carillion

Interim report 2005

6 months to 30 June 2005

Highlights

> Continuing growth in underlying* profit before tax and earnings per share of 6% and 8%, respectively

> Strong operating cash flow – net cash at 30 June 2005 £88m

> Interim dividend up by almost 5% to 2.8p

> Order book and frameworks increased to £5.4 billion

Financial Summary

	2005	2004
Revenue		
including joint ventures	**£1,011m**	£1,010m
excluding joint ventures	**£939m**	£952m
Underlying profit before tax	**£20.1m**	£18.9m
Underlying earnings per share	**7.1p**	6.6p
Profit before tax	**£18.4m**	£44.1m
Basic earnings per share	**6.3p**	17.9p

* 'Underlying' excludes
– non-operating items, amortisation of intangible assets and goodwill impairment: a £1.7 million charge in 2005; a net profit of £18.0 million in 2004.
– a one-off increase in 2004 of £7.2 million relating to the transfer of rail maintenance to Network Rail.

Front cover
Carillion Services has a five-year contract with the Royal Parks Agency to plan and manage maintenance and project programmes for the Royal Parks. These include Bushey Park, Green Park, Greenwich Park, Hyde Park, Kensington Gardens, Regents Park, Richmond Park and St. James's Park.

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

Contents

Carillion entered 2005 ready for a new phase of growth, having completed its programme of major disposals and created a well-balanced business, focused on markets offering good prospects for growth.

I am pleased to report that Carillion has made good progress in the first six months of 2005 and delivered results firmly in line with expectations.

In this interim report, Carillion has presented its results for the first time under International Financial Reporting Standards (IFRS).

Underlying* profit before tax was £20.1 million and earnings per share were 7.1 pence, compared with £18.9 million and 6.6 pence in the first half of 2004. Operating cash flow continues to be strong and the Group had net cash at 30 June 2005 of £88.0 million, excluding finance leases of £27.0 million.

Despite transferring to Network Rail maintenance contracts that generated over £100 million of turnover in the first half of 2004, turnover reduced by only £13.1 million to £938.8 million, reflecting healthy growth in other parts of our business.

The Board has declared an interim dividend of 2.8p, which represents an increase of almost five per cent on the total 2004 first half dividend (2.675p). The total 2004 first half dividend included an additional dividend paid in respect of profit from Public Private Partnership (PPP) equity sales of 1.0p per share, which was consolidated into the ordinary dividend at the year-end.

In the first six months of 2005, we have continued to benefit from positive trading conditions in our chosen market sectors and order intake has been strong, increasing the value of the Group's order book and framework contracts at 30 June 2005 to £5.4 billion (December 2004: £5 billion). Furthermore, our appointment as preferred bidder for two major contracts for the Ministry of Defence significantly increased the value of our pipeline of probable new orders at 30 June 2005 to £2.7 billion (December 2004: £2.2 billion). The figures for order book and frameworks and probable new orders include Carillion's share of joint ventures.

In June 2005, we were pleased to welcome Vanda Murray OBE to the Board as a Non-Executive Director. Vanda is group marketing director and UK managing director of Ultraframe plc.

In view of our good progress in the first half of the year and with the overall outlook for trading in the second half expected to remain positive, the Board is confident that Carillion is on course to make further good progress in 2005.

Philip Rogerson
Chairman
7 September 2005

Philip Rogerson
Chairman

* 'Underlying' excludes
- non-operating items, amortisation of intangible assets and goodwill impairment: a £1.7 million charge in 2005 and a net profit of £18.0 million in 2004.
- a one-off increase in 2004 of £7.2 million relating to the transfer of rail maintenance to Network Rail.

Delivery of our new phase of growth continues to be based upon the successful strategy and business model that over the last five years have transformed our business mix, enabled us to establish strong positions in our chosen markets, significantly improved profitability and generated strong operating cash flow.

Underlying* profit increased by six per cent and earnings per share by eight per cent, compared with the corresponding period in 2004. Furthermore we have delivered improved results despite the impact of transferring to Network Rail maintenance contracts that contributed over £100 million of turnover in the first half of 2004.

Our continuing focus on cash management has again delivered strong cash flow from operations. Average weekly net cash was £67 million. After investing £50 million in the acquisition of Planned Maintenance Engineering (PME) in March 2005, the Group had net cash at 30 June 2005 of £88.0 million, excluding finance leases of £27.0 million (December 2004: net cash £153.0 million, excluding finance leases of £24.2 million).

We continue to use our strong cash position to support organic growth as well as seeking appropriate acquisitions to complement our existing businesses and improve our core capabilities. The integration of PME is going well. PME has not only immediately enhanced earnings, but its core skills in mechanical and electrical engineering maintenance have filled an important capability gap and we are confident that we will deliver the revenue and cost synergies we are targeting.

As usual, we set out below our results by financial reporting segment and comment on their performance and outlook.

Investments

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

£ million	H1 2005	H1 2004
Turnover		
Group	0.3	0.4
Joint ventures (JV)	28.2	30.7
	28.5	31.1
Operating profit†		
Group	0.4	(2.6)
JV	3.0	6.1
	3.4	3.5
JV interest & tax	0.1	(3.4)
Profit from operations†	3.5	0.1

† Before goodwill impairment of £0.1m in both years.

Following financial close in March 2005 of the Renfrewshire schools project, in which we will invest some £4 million of equity, we have 19 financially closed PPP projects, of which 13 are operational and six are in construction. All projects in the construction phase are progressing satisfactorily. Overall

John McDonough
Chief Executive

* 'Underlying' excludes
- non-operating items, amortisation of intangible assets and goodwill impairment: a £1.7 million charge in 2005 and a net profit of £18.0 million in 2004.
- a one-off increase in 2004 of £7.2 million relating to the transfer of rail maintenance to Network Rail.

returns on our equity investments in operational projects remain in line with expectations and these investments continue to create significant value for the Group.

Profit from operations increased due to an improvement in operating performance across the portfolio together with a reduction in overheads. There was also a broadly equal and opposite movement between joint venture operating profit and interest. This was primarily due to the effects of selling our equity interest in the M40 project in June 2004 and of reclassifying our joint venture interest in the Nottingham Express Transit project as a trade investment.

The Directors' valuation of our equity portfolio has increased slightly to £84 million, due to reaching financial close on the Renfrewshire schools project. However, this valuation, which is based on discounting the cash flows from our equity investments at 10 per cent, will increase significantly as a result of further planned investment. In addition to the £29 million of equity we have invested in our portfolio to date, we are committed to invest a further £20 million in projects already financially closed. In addition, we expect to invest some £12 million in the Queen Alexandra Hospital (Portsmouth) project for which we are the preferred bidder and nearing financial close. Beyond that, we are shortlisted for a further four projects, including two more major hospitals, with a total equity requirement of up to £50 million.

With the UK Government firmly committed to the use of PPPs for the delivery of public services and infrastructure on grounds of value for money and on-time delivery, and with the PPP market in Canada expected to grow, the outlook in this segment remains very positive.

Construction Services

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

£ million	**H1 2005**	H1 2004
Turnover		
Group	**478.4**	449.9
Joint ventures (JV)	**40.6**	25.8
	519.0	475.7
Operating profit		
Group	**0.1**	1.2
JV	**2.2**	(0.2)
	2.3	1.0
JV interest & tax	**(1.2)**	(0.1)
Profit from operations†	**1.1**	0.9

† Before a JV non-operating loss of £0.6m (2004: Nil).

Turnover in Construction Services increased despite the disposals in 2004 of Crown House and our contracting businesses in France, due to growth in UK building, our remaining International businesses and PPP construction.

Growth in turnover together with improved operating performance in the majority of businesses in this segment are not fully reflected in reported profit, because of the change introduced in the second half of 2004 to the method we use to allocate profit on major construction contracts. Previously, profit was recognised broadly in proportion to turnover after taking into account remaining risks and uncertainties. In addition, we now take no profit on the first 20 per cent of turnover and this profit is deferred until contracts are completed. The effect of this in the first half of 2005 has been to reduce operating profit by some £2.4 million.

Our UK building business has continued to make good progress by remaining focused on its four key sectors of education, retail, offices and high-rise mixed-use developments. The intake of new orders has been very strong with a number of notable first half successes, particularly in education. These included the Renfrewshire schools PPP project with a construction value of around £100 million and a construction contract for PPP schools in Leeds also worth around £100 million.

Our Developments business continues to perform well, with its success based on focusing on the regeneration of brown-field sites and developments where risk is managed through pre-letting or sale to occupiers in sectors where there is healthy demand.

Our International Regional businesses have also continued to win new orders, particularly in the Middle East where we have secured further contracts for the Dubai Festival City development worth over £100 million.

With growing order books and positive trading conditions expected to continue in our UK and International markets, the outlook for Construction Services remains positive and in the full year we expect to make significant progress on 2004.

Support Services

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

£ million	**H1 2005**	H1 2004
Turnover		
Group	**460.1**	501.6
Joint ventures (JV)	**3.5**	1.5
	463.6	503.1
Operating profit†		
Group	**19.6**	28.6
JV	**0.2**	0.1
	19.8	28.7
JV interest & tax	**(0.1)**	–
Profit from operations†	**19.7**	28.7

† Before amortisation of intangible assets of £1.0m (2004: Nil).

The reduction in turnover in Support Services reflects the transfer to Network Rail of rail maintenance work that contributed over £100 million of turnover in the first half of 2004, offset by the acquisition of Planned Maintenance Engineering in March 2005 and growth in road maintenance.

Profit from operations reduced by £1.8 million (excluding a one-off increase in 2004 of £7.2 million relating to the transfer of rail maintenance to Network Rail), reflecting the reduction in turnover.

We had a number of major first half successes in this segment. A joint venture led by Carillion was appointed by the Ministry of Defence as its designated supplier for the Housing Prime contract. A Carillion-Enterprise joint venture was also appointed by the Ministry of Defence as the preferred bidder for its Regional Prime Central contract. These two contracts are worth over £1.2 billion, of which Carillion's share will be 50 per cent. We have also agreed heads of terms for a three-year extension to Monteray's contract with BT, under which we provide facilities management services to over 8,000 BT properties. This will extend our existing contract to March 2009 and is expected to be worth over £300 million.

We have also continued to make progress with the development of support services activities in our International Regional businesses. In Canada, our road maintenance joint venture has won new contracts worth almost £40 million, reinforcing its position as the leading supplier of road maintenance services in Ontario. In the Middle East, our support services joint venture with Emaar Properties, Emrill, is making good progress and this is expected to accelerate as it extends the portfolio of property it has under management.

As previously disclosed, we expect the UK rail infrastructure market to remain challenging as Network Rail continues to implement changes to its procurement strategy. However, we have a strong position in this market and remain focused on increasing our market share and reducing costs to maintain margins.

With the integration of PME going well, a healthy order book, a substantial pipeline of probable new orders and positive trading conditions in our other support services markets, the overall outlook in this segment continues to be healthy.

John McDonough
Chief Executive
7 September 2005

Consolidated Income Statement

for the six months to 30 June 2005

	Note	**Half year to 30 June 2005 (unaudited) £m**	Half year to 30 June 2004 (unaudited) £m	Year to 31 December 2004 (audited) £m
Revenue	1	**938.8**	951.9	1,859.0
Cost of sales		**(869.1)**	(866.7)	(1,698.9)
Gross profit		**69.7**	85.2	160.1
Administrative expenses		**(56.2)**	(62.4)	(116.6)
Group operating profit	1	**13.5**	22.8	43.5
Share of results of associates and jointly controlled entities	1,2	**3.6**	2.5	9.1
Profit from operations	1	**17.1**	25.3	52.6
Non-operating items	3	**–**	18.1	10.1
Net financing income		**1.3**	0.7	4.1
Profit before tax		**18.4**	44.1	66.8
Income tax expense	4	**(4.3)**	(5.9)	(8.6)
Profit for the period		**14.1**	38.2	58.2
Attributable to:				
Equity holders of the parent		**13.3**	37.3	56.4
Minority interests		**0.8**	0.9	1.8
Profit for the period		**14.1**	38.2	58.2
Earnings per share	5			
Basic		**6.3p**	17.9p	27.1p
Diluted		**6.2p**	17.7p	26.7p
Adjusted earnings per share	5			
Basic		**7.1p**	9.0p	21.0p
Diluted		**7.0p**	8.9p	20.7p
Proposed dividends per share	6	**2.8p**	2.675p	7.5p

Consolidated Statement of Recognised Income and Expense

	Half year to 30 June 2005 (unaudited) £m	Half year to 30 June 2004 (unaudited) £m	Year to 31 December 2004 (audited) £m
Foreign exchange translation adjustments	**1.5**	(0.2)	(1.2)
Actuarial gains and losses on defined benefit pension schemes	**(12.1)**	28.4	26.6
Group share of change in fair value of cash flow hedges within jointly controlled entities and associates (net of deferred tax assets of £0.9m)	**(2.2)**	–	–
	(12.8)	28.2	25.4
Tax in respect of the above	**3.7**	(8.8)	(8.3)
Income and expense recognised directly in equity	**(9.1)**	19.4	17.1
Profit for the period	**14.1**	38.2	58.2
Total recognised income and expense for the period	**5.0**	57.6	75.3
Attributable to:			
Equity holders of the parent	**4.2**	56.7	73.5
Minority interests	**0.8**	0.9	1.8
Total recognised income and expense for the period	**5.0**	57.6	75.3

Consolidated Statement of Changes in Total Equity

	Half year to 30 June 2005 (unaudited) £m	Half year to 30 June 2004 (unaudited) £m	Year to 31 December 2004 (audited) £m
At 1 January (as previously reported under UK GAAP)	**186.9**	151.6	151.6
Adjustments on adoption of IFRS on 1 January (note 9)	**(59.0)**	(82.4)	(82.4)
At 1 January prior to adoption of IAS 32 and IAS 39	**127.9**	69.2	69.2
Adjustments on adoption of IAS 32 and IAS 39 on 1 January 2005 (note 9)	**(8.8)**	–	–
At 1 January (as restated)	**119.1**	69.2	69.2
Recognised income and expense for the period	**5.0**	57.6	75.3
Share-based payment expense	**0.5**	0.3	0.6
Issue of own shares	**0.4**	0.8	0.8
New share capital subscribed	**0.7**	0.2	0.4
Dividends paid to equity holders of the parent	**(10.2)**	(10.8)	(16.4)
Dividends paid to minority interests	**(1.7)**	(0.9)	(2.0)
At end of period	**113.8**	116.4	127.9

Consolidated Balance Sheet
as at 30 June 2005

	At 30 June 2005 (unaudited) £m	At 30 June 2004 (unaudited) £m	At 31 December 2004 (audited) £m
Assets			
Non-current assets			
Property, plant and equipment	**79.7**	60.4	69.9
Intangible assets	**62.6**	21.9	20.3
Retirement benefit assets	**5.3**	2.2	4.6
Investments in associates and jointly controlled entities	**52.7**	66.5	65.1
Other investments	**4.7**	4.5	6.8
Deferred tax assets	**40.6**	28.5	35.6
Total non-current assets	**245.6**	184.0	202.3
Current assets			
Inventories	**18.9**	23.2	18.0
Income tax receivable	**1.4**	0.6	0.4
Trade and other receivables	**493.2**	504.2	389.1
Cash and cash equivalents	**147.0**	145.3	202.7
Total current assets	**660.5**	673.3	610.2
Total assets	**906.1**	857.3	812.5
Liabilities			
Current liabilities			
Borrowings	**(23.3)**	(56.7)	(17.4)
Derivative financial instruments	**(0.5)**	–	–
Trade and other payables	**(571.4)**	(556.6)	(486.2)
Provisions	**(1.5)**	(0.3)	(1.8)
Income tax payable	**(17.7)**	(20.8)	(24.4)
Total current liabilities	**(614.4)**	(634.4)	(529.8)
Non-current liabilities			
Borrowings	**(62.7)**	(14.4)	(56.5)
Retirement benefit liabilities	**(103.5)**	(83.2)	(89.8)
Deferred tax liabilities	**(11.3)**	(8.5)	(8.1)
Provisions	**(0.4)**	(0.4)	(0.4)
Total non-current liabilities	**(177.9)**	(106.5)	(154.8)
Total liabilities	**(792.3)**	(740.9)	(684.6)
Net assets	**113.8**	116.4	127.9
Equity			
Issued share capital	**107.3**	107.0	107.1
Share premium	**7.3**	6.7	6.8
Reserves	**(8.6)**	2.7	1.5
Retained earnings	**6.6**	(2.3)	10.4
Equity attributable to equity holders of the parent	**112.6**	114.1	125.8
Minority interests	**1.2**	2.3	2.1
Total equity	**113.8**	116.4	127.9

Consolidated Cash Flow Statement

for the six months to 30 June 2005

	Note	**Half year to 30 June 2005 (unaudited) £m**	Half year to 30 June 2004 (unaudited) £m	Year to 31 December 2004 (audited) £m
Cash flows from operating activities				
Cash generated from operations	8	**5.0**	12.7	91.9
Interest paid		**(2.1)**	(1.6)	(3.5)
Income taxes paid		**(10.4)**	(6.9)	(12.7)
Net cash flows from operating activities		**(7.5)**	4.2	75.7
Cash flows from investing activities				
Disposal of property, plant and equipment		**5.5**	0.4	6.9
Disposal of investments in associates and jointly controlled entities		**0.1**	20.2	20.2
Disposal of other non-current investments		**3.4**	0.3	0.9
Interest received		**4.1**	2.3	7.2
Dividends received from associates and jointly controlled entities		**3.3**	4.9	7.3
Disposal of businesses, net of cash disposed of		**–**	0.7	(4.3)
Acquisition of subsidiary, net of cash acquired	7	**(43.6)**	–	–
Acquisition of property, plant and equipment		**(15.1)**	(7.0)	(14.8)
Acquisition of intangible assets		**(2.2)**	(0.1)	(0.2)
Acquisition of investments in associates and jointly controlled entities		**–**	(0.2)	(1.0)
Net cash flows from investing activities		**(44.5)**	21.5	22.2
Cash flows from financing activities				
Proceeds from the issue of share capital		**0.7**	0.2	0.4
Draw down/(repayment) of borrowings		**2.2**	0.9	(3.4)
Payment of finance lease liabilities		**(1.8)**	(1.4)	(2.9)
Dividends paid to equity holders of the parent		**(10.2)**	(10.8)	(16.4)
Dividends paid to minority interests		**(1.7)**	(0.9)	(2.0)
Net cash flows from financing activities		**(10.8)**	(12.0)	(24.3)
Net (decrease)/increase in cash and cash equivalents		**(62.8)**	13.7	73.6
Cash and cash equivalents at beginning of period		**189.6**	116.2	116.2
Effect of exchange rate fluctuations on cash held		**1.4**	(1.0)	(0.2)
Cash and cash equivalents at end of period		**128.2**	128.9	189.6
Cash and cash equivalents comprise:				
Cash and cash equivalents		**147.0**	145.3	202.7
Bank overdrafts		**(18.8)**	(16.4)	(13.1)
		128.2	128.9	189.6

Significant accounting policies

Carillion plc (the 'Company') is a company domiciled in the United Kingdom (UK). The consolidated interim financial statements of the Company for the six months to 30 June 2005 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities.

The consolidated interim financial statements were authorised for issuance on 7 September 2005.

(a) Statement of compliance

EU law (IAS Regulation EC 1606/2002) requires that the annual consolidated financial statements of the Company for the year ending 31 December 2005 be prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU ('adopted IFRS').

The interim financial information has been prepared on the basis of the recognition and measurement requirements of IFRS in issue that either are endorsed by the EU and effective (or available for early adoption) or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRS. Based on these adopted and unadopted IFRS, the directors have made assumptions about the accounting policies expected to be applied, which are set out below, when the first annual IFRS financial statements are prepared for the year ending 31 December 2005.

In particular, IAS 19 (revised 2004) was issued in December 2004 and is effective for accounting periods beginning on or after 1 January 2006. As permitted by the standard, the Group has opted to adopt the requirements of IAS 19 early based on the expectation that the EU will endorse the standard during 2005 and it will therefore be available for use in the 2005 IFRS annual financial statements.

In addition, the adopted IFRS that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Group was published on 30 June 2005 and is available on the Group's website at www.carillionplc.com. These consolidated interim financial statements include the Group's IFRS accounting policies (see below) and reconciliations of total equity and profit or loss for comparative periods reported under UK GAAP (previous GAAP) to those reported for those periods under IFRS (see note 9).

(b) Basis of preparation

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

As permitted by IFRS 1, the Group has adopted IAS 32 Financial instruments: disclosure and presentation and IAS 39 Financial instruments: recognition and measurement prospectively from 1 January 2005. Consequently, comparative information for 2004 has been prepared in accordance with UK GAAP. A reconciliation of total equity at 1 January 2005 following the adoption of IAS 32 and IAS 39 is given in note 9.

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

The comparative figures for the financial year ended 31 December 2004 are not the Company's statutory accounts for that financial year. Those accounts, which were prepared under UK Generally Accepted Accounting Practices, have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

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 30 June 2005. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The purchase method is used to account for the acquisition of subsidiaries.

(b) Joint ventures
A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties. The Group's interests in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses of joint ventures is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the interest in the entity the carrying amount is reduced to nil and recognition of further losses is discontinued. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

Where a Group company is party to a jointly controlled operation, that company proportionately accounts for its share of the income and expenditure, assets, liabilities and cash flows on a line by line basis. Such arrangements are reported in the consolidated financial statements on the same basis.

(c) Associates
An associate is an entity where the Group generally has between 20% and 50% of the voting rights and can exercise significant influence on (but not control) the financial and operating policy decisions of that entity. Associates are incorporated into the consolidated financial statements using the equity method.

Other fixed asset investments
Other fixed asset investments are classified as available for sale financial assets and are recognised at fair value. Changes in fair value in the period are recognised directly in the statement of recognised income and expense.

Dividend income from investments is recognised when the right to receive payment is established.

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

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

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

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

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 amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement based on the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

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

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

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

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

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

Property, plant and equipment
The Group has adopted the transitional provisions of IFRS 1 to retain the book value of freehold land and buildings as deemed cost.

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

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

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

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

Inventories
Inventories 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. It 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 substantially 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 substantially 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 the average exchange rate for the period. Gains or losses arising from the consolidation of overseas entities are recognised in the translation reserve.

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

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

For defined benefit pension schemes, the cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of scheme liabilities over the fair value of scheme assets. Actuarial gains and losses are recognised in full in the period in which they occur in the statement of recognised income and expense.

In accordance with the transitional provisions of IFRS 1 cumulative actuarial gains and losses at 1 January 2004 are presented within the opening retained earnings reserve at that date.

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

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

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

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 inventories. Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in inventories. Any excess recoveries are carried forward as deferred income and released to profit over the period of the contract.

Borrowing costs
Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the profit and loss account as incurred.

Borrowing costs incurred within the Group's joint ventures and associates relating to the construction of assets in PPP projects are capitalised until the relevant assets are brought into operational use.

Equity instruments
Equity instruments represent the ordinary share capital of the company and are 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 total shareholders equity. 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 shareholders equity.

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

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

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

(a) Trade receivables
Trade receivables are stated at amortised cost.

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

(c) Trade payables
Trade payables are stated at amortised cost.

(d) Bank and other borrowings
Interest bearing bank loans and overdrafts and other loans are recognised initially at fair value. Borrowings relating to PPP projects are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the income statement over the period to redemption.

(e) Derivative financial instruments

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

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

The Group also enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Fair values are based on quoted market prices at the balance sheet date.

Financial risk management

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

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

Foreign currency risk

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

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

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

Interest rate risk

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

Liquidity risk

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

Credit risk

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

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

1 Segment reporting

Segment information is presented in the consolidated interim financial statements 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:

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

	Construction Services			Support Services			Investments			Eliminations			Consolidated		
	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to 31 Dec 2004 £m	**Half year to 30 June 2005 £m**	Half year to 30 June 2004 £m	Year to 31 Dec 2004 £m	**Half year to 30 June 2005 £m**	Half year to 30 June 2004 £m	Year to 31 Dec 2004 £m	**Half year to 30 June 2005 £m**	Half year to 30 June 2004 £m	Year to 31 Dec 2004 £m	**Half year to 30 June 2005 £m**	Half year to 30 June 2004 £m	Year to 31 Dec 2004 £m
Revenue from external customers	**478.4**	449.9	949.3	**460.1**	501.6	908.9	**0.3**	0.4	0.8	**–**	–	–	**938.8**	951.9	1,859.0
Inter-segment revenue	**–**	–	0.5	**10.9**	14.2	25.9	**–**	–	–	**(10.9)**	(14.2)	(26.4)	**–**	–	–
Segment revenue	**478.4**	449.9	949.8	**471.0**	515.8	934.8	**0.3**	0.4	0.8	**(10.9)**	(14.2)	(26.4)	**938.8**	951.9	1,859.0
Segment result	**0.1**	1.2	10.5	**19.6**	28.6	46.3	**0.4**	(2.6)	(4.3)	**–**	–	–	**20.1**	27.2	52.5
Amortisation/ impairment of intangible assets	**–**	–	–	**(1.0)**	–	–	**(0.1)**	(0.1)	(0.3)	**–**	–	–	**(1.1)**	(0.1)	(0.3)
Unallocated expenses													**(5.5)**	(4.3)	(8.7)
Group operating profit													**13.5**	22.8	43.5
Share of profit of associates and jointly controlled entities	**0.4**	(0.3)	3.2	**0.1**	0.1	0.4	**3.1**	2.7	5.5	**–**	–	–	**3.6**	2.5	9.1
Profit from operations													**17.1**	25.3	52.6
Non-operating items													**–**	18.1	10.1
Net financing income													**1.3**	0.7	4.1
Income tax expense													**(4.3)**	(5.9)	(8.6)
Profit for the period													**14.1**	38.2	58.2

2 Share of results of associates and jointly controlled entities

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

	Half year to 30 June 2005 (unaudited) £m	Half year to 30 June 2004 (unaudited) £m	Year to 31 December 2004 (audited) £m
Revenue	**72.3**	58.0	126.1
Operating profit	**5.4**	6.0	13.0
Net finance income/(expense)	**0.3**	(2.6)	(3.4)
Profit before tax and non-operating items	**5.7**	3.4	9.6
Non-operating items (see note 3)	**(0.8)**	–	1.5
Profit before tax	**4.9**	3.4	11.1
Income tax	**(1.3)**	(0.9)	(2.0)
Profit after tax	**3.6**	2.5	9.1

3 Non-operating items

	Half year to 30 June 2005 Gross £m	Tax £m	Half year to 30 June 2004 Gross £m	Tax £m	Year to 31 December 2004 Gross £m	Tax £m
Profit on disposal of investments in associates and joint ventures	**–**	**–**	7.7	–	7.7	–
Profit on disposal of property, plant & equipment	**–**	**–**	2.6	(0.8)	2.9	(0.9)
Profit/(loss) on disposal of businesses	**–**	**–**	7.8	1.3	(0.5)	2.1
	–	**–**	18.1	0.5	10.1	1.2

The Group's share of results of associates and jointly controlled entities includes an exceptional loss of £0.6m (net of the related tax credit of £0.2m) relating to the disposal of a non-core business (half year to 30 June 2004: Nil; year to 31 December 2004: profit of £1.7m (including the related tax credit of £0.2m)).

4 Income taxes

Reconciliation of effective tax rate

The current tax expense for the six months to 30 June 2005 is calculated based on the estimated average annual effective income tax rate of 27 per cent (six months to 30 June 2004: 27 per cent), as compared to the tax rates expected to be enacted or substantively enacted at the annual balance sheet date of 30 per cent (six months to 30 June 2004: 30 per cent). Differences between the estimated average annual effective income tax rate and statutory rate include but are not limited to the effect of tax rates in foreign jurisdictions, non-deductible expenses, tax incentives not recognised in profit or loss, the effect of tax losses utilised and under/over provisions in previous years.

5 Earnings per share

(a) Basic

The calculation of basic earnings per share for the six months to 30 June 2005 is based on the profit for the period of £13.3m (six months to 30 June 2004: £37.3m; year to 31 December 2004: £56.4m) and a weighted average number of ordinary shares outstanding during the six months to 30 June 2005 of 210.4m (six months to 30 June 2004: 208.1m; year to 31 December 2004: 208.4m). The weighted average number of shares excludes shares held by the Employee Share Ownership Plan and the QUEST, which together amount to 4.1 million shares in total (six months to 30 June 2004: 5.6m; year to 31 December 2004: 5.1m).

(b) Adjusted

A reconciliation of the basic earnings per share to the adjusted amounts shown on the face of the income statement is set out below in order to illustrate the impact of non-operating items (as disclosed in Note 3) and the amortisation and impairment of intangible assets relating to business combinations.

	Half year to 30 June 2005 £m	Pence per share	Half year to 30 June 2004 £m	Pence per share	Year to 31 December 2004 £m	Pence per share
Profit attributable to equity holders of the parent	**13.3**	**6.3**	37.3	17.9	56.4	27.1
Non-operating items:						
Profit on disposal of investments in associates and joint ventures	**–**	**–**	(7.7)	(3.7)	(7.7)	(3.7)
Profit on disposal of property, plant & equipment	**–**	**–**	(2.6)	(1.2)	(2.9)	(1.4)
(Profit)/loss on disposal of businesses	**–**	**–**	(7.8)	(3.8)	0.5	0.2
Group share of joint ventures non-operating items (net of tax)	**0.6**	**0.3**	–	–	(1.7)	(0.8)
Less taxation in respect of the above	**–**	**–**	(0.5)	(0.2)	(1.2)	(0.5)
Profit before non-operating items	**13.9**	**6.6**	18.7	9.0	43.4	20.9
Amortisation/impairment of intangible assets	**1.1**	**0.5**	0.1	–	0.3	0.1
Profit before non-operating items and amortisation/impairment of intangible assets	**15.0**	**7.1**	18.8	9.0	43.7	21.0

5 Earnings per share continued

(c) Diluted earnings per share

Diluted earnings per share have been calculated using the same numerators as set out in (a) and (b) above and by reference to the following number of shares:

	Half year to 30 June 2005 million	Half year to 30 June 2004 million	Year to 31 December 2004 million
Number of ordinary shares per basic earnings per share calculations	**210.4**	208.1	208.4
Effect of shares under option	**3.1**	2.1	2.8
Number of ordinary shares per diluted earnings per share calculations	**213.5**	210.2	211.2

6 Dividends

The following dividends were paid by the Company:

	Half year to 30 June 2005		Half year to 30 June 2004		Year ended 31 December 2004	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
Previous period final dividend	**10.2**	**4.825**	10.8	5.175	10.8	5.175
Current period interim dividend	**–**	**–**	–	–	5.6	2.675
	10.2	**4.825**	10.8	5.175	16.4	7.85

The following dividends were proposed by the Company in respect of each accounting period presented:

	Half year to 30 June 2005		Half year to 30 June 2004		Year ended 31 December 2004	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
Interim dividend	**6.0**	**2.8**	5.6	2.675	5.6	2.675
Final dividend	**–**	**–**	–	–	10.1	4.825
	6.0	**2.8**	5.6	2.675	15.7	7.5

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

The interim dividend for 2005 of 2.8 pence per share was approved by the Board on 7 September 2005 and has not been included as a liability as at 30 June 2005. This interim dividend will be paid on 11 November 2005 to shareholders on the register at the close of business on 16 September 2005.

7 Acquisitions of subsidiaries

On 8 March 2005, the Group acquired the entire share capital of Planned Maintenance Group Limited (PMG) for £40.0 million in cash. The company and its subsidiaries operate in the building services and maintenance industry and its results are reported in the Support Services segment. In the period from acquisition to 30 June 2005 PMG contributed profit before tax of £0.7 million to the consolidated profit for the interim period. If the acquisition had occurred on 1 January 2005, Group revenue would have been £967.4 million and profit before tax would have been £18.9 million for the six months to 30 June 2005.

Effect of acquisitions

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

Acquiree's net assets at the acquisition date

	Carrying amounts £m	Fair value adjustments £m	Recognised values £m
Property, plant and equipment	1.7	–	1.7
Intangible assets	1.0	6.2	7.2
Inventories	0.2	–	0.2
Trade and other receivables	39.0	–	39.0
Cash and cash equivalents	0.1	–	0.1
Borrowings	(2.9)	–	(2.9)
Trade and other payables	(29.2)	–	(29.2)
Retirement benefit liabilities	–	(10.0)	(10.0)
Net identifiable assets and liabilities	9.9	(3.8)	6.1
Goodwill recognised on acquisition			34.7
Consideration paid, satisfied in cash*			40.8
Net debt acquired			2.8
Net cash outflow			43.6

* Includes costs associated with the acquisition of £0.8m.

The above amounts are provisional pending agreement of the completion accounts.

Goodwill has arisen on the acquisition of PMG because of a large number of customer contracts and relationships that do not meet the criteria for recognition as an intangible asset at the date of acquisition.

8 Reconciliation of profit for the period to cash generated from operations

	Half year to 30 June 2005 £m	Half year to 30 June 2004 £m	Year to December 2004 £m
Cash flows from operating activities			
Profit for the period	**14.1**	38.2	58.2
Depreciation, amortisation and impairment	**8.8**	8.7	16.6
(Profit)/loss on sale of property, plant and equipment	**(0.5)**	0.2	–
Share-based payment expense	**0.5**	0.3	0.6
Other non-cash movements	**0.9**	0.1	3.2
Share of results of associates and joint ventures	**(3.6)**	(2.5)	(9.1)
Non-operating profit on disposal of property, plant and equipment	**–**	(2.6)	(2.9)
Profit on disposal of investments in associates and joint ventures	**–**	(7.7)	(7.7)
(Profit)/loss on disposal of businesses	**–**	(7.8)	0.5
Net financing income	**(1.3)**	(0.7)	(4.1)
Income tax expense	**4.3**	5.9	8.6
Operating profit before changes in working capital and provisions	**23.2**	32.1	63.9
Increase in inventories	**(0.5)**	(2.5)	(1.9)
(Increase)/decrease in trade and other receivables	**(60.3)**	(9.8)	16.5
Increase/(decrease) in trade and other payables	**53.0**	(7.1)	13.7
Decrease in provisions	**(0.4)**	–	(0.3)
Cash generated from operations	**15.0**	12.7	91.9
Pension scheme contribution	**(10.0)**	–	–
	5.0	12.7	91.9

The pension scheme contribution of £10.0 million for the half year to 30 June 2005 relates to a one-off payment into the pension scheme of PMG following the acquisition of the company in March 2005.

9 Explanation of transition to IFRS

These are the Group's first consolidated interim financial statements for part of the period covered by the first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies on page 9 have been applied in preparing the consolidated interim financial statements for the six months to 30 June 2005, the comparative information for the six months to 30 June 2004, the financial statements for the year to 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, comparative information for the six months to 30 June 2004 and financial statements for the year to 31 December 2004, the Group has adjusted amounts reported previously in financial statements prepared in accordance with previous GAAP. In addition, following the adoption of IAS 32 and IAS 39, the Group has adjusted previously restated total equity at 1 January 2005.

9 Explanation of transition to IFRS continued

The reconciliation of total equity at 30 June 2004 and 31 December 2004 is given below:

Total equity	31 December 2004 £m	30 June 2004 £m	1 January 2004 £m
Total equity as previously reported under UK GAAP	**186.9**	**177.5**	**151.6**
Adjustments on adoption of IFRS:			
Employee benefits	(69.3)	(65.2)	(90.0)
Goodwill	3.2	1.6	–
Share-based payments	0.6	0.4	0.2
Deferred tax	(2.9)	(3.4)	(3.4)
Proposed dividends	10.1	5.6	10.8
Other	(0.7)	(0.1)	–
Total IFRS adjustments	**(59.0)**	**(61.1)**	**(82.4)**
Total equity under IFRS	**127.9**	**116.4**	**69.2**

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

Total equity	1 January 2005 £m
Total equity as reported under IFRS at 31 December 2004	**127.9**
Adjustments on adoption of IAS 32 and IAS 39:	
Group share of fair value of cash flow hedges in associates and jointly controlled entities (net of deferred tax assets of £4.2m)	(9.7)
Fair value of available for sale investments	1.3
Deferred tax on the above	(0.4)
Total IAS 32 and IAS 39 adjustments	**(8.8)**
Total equity under IFRS at 1 January 2005	**119.1**

The reconciliation of profit for the year to 31 December 2004 and half year to 30 June 2004 is given below:

	Year to 31 December 2004 £m	Half year to 30 June 2004 £m
Loss for the period under UK GAAP	**(16.0)**	**(23.8)**
Adjustments on adoption of IFRS:		
Employee benefits	2.2	5.1
Goodwill	71.8	56.8
Share-based payments	(0.2)	–
Deferred tax	0.5	–
Other	(0.1)	0.1
Total IFRS adjustments	**74.2**	**62.0**
Profit for the period under IFRS	**58.2**	**38.2**

Independent Review Report to Carillion plc

Introduction
We have been engaged by the Company to review the financial information set out on pages 5 to 19 and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

As disclosed on page 9 to the financial information, the next annual financial statements of the Group will be prepared in accordance with IFRS adopted for use in the European Union.

The accounting policies that have been adopted in preparing the financial information are consistent with those that the Directors currently intend to use in the next annual financial statements. There is, however, a possibility that the Directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with those IFRS adopted for use by the European Union. This is because, as disclosed on page 9, the Directors have anticipated that certain standards, which have yet to be formally adopted for use in the EU, will be so adopted in time to be applicable to the next annual financial statements.

Review work performed
We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim financial information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2005.

KPMG Audit Plc
Chartered Accountants
Birmingham
7 September 2005

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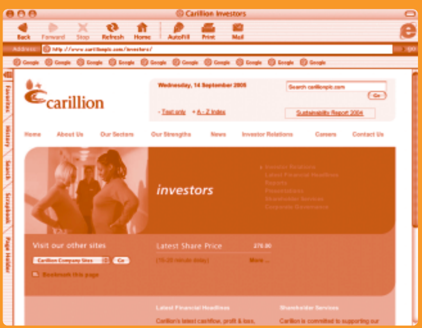
For the latest information, including Investor Relations and Sustainability, visit our website any time.

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



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Making tomorrow a better place

Carillion plc, Birch Street, Wolverhampton WV1 4HY
United Kingdom

T +44 (0)1902 422431 **F** +44 (0)1902 316165
www.carillionplc.com