John laing

# interim report 2006

# 2006

# FINANCIAL HIGHLIGHTS

| | | 30 June 2006 £ million | 30 June 2005 £ million |
|---|---|---|---|
| Turnover | | **240.2** | 192.3 |
| Profit before taxation | – continuing | **12.3** | 13.8 |
| Net funds/(borrowings) | – recourse | **108.1** | 14.6 |
| | – non-recourse | **(1,533.3)** | (1,280.5) |
| Earnings per share | – continuing | **2.9p** | 3.9p* |
| | – total | **3.0p** | 3.6p* |
| Dividends per share | | **1.3p** | 1.2p |

* the number of shares used to calculate earnings per share from continuing and discontinued operations has been adjusted for the rights issue on 19 July 2005.

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# Chairman's Statement

During the first six months of 2006 the Group's portfolio of infrastructure assets has continued to perform well and grow in value. We have recorded further bid successes during the period and our bidding activity will continue at its current high level into the future, particularly as overseas opportunities continue to expand.

The UK market for infrastructure projects is currently suffering from programme delays, in part caused by budgetary constraints. However, the Department of Health has now completed the hospital review insofar as it affects the projects on which we are at the preferred bidder stage. Barts and The London Hospital project successfully reached financial close in the first quarter, since when we have devoted considerable effort to developing affordable schemes within the new treasury guidelines on the North Staffordshire and Leicester hospital projects. I am pleased to report that the Department for Health and the Treasury have now announced that these schemes are essential and affordable. In other sectors of the UK market the opportunity flow remains relatively stable.

We are continuing to press forward in the growing international markets, and are opening offices in Canada and Central Europe where we see significant potential. Private sector involvement in infrastructure investment and development is increasing in these markets and it is our strategy to establish a strong presence.

As previously reported, Chiltern Railways financial performance has been adversely affected due to the collapse of tunnelling works at Gerrards Cross last year. Tesco, the developer, has accepted liability and we have now commenced a formal dispute resolution process in order to settle on the quantum of compensation.

**RESULTS AND DIVIDENDS**

The Group has recorded a profit before tax from continuing operations of £12.3 million (2005 – £13.8 million). The result includes profits from disposals of PFI investments of £4.6 million (2005 – £nil) and a loss from normal Rail operations of £0.8 million (2005 – profit £4.8 million). We have not included any credit within these results for the compensation referred to previously.

Equion, our division focussed on infrastructure accommodation projects, recorded a profit before tax of £12.2 million (2005 – £8.9 million), including disposal gains of £4.6 million (2005 – £nil). Excluding the disposal gains, the normal trading profit of £7.6 million was lower than profit for the comparable period in 2005 due to the profits foregone on project investments sold in the second half of 2005 and in the first quarter of the current year.

Laing Roads increased profits in the first half to £4.5 million (2005 – £3.4 million) as more projects became fully operational.

Train operating performance during the first six months was the best ever achieved by Chiltern at 93%. However, Chiltern Railways has recorded a loss of £2.4 million (2005 – profit £4.1 million) which mainly reflects the impact of the tunnel collapse on Chiltern passengers revenues. On the assumption that no further compensation has been received by the year end, we would expect the second half losses to exceed those of the first half due to the declining subsidy profile and cost pressure.

The Utilities division achieved a profit before tax in the first half of £1.1 million (2005 – £0.4 million) as the volume of services provided on the LUL Connect project increased.

Bid costs on projects, net of recoveries taken through the Income Statement following financial close, amounted to a charge of £2.3 million (2005 – credit £1.2 million). We expect this trend in rising bid costs to continue in the short to medium term as the level of bid activity increases.

The Company will pay an interim dividend of 1.3 pence per Ordinary Share (2005 – 1.2 pence) on 2 October 2006 to shareholders registered at the close of business on 8 September 2006. Our dividend policy is to grow dividends provided they are fully covered by earnings over the medium term business cycle.

# THE UK INFRASTRUCTURE MARKET CONTINUES TO PRESENT SUBSTANTIAL OPPORTUNITIES AND WE BELIEVE THERE IS ALSO *SIGNIFICANT POTENTIAL FOR JOHN LAING TO TARGET AND HAVE CONTINUED SUCCESS IN OVERSEAS MARKETS. WE ARE WELL PLACED TO TAKE ADVANTAGE OF THESE OPPORTUNITIES AND WE ARE INCREASING OUR BID ACTIVITY.*

> VALUATION OF PROJECT PORTFOLIO INCREASED BY 11% (NEW BASIS)

> INTERIM DIVIDEND INCREASED TO 1.3 PENCE PER SHARE FROM 1.2 PENCE

> REACHED FINANCIAL CLOSE ON THE £1 BILLION BARTS AND THE LONDON HOSPITAL PROJECT

> SIGNED OFF THE £319 MILLION SOUTH LANARKSHIRE SCHOOLS PROJECT

> APPOINTED PREFERRED BIDDER ON THE FORTH VALLEY HOSPITAL AND THE EAST DUNBARTONSHIRE SCHOOLS PROJECTS

> CHILTERN TRAIN PERFORMANCE AT RECORD LEVELS WITH 93% OF TRAINS ON TIME

> INCREASING BIDDING ACTIVITY OVERSEAS WITH EMPHASIS ON EUROPE AND NORTH AMERICA

**PORTFOLIO VALUATION**

The Directors have prepared the portfolio valuation in accordance with the methodology set out in previous Annual Reports. This methodology has been applied on a consistent basis for each six month period since June 2000. While not included in the financial statements, this portfolio valuation illustrates the trends in values on the assumption that the Company holds the project investments through to maturity. This valuation is based on a DCF methodology where the discount rate is calculated by applying a relevant risk premium to the Company's WACC.

However, due to the significant uncertainties over the timing and quantum of the compensation claim on the tunnel collapse, we have excluded Chiltern from the valuation at 30 June 2006 and from the comparatives on which we base growth statistics.

For the current exercise the weighted average discount rate was 9.9% (31 December 2005 – 9.9%) and the valuation was £287 million, representing a growth of 12% over the rebased valuation as at 31 December 2005 after adjusting for new investment and cash distributions.

The portfolio valuation described above is not intended to indicate the resale value of project investments. In order to provide an indication as to how potential purchasers of project investments might attribute value, the Directors have also calculated an alternative portfolio valuation by using a discount rate that applies our normal risk premium to the relevant long-term gilt yield plus 0.5%. The alternative basis of valuation also excludes shareholder tax from the cash flows on which the NPV is based. This methodology resulted in a weighted average discount rate of 7.4% (31 December 2005 – 6.9%) and a valuation of £420 million (31 December 2005 – £424 million). The growth over the rebased opening valuation was 11%, after incorporating a reduction of £22 million due to the increase in long-term gilt rates.

## BUSINESS DEVELOPMENT

Since the beginning of the year our consortia have reached financial close on Barts and The London Hospital project, the South Lanarkshire schools project and further tranches of capital investment on LIFT schemes. We have also been appointed preferred bidder on the Forth Valley hospital scheme in Central Scotland and most recently the East Dunbartonshire schools project.

We have added several projects to the pipeline of opportunities on which our consortia have been shortlisted, including the M25 road project, the Norfolk Street Lighting project and the German A4 road. We are also, in joint venture with MTR Corporation, a shortlisted bidder for the London Rail Concession – the new rail franchise incorporating the Silverlink Metro and the East London Lines.

We now have 50 projects that have reached financial close on which our cash investment to date has been £191.9 million and on which we have committed further investment of £56.3 million. Our assessment of the likely investment on projects at the preferred bidder stage is £70 million and at the shortlist stage, assuming a 40% success rate by value, the likely investment is £61 million.

We are continuing to bid on a broad spectrum of UK PFI sub-sectors. We are also increasing our bid activity overseas, with particular emphasis on Europe and North America. Whilst our interest, both at home and overseas, remains principally focussed on primary development opportunities we are also targeting secondary assets which provide scope to enhance values through financial restructuring or operational improvement.

## BALANCE SHEET

The net Group cash position at 30 June 2006, excluding non-recourse debt, was £108.1 million (31 December 2005 – £108.6 million).

The gross deficit relating to post retirement obligations at 30 June 2006 was £149.0 million (31 December 2005 – £202.8 million). The reduction was principally caused by the use of the updated AA corporate bond yield of 5.25% as the discount rate for liabilities. This has been partially offset by a slight increase in the inflation assumption to 2.85%.

As more fully described in note 13, the Group has previously included a deferred tax asset in respect of the pension deficit. This was based on the assumption that tax deduction would be available for future pension contributions in respect of former employees. Based on new guidance issued by HMRC in April 2006 and updated Counsel's advice, we no longer have the required degree of certainty that tax deduction will be granted and therefore the accounting test for continued recognition may not be passed. In view of this, we have decided that it is no longer appropriate to recognise the deferred tax asset on the pension deficit, resulting in a balance sheet reversal of £57.0 million. Our strongly held view is that tax deduction ought to be granted. This would be equitable with the fact that increased tax liabilities arose during previous pension contribution holidays and the fact that pensions in payment are taxable. We will be rigorous in our approach towards establishing actual deductions.

## PROSPECTS

The UK infrastructure market continues to present significant opportunities but our growth aspirations will only be met if we also target and have continued success in overseas markets. We are well placed to take advantage of these overseas markets and, as previously stated, we are increasing our bid activity. We will continue to pursue both primary projects and secondary investment opportunities.

We have decided to present a single brand to the global infrastructure markets and we are therefore adopting the John Laing brand in all of our businesses except for Chiltern Railways and Equion FM. This is a strong brand and, when combined with our skills, resources and leading market positioning, we have confidence that the Group will continue to grow and prosper.

As we signalled in our last trading update, in the absence of a settlement with Tesco the Group's profits for the current year are likely to be reduced by the lasting adverse impact of the tunnel collapse on Chiltern Railways. That apart, we are confident of achieving a satisfactory outturn to the current year in terms of profit and portfolio value enhancement.

# Group Income Statement

| | Notes | First Half 2006 Total £ million | First Half 2006 Group £ million | First Half 2006 Joint ventures £ million | First Half 2005 Total £ million | First Half 2005 Group £ million | First Half 2005 Joint ventures £ million | Full Year 2005 Total £ million | Full Year 2005 Group £ million | Full Year 2005 Joint ventures £ million |
|---|---|---|---|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | | | | | |
| Revenue | 3 | **240.2** | **105.6** | **134.6** | 192.3 | 105.4 | 86.9 | 407.8 | 228.1 | 179.7 |
| Cost of sales | | **(213.4)** | **(89.6)** | **(123.8)** | (159.4) | (83.0) | (76.4) | (349.0) | (188.0) | (161.0) |
| **Gross profit** | | **26.8** | **16.0** | **10.8** | 32.9 | 22.4 | 10.5 | 58.8 | 40.1 | 18.7 |
| Administrative expenses | | **(25.7)** | **(24.1)** | **(1.6)** | (23.2) | (22.1) | (1.1) | (54.1) | (51.9) | (2.2) |
| Other operating income | 4 | **4.6** | **4.6** | **-** | 0.5 | 0.5 | - | 21.3 | 21.1 | 0.2 |
| Share of results of associate | | **(0.9)** | **(0.9)** | **-** | (0.6) | (0.6) | - | (0.4) | (0.4) | - |
| **Profit/(loss) from operations** | | **4.8** | **(4.4)** | **9.2** | 9.6 | 0.2 | 9.4 | 25.6 | 8.9 | 16.7 |
| Investment income | 5 | **61.5** | **16.7** | **44.8** | 60.4 | 18.4 | 42.0 | 121.8 | 35.3 | 86.5 |
| Finance costs | 5 | **(54.0)** | **(13.2)** | **(40.8)** | (56.2) | (14.7) | (41.5) | (111.6) | (30.1) | (81.5) |
| **Profit/(loss) before tax** | 3 | **12.3** | **(0.9)** | **13.2** | 13.8 | 3.9 | 9.9 | 35.8 | 14.1 | 21.7 |
| Tax | 6 | **(4.3)** | **(0.6)** | **(3.7)** | (5.0) | (2.1) | (2.9) | (13.0) | (5.6) | (7.4) |
| **Profit/(loss) for the period from continuing operations** | 3 | **8.0** | **(1.5)** | **9.5** | 8.8 | 1.8 | 7.0 | 22.8 | 8.5 | 14.3 |
| **Discontinued operations** | | | | | | | | | | |
| Profit/(loss) for the period from discontinued operations (after tax) | 7 | **0.3** | **0.3** | **-** | (0.6) | (0.6) | - | (1.5) | (1.5) | - |
| **Profit/(loss) for the period** | | **8.3** | **(1.2)** | **9.5** | 8.2 | 1.2 | 7.0 | 21.3 | 7.0 | 14.3 |

| | Notes | First Half 2006 | First Half 2005 | Full Year 2005 |
|---|---|---|---|---|
| **Earnings per share** | | | | |
| From continuing operations | 8 | | | |
| Basic and diluted | | **2.9p** | 3.9p* | 9.9p |
| From continuing and discontinued operations | 8 | | | |
| Basic and diluted | | **3.0p** | 3.6p* | 9.1p |

* the number of shares used to calculate earnings per share from continuing and discontinued operations has been adjusted for the rights issue on 19 July 2005.

# Group Statement of Recognised Income and Expenditure

| GROUP STATEMENT OF RECOGNISED INCOME AND EXPENDITURE – 30 JUNE 2006 | Note | Hedging, revaluation and translation reserve £ million | Accumulated losses: Post retirement obligations £ million | Accumulated losses: Other reserves £ million | Total £ million |
|---|---|---|---|---|---|
| Exchange differences on translation of foreign operations | | **0.1** | **-** | **-** | **0.1** |
| Fair value of financial assets and derivatives on disposal | | **(4.3)** | **-** | **(0.7)** | **(5.0)** |
| Net decrease in fair value of financial assets | | **(40.0)** | **-** | **-** | **(40.0)** |
| Net increase in fair value of hedging derivatives | | **44.1** | **-** | **-** | **44.1** |
| Actuarial gain on post retirement obligations | | **-** | **43.0** | **-** | **43.0** |
| Deferred tax on actuarial loss on post retirement obligations | *10* | **-** | **(57.0)** | **-** | **(57.0)** |
| Transfer | | **-** | **10.8** | **(10.8)** | **-** |
| Profit for the period | | **-** | **-** | **8.3** | **8.3** |
| **Total recognised income and expenditure attributable to equity shareholders** | | **(0.1)** | **(3.2)** | **(3.2)** | **(6.5)** |

| RECONCILIATION OF MOVEMENTS IN EQUITY | Note | Share capital £ million | Share premium £ million | Non-distributable reserve £ million | Hedging, revaluation and translation reserve £ million | Accumulated losses: Post retirement obligations £ million | Accumulated losses: Other reserves £ million | Total £ million |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2006** | | **97.7** | **121.0** | **3.1** | **56.5** | **(144.1)** | **104.6** | **238.8** |
| **Total recognised income and expenditure attributable to equity shareholders** | | **-** | **-** | **-** | **(0.1)** | **(3.2)** | **(3.2)** | **(6.5)** |
| Employee share option and LTIP schemes | | **0.1** | **1.5** | **-** | **-** | **-** | **(2.2)** | **(0.6)** |
| Dividends paid | *9* | **-** | **-** | **-** | **-** | **-** | **(7.0)** | **(7.0)** |
| **Balance at 30 June 2006** | | **97.8** | **122.5** | **3.1** | **56.4** | **(147.3)** | **92.2** | **224.7** |

| GROUP STATEMENT OF RECOGNISED INCOME AND EXPENDITURE – 30 JUNE 2005 | Hedging, revaluation and translation reserve £ million | Accumulated losses: Post retirement obligations £ million | Accumulated losses: Other reserves £ million | Total £ million |
|---|---|---|---|---|
| Exchange differences on translation of foreign operations | (0.3) | - | - | (0.3) |
| Net increase in fair value of financial assets | 23.4 | - | - | 23.4 |
| Net reduction in fair value of hedging derivatives | (32.5) | - | - | (32.5) |
| De-designation of hedging relationship | 0.2 | - | - | 0.2 |
| Actuarial loss on post retirement obligations | - | (14.2) | - | (14.2) |
| Deferred tax on actuarial loss on post retirement obligations | - | 2.2 | - | 2.2 |
| Reduction in unrecoverable surplus on Plan | - | 0.4 | - | 0.4 |
| Transfer | - | 7.8 | (8.6) | (0.8) |
| Profit for the period | - | (1.3) | 9.5 | 8.2 |
| Total recognised income and expenditure attributable to equity shareholders | (9.2) | (5.1) | 0.9 | (13.4) |

| RECONCILIATION OF MOVEMENTS IN EQUITY | Note | Share capital £ million | Share premium £ million | Non-distributable reserve £ million | Hedging, revaluation and translation reserve £ million | Accumulated losses: Post retirement obligations £ million | Accumulated losses: Other reserves £ million | Total £ million |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2005 | | 85.1 | 87.4 | 2.3 | 60.7 | (135.5) | 46.9 | 146.9 |
| Total recognised income and expenditure attributable to equity shareholders | | - | - | - | (9.2) | (5.1) | 0.9 | (13.4) |
| Employee share option and LTIP schemes | | - | 0.5 | - | - | - | 0.3 | 0.8 |
| Capital reduction | | - | (50.0) | - | - | - | 50.0 | - |
| Rights issue costs | | - | (0.9) | - | - | - | - | (0.9) |
| Dividends paid | *9* | - | - | - | - | - | (5.3) | (5.3) |
| Balance at 30 June 2005 | | 85.1 | 37.0 | 2.3 | 51.5 | (140.6) | 92.8 | 128.1 |

# Group Balance Sheet

| | Notes | At 30 June 2006 Total £ million | At 30 June 2006 Group £ million | At 30 June 2006 Joint ventures £ million | At 30 June 2005 restated* Total £ million | At 30 June 2005 restated* Group £ million | At 30 June 2005 restated* Joint ventures £ million | At 31 December 2005 Total £ million | At 31 December 2005 Group £ million | At 31 December 2005 Joint ventures £ million |
|---|---|---|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | | | | |
| Intangible assets | | **13.0** | **12.1** | **0.9** | 11.6 | 11.3 | 0.3 | 13.0 | 12.3 | 0.7 |
| Property, plant and equipment | | **118.2** | **65.7** | **52.5** | 98.6 | 57.5 | 41.1 | 104.5 | 64.9 | 39.6 |
| Investments | | **27.4** | **-** | **27.4** | 26.1 | - | 26.1 | 26.7 | - | 26.7 |
| Interest in associate | | **14.4** | **14.4** | **-** | 15.4 | 15.4 | - | 15.3 | 15.3 | - |
| Deferred tax assets | 10 | **3.1** | **-** | **3.1** | 55.5 | 49.0 | 6.5 | 56.9 | 50.9 | 6.0 |
| Total financial assets – available for sale | | **1,764.6** | **360.0** | **1,404.6** | 1,761.6 | 455.7 | 1,305.9 | 1,733.7 | 278.1 | 1,455.6 |
| – at cost | | **269.2** | **83.6** | **185.6** | 202.9 | 74.2 | 128.7 | 168.7 | 59.9 | 108.8 |
| – at amortised cost | | **1,327.0** | **256.4** | **1,070.6** | 1,329.8 | 355.6 | 974.2 | 1,324.3 | 186.2 | 1,138.1 |
| – fair value adjustment | 12 | **168.4** | **20.0** | **148.4** | 228.9 | 25.9 | 203.0 | 240.7 | 32.0 | 208.7 |
| Trade and other receivables | | **76.8** | **22.7** | **54.1** | 65.0 | 5.8 | 59.2 | 67.0 | 9.5 | 57.5 |
| | | **2,017.5** | **474.9** | **1,542.6** | 2,033.8 | 594.7 | 1,439.1 | 2,017.1 | 431.0 | 1,586.1 |
| **Current assets** | | | | | | | | | | |
| Inventories | | **33.3** | **19.2** | **14.1** | 18.9 | 2.9 | 16.0 | 30.6 | 19.8 | 10.8 |
| Financial assets – available for sale | | **31.3** | **6.5** | **24.8** | 36.3 | 9.3 | 27.0 | 31.4 | 3.4 | 28.0 |
| Trade and other receivables | | **91.2** | **32.5** | **58.7** | 89.0 | 35.6 | 53.4 | 88.9 | 41.4 | 47.5 |
| Tax recoverable | | **2.0** | **2.0** | **-** | - | - | - | 0.5 | 0.3 | 0.2 |
| Cash and cash equivalents | 11 | **538.0** | **142.3** | **395.7** | 292.2 | 54.2 | 238.0 | 386.9 | 140.8 | 246.1 |
| | | **695.8** | **202.5** | **493.3** | 436.4 | 102.0 | 334.4 | 538.3 | 205.7 | 332.6 |
| Assets classified as held for sale or discontinued | 7 | **17.8** | **17.8** | **-** | 14.6 | 14.6 | - | 23.6 | 23.6 | - |
| **Total assets** | | **2,731.1** | **695.2** | **2,035.9** | 2,484.8 | 711.3 | 1,773.5 | 2,579.0 | 660.3 | 1,918.7 |
| **Current liabilities** | | | | | | | | | | |
| Bank overdrafts and loans | 11 | **56.0** | **16.8** | **39.2** | 47.7 | 14.2 | 33.5 | 49.5 | 9.2 | 40.3 |
| Trade and other payables | | **119.0** | **64.3** | **54.7** | 115.5 | 60.3 | 55.2 | 133.1 | 68.2 | 64.9 |
| Tax liabilities | | **5.5** | **4.9** | **0.6** | 7.4 | 5.3 | 2.1 | 6.4 | 5.6 | 0.8 |
| | | **180.5** | **86.0** | **94.5** | 170.6 | 79.8 | 90.8 | 189.0 | 83.0 | 106.0 |
| **Non-current liabilities** | | | | | | | | | | |
| Bank loans | 11 | **1,907.2** | **378.4** | **1,528.8** | 1,510.4 | 374.9 | 1,135.5 | 1,625.1 | 281.0 | 1,344.1 |
| Fair value of derivatives | 12 | **92.0** | **21.6** | **70.4** | 157.5 | 59.5 | 98.0 | 157.7 | 38.9 | 118.8 |
| Trade and other payables | | **61.5** | **2.5** | **59.0** | 204.8 | 66.3 | 138.5 | 57.3 | 4.0 | 53.3 |
| Retirement benefit obligations | 13 | **149.0** | **148.3** | **0.7** | 201.3 | 200.9 | 0.4 | 202.8 | 202.3 | 0.5 |
| Deferred tax liabilities | 10 | **93.2** | **15.0** | **78.2** | 78.2 | 6.8 | 71.4 | 87.2 | 6.8 | 80.4 |
| Long-term provisions | 14 | **2.8** | **0.3** | **2.5** | 3.5 | 0.7 | 2.8 | 3.0 | 0.7 | 2.3 |
| | | **2,305.7** | **566.1** | **1,739.6** | 2,155.7 | 709.1 | 1,446.6 | 2,133.1 | 533.7 | 1,599.4 |
| Liabilities classified as held for sale or discontinued | 7 | **20.2** | **20.2** | **-** | 30.4 | 30.4 | - | 18.1 | 18.1 | - |
| **Total liabilities** | | **2,506.4** | **672.3** | **1,834.1** | 2,356.7 | 819.3 | 1,537.4 | 2,340.2 | 634.8 | 1,705.4 |
| **Net assets** | | **224.7** | **22.9** | **201.8** | 128.1 | (108.0) | 236.1 | 238.8 | 25.5 | 213.3 |
| **Equity** | | | | | | | | | | |
| Share capital | 15 | **97.8** | | | 85.1 | | | 97.7 | | |
| Share premium | | **122.5** | | | 37.0 | | | 121.0 | | |
| Non-distributable reserve | | **3.1** | | | 2.3 | | | 3.1 | | |
| Hedging, revaluation and translation reserve | 17 | **56.4** | | | 51.5 | | | 56.5 | | |
| Accumulated losses | | **(55.1)** | | | (47.8) | | | (39.5) | | |
| – post retirement obligations | 13 | **(147.3)** | | | (140.6) | | | (144.1) | | |
| – other reserves | | **92.2** | | | 92.8 | | | 104.6 | | |
| **Total equity** | | **224.7** | | | 128.1 | | | 238.8 | | |

* refer to accounting policy note 2.

# Group Cash Flow Statement

| | Note | **First Half 2006 £ million** | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|---|
| **Net cash outflow from operating activities** | *18* | **(103.4)** | (28.5) | (47.8) |
| **Investing activities** | | | | |
| Finance income | | **7.8** | 6.9 | 13.9 |
| Dividends received | | **0.3** | 0.5 | 0.4 |
| Proceeds on disposal of investments | | **-** | - | 0.1 |
| Disposal of subsidiaries | | **0.5** | - | 16.6 |
| Loan repayments and disposal of joint ventures | | **7.9** | - | 10.5 |
| Proceeds on disposal of property, plant and equipment | | **-** | - | 0.2 |
| Purchases of property, plant and equipment | | **(17.4)** | (25.8) | (40.4) |
| Purchase of subsidiary | | **-** | - | (1.3) |
| Purchase of joint ventures | | **-** | - | (17.9) |
| **Net cash used in investing activities** | | **(0.9)** | (18.4) | (17.9) |
| **Financing activities** | | | | |
| Dividends paid | | **(7.0)** | (5.3) | (9.3) |
| Interest paid | | **(51.3)** | (55.4) | (101.2) |
| Proceeds from borrowings | | **321.7** | 210.1 | 323.1 |
| Repayments of borrowings | | **(15.8)** | (5.0) | (40.3) |
| Proceeds on issue of share capital | | **1.6** | - | 95.8 |
| **Net cash from financing activities** | | **249.2** | 144.4 | 268.1 |
| **Net increase in cash and cash equivalents** | | **144.9** | 97.5 | 202.4 |
| Cash and cash equivalents at beginning of year | | **441.0** | 238.6 | 238.6 |
| **Cash and cash equivalents at end of period** | | **585.9** | 336.1 | 441.0 |

An analysis of cash flow to recourse funds is set out in note 19.

# Notes

1 The interim report does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The full accounts for the year ended 31 December 2005, which were prepared under International Financial Reporting Standards ('IFRS'), received an unqualified report from the auditors and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985 and have been filed with the Registrar of Companies.

These results and the comparative figures for the six months ended 30 June 2005 are unaudited but have been reviewed by the Chartered Accountants Deloitte & Touche LLP. The scope of this review was substantially less than an audit in accordance with Auditing Standards.

The interim report has been prepared in accordance with IAS34 'Interim Financial Reporting'.

With respect to the accounting for service concession arrangements, the Group has adopted accounting policies that are consistent with the principles embodied within IFRS. During this evolutionary period of development of IFRS, initial guidance on interpretation of IFRS relating to service concession arrangements has been drafted by the International Financial Reporting Interpretations Committee ('IFRIC'). The Directors believe that the policies adopted in relation to service concession arrangements comply with both current IFRS and the draft guidance issued by IFRIC.

## 2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those adopted by the Group's annual financial statements for the year ended 31 December 2005.

### Restatement of comparatives

On the initial adoption of IAS39 on 1 January 2005, the fair value adjustments to the financial assets were accounted for in addition to acquisition fair value adjustments already included in the underlying UK GAAP position. The comparatives for the six months to 30 June 2005 have now been restated to align the treatment of acquisition fair value with that adopted in the audited accounts for the year ended 31 December 2005. Under this treatment, acquisition fair value is shown within the IAS39 fair value adjustment of financial asset rather than in addition to it. The effect is therefore to reduce the fair value adjustment and the revaluation reserve as at 30 June 2005 by £33.0 million.

## 3 SECTOR ANALYSIS

For management purposes, the Group is currently organised into five operating sectors – accommodation, roads, rail, utilities and management services. These sectors are the basis on which the Group reports its primary segment information.

Sector information about the businesses is presented below:

| Revenue | First Half 2006 £ million | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|
| Accommodation | **143.3** | 108.1 | 218.6 |
| Roads | **39.1** | 25.3 | 71.2 |
| Rail | **50.3** | 49.0 | 102.8 |
| Utilities | **4.3** | 4.7 | 8.1 |
| Management services | **3.2** | 5.2 | 7.1 |
| | **240.2** | 192.3 | 407.8 |

Revenue in the accommodation and roads sectors, is primarily generated from recognition of financial assets where the project infrastructure is in the course of construction.

| Result | | | First Half 2006 £ million | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|---|---|
| Accommodation | - normal operations | | **7.6** | 8.9 | 16.1 |
| | - profit on sale of interests in PFI/PPP project companies | | **4.6** | - | 20.9 |
| Roads | | | **4.5** | 3.4 | 6.5 |
| Rail | - normal operations | - Chiltern Railways | **(2.4)** | 4.1 | 6.4 |
| | | - other | **1.6** | 0.7 | 0.9 |
| | - bid costs on new franchise | | **(0.7)** | (0.7) | (1.4) |
| | - sale of development land | | **-** | - | 0.2 |
| Utilities | | | **1.1** | 0.4 | 0.9 |
| Management services, overheads and bid costs | | | **(6.0)** | (3.0) | (18.6) |
| - bid costs (net of deferred income release) | | | **(2.3)** | 1.2 | (6.3) |
| - overheads | | | **(3.7)** | (4.2) | (12.3) |
| Corporate finance income | | | **2.6** | 0.6 | 3.7 |
| Non-core business | | | **(0.6)** | (0.6) | 0.2 |
| | | | **12.3** | 13.8 | 35.8 |
| Tax | | | **(4.3)** | (5.0) | (13.0) |
| Profit for the period from continuing operations | | | **8.0** | 8.8 | 22.8 |

The profit before tax disclosed in relation to the core sectors is shown after adding or deducting interest received and paid on project specific funds. Corporate finance income excludes interest on project funds and includes interest on funds available for general corporate purposes.

## 4 OTHER OPERATING INCOME

| | First Half 2006 £ million | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|
| Part-disposal of a subsidiary and joint ventures | **4.6** | - | 20.9 |
| Other | **-** | 0.5 | 0.4 |
| | **4.6** | 0.5 | 21.3 |

**Disposals of subsidiary and joint ventures**

The Group made the following disposals during the six months ended 30 June 2006:

A 50% equity interest in Services Support (Cleveland) Holdings Limited on 28 April 2006.

A 14.23% equity interest in 3ED Limited and a 21.43% equity interest in ESP Limited on 9 March 2006 (the 'school assets').

The 2005 full year comparative includes a profit of £7.9 million in respect of the sale of the Group's interest in Defence Management (Holdings) Limited and £13.0 million on the sale of a 50% interest in Services Support (Manchester) Holdings Limited, Services Support (SEL) Holdings Limited and Services Support (Gravesend) Holdings Limited (the 'police assets').

Net assets at the date of disposals were as follows:

| | Services Support (Cleveland) Holdings Limited £ million | School assets £ million | Total £ million |
|---|---|---|---|
| Cost of financial assets and other receivables | 3.5 | 61.8 | **65.3** |
| Bank balances and cash | 0.5 | 7.5 | **8.0** |
| Deferred tax asset | - | 0.5 | **0.5** |
| Deferred tax liability | (0.6) | (1.7) | **(2.3)** |
| Fair value of derivatives | - | (1.8) | **(1.8)** |
| Trade payables | (0.6) | (5.7) | **(6.3)** |
| Bank loans and overdraft | (2.8) | (55.2) | **(58.0)** |
| **Net assets disposed of** | - | 5.4 | **5.4** |
| Consideration | 1.0 | 14.6 | **15.6** |
| Settlement of intercompany loans | (0.6) | (5.8) | **(6.4)** |
| Net sale proceeds | 0.4 | 8.8 | **9.2** |
| **Gain on disposal** | 0.4 | 3.4 | **3.8** |
| Deferred consideration on police assets | | | **0.8** |
| | | | **4.6** |
| Satisfied by: | | | |
| Cash proceeds | 1.0 | 14.6 | **15.6** |
| Bank balances and cash disposed | (0.5) | (7.5) | **(8.0)** |
| | 0.5 | 7.1 | **7.6** |
| Deferred consideration on police assets | | | **0.8** |
| **Net cash inflow arising on disposal** | | | **8.4** |

# Notes

## 5 INVESTMENT INCOME AND FINANCE COSTS

| | Note | **First Half 2006** Total £ million | Group £ million | Joint ventures £ million | First Half 2005 Total £ million | Group £ million | Joint ventures £ million | Full Year 2005 Total £ million | Group £ million | Joint ventures £ million |
|---|---|---|---|---|---|---|---|---|---|---|
| **Investment income** | | | | | | | | | | |
| Interest on bank deposits | | | | | | | | | | |
| – recourse | | **2.6** | **2.6** | **-** | 1.4 | 1.4 | - | 3.1 | 3.1 | - |
| – non-recourse | | **4.4** | **0.9** | **3.5** | 4.0 | 1.0 | 3.0 | 8.5 | 1.9 | 6.6 |
| Financial asset interest | | | | | | | | | | |
| – non-recourse | | **52.7** | **11.4** | **41.3** | 54.0 | 15.0 | 39.0 | 108.2 | 28.3 | 79.9 |
| Pension finance income (net) | | **1.8** | **1.8** | **-** | 1.0 | 1.0 | - | 2.0 | 2.0 | - |
| **Total investment income** | | **61.5** | **16.7** | **44.8** | 60.4 | 18.4 | 42.0 | 121.8 | 35.3 | 86.5 |
| **Finance costs** | | | | | | | | | | |
| Interest on bank overdrafts and loans | | | | | | | | | | |
| – recourse | | **(0.3)** | **(0.3)** | **-** | (0.6) | (0.6) | - | (0.8) | (0.8) | - |
| – non-recourse | | **(54.1)** | **(13.2)** | **(40.9)** | (56.1) | (14.1) | (42.0) | (110.7) | (29.7) | (81.0) |
| Amortisation of debt issue costs | | | | | | | | | | |
| – recourse | | **(0.1)** | **(0.1)** | **-** | (0.1) | (0.1) | - | (0.3) | (0.3) | - |
| – non-recourse | | **(0.5)** | **(0.1)** | **(0.4)** | (1.0) | (0.2) | (0.8) | (2.9) | (0.8) | (2.1) |
| Refinancing | | | | | | | | | | |
| – non-recourse | | **-** | **-** | **-** | (0.2) | (0.2) | - | (0.6) | - | (0.6) |
| Interest capitalised | | | | | | | | | | |
| – non-recourse | | **0.6** | **0.1** | **0.5** | 2.0 | 0.7 | 1.3 | 3.8 | 1.6 | 2.2 |
| Ineffective interest rate derivatives | *12* | **0.4** | **0.4** | **-** | (0.2) | (0.2) | - | (0.1) | (0.1) | - |
| **Total finance costs** | | **(54.0)** | **(13.2)** | **(40.8)** | (56.2) | (14.7) | (41.5) | (111.6) | (30.1) | (81.5) |
| **Net finance income** | | **7.5** | **3.5** | **4.0** | 4.2 | 3.7 | 0.5 | 10.2 | 5.2 | 5.0 |

# Notes

## 6 TAX

The Group's tax charge for the first six months of 2006 was £4.3 million, an analysis of the tax charge and the effective tax rate including comparative periods is shown below.

Under IAS12, 'Income Taxes', the Group is obliged to account for deferred tax by reference to the tax written down values and book values of assets and liabilities at the balance sheet date. This gives rise to a lower effective tax rate in the early years of operation of certain PFI/PPP project companies because the rate of disallowed expenditure increases towards the latter years of the project's life. The estimated whole life effective tax rate on the Group's 27 PFI/PPP projects attracting capital allowances is 45% but, for reasons explained above, the effective rate for 2006 is anticipated to be 33%. It follows that the effective rate of tax on the total PFI/PPP portfolio of 50 projects is likely to increase in future years. This effect will be mitigated because new projects are generally taxed on the composite trade basis at an effective tax rate of about 30%.

| | **First Half 2006** | | | First Half 2005 | | | Full Year 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Tax analysis** | **Profit before tax £ million** | **Tax £ million** | **Tax rate %** | Profit before tax £ million | Tax £ million | Tax rate % | Profit before tax £ million | Tax £ million | Tax rate % |
| **Continuing businesses** | | | | | | | | | |
| PFI/PPP project companies | **9.8** | **(3.9)** | **40** | 10.9 | (4.8) | 44 | 25.0 | (8.7) | 35 |
| Chiltern Railways | **(2.4)** | **(0.6)** | **(25)** | 4.1 | (0.1) | 2 | 6.4 | (2.1) | 32 |
| | **7.4** | **(4.5)** | **61** | 15.0 | (4.9) | 33 | 31.4 | (10.8) | 34 |
| Capital gains on sale of investments | **4.6** | **-** | **-** | - | - | - | 20.9 | - | - |
| Holding companies, bid costs and overheads | **0.3** | **0.2** | **(67)** | (1.2) | (0.1) | (8) | (16.5) | (2.2) | (13) |
| | **12.3** | **(4.3)** | **35** | 13.8 | (5.0) | 36 | 35.8 | (13.0) | 36 |
| **Discontinued businesses** | **0.3** | **-** | **-** | (0.4) | (0.2) | - | (1.7) | 0.2 | - |
| | **12.6** | **(4.3)** | **34** | 13.4 | (5.2) | 39 | 34.1 | (12.8) | 38 |

| | **First Half 2006 £ million** | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|
| **Current tax:** | | | |
| UK corporation tax | **0.6** | (1.1) | (2.1) |
| Foreign tax | **(0.2)** | - | (0.3) |
| | **0.4** | (1.1) | (2.4) |
| **Deferred tax** | **(4.7)** | (3.9) | (10.6) |
| **Total tax** | **(4.3)** | (5.0) | (13.0) |

## 7 DISCONTINUED OPERATIONS

In October 2001, the Group commenced the refocussing of the business through the sale of the Construction division. This was followed by the disposal of the Property division in April 2002 and the Homes division in October 2002. Within the respective sale agreements, a number of contracts and liabilities were identified and retained as a liability of the Group, hence provisions were made for the completion of these contracts. As a consequence of these disposals, Woodcroft Insurance Company Limited, the captive insurance company, ceased writing any new business, such that its remaining activity relates to the run off of claims. These disposals are all part of the single disposal plan that the Group had and has substantially implemented. The major disposals were completed in 2001 and 2002 although it is taking some time for the remaining contracts and liabilities to be completed.

The results of the discontinued operations, which have been included in the Group Income Statement, were as follows:

| | **First Half 2006 £ million** | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|
| Revenue | **4.3** | 0.3 | 0.6 |
| Expenses | **(4.0)** | (0.7) | (2.3) |
| **Profit/(loss) before tax** | **0.3** | (0.4) | (1.7) |
| Attributable tax charge | **-** | (0.2) | 0.2 |
| **Net profit/(loss) attributable to discontinued operations** | **0.3** | (0.6) | (1.5) |

The major classes of assets and liabilities comprising the operations classified as held for sale and discontinued are as follows:

| | **At 30 June 2006 £ million** | At 30 June 2005 £ million | At 31 December 2005 £ million |
|---|---|---|---|
| Trade and other receivables | **2.3** | 1.6 | 1.2 |
| Cash and cash equivalents | **15.5** | 13.0 | 22.4 |
| **Total assets classified as held for sale or discontinued** | **17.8** | 14.6 | 23.6 |
| Trade and other payables | **(3.1)** | (5.9) | (3.1) |
| Provisions | **(17.1)** | (24.5) | (15.0) |
| **Total liabilities classified as held for sale or discontinued** | **(20.2)** | (30.4) | (18.1) |
| **Net (liabilities)/assets** | **(2.4)** | (15.8) | 5.5 |

During the six months ended 30 June 2006, net cash flow from operating activities included an inflow of £2.0 million (2005 – £11.5 million outflow) in respect of discontinued operations. In addition, the discontinued operations received no income (2005 – £0.5 million) in respect of investing activities and received £0.4 million (2005 – paid £5.0 million) to the Group in respect of financing activities.

Refer to note 14 for details of the provisions.

## 8 EARNINGS PER SHARE

**From continuing and discontinued operations**

The calculation of the basic and diluted earnings per share is based on the following data:

| Earnings | First Half 2006 £ million | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|
| Profit for the period | **8.3** | 8.2 | 21.3 |
| Preference shareholders dividend | **(1.3)** | (1.4) | (2.5) |
| **Earnings for the purposes of earnings per share** | **7.0** | 6.8 | 18.8 |
| Weighted average number of Ordinary Shares for the purposes of basic earnings per share | **233,588,719** | 189,766,746* | 205,933,417 |
| **Basic and diluted earnings per share from continuing and discontinued operations** | **3.0p** | 3.6p* | 9.1p |

| From continuing operations | First Half 2006 £ million | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|
| Net profit attributable to equity holders of the parent | **7.0** | 6.8 | 18.8 |
| Adjustments to exclude (profit)/loss for the period from discontinued operations | **(0.3)** | 0.6 | 1.5 |
| **Earnings from continuing operations for the purpose of basic earnings per share excluding discontinued operations** | **6.7** | 7.4 | 20.3 |
| **Basic and diluted earnings per share from continuing operations** | **2.9p** | 3.9p* | 9.9p |

| From discontinued operations | First Half 2006 | First Half 2005 | Full Year 2005 |
|---|---|---|---|
| **Basic and diluted earnings per share from discontinued operations** | **0.1p** | (0.3)p* | (0.8)p |

* the denominators used are the same as those detailed above for both basic and diluted earnings per share from continuing and discontinued operations and have been adjusted for the rights issue on 19 July 2005.

## 9 DIVIDENDS

| | First Half 2006 £ million | First Half 2005 £ million | Full Year 2005 £ million |
|---|---|---|---|
| Amounts recognised as distributions to ordinary shareholders in the period: | | | |
| Final dividend for the year ended 31 December 2005 of 2.45p per share (31 December 2004 of 2.2p per share) | **5.7** | 4.0 | 4.0 |
| Interim dividend for the year ended 31 December 2005 of 1.2p per share | **-** | - | 2.8 |
| | **5.7** | 4.0 | 6.8 |
| On 6.4% Convertible Cumulative Preference Shares | **1.3** | 1.3 | 2.5 |
| | **7.0** | 5.3 | 9.3 |

The interim dividend for the year ending 31 December 2006 is 1.3p per share amounting to £3.0 million. Since the Directors did not approve the interim dividend until after 30 June 2006, it has not been included as a liability in these financial statements. The interim dividend will be paid on 2 October 2006 to shareholders who are on the register on 8 September 2006.

## 10 DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the period to 30 June 2006.

| | Accelerated tax deduction for PFI projects £ million | Additional temporary differences on business combinations £ million | PFI tax losses £ million | Tax reserves on overseas subsidiaries £ million | Other taxable temporary differences £ million | Retirement benefit obligations £ million | IAS39 fair value of derivatives and financial assets £ million | Other deductible temporary differences £ million | **Total £ million** |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2006** | (115.9) | (4.6) | 67.9 | (6.8) | (5.5) | 58.7 | (24.9) | 0.8 | **(30.3)** |
| (Charge)/credit to income - current year | (4.9) | - | 1.5 | - | (0.6) | - | (0.2) | - | **(4.2)** |
| (Charge)/credit to income - prior year | (0.1) | - | - | - | - | - | - | (0.4) | **(0.5)** |
| Credit/(charge) to equity | 4.2 | 0.3 | (3.4) | - | - | (57.0)[3] | 0.8 | - | **(55.1)** |
| **At 30 June 2006** | **(116.7)**[1] | **(4.3)** | **66.0**[2] | **(6.8)** | **(6.1)** | **1.7** | **(24.3)** | **0.4** | **(90.1)** |

1 this includes deferred tax in respect of joint ventures of £116.6 million (31 December 2005 – £114.6 million).
2 this includes deferred tax in respect of joint ventures of £65.7 million (31 December 2005 – £51.7 million).
3 refer to note 13.

At the Balance Sheet date, the Group has unused tax losses of £8.6 million (31 December 2005 – £28.5 million) available to offset against future profits. A deferred tax asset has not been recognised in respect of these losses due to the unpredictability of future profit streams. These losses may be carried forward indefinitely.

| | At 30 June 2006 £ million | At 30 June 2005 £ million | At 31 December 2005 £ million |
|---|---|---|---|
| Deferred tax assets | **3.1** | 55.5 | 56.9 |
| Deferred tax liabilities | **(93.2)** | (78.2) | (87.2) |
| | **(90.1)** | (22.7) | (30.3) |

# Notes

## 11 NET DEBT

| | At 30 June 2006 £ million | At 30 June 2005 £ million | At 31 December 2005 £ million |
|---|---|---|---|
| **Recourse** | | | |
| Cash | **108.8** | 14.6 | 108.6 |
| Bank and other loans falling due within one year | **(0.7)** | - | - |
| | **108.1** | 14.6 | 108.6 |
| **Non-recourse** | | | |
| Cash | **429.2** | 277.6 | 278.3 |
| Bank and other loans falling due within one year | **(55.3)** | (47.7) | (49.5) |
| Bank and other loans falling due after more than one year | **(1,907.2)** | (1,510.4) | (1,625.1) |
| | **(1,533.3)** | (1,280.5) | (1,396.3) |
| **Period end net debt** | **(1,425.2)** | (1,265.9) | (1,287.7) |

The recourse funds shown above do not include cash balances held in discontinued operations which are identified in note 7.

## 12 FAIR VALUE ADJUSTMENTS FOR DERIVATIVES AND FINANCIAL ASSETS

| | At 30 June 2006 £ million | At 30 June 2005 restated* £ million | At 31 December 2005 £ million |
|---|---|---|---|
| **Derivatives** | | | |
| **Non-current liabilities** | | | |
| Interest rate swaps | **(82.3)** | (150.8) | (149.9) |
| Inflation swaps | **(9.7)** | (6.7) | (7.8) |
| | **(92.0)** | (157.5) | (157.7) |
| **Non-current assets** | | | |
| Interest rate swaps | **4.6** | - | - |
| Commodity swap | **0.6** | 0.9 | 0.4 |
| | **(86.8)** | (156.6) | (157.3) |
| **Financial assets** | **168.4** | 228.9 | 240.7 |
| **Fair value adjustment of derivatives and financial assets** | **81.6** | 72.3 | 83.4 |
| Net deferred tax thereon | **(24.3)** | (21.7) | (24.9) |
| **Net remeasurement of financial instruments** | **57.3** | 50.6 | 58.5 |

| Reconciliation of movement in derivatives balance | £ million |
|---|---|
| **Balance at 1 January 2006** | (157.3) |
| Disposals | 7.6 |
| Acquisition | (0.6) |
| Movement | 63.5 |
| **Closing position at 30 June 2006** | **(86.8)** |

The reduction in fair value reflects the increase in long-term interest rates and the effect that has on fair value of financial assets attracting a fixed rate of interest.

In order to manage exposure to movements in interest rates, project companies financed by floating rate debt swap their floating rate exposure for fixed rates using interest rate swaps. Of the 50 projects currently undertaken, 38 of these are financed by floating rate debt and so have transacted interest rate swaps.

In order to manage exposure to inflation rate movements, a number of projects have hedged a proportion of movements in costs and revenues as a result of inflation movements through inflation indexed swaps.

In order to reduce its exposure to rising fuel costs, Chiltern Railways has fixed the cost of its estimated usage of fuel until March 2008 by entering into a commodity swap. Hedge accounting has not been applied on this swap and therefore all movements in the fair value are taken to the Income Statement. In the six months to 30 June 2006 this offset costs by £0.6 million.

The fair value of swaps entered into as at 30 June 2006 is estimated as a £86.8 million liability (2005 – £156.6 million liability) which is the net of a credit of £0.6 million taken to the Income Statement and £87.4 million which has been designated for hedge accounting as cash flow hedges. The total movement in the fair value of cash flow hedges since 31 December 2005 was a reduction in the liability by £69.9 million (six months to 30 June 2005 – £46.4 million). As at 30 June 2006 these hedges have been tested for effectiveness. At this date, some swaps have an ineffective portion due to over hedging. Therefore £0.4 million (2005 – (£0.2) million) has been credited/(debited) to the Income Statement and £69.5 million (2005 – £46.2 million) has been taken directly to equity.

* refer to accounting policy note 2

## 13 POST RETIREMENT OBLIGATIONS

### Pension Plans

#### The Laing Schemes

John Laing operates two primary defined benefit schemes in the UK ('the Laing Schemes') – The John Laing Pension Fund ('the Fund') and The John Laing Pension Plan ('the Plan').

Full actuarial valuations of the Laing Schemes were carried out as at 31 March 2005 and were updated to 30 June 2006 by a qualified independent actuary, Towers Perrin. The assets of these schemes are held in separate trustee administered funds.

*The Fund*

From 1 January 2004, John Laing made contributions to the Fund at the rate of 18% of pensionable salaries and this rate has increased to 22% of pensionable salaries from 1 January 2006. Active members of the Fund re-commenced employee contributions from 1 January 2004, at a rate of 2% of their pensionable salary, rising to 4% in 2005 and escalating to 6% of pensionable salary in 2006. In addition to the 22% regular contributions, John Laing has agreed to make additional annual cash payments toward funding the deficit. The first of the additional contributions of £4.0 million was made in January 2004 and this has been increased with the agreement of the trustees to £6.0 million in 2005 and £10.0 million in 2006. This additional contribution will increase by 3% per annum, unless agreed otherwise by the Company and the trustees, until the deficit has been eliminated.

*The Plan*

No contributions were made to the Plan in 2005 or for the first six months of 2006.

Both schemes are now closed to new members and there are no active members remaining in the Plan. Therefore, under the Projected Unit method of valuation, the current service cost for the Fund will increase as a percentage of pensionable payroll as the members approach retirement.

Staff employed since 1 January 2002, who are entitled to retirement benefits, can choose to be members of a defined contribution Stakeholder scheme sponsored by the Group in conjunction with Legal and General Assurance Society Limited.

#### The Chiltern Schemes

The Chiltern Railway Company Limited Section and the Chiltern Railway Company Limited (Maintenance) Section ('the Chiltern Schemes') form part of the Railways Pension Scheme ('the Scheme') but their assets and liabilities are identified separately from the remainder of the Scheme. The Scheme is a defined benefit shared cost scheme.

Full actuarial valuations of the Chiltern Schemes were carried out as at 31 December 2004 and were updated to 31 December 2005 by a qualified independent actuary, Watson Wyatt.

The assets of the Chiltern Schemes are held in separate trustee administered funds. Contributions to the Chiltern Schemes are assessed in accordance with the advice of a qualified actuary using the Projected Unit funding method.

The Chiltern Schemes remain open to new members.

#### Joint venture – Severn River Crossing plc

A net pension deficit at 30 June 2006 of £0.5 million has been proportionally consolidated into the Group accounts in respect of this joint venture.

#### Post retirement medical insurance

The Group provides post retirement medical insurance to a group of 71 past and present employees. This scheme was closed to new members in 1991 and only one of the members remains in the employment of the Group. This scheme is unfunded.

## 13 POST RETIREMENT OBLIGATIONS (CONTINUED)

### Post retirement scheme assets and liabilities

The market value of the assets in the pension and post retirement medical schemes and the present value of the liabilities in the schemes were:

| | **At 30 June 2006 £ million** | At 30 June 2005 £ million | At 31 December 2005 £ million |
|---|---|---|---|
| Total fair value of assets | **705.4** | 643.9 | 692.4 |
| Present value of scheme liabilities | **(845.9)** | (836.7) | (886.3) |
| **Deficit in the schemes** | **(140.5)** | (192.8) | (193.9) |
| Unrecoverable surplus in the Plan | **(3.5)** | (3.8) | (3.9) |
| **Net pension deficit** | **(144.0)** | (196.6) | (197.8) |
| Post retirement medical liabilities | **(5.0)** | (4.3) | (5.0) |
| **Pensions and other post retirement liabilities** | **(149.0)** | (200.9) | (202.8) |
| Associated deferred tax asset | **1.7** | 60.3 | 58.7 |
| **Pensions and other post retirement liabilities (net)** | **(147.3)** | (140.6) | (144.1) |

For the Laing Schemes, the actuaries Towers Perrin have advised that there has been an increase in corporate bond yields since 31 December 2005 from 4.8% to 5.25% at 30 June 2006, and a minor increase in expected future price inflation from 2.75% to 2.85%. As a result the liabilities of the defined benefit schemes decreased by £49.0 million as at 30 June 2006.

In prior accounting periods the Group has included a deferred tax asset in respect of the pension deficit. This was based on the assumption that future contributions towards funding the deficit would attract tax deductions, an assumption that was supported by Counsel's opinion. In April 2006, Her Majesty's Revenue & Customs ('HMRC') issued new guidelines on the circumstances under which HMRC will grant tax deduction for pension payments made in respect of former employees. These guidelines apply to trading companies and it remains unclear as to whether similar guidelines will be issued in respect of investment companies. Based on updated Counsel's opinion, there is now uncertainty over how HMRC will apply these new guidelines in practice. The Company has taken the most prudent view for accounting purposes and derecognised the deferred tax asset. The Company will, however, be rigorous in its approach towards establishing actual deductions.

| **Analysis of movement in deficit during the period** | **At 30 June 2006 £ million** | At 30 June 2005 £ million | At 31 December 2005 £ million |
|---|---|---|---|
| **Deficit at beginning of year** | **(193.9)** | (185.1) | (185.6)* |
| Contributions (employer and employee) | **11.9** | 7.8 | 9.4 |
| Current service cost | **(3.0)** | (2.5) | (4.7) |
| Other finance income | **2.0** | 1.2 | 2.2 |
| Actuarial gain/(loss) | **42.5** | (14.2) | (15.2) |
| **Deficit in the schemes at end of period** | **(140.5)** | (192.8) | (193.9) |
| Unrecoverable surplus in the Plan | **(3.5)** | (3.8) | (3.9) |
| **Net pension deficit at end of period** | **(144.0)** | (196.6) | (197.8) |

* adjusted to include the deficit in relation to Severn River Crossing plc of £0.5 million disclosed separately at 31 December 2005.

## 14 GUARANTEES, CONTINGENT LIABILITIES AND OTHER COMMITMENTS

| Provisions | At 1 January 2006 £ million | Charged/ (credited) to Income Statement £ million | Transfer and other adjustments £ million | Receipts/ (utilised) £ million | At 30 June 2006 £ million |
|---|---|---|---|---|---|
| Retained liabilities | 14.0 | 1.9 | - | 1.0 | **16.9** |
| Property dilapidations | 0.8 | (0.2) | - | (0.5) | **0.1** |
| Onerous lease | 0.3 | - | - | (0.1) | **0.2** |
| Other | 2.9 | 0.2 | (0.3) | (0.1) | **2.7** |
| **Total provisions** | **18.0** | **1.9** | **(0.3)** | **0.3** | **19.9** |
| Disclosed: | | | | | |
| Long-term provisions | 3.0 | | | | **2.8** |
| Discontinued (note 7) | 15.0 | | | | **17.1** |

**RETAINED LIABILITIES** provisions include amounts for retained liabilities in respect of the disposed businesses, £6.9 million (31 December 2005 – £3.7 million) for Construction and £1.6 million (31 December 2005 – £1.6 million) for Homes. These are assessed regularly on a contract by contract basis and are expected to be utilised over the next few years. In addition, there are provisions of £8.4 million (31 December 2005 – £8.7 million), in respect of self insurance which are calculated using historical data and are based on the advice of loss adjustors and an independent actuary.

The provision for retained liabilities covers a number of construction contracts for which the Group retained financial responsibility following the sale of Laing Construction in 2001. The Directors believe that remaining provisions are sufficient to meet the likely outcome on the small number of contracts on which there are outstanding issues to be settled.

**PROPERTY DILAPIDATION** provisions relate to leasehold properties occupied by the Group.

**ONEROUS LEASE** costs will be utilised over the remaining life of the leases.

**LUL CONNECT PROJECT:** the Group owns a 19.5% interest in CityLink Telecommunications Limited ('CityLink'), the special purpose company ('SPC') that was awarded a contract to upgrade the telecommunications network on the London Underground. CityLink is in dispute with London Underground Limited in relation to delays to the delivery of the new communications network. Responsibility for the delays has not been resolved through negotiation and will now be established through two or more dispute claims. These dispute claims will in turn establish where the financial responsibility lies as between the contractor, the client and the SPC. A decision on one claim which has now been presented to an Arbitrator is expected by the fourth quarter of 2006. A further claim was submitted to the Contract Manager in July 2006 and could proceed to arbitration if the decision is not acceptable to CityLink. The Group has invested £9.2 million in the LUL Connect project and has accounted for post acquisition reserves of £3.9 million (excluding IAS39 fair value adjustments on derivatives). The Directors consider that the resolution of this matter will not have a material adverse consequence on the Group's financial position.

**CAPITAL COMMITMENTS:** at 30 June 2006 there were capital commitments of £56.3 million (2005 – £48.0 million) for the uncalled capital of unlisted investments.

## 15 SHARE CAPITAL

| | Ordinary Shares of 25 pence each £ million | 6.4% Convertible Cumulative Preference Shares of £1 each £ million | Total £ million |
|---|---|---|---|
| **At 1 January 2006** | 58.3 | 39.4 | **97.7** |
| Issued | 0.1 | - | **0.1** |
| **At 30 June 2006** | **58.4** | **39.4** | **97.8** |

| **Number of shares** | **Number** | **Number** |
|---|---|---|
| **At 1 January 2006** | 233,154,341 | 39,362,802 |
| Converted | 1,698 | (5,036) |
| Issued | 649,194 | - |
| **At 30 June 2006** | **233,805,233** | **39,357,766** |

The 6.4% Convertible Cumulative Preference Shares are not redeemable, have no voting rights and their rights on winding up are restricted to repayment of the nominal value. These are undated and have a fixed coupon of 6.4% (2005 – 6.4%). Their market value at 30 June 2006 was £47.0 million (31 December 2005 – £50.0 million).

## 16 SHARE BASED PAYMENTS

On 24 April 2006, 291,281 shares were granted under the John Laing LTIP scheme, 101,023 shares to senior managers and 190,258 shares to Directors of the Group. An amount of £0.4 million has been credited to the Income Statement in respect of the reversal of prior year charges on LTIPs now forfeited on the resignation of employees.

## 17 HEDGING, REVALUATION AND TRANSLATION RESERVE

| | Hedging reserve £ million | Revaluation reserve £ million | Translation reserve £ million | Total £ million |
|---|---|---|---|---|
| **Balance at 1 January 2006** | (107.3) | 163.0 | 0.8 | **56.5** |
| Exchange differences on translation of foreign operations | - | - | 0.1 | **0.1** |
| Fair value of financial assets and derivatives on disposal | 4.6 | (8.9) | - | **(4.3)** |
| Fair value of financial assets and derivatives on acquisition | (0.4) | 0.4 | - | **-** |
| Net decrease in fair value of financial assets | - | (40.0) | - | **(40.0)** |
| Net increase in fair value of hedging derivatives | 44.1 | - | - | **44.1** |
| **Balance at 30 June 2006** | **(59.0)** | **114.5** | **0.9** | **56.4** |

## 18 NOTES TO THE CASH FLOW STATEMENT

| | First Half 2006 £ million | First Half 2005 £ million | Full year 2005 £ million |
|---|---|---|---|
| **Profit from operations** | **4.8** | 9.6 | 25.6 |
| Adjustments for: | | | |
| Discontinued operations | **2.0** | (0.9) | (2.5) |
| Other operating income | **(4.6)** | (0.5) | (21.3) |
| Share of results of associate | **0.9** | 0.6 | 0.4 |
| Depreciation of property, plant and equipment | **1.5** | 1.1 | 2.6 |
| Amortisation of intangible assets | **0.2** | 1.5 | 0.8 |
| Additional contribution to the pension fund | **(10.0)** | (6.0) | (6.1) |
| Increase/(decrease) in provisions | **2.1** | (10.7) | (20.8) |
| **Operating cash flows before movements in working capital** | **(3.1)** | (5.3) | (21.3) |
| Increase in receivables | **(90.0)** | (23.1) | (48.5) |
| (Decrease)/increase in payables | **(8.7)** | (0.2) | 23.2 |
| **Cash outflow from operations** | **(101.8)** | (28.6) | (46.6) |
| Income taxes paid | **(1.8)** | (0.1) | (1.6) |
| Interest received | **0.2** | 0.2 | 0.4 |
| **Net cash outflow from operating activities** | **(103.4)** | (28.5) | (47.8) |

Following best practice the cash flow has been restated showing finance income received as part of our investing activity rather than a financing activity. Interest received from associates is shown as part of our operating activity.

## 19 RECONCILIATION OF CASH FLOW TO RECOURSE FUNDS

| | First Half 2006 £ million | First Half 2005 £ million | Full year 2005 £ million |
|---|---|---|---|
| **Net cash at beginning of period** | **108.6** | 42.7 | 42.7 |
| Investment business: | | | |
| PFI investment and acquisitions | **(8.6)** | (19.1) | (38.2) |
| Disposals | **15.6** | - | 29.8 |
| Distributions from PFI/PPP project companies | **16.5** | 12.1 | 35.4 |
| Purchase of fixed assets | **(0.6)** | (1.9) | (3.0) |
| Laing Rail Projects | **(2.1)** | 4.1 | 2.4 |
| Equion Facilities Management net cash flow | **(0.2)** | (2.8) | (2.1) |
| | **20.6** | (7.6) | 24.3 |
| Bid costs, overheads and working capital | **(6.3)** | 0.1 | (14.1) |
| Additional contribution to the pension fund | **(10.0)** | (6.0) | (6.1) |
| Discontinued operations | **2.0** | (11.5) | (27.4) |
| Dividends paid | **(7.0)** | (5.3) | (9.3) |
| Interest received | **0.9** | 2.3 | 3.6 |
| Income taxes paid | **(2.3)** | (0.1) | (0.9) |
| Proceeds on issue of share capital | **1.6** | - | 95.8 |
| **Net cash at end of period** | **108.1** | 14.6 | 108.6 |

## 20 ACQUISITION

On 20 March 2006, the Group acquired 50% of the issued share capital of Defence Support (St Athan) Holdings Limited for £1. This increased the Group's holding to 100%.

## 21 CONTINGENT ASSET

The Group's wholly-owned subsidiary, Chiltern Railways, is pursuing a compensation claim for increased operating costs and loss of actual and future revenues as a result of a collapse of development works at Gerrards Cross on 30 June 2005. Tesco PLC has accepted liability and a formal dispute resolution procedure is now in progress for the purpose of agreeing the amount to be settled.

The Group included an assessment of the amount claimed in respect of lost revenue and increased operating costs during the seven weeks of major disruption caused by the collapse of the development works, less an interim settlement, in the results for the year ended 31 December 2005. No further amount has been added in respect of this matter for the six month period to 30 June 2006.

The overall amount claimed but not recognised in respect of the estimated loss of revenue is significant. This has not been recognised in these accounts as it is contingent upon the outcome of the formal dispute resolution process. The Directors have not disclosed the amount claimed due to the commercial sensitivities related to the dispute resolution procedure now in progress.

# Independent Review Report to John Laing plc

## INTRODUCTION

We have been instructed by the Company to review the financial information for the six months ended 30 June 2006 which comprise the Group Income Statement, the Group Balance Sheet, the Group Statement of Recognised Income and Expenditure, the Reconciliation of Movements in Equity, the Group Cash Flow Statement and related notes 1 to 21. 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 Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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 formed.

## 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 of the Financial Services Authority and the requirements of IAS34 which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding Annual Accounts except where any changes, and the reasons for them, are disclosed.

## REVIEW WORK PERFORMED

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 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 excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) 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 2006.

**Deloitte & Touche LLP**
Chartered Accountants
London
24 August 2006

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