CARILLION PLC

Registration Number

3782379

ANNUAL REPORT AND ACCOUNTS 2006

For the latest information, including Investor Relations and Sustainability, visit our website any time
www carillionplc com

Cover – Restoration art
The Ikon Gallery Birmingham is now housed in a former neo-gothic school restored by Carillion to its former architectural glory

This page
A view from Tate Modern one of our many award winning projects

Our mission
Making tomorrow a better place

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

Our values
> Openness
> Collaboration
> Mutual dependency
> Professional delivery
> Sustainable, profitable growth
> Innovation

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
2005 £2 3bn
+57%

£3.6bn

Profit before tax*
2005 £55 5m
+48%

£82.1m

Earnings per share†
2005 20 4p
+15%

23.5p

Final dividend
2005 5 2p

5.9p

Total dividend
2005 8 0p
+12.5%

9.0p

Order book
2005 £7bn
+£9bn

£16bn

*

†

I am pleased to report that Carillion made good progress in 2006 and either achieved or exceeded all our key financial and strategic objectives

In particular, the benefits of acquiring Mowlem plc in February 2006 have been greater than expected at the time of acquisition Integration cost savings have increased, new order intake has moved strongly ahead and the acquisition has been significantly earnings enhancing in 2006, rather than earnings neutral

In 2006, revenue increased by some 57 per cent to £3,593 million, including joint ventures (2005 £2,284 million), which reflects both organic growth and the acquisition of Mowlem Profit before tax, non-operating items and amortisation increased by 48 per cent to £82 1 million (2005 £55 5 million) Earnings per share on the same measure rose by 15 per cent to 23 5 pence per share (2005 20 4 pence)

Cash flow from operations was again strong and average net debt in 2006 was £110 million, well below the £200 million we expected at the time of acquiring Mowlem At 31 December 2006 the Group had net debt of £108 million

The strength of the enlarged Group is also clearly evident in the value of its order book, which more than doubled to £16 billion at the year-end (2005 £7 billion) Mowlem's order book at acquisition was approximately £2 5 billion, therefore most of this increase came from new orders won during the year

The good progress we have made in 2006, particularly with the integration of the Carillion and Mowlem businesses, is due to the leadership of our management team and the commitment and professionalism of our people On behalf of the Board I should like to thank all our employees for the contributions they have made to the integration process and to Carillion's success in 2006

With an order book of £16 billion and strong positions in a wider range of growth markets, we have created a more resilient business, capable of accelerating our strategy for growth This positive outlook for the Group confirms the Board's view that Carillion is firmly on track to deliver materially enhanced earnings in 2007

Chris Girling retires from the Board on 30 April 2007, having served as Finance Director since shortly after Carillion was launched as an independent company in 1999 Chris has played a major role in Carillion's development and he leaves with the Board's grateful thanks for his outstanding contribution to the Company's success and with our very best wishes for the future Our new finance director, Richard Adam, joins the Board on 2 April from Associated British Ports where he has been Group Finance Director since 1999 Richard is an experienced and successful Finance Director with strong operational and business management skills and we are delighted to welcome him to the Board

As I announced in my interim report to shareholders, we strengthened the Board during the year with the appointment in September 2006 of Don Kenny as an executive director and Steve Mogford as a non-executive director Don is a Managing Director responsible for six Carillion business units and brings to the Board extensive experience not only of Carillion's business, but also our industry sector, having held a number of senior positions in Carillion and in other major UK support services and construction companies Steve has been a main Board director of BAE Systems for over six years and is currently BAE's Chief Operating Officer responsible for Programmes With his considerable experience as a senior business leader and also in managing major capital projects, Steve will make a valuable contribution to the development of our business

In view of the Group's performance in 2006 and prospects for 2007, the Board is recommending a final ordinary dividend for 2006 of 5 9 pence per share, making the total full-year dividend 9 0 pence per share, an increase of 12 5 per cent on the total paid in respect of 2005 (8 pence per share) The final dividend for 2006 will be paid on 22 June 2007 to shareholders on the register at close of business on 27 April 2007

Philip Rogerson
Chairman
7 March 2007

Philip Rogerson
Chairman

In the UK, Carillion has eight principal market sectors – Defence, Education, Health, Building, Facilities Management and Services, Roads, Rail and Civil Engineering

In the Middle East, our two principal market sectors are Construction and Facilities Management In Canada and the Caribbean, our main market sectors are Health, Roads Maintenance and Construction

Carillion is a leader in Public Private Partnership (PPP) projects, particularly in the Defence, Education and Health sectors in the UK and in the Health sector in Canada

Defence
We deliver integrated solutions including design, construction, maintenance and facilities management services to the Ministry of Defence and security sector

Education
We design, build, maintain and provide facilities management services for schools and universities, particularly through Public Private Partnership projects

Health
We provide a range of integrated service solutions for the NHS, from Public Private Partnership hospitals to community-based clinical facilities

Roads
We provide road construction and maintenance services to the Highways Agency and a number of Local Highway Authorities

Rail
We provide rail infrastructure services for Network Rail the Channel Tunnel Rail Link, Transport for London and Passenger Transport Executives.

Civil Engineering
We provide a variety of civil engineering services focused mainly on the transport, marine, water and industrial sectors

Facilities Management and Services
We provide integrated service solutions for building maintenance, facilities management and other support services for public and private sector customers

Building
Our national and regional building activities are focused on the retail, offices, mixed-use developments, nuclear, prisons, industrial and urban regeneration sectors

Middle East
We have well-established joint venture businesses based in Dubai and Oman providing construction and facilities management services for high quality developments such as Dubai Festival City

Canada and Caribbean
In Canada we have market leading positions in Public Private Partnership hospitals and road maintenance
In the Caribbean we have well-established positions in building and civil engineering

Financial Reporting segments
We report our financial results in three segments – Investments, Support Services and Construction Services – in which we group together activities of a similar type and risk profile to make it easier to value our earnings on a consistent basis

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

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

In Construction Services we report the results of our building and civil engineering activities

Order book
£16 billion

Construction Services
Support Services
Investments

The acquisition of Mowlem in February 2006 marked a step change in Carillion's development as a leading support services and construction company Greater than expected benefits from this acquisition, combined with continuing organic growth, enabled us to deliver profit and earnings per share ahead of our original expectations, backed by strong cash flow from operations

Building opportunity
We design build and manage innovative learning environments for schools and universities

More specifically, we have achieved or exceeded each of the six key objectives we set for 2006, namely to

- attract and retain excellent people, by becoming an employer of choice
- integrate Carillion and Mowlem successfully
- achieve cost synergy savings 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 a recognised leader in the delivery of safety and sustainability

Our performance against each of these objectives is discussed in the following sections of this review

Acquisition of Mowlem When we acquired Mowlem, we said it was an outstanding strategic fit and that integrating Carillion and Mowlem would deliver substantial cost savings, create a stronger, more resilient business and accelerate our strategy for growth

Immediately after acquisition, we restructured the Group to create 14 business units, each aligned with key growth markets and supported by lean and effective shared central services By the end of 2006, the integration process was substantially complete When we acquired Mowlem we announced that we expected to deliver integration cost savings at a running rate of £15 million per annum by the end of 2007, for a one-off implementation cost of £10 million We now expect to achieve cost savings at a running rate of £26 million per annum by the end of 2007, for a one-off cost of up to £28 million

Carillion is now one of the largest support services businesses in the UK with enhanced positions in its key market sectors and a greater ability to meet the needs of its customers, whether this involves a single service or fully integrated solution

Combining the PPP investment activities of Carillion and Mowlem has delivered significant benefits, including a larger, more valuable portfolio of equity investments, a stronger pipeline of new projects and a considerable increase in our capacity to win and deliver PPP projects

Mowlem's strengths in construction, particularly in the regional building and civil engineering markets where previously Carillion had relatively little presence, have broadened our construction base and given us the capability to provide integrated solutions for customers in these markets

The good progress we have made with integration resulted in the acquisition being significantly earnings enhancing in 2006, rather than earnings neutral as expected at the time of acquisition Furthermore, we remain firmly on track to deliver materially enhanced earnings in 2007 through both revenue and margin growth

Business performance Total revenue in 2006 increased by 57 per cent to £3,593 million (2005 £2,284 million) including revenue from joint ventures of £528 million (2005 £259 million)

Total operating profit increased by 78 per cent to £117 1 million (2005 £65 8 million), including profit from joint ventures of £47 7 million (2005 £20 3 million) After central costs of £20 3 million, a net interest charge of £6 6 million and tax on joint ventures of £8 1 million, profit before tax, non-operating items, restructuring costs and amortisation was £82 1 million, an increase of 48 per cent (2005 £55 5 million) Earnings per share on the same measure increased by 15 per cent to 23 5 pence per share (2005 20 4 pence)

Non-operating items, restructuring costs and amortisation amounted to £14 5 million, leaving profit before tax of £67 6 million (2005 £51 9 million) Profit after tax was £60 4 million (2005 £40 8 million) and basic earnings per share were 21 6 pence (2005 18 7 pence)

Our pre-tax profit margin was broadly unchanged at 2 3 per cent despite the effect of lower margins in the businesses acquired with Mowlem, as we continue to implement our Group-wide cost reduction and margin improvement programme As previously indicated, the potential to drive profit growth through improving margins in the businesses acquired with Mowlem remains a significant opportunity

Our continuing focus on cash management has again delivered strong cash flow from operations of £91 million Average net debt in 2006 post the acquisition of Mowlem was £148 million, including finance leases of £47 9 million

Financial reporting segments We continue to report our financial results in three segments – Investments, Support Services and Construction Services – in which we group together activities of a similar type and risk profile to make it easier to value our earnings on a consistent basis

The businesses acquired with Mowlem made no contributions to profit in Support Services or Construction Services in the first half However, as expected, all these businesses made good second-half contributions in all three reporting segments, as summarised on page 8 A more detailed analysis of these segments follows in the Finance Director's review

John McDonough
Chief Executive

Investments generated revenue of £148 million in 2006 Operating profit increased by over 200 per cent to £26 5 million, due to the addition of Mowlem's substantial portfolio of investments in Public Private Partnerships (PPP), achieving financial close on a number of major new projects during the year and the effect of projects moving from construction into operation

In September 2006, we sold equity investments in eight projects with a total book value of £21 1 million The net proceeds from this sale of £46 7 million generated an exceptional profit of £25 6 million and reflected a net present value of the cash flows from these investments based on a discount rate of less than five per cent Given that we target an overall internal rate of return of 15 per cent from PPP equity investments, an equity sale has once again demonstrated the considerable long-term value we are creating for shareholders through our ability to win and deliver PPP projects successfully

The Directors' valuation of our equity portfolio at 31 December 2006 was approximately £238 million, based on discounting the cash flows from investments in financially closed projects at an average of 8 per cent (December 2005 £89 million, based on a 10 per cent discount rate)

We also have a good pipeline of new PPP projects, including three projects for which we are the preferred bidder, in which we expect to invest some £11 million of equity, and eight projects for which we are shortlisted, with a potential equity requirement of up to £69 million

In Support Services, revenue including joint ventures increased by 56 per cent to £1,539 7 million, due to further healthy organic growth and the acquisition of Mowlem Operating profit increased by almost 43 per cent to £58 2 million

The operating margin in this segment reduced from 4 1 per cent to 3 8 per cent due to lower margins in the businesses acquired with Mowlem and also in rail infrastructure, as expected As previously announced, we took action in the second half of 2006 to downsize our rail business to reduce its overheads and focus the business on sustainable areas of the rail infrastructure market

My values
Innovation means building a 30-metre bridge off site and floating it into place down river This enabled us to open the bridge 6 weeks early

Gary Bentley, Foreman
Carillion Regional Civil Engineering

This, together with our drive to improve margins in the businesses acquired with Mowlem, is expected to improve operating performance in this segment in 2007

In Construction Services, revenue including joint ventures increased by 55 per cent to £1,902 4 million, due primarily to the acquisition of Mowlem Operating profit almost doubled to £32 4 million and the operating margin increased from 1 4 per cent to 1 7 per cent, as the effect of lower margins in the businesses acquired with Mowlem were more than offset by margin growth in other businesses, particularly in the Middle East

Order book The value of our order book more than doubled to £16 billion at 31 December 2006 (December 2005 £7 billion) Mowlem's order book at acquisition was approximately £2 5 billion, therefore most of this increase is due to new orders won during the year This outstanding performance reflects the strength of the enlarged Group and our ability to accelerate our strategy for growth Some 86 per cent of the order book is for Support Services and PPP concession contracts This continues to provide long-term visibility, with over 70 per cent of our 2007 order book for support services already secure We have also strengthened our Construction Services order book, with some 60 per cent of orders for 2007 already secure Furthermore, we have maintained a healthy pipeline of probable new orders worth around £1 6 billion at 31 December 2006

Our people As a services business, our success depends primarily on the quality of our people Only through their efforts every day can we meet or exceed the expectations of customers and maintain our competitive advantage In order to attract, develop and retain excellent people by becoming an employer of choice, we have a wide range of policies and programmes in place across the Group, the success of which rests on how well we communicate with all our people, including listening to what they tell us and acting upon it

We have a structured approach to communication, from one-to-one individual performance and development reviews to monthly team talks and an award winning group-wide newspaper We also conduct regular surveys through which our people can share their views openly and frankly These surveys culminate annually in "The Great Debate" in which over 2,500 people from across the Group took part in 2006, including around 1,000 people who joined us from Mowlem This enables us to monitor and measure our progress on a wide range of issues, such as how well we engage with our people to recognise and value the contributions they make to our business and to help them fulfil their potential

The acquisition of Mowlem and its integration with Carillion was the main focus of internal communications in 2006 It will naturally take time for the large number of people who joined us from Mowlem to identify fully with Carillion and, in particular, the importance we place upon living our values We know we have much to do to build a culture of excellent communication across the enlarged Group, but the results of surveys carried out in 2006 were encouraging and we shall continue to drive this forward in 2007 Good two-way communication starts with our business leaders and the "Power of Engagement" workshops, attended by around 2,000 Carillion managers and supervisors in 2005, were extended in 2006 to include some 230 business leaders who joined us from Mowlem

Health and Safety Our absolute commitment to Health and Safety is being translated into positive results through "Target Zero", the initiative we launched throughout Carillion at the end of 2004, aimed at eliminating reportable accidents by 2010

Target Zero, which is being led by our Board, applies to all our people, those who work with us and those who are affected by Carillion's activities It requires the continual vigilance and commitment of everyone in Carillion to ensure that safe working practices are always used and is supported by regular and rigorous reviews, audits and training

Target Zero is an extremely ambitious target that will be achieved only if we can create a culture of zero tolerance to accidents within Carillion, our customers, suppliers and partners I am delighted to report that we have made good further progress towards this target In 2006, the Group's Accident Frequency Rate (AFR) reduced by 25 per cent to 0 18 reportable accidents per 100,000 hours worked, compared with an AFR of 0 24 in 2005, itself a 35 per cent reduction on our AFR in 2004 of 0 37 This performance ranks Carillion among the very best in our industry

The total number of reportable accidents under RIDDOR (Reporting of Injuries Diseases and Dangerous Occurrences Regulations 1995) reduced by 24 per cent to 346, after taking account of the increase in our workforce resulting from the acquisition of Mowlem, and follows a reduction of 27 per cent in 2005

2006 was free of fatal accidents to our own people and to those who work on our project sites and contracts We were the subject of one prosecution by the Health and Safety Executive, which related to an incident in 2005, and one of our subcontractors received an enforcement notice in respect of work being carried out on Carillion's behalf

In April 2006, around 200 people from across the Group attended our first "Safety Action Group" conference, focused on delivering Target Zero Similar events will be held in 2007 to ensure we maintain this focus and the momentum we have created towards achieving this challenging target

In September 2006, Carillion Rail was suspended by Network Rail from bidding for new projects, following an increase in less serious workplace accidents over an approximate four-week period We believed this increase was temporary and not representative of our overall performance However, we entirely share Network Rail's objective of improving workforce safety and regard any accident as unacceptable Since September 2006, our AFR has reduced significantly and Network Rail lifted the suspension in February 2007

In December 2006, Carillion was the first and only major construction company to submit information on the Health and Safety performance of all its businesses to the benchmarking process sponsored by the Health and Safety Commission The "Corporate Health and Safety Performance Index" resulting from this process will enable us to benchmark our performance against all participating companies and help us to deliver continuous improvement

More detailed information on Health and Safety will be included in our 2006 Sustainability Report that will be published on our website at www carillionplc com/sustainability, in April 2007

Sustainability Our commitment to becoming a more sustainable business has made Carillion a recognised leader in developing and adopting socially responsible business practices

We continue to believe that this commitment not only creates positive impacts on the environment and the communities in which we operate, but also delivers measurable business benefits We systematically quantify the links between our business objectives and our impacts on the environment and society and set specific targets for performance improvement The targets we set and our performance against them are externally audited and the results published in our annual sustainability report

We also benchmark our performance externally For example, we participate in Business in the Community's annual Corporate Responsibility Index and Carillion is also a member of the FTSE4Good index

We say more about our sustainability programme and performance in the Corporate Social Responsibility section of this report on page 22 More detailed information will be provided in our 2006 Sustainability Report, which will be published on our website at www carillionplc com/sustainability in April 2007

Risk management The rigorous policies and processes we use to identify, mitigate and manage risk continue to be a cornerstone of our business They enable us to address strategic risks and those specific to individual businesses and contracts, including social, environmental and ethical risks

Our risk management processes apply to every aspect of our operations, from choosing our market sectors to the contracts we bid for and the selection of our suppliers and sub-contractors They also 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 delights our customers

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

- Attracting, developing and retaining excellent people the success of our business depends primarily on the quality of our people
- Managing 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
- Winning new work our ability to remain competitive by adapting our strategy and service offering to the changing needs of our markets and customers is essential to the continuing success of our business
- Managing our pension schemes the cost to Carillion of funding its pension schemes depends on the macro-economic environment, equity market stability and regulatory requirements
- Process and systems doubling the size of our business through the acquisition of Mowlem has increased our dependence on having efficient and effective integrated project, financial accounting, internal audit and HR systems

2007 objectives In order to build on the substantial progress made in 2006, we have set the following key objectives for 2007

- Attract, develop and retain excellent people by becoming an employer of choice
- Be a recognised leader in the delivery of safety and sustainability
- Deliver revenue growth of a minimum of 5 per cent through exceeding our customers' expectations
- Deliver Mowlem integration cost savings at a running rate of £26 million per annum by the end of 2007
- Generate cash-backed operating profit
- Achieve average net debt of around £150 million
- Deliver materially enhanced earnings

John McDonough
Chief Executive
7 March 2007

01

In the UK, Carillion has eight principal market sectors – Defence, Education, Health, Building, Facilities Management and Services, Roads, Rail and Civil Engineering

In the Middle East, our two principal market sectors are Construction and Facilities Management In Canada and the Caribbean, our main market sectors are Health, Roads Maintenance and Construction

With the exception of rail infrastructure, where volumes have declined as expected, we have made progress in all our market sectors in 2006 In 2007, we again expect opportunities for growth in our UK and international markets

Defence, Education and Health

In these three sectors we provide a wide range of design, construction, facilities management and integrated service solutions, including private finance

Defence We made further outstanding progress in this sector in 2006, winning new orders worth nearly £6 billion This followed the major breakthrough we achieved in this sector in 2005 when Carillion joint ventures won two major support services contracts – Housing Prime and Regional Prime Central – for Defence Estates, together worth around £600 million to Carillion

In 2006, we generated some £232 million of revenue from the Defence sector, almost a ten-fold increase on 2005 (£24 million) Growth has been driven by mobilising the two support services contracts won in 2005 and by achieving financial close in 2006 on two major PPP contracts for the Ministry of Defence – the £12 billion Allenby Connaught project and the £880 million Permanent Joint Headquarters, Northwood, project We will invest some £70 million of equity in these projects, on which we also commenced construction and the provision of facilities management services in 2006

The outlook in this sector in 2007 is for continuing growth as construction and facilities management services reach full-year volumes on the Allenby Connaught and Northwood projects In addition, we are the preferred bidder for the £250 million Royal School of Military Engineering project and there are good prospects for further substantial construction work associated with the Regional Prime Central contract

Education In 2006, we reached financial close on the £76 million South Ayrshire PPP schools project, our sixth such project, and we were appointed as a framework contractor for Academies to be built under the Government's Building Schools for the Future programme

The education sector contributed around £162 million of revenue in 2006 (2005 £141 million), with growth driven primarily by full-year contributions from the £100 million Renfrewshire schools PPP project and the £100 million Leeds schools project

The outlook in the education sector continues to be very positive Although the Building Schools for the Future programme has made a slower than expected start, the Government remains committed to this programme under which it plans to invest up to £60 billion over the next 15 years in replacing secondary schools and some £1 6 billion over the next five years in building Academy Schools In Scotland, investment continues to be made in new PPP schools and Carillion has been shortlisted for a further project in West Dunbartonshire, worth approximately £130 million

02

03

01 Glencourse Barracks
We have completed a major redevelopment of Glencourse Barracks, the Milton Bridge Camp and Medical Centre at Redbridge Barracks in Edinburgh Old accommodation blocks were demolished and replaced with modern, high quality living accommodation together with new recreational areas and welfare facilities

02 John Radcliffe Hospital
This £135 million PPP hospital was completed on time and to budget in December 2006 and has enabled the Oxford Radcliffe NHS Trust to relocate services from the ageing Radcliffe Infirmary to the John Radcliffe Hospital, as well as providing a new Children's Hospital Carillion is now delivering facilities management services for the new hospital, which provides general health services to Oxfordshire's 625,000 residents and specialist services to some 2 3 million people in the county and beyond

03 Renfrewshire Schools
Carillion is providing 10 new PPP schools, including nursery, primary and secondary schools, for Renfrewshire Council at a capital cost of £150 million The new schools will provide state-of-the-art facilities for over 6,000 pupils in Paisley, Linwood and Johnstone They have been designed for optimum flexibility to meet a variety of needs including full-time education and community learning

Health In 2006, our activities in the health sector generated revenue of £229 million (2005 £146 million) We made good progress in facilities management in this sector, winning and mobilising a £330 million contract for Barts and The London Hospital and mobilising services at two of our UK PPP hospitals – the John Radcliffe, Oxford, and the Queen Alexandra, Portsmouth

Our Clinicenta joint venture also made further substantial progress, winning preferred bidder positions on two more Independent Sector Treatment Centre (ISTC) contracts – London South and London North – to add to the preferred bidder position it already held on a similar contract for ISTCs in Bedfordshire and Hertfordshire Since the year-end, Clinicenta has also been appointed as the preferred bidder for a fourth ISTC contract to provide diagnostic services in South East England These four contracts, which involve fully integrated solutions including clinical services, are expected to generate around £450 million of revenue for Carillion over five years Clinicenta is therefore on course to become a key supplier of community-based clinical services

Looking forward, we expect continuing opportunities for growth in the health sector In 2006, the Government reviewed its PPP programme for acute hospitals and confirmed its commitment to this programme and to investing between £7 billion and £9 billion in 20 new hospitals In addition, the Government plans to invest around £150 million per annum over the next five years in community hospitals

My values

Being open and truthful is just the best way to be Its not always easy but working in the same office, as part of the same team with our client I know that openness is the only way to work together and get the best ideas

Ricky Mistry, Performance Engineer
Carillion Rail

01 EcoDepot York This award-winning development, which is home to the City of York Council's Neighbourhood Services Directorate, is a national exemplar of sustainable construction It features real-time monitoring of building performance, a wind turbine and solar panels to generate energy for the site and uses locally grown straw to provide insulation three times more efficient than Building Regulations require Rainwater is collected and used to wash Council vehicles, reducing annual water bills by some £25,000

01

Facilities Management

We provide a wide range of facilities management and other support services to public and private sector customers, with large, integrated FM solutions as one of our key strengths

Building

Our National and Regional UK building businesses provide construction services to a wide range of public and private sector customers for projects with values typically between £1 million and £300 million

My values

The values have become my natural way of working They are about finding ways to build relationships to make something happen or to solve problems

Kerrie Jones,
PA, Carillion

02

03

02 Arla Foods
We designed and built this new dairy for Arla Foods in Leeds It replaced an outdated dairy with a fully automated, state-of-the-art facility that processes 250 million litres of milk a year

03 BT
Working with our joint venture partners, we provide a fully integrated facilities management service for some 7,000 BT properties, including offices, research centres, telephone exchanges, computer centres and the flagship BT Tower in London This service includes cleaning, security, mechanical and electrical engineering maintenance, grounds maintenance, equipment procurement, site safety, building inspections and programmed maintenance

Facilities Management In 2006, we generated some £656 million of revenue from this sector (2005 £370 million), reflecting the acquisition of Mowlem and further organic growth

As we indicated at the half-year, we are now much more positive than we were in 2005 about the outlook for this sector in which there is a growing number of opportunities, particularly for larger integrated solutions We won new orders in 2006 worth some £700 million, including a £100 million, five-year extension to our contract with ntl TeleWest (now Virgin Media) and a £360 million, three-year claims management contract for Norwich Union Carillion has also been appointed by the Office of Government Commerce as a framework supplier of facilities management services to the public sector

Currently we are bidding for further contracts worth approximately £100 million per annum for public and private sector customers and we believe the positive outlook in this sector is set to continue Overall, the UK outsourcing market grew by around 5 per cent to £110 billion in 2006 and growth is forecast to continue at this level over the next five years About 60 per cent of the market is forecast to be contracted out by the end of this period With building fabric maintenance and facilities management expected to be among the areas of strongest growth, we are well positioned to make further progress in this sector

Building In 2006, UK building contributed £848 million of revenue (2005 £528 million) with the increase primarily due to the acquisition of Mowlem New orders totalling £885 million in 2006 reflected positive trading conditions in our target sectors of the UK building market

This market is expected to remain buoyant in 2007, with non-housing new build forecast to grow by around 6 per cent per annum over the next five years Although we propose to bid only selectively for projects let by the Olympic Delivery Authority (ODA), the ODA investment programme should help maintain buoyant trading conditions across the UK market by attracting suppliers from regions beyond the South East Furthermore, as well as the facilities needed for the Games themselves, substantial regeneration investment is planned for London over the next 10 to 15 years and this represents an important opportunity for us, given our strength in providing integrated solutions for urban regeneration

01 Marylebone Station
Carillion Rail upgraded Marylebone and Beaconsfield Stations for Chiltern Railways to improve the frequency and speed of passenger services on this important commuter route into London This design, build and finance project, the first of its kind in the UK, provided two new platforms, track and signalling improvements at Marylebone, together with track realignment and signalling enhancements at Beaconsfield

01

Roads and Civil Engineering

In these sectors we are focused primarily on long-term road maintenance contracts, the design and construction of road projects under the Highways Agency's Early Contractor Involvement (ECI) programme and civil engineering projects for Local Highway Authorities, Network Rail and water companies

Rail

In the UK rail infrastructure market we provide project services to upgrade and improve the national rail network, together with track renewal, signalling and other specialist services We also provide maintenance services for the Channel Tunnel Rail Link

My values
Of course we have to be profitable, but cutting corners always comes back to bite you Sustainable growth is what matters most so that we ll have a job tomorrow!

Jason Ruehland, Site Agent,
Carillion Regional Civil Engineering

02

03

02 Highley-Alveley Bridge
This new bridge, built by Carillion Regional Civil Engineering, carries a pedestrian right of way and the National Route 45 cycleway over the River Severn between Highley and Alveley in Shropshire The bridge also links the Severn Valley Country Park and Severn Valley Railway

03 M40 Motorway maintenance
Early in 2007, Carillion Roads was awarded a £100 million, 20-year contract to provide maintenance services for the M40 between the M25 and Warwick These services include network management, safety inspections, cyclical and routine maintenance, accident and emergency response and winter maintenance

Roads and Civil Engineering These sectors contributed £465 million of revenue to the Group in 2006 (2005 £172 million) with the increase due primarily to the acquisition of Mowlem's regional civil engineering business whose portfolio included six road contracts under the Highways Agency's Early Contractor Involvement (ECI) programme

In 2006, we won a steady flow of new orders in the roads sector, notably construction of the £122 million ECI project to upgrade the A74 in Cumbria to motorway standards (the "M6 missing link") and two further ECI contracts, the A5117/A530 improvement scheme on Deeside and the M25 junction 28 improvement scheme Since the year-end, we have also won a £120 million contract for the operation and maintenance of the M40 motorway between the M25 and Warwick For regional civil engineering, 2006 was a year of consolidation in which we implemented a more selective approach to the projects for which we bid

The outlook for the roads sector in 2007 is encouraging We expect to bid for Highways Agency maintenance contracts for Areas 6 and 8, potentially worth around £500 million over seven years Carillion is also an equity partner in a consortium that has been shortlisted for the Design, Build, Finance and Operate (DBFO) project to widen the M25, which has an estimated total value of around £5 billion Carillion's interests in this project lie in being an equity investor and the maintenance provider over the life of the concession Carillion is currently the maintenance contractor for the M25 and Area 8 and we believe we are well positioned to bid for all these contracts The outlook in our target sectors for regional civil engineering is for modest growth in 2007

Rail Revenue from this sector was £368 million in 2006 (2005 £410 million) and reflected the decline in the UK rail infrastructure market, on which we have commented previously Consequently, during the second half of 2006 we restructured Carillion Rail to reduce overheads and focus the business on sustainable areas of the rail infrastructure market

Although the outlook in this sector is still uncertain, it has improved since we reported at the half-year and is now expected to stabilise in 2007 rather than decline further In October 2006, a Carillion joint venture won the £363 million contract for Transport for London for the East London Line In December 2006, Network Rail announced its intention to reduce the number of suppliers it uses to provide track renewal services from six to four by July 2007 This represents an opportunity to increase our market share and we believe Carillion Rail is well positioned in this market, particularly in the more specialised area of switches and crossings renewals

Middle East
Our operations in the Middle East are based in Dubai and Oman and focused on two sectors, Construction and Facilities Management

Canada and the Caribbean
In Canada, our key sectors are Health and Roads Maintenance In the Caribbean, we provide Construction Services to public and private sector customers

01

02

01 BIR Tower
This development, under construction in Port of Spain, is part of the new Trinidad and Tobago Government Campus

02 Royal Ottawa Hospital
Recently completed by Carillion, this new hospital is the first to be built under the PPP programme in Canada With our second PPP hospital, the new William Osler Hospital, Ontario, nearing completion, Carillion is now firmly established in this growing market

The Middle East Revenue in the Middle East grew strongly in 2006 to £274 million (2005 £165 million), maintaining a compound annual growth rate of around 60 per cent over the last three years This reflects the strength of our market sectors and of the relationship with our joint venture partner and main customer, the Al Futtaim Group During 2006, the Al Futtaim Group joined Carillion and Emaar Properties as a third partner in our facilities management joint venture, Emrill This opens up significant new opportunities for growth, as Emrill is now the preferred supplier for the property portfolios of both Emaar Properties and the Al Futtaim Group

In 2006, our joint ventures secured orders worth £360 million to Carillion of which some £275 million were in Dubai with the balance in Oman We also have a substantial pipeline of construction and FM opportunities in Dubai and for construction in Oman Consequently, we expect growth in the Middle East to remain strong in 2007 Beyond that, the prospects for further healthy growth continue to be encouraging in Dubai and Oman and there are emerging opportunities elsewhere in the region, notably in Abu Dhabi and Egypt

Canada and the Caribbean In 2006, revenue in Canada and the Caribbean increased to £163 million (2005 £132 million) New orders worth approximately £230 million were secured in 2006, the largest of which was a seven-year road maintenance contract in Alberta, Canada, worth £137 million Carillion is already established as the leading supplier of road maintenance services in Ontario and the contract in Alberta extends our operations to a new and growing market

We have made good progress with construction of the first two PPP hospitals to be built in Canada the Royal Ottawa has been completed on time and to budget and is now operational and the new William Osler Hospital in Ontario is nearing completion, also on time and to budget This has firmly established Carillion in this growing sector of the health market in Canada Currently, we are shortlisted for two more PPP hospitals – the Sault Sainte Marie and Niagara Hospitals in Ontario – and there are prospects to bid for further PPP hospitals in British Columbia over the next 12 to 18 months

New order intake in the Caribbean improved significantly in 2006, the largest of which was a £46 million building contract for the Viceroy Resort complex in Anguilla and the prospects for further growth in 2007 are encouraging

With an order book of nearly £1 billion, the outlook in this region is therefore positive and we expect it to continue to deliver healthy growth

Chris Girling
Finance Director

Accounting policies The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and there have been no changes in accounting policies during the year

Acquisitions On 23 February 2006 we acquired Mowlem plc for a total consideration of approximately £350 million, comprising £117 million in cash and 66 2 million new ordinary Carillion shares At the point of acquisition, Mowlem had net debt of £122 5 million

Intangible assets of £550 million, comprised £532 million relating to Mowlem plc and £18 million relating to Pall Mall previously recognised in the acquired business The increase of £36 million in intangible assets relating to the acquisition of Mowlem since the half-year (30 June 2006 £496 million) is due entirely to the application of IAS 12 "Income Taxes" Of the original £496 million of intangible assets, £119 million will be amortised over its period of consumption Under IAS 12, a deferred tax provision equal to 30 per cent of the value of assets to be amortised (£35 7 million) has been established with a corresponding increase in the total value of intangible assets

Amortisation of intangible assets Amortisation of intangible assets relating to business acquisitions was £16 8 million, which relates to the £119 million of intangible assets arising from the acquisition of Mowlem in 2006 and £6 2 million arising from the acquisition of PME in 2005

Interest and cash The Group net interest credit of £1 4 million (2005 £4 0 million) reflects average net debt in 2006 of £110 million (net of average finance leases of £42 million), offset by an interest credit from pensions of £3 5 million (2005 £1 2 million)

Net debt at 31 December 2006 was £108 million after finance lease liabilities of £47 9 million (31 December 2005 net cash £90 8 million, after finance leases of £37 7 million)

Strong cash generation from operations of £91 million and dividends received from jointly controlled businesses of £15 7 million continue to demonstrate our focus on cash management and the resilience of our business Capital expenditure was £41 million, the main components of which were investments in the previously announced project to outsource business processes for Human Resources and Finance and in highways maintenance plant

Dividend payments in 2006 were £23 2 million and net corporate tax refunds of £1 7 million were received

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 In 2006, these businesses generated £528 5 million of revenue (2005 £258 7 million) and £47 7 million of operating profit (2005 £20 3 million) for Carillion This reflected growth in joint venture activities in PPP investments, in construction services, notably in the Middle East, and in UK support services After an interest charge of £8 million, profit before tax from joint ventures was £39 7 million (2005 £21 4 million) and profit after tax was £31 6 million (2005 £16 4 million)

Taxation The Group's effective rate of tax on underlying profit remained at 27 per cent We have £242 million of corporate tax losses in the UK and overseas that are potentially available to reduce future tax liabilities Of these losses some £33 million, with a cash value of £10 million, have been recognised as a deferred tax asset

Non-operating items The Group had a net exceptional profit of £2 7 million in 2006 This comprised an exceptional profit of £25 6 million from the sale of eight PPP equity investments, exceptional costs of £18 4 million in respect of integrating the Carillion and Mowlem businesses, exceptional costs of £4 2 million in respect of restructuring Carillion Rail and other net costs of £0 3 million

Pensions The Group's ongoing pensions charge against profit in 2006, calculated on the basis of IAS 19, was £35 1 million (2005 £21 4 million), with the increase on 2005 due to the acquisition of Mowlem

In addition, cash payments totalling £31 8 million were made in 2006 to the Group's pension schemes to reduce funding deficits in line with plans agreed with the trustees The Group's pension schemes had a net deficit of £75 8 million at 31 December 2006 (2005 £47 5 million), of which £43 0 million relates to the schemes acquired with Mowlem

Financial reporting segments The table below shows revenue by business activity and the segments in which it is reported

Revenue by business activity and financial reporting segments

Business activities	Financial reporting segments £ million		
	Investments	Support Services	Construction Services
Defence	–	176	56
Education	–	–	151
Health	–	110	119
UK Building	–	–	848
FM & Services	–	618	38
Roads & Civils	–	181	284
Rail	–	368	–
Middle East	–	–	274
Canada & Caribbean	–	46	117
Private Finance	148	–	–
Other	–	41	18
Total	**148**	**1,540**	**1,905**

Investments

£ million	2006	2005
Revenue		
Group	**1 3**	0 8
JVs	**146 7**	64 6
	148 0	65 4
Operating profit*	**26 5**	8 3
JV Interest and tax	**(12 1)**	(0 6)
Profit from operations*	**14 4**	7 7

* Before restructuring costs of £0 2m (2005 Nil) goodwill impairment of £0 4m (2005 £0 3m) and after tax on joint ventures of £3 8m (2005 £3 1m)

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

Through our ability to win and deliver PPP projects successfully, we continue to build a portfolio of good quality equity investments that is generating significant value for the Group

At 31 December 2006, our portfolio comprised 24 financially closed projects (December 2005 19) in which we have invested, or have commitments to invest, some £168 million During 2006, the acquisition of Mowlem added 10 projects to our portfolio, we sold our investments in eight projects and reached financial close on three projects – the Allenby Connaught and Joint Permanent Headquarters projects for the Ministry of Defence, and the South Ayrshire schools project

Profit in this segment increased substantially due to growing returns from our maturing investment portfolio, contributions from the investments acquired with Mowlem and reaching financial close on the three new projects

The sale of equity investments in eight PPP projects in September 2006 generated proceeds of £46 7 million and exceptional profit of £25 6 million The proceeds reflected a net present value for the cash flows from the investments sold based on a discount rate of less than 5 per cent and further demonstrated the substantial value being created from these investments In a full-year, effect of the sale will be to reduce operating profit by approximately £7 million In view of the value achieved from this sale and the continuing strength of the secondary market for good quality equity, the directors now value the cash flows from our equity investments using an average discount rate of 8 per cent, rather than the 10 per cent used previously On this basis, the directors' valuation of investments in financially closed projects at 31 December 2006 was £238 million (December 2005 £89 million), reflecting the reduction in the valuation discount rate and the increase in equity invested and committed

My values
Treat others how you would wish to be treated! It's a great approach in every aspect of your life at home and with your family It s what professional delivery is all about and people respect you for it

Chris Brown
Carillion Fleet Management

Construction Services

£ million	2006	2005
Revenue		
Group	**1,667 8**	1,050 1
JVs	**237 9**	180 0
	1,905 7	1,230 1
Operating profit*	**32 4**	16 9
JV Interest and tax	**(1 9)**	(3 1)
Profit from operations*	**30 5**	13 8

* Before restructuring costs of £1 5m (2005 Nil) amortisation of intangible assets £3 6m (2005 Nil) and a JV non-operating loss of £0 8m in 2005 and after tax on joint ventures of £2 0m in 2006 (2005 £1 8m)

In this segment we report the results of our building and civil engineering activities

Revenue in Construction Services increased by 55 per cent, due primarily to the acquisition of Mowlem Operating profit increased by 92 per cent and the operating margin increased from 1 4 per cent to 1 7 per cent Margins improved despite the effects of lower margins in the businesses acquired with Mowlem as these were more than offset by margin improvements in other businesses, both in the UK and our International Regions

The approach Carillion takes to recognising profit on major construction contracts has been extended to the enlarged Group No profit is taken on the first 20 per cent of revenue on such contracts and this profit is deferred until contracts are completed On revenues between 20 per cent and 100 per cent, profit is recognised broadly in proportion to revenue after taking account of risks and uncertainties The effect of this approach in 2006 has been to reduce reported operating profit by a net £2 2 million (2005 £5 4 million), comprising £5 6 million of profit deferred and £3 4 million of profit released in respect of contracts completed successfully during the year Total deferred profit carried forward at 31 December was £10 9 million (December 2005 £8 7 million)

My values
Collaboration makes everyones life easier It makes sense, whether it's the bosses or just people you see every day Sharing ideas, understanding and getting to know each other a bit better It's in everyone's best interests

Rachael Pilsbury Senior Secretary
Tax and Treasury Department

Support Services

£ million	2006	2005
Revenue		
Group	**1,395 8**	974 6
JVs	**143 9**	14 1
	1,539 7	988 7
Operating profit*	**58 2**	40 6
JV Interest and tax	**(2 1)**	(0 2)
Profit from operations*	**56 1**	40 4

* Before restructuring costs of £6 0m (2005 Nil) amortisation of intangible assets of £11 9m (2005 £2 5m) and after tax on joint ventures of £2 3m (2005 £0 1m)

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 56 per cent, reflecting the acquisition of Mowlem and organic growth, partially offset by the expected reduction in revenue from rail infrastructure Organic growth was driven primarily by facilities management, particularly in the Defence sector, our mechanical and electrical engineering business, PME, and highways maintenance

Operating profit increased by 43 per cent, but lagged revenue growth due to lower revenues and margins in rail infrastructure services and lower margins in the businesses acquired with Mowlem Consequently, the overall operating margin in this segment reduced from 4 1 per cent to 3 8 per cent

As previously reported, in response to declining activity levels and margins in the UK rail infrastructure market we restructured Carillion Rail in the second half of 2006 to reduce overheads and focus the business on sustainable areas of the rail infrastructure market This, together with improving the margins in businesses acquired with Mowlem, is expected to improve operating performance in this segment in 2007

Committed bank facility As previously reported, a new committed bank facility, originally totalling £490 million, was arranged in connection with the acquisition of Mowlem Of the original amount, £331 million remained in place at the year-end of which £141 million is repayable over the four years up to December 2010 and £190 million is repayable in December 2010

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

Interest rate risk Borrowing facilities relate primarily to the funding of the Mowlem acquisition 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 a 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
7 March 2007

CORPORATE SOCIAL RESPONSIBILITY

We have consistently demonstrated that adopting the highest standards of corporate social responsibility (CSR) not only has positive effects on the environment and the communities in which we operate, but also helps us to deliver our business objectives This continues to reaffirm our belief that Carillion's leadership in CSR will increasingly differentiate us from our competitors and help us to win more orders, minimise our social, environmental and ethical risks, control costs and deliver better services to customers

Behaviours and activities affecting sustainable development

In this section of our Annual Report we provide a summary of what we are doing to make our business more sustainable A more detailed account will be provided in our 2006 Sustainability Report, which will be published on our website at www carillionplc com/sustainability in April 2007

Strategy In 2006, we continued to use our well-established strategy model for sustainable development, which demonstrates and quantifies how improving our impacts on the environment and society supports the delivery of our business objectives

The model aligns our strategy with the four priority areas defined by the UK Government in its sustainable development strategy, "Securing the Future", namely
- Sustainable communities
- Natural resource protection and environmental enhancement
- Climate change and energy
- Sustainable consumption and production

We have identified 12 business behaviours and activities that have most impact on these four priority areas, as illustrated in the diagram opposite Our policies in respect of these behaviours and activities are reproduced below These policies are applied across all our businesses to support everything we do, from marketing and work-winning to service design and delivery

Managing sustainability Our commitment to sustainability continues to be driven by our Board, supported by our Sustainability Committee This Committee is chaired by our Chief Executive, John McDonough, and includes a number of senior directors, drawn from across our businesses, to ensure that it maintains close links with the Group's operational activities The Committee also benefits from expert advice from

Our policies for sustainable development

Value and Risk Policy
We will improve our business margins and create shareholder value in a sustainable way We will be recognised as a leader in the way we understand and manage our risk profile

Customer Policy
We will become renowned for understanding and exceeding our customer expectations and develop their demand for more sustainable solutions

Governance Policy
We will be recognised as a company that lives its values in all our activities and demonstrates an ethical approach across all areas of corporate responsibility

Health and Safety Policy
Through the way we work and behave, all our people and stakeholders will be protected from the risks of occupational injury or ill health

Our People Policy
We will attract, develop and retain the very best people and promote diversity in a way that underpins our values We will ensure equal opportunities, eradicate discrimination and create a happy and motivated workforce

Community Policy
By engaging, respecting and understanding our community stakeholders we will make a positive contribution to their environment and quality of life

Environmental Impacts Policy
We will not pollute or contaminate land or water, and will manage our waste responsibly We will seek to enhance and improve the environment through good design and management

Biodiversity Policy
We will understand and manage our biodiversity impacts and seek opportunities to enhance wildlife and habitats for the future

Resource Use Policy
We will do 'more with less' by maximising resource efficiency in planning, design, waste minimisation and recycling

Supply Chain Policy
We will work with our supply chain to deliver mutually sustainable solutions that deliver value for money

Atmospheric Impacts Policy
We will actively reduce our use of energy and emissions of greenhouse gases in transport, design, construction, maintenance and in the operation of our facilities

Design Policy
Sustainability will be a key objective of our designs We will achieve excellence in life-cycle design and exceed our customer expectations by delivering more cost effective sustainable solutions

two external members, Jonathon Porritt, Chair of the UK Government's Sustainable Development Commission, and Julia Cleverdon, Chief Executive of Business in the Community (BITC), who we were delighted to welcome to the Committee in January 2007 David Cowans, Chief Executive of Places for People Group, stepped down from the Committee in 2006 David joined the Committee in 2002 and we are grateful to him for the support and wise council he has provided over the last four years

In 2006, Adrian Bull, the Managing Director of Carillion Health, took up the additional role of Director of Group Sustainability to lead the development and implementation of the Group's sustainability programme

Our performance In 2006, we focused our efforts on three areas in particular
- introducing a Sustainability Excellence Model to support the delivery of our policies and objectives
- the integration of the Carillion and Mowlem businesses
- using our participation in Business in the Community's Corporate Responsibility Index to identify areas for improvement

The Group's sustainability objectives for 2006 were based on 11 specific and measurable targets In order to drive continuous improvement we set demanding targets and our performance against them is independently audited by Bureau Veritas Our average score against the 11 targets set for 2006 was 81 6 per cent

We continue to benchmark our performance through participating in Business in the Community's Corporate Responsibility Index Since the inception of the Index in 2003, Carillion has improved its score each year In the 2005 Index (published in 2006) Carillion scored 91 per cent compared to the average score of 84 per cent for the 131 companies that participated In 2006, we were encouraged to see that more of our peers and customers took part in the Index This indicates the growing importance of CSR and the potential benefits to our business of being amongst the UK's top performers

Sustainability in action There are many examples of the benefits that we and our stakeholders derive from Carillion putting its policies for sustainable development into practice

Listed below are just some of the benefits achieved through the sustainability action plan adopted for the John Radcliffe Hospital, Oxford Opened in 2006, this Public Private Partnership hospital was designed and built by Carillion at a capital cost of £135 million and Carillion is now providing facilities management services over the 30-year life of the concession contract

- More than 90 per cent of waste was diverted from landfill through recycling
- Permeable car park surfacing filters pollution from surface water and reduces peak run-off during storms
- Introducing a green transport plan for site workers, such as car sharing schemes, reduced carbon dioxide emissions by over 20 per cent
- 60 per cent of the flooring selected for the project is linoleum, manufactured from renewable raw materials and biodegradable This material is also hard-wearing and will extend replacement life-cycles from typically 10-15 years for vinyl, to around 25 years, with a potential saving of some £264,000
- Ceiling tiles were manufactured using around 30 per cent industrial waste and they do not require metal fixing clips, which reduced costs by some £60,000 and makes maintenance easier
- By working closely with our paint supplier we sourced paint in 10-litre metal cans, which were recycled This avoided the use of PET plastic (polyethylene terephthalate) containers, which cannot be recycled once they have contained paint
- The biodiversity framework for this project involved the Carillion team working with the local community and also sponsoring the local wildlife group to improve wildlife habitats and create educational resources for local schools
- Health and Safety performance was strong, with one period of over 500,000 hours worked without a reportable workforce accident

The John Radcliffe Hospital has been selected as a case study of best practice by the Office of Government Commerce (OGC) and this can be accessed via the OGC website, http //www ogc gov uk/documents/Oxford_Radcliffe_Hospitals_NHS_Trusts-embracing_sustainability pdf

Carillion is a member of Business in the Community's PerCent Club, comprising companies that contribute over one per cent of their profits in cash or in kind to community activities One example of this is the work we are doing with Business in the Community and Business Action on Homelessness to help homeless people find employment and achieve independence Another example is our partnership with The Wildlife Trusts to date we have contributed £150,000 to The Carillion Natural Habitats Fund, which finances Trust projects and provides opportunities for our people to work with Trusts local to Carillion's business activities

Carillion is also one of the UK's leading providers of training for support services and construction skills, which makes a major contribution to the development of individuals and communities In 2006, around 2000 adults undertook vocational training programmes and some 800 apprentices successfully completed their training at our 16 UK training centres

Carillion is a corporate supporter of RedR, the charity which sources, trains and places people with the professional skills and resources required by the main aid agencies to provide disaster relief and recovery around the world

2006 was the fourth year in which we organised a company-wide "Sustainability Week", in which over 100 events took place across the Group, helping to put corporate social responsibility and a culture of sustainability at the heart of our business

Our success in creating a successful and sustainable business depends primarily on the quality and commitment of our people In 2006, 525 Carillion employees won Values awards for their outstanding contributions, which showed that by living our values we can make a real, tangible difference to the quality of the services we provide for our customers and to the performance of our business

Supply chain Carillion was represented on two of the working groups supporting the UK Government's Sustainable Procurement Taskforce (SPTF) and helped in the development of its "Flexible Framework" We were delighted to see that our sustainable strategy model was included in the SPTF action plan "Procuring the Future" and cited as an example of good practice This framework for procurement has been adopted by Carillion's supply chain and is an integral part of our Sustainability Excellence Model

BOARD OF DIRECTORS

1 Philip Rogerson
Chairman
Age 62 Philip was appointed to the Board in October 2004 becoming Chairman in May 2005 He is Chairman of the Nominations Committee Philip is also Chairman of Aggreko plc, THUS Group plc and Northgate plc (on a temporary basis) and is a Non-Executive Director of The Davis Service Group plc He was an Executive Director of BG plc from 1992 to 1998, latterly as Deputy Chairman

2 John McDonough
Chief Executive
Age 55 John was appointed Chief Executive in January 2001 having formerly been Vice President, Integrated Facilities Management, Europe, the Middle East and Africa of Johnson Controls Inc He is Chairman of the CBI's Public Services Forum, Vice-Chairman of the CBI's Public Services' Strategy Board and a member of the CBI's President's Committee

3 Chris Girling
Finance Director
Age 53 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
Age 55 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 construction, 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 David Garman
Senior Independent Non-Executive Director
Age 55 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 46 Vanda Murray was appointed to the Board in June 2005 and is a member of the Audit, Nominations and Remuneration Committees Vanda is Non-Executive Chairman of Eazyfone Group, a Non-Executive Director of the North West Development Agency, a Trustee and Non-Executive Director of The Manufacturing Institute, a registered charity, and is a Fellow of the Chartered Institute of Marketing Vanda was a Director of Ultraframe plc prior to its takeover in 2006 and was previously Chief Executive of Blick plc She was appointed OBE in 2002 for Services to Industry and to Export

7 David Maloney
Non-Executive Director
Age 51 David Maloney 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 Chairman of Hoseasons Holdings Ltd and a Non-Executive Director of Micro Focus International plc, Ludorum plc and Cineworld Group 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

8 Don Kenny
Executive Director
Age 52 Don was appointed to the Board in September 2006 and is responsible for Carillion's National Building, Health, Integrated Solutions, Facilities Management, Facilities Services and TPS businesses He joined Carillion from Johnson Controls Inc in 2002, having held a number of senior positions in Johnson Controls and prior to that in Mowlem Don is also a Director of Aspire Defence Ltd , a joint venture between Carillion, Kellogg Brown and Root and HSBC, to deliver Project Allenby Connaught, the Ministry of Defence's largest Estates Public Private Partnership contract to date

9 Steve Mogford
Non-Executive Director
Age 50 Steve Mogford was appointed to the Board in September 2006 and is a member of the Audit, Nominations and Remuneration Committees Steve has been a director of BAE Systems plc for over six years and is currently the Group Executive Director responsible for UK naval sector consolidation He brings to the Board considerable experience as a senior business leader who has managed major capital projects in a FTSE 50 company

Corporate Governance Report

General principles
The Board is firmly committed to high standards of corporate governance. During the year to 31 December 2006 and as detailed below and in the Remuneration Report, the Company complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (July 2003) and voluntarily complied with the updated section of the 2006 Financial Reporting Council Combined Code (July 2006).

Ethics and Business Integrity Policy
Carillion has a clear and unequivocal approach to business integrity and ethics which underlies the Carillion values of openness, collaboration, mutual dependency, sustainable profitable growth, professional delivery and innovation. The Ethics and Integrity Policy demonstrates how Carillion will conduct its business to the highest ethical standards.

The policy applies to all employees of any Carillion group company. 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;
- 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.

This policy is carried into Carillion's business through a series of detailed procedures. They allow Carillion to carry into practice its reputation for conducting business to the highest ethical standard which is essential to its relationships with customers, business partners, employees, shareholders and the public. The detailed procedures reflect the way Carillion competes for business, through the quality and value of its work and through the reliability and reputation of its people.

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 four Executive and five Non-Executive Directors. Throughout 2006, 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 2006 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 November 2006 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 fifth 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 all 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.

The Board had a programme of seven meetings in 2006 and also meets on an ad hoc basis as required In 2007, the Board has a programme of ten meetings

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

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
Steven Mogford
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 31 to 38

Audit Committee
David Maloney, Chairman
David Garman
Steven Mogford
Vanda Murray

This Committee consists entirely of independent Non-Executive Directors For further information see the Report of the Audit Committee on pages 28 and 29

Nominations Committee
Philip Rogerson, Chairman
David Garman
David Maloney
John McDonough
Steven Mogford
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

Attendance at meetings in 2006
The number of full scheduled Board and Committee meetings attended by each Director during 2006 was as follows

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	7	3	2	5
David Garman	7	3	2	5
Christopher Girling	7			
Donald Kenny*	2			
David Maloney	7	3	2	5
John McDonough	7			5
Steven Mogford*	2	1	1	
Vanda Murray	7	3	2	5
Roger Robinson	7			
Philip Rogerson	7			5

* Both appointed on 6 September 2006

In December 2006, Carillion announced the appointment of Richard Adam as Group Finance Director to succeed Chris Girling Richard joins Carillion from Associated British Ports Holdings (ABPH), where he has been Group Finance Director since 1999 He will take up the appointment upon Chris Girling's retirement in April 2007

At ABPH, Richard has led the development of strong financial management and played a key role in steering the Group's proactive communications with investors and other stakeholders With proven financial and City experience and strong operational and business management skills, Richard will play a leading role in the delivery of Carillion's strategy for sustainable profitable growth

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 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 2006, the Nominations Committee used the services of two executive recruitment consultants, Odgers Ray & Berndtson and JCA Details of potential candidates were provided by both Odgers Ray & Berndtson and JCA 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 normally 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 31 to 38

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 9 May 2007 is John McDonough

Additionally, new Directors are subject to election by shareholders at the first opportunity following their appointment Accordingly, Donald Kenny and Steven Mogford will seek election at the 2007 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 an induction on their appointment covering such matters as the operation and activities of the Group, the role of the Board and the Company's corporate governance procedures 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 November 2006 the Directors visited the Group's operations in Dubai and Oman Directors also 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 Affairs 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 and Senior Independent Non-Executive Director are 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 9 May 2007 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
Steve Mogford
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

Vanda Murray is Non-Executive Chairman of Eazyfone Group and a Non-Executive Director of both the North West Development Agency and The Manufacturing Institute She was a Director of Ultraframe plc until its takeover in 2006 Vanda was appointed to the Audit Committee in July 2005

Steve Mogford is a Director of BAE Systems plc and was appointed to the Audit Committee in September 2006

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 auditors, (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 auditors 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 auditors 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 32 for details

Main activities of the Audit Committee in the year to 31 December 2006
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 combination 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

As a result of the acquisition of Mowlem plc, Internal Audit reviewed its role, resourcing, remit and team structure during 2006, to ensure that it continues to meet the needs of its stakeholders and fulfils its governance role A high level review of the function was also carried out by a third party As a result the team structure has been revised to meet audit requirements in the enlarged Group and minor amendments to processes have been implemented

Corporate Governance Report
continued

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 below) 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

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 of risk as determined by a risk assessment matrix, 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 and management accounting as well as reporting and resolution of suspected fraudulent activities The Board has a policy to prosecute 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 'whistle blowing' 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 These key performance indicators and risks are listed in the Chief Executive's Review on pages 7 and 9 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 judgemental 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 second year of signing the report 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 and Social Responsibility report on pages 22 to 23

R F Tapp
Secretary
7 March 2007

Remuneration Report

This report has been prepared in accordance with the Combined Code on Corporate Governance (July 2006)

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, Steve Mogford 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 Chairman and the other Non-Executive Directors based on independent external advice It also determines the remuneration of the Company Secretary

The Remuneration Committee is assisted in remuneration decisions by the Group HR Director and by the Chief Executive The 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, also advises the Company on pensions investment but otherwise 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 linked to the Group's financial performance and share based incentives linked to both financial and share price performance to ensure that the interests of the Executive Directors are aligned to those of shareholders It is anticipated that the Company will 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
Don Kenny	1 July 2006	12 months	rolling

Richard Adam has been appointed as Finance Director effective 2 April 2007 on a rolling term contract His notice period is 12 months

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, Steve Mogford, 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 until March 2006, contributions to a funded unapproved retirement benefit scheme (FURBS)) in place of approved pension provision for salary over the internal 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 2006, the Executive Directors had the potential to earn annual bonuses up to a maximum of 100% of their basic salary for outstanding performance The bonus arrangement for 2006 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 100% 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 70% of salary vesting after two years The number of shares allocated is determined by the price prevailing at the date the Annual Report and Accounts are published 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 2007 will be 100% of basic salary comprised of a cash payment of up to 30% of basic salary with a deferred bonus of shares with Company up to the value of 70% of salary vesting after two years Richard Adam will participate in these bonus arrangements from the date of his employment and, for 2007 only, will be guaranteed to receive a minimum bonus of 33% of his annual salary (with no pro-ration for the part year)

Remuneration Report
continued

In relation to the 2005 bonus arrangement, the Executive Directors, on 7 April 2006 received a deferred bonus of shares as follows

	Number of shares
John McDonough	44,778
Chris Girling	26,549
Roger Robinson	27,839
Don Kenny	6,400

These shares will be held in Trust for two years for John McDonough and Roger Robinson and then transferred in April 2008 following payment of the tax and national insurance obligations Don Kenny's shares were held in Trust for one year and will be transferred to him in April 2007 The deferred shares held for Chris Girling in respect of the 2005 bonus will transfer to him on leaving employment in accordance with the arrangements agreed for his retirement

A similar arrangement will apply to the 2006 bonus in excess of 30% of basic salary and the amount of shares awarded will be calculated on 3 April 2007 Shares will be held in trust for two years The bonus awarded to Chris Girling in respect of 2006 will be paid in cash with no requirement to defer any element He will not participate in the 2007 bonus arrangements

Pension benefits
With the exception of Richard Adam, 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 Contributions to FURBS were discontinued in March 2006 following the change in tax treatment and replaced with salary supplements for those Executive Directors concerned For Richard Adam, the Company will make contributions to an approved defined contribution pension plan (up to the internal earnings cap) and a salary supplement in respect of earnings in excess of the internal cap

Directors' remuneration
The remuneration of the Directors of Carillion plc for the year ended 31 December 2006 is set out in the table below

£000	Basic salary/fees	Annual performance bonus	Other benefits	Total 2006	Total 2005
John McDonough	460	446	135	**1,041**	839
Chris Girling	285	274	80	**639**	514
Roger Robinson	290	281	79	**650**	528
Don Kenny	213	132	54	**399**	NA
Total for Executive Directors	**1,248**	**1,133**	**348**	**2,729**	1,881
Philip Rogerson	125	–	–	**125**	107
David Garman	45	–	–	**45**	43
Vanda Murray	40	–	–	**40**	23
David Maloney	45	–	–	**45**	7
Steve Mogford	13	–	–	**13**	NA
Total for Non-Executive Directors	**268**	**–**	**–**	**268**	180
Total for all Directors	**1,516**	**1,133**	**348**	**2,997**	2,061

The auditors are required to report on the information contained in the above table

The above table reports the bonus earned in 2006 as opposed to the bonus paid during the year as reported in prior years The 2005 total earnings have been restated to reflect this

Included in 'Other benefits' is a salary supplement for John McDonough of £117,970 (2005 £109,300) in respect of salary over the Inland Revenue pensions earnings cap for the period to 31 March and over the internal scheme cap for the balance of the year Contributions were payable to FURBS in respect of Chris Girling of £15,070 (2005 £55,540) for the period to 31 March and a salary supplement of £44,100 (2005 nil) in respect of earnings over the internal scheme cap for the balance of the year Contributions were paid to FURBS in respect of Roger Robinson of £15,489 (2005 £57,220) for the period to 31 March and a salary supplement of £45,360 (2005 nil) in respect of earnings over the internal scheme cap for the balance of the year

Included in 'Other benefits' for Don Kenny is £34,809 (2005 nil) in respect of a salary supplement over the internal scheme cap Don Kenny's remuneration in respect of the period after his appointment as an Executive Director was £75,000 basic salary, £53,333 bonus (of which £22,500 was paid in cash) and other benefits of £19,346 including £12,872 by way of pension supplement

The bonus figures shown above 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	138	308
Chris Girling	274	0
Roger Robinson	87	194
Don Kenny	68	64

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 dependant'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 above 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 agreed with the Trustees of the Carillion pension schemes to continue to operate an earnings cap after April 2006 when the external cap was removed The Carillion cap commenced at the level of £110,000 for the tax year 2006-07 and rises in line with the published increases in the Life Time Allowance up until 2010-11 in line with the table below

Year	Cap
2006-07	£110,000
2007-08	£117,400
2008-09	£121,300
2009-10	£129,000
2010-11	£132,700

All the Executive Directors will be subject to this cap on salary pensioned through the Carillion 'B' Pension Scheme, or in the case of Richard Adam, the Carillion Pension Plan but they will be provided with a salary supplement on the same basis as currently or equal to the funding previously made to FURBS FURBS funding ceased 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 2/3rds 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

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

Remuneration Report
continued

	Accrued pension at 31 Dec 2006 £ per annum	Increase in accrued pension over year excluding inflation allowance £ per annum	Increase in accrued pension over year including inflation allowance £ per annum	Value of pension accrued during 2006 less member contributions £	Transfer value at start of year £	Transfer value at end of year £	Increase in transfer value over year after member contributions £
John McDonough	22,000	4,400	3,620	45,555	265,309	346,127	73,195
Chris Girling	26,278	4,571	3,609	42,165	305,405	384,963	71,935
Roger Robinson	58,779	5,576	3,218	41,591	835,559	974,444	131,262
Don Kenny	10,593	2,770	2,424	23,923	103,054	145,368	34,961

The auditors are required to report on the information contained in the above table

On appointment, Don Kenny's entitlement under the Carillion 'B' Scheme changed from an annual accrual rate of 1/45th to 1/30th with retrospective effect The figures in this table reflect that and consequently are full year figures

Share incentive schemes
Following a review of share incentives, the Remuneration Committee recommended the implementation of a new long term incentive plan for senior executives, the Carillion plc 2006 Long Term Incentive Plan Shareholder approval of this plan was given at the Annual General Meeting in 2006 Following approval of the Carillion plc 2006 Long Term Incentive Plan, no further share awards have been made under the existing Long Term Incentive Plan and Executive Share Option Scheme

The objective of the Carillion plc 2006 Long Term Incentive Plan is to motivate employees and to encourage them to invest in the future success of the Group It has a challenging performance criterion which applies similarly to all participants

A Sharesave Scheme also operates to give UK employees the opportunity to have a financial stake in the Company

Carillion plc Long Term Incentive Plan 2006
The Carillion plc Long Term Incentive Plan 2006 (which is known internally as the Leadership Equity Award Plan (LEAP)) provides key persons in the Company with the opportunity to earn a potentially higher level of reward but only where there is commitment by those individuals and stretching performance targets are met

Executive Directors may receive an award under the LEAP in any financial year over shares worth 150% of their basic annual salary (excluding bonuses, commissions and benefits in kind), other senior executives may receive an award under the Plan in any financial year over shares worth up to 100% of their basic annual salary The extra 50% awarded to Executive Directors will only vest if exceptional performance is achieved

The rules allow for higher awards, but only if exceptional circumstances exist which justify a first award of up to 200% of salary will such an award be made Richard Adam will participate at this level in the 2007 scheme For subsequent years, the maximum opportunity will be 150% of basic salary

Under the terms of the Plan, awards of ordinary shares in the Company or grants of options over ordinary shares can be made

No payment will be required for the grant of an award The Committee will determine the exercise price of an option which shall be zero or 0 01 pence per share, provided that where new issue shares are involved, the exercise price is not less than the nominal value of a share

The participants will not be entitled to receive the shares for a period determined by the Committee which is generally no earlier than three years from the date of award

The vesting of awards at the end of the performance period will be subject to the relevant participant remaining in employment and the achievement of specified stretching performance conditions Each Executive Director will be required to hold any shares acquired through this Plan until the value of their total shareholding is at least equal to the value of their annual salary (with the exception of shares sold to meet the tax liability on the shares acquired through the Plan)

The first awards will be subject to achievement of a performance target based on annual average growth in earnings per share above the Retail Price index The progression is linear between each of the target levels specified

Growth in earnings per share

Growth in earnings per share		
Level 1	RPI + 3% pa	30% vests
Level 2	RPI + 7% pa	50% vests
Level 3	RPI + 12% pa	100% vests
Level 4	RPI + 25% pa	Extra 50% vests

Levels 1 to 3 apply to all participants, level 4 applies to the Executive Directors

The first awards were made in July 2006 and at 31 December 2006 a total of 920,817 shares were outstanding under the LEAP

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 market value 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 in 2001 and 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 AGM, 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

Grants of options using this new performance condition were made in 2003, 2004 and 2005

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

With regard to the options granted on 1 July 2003, Carillion met the performance target such that 80% of the shares under option are now exercisable

At 31 December 2006, Executive Share Options were outstanding over 2,705,579 shares (2005 3,391,236 shares) under both schemes at exercise prices ranging from 125 2 pence to 242 75 pence

Long Term Incentive Plan
Conditional awards under the Long Term Incentive Plan were 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

Following review in 2003, the Remuneration Committee considered that with a comparator group of ten companies, the removal of one company (through take-over 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 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 in accordance with this 2003 shareholder approval were 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, as were Mowlem plc and John Laing plc until they were taken over)

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

With regard to the awards made on 1 July 2003, Carillion came fourth in the comparator group at the end of the three year performance period with the result that 61 8% of the awards vested A total of 324,727 shares vested to nine participants on 12 September 2006 The Carillion plc share price on 12 September 2006 was 326 5 pence

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 2006, Long Term Incentive Plan awards were outstanding over a total of 1,696,417 shares (2005 2,221,874 shares)

Conditional awards made to Executive Directors under the Long Term Incentive Plan are set out in the table of share incentives on page 36 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

Remuneration Report
continued

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 2002 to 31 December 2006

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

Subject to the schemes meeting their minimum performance requirements, Chris Girling will receive shares under the 2004 Executive Share Option Scheme, the 2004 and 2005 Long Term Incentive Plan and the 2006 Leadership Equity Award Plan on a pro rata basis based on the period of his employment relative to the grant date of each scheme

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, in October 2002 over 3,995,803 shares and in November 2006 over 2,580,461 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 126 6 pence A total of 1,829,888 shares were issued following maturity

At 31 December 2006, options over 2,580,181 ordinary shares of 50 pence each were outstanding under the Sharesave Scheme (2005 1,895,908 ordinary shares of 50 pence each)

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

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 2006	Long Term Incentive Plan awards granted during this year	Awards vesting during the year	Awards/options lapsing during the year	As at 31 December 2006	Date of award	Mid market share price on date of award
John McDonough							
LTIP 2003 (maximum)	118,739	–	73,380	45,359	–	01 07 2003	159 0p
LTIP 2004 (maximum)	141,608	–	–	–	141,608	31 03 2004	187 0p
LTIP 2005 (maximum)	191,043	–	–	–	191,043	15 03 2005	244 5p
LEAP (maximum)	–	218,354	–	–	218,354	06 07 2006	319 0p
Chris Girling							
LTIP 2003 (maximum)	75,561	–	46,696	28,865	–	01 07 2003	159 0p
LTIP 2004 (maximum)	89,160	–	–	–	89,160	31 03 2004	187 0p
LTIP 2005 (maximum)	119,957	–	–	–	119,957	15 03 2005	244 5p
LEAP (maximum)	–	135,284	–	–	135,284	06 07 2006	319 0p
Roger Robinson							
LTIP 2003 (maximum)	77,103	–	47,649	29,454	–	01 07 2003	159 0p
LTIP 2004 (maximum)	90,909	–	–	–	90,909	31 03 2004	187 0p
LTIP 2005 (maximum)	122,178	–	–	–	122,178	15 03 2005	244 5p
LEAP (maximum)	–	137,658	–	–	137,658	06 07 2006	319 0p
Don Kenny							
LTIP 2003 (maximum)	47,804	–	29,542	18,262	–	01 07 2003	159 0p
LTIP 2004 (maximum)	61,188	–	–	–	61,188	31 03 2004	187 0p
LTIP 2005 (maximum)	81,637	–	–	–	81,637	15 03 2005	244 5p
LEAP (maximum)	–	71,202	–	–	71,202	06 07 2006	319 0p

The auditors are 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 2006	Granted during the year	Exercised	Options lapsing during the year	As at 31 December 2006	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	–	–	37,699	150,795	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	–	95,959	23,991	–	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	–	97,918	24,480	–	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
Don Kenny									
ESOS 2002	123,801	–	–	–	123,801	125 2p	17 10 05	17 10 12	128 0p
ESOS 2003	75,887	–	–	15,178	60,709	163 4p	01 07 06	01 07 13	159 0p
ESOS 2004	75,716	–	–	–	75,716	184 9p	31 03 07	31 03 14	187 0p

The auditors are 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 1999 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 7 March 2007 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 2006, the Trust held 1,137,177 Carillion shares (2005 3,715,612 shares) (0 4% of the issued share capital and a nominal value of £0 6 million) (2005 1 73% and £1 9 million) acquired over a period in the open market and which have a carrying value of £1 6 million The market value of the shares held at 31 December 2006 was £4 5 million (2005 £11 4 million)

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 2006, the QUEST held 222,406 Carillion shares (2005 390,334 shares) (0 08% of the issued share capital and a nominal value of £0 1 million) (2005 0 18% and £0 2 million) at subscription prices ranging from 115 5 pence to 296 25 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 2006 was £0 9 million (2005 £1 2 million)

For details of dividends paid to the above trusts see Note 23 to the Accounts on page 67

Remuneration Report
continued

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 2006	As at 31 December 2006
Executive Directors		
John McDonough	480,223	551,917
Chris Girling	58,258	28,258
Roger Robinson	50,343	96,941
Don Kenny	–	41,318
Non-Executive Directors		
David Garman	10,000	10,000
Philip Rogerson	10,033	19,630
David Maloney	–	5,000
Vanda Murray	–	11,000
Steve Mogford	NA	–

There has been no change in Directors' interests in the period 1 January to 7 March 2007

The closing mid-market price of Carillion shares at 31 December 2006 and the highest and lowest mid-market prices during the year were as follows

	Share price
31 December 2006	396 75 pence
High (14 December 2006)	407 75 pence
Low (13 June 2006)	284 5 pence

Approved by order of the Board

D N C Garman
Chairman of the Remuneration Committee
7 March 2007

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 2006

The Directors of the Company at the date of the approval of this Directors' Report confirm, that, so far as they are aware, there is no relevant audit information of which the Company's auditors are individually unaware, and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

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, the Business Performance, Financial Reporting Segments and Order Book sections of the Chief Executive's Review, the Markets and Outlook section and the Financial Review

The Chief Executive's Review specifically includes discussion of the following issues, with the relevant sections shown in brackets

- performance in the financial year, including trends and factors (Business Performance),
- the acquisition of Mowlem (Acquisition of Mowlem),
- changes in the industry and external environment and their impacts on the development and performance of the Group (Markets and Outlook),
- principal risks and uncertainties facing the Group (Risk Management),
- financial key performance indicators (Acquisition of Mowlem, Business Performance and Financial Reporting Segments) and
- key performance indicators related to environmental, social and employee issues (Sustainability and Our People)

Carillion sets key strategic objectives and performance against these in 2006 and details of those set for 2007 are reviewed on pages 7 and 9 of the Chief Executive's Review

Analysis of turnover, results and net assets by business segment and turnover and net assets by geographical location are given in Note 2 on pages 52 and 53

Profits and dividends
The consolidated income statement is shown on page 44 Profit before tax was £67 6 million (2005 £51 9 million)

A 2006 interim dividend of 3 1 pence per ordinary share (2005 2 8 pence) was paid in November 2006 It is proposed to pay a final dividend of 5 9 pence per ordinary share (2005 5 2 pence) on 22 June 2007 to shareholders on the register at the close of business on 27 April 2007 The payment of these 2006 interim and final dividends amounts to £25 3 million (2005 £20 6 million)

A dividend reinvestment plan (DRIP) will also be offered

Directors
The Directors of the Company who served during 2006 are shown on page 32 of the Remuneration Report Biographical details for each Director at 31 December 2006 are given on page 24

Steve Mogford was appointed a Non-Executive Director and Don Kenny an Executive Director on 6 September 2006 Richard Adam will become Finance Director on 2 April 2007 Messrs Kenny, Mogford and Adam will hold office until the Annual General Meeting at which, being eligible, they offer themselves for election Don Kenny has and Richard Adam will have contracts of service which are subject to one year's notice of termination by the Company

Steve Mogford has a three year term of appointment and is a member of the Audit, Nominations and Remuneration Committees

In accordance with the Articles of Association, John McDonough retires by rotation and, being eligible, offers himself for re-election at the Annual General Meeting on 9 May 2007 John McDonough 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 38

Employees
Information relating to employee numbers and remuneration is given in Note 7 on page 55

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, sustainable profitable growth, professional delivery and innovation have been developed to emphasise the changing working practices required to succeed in an environment where partnership and integrated solutions are becoming the norm

Report of the Directors
continued

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 the Carillion organisation 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 plc 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 to 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, 2005 and 2006 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 2006, 2,600 UK employees attended 'The Great Debate' sessions.

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 22 and 23.

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 7 March 2007, 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 Ltd, its subsidiaries and affiliated companies	53,989,137	19 2
Standard Life Investments	11,513,159	4 1
Legal & General Assurance (Pensions Management) Ltd (PMC)	10,198,686	3 6

Under the FSAs Disclosure and Transparency Rules shareholders have until 20 March 2007 to inform companies of interests of 3% and at each 1% increment above that level as the above table is at 7 March 2007 this may not be a complete list of substantial share interests

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 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 80 days at 31 December 2006 (62 days at 31 December 2005)

Charitable and political contributions
Payments for charitable purposes made by the Group during the year ended 31 December 2006 amounted to £145,000 (2005 £84,000) 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

Financial instruments
Information on the Carillion Group's use of financial instruments, financial risk management objectives and policies and exposure is given in Note 27 to the Consolidated Financial Statements

Annual General Meeting
The Annual General Meeting will be held at 12 noon on Wednesday 9 May 2007 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 2006, the Company had authority from shareholders for the purchase of 28,071,818 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
Secretary
7 March 2007

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 applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law

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 and of the profit or loss of the Parent Company for that period 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 judgements 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 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group 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 Director's 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 may 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 (IFRSs) 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 42

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, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review and the Chief Executive's Statement that is cross referred from the Business Review section of the Directors' Report

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 audit, or information specified by law regarding Director's 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 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 the 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 the International Standards for 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 judgements made by the Directors in preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and 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 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 IFRSs as adopted by the EU, of the state of the Group's affairs at 31 December 2006 and of its profit of 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 2006,
- 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, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall St
Birmingham
B3 2DL

KPMG Audit Plc

7 March 2007

Consolidated income statement

For the year ended 31 December 2006

	Note	2006 £m	2005 £m
Total revenue		**3,593 4**	2,284 2
Less Share of jointly controlled entities revenue		**(528 5)**	(258 7)
Revenue	2	**3,064 9**	2,025 5
Cost of sales		**(2,862 2)**	(1,888 6)
Gross profit		**202 7**	136 9
Administrative expenses		**(170 8)**	(104 6)
Group operating profit before restructuring costs		**31 9**	32 3
Restructuring costs	5	**(22 6)**	–
Group operating profit	4	**9 3**	32 3
Jointly controlled entities			
Operating profit		**47 7**	20 3
Net financing (expense)/income		**(8 0)**	1 1
Non-operating items	5	**–**	(0 8)
Income tax		**(8 1)**	(5 0)
Share of results of jointly controlled entities	3	**31 6**	15 6
Profit from operations		**40 9**	47 9
Non-operating items	5	**25 3**	–
Financial income	6	**87 1**	54 4
Financial expenses	6	**(85 7)**	(50 4)
Net financial income		**1 4**	4 0
Profit before tax*		**67 6**	51 9
Income tax	8	**(7 2)**	(11 1)
Profit for the year		**60 4**	40 8
Attributable to			
Equity holders of the parent		**58 2**	39 3
Minority interests		**2 2**	1 5
Profit for the year		**60 4**	40 8
Earnings per share*	10		
Basic		**21 6p**	18 7p
Diluted		**21 3p**	18 4p
Total dividend declared for the year	9	**9 0p**	8 0p

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 2006

	2006 £m	2005 £m
Foreign exchange translation adjustments	**(2 9)**	1 6
Actuarial gains and losses on defined benefit pension schemes	**34 6**	6 7
	31 7	8 3
Tax in respect of the above	**(11 5)**	(1 5)
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of tax)	**0 2**	(1 3)
Income and expense recognised directly in equity	**20 4**	5 5
Profit for the year	**60 4**	40 8
Total recognised income and expense for the year	**80 8**	46 3
Attributable to		
Equity holders of the parent	**78 6**	44 8
Minority interests	**2 2**	1 5
Total recognised income and expense for the year	**80 8**	46 3

Consolidated balance sheet

As at 31 December 2006

	Note	2006 £m	2005 £m
Assets			
Non-current assets			
Property, plant and equipment	11	**146 6**	100 9
Intangible assets	12	**596 1**	62 3
Retirement benefit assets	31	**10 9**	6 4
Investments in jointly controlled entities	13	**178 8**	62 7
Other investments	14	**15 0**	4 7
Deferred tax assets	15	**55 4**	35 2
Total non-current assets		**1,002 8**	272 2
Current assets			
Inventories	16	**38 5**	21 2
Income tax receivable		**0 2**	0 2
Trade and other receivables	17	**875 3**	459 7
Cash and cash equivalents	18	**144 5**	180 9
Derivative financial instruments	27	**0 8**	–
Total current assets		**1,059 3**	662 0
Total assets		**2,062 1**	934 2
Liabilities			
Current liabilities			
Borrowings	19	**(12 6)**	(17 0)
Derivative financial instruments	27	**–**	(0 3)
Trade and other payables	20	**(1,195 8)**	(600 4)
Provisions	21	**(2 4)**	–
Income tax payable		**(13 0)**	(13 3)
Total current liabilities		**(1,223 8)**	(631 0)
Non-current liabilities			
Borrowings	19	**(239 9)**	(73 1)
Retirement benefit liabilities	31	**(123 8)**	(74 3)
Deferred tax liabilities	15	**(37.4)**	(6 0)
Provisions	21	**(3 5)**	–
Total non-current liabilities		**(404 6)**	(153 4)
Total liabilities		**(1,628 4)**	(784 4)
Net assets		**433 7**	149 8
Equity			
Issued share capital	22	**140 6**	107 4
Share premium	23	**199 9**	8 2
Reserves	23	**(3 9)**	(1 0)
Retained earnings	23	**96 1**	34 1
Equity attributable to equity holders of the parent		**432 7**	148 7
Minority interests		**1 0**	1 1
Total equity		**433 7**	149 8

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

John McDonough
Chief Executive

Chris Girling
Finance Director

Consolidated statement of cash flows

For the year ended 31 December 2006

	Note	2006 £m	2005 £m
Cash flows from operating activities			
Profit for the year		**60 4**	40 8
Depreciation, amortisation and impairment		**37 1**	20 5
Profit on disposal of property, plant and equipment		**(1 9)**	(0 9)
Share based payment expense		**1 3**	1 2
Other non-cash movements		**(0 2)**	(3 2)
Share of results of jointly controlled entities		**(31 6)**	(15 6)
Non-operating items		**(25 3)**	–
Restructuring costs		**22 6**	–
Net financial income		**(1 4)**	(4 0)
Income tax		**7 2**	11 1
Operating profit before changes in working capital and provisions		**68 2**	49 9
Increase in inventories		**–**	(2 6)
Increase in trade and other receivables		**(57 8)**	(26 4)
Increase in trade and other payables		**80 5**	65 1
Increase/(decrease) in provisions		**0 1**	(2 2)
Cash generated from operations before pension deficit recovery payments and restructuring costs		**91 0**	83 8
Deficit recovery payments to pension schemes		**(31 8)**	(10 0)
Restructuring costs		**(18 2)**	–
Cash generated from operations		**41 0**	73 8
Financial expenses paid		**(17 4)**	(4 6)
Income tax received/(paid)		**1 7**	(19 5)
Net cash flows from operating activities		**25 3**	49 7
Cash flows from investing activities			
Disposal of property, plant and equipment		**12 1**	7 3
Disposal of investments in jointly controlled entities		**47 3**	0 6
Disposal of other non-current investments		**–**	3 4
Financial income received		**15 4**	7 4
Dividends received from jointly controlled entities		**15 7**	8 4
Disposal of businesses, net of cash disposed of	30	**30 4**	–
Acquisition of subsidiary, net of cash acquired	30	**(122 3)**	(37 1)
Acquisition of intangible assets		**(1 8)**	(4 3)
Acquisition of property, plant and equipment		**(39 1)**	(34 2)
Acquisition of equity in and loan advances to jointly controlled entities		**(19 7)**	(2 3)
Acquisition of other non-current asset investments		**(0 5)**	–
Net cash flows from investing activities		**(62 5)**	(50 8)
Cash flows from financing activities			
Proceeds from the issue of share capital		**0 4**	1 7
Draw down of bank and other loans		**321 3**	3 4
Repayment of bank loans		**(276 6)**	(2 8)
Payment of finance lease liabilities		**(9 6)**	(3 7)
Dividends paid to equity holders of the parent		**(23 2)**	(16 1)
Dividends paid to minority interests		**(2 3)**	(2 5)
Net cash flows from financing activities		**10 0**	(20 0)
Net decrease in cash and cash equivalents		**(27 2)**	(21 1)
Cash and cash equivalents at beginning of year		**169 7**	189 6
Effect of exchange rate fluctuations on cash held		**(1 1)**	1 2
Cash and cash equivalents at end of year		**141 4**	169 7
Cash and cash equivalents comprise			
Cash and cash equivalents		**144 5**	180 9
Bank overdrafts		**(3 1)**	(11 2)
		141 4	169 7

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 2006 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 7 March 2007

Statement of compliance
The Group's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS's') The Company has elected to prepare its parent company financial statements in accordance with UK GAAP These are presented on pages 82 to 88

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, pension scheme assets, cash and cash equivalents and financial instruments classified as available-for-sale

The following standards and interpretations have been endorsed by the EU by the year end but are not yet effective for the year ending 31 December 2006
- IFRS 7 'Financial instruments Disclosures'
- IFRIC 7 Applying the restatement approach under IAS 29 'Financial Reporting in Hyperinflationary Economies'
- IFRIC 8 'Scope of IFRS 2'
- IFRIC 9 'Reassessment of embedded derivatives'

The Group has considered the impact of these new standards and interpretations in future periods on the financial statements and no significant impact is expected The Group has chosen not to early adopt any of the above standards and interpretations

In respect of IFRIC 12, 'Service concessions', which has not yet been endorsed by the EU, the Group has continued to recognise 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 The Group does not expect the change in accounting policy to have a significant effect when the interpretation becomes mandatory in 2008

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 2006 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

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

1 Significant accounting policies (continued)

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 cost of acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities 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

Positive goodwill is recognised as an asset in the consolidated balance sheet and is subject to an 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
- Planned Maintenance Group
  Consumption of economic benefits over 6 years
- Mowlem plc
  Consumption of economic benefits over 35 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 cost, less the estimated residual values, and the estimated economic lives of the assets concerned Freehold land is not depreciated Property, plant and equipment is depreciated in equal annual instalments 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, machinery 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

Net investment hedging of overseas operations is achieved through borrowings denominated in the relevant foreign currencies Gains and losses arising from the effective portion of the hedges are recognised in equity and ineffective portions are recognised immediately in the income statement

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 IAS 19 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, and where applicable, past service cost 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

The Group's contributions to the scheme are paid in accordance with the scheme rules and the recommendations of the actuary

1 Significant accounting policies (continued)

(b) Other post-retirement benefit obligations
Certain Group companies provide post-retirement healthcare benefits to their 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
Members of the Group's senior management team are entitled to participate in the Executive Share Option Scheme (ESOS), the Long Term Incentive Plan (LTIP) and the Leadership Equity Award Plan (LEAP) In addition, UK employees are able to participate in the Sharesave scheme

The fair values of the ESOS, LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model The fair value of the LTIP scheme is estimated using a bespoke model 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 in 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

(b) Cash and cash equivalents
Cash and cash equivalents are carried in the balance sheet at fair value For the purposes of the cash flow statement, 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 less attributable transaction costs 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 dependant 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 and management thereof

	Construction Services		Support Services		Investments		Eliminations and unallocated Head Office		Consolidated	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Revenue from external customers	**1,667 8**	1,050 1	**1,395 8**	974 6	**1 3**	0 8	**–**	–	**3,064 9**	2,025 5
Inter-segment revenue	**4 0**	0 3	**30 2**	28 6	**–**	–	**(34 2)**	(28 9)	**–**	–
Segment revenue	**1,671 8**	1,050 4	**1,426 0**	1,003 2	**1 3**	0 8	**(34 2)**	(28 9)	**3,064 9**	2,025 5
Segment trading result	**11 4**	4 8	**50 9**	39 9	**7 1**	0 8	**–**	–	**69 4**	45 5
Amortisation/impairment of intangible assets	**(3 6)**	–	**(11 9)**	(2 5)	**(0 4)**	(0 3)	**(1 3)**	–	**(17 2)**	(2 8)
Unallocated expenses	**–**	–	**–**	–	**–**	–	**(20 3)**	(10 4)	**(20 3)**	(10 4)
Group operating profit before restructuring costs	**7 8**	4 8	**39 0**	37 4	**6 7**	0 5	**(21 6)**	(10 4)	**31 9**	32 3
Restructuring costs	**(1 5)**	–	**(6 0)**	–	**(0 2)**	–	**(14 9)**	–	**(22 6)**	–
Share of results of jointly controlled entities	**19 1**	8 2	**5 2**	0 5	**7 3**	6 9	**–**	–	**31 6**	15 6
Profit from operations	**25 4**	13 0	**38 2**	37 9	**13 8**	7 4	**(36 5)**	(10 4)	**40 9**	47 9
Non-operating items									**25 3**	–
Net financial income									**1 4**	4 0
Income tax									**(7 2)**	(11 1)
Profit for the year									**60 4**	40 8

	Construction Services		Support Services		Investments		Unallocated Head Office		Consolidated	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Segment assets	**832 0**	306 3	**761 5**	323 0	**7 0**	5 3	**–**	–	**1,600 5**	634 6
Investments in jointly controlled entities	**45 8**	33 6	**2 1**	1 2	**130 9**	28 3	**–**	(0 4)	**178 8**	62 7
Unallocated assets	**–**	–	**–**	–	**–**	–	**282 8**	236 9	**282 8**	236 9
Total assets	**877 8**	339 9	**763 6**	324 2	**137 9**	33 6	**282 8**	236 5	**2,062 1**	934 2
Segment liabilities	**(709 9)**	(340 7)	**(420 2)**	(229 0)	**(22 0)**	(4 3)	**–**	–	**(1,152.1)**	(574 0)
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**(476 3)**	(210 4)	**(476 3)**	(210 4)
Total liabilities	**(709 9)**	(340 7)	**(420 2)**	(229 0)	**(22 0)**	(4 3)	**(476 3)**	(210 4)	**(1,628 4)**	(784 4)
Net assets/(liabilities)	**167 9**	(0 8)	**343 4**	95 2	**115 9**	29 3	**(193 5)**	26 1	**433 7**	149 8
Capital expenditure	**4 7**	4 0	**29 5**	29 9	**–**	–	**19 7**	20 1	**53 9**	54 0
Depreciation and amortisation	**8 1**	2 4	**25 2**	12 7	**–**	–	**5 3**	4 1	**38 6**	19 2
Impairment losses	**(1 1)**	–	**(1 0)**	1 0	**0 4**	0 3	**0 2**	–	**(1 5)**	1 3

Unallocated assets include cash and cash equivalents, Group retirement benefit assets and taxation related assets Unallocated liabilities include current and non-current borrowings, Group retirement benefit deficits and taxation related liabilities

2 Segment reporting (continued)

Geographic segments

	United Kingdom		Europe		Rest of the World		Consolidated	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Revenue from external customers	**2,781 2**	1,796 7	**84 3**	40 2	**199.4**	188 6	**3,064 9**	2,025 5
Segment assets	**1,798 2**	747 5	**73 7**	19 7	**190.2**	167 0	**2,062 1**	934 2
Capital expenditure	**31 7**	32 7	**0 7**	0 6	**21 5**	20 7	**53 9**	54 0

3 Share of results of jointly controlled entities

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

	2006 £m	2005 £m
Revenue	**528 5**	258 7
Operating profit	**47 7**	20 3
Net financial income/(expense)	**(8 0)**	1 1
Profit before tax and non-operating items	**39 7**	21 4
Non-operating items (see note 5)	**-**	(0 8)
Profit before tax	**39 7**	20 6
Income tax	**(8 1)**	(5 0)
Profit for the year	**31 6**	15 6

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

	2006 £m	2005 £m
Construction Services	**21 0**	12 1
Support Services	**7 3**	0 7
Investments	**19 4**	7 5
	47 7	20 3

4 Group operating profit

	2006 £m	2005 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	**20 8**	15 2
Amortisation of intangible assets	**17 8**	4 0
Impairment of goodwill relating to jointly controlled entities	**0 4**	0 3
Impairment (reversal)/charge in respect of property, plant and equipment	**(2 1)**	1 0
Impairment of other non-current asset investments	**0 2**	-
Profit on disposal of property, plant and equipment	**(1 9)**	(0 9)
Operating lease charges	**79 4**	65 9
Foreign exchange losses	**1 0**	0 3
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the annual accounts	**0 5**	0 3
Fees payable to the Company's auditor and its associates for other services		
– Audit of the Company's subsidiaries, pursuant to legislation	**1 4**	0 8
– Other services pursuant to legislation	**0 4**	0 1
– Taxation services	**0 5**	0 3
– Services relating to information technology	**0 1**	–
– Services relating to corporate finance transactions	**0 1**	1 6
– All other services	**-**	–
Fees in respect of Group pension schemes		
– Audit	**0 1**	0 1
– Other services pursuant to legislation	**-**	–

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 (2005 £0 1m)

Fees payable to KPMG Audit plc for non-audit services for Carillion plc are not disclosed in the individual Company accounts because such fees are disclosed above on a consolidated basis for the Group

Notes to the consolidated financial statements
continued

5 Restructuring costs and non-operating items

Restructuring costs

Restructuring costs of £22 6m includes redundancy, property exit and associated costs of £18 4m arising from a review of the enlarged Group's requirements following the acquisition of Mowlem plc on 23 February 2006 In addition, redundancy costs of £4 2m have been incurred following a strategic review of the Group's rail activities A tax credit of £5 0m in relation to these costs has been included within income tax in the income statement

	2006		2005	
	Gross £m	**Tax credit/ (charge) £m**	Gross £m	Tax credit/ (charge) £m
Non-operating items				
Group				
Profit on disposal of investments in jointly controlled entities	**26 0**	**–**	–	–
Loss on closure of business	**(0 7)**	**–**	–	–
	25 3	**–**	–	–
Jointly controlled entities				
Loss on disposal of business	**–**	**–**	(0 8)	–
Total	**25 3**	**–**	(0 8)	–

Further disclosure on the Group's sale of businesses and investments in jointly controlled entities during 2006 can be found in note 30 The loss on closure of £0 7m principally relates to a small rail business in Norway

The loss on disposal of business in jointly controlled entities of £0 8m in 2005 related to the sale of a small non-core plant hire business

6 Financial income and expenses

	2006 £m	2005 £m
Financial income		
Bank interest receivable	**8 1**	4 3
Other interest receivable	**7 3**	3 1
Expected return on retirement plan assets	**71 7**	47 0
	87 1	54 4
Financial expenses		
Interest payable on bank loans and overdrafts	**(13 3)**	(1 7)
Other interest payable and similar charges	**(4 2)**	(2 9)
Interest cost on retirement plan obligations	**(68 2)**	(45 8)
	(85 7)	(50 4)
Net financial income	**1 4**	4 0

Other interest payable and similar charges includes finance lease charges of £2 7m (2005 £1 5m)

7 Payroll costs and employee numbers

	2006 £m	2005 £m
Wages and salaries	**641 3**	358 0
Social security costs	**63 8**	38 0
Pension costs	**35 1**	14 4
Equity settled transactions	**1 3**	1 2
	741 5	411 6

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 31 and includes £5 5m (2005 £4 4m) 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 31 to 38

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

	2006 Number	2005 Number
Investments	**56**	18
Support Services	**23,560**	10,353
Construction Services	**7,627**	4,967
Corporate Centre	**333**	290
	31,576	15,628
UK	**27,649**	11,867
Overseas	**3,927**	3,761
	31,576	15,628

In addition to the above there are 14,684 staff (2005 12,259) employed within the Group's jointly controlled entities located in the Middle East

8 Income tax

Recognised in the income statement

	2006 £m	2005 £m
Current tax expense		
Current year		
– UK	**3 2**	11 1
– Overseas	**2 7**	–
Adjustments for prior years		
– UK	**(7 1)**	(2 1)
– Overseas	**–**	–
Total current tax	**(1 2)**	9 0
Deferred tax expense		
Origination and reversal of temporary differences	**8 6**	2 9
Adjustments for prior years	**(0 2)**	(0 8)
Total deferred tax	**8 4**	2 1
Total income tax expense in the income statement	**7 2**	11 1

Notes to the consolidated financial statements
continued

8 Income tax (continued)

Reconciliation of effective tax rate

	2006 £m	2005 £m
Profit before tax	**67 6**	51 9
Tax of jointly controlled entities	**8 1**	5 0
	75 7	56 9
Income tax at UK standard corporation tax rate of 30% (2005 30%)	**22 7**	17 1
Permanent differences	**6 0**	2 3
Unrelieved trade losses	**1 4**	0 2
Capital items not taxable	**(7 9)**	(0 6)
Amortisation of intangible assets	**0 8**	0 8
Effect of tax losses utilised	**(0 2)**	(0 1)
Effect of tax rates in foreign jurisdictions	**0 2**	(0 6)
Over provided in prior years	**(7 3)**	(2 9)
Effect of unrecognised timing differences	**(0 4)**	(0 1)
Total tax (including tax of jointly controlled entities)	**15 3**	16 1
Tax of jointly controlled entities	**(8 1)**	(5 0)
Group income tax expense	**7 2**	11 1

Tax asset/(liability) recognised directly in equity

	2006 £m	2005 £m
Deferred tax on actuarial gains and losses on defined benefit pension schemes	**10 3**	2 0
Current tax on foreign exchange transaction adjustments	**1 2**	(0 5)
Tax recognised in statement of recognised income and expense	**11 5**	1 5
Deferred tax on equity settled transactions	**0 4**	0 3
Total tax recognised in equity	**11 9**	1 8

9 Dividends

The following dividends were paid by the Company

	2006		2005	
	£m	Pence per share	£m	Pence per share
Current year interim	**8 7**	**3 1**	6 0	2 8
Previous year final	**14 5**	**5 2**	10 1	4 825
	23 2	**8 3**	16 1	7 625

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

	2006		2005	
	£m	Pence per share	£m	Pence per share
Interim	**8 7**	**3 1**	6 0	2 8
Final	**16 6**	**5 9**	14 6	5 2
	25 3	**9 0**	20 6	8 0

The final dividend for 2006 of 5 9 pence per share was approved by the Board on 7 March 2007 and in accordance with IFRSs, has not been included as a liability as at 31 December 2006

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share at 31 December 2006 is based on the profit attributable to equity holders of the parent of £58 2m (2005 £39 3m) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2006 of 269 5m (2005 210 5m), calculated as follows

Weighted average number of ordinary shares

In millions of shares	2006	2005
Issued ordinary shares at 1 January	**214 9**	214 3
Effect of own shares held by ESOP and QUEST	**(1 9)**	(4 1)
Effect of shares issued in the year	**56 5**	0 3
Weighted average number of ordinary shares at 31 December	**269 5**	210 5

(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

	2006 £m	2005 £m
Profit before tax		
Profit before tax as reported in the income statement	**67 6**	51 9
Restructuring costs	**22 6**	-
Amortisation of intangible assets arising from business combinations	**16 8**	2 5
Impairment of goodwill	**0 4**	0 3
(Profit)/loss on disposal of investments and businesses	**(25 3)**	0 8
Underlying profit before tax	**82 1**	55 5
Underlying income tax	**(16 6)**	(11 1)
Minority interests	**(2 2)**	(1 5)
Underlying profit attributable to shareholders	**63 3**	42 9

	2006 Pence per share	2005 Pence per share
Basic earnings per share		
Basic earnings per share as reported in the income statement	**21 6**	18 7
Restructuring costs	**6 5**	-
Amortisation of intangible assets arising from business combinations	**4 6**	1 2
Impairment of goodwill	**0 2**	0 1
(Profit)/loss on disposal of investments and businesses	**(9 4)**	0 4
Underlying basic earnings per share	**23 5**	20 4

(c) Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2006 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	2006	2005
Weighted average number of ordinary shares at 31 December	**269 5**	210 5
Effect of share options in issue	**3 1**	3 1
Weighted average number of ordinary shares (diluted) at 31 December	**272 6**	213 6

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 2006	**17 1**	**94 3**	**111 4**
Acquisitions (see note 30)	**12 4**	**14 2**	**26 6**
Additions	**5 9**	**46 6**	**52 5**
Disposals	**(7 0)**	**(19 2)**	**(26 2)**
Reclassification	**1 7**	**(1 7)**	**-**
Effect of movements in foreign exchange rates	**(0 8)**	**(6 6)**	**(7 4)**
At 31 December 2006	**29 3**	**127 6**	**156 9**
Depreciation and impairment losses			
At 1 January 2006	**4 3**	**6 2**	**10 5**
Depreciation charge for the year	**1 9**	**18 9**	**20 8**
Impairment reversal	**(1 1)**	**(1 0)**	**(2 1)**
Disposals	**(0 8)**	**(15 2)**	**(16 0)**
Reclassification	**0 9**	**(0 9)**	**-**
Effect of movements in foreign exchange rates	**(0 4)**	**(2 5)**	**(2 9)**
At 31 December 2006	**4 8**	**5 5**	**10 3**
Net book value			
At 1 January 2006	**12 8**	**88 1**	**100 9**
At 31 December 2006	**24 5**	**122 1**	**146 6**
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

Acquisitions in 2006 of £26 6m relate to the acquisition of Mowlem plc as disclosed in note 30 Acquisitions in 2005 of £1 7m relate to the acquisition of Planned Maintenance Group Limited

Included in the net book value of plant, equipment and vehicles is £46 8m (2005 £34 8m) in respect of assets held under finance leases and hire purchase contracts The leased equipment secures lease obligations as disclosed in note 19

11 Property, plant and equipment (continued)

The impairment reversal relating to land and buildings of £1 1m in 2006, included within administrative expenses, arises from market improvements since the date of the original impairment in 2001

Land and buildings include land with a cost of £3 4m (2005 £1 0m) that is not being depreciated

The net book value of plant, equipment and vehicles includes £23 1m (2005 £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 2007

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 2006	**53 6**	**6 2**	**59 8**	**8 7**	**68 5**
Acquisitions (see note 30)	**430 8**	**119 0**	**549 8**	**–**	**549 8**
Additions	**–**	**0 4**	**0 4**	**1 4**	**1 8**
At 31 December 2006	**484 4**	**125 6**	**610 0**	**10 1**	**620 1**
Amortisation and impairment losses					
At 1 January 2006	**–**	**2 5**	**2 5**	**3 7**	**6 2**
Amortisation for the year	**–**	**16 8**	**16 8**	**1 0**	**17 8**
At 31 December 2006	**–**	**19 3**	**19 3**	**4 7**	**24 0**
Net book value					
At 1 January 2006	**53 6**	**3 7**	**57 3**	**5 0**	**62 3**
At 31 December 2006	**484 4**	**106 3**	**590 7**	**5 4**	**596 1**
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

Goodwill of £430 8m and customer contracts and lists of £119 0m arose in 2006 on the acquisition of Mowlem plc, as disclosed in note 30 Goodwill arises on the acquisition of Mowlem plc due to consideration paid, over and above the fair value of net liabilities acquired, representing the present value of future income streams expected to be generated from margin growth in the construction and support services businesses of Mowlem plc, together with identifiable cost savings within the enlarged Group Customer contracts and lists identified on the acquisition of Mowlem plc relates principally to the present value of future income streams expected to arise from secured and unsecured contracts with customers

Notes to the consolidated financial statements
continued

12 Intangible assets (continued)

Goodwill of £34 5m and customer contracts and lists of £6 2m arose in 2005 on the acquisition of Planned Maintenance Group Limited (PMG)

The net book value of computer software and licences includes £2 0m (2005 £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 2007

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

	2006 £m	2005 £m
Rail Projects	**12 1**	12 1
Citex Management Services contracts	**7 0**	7 0
Planned Maintenance Group Limited	**34 5**	34 5
Regional Building	**122 0**	–
Regional Civil Engineering	**70 0**	–
Facilities Management	**97 8**	–
Facilities Services	**42 0**	–
Rail	**40 0**	–
National Building	**41 0**	–
Pall Mall	**18 0**	–
	484 4	53 6

In 2006, as in each year or whenever events or a change in the economic environment indicates a risk of impairment, in accordance with IAS 36, Carillion plc has reviewed the value of goodwill balances allocated to its cash generating units In the absence of any identified impairment risk, tests were performed by Carillion plc based on internal valuations of each cash generating unit

The recoverable amount of the goodwill attaching to cash-generating units is based on value in use calculations using discounted cash flows Those calculations use cash flows based on three year business plans and forecasts and a perpetual growth rate of 5% thereafter, discounted at the Group's estimated weighted average cost of capital of 9 5%

As at 31 December 2006, based on internal valuations, Carillion plc management concluded that the recoverable value of the cash generating units tested significantly exceeded their carrying amount

Amortisation charge
The amortisation charge of £17 8m (2005 £4 0m) is recognised in administrative expenses in the income statement Amortisation of the intangible asset of £119 0m arising on the acquisition of Mowlem plc will be 79% complete by 2016 The remaining amortisation charge is incurred over the following 25 years

13 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2006	30 9	24 8	55 7	1 1	56 8
Exchange rate movements	(0 6)	–	(0 6)	–	(0 6)
Acquisitions (see note 30)	94 2	13 2	107 4	–	107 4
Equity investments	8 8	–	8 8	–	8 8
Disposals	(14 7)	(6 2)	(20 9)	–	(20 9)
Net loans advanced	–	10 9	10 9	–	10 9
Other movements	(0 7)	–	(0 7)	–	(0 7)
At 31 December 2006	117 9	42.7	160 6	1 1	161 7
Share of post acquisition results					
At 1 January 2006	6 6	–	6 6	–	6 6
Exchange rate movements	(1 8)	–	(1 8)	–	(1 8)
Share of results for the year after taxation	31 6	–	31 6	–	31 6
Share of change in fair value of cash flow hedges (net of tax)	0 2	–	0 2	–	0 2
Disposals	(2 7)	–	(2 7)	–	(2 7)
Distributions received	(15 7)	–	(15 7)	–	(15 7)
At 31 December 2006	18 2	–	18 2	–	18 2
Impairment losses					
At 1 January 2006	–	–	–	0 7	0 7
Impairment charge	–	–	–	0.4	0.4
At 31 December 2006	–	–	–	1 1	1 1
Net book value					
At 1 January 2006	37 5	24 8	62 3	0.4	62 7
At 31 December 2006	136 1	42 7	178 8	–	178 8

Acquisitions in 2006 relate to investments acquired on the acquisition of Mowlem plc as disclosed in note 30

Equity investments of £8 8m includes £7 6m paid in cash relating to the acquisition of 50% interests in a number of development jointly controlled entities in Canada In addition, £1 2m was invested in cash in a number of PPP jointly controlled entities No goodwill arose on any of these investments During the year, the Group disposed of a portfolio of PPP investments and equity interests in two small non PPP jointly controlled entities as disclosed in note 30

Notes to the consolidated financial statements
continued

13 Investments in jointly controlled entities (continued)

	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 repaid	–	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	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 cash flow (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	30 6	24 1	54 7	0 7	55 4
At 31 December 2005	37 5	24 8	62 3	0 4	62 7

The Group's aggregate share of net assets of jointly controlled entities is analysed below Borrowings within jointly controlled entities amounting to £1,557 1m (2005 £819 6m) are without recourse to the Carillion Group

	2006			2005		
	PPP projects £m	**Other £m**	**Total £m**	PPP projects £m	Other £m	Total £m
Non-current assets	**64 7**	**7 7**	**72 4**	56 2	49 8	106 0
Cash	**217 6**	**6 7**	**224 3**	147 7	7 2	154 9
Other current assets	**1,419 9**	**192 1**	**1,612 0**	656 2	88 8	745 0
Share of gross assets	**1,702 2**	**206 5**	**1,908 7**	860 1	145 8	1,005 9
Current borrowings	**(32 6)**	**(0 3)**	**(32 9)**	(9 4)	(1 8)	(11 2)
Current liabilities	**(61 2)**	**(128 5)**	**(189 7)**	(34 8)	(82 8)	(117 6)
Non-current borrowings	**(1,496 4)**	**(27 8)**	**(1,524 2)**	(784 2)	(24 2)	(808 4)
Non-current liabilities	**(0 4)**	**(2 0)**	**(2 4)**	(2 2)	(2 3)	(4 5)
Provisions	**(12 0)**	–	**(12 0)**	(15 9)	–	(15 9)
Share of gross liabilities	**(1,602 6)**	**(158 6)**	**(1,761 2)**	(846 5)	(111 1)	(957 6)
Share of net assets excluding derivatives	**99 6**	**47 9**	**147 5**	13 6	34 7	48 3
Financial instrument derivatives	**(11 4)**	–	**(11 4)**	(10 8)	–	(10 8)
Share of net assets	**88 2**	**47 9**	**136 1**	2 8	34 7	37 5
Loan advances	**42 7**	–	**42 7**	24 8	–	24 8
Total investment in jointly controlled entities	**130 9**	**47 9**	**178 8**	27 6	34 7	62 3

Non-current assets and other current assets within PPP projects include cumulative capitalised interest amounting to £3 8m (2005 £3 8m) and £62 6m (2005 £49 4m) 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 in the hedging reserve

14 Other investments

	£m
Fair value	
At 1 January 2006	**4 7**
Acquisitions (see note 30)	**10 0**
Additions	**0 5**
At 31 December 2006	**15 2**
Impairment losses	
At 1 January 2006	–
Impairment charge	**0 2**
At 31 December 2006	**0 2**
Net book value	
At 1 January 2006	**4 7**
At 31 December 2006	**15 0**

Other investments relate to non-quoted equity instruments and are classified as available for sale assets and recognised at fair value Acquisitions in 2006 of £10 0m relate to investments acquired with Mowlem plc as disclosed in note 30 There has been no movement in the fair value of investments during the year

	£m
Fair value	
At 1 January 2005	8 1
Disposals	(3 4)
At 31 December 2005	4 7
Net book value	
At 1 January 2005	8 1
At 31 December 2005	4 7

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	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Property, plant and equipment	**4 2**	6 0	**–**	(3 8)	**4 2**	2 2
Intangible assets	**–**	–	**(31 3)**	–	**(31 3)**	–
Other investments	**–**	–	**(0 4)**	(0 4)	**(0 4)**	(0 4)
Employee benefits	**40 7**	22 6	**(3 6)**	(2 2)	**37 1**	20 4
Working capital	**6 4**	30 0	**–**	(19 3)	**6 4**	10 7
Other items	**–**	0 1	**(8 0)**	(3 8)	**(8 0)**	(3 7)
Tax value of carry forward losses recognised	**10 0**	–	**–**	–	**10 0**	–
Tax assets/(liabilities)	**61 3**	58 7	**(43 3)**	(29 5)	**18 0**	29 2
Set off of tax	**(5 9)**	(23 5)	**5 9**	23 5	**–**	–
Net tax assets/(liabilities)	**55 4**	35 2	**(37 4)**	(6 0)	**18 0**	29 2

Notes to the consolidated financial statements
continued

15 Deferred tax assets and liabilities (continued)

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

	2006 £m	2005 £m
Tax losses	**63 1**	19 6

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

	Balance 1 Jan 06 £m	Exchange rate movements £m	Acquisitions £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 06 £m
Property, plant and equipment	**2 2**	–	**2 9**	**(0 9)**	–	**4 2**
Intangible assets	–	–	**(35 7)**	**4 4**	–	**(31 3)**
Other investments	**(0 4)**	–	–	–	–	**(0 4)**
Employee benefits	**20 4**	–	**34 9**	**(7 9)**	**(10 3)**	**37 1**
Working capital	**10 7**	–	**(6 0)**	**1 7**	–	**6 4**
Other items	**(3 7)**	–	**1 8**	**(6 1)**	–	**(8 0)**
Tax value of carry forward losses recognised	–	–	**10 0**	–	–	**10 0**
Equity settled transactions	–	–	–	**0 4**	**(0 4)**	–
	29 2	–	**7 9**	**(8 4)**	**(10 7)**	**18 0**

	Balance 1 Jan 05 £m	Exchange rate movements £m	Acquisitions £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 05 £m
Property, plant and equipment	3 7	–	–	(1 5)	–	2 2
Other investments	(0 4)	–	–	–	–	(0 4)
Employee benefits	25 5	–	4 0	(7 1)	(2 0)	20 4
Working capital	0 9	(0 2)	3 0	7 0	–	10 7
Other items	(2 9)	–	–	(0 8)	–	(3 7)
Equity settled transactions	–	–	–	0 3	(0 3)	–
	26 8	(0 2)	7 0	(2 1)	(2 3)	29 2

16 Inventories

	2006 £m	2005 £m
Raw materials and consumables	**12 0**	5 8
Development work in progress	**26 5**	15 4
	38 5	21 2

17 Trade and other receivables

	2006 £m	2005 £m
Trade receivables	**135 6**	134 0
Amounts owed by customers on construction contracts	**562 5**	210 9
Other trade receivables and prepayments	**117 2**	54 8
Amounts owed by jointly controlled entities	**36 0**	37 0
Amounts owed under jointly controlled operations	**24 0**	23 0
	875 3	459 7

At 31 December 2006, trade receivables include retentions of £67 9m (2005 £41 1m) relating to construction contracts

18 Cash and cash equivalents

	2006 £m	2005 £m
Bank balances and cash in hand	**90 5**	73 7
Call deposits with a maturity of less than three months	**54 0**	107 2
Cash and cash equivalents	**144 5**	180 9
Bank overdrafts	**(3 1)**	(11 2)
Cash and cash equivalents in the statement of cash flows	**141 4**	169 7

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

	2006 £m	2005 £m
Current liabilities		
Bank overdrafts	**3 1**	11 2
Finance lease obligations	**4 9**	3 9
Other loans	**4 6**	1 9
	12 6	17 0
Non-current liabilities		
Bank loans	**190 7**	34 0
Finance lease obligations	**43 0**	33 8
Other loans	**6 2**	5 3
	239 9	73 1
Total borrowings	**252 5**	90 1

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

Finance lease liabilities

Finance lease liabilities are payable as follows

	Minimum lease payments 2006 £m	Interest 2006 £m	Principal 2006 £m	Minimum lease payments 2005 £m	Interest 2005 £m	Principal 2005 £m
Less than one year	**7 2**	**(2 3)**	**4 9**	5 8	(1 9)	3 9
Between one and five years	**33 1**	**(7 6)**	**25 5**	20 9	(5 6)	15 3
More than five years	**18 5**	**(1 0)**	**17 5**	19 8	(1 3)	18 5
	58 8	**(10 9)**	**47 9**	46 5	(8 8)	37 7

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

20 Trade and other payables

	2006 £m	2005 £m
Trade payables	**584 6**	314 1
Amounts owed to customers on construction contracts	**169 6**	57 5
Other tax and social security costs	**35 0**	24 8
Amounts owed to jointly controlled entities	**46 1**	26 2
Amounts owed under jointly controlled operations	**0 1**	6 8
Other creditors	**89 7**	56 2
Accruals and deferred income	**270 7**	114 8
	1,195 8	600 4

Notes to the consolidated financial statements
continued

21 Provisions

	Restructuring £m	Onerous leases £m	Total £m
Balance at 1 January 2006	–	–	–
Acquisitions (see note 30)	–	1 7	1 7
Provisions created	0 6	3 7	4 3
Provisions utilised during the year	–	(0 1)	(0 1)
Balance at 31 December 2006	**0 6**	**5 3**	**5 9**
Disclosed within			
Current liabilities	0 6	1 8	2 4
Non-current liabilities	–	3 5	3 5
	0 6	5 3	5 9

The restructuring provision relates primarily to property exit costs associated with a review of the enlarged Group's requirements following the acquisition of Mowlem plc and is expected to be utilised in the next 12 months

Acquisitions of £1 7m in relation to onerous leases relate to a number of onerous leases acquired with Mowlem plc This provision is expected to be utilised over a period of nine years The onerous lease provision created in the year of £3 7m includes £3 0m relating to the former head office and £0 7m relating to other offices of Mowlem plc which were vacated following the acquisition This provision is expected to be utilised over a period of nine years

22 Share capital

	2006 £m	2005 £m
Authorised		
423,000,000 (2005 325,000,000) ordinary shares of 50p each	211 5	162 5

Issued and fully paid

	2006 Number million	2006 £m	2005 Number million	2005 £m
At 1 January	214 9	107 4	214 3	107 1
New share capital subscribed	66 3	33 2	0 6	0 3
At 31 December	281 2	140 6	214 9	107 4

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 2006	8 2	0 7	(10 8)	0 9	8 2	34 1	41 3
Total recognised income and expense	–	(4 1)	0 2	–	–	82 5	78 6
New share capital subscribed	191 7	–	–	–	–	–	191 7
Share options exercised by employees	–	–	–	–	–	2 8	2 8
Equity-settled transactions (net of deferred tax)	–	–	–	–	–	0 9	0 9
Transfer between reserves	–		1 0	–	–	(1 0)	–
Dividends to equity holders of the parent	–	–	–	–	–	(23 2)	(23 2)
At 31 December 2006	**199 9**	**(3 4)**	**(9 6)**	**0 9**	**8 2**	**96 1**	**292 1**

23 Reserves (continued)

	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	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 deferred 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

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

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

	2006 £m	2005 £m
Balance at 1 January	**(4 7)**	(5 4)
Share options exercised by employees (exercise price)	**2 8**	0 7
LTIP options exercised (transfer to retained earnings)	**0 3**	–
Balance at 31 December	**(1 6)**	(4 7)

At 31 December 2006, the ESOP held 1,137,177 (2005 3,715,612) of the Company's shares The ESOP has elected to waive all dividends except for a total payment of 1p 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 138,500 shares in the Company at market value for a consideration of £0 4 million In addition, 306,428 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 2006 the total number of shares held by the QUEST amounted to 222,406 (2005 390,334) and had a market value of £0 9 million (2005 £1 2 million) The QUEST has elected to waive all dividends in excess of 0 01 pence per share

Notes to the consolidated financial statements
continued

24 Reconciliation of movements in consolidated equity shareholders' funds

	2006 £m	2005 £m
Recognised income and expense	**78 6**	44 8
New share capital subscribed	**224 9**	1 7
Share options exercised by employees	**2 8**	0 7
Equity settled transactions (net of deferred tax)	**0 9**	0 9
Dividends paid to equity holders of the parent	**(23 2)**	(16 1)
Net addition to equity shareholders' funds	**284 0**	32 0
Opening equity shareholders' funds	**148 7**	116 7
Closing equity shareholders' funds	**432 7**	148 7

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 entity Full details of each option scheme can be found in the Remuneration Report on pages 31 to 38

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 option grant at 1 July 2003	653,339	Three years of service based on Total Shareholders Return compared to comparator group	3 years
ESOS option grant at 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 option grant at 31 March 2004	702,442	Three years of service based on Total Shareholders Return compared to comparator group	3 years
ESOS option grant at 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 option grant at 15 March 2005	993,975	Three years of service based on Total Shareholders Return compared to comparator group	3 years
ESOS option grant at 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
LEAP option grant at 6 July 2006	920,817	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years
Sharesave option grant at 8 November 2006	2,580,461	Three years of service	3 years
Total share options	8,579,556		

In addition to the above, the Group has four ESOS option schemes which have a grant date before 7 November 2002 The total number of options outstanding at 31 December 2006 for these schemes amounted to 1,010,733 (2005 1,126,741) with a remaining contractual life of either four or five years

25 Share-based payments (continued)

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

	Weighted average exercise price 2006	Number of options 2006	Weighted average exercise price 2005	Number of options 2005
Outstanding at the beginning of the period	**108 8p**	**7,509,018**	119 1p	8,566,431
Forfeited during the period	**88 2p**	**(468,566)**	134 9p	(596,844)
Exercised during the period	**116 7p**	**(2,638,456)**	105 8p	(1,680,246)
Granted during the period	**248 7p**	**3,501,278**	44 9p	1,219,677
Outstanding at the end of the period	**169 3p**	**7,903,274**	108 8p	7,509,018
Exercisable at the end of the period		**1,469,413**		3,022,649

The options outstanding at 31 December 2006 have an exercise price in a range from nil to 337 5 pence and a weighted average contractual life of four years

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

	2006		2005		2004	
	Sharesave	LEAP	LTIP	ESOS	LTIP	ESOS
Fair value of share options and assumptions						
Fair value at grant date	102 0p	295 0p	149 0p	76 0p	88 85p	56 73p
Share price at grant date	385 0p	319 0p	245 0p	245 0p	187 0p	187 0p
Exercise price	337 5p	–	–	243 0p	–	187 0p
Expected volatility	27 44%	28 55%	40 07%	40 05%	43 0%	43 0%
Option life	3 years	3 years	3 years	4 years	3 years	4 years
Expected dividend yield	2 45%	2 58%	2 55%	2 55%	3 46%	3 46%
Risk-free interest rate (based on national government bonds)	5 0%	4 8%	n/a	4 86%	n/a	4 62%

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

	2006 £m	2005 £m
Equity settled share options granted in		
2003	**(0 1)**	0 3
2004	**0 4**	0 4
2005	**0 5**	0 5
2006	**0 5**	-
Total expense recognised as employee costs	**1 3**	1 2

Notes to the consolidated financial statements
continued

26 Guarantees and contingent liabilities

	2006 £m	2005 £m
Guarantees in respect of jointly controlled entities and jointly controlled operations	**–**	10 9
Guarantees in respect of deferred equity payments in PPP jointly controlled entities	**9 8**	3 0
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP jointly controlled entities	**93 2**	26 4
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP jointly controlled entities	**30 0**	–
Guarantees in respect of letters of credit issued by banks in relation to pension scheme deficit recovery payments	**44 0**	–

Group
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

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 sterling borrowings to finance the acquisition of Mowlem plc and short term working capital requirements and foreign currency denominated borrowings for hedging net assets of overseas operations 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 counterparties based on ratings issued by the major rating agencies Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within predetermined limits

27 Financial instruments (continued)

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

Derivative financial instruments

	2006		2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Forward foreign currency contracts	**0 8**	**–**	–	(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 2006 the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £27 8m (2005 £45 1m) of which £13 7m (2005 £15 5m) (and the related deferred tax asset of £4 1m (2005 £4 7m)) has been recognised in the hedging reserve

Effective interest rates

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

	2006 Range (%)	2005 Range (%)
Bank overdrafts	**4 50 to 7 25**	3 48 to 6 00
Bank loans	**5 24 to 6 36**	3 81 to 5 13
Finance lease obligations	**4 00 to 12 49**	3 10 to 6 54
Other loans	**4 20 to 6 00**	4 19 to 5 97

Foreign currency exposure

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

	2006 £m	2005 £m
United States of America Dollars	**12 8**	14 8
Canadian Dollars	**54 1**	46 3
Danish Krona	**–**	10 6
Other	**0 2**	0 2
	67 1	71 9

Of the total foreign currency borrowings of £67 1m (2005 £71 9m), the amount of borrowings used for hedging overseas operations amounts to £29 9m (2005 £34 0m) The foreign exchange gain of £4 1m (2005 £4 0m loss) on translation of the borrowings into sterling has been recognised in the translation reserve

Fair values

The carrying and fair values of the Group's principal financial instruments at 31 December 2006 are shown below

	Carrying value £m	Fair value £m
Trade receivables	135 6	132 6
Amounts owed to customers on construction contracts	562 5	550 0
Trade payables	(584 6)	(572 1)
Amounts owed to customers on construction contracts	(169 6)	(166 0)
Bank overdrafts	(3 1)	(2 9)
Bank loans	(190 7)	(154 8)
Finance lease obligations	(47 9)	(36 0)
Other loans	(10 8)	(9 9)

The carrying and fair values of the Group's financial instruments at 31 December 2005 were not materially different

Notes to the consolidated financial statements
continued

27 Financial instruments (continued)

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

31 December 2006	Bank loans £m	Other loans £m	Finance leases £m	Total £m
Between one and two years	–	3 0	7 0	10 0
Between two and three years	–	2 5	4 9	7 4
Between three and four years	190 7	0 7	5 0	196 4
Between four and five years	–	–	8 6	8 6
More than five years	–	–	17 5	17 5
	190 7	6 2	43 0	239 9

31 December 2005	Bank loans £m	Other loans £m	Finance leases £m	Total £m
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

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

	2006 £m	2005 £m
Expiring between two and five years	140 1	156 0

28 Financial and capital commitments

	2006 £m	2005 £m
Commitments for capital expenditure in subsidiaries	0 9	1 8
Commitments for equity and subordinated debt in PPP jointly controlled entities	103 0	30 7
	103 9	32 5

Non-cancellable operating lease rentals are payable as follows

	2006		2005	
	Property £m	Other £m	Property £m	Other £m
Within one year	11 4	14 2	6 0	9 5
Between one and five years	28 2	20 3	13 9	13 9
Over five years	35 7	–	22 0	0 2
	75 3	34 5	41 9	23 6

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

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases amount to £5 7m (2005 £nil) at the balance sheet date

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 31

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 31 to 38

Other than disclosed in the Remuneration Report, there were no other transactions with key management personnel in either the current or preceding year The IFRS 2 cost charged to administrative expenses relating to share options of key management personnel amounted to £0 6m (2005 £0 5m)

Transactions with jointly controlled entities
The table below summarises the principal receivable and payable balances, together with sales to the Group's jointly controlled entities, which are in the normal course of business and on commercial terms

	2006 Sales £m	2006 Receivables £m	2006 Payables £m	2005 Sales £m	2005 Receivables £m	2005 Payables £m
PPP jointly controlled entities						
Accommodation Services (Holdings) Limited	–	**0 4**	–	0 4	–	–
Ellenbrook Holdings Limited	**2 0**	–	–	2 5	0 8	–
The Hospital Company (Swindon & Marlborough) Group Limited	**8 9**	**2 5**	–	10 8	2 3	–
The Hospital Company (Oxford John Radcliffe) Holdings Limited	**40 2**	**1 4**	–	51 7	4 7	–
The Hospital Company (QAH Portsmouth) Holdings Limited	**71 5**	**3 7**	–	46 6	2 3	–
Sheppey Route (Holdings) Limited	**18 2**	**0 8**	–	39 1	–	–
Eastbury Park (Holdings) Limited	**21 9**	–	–	–	–	–
Education 4 Ayrshire (Holdings) Limited	**4 9**	**0 9**	–	–	–	–
RSP (Holdings) Limited	**37 4**	**1 5**	–	45 0	–	–
Aspire Defence Holdings Limited	**86 7**	–	**(18 9)**	–	–	–
Other	**6 0**	**0 6**	–	10 5	0 6	–
	297 7	**11 8**	**(18 9)**	206 6	10 7	–
Other jointly controlled entities						
CR Thanet Limited Partnership	–	**12 6**	**(11 9)**	22 8	14 3	(14 7)
Modern Housing Solutions (Prime) Limited	**18 3**	**0 1**	–	1 2	1 3	–
CarillionEnterprise Limited	**5 2**	**4 9**	–	1 0	0 9	–
Eurailscout GB Limited	–	**0 7**	–	–	1 2	(0 9)
Urban Catalyst LLP	–	**5 4**	–	–	6 1	–
Wyseproperty Limited	–	–	**(14 7)**	–	–	(10 5)
Ward Street Developments Limited	–	–	–	–	1 8	–
Others	**0 2**	**0 5**	**(0 6)**	–	0 7	(0 1)
	321 4	**36 0**	**(46 1)**	231 6	37 0	(26 2)

30 Acquisitions and disposals

Acquisitions in 2006
On 23 February 2006, the Company acquired the entire issued share capital of Mowlem plc for total consideration of £350 3m Mowlem plc, its subsidiaries and jointly controlled entities operate in a number of sectors and industries, particularly construction, facilities management and Public Private Partnerships In the period from acquisition to 31 December 2006, Mowlem plc contributed profit before tax of £16 0m to the consolidated profit for the year If the acquisition had occurred on 1 January 2006, Group revenue would have been £3,314 2m and profit before tax would have been £59 9m for the year ended 31 December 2006

Notes to the consolidated financial statements
continued

30 Acquisitions (continued)

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	Accounting policy adjustments £m	Recognised values £m
Property, plant and equipment	25 9	0 7	–	26 6
Intangible assets	–	119 0	–	119 0
Investments in jointly controlled entities	20 5	95 7	(8 8)	107 4
Other investments	15 0	(5 0)	–	10 0
Deferred tax assets	30 9	6 4	6 3	43 6
Inventories	17 9	(0 7)	–	17 2
Trade and other receivables	461 1	(26 4)	–	434 7
Assets held for sale	76 3	56 9	–	133 2
Cash and cash equivalents	11 6	(8 1)	–	3 5
Borrowings	(126 4)	0 4	–	(126 0)
Trade and other payables	(560 2)	15 8	2 9	(541 5)
Income tax	(4 2)	6 3	–	2 1
Retirement benefit liabilities	(95 5)	–	(21 0)	(116 5)
Deferred tax liabilities	–	(35 7)	–	(35 7)
Liabilities held for sale	(125 9)	(30 5)	–	(156 4)
Provisions	(1 7)	–	–	(1 7)
Net identifiable assets and liabilities	**(254 7)**	**194 8**	**(20 6)**	**(80 5)**
Goodwill recognised on acquisition				**430 8**
Consideration				**350 3**

The fair value adjustments made at acquisition relate to
- the recognition of an intangible asset in relation to customer contracts and lists acquired
- market value adjustments to the carrying value of investments in PPP jointly controlled entities and other investments
- the reclassification of Edgar Allen Limited and Charter Builders Ltd as available for sale assets and liabilities and the subsequent adjustment to their net realisable value following the decision to dispose of the businesses post acquisition
- the recognition of a deferred tax asset on a proportion of corporation tax trading losses
- the recognition of a deferred tax liability on the future amortisation of the intangible assets acquired
- reassessment of the recoverability of trade and other receivables

The accounting policy adjustments made relate to
- the reversal of the fair value uplift to finance debtors within PPP jointly controlled entities
- the recognition of the full defined benefit pension scheme deficits on balance sheet following the reversal of the corridor approach to the recognition of actuarial gains and losses
- a realignment of the treatment of investment related bid cost recoveries at financial close on PPP projects

Consideration for the acquisition comprises the following

	£m
Cash	117 3
Equity shares issued	224 5
Attributable costs	8 5
	350 3

The value of equity shares issued is based on the quoted mid-market price of Carillion plc shares at the close of business on the day preceding the effective date of acquisition of 339p and the total number of equity shares issued of 66 2 million

Attributable costs include direct advisor costs incurred in relation to the acquisition contracts and due diligence procedures

Cash flows associated with the acquisition are included in the cash flow statement as follows

	£m
Cash paid	(117 3)
Attributable costs paid	(8 5)
	(125 8)
Cash and cash equivalents acquired	3 5
Net cash outflow on acquisition	**(122 3)**

30 Acquisitions (continued)

Acquisitions in 2005

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

Disposals in 2006

During the acquisition of Mowlem plc, certain businesses were identified as being non-core operations for disposal In addition, there were a number of businesses which had been identified as available for sale by Mowlem plc prior to acquisition

In the post acquisition period the Group disposed of the following Mowlem plc businesses

Edgar Allen Limited
Charter Builders Ltd
Mowlem Environmental Sciences Group
Barclay Mowlem Limited
Carillion Energy Limited (formerly Mowlem Energy Limited)
Carillion Utility Services Limited (formerly Mowlem Utility Services Limited)

These businesses were included in the acquisition balance sheet of Mowlem plc as assets and liabilities held for sale and were therefore carried at fair value, which represents proceeds on disposal less costs to sell These fair values were realised on subsequent disposal and consequently no profit or loss has arisen

The cash effect has been reflected in the Group cash flow statement as follows

	£m
Consideration received (net of disposal costs paid)	53 5
Cash in businesses disposed of	(23 1)
Cash inflow from disposal of businesses	**30 4**

In September 2006, the Group disposed of a portfolio of equity investments in Public Private Partnership jointly controlled entities The disposal generated cash consideration of £46 7m (after deducting disposal costs of £0 4m) and a non operating profit of £25 6m The Group also disposed of equity interests in two small non-PPP jointly controlled entities for a total consideration of £0 6m, generating a profit of £0 4m

Notes to the consolidated financial statements
continued

31 Retirement benefit obligations
Carillion operates a number of pension schemes for eligible employees as disclosed below

Principal defined benefit schemes

Carillion Staff and 'B' Pension Schemes
Both schemes are defined benefit schemes and were closed to new entrants on 1 April 2003 Existing members continue to accrue benefits for future service

An actuarial valuation of the Staff and 'B' schemes was undertaken by the Trustees' independent actuaries as at 31 December 2005 using the projected unit credit method The market value of the schemes' assets at that date were £485 0m and £106 4m respectively, which represented approximately 90% and 94% of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries The regular on-going contributions paid during the year were £10 8m (2005 £11 7m) in respect of the Carillion Staff Pension Scheme and £1 4m (2005 £1 4m) in respect of the Carillion 'B' Pension Scheme

As part of the deficit recovery plan agreed with the Trustees of the Staff and 'B' schemes, payments were made to the schemes during 2006 of £15 0m and £2 0m respectively Further payments are due to the Staff and 'B' schemes in 2007 of £18 0m and £2 0m respectively and payments of £16 0m and £2 0m respectively are due in 2008 These payments are secured by a Letter of Credit to the Trustees Recovery payments of £1 9m per annum to the Staff scheme are scheduled to commence from January 2010 and cease at the end of 2015 The next actuarial valuations are due normally at 31 December 2008

The Group expects to pay regular ongoing contributions of approximately £11 0m to the Staff scheme and £1 0m to the 'B' scheme during 2007 representing contribution rates of 20 1% and 36 5% of payroll respectively

The Pension Protection Fund (PPF) levy is payable in addition to the above The PPF levies for the year ended 31 March 2006 were £0 4m for the Staff scheme and £16,000 for the 'B' scheme

Mowlem Staff Pension and Life Assurance and Mowlem (1993) Pension Schemes
The Mowlem Staff Pension and Life Assurance and Mowlem (1993) Pension schemes were part of Mowlem plc, which was acquired on 23 February 2006

The majority of employees who participate in these schemes are in defined benefit arrangements The defined benefit section of the Mowlem Staff Pension and Life Assurance Scheme closed to new entrants on 1 January 2003

A defined contribution section was opened for new employees from 1 April 2003 Existing final salary members could opt to continue on that basis from 1 April 2003 if they agreed to pay a higher member contribution or could pay the same rate and accrue benefits on a Career Average Revalued Earnings (CARE) basis from that date

An actuarial valuation of the Mowlem Staff and (1993) schemes was undertaken by independent actuaries as at 31 December 2004 using the attained age method The market value of the schemes assets at that date were £323 1m and £30 3m respectively, representing approximately 78% and 71% of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries The regular ongoing contributions paid during the period since acquisition were £7 7m in respect of the Mowlem Staff scheme and £1 9m in respect of the Mowlem (1993) scheme

As part of the deficit recovery plan agreed with the Trustees, payments were made to the Mowlem Staff and Mowlem (1993) schemes in the period since acquisition of £9 5m and £1 3m respectively Recovery payments of £11 4m per annum in respect of the Mowlem Staff scheme and £1 6m per annum in respect of the Mowlem (1993) scheme are scheduled to continue until 2016

The Group expects to pay regular ongoing contributions of approximately £8 0m and £2 0m to the Mowlem Staff and Mowlem (1993) schemes during 2007 representing contribution rates of 15 3% and 24 6% of payroll respectively The next actuarial valuations of the schemes is due at 31 December 2007

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan The PPF levies for the year ended 31 March 2006 were £0 5m for the Mowlem Staff scheme and £0 25m for the Mowlem (1993) scheme

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 on an ongoing basis, after allowing for future increases in salaries The regular ongoing employer contributions paid during the year were £2 7m (2005 £3 9m)

31 Retirement benefit obligations (continued)

As part of the deficit recovery plan agreed with the Trustees, a payment of £2 0m was made during 2006 and further payments of £2 0m per annum are due in 2007 and 2008 These payments have been secured by a Letter of Credit to the Trustee Additional recovery payments totalling £2 3m per annum will commence in 2007 and are scheduled to be paid until 2015

The Group expects to pay regular ongoing contributions of approximately £3 0m during 2007 representing 23 2% of pensionable salaries at the end of 2006 If any employees are admitted into the Scheme through PFI, PPP or Best Value contracts during 2007 the level of contributions will increase The next actuarial valuation is due at 31 December 2007

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan The PPF levy for the year ended 31 March 2006 was £0 06m

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

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 credit 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 approximately 94% and 102% of benefits that had accrued to members at that date on an ongoing basis, after taking account of future increases in salaries, contributions payable and reserves The regular ongoing contributions paid by the employer during the year were £3 9m (2005 £4 5m) for GTRM and £0 3m (2005 £0 2m) for Centrac

As part of the deficit recovery plan agreed with the Trustees, a payment of £2 0m was made during 2006 Further payments of £2 0m per annum are due in 2007 and 2008 An additional payment of £1 1m was also paid during 2006 to cover the cost of premium restructuring under the Scheme Rules

The Group expects to pay regular on-going contributions in 2007 of £4 0m in total for both sections representing 16 02% and 16 56% of pensionable salaries for GTRM and Centrac respectively The next actuarial valuations are due at 31 December 2007

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan The PPF levy for the year ended 31 March 2006 for both sections totalled £0 1m

Other defined benefit schemes

The PME Staff Pension and Life Assurance Scheme
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 on an ongoing basis, after allowing for future increases in salaries The deficit in the scheme at 31 December 2006, calculated in accordance with IAS 19, is £2 5m (2005 £4 3m deficit) The regular ongoing contributions paid during the year were £1 2m (2005 £1 2m)

As part of the deficit recovery plan agreed with the Trustees, a payment of £1 0m per annum is due in 2007 and 2008 These payments have been secured by a Letter of Credit to the Trustees

The Group expects to pay regular ongoing contributions of approximately £1 0m during 2007 representing 16 5% of pensionable salaries The next actuarial valuation is due at 31 December 2006

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan and was £0 02m for the year ended 31 March 2006

Carillion Canada Inc
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 health care plan, the Post Retirement Benefit Plan The net surplus in total for these 3 schemes at 31 December 2006, calculated in accordance with IAS 19, is £0 5m (2005 £1 1m deficit)

Contributions during the year were £nil (2005 £nil) in respect of the Carillion Canada Inc defined benefit scheme and £0 2m (2005 £0 1m) in respect of other post-retirement benefits for senior Canadian employees Contributions for 2007 are estimated to be £0 2m

Notes to the consolidated financial statements
continued

Bower Group Retirement Benefit Scheme
The Bower Group Retirement Benefit Scheme was part of Mowlem plc, which was acquired on 23 February 2006 The scheme is a defined benefit arrangement and is closed to future accrual

An actuarial valuation of the scheme was undertaken by independent actuaries as at 29 February 2004 The deficit in the scheme at 31 December 2006 calculated in accordance with IAS 19 is £2 1m The Group has not made any contributions to the scheme in the period since acquisition As part of the deficit recovery plan agreed with the Trustees, £0 3m is scheduled to be paid to the scheme in February 2007 Following the next actuarial valuation due as at 28 February 2007, the Group's contributions to the scheme will be reviewed

Other UK and overseas schemes
The Group operates four UK defined contribution schemes, the Carillion Pension Plan, The Mowlem Staff Scheme (defined contribution section), 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 across the Group are eligible to join this Plan Employees contribute a minimum of 5 0% and the employer a minimum of 7 0% of basic salaries Up to 3 0% of any additional voluntary contributions paid by employees is matched by the employer resulting in a maximum employer contribution of 10 0% of basic salary The employer meets the cost of administration and managing the Plan equivalent to a further 2 0% of basic pay Contributions during the year were £2 0m (2005 £1 4m)

The defined contribution section of the Mowlem Staff Scheme commenced on 1 April 2003 The plan is principally only open to late entrants on application Employees contribute between 3 0% and 5 0% depending upon their age and the employer between 4 5% and 8 0% The employer meets the cost of the administration and managing the Plan in addition to the cost of the life assurance premiums Contributions during the period since acquisition were £1 5m

Employees of Carillion Services Limited who are not eligible for the Carillion Pension Plan are invited to participate in the Carillion Stakeholder Plus managed by BlackRock Pensions Limited Employees contribute 5 0% 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 (2005 £0 5m)

The PME Defined Contribution Plan commenced in April 1999 All new PME employees are offered membership of the Plan Employees contribute 4 0% of basic pay and the company pays 5 0% of basic pay (inclusive of a 1 0% allowance for insurance premiums and audit fees) Contributions during the year were £1 2m (2005 £1 0m)

Contributions to the Carillion Retirement Plan during the year were £0 1m (2005 £0 1m)

Stakeholder pensions are also provided by B&CE Insurance and Scottish Widows where required by Working Rule Agreements and defined contribution pensions provided where required by the Joint Industries Board Working Rules Agreements

Various companies within the Group participate in admission agreements with local authorities in order to allow former public sector employees to continue membership of the Local Government Pension Scheme Contributions during the year, which have been accounted for on a defined contribution basis, were £0 2m (2005 £0 4m)

The Group also operates defined benefit and defined contribution schemes for employees of Carillion Rail Sverige AB again managed locally

IAS 19 disclosures
The weighted average of the principal assumptions used by the independent qualified actuaries in providing the IAS 19 position were

	31 December 2006		31 December 2005	
	UK	**Canada**	UK	Canada
Rate of increase in salaries	**4 25%**	**3 00%**	4 05%	3 25%
Rate of increase in pensions*	**3 00%**	**2 00%**	2 80%	2 25%
Inflation rate	**3 00%**	**2 00%**	2 80%	2 25%
Discount rate	**5 00%**	**5 20%**	4 75%	5 00%

* Where schemes have adopted the new 2 5% per annum cap on increases to pensions in payment the assumption is 1 9% per annum rather than the higher amount shown above

31 Retirement benefit obligations (continued)

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 All the schemes, except the Railways Pension Scheme, have adopted a basis using the medium cohort tables on the recommendation of the Scheme Actuary The Railways Pension Scheme uses scheme specific assumptions based on industry experience

The Carillion Staff Scheme, the Carillion Public Sector Scheme, the Mowlem Staff Scheme and the Mowlem (1993) Scheme adopted the 'PA92(YOB=1965)mc + 2 years' table for non-retired members' mortality and the 'PA92(YOB=1935)mc + 2 years' for retired members' mortality at the last valuation The previous bases were 'PA92(Base) – 3 years and 'PA92(Base) – 1 year' respectively

The life expectancies for a male aged 65 are shown below

	2006	2005
	PA92(YOB=1965)mc + 2 yrs	PA92(Base) – 3 yrs
Non-retired members	**21 3 years**	19 4 years
	PA92(YOB=1935)mc + 2 yrs	PA92(Base) – 1 yr
Retired members	**19 7 years**	17 8 years

The Canadian Actuary annually undertakes an actuarial valuation and accounting exercise for reporting on local employee benefits under the local GAAP, CICA 3461 The same assumptions have been used for local medical and dental inflation rates in relation to the Post Retirement Benefit Plan The immediate trend rate is 8 0% per annum with an ultimate trend rate of 5 0% per annum (2010) An increase of 1 0% in the valuation trend would increase liabilities by £0 6m and the total service cost by £0 06m A decrease of 1 0% in the valuation trend would reduce liabilities by £0 5m and total service cost by £0 04m

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

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 2006	Expected rate of return % UK	Canada	Carillion Staff £m	Mowlem Staff £m	"B" £m	Mowlem (1993) £m	Public Sector £m	Railways Pension £m	Other Schemes £m	Total £m
Equities	**6 65**	**7 00**	**219 5**	**339 8**	**34 7**	**36 8**	**61 5**	**102 4**	**40 6**	**835 3**
Government bonds	**4 15**	**4 00**	**219 5**	**23 0**	**56 3**	**2 3**	**18 5**	**45 3**	**22 6**	**387 5**
Corporate bonds	**4 78**	**5 00**	**78 4**	**91 8**	**16 2**	**2 3**	**15 2**	**–**	**6 8**	**210 7**
Other	**4 78**	**2 50**	**5 1**	**4 6**	**1 1**	**4 6**	**0 9**	**24 2**	**2 1**	**42 6**
Market value of scheme assets			**522 5**	**459 2**	**108 3**	**46 0**	**96 1**	**171 9**	**72 1**	**1,476 1**
Present value of funded scheme obligation			**(560 4)**	**(505 5)**	**(117 1)**	**(59 3)**	**(103 9)**	**(166 4)**	**(73 4)**	**(1,586 0)**
Present value of unfunded scheme obligation			**–**	**–**	**–**	**–**	**–**	**–**	**(3 0)**	**(3 0)**
Total (deficit)/surplus			**(37 9)**	**(46 3)**	**(8 8)**	**(13 3)**	**(7 8)**	**5 5**	**(4 3)**	**(112 9)**
Related deferred tax asset										**37 1**
Net pension liability										**(75 8)**

31 December 2005	Expected rate of return % UK	Canada	Carillion Staff £m	"B" £m	Public Sector £m	Railways Pension £m	Other Schemes £m	Total £m
Equities	6 45	7 00	227 9	38 1	51 7	113 4	33 6	464 7
Government bonds	3 95	4 00	181 7	51 8	16 1	36 0	19 9	305 5
Corporate bonds	4 61	5 00	69 0	15 1	13 1	–	7 8	105 0
Other	4 36	2 50	5 8	1 2	4 3	7 0	2 3	20 6
Market value of scheme assets			484 4	106 2	85 2	156 4	63 6	895 8
Present value of funded scheme obligation			(523 9)	(105 2)	(99 0)	(166 6)	(63 6)	(958 3)
Present value of unfunded scheme obligation			–	–	–	–	(5 4)	(5 4)
Total (deficit)/surplus			(39 5)	1 0	(13 8)	(10 2)	(5 4)	(67 9)
Related deferred tax asset								20 4
Net pension liability								(47 5)

Notes to the consolidated financial statements
continued

31 Retirement benefit obligations (continued)

Expense recognised in the Income Statement

	2006 £m	2005 £m
(Charge)/credit to operating profit		
Current service cost relating to defined benefit schemes	**(29 1)**	(17 0)
Past service cost relating to defined benefit schemes	**(0 5)**	–
Settlements	**–**	7 0
Defined contribution schemes	**(5 5)**	(4 4)
Total	**(35 1)**	(14 4)
Credit/(charge) to other finance income		
Expected return on pension scheme assets	**71 7**	47 0
Interest cost on pension scheme liabilities	**(68 2)**	(45 8)
Net finance return	**3 5**	1 2
Total actuarial gains and losses recognised in the Statement of Recognised Income and Expense	**34 6**	6 7

	2006 £m	2005 £m
Changes in defined benefit obligation		
Obligation at 1 January	**(963 7)**	(862 0)
Current service cost	**(29 1)**	(17 0)
Interest cost	**(68 2)**	(45 8)
Contributions from scheme members	**(8 5)**	(5 2)
Past service cost	**(0 5)**	–
Acquisition of Mowlem plc	**(583 2)**	–
Acquisition of PMG	**–**	(43 0)
Benefits paid	**49 3**	92 3
Actuarial gains and losses	**12 8**	(198 8)
Effect of exchange rate changes	**2 1**	(2 2)
Settlements	**–**	118 0
Obligation at 31 December	**(1,589 0)**	(963 7)

	2006 £m	2005 £m
Changes in the fair value of scheme assets		
Fair value at 1 January	**895 8**	776 8
Expected return on scheme assets	**71 7**	47 0
Contributions from the employer	**63 0**	32 9
Contributions from scheme members	**8 5**	5 2
Acquisition of Mowlem plc	**466 7**	–
Acquisition of PMG	**–**	29 5
Benefits paid	**(49 3)**	(92 3)
Actuarial gains and losses	**21 8**	205 5
Effect of exchange rate changes	**(2 1)**	2 2
Settlements	**–**	(111 0)
Fair value at 31 December	**1,476 1**	895 8

31 Retirement benefit obligations (continued)

The amount included in the balance sheet in respect of defined benefit schemes is as follows

	2006 £m	2005 £m
Present value of defined benefit obligation	**(1,589 0)**	(963 7)
Fair value of scheme assets	**1,476 1**	895 8
Net deficit	**(112 9)**	(67 9)
Schemes in surplus (within non-current assets)	**10 9**	6 4
Schemes in deficit (within non-current liabilities)	**(123 8)**	(74 3)
	(112 9)	(67 9)

History of experience gains and losses

		2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Present value of the defined benefit obligation		**(1,589 0)**	(963 7)	(862 0)	(832 0)	(674 1)
Fair value of scheme assets		**1,476 1**	895 8	776 8	722 6	598 5
Deficit		**(112 9)**	(67 9)	(85 2)	(109 4)	(75 6)
Experience gains and losses on scheme obligation	(£m)	**12 8**	(198 8)	(1 7)	(0 2)	(4 9)
Percentage of defined benefit obligation	(%)	**1**	21	–	–	1
Difference between expected and actual returns on scheme assets	(£m)	**21 8**	205 5	28 0	66 3	(136 9)
Percentage of scheme assets	(%)	**1**	23	3	9	(23)

32 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 the application of these policies and estimates

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

Intangible assets

In determining the fair value of identifiable assets, liabilities and contingent liabilities of businesses acquired, judgement is required in relation to final out turn on construction contracts, discount rates and expected future cash flows and profitability

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from the cash-generating unit to which the intangible assets are attached Note 12 provides details of the carrying value of intangible assets

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 pensions increases

Details of the assumptions used are included in note 31

33 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 91

Company balance sheet

At 31 December 2006

	Note	2006 £m	2005 £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	3	**536 3**	192 2
Current assets			
Debtors	4	**275 1**	192 3
Cash at bank and in hand		**27 4**	117 1
		302 5	309 4
Creditors amounts falling due within one year	5		
Borrowings		**(1 7)**	(2 9)
Other creditors		**(153 5)**	(207 9)
		(155 2)	(210 8)
Net current assets			
Due within one year		**119 5**	69 9
Debtors due after more than one year	4	**27 8**	28 7
		147 3	98 6
Total assets less current liabilities		**683 6**	290 8
Creditors amounts falling due after more than one year	6		
Borrowings		**(199 1)**	(43 3)
Net assets		**484 5**	247 5
Financed by			
Capital and reserves			
Issued share capital	7	**140 6**	107 4
Share premium	8	**199 9**	8 2
Profit and loss account	8	**144 0**	131 9
Equity shareholders' funds		**484 5**	247 5

The financial statements were approved by the Board of Directors on 7 March 2007 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

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"

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 carried in the balance sheet at fair value Borrowings are recognised initially at fair value less attributable transaction costs 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 The 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

Share based payments
Members of the Group's senior management team are entitled to participate in the Executive Share Option Scheme (ESOS), the Long Term Incentive Plan (LTIP) and the Leadership Equity Award Plan (LEAP) In addition, UK employees are able to participate in the Sharesave scheme

The fair values of the ESOS, LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model The fair value of the LTIP scheme is estimated using a bespoke model 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 guarantee contracts
Where the Company enters into financial guarantee contracts to guarantee the indebtedness 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

Notes to the Company financial statements
continued

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 2006 of £31 8m (2005 £49 3m)

The auditors' remuneration for audit services to the Company was £31,000 (2005 £30,000)

Fees paid to KPMG Audit Plc and its associates for non audit services to the Company itself are not disclosed in the individual accounts of Carillion plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis

Payroll costs and employee numbers	2006 £m	2005 £m
Wages and salaries	**5 1**	2 8
Social security costs	**0 5**	0 3
Pension costs	**0 8**	0 1
Equity settled transactions	**1 0**	0 6
	7 4	3 8

The average number of employees during each year, including Directors, was 62 (2005 27)

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost			
At 1 January 2006	**202 5**	**0 3**	**202 8**
Additions	**350 3**	–	**350 3**
Disposals	–	**(0 1)**	**(0 1)**
At 31 December 2006	**552 8**	**0 2**	**553 0**
Impairment losses			
At 1 January 2006	**10 6**	–	**10 6**
Charge in the year	**6 1**	–	**6 1**
At 31 December 2006	**16 7**	–	**16 7**
Net book value			
At 31 December 2006	**536 1**	**0 2**	**536 3**
At 31 December 2005	191 9	0 3	192 2

Additions in the year of £350 3m relate to the acquisition of Mowlem plc on 23 February 2006

The principal subsidiary undertakings and joint ventures of the Company are shown on page 91

4 Debtors

	2006 £m	2005 £m
Amounts falling due within one year		
Amounts owed by group undertakings	**232 7**	154 3
Other debtors	**0 1**	0 3
Other prepayments and accrued income	**5 1**	7 2
Income tax	**8 7**	1 8
Derivative financial instruments	**0 8**	-
Amounts falling due within one year	**247 4**	163 6
Amounts falling due after more than one year		
Amounts owed by group undertakings	**27 8**	28 7
Total debtors	**275 2**	192 3

The amounts owed by group undertakings falling due after more than one year includes £8 4m (2005 £9 3m) relating to finance lease transactions entered into with Carillion Construction Limited and Carillion Fleet Management Limited Further details are disclosed in note 6 opposite

Derivative financial instruments relate to the fair value of forward foreign exchange contracts used to hedge trading transactions

5 Creditors amounts falling due within one year

	2006 £m	2005 £m
Bank overdrafts	**0 5**	1 5
Net obligations due under finance leases	**1 2**	1 4
Borrowings	**1 7**	2 9
Amounts owed to group undertakings	**122 1**	191 1
Amounts owed to joint ventures	**30 3**	10 5
Accruals and deferred income	**1 1**	6 0
Derivative financial instruments	**–**	0 3
	155 2	210 8

6 Creditors amounts falling due after more than one year

	2006 £m	2005 £m
Bank loans	**190 7**	34 0
Net obligations due under finance leases	**8 4**	9 3
	199 1	43 3

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 Other loans and 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 95

7 Share capital

	2006 £m	2005 £m
Authorised		
423,000,000 (2005 325,000,000) ordinary shares of 50p each	**211 5**	162 5

	2006		2005	
	Number million	£m	Number million	£m
Allotted, called up and fully paid				
At 1 January	**214 9**	**107 4**	214 3	107 1
New share capital subscribed	**66 3**	**33 2**	0 6	0 3
At 31 December	**281 2**	**140 6**	214 9	107 4

Notes to the Company financial statements
continued

8 Reserves

	Share premium account £m	Profit and loss account £m	Total £m
At 1 January 2006	8 2	131 9	140 1
Retained profit for the year	–	31 8	31 8
Share options exercised by employees	–	2 8	2 8
Equity settled transactions (net of deferred tax)	–	0 7	0 7
New share capital subscribed	191 7	–	191 7
Dividend paid to shareholders	–	(23 2)	(23 2)
At 31 December 2006	**199 9**	**144 0**	**343 9**

The profit and loss account reserve 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 Group's share incentive schemes The movements in the reserve for own shares included within retained earnings are as follows

	2006 £m	2005 £m
Balance at 1 January	(4 7)	(5 4)
Share options exercised by employees (exercise price)	2.8	0 7
LTIP options exercised (transfer to profit and loss account reserve)	0.3	–
Balance at 31 December	**(1.6)**	(4 7)

At 31 December 2006, the ESOP held 1,137,177 (2005 3,715,612) of the Company's shares The ESOP has elected to waive all dividends except for a total payment of 1p 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 138,500 shares in the Company at market value for a consideration of £0 4m In addition, 306,428 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 2006 the total number of shares held by the QUEST amounted to 222,406 (2005 390,334) and had a market value of £0 9m (2005 £1 2m) The QUEST has elected to waive all dividends in excess of 0 01 pence per share

9 Reconciliation of movement in shareholders' funds

	2006 £m	2005 £m
Retained profit for the year	31 9	49 3
New share capital subscribed	224 9	1 7
Equity settled transactions (net of deferred tax)	0 7	0 4
Share options exercised by employees	2 8	0 7
Dividends paid to shareholders	(23 2)	(16 1)
Net addition to shareholders' funds	**237 1**	36 0
Opening shareholders' funds	247 5	211 5
Closing shareholders' funds	**484 6**	247 5

10 Other guarantees and contingent liabilities

	2006 £m	2005 £m
Guarantees in respect of borrowings of subsidiaries, joint ventures and joint arrangements	1 1	10 9
Guarantees in respect of deferred equity payments in PPP joint ventures	9 8	3 0
Guarantees in respect of letters of credit issued by banks in respect of deferred equity payments in PPP joint ventures	93 2	26 4
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP joint ventures	30 0	–
Guarantees in respect of letters of credit issued by banks in relation to pension scheme deficit recovery payments	44 0	–

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 Group has established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity Details of the Group's share option programme are disclosed in note 25 to the consolidated financial statements and in the Remuneration Report on page 31

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

	2006		2005	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Forward foreign currency contracts	**0 8**	**–**	–	(0 3)

Effective interest rates

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

	2006 Range (%)	2005 Range (%)
Bank overdrafts	**5 50 to 7 25**	4 00 to 6 00
Bank loans	**5 24 to 6 36**	3 81 to 5 13
Finance lease obligations	**4 00 to 6 54**	5 00 to 6 50

Foreign currency exposure

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

	2006 £m	2005 £m
United States of America Dollars	**12 8**	14 6
Canadian Dollars	**17 1**	19 4
	29 9	34 0

Foreign currency borrowings of £29 9m (2005 £34 0m), are used for hedging overseas operations of the Group The foreign exchange gain of £4 1m (2005 £4 0m loss) 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 2006 are shown below

	Carrying value £m	Fair value £m
Bank overdrafts	(0 5)	(0 5)
Bank loans	(190 7)	(154 8)
Finance lease obligations	(9 6)	(7 2)

The carrying and fair values of the Company's financial instruments at 31 December 2005 were not materially different

Notes to the Company financial statements
continued

13 Financial instruments (continued)

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 2006				
More than five years	–	–	**3 1**	**3 1**
Between four and five years	–	–	**1 1**	**1 1**
Between three and four years	**190 7**	–	**1 5**	**192 2**
Between two and three years	–	–	**1 4**	**1 4**
Between one and two years	–	–	**1 3**	**1 3**
More than one year	**190 7**	–	**8 4**	**199 1**
Less than one year	–	**0 5**	**1 2**	**1 7**
	190 7	**0 5**	**9 6**	**200 8**

	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

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

	2006 £m	2005 £m
Expiring between two and five years	**140 1**	156 0

Five Year Review

Income statement

	IFRS 2006 £m	IFRS 2005 restated £m	IFRS 2004 restated £m	IFRS 2003 restated £m	IFRS 2002 restated £m
Total revenue	**3,593 4**	2,284 2	1,985 1	1,972 7	1,975 2
Less share of jointly controlled entities revenue	**(528 5)**	(258 7)	(126 1)	(118 8)	(128 6)
Group revenue	**3,064 9**	2,025 5	1,859 0	1,853 9	1,846 6
Underlying operating profit					
Group	**49 1**	35 1	36 4	35 1	25 2
Jointly controlled entities	**47 7**	20 3	13 0	19 0	14 4
	96 8	55 4	49 4	54 1	39 6
Net financing income/(expense)					
Group	**1 4**	4 0	4 1	1 4	11 8
Jointly controlled entities	**(8 0)**	1 1	(3 4)	(4 9)	(5 2)
	(6 6)	5 1	0 7	(3 5)	6 6
Income tax of jointly controlled entities	**(8 1)**	(5 0)	(2 0)	(3 4)	(1 9)
Underlying profit before tax	**82 1**	55 5	48 1	47 2	44 3
Exceptional operating items					
Group	**(22 6)**	–	7 2	(33 1)	–
Jointly controlled entities	–	–	–	–	–
	(22 6)	–	7 2	(33 1)	–
Non-operating items					
Group	**25 3**	–	10 1	10 3	(0 3)
Jointly controlled entities	–	(0 8)	1 7	(0 4)	(5 0)
	25 3	(0 8)	11 8	9 9	(5 3)
Goodwill impairment and intangible amortisation	**(17 2)**	(2 8)	(0 3)	(3 8)	(2 7)
Profit before taxation	**67 6**	51 9	66 8	20 2	36 3
Income tax	**(7 2)**	(11 1)	(8 6)	(10 3)	(10 0)
Equity minority interests	**(2 2)**	(1 5)	(1 8)	(1 7)	(2 1)
Profit for the financial year	**58 2**	39 3	56 4	8 2	24 2
Operating ratio					
Underlying operating profit on revenue (%)	**2 7**	2 4	2 5	2 7	2 0
Financial ratios					
Interest covered by underlying operating profit (times)	**14 7**	–	–	15 9	–
Dividend cover on underlying earnings (times)	**3 3**	2 1	2 5	2 5	3 2
Share information					
Dividends per ordinary share	**9 0p**	8 0p	7 5p	6 75p	4 8p
Earnings per share on published earnings	**21 6p**	18 7p	27 1p	4 4p	10 7p
Underlying earnings per share	**23 5p**	20 4p	18 6p	17 2p	14 1p

Five Year Review
continued

Balance sheet

	IFRS 2006 £m	IFRS 2005 restated £m	IFRS 2004 restated £m	IFRS 2003 restated £m	IFRS 2002 restated £m
Intangible assets	**596 1**	62 3	20 3	22 4	49 0
Tangible assets	**146 6**	100 9	69 9	66 0	56 9
Investments in jointly controlled entities					
Share of gross assets	**1,908 7**	1,005 9	621 9	644 4	646 1
Share of gross liabilities	**(1,761 2)**	(957 6)	(581 6)	(599 7)	(606 8)
	147 5	48 3	40 3	44 7	39 3
Loan advances	**42 7**	24 8	24 1	33 1	21 7
Goodwill	**–**	0 4	0 7	1 0	–
Financial instrument derivatives	**(11 4)**	(10 8)	–	–	–
	178 8	62 7	65 1	78 8	61 0
Other investments	**15 0**	4 7	6 8	4 8	8 3
Working capital and provisions	**(287 1)**	(119 8)	(81 3)	(61 0)	(23 1)
Tax	**(31 9)**	(4 3)	(22 3)	(24 7)	(14 7)
Net (debt)/cash (including finance leases)	**(108 0)**	90 8	128 8	59 6	(2 1)
Net assets excluding pension obligations	**509 5**	197 3	187 3	145 9	135 3
Pension obligations (net of deferred tax)	**(75 8)**	(47 5)	(59 7)	(76 6)	(52 9)
Net assets	**433 7**	149 8	127 6	69 3	82 4
Equity shareholders' funds	**432 7**	148 7	125 5	67 0	80 2
Minority interests	**1 0**	1 1	2 1	2 3	2 2
	433 7	149 8	127 6	69 3	82 4

Prior year information has been restated following the adoption of IFRS in 2005

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 Ltd	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
Carillion JM Ltd*	Construction and infrastructure management

Principal jointly controlled entities

Public Private Partnerships	**Associated Project**
Accommodation Services (Holdings) Ltd 40%	GCHQ, Cheltenham
Aspire Defence Holdings Ltd	Military accommodation at Aldershot and Salisbury Plain
Eastbury Park (Holdings) Ltd	Permanent Joint Headquarters, Northwood
Education 4 Ayrshire (Holdings) Ltd 47 5%	South Ayrshire Schools
Ellenbrook Holdings Ltd	University of Hertfordshire Student Accommodation
Endeavour SCH Holdings Ltd 19%	James Cook Hospital, Middlesbrough
Modern Schools (Barnsley) Holdings Ltd	Barnsley Schools
Modern Schools (Exeter) Holdings Ltd	Exeter Schools
Modern Schools (Redcar & Cleveland) Holdings Ltd	Redcar and Cleveland Schools
Ravensbourne Health Services (Holdings) Ltd	University Hospital, Lewisham
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) Group Ltd 33 3%	Great Western Hospital, Swindon
Town Hospitals (North Staffordshire) Holdings Ltd	Harplands Hospital, Stoke-on-Trent
Town Hospitals (Southern General) Holdings Ltd	Glasgow Southern General Hospital
UK Highways A55 (Holdings) Ltd	A55 North Wales
Yorkshire Transformations Holdings Ltd 33 3%	Swarcliffe Social Housing, Leeds

Others	**Nature of business**
CarillionEnterprise Ltd 50 1%	Defence Estates Regional Prime Contract
Modern Housing Solutions (Prime) Ltd	Defence Estates Housing Prime Contract
Al Futtaim Carillion LLC (UAE) 49%	Building and civil engineering
Carillion Alawi LLC (Oman) 49%	Building and civil engineering
Carillion Richardson Partnership	Property development
Emrill Services LLC (UAE) 33%	Facilities management
Servus Ltd (Trinidad & Tobago)	Facilities management

Jointly controlled operations
Name, proportion of interest held and address of principal place of business

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	Rugby, Warwickshire, England

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

Shareholder Information

Dividends
Dividends are normally paid twice a year The proposed final dividend in respect of the year to 31 December 2006 will be payable on 22 June 2007 to those shareholders on the register on 27 April 2007

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 help 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 2007 announced 5 September 2007
Full year to 31 December 2007 announced March 2008

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 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 also notify Lloyds TSB Registrars of a change of address or a change to dividend mandate instructions 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 9 May 2007, 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

Warning to Shareholders
Over the last year many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments They can be very persistent and extremely persuasive and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000 It is not just the novice investors that has been duped in this way, many of the victims had been successfully investing for several years Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports

If you receive any unsolicited investment advice

- Make sure you get the correct name of the person and organisation,
- Check that they are properly authorised by the FSA before getting involved You can check at www fsa gov uk/register,
- The FSA also maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme The FSA can be contacted by completing an online form at www fsa gov uk/pages/doing/regulated/law/alerts/overseas shtml,
- Inform Lloyds TSB Registrars on 0870 600 3953 who will record the details and pass them to Carillion who will liaise with the FSA

Details of any shareholding facilities that the Company endorses will be included in company mailings

More detailed information on this or similar activity can be found on the FSA website www fsa gov uk/consumer/ or telephone 0845 606 1234

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B3 2DL

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National Westminster Bank plc
16 South Parade
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Further information

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