**Monteray Limited**

# Directors' report and financial statements

Registered number 4054291

For the year ended 31 December 2006

# Contents

# Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2006

**Principal activities and business review**

Monteray Limited provides facilities management services to BT for approximately 7000 buildings in the UK under an initial five year contract which was extended by three years from 1st April 2006 to 31st March 2009 The work is sub-contracted to five companies, four of which are owned by the shareholders of Monteray Limited

In addition to the work detailed in the contract the company also bids for various minor works and projects on the estate The turnover in relation to the core service as defined in the contract during 2006 was £90 million *(2005 £86 million)* The increase in core turnover is due to estate fluctuations and contractual adjustments from the renewal of the contract including inflation The variable turnover during 2006 was £37 million *(2005 £32 million)* The increase is due to both Monteray's success in winning tenders for minor works and BT's estate strategy

The net margin percentage in 2006 of 4 75% *(2005 4 26%)* was affected by the changes to the contract on extension

Due to the contractual arrangements there are no significant changes to debtors' days in 2006 of 10 (2005 11 ) or creditors days in 2006 of 11 *(2005 11)*

The principal risks and uncertainties for Monteray are

1 The existing contract expires in March 2009 and the future of the company is dependant on negotiating a new deal The management is actively discussing the future of the contract with BT

2 The variable works stream is not guaranteed or exclusive and each year the company must actively source opportunities and build relationships with budget holders within the closed BT market if the turnover is to be maintained Any reduction in variable works is passed on to the sub-contractor

3 BT continues to change the nature and occupancy of its estate to reduce its property costs which in turn reduces Monteray's revenue

4 Monterey mitigates its Health & Safety Risks by virtue of the fact it fully complies with all relevant legislation and Approved Codes of Practices

**Profits and dividends**

The profit after taxation for the year ended 31 December 2006 was £4,327,146 *(2005 £3,518,000)*

During the year, a dividend of £4,500,000 *(2005 £5,300,000)* has been paid

**Directors and directors' interests**

The directors who served during the year were

| | |
|---|---|
| RJ Masters | |
| SP Gibbs | (appointed 27 April 2006) |
| JC Platt | (appointed 27 April 2006) |
| P Jones | (appointed 21 December 2006) |
| G Peattie | (appointed 21 December 2006) |
| M Fellowes | (resigned 27 April 2006) |
| DS Hurcomb | (resigned 28 April 2006) |
| TD Kenny | (resigned 21 December 2006) |
| RH Harris | (resigned 21 December 2006) |

# Directors' report *(continued)*

### Directors and directors' interests *(continued)*

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

| Number of shares | At 31 December 2006 | | At 1 January 2006 (or later date of appointment) | | Share option movements in year (or since appointment) | | |
|---|---|---|---|---|---|---|---|
| | Shares | Share options | Shares | Share options | granted | exercised | lapsed |
| JC Platt | 3,246 | - | - | - | - | - | - |
| G Peattie | - | - | - | - | - | - | - |
| P Jones | - | 840 | - | - | 840 | - | - |
| SP Gibbs | - | - | - | - | - | - | - |

At 31 December 2006 no director had any beneficial interest in the share or loan capital of any subsidiary of Carillion plc

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

### Payments to suppliers

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

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

Trade creditor days at 31 December 2006 were 11 days *(2005 11 days)*

### Employees

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

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

The company is an active and enthusiastic supporter of training and development for all employees

### Equal opportunities

Monteray Limited is an equal opportunities employer

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

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

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

# Directors' report *(continued)*

**Disclosure of information to auditors**

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

**Auditor**

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

Approved by the Board on 7 March 2007 and signed on its behalf by

**G Peattie**
*Director*

Birch Street
Wolverhampton
WV1 4HY

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

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

KPMG

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

## Independent auditors' report to the members of Monteray Limited

We have audited the financial statements of Monteray Limited for the year ended 31 December 2006 which comprise the profit and loss account, the balance sheet, cash flow statement and the related notes These financial statements have been prepared under the accounting policies set out therein

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

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

**Basis of audit opinion**

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

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

## Independent auditors' report to the members of Monteray Limited *(continued)*

**Opinion**

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

**KPMG Audit Plc**
*Chartered Accountants*
*Registered Auditor*

7 March 2007

# Profit and loss account

*for the year ended 31 December 2006*

| | *Note* | 2006<br>£000 | 2005<br>£000 |
|---|---|---|---|
| **Turnover** | *1* | **127,060** | 118,505 |
| Cost of sales | | **(118,337)** | (109,979) |
| **Gross profit** | | **8,723** | 8,526 |
| Administrative expenses | | **(2,681)** | (3,480) |
| **Operating profit** | | **6,042** | 5,046 |
| Net interest receivable | 2 | **61** | 63 |
| **Profit on ordinary activities before taxation** | *3* | **6,103** | 5,109 |
| Tax on profit on ordinary activities | *6* | **(1,776)** | (1,591) |
| **Profit for the financial year** | | **4,327** | 3,518 |

All amounts relate to continuing operations

There were no recognised gains and losses other than the profit for the current year and the profit for the previous year

# Balance sheet
*at 31 December 2006*

| | Note | 2006 £000 | £000 | 2005 £000 | £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | *8* | | **17** | | 17 |
| **Current assets** | | | | | |
| Debtors | *9* | **14,036** | | 13,819 | |
| Cash at bank and in hand | | **2,122** | | 1,904 | |
| | | **16,188** | | 15,723 | |
| **Creditors** amounts falling due within one year | *10* | **(14,773)** | | (14,165) | |
| **Net current assets** | | | **1,385** | | 1,558 |
| **Net assets** | | | **1,402** | | 1,575 |
| **Capital and reserves** | | | | | |
| Called up share capital | *12* | | **-** | | - |
| Profit and loss account | *14* | | **1,402** | | 1,575 |
| **Equity shareholders' funds** | *13* | | **1,402** | | 1,575 |

These financial statements were approved by the Board of directors on 7 March 2007 and were signed on its behalf by

**G Peattie**
*Director*

## Cash flow statement

*for the year ended 31 December 2006*

| | Note | 2006<br>£000 | 2005<br>£000 |
|---|---|---|---|
| Net cash inflow from operating activities | *16* | **6,301** | 5,638 |
| Returns on investments and servicing of finance | *16* | **61** | 63 |
| Taxation paid | | **(1,632)** | (1,517) |
| Capital expenditure and financial investment | *16* | **(12)** | (6) |
| Equity dividends paid | | **(4,500)** | (5,300) |
| **Increase/(decrease) in cash in the year** | | **218** | (1,122) |
| **Reconciliation of net cash flow to movement in net funds** | | | |
| Increase/(decrease) in cash in the year | | **218** | (1,122) |
| Net funds at the start of the period – cash | | **1,904** | 3,026 |
| **Net funds at the end of the year – cash** | | **2,122** | 1,904 |

# Notes
*(forming part of the financial statements)*

## 1 Principal accounting policies

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

***Basis of accounting***

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

***Turnover***

Turnover represents the net amount receivable, excluding value added tax for the provision of services supplied to customers during the year All turnover arises within the UK

***Tangible fixed assets***

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

***Taxation***

The charge for taxation is based on the result for each year and takes into account deferred taxation, calculated in accordance with the requirements of FRS19 "Deferred tax" Deferred tax assets or liabilities, which arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, are calculated on a non-discounted full provision basis

***Leased assets***

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

***Pensions***

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

The company also participates in a group wide defined contribution scheme Contributions to this scheme are charged to the profit and loss account as incurred

## 2 Net interest receivable

| | 2006 | 2005 |
|---|---|---|
| | £000 | £000 |
| Bank interest receivable | 61 | 63 |

# Notes *(continued)*

## 3 Profit on ordinary activities before taxation

| | 2006 | 2005 |
|---|---|---|
| | **£000** | £000 |
| ***Profit on ordinary activities before taxation is stated after charging*** | | |
| Depreciation | **12** | 12 |
| Auditors' remuneration - audit | **11** | 12 |
| Rentals under operating leases | | |
| Hire of vehicles | **34** | 38 |

## 4 Directors' remuneration

The directors neither received nor waived any remuneration during the year

## 5 Staff numbers and costs

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

| | Number of employees | |
|---|---|---|
| | **2006** | 2005 |
| Administration | **25** | 24 |

The aggregate payroll costs of these persons were as follows

| | **£000** | £000 |
|---|---|---|
| Wages and salaries | **1,152** | 1,155 |
| Social security costs | **129** | 132 |
| Other pension costs (see note 15) | **62** | 65 |
| | **1,343** | 1,352 |

## Notes *(continued)*

### 6 Tax on profit on ordinary activities

#### (a) *Analysis of taxation charge in the year*

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

| | 2006 £000 | 2005 £000 |
|---|---|---|
| *UK corporation tax* | | |
| Current tax on income for the year | **1,840** | 1,600 |
| Adjustment in respect of prior periods | **(64)** | (8) |
| Total current tax | **1,776** | 1,592 |
| *Deferred tax (see note 11)* | | |
| Origination/reversal of timing differences | - | (1) |
| Total deferred tax | - | (1) |
| Tax on profit on ordinary activities | **1,776** | 1,591 |

#### (b) *Reconciliation of current taxation charge*

The UK standard rate of corporation tax for the year is 30% *(2005 30%)* The actual tax rate differs to the standard rate for the reasons set out below

| | 2006 £000 | 2005 £000 |
|---|---|---|
| *Current tax reconciliation* | | |
| Profit on ordinary activities before tax | **6,103** | 5,109 |
| Tax on profit on ordinary activities at UK standard rate of corporation tax of 30% *(2005 30%)* | **1,831** | 1,533 |
| *Effects of* | | |
| Permanently disallowable expenses | **9** | 67 |
| Adjustments to tax charge in respect of previous periods | **(64)** | (8) |
| Current tax charge for the year (note 6(a)) | **1,776** | 1,592 |

### 7 Dividends paid

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Interim dividend paid at £22,500 per share *(2005 £26,500 per share)* | **4,500** | 5,300 |

# Notes *(continued)*

## 8 Tangible fixed assets

| | Plant, machinery and vehicles £000 |
|---|---|
| ***Cost*** | |
| At beginning of year | 53 |
| Additions | 12 |
| At end of year | 65 |
| ***Depreciation*** | |
| At beginning of year | 36 |
| Provided during the year | 12 |
| At end of year | 48 |
| ***Net book value*** | |
| **At 31 December 2006** | **17** |
| At 31 December 2005 | 17 |

## 9 Debtors

| | 2006 £000 | 2005 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade debtors | **4,229** | 4,063 |
| Amounts owed by group undertakings | **1** | - |
| Amounts owed by related parties (see note 17) | **1** | 1 |
| Other debtors | **61** | 36 |
| Deferred taxation (see note 11) | **5** | 5 |
| Prepayments and accrued income | **9,739** | 9,714 |
| | **14,036** | 13,819 |

## 10 Creditors: amounts falling due within one year

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Trade creditors | **709** | 696 |
| Amounts owed to group undertakings | **1,870** | 1,357 |
| Amounts owed to related parties (see note 17) | **1,630** | 2,036 |
| Corporation tax | **994** | 850 |
| Other taxation and social security | **278** | 219 |
| Other creditors | **44** | 12 |
| Accruals | **9,248** | 8,995 |
| | **14,773** | 14,165 |

## Notes *(continued)*

### 11 Deferred taxation

The deferred tax asset comprises

| | Deferred tax £000 |
|---|---|
| At the beginning and end of the year | 5 |

Deferred tax arises due to depreciation in excess of capital allowances

### 12 Share capital

| | 2006 £ | 2005 £ |
|---|---|---|
| ***Authorised, allotted, called up and fully paid*** | | |
| 200 shares of £1 each | **200** | 200 |

### 13 Reconciliation of movements in equity shareholders' funds

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Profit for the financial year | **4,327** | 3,518 |
| Dividends paid | **(4,500)** | (5,300) |
| Net reduction in shareholders' funds | **(174)** | (1,782) |
| Equity shareholders' funds at beginning of year | **1,575** | 3,357 |
| **Equity shareholders' funds at end of year** | **1,402** | 1,575 |

### 14 Reconciliation of movement on reserves

| | 2006 £000 | 2005 £000 |
|---|---|---|
| Profit for the financial year | **4,327** | 3,518 |
| Dividends paid | **(4,500)** | (5,300) |
| Profit and loss reserve at start of year | **1,575** | 3,357 |
| **Profit and loss reserve at end of year** | **1,402** | 1,575 |

# Notes *(continued)*

## 15 Pension contributions

The pension schemes to which the company contributes are of both the defined benefit and defined contribution types and are for the benefit of all relevant employees of Carillion plc and its UK subsidiary undertakings, associates and joint ventures ("the group")

The company is a member of the Carillion staff scheme which is a funded defined benefit scheme Because the company is unable to identify its share of the schemes assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements, as if the schemes were defined contribution schemes

At 31 December 2006 the staff scheme had a deficit of £26 5 million *(2005 £27 2 million)*

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

The company contributions to the defined benefit scheme for the year, totalled £56,675 *(2005 £55,249)* It has been agreed that an employer contribution rate of 20 1% of pensionable pay will apply in future years

The pension charge of the defined contribution scheme was £4,740 *(2005 £9,728)* There were no contributions outstanding at 31 December 2006 *(2005 £Nil)*

## 16 Analysis of cash flows

| | 2006<br>£000 | 2005<br>£000 |
|---|---|---|
| **Reconciliation of operating profit to net cash inflow from operating activities** | | |
| Operating profit | **6,042** | 5,046 |
| Depreciation | **12** | 12 |
| | **6,054** | 5,058 |
| Increase in debtors | **(217)** | (3,337) |
| Increase in creditors | **464** | 3,917 |
| **Net cash inflow from operating activities** | **6,301** | 5,638 |
| **Returns on investment and servicing of finance** | | |
| Net interest received | **61** | 63 |
| **Capital expenditure** | | |
| Payment to acquire tangible fixed assets | **12** | 6 |

# Notes *(continued)*

## 17 Related party disclosures

The company is controlled by Carillion Services Limited, its immediate parent company

At 31 December 2006 and 31 December 2005 the material balances outstanding and transaction totals with related parties, other than dividends, were as follows Debtor and creditor balances include amounts included in prepayments and accruals

| | | 2006 | | |
|---|---|---|---|---|
| | **Debtors** | **Creditors** | **Included in cost of sales** | **Included in turnover** |
| | **£000** | **£000** | **£000** | **£000** |
| **Related party** | | | | |
| Carillion Services Limited | **1** | **5,268** | **48,177** | **7** |
| Reliance Integrated Services Limited | **1** | **3,061** | **29,088** | **3** |
| Haden Building Management Limited | **-** | **2,854** | **25,772** | **2** |

| | | 2005 | | |
|---|---|---|---|---|
| | Debtors | Creditors | Included in cost of sales | Included in turnover |
| | £000 | £000 | £000 | £000 |
| **Related party** | | | | |
| Carillion Services Limited | - | 5,244 | 44,740 | 43 |
| Reliance Integrated Services Limited | - | 3,586 | 27,067 | 41 |
| Haden Building Management Limited | 1 | 2,323 | 24,058 | 26 |

The share capital of the company is held 51% by Carillion Services Limited and 24 5% each by members of the Haden and Reliance groups

## 18 Ultimate holding company

The company's ultimate controlling company is Carillion plc which is incorporated in Great Britain and registered in England and Wales

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