Carillion Services Limited

Annual report and financial statements
Registered number 3011791
For the year ended 31 December 2013

Contents

Strategic report

The directors present their Annual report together with the audited financial statements for the year ended 31 December 2013.

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 has increased marginally to £193 million. The gross margin in 2013 has improved slightly but the company has borne additional Carillion plc central costs compared to 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 acquired the entire share capital of John Laing Integrated Services Ltd for a total consideration of £23.4 million. The acquisition compliments the company's activities in the local government, education, police, health, rail and library sectors.

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

The profit on ordinary activities before taxation was £14,656,000 (2012: £30,347,000). This is as a result of exceptional costs of £3,395,000 (2012 income: £200,000), this predominantly relates to the rationalisation and restructuring which the business completed during the year. The acquisition of John Laing Integrated Services (JLIS) was completed on 18 October 2013, this included £693,000 of legal fees. A further £500,000 of costs have been incurred in integrating the business into the Group.

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.

Approved by the Board on 4 July 2014 and signed on its behalf by:

RJ Adam
Director

24 Birch Street
Wolverhampton
WV1 4HY

Director's report

Directors

The directors serving during the year and subsequently were:

RJ Adam
RG Lumby
RJ Howson
M Kasher
C Macpherson
JC Platt

Dividends

During the year a dividend of £nil was paid to shareholders (2012: £11,400,000).

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.

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.

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 4 July 2014 and signed on its behalf by:

RJ Adam
Director

24 Birch Street
Wolverhampton
WV1 4HY

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

The directors are responsible for preparing the strategic report, 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 consistently;
- 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

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 2013 set out on pages 7 to 18. 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 2013 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 Strategic Report and 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.

4 July 2014

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

Profit and loss account
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Turnover	*1*	**192,976**	191,419
Cost of sales		**(156,091)**	(155,481)
Gross profit		**36,885**	35,938
Administrative expenses		**(18,479)**	(13,516)
Operating profit		**18,406**	22,422
Exceptional items	*6*	**(3,395)**	200
Interest receivable and similar income	*5*	**1,666**	1,587
Interest payable and similar charges	*7*	**(2,021)**	(1,716)
Income from subsidiary undertaking		**-**	7,854
Profit on ordinary activities before taxation	*2*	**14,656**	30,347
Tax on profit on ordinary activities	*8*	**(5,930)**	(7,471)
Profit for the financial year	*16*	**8,726**	22,876

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.

The notes on pages 9 to 18 form part of these financial statements.

Balance sheet
at 31 December 2013

	Note	£000	2013 £000	£000	2012 £000
Fixed assets					
Tangible assets	*9*		**252**		285
Investments	*10*		**23,386**		-
			23,638		285
Current assets					
Stocks	*11*	**875**		796	
Debtors	*12*	**180,038**		126,738	
Cash at bank and in hand		**10,426**		30,466	
		191,339		158,000	
Creditors: amounts falling due within one year	*13*	**(179,570)**		(131,608)	
Net current assets			**11,769**		26,392
Net assets			**35,407**		26,677
Capital and reserves					
Called up share capital	*15*		**1,000**		1,000
Profit and loss account	*16*		**34,407**		25,677
Equity shareholders' funds	*17*		**35,407**		26,677

These financial statements were approved by the Board of Directors on 4 July 2014 and were signed on its behalf by :

RJ Adam
Director

Company registered number 3011791

Carillion Services Limited
Notes
(forming part of the financial statements)

1. Principal accounting policies
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial information.

Basis of accounting
The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Going concern
The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic report.

The company participates in the Carillion plc group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors, having assessed the responses of the directors of the company's ultimate parent Carillion plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Carillion group to continue as a going concern or its ability to continue with the current banking arrangements. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result in the basis of preparation being inappropriate.

Group financial statements
The company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements and deliver them to the Registrar of Companies. The financial statements therefore present information about the company as an individual undertaking and not about its group. The company is included within the consolidated financial statements of Carillion plc, the company's ultimate parent undertaking.

Cash flow statement
Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that Carillion plc, the company's ultimate parent undertaking, includes the company's cash flows in its own published consolidated cash flow statement.

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

Plant, machinery and vehicles	3-10 years

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

Fixed asset investments
Fixed asset investments are stated at cost less provisions for any impairment in the carrying value of the investment.

Stocks
Stocks and work in progress are valued at the lower of cost and net realisable value.

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". Carillion 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 Carillion 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

	2013	2012
Profit on ordinary activities is stated after charging:	£000	£000
Depreciation of tangible fixed assets:	149	174
Operating lease rentals:		
-Plant and Machinery	52	47
Auditors' remuneration - audit work	43	43

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	
	2013	2012
Contract based	3,874	3,160
Administration	80	88
	3,954	3,248

The aggregate payroll costs of these persons including those subcontracted during the year were as follows:

	2013	2012
	£000	£000
Wages and salaries	78,307	67,417
Social security costs	7,097	6,338
Other pension costs	6,401	5,176
Equity-settled transactions	3	(13)
	91,808	78,918

4. Directors' remuneration

	2013	2012
	£000	£000
Director's emoluments	-	162
Contributions to money purchase schemes	-	25

RJ Adam and RJ Howson, 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. 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

	2013	2012
	£000	£000
Interest receivable from group undertakings	1,243	694
Bank interest receivable	423	893
	1,666	1,587

6. Exceptional items

	2013	2012
	£000	£000
Costs of acquisition	693	-
Restructuring costs	2,248	-
Write off intercompany balances	(46)	-
Integration costs	500	-
Profit on disposal of subsidiary undertaking	-	200
	3,395	200

On 18th October 2013, the company acquired Carillion Integrated Services Ltd (formerly John Laing Integrated Services Ltd) incurring legal fees of £693,000. £500,000 of costs have been incurred in integrating the business into the Group. In addition to this, the company has undergone a process of rationalising and restructuring incurring costs of £2,248,000.

Notes *(continued)*

7. Interest payable and similar charges

	2013	2012
	£000	£000
Interest payable to group undertakings	1,556	1,369
Other financial expenses	465	347
	2,021	1,716

8. Tax on profit on ordinary activities

(a) Analysis of taxation charge in the year

	2013	2012
	£000	£000
UK corporation tax		
Current tax	4,829	5,728
Adjustment in respect of prior periods	1,052	1,757
Total current taxation	5,881	7,485
Deferred taxation		
Accelerated capital allowances	(34)	(43)
Origination and reversal of timing differences	(1)	22
Adjustment in respect of prior periods	27	(30)
Adjustment in respect of change in rate	57	37
Total deferred taxation	49	(14)
Total taxation on profit on ordinary activities	5,930	7,471

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

The current year tax charge for the year is higher (2012: higher) than the standard rate of 23.25 % (2012: 24.5%). The difference is explained below:

	2013	2012
	£000	£000
Current tax reconciliation		
Profit loss on ordinary activities before taxation	14,656	30,347
Tax on profit on ordinary activities at 23.25% (2012: 24.5%)	3,407	7,435
Effects of:		
Dividends from UK companies	-	(1,924)
Permanent differences	1,421	226
Capital allowances less than depreciation	35	42
Other timing differences	(34)	(14)
Adjustment in respect of previous periods	1,052	1,757
Non-taxable capital profits	-	(37)
Current tax charge for the year	5,881	7,485

(c) Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax asset (as disclosed in note 14) at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Notes *(continued)*

9. Tangible fixed assets

	Plant, machinery, vehicles and computer equipment £000
Cost	
At beginning of year	2,574
Additions	116
At end of year	**2,690**
Depreciation	
At beginning of year	2,289
Charge for the year	149
At end of year	**2,438**
Net book value	
At 31 December 2013	**252**
At 31 December 2012	285

10. Investments

Investments in subsidiary undertakings	**Shares in subsidiary undertakings £**
Cost	
At Beginning of year	2
Addtions	23,386,437
At end of year	**23,386,439**
Net book value	
At 31 December 2013	**23,386,439**
At 31 December 2012	2

During the year the company acquired John Laing Integrated Services Limited, now Carillion Integrated Services Limited. The remaining investment is in 100% of the ordinary share capital of Carillion Specialist Services Limited engaged in the provision of architectural and engineering technical consultancy.

11. Stocks	**2013**	2012
	£000	£000
Raw materials and consumables	**875**	796
	875	796

12. Debtors

	2013	2012
	£000	£000
Trade debtors	**22,047**	17,749
Contract debtors	**8,711**	9,551
Amounts owed by group undertakings	**147,002**	88,175
Other debtors	**54**	1,677
Prepayments and accrued income	**1,841**	9,154
Deferred tax asset (note 14)	**383**	432
	180,038	126,738

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

	2013	2012
	£000	£000
Trade creditors	5,244	12,657
Amounts owed to group undertakings	130,500	75,859
Corporation tax	4,780	5,728
Other tax and social security costs	4,123	4,155
Accruals and deferred income	34,923	33,209
	179,570	131,608

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	432
Transfer to profit and loss account	(49)
At the end of the year	383

The elements of deferred taxation (note 12) are as follows:

	2013	2012
	£000	£000
Accelerated capital allowances	382	405
Other timing differences	1	27
	383	432

15. Called up share capital	2013	2012
	£000	£000
Authorised, allotted, called up and fully paid:		
Ordinary shares of £1 each	1,000	1,000
	1,000	1,000

Notes *(continued)*

16. Reserves

	Profit and loss account £000
At beginning of year	25,677
Profit for the financial year	8,726
Equity - settled transaction (net of deferred tax)	4
At end of year	**34,407**

17. Reconciliation of movements in shareholders' funds

	2013 £000	2012 £000
Profit for the financial year	**8,726**	22,876
Dividend paid to equity holders	**-**	(11,400)
Equity - settled transaction (net of deferred tax)	**4**	(16)
Net (decrease)/increase in equity shareholders' funds	**8,730**	11,460
Equity shareholders' funds at the beginning of the year	**26,677**	15,217
Equity shareholders' funds at the end of the year	**35,407**	26,677

18. Commitments under operating leases

Annual commitments under non-cancellable operating leases as follows:

	2013 Other Assets £000	2012 Other Assets £000
Operating leases which expire:		
Within one year	**19**	14
In the second to fifth year inclusive	**26**	19
	45	33

Notes *(continued)*

19. Pensions

The company's employees are members 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	
	2013	2012
Discount Rate	**4.60**	4.55
Rate of increase in salaries	**3.90**	3.40
Rate of increase in pensions	**3.30**	2.90
Inflation rate (RPI)	**3.40**	2.90
Inflation rate (CPI)	**2.35**	2.05

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, as 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 2013, the Carillion Staff, the Carillion "B" and the Carillion Public Sector Scheme had net deficits on an FRS 17 basis of £45.4 million, £15.4 million and £17.0 million respectively (2012: £28.3 million, £10.9 million and £17.8 million) net of deferred taxation.

The company's regular on going contribution to the Carillion Public Sector Scheme for the year was £1,469,000 (2012: £2,558,000). 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 2014.

The company is a member of two defined contribution schemes. During the year, contributions of £4,932,000 (2012: £2,618,000) were made to the schemes. Contributions outstanding at 31 December 2013 were £nil (2012: £nil).

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
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	-
LEAP option grant at 4 April 2013	28,987	28,987	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	87,668	87,668			

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

	2013 Weighted average exercise price	Number of options	2012 Weighted average exercise price	Number of options
Outstanding at beginning of year	22.06	122,713	22.06	226,756
Forfeited during the year	-	(30,288)	-	(104,615)
Exercised during the year	(22.06)	(33,744)	-	(33,005)
Granted during the year	-	28,987	-	33,577
Outstanding at end of year	-	87,668	22.06	122,713
Exercisable at end of year		-		33,744

The weighted average share price during the year was 290.6 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 payements

Fair value of share options and assumptions

	2013 LEAP	2012 LEAP	2011 LEAP
Fair value at grant date	**230.6**	246.7p	337.9p
Share price at grant date	**271.6**	284.6p	384.4p
Exercise price	-	-	-
Expected volatility	**12.16%**	11.84%	15.85%
Option life	**3 years**	3 years	3 years
Expected dividend yield	**6.00%**	5.57%	4.30%
Risk-free interest rate (based on national government banks)	**0.32%**	0.27%	1.10%

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:

	2013 £000	2012 £000
2011	-	(13)
2012	-	-
2013	**3**	-
Total expense/(income) recognised as employee costs	**3**	(13)

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:

	2013 Turnover £000	Debtors £000	2012 Turnover £000	Debtors £000
Monteray Limited (sold in 2012)	-	-	370	-

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

	2013 Turnover £000	Debtors £000	2012 Turnover £000	Debtors £000
Modern Housing Solutions (Prime) Limited	**7,621**	-	4,792	-
Carillion Enterprise Limited	**5,647**	-	1,898	374

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.