

Carillion Services Limited

Directors' report and financial statements

Registered number 3011791

For the year ended 31 December 2012



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Directors' report

The directors present their annual report together with the audited financial statements for the year ended 31 December 2012

Principal activities

The company's principal activity is to provide property asset management and service delivery solutions to customers across a variety of sectors including health, government and defence and commercial. The company is a management-led business with world class property information systems that add value to our core services, which include facilities management and project management for corporate estates.

Business review

The underlying operations of the company have performed satisfactorily despite more competitive market conditions. Revenue decreased by 13% following contract losses in the year. However, the operating margins have increased year on year by 3% largely because of a reduction in operating costs in 2012. The company remains well placed for growth given the size of the markets that it operates in, the continuing trend to outsource, its ability to provide customers with innovative cost effective solutions and from a continuing focus on applying strict contract selectivity and risk management criteria.

During the year the company disposed of its investment in Monteray Limited.

The market the company operates in is very competitive but prospects are good. We continue to develop opportunities with Carillion Plc within the PFI markets. We continue to invest in customer services via IT and additional services to create a competitive advantage.

Key Performance Indicators ("KPIs")

The directors monitor the performance of the company through the use of Key Performance Indicators which are related to financial performance, health & safety and client KPIs. The company is committed to providing a safe environment for its employees. The company monitors performance using the Accident Frequency Rate (AFR) as defined by RIDDOR 1995 on the number of reportable injuries that have occurred per 100,000 man hours worked, calculated over a rolling 12 month period. The company's performance against this measure was satisfactory.

In addition, client KPIs are monitored. Each contract monitors a variety of operational performance indicators specific to their client and the business monitors overall delivery of these KPIs.

Principal risks

The principal risks facing the business, and the controls in place to mitigate these are as follows:

- Client retention – a number of contracts will be coming to an end over the next 2-3 years. The company is seeking to retain these clients by instigating client retention strategies.
- Attracting and retaining skilled people for delivery and work winning. In order to attract, develop and retain excellent people and remain an employer of choice, the company has a wide range of policies and programmes in place.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these statements.

Profits and dividends

The profit on ordinary activities before taxation was £30,347,000 (2011 profit £23,470,000) During the year a dividend of £11,400,000 was paid to shareholders (2011 £2,500,000)

Creditor payment policy

The company does not adopt any specific code or standard, however it is the company's policy to pay its suppliers in accordance with the terms and conditions agreed prior to the commencement of trading provided that the supplier has met its contractual obligations The number of days credit outstanding to suppliers at the year end was 30 days (2011 26 days)

Directors

The directors serving during the year and subsequently were

RJ Adam	
RG Lumby	
PE Shepley	Appointed 2 October 2012 Resigned 22 November 2012
RJ Howson	
R Sykes	Resigned 29 February 2012
M Kasher	Appointed 29 February 2012
C Macpherson	
P Thompson	Appointed 29 February 2012 Resigned 27 September 2012
JC Platt	Appointed 22 November 2012

Employees

The majority of employees are based at site on contracts Communication and consultation within the working teams takes place, as appropriate, as part of the normal pattern of everyday operations Employees receive regular publications, such as "Spectrum", which provides information on activities throughout the Carillion Group and is published several times a year

The establishment and maintenance of safe working practices at all work places are of greatest importance to the company and special training in health and safety is provided for all employees The company is an active and enthusiastic supporter of training schemes of all types and is providing valuable training and experience to a large number of younger people, as well as increasing its own training commitment to full time employees

Equal opportunities

Carillion Services Limited is an equal opportunities employer It is the policy of the company to give the fullest consideration to the employment needs of all prospective and existing employees To that end, no job applicant or employee receives less favourable treatment than another on grounds of colour, race, nationality, ethnic or national origin, sex, religion or disability where the work content is commensurate with the individual's particular disability Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of company policy Promotion is based upon ability, merit and performance taking into account the future needs of the company Where necessary, training is carried out to assist employees to develop potential All aspects of employment are regularly reviewed by management to ensure this policy is achieved

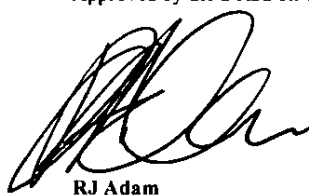
Disclosure of information to auditors

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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office

Approved by the Board on 19 July 2013 and signed on its behalf by



RJ Adam
Director

24 Birch Street
Wolverhampton
WV1 4HY

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG Audit Plc

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

Independent auditor's report to the members of Carillion Services Limited

We have audited the financial statements of Carillion Services Limited for the year ended 31 December 2012 set out on pages 8 to 20. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit



Darren Turner
(Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

19 07.13

Profit and loss account
for the year ended 31 December 2012

		2012	2011
		£000	£000
Turnover	<i>Note 1</i>	191,419	219,631
Cost of sales		<u>(155,481)</u>	<u>(182,698)</u>
Gross profit		35,938	36,933
Administrative expenses		<u>(13,516)</u>	<u>(17,422)</u>
Operating profit		22,422	19,511
Exceptional items	<i>6</i>	200	-
Interest receivable and similar income	<i>5</i>	1,587	629
Interest payable and similar charges	<i>7</i>	<u>(1,716)</u>	<u>(87)</u>
Income from subsidiary undertaking		<u>7,854</u>	<u>3,417</u>
Profit on ordinary activities before taxation	<i>2</i>	30,347	23,470
Tax on profit on ordinary activities	<i>8</i>	<u>(7,471)</u>	<u>(7,175)</u>
Profit for the financial year	<i>16</i>	<u>22,876</u>	<u>16,295</u>

All activities relate to continuing operations

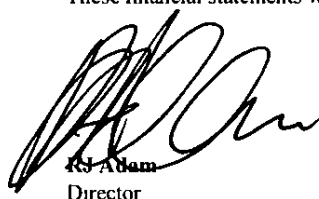
There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis in either the current or preceding financial year

There were no recognised gains or losses in either the current or preceding financial year other than the profit or loss for those year, therefore no statement of recognised gains or losses is presented

Balance sheet
at 31 December 2012

	Note	2012 £000	2011 £000
Fixed assets			
Tangible assets	9	285	407
Investments	10	-	-
		<u>285</u>	<u>407</u>
Current assets			
Stocks	11	796	812
Debtors	12	126,738	109,495
Cash at bank and in hand		<u>30,466</u>	<u>26,300</u>
		158,000	136,607
Creditors amounts falling due within one year	13	<u>(131,608)</u>	<u>(121,797)</u>
Net current assets		26,392	14,810
Net assets		<u>26,677</u>	<u>15,217</u>
Capital and reserves			
Called up share capital	15	1,000	1,000
Profit and loss account	16	25,677	14,217
Equity shareholders' funds	17	<u>26,677</u>	<u>15,217</u>

These financial statements were approved by the Board of Directors on 19 July 2013 and were signed on its behalf by



Neil Adam
Director

Company registered number 3011791

Long-term contracts

When the outcome of a long-term contract can be assessed with reasonable certainty contract turnover and costs are recognised by reference to the degree of completion of each contract as measured by the proportion of total costs at the balance sheet date to the estimated total cost of the contract. Insurance claims, incentive payments, and variations arising from long-term contracts are included when they have been agreed with the client.

When it is probable that total contract costs will exceed total contract turnover 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 amounts recoverable on contracts within debtors. Where progress billings exceed costs incurred plus recognised profits less recognised losses the balance is shown as payments received on account within creditors.

Pre-contract costs

Pre-contract costs are expensed as incurred until the company 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 virtually certain, pre-contract costs incurred post the appointment as preferred bidder are included in stocks. Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in stocks. Any excess recoveries of costs are carried forward as deferred income and released to profit and loss over the life of the contract. Only virtually certain pre-contract costs incurred post the appointment as preferred bidder are included in stocks.

Turnover

Turnover represents the net amount receivable excluding value added tax, for goods and services supplied to all customers including fellow subsidiary undertakings. In respect of long term contracting activities, turnover reflects the value of work executed during the year. It also includes the company's proportion of work carried out by joint arrangements during the year.

All turnover and profits relate to support services provided in the United Kingdom.

Leased assets

Rental charges under operating leases are charged to the profit and loss account on a straight line basis over the life of each lease.

Share based payments

Members of the company's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP) and Sharesave schemes. The fair value of the LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model. 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.

Taxation

The charge for taxation is based on the result for each year and takes into account deferred taxation. Deferred tax assets or liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Liabilities are calculated on a non-discounted full provision basis. Assets are calculated on a similar basis, but are recognised only to the extent that it is probable that they will be recovered.

Pensions

Pension costs are recognised in the financial statements in accordance with the requirements of FRS 17 "Retirement benefits". Canllion plc the company's ultimate parent undertaking, administers and takes advice on the group's pension schemes. Regular pension costs in respect of the Group's defined benefit pension schemes are established in accordance with the recommendations of independent actuaries and are charged to the profit and loss account based on the current service cost to the group.

In respect of the schemes where the assets and liabilities relating to the company cannot be readily ascertained on a reasonable and consistent basis as the schemes are for the benefit of the Canllion Group as a whole, the company accounts for the scheme as if they were defined contribution schemes.

Contributions in respect of defined contribution schemes are charged to the profit and loss account as incurred.

Notes (continued)

2 Profit on ordinary activities before taxation

	2012	2011
	£000	£000
Profit on ordinary activities is stated after charging		
Depreciation of tangible fixed assets	174	199
Operating lease rentals		
- Plant and Machinery	47	48
Auditors' remuneration - audit work	43	39

The operating lease disclosure includes both long term commitments (see note 18) and short term plant and machinery rentals

Fees paid to the company's auditor KPMG Audit Plc and its associates for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of the company's ultimate parent Carillion plc are required to disclose non-audit fees on a consolidated basis

3 Staff numbers and costs

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

	Number of employees	
	2012	2011
Contract based	3,160	3,825
Administration	88	106
	<u>3,248</u>	<u>3,931</u>

The aggregate payroll costs of these persons were as follows

	2012	2011
	£000	£000
Wages and salaries	67,417	70,604
Social security costs	6,338	6,459
Other pension costs	5,176	4,631
Equity-settled transactions	(13)	158
	<u>78,918</u>	<u>81,852</u>

4 Directors' remuneration

	2012	2011
	£000	£000
Director's emoluments	162	127
Contributions to money purchase schemes	25	22

Certain directors of the company who served during the financial year are directors of the company's ultimate parent company and as such details regarding remuneration are disclosed in the financial statements of Carillion plc. One director is employed directly by the company, the remaining directors are directors or employees of Carillion Construction Limited and are remunerated from that company. For those directors which are employees of Carillion Construction Limited and their remuneration is not disclosed in the financial statements of Carillion Construction Limited, their role as director of Carillion Services Limited is of a non executive director and no remuneration is apportioned to the company.

5 Interest receivable and similar income

	2012	2011
	£000	£000
Interest receivable from group undertakings	694	10
Bank interest receivable	893	619
	<u>1,587</u>	<u>629</u>

6 Exceptional items

	2012	2011
	£000	£000
Profit on disposal of subsidiary undertaking	<u>200</u>	<u>-</u>

During the year the company disposed of its investment in Monteray Limited for a cash consideration of £200,000 resulting in a gain on disposal of £200,000 net of expenses

Notes (continued)

7 Interest payable and similar charges

	2012 £000	2011 £000
Interest payable to group undertakings	1,369	-
Interest payable on external borrowings	-	87
Other financial expenses	347	-
	<u>1,716</u>	<u>87</u>

8 Tax on profit on ordinary activities

(a) Analysis of taxation charge in the year

	2012 £000	2011 £000
UK corporation tax		
Current tax	5,728	7,073
Adjustment in respect of prior periods	1,757	285
Total current taxation	<u>7,485</u>	<u>7,358</u>
Deferred taxation		
Accelerated capital allowances	(43)	(105)
Origination and reversal of timing differences	22	(20)
Adjustment in respect of prior periods	(30)	(92)
Adjustment in respect of change in rate	37	34
Total deferred taxation	<u>(14)</u>	<u>(183)</u>
Total taxation on profit on ordinary activities	<u>7,471</u>	<u>7,175</u>

(b) Factors affecting the tax charge for the current year

The current year tax charge for the year is higher (2011 higher) than the standard rate of 24.5% (2011 26.5%). The difference is explained below

	2012 £000	2011 £000
Current tax reconciliation		
Profit/loss on ordinary activities before taxation	<u>30,347</u>	<u>23,470</u>
Tax on profit on ordinary activities at 24.5% (2011 26.5%)	<u>7,435</u>	<u>6,220</u>
Effects of		
Dividends from UK companies	(1,924)	(906)
Permanent differences	226	1,627
Capital allowances less than depreciation	42	105
Other timing differences	(14)	27
Adjustment in respect of previous periods	1,757	285
Non-taxable capital profits	(37)	-
Current tax charge for the year	<u>7,485</u>	<u>7,358</u>

(c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

Notes (continued)

9 Tangible fixed assets

	Plant, machinery, vehicles and computer equipment £000
Cost	
At beginning of year	2 524
Additions	52
Disposals	(2)
At end of year	2,574
Depreciation	
At beginning of year	2,117
Charge for the year	174
Eliminated in respect of disposals	(2)
At end of year	2,289
Net book value	
At 31 December 2012	285
At 31 December 2011	407

Notes (continued)

10 Investments

Investments in subsidiary undertakings

	Shares in subsidiary undertakings £
Cost	
At Beginning of year	104
Disposals	(102)
At end of year	<u>2</u>
Net book value	
At 31 December 2012	<u>2</u>
At 31 December 2011	<u>104</u>

During the year the company disposed of its 51% investment in Monteray Limited. The remaining investment is in 100% of the ordinary share capital of Canllion Specialist Services Limited engaged in the provision of architectural and engineering technical consultancy.

11 Stocks

	2012 £000	2011 £000
Raw materials and consumables	796	812
	<u>796</u>	<u>812</u>

12 Debtors

	2012 £000	2011 £000
Trade debtors	17,749	19,542
Contract debtors	9,551	9,319
Amounts owed by group undertakings	88,175	75,755
Amounts owed by jointly controlled entities	-	11
Other debtors	1,677	157
Prepayments and accrued income	9,154	4,289
Deferred tax asset (note 14)	432	422
	<u>126,738</u>	<u>109,495</u>

Amounts owed by group undertakings bear interest at a rate which reflects the cost of borrowing to the group.

Notes (continued)

13 Creditors amounts falling due within one year

	2012	2011
	£000	£000
Payments on account	-	394
Trade creditors	12,657	12,789
Amounts owed to group undertakings	75,859	65,943
Corporation tax	5,728	6,966
Other tax and social security costs	4,155	3,785
Other creditors	-	117
Accruals and deferred income	33,209	31,803
	<u>131,608</u>	<u>121,797</u>

Amounts owed to group undertakings bear interest at a rate which reflects the cost of borrowing to the group

14 Deferred taxation

	£000
At the beginning of the year	422
Transfer to profit and loss account	17
Recognised directly in equity	(7)
At the end of the year	<u>432</u>

The elements of deferred taxation are as follows

	2012	2011
	£000	£000
Accelerated capital allowances	405	396
Other timing differences	27	26
(see note 12)	<u>432</u>	<u>422</u>

The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's deferred tax asset accordingly.

15 Called up share capital

	2012	2011
	£000	£000
Authorised, allotted, called up and fully paid		
Ordinary shares of £1 each	1,000	1,000
	<u>1,000</u>	<u>1,000</u>

Notes (continued)

16 Reserves

	Profit and loss account £000
At beginning of year	14,217
Profit for the financial year	22,876
Dividends paid to equity shareholders	(11,400)
Equity - settled transaction (net of deferred tax)	(16)
At the end of the year	<u>25,677</u>

17 Reconciliation of movements in shareholders' funds

	2012 £000	2011 £000
Profit for the financial year	22,876	16,295
Dividend paid to equity holders	(11,400)	(2,500)
Equity - settled transaction (net of deferred tax)	(16)	272
Net increase in equity shareholders' funds	11,460	14,067
Equity shareholders' funds at the beginning of the year	15,217	1,150
Equity shareholders' funds at the end of the year	<u>26,677</u>	<u>15,217</u>

18 Commitments under operating leases

Annual commitments under non-cancellable operating leases as follows

	2012 Other Assets £000	2011 Other Assets £000
Operating leases which expire		
Within one year	14	8
In the second to fifth year inclusive	19	18
	<u>33</u>	<u>26</u>

Notes (continued)

19 Pensions

The company is a member of three larger group pension schemes, the Carillion Staff Scheme (Staff), the Carillion "B" scheme ("B") and the Carillion Public Sector Scheme providing benefits based on final pensionable pay. Details of the schemes' assets and liabilities relating to the company cannot be identified on a consistent and reasonable basis and therefore, as permitted by FRS17 'Retirement Benefits' the schemes have been accounted for in these financial statements, as if they were defined contribution schemes.

The principal assumptions used by the independent qualified actuary in providing the FRS 17 position were

	% Per annum	
	2012	2011
Discount Rate	4.55	4.8
Rate of increase in salaries	3.4	3.5
Rate of increase in pensions	2.9	3
Inflation rate (RPI)	2.9	3
Inflation rate (CPI)	2.05	1.9

An actuarial valuation of the Staff and B schemes was undertaken by the Trustees' independent actuaries as at 31 December 2008 using the projected unit credit method. The market value of the schemes' assets at that date were £507.0 million and £98.9 million respectively, which represented approximately 97 per cent and 76 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. The next actuarial valuation of the schemes by the Trustees' independent actuaries, due at 31 December 2011, is currently being undertaken.

An actuarial valuation of the Carillion Public Sector Scheme was undertaken by the Trustees' independent actuaries as at 31 December 2010 using the attained age method. The market value of the schemes' assets at that date was £131.8 million, which represented approximately 82 per cent of the benefits that had accrued to members at that date on an ongoing basis after allowing for future increases in salaries. The next actuarial valuation of the scheme by the Trustees' independent actuaries is due as at 31 December 2013.

Regular ongoing contributions are no longer payable following the closure of the Staff and B schemes to future accrual on 5 April 2009. Payments representing 33.8 per cent of pensionable salaries will be paid into the Carillion Public Sector Scheme in 2013.

At 31 December 2012 the Carillion Staff, the Carillion "B" and the Carillion Public Sector Scheme had net deficits on an FRS 17 basis of £28.3 million, £10.9 million and £17.8 million respectively (2011: £17.5 million, £12.6 million and £20.0 million) net of deferred taxation.

The company's regular ongoing contribution to the Carillion Public Sector Scheme for the year was £2,558,000 (2011: £1,846,000). Existing members of the Staff and "B" schemes no longer accrue benefits for future service with effect from 5 April 2009, hence no regular contributions are anticipated for 2012.

The company is a member of two defined contribution schemes. During the year contributions of £2,618,000 (2011: £2,785,000) were made to the schemes. Contributions outstanding at 31 December 2012 were £nil (2011: £119,473).

Notes (continued)

20 Share based payments

The ultimate parent company Carillion plc has an established share option programme which entitles key management personnel and senior employees to purchase shares in the entity

The recognition and measurement principles in FRS 20 'Share based payments' have not been applied to grants of options before 7 November 2002 in accordance with the transitional provisions in FRS 20

The terms and conditions of option schemes within the scope of FRS 20, whereby all options are settled by physical delivery of shares are as follows

Grant date	Number of instruments	Number of instruments outstanding	Vesting conditions	Contractual life of options	Exercise price
ESOS option grant at 1 July 2003	11 015	11 015	3 years of service and increase in EPS of RPI plus a minimum of 4% over a rolling 3 year period	10 years	163.4p
ESOS option grant at 15 March 2005	22 729	22 729	3 years of service and increase in EPS of RPI plus a minimum of 4% over a rolling 3 year period	10 years	242.75p
LEAP option grant at 17 March 2010	30 288	30 288	3 years of service and increase in EPS of RPI plus a minimum of 3% over a rolling 3 year period	3 years	-
LEAP option grant at 8 April 2011	25 104	25 104	3 years of service and increase in EPS of RPI plus a minimum of 3% over a rolling 3 year period	3 years	-
LEAP option grant at 11 April 2012	33,577	33 577	3 years of service and increase in EPS of RPI plus a minimum of 6% over a and operating cash conversion of a minimum of 95% over a rolling 3 year period	3 years	-
Total share options	122 713	122 713			

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

	2012 Weighted average exercise price	Number of options	2011 Weighted average exercise price	Number of options
Outstanding at beginning of year	22.06	226,756	22.06	331,772
Forfeited during the year	-	(104,615)	-	(105,902)
Exercised during the year	-	(33,005)	-	(24,218)
Granted during the year	-	33,577	-	25,104
Lapsed during the year	-	-	-	-
Outstanding at end of year	22.06	122,713	22.06	226,756
Exercisable at end of year		33,744		33,744

The exercisable options outstanding at 31 December 2012 have an exercise price in range from 163.4 pence to 242.75 pence and a weighted average contractual life of three years. The weighted average share price during the year was 289.3 pence

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured on a Black-Scholes model in respect of the ESOS and LEAP

Notes (continued)

20 Share based payments

Fair value of share options and assumptions

	2012 LEAP	2011 LEAP	2010 LEAP	2009 LEAP	2008 LEAP
Fair value at grant date	246 7p	337 9p	275 9p	232 5p	358 5p
Share price at grant date	284 6p	384 4p	318 6p	258 5p	383 8p
Exercise price	-	-	-	-	-
Expected volatility	11.84%	15.85%	19.70%	18.04%	16.01%
Option life	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	5.57%	4.30%	4.80%	3.54%	2.27%
Risk-free interest rate (based on national government bonds)	0.27%	1.10%	1.22%	2.16%	3.96%

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

Employee (income)/expenses

Equity settled share options granted in

	2012 £000	2011 £000
2007	-	-
2008	-	114
2009	-	60
2010	-	(29)
2011	(13)	13
Total expense/(income) recognised as employee costs	(13)	158

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

21 Related party transactions

Sales and balances outstanding from fellow subsidiaries which are not wholly owned by Carillion plc which are in the normal course of business and on commercial terms amounted to

	2012 Turnover £000	Debtors £000	2011 Turnover £000	Debtors £000
Monteray Limited	370	-	848	166

Sales between the company and jointly controlled entities within the Carillion plc group amount to

	2012 Turnover £000	Debtors £000	2011 Turnover £000	Debtors £000
Ellenbrook Holdings Limited	-	-	-	-
Ellenbrook Developments	-	-	3 132	322
The Hospital Co (Southmead) Hltds Ltd	-	-	62	10
Eastbury Park Holdings Ltd	-	-	23 213	-
Inspired Spaces STaG Ltd	-	-	1 221	36
Inspiredspaces Durham (Projectcol) Limited	-	-	1 652	2
InspiredSpaces Nottingham (Project Col) Ltd	-	-	1 391	137
InspiredSpaces Rochdale Ltd	-	-	132	70
Inspiredspaces Tameside Limited	-	-	2 446	440
Carillion Enterprise Limited	1,898	374	1,898	921
Modern Housing Solutions Limited	4,792	-	3 637	-

22 Controlling and parent companies

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

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