.3**	0.3	**–**	0.2	**1.3**	0.5

Geographic segments

	United Kingdom		Europe		Rest of the World		Consolidated	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Revenue from external customers	**1,796.7**	1,524.8	**40.2**	188.1	**188.6**	146.1	**2,025.5**	1,859.0
Segment assets	**780.4**	680.9	**15.1**	22.2	**138.7**	109.1	**934.2**	812.2
Capital expenditure	**32.7**	12.5	**0.6**	2.3	**20.7**	12.4	**54.0**	27.2

Notes to the Consolidated Financial Statements continued

3 Share of results of jointly controlled entities

The Group's share of results of jointly controlled entities is analysed below:

	2005 £m	2004 £m
Revenue	**258.7**	126.1
Operating profit	**20.3**	13.0
Net financing income/(expense)	**1.1**	(3.4)
Profit before tax and non-operating items	**21.4**	9.6
Non-operating items (see note 5)	**(0.8)**	1.5
Profit before tax	**20.6**	11.1
Income tax	**(5.0)**	(2.0)
Profit for the year	**15.6**	9.1

The Group's share of the operating profit of jointly controlled entities arises in the following business segments:

	2005 £m	2004 £m
Construction Services	**12.1**	2.0
Support Services	**0.7**	0.6
Investments	**7.5**	10.4
	20.3	13.0

4 Group operating profit

	2005 £m	2004 £m
Group operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	**15.2**	15.3
Amortisation of intangible assets	**4.0**	1.0
Impairment of goodwill relating to jointly controlled entities	**0.3**	0.3
Impairment of property, plant and equipment	**1.0**	–
Impairment of other non-current asset investments	–	0.2
Profit on disposal of property, plant and equipment	**(0.9)**	–
Operating lease charges	**65.9**	57.7
Foreign exchange losses/(gains)	**0.3**	(0.5)
Auditors' remuneration		
– audit services	**1.1**	1.0
– non-audit services	**0.3**	0.4

In addition to the above amounts included in operating profit, KPMG Audit plc were paid fees associated with the acquisition of Planned Maintenance Group Limited and Mowlem plc in the year ended 31 December 2005 amounting to £1.7m (2004: £nil). Such fees are treated as attributable costs of acquisition.

Carillion's share of the fees paid to KPMG Audit plc and its associates by Group jointly controlled entities in respect of audit services amounted to £0.1m (2004: £0.1m).

Notes to the Consolidated Financial Statements continued

5 Non-operating items

	2005 Gross £m	2005 Tax credit/(charge) £m	2004 Gross £m	2004 Tax credit/(charge) £m
Group				
Profit on disposal of investments in jointly controlled entities	–	–	7.7	–
Profit on disposal of property, plant and equipment	–	–	2.9	(0.9)
Loss on disposal of business	–	–	(0.5)	2.1
	–	–	10.1	1.2
Jointly controlled entities:				
(Loss)/profit on disposal of business	**(0.8)**	–	1.5	0.2
Total	**(0.8)**	–	11.6	1.4

The loss on disposal of business in jointly controlled entities of £0.8m in 2005 relates to the sale of a small non-core plant hire business. The Group's share of the profit on disposal of business in jointly controlled entities in 2004 relates to a non-core contracting business in the Republic of Ireland.

The profit on disposal of property, plant and equipment in 2004 of £2.9m arose on the transfer of rail maintenance contracts to Network Rail.

6 Financial income and expenses

	2005 £m	2004 £m
Financial income		
Bank interest receivable	**4.3**	4.3
Other interest receivable	**3.1**	3.1
Expected return on retirement plan assets	**47.0**	44.9
	54.4	52.3
Financial expenses		
Interest payable on bank loans and overdrafts	**(1.7)**	(1.5)
Other interest payable and similar charges	**(2.9)**	(2.5)
Interest cost on retirement plan obligations	**(45.8)**	(44.2)
	(50.4)	(48.2)
Net financing income	**4.0**	4.1

Other interest payable and similar charges includes finance lease charges of £1.5m (2004: £1.0m).

Notes to the Consolidated Financial Statements continued

7 Payroll costs and employee numbers

	2005 £m	2004 £m
Wages and salaries	**358.0**	381.7
Social security costs	**38.0**	49.4
Pension costs	**14.4**	27.0
Equity settled transactions	**1.2**	0.6
	411.6	458.7

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 31 and includes £4.4m (2004: £2.2m) in respect of defined contribution schemes.

Detailed information concerning Directors' remuneration, including their pension benefits and long term incentive arrangements, is set out in the Remuneration Report on pages 35 to 41.

The average number of employees during each year, including Directors, was:

	2005 Number	2004 Number
Investments	**18**	17
Support Services	**10,353**	9,839
Construction Services	**4,967**	6,912
Corporate Centre	**290**	560
	15,628	17,328
UK	**11,867**	11,975
Overseas	**3,761**	5,353
	15,628	17,328

In addition to the above, there are 12,259 staff (2004: 7,306) employed within the Group's jointly controlled entities located in the Middle East.

8 Income tax

Recognised in the income statement

	2005 £m	2004 £m
Current tax expense		
Current year		
– UK	**11.1**	16.4
– Overseas	**–**	0.7
Adjustments for prior years		
– UK	**(2.1)**	(3.4)
– Overseas	**–**	–
Total current tax	**9.0**	13.7
Deferred tax expense		
Origination and reversal of temporary differences	**2.9**	(5.5)
Adjustments for prior years	**(0.8)**	0.4
Total deferred tax	**2.1**	(5.1)
Total income tax expense in the income statement	**11.1**	8.6

Notes to the Consolidated Financial Statements continued

8 Income tax continued

Reconciliation of effective tax rate

		2005 £m		2004 £m
Profit before tax		**51.9**		66.8
Tax of jointly controlled entities		**5.0**		2.0
		56.9		68.8
Income tax at UK standard corporation tax rate	**30%**	**17.1**	30%	20.6
Permanent differences		**2.3**		2.5
Unrelieved trade losses		**0.2**		0.6
Capital items not taxable		**(0.6)**		(5.7)
Amortisation of intangible assets		**0.8**		0.1
Effect of tax losses utilised		**(0.1)**		(0.9)
Effect of tax rates in foreign jurisdictions		**(0.6)**		(0.6)
Over provided in prior years		**(2.1)**		(3.4)
Effect of unrecognised timing differences		**(0.9)**		(2.6)
Total tax (including tax of jointly controlled entities)		**16.1**		10.6
Tax of jointly controlled entities		**(5.0)**		(2.0)
Group income tax expense		**11.1**		8.6

Tax asset/(liability) recognised directly in equity

	2005 £m	2004 £m
Deferred tax on actuarial gains and losses on defined benefit pension schemes	**2.0**	8.0
Current tax on foreign exchange translation adjustments	**(0.5)**	0.3
Tax recognised in statement of recognised income and expense	**1.5**	8.3
Deferred tax on equity settled transactions	**0.3**	0.2
Total tax recognised in equity	**1.8**	8.5

9 Dividends

The following dividends were paid by the Company:

	2005 £m	2005 Pence per share	2004 £m	2004 Pence per share
Current year interim	**6.0**	**2.8**	5.6	2.675
Previous year final	**10.1**	**4.825**	10.8	5.175
	16.1	**7.625**	16.4	7.85

The following dividends were declared by the Company in respect of each financial year:

	2005 £m	2005 Pence per share	2004 £m	2004 Pence per share
Interim	**6.0**	**2.8**	5.6	2.675
Final	**14.6**	**5.2**	10.1	4.825
	20.6	**8.0**	15.7	7.5

The interim dividend for 2004 includes 1.0 pence per share that represents a return to shareholders of a proportion of the profit generated on the disposal of PPP equity shareholdings.

The final dividend for 2005 of 5.2 pence per share was approved by the Board on 8 March 2006 and has not been included as a liability as at 31 December 2005. The amount expected to be paid in respect of the 2005 final dividend of £14.6m includes the dividend payable on 65.8m new Carillion shares issued following the acquisition of Mowlem plc on 23 February 2006.

Notes to the Consolidated Financial Statements continued

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share at 31 December 2005 is based on the profit attributable to equity holders of the parent of £39.3m (2004: £56.4m) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2005 of 210.5m (2004: 208.4m), calculated as follows:

Weighted average number of ordinary shares

In millions of shares	2005	2004
Issued ordinary shares at 1 January	**214.3**	214.0
Effect of own shares held by ESOP and QUEST	**(4.1)**	(5.7)
Effect of shares issued in the year	**0.3**	0.1
Weighted average number of ordinary shares at 31 December	**210.5**	208.4

(b) Underlying performance

A reconciliation of profit before tax and basic earnings per share, as reported in the income statement, to underlying profit before tax and basic earnings per share is set out below. The adjustments made in arriving at the underlying performance measures are made to illustrate the impact of non-trading and non-recurring items.

Profit before tax	2005 £m	2004 £m
Profit before tax as reported in the income statement	**51.9**	66.8
Amortisation of intangible assets arising from business combinations	**2.5**	–
Impairment of goodwill	**0.3**	0.3
Loss/(profit) on disposal of investments and businesses	**0.8**	(11.8)
One-off impact of Network Rail transfer	–	(7.2)
Underlying profit before tax	**55.5**	48.1

Basic earnings per share	2005 Pence per share	2004 Pence per share
Basic earnings per share as reported in the income statement	**18.7**	27.1
Amortisation of intangible assets arising from business combinations	**1.2**	–
Impairment of goodwill	**0.1**	0.1
Loss/(profit) on disposal of investments and businesses	**0.4**	(6.2)
One-off impact of Network Rail transfer	–	(2.4)
Underlying basic earnings per share	**20.4**	18.6

(c) Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2005 is based on profit as shown in note 10(a) and a weighted average number of ordinary shares outstanding calculated as follows:

Weighted average number of ordinary shares (diluted)

In millions of shares	2005	2004
Weighted average number of ordinary shares at 31 December	**210.5**	208.4
Effect of share options in issue	**3.1**	2.8
Weighted average number of ordinary shares (diluted) at 31 December	**213.6**	211.2

Notes to the Consolidated Financial Statements continued

11 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2005	**16.9**	**57.6**	**74.5**
Acquisitions	**0.5**	**1.2**	**1.7**
Additions	**5.2**	**44.5**	**49.7**
Disposals	**(6.3)**	**(13.8)**	**(20.1)**
Effect of movements in foreign exchange rates	**0.8**	**4.8**	**5.6**
At 31 December 2005	**17.1**	**94.3**	**111.4**
Depreciation and impairment losses			
At 1 January 2005	**3.9**	**0.7**	**4.6**
Depreciation charge for the year	**1.0**	**14.2**	**15.2**
Impairment charge	**–**	**1.0**	**1.0**
Disposals	**(1.1)**	**(12.2)**	**(13.3)**
Effect of movements in foreign exchange rates	**0.5**	**2.5**	**3.0**
At 31 December 2005	**4.3**	**6.2**	**10.5**
Net book value			
At 1 January 2005	**13.0**	**56.9**	**69.9**
At 31 December 2005	**12.8**	**88.1**	**100.9**
Cost			
At 1 January 2004	19.7	56.4	76.1
Additions	1.6	25.4	27.0
Disposals	(4.2)	(23.8)	(28.0)
Effect of movements in foreign exchange rates	(0.2)	(0.4)	(0.6)
At 31 December 2004	16.9	57.6	74.5
Depreciation and impairment losses			
At 1 January 2004	4.6	5.5	10.1
Depreciation charge for the year	1.3	14.0	15.3
Disposals	(1.9)	(18.5)	(20.4)
Effect of movements in foreign exchange rates	(0.1)	(0.3)	(0.4)
At 31 December 2004	3.9	0.7	4.6
Net book value			
At 1 January 2004	15.1	50.9	66.0
At 31 December 2004	13.0	56.9	69.9

Included in the net book value of plant, equipment and vehicles is £34.8m (2004: £23.0m) in respect of assets held under finance leases and hire purchase contracts. The leased equipment secures lease obligations as disclosed in note 19.

Land and buildings include land with a cost of £1.0m (2004: £1.0m) that is not being depreciated.

The net book value of plant, equipment and vehicles includes £11.4m of costs associated with the development of new computer systems for the Group's human resources and finance functions. Depreciation of these costs over a period of between 5 and 8 years will commence when the assets are brought into operational use during 2006.

Due to a change in the nature of contractual arrangements in 2005 with Network Rail, a number of items of rail plant have become redundant. Consequently, an impairment provision of £1.0m, included within administrative expenses, has been made to write down these items to their estimated recoverable amount.

Notes to the Consolidated Financial Statements continued

12 Intangible assets

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
Cost					
At 1 January 2005	**19.1**	–	**19.1**	**3.7**	**22.8**
Acquisitions	**34.5**	**6.2**	**40.7**	**1.0**	**41.7**
Additions	–	–	–	**4.3**	**4.3**
Disposals	–	–	–	**(0.3)**	**(0.3)**
At 31 December 2005	**53.6**	**6.2**	**59.8**	**8.7**	**68.5**
Amortisation and impairment losses					
At 1 January 2005	–	–	–	**2.5**	**2.5**
Amortisation for the year	–	**2.5**	**2.5**	**1.5**	**4.0**
Disposals	–	–	–	**(0.3)**	**(0.3)**
At 31 December 2005	–	**2.5**	**2.5**	**3.7**	**6.2**
Net book value					
At 1 January 2005	**19.1**	–	**19.1**	**1.2**	**20.3**
At 31 December 2005	**53.6**	**3.7**	**57.3**	**5.0**	**62.3**
Cost					
At 1 January 2004	20.4	–	20.4	3.5	23.9
Additions	–	–	–	0.2	0.2
Disposals	(1.3)	–	(1.3)	–	(1.3)
At 31 December 2004	19.1	–	19.1	3.7	22.8
Amortisation and impairment losses					
At 1 January 2004	–	–	–	1.5	1.5
Amortisation for the year	–	–	–	1.0	1.0
At 31 December 2004	–	–	–	2.5	2.5
Net book value					
At 1 January 2004	20.4	–	20.4	2.0	22.4
At 31 December 2004	19.1	–	19.1	1.2	20.3

Goodwill of £34.5m and customer contracts and lists of £6.2m arose in 2005 on the acquisition of Planned Maintenance Group Limited (PMG) as disclosed in note 30. Goodwill has arisen on the acquisition of PMG because a large number of customer contracts and relationships do not meet the criteria for separate recognition or could not be reliably measured.

The net book value of computer software and licences includes £1.6m of costs associated with the development of new computer systems for the Group's human resources and finance functions. Depreciation of these costs over a period of five years will commence when the computer systems are brought into operational use during 2006.

Impairment tests for cash-generating units containing goodwill
The following units have significant amounts of goodwill:

	2005 £m	2004 £m
Rail projects	**12.1**	12.1
Citex Management Services contracts	**7.0**	7.0
Planned Maintenance Group Limited	**34.5**	–
	53.6	19.1

The recoverable amount of the goodwill attaching to cash-generating units is based on value in use calculations. Those calculations use cash flow projections discounted at a pre-tax discount rate of 10%.

Notes to the Consolidated Financial Statements continued

12 Intangible assets continued

Amortisation charge

The amortisation charge is recognised in the following line items in the income statement:

	2005 £m	2004 £m
Cost of sales	–	–
Administrative expenses	**4.0**	1.0
	4.0	1.0

13 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2005	**26.7**	**24.1**	**50.8**	**1.1**	**51.9**
Equity investments	**5.3**	**–**	**5.3**	**–**	**5.3**
Disposals	**(1.1)**	**–**	**(1.1)**	**–**	**(1.1)**
Net loans advanced	**–**	**0.7**	**0.7**	**–**	**0.7**
At 31 December 2005	**30.9**	**24.8**	**55.7**	**1.1**	**56.8**
Share of post-acquisition results					
At 1 January 2005 (as previously reported)	**13.6**	**–**	**13.6**	**–**	**13.6**
Effect of adoption of IAS 32 and IAS 39 on 1 January 2005	**(9.7)**	**–**	**(9.7)**	**–**	**(9.7)**
At 1 January 2005 (as restated)	**3.9**	**–**	**3.9**	**–**	**3.9**
Exchange rate movements	**1.1**	**–**	**1.1**	**–**	**1.1**
Share of results for the year after taxation	**15.6**	**–**	**15.6**	**–**	**15.6**
Share of change in fair value of cash flow hedges (net of tax)	**(1.3)**	**–**	**(1.3)**	**–**	**(1.3)**
Disposals	**0.2**	**–**	**0.2**	**–**	**0.2**
Distributions received	**(12.9)**	**–**	**(12.9)**	**–**	**(12.9)**
At 31 December 2005	**6.6**	**–**	**6.6**	**–**	**6.6**
Impairment losses					
At 1 January 2005	**–**	**–**	**–**	**0.4**	**0.4**
Impairment charge	**–**	**–**	**–**	**0.3**	**0.3**
At 31 December 2005	**–**	**–**	**–**	**0.7**	**0.7**
Net book value					
At 1 January 2005 (as restated)	**30.6**	**24.1**	**54.7**	**0.7**	**55.4**
At 31 December 2005	**37.5**	**24.8**	**62.3**	**0.4**	**62.7**

Notes to the Consolidated Financial Statements continued

13 Investments in jointly controlled entities continued

Equity investments amounting to £5.3m relates to the acquisition of 50% interests in a number of development jointly controlled entities in Canada. Of the £5.3m, £1.6m was paid in cash and £3.7m arose from the capitalisation into equity of current loan receivables due from the jointly controlled entities concerned. No goodwill arose on any of these investments. During the year, the Group disposed of its 50% interest in a small development jointly controlled entity and a LIFT project for net proceeds of £0.6m.

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2004	33.2	33.1	66.3	1.1	67.4
Equity investments	1.1	–	1.1	–	1.1
Disposals	(7.6)	(5.5)	(13.1)	–	(13.1)
Reclassified as other non-current asset investment	–	(3.4)	(3.4)	–	(3.4)
Net loans repaid	–	(0.1)	(0.1)	–	(0.1)
At 31 December 2004	26.7	24.1	50.8	1.1	51.9
Share of post-acquisition results					
At 1 January 2004	11.6	–	11.6	–	11.6
Exchange rate movements	(0.6)	–	(0.6)	–	(0.6)
Share of results for the year after taxation	9.1	–	9.1	–	9.1
Reclassified as other non-current asset investment	0.2	–	0.2	–	0.2
Disposals	0.6	–	0.6	–	0.6
Distributions received	(7.3)	–	(7.3)	–	(7.3)
At 31 December 2004	13.6	–	13.6	–	13.6
Impairment losses					
At 1 January 2004	–	–	–	0.1	0.1
Impairment charge	–	–	–	0.3	0.3
At 31 December 2004	–	–	–	0.4	0.4
Net book value					
At 1 January 2004	44.8	33.1	77.9	1.0	78.9
At 31 December 2004	40.3	24.1	64.4	0.7	65.1

The Group's aggregate share of net assets of jointly controlled entities is analysed below. Borrowings within jointly controlled entities amounting to £819.6m (2004: £515.0m) are without recourse to the Carillion Group.

	2005			2004		
	PPP projects £m	**Other £m**	**Total £m**	PPP projects £m	Other £m	Total £m
Non-current assets	**56.2**	**49.8**	**106.0**	57.1	10.5	67.6
Cash	**147.7**	**7.2**	**154.9**	35.0	5.8	40.8
Other current assets	**656.2**	**88.8**	**745.0**	427.4	86.1	513.5
Share of gross assets	**860.1**	**145.8**	**1,005.9**	519.5	102.4	621.9
Current borrowings	**(9.4)**	**(1.8)**	**(11.2)**	(6.6)	(2.5)	(9.1)
Current liabilities	**(34.8)**	**(82.8)**	**(117.6)**	(19.6)	(33.1)	(52.7)
Non-current borrowings	**(784.2)**	**(24.2)**	**(808.4)**	(466.0)	(39.9)	(505.9)
Non-current liabilities	**(2.2)**	**(2.3)**	**(4.5)**	(1.3)	–	(1.3)
Provisions	**(15.9)**	**–**	**(15.9)**	(12.6)	–	(12.6)
Share of gross liabilities	**(846.5)**	**(111.1)**	**(957.6)**	(506.1)	(75.5)	(581.6)
Share of net assets excluding derivatives	**13.6**	**34.7**	**48.3**	13.4	26.9	40.3
Financial instrument derivatives	**(10.8)**	**–**	**(10.8)**	–	–	–
Share of net assets	**2.8**	**34.7**	**37.5**	13.4	26.9	40.3
Loan advances	**24.8**	**–**	**24.8**	24.1	–	24.1
Total investment in jointly controlled entities	**27.6**	**34.7**	**62.3**	37.5	26.9	64.4

Notes to the Consolidated Financial Statements continued

13 Investments in jointly controlled entities continued

Non-current assets and other current assets within PPP projects include cumulative capitalised interest amounting to £3.8m (2004: £3.8m) and £49.4m (2004: £43.6m) respectively.

Financial instrument derivatives within PPP projects relate to interest rate swaps entered into by the jointly controlled entities concerned as a means of hedging interest rate risk and are stated net of deferred tax. In accordance with IAS 39, these derivatives are accounted for as cash flow hedges with movements in fair value each year recognised directly in equity.

14 Other investments

	£m
Cost/fair value	
At 1 January 2005 (as previously reported)	**6.8**
Effect of adoption of IAS 32 and IAS 39 on 1 January 2005	**1.3**
At 1 January 2005 (as restated)	**8.1**
Disposals	**(3.4)**
At 31 December 2005	**4.7**
Net book value	
At 1 January 2005 (as restated)	**8.1**
At 31 December 2005	**4.7**

There has been no movement in the fair value of other investments during the year.
The disposal in the year of £3.4m relates to the sale of a portfolio of unlisted investments.

	£m
Cost/fair value	
At 1 January 2004	5.3
Disposals	(1.5)
Impairment	(0.2)
Reclassified from investments in jointly controlled entities	3.2
At 31 December 2004	6.8
Provision	
At 1 January 2004	0.5
Disposals	(0.5)
At 31 December 2004	–
Net book value	
At 1 January 2004	4.8
At 31 December 2004	6.8

Notes to the Consolidated Financial Statements continued

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to timing differences relating to the following:

	Assets		Liabilities		Net	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Property, plant and equipment	**6.0**	5.2	**(3.8)**	(1.5)	**2.2**	3.7
Other investments	**–**	–	**(0.4)**	–	**(0.4)**	–
Employee benefits	**22.6**	27.2	**(2.2)**	(1.7)	**20.4**	25.5
Working capital	**30.0**	24.4	**(19.3)**	(23.5)	**10.7**	0.9
Other items	**0.1**	–	**(3.8)**	(2.9)	**(3.7)**	(2.9)
Tax assets/(liabilities)	**58.7**	56.8	**(29.5)**	(29.6)	**29.2**	27.2
Set off of tax	**(23.5)**	(21.5)	**23.5**	21.5	**–**	–
Net tax assets/(liabilities)	**35.2**	35.3	**(6.0)**	(8.1)	**29.2**	27.2

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2005 £m	2004 £m
Deductible temporary differences	–	–
Tax losses	**(19.6)**	(19.4)
	(19.6)	(19.4)

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these losses due to the lack of certainty concerning the quantum and timing of future years taxable profits of the companies concerned.

Movement in temporary differences during the year

	At 1 January 2005 as previously stated £m	**Effect of adoption of IAS 39 £m**	**At 1 January 2005 as restated £m**	**Exchange rate movements £m**	**Acquisitions £m**	**Recognised in income £m**	**Recognised in equity £m**	**At 31 December 2005 £m**
Property, plant and equipment	**3.7**	**–**	**3.7**	**–**	**–**	**(1.5)**	**–**	**2.2**
Other investments	**–**	**(0.4)**	**(0.4)**	**–**	**–**	**–**	**–**	**(0.4)**
Employee benefits	**25.5**	**–**	**25.5**	**–**	**4.0**	**(7.1)**	**(2.0)**	**20.4**
Working capital	**0.9**	**–**	**0.9**	**(0.2)**	**3.0**	**7.0**	**–**	**10.7**
Other items	**(2.9)**	**–**	**(2.9)**	**–**	**–**	**(0.8)**	**–**	**(3.7)**
Equity settled transactions	**–**	**–**	**–**	**–**	**–**	**0.3**	**(0.3)**	**–**
	27.2	**(0.4)**	**26.8**	**(0.2)**	**7.0**	**(2.1)**	**(2.3)**	**29.2**

	At 1 January 2004 £m	Disposals £m	Recognised in income £m	Recognised in equity £m	At 31 December 2004 £m
Property, plant and equipment	5.2	–	(1.5)	–	3.7
Employee benefits	32.8	–	0.7	(8.0)	25.5
Working capital	(4.1)	(0.2)	5.2	–	0.9
Other items	(3.4)	–	0.5	–	(2.9)
Equity settled transactions	–	–	0.2	(0.2)	–
	30.5	(0.2)	5.1	(8.2)	27.2

Notes to the Consolidated Financial Statements continued

16 Inventories

	2005 £m	2004 £m
Raw materials and consumables	**5.8**	4.6
Development work in progress	**15.4**	13.4
	21.2	18.0

17 Trade and other receivables

	2005 £m	2004 £m
Trade receivables	**134.0**	129.9
Amounts owed by customers on construction contracts	**210.9**	181.2
Other trade receivables and prepayments	**54.8**	43.0
Amounts owed by jointly controlled entities	**37.0**	16.8
Amounts owed under jointly controlled operations	**23.0**	18.2
	459.7	389.1

At 31 December 2005, trade receivables include retentions of £41.1m (2004: £32.1m) relating to construction contracts.

18 Cash and cash equivalents

	2005 £m	2004 £m
Bank balances and cash in hand	**73.7**	53.9
Call deposits with a maturity of less than three months	**107.2**	148.8
Cash and cash equivalents	**180.9**	202.7
Bank overdrafts	**(11.2)**	(13.1)
Cash and cash equivalents in the statement of cash flows	**169.7**	189.6

Notes to the Consolidated Financial Statements continued

19 Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

	2005 £m	2004 £m
Current liabilities		
Bank overdrafts	**11.2**	13.1
Finance lease obligations	**3.9**	3.4
Other loans	**1.9**	0.9
	17.0	17.4
Non-current liabilities		
Bank loans	**34.0**	32.8
Finance lease obligations	***33.8***	*20.8*
Other loans	**5.3**	2.9
	73.1	56.5
Total borrowings	**90.1**	73.9

All bank loans and overdrafts are unsecured and bear interest at floating rates linked to LIBOR. Other loans and finance lease obligations are secured on the assets to which they relate.

Following the acquisition of Mowlem plc on 23 February 2006, non-current liability bank loans of £34.0m were repaid and replaced by long term bank loans under a new committed facility of £490m.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2005 £m	Interest 2005 £m	Principal 2005 £m	Minimum lease payments 2004 £m	Interest 2004 £m	Principal 2004 £m
Less than one year	**5.8**	**(1.9)**	**3.9**	4.6	(1.2)	3.4
Between one and five years	**20.9**	**(5.6)**	**15.3**	13.1	(3.5)	9.6
More than five years	**19.8**	**(1.3)**	**18.5**	12.3	(1.1)	11.2
	46.5	**(8.8)**	**37.7**	30.0	(5.8)	24.2

Under the terms of the lease agreements, no contingent rents are payable.

20 Trade and other payables

	2005 £m	2004 £m
Trade payables	**314.1**	273.7
Amounts owed to customers on construction contracts	**57.5**	42.9
Other tax and social security costs	**24.8**	18.4
Amounts owed to jointly controlled entities	**26.2**	14.7
Amounts owed under jointly controlled operations	**6.8**	2.3
Other creditors	**56.2**	46.7
Accruals and deferred income	**114.8**	87.5
	600.4	486.2

Notes to the Consolidated Financial Statements continued

21 Provisions

	Restructuring £m	Dilapidations £m	Total £m
At 1 January 2005	**1.8**	**0.4**	**2.2**
Provision released	**–**	**(0.4)**	**(0.4)**
Provision used during the year	**(1.8)**	**–**	**(1.8)**
At 31 December 2005	**–**	**–**	**–**

The restructuring provision related to losses on the closure of Stranger Asia Limited which was completed during the year. The dilapidations provision has been released during the year as no further liabilities are anticipated.

22 Share capital

	2005 £m	2004 £m
Authorised		
325,000,000 ordinary shares of 50p each	**162.5**	162.5

	2005		2004	
	Number million	£m	Number million	£m
Issued and fully paid				
At 1 January	**214.3**	**107.1**	214.0	107.0
New share capital subscribed	**0.6**	**0.3**	0.3	0.1
At 31 December	**214.9**	**107.4**	214.3	107.1

23 Reserves

Reconciliation of movement in reserves

	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 January 2005 (as previously reported)	**6.8**	**(1.4)**	**–**	**–**	**8.2**	**4.8**	**18.4**
Effect of adoption of IAS 32 and IAS 39 (net of tax)	**–**	**–**	**(9.7)**	**0.9**	**–**	**–**	**(8.8)**
At 1 January 2005 (as restated)	**6.8**	**(1.4)**	**(9.7)**	**0.9**	**8.2**	**4.8**	**9.6**
Total recognised income and expense	**–**	**2.1**	**(1.3)**	**–**	**–**	**44.0**	**44.8**
New share capital subscribed	**1.4**	**–**	**–**	**–**	**–**	**–**	**1.4**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**0.7**	**0.7**
Equity-settled transactions (net of tax)	**–**	**–**	**–**	**–**	**–**	**0.9**	**0.9**
Transfer between reserves	**–**	**–**	**0.2**	**–**	**–**	**(0.2)**	**–**
Dividends to equity holders of the parent	**–**	**–**	**–**	**–**	**–**	**(16.1)**	**(16.1)**
At 31 December 2005	**8.2**	**0.7**	**(10.8)**	**0.9**	**8.2**	**34.1**	**41.3**
At 1 January 2004	6.5	–	–	–	8.2	(54.7)	(40.0)
Total recognised income and expense	–	(1.4)	–	–	–	74.7	73.3
New share capital subscribed	0.3	–	–	–	–	–	0.3
Share options exercised by employees	–	–	–	–	–	0.8	0.8
Equity-settled transactions (net of tax)	–	–	–	–	–	0.4	0.4
Dividends to equity holders of the parent	–	–	–	–	–	(16.4)	(16.4)
At 31 December 2004	6.8	(1.4)	–	–	8.2	4.8	18.4

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Group, as well as from the translation of liabilities that hedge the Group's net investment in foreign operations. The translation reserve also includes any related current taxation.

Notes to the Consolidated Financial Statements continued

23 Reserves continued

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred taxation.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised, together with any related deferred taxation.

Merger reserve

The merger reserve arose on the demerger from Tarmac plc on 29 July 1999.

Retained earnings

Retained earnings include the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movements in the reserve for own shares included within retained earnings are as follows:

	2005 £m	2004 £m
At 1 January	**(5.4)**	(6.2)
Share options exercised by employees	**0.7**	0.8
At 31 December	**(4.7)**	(5.4)

At 31 December 2005, the ESOP held 3,715,612 (2004: 4,238,013) of the Company's shares. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('QUEST'). During the year, the QUEST subscribed for 700,631 shares in the Company at market value for a consideration of £1.7m. In addition, 1,129,680 ordinary shares in the Company held by the QUEST were transferred to employees of the Group following the exercise of options under the Sharesave Scheme. At 31 December 2005 the total number of shares held by the QUEST amounted to 390,334 (2004: 819,383) and had a market value of £1.2m (2004: £1.9m). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

24 Reconciliation of movements in consolidated equity shareholders' funds

	2005 £m	2004 £m
Recognised income and expense	**44.8**	73.3
New share capital subscribed	**1.7**	0.4
Share options exercised by employees	**0.7**	0.8
Equity settled transactions (net of tax)	**0.9**	0.4
Dividends paid to equity holders of the parent	**(16.1)**	(16.4)
Net addition to equity shareholders' funds	**32.0**	58.5
Opening equity shareholders' funds (as restated)	**116.7**	67.0
Closing equity shareholders' funds	**148.7**	125.5

Opening equity shareholders' funds (as previously reported)	**125.5**	
Effect of adoption of IAS 32 and IAS 39 on 1 January 2005	**(8.8)**	
Opening equity shareholders' funds (as restated)	**116.7**	

Notes to the Consolidated Financial Statements continued

25 Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to purchase shares in the Company. Full details of each option scheme can be found in the Remuneration Report on page 35.

The recognition and measurement principles in IFRS 2 have not been applied to grants of options before 7 November 2002 in accordance with the transitional provisions in IFRS 1 and IFRS 2.

The terms and conditions of option schemes within the scope of IFRS 2 are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
LTIP 1 July 2003	653,339	Three years of service based on Total Shareholder Return compared to comparator group	3 years
ESOS 1 July 2003	1,391,355	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three year period	10 years
LTIP 31 March 2004	702,442	Three years of service based on Total Shareholder Return compared to comparator group	3 years
ESOS 31 March 2004	1,111,463	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three year period	10 years
LTIP 15 March 2005	993,975	Three years of service based on Total Shareholder Return compared to comparator group	3 years
ESOS 15 March 2005	225,704	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three year period	10 years
Total share options	5,078,278		

In addition to the above, the Group has a number of ESOS options schemes and two sharesave schemes that have a grant date before 7 November 2002.

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

	Weighted average exercise price 2005	**Number of options 2005**	Weighted average exercise price 2004	Number of options 2004
Outstanding at the beginning of the year	**119.1p**	**8,566,431**	99.8p	10,797,317
Forfeited during the year	**134.9p**	**(596,844)**	59.0p	(2,765,049)
Exercised during the year	**105.8p**	**(1,680,246)**	77.8p	(1,279,742)
Granted during the year	**44.9p**	**1,219,677**	113.3p	1,813,905
Outstanding at the end of the year	**108.8p**	**7,509,018**	119.1p	8,566,431
Exercisable at the end of the year		**3,022,649**		744,297

The options outstanding at 31 December 2005 have an exercise price in a range from nil up to 242.75 pence and a weighted average contractual life of 4 years.

Notes to the Consolidated Financial Statements continued

25 Share-based payments continued

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 based on a Black-Scholes model in respect of the ESOS and a TSR model in respect of LTIP using the following assumptions:

	2005		2004		2003	
	LTIP	ESOS	LTIP	ESOS	LTIP	ESOS
Fair value of share options and assumptions						
Fair value at measurement date	149.0p	76.0p	88.85p	56.73p	75.14p	46.36p
Share price at grant date	245.0p	245.0p	187.0p	187.0p	159.0p	159.0p
Exercise price	–	243.0p	–	187.0p	–	159.0p
Expected volatility	40.07%	40.05%	43.0%	43.0%	43.6%	43.6%
Option life	3 years	4 years	3 years	4 years	3 years	4 years
Expected dividend yield	2.55%	2.55%	3.46%	3.46%	3.66%	3.66%
Risk-free interest rate (based on national government bonds)	n/a	4.86%	n/a	4.62%	n/a	3.69%

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.

Employee expenses

	2005 £m	2004 £m
Equity settled share options granted in:		
2003	**0.3**	0.3
2004	**0.4**	0.3
2005	**0.5**	–
Total expense recognised as employee costs	**1.2**	0.6

26 Guarantees and contingent liabilities

	2005 £m	2004 £m
Guarantees in respect of jointly controlled entities and joint controlled operations	**10.9**	11.5
Guarantees in respect of deferred equity payments in PPP jointly controlled entities	**3.0**	4.5
Guarantees in respect of letters of credit issued by banks in respect of deferred equity payments in PPP jointly controlled entities	**26.4**	12.2

Guarantees and counter indemnities have been given to financial institutions in respect of the provision of performance and other contract related bonds that are issued in the normal course of business.

Claims under contracts and other agreements, including joint arrangements, are outstanding in the normal course of business.

The Group, in the normal course of its construction activities, is the subject of certain legal proceedings. The resolution of these proceedings is regarded as unlikely to succeed or to have a material effect on the Group's financial position.

27 Financial instruments

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to foreign exchange risk, interest rate risk, liquidity risk and credit risk. The overall aim of the Group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board of Directors. Treasury is not a profit centre and does not enter into speculative transactions.

Notes to the Consolidated Financial Statements continued

27 Financial instruments continued

Foreign currency risk

The Group operates in a number of overseas regions, primarily Canada, the Middle East and the Caribbean. In order to protect the Group's balance sheet from the impact of foreign exchange rate volatility, foreign currency denominated net assets of overseas operations that exceed £10m equivalent are hedged, as a minimum, at least 50% of the net asset value. Net investment hedging is achieved through borrowings denominated in the relevant foreign currencies. Group policy is to recognise gains and losses from the effective portions of the hedges in equity and to recognise ineffective portions immediately in the income statement.

Profits arising within overseas operations are not hedged unless it is planned to make a distribution. Such distributions are then treated as currency transactions and hedged accordingly.

The Group has small and infrequent transactional foreign currency exposures that are hedged using forward contracts as described above.

Interest rate risk

The Group's interest bearing debt is predominantly foreign currency denominated borrowings for hedging net assets of overseas operations and sterling borrowings to finance short-term working capital requirements. Such borrowings are subject to floating rates of interest linked to LIBOR. No interest rate hedging is currently undertaken by the Group's subsidiaries. However, a number of the Group's PPP jointly controlled entities have entered into interest rate swaps.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient cash is available to fund ongoing operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of syndicated and bi-lateral loans and short-term overdraft facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and foreign currency hedging. Policies and procedures exist to ensure that customers have an appropriate credit history. Short-term bank deposits and foreign currency hedging transactions are executed only with highly credit-rated authorised counter parties based on ratings issued by the major rating agencies. Counter party exposure positions are monitored regularly so that credit exposures to any one counter party are within predetermined limits.

Overall, the Group considers that it is not exposed to a significant amount of credit risk.

Derivative financial instruments

	2005 Assets £m	**2005** Liabilities £m
Forward foreign currency contracts	**–**	**0.3**

In addition to the above, a number of the Group's PPP jointly controlled entities have entered into interest rate derivatives as a means of hedging interest rate risk. Interest bearing debts and the associated interest rate derivatives within these PPP jointly controlled entities are without recourse to the Group. At 31 December 2005, the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £45.1m, of which £15.5m (and the related deferred tax asset of £4.7m) has been recognised directly in equity.

Effective interest rates

The Group's interest bearing borrowings were subject to effective interest rates at the balance sheet date as follows:

	Range (%)
Bank overdrafts	**3.48 to 6.00**
Bank loans	**3.81 to 5.13**
Finance lease obligations	**3.10 to 6.54**
Other loans	**4.19 to 5.97**

Notes to the Consolidated Financial Statements continued

27 Financial instruments continued

Foreign currency exposure

The carrying amount of the Group's borrowings denominated in foreign currency is as follows:

	2005 £m	2004 £m
United States of America Dollars	**14.8**	13.1
Canadian Dollars	**46.3**	29.1
Danish Krona	**10.6**	11.4
Euro	**0.2**	0.2
Swedish Krona	**–**	3.4
	71.9	57.2

Of the total foreign currency borrowings of £71.9m (2004: £57.2m), the amount of borrowings used for hedging overseas operations amounts to £34.0m (2004: £32.8m). The foreign exchange loss of £4.0m (2004: £0.9m gain) on translation of the borrowings into sterling has been recognised in the translation reserve.

Fair values

The book and fair values of the Group's financial instruments at 31 December 2005 and 31 December 2004 are not materially different.

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current borrowings is as follows:

	Bank loans £m	Other loans £m	Finance leases £m	Total £m
31 December 2005				
Between one and two years	**–**	**2.3**	**3.6**	**5.9**
Between two and three years	**–**	**3.0**	**4.2**	**7.2**
Between three and four years	**34.0**	**–**	**3.6**	**37.6**
Between four and five years	**–**	**–**	**3.9**	**3.9**
More than five years	**–**	**–**	**18.5**	**18.5**
	34.0	**5.3**	**33.8**	**73.1**

	Bank loans £m	Other loans £m	Finance leases £m	Total £m
31 December 2004				
Between one and two years	–	1.0	2.4	3.4
Between two and three years	–	1.9	2.3	4.2
Between three and four years	–	–	2.7	2.7
Between four and five years	32.8	–	2.2	35.0
More than five years	–	–	11.2	11.2
	32.8	2.9	20.8	56.5

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met:

	2005 £m	2004 £m
Expiring between two and five years	**156.0**	137.2

Following the acquisition of Mowlem plc on 23 February 2006, new committed borrowing facilities have been arranged totalling £490m, which replace the existing committed facilities. Undrawn committed borrowing facilities measured against the new facility amount would be £112.5m expiring between one and two years and £343.5m expiring between two and five years.

Notes to the Consolidated Financial Statements continued

27 Financial instruments continued

Comparative period

As permitted under the transitional rules of IFRS 1, the Group has adopted IAS 32 and IAS 39 prospectively from 1 January 2005. Comparative information for 2004 is therefore prepared in accordance with the UK GAAP requirements of FRS 13 'Derivatives and other financial instruments: disclosure'. The majority of the requirements of FRS 13 have been reflected above. The following additional disclosures are required:

Funding and liquidity

	2004		
	Assets £m	Liabilities £m	Weighted average period until maturity of liabilities Years
Nil coupon:			
Sterling	0.1	3.3	2.8
Canadian Dollars	9.5	0.4	2.0
Omani Rials	5.0	2.6	1.5
Other	0.1	–	–
	14.7	6.3	2.2

Foreign currency exposure

The Group's working capital currency exposures are:

	Net foreign currency monetary assest/(liabilities)				
	US Dollars £m	Euro £m	Danish Kr £m	Other £m	Total £m
Functional currency of Group operation					
At 31 December 2004					
Sterling	0.3	0.4	(7.3)	0.2	(6.4)

28 Financial and capital commitments

	2005 £m	2004 £m
Commitments for capital expenditure in subsidiaries	**1.8**	3.6
Commitments for capital expenditure in jointly controlled entities and jointly controlled operations	**–**	–
Commitments for equity and subordinated debt in PPP jointly controlled entities	**30.7**	16.4
	32.5	20.0

Non-cancellable operating lease rentals are payable as follows:

	2005		2004	
	Property £m	**Other £m**	Property £m	Other £m
Within one year	**6.0**	**9.5**	5.5	8.4
Between one and five years	**13.9**	**13.9**	11.3	10.9
Over five years	**22.0**	**0.2**	16.1	0.4
	41.9	**23.6**	32.9	19.7

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of 3½ years. None of the leases includes contingent rentals.

Notes to the Consolidated Financial Statements continued

29 Related parties

Identity of related parties

The Group has a related party relationship with its jointly controlled entities and key management personnel.

Transactions with key management personnel

The Group's key management personnel are the Executive and Non-Executive Directors as identified in the Remuneration Report on page 35.

In addition to their salaries, the Group also provides non-cash benefits to Executive Directors, and contributes to a post-employment defined benefit plan on their behalf. Executive Directors also participate in the Group's share option programme.

Non-Executive Directors receive a fee for their services to the Carillion plc Board.

Full details of key management personnel compensation is given in the Remuneration Report on pages 35 to 41.

Other than disclosed in the Remuneration Report, there were no other transactions with key management personnel in either the current or preceding year.

Transactions with jointly controlled entities.

Sales to the Group's jointly controlled entities, which are in the normal course of business and on commercial terms were:

	2005 £m	2004 £m
PPP jointly controlled entities		
Accommodation Services (Holdings) Limited	**0.4**	1.3
Ellenbrook Holdings Limited	**2.5**	2.2
The Hospital Company (Swindon & Marlborough) Holdings Limited	**10.8**	26.0
The Hospital Company (Oxford John Radcliffe) Holdings Limited	**51.7**	51.5
The Hospital Company (QAH Portsmouth) Holdings Limited	**46.6**	–
UK Highways Services Limited	**7.0**	8.2
UK Court Services (Manchester) Holdings Limited	**0.2**	3.8
Sheppey Route (Holdings) Limited	**39.1**	29.2
RSP (Holdings) Limited	**45.0**	–
Others	**3.3**	3.9
	206.6	126.1
Other jointly controlled entities		
CR Thanet Limited Partnership	**22.8**	30.3
Modern Housing Solutions Limited	**1.2**	–
CarillionEnterprise Limited	**1.0**	–
Others	**–**	0.2
	231.6	156.6

Notes to the Consolidated Financial Statements continued

30 Acquisitions

On 8 March 2005, the Group acquired the entire share capital of Planned Maintenance Group Limited (PMG) on an adjusted price basis for £33m in cash pursuant to the completion accounts process. The company and its subsidiaries operate in the building services and maintenance industry and its results are reported in the Support Services segment. In the period from acquisition to 31 December 2005 PMG contributed profit before tax of £3.5m to the consolidated profit for the period. If the acquisition had occurred on 1 January 2005, Group revenue would have been £2,054.1m and profit before tax would have been £52.4m for the year ended 31 December 2005.

Effect of acquisitions
The acquisition had the following effect on the Group's assets and liabilities:

Acquiree's net assets at the acquisition date

	Carrying amounts £m	Fair value adjustments £m	Recognised values £m
Property, plant and equipment	**1.7**	–	**1.7**
Intangible assets	**1.0**	**6.2**	**7.2**
Deferred tax asset	**7.0**	–	**7.0**
Inventories	**0.2**	–	**0.2**
Trade and other receivables	**38.9**	–	**38.9**
Cash and cash equivalents	**0.1**	–	**0.1**
Borrowings	**(3.0)**	–	**(3.0)**
Trade and other payables	**(38.9)**	–	**(38.9)**
Retirement benefit liabilities	**(13.5)**	–	**(13.5)**
Net identifiable assets and liabilities	**(6.5)**	**6.2**	**(0.3)**
Goodwill recognised on acquisition			**34.5**
Consideration paid, satisfied in cash*			**34.2**
Net debt acquired			**2.9**
Net cash outflow			**37.1**

*Includes costs associated with the acquisition of £1.2m.

The fair value adjustment of £6.2m relates to customer contracts and lists that meet the criteria for recognition as an intangible asset.

31 Retirement benefit obligations

Carillion operates a number of pension schemes for eligible employees as disclosed below:

Carillion Staff and 'B' Pension Schemes
Both schemes are defined benefit schemes and are closed to new entrants. Existing members continue to accrue benefits for future service.

Actuarial valuations of the above schemes were undertaken by the Trustees' independent actuaries as at 31 December 2002 using the projected unit method. The market value of the schemes' assets at that date were £316.7m and £80.9m respectively, which represented approximately 81% and 90% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £11.7m (2004: £13.5m) in respect of the Carillion Staff Pension Scheme and £1.4m (2004: £1.6m) in respect of the Carillion 'B' Pension Scheme.

The contribution rates include an allowance for funding the past service deficits identified at the 2002 valuation date over the remaining average working life of the active scheme members. The contribution rates will be reviewed following the results of the valuations being carried out at 31 December 2005. The Group expects to pay contribution rates of 20% in respect of the staff scheme and 50% in respect of the 'B' scheme of pensionable salaries respectively in 2006.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan.

Notes to the Consolidated Financial Statements continued

31 Retirement benefit obligations continued

Carillion Public Sector Pension Scheme

The scheme is a defined benefit scheme. The scheme remains open to eligible employees transferring from the public sector as part of the commercial obligations under PFI, PPP and Best Value contracts with public sector employers.

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 December 2004 using the attained age method. The market value of the schemes' assets at that date was £74.9m, which represented approximately 82% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £3.9m (2004: £1.8m).

Following the transfer of the Metropolitan Police Authority contract in 2004, the bulk transfer of members to the incoming service provider was completed during 2005.

The contribution rates agreed include an allowance for funding the past service deficit by the end of December 2015. An immediate payment of £2.2m was made in December 2005 in respect of the period 1 January 2006 to 31 December 2006. The Group expects to pay 23.2% of pensionable salaries in 2006. Additional payments of £2.3m per annum will commence from 1 January 2007 to 31 December 2015.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan.

The PME Staff Pension and Life Assurance Scheme

Planned Maintenance Group Limited, whose principal trading subsidiary is Planned Maintenance Engineering Limited (PME), was acquired in March 2005. The PME Staff Pension Scheme is a defined benefit pension scheme and is closed to new entrants. Existing members continue to accrue benefits for future service.

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 August 2004 using the attained age method. The market value of the scheme's assets at that date was £27.4m, which represented approximately 73% of the benefits that had accrued to members at that date, after allowing for future increases in salaries.

As part of the purchase agreement a lump sum payment of £10.0m was paid to the scheme in the post acquisition period. The contributions paid during the period since acquisition were £1.2m. The Group expects to pay 16.5% of pensionable salaries in 2006.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan.

Shared Cost Sections of the Railways Pension Scheme (RPS)

Employees of GTRM and Centrac, and former employees of British Rail transferred to these businesses, have pension provision via Shared Cost Sections of the Railways Pension Scheme. Both the GTRM and Centrac Sections are closed to new entrants.

Shared cost arrangements are such that the employer and members share the cost of future service liabilities on a 60/40 split respectively and any surplus or deficit emerging over time is dealt with on a similar basis. The contributions paid by the employer during the year were £4.5m (2004: £4.5m) for GTRM and £0.2m (2004: £0.6m) for Centrac.

Independent actuaries appointed by the Railways Pension Trustee Company Limited carried out a formal valuation of the Railways Pension Scheme at 31 December 2004 using the projected unit method for GTRM and the attained age method for Centrac.

The market values of the scheme assets of the GTRM Section and Centrac Section at 31 December 2004 were £195.4m and £27.4m respectively, which represented 93.6% and 102% of benefits that had accrued to members at that date, after taking account of future increases in salaries, contributions payable and reserves. The contribution rates agreed for the GTRM Section include an allowance for funding the past service deficit by the end of June 2015.

Following the transfer of rail maintenance contracts to Network Rail in 2004, the bulk transfer of members from the GTRM section of the RPS to the Network Rail section of the RPS was completed during 2005.

The Group expects to pay 16.02% of pensionable salaries in respect of the GTRM Section until 30 June 2006 and 22.08% of pensionable salaries until the end of 2006. The Group expects to pay 11.25% of pensionable salaries in respect of the Centrac Section until 15 June 2006, 16.62% of pensionable salaries until 30 June 2006 and 16.56% until the end of 2006.

Notes to the Consolidated Financial Statements continued

31 Retirement benefit obligations continued

Other UK and overseas schemes

The Group operates three UK defined contribution schemes, the Carillion Pension Plan, the PME Defined Contribution Plan and the Carillion Retirement Plan (closed to new entrants since 2001). In addition, the Group operates a Stakeholder Plan ('Stakeholder Plus').

The Carillion Pension Plan commenced on 1 April 2003. The majority of new employees are eligible to join this plan. Employees contribute a minimum of 5% and the employer a minimum of 7% of basic salaries. Up to 3% of any additional voluntary contributions paid by employees is matched by the employer resulting in a maximum employer contribution of 10% of basic salary. Death in service lump sum benefits are provided in addition. Contributions during the year were £1.4m (2004: £0.7m).

Employees of Carillion Services and Carillion Health who are not eligible for the Carillion Pension Plan are invited to participate in the Carillion Stakeholder Plus managed by Merrill Lynch Pensions Limited. Employees contribute 5% and the employer 6.5% of basic salary. Death in service lump sum benefits are provided in addition. Contributions during the year were £0.5m (2004: £0.5m).

The PME Defined Contribution Plan commenced in April 1999. All new PME employees are offered membership of the plan. Employees contribute 4% of basic pay and the Group pays 5% of basic pay (inclusive of a 1% allowance for insurance premiums and audit fees). Contributions during the period since acquisition were £1.0m.

Contributions to the Carillion Retirement Plan during the year were £0.1m (2004: £nil).

Stakeholder pensions are also provided by B&CE Insurance and Scottish Widows where required by Working Rule Agreements.

Carillion Construction Limited is an admitted body in the Surrey Pension Fund and the Warwickshire Pension Fund. Carillion Services Limited is an admitted body in the Hertfordshire Pension Fund. All sections were granted a fully funded past service position and employer contributions are paid in accordance with the actuary's recommendations. The contributions and investment returns are estimated to be sufficient to maintain the fully funded past service position at 31 December 2005. Contributions during the year, which have been accounted for on a defined contribution basis, were £0.4m (2004: £0.3m).

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc managed locally and supplemental arrangements in respect of certain executives, the Senior Executive Retirement Plan and a healthcare plan, the Post Retirement Benefit Plan. The Group also operates defined benefit and defined contribution schemes for employees of Carillion Rail Sverige AB again managed locally.

Contributions during the year were £nil (2004: £nil) in respect of the Carillion Canada Inc defined benefit scheme, £0.1m (2004: £0.1m) in respect of other post retirement benefits for senior Canadian employees, and £0.9m (2004: £0.6m) in respect of the Swedish and Norwegian defined benefit and defined contribution schemes.

IAS 19 disclosures

The principal assumptions used by the independent qualified actuaries in providing the IAS 19 position were:

	2005		2004	
	UK	**Canada**	UK	Canada
Rate of increase in salaries	**4.05%**	**3.25%**	4.00%	3.25%
Rate of increase in pensions	**2.80%**	**2.25%**	2.75%	2.25%
Inflation rate	**2.80%**	**2.25%**	2.75%	2.25%
Discount rate	**4.75%**	**5.00%**	5.30%	6.00%

The market values of the schemes' assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised. The present values of the schemes' liabilities are calculated by reference to the investment return on Grade AA corporate bonds. The assumptions used do not necessarily represent the investment return that may be achieved.

For all schemes the mortality basis is in line with the basis used by the respective Trustee at the last valuation. As the Trustees review their assumptions according to the valuation cycle the Group will seek independent advice on any appropriate changes.

Notes to the Consolidated Financial Statements continued

31 Retirement benefit obligations continued
The overall expected rate of return on assets is determined by reference to local long term interest rates, the yield on gilts or Treasury stock and the Actuary's recommendation on the allowance for the potential long term extra return from investing in equities. No credit has been taken for the potential extra yield above gilts or Treasury stock for investment in corporate debt when determining the projected pension cost charged to the income statement.

Carillion Canada Inc operates an unfunded healthcare scheme for retired employees. For the purposes of the actuarial valuation of the scheme the immediate medical cost trend is 9% per annum falling to 5% per annum by 2010. An increase of 1% in the medical cost trend would increase the scheme liabilities by £0.6m and the total service cost by £0.04m. A decrease of 1% in the medical cost trend would reduce liabilities by £0.5m and total service cost by £0.03m.

Carillion has adopted immediate recognition of any actuarial gains or losses through the Statement of Recognised Income and Expense as permitted under IAS 19.

The IAS 19 position for the schemes is as follows:

31 December 2005	Expected rate of return % UK	Canada	Staff £m	'B' £m	Public Sector £m	PME Staff £m	Railways Pension £m	Canada £m	Total £m
Equities	**6.70**	**7.00**	**227.9**	**38.1**	**51.7**	**21.8**	**113.4**	**11.9**	**464.8**
Government bonds	**3.95**	**4.00**	**181.7**	**51.8**	**16.1**	**17.2**	**36.0**	**2.7**	**305.5**
Corporate bonds	**4.61**	**5.00**	**69.0**	**15.1**	**13.1**	**5.6**	–	**2.2**	**105.0**
Other	**4.36**	**2.50**	**5.8**	**1.2**	**4.3**	**1.9**	**7.0**	**0.4**	**20.6**
Market value of scheme assets			**484.4**	**106.2**	**85.2**	**46.5**	**156.4**	**17.2**	**895.9**
Present value of funded scheme liabilities			**(523.9)**	**(105.2)**	**(99.0)**	**(50.8)**	**(166.6)**	**(12.8)**	**(958.3)**
Present value of unfunded scheme liabilities			–	–	–	–	–	**(5.5)**	**(5.5)**
Total (deficit)/surplus			**(39.5)**	**1.0**	**(13.8)**	**(4.3)**	**(10.2)**	**(1.1)**	**(67.9)**
Related deferred tax asset									**20.4**
Net pension liability									**(47.5)**

31 December 2004	Expected rate of return % UK	Canada	Staff £m	'B' £m	Public Sector £m	Railways Pension £m	Canada £m	Total £m
Equities	7.15	7.00	205.7	37.9	45.9	145.0	9.1	443.6
Government bonds	4.40	4.30	140.2	42.4	16.8	25.6	3.6	228.6
Corporate bonds	5.16	5.70	63.9	13.8	10.7	–	0.9	89.3
Other	4.61	2.50	5.0	1.1	1.3	7.8	0.1	15.3
Market value of scheme assets			414.8	95.2	74.7	178.4	13.7	776.8
Present value of funded scheme liabilities			*(472.3)*	*(95.1)*	*(87.2)*	*(194.4)*	*(9.3)*	*(858.3)*
Present value of unfunded scheme liabilities			–	–	–	–	(3.7)	(3.7)
Total (deficit)/surplus			(57.5)	0.1	(12.5)	(16.0)	0.7	(85.2)
Related deferred tax asset								25.5
Net pension liability								(59.7)

Notes to the Consolidated Financial Statements continued

31 Retirement benefit obligations continued

Expense recognised in the Income Statement

	2005 £m	2004 £m
(Charge)/credit to operating profit		
Current service cost relating to defined benefit schemes	**(17.0)**	(24.5)
Past service cost relating to defined benefit schemes	–	(0.3)
Settlements	**7.0**	–
Defined contribution schemes	**(4.4)**	(2.2)
Total	**(14.4)**	(27.0)
Credit/(charge) to other finance income		
Expected return on pension scheme assets	**47.0**	44.9
Interest cost on pension scheme liabilities	**(45.8)**	(44.2)
Net finance return	**1.2**	0.7
Total actuarial gains and losses recognised in the Statement of Recognised Income and Expense	**6.7**	26.3
Change in defined benefit obligation		
Obligation at 1 January	**(862.0)**	(832.0)
Current service cost	**(17.0)**	(24.5)
Interest cost	**(45.8)**	(44.2)
Contributions from scheme members	**(5.2)**	(5.4)
Past service cost	–	(0.3)
Acquisition of PMG	**(43.0)**	–
Benefits paid	**92.3**	46.1
Actuarial gains and losses	**(198.8)**	(1.7)
Effect of exchange rate changes	**(2.2)**	–
Settlements	**118.0**	–
Obligation at 31 December	**(963.7)**	(862.0)
Change in the fair value of scheme assets		
Fair value at 1 January	**776.8**	722.6
Expected return on scheme assets	**47.0**	44.9
Acquisition of PMG	**29.5**	–
Contributions from the employer	**32.9**	22.0
Contributions from scheme members	**5.2**	5.4
Benefits paid	**(92.3)**	(46.1)
Actuarial gains and losses	**205.5**	28.0
Effect of exchange rate changes	**2.2**	–
Settlements	**(111.0)**	–
Fair value at 31 December	**895.8**	776.8
The amount included in the balance sheet in respect of defined benefit schemes is as follows:		
Present value of defined benefit obligations	**(963.7)**	(862.0)
Fair value of scheme assets	**895.8**	776.8
Net deficit	**(67.9)**	(85.2)
Schemes in surplus (within non-current assets)	**6.4**	4.6
Schemes in deficit (within non-current liabilities)	**(74.3)**	(89.8)
	(67.9)	(85.2)

Notes to the Consolidated Financial Statements continued

31 Retirement benefit obligations continued

History of experience gains and losses

	2005 £m	2004 £m	2003 £m	2002 £m	2001 £m
Present value of the defined benefit obligation	**(963.7)**	(862.0)	(832.0)	(674.1)	(710.6)
Fair value of scheme assets	**895.8**	776.8	722.6	598.5	796.4
(Deficit)/surplus	**(67.9)**	(85.2)	(109.4)	(75.6)	85.8
Experience gains and losses on scheme liabilities	**(198.8)**	(1.7)	(0.2)	(4.9)	–
Percentage of defined benefit obligation	**21%**	–	–	1%	–
Difference between expected and actual return on scheme assets	**205.5**	28.0	66.3	(136.9)	(87.1)
Percentage of scheme assets	**23%**	3%	9%	(23%)	(11%)

32 Post balance sheet events

On 23 February 2006, the Group acquired the entire share capital of Mowlem plc. The consideration of £341m was satisfied by the issue of 65.8m Carillion shares and cash of £117m.

33 Accounting estimates and judgements

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and their application.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Construction contracts
In determining the revenue and costs to be recognised each year for work done on construction contracts, estimates are made in relation to final out turn on each contract. Management continually review estimated final out turn on contracts and make adjustments where necessary.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the future cash flows expected to arise from the cash-generating unit to which the goodwill is attached. Note 12 provides details of the carrying value of goodwill.

Defined benefit pension scheme valuations
In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

- Expected return on plan assets
- Inflation rate
- Mortality
- Discount rate
- Salary and pension increases

Details of the assumptions used are included in note 31.

34 Principal subsidiaries, jointly controlled entities and jointly controlled operations

A list of significant investments in subsidiaries, jointly controlled entities and jointly controlled operations, including the name, country of incorporation and proportion of ownership interest is given on page 94.

35 Explanation of transition to IFRS

These are the Group's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 1 have been applied in preparing the consolidated financial statements, including comparative information for the year to 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet and comparative information for the year to 31 December 2004, the Group has adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP. In addition, following the adoption of IAS 32 and IAS 39, the Group has adjusted previously restated total equity at 1 January 2005.

Notes to the Consolidated Financial Statements continued

35 Explanation of transition to IFRS continued
The reconciliation of total equity at 1 January 2004 and 31 December 2004 is given below:

	31 December 2004 £m	1 January 2004 £m
Total equity as previously reported under UK GAAP	**186.9**	**151.6**
Adjustments on adoption of IFRS:		
Employee benefits	(69.3)	(90.0)
Business combinations	3.2	–
Share-based payments	0.3	0.2
Deferred tax	(2.9)	(3.4)
Proposed dividends	10.1	10.8
Other	(0.7)	0.1
Total IFRS adjustments	**(59.3)**	**(82.3)**
Total equity under IFRS	**127.6**	**69.3**

The reconciliation of total equity at 1 January 2005 following the adoption of IAS 32 and IAS 39 is given below:

	1 January 2005 £m
Total equity as reported under IFRS at 31 December 2004	**127.6**
Adjustments on adoption of IAS 32 and IAS 39:	
Group share of fair value of cash flow hedges in jointly controlled entities	
(net of deferred tax assets of £4.2m)	(9.7)
Fair value of available for sale investments	1.3
Deferred tax on the above	(0.4)
Total IAS 32 and IAS 39 adjustments	**(8.8)**
Total equity under IFRS at 1 January 2005	**118.8**

The reconciliation of profit for the year to 31 December 2004 is given below:

	Year to 31 December 2004 £m
Loss for the period under UK GAAP	**(16.0)**
Adjustments on adoption of IFRS:	
Employee benefits	2.2
Business combinations	71.8
Share based payments	(0.2)
Deferred tax	0.5
Other	(0.1)
Total IFRS adjustments	**74.2**
Profit for the period under IFRS	**58.2**

Employee benefits
IAS 19 replaces SSAP 24 'Accounting for pension costs' and is broadly similar to the requirements of FRS 17 'Retirement benefits'. Disclosure of the potential impact of FRS 17 has been included in the Group's annual report and accounts since 2001. As permitted by IAS 19, the Group has opted to recognise immediately and in full the actuarial gains and losses arising in each accounting period in the Statement of Recognised Income and Expense. This treatment is similar to the requirements of FRS 17.

Under IAS 19 the surplus or deficit relating to defined benefit schemes are recognised on the balance sheet of the Group. Although the methodology for determining the income statement charge is similar to SSAP 24, the actuarial assumptions are different. In particular, IAS 19 requires the discount rate used in the evaluation of scheme liabilities to be based on market yields on high quality corporate bonds at the balance sheet date. In contrast, SSAP 24 required the use of long-term investment return rate to discount liabilities. The difference in approach to the discount rate used can lead to a more volatile income statement charge under IAS 19 compared to SSAP 24.

Notes to the Consolidated Financial Statements continued

35 Explanation of transition to IFRS continued

Business combinations

IFRS 3 'Business combinations' covers the accounting for acquisitions, which is dealt with under UK GAAP by FRS 6 'Acquisitions and mergers', FRS 7 'Fair values in acquisition accounting', and FRS 10 'Goodwill and intangible assets'.

IFRS 3 strictly prohibits the use of merger accounting that in certain circumstances can be applied under UK GAAP. Although goodwill arising on business combinations is recognised as an asset in the balance sheet under both IFRS and UK GAAP, IFRS 3 prohibits the amortisation of goodwill. Instead, IFRS 3 requires goodwill to be subject to annual impairment reviews. In addition, goodwill previously written off to reserves under UK GAAP remains in reserves under IFRS and is not recycled through the income statement on disposal of the business to which it relates.

The adjustment in the table above relates primarily to goodwill previously written off to reserves on the original acquisitions of Crown House Engineering and Carillion BTP, which were both disposed of in 2004. The impairment of goodwill under IFRS relates to UK Highways Services Limited reflecting the reduction in future cash flows as we move nearer to the end of it's maintenance contract in 2007.

Share-based payments

IFRS 2 'Share-based payments' replaces UITF 17 'Employee share schemes' under UK GAAP.

IFRS 2 requires the fair value cost of providing employee share option schemes to be charged to the income statement, and in respect of equity settled share-based payments, recognised directly in equity. This differs to the UITF 17 approach under which the charge to the income statement is based on the intrinsic value of the share options. The scope of IFRS 2 is wider than UITF 17 as it relates to all share-based payments. Consequently, Save as You Earn (SAYE) schemes are within the scope of IFRS 2, whereas under UITF 17 they are specifically exempt.

Deferred tax

IAS 12 'Income taxes' is the IFRS equivalent of FRS 16 'Current tax' and FRS 19 'Deferred taxation' under UK GAAP.

There is no change to the basis of calculating current income tax as a result of adopting IAS 12. However, the basis of calculating deferred tax changes from an income statement approach under FRS 19 to a balance sheet approach under IAS 12. The balance sheet approach compares the tax value with the carrying value of assets and liabilities at the balance sheet date. Of the additional requirements of IAS 12, the most significant is the requirement to recognise a deferred tax liability in respect of the unremitted earnings of overseas entities, where their distribution cannot be controlled or planned by the Group.

Proposed dividends

IAS 10 (revised 2003) 'Events after the balance sheet date' is the FRS equivalent of SSAP 17 'Accounting for post balance sheet events' in the UK. Both standards are similar except in respect of the accounting treatment of dividends.

Under IAS 10, dividends declared and approved by shareholders after the balance sheet date are not permitted to be recognised as a liability at the balance sheet date. This differs from the UK GAAP treatment of proposed dividends, which are accrued for the in the financial period to which they relate. The adjustment to equity at 31 December 2004 and 1 January 2004 reflects the reversal of the proposed dividend accrued in the 2004 and 2003 financial statements respectively.

Financial instruments

The accounting for, and presentation of, financial instruments is dealt with under IFRS by IAS 32 'Financial instruments: disclosure and presentation' and IAS 39 'Financial instruments: recognition and measurement'. Under UK GAAP there is no comprehensive standard which addresses the accounting for financial instruments. In the UK, FRS 13 'Derivatives and other financial instruments: disclosures' requires certain disclosures to be made.

IAS 39 requires the fair value of derivative financial instruments to be included on balance sheet, whereas under UK GAAP they are not recognised. The Group does not enter into significant derivative transactions. However, a number of the Group's PPP jointly controlled entities enter into interest rate swap derivatives. These are accounted for as cash flow hedges in accordance with IAS 39 and the Group's share of the movements in fair value are recognised directly in the hedging reserve within equity provided the hedge is effective.

In addition, other non-current asset investments are classified as available-for-sale assets in accordance with IAS 39. These investments are held on the balance sheet at fair value, with movements in fair value between reporting periods recognised in the fair value reserve within equity.

Company Balance Sheet

At 31 December 2005

	Note	2005 £m	2004 restated £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	3	**192.2**	155.3
Current assets			
Debtors	4	**192.3**	106.8
Cash at bank and in hand		**117.1**	143.4
		309.4	250.2
Creditors: amounts falling due within one year	5		
Borrowings		**(2.9)**	(19.4)
Other creditors		**(207.9)**	(131.5)
		(210.8)	(150.9)
Net current assets			
Due within one year		**69.9**	72.0
Debtors due after more than one year	4	**28.7**	27.3
		98.6	99.3
Total assets less current liabilities		**290.8**	254.6
Creditors: amounts falling due after more than one year	6		
Borrowings		**(43.3)**	(43.1)
Net assets		**247.5**	211.5
Financed by:			
Capital and reserves			
Called up share capital	7	**107.4**	107.1
Share premium	8	**8.2**	6.8
Profit and loss account	8	**131.9**	97.6
Equity shareholders' funds		**247.5**	211.5

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

John McDonough
Chief Executive

Chris Girling
Finance Director

Notes to the Company 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, except in respect of the matters noted below.

Changes in accounting policies
During the year the Company adopted FRS 17 'Retirement benefits', FRS 20 'Share-based payments', FRS 21 'Events after the balance sheet date', FRS 25 'Financial instruments: disclosure and presentation', FRS 26 'Financial instruments: measurement' and FRS 28 'Corresponding amounts'. The adoption of these standards represents a change in accounting policy and the comparative figures have been restated accordingly.

The effect of the change in accounting policy on adoption of FRS 21 was to recognise the final proposed dividend for the year ended 31 December 2004 of £10.1m in the current year. The final proposed dividend for the current year of £14.6m will be recognised in the following year as it has yet to be approved.

The effect of the adoption of FRS 26 is to include on balance sheet the fair value of forward foreign currency contacts that previously were not required to be recognised. As permitted by FRS 26, the Company has adopted its requirements prospectively from 1 January 2005. The effect of the adoption of FRS 26 on net assets is nil at 1 January 2005 and a reduction of £0.2m at 31 December 2005.

The adoption of FRS 17, FRS 20, FRS 25 and FRS 28 has had no effect on net assets in either the current or preceding year.

Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards and law.

Taxation
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 that have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. 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 is it probable that they will be recovered.

Fixed asset investments
In the Company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost, less provision for any impairment.

Leasing
The Company enters into finance lease arrangements on behalf of subsidiary companies. As permitted by SSAP 21 'Accounting for leases and hire purchase contracts', the assets relating to the finance leases are included in the financial statements of the subsidiaries concerned. The capital element of outstanding finance leases is included within borrowings. The finance charge element of rentals is charged to the profit and loss account at a constant periodic rate of charge on the outstanding obligations.

Own shares
Company shares held by the Employee Share Ownership Plan (ESOP) trust are presented within the profit and loss account reserve until such time as the interest in the shares is transferred unconditionally to the employees. Costs of administering the trust are charged to the profit and loss account as incurred.

The ESOP trust is regarded as a quasi subsidiary under FRS 5 'Reporting the substance of transactions' and its assets, liabilities and results are consolidated into the financial statements of the Company.

Foreign currencies
Transactions denominated in foreign currencies are translated into sterling and recorded using the contracted exchange rate. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the relevant balance sheet date and the gains and losses on translation are included in the profit and loss account.

Cash flow statement
A cash flow statement has not been presented as permitted by FRS 1 (revised) 'Cash flow statements'.

Notes to the Company Financial Statements continued

1 Principal accounting policies continued

Share-based payments

In accordance with the transitional provisions, FRS 20 'Share-based payments' has been applied to share options granted after 7 November 2002 that had not vested at 1 January 2005. Members of the Company's senior management team are entitled to participate in the Executive Share Option Scheme (ESOS) and the Long Term Incentive Plan (LTIP). In addition, UK employees are able to participate in the Sharesave scheme. The fair values of the ESOS 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 that 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 that will eventually vest.

Financial instruments

The Company's principal financial assets and liabilities are cash at bank and in hand and borrowings. Cash at bank and in hand is carrried in the balance sheet at nominal value. Borrowings are recognised initially at fair value and subsequently at amortised cost. In addition, the Company enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. Forward contracts are measured initially at fair value, with changes in fair value during the year recognised in the profit and loss account. Fair values are based on quoted market prices at the balance sheet date.

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtnesss of subsidiary companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Retirement benefit obligations

Pension costs are recognised in the financial statements in accordance with the requirements of FRS 17. Employees of the Company participate in the Carillion 'Staff' and 'B' schemes which provide pensions on a defined benefit basis. The assets and liabilities of these schemes relating to the Company cannot be readily ascertained on a reasonable and consistent basis as the schemes are operated for the benefit of the Carillion Group as a whole. Consequently, the Company accounts for these schemes as if they were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 31 of the consolidated financial statements.

2 Profit for the year

As permitted by section 230 of the Companies Act 1985, the Company has elected not to present its own profit and loss account for the year. Carillion plc reported a profit for the financial year ended 31 December 2005 of £49.3m (2004: £62.8m).

The auditors' remuneration for audit services to the Company was £30,000 (2004: £27,000).

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost:			
At 1 January 2005	**166.9**	**0.3**	**167.2**
Additions	**37.5**	–	**37.5**
Disposals	**(1.9)**	–	**(1.9)**
At 31 December 2005	**202.5**	**0.3**	**202.8**
Provision:			
At 1 January 2005	**11.9**	–	**11.9**
Provision in the year	**0.6**	–	**0.6**
Disposals	**(1.9)**	–	**(1.9)**
At 31 December 2005	**10.6**	–	**10.6**
Net book value:			
At 31 December 2005	**191.9**	**0.3**	**192.2**
At 31 December 2004	155.0	0.3	155.3

Of the additions in the year of £37.5m, £34.2m relates to the acquisition of Planned Maintenance Group Limited (PMG) in March 2005. In the post acquisition period, the Company invested £3.3m in Planned Maintenance Engineering Limited, the principal trading subsidiary of PMG. The principal subsidiary undertakings and joint ventures of the Company are shown on page 94.

Notes to the Company Financial Statements continued

4 Debtors

	2005 £m	2004 £m
Amounts falling due within one year		
Amounts owed by group undertakings	**154.3**	76.9
Other debtors	**0.3**	2.4
Other prepayments and accrued income	**7.2**	0.2
Deferred tax asset	**1.8**	–
Amounts falling due within one year	**163.6**	79.5
Amounts falling due after more than one year		
Amounts owed by group undertakings	**28.7**	27.3
Total debtors	**192.3**	106.8

The amounts owed by group undertakings falling due after more than one year includes £9.3m (2004: £10.3m) relating to finance lease transactions entered into with Carillion Construction Limited and Carillion Fleet Management Limited. Further details are disclosed in note 6 below.

5 Creditors: amounts falling due within one year

	2005 £m	2004 restated £m
Bank overdrafts	**1.5**	18.2
Net obligations due under finance leases	**1.4**	1.2
Borrowings	**2.9**	19.4
Amounts owed to group undertakings	**191.1**	119.5
Amounts owed to joint ventures	**10.5**	10.5
Corporation tax	**–**	0.6
Other creditors	**–**	0.3
Accruals and deferred income	**6.0**	0.6
Derivative financial instruments	**0.3**	–
	210.8	150.9

Derivative financial instruments relate to the fair value of forward foreign currency contacts used to hedge trading transactions.

6 Creditors: amounts falling due after more than one year

	2005 £m	2004 £m
Bank loans	**34.0**	32.8
Net obligations due under finance leases	**9.3**	10.3
	43.3	43.1

In the Company, net obligations due under finance leases relate to financing agreements for fixed assets that are used by Carillion Construction Limited and Carillion Fleet Management Limited, both wholly owned subsidiaries. The assets have been recognised in the accounts of the subsidiaries in accordance with SSAP 21 'Accounting for leases and hire purchase contracts', together with corresponding liabilities to Carillion plc. Carillion plc recognises these inter company debts within amounts owed by group undertakings in note 4.

Interest is charged on the above bank loans at floating rates linked to LIBOR.

All bank loans and overdrafts are unsecured. Net obligations due under finance leases are secured on the assets to which they relate.

The maturity profile of all borrowings is disclosed in note 13 on page 91.

Notes to the Company Financial Statements continued

7 Share capital

	2005 £m	2004 £m
Authorised		
325,000,000 ordinary shares of 50p each	**162.5**	162.5

	2005 Number million	2005 £m	2004 Number million	2004 £m
Issued and fully paid				
At 1 January	**214.3**	**107.1**	214.0	107.0
New share capital subscribed	**0.6**	**0.3**	0.3	0.1
At 31 December	**214.9**	**107.4**	214.3	107.1

8 Reserves

	Share premium £m	Profit and loss account £m	Total £m
At 1 January 2005 (as restated – see note 1)	**6.8**	**97.6**	**104.4**
Retained profit for the year	–	**49.3**	**49.3**
Share options exercised by employees	–	**0.7**	**0.7**
Equity settled transactions (net of tax)	–	**0.4**	**0.4**
Premium arising on issue of shares	**1.4**	–	**1.4**
Dividends paid to shareholders	–	**(16.1)**	**(16.1)**
At 31 December 2005	**8.2**	**131.9**	**140.1**

The profit and loss account includes the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Company's share incentive schemes. The movements in the reserve for own shares included within the profit and loss account are as follows:

	2005 £m	2004 £m
At 1 January	**(5.4)**	(6.2)
Share options exercised by employees	**0.7**	0.8
At 31 December	**(4.7)**	(5.4)

At 31 December 2005, the ESOP held 3,715,612 (2004: 4,238,013) of the Company's shares. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('QUEST'). During the year, the QUEST subscribed for 700,631 shares in the Company at market value for a consideration of £1.7m. In addition, 1,129,680 ordinary shares in the Company held by the QUEST were transferred to employees of the Group following the exercise of options under the Sharesave Scheme. At 31 December 2005 the total number of shares held by the QUEST amounted to 390,334 (2004: 819,383) and had a market value of £1.2m (2004: £1.9m). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

Notes to the Company Financial Statements continued

9 Reconciliation of movement in shareholders' funds

	2005 £m	2004 £m
Retained profit for the year	**49.3**	62.8
New share capital issued	**1.7**	0.4
Equity settled transactions (net of tax)	**0.4**	0.3
Share options exercised by employees	**0.7**	0.8
Dividends paid to shareholders	**(16.1)**	(16.4)
Net addition to shareholders' funds	**36.0**	47.9
Opening shareholders' funds (as restated)	**211.5**	163.6
Closing shareholders' funds	**247.5**	211.5
Opening shareholders' funds (as previously reported)	**201.4**	152.8
Effect of adoption of FRS 21	**10.1**	10.8
Opening shareholders' funds (as restated)	**211.5**	163.6

10 Other guarantees and contingent liabilities

	2005 £m	2004 £m
Guarantees in respect of borrowings of subsidiaries, joint ventures and joint arrangements	**10.9**	11.5
Guarantees in respect of deferred equity payments in PPP joint ventures	**3.0**	4.5
Guarantees in respect of letters of credit issued by banks in respect of deferred equity payments in PPP joint ventures	**26.4**	12.2

The Company has issued performance guarantees in respect of its subsidiaries, joint ventures and joint arrangements in the normal course of business.

11 Pension arrangements

As the Staff and 'B' defined benefit schemes are run for the Carillion Group as a whole the Company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17, the schemes are accounted for by the Company separately as if the schemes were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 31 to the consolidated financial statements.

12 Share-based payments

The Company has established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity. Details of the Company's share option programme are disclosed in note 25 to the consolidated financial statements and in the *Remuneration Report on page 38.*

13 Financial instruments

Details of the Company's principal financial instruments are discussed under accounting policies. The numerical financial instruments disclosures are set out below.

Derivative financial instruments

	2005 Assets £m	2005 Liabilities £m
Forward foreign currency contracts	–	**0.3**

Effective interest rates

The Company's interest bearing borrowings were subject to effective interest rates at the balance sheet date as follows:

	Range (%)
Bank overdrafts	**4.00 to 6.00**
Bank loans	**3.81 to 5.13**
Finance lease obligations	**5.00 to 6.50**

Notes to the Company Financial Statements continued

13 Financial instruments continued

Foreign currency exposure

The carrying amount of the Company's borrowings denominated in foreign currency is as follows:

	2005 £m	2004 £m
United States of America Dollars	**14.6**	13.1
Canadian Dollars	**19.4**	17.0
Swedish Krona	**–**	2.7
	34.0	32.8

Foreign currency borrowings of £34.0m (2004: £32.8m), are used for hedging overseas operations of the Group. The foreign exchange loss of £4.0m (2004: £0.9m gain) on translation of the borrowings into sterling has been recognised in the profit and loss account.

Fair values

The book and fair values of the Company's financial instruments at 31 December 2005 and 31 December 2004 are not materially different.

Maturity of financial liabilities

The maturity profile of the carrying amount of the Company's borrowings is as follows:

	Bank loans £m	**Bank overdrafts £m**	**Finance leases £m**	**Total £m**
31 December 2005				
More than five years	**–**	**–**	**4.0**	**4.0**
Between four and five years	**–**	**–**	**1.4**	**1.4**
Between three and four years	**34.0**	**–**	**1.3**	**35.3**
Between two and three years	**–**	**–**	**1.4**	**1.4**
Between one and two years	**–**	**–**	**1.2**	**1.2**
More than one year	**34.0**	**–**	**9.3**	**43.3**
Less than one year	**–**	**1.5**	**1.4**	**2.9**
	34.0	**1.5**	**10.7**	**46.2**

	Bank loans £m	Bank overdrafts £m	Finance leases £m	Total £m
31 December 2004				
More than five years	–	–	5.4	5.4
Between four and five years	–	–	1.3	1.3
Between three and four years	–	–	1.3	1.3
Between two and three years	32.8	–	1.2	34.0
Between one and two years	–	–	1.1	1.1
More than one year	32.8	–	10.3	43.1
Less than one year	–	18.2	1.2	19.4
	32.8	18.2	11.5	62.5

Borrowing facilities

The Company has the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met:

	2005 £m	2004 £m
Expiring between two and five years	**156.0**	137.2

Following the acquisition of Mowlem plc on 23 February 2006, new committed borrowing facilities have been arranged totalling £490m, which replace the existing committed facilities. Undrawn committed borrowing facilities, measured against the new facility amount would be £112.5m expiring between one and two years and £343.5m expiring between two and five years.

14 Post balance sheet events

On 23 February 2006, the Company acquired the entire share capital of Mowlem plc. The consideration of £341m was satisfied by the issue of 65.8m Company shares and cash of £117m.

Five Year Review

Income statement	IFRS 2005 £m	IFRS 2004 restated £m	IFRS 2003 restated £m	IFRS 2002 restated £m	IFRS 2001 restated £m
Total revenue	**2,284.2**	1,985.1	1,972.7	1,975.2	1,890.7
Less: share of jointly controlled entities revenue	**(258.7)**	(126.1)	(118.8)	(128.6)	(191.0)
Revenue	**2,025.5**	1,859.0	1,853.9	1,846.6	1,699.7
Underlying operating profit					
Group	**35.1**	36.4	35.1	25.2	16.1
Jointly controlled entities	**20.3**	13.0	19.0	14.4	21.1
	55.4	49.4	54.1	39.6	37.2
Net financing income/(expense)					
Group	**4.0**	4.1	1.4	11.8	12.3
Jointly controlled entities	**1.1**	(3.4)	(4.9)	(5.2)	(3.6)
	5.1	0.7	(3.5)	6.6	8.7
Taxation on jointly controlled entities	**(5.0)**	(2.0)	(3.4)	(1.9)	(5.4)
Underlying profit before tax	**55.5**	48.1	47.2	44.3	40.5
Exceptional operating items					
Group	–	7.2	(33.1)	–	(8.9)
Jointly controlled entities	–	–	–	–	(1.2)
	–	7.2	(33.1)	–	(10.1)
Exceptional non-operating items					
Group	–	10.1	10.3	(0.3)	–
Jointly controlled entities	**(0.8)**	1.7	(0.4)	(5.0)	–
	(0.8)	11.8	9.9	(5.3)	–
Goodwill impairment and intangible amortisation	**(2.8)**	(0.3)	(3.8)	(2.7)	(0.5)
Profit before taxation	**51.9**	66.8	20.2	36.3	29.9
Taxation	**(11.1)**	(8.6)	(10.3)	(10.0)	(4.3)
Equity minority interests	**(1.5)**	(1.8)	(1.7)	(2.1)	(3.1)
Profit for the year	**39.3**	56.4	8.2	24.2	22.5
Balance sheet					
Intangible assets	**62.3**	20.3	22.4	49.0	42.8
Tangible assets	**100.9**	69.9	66.0	56.9	53.0
Investments in jointly controlled entities:					
Share of gross assets	**1,005.9**	621.9	644.4	646.1	572.0
Share of gross liabilities	**(957.6)**	(581.6)	(599.7)	(606.8)	(530.4)
	48.3	40.3	44.7	39.3	41.6
Loan advances	**24.8**	24.1	33.1	21.7	19.2
Goodwill	**0.4**	0.7	1.0	–	–
Financial instrument derivatives	**(10.8)**	–	–	–	–
	62.7	65.1	78.8	61.0	60.8
Other investments	**4.7**	6.8	4.8	8.3	9.4
Working capital and provisions	**(119.8)**	(81.3)	(61.0)	(23.1)	(74.8)
Tax	**(4.3)**	(22.3)	(24.7)	(14.7)	(12.5)
Cash (net of finance leases)	**90.8**	128.8	59.6	(2.1)	44.7
Net assets excluding pension obligations	**197.3**	187.3	145.9	135.3	123.4
Pension obligations (net of deferred tax)	**(47.5)**	(59.7)	(76.6)	(52.9)	59.2
Net assets	**149.8**	127.6	69.3	82.4	182.6
Equity shareholders' funds	**148.7**	125.5	67.0	80.2	179.3
Minority interests	**1.1**	2.1	2.3	2.2	3.3
	149.8	127.6	69.3	82.4	182.6

Five Year Review continued

	IFRS 2005	IFRS 2004 restated	IFRS 2003 restated	IFRS 2002 restated	IFRS 2001 restated
Operating ratio					
Underlying operating profit on revenue (%)	**2.4**	2.5	2.7	2.0	2.0
Financial ratios					
Interest covered by underlying operating profit (times)	**–**	–	15.9	–	–
Dividend cover on underlying earnings (times)	**2.1**	2.5	2.5	3.2	3.3
Share information					
Dividends per ordinary share	**8.0p**	7.5p	6.75p	4.8p	4.4p
Earnings per share on published earnings	**18.7p**	27.1p	4.4p	10.7p	10.9p
Underlying earnings per share	**20.4p**	18.6p	17.2p	14.1p	14.3p

Prior year information has been restated following the adoption of IFRS as disclosed in Note 1.

Principal Subsidiary Undertakings, Jointly Controlled Entities and Jointly Controlled Operations

Except where shown, all subsidiary undertakings and jointly controlled entities are incorporated in Great Britain and operate in the UK. All holdings are of ordinary shares and except where shown, all subsidiary undertakings are 100% owned (with equivalent voting rights) and jointly controlled entities and jointly controlled operations are 50% owned. Shares of those undertakings marked with an asterisk are directly owned by Carillion plc.

Principal subsidiary undertakings	Nature of business
Carillion Canada Inc (Canada)	Construction and infrastructure services
Carillion (Caribbean) Ltd (Trinidad & Tobago)	Construction and infrastructure services
Carillion CR Limited	Holding company for property development
Carillion Construction Ltd *	Construction and infrastructure management
Carillion Fleet Management Ltd *	Supply and maintenance of vehicles
Carillion Highway Maintenance Ltd *	Roads and ground maintenance and repair
Carillion Private Finance Ltd *	Holding company for PPP project companies
Carillion Services Ltd *	*Facilities management*
Monteray Ltd 51%	Property and facilities management services
Planned Maintenance Engineering Ltd	Building services and maintenance
Postworth Ltd *	Supply of operatives to the construction industry

Principal jointly controlled entities

Public Private Partnerships	Associated project
Accommodation Services (Holdings) Ltd 40%	GCHQ, Cheltenham
Arrow Light Rail Holdings Ltd 12.5%	Nottingham Express Transit
Education Care & Discipline Ltd	Medway Secure Training Centre
Education Care & Discipline Three Ltd	Rainsbrook Secure Training Centre
Ellenbrook Holdings Ltd	University of Hertfordshire Student Accommodation
GSL Carillion (Fazakerley) Ltd	HM Prison Altcourse
GSL Carillion (Onley) Ltd	HM Prison Rye Hill
RSP (Holdings) Ltd 30%	Renfrewshire Schools
Sheppey Route (Holdings) Ltd	A249 Kent
The Healthcare Infrastructure Company of Canada (ROH) Inc (Canada)	Royal Ottawa Hospital, Canada
The Healthcare Infrastructure Company of Canada (WOHC) Inc (Canada)	William Osler Hospital, Canada
The Hospital Company (Oxford John Radcliffe) Holdings Ltd	John Radcliffe Hospital, Oxford
The Hospital Company (QAH Portsmouth) Holdings Ltd	Queen Alexandra Hospital, Portsmouth
The Hospital Company (Swindon & Marlborough) Holdings Ltd 33.3%	Great Western Hospital, Swindon
Town Hospitals (North Staffordshire) Holdings Ltd	Harplands Hospital
Town Hospitals (Southern General) Holdings Ltd	Glasgow Southern General Hospital
UK Court Services (Manchester) Holdings Ltd 33.3%	Manchester Magistrates Court
UK Highways A55 (Holdings) Ltd	A55 North Wales

Others		Nature of business
Al Futtaim Carillion LLC (UAE)	49%	Building and civil engineering
Carillion Alawi LLC (Oman)	49%	Building and civil engineering
Carillion Richardson Partnership	50%	Property Development
Emrill Services LLC (UAE) *	49%	Facilities management
Servus Ltd (Trinidad & Tobago)		Facilities management

Jointly controlled operations

Name, proportion of interest held and address of principal place of business:

CAMBBA Construction Group	25%	Mill Lane, Off Watling Street, Shenstone, Staffordshire, England
Carillion-URS Joint Venture	70%	Pytchley Maintenance Compound, Pegasus Court, Kettering South Business Park, Kettering, Northamptonshire, England
Carillion-WSP JV	60%	Bradford, West Yorkshire, England
GTBB	50%	Rugby, Warwickshire, England

A complete list of Group subsidiary undertakings will be attached to the Company's annual return to the Registrar of Companies.

This list is at 31 December 2005 and, therefore, does not include companies acquired with Mowlem plc.

Shareholder Information

Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2005 will be payable on 23 June 2006 to those shareholders on the register on 28 April 2006.

A dividend reinvestment plan (DRIP) will also be offered.

For those shareholders who prefer not to participate in the DRIP, arrangements can be made to pay your dividends automatically into your bank or building society account. This service has a number of benefits:

- there is no chance of the dividend cheque going missing in the post;
- the dividend payment is received more quickly, as the cash is paid directly into your account on the payment date without the need to wait for the cheque to clear; and
- you will be helping Carillion to improve its efficiency by reducing printing and cheque clearing costs.

If you wish to register for this service please call Lloyds TSB Registrars on the number detailed below to request a dividend mandate form.

Results

Half year to 30 June 2006: announced 6 September 2006
Full year to 31 December 2006: announced March 2007

Shareholder enquiries

Lloyds TSB Registrars maintain the register of members of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact the Registrars:

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone	0870 600 3953
Textphone for shareholders with hearing difficulties	0870 600 3950

Share dealing service

Carillion now offers its UK shareholders, Shareview Dealing, a telephone and internet share sale service operated by Lloyds TSB Registrars. For telephone sales call 0870 850 0852 between 8.30am and 4.30pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate.

Multiple accounts on the shareholder register

If you have received two or more sets of the documents concerning the Annual General Meeting this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way. For security reasons, the Registrars will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account, please write to Lloyds TSB Registrars at the address given above.

Shareview (electronic communications)

www.shareview.co.uk is a service offered by Lloyds TSB Registrars that enables you to check your holdings in many UK companies and helps you to organise your investments electronically. You can register for this portfolio service which is easy to use, secure and free as long as you have access to the internet by logging on to www.shareview.co.uk and following a simple registration process.

Electronic proxy appointments

For the AGM to be held on 10 May 2006, you may, if you wish, register the appointment of a proxy electronically by logging on to the website www.sharevote.co.uk

You will need your voting reference numbers (the three 8-digit numbers shown on your form of proxy). Alternatively, if you have registered for a Shareview portfolio, log on to your portfolio at www.shareview.co.uk and click on 'Company Meetings'.

Please note that any electronic communication that is found to contain a computer virus will not be accepted.

ShareGift

ShareGift is a charity share donation scheme for shareholders, administered by the Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomic to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Lloyds TSB Registrars.

Advisers

Auditor
KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Banker
National Westminster Bank plc
16 South Parade
Nottingham
NG1 2JX

Joint brokers
Morgan Stanley
25 Cabot Square
Canary Wharf
London
E14 5QA

Oriel Securities
125 Wood Street
London
EC2V 7AN

Financial adviser
Lazard
50 Stratton Street
London
W1J 8LL

Legal adviser
Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Share registrar
Lloyds TSB Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Internet
www.carillionplc.com