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carillion

Annual report and accounts 2007
A leading support services company

Making tomorrow a better place

01

2007 highlights
01 Financial and strategic highlights

Our Company

One of the UK's leading support services, Public Private Partnership project and construction companies

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 Partnership projects organically and by acquisition

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

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

Financial and strategic highlights

+12% increase in Directors' valuation of equity in financially closed Public Private Partnership projects

(1) Continuing operations
(2) Continuing operations before intangible amortisation impairment restructuring costs and non-operating items
(3) Before Group eliminations, unallocated items and Joint Venture net financial expense and taxation

Support services

+26%

increase in underlying operating profit(2)

In this segment we report the results of our facilities management, facilities services, rail, road maintenance and consultancy businesses

Revenue(1)

	2007 £m		2006 £m
Group	**1,569 4**		1 314 8
Share of Joint Ventures	**224 2**		143 9
Total	**1,793 6**	**+23%**	1 458 7

Underlying operating profit(2)

	2007 £m		2006 £m
Group	**62 4**		51 5
Share of Joint Ventures	**11 5**		7 3
Total	**73 9**	**+26%**	58 8

Reported operating profit(1)

	2007 £m		2006 £m
Group	**48 0**		33 6
Share of Joint Ventures	**11 5**		7 3
Total	**59 5**	**+45%**	40 9

Public Private Partnership projects

-4%

decrease in underlying operating profit(2)

In this segment we report the equity returns on our investments in Public Private Partnership projects in our chosen sectors of Defence, Health, Education, Transport, Secure and other Government accommodation

Revenue(1)

	2007 £m		2006 £m
Group	**0 9**		1 3
Share of Joint Ventures	**153 2**		146 7
Total	**154 1**	**+4%**	148 0

Underlying operating profit(2)

	2007 £m		2006 £m
Group	**0 7**		7 1
Share of Joint Ventures	**24 7**		19 4
Total	**25 4**	**-4%**	26 5

Reported operating profit(1)

	2007 £m		2006 £m
Group	**(1 2)**		6 5
Share of Joint Ventures	**24 7**		19 4
Total	**23 5**	**-9%**	25 9

+24% increase in underlying profit from operations

	Revenue[1]			Underlying profit[2]			Reported profit[1]		
	2007 £m		2006 £m	2007 £m		2006 £m	2007 £m		2006 £m
Group	**3,330 7**		2,983 9	**85 0**		70 0	**64 5**		46 4
Share of Joint Ventures	**621 0**		528 5	**55 7**		47 7	**55 7**		47 7
Total revenue and operating profit	**3,951 7**	**+13%**	3 512 4	**140 7**		117 7	**120 2**		94 1
Group eliminations and unallocated items				**(20 6)**		(20 3)	**(35 8)**		(36 5)
Profit from operations before Joint Ventures net financial expense and taxation				**120 1**		97 4	**84 4**		57 6
Share of Joint Ventures net financial expense				**(9 9)**		(8 0)	**(9 9)**		(8 0)
Share of Joint Ventures taxation				**(9 0)**		(8 1)	**(9 0)**		(8 1)
Profit from operations				**101 2**	**+24%**	81 3	**65 5**	**+58%**	41 5

Middle East construction services

+83%

increase in underlying operating profit[2]

In this segment, we report the results of our building and civil engineering activities in the Middle East

Revenue[1]

	2007 £m		2006 £m
Group	**100 0**		42 3
Share of Joint Ventures	**237 0**		226 4
Total	**337 0**	**+25%**	268 7

Underlying operating profit[2]

	2007 £m		2006 £m
Group	**9 6**		1 3
Share of Joint Ventures	**15 8**		12 6
Total	**25 4**	**+83%**	13 9

Reported operating profit[1]

	2007 £m		2006 £m
Group	**9 6**		1 3
Share of Joint Ventures	**15 8**		12 6
Total	**25 4**	**+83%**	13 9

Construction services (excluding the Middle East)

-14%

decrease in underlying operating profit[2]

In this segment, we report the results of our UK building, civil engineering and developments businesses and of our construction activities in Canada and the Caribbean

Revenue[1]

	2007 £m		2006 £m
Group	**1,660 4**		1 625 5
Share of Joint Ventures	**6 6**		11 5
Total	**1,667 0**	**+2%**	1 637 0

Underlying operating profit[2]

	2007 £m		2006 £m
Group	**12 3**		10 1
Share of Joint Ventures	**3 7**		8 4
Total	**16 0**	**-14%**	18 5

Reported operating profit[1]

	2007 £m		2006 £m
Group	**8 1**		5 0
Share of Joint Ventures	**3 7**		8 4
Total	**11 8**	**-12%**	13 4

2007 highlights
Financial and strategic highlights

Total revenue[1]
2006 £3 5bn
£4.0bn
+13%

Underlying profit before tax[2]
2006 £82 6m
£101.8m
+23%

Underlying earnings per share[2]
2006 23 7p
28.9p
+22%

Reported profit before tax[1]
2006 £68 1m
£94.4m
+39%

Reported earnings per share[3]
2006 21 6p
27.1p
+25%

Total dividend
2006 9 0p
11.0p
+22%

Order book
2006 £16 0bn
£16.0bn

[1] Continuing operations
[2] Continuing operations before intangible amortisation impairment, restructuring costs and non-operating items
[3] Continuing and discontinued operations.

> Successful integration of Mowlem earlier than expected – integration savings of at least £26m per year achieved, 73% above original expectation

> Strong growth in support services – revenue up 23%

> Construction margins improving – total underlying construction margin up to 2 1% (2006 1 7%)[2]

> £16 0bn order book (2006 £16 0bn) – pipeline of probable orders increased to £3 6bn (2006 £1 6bn)

> Opportunities to substantially increase Middle East revenue, from the 2007 level of £337m to more than £600m, over the next two years

> Alfred McAlpine acquisition completed in February 2008 – integration underway

> Overall outlook in main markets remains positive – support services, Public Private Partnership projects and Middle East activities now represent 89% of the Group's underlying operating profit

Section 02

02

What we do

Todholm School Renfrewshire one of 10 nursery primary and secondary schools being provided for Renfrewshire Council through a Carillion Public Private Partnership project

13%

growth in total revenue during the year to £4.0 billion

What we do

Revenue by market sector and financial reporting segment

Carillion employs some 50,000 people and operates in nine principal market sectors in the UK and also in the Middle East and in Canada and the Caribbean

We report the financial results of our activities in these sectors in four segments, in which activities of a similar type and risk profile are reported together to make it easier to value the Group's earnings on a consistent basis

> **Support services** – facilities management and services, rail services and road maintenance
> **Public Private Partnership projects** – equity returns on our investments in Public Private Partnership projects
> **Middle East construction services** – building and civil engineering activities in this region
> **Construction services** (excluding the Middle East) – building and civil engineering activities in the UK and in Canada and the Caribbean

£4.0 billion

13% increase in total revenue during the year

What we do
Market sectors

Carillion's principal market sectors together with their 2007 revenues in the UK, Middle East and Canada and the Caribbean are described in more detail on the following pages

The overall outlook across these market sectors is positive

In our UK and international support services sectors we continue to target revenue growth at stable margins of between four and five per cent

In Private Finance, we continue to use the strong positions we have established in our chosen sectors in both the UK and Canada to win and deliver Public Private Partnership projects in which our equity investments create significant value for the Group

In the Middle East, we are focused on revenue growth and expect to increase the revenue we generate in this region from the 2007 level of £337 million to over £600 million over the next two years, at margins of some six per cent

In our UK construction sectors we are focused on improving margins by maintaining a selective approach to the projects we undertake

In Canada and the Caribbean, we expect to deliver healthy growth in our construction services sectors at stable margins

Overall, we expect to improve the combined margins of our construction activities in the UK, Canada and the Caribbean and the Middle East towards three per cent over the next three years

2007 revenue

£458m

Defence
In this sector we provide project finance, design, construction, maintenance, facilities management and consultancy services, together with integrated service solutions, which combine our wide range of skills and resources, to meet the specific needs of our Ministry of Defence customers

In 2007, the revenue we generated from the Defence sector increased by 97 per cent to £458 million (2006 £232 million), as we benefited from full-year contributions from a number of Joint Venture contracts that were mobilised in 2006 These include two Public Private Partnership projects – the £12 billion Allenby Connaught project and the £0 9 billion Permanent Joint Headquarters project – that are expected to generate in the region of £10 billion of revenue for Carillion over the next 35 years, and two support services contracts – the Housing Prime and Regional Prime Central contracts, together worth in excess of £600 million to Carillion over seven years

The outlook in this sector is for further growth In 2007, Carillion was awarded £100 million of construction work in association with our Regional Prime Central contract The £280 million Royal School of Military Engineering project, for which Carillion is the preferred bidder, is expected to reach financial close in 2008 In addition, potential extensions to our Housing Prime and Regional Prime Central contracts, together with further major expenditure by the Ministry of Defence on upgrading military accommodation across our other projects, could increase contract revenues by up to a further £650 million

2007 revenue

£93m

Education

In this sector we provide project finance, design, construction, maintenance, facilities management and consultancy services, together with integrated service solutions, which combine our wide range of skills and resources, to meet the specific needs of our Local Authority, University and private sector customers

In 2007, we generated £93 million of revenue from the Education sector (2006 £162 million), with the reduction due to the timing of construction contract starts and completions However, we reached financial close on two new contracts in 2007 – the £76 million South Ayrshire Schools Public Private Partnership project and the £175 million South Tyneside and Gateshead project, which is part of the UK Government's Building Schools for the Future (BSF) programme We also won other new contracts during 2007 for schools, colleges and universities worth around £60 million

Going forward, we expect the BSF programme, in which some £45 billion has still to be invested, to be a major driver of growth During 2007, Carillion was shortlisted for three further BSF projects – Nottingham, Tameside and Durham – together worth in the region of £850 million Since the year end, Carillion has been appointed as the preferred bidder for the £208 million Nottingham BSF project Following our appointment as a framework contractor for the £1 6 billion Academy Schools programme, Carillion has been shortlisted to provide Academy Schools in Nailsea, Somerset, and East Basildon, Essex, which we estimate would generate up to £100 million of revenue With the UK Government also planning to commence a £10 billion investment programme in primary schools in 2008, the outlook in this sector continues to be positive

2007 revenue

£200m

Health

In this sector we provide project finance, design, construction, maintenance, facilities management and consultancy services, together with integrated service solutions, which combine our wide range of skills and resources, to meet the specific needs of our NHS and private sector customers

In 2007, we generated £200 million of revenue from the Health sector (2006 £229 million) Overall, revenue from this sector reduced, due to the timing of construction contract starts and completions However, support services revenue from this sector increased substantially as a result of full-year contributions from non-clinical facilities management in three of our Public Private Partnership hospitals – the John Radcliffe Hospital, Oxford, Queen Alexandra Hospital, Portsmouth and Lewisham Hospital – and from our £330 million contract to provide non-clinical facilities management for the Barts and the London Hospital During 2007 we were awarded our third Local Improvement Finance Trust (LIFT) project for Dudley Infracare worth approximately £27 million

The outlook in this sector remains positive Carillion is the preferred bidder for two Independent Sector Treatment Centre projects – Hertfordshire and North London – that are expected to reach financial close in 2008 and generate some £300 million of revenue over the next five years We are also the preferred bidder for a further five LIFT projects worth around £75 million We continue to target selected projects in the Government's £7 billion investment programme for Public Private Partnership hospitals and Carillion is currently shortlisted for one project, North Bristol, worth around £300 million As a framework contractor appointed by the Office of Government Commerce for public sector outsourcing, we also expect further opportunities to provide facilities management services for Primary Care Trusts

What we do
Market sectors
continued

2007 revenue

£837m

Facilities management and services

We provide public and private sector customers with a wide range of facilities management and other support services for buildings and infrastructure, from single services such as mechanical and electrical engineering maintenance to fully integrated property lifecycle solutions for major estates

We generated £837 million of revenue from this sector in 2007 (2006 £656 million) This substantial organic growth was due primarily to full-year contributions from major new contracts won in the second half of 2006, including a £110 million, five-year contract for Virgin Media and a £360 million, three-year contract for Norwich Union to manage insurance claims

New order intake in 2007 remained healthy and we won a number of new contracts for both private and public sector customers Our appointment as an Office of Government Commerce framework contractor for Local and Central Government is a major market opportunity For example, in 2007 Carillion was awarded contracts by Northamptonshire County Council and the Forensic Science Service that are initially worth in excess of £60 million over four years, with the potential for this to increase as the scope of work develops under the terms of the framework contract

We ended the year with an unprecedented level of opportunities for new orders that have since been converted into contracts worth around £0 9 billion in the first two months of 2008 We expect to continue to benefit from these positive market conditions and deliver significant growth in this sector in 2008 and beyond

2007 revenue

£280m

Rail

In this sector, we provide services for network enhancements to Network Rail, the Channel Tunnel Rail Link (CTRL), Passenger Transport Executives and Transport for London, and also maintenance services for the CTRL

We generated £280 million of revenue from this sector in 2007 (2006 £368 million) As expected, the outlook in the sector remained uncertain in 2007 and the overall decline in rail infrastructure investment experienced in 2006 continued during the year

However, in view of the investment proposed by Network Rail in its 2007 Business Plan and the benefits of having restructured our rail business to reduce overheads and focus on sustainable areas of the rail infrastructure sector, we expect to achieve modest growth in this sector in 2008 The proposed investment over the next two years, the last of the Office of Rail Regulation's current five-year control period, is expected to offer sufficient opportunities to more than offset the effect of losing around £80 million of annual revenue as a result of Carillion ceasing to provide track renewal services to Network Rail from January 2008

2007 revenue

£276m

Roads

In this sector we provide road management and maintenance services to the Highways Agency and Local Highway Authorities, together with construction services for new roads and improvement schemes, primarily under the Government's Early Contractor Involvement (ECI) programme.

Revenue from this sector increased to £276 million in 2007 (2006 £224 million), largely due to increased activity on ECI construction contracts and increased expenditure on road maintenance In 2007, Carillion secured a 20-year extension to its contract for maintenance of the 123 kilometres of the M40 between Junction 1, Denham, and Junction 15, Warwick, worth in the region of £100 million and a framework contract for the Midlands Highway Alliance, which comprises ten Local Highway Authorities and the Highways Agency, worth up to an estimated £16 million a year to Carillion

Going forward we have a healthy pipeline of new prospects, but we expect revenue from this sector to reduce slightly as we continue to apply a selective approach to the projects for which we bid, particularly in respect of new construction where we will remain focused on ECI road contracts Carillion continues to be an equity partner in a consortium that has been shortlisted for the £5 billion Design, Build, Finance and Operate project for widening and maintaining the M25 Our interests in this project lie in being an equity investor and in providing road maintenance services over the life of the concession contract The Highways Agency is expected to select a preferred bidder for this project during 2008

2007 revenue

£887m

Building

Our building activities in the UK are focused on long-term key customers in selected sectors of the non-housing new-build market, including airport developments, retail, offices, mixed used developments, nuclear, prisons, industrial and urban regeneration

Revenue from UK building in 2007 was £887 million (2006 £848 million) Trading conditions across our key sectors of the UK non-housing new-build market remained positive and we continued to focus on growing margins ahead of revenue through a selective approach to the projects we undertake New order intake in 2007 reflected this selective approach, with significant new contracts secured for key customers across our target sectors These included a pre-construction contract for BAA for the £300 million, second satellite at Heathrow Terminal 5, a £90 million contract for the first phase of the £2 billion King's Cross Central Regeneration project, a £70 million contract for the new Rolls Building in London, a £47 million contract for the Scottish Prison Service and a £20 million contract to provide new offices for the Welsh Assembly In 2007, we were also appointed preferred bidder for the £155 million Lumiere Development in Leeds, for which we were awarded the contract in March 2008

The outlook for the UK non-housing, new-build market remains positive, with real terms growth forecast over the next three years We shall continue to adopt a selective approach to the contracts we undertake in order to maintain our focus on improving margins ahead of revenue

What we do
Market sectors
continued

2007 revenue

£239m

Civil engineering
We provide civil engineering services, including integrated solutions, for customers in a wide range of sectors, notably transport infrastructure, marine works, coastal and river defences, industrial developments, water, wind energy, micro-tunnelling and piling

In 2007, we generated £239 million of revenue from our civil engineering activities (2006 £241 million) Revenue remained broadly unchanged as we continued to consolidate our activities in this sector through applying strict selectivity criteria to the projects undertaken by our civil engineering business, which we acquired with Mowlem in 2006 The process of consolidation is now complete and the business is moving forward following a number of notable successes in 2007 These included new contracts for transport infrastructure projects including the Rugby Western Bypass and Bedford Western Bypass, together worth around £55 million, a £19 million contract for London City Airport and an £11 million contract for Northumberland Water

We believe the outlook for our civil engineering business is positive and we expect continuing opportunities for growth in 2008 in our chosen areas of this market, particularly highways, the water sector, wind farms and rail civil engineering

2007 revenue

£154m

Public Private Partnership projects
Carillion has played a leading role in the development of the UK Private Finance Initiative since its inception in the early 1990s Today, we have strong positions in our chosen sectors of the Private Finance and Public Private Partnership projects market, namely Defence, Health, Education, Transport, Prisons and other Government accommodation in the UK and the Health sector in Canada

Our ability to win and deliver projects successfully, by integrating our skills and resources in project finance, design, construction, maintenance and facilities management, continues to create substantial value for the Group, through the equity we invest in these projects and also from providing construction, maintenance and facilities management services over the life of concession contracts, typically 25 to 35 years

At 31 December 2007, we had a portfolio of 23 financially closed projects, in which we had invested, or had commitments to invest, £175 million of equity The Directors' valuation of these investments at 31 December 2007 was £266 million, based on discounting the cash flows from these investments at an average of eight per cent, which reflects the different discount rates applied to equity invested in projects that are in operation and projects that are still under construction Carillion has also played a leading role in establishing the value of equity investments in Public Private Partnership projects through a number of equity sales, which have helped to create a strong secondary market for these investments and demonstrate the significant value being created for shareholders

The overall outlook in our chosen sectors of the Public Private Partnership projects market is for continuing growth, both in the UK and Canada, and we expect to continue to build a portfolio of good quality investments

2007 revenue

£342m

Middle East

Our well-established Joint Venture businesses in the Middle East provide construction and facilities management services for high quality developments in Dubai and Oman and in 2008 we will extend our operations to Abu Dhabi and Egypt

In 2007, Carillion's share of the revenues of these Joint Venture businesses was £342 million (2006 £274 million), which has more than doubled over the last three years (2005 £165 million) Over the next two years we expect a further substantial increase in revenue to over £600 million, at margins of around six per cent This strong growth reflects both the high level of demand in our principal market sectors and our robust business model in the region, in particular the strong relationship we have with the Al Futtaim Group, a key Joint Venture partner and customer

In 2007, Al Futtaim Carillion was appointed preferred bidder for two major contracts – a £220 million contract for the first phase of the £2 billion Cairo Festival City project and a £250 million contract for the initial phase of the £10 billion Al Raha Beach development in Abu Dhabi for Aldar, one of the Emirates premier developers Al Futtaim Carillion also signed a new framework agreement for the next phase of Dubai Festival City, worth around £3 5 billion over the next six years

We are well positioned to build on our success in 2007 with potential framework agreements for the remainder of Cairo Festival City, worth around £1 8 billion, and for a second major project for Aldar in Abu Dubai – the £250 million Racetrack Hotel on Yas island – which is expected to start in early 2008 We also expect opportunities to secure further phases of the Al Raha Beach development in Abu Dhabi and a number of major projects for established customers in Dubai, including Union Properties, Emaar and Dubal

2007 revenue

£186m

Canada and the Caribbean

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

We generated revenue of £186 million from this region in 2007 (2006 £163 million), with growth driven primarily by Public Private Partnership projects and road maintenance in Canada and general construction in the Caribbean In 2007, a Carillion Joint Venture completed the new William Osler Hospital in Toronto, our second Public Private Partnership hospital in Canada, which moved successfully into the operational phase, with Carillion providing non-clinical facilities management A Carillion Joint Venture also achieved financial close on a third Public Private Partnership hospital in Canada, the £200 million Sault Area Hospital, which is now under construction In the Caribbean, we continued to make progress in our construction and facilities management markets

The outlook in our principal markets in this region is positive In Canada, we are shortlisted for two more Public Private Partnership hospitals, the Niagara and Woodstock hospitals in Ontario, estimated to be worth up to £450 million of revenue, and in which we would invest up to £14 million of equity With opportunities to bid for further Public Private Partnership hospitals and road maintenance contracts in Canada and to build on the progress we have made in the Caribbean, we expect continuing growth in 2008

Section 03

03

Our performance

A Carillion Joint Venture is providing new accommodation and other facilities for the British Army across the South of England through a Public Private Partnership project

22%

growth in underlying earnings per share during the year to 28 9 pence

Our performance
Five years of growth

Our performance
Chairman's statement

2007 was another strong year for Carillion The Group delivered record profits and continued its strategic development to support sustainable, profitable growth In particular, the successful integration of the Carillion and Mowlem businesses has created a stronger, more resilient business, with enhanced positions in selected growth markets

Total revenue, including Joint Ventures, increased by 13 per cent to nearly £4 billion (2006 £3 5 billion), primarily due to organic growth in support services and Middle East construction services together with a full twelve months revenue contribution from the businesses acquired with Mowlem in February 2006

Underlying profit before tax from continuing operations increased by 23 per cent to £101 8 million (2006 £82 6 million) and underlying earnings per share from continuing operations on the same basis rose by 22 per cent to 28 9 pence per share (2006 23 7 pence)

Underlying cash flow from operations of £135 7 million (2006 £99 1 million) comfortably exceeded underlying operating profit Net borrowing at 31 December 2007 was £44 9 million (2006 £108 0 million) and average net borrowing in 2007 was £130 3 million (2006 £148 0 million post the acquisition of Mowlem)

The Group has continued to develop the strong positions it holds in a wide range of growth markets, winning new orders during the year worth some £4 0 billion At 31 December 2007 the Group's forward order book stood at £16 0 billion (2006 £16 0 billion) and its pipeline of probable new orders had increased significantly to £3 6 billion (2006 £1 6 billion)

Given the strength of the Group's performance in 2007 and prospects for 2008 and the medium term, the Board is recommending a final ordinary dividend for 2007 of 7 5 pence per share, making the total full-year dividend for 2007 11 0 pence per share, an increase of 22 per cent on the total paid in respect of 2006 (9 0 pence) The final dividend will be paid on 20 June 2008 to shareholders on the register at close of business on 25 April 2008

As I announced in my 2006 report to shareholders, Chris Girling retired from the Board in April 2007 and was succeeded as Group Finance Director by Richard Adam who joined the Board from Associated British Ports Holdings plc where he had been Group Finance Director since 1999 In January 2008, we were delighted to welcome David Hurcomb to the Board as an Executive Director David joined Carillion in 2005 having held a number of senior positions in our industry With extensive experience of our key market sectors, David will make a valuable contribution to Carillion's development

The credit for what Carillion has achieved 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 contribution they have made to Carillion's success in 2007

The acquisition of Alfred McAlpine in February 2008 has further strengthened Carillion's position as a leading support services and integrated solutions business and the Board expects the Group to make further strong progress in 2008 and deliver materially enhanced earnings in 2009

Philip Rogerson
Chairman
5 March 2008

Our performance

Group Chief Executive's review

Carillion's success continues to be based on implementing our consistent and successful strategy for sustainable, profitable growth of

> growing support services and Public Private Partnership (PPP) projects organically and by acquisition
> developing and marketing integrated solutions tailored to the needs of customers, including project finance, design and construction, maintenance and lifetime asset management, and
> maintaining a strong and selective construction capability focused on higher added-value contracts for long term customers

More specifically, in 2007 we said that going forward we will focus on

- growing revenue in support services at stable margins of between four and five per cent
- using the strong positions we have established in our chosen sectors of the Private Finance market in the UK and Canada to win projects in which equity investments will create significant value for the Group
- more than doubling Carillion's share of revenues from our Joint Venture businesses in the Middle East from £274 million in 2006 to over £600 million within the next three years, at margins of some 6 per cent
- improving the combined margins of our construction activities in the UK, Canada and the Caribbean and the Middle East towards 3 per cent over the next three years

We also set seven key performance indicators for 2007 in respect of which Carillion has performed strongly, as we continued to build on the step change in Carillion's development that we achieved in 2006 through the acquisition and successful integration of Mowlem

Key performance indicators in 2007

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

Delighting our customers by meeting or exceeding their expectations depends primarily on the quality of our people Therefore, our ability to attract, develop and retain excellent people by becoming an employer of choice continues to be our top priority

In 2007, we made further good progress towards this objective through the leadership, personal development and employee engagement programmes we have introduced across the Group to help all our people fulfil their potential and contribute to Carillion's success

Creating a culture of trust and open communication is essential to the success of our people policies and programmes Our managers and supervisors seek to engage with all our people through regular one-to-one meetings, individual performance and development reviews and monthly team talks, supported by newsletters and our Company newspaper, Spectrum that once again received the top national award in 2007 from 'Communicators in Business' as the best UK company newspaper

Listening to what our people tell us and acting upon it is vital to good communication To that end and to help us monitor and measure our progress, we conduct employee surveys For example, every year we hold 'The Great Debate', an interactive survey in which our people, selected randomly from across the Group, share their views on a wide range of issues, which are important to their development and satisfaction and to the success of Carillion In 2007, around 2,500 people took part in 'The Great Debate', the results of which showed that we are making good overall progress on these issues and that our average scores compared favourably with those of other top UK companies

Key performance indicators in 2007	What we have achieved
> Attract, develop and retain excellent people by becoming an employer of choice	> Leadership, personal development and employee engagement programmes
> Be a recognised leader in the delivery of safety and sustainability	> Accident Frequency Rate in 2007 of 0 14 (2006 0 18) ranks with the best in our sector 'Gold' ranking in Business in the Community's 2006 Corporate Responsibility Index topped our sector
> Deliver revenue growth of a minimum of five per cent through exceeding our customers' expectations	> Revenue in 2007 increased by 13 per cent
> Deliver Mowlem integration cost savings at a running rate of £26 million per annum by the end of 2007	> Achieved
> Deliver materially enhanced earnings in 2007	> Underlying earnings per share[1] in 2007 increased by 22 per cent
> Generate cash-backed operating profit	> Underlying cash flow in 2007 represented 134 per cent of underlying operating profit
> Achieve average net borrowing in the full year of around £150 million	> Average net borrowing in 2007 was £130 million

(1) Continuing operations before intangible amortisation impairment, restructuring costs and non-operating items.

Our performance
Group Chief Executive's review
continued

2 Be the recognised leader in the delivery of safety and sustainability
The Health and Safety of our people and everyone who works with us or is affected by our operations is paramount In 2005, we set the demanding objective of eliminating reportable accidents by 2010

Known as 'Target Zero', this objective is led by our Board and requires the constant vigilance and commitment of everyone in Carillion to ensure that safe working practices are consistently adopted and supported by rigorous reviews, audits and training

We are pleased to report that in 2007 we made further progress towards 'Target Zero' The Group's Accident Frequency Rate (AFR) reduced by 22 per cent to 0 14 reportable accidents per 100,000 man hours worked (2006 AFR 0 18), which ranks with the best in our sector This follows year on year reductions in our AFR of 25 per cent in 2006 and 35 per cent in 2005

Despite a nine per cent increase in the total number of hours worked in 2007 to over 210 million, the total number of reportable accidents under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) reduced by 15 per cent to 295 (2006 347) and also follows year on year reductions of 24 per cent in 2006 and 27 per cent in 2005

We deeply regret that one fatal traffic accident, involving a Joint Venture employee, occurred on one of our international project sites in 2007 One prosecution of Carillion and one of its sub-contractors by the Health and Safety Executive, relating to incidents that occurred in 2004, was concluded in 2007 No other enforcement notices were received by Carillion or any of its sub-contractors in 2007 in respect of work being carried out by Carillion or on the Company's behalf

In 2007, Carillion once again submitted information on the Health and Safety performance of all its UK business units to the Corporate Health and Safety Performance Index, having been the first and only major construction company to do so in 2006 This Index, which is sponsored by the Health and Safety Commission, covers all aspects of Health and Safety management and performance A wide range of industries participate in the Index, which enables us to benchmark our performance beyond our own industry sector In 2007, we improved our Index score to 7 4 (2006 6 4), which was well above the mean score of 6 7

Our commitment to sustainability has made Carillion the recognised leader in the development and adoption of responsible business practices, as we demonstrated by topping our sector with a Gold performance ranking in Business in the Community's 2006 Corporate Responsibility Index We say more about our programme for sustainable development on pages 33 to 35 of this report

More detailed information on Health and Safety and sustainability will be published in our 2007 Sustainability Report on our website at www carillionplc com/sustainability in April 2008

3 Deliver revenue growth of a minimum of five per cent through exceeding our customers' expectations
In 2007, revenue increased by 13 per cent, which after allowing for a full year contribution from the businesses acquired with Mowlem in February 2006, means we achieved organic growth of eight per cent and ahead of our objective of five per cent Organic growth was driven mainly by a 20 per cent increase in UK support services revenue, particularly in the defence and private sector facilities management sectors, and a 25 per cent increase in Middle East construction services revenue, reflecting our strong markets in both Dubai and Oman

4 Deliver Mowlem integration cost savings at a run rate of £26 million per annum by the end of 2007
We delivered integration cost savings at a run rate of £26 million a year, in line with our objective and significantly above the original target run rate of £15 million a year, which we announced at the time of acquisition These hard, measurable savings were achieved in a number of areas, including eliminating management duplication, the adoption of Carillion's shared services model for central and back office functions, property rationalisation and more efficient and effective supply chain management

5 Deliver materially enhanced earnings in 2007
Revenue and margin growth resulted in 23 and 22 per cent increases in underlying profit before tax and underlying earnings per share, respectively Increasing margins, particularly in the businesses acquired with Mowlem, through applying Carillion's strict project selectivity criteria and risk management processes was identified at the time of acquisition as an important opportunity for earnings growth Overall operating margins increased to 2 6 per cent (2006 2 3 per cent), with increases in group construction services (excluding the Middle East) to 0 7 per cent (2006 0 6 per cent) and in Middle East construction services to 7 5 per cent (2006 5 2 per cent)

6 Generate cash-backed operating profit
Underlying cash flow from operations of £135 7 million comfortably exceeded underlying profit from operations of £101 2 million Strong cash management is fundamental to delivering sustainable profitable growth and the consistent delivery of cash-backed profit remains a key performance indicator for the Group

7 Achieve average net borrowing in the full-year of around £150 million
Average net borrowing was £130 3 million and well below our full-year target Achieving this objective and reducing net borrowing at 31 December to £44 9 million (2006 £108 0 million) follows our success in delivering a strong cash flow from operations, in line with our continuing focus on cash management

Key performance indicators in 2008
In order to maintain the Group's strong momentum we have set the following key performance indicators for 2008

- continue to attract, develop and retain excellent people by being an employer of choice
- be the recognised leader in the delivery of safety and sustainability
- deliver revenue growth of a minimum of five per cent
- successfully integrate Alfred McAlpine and deliver integration cost savings that put us on track to achieve savings at a run rate of £30 million by the end of 2009
- achieve earnings per share growth that puts us on track to deliver materially enhanced earnings per share in 2009 following the Alfred McAlpine acquisition
- generate cash-backed operating profit
- achieve year-end net borrowing in the region of £300 million

Acquisition of Alfred McAlpine
In December 2007, we announced the terms of a recommended shares and cash offer for the acquisition of Alfred McAlpine plc The acquisition, which received the overwhelming support of Carillion and Alfred McAlpine shareholders, was completed on 12 February 2008 and valued Alfred McAlpine's share capital at £554 5 million The acquisition was funded by the issue of 112 9 million new Carillion shares, £171 7 million in cash and £1 3 million of loan notes

Alfred McAlpine is an excellent strategic fit and the acquisition is expected to deliver significant value for shareholders by generating substantial synergy cost savings and enhanced operational performance Combining the complementary skills and market strengths of Carillion and Alfred McAlpine will create

- a leading UK support services business with annual support services revenues of approximately £2 6 billion (based on 2007 revenues)
- an enhanced capability to provide integrated solutions, including design, construction, maintenance, facilities management and private finance
- a strong and selective construction business that will continue to target margin improvement through the application of Carillion's project selectivity and risk management processes
- synergy cost savings at a run rate of £30 million per annum by the end of 2009 for a one-off cost of £30 million
- financial returns well ahead of Carillion's weighted average cost of capital
- materially enhanced earnings in 2009

The integration of the Carillion and Alfred McAlpine businesses has already commenced and is progressing very well We look forward to working with our 8,500 new colleagues during 2008 and beyond in order to create an even stronger business from which all stakeholders can benefit

Outlook and prospects
Through the acquisition of Mowlem we have created a stronger, more resilient business, with enhanced positions in a wide range of growth markets

At 31 December 2007 we had a £16 billion order book, of which £13 5 billion is for support services and Public Private Partnerships projects, and a pipeline of probable new orders worth £3 6 billion

The overall outlook in our principal market sectors in the UK and international regions, which are described in more detail on pages 4 to 11 of this report, is expected to remain positive In summary

- the UK support services market is forecast to grow in real terms by between two and three per cent per annum over the next five years from £115 billion in 2007 to £130 billion by 2012
- we expect continuing opportunities for Public Private Partnership projects in 2008 and over the medium term in both the UK and Canada and to continue to build a portfolio of good quality investments
- in the Middle East we expect our markets to remain very strong and we are confident of growing revenues from this region to over £600 million, from the 2007 level of £337 million, within the next two years, at margins of some six per cent
- the UK non-housing new-build construction market is forecast to grow in real terms by over two per cent per annum over the next three years
- in Canada and the Caribbean we expect continuing healthy growth driven by Public Private Partnership projects and roads maintenance services

In view of the Group's strengths and positive outlook, I believe we are well positioned to make further strong progress in 2008 and deliver materially enhanced earnings in 2009

John McDonough
Group Chief Executive
5 March 2008

Our performance
Operating and financial review

I am pleased to report that Carillion made good progress in 2007 and that we either achieved or exceeded all of our key financial and strategic objectives

In 2007, Carillion has again delivered strong earnings growth from its UK and International businesses and we remain well placed to make further strong progress in 2008 and over the medium term

Carillion provides support services and integrated solutions, including design, construction, maintenance and private finance, to deliver life-time asset management for buildings and infrastructure The Group has operations in the UK, Middle East and Canada and the Caribbean and our principal market sectors and activities are described on pages 4 to 11 of this report

Accounting policies
The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and there have been no changes in accounting policies during 2007, except for disclosures in respect of financial instruments in accordance with International Financial Reporting Standard, IFRS 7, which are set out in Note 28 on pages 93 to 95 The Group's significant accounting policies are described on pages 64 to 67

Group overview
Total revenue from continuing operations in 2007 increased by 13 per cent to £3,951 7 million (2006 £3,512 4 million), including revenue from Joint Ventures of £621 0 million (2006 £528 5 million)

Total underlying profit from continuing operations increased by 24 per cent to £101 2 million (2006 £81 3 million), including profit from Joint Ventures of £36 8 million (2006 £31 6 million)

The underlying profit from operations margin increased to 2 6 per cent (2006 2 3 per cent) and reflected our continuing drive to improve margins through contract selectivity, cost reduction and greater efficiency In particular, improving margins over time in the businesses acquired with Mowlem and increasing the contribution from our businesses in the Middle East continue to represent opportunities for enhancing earnings growth

After a net financial income of £0 6 million, underlying profit before tax was £101 8 million, an increase of 23 per cent (2006 £82 6 million) Underlying earnings per share on the same measure increased by 22 per cent to 28 9 pence (2006 23 7 pence)

Intangible amortisation and impairment of other investments amounted to £21 5 million (2006 £17 2 million including goodwill impairment), restructuring costs £14 2 million (2006 £22 6 million) and non-operating income £28 3 million (2006 £25 3 million), leaving reported profit before tax of £94 4 million (2006 £68 1 million)

Group taxation of £8 3 million (2006 £7 2 million) when combined with Joint Ventures taxation of £9 0 million (2006 £8 1 million) represented an underlying effective tax rate of 25 per cent and profit after tax was £86 1 million After a loss from discontinued operations of £7 6 million (2006 £0 5 million) and minority interests of £2 5 million (2006 £2 2 million), profit attributable to Carillion shareholders was £76 0 million (2006 £58 2 million) Basic earnings per share from continuing and discontinued operations were 27 1 pence (2006 21 6 pence)

Underlying cash flow from operations of £135 7 million comfortably exceeded underlying profit from operations of £101 2 million After payments of £46 3 million to pension funds in line with our pension deficit recovery plan, a net inflow from assets of £4 4 million, restructuring and other costs of £9 9 million, interest tax and dividend payments of £30 4 million and a net cash inflow from acquisitions and disposals of £9 6 million, net borrowing at 31 December reduced by £63 1 million to £44 9 million (31 December 2006 £108 0 million) Average net borrowing was £130 3 million (2006 post the acquisition of Mowlem £148 0 million) and significantly better than our objective of £150 million

Segmental reporting and analysis
Operating profit by financial reporting segment is summarised in the table on this page and a detailed segmental analysis of the Group's businesses is provided in Note 2 to the financial statements on page 68 Operating performance in each of our financial reporting segments is discussed in more detail on pages 22 to 29

We have made two changes to the way we report our financial results and how we group together activities of a similar type and risk profile in order to make it easier to value our earnings on a consistent basis Previously, we reported our results in three segments – support services, investments and construction services We now report our activities in four segments – support services, Public Private Partnership projects, Middle East construction services and construction services (excluding the Middle East) Our Middle East construction activities, which were previously included within construction services, are now being reported separately, because of their higher margins and lower risk profile compared with construction services in the UK In addition, to provide greater clarity, the investments segment has been re-named Public Private Partnership projects, but there has been no change to the results we report in this segment, namely the equity returns on our investments in Public Private Partnership projects

Operating profit by financial reporting segment

	2007 £m	2006 £m	Change from 2006 %
Support services	**73 9**	58 8	26
Public Private Partnership projects	**25 4**	26 5	(4)
Middle East construction services	**25 4**	13 9	83
Construction services (excluding the Middle East)	**16 0**	18 5	(14)
	140 7	117 7	20
Group eliminations and unallocated items	**(20 6)**	(20 3)	(1)
Profit from operations before Joint Ventures net financial expense and taxation	**120 1**	97 4	23
Share of Joint Ventures net financial expense	**(9 9)**	(8 0)	(24)
Share of Joint Ventures taxation	**(9 0)**	(8 1)	(11)
Underlying profit from operations[1]	**101 2**	81 3	24
Intangible amortisation and impairment of goodwill and other investments	**(21 5)**	(17 2)	(25)
Restructuring costs	**(14 2)**	(22 6)	37
Reported profit from operations[2]	**65 5**	41 5	58

(1) Continuing operations before intangible amortisation impairment, restructuring costs and non-operating items
(2) Continuing operations.

Our performance
Operating and financial review
continued

Support services

In this segment we report the results of our facilities management, facilities services, rail, road maintenance and consultancy businesses

Revenue in support services increased by 23 per cent to £1,793 6 million of which some 20 per cent was due to organic growth, with the remainder attributable to having a full 12 months' contribution from the businesses acquired with Mowlem in February 2006 Organic growth was due primarily to increased revenues from facilities management and services, both for public and private sector customers, notably the Ministry of Defence, BT, Virgin Media and Norwich Union, and from highways maintenance in the UK and Canada, partially offset by lower volumes in rail infrastructure

Underlying operating profit increased by 26 per cent to £73 9 million, reflecting revenue growth, particularly in the Defence sector, including Joint Venture contracts, and in the facilities management and road maintenance sectors

Overall, new order intake in support services has remained healthy and the value of our order book for this segment at 31 December 2007 was £8 4 billion (December 2006 £8 4 billion)

The outlook in this segment continues to be very positive with forecast real growth in the UK support services market of between two and three per cent per annum over the next five years Outscourcing by public and private sector customers is expected to continue to provide significant opportunities for growth in facilities management and services and roads maintenance This is already evident in the number of major new orders won by Carillion and its Joint Venture partners in the first two months of 2008 for established 'blue chip' customers, including BT, AXA and Philips, worth around £0 9 billion

We also expect modest growth in our UK rail infrastructure activities as a result of planned increases in expenditure on network and station enhancement projects We expect to achieve growth despite the effects of ceasing to provide track renewal services to Network Rail from the beginning of 2008 and the sale of our rail operations in Scandinavia, which together generated around £100 million of revenue in 2007

In addition, growth in the outsourcing of roads maintenance in Canada and in our facilities management markets in the Middle East and in Canada continue to offer opportunities for our businesses in these regions to increase the contributions they make to this segment

Revenue(1)

	2007 £m		2006 £m
Group	**1,569 4**		1 314 8
Share of Joint Ventures	**224 2**		143 9
Total	**1,793 6**	**+23%**	1,458 7

Underlying operating profit(2)

	2007 £m		2006 £m
Group	**62 4**		51 5
Share of Joint Ventures	**11 5**		7 3
Total	**73 9**	**+26%**	58 8

Reported operating profit(1)

	2007 £m		2006 £m
Group	**48 0**		33 6
Share of Joint Ventures	**11 5**		7 3
Total	**59 5**	**+45%**	40 9

(1) Continuing operations
(2) Continuing operations before intangible amortisation impairment restructuring costs and non-operating items
(3) Before Group eliminations unallocated items and Joint Venture net financial expense and taxation

+26%

increase in underlying operating profit

Our performance
Operating and financial review
continued

Public Private Partnership projects

In this segment we report the equity returns on our investments in Public Private Partnership (PPP) projects in our chosen sectors of Defence, Health, Education, Transport, Secure and other Government accommodation

At 31 December 2007, we had a portfolio of 23 equity investments (31 December 2006 24) in financially closed PPP projects in which we had already invested some £78 million of equity and commitments to invest a further £97 million, which will bring our total equity investment in these projects to £175 million The Directors' valuation of our portfolio at 31 December 2007 increased by 12 per cent to £266 million (31 December 2006 £238 million), based on discounting the cash flows from these investments and commitments at 8 per cent

As expected, underlying operating profit in this segment reduced slightly to £25 4 million, with growing returns from our maturing portfolio of investments offset by two principal factors First, the sale of eight equity investments in September 2006, at an exceptional profit of £25 6 million, reduced operating profit in 2007 by some £7 million Second, Group operating profit in 2006 benefited from a one-off fee as a result of achieving financial close on the £12 billion Allenby Connaught project for the Ministry of Defence in April 2006

We also sold investments in a further three mature PPP projects, namely the Great Western Hospital, Swindon, Harplands Hospital, North Staffordshire and Glasgow Southern General Hospital, in December 2007 The sale generated proceeds of £21 5 million and an exceptional profit of £23 6 million The proceeds reflected a net present value for the cash flows from these investments based on a discount rate of under 5 5 per cent Once again the sale of equity in mature projects has demonstrated the substantial value being generated for the Group through our ability to win and deliver PPP projects successfully by integrating our skills in project finance, design, construction, maintenance and facilities management

During the year, Carillion Joint Ventures achieved financial close on the £200 million Sault Area Hospital in Ontario, Canada, in which we will invest £3 5 million of equity, and on the £175 million South Tyneside and Gateshead Building Schools for the Future (BSF) project, in which we will invest £0 9 million of equity

Since the year end, a Carillion Joint Venture has been appointed preferred bidder for the £208 million Nottingham BSF project in which we expect to invest approximately £2 0 million of equity We are also the preferred bidder for two NHS Independent Sector Treatment Centre projects – London North and Hertfordshire – in which we expect to invest up to £6 million of equity In addition, we are shortlisted for a further 10 projects with a potential equity requirement of up to £96 million Beyond that we expect continuing opportunities to bid for further PPP projects in the UK and in Canada

Overall, the outlook in our chosen sectors of the PPP market, both in the UK and Canada, remains positive and we expect further opportunities in 2008 and over the medium term to continue to build a portfolio of good quality investments that will generate significant value for the Group

Revenue(1)

	2007 £m		2006 £m
Group	0 9		1 3
Share of Joint Ventures	153 2		146 7
Total	154 1	+4%	148 0

Underlying operating profit(2)

	2007 £m		2006 £m
Group	0 7		7 1
Share of Joint Ventures	24 7		19 4
Total	25 4	-4%	26 5

Reported operating profit(1)

	2007 £m		2006 £m
Group	(1 2)		6 5
Share of Joint Ventures	24 7		19 4
Total	23 5	-9%	25 9

(1) Continuing operations
(2) Continuing operations before intangible amortisation impairment, restructuring costs and non-operating items
(3) Before Group eliminations unallocated items and Joint Venture net financial expense and taxation

+12% increase in Directors' valuation of equity in financially closed Public Private Partnership projects

Our performance
Operating and financial review
continued

Middle East construction services

In this segment, we report the results of our building and civil engineering activities in the Middle East

Revenue from our businesses in the Middle East increased by 25 per cent and underlying operating profit by 83 per cent as a result of continuing strong organic growth in our existing markets in Dubai and Oman, with operating margins improving from 5 2 per cent to 7 5 per cent

Carillion and its Joint Venture partners have continued to use their strong market positions and reputation for high quality services to negotiate substantial new work in our existing markets in Dubai and Oman and also in Abu Dhabi and Egypt, where we will begin construction work on major new projects in 2008 At 31 December 2007, our Middle East order book stood at £0 7 billion (2006 £0 3 billion) and we had a pipeline of probable new orders worth over £1 0 billion (2006 £0 1 billion)

There were a number of notable successes in 2007 These included a £120 million contract for Carillion Alawi to build the House of Musical Arts for the Oman Royal Court Affairs and the appointment of Al Futtaim Carillion as the preferred bidder for two major contracts – a £250 million, 24-month contract for the first phase of the £10 billion Al Raha Beach development in Abu Dhabi and a £220 million, 30-month contract for the first phase of the £2 billion Cairo Festival City development Al Futtaim Carillion also signed a six-year framework agreement for a further £3 5 billion of work on the Dubai Festival City development

The outlook in our markets in the Middle East is for continuing strong growth Current opportunities include the remainder of the Cairo Festival City development, worth around £1 8 billion, further contracts in Dubai worth up to £700 million, a £250 million contract for the Racetrack Hotel on Yas Island in Abu Dhabi and contracts in Qatar worth in the region of £300 million

Given the major contracts, preferred bidder positions and framework agreements already secured, together with numerous opportunities for further work in this region, we remain confident that we will substantially increase our share of revenues from the Middle East from £337 million in 2007 to over £600 million over the next two years, at margins of around 6 per cent

Revenue[1]

	2007 £m		2006 £m
Group	**100 0**		42 3
Share of Joint Ventures	**237 0**		226 4
Total	**337 0**	**+25%**	268 7

Underlying operating profit[2]

	2007 £m		2006 £m
Group	**9 6**		1 3
Share of Joint Ventures	**15 8**		12 6
Total	**25 4**	**+83%**	13 9

Reported operating profit[1]

	2007 £m		2006 £m
Group	**9 6**		1 3
Share of Joint Ventures	**15 8**		12 6
Total	**25 4**	**+83%**	13 9

(1) Continuing operations
(2) Continuing operations before intangible amortisation impairment, restructuring costs and non-operating items
(3) Before Group eliminations, unallocated items and Joint Venture net financial expense and taxation

+83%

increase in underlying operating profit

Our performance
Operating and financial review
continued

Construction services
(excluding the Middle East)

In this segment, we report the results of our UK building, civil engineering and developments businesses and our construction activities in Canada and the Caribbean

Revenue in construction services increased by 2 per cent to £1,667 million, due to having a full 12 months' contribution from the businesses acquired with Mowlem in February 2006 The substantial organic growth we achieved in the UK defence and roads sectors was more than offset by reduced activity in UK building, where our focus is on increasing margins ahead of revenue

Underlying operating profit reduced by 14 per cent, because the contribution from Joint Ventures was substantially lower than in 2006, which benefited from a number of contract settlements not repeated in 2007 Underlying Group operating profit increased by 22 per cent, reflecting revenue growth and improved margins, in line with our selective approach to the projects we undertake

While overall opportunities for new orders in this segment have remained strong, we have maintained our focus on long term customers and projects that enable us to improve margins rather than simply growing revenue Notable new contracts in 2007 included a pre-construction contract for the £300 million second satellite at Heathrow Terminal 5 and a £90 million contract for the first phase of the £2 billion Kings Cross Central regeneration project This disciplined approach to project selectivity was reflected in our order book for construction services (excluding the Middle East), which stood at £1 8 billion at 31 December 2007 (December 2006 £2 6 billion)

The outlook in our construction markets is for continuing growth In the UK, the non-housing new construction market is forecast to grow in real terms by an average of over two per cent per annum over the next three years However, we shall continue to focus on using these buoyant market conditions to improve margins ahead of revenues In Canada, there are also prospects for further healthy growth, primarily from the construction of Public Private Partnership projects, particularly hospitals

Revenue[1]

	2007 £m		2006 £m
Group	**1,660 4**		1,625 5
Share of Joint Ventures	**6 6**		11 5
Total	**1,667 0**	**+2%**	1,637 0

Underlying operating profit[2]

	2007 £m		2006 £m
Group	**12 3**		10 1
Share of Joint Ventures	**3 7**		8 4
Total	**16 0**	**-14%**	18 5

Reported operating profit[1]

	2007 £m		2006 £m
Group	**8 1**		5 0
Share of Joint Ventures	**3 7**		8 4
Total	**11 8**	**-12%**	13 4

(1) Continuing operations
(2) Continuing operations before intangible amortisation impairment, restructuring costs and non-operating items
(3) Before Group eliminations unallocated items and Joint Venture net financial expense and taxation

-14%

reduction in underlying operating profit

Our performance
Operating and financial review
continued

Intangible amortisation and impairment of goodwill and other investments
Intangible amortisation and impairment of £21 5 million (2006 £17 2 million including goodwill impairment) continues to predominantly reflect the acquisition of Mowlem in 2006

Restructuring costs
A summary of restructuring costs is provided in the table below

	2007 £m	2006 £m
Mowlem integration costs	**9 5**	18 4
Operational structure review costs	**4 5**	–
Rail activities review costs	**0 2**	4 2
	14 2	22 6

The integration of the Carillion and Mowlem businesses was completed earlier than expected in 2007, at a total one-off cost of £27 9 million, of which £18 4 million was incurred in 2006 and £9 5 million in 2007 This will generate savings of at least £26 million per annum from the beginning of 2008 – substantially more than the £15 million that was originally expected at the time of the Mowlem acquisition Following the Group's rapid growth, both organically and by acquisition, we reviewed and rationalised our operational structure at the end of 2007 at a cost of £4 5 million This will generate further operational efficiencies and increase the Group's profitability in 2008 and beyond

Non-operational items
Non-operational items amounted to £28 3 million in 2007 (2006 £25 3 million) and largely related to the disposal of investments in mature Public Private Partnership projects, as described on page 24

Net financial income
The Group had a net financial income of £0 6 million (2006 £1 3 million) This comprised a net expense of £11 1 million in respect of borrowings, interest received in respect of loans to Special Purpose Companies for Public Private Partnership projects of £4 9 million and a net interest credit from retirement benefit schemes of £6 8 million

Taxation
The effective tax rate on the Group's and Joint Venture's underlying profit was 25 per cent and we currently expect to maintain this rate over the medium term Our effective tax rate reflects the agreement of certain prior year tax issues with the tax authorities, together with a mechanism for the use of certain tax losses acquired with Mowlem plc, both in 2007 and in future years At 31 December 2007 the Group had £232 million of corporate tax losses in the UK that are available to reduce future tax liabilities

Earnings per share
Underlying earnings per share from continuing operations increased by 22 per cent to 28 9 pence (2006 23 7 pence) This substantial increase reflected strong organic growth in the Group's operations and the benefits of successfully integrating the Carillion and Mowlem businesses earlier than originally expected, in particular the delivery of integration cost savings at a run rate of £26 million by the end of 2007 The 22 per cent increase in underlying earnings per share from continuing operations achieved in 2007 also comfortably exceeded the profit forecast made by the Group on 12 December 2007 as part of the process of acquiring Alfred McAlpine plc, when the Group forecast that its 2007 growth in underlying earnings per share from continuing operations would be at least 20 per cent compared with 2006

Discontinued operations
Three non-core businesses were sold in 2007 and treated as discontinued, namely, Pall Mall, Sovereign Soft Services and the Group's rail activities in Sweden and Denmark These sales generated a net loss of £6 2 million together with £1 4 million of trading losses in 2007 up to the dates of sale Details of these sales are given in Note 8 to the consolidated financial statements on page 76

Dividend
Carillion has a progressive dividend policy of increasing the dividend paid to shareholders broadly in line with earnings growth, after taking account of the investment needs of the business Consistent with this policy, the Board has recommended a final dividend in respect of 2007 of 7 5 pence, making the full-year dividend 11 0 pence, an increase of 22 per cent on the total paid in respect of 2006 (9 0 pence) Underlying dividend cover was 2 6 times and similar to that in 2006

Cash flow
A summary of the Group's cash flows is shown below

	2007 £m	2006[1] £m
Underlying Group operating profit	**64 4**	49 7
Depreciation and other non-cash items	**15 9**	18 5
Working capital	**31 7**	15 2
Dividends received from Joint Ventures	**23 7**	15 7
Total underlying cash inflow from operations	**135 7**	99 1
Deficit pension contributions	**(46 3)**	(31 8)
Restructuring costs	**(6 5)**	(18 2)
Interest, tax and dividends	**(30 4)**	(25 7)
Net inflow/(outflow) from assets/capital expenditure	**4 4**	(28 2)
Acquisitions and disposals	**9 6**	(190 9)
Other – including discontinued operations	**(3 4)**	(3 1)
Change in net borrowing	**63 1**	(198 8)
Net (borrowing)/cash at 1 January	**(108 0)**	90 8
Net borrowing at 31 December	**(44 9)**	(108 0)
Average net borrowing	**(130 3)**	(148 0)[2]

[1] Restated to exclude discounted operations
[2] Post acquisition of Mowlem plc

Carillion's focus on cash management and the delivery of cash-backed profit was again reflected in our underlying cash flow from operations of £135 7 million, which was significantly ahead of underlying profit from operations of £101 2 million

Additional cash payments to the Group's pension's schemes increased to £46 3 million in line with our pension deficit recovery plan There was a net cash inflow from assets of £4 4 million, because capital expenditure of £25 1 million was more than offset by income from the sale of assets, including rail plant and property The substantial cash outflow in respect of acquisitions and disposals in 2006 was due to the acquisition of Mowlem, the net inflow in 2007 reflected proceeds from the disposal of businesses, including the three mature Public Private Partnership projects disposed of during the year, partially offset by investments in Public Private Partnership projects and a Joint Venture business in Canada

Balance sheet
Carillion's balance sheet remains strong and is summarised below

	December 2007 £m	December 2006 £m
Property, plant and equipment	**131 5**	146 6
Intangible assets	**555 8**	596 1
Investments in Joint Ventures	**185 9**	178 8
	873 2	921 5
Inventories, receivables and payables	**(286 5)**	(282 0)
Net retirement benefits liability (net of tax)	**(13 8)**	(75 8)
Other	**(25.1)**	(22 0)
Net operating assets	**547 8**	541 7
Net borrowing	**(44 9)**	(108 0)
Net assets	**502.9**	433 7

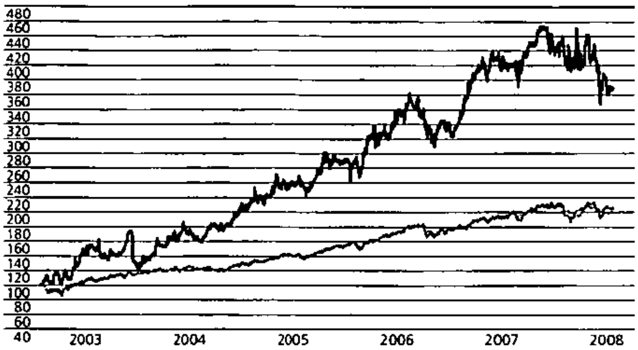
The reduction in property, plant and equipment was due to asset disposals, including rail plant and property Intangible assets reduced, reflecting amortisation and the disposal of Pall Mall The increase in investments in Joint Ventures reflected the Group's equity investments in Public Private Partnership projects

The substantial reduction in the Group's net retirement benefits liability, reflected the substantial improvement in equity values during the year, together with the additional cash payments made to our pensions schemes under our deficit recovery plan

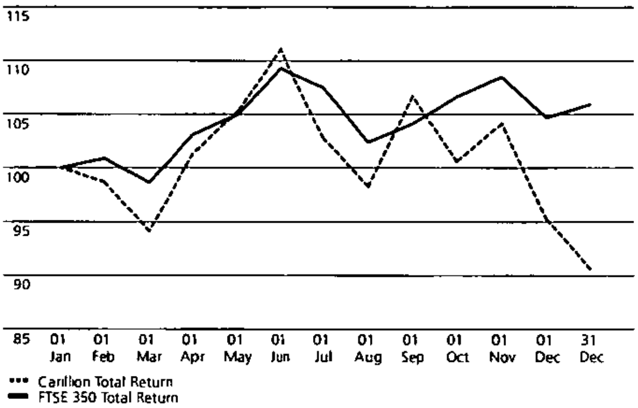
Share price
Carillion's share price closed at 351 25 pence on 31 December 2007, a reduction of 11 5 per cent on the closing price on 31 December 2006

In common with many companies in our sector, Carillion's total shareholder return reduced in 2007 The overall reduction of 9 4 per cent compared with an increase of 5 9 per cent for the FTSE 350 However, over the last five years Carillion's total shareholder return has significantly outperformed that of the FTSE 350 The FTSE 350 was chosen by the Board as the best comparator to illustrate Carillion's performance against a broad equity market index

Five-year total shareholder return



One-year total shareholder return



Retirement benefits
The Group's ongoing pensions charge against profit in 2007 was £29 3 million (2006 £35 1 million) calculated on the basis of International Accounting Standard 19 After the additional cash payments of £46 3 million that were made to the Group's pensions schemes in line with our pension deficit recovery plan, the Group's pension schemes had a deficit net of tax at 31 December 2007 of £13 8 million (31 December 2006 £75 8 million)

Committed bank facilities
In September 2007, Carillion renegotiated and increased its main corporate borrowing facility from £329 million to £590 million to support the ongoing development of the Group This new five year facility, which is repayable on 30 September 2012, was over-subscribed and secured on attractive terms Syndication of the new facilities was led by four core banks, The Royal Bank of Scotland, Bank of Scotland plc, Bayerische Landesbank, London Branch, and Lloyds TSB Bank plc It was particularly pleasing to secure these facilities during the challenging conditions of the global debt markets, which demonstrated the banking community's strong support for, and confidence in, the Carillion Group These new facilities also proved to be more than adequate to finance the £171 7 million cash element of the total £554 5 million consideration for the acquisition of Alfred McAlpine plc that completed in February 2008

Our performance
Operating and financial review
continued

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

Financial risk
The areas of significant financial risk facing the Group relate to funding, liquidity, counter party risk, foreign exchange and interest rates

Funding and liquidity
In addition to Carillion plc's principal borrowing facilities described above, money market and short-term overdraft facilities are available to Carillion plc and certain subsidiaries Operating leases are also employed to fund longer-term assets The quantum of committed borrowing facilities available to the Group is regularly reviewed by the Carillion Board and is designed to satisfy the requirements of the Group's business plan

Counter party risk
The Carillion Group undertakes significant financial transactions only with counter parties that have strong credit ratings The limits and requirements in respect of such transactions are reviewed regularly by the Board of Carillion plc

Foreign exchange
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

The average and year end exchange rates used to translate the Group's overseas operations were as follows

£sterling	Average 2007	Average 2006	year end 2007	year end 2006
Middle East (US Dollar)	**2 00**	1 85	**1 99**	1 96
Oman (Rial)	**0 77**	0 71	**0 77**	0 75
UAE (Dirhams)	**7 63**	6 79	**7 31**	7 19
Canada (Dollar)	**2 14**	2 09	**1 96**	2 28
Trinidad (Dollar)	**12 64**	11 68	**12 52**	12 17

Interest rates
The Group's borrowing facilities are at floating rates of interest linked to the London Inter Bank Offered Rate The Group has not entered into interest rate derivatives to fix or hedge interest rate risk and currently none are outstanding Certain longer-term assets have been financed using fixed rate leases

Carillion has invested equity in a number of Joint Venture Special Purpose Companies (SPC) to deliver Public Private Partnership projects 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 effectively fix the rate of interest payable

Operational risk management
Carillion has rigorous policies and processes in place to identify, mitigate and manage operational risks These enable us to address strategic risks and those specific to individual businesses and contracts, including economic, social, environmental and ethical risks

The more significant areas of risk where our failure to perform well or changes to macro-economic or market environments would affect our business, can be summarised as follows

- attracting, developing and retaining excellent people the success and growth of our business depends primarily on the quality of our people
- 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 major contracts completing contracts on time and to the required standards avoids financial penalties and damage to our brand and reputation
- managing our pension schemes the costs to Carillion of funding its pension schemes depends on the macro-economic environment, equity market stability and regulatory requirements
- financial discipline strong cash management and the delivery of cash-backed profits remain fundamental to the success of our business
- integration of the Carillion and Alfred McAlpine businesses delivery of the substantial cost synergy and operational benefits of the acquisition depends on the successful integration of these businesses

We apply our risk management processes to every aspect of our operations from choosing our market sectors and the contracts we bid for to the selection of our suppliers and sub-contractors We also apply them to every stage of a contract from inception to completion, in order to deliver the cash-backed profit we expect and high-quality services for our customers

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

Richard Adam FCA
Group Finance Director
5 March 2008

Our performance
Sustainability review

In this section of our Annual Report we have summarised what we are doing to make our business more sustainable A more detailed account will be published in our 2007 Sustainability Report, on our website, in April 2008

We believe that our leadership in sustainability 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 our customers

Strategy
We have a well established strategy model for sustainable development, which is aligned 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 behaviours and activities across these four priority areas, as illustrated in our 'sun diagram' below, which affect the delivery of our business objectives

Managing sustainability
Our commitment to sustainability is driven by our Board, supported by a Sustainability Advisory Committee This Committee is chaired by our Group 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 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)

Behaviours and activities
affecting sustainable development

In 2007, we also established a forum in which our senior business leaders can meet regularly to share best practice and support the development of our sustainability strategy and its dissemination across the Group In addition to the annual sustainability plans and objectives we set for all our businesses, we also organise a 'sustainability week', a Group-wide programme that coincides with World Environment Day that focuses on how individuals and teams can adopt a more sustainable lifestyle and contribute to making Carillion a sustainable business

Our performance
In 2007, we continued to set specific targets for each of our business units and for the Group as a whole In addition, we focused on five key areas, namely

- communicating simply and consistently to all our people to ensure a common understanding of our strategy and objectives for sustainability
- establishing new internal branding for sustainability
- developing a clear policy for understanding and managing our carbon emissions
- introducing quarterly progress reviews of performance against our key performance indicators and sustainability excellence model and
- improving our performance in Business in the Community's Corporate Responsibility Index

The Group's key sustainability objectives for 2007 were based on 14 specific and measurable targets In order to drive continuous improvement, these were demanding targets and our performance against them has been independently audited by Bureau Veritas A full report on what we have achieved, including our scores against these targets and key objectives, will be published in our 2007 Sustainability Report in April 2008

Participating in Business in the Community's Corporate Responsibility Index enables us to benchmark our performance externally Since the inception of the Index in 2003, Carillion has improved its score each year In the 2006 Index (published in 2007) Carillion achieved a 'gold' performance ranking of 92 5 per cent, topping the construction and building materials sector The average score of all participating companies was 87 per cent, which demonstrates that Carillion not only continues to be the leader in its sector, but that our performance compares favourably with that of companies in all sectors

Carillion continues to be a member of the FTSE4Good index and we were also delighted to be ranked among the top 20 most ethical firms in the UK in 2007 by *The Observer's* 'Good Company Guide'

Our sustainability strategy also won the top award for the best Corporate Social Responsibility Strategy at both the *Corporate Communications* magazine awards and the Midlands Region PRide Awards

We say more about what we are doing to improve our impacts in the four priority areas of the Government's sustainable development strategy, 'Securing the Future', on pages 34 and 35

Our performance
Sustainability review
continued

Sustainable Communities and Workforce

Creating a sustainable business requires the commitment of all our people – the 'Carillion community' We seek to achieve this through our Health and Safety, leadership, personal development and employee engagement programmes, which are described in more detail on pages 16, 18, 40 and 41

How we do business is based on our belief that it's not only what we do that matters, but also how we do it, which drives our commitment to 'living' our values in everything we do Through our Values Awards we recognise the outstanding contributions our people make to our success in delivering an excellent service to our customers and 1,500 Carillion people received these awards in 2007

Our commitment to sustainable communities extends beyond our own people We have a community engagement strategy for all our major worksites and projects and we encourage our people to understand how we can have positive impacts on the communities in which we operate and to participate in community activities

Carillion is a member of Business in the Community's 'PerCent Club', which comprises companies that contribute over one per cent of their pre-tax profits in cash or in kind to community activities We support the Business Action on Homelessness campaign designed to help homeless people break the cycle of 'no home, no job' and in 2007, we supported 57 people through the 'Ready to Work' programme

As one of the UK's leading providers of training for support services and construction skills, we contribute to the development of individuals and communities In 2007, around 1,200 apprentices successfully completed their training in one of our 18 UK training centres and some 200 people received training for entry level jobs in the construction industry

Natural Resource Protection and Environmental Enhancement

Carillion has developed and implemented environmental management systems across the Group and over 99 per cent of our UK operations are now accredited to ISO 14001 by a registered third party

What we do and how we do it can have significant impacts on the use of natural resources and the environment and we use our knowledge and skills in developing sustainable solutions to create positive impacts in these areas

The preservation of natural habitats and the wildlife they support is important both socially and environmentally Seven years ago we entered into a partnership with the Wildlife Trusts and established the Carillion Natural Habitats Fund To date we have contributed over £185,000 to the fund to finance 32 projects and provide opportunities for our people to volunteer and support the preservation of natural habitats

In recognition of our leadership in sustainability, Carillion was represented on two of the working groups that supported the UK Government's Sustainable Procurement Taskforce and helped in the development of its 'Flexible Framework' Under the framework there are four 'levels' of achievement in respect of sustainable procurement We were delighted to achieve Level 1 in 2007 and plan to achieve Level 4 by 2010

Carillion continues to be a member of the WWF-UK Forest and Trade Network and we purchase timber from Forest Stewardship Council certified sources wherever possible We also report the volumes and sources of the timber we use to the WWF annually

Climate change and energy
Global warming and climate change are now widely accepted as areas of major international concern Carillion is committed to addressing these issues and in 2007 we calculated our carbon footprint for our emissions in 2006

This focused on all the areas relevant to our business, including air, train and road travel (company cars, commercial vehicles and hire cars), the consumption of electricity, gas, fuel oil and paper and the production, re-use and recycling of waste

This was our first major step towards gaining a comprehensive understanding of our carbon footprint Our findings from this study showed that we generated 62,296 tonnes of CO_2 in 2006, which has set the benchmark for our programme to reduce emissions year on year

We employ around 50,000 people in the Group and as the nature of our business involves extensive travel we are studying the effects of our travel policies on our carbon footprint We have already introduced Company policies to promote diesel powered vehicles and to reduce overall travel

Our commitment to tackling climate change is also reflected in the way we work with our customers to provide sustainable buildings, infrastructure and lifetime facilities management and services

Carillion's Joint Venture business, 'Aspire Defence Capital Works', which is responsible for the construction element of our £12 billion Allenby Connaught Public Private Partnership project for the Ministry of Defence, won the top awards for Sustainable Development of the Year and Best Sustainable Initiative for the Public Sector, at the 2007 *Building* magazine Sustainability Awards

Sustainable Consumption and Production
Carillion's leadership in developing and implementing its sustainability strategy model, which relates our impact on the environment and on society to business performance, has made a major contribution to the Group's risk management policies and processes These address strategic risks and those specific to individual businesses and contracts, including economic, social environmental and ethical risks, and are therefore fundamental to the management of the Group at every level of our activities

In 2007 we undertook a Group-wide customer perception survey, which sought the views of our customers on a wide range of issues, including the importance of sustainability 68 per cent of our customers believe sustainability and our ability to deliver sustainable solutions to be very important

We believe that our leadership in sustainability differentiates us from competitors We seek to understand the needs of our customers and their objectives in respect of sustainability and use our knowledge and skills to meet their needs by developing sustainable solutions We also seek to promote sustainable solutions by explaining to all our customers how a sustainable approach can not only create positive impacts on the environment and on society, but also reduce costs, increase efficiency and improve the quality of the services we offer

The Eco-Depot in York, completed in 2007 and pictured above, is an outstanding example of what can be achieved through applying the principles of sustainable design and construction This is the largest timber frame straw bale clad building in Europe, which uses 76 per cent less energy than a traditional air-conditioned office

Section 04

04

Governance

PME a wholly owned subsidiary of Carillion is a UK leader in the provision of mechanical and electrical engineering maintenance services

22%

growth in dividend

Governance

Board of Directors

01 Philip Rogerson
Chairman
Age 63 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 and 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

02 John McDonough
Group Chief Executive
Age 56 John was appointed Group 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 He is also a Non-Executive Director of Tomkins plc

03 Richard Adam
Group Finance Director
Age 50 Richard Adam was appointed Group Finance Director in April 2007 He qualified as a chartered accountant with KPMG in 1982 and gained broad experience in a number of public and private company finance director roles from the age of 30 Immediately prior to joining Carillion, Richard was Group Finance Director of Associated British Ports Holdings plc He is also a Non-Executive Director and the chairman of the Audit Committee of SSL International plc

04 David Garman
Senior Independent
Non-Executive Director
Age 56 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 plc where he was an Executive Director, having previously held senior positions in a number of leading UK food companies

05 David Hurcomb
Executive Director
Age 44 David was appointed to the Board on 1 January 2008 David has responsibility for Carillion's Building business A graduate engineer and chartered accountant, he joined Carillion in March 2005 from Balfour Beatty Plc From 1990 to 2003, David was employed in a number of senior positions by Mansell plc, latterly as an Executive Director Prior to 1990, David worked for KPMG

06 Don Kenny
Executive Director
Age 53 Don was appointed to the Board in September 2006 and is responsible for Carillion's Services 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 plc Don was also a Director of Aspire Defence Finance PLC, 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

07 David Maloney
Non-Executive Director
Age 52 David was appointed to the Board in November 2005 and is Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees David is Chairman of Hoseasons Holdings Ltd and a Non-Executive Director of Micro Focus International plc, Ludorum plc and Cineworld Group plc He is also Chairman of the Board of Trustees for Make a Wish Foundation UK 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 Limited, Chief Financial Officer for Thomson Travel Group (Holdings) plc and Group Finance Director of Avis Europe plc

08 Steve Mogford
Non-Executive Director
Age 51 Steve was appointed to the Board in September 2006 and is a member of the Audit, Nominations and Remuneration Committees Steve is Chief Executive of Selex Sensors and Airborne Systems SpA, a Finmeccanica company, which he joined in May 2007 From April 2000 to May 2007, he was a Director of BAE Systems plc with responsibility latterly for UK naval sector consolidation

09 Vanda Murray OBE
Non-Executive Director
Age 47 Vanda 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 Limited, Deputy Chairman Elect of the North West Development Agency, a Director of The Cheshire Building Society 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 and until April 2007, was a trustee and Non-Executive Director of The Manufacturing Institute She was appointed OBE in 2002 for Services to Industry and to Export

10 Roger Robinson
Executive Director
Age 56 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 infrastructure, international, 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

Governance
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 2007

The Directors of the Company at the date of the approval of this Director's Report confirm, that, so far as they are individually aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he 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 support services, construction and public private partnership projects 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, Group Chief Executive's review and the Operating and financial review

The following specific issues are discussed in the sections shown in brackets

- the acquisition of Alfred McAlpine (Chairman's statement and the Group Chief Executive's review)
- key objectives and performance in 2007 and 2008 objectives (Group Chief Executive's review)
- performance in the financial year (Operating and financial review)
- treasury policy and risk management (Operating and financial review)
- social, community and environmental issues (Sustainability review)
- principal risks and uncertainties facing the Group (Operating and financial review)
- resources/employees (Group Chief Executive's review and Report of the Directors)
- financial risk (Operating and financial review)

Analysis of turnover and net assets by business segment and geographical location are given in Note 2 on page 68

Share capital
At the Extraordinary General Meeting of the Company held on 14 January 2008 to approve the Alfred McAlpine acquisition, the authorised share capital of the Company was increased to 525,000,000 ordinary shares of 50p each At 5 March 2008, the issued ordinary share capital of the Company was 394,191,964 shares Carillion has only one class of shares, with one vote for every share

Profits and dividends
The consolidated income statement is shown on page 60 Profit before tax was £94 4 million (2006 £68 1 million)

A 2007 interim dividend of 3 5 pence per ordinary share (2006 3 1 pence) was paid in November 2007 It is proposed to pay a final dividend of 7 5 pence per ordinary share (2006 5 9 pence) on 20 June 2008 to shareholders on the register at the close of business on 25 April 2008 The payment of these 2007 interim and final dividends amounts to £39 4 million (2006 £25 3 million)

A dividend reinvestment plan (DRIP) will also be offered

Directors
The Directors of the Company who served during 2007 are shown on page 49 of the Remuneration Report Biographical details for each Director at 31 December 2007 and for David Hurcomb who was appointed on 1 January 2008 are given on pages 38 and 39

Mr Hurcomb will hold office until the Annual General Meeting at which, being eligible, he offers himself for election Mr Hurcomb has a contract of service which is subject to one year's notice of termination by the Company

In accordance with the Articles of Association, Philip Rogerson and David Garman retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting on 7 May 2008

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration Report on page 55

Employees
Information relating to employee numbers and remuneration is given in Note 6 on page 74

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

It is Carillion's aim to foster a working environment in which all employees are treated with courtesy, dignity and respect Carillion strives continually 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
- 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 each of the last five years 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 2007, around 2,500 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
- 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 via 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 is given in the Group Chief Executive's review on page 18 and on Sustainability in the Sustainability review on pages 33 to 35

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
- help employees feel more involved and valued
- 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
- help employees to be responsive to and better prepared for change

Substantial share interests
At 5 March 2008, the Company had received formal notification of the following persons interested directly or indirectly in three per cent or more of the issued ordinary share capital of the Company (being the threshold for notifications of interests in shares in the Disclosure and Transparency Rules of the UKLA)

	Number of shares held	Percentage
Schroder plc	66,441,975	16 86
Standard Life Investments Ltd	49,449,913	12 54
F & C Asset Management plc	14,247,566	3 61
HBOS plc	14,036,048	3 56
UBS Investment Bank	13,424,716	3 41

Governance
Report of the Directors
continued

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 59 days at 31 December 2007 (80 days at 31 December 2006)

Charitable and political contributions
Payments for charitable purposes made by the Group during the year ended 31 December 2007 amounted to £150,000 (2006 £145,000) 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 28 on page 93 of the consolidated financial statements

Annual General Meeting
The Annual General Meeting will be held at 12 noon on Wednesday 7 May 2008 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 are proposals to (i) renew the authority for the Company to purchase its own shares As at 31 December 2007, the Company had authority from shareholders for the purchase of 28,124,273 of its own shares and (ii) amend the Company's Articles of Association for the provisions of the Companies Act 2006 Amendments to the Articles of Association are subject to shareholder approval

Auditor
Resolutions to re-appoint 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

Richard Tapp

Richard Tapp

R F Tapp
Secretary
5 March 2008

Governance
Corporate Governance Report

General principles
The Board is firmly committed to high standards of corporate governance During the year to 31 December 2007 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 (June 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
With effect from 1 January 2008, the Company is led by a Board comprising five Executive and five Non-Executive Directors Throughout 2007, however, the Chairman and the Non-Executive Directors comprised more than half of the Board The Chairman and each of the Non-Executive Directors are 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 2007 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 2007 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 sixth 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 Group 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 Group 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 Group 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 Group Chief Executive and be available on a flexible basis for providing advice, counsel and support to the Group Chief Executive
- the Group 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

Governance
Corporate Governance Report
continued

The Board had a programme of ten meetings in 2007 and also meets on an ad hoc basis as required

A formal schedule of matters reserved to the Board for consideration and decision is maintained These matters include

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

The Executive Directors and the Carillion subsidiary companies operate within clearly defined limits of authority delegated by the Board and any matters outside of these limits must be referred to the Board for consideration

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 48 to 55

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 45 to 47

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 2007
The number of full scheduled Board and Committee meetings attended by each Director during 2007 was as follows

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	10	4	2	3
Richard Adam[1]	8	–	–	–
David Garman	10	4	2	3
Christopher Girling[2]	2	–	–	–
Donald Kenny	10	–	–	–
David Maloney	10	4	2	3
John McDonough	10	–	–	3
Steven Mogford	9	3	2	3
Vanda Murray	10	4	2	3
Roger Robinson	10	–	–	–
Philip Rogerson	10	–	–	3

(1) Appointed on 2 April 2007
(2) Left the Company on 2 April 2007

Other Board matters
Policy on external appointments
Recognising that external appointments can broaden their knowledge and so be of benefit to the Company, Executive Directors are permitted, at the discretion of the Board, to accept a limited number of such appointments and retain the fees received for such appointments John McDonough is a Non-Executive Director of Tomkins plc and Richard Adam is a Non-Executive Director of SSL International 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 appointment made in 2007, the Nominations Committee used the services of the executive recruitment consultant JCA Details of potential candidates were provided by 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 an appointment, which was then approved by the Board

In the case of Non-Executive Directors, initial appointments are normally for three years, re-appointment 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 48 to 55

Retirement of Directors by rotation
All Directors are required to submit themselves for re-election at least every three years The Directors retiring and seeking re-election at the Annual General Meeting to be held on 7 May 2008 are Philip Rogerson and David Garman

Additionally, new Directors are subject to election by shareholders at the first opportunity following their appointment Accordingly, David Hurcomb will seek election at the 2008 Annual General Meeting

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

Induction and development of Directors
Directors are provided with a comprehensive information pack on joining the Company and are advised of their legal and other duties and obligations as a director of a listed company In addition, all new Directors receive induction on their appointment covering such matters as the operation and activities of the Group, the role of the Board 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 2007 the Directors visited the Group's operations in Dubai 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 7 May 2008 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, Deputy Chairman elect of the North West Development Agency and a Director of The Cheshire Building Society Vanda was appointed to the Audit Committee in July 2005

Steve Mogford is Chief Executive of Selex Sensors and Airborne Systems SpA and was appointed to the Audit Committee in September 2006

Appointments to the Committee are made by the Board

Governance
Corporate Governance Report
continued

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

In 2007, the Committee met on four occasions and dealt with the following matters

- internal audit reports including control of risk
- annual and interim financial statements
- KPMG audit review
- top ten risks
- reappointment of KPMG
- 2007 audit plan
- internal audit review
- assessment of the going concern basis
- review of compliance with the Combined Code
- the external audit fee

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 49 for details

Main activities of the Audit Committee in the year to 31 December 2007
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
- 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

Any significant internal control issues would be disclosed in this report

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 'whistleblowing' hotline provided by an independent third party is available.

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

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Group 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 Group Chief Executive's Review on pages 16 to 19. Where areas for improvement are identified, the Board considers the recommendations made both by the Executive Directors and by the Audit Committee.

This report is reviewed and approved by the Audit Committee.

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

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

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

The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Audit Committee after discussions between the businesses and the local KPMG offices and are then referred to the Board for approval. Rotation of audit director's responsibilities within KPMG is required by their profession's ethical standards. The current audit director responsible for the Carillion engagement is in his third 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 is provided in the Group Chief Executive's report on page 18 and the Group's Sustainability performance is contained in the Sustainability review on pages 33 to 35.

Richard Tapp

R F Tapp
Secretary
5 March 2008

Governance
Remuneration Report

This report has been prepared in accordance with the Companies Act (Schedule 7a) and Section 1 of the Combined Code on Corporate Governance (June 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 Non-Executive Directors based on independent external advice

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

Additionally, the Remuneration Committee uses Deloitte & Touche LLP to provide salary survey and benchmarking information Deloitte & Touche LLP, which was appointed in 2005, 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
Richard Adam	2 April 2007	12 months	rolling
Roger Robinson	29 July 1999	12 months	rolling
Don Kenny	1 July 2006	12 months	rolling
David Hurcomb	1 January 2008	12 months	rolling

Non-Executive Directors are not employed under contracts of service, but are generally appointed for fixed terms of three years renewable for further terms of one to three years if both parties agree David Maloney, Steve Mogford and Vanda Murray 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 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 2007, the Executive Directors had the potential to earn annual bonuses up to a maximum of 100 per cent of their basic salary for outstanding performance The bonus arrangement for 2007 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 per cent comprises an annual cash payment limited to 30 per cent of salary with a deferred bonus of shares of the Company with a value of up to 70 per cent of salary vesting after two years The number of shares allocated is determined by the price prevailing at the date the bonus is confirmed and the amount by which the bonus earned exceeds 30 per cent 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 2008 will be 100 per cent of basic salary comprised of a cash payment of up to 30 per cent of basic salary with a deferred bonus of shares with Company up to the value of 70 per cent of salary vesting after two years Richard Adam will participate in these bonus arrangements during 2007 and, for 2007 only, will be guaranteed to receive a minimum bonus payment of 33 per cent of his annual salary

In relation to the 2006 bonus arrangement, the Executive Directors, on 7 April 2007 received a deferred bonus of shares as follows

	Number of shares
John McDonough	75,911
Roger Robinson	47,857
Don Kenny	15,794

These shares will be held in Trust for two years for John McDonough and Roger Robinson and then transferred in April 2009 following payment of the tax and National Insurance obligations Don Kenny's shares will be held in Trust for one year and will be transferred to him in April 2008

Pension benefits
With the exception of Richard Adam and David Hurcomb, the Group makes contributions to a Registered defined benefit scheme on behalf of the Executive Directors in respect of earnings up to the internal earnings cap In addition, a salary supplement is paid in respect of earnings over the internal cap equal to the payments the Group would have paid to the Registered defined benefit scheme had the cap not been in operation Salary supplements are taxed at source For Richard Adam and David Hurcomb, the Company makes contributions to a Registered defined contribution pension plan (up to the internal earnings cap) and a salary supplement in respect of earnings in excess of the internal cap During the year, the Company contributed £35,220 to the Carillion Pension Plan for Richard Adam

Directors' remuneration
The remuneration of the Directors of Carillion plc for the year ended 31 December 2007 is set out in the table below

	Basic salary/fees £000	Annual performance bonus £000	Other benefits £000	Total 2007 £000	Total 2006 £000
John McDonough	**580**	**574**	**173**	**1,327**	878
Richard Adam[1]	**285**	**372**	**78**	**735**	–
Chris Girling[2]	**83**	**–**	**28**	**111**	537
Roger Robinson	**341**	**334**	**94**	**769**	547
Don Kenny	**275**	**270**	**75**	**620**	344
Total for Executive Directors	**1,564**	**1,550**	**448**	**3,562**	2,306
Philip Rogerson	**167**	**–**	**–**	**167**	125
David Garman	**52**	**–**	**–**	**52**	45
Vanda Murray	**43**	**–**	**–**	**43**	40
David Maloney	**50**	**–**	**–**	**50**	45
Steve Mogford[3]	**43**	**–**	**–**	**43**	13
Total for Non-Executive Directors	**355**	**–**	**–**	**355**	268
Total for all Directors	**1,919**	**1,550**	**448**	**3,917**	2,574

(1) Richard Adam was appointed to the Board on 2 April 2007
(2) Chris Girling left the Company on 2 April 2007
(3) Steve Mogford was appointed to the Board on 6 September 2006

There were no termination benefits in the year to 31 December 2007

There are no long term benefits other than pensions (see page 50) and share incentives (see pages 51 to 54)

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

Included in 'Other benefits' is a salary supplement for John McDonough of £156,055 (2006 £117,970),for Roger Robinson of £75,852 (2006 £15,489 to FURBS and £45,360 salary supplement), for Chris Girling £24,640 (2006 £15,070 to FURBS and £44,100 salary supplement), for Don Kenny £53,575 (2006 £34,809) and for Richard Adam £66,175 (2006 Nil) in respect of salary over the internal pensions earnings cap

Governance
Remuneration Report
continued

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

	Cash payment £000	Value of deferred shares £000
Executive Director		
John McDonough	174	400
Richard Adam	114	258
Roger Robinson	102	232
Don Kenny	83	187

John McDonough retains the fee of £34,000 he was paid in 2007 as a Non-Executive Director of Tomkins plc and Richard Adam retains the fee of £39,500 paid as a Non-Executive Director of SSL International 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, HMRC Registered, 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 subject to a limit on pension of two thirds of final pensionable salary
- increases to pensions in payment (in excess of the State Guaranteed Minimum Pension) in line with price indexation up to five per cent per annum for service to 5 April 2006 and 2 5% per annum for service after that date
- life assurance of four times salary
- pensions payable in the event of ill health, and
- on death (in service or after retirement), spouse's and/or dependent's pension at two thirds of member's prospective pension

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 an internal earnings cap and their pensionable salary is limited accordingly They are provided with additional benefits by way of a salary supplement equal to the contribution the Group would have made to the Registered scheme had the earnings cap not been in operation 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 will rise in line with the published increases in HMRC's Life Time Allowance up until 2010 in line with the table below

Year	Cap £
2006-07	110,000
2007-08	117,400
2008-09	121,300
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 and David Hurcomb, the Carillion Pension Plan

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

	Accrued pension at 31 Dec 2007 £ 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 2007 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	27,393	5,393	4,503	57,786	346,127	433,211	78,995
Roger Robinson	66,318	7,539	5,161	72,684	974,444	1,118,668	136,135
Don Kenny	20,871	4,982	4,339	47,390	218,017	286,225	60,119

The total number of Directors to whom retirement benefits accrued during the year was 5 (2006 4)

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

Share incentive schemes
Following a review of share incentives, a new long term incentive plan for senior executives, the Carillion plc 2006 Long Term Incentive Plan was approved at the Annual General Meeting in 2006 Following the introduction 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 (known internally as the Leadership Equity Award Plan (LEAP)) 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 (LEAP)
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 participated 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 (with a zero or 0 01 pence per share exercise price) 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 awards are 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

Awards were made in July 2006 and April 2007 At 31 December 2007 a total of 1,862,063 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 10 years after the date of grant, subject to the achievement of the performance condition For options granted in 2001 and 2002, the performance condition required 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 Price Index over the same period, expressed as a percentage, plus four percentage points per annum This performance condition was selected in order to provide an incentive which aligns the interests of executives with those of shareholders in growing the Company's earnings per share However, as this performance condition no longer complied with best practice, at the 2003 Annual General Meeting, shareholders resolved that future options granted under both schemes become exercisable in accordance with the following table

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

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

Governance
Remuneration Report
continued

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 Similarly, the performance target relating to the options granted on 31 March 2004 was met such that 71% of the options are exercisable

At 31 December 2007, Executive Share Options were outstanding over 2,073,978 shares (2006 2,705,579 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 10 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 Annual General Meeting 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)

Awards with this performance condition were 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 5p

Similarly, the awards made on 31 March 2004 came third in the comparator group with 72% of the awards vesting A total of 499,283 shares vested to 11 participants on 2 April 2007 The Carillion plc share price on 2 April 2007 was 402p

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

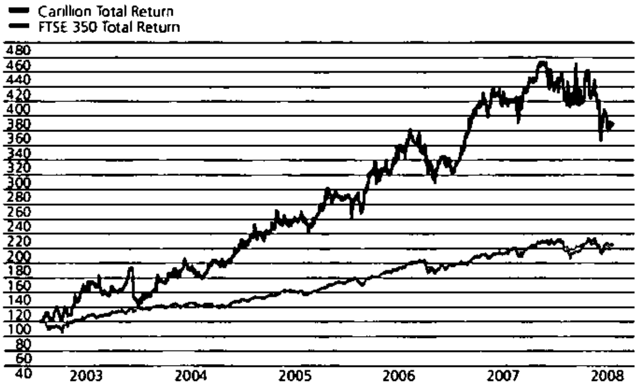
The performance conditions were chosen in order to align the interests of Directors and senior managers with those of shareholders in growing total shareholder return against comparator companies and sectors

At 31 December 2007, Long Term Incentive Plan awards were outstanding over a total of 993,975 shares (2006 1,696,417 shares)

Conditional awards made to Executive Directors under the Long Term Incentive Plan are set out in the table of share incentives on page 53 The awards represent the maximum number of shares that could be awarded to Executive Directors under the performance periods commencing on 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 143 pence and 225 pence, the average share prices over the six weeks immediately before the commencement of the respective performance periods

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 2003 to 31 December 2007



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

The Sharesave Scheme

The Company operates a Sharesave Scheme which provides a savings and investment opportunity for employees in the UK The options may normally be exercised on completion of a three or five-year savings contract, at a price equivalent to not less than 80% of the market value of the shares at the time of grant Options were granted in November 1999 over 6,140,194 shares, 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 1p A total of 983,369 shares were issued following maturity

The three-year options granted in October 2002 became exercisable for a six month period commencing 1 January 2006 at an option price of 126 6p A total of 1,829,888 shares were issued following maturity

At 31 December 2007, options over 2,167,635 ordinary shares of 50p each were outstanding under the Sharesave Scheme (2006 2,580,181 ordinary shares of 50p 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 as at 31 December 2007 are shown below

	As at 1 January 2007 Number	Long Term Incentive Plan awards granted during this year Number	Awards vesting during the year Number	Awards/options lapsing during the year Number	As at 31 December 2007 Number	Date of award	Mid market share price on date of award Pence
John McDonough							
LTIP 2004 (maximum)	141,608	–	101,957	39,651	–	31 03 2004	187 0
LTIP 2005 (maximum)	191,043	–	–	–	191,043	15 03 2005	244 5
LEAP (maximum)	218,354	–	–	–	218,354	06 07 2006	319 0
LEAP (maximum)	–	206,773	–	–	206,773	10 04 2007	420 8
Richard Adam							
LEAP (maximum)	–	180,629	–	–	180,629	10 04 2007	420 8
Roger Robinson							
LTIP 2004 (maximum)	90,909	–	65,454	25,455	–	31 03 2004	187 0
LTIP 2005 (maximum)	122,178	–	–	–	122,178	15 03 2005	244 5
LEAP (maximum)	137,658	–	–	–	137,658	06 07 2006	319 0
LEAP (maximum)	–	121,675	–	–	121,675	10 04 2007	420 8
Don Kenny							
LTIP 2004 (maximum)	61,188	–	17,133	44,055	–	31 03 2004	187 0
LTIP 2005 (maximum)	81,637	–	–	–	81,637	15 03 2005	244 5
LEAP (maximum)	71,202	–	–	–	71,202	06 07 2006	319 0
LEAP (maximum)	–	98,039	–	–	98,039	10 04 2007	420 8

On 2 April 2007, 101,957 shares vested to John McDonough, 65,454 shares to Roger Robinson and 44,055 shares to Don Kenny The market price of Carillion shares on 2 April 2007 was 402 3p The net asset value received by these Directors was therefore, respectively, £410,173, £263,321 and £177,233

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

Governance
Remuneration Report
continued

The number of options over Carillion plc shares held by Executive Directors of the Company under the Executive Share Option and Sharesave schemes as at 31 December 2007 are shown below

	As at 1 January 2007 Number	Granted during the year Number	Exercised Number	Options lapsing during the year Number	As at 31 December 2007 Number	Exercise price Pence	Earliest date from which exercisable	Expiry date	Mid market share price on date of grant Pence
John McDonough									
ESOS 2001	501,930	–	–	–	501,930	129 5	09 01 04	09 01 11	135 5
ESOS 2002	254,532	–	–	–	254,532*	210 7	19 03 05	19 03 12	197 5
ESOS 2003	150,795	–	–	–	150,795	163 4	01 07 06	01 07 13	159 0
ESOS 2004	175,229	–	–	50,501	124,728	184 9	31 03 07	31 03 14	187 0
Roger Robinson									
ESOS 2004	112,493	–	80,072	32,421	–	184 9	31 03 07	31 03 14	187 0
Don Kenny									
ESOS 2002	123,801	–	–		123,801	125 2	17 10 05	17 10 12	128 0
ESOS 2003	60,709	–	–	–	60,709	163 4	01 07 06	01 07 13	159 0
ESOS 2004	75,716	–	–	21,882	53,894	184 9	31 03 07	31 03 14	187 0

On 2 April 2007, Roger Robinson exercised an option over 80,072 shares at 184 9p The market price of Carillion shares on 2 April 2007 was 402 3p The net gain was therefore £174,077

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 7p 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 3p 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 3p 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 5 March 2008 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 2007, the Trust held 61,909 Carillion shares (2006 1,137,177 shares) 0 02% of the issued share capital and a nominal value of £31,000 (2006 0 4% and £0 6million) acquired over a period in the open market and which have a carrying value of £0 7 million The market value of the shares held at 31 December 2007 was £0 2 million (2006 £4 5 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 2007, the QUEST held 219,763 Carillion shares (2006 222,406 shares) (0 08% of the issued share capital and a nominal value of £0 1 million) (2006 0 08% and £0 1million) 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 2007 was £0 8 million (2006 £0 9 million)

For details of dividends paid to the above trusts see Note 24 to the consolidate financial statements on pages 90 and 91

Directors' share interests

Ordinary shares

The beneficial interests of the Directors and their immediate families in the ordinary share capital of the Company as at 31 December 2007 are shown below

Fully paid 50p ordinary shares owned	As at 1 January 2007 Number	As at 31 December 2007 Number
Executive Directors		
John McDonough	551,917	651,271
Richard Adam	–	15,044
Roger Robinson	96,941	96,941
Don Kenny	41,318	48,832
Non-Executive Directors		
David Garman	10,000	14,300
Philip Rogerson	19,630	29,630
David Maloney	5,000	10,000
Vanda Murray	11,000	11,000
Steve Mogford	–	–

There has been no change in Directors' interests in the period 1 January to 5 March 2008

The closing mid-market price of Carillion shares at 31 December 2007 and the highest and lowest mid-market prices during the year were as follows

	Share price Pence
31 December 2007	351 3
High (16, 21 and 23 May)	435 0
Low (20 November)	330 5

Approved by order of the Board

D N C Garman
Chairman of the Remuneration Committee
5 March 2008

Governance

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 (UK Generally Accepted Accounting Standards)

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

The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Parent Company In preparing each of the Group and Parent Company financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements
- 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

Governance
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 2007 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the 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 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 56

Our responsibility is to audit the financial statements and the part of the 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 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 that is cross referred from the Principal Activities and 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 2006 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 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 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 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 as at 31 December 2007 and of its profit for the year then ended
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation
- the Parent Company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2007
- the Parent Company financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc KPMG Audit Plc

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

5 March 2008

Section 05

05

Financial statements

23%

growth in underlying profit before tax to £101 8 million

Financial statements
Consolidated income statement
For the year ended 31 December 2007

Continuing operations	Note	2007 £m	2006(1) £m
Total revenue		**3,951 7**	3,512 4
Less Share of jointly controlled entities revenue		**(621 0)**	(528 5)
Group revenue	2	**3,330 7**	2,983 9
Cost of sales		**(3,092 0)**	(2,789 3)
Gross profit		**238 7**	194 6
Administrative expenses		**(219 5)**	(186 6)
Other operating income	3	**9 5**	1 9
Group operating profit	3	**28 7**	9 9
Analysed between			
Group operating profit before intangible amortisation, impairment of goodwill and other investments and restructuring costs		**64 4**	49 7
Intangible amortisation and impairment of goodwill and other investments	2	**(21 5)**	(17 2)
Restructuring costs	4	**(14 2)**	(22 6)
Share of results of jointly controlled entities	2	**36 8**	31 6
Analysed between			
Operating profit		**55 7**	47 7
Net financial expense		**(9 9)**	(8 0)
Taxation		**(9 0)**	(8 1)
Profit from operations		**65 5**	41 5
Analysed between			
Profit from operations before intangible amortisation, impairment of goodwill and other investments and restructuring costs		**101 2**	81 3
Intangible amortisation and impairment of goodwill and other investments	2	**(21 5)**	(17 2)
Restructuring costs	4	**(14 2)**	(22 6)
Non-operating items	4	**28 3**	25 3
Net financial income	5	**0 6**	1 3
Analysed between			
Financial income		**99 8**	87 0
Financial expense		**(99 2)**	(85 7)
Profit before taxation		**94 4**	68 1
Analysed between			
Profit before taxation, intangible amortisation, impairment of goodwill and other investments, restructuring costs and non-operating items		**101 8**	82 6
Intangible amortisation and impairment of goodwill and other investments	2	**(21 5)**	(17 2)
Restructuring costs	4	**(14 2)**	(22 6)
Non-operating items	4	**28 3**	25 3
Taxation	7	**(8 3)**	(7 2)
Profit from continuing operations		**86 1**	60 9
Discontinued operations	8	**(7 6)**	(0 5)
Analysed between			
Trading loss from discontinued operations		**(1 4)**	(0 5)
Loss on disposal of discontinued operations		**(6 2)**	–
Profit for the year		**78 5**	60 4
Profit attributable to			
Equity holders of the parent		**76 0**	58 2
Minority interests		**2 5**	2 2
Profit for the year		**78 5**	60 4
Earnings per share	9		
From continuing operations			
Basic		**29 8p**	21 8p
Diluted		**29 5p**	21 5p
From continuing and discontinued operations			
Basic		**27 1p**	21 6p
Diluted		**26 8p**	21 3p
Total dividend declared for the year	10	**11 0p**	9 0p

(1) Restated in respect of discontinued operations (see note 8)

Financial statements
Consolidated balance sheet
As at 31 December 2007

	Note	2007 £m	2006 £m
Assets			
Non-current assets			
Property, plant and equipment	11	**131 5**	146 6
Intangible assets	12	**555 8**	596 1
Retirement benefit assets	32	**17 3**	10 9
Investments in jointly controlled entities	13	**185 9**	178 8
Other investments	14	**14 5**	15 0
Deferred tax assets	15	**9 3**	55 4
Total non-current assets		**914 3**	1,002 8
Current assets			
Inventories	16	**30 5**	38 5
Trade and other receivables	18	**858 7**	875 3
Cash and cash equivalents	19	**327 5**	144 5
Income tax receivable		**2 2**	0 2
Derivative financial instruments	28	**–**	0 8
Total current assets		**1,218.9**	1,059 3
Total assets		**2,133 2**	2,062 1
Liabilities			
Current liabilities			
Borrowing	20	**(13 9)**	(12 6)
Derivative financial instruments	28	**(0 7)**	–
Trade and other payables	21	**(1,175 7)**	(1,195 8)
Provisions	22	**(6 9)**	(2 4)
Income tax payable		**(2 3)**	(13 0)
Total current liabilities		**(1,199.5)**	(1,223 8)
Non-current liabilities			
Borrowing	20	**(358 5)**	(239 9)
Retirement benefit liabilities	32	**(41 6)**	(123 8)
Deferred tax liabilities	15	**(24 0)**	(37 4)
Provisions	22	**(6 7)**	(3 5)
Total non-current liabilities		**(430 8)**	(404 6)
Total liabilities		**(1,630 3)**	(1,628 4)
Net assets		**502 9**	433 7
Equity			
Issued share capital	23	**140 6**	140 6
Share premium	24	**8 6**	8 6
Other reserves	24	**150 0**	172 7
Retained earnings	24	**202 4**	110 8
Equity attributable to shareholders of the parent		**501 6**	432 7
Minority interests	24	**1 3**	1 0
Total equity		**502 9**	433 7

The financial statements were approved by the Board of Directors on 5 March 2008 and were signed on its behalf by

Richard Adam FCA
Group Finance Director

Financial statements
Consolidated cash flow statement
For the year ended 31 December 2007

	Note	2007 £m	2006[1] £m
Continuing operations			
Cash flows from operating activities			
Group operating profit		**28 7**	9 9
Depreciation, amortisation and impairment		**46 8**	36 4
Profit on disposal of property, plant and equipment		**(9 5)**	(1 9)
Share based payment expense		**2 8**	1 3
Other non-cash movements		**(2 7)**	(0 2)
Restructuring costs		**14 2**	22 6
Operating profit before changes in working capital and provisions		**80 3**	68 1
Decrease in inventories		**7 2**	–
Increase in trade and other receivables		**(2 9)**	(58 0)
Increase in trade and other payables		**27 4**	73 2
Increase in provisions		**–**	0 1
Cash generated from operations before pension deficit recovery payments and restructuring costs		**112 0**	83 4
Deficit recovery payments to pension schemes		**(46 3)**	(31 8)
Restructuring costs		**(6 5)**	(18 2)
Cash generated from operations		**59 2**	33 4
Financial income received		**13 7**	15 3
Financial expense paid		**(19 9)**	(17 4)
Taxation		**4 4**	1 9
Net cash flows from operating activities		**57 4**	33 2
Cash flows from investing activities			
Disposal of property, plant and equipment		**29 5**	12 1
Disposal of investments in jointly controlled entities		**22 0**	47 3
Dividends received from jointly controlled entities		**23 7**	15 7
Disposal of businesses, net of cash disposed of	31	**8 2**	30 4
Acquisition of subsidiary, net of cash acquired	31	**–**	(122 3)
Acquisition of intangible assets		**(1 6)**	(1 8)
Acquisition of property, plant and equipment		**(23 5)**	(38 5)
Acquisition of equity in and loan advances to jointly controlled entities		**(19 6)**	(19 7)
Acquisition of other non-current asset investments		**(1 0)**	(0 5)
Net cash flows from investing activities		**37 7**	(77 3)
Cash flows from financing activities			
Proceeds from issue of share capital		**–**	0 4
Draw down of bank and other loans		**309 8**	321 3
Repayment of bank loans		**(193 3)**	(276 6)
Payment of finance lease liabilities		**(10 9)**	(9 6)
Dividends paid to equity holders of the parent		**(26 4)**	(23 2)
Dividends paid to minority interests		**(2 2)**	(2 3)
Net cash flows from financing activities		**77 0**	10 0
Net increase/(decrease) in cash and cash equivalents from continuing operations		**172 1**	(34 1)
Discontinued operations			
Increase in cash and cash equivalents from discontinued operations	8	**12 4**	6 9
Net increase/(decrease) in cash and cash equivalents		**184 5**	(27 2)
Cash and cash equivalents at 1 January		**141 4**	169 7
Effect of exchange rate fluctuations on cash held		**(2 1)**	(1 1)
Cash and cash equivalents at 31 December	19	**323 8**	141 4

(1) Restated in respect of discontinued operations (see note 8)

Financial statements
Reconciliation of net cash flow to movement in net borrowing
For the year ended 31 December 2007

	2007 £m	2006[1] £m
Increase/(decrease) in cash and cash equivalents for the year	**184 5**	(27 2)
Draw down of bank and other loans	**(309 8)**	(321 3)
Repayment of bank loans	**193 3**	276 6
Payment of finance lease liabilities	**10 9**	9 6
Decrease/(increase) in net borrowing resulting from cash flows	**78 9**	(62 3)
Net borrowing in subsidiaries acquired	**–**	(126 1)
Finance lease additions	**(5 5)**	(13 3)
Currency translation differences	**(10 3)**	2 9
Change in net borrowing during the year	**63 1**	(198 8)
Net (borrowing)/cash at 1 January	**(108 0)**	90 8
Net borrowing at 31 December	**(44 9)**	(108 0)

(1) Restated in respect of discontinued operations (see note 8)

Consolidated statement of recognised income and expense
For the year ended 31 December 2007

	2007 £m	2006 £m
Net (loss)/gain on hedge of net investment in foreign operations	**(2 7)**	4 1
Currency translation differences for foreign operations	**2 6**	(7 0)
Actuarial gains on defined benefit pension schemes	**30 2**	34 6
	30 1	31 7
Taxation in respect of the above	**(8.3)**	(11 5)
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	**(5.3)**	0 2
Income and expense recognised directly in equity	**16 5**	20 4
Profit for the year	**78 5**	60 4
Total recognised income and expense for the year	**95 0**	80 8
Attributable to		
Equity holders of the parent	**92 5**	78 6
Minority interests	**2 5**	2 2
	95 0	80 8

Financial statements

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 2007 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 5 March 2008

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 IFRSs') The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Principles (GAAP) These are presented on pages 108 to 114

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 and financial instruments classified as available-for-sale

The company has adopted IFRS 7 'Financial instruments Disclosure' and the amendment to IAS 1 'Presentation of financial statements' which are mandatory for years ending 31 December 2007 This has resulted in additional disclosures but no impact on reported profit or net assets

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 2007

- International Financial Reporting Interpretations Committee 11 'Group and treasury share transactions'
- International Financial Reporting Standard 8 'Operating Segments'

The Group has considered the impact of these new standards and interpretations in future periods and no significant impact is expected on reported profit or net assets The Group has chosen not to early adopt any of the above standards and interpretations

Presentational changes have been made to the income statement, cash flow statement and segmental reporting note compared with the presentation in the Annual Report and Accounts for the year ended 31 December 2006 in order to facilitate a greater understanding and improve the transparency of the Group's reported results

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 2007 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 financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the Parent Company

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

Financial statements of jointly controlled entities are prepared for the same reporting period as the Group except for

- Carillion Enterprise Ltd
- Modern Housing Solutions (Prime) Ltd

Both of these entities now have 31 March year ends

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

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

1 Significant accounting policies (continued)

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 Generally Accepted Accounting Principles

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

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 three to five years

Customer contracts and lists
- Planned Maintenance Group
  Consumption of economic benefits over six 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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

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, incentive payments and variations arising from construction contracts are included where they have been agreed with the client

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

The principal estimation technique used by the Group in attributing profit on contracts to a particular period is the preparation of forecasts on a contract by contract basis These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn of each contract Consistent contract review procedures are in place in respect of contract forecasting

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

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 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

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continued

1 Significant accounting policies (continued)

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 International Accounting Standard (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 of 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 the scheme liabilities over the fair value of scheme assets When the calculation results in an asset to the Group, the amount recognised is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan 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

(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

1 Significant accounting policies (continued)

The fair value 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 period in which any performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date)

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

Borrowing costs are charged to the income statement using the effective interest method

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 amortised cost 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 borrowing

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

A number of the Group's Public Private Partnership 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

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2 Segmental 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 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

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

Segmental revenue and profit

	Year ended 31 December 2007					
			Revenue			Operating profit before intangible amortisation, impairment and restructuring costs
Continuing operations	**UK, Canada and the Caribbean[1] £m**	**Middle East £m**	**Total £m**	**UK, Canada and the Caribbean[1] £m**	**Middle East £m**	**Total £m**
Support services[2]						
Group	1,569 4	–	1,569 4	62 4	–	62 4
Share of jointly controlled entities	218 8	5 4	224 2	11 0	0 5	11 5
	1,788 2	5 4	1,793 6	73 4	0 5	73 9
Inter-segment	64 7	–	64 7	–	–	–
Total	1,852 9	5 4	1,858 3	73 4	0 5	73 9
Public private partnership projects						
Group	0 9	–	0 9	0 7	–	0 7
Share of jointly controlled entities	153 2	–	153 2	24 7	–	24 7
	154 1	–	154 1	25 4	–	25 4
Inter-segment	–	–	–	–	–	–
Total	154 1	–	154 1	25 4	–	25 4
Construction services						
Group	1,660 4	100 0	1,760 4	12 3	9 6	21 9
Share of jointly controlled entities	6 6	237 0	243 6	3 7	15 8	19 5
	1,667 0	337 0	2,004 0	16 0	25 4	41 4
Inter-segment	32 0	–	32 0	–	–	–
Total	1,699 0	337 0	2,036 0	16 0	25 4	41 4
Group eliminations and unallocated items	(96 7)	–	(96 7)	(20 6)	–	(20 6)
Consolidated						
Group	3,230 7	100 0	3,330 7	54 8	9 6	64 4
Share of jointly controlled entities	378 6	242 4	621 0	39 4	16 3	55 7
Total	3,609 3	342 4	3,951 7	94 2	25 9	120 1

(1) includes Rest of the World
(2) Support services excludes the results of discontinued operations as disclosed in note 8

2 Segmental reporting (continued)

Segmental revenue and profit (continued)

						Year ended 31 December 2006
			Revenue			Operating profit before intangible amortisation, impairment and restructuring costs
Continuing operations	UK, Canada and the Caribbean[1] £m	Middle East £m	Total £m	UK, Canada and the Caribbean[1] £m	Middle East £m	Total £m
Support services[2]						
Group	1,314 8	–	1,314 8	51 5	–	51 5
Share of jointly controlled entities	138 3	5 6	143 9	7 1	0 2	7 3
	1,453 1	5 6	1,458 7	58 6	0 2	58 8
Inter-segment	30 2	–	30 2	–	–	–
Total	1,483 3	5 6	1,488 9	58 6	0 2	58 8
Public private partnership projects						
Group	1 3	–	1 3	7 1	–	7 1
Share of jointly controlled entities	146 7	–	146 7	19 4	–	19 4
	148 0	–	148 0	26 5	–	26 5
Inter-segment	–	–	–	–	–	–
Total	148 0	–	148 0	26 5	–	26 5
Construction services						
Group	1,625 5	42 3	1,667 8	10 1	1 3	11 4
Share of jointly controlled entities	11 5	226 4	237 9	8 4	12 6	21 0
	1,637 0	268 7	1,905 7	18 5	13 9	32 4
Inter-segment	4 0	–	4 0	–	–	–
Total	1,641 0	268 7	1,909 7	18 5	13 9	32 4
Group eliminations and unallocated items	(34 2)	–	(34 2)	(20 3)	–	(20 3)
Consolidated						
Group	2,941 6	42 3	2,983 9	48 4	1 3	49 7
Share of jointly controlled entities	296 5	232 0	528 5	34 9	12 8	47 7
Total	3,238 1	274 3	3,512 4	83 3	14 1	97 4

(1) includes Rest of the World
(2) Support services excludes the results of discontinued operations as disclosed in note 8

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2 Segmental reporting (continued)

Segmental revenue and profit (continued)

	2007 £m	2006 £m
Group and share of jointly controlled entities' operating profit before intangible amortisation, impairment of goodwill and other investments and restructuring costs	**120 1**	97 4
Net financial income/(expense)		
– Group	**0 6**	1 3
– Share of jointly controlled entities	**(9 9)**	(8 0)
Share of jointly controlled entities' taxation	**(9 0)**	(8 1)
Underlying profit before taxation from continuing operations	**101 8**	82 6
Intangible amortisation and impairment of goodwill and other investments[1]	**(21 5)**	(17 2)
Restructuring costs[1]	**(14 2)**	(22 6)
Non-operating items[1]	**28 3**	25 3
Profit before taxation from continuing operations	**94 4**	68 1
Taxation	**(8 3)**	(7 2)
Profit from continuing operations	**86 1**	60 9
Discontinued operations	**(7 6)**	(0 5)
Analysed between		
Trading loss from discontinued operations	**(1 4)**	(0 5)
Loss on disposal of discontinued operations	**(6 2)**	–
Profit for the year	**78 5**	60 4

[1] Intangible amortisation and impairment, restructuring costs and non-operating items arise in the following segments

	2007			2006		
	Intangible amortisation and impairment £m	**Restructuring costs £m**	**Non-operating items £m**	Intangible amortisation and impairment £m	Restructuring costs £m	Non-operating items £m
Support services	**(13 9)**	**(0 5)**	–	(11 9)	(6 0)	(0 3)
Public private partnership projects	**(1 9)**	–	**24 1**	(0 4)	(0 2)	25 6
Construction services	**(4 2)**	–	**4 2**	(3 6)	(1 5)	–
Unallocated Group items	**(1 5)**	**(13 7)**	–	(1 3)	(14 9)	–
Total	**(21 5)**	**(14 2)**	**28 3**	(17 2)	(22 6)	25 3

Depreciation, amortisation and impairment and capital expenditure arise in the following segments

	2007		2006	
	Depreciation, amortisation and impairment[2] £m	**Capital expenditure £m**	Depreciation amortisation and impairment[2] £m	Capital expenditure £m
Support services	**28 3**	**15 0**	23 5	28 9
Public private partnership projects	**1 9**	–	0 4	–
Construction services	**7 5**	**4 2**	7 0	4 7
Unallocated Group items	**9 1**	**11 2**	5 5	19 7
Total	**46 8**	**30 4**	36 4	53 3

(2) Includes impairment of goodwill and other investments within Public Private Partnership projects of £1 9m (2006 £0 4m)

2 Segmental reporting (continued)

The share of results of jointly controlled entities arises in the following segments

	2007 £m	2006 £m
Support services	**8 5**	5 2
Public Private Partnership projects	**9 4**	7 3
Construction services	**18 9**	19 1
	36 8	31 6

Segmental net assets

	2007			2006		
	Operating assets £m	**Operating liabilities £m**	**Net operating assets/ (liabilities) £m**	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m
Support services						
Operating assets	**716 3**	**–**	**716.3**	761 5	–	761 5
Investments in jointly controlled entities	**4 4**	**–**	**4.4**	2 1	–	2 1
Total operating assets	**720 7**	**–**	**720.7**	763 6	–	763 6
Total operating liabilities	**–**	**(392.4)**	**(392.4)**	–	(420 2)	(420 2)
Net operating assets	**720 7**	**(392 4)**	**328.3**	763 6	(420 2)	343 4
Public Private Partnership projects						
Operating assets	**7 8**	**–**	**7 8**	7 0	–	7 0
Investments in jointly controlled entities	**134 9**	**–**	**134 9**	130 9	–	130 9
Total operating assets	**142 7**	**–**	**142 7**	137 9	–	137 9
Total operating liabilities	**–**	**(10.0)**	**(10 0)**	–	(22 0)	(22 0)
Net operating assets	**142 7**	**(10.0)**	**132 7**	137 9	(22 0)	115 9
Construction services						
Operating assets	**750 4**	**–**	**750.4**	832 0	–	832 0
Investments in jointly controlled entities	**46 6**	**–**	**46 6**	45 8	–	45 8
Total operating assets	**797 0**	**–**	**797 0**	877 8	–	877 8
Total operating liabilities	**–**	**(678 2)**	**(678 2)**	–	(709 9)	(709 9)
Net operating assets	**797 0**	**(678 2)**	**118 8**	877 8	(709 9)	167 9
Consolidated						
Operating assets	**1,474 5**	**–**	**1,474 5**	1,600 5	–	1,600 5
Investments in jointly controlled entities	**185 9**	**–**	**185 9**	178 8	–	178 8
Total operating assets	**1,660 4**	**–**	**1,660 4**	1,779 3	–	1,779 3
Total operating liabilities	**–**	**(1,080 6)**	**(1,080 6)**	–	(1,152 1)	(1,152 1)
Net operating assets/(liabilities) before Group items	**1,660 4**	**(1,080 6)**	**579 8**	1,779 3	(1,152 1)	627 2
Group items						
Deferred tax assets/(liabilities)	**9 3**	**(24 0)**	**(14 7)**	55 4	(37 4)	18 0
Net borrowing	**327 5**	**(372 4)**	**(44 9)**	144 5	(252 5)	(108 0)
Retirement benefit assets/ (liabilities) (gross of taxation)	**17 3**	**(41 6)**	**(24 3)**	10 9	(123 8)	(112 9)
Income tax payable	**2 2**	**(2 3)**	**(0 1)**	0 2	(13 0)	(12 8)
Other net assets/(liabilities)	**116 5**	**(109 4)**	**7 1**	71 8	(49 6)	22 2
Net assets	**2,133 2**	**(1,630 3)**	**502 9**	2,062 1	(1,628 4)	433 7

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2 Segmental reporting (continued)

Geographic segments

	2007 £m	2006 £m
United Kingdom		
Total revenue from external customers	**3,385 4**	2,991 6
Less share of jointly controlled entities' revenue	**(334 7)**	(260 6)
Revenue from external customers	**3,050 7**	2,731 0
Total operating assets	**1,361 9**	1,515 5
Capital expenditure	**22 1**	31 7
Middle East		
Total revenue from external customers	**342 4**	274 3
Less share of jointly controlled entities' revenue	**(242 4)**	(232 0)
Revenue from external customers	**100 0**	42 3
Total operating assets	**75 6**	38 9
Capital expenditure	**2 2**	1 3
Canada and the Caribbean		
Total revenue from external customers	**186 0**	163 5
Less share of jointly controlled entities' revenue	**(7 5)**	(7 3)
Revenue from external customers	**178 5**	156 2
Total operating assets	**146 9**	117 2
Capital expenditure	**5 9**	20 2
Rest of the World		
Total revenue from external customers	**37 9**	83 0
Less share of jointly controlled entities' revenue	**(36 4)**	(28 6)
Revenue from external customers	**1 5**	54 4
Total operating assets	**76 0**	107 7
Capital expenditure	**0 2**	0 1
Consolidated		
Total revenue from external customers	**3,951 7**	3,512 4
Less share of jointly controlled entities' revenue	**(621 0)**	(528 5)
Revenue from external customers	**3,330 7**	2,983 9
Total operating assets	**1,660 4**	1,779 3
Capital expenditure	**30 4**	53 3

3 Group operating profit

	2007 £m	2006 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment[1]	**24 3**	20 4
Amortisation of intangible assets	**20 6**	17 8
Impairment of goodwill relating to jointly controlled entities	–	0 4
Impairment reversal in respect of property, plant and equipment	–	(2 1)
Impairment of other non-current asset investments	**1 9**	0 2
Other operating income – profit on disposal of property, plant and equipment	**(9 5)**	(1 9)
Operating lease charges	**81 6**	79 4
Foreign exchange (gains)/losses	**(5 6)**	1 0
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the annual accounts	**0 4**	0 5
Fees payable to the Company's auditor and its associates for other services		
– Audit of the Company's subsidiaries, pursuant to legislation	**1 1**	1 4
– Other services pursuant to legislation	–	0 4
– Taxation services	**0 3**	0 5
– Services relating to information technology	–	0 1
– Services relating to corporate finance transactions	–	0 1
Fees in respect of Group pension schemes		
– Audit	**0 1**	0 1

(1) Excludes depreciation of £0 4m (2006 £0 4m) relating to discontinued operations

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 (2006 £0 1m)

4 Restructuring costs and non-operating items

Restructuring costs

	2007 £m	2006 £m
Mowlem integration costs	**9 5**	18 4
Operational structure review costs	**4 5**	–
Rail activities review costs	**0 2**	4 2
	14.2	22 6

Mowlem integration costs in 2007 primarily relate to property exit costs arising from a review of the Group's requirements following the acquisition of Mowlem plc in 2006

Following a period of rapid growth, the Group undertook a rationalisation of the operating structure at the end of 2007 at a cost of £4 5 million

An income tax credit of £2 7m (2006 £5 0m) relating to the above restructuring costs has been included within income tax in the income statement

Non-operating items

	2007 £m	2006 £m
Profit on disposal of investments in jointly controlled entities	**24.5**	26 0
Profit/(loss) on disposal of businesses	**3 7**	(0 7)
Other	**0 1**	–
	28 3	25 3

Further disclosure on the Group's sale of businesses and investments in jointly controlled entities during 2007 can be found in Note 31

The loss on disposal of businesses in 2006 of £0 7m relates to the closure of a small rail businesss in Norway

There is no income tax associated with any of the non-operating items in either 2007 or 2006

Financial statements
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5 Financial income and expenses

	2007 £m	2006 £m
Financial income		
Bank interest receivable	**5 1**	8 0
Other interest receivable	**8 6**	7 3
Expected return on pension scheme assets	**86 1**	71 7
	99 8	87 0
Financial expenses		
Interest payable on bank loans and overdrafts	**(15 4)**	(13 3)
Other interest payable and similar charges	**(4 5)**	(4 2)
Interest cost on pension scheme liabilities	**(79 3)**	(68 2)
	(99 2)	(85 7)
Net financial income	**0 6**	1 3

Other interest payable and similar charges includes finance lease charges of £2 8m (2006 £2 7m)

6 Payroll costs and employee numbers

	2007 £m	2006 £m
Wages and salaries	**649 9**	641 3
Social security costs	**63 4**	63 8
Pension costs	**29 3**	35 1
Equity settled transactions	**2 8**	1 3
	745 4	741 5

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 32 and includes £5 4m (2006 £5 5m) 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 48 to 55

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

	2007 Number	2006 Number
Support services	**18,495**	23,560
Public private partnership projects	**41**	56
Construction services	**11,818**	7,627
Corporate centre	**392**	333
	30,746	31,576
UK	**23,434**	27,649
Overseas	**7,312**	3,927
	30,746	31,576

In addition to the above there are 24,727 staff (2006 14,684) employed within the Group's jointly controlled entities located in the Middle East

7 Income tax

Recognised in the income statement

	2007 £m	2006 £m
Current tax expense/(credit)		
Current year		
– UK	**(7 4)**	3 2
– Overseas	**3 0**	2 7
Adjustments for prior years		
– UK	**(9 0)**	(7 1)
– Overseas	**(1 3)**	–
Total current tax	**(14 7)**	(1 2)
Deferred tax expense		
Origination and reversal of temporary differences	**21 5**	8 6
Adjustments for prior years	**2 3**	(0 2)
Change in tax rate	**(0 8)**	–
Total deferred tax	**23 0**	8 4
Total income tax expense in the income statement	**8 3**	7 2

Reconciliation of effective tax rate

	2007 £m	2006 £m
Profit before tax	**94.4**	68 1
Tax of jointly controlled entities	**9.0**	8 1
	103 4	76 2
Income tax at UK standard corporation tax rate of 30% (2006 30%)	**31.0**	22 9
Permanent differences	**4 5**	5 8
Unrelieved trade losses	**4 0**	1 4
Capital items not taxable	**(11 5)**	(7 9)
Amortisation of intangible assets	**0 3**	0 8
Effect of tax losses utilised	**(2 1)**	(0 2)
Effect of tax rates in foreign jurisdictions	**(0 1)**	0 2
Over provided in prior years	**(8 0)**	(7 3)
Change in rate	**(0 8)**	–
Effect of unrecognised timing differences	**–**	(0 4)
Total tax (including tax of jointly controlled entities)	**17 3**	15 3
Tax of jointly controlled entities	**(9 0)**	(8 1)
Group income tax expense	**8 3**	7 2

The release of the over-provision in prior years of £8 0m is attributable to the agreement of certain tax issues with the tax authorities The over-provision relating to prior years in 2006 of £7 3m principally arose from agreement being reached on various projects with the UK and Republic of Ireland tax authorities and the release of a potential overseas tax liability in respect of the ownership of Carillion Alawi based in Oman

Tax asset recognised directly in equity

	2007 £m	2006 £m
Deferred tax on actuarial gains and losses on defined benefit pension schemes	**9 1**	10 3
Current tax on foreign exchange translation adjustments	**(0 8)**	1 2
Tax recognised in statement of recognised income and expense	**8 3**	11 5
Deferred tax on equity settled transactions	**0 8**	0 4
Total tax recognised in equity	**9 1**	11 9

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8 Discontinued operations

The Group disposed of non-core rail activities in Sweden and Denmark in July 2007 and Pall Mall Holdings Limited and Sovereign Soft Services Limited in September 2007 The disposal of the rail businesses in Sweden and Denmark marks the Group's exit from activities in the region The disposal of Pall Mall Holdings Limited and Sovereign Soft Services Limited reflects the divestment of non-core activities acquired with Mowlem plc in 2006 On this basis, these operations have been classified as discontinued and the income statement and cash flow statement for 2006 have been restated accordingly

The results of these operations in total, which were previously reported in the support services segment, were as follows

	2007 £m	2006 £m
Revenue	**64 9**	81 0
Cost of sales	**(59 5)**	(72 9)
Gross profit	**5 4**	8 1
Administrative expenses	**(6 6)**	(8 7)
Operating loss	**(1 2)**	(0 6)
Net financial income	**–**	0 1
Loss before tax	**(1 2)**	(0 5)
Taxation	**(0 2)**	–
Trading loss for the year	**(1 4)**	(0 5)
Loss on disposal	**(6 2)**	–
Loss from discontinued operations	**(7 6)**	(0 5)

The disposal of discontinued operations had the following effect on the financial position of the Group

Net assets and liabilities disposed

	Carrying value £m
Property, plant and equipment	**(1 3)**
Intangible assets	**(19 6)**
Deferred tax assets	**(0 3)**
Inventories	**(0 3)**
Trade and other receivables	**(18 2)**
Cash and cash equivalents	**(2 9)**
Current borrowing	**1 2**
Trade and other payables	**15 0**
Income tax payable	**0 4**
Net assets disposed of	**(26 0)**
Consideration receivable (net of disposal costs of £5 4m)	**19 8**
Loss on disposal	**(6 2)**

The consideration receivable of £19 8m was satisfied in cash and has been reflected in the cash flow statement within net cash flows from investing activities of discontinued operations as follows

	2007 £m
Cash received	**24 8**
Disposal costs paid	**(1 1)**
	23 7
Cash and cash equivalents disposed of	**(1 7)**
Net cash inflow on disposal of discontinued operations	**22 0**

The net cash flows relating to discontinued operations during the year are as follows

	2007 £m	2006 £m
Net cash (outflow)/inflow from operating activities	**(9 3)**	7 5
Net cash inflow/(outflow) from investing activities	**21 7**	(0 6)
Increase in cash and cash equivalents from discontinued operations	**12 4**	6 9

9 Earnings per share

(a) Basic earnings per share

The calculation of earnings per share for the year ended 31 December 2007 is based on the profit attributable to equity holders of the parent of £76 0m (2006 £58 2m) and a weighted average number of ordinary shares in issue of 280 6m (2006 269 5m), calculated as follows

In millions of shares	2007	2006
Issued ordinary shares at 1 January	**281 2**	214 9
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust	**(0 6)**	(1 9)
Effect of shares issued in the year	–	56 5
Weighted average number of ordinary shares at 31 December	**280 6**	269 5

(b) Underlying performance

A reconciliation of profit before taxation and basic earnings per share, as reported in the income statement, to underlying profit before taxation and 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

	2007		2006	
	Profit before tax £m	**Tax £m**	Profit before tax £m	Tax £m
Profit before taxation – continuing operations				
Profit before taxation as reported in the income statement	**94 4**	**8 3**	68 1	7 2
Restructuring costs	**14 2**	**2 7**	22 6	5 0
Amortisation of intangible assets arising from business combinations	**19 6**	**7 3**	16 8	4 4
Impairment of goodwill and other investments	**1.9**	–	0 4	–
Profit on disposal of investments and businesses	**(28 3)**	–	(25 3)	–
Underlying profit before taxation – continuing operations	**101.8**	**18 3**	82 6	16 6
Underlying taxation	**(18 3)**		(16 6)	
Minority interests	**(2 5)**		(2 2)	
Underlying profit attributable to shareholders – continuing operations	**81 0**		63 8	
Underlying loss attributable to shareholders – discontinued operations	**(7 6)**		(0 5)	
Underlying profit attributable to shareholders – continuing and discontinued operations	**73 4**		63 3	

	2007 Pence per share	2006 Pence per share
Earnings per share		
Basic earnings per share – continuing and discontinued operations	**27 1**	21 6
Restructuring costs	**4 1**	6 5
Amortisation of intangible assets arising from business combinations	**4 4**	4 6
Impairment of goodwill and other investments	**0 7**	0 2
Profit on disposal of investments and businesses	**(10 1)**	(9 4)
Underlying basic earnings per share – continuing and discontinued operations	**26 2**	23 5
Discontinued operations	**2 7**	0 2
Underlying basic earnings per share – continuing operations	**28 9**	23 7
Diluted earnings per share – discontinued operations	**(2.7)**	(0 2)

(c) Diluted earnings per share

The calculation of diluted earnings per share is based on profit as shown in note 9(b) and a weighted average number of ordinary shares outstanding calculated as follows

In millions of shares	2007	2006
Weighted average number of ordinary shares	**280.6**	269 5
Effect of share options in issue	**3 0**	3 1
Weighted average number of ordinary shares (diluted) at 31 December	**283.6**	272 6

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10 Dividends

The following dividends were paid by the Company

	2007 £m	2007 Pence per share	2006 £m	2006 Pence per share
Previous year final dividend	**16 6**	**5 9**	14 5	5 2
Current year interim dividend	**9 8**	**3 5**	8 7	3 1
	26 4	**9 4**	23 2	8 3

The following dividends were proposed by the Company

	2007 £m	2007 Pence per share	2006 £m	2006 Pence per share
Interim	**9 8**	**3 5**	8 7	3 1
Final	**29 6**	**7 5**	16 6	5 9
	39 4	**11 0**	25 3	9 0

The final dividend for 2007 of 7 5 pence per share was approved by the Board on 5 March 2008 and will be paid on 20 June 2008 to shareholders on the register on 25 April 2008 The amount expected to be paid in respect of the 2007 final dividend of £29 6m includes the dividend payable on 112 9m new Carillion shares issued following the acquisition of Alfred McAlpine plc on 12 February 2008

11 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2007	**29 3**	**127 6**	**156 9**
Additions	**3 6**	**25 5**	**29 1**
Disposals	**(17 5)**	**(41 9)**	**(59 4)**
Reclassification from intangible assets	**2 6**	**(1 3)**	**1 3**
Effect of movements in foreign exchange rates	**0 8**	**9 5**	**10 3**
At 31 December 2007	**18 8**	**119 4**	**138 2**
Depreciation and impairment losses			
At 1 January 2007	**4 8**	**5 5**	**10 3**
Depreciation charge for the year	**2 2**	**22 5**	**24 7**
Disposals	**(5.0)**	**(26 2)**	**(31 2)**
Reclassification	**0.2**	**(0 2)**	–
Effect of movements in foreign exchange rates	**0 3**	**2 6**	**2 9**
At 31 December 2007	**2 5**	**4 2**	**6 7**
Net book value			
At 1 January 2007	**24 5**	**122 1**	**146 6**
At 31 December 2007	**16 3**	**115 2**	**131 5**

11 Property, plant and equipment (continued)

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2006	17 1	94 3	111 4
Acquisitions	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

Acquisitions in 2006 of £26 6m relate to the acquisition of Mowlem plc

Included in the net book value of plant, equipment and vehicles is £40 9m (2006 £46 8m) in respect of assets held under finance leases and hire purchase contracts The leased equipment secures lease obligations as disclosed in note 20

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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 2007	**484 4**	**125 6**	**610 0**	**10 1**	**620 1**
Additions	–	–	–	**1 6**	**1 6**
Disposals	**(18 0)**	**(3 0)**	**(21 0)**	**(0 1)**	**(21 1)**
Reclassification to property, plant and equipment	–	–	–	**(1 3)**	**(1 3)**
Exchange rate changes	–	–	–	**0 1**	**0 1**
At 31 December 2007	**466 4**	**122 6**	**589 0**	**10 4**	**599 4**
Amortisation and impairment losses					
At 1 January 2007	–	**19 3**	**19 3**	**4 7**	**24 0**
Amortisation for the year	–	**19 6**	**19 6**	**1 0**	**20 6**
Disposals	–	**(0 9)**	**(0 9)**	**(0 1)**	**(1 0)**
At 31 December 2007	–	**38 0**	**38 0**	**5 6**	**43 6**
Net book value					
At 1 January 2007	**484 4**	**106 3**	**590 7**	**5 4**	**596 1**
At 31 December 2007	**466 4**	**84 6**	**551 0**	**4 8**	**555 8**
Cost					
At 1 January 2006	53 6	6 2	59 8	8 7	68 5
Acquisitions (see note 31)	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

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 31

12 Intangible assets (continued)

Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill

	2007	2006
Rail Projects	**12 1**	12 1
Citex Management Services contracts	**7 0**	7 0
Planned Maintenance Group	**34 5**	34 5
Regional Building	**122 0**	122 0
Regional Civil Engineering	**70 0**	70 0
Facilities Management	**97 8**	97 8
Facilities Services	**42 0**	42 0
Rail	**40 0**	40 0
National Building	**41 0**	41 0
Pall Mall (sold September 2007)	–	18 0
	466 4	484 4

In 2007, as in each year or whenever events or a change in the economic environment indicates a risk of impairment, in accordance with IAS 36, the Group has reviewed the value of goodwill balances allocated to its cash-generating units In the absence of any identified impairment risks, tests were performed based on internal valuations of each cash-generating unit

The recoverable amount of 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 five per cent (2006 five per cent) thereafter, discounted at the Group's estimated weighted average cost of capital of 12 0 per cent (2006 9 5 per cent)

As at 31 December 2007, based on internal valuations, Carillion plc management concluded that the recoverable value of the cash generating units tested exceeded their carrying amount

Amortisation charge

The amortisation charge of £20 6m (2006 £17 8m) is recognised in administrative expenses in the income statement Amortisation of the intangible asset of £119 0m arising on the acquisition of Mowlem plc is in line with the expected discounted cash flows arising from the intangible asset and will be 79 per cent complete by 2016 The remaining amortisation charge is incurred over the following 25 years

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13 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2007	117 9	42 7	160 6	1 1	161 7
Exchange rate movements	1 5	–	1 5	–	1 5
Equity investments	7 7	–	7 7	–	7 7
Disposals	–	(7 5)	(7 5)	(1 1)	(8 6)
Net loans advanced	–	11 7	11 7	–	11 7
At 31 December 2007	127 1	46 9	174 0	–	174 0
Share of post acquisition results					
At 1 January 2007	18 2	–	18 2	–	18 2
Share of results for the year after taxation	36 8	–	36 8	–	36 8
Share of change in fair value of cash flow hedges (net of tax)	(5 3)	–	(5 3)	–	(5 3)
Distributions received	(38 0)	–	(38 0)	–	(38 0)
Disposals	0 1	–	0 1	–	0 1
Other movements	0 1	–	0 1	–	0 1
At 31 December 2007	11 9	–	11 9	–	11 9
Impairment losses					
At 1 January 2007	–	–	–	1 1	1 1
Disposals	–	–	–	(1 1)	(1.1)
At 31 December 2007	–	–	–	–	–
Net book value					
At 1 January 2007	136 1	42 7	178 8	–	178 8
At 31 December 2007	139 0	46 9	185 9	–	185 9

13 Investments in jointly controlled entities (continued)
Equity investments of £7 5m, includes £7 3m paid in cash relating to the acquisition of 25 per cent interests in a number of development jointly controlled entities in Canada No goodwill arose on any of these investments During the year, the Group disposed of a portfolio of PPP investments as disclosed in note 31

	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 31)	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

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13 Investments in jointly controlled entities (continued)

The Group's aggregate share of net assets of jointly controlled entities is analysed below Borrowings within jointly controlled entities amounting to £1,683 1m (2006 £1,557 1m) are without recourse to the Carillion Group

	2007			2006		
	PPP projects £m	Other £m	Total £m	PPP projects £m	Other £m	Total £m
Non-current assets	**202 2**	**11 0**	**213 2**	64 7	7 7	72 4
Cash	**197 0**	**18 5**	**215 5**	217 6	6 7	224 3
Other current assets	**1,453 9**	**278 4**	**1,732 3**	1,419 9	192 1	1,612 0
Share of gross assets	**1,853 1**	**307 9**	**2,161 0**	1,702 2	206 5	1,908 7
Current borrowing	**(9 4)**	**(5 6)**	**(15 0)**	(32 6)	(0 3)	(32 9)
Current liabilities	**(66 7)**	**(239 1)**	**(305 8)**	(61 2)	(128 5)	(189 7)
Non-current borrowing	**(1,655 9)**	**(12 2)**	**(1,668 1)**	(1,496 4)	(27 8)	(1,524 2)
Non-current liabilities	**(0 1)**	–	**(0 1)**	(0 4)	(2 0)	(2 4)
Provisions	**(16 9)**	–	**(16 9)**	(12 0)	–	(12 0)
Share of gross liabilities	**(1,749 0)**	**(256 9)**	**(2,005 9)**	(1,602 6)	(158 6)	(1,761 2)
Share of net assets excluding derivatives	**104 1**	**51 0**	**155 1**	99 6	47 9	147 5
Financial instrument derivatives	**(16 1)**	–	**(16 1)**	(11 4)	–	(11 4)
Share of net assets	**88 0**	**51 0**	**139 0**	88 2	47 9	136 1
Loan advances	**46 9**	–	**46 9**	42 7	–	42 7
Total investment in jointly controlled entities	**134 9**	**51 0**	**185 9**	130 9	47 9	178 8

Non-current assets and other current assets within PPP projects include cumulative capitalised interest amounting to £3 8m (2006 £3 8m) and £70 5m (2006 £62 6m) respectively

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

14 Other investments

	£m
Fair value	
At 1 January 2007	**15 2**
Additions	**1 6**
Disposals	**(0 3)**
Exchange rate movements	**0 1**
At 31 December 2007	**16 6**
Impairment losses	
At 1 January 2007	**0 2**
Impairment charge	**1 9**
At 31 December 2007	**2 1**
Net book value	
At 1 January 2007	**15 0**
At 31 December 2007	**14 5**

Other investments relate to non-quoted equity instruments and are classified as available-for-sale assets and recognised at fair value

Fair value is calculated by discounting the expected future cash flows arising from the investments at a discount rate of 12 0 per cent

During the year an impairment charge of £1 9m has been recognised within administrative expenses in the income statement following a reassessment of fair value by the Directors

14 Other investments (continued)

	£m
Fair value	
At 1 January 2006	4 7
Acquisitions (see note 31)	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

15 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Property, plant and equipment	**3 4**	4 2	–	–	**3 4**	4 2
Intangible assets	–	–	**(23.5)**	(31 3)	**(23 5)**	(31 3)
Other investments	–	–	**(0.4)**	(0 4)	**(0 4)**	(0 4)
Employee benefits	**15 2**	40 7	**(4.7)**	(3 6)	**10 5**	37 1
Working capital	**2 3**	6 4	–	–	**2 3**	6 4
Other items	–	–	**(7.0)**	(8 0)	**(7 0)**	(8 0)
Tax value of carry forward losses recognised	–	10 0	–	–	–	10 0
Tax assets/(liabilities)	**20 9**	61 3	**(35 6)**	(43 3)	**(14 7)**	18 0
Set off of tax	**(11 6)**	(5 9)	**11.6**	5 9	–	–
Net tax assets/(liabilities)	**9 3**	55 4	**(24 0)**	(37 4)	**(14 7)**	18 0

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15 Deferred tax assets and liabilities (continued)

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

	2007 £m	2006 £m
Tax losses	**65 0**	63 1

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

Deferred tax includes a liability associated with temporary differences arising from unremitted earnings from investments in overseas subsidiaries, branches and jointly controlled entities of £7 0m (2006 £5 7m)

Movement in temporary differences during the year

	Balance 1 Jan 07 £m	Disposals £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 07 £m
Property, plant and equipment	**4 2**	**–**	**(0.8)**	**–**	**3 4**
Intangible assets	**(31 3)**	**0 5**	**7 3**	**–**	**(23 5)**
Other investments	**(0 4)**	**–**	**–**	**–**	**(0 4)**
Employee benefits	**37 1**	**–**	**(17 5)**	**(9 1)**	**10 5**
Working capital	**6 4**	**(0 3)**	**(3 8)**	**–**	**2 3**
Other items	**(8 0)**	**–**	**1 0**	**–**	**(7 0)**
Tax value of carry forward losses recognised	**10 0**	**–**	**(10 0)**	**–**	**–**
Equity-settled transactions	**–**	**–**	**0 8**	**(0 8)**	**–**
	18 0	**0 2**	**(23 0)**	**(9 9)**	**(14 7)**

	Balance 1 Jan 06 £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

16 Inventories

	2007 £m	2006 £m
Raw materials and consumables	**13 0**	12 0
Development work in progress	**17 5**	26 5
	30 5	38 5

The amount of inventories recognised as an expense during the year was £29 6m (2006 £16 9m) and the amount of any write down of inventories recognised as an expense was £0 3m (2006 £0 4m)

17 Construction contracts

Contracts in progress at the balance sheet date

	2007 £m	2006 £m
Due from customers for contract work	**508 8**	562 5
Due to customers for contract work	**(256 9)**	(169 6)

The aggregate amount of costs incurred and recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £4,331 0m (2006 £2,768 6m) Advances received from customers relating to contracts in progress amounted to £169 7m (2006 £112 1m)

The amount of contract revenue recognised in the year amounted to £2,183 5m (2006 £2,021 2m)

18 Trade and other receivables

	2007 £m	2006 £m
Trade receivables	**182 6**	135 6
Amounts owed by customers on construction contracts	**508 8**	562 5
Other receivables and prepayments	**111 1**	117 2
Amounts owed by jointly controlled entities	**34 1**	36 0
Amounts owed under jointly controlled operations	**22 1**	24 0
	858 7	875 3

At 31 December 2007, retentions of £69 2m (2006 £67 9m) relating to construction contracts and amounts recoverable after more than one year of £35 8m (2006 £45 5m) are included above

19 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise

	2007 £m	2006 £m
Cash and cash equivalents	**327 5**	144 5
Bank overdrafts	**(3 7)**	(3 1)
Net cash and cash equivalents	**323 8**	141 4
Bank loans	**(306 6)**	(190 7)
Finance lease obligations	**(48.1)**	(47 9)
Other loans	**(14.0)**	(10 8)
Net borrowing	**(44 9)**	(108 0)

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20 Borrowing
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 28

	2007 £m	2006 £m
Current liabilities		
Bank overdrafts	**3 7**	3 1
Finance lease obligations	**6 5**	4 9
Other loans	**3 7**	4 6
	13 9	12 6
Non-current liabilities		
Bank loans	**306 6**	190 7
Finance lease obligations	**41 6**	43 0
Other loans	**10 3**	6 2
	358 5	239 9
Total borrowing	**372 4**	252 5

All bank loans and overdrafts are unsecured and bear interest at floating rates linked to London Interbank Offered Rate 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 2007 £m	Interest 2007 £m	Principal 2007 £m	Minimum lease payments 2006 £m	Interest 2006 £m	Principal 2006 £m
Less than one year	**8 9**	**(2 4)**	**6 5**	7 2	(2 3)	4 9
Between one and five years	**37 8**	**(6 6)**	**31 2**	33 1	(7 6)	25 5
More than five years	**11 5**	**(1 1)**	**10 4**	18 5	(1 0)	17 5
	58 2	**(10 1)**	**48 1**	58 8	(10 9)	47 9

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

21 Trade and other payables

	2007 £m	2006 £m
Trade payables	**478 0**	584 6
Amounts owed to customers on construction contracts	**256 9**	169 6
Other tax and social security costs	**40 3**	35 0
Amounts owed to jointly controlled entities	**21 6**	46 1
Amounts owed under jointly controlled operations	**4 9**	0 1
Other creditors	**98 0**	89 7
Accruals and deferred income	**276 0**	270 7
	1,175 7	1,195 8

22 Provisions

	Restructuring £m	Onerous leases £m	Total £m
Balance at 1 January 2007	**0 6**	**5 3**	**5 9**
Provisions created	**4 5**	**3 2**	**7 7**
Balance at 31 December 2007	**5 1**	**8 5**	**13 6**
Disclosed within			
Current liabilities	**5 1**	**1 8**	**6 9**
Non-current liabilities	**–**	**6 7**	**6 7**
	5 1	**8 5**	**13 6**

The restructuring provision at 1 January 2007 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 The restructuring provision created in the year of £4 5m arises from a rationalisation of the operating structure at the end of 2007

The onerous lease provision relates to a number of onerous leases acquired with Mowlem plc and has been increased by £3 2m in the year in relation to the former Mowlem Head Office The provision is expected to be utilised over a period of eight years

	Restructuring £m	Onerous leases £m	Total £m
Balance at 1 January 2006	–	–	–
Acquisitions (see Note 31)	–	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

23 Share capital

	2007 £m	2006 £m
Authorised		
423,000,000 (2006 423,000,000) ordinary shares of 50p each	**211 5**	211 5

Issued and fully paid

	2007 Number million	2007 £m	2006 Number million	2006 £m
At 1 January	**281 2**	**140 6**	214 9	107 4
New share capital subscribed	**–**	**–**	66 3	33 2
At 31 December	**281 2**	**140 6**	281 2	140 6

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24 Reserves and statement of changes in total equity

Reconciliation of movement in reserves

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Equity share-holders' funds £m	Minority interests £m	Total equity £m
At 1 January 2007	**140 6**	**8 6**	**(3 4)**	**(9 6)**	**0 9**	**184 8**	**110 8**	**432 7**	**1 0**	**433 7**
Total recognised income and expense	–	–	**0 7**	**(5 3)**	–	–	**97 1**	**92 5**	**2 5**	**95 0**
Share options exercised by employees	–	–	–	–	–	–	**0 9**	**0 9**	–	**0 9**
Equity settled transactions (net of deferred tax)	–	–	–	–	–	–	**2 0**	**2 0**	–	**2 0**
Transfer to income statement	–	–	**(0 1)**	–	–	–	–	**(0 1)**	–	**(0 1)**
Transfer between reserves	–	–	–	**0 6**	–	**(18 6)**	**18 0**	–	–	–
Dividends paid	–	–	–	–	–	–	**(26 4)**	**(26 4)**	**(2 2)**	**(28 6)**
At 31 December 2007	**140 6**	**8 6**	**(2 8)**	**(14 3)**	**0 9**	**166 2**	**202 4**	**501 6**	**1 3**	**502 9**
At 1 January 2006	107 4	8 2	0 7	(10 8)	0 9	8 2	34 1	148 7	1 1	149 8
Total recognised income and expense	–	–	(4 1)	0 2	–	–	82 5	78 6	2 2	80 8
New share capital subscribed	33 2	0 4	–	–	–	191 3	–	224 9	–	224 9
Share options exercised by employees	–	–	–	–	–	–	2 8	2 8	–	2 8
Equity settled transactions (net of deferred tax)	–	–	–	–	–	–	0 9	0 9	–	0 9
Transfer between reserves	–	–	–	1 0	–	(14 7)	13 7	–	–	–
Dividends paid	–	–	–	–	–	–	(23 2)	(23 2)	(2 3)	(25 5)
At 31 December 2006	140 6	8 6	(3 4)	(9 6)	0 9	184 8	110 8	432 7	1 0	433 7

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 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 The reserve increased on the acquisition of Mowlem plc on 23 February 2006 whereby the consideration included the issue of 66 2m Carillion shares The Group has credited the merger reserve as permitted by The Companies Act 1985 and prior year information has been restated accordingly The £18 6m transfer to the retained earnings reserve during the year represents the amortisation of intangible assets recognised on the Mowlem acquisition

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

	2007 £m	2006 £m
Balance at 1 January	**(1 6)**	(4 7)
Share options exercised by employees (exercise price)	**0 9**	2 8
LTIP options exercised (transfer to retained earnings)	–	0 3
Balance at 31 December	**(0 7)**	(1 6)

At 31 December 2007, the ESOP held 61,909 (2006 1,137,177) 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, 2,643 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 2007 the total number of shares held under the QUEST amounted to 219,763 (2006 222,406) and had a market value of £0 8m (2006 £0 9m) The QUEST has elected to waive all dividends in excess of 0 01 pence per share

25 Reconciliation of movements in consolidated equity shareholders' funds

	2007 £m	2006 £m
Recognised income and expense	**92 5**	78 6
New share capital subscribed	–	224 9
Share options exercised by employees	**0 9**	2 8
Equity-settled transactions (net of deferred tax)	**2 0**	0 9
Transfer to income statement	**(0 1)**	–
Dividends paid to equity holders of the parent	**(26 4)**	(23 2)
Net addition to equity shareholders' funds	**68 9**	284 0
Opening equity shareholders' funds	**432 7**	148 7
Closing equity shareholders' funds	**501 6**	432 7

26 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 48 to 55

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	Exercise price
ESOS option grant at 1 July 2003	384,741	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three-year period	10 years	163 4p
ESOS option grant at 31 March 2004	282,026	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three-year period	10 years	184 9p
LTIP option grant at 15 March 2005	993,975	Three years of service based on Total Shareholders Return compared to comparator group	3 years	nil
ESOS option grant at 15 March 2005	204,076	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three-year period	10 years	242 75p
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	nil
Sharesave option grant at 8 November 2006	2,167,635	Three years of service	3 years	337 5p
LEAP option grant at 10 April 2007	941,246	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three-year period	3 years	nil
Total share options	5,894,516			

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 2007 for these schemes amounted to 1,010,733 (2006 1,010,733) with a remaining contractual life of either three or four years

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26 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 2007	**Number of options 2007**	Weighted average exercise price 2006	Number of options 2006
Outstanding at the beginning of the period	**169 3p**	**7,903,274**	108 8p	7,509,018
Forfeited during the period	**211 0p**	**(975,701)**	88 2p	(468,566)
Exercised during the period	**89 1p**	**(963,570)**	116 7p	(2,638,456)
Granted during the period	**–**	**941,246**	248 7p	3,501,278
Outstanding at the end of the period	**151 6p**	**6,905,249**	169 3p	7,903,274
Exercisable at the end of the period	**158 5p**	**1,677,500**	158 5p	1,469,413

The range of option prices for those options exercisable at the end of the period is 125 2 – 210 7p and the weighted average remaining contractual term for these options exercisable is 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

	2007 LEAP	2006 Sharesave	2006 LEAP	2005 LTIP	2005 ESOS
Fair value of share options and assumptions					
Fair value at grant date	**392 0p**	102 0p	295 0p	149 0p	76 0p
Share price at grant date	**421 0p**	385 0p	319 0p	245 0p	245 0p
Exercise price	–	337 5p	–	–	243 0p
Expected volatility	**21 97%**	27 44%	28 55%	40 07%	40 05%
Option life	**3 years**	3 years	3 years	3 years	4 years
Expected dividend yield	**2 34%**	2 45%	2 58%	2 55%	2 55%
Risk-free interest rate (based on national government bonds)	**5 35%**	5 0%	4 8%	n/a	4 86%

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

Employee expenses

	2007 £m	2006 £m
Equity-settled share options granted in		
2003	**–**	(0 1)
2004	**(0 2)**	0 4
2005	**0 4**	0 5
2006	**1 0**	0 5
2007	**1 6**	–
Total expense recognised as employee costs	**2 8**	1 3

The expected life of the options is taken to be the full vesting period, as historical exercise patterns have shown this to be appropriate The estimate of the number of shares that will eventually vest ignores the possibility that market conditions will or will not be achieved given that these market conditions are already included in the fair value of the options

27 Guarantees and contingent liabilities

	2007 £m	2006 £m
Guarantees in respect of deferred equity payments in PPP jointly controlled entities	**7 8**	9 8
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP jointly controlled entities	**88 7**	93 2
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP jointly controlled entities	**30 0**	30 0
Guarantees in respect of letters of credit issued by banks in relation to pension scheme deficit recovery payments	**21 0**	44 0

27 Guarantees and contingent liabilities (continued)

Group
Carillion JM Limited (CJM) (formerly Mowlem) has been the subject of the Office of Fair Trading's (OFT) on-going investigation of cover pricing in the construction industry (under The Competition Act 1988) The investigation relates to CJM's construction business and relates entirely to periods prior to CJM's acquisition No other member of the Group has been subject to the investigation CJM has been co-operating fully with the OFT Any fine ultimately arising would be subject to the statutory maximum financial penalty of 10 per cent of world wide revenue of the undertaking concerned in the business year prior to the infringement Group management believes that it is extremely unlikely that any fine that is imposed will approach this amount Carillion also does not believe that customers have suffered any loss or damage as a result of any actions taken by CJM

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

There are no contingent liabilities of Joint Ventures for which the Group is contingently liable

28 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 that exceed £10m equivalent are hedged, as a minimum, to at least 50 per cent of the net asset value Net investment hedging of overseas operations is achieved through borrowing denominated in the relevant foreign currencies or where this is not practicable in a currency which the relevant currency closely follows 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

Primarily the Group has small and infrequent transactional foreign currency exposures Any individual exposures that are significant are hedged using forward contracts or other appropriate risk management techniques

A general weakening of the Canadian Dollar (specifically a one per cent rise in the Sterling Canadian Dollar rate) would have a nil impact on reported profit and an increase of £0 1m in equity

Interest rate risk
The Group's interest-bearing debt is predominantly sterling borrowing that arose from the acquisition of Mowlem plc, on-going working capital requirements and foreign currency denominated borrowing for hedging net assets of overseas operations Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate No interest rate hedging is currently undertaken by the Group's subsidiaries However, a number of the Group's Public Private Partnership jointly controlled entities have entered into interest rate swaps A one percentage point rise in respect of US Dollar denominated borrowings interest rates would increase the annual net interest charge by approximately £0 1m, in respect of Canadian Dollar denominated borrowings an increase of £0 2m, and in respect of Sterling denominated borrowings an increase of £1 1m

Liquidity risk
The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are 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 a syndicated loan 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

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28 Financial instruments (continued)

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 approved at main Board level or within predetermined limits

Trade and other receivables included in the balance sheet are stated net of a bad debt provision which has been estimated by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable

An analysis of the provision held against trade receivables is set out below

	2007 £m	2006 £m
Provision as at 1 January	**11 3**	11 1
Increase in provision during the year	**4 9**	3 8
Provision utilised during the year	**(1 7)**	(3 0)
Provision released during the year	**(1 1)**	(0 6)
Provision as at 31 December	**13 4**	11 3

There are £26 2m of trade receivables that are past due at the balance sheet date that have not been provided against There are no indications as at 31 December 2007 that debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are past due and unprovided

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

Derivative financial instruments

	2007		2006	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts	–	**0 7**	0 8	–

In addition to the above, a number of the Group's Private Public Partnership (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 The life of these hedge arrangements track PPP contract terms and hedge future movements across a range spanning up until September 2035 At 31 December 2007 the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £34 5m (2006 £27 8m) of which £23 0m (2006 £13 7m) (and the related deferred tax asset of £6 9m (2006 £4 1m)) 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

	2007 Range (%)	2006 Range (%)
Bank overdrafts	**3 20-6 50%**	4 50 to 7 25
Bank loans	**5 46-7 31%**	5 24 to 6 36
Finance lease obligations	**4 00-12 49%**	4 00 to 12 49
Other loans	**5 84-6 76%**	4 20 to 6 00

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

	2007 £m	2006 £m
United States of America Dollars	**12 6**	12 8
Canadian Dollars	**57 9**	54 1
Other	**0 1**	0 2
	70 6	67 1

Of the total foreign currency borrowings of £70 6m (2006 £67 1m), the amount of borrowings used for hedging overseas currency asset amounts to £32 6m (2006 £29 9m) The foreign exchange loss of £2 7m (2006 gain of £4 1m) on translation of the borrowings into sterling has been recognised in the translation reserve

28 Financial instruments (continued)

The carrying amount of the Group's other financial assets and liabilities denominated in foreign currency is as follows

	Financial assets 2007	**Financial liabilities 2007**	Financial assets 2006	Financial liabilities 2006
Canadian Dollars	**47 0**	**(96 9)**	40 1	(87 1)
Oman Rials	**56 5**	**(59 4)**	26 9	(23 5)
Trinidad and Tobago Dollars	**11 0**	**(12 8)**	9 2	(9 1)
South Pacific Franc	–	**(4 3)**	2 0	–
Euros	**142 0**	**(188 7)**	65 3	(38 8)

Fair values

Differences between the carrying and fair values of the Group's principal financial instruments are shown below

	2007		2006	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Amounts owed by customers on contracts	**508 8**	**507 9**	562 5	550 0
Finance lease obligations	**(48 1)**	**(36 7)**	(47 9)	(36 0)

Fair value is calculated by discounting future cash flows using prevailing interest rates The finance lease payables are valued by calculating the present value of the future minimum lease payments There is no material difference between the carrying value and fair value of bank loans at the balance sheet date

Maturity of financial liabilities

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

31 December 2007	**Bank loans £m**	**Other loans £m**	**Finance leases £m**	**Total £m**
Between one and two years	–	**5 8**	**5 4**	**11 2**
Between two and three years	–	**2 8**	**5 6**	**8 4**
Between three and four years	–	**1 7**	**9 8**	**11 5**
Between four and five years	**306 6**	–	**10 4**	**317 0**
More than five years	–	–	**10 4**	**10 4**
	306 6	**10 3**	**41 6**	**358 5**

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

Within trade and other payables are £5 2m of liabilities due after more than one year which represent retentions payable on construction contracts All other trade and other payables are due within one year

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

	2007 £m	2006 £m
Expiring between two and five years	**283 4**	140 1

Drawings under the committed borrowing facility include £175m required to satisfy the 'certain funds' requirement for the cash element of the Alfred McAlpine plc acquisition which will not be required to be paid until March 2008

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29 Financial and capital commitments

	2007 £m	2006 £m
Commitments for capital expenditure in subsidiaries	**1 3**	0 9
Commitments for equity and subordinated debt in PPP jointly controlled entities	**96 5**	103 0
	97 8	103 9

Non-cancellable operating lease rentals are payable as follows

	2007		2006	
	Property £m	**Other £m**	Property £m	Other £m
Within one year	**11 8**	**13 5**	11 4	14 2
Between one and five years	**35 1**	**18 4**	28 2	20 3
Over five years	**25 0**	**0 2**	35 7	–
	71 9	**32 1**	75 3	34 5

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 3 5 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 £4 4m (2006 £5 7m) at the balance sheet date

30 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 49

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 48 to 55

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 £1 3m (2006 £0 6m)

30 Related parties (continued)

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

	2007			2006		
	Sales £m	**Receivables £m**	**Payables £m**	Sales £m	Receivables £m	Payables £m
PPP jointly controlled entities						
Accomodation Services (Holdings) Limited	–	**0 2**	–	–	0 4	–
Ellenbrook Holdings Limited	**2 5**	**0 2**	–	2 0	–	–
The Hospital Company (Swindon & Marlborough) Group Limited	**9 6**	–	–	8 9	2 5	–
The Hospital Company (Oxford John Radcliffe) Holdings Limited	**16 0**	**0 9**	–	40 2	1 4	–
The Hospital Company (QAH Portsmouth) Holdings Limited	**85 8**	**3 6**	–	71 5	3 7	–
Sheppey Route (Holdings) Limited	–	**0 2**	–	18 2	0 8	–
Eastbury Park (Holdings) Limited	**48 4**	**4 7**	–	21 9	–	–
Education 4 Ayrshire (Holdings) Limited	**37 9**	**1 8**	–	4 9	0 9	–
RSP (Holdings) Limited	**22 9**	–	–	37 4	1 5	–
Aspire Defence Holdings Limited	**20 0**	**0 1**	–	86 7	–	(18 9)
Aspire Construction Limited	–	**1 0**	–	–	–	–
Aspire Services Limited	–	**1 5**	–	–	–	–
Other	**3 3**	**0 5**	–	6 0	0 6	–
	246 4	**14 7**	–	297 7	11 8	(18 9)
Other jointly controlled entities						
CR Thanet Limited Partnership	–	**14 3**	**(20 6)**	–	12 6	(11 9)
Modern Housing Solutions (Prime) Limited	**12 6**	**0 6**	–	18 3	0 1	–
Carillion Enterprise Limited	**62 4**	**1 5**	–	5 2	4 9	–
Eurailscout GB Limited	–	**0 5**	–	–	0 7	–
Wyseproperty Limited	**0 2**	**0 6**	–	–	–	(14 7)
Urban Catalyst LLP	–	–	–	–	5 4	–
Others	–	**1 9**	**(1 0)**	0 2	0 5	(0 6)
	321 6	**34 1**	**(21 6)**	321 4	36 0	(46 1)

31 Acquisitions and disposals

Acquisitions in 2007

There have not been any business acquisitions during 2007

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

Effect of acquisitions

The acquisitions had the following effect on the Group's assets and liabilities

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31 Acquisitions and disposals (continued)

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
Borrowing	(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 business 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 2m Attributable costs include direct adviser 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)

31 Acquisitions and disposals (continued)

Disposals in 2007
During the year, the Group disposed of certain non-core businesses which have been classified as discontinued operations The effect on the Group of the disposal of these businesses is disclosed in note 8 In addition, in September 2007 the Group disposed of Sovereign Harbour Marina Limited, generating cash consideration of £10 7m and a non-operating profit of £3 7m

In December 2007, the Group disposed of equity investments in three Public Private Partnership jointly controlled entities The disposal generated cash consideration of £21 5m (after deducting disposal costs of £50,000) and a non-operating profit of £23 6m

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)
Net 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

32 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 the date were £485 0m and £106 4m respectively, which represented approximately 90 per cent and 94 per cent 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 7m (2006 £10 8m) in respect of the Carillion Staff Pension Scheme and £1 0m (2006 £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 2007 of £18 0m (2006 £15 0m) and £2 0m (2006 £2 0m) respectively Further payments are due to the Staff and 'B' schemes in 2008 of £16 0m and £2 0m respectively These payments are secured by a Letter of Credit to the Trustees Recovery payments of £1 9m and £0 2m per annum to the Staff and 'B' schemes, respectively are scheduled to commence from March 2010 and cease at the end of 2015 The next actuarial valuations are normally due at 31 December 2008

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32 Retirement benefit obligations (continued)

The Group expects to pay regular ongoing contributions of approximately £10 7m to the Staff scheme and £1 0m to the 'B' scheme during 2008 representing contribution rates of 20 1 per cent and 36 5 per cent 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 2007 were £0 3m (2006 £0 4m) for the Staff scheme and £0 2m (2006 nil) 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 scheme was undertaken by independent actuaries as at 31 December 2006 using the attained age method The market value of the schemes assets at that date were £459 6m, representing approximately 93 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries An actuarial valuation of the Mowlem (1993) scheme was undertaken by independent actuary as at 31 December 2004 using the attained age method The market value of the schemes assets at that date were £30 3m, representing approximately 71 per cent 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 year were £7 1m (2006 £7 7m) in respect of the Mowlem Staff scheme and £2 5m (2006 £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 year of £11 4m (2006 £9 5m) and £1 6m (2006 £1 3m) respectively Recovery payments of £4 8m per annum have been agreed in respect of the Mowlem Staff scheme continuing until 2012 and £1 6m per annum in respect of the Mowlem (1993) scheme continuing until 2016

The Group expects to pay regular ongoing contributions of approximately 20 3 per cent and 28 2 per cent to the Mowlem Staff and Mowlem (1993) schemes during 2008 An actuarial valuation of the Mowlem (1993) scheme by the Trustees' independent actuaries as at 31 December 2007 is currently being undertaken

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan The PPF levies for the year ended 31 March 2007 were £1 9m (2006 £0 5m) for the Mowlem Staff scheme and £0 3m (2006 £0 25m) for the Mowlem (1993) scheme

Carillion Public Sector Pension Schemes
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 Private Finance Initiative, Public Private Partnership 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 per cent 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 £3 1m (2006 £2 7m)

As part of the deficit recovery plan agreed with the Trustees, additional payments of £4 3m (2006 £2 0m) were made during 2007 Further payments of £2 3m per annum are scheduled to be paid until 2015

The Group expects to pay regular contributions of approximately £2 9m during 2008 representing 23 2 per cent of pensionable salaries at the end of 2007

If any employees are admitted into the Scheme through PFI, PPP or Best Value contracts during 2008 the level of contributions will increase An actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2007 is currently being undertaken

32 Retirement benefit obligations (continued)

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan The PPF levy for the year ended 31 March 2007 was £0 1m (2006 £0 1m)

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 attained age 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 per cent and 102 per cent 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 1m (2006 £3 9m) for GTRM and £0 3m (2006 £0 3m) for Centrac

As part of the deficit recovery plan agreed with the Trustees, a payment of £2 0m (2006 £2 0m) was made during 2007 to the GTRM sector A further payment of £2 0m is due in January 2008

The Group expects to pay regular on-going contributions in 2008 for both sections representing 16 02 per cent and 16 56 per cent of pensionable salaries for GTRM and Centrac respectively An actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2007 is currently being undertaken

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan The PPF levy for the year ended 31 March 2007 for both sections totalled £0 1m (2006 £0 1m)

Other defined benefit schemes

The PME Staff Pension and Life Assurance Scheme

The PME Staff Pension Scheme is a defined benefit 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 Trustee's independent actuaries as at 31 December 2006 using the attained age method The market value of the scheme's assets at that date was £49 7m, which represented approximately 92 per cent 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 year were £1 1m (2006 £1 2m)

As part of the deficit recovery plan agreed with the Trustees, a payment of £1 0m (2006 £1 0m) was made during 2007

The Group expects to pay regular ongoing contributions in 2008 representing 22 7 per cent of pensionable salaries with a lump sum of £1 0m in addition The next actuarial valuation is due at 31 December 2009

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan and was £0 1m for the year ended 31 March 2007 (2006 £0 02m)

Carillion Canada Inc

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc managed locally In addition supplemental arrangements are in place for certain executives, namely the Senior Executive Retirement Plan and the Post Retirement Benefit Plan The net deficit in total for these three schemes at 31 December 2007, calculated in accordance with IAS 19, is £2 3m (2006 £0 5m surplus)

Contributions during the year were £nil (2006 £nil) in respect of the Carillion Canada Inc defined benefit scheme and £0 2m (2006 £0 2m) in respect of other post-retirement benefits for senior Canadian employees Contributions for 2008 are estimated to be £0 2m

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

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32 Retirement benefit obligations (continued)

An actuarial valuation of the scheme was undertaken by independent actuaries as at 29 February 2004 The deficit in the scheme at 31 December 2007 calculated in accordance with IAS 19 is £0 3m (2006 £2 1m) The Group has not made any regular ongoing contributions to the scheme in the year As part of the deficit recovery plan agreed with the Trustees, £0 3m was paid to the scheme in February 2007 An actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2007 is currently being undertaken

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 per cent and the employer a minimum of 7 0 per cent of basic salaries Up to 3 0 per cent of any additional voluntary contributions paid by employees is matched by the employer, resulting in a maximum employer contribution of 10 0 per cent of basic salary The employer meets the cost of administration and managing the Plan equivalent to a further 2 0 per cent of basic pay Contributions during the year were £2 2m (2006 £2 0m)

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 per cent and 5 0 per cent depending on their age and the employer between 4 5 per cent and 8 0 per cent 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 year were £1 3m (2006 £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 per cent and the employer 6 5 per cent of basic salary Death in service lump sum benefits are provided in addition Contributions during the year were £0 3m (2006 £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 per cent of basic pay and the employer pays 5 0 per cent of basic pay (inclusive of a 1 0 per cent allowance for insurance premiums and audit fees) Contributions during the year were £1 3m (2006 £1 2m)

Contributions to the Carillion Retirement Plan during the year were £0 1m (2006 £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 (2006 £0 2m)

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 2007		31 December 2006	
	UK	**Canada**	UK	Canada
Rate of increase in salaries	**4 90%**	**3 20%**	4 25%	3 00%
Rate of increase in pensions	**3 40%**[1]	**2 20%**	3 00%	2 00%
Inflation rate	**3 40%**	**2 20%**	3 00%	2 00%
Discount rate	**5 60%**	**5 55%**	5 00%	5 20%

(1) Where schemes have adopted the new 2 5 per cent per annum cap on increases to pensions in payment the assumption is 2 4 per cent per annum (2006 1 9 per cent) rather than the higher amount shown above

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

32 Retirement benefit obligations (continued)

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 member's 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

	2007	2006
	PA92(YOB=1965)mc + 2 yrs	PA92(YOB=1965)mc + 2 years
Non-retired members	**21 3 years**	21 3 years
	PA92(YOB=1935)mc + 2 yrs	PA92(YOB=1935)mc + 2 years
Retired members	**19 7 years**	19 7 years

The Canadian Actuary annually undertakes an actuarial valuation and accounting exercise for reporting on local employee benefits under 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 10 per cent per annum with an ultimate trend rate of five per cent per annum (2013)

An increase of one per cent in the valuation trend would increase liabilities by £0 6m and the total service cost by £0 1m The decrease of one per cent in the valuation trend would reduce liabilities by £0 5m and total service cost by nil

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 2007	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	**7 65**	**7.00**	**226 1**	**298 4**	**32 5**	**30 6**	**63 5**	**118 6**	**45 0**	**814 7**
Government bonds	**4 40**	**4 50**	**249 6**	**25 5**	**60 1**	**5 7**	**20 5**	**21 6**	**25 0**	**408 0**
Corporate bonds	**5 60**	**–**	**82 4**	**148 8**	**16 6**	**15 4**	**19 1**	**22 9**	**6 3**	**311 5**
Other	**5 50**	**2 50**	**5 1**	**5 2**	**1 1**	**0 7**	**2 0**	**18 8**	**1 9**	**34 8**
Market value of scheme assets			**563 2**	**477 9**	**110 3**	**52 4**	**105 1**	**181 9**	**78 2**	**1,569 0**
Present value of funded scheme obligation			**(566 4)**	**(490 4)**	**(117 4)**	**(61 9)**	**(106 1)**	**(166 2)**	**(77 0)**	**(1,585 4)**
Present value of unfunded scheme obligation			**–**	**–**	**–**	**–**	**–**	**–**	**(5 9)**	**(5 9)**
Restriction on surplus recognised			**–**	**–**	**–**	**–**	**–**	**(2 0)**	**–**	**(2 0)**
Total (deficit)/surplus			**(3 2)**	**(12 5)**	**(7 1)**	**(9 5)**	**(1 0)**	**13 7**	**(4 7)**	**(24 3)**
Related deferred tax asset										**10 5**
Net pension liability										**(13 8)**

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)

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32 Retirement benefit obligations (continued)

Expense recognised in the Income Statement

	2007 £m	2006 £m
(Charge)/credit to operating profit		
Current service cost relating to defined benefit schemes	**(27.2)**	(29 1)
Past service cost relating to defined benefit schemes	**(0 4)**	(0 5)
Settlements	**0 7**	–
Curtailments	**3 0**	–
Total	**(23 9)**	(29 6)
Credit/(charge) to other financial income		
Expected return on pension scheme assets	**86 1**	71 7
Interest cost on pension scheme liabilities	**(79 3)**	(68 2)
Net financial return	**6 8**	3 5
Total actuarial gains and losses recognised in the Statement of Recognised Income and Expense	**30 2**	34 6

	2007 £m	2006 £m
Changes in defined benefit obligation		
Obligation at 1 January	**(1,589 0)**	(963 7)
Current service cost	**(27 2)**	(29 1)
Interest cost	**(79 3)**	(68 2)
Contributions from scheme members	**(8 2)**	(8 5)
Past service cost	**(0 4)**	(0 5)
Acquisition of Mowlem plc	–	(583 2)
Benefits paid	**59 0**	49 3
Settlements	**6 3**	–
Curtailments	**3 0**	–
Actuarial gains and losses	**47 2**	12 8
Effect of exchange rate changes	**(2 7)**	2 1
Obligation at 31 December	**(1,591 3)**	(1,589 0)

	2007 £m	2006 £m
Changes in the fair value of scheme assets		
Fair value at 1 January	**1,476 1**	895 8
Expected return on scheme assets	**86 1**	71 7
Contributions from the employer	**75 7**	63 0
Contributions from scheme members	**8 2**	8 5
Acquisition of Mowlem plc	–	466 7
Benefits paid	**(59 0)**	(49 3)
Settlements	**(5 6)**	–
Actuarial gains and losses	**(15 0)**	21 8
Restriction on surplus recognised	**(2 0)**	–
Effect of exchange rate changes	**2 5**	(2 1)
Fair value at 31 December	**1,567 0**	1,476 1

32 Retirement benefit obligations (continued)

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

	2007 £m	2006 £m
Present value of defined benefit obligation	**(1,591 3)**	(1,589 0)
Fair value of scheme assets	**1,567 0**	1,476 1
Net deficit	**(24 3)**	(112 9)
Schemes in surplus (within non-current assets)	**17 3**	10 9
Schemes in deficit (within non-current liabilities)	**(41 6)**	(123 8)
	(24 3)	(112 9)

The actual return on plan assets was £71 1m (2006 £93 5m)

History of experience gains and losses

		2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of the defined benefit obligation		**(1,591 3)**	(1,589 0)	(963 7)	(862 0)	(832 0)
Fair value of scheme assets		**1,567 0**	1,476 1	895 8	776 8	722 6
Net deficit		**(24 3)**	(112 9)	(67 9)	(85 2)	(109 4)
Experience gains and losses on scheme obligation	(£m)	**47 2**	12 8	(198 8)	(1 7)	(0 2)
Percentage of defined benefit obligation	(%)	**30 0**	1 0	21 0	–	–
Difference between expected and actual returns on scheme assets	(£m)	**(15 0)**	21 8	205 5	28 0	66 3
Percentage of scheme assets	(%)	**(1 0)**	1 0	23 0	3 0	9 0

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group Statement of Recognised Income and Expense is £97 8m (2006 £67 6m) The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £85 2m and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes Therefore, the Group is unable to determine the amount of actuarial gains and losses that would have been recognised in the Group Statement of Recognised Income and Expense before 1 January 2004

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33 Accounting estimates and judgements
Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and 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 On major construction contracts, it is assessed, based on past experience, that their outcome cannot be estimated reliably during the early stages of the contract, but that costs incurred will be recoverable Once the outcome can be estimated reliably the estimates of final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project Management continually reviews estimated final out-turn on contracts and makes 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 32

34 Post-balance sheet events
On 12 February 2008, the Company acquired 100 per cent of the issued share capital of Alfred McAlpine plc for a total consideration of £554 5m The total consideration was satisfied by the issue of 112 9m Carillion plc shares valued at the quoted mid-market price at the close of business on the day preceding the effective date of acquisition of 337 75p and £171 7m in cash and £1 3m of loan notes In addition, attributable costs are estimated to be £9 2m The acquisition has had no impact on reported profit during 2007 Due to the short period of time that Alfred McAlpine plc has been within the Group's ownership prior to the approval of these financial statements, it has not been possible to determine the fair value of the business acquired The fair value will be determined prior to the announcement of the 2008 interim results and full disclosure will be made in the 2008 interim financial statements

35 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 107

35 Principal subsidiaries, jointly controlled entities and jointly controlled operations (continued)
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 per cent owned (with equivalent voting rights) and jointly controlled entities and jointly controlled operations are 50 per cent owned Shares of those undertakings marked with an asterisk are directly owned by Carillion plc

Principal subsidiary undertakings	**Nature of business**
Asprea Ltd	Insurance claim handling
Carillion (Aspire Construction) Holdings No 2 Ltd	Military accommodation at Aldershot and Salisbury Plain
Carillion Canada Inc (Canada)	Construction and infrastructure services
Carillion (Caribbean) Ltd (Trinidad & Tobago)	Construction and infrastructure services
Carillion CR Limited	Holding company for property development
Carillion Construction Ltd*	Construction and infrastructure management
Carillion Fleet Management Ltd*	Supply and maintenance of vehicles
Carillion Highway Maintenance Ltd*	Roads and ground maintenance and repair
Carillion JM Ltd*	Construction and infrastructure management
Carillion Private Finance Ltd*	Holding company for PPP project companies
Carillion Services Ltd*	Facilities management
Carillion Services 2006 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
Sovereign Hospital Services Ltd	Facilities management in healthcare sector

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
Inspiredspaces StaG (Holdings 1) Ltd 40%	South Tyneside and Gateshead Schools
LCED (Sault) Limited Partnership 25%	Sault Area Hospital, Canada
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
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%	MoD buildings
Modern Housing Solutions (Prime) Ltd	MoD housing
Al Futtaim Carillion LLC (UAE) 49%	Building and civil engineering
Arcadis Aqumen Facility Management BV	Facilities management
Carillion Alawi LLC (Oman) 49%	Building and civil engineering
Carillion Richardson Partnership	Property development
Carillion Richardson Thanet Ltd	Property development
Emrill Services LLC (UAE)* 33%	Facilities management
Servus Ltd (Trinidad & Tobago)	Facilities management
UK Highways Management Services Ltd	Road management services

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

Financial statements
Company balance sheet
As at 31 December 2007

	Note	2007 £m	2006 £m
Fixed assets			
Investments in subsidiary undertakings and Joint Ventures	3	**537 8**	536 3
Current assets			
Debtors	4	**344 2**	275 1
Cash at bank and in hand		**177 9**	27 4
		522 1	302 5
Creditors amounts falling due within one year	5		
Borrowing		**(1 3)**	(1 7)
Other creditors		**(266 1)**	(153 5)
		(267 4)	(155 2)
Net current assets			
Due within one year		**227 8**	119 5
Debtors due after more than one year	4	**26 9**	27 8
		254 7	147 3
Total assets less current liabilities		**792 5**	683 6
Creditors amounts falling due after more than one year	6		
Borrowing		**(313 5)**	(199 1)
Net assets		**479 0**	484 5
Financed by			
Capital and reserves			
Issued share capital	7	**140 6**	140 6
Share premium	8	**199 9**	199 9
Other reserve	8	**1 5**	-
Profit and loss account	8	**137 0**	144 0
Equity shareholders' funds		**479 0**	484 5

The financial statements were approved by the Board of Directors on 5 March 2008 and were signed on its behalf by

Richard Adam FCA
Group Finance Director

Financial statements
Notes to the Company financial statements

1 Significant 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 are presented in pounds sterling They are prepared on the historical cost basis, except for derivative financial instruments which are stated at fair value, and in accordance with applicable UK accounting standards and law

During the year the Company adopted Urgent Issues Task Force (UITF) Abstract 41 'Scope of FRS 20 share-based payments' The adoption of this abstract has no effect on reported profit but has resulted in an increase to net assets of £1 5m

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 Financial Reporting Standard 19 'Deferred tax' Liabilities are calculated on a non-discounted full provision basis Assets are calculated on the same basis, but are recognised only to the extent that it is probable that they will be recovered

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 Statement of Standard Accounting Practice 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 borrowing 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
Consideration paid for shares in the Company held by the Employee Share Ownership Plan (ESOP) Trust are deducted from the profit and loss account reserve Where such shares subsequently vest in the employees under the terms of the Company's share option schemes or are sold, any consideration received is included in the profit and loss account reserve

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in other reserves Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend to the extent that it reflects post acquisition profits of the subsidiary

Foreign currencies
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 profit and loss account

Financial instruments
The Company's principal financial assets and liabilities are cash at bank and in hand and borrowing Cash at bank and in hand is carried in the balance sheet at amortised cost Borrowing is 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 amortised cost, 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 Company'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 value 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 period in which any performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date)

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 'Retirement benefits' 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 32 of the consolidated financial statements

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

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 2007 of £17 6m (2006 £31 8m)

Fees paid to KPMG Audit plc and its associates for 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

A final dividend, declared in the previous year, of 5 9p per share (2006 5 2p) was paid during the year, amounting to £16 6m (2006 £14 5m) An interim dividend of 3 5p per share (2006 3 1p) was paid during the year, amounting to £9 8m (2006 £8 7m) A final dividend of 7 5p (2006 5 9p) per share, amounting to £29 6m (2006 £16 6m), was approved by the Board on 5 March 2008 and will be paid on 20 June 2008 to shareholders on the register on 25 April 2008 The amount expected to be paid in respect of the 2007 final dividend of £29 6m, includes the dividend payable on 112 9m new Carillion shares issued following the acquisition of Alfred McAlpine plc on 12 February 2008

Payroll costs and employee numbers	2007 £m	2006 £m
Wages and salaries	**4 6**	5 1
Social security costs	**1 0**	0 5
Pension costs	**0 9**	0 8
Equity-settled transactions	**1 3**	1 0
	7 8	7 4

Pension costs represent amounts paid in respect of the Company's pension schemes as defined in note 11 and includes £0 4m (2006 £0 4m) in respect of defined contribution schemes There were no outstanding or prepaid contributions at the beginning or end of the financial year

The average number of employees during the year, including directors, was 66 (2006 62)

Details of director's remuneration can be found in the remuneration report on page 48

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost			
At 1 January 2007	**552 8**	**0 2**	**553 0**
Additions	**3 5**	**–**	**3 5**
Disposals	**(8 1)**	–	**(8 1)**
At 31 December 2007	**548 2**	**0 2**	**548 4**
Impairment losses			
At 1 January 2007	**16 7**	–	**16 7**
Disposals	**(6 1)**	**–**	**(6 1)**
At 31 December 2007	**10 6**	–	**10 6**
Net book value			
At 31 December 2007	**537 6**	**0 2**	**537 8**
At 31 December 2006	536 1	0 2	536 3

The principal subsidiary undertakings and Joint Ventures of the Company are shown on page 107

4 Debtors

	2007 £m	2006 £m
Amounts falling due within one year		
Amounts owed by group undertakings	**305 5**	232 6
Other debtors	**6 8**	0 1
Other prepayments and accrued income	**-**	5 1
Income tax	**5 0**	8 7
Derivative financial instruments	**-**	0 8
Amounts falling due within one year	**317 3**	247 3
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**26 9**	27 8
Total debtors	**344.2**	275 1

The amounts owed by Group undertakings falling due after more than one year includes £7 0m (2006 £8 4m) relating to finance lease transactions entered into with Carillion Construction Limited and Carillion Fleet Management Limited Further details are disclosed in note 6

5 Creditors amounts falling due within one year

	2007 £m	2006 £m
Bank overdrafts	**-**	0 5
Net obligations due under finance leases	**1.3**	1 2
Borrowing	**1 3**	1 7
Amounts owed to Group undertakings	**227 9**	122 1
Amounts owed to Joint Ventures	**36 8**	30 3
Accruals and deferred income	**0 7**	1 1
Derivative financial instruments	**0 7**	-
	267 4	155 2

6 Creditors amounts falling due after more than one year

	2007 £m	2006 £m
Bank loans	**306 5**	190 7
Net obligations due under finance leases	**7 0**	8 4
	313 5	199 1

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 the Company The Company recognises these inter-company debts within amounts owed by Group undertakings in note 4

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

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

The maturity profile of all borrowing is disclosed in note 13 on page 114

Financial statements
Notes to the Company financial statements
continued

7 Share capital

	2007 £m	2006 £m
Authorised		
423,000,000 (2006 423,000,000) ordinary shares of 50p each	**211 5**	211 5

Issued and fully paid

	2007		2006	
	Number million	£m	Number million	£m
At 1 January	**281 2**	**140 6**	214 9	107 4
New share capital subscribed	–	–	66 3	33 2
At 31 December	**281 2**	**140 6**	281 2	140 6

8 Reserves

	Share premium account £m	Profit and loss account £m	Other reserve £m	Total £m
At 1 January 2007	199 9	144 0	–	343 9
Profit for the year	–	17 6	–	17 6
Share options exercised by employees	–	0 9	–	0 9
Equity-settled transactions (net of deferred tax)	–	0 9	1 5	2 4
Dividend paid to shareholders	–	(26 4)	–	(26 4)
At 31 December 2007	**199 9**	**137 0**	**1 5**	**338 4**

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 the profit and loss account reserve are as follows

	2007 £m	2006 £m
Balance at 1 January	**(1 6)**	(4 7)
Share options exercised by employees (exercise price)	**0 9**	2 8
LTIP options exercised (transfer to retained earnings)	–	0 3
Balance at 31 December	**(0 7)**	(1 6)

At 31 December 2007, the ESOP held 61,609 (2006 1,137,177) 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, 2,643 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 2007 the total number of shares held under the QUEST amounted to 219,763 (2006 222,406) and had a market value of £0 8m (2006 £0 9m) The QUEST has elected to waive all dividends in excess of 0 01 pence per share

The other reserve represents equity settled transactions for employees within subsidiaries on adoption of UITF 41 as at 1 January 2007

9 Reconciliation of movement in shareholders' funds

	2007 £m	2006 £m
Profit for the year	**17 6**	31 8
New share capital subscribed	–	224 9
Equity-settled transactions (net of deferred tax)	**2 4**	0 7
Share options exercised by employees	**0 9**	2 8
Dividends paid to shareholders	**(26 4)**	(23 2)
Net (reduction in)/addition to shareholders' funds	**(5 5)**	237 0
Shareholders' funds at 1 January	**484 5**	247 5
Shareholders' funds at 31 December	**479 0**	484 5

10 Other guarantees and contingent liabilities

	2007 £m	2006 £m
Guarantees in respect of borrowing of subsidiaries, Joint Ventures and joint arrangements	**2 0**	1 1
Guarantees in respect of deferred equity payments in PPP Joint Ventures	**7 8**	9 8
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP Joint Ventures	**88 7**	93 2
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP Joint Ventures	**30 0**	30 0
Guarantees in respect of letters of credit issued by banks in relation to pension scheme deficit recovery payments	**21 0**	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 32 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 Company Details of the Group's share option programme are disclosed in note 26 to the consolidated financial statements and in the Remuneration Report on page 48

13 Financial instruments

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

Derivative financial instruments

	2007		2006	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Forward foreign currency contracts	–	**0 7**	0 8	–

Effective interest rates

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

	2007 Range (%)	2006 Range (%)
Bank overdrafts	**3 20-6 50%**	5 50 to 7 25
Bank loans	**5 46-7 31%**	5 24 to 6 36
Finance lease obligations	**4 00-6 54%**	4 00 to 6 54

Foreign currency exposure

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

	2007 £m	2006 £m
United States of America Dollars	**12 7**	12 8
Canadian Dollars	**19 9**	17 1
	32 6	29 9

Foreign currency borrowing of £32 6m (2006 £29 9m) is used for hedging currency net assets of overseas operations of the Group The foreign exchange loss of £2 7m (2006 £4 1m) on translation of borrowing into sterling has been recognised in the profit and loss account

Financial statements
Notes to the Company financial statements
continued

13 Financial instruments (continued)

Fair values
Where there were differences between the carrying and fair values of the Company's principal financial instruments at 31 December 2007, these are shown below

	Carrying value £m	Fair value £m
Finance lease obligations	**8 7**	**7 1**

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

31 December 2007	Bank loans £m	Finance leases £m	Total £m
Between one and two years	–	**1 4**	**1 4**
Between two and three years	–	**1 5**	**1 5**
Between three and four years	–	**1 1**	**1 1**
Between four and five years	**306 5**	**0 9**	**307 4**
More than five years	–	**2 1**	**2.1**
More than one year	**306 5**	**7 0**	**313 5**
Less than one year	–	**1 3**	**1 3**
	306 5	**8 3**	**314 8**

31 December 2006	Bank loans £m	Bank overdrafts £m	Finance leases £m	Total £m
Between one and two years	–	–	1 3	1 3
Between two and three years	–	–	1 4	1 4
Between three and four years	190 7	–	1 5	192 2
Between four and five years	–	–	1 1	1 1
More than five years	–	–	3 1	3 1
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

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

	2007 £m	2006 £m
Expiring between two and five years	**283 5**	140 1

Drawings under the commited borrowing facility include £175m required to satisfy the 'certain funds' requirement for the cash element of the acquisition of Alfred McAlpine plc, which will not be required to be paid until March 2008

14 Related party transactions

The Company has received management fees of £0 4m (2006 £0 4m) from Carillion Services 2006 Ltd during the year

15 Post-balance sheet events

On 12 February 2008, the Company acquired 100 per cent of the issued share capital of Alfred McAlpine plc for a total consideration of £554 5m The total consideration was satisfied by the issue of 112 9m Carillion plc shares valued at the quoted mid-market price at the close of business on the day preceding the effective date of acquisition of 337 75p and £171 7m in cash and £1 3m of loan notes In addition, attributable costs are estimated to be £9 2m

Financial statements
Shareholder information and Advisers

Dividends
Dividends are normally paid twice a year The proposed final dividend in respect of the year to 31 December 2007 will be payable on 20 June 2008 to those shareholders on the register on 25 April 2008

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
- 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 Equiniti on the number below to request a dividend mandate form

Results
Half year to 30 June 2008 announced August 2008

Full year to 31 December 2008 announced March 2009

Shareholder Enquiries
Equiniti maintains the share register of the Company If you have any queries concerning your shareholding, or if any of your details change, please contact Equiniti

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2522
Textphone for shareholders with hearing difficulties 0871 384 2255

Auditor
KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

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

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

Oriel Securities
125 Wood Street
London
EC2V 7AN

Financial Adviser
Lazard
50 Stratton Street
London
W1J 8LL

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

Share Registrar
Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Share Dealing Service
Carillion offers its UK shareholders Shareview Dealing, a telephone and internet share sale service operated by Equiniti For telephone sales call 0845 603 7037 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, Equiniti will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account, please write to Equiniti at the address given on this page

Shareview (Electronic Communications)
www shareview co uk is a service offered by Equiniti that enables you to check your holdings in many UK companies and helps you to organise your investments electronically You can also notify Equiniti 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 7 May 2008, 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 eight-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 Equiniti

Financial statements
Five year review

Group income statement

Continuing operations	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Total revenue	**3,951 7**	3,512 4	2,249 1	1,954 4	1,956 4
Analysed between					
Support services	**1,793 6**	1,458 7	953 6	886 5	891 9
Public Private Partnership projects	**154 1**	148 0	65 4	62 5	67 5
Middle East construction services	**337 0**	268 7	160 5	102 4	72 9
Construction services (excluding the Middle East)	**1,667 0**	1,637 0	1,069 6	903 0	924 1
Underlying Group and Joint Ventures operating profit before intangible amortisation, impairment of goodwill and other investments, restructuring costs and jointly controlled entities net financial (expense)/income and taxation	**120 1**	97 4	55 3	57 9	55 6
Analysed between					
Support services	**73 9**	58 8	40 5	48 0	52 6
Public Private Partnership projects	**25 4**	26 5	8 3	6 1	8 6
Middle East construction services	**25 4**	13 9	4 2	1 8	4 4
Construction services (excluding the Middle East)	**16 0**	18 5	12 7	10 7	1 2
Group eliminations and unallocated items	**(20 6)**	(20 3)	(10 4)	(8 7)	(11 2)
Share of jointly controlled entities net financial (expense)/income	**(9 9)**	(8 0)	1 1	(3 4)	(4 9)
Share of jointly controlled entities taxation	**(9 0)**	(8 1)	(5 0)	(2 2)	(3 4)
Underlying operating profit before intangible amortisation, impairment of goodwill and other investments and restructuring costs	**101 2**	81 3	51 4	52 3	47 3
Group net financial income	**0 6**	1 3	4 0	4 1	1 4
Underlying profit before taxation	**101 8**	82 6	55 4	49 2	48 7
Intangible amortisation and impairment of goodwill and other investments	**(21 5)**	(17 2)	(2 8)	(0 3)	(36 9)
Restructuring costs and other exceptional operating items	**(14 2)**	(22 6)	–	7 2	–
Non-operating items	**28 3**	25 3	(0 8)	11 8	9 9
Profit before taxation	**94 4**	68 1	51 8	67 9	21 7
Taxation	**(8 3)**	(7 2)	(11 1)	(8 6)	(10 3)
Profit from continuing operations	**86 1**	60 9	40 7	59 3	11 4
Discontinued operations	**(7 6)**	(0 5)	0 1	(1 1)	(1 5)
Analysed between					
Trading loss from discontinued operations	**(1 4)**	(0 5)	0 1	(1 1)	(1 5)
Loss on disposal of discontinued operations	**(6 2)**	–	–	–	–
Profit for the year	**78 5**	60 4	40 8	58 2	9 9

Group financial statistics

		2007	2006	2005	2004	2003
Underlying operating profit margin						
Support services	Percentage	**4 1%**	4 0%	4 2%	5 4%	5 9%
Middle East construction services	Percentage	**7 5%**	5 2%	2 6%	1 8%	6 0%
Construction services (excluding the Middle East)	Percentage	**1 0%**	1 1%	1 2%	1 2%	0 1%
Underlying profit from operations margin						
Total Group	Percentage	**2 6%**	2 3%	2 3%	2 7%	2 5%

Prior year information for 2004 and 2003 has been restated following adoption of International Financial Reporting Standards in 2005

Group balance sheet

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Property, plant and equipment	**131 5**	146 6	100 9	69 9	66 0
Intangible assets	**555 8**	596 1	62 3	20 3	22 4
Investments in Joint Ventures	**185 9**	178 8	62 7	65 1	78 8
	873 2	921 5	225 9	155 3	167 2
Inventories, receivables and payables	**(286 5)**	(282 0)	(119 5)	(79 1)	(60 3)
Net retirement benefit liability (net of deferred tax)	**(13 8)**	(75 8)	(47 5)	(59 7)	(76 6)
Other net assets/(liabilities)	**(25 1)**	(22 0)	0 1	(17 7)	(20 6)
Net operating assets/(liabilities)	**547 8**	541 7	59 0	(1 2)	9 7
Net (borrowing)/cash	**(44 9)**	(108 0)	90 8	128 8	59 6
Net assets	**502 9**	433 7	149 8	127 6	69 3

Group cash flow statement

	2007	2006	2005	2004	2003
Underlying group operating profit	**64.4**	49 7	35 0	44 7	36 6
Depreciation and other non-cash items	**15.9**	18 5	14 4	20 0	12 4
Working capital	**31.7**	15 2	36 0	26 4	38 3
Dividends received from Joint Ventures	**23.7**	15 7	8 4	7 3	14 7
Underlying cash flow from operations	**135.7**	99 1	93 8	98 4	102 0
Deficit pension contributions	**(46 3)**	(31 8)	(10 0)	–	–
Restructuring costs	**(6 5)**	(18 2)	–	–	(0 7)
Interest, tax and dividends	**(30 4)**	(25 7)	(35 3)	(27 4)	(12 2)
Net capital expenditure	**4 4**	(28 2)	(46 4)	(19 1)	(14 1)
Acquisitions and disposals	**9 6**	(190 9)	(35 4)	15 8	(5 3)
Other (including discontinued operations)	**(3 4)**	(3 1)	(4 7)	1 5	(8 0)
Change in net liquidity	**63 1**	(198 8)	(38 0)	69 2	61 7
Net (borrowing)/cash at 1 January	**(108 0)**	90 8	128 8	59 6	(2 1)
Net (borrowing)/cash at 31 December	**(44 9)**	(108 0)	90 8	128 8	59 6

Prior year information for 2004 and 2003 has been restated following adoption of International Financial Reporting Standards in 2005

Group financial statistics

		2007	2006	2005	2004	2003
Earnings per share						
Underlying earnings per share – continuing operations	Pence	**28 9**	23 7	20 4	19 1	17 9
Underlying earnings per share – continuing and discontinued operations	Pence	**26 2**	23 5	20 4	18 6	17 2
Basic earnings per share – continuing and discontinued operations	Pence	**27 1**	21 6	18 7	27 1	4 4
Dividends						
Proposed full year dividend per share	Pence	**11 0**	9 0	8 0	7 5	6 75
Underlying proposed dividend cover – continuing operations	Times	**2 6**	2 6	2 5	2 5	2 7
Basic proposed dividend cover – continuing and discontinued operations	Times	**2 5**	2 4	2 3	3 6	0 7

Prior year information for 2004 and 2003 has been restated following adoption of International Financial Reporting Standards in 2005

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Hadley Jacqueline

From: Egginton Dawn on behalf of McDonough John
Sent: 09 Apr 2008 09 20
To Hadley Jacqueline
Subject. RE Draft MPC Minutes

Jacquei,

John has approved these minutes

Regards
Dawn

From: Hadley Jacqueline
Sent: 08 Apr 2008 11 59
To: Egginton Dawn
Subject: Draft MPC Minutes

Dawn

Would you mind printing off the attached MPC minutes for John to signed

Many thanks

Jacquei

Jacqueline Hadley, FCIS
Company Secretarial Manager

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