



Registration number:  
3782379

A leading integrated  
support services company  
Annual Report and Accounts 2010

MAKING TOMORROW A BETTER PLACE

SATURDAY



\*AH6NUTX4\*

A11

07/05/2011

228

COMPANIES HOUSE

Carillion is a leading UK integrated support services company with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities.

We have a resilient and well-balanced UK support services and international business mix, with a strong track record of earnings and dividend growth. Looking forward we believe the Group is well positioned for both the short and medium term to

- make further progress in 2011
- deliver strong international growth with revenues in Canada and in the Middle East each doubling to around £1 billion over the next three to five years
- achieve substantial growth in UK support services from 2012 onwards

## Carillion can

Find out more about what we can do at [www.carillionplc.com/annualreport10](http://www.carillionplc.com/annualreport10)

### Contents

#### About us

- 01 Strength and resilience
- 02 Business segments

#### What we do

- 04 Our operations
- 06 Support services
- 08 Public Private Partnership projects
- 10 Middle East construction services
- 12 Construction services (excluding the Middle East)

#### Our performance

- 14 Chairman's statement
- 16 Group Chief Executive's review
- 22 Operating and financial review
- 32 Sustainability review

#### Governance

- 36 Board of Directors
- 38 Report of the Directors
- 41 Corporate Governance report
- 46 Remuneration report
- 52 Statement of Directors' responsibilities in respect of the Annual Report and financial statements
- 53 Independent auditor's report to the members of Carillion plc

#### Financial statements

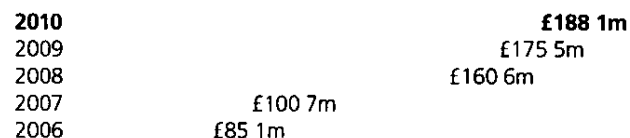
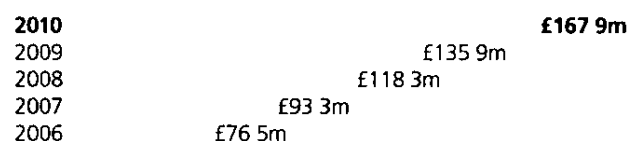
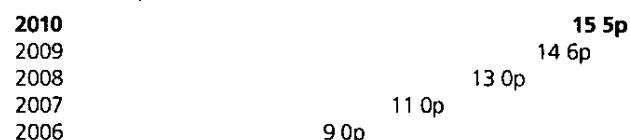
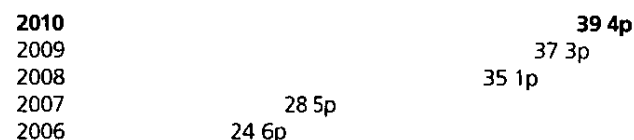
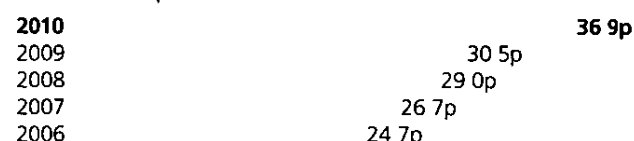
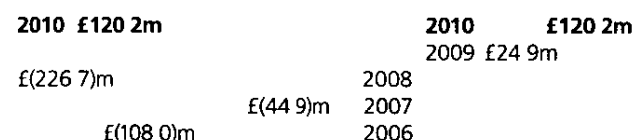
- 54 Consolidated income statement
- 55 Consolidated statement of comprehensive income
- 56 Consolidated statement of changes in equity
- 57 Consolidated balance sheet
- 58 Consolidated cash flow statement
- 59 Notes to the consolidated financial statements
- 100 Company balance sheet
- 101 Notes to the Company financial statements
- 106 Shareholder information
- 107 Board of Directors and Advisers
- 108 Five Year Review

**Cover image** Carillion provides facilities and estate management services for Unilever's prestigious Corporate Headquarters at 100 Victoria Embankment, London



## Strength and resilience

## 2010 Financial highlights

**Underlying profit before tax<sup>(2)</sup>****+7% £188 1m****Reported profit before tax****+24% £167 9m****Total dividend****+6% 15 5p****Total revenue****-9% £5 1bn****Underlying earnings per share<sup>(3)</sup>****+6% 39 4p****Reported earnings per share****+21% 36 9p****Net cash/(borrowing)****+383% £120 2m****Order book****+2% £18 2bn**

Underlying profit before taxation up 7% to £188 1 million (2009<sup>(1)</sup> £175 5 million)<sup>(2)</sup> – with growth more than offsetting the £17 million of underlying profit before taxation contributed by the non-core businesses and investments in Public Private Partnership projects sold in 2009

Total operating margin increased to 4 2% (2009<sup>(1)</sup> 3 8%)<sup>(4)</sup> – support services margin increased to 5 2% (2009 4 9%), Middle East construction services margin increased to 9 6% (2009 8 5%) and construction services (excluding the Middle East) margin increased to 1 9% (2009 1 4%)

Reported profit before taxation up 24% to £167 9 million (2009<sup>(1)</sup> £135 9 million)

Underlying earnings per share<sup>(3)</sup> (eps) up 6% to 39 4 pence (2009<sup>(1)</sup> 37 3 pence) – basic eps up 21% to 36 9 pence (2009<sup>(1)</sup> 30 5 pence)

Proposed full-year dividend up 6% to 15 5 pence (2009 14 6 pence)

Strong cash flow and balance sheet – cash flow from operations<sup>(5)</sup> of £230 2 million well ahead of profit from operations<sup>(6)</sup> of £194 9 million (2009 £268 2 million and £190 1 million, respectively) and net cash at 31 December 2010 of £120 2 million (2009 £24 9 million)

Total revenue reduced by 9% to £5 1 billion (2009<sup>(1)</sup> £5 6 billion) – reflecting the effects of selling non-core businesses and investments in Public Private Partnership projects in 2009, the planned re-scaling of UK construction and a focus on margins through contract selectivity and financial discipline

Forward order book worth some £18 2 billion (2009<sup>(1)</sup> £17 9 billion) – maintained a very strong order book despite the sale of a further Public Private Partnership equity investment that removed £0 5 billion from the order book

(1) For 2006 to 2009 figures have been restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

(2) After Joint Ventures taxation of £4 7 million (2009<sup>(1)</sup> £3 9 million) and before intangible amortisation non recurring operating items and non operating items

(3) Before intangible amortisation and impairment non recurring operating items and non operating items

(4) Before Joint Ventures net financial expense and taxation intangible amortisation and non recurring operating items

(5) Before pension deficit recovery payments and non recurring operating items and after dividends received from Joint Ventures

(6) After Joint Ventures net finance expense of £13 9 million (2009<sup>(1)</sup> £21 8 million) and taxation of £4 7 million (2009<sup>(1)</sup> £3 9 million) and before intangible amortisation non-recurring operating items and non operating items

## Business segments

A well balanced UK support services and international business.

### 1 Support services

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

#### Group overview

	2010 £m	2009 <sup>(2)</sup> £m
<b>Revenue</b>		
– Group	4,236.5	4,504.2
– Share of Joint Ventures	902.5	1,125.1
	5,139.0	-9% 5,629.3
<b>Underlying operating profit</b>		
– Group	157.9	141.4
– Share of Joint Ventures	64.6	84.9
	222.5	226.3
<b>Group eliminations and unallocated items</b>	(9.0)	(10.5)
Profit from operations before Joint Ventures net financial expense and taxation	213.5	215.8
Share of Joint Ventures net financial expense	(13.9)	(21.8)
Share of Joint Ventures taxation	(4.7)	(3.9)
<b>Underlying profit from operations</b>	194.9	+3% 190.1
Group interest	(6.8)	(14.6)
<b>Underlying profit before taxation<sup>(1)</sup></b>	188.1	+7% 175.5
Intangible amortisation	(27.6)	(30.8)
Non-recurring operating items	(9.4)	(15.2)
Non-operating items	16.8	6.4
<b>Reported profit before taxation</b>	167.9	+24% 135.9

(1) After Joint Ventures taxation of £4.7 million (2009<sup>(2)</sup> £3.9 million) and before intangible amortisation, non-recurring operating items and non-operating items

(2) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

#### Underlying operating profit

**£110.4m**

2009 £117.7m

#### Order book

**£11.7bn**

#### Revenue

£m	2010	2009
Group	1,842.1	2,108.3
Share of		
Joint Ventures	266.5	281.2
<b>Total</b>	<b>2,108.6</b>	<b>-12% 2,389.5</b>

#### Underlying operating profit

£m	2010	2009
Group	92.3	102.9
Share of		
Joint Ventures	18.1	14.8
<b>Total</b>	<b>110.4</b>	<b>-6% 117.7</b>

#### Reported operating profit

£m	2010	2009
Group	72.1	75.8
Share of		
Joint Ventures	18.1	14.8
<b>Total</b>	<b>90.2</b>	<b>nil 90.6</b>

## 2 Public Private Partnership projects

In this segment we report the results of our investing activities in Public Private Partnership projects in our chosen sectors of Defence Health, Education, Transport Secure and other Government accommodation

### Underlying operating profit

**£23.4m**

2009<sup>(2)</sup> £30.7m

### Order book

**£2.7bn**

### Revenue

£m	2010	2009 <sup>(2)</sup>
Group	1.2	1.1
Share of		
Joint Ventures	310.7	417.3
<b>Total</b>	<b>311.9</b>	<b>-25% 418.4</b>

### Underlying operating profit

£m	2010	2009 <sup>(2)</sup>
Group	10.7	~
Share of		
Joint Ventures	12.7	30.7
<b>Total</b>	<b>23.4</b>	<b>-24% 30.7</b>

### Reported operating profit

£m	2010	2009 <sup>(2)</sup>
Group	10.7	~
Share of		
Joint Ventures	12.7	30.7
<b>Total</b>	<b>23.4</b>	<b>-24% 30.7</b>

## 3 Middle East construction services

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

### Underlying operating profit

**£47.5m**

2009 £47.0m

### Order book

**£1.0bn**

### Revenue

£m	2010	2009
Group	190.9	130.2
Share of		
Joint Ventures	302.1	423.4
<b>Total</b>	<b>493.0</b>	<b>-11% 553.6</b>

### Underlying operating profit

£m	2010	2009
Group	14.0	6.8
Share of		
Joint Ventures	33.5	40.2
<b>Total</b>	<b>47.5</b>	<b>+1% 47.0</b>

### Reported operating profit

£m	2010	2009
Group	14.0	6.8
Share of		
Joint Ventures	33.5	40.2
<b>Total</b>	<b>47.5</b>	<b>+1% 47.0</b>

## 4 Construction services (excluding the Middle East)

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

### Underlying operating profit

**£41.2m**

2009 £30.9m

### Order book

**£2.8bn**

### Revenue

£m	2010	2009
Group	2,202.3	2,264.6
Share of		
Joint Ventures	23.2	3.2
<b>Total</b>	<b>2,225.5</b>	<b>-2% 2,267.8</b>

### Underlying operating profit

£m	2010	2009
Group	40.9	31.7
Share of		
Joint Ventures	0.3	(0.8)
<b>Total</b>	<b>41.2</b>	<b>+33% 30.9</b>

### Reported operating profit

£m	2010	2009
Group	27.0	13.7
Share of		
Joint Ventures	0.3	(0.8)
<b>Total</b>	<b>27.3</b>	<b>+112% 12.9</b>

## Our operations

Carillion has an annual revenue of over £5 billion, employs around 46,000 people and operates across the UK, in the Middle East and North Africa, Canada and the Caribbean.

### Underlying operating profit<sup>(1)</sup>

#### Support services

**£110.4m**

2009 £117.7m

#### Public Private Partnership projects

**£23.4m**

2009<sup>(2)</sup> £30.7m

#### Middle East construction services

**£47.5m**

2009 £47.0m

#### Construction services (excluding the Middle East)

**£41.2m**

2009 £30.9m

(1) Before Group eliminations and unallocated items, intangible amortisation, non-recurring operating items and share of Joint Ventures net financial expense and taxation

(2) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

### UK

#### Operations

##### Support services

##### Public Private Partnership projects

##### Construction services

#### Market sectors

- > We provide all the facilities management, maintenance and other services needed to keep buildings, in particular large complex property estates, fully operational, for public and private sector customers
- > We also provide asset management and maintenance services for road and railway infrastructure and for utilities including telecommunications, water, electricity and gas
- > We deliver Public Private Partnership (PPP) projects for schools, hospitals, prisons, defence and other government accommodation, and also for roads and railways
- > We have a strong and selective construction services capability, which plays a key role in providing integrated solutions for PPP projects and for our support services customers

### Revenue<sup>(3)</sup>

**£3,925.0m**

2009<sup>(2)</sup> £4,490.8m

#### Percentage of total revenue

**76%**

2009 80%

(3) Includes £76.4 million (2009: £79.7 million) of revenue generated outside of the UK, Middle East and North Africa and Canada and the Caribbean



#### Our operations

- 1 UK
- 2 Egypt
- 3 Qatar
- 4 United Arab Emirates
- 5 Oman
- 6 British Columbia
- 7 Alberta
- 8 Ontario
- 9 Caribbean

### Middle East and North Africa

#### Operations

Support services

Construction services

#### Market sectors

- > We have nearly 40 years experience of operating in the Middle East, with well-established Joint Venture businesses in the United Arab Emirates, Oman and Egypt providing construction services for buildings and infrastructure
- > These businesses have built market-leading reputations for delivering high quality projects for a small number of long-term, financially robust customers
- > We also have a Joint Venture business in the United Arab Emirates that provides facilities management services, primarily for the buildings we construct
- > In 2010 we extended our operations into Qatar where we are bidding for a number of construction projects

#### Revenue

£504.2m

2009 £564.4m

#### Percentage of total revenue

10%

2009 10%

### Canada and the Caribbean

#### Operations

Support services

Public Private Partnership projects

Construction services

#### Market sectors

- > We have operated in Canada and the Caribbean for over 40 years, delivering a wide range of construction services for public and private sector customers
- > An increasing proportion of our construction work in Canada relates to Public Private Partnership (PPP) projects for which Carillion has built a market-leading reputation, especially in the health sector
- > We have also established leading positions in the road maintenance markets of Ontario and Alberta where we have long-term contracts to manage and maintain substantial lengths of the Provincial highway network
- > We provide facilities management and maintenance services for our PPP hospitals

#### Revenue

£709.8m

2009 £574.1m

#### Percentage of total revenue

14%

2009 10%

## Our operations

### Support services

We are one of the UK's largest support services companies with the skills and resources to provide all the services needed to manage, maintain and operate buildings and infrastructure.

#### Underlying operating profit

**£110.4m**

2009 £117.7m

#### Percentage of total underlying operating profit<sup>(1)</sup>

**50%**

2009 52%

#### Key

- Support services
- ▨ Public Private Partnership projects
- Middle East construction services
- ▨ Construction services (excluding the Middle East)

(1) Before Group eliminations and unallocated items intangible amortisation non recurring operating items and share of Joint Ventures net financial expense and taxation

Having the ability to combine our services capabilities and use leading-edge technology to provide customers with fully integrated, nationwide solutions is a key strength that helps to differentiate Carillion from our competitors. It is also fundamental to our success in delivering Public Private Partnership (PPP) projects.

The long-term contracts we have – some of them for more than 30 years – to deliver services for over 100,000 buildings, over 17,000 km of roads and substantial sections of the UK rail and utility networks, provide good visibility of future revenues and make a major contribution to the resilience of our business mix.

#### Property

We provide an extensive range of support services for property, notably integrated facilities management solutions for public and private sector customers with large, complex property estates. We have strong positions in a number of market sectors, particularly for customers in the financial services, commercial, utilities, media and telecommunications sectors. For example we provide integrated facilities management services for over 7,000 BT properties in the UK for Virgin Media, Siemens, Centrica, Bank of Ireland and the Nationwide Building Society.

In the UK public sector, we are a major supplier of integrated facilities management services to central and local government. For example, we are a leading supplier to Defence Estates and to acute NHS hospitals. We also provide facilities management services for the HM Revenue and Customs estate and we have a growing presence in the education sector. In Canada, we have a growing business, driven by our success in winning PPP projects especially in the health sector for which we provide facilities management services.

As one of the top three suppliers of mechanical and electrical engineering (M&E) services in the UK, Carillion provides M&E services direct to an extensive customer base and also uses this capability to support the delivery of integrated facilities management solutions for public and private sector customers.

#### Infrastructure

We have long-term asset management and maintenance contracts for roads, railways and public utility services networks. In the UK, we are a key supplier to the Highways Agency, providing integrated management and maintenance services for motorways and trunk roads and we provide similar services for a number of Local Highway Authorities. In Canada, we have leading positions in the Ontario and Alberta road maintenance markets. In the rail sector, our main customers are Network Rail and Transport for London.

We also provide a wide range of asset management and maintenance services to the telecommunications, water, gas and electricity supply industries. We are particularly strong in the telecommunications sector, where a Carillion-led Joint Venture has a seven-year contract, worth over £1.0 billion to Carillion to provide nationwide asset management and maintenance services for Openreach, BT's local access network business.

Our consultancy business provides engineering and architectural design and project management services. These capabilities also play an important role in supporting the delivery of integrated solutions for buildings and infrastructure, particularly for Public Private Partnership projects.

Main image: Carillion is one of the UK's leading suppliers of mechanical and electrical engineering maintenance services.



## **Carillion can** deliver support services solutions that improve quality and reliability, while reducing customer costs.

### **1 Openreach**

For Openreach, BT's local access network business, a Carillion-led Joint Venture provides nationwide asset management and maintenance services. These include the installation, repair and maintenance of cables, joint boxes, street cabinets, telegraph poles and associated infrastructure. Service delivery is being transformed through a single nationwide delivery model, which replaced seven regional suppliers. This has enabled the Joint Venture to improve service quality and efficiency at a significantly reduced cost to Openreach, through consolidating the supply chain and improving workflow planning and the management of up to 1,000 jobs a day.

### **2 Virgin Media**

For Virgin Media, Carillion provides a wide range of support services, including mechanical and electrical engineering services for some 750 properties, comprising of offices, call centres, switching centres and data centres, that involves managing environments critical to Virgin Media's own customer service. To provide the wide range of services and skills needed to meet the exacting requirements of

mission critical environments, across a geographically widespread property portfolio, Carillion uses a mobile workforce, backed by our National Operations Centre, which coordinates our activities 24 hours a day, 365 days a year.

### **3 Centrica**

For Centrica, Carillion manages the delivery of all the services needed to operate Centrica's property portfolio and also directly delivers many of these services, particularly facilities management. We use our market-leading technology platform to support the delivery of these services and this provides Centrica with real-time access to our performance. This, together with the strong partnership that has been developed between Centrica and Carillion, has played a key role in enabling Carillion to deliver an award winning, best-in-class service.

---

Find out more about what we can do at [www.carillionplc.com/annualreport10](http://www.carillionplc.com/annualreport10)

# Our operations

## Public Private Partnership projects

We are a leader in Public Private Partnership (PPP) projects, both in the UK and in Canada. PPP projects use private sector finance to deliver a wide range of asset-based services for central and local government.

### Underlying operating profit

**£23.4m**

2009<sup>(1)</sup> £30.7m

### Percentage of total underlying operating profit<sup>(2)</sup>

**10%**

2009 13%

#### Key

- Support services
- ▤ Public Private Partnership projects
- Middle East construction services
- Construction services (excluding the Middle East)

- (1) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12
- (2) Before Group eliminations and unallocated items intangible amortisation non-recurring operating items and share of Joint Ventures net financial expense and taxation

Our specialist private finance team arranges finance for these projects in which we make equity investments on which we target a 15 per cent internal rate of return over the life of the concession contract which is typically between 25 and 35 years. To date, Carillion has won concession contracts for over 50 PPP projects.

Once the construction phase is complete and the project has moved successfully into the operational phase we have the option of selling our equity investments and reinvesting the proceeds in new projects. To date we have sold investments in 30 projects generating proceeds of some £326 million and a pre-tax profit of £122 million.

As a leader in the development of PPP projects since their inception in the early 1990s, we delivered the UK's first PPP hospital the Darent Valley Hospital, in Kent, the first prison HMP Altcourse in Liverpool and one of the first road projects, the M40 widening in Buckinghamshire. Since then, we have built strong positions in a number of sectors of the UK PPP market, together with a leading position in the PPP market in Canada.

#### Health

In the UK, we are in the process of delivering our fifteenth PPP healthcare facility the new Southmead Hospital in Bristol. We have sold our equity investments in 10 hospital projects but continue to provide facilities management services for these projects.

#### Defence

Carillion has three major PPP defence projects for the UK Ministry of Defence. The largest of these is Allenby Connaught, a 35-year concession contract that commenced in 2006 to rebuild Army accommodation across the South of England and to provide support services for the estate over the life of the concession. During 2009 and 2010 we sold a proportion of our equity interest in this project, reducing it from 50 per cent to 12.5 per cent.

#### Secure accommodation

In the UK, we have delivered four prisons and secure training centres and sold our equity investments in all of these projects. Carillion also built the landmark Government Communications Headquarters at Cheltenham, one of the largest technically complex and secure accommodation PPP projects to be delivered in the UK to date.

#### Education

We have built a strong track record in the education sector, where we have delivered or are in the process of delivering, over 140 new schools and academies, some 50 of which have been funded by private finance. We have sold our equity investments in five of these schools, for which we continue to provide support services.

#### Roads

We have delivered a total of six PPP road projects and sold our equity investments in three of these, including the M40 widening project. We continue to provide management and maintenance services for two of these projects.

#### Canada

The UK PPP procurement model has been adopted in Canada where Carillion is a market leader, especially in the health sector. We delivered two of the first PPP hospitals, in Canada, the Royal Ottawa and the new William Osler Hospital in Brampton, Ontario for which we also have long-term facilities management contracts. Currently, we have a further four PPP projects under construction in Ontario including three major hospitals.

Main image: The new Queen Alexandra Hospital, Portsmouth, a Carillion Public Private Partnership project completed in 2010.

## Carillion can deliver fully integrated solutions for Public Private Partnership (PPP) projects that minimise whole-life costs.

Having the capabilities to deliver fully integrated solutions for PPP projects, including project finance, design, construction, maintenance and lifetime asset management services, helps to differentiate Carillion from its competitors. It enables us to optimise the whole-life cost of providing, maintaining and operating buildings and infrastructure, and offer customers best value-for-money solutions.

### 1 Southmead Hospital

In February 2010, a Carillion Joint Venture achieved financial close on the new Southmead Hospital project in Bristol, one of the largest PPP hospital projects to be undertaken in the UK. The new 800-bed acute hospital is being built by Carillion at a capital cost of £430 million. Carillion will also invest £50 million of equity in this project and provide facilities management and life-cycle maintenance services worth approximately £170 million over the 30-year life of the contract.

Carillion is also using its sector leading capability for sustainable solutions to design a state-of-the-art building which will be the most sustainable major hospital in the UK, with low energy utilisation and

a carbon footprint well below the UK Government's target of 3.43 Tonnes of CO<sub>2</sub>e<sup>(1)</sup> a year and a BREEAM<sup>(2)</sup> rating of excellent.

### 2 Forensic Services and Coroners' Complex

In June 2010, a Carillion Joint Venture achieved financial close on the Forensic Services and Coroners' Complex in Toronto. The new complex will include forensic laboratories, autopsy suites, courtrooms and offices. Carillion will invest £11.8 million of equity in this project as well as providing construction, facilities management and life-cycle maintenance services worth some £306 million over the 30-year concession contract.

(1) Equivalent tonnes of CO<sub>2</sub>

(2) BRE Environmental Assessment Method

---

Find out more about what we can do at [www.carillionplc.com/annualreport10](http://www.carillionplc.com/annualreport10)

## Our operations

Middle East construction services  
We have 40 years experience in the Middle East and delivered some of the region's most prestigious buildings and infrastructure projects.

### Underlying operating profit

**£47.5m**

2009 £47.0m

### Percentage of total underlying operating profit<sup>(1)</sup>

**21%**

2009 21%

#### Key

- Support services
- Public Private Partnership projects
- Middle East construction services
- Construction services (excluding the Middle East)

(1) Before Group eliminations and unallocated items intangible amortisation, non-recurring operating items and share of Joint Ventures net financial expense and taxation

Over the last five years we have increased our revenue in the Middle East at a compound annual growth rate of 25 per cent. This growth has been driven by our strategy of building strong relationships with a small number of selected, financially robust customers with long-term investment programmes, for whom quality and value for money are paramount. Geographical diversification, notably the extension of our operations into Abu Dhabi in 2008, has also enabled us to deliver growth over this period, despite the downturn in Dubai.

#### Abu Dhabi

Since extending the operations of Al Futtaim Carillion to Abu Dhabi in 2008, our business there has grown substantially and contributed 55 per cent of our total Middle East construction services revenue in 2010. Our first project in Abu Dhabi was the prestigious 500-bedroom Yas Hotel, which forms the centrepiece of Abu Dhabi's Formula 1 Grand Prix circuit, which hosted its first F1 race in November 2009. Current major projects in Abu Dhabi include a new headquarters for the Abu Dhabi Investment Council, the Al Muneera development, New York University and Stage 3 of the UAE University, the latter two having been won in 2010.

#### Oman

Our business in Oman, Carillion Alawi, has a long history of delivering high-profile projects to exacting standards, including the Guest Palace Qas'r Al Alam, the Grand Mosque and currently, the Royal Opera House, the Majlis, a new parliament building, the National Museum and Muscat Court Complex. In 2010, Carillion Alawi grew strongly to contribute some 31 per cent of our total construction services revenue in the Middle East. A number of new contracts were secured in 2010, the largest of which involves the construction of a new control tower and ancillary facilities at Muscat Airport.

#### Dubai

In Dubai, Al Futtaim Carillion has an outstanding track record for delivering high quality projects, including Dubai Festival City, Motor City infrastructure works for the Downtown Dubai development and infrastructure works for Dubai Aluminium. Activity levels have continued to reduce and in 2010 Dubai contributed some five per cent of our Middle East construction revenue. However, we continue to target new work selectively and in 2010 Al Futtaim Carillion was awarded a major contract for two residential towers, which form part of the Downtown Dubai development, and for which funding is secure.

#### Egypt

Al Futtaim Carillion extended its operations to Egypt in 2008 specifically to build the £2 billion Cairo Festival City development for our Joint Venture partner, Al Futtaim. In 2010, this project contributed some nine per cent of our Middle East construction services revenue and we expect this to grow steadily over the next few years, as work on the Cairo Festival City development is scheduled to increase.

#### Qatar

In 2010, we continued to diversify geographically by establishing a new business in Qatar where we are bidding for our first projects. Qatar has major investment programmes in a number of key sectors for Carillion, including heritage, health, education and infrastructure.

Main image: The spectacular Al Bahr Towers in Abu Dhabi are being built by Al Futtaim Carillion for the Abu Dhabi Investment Council.

## Carillion can deliver projects to the highest standards of design and quality of finish.

Our businesses in the Middle East use their highly skilled people to deliver projects to exacting quality standards and delivery times. A reputation for quality and delivery, together with strong customer relationships, continue to help us win prestigious projects that require the skills and resources that very few companies can offer.

### **The Al Bahr Towers, Abu Dhabi**

Construction of the Al Bahr Towers by Al Futtaim Carillion will deliver a new £150 million state-of-the-art headquarters for the Abu Dhabi Investment Council and one of its holdings, the Al Hilal Bank. A two-level basement and podium will support twin 27-storey towers. The iconic design includes a dynamic 'Mashrabiya' solar shading system on the exterior of the building that will open and close during the day, according to the position of the sun, making the building highly efficient in terms of heat gain and cooling.

### **1 Royal Opera House**

In Oman, Carillion Alawi is nearing completion of the £120 million Royal Opera House for the Oman Royal Court Affairs.

This will have a 1,000 seat concert hall to accommodate the full range of performing arts, including music and drama productions as well as opera. With high-grade internal finishes, together with landscaped gardens, The Royal Opera House in Oman will be a wonderful facility and the first of its kind in the Middle East.

### **2 New York University**

In April 2010, Al Futtaim Carillion was awarded a £570 million contract by Mubadala to design and build the New York University campus on Saadiyat Island in Abu Dhabi. The campus will include a wide range of leading-edge facilities for 2,500 students, including lecture theatres, information technology facilities, laboratories, athletic and performance facilities, together with student, faculty and staff housing.

---

Find out more about what we can do at [www.carillionplc.com/annualreport10](http://www.carillionplc.com/annualreport10)

## Our operations

### Construction services (excluding the Middle East)

We have a strong and selective construction capability in the UK and in Canada and the Caribbean, focused on large, higher added value contracts for long-term customers

#### Underlying operating profit

**£41.2m**

2009 £30.9m

#### Percentage of total underlying operating profit<sup>(1)</sup>

**19%**

2009 14%

#### Key

- Support services
- Public Private Partnership projects
- Middle East construction services
- Construction services (excluding the Middle East)

(1) Before Group eliminations and unallocated items intangible amortisation non recurring operating items and share of Joint Ventures net financial expense and taxation

Having a strong construction capability, which together with our capabilities in private finance design support services and sustainability enables us to offer fully integrated solutions

This gives us a competitive advantage in optimising the whole-life cost of providing, maintaining and operating assets such as schools, hospitals, military accommodation, prisons roads and railways – an essential requirement for Public Private Partnership (PPP) projects

In the UK, we began re-scaling our construction business in 2010, through being even more selective in respect of the contracts for which we bid, in order to base its capabilities primarily around delivering integrated solutions for PPP projects and support services customers. As a result, we expect to reduce our UK construction revenue from its 2009 level of £1.8 billion to some £1.2 billion over the next three years, and reinforce our position as a leader in delivering integrated solutions

In Canada, our construction capability is also playing a key role in our success in the growing PPP market, where we have established a leading market position. We expect planned investment in PPP projects to be a key driver of our growth in Canada where our objective is to double revenue over the next three to five years to around £1 billion per annum

#### UK construction

A significant proportion of our UK construction revenue already comes from PPP projects. For example, currently we are building two major PPP projects for the Ministry of Defence – Allenby Connaught, which involves building and refurbishing Army accommodation across the South of England and the Royal School of Military

Engineering. We are also a leading supplier to the schools building programme, some of which are being delivered as PPP projects, and to the health sector, having delivered 13 PPP hospitals and healthcare facilities, with two more PPP hospitals under construction, notably the new Southmead Hospital in Bristol. We also provide construction services for other long-term customers, for example, where quality, delivery and our sector-leading sustainability credentials differentiate our offering

Our largest sectors of the UK infrastructure market are roads and railways. In 2010, with a joint venture partner we completed the East London Line and we are currently upgrading the A1 in Yorkshire to motorway standards. Our construction capabilities in these sectors are also key to our success in winning and delivering PPP road and rail projects, long-term maintenance contracts for roads and railways and contracts for the Highways Agency's 'managed motorways' programme

#### Canada and the Caribbean

In Canada and the Caribbean, where our businesses were established over 40 years ago, we have strong capabilities in both the buildings and infrastructure markets. We delivered two of the first PPP hospitals to be built in Canada, both of which are fully operational and for which Carillion has long-term support services contracts. We have since won three more PPP hospital projects, together with a PPP contract to provide a new Forensic Services and Coroners' Complex in Toronto, all of which are currently under construction. Carillion is also delivering other high-profile construction projects, for example, the refurbishment and extension of Toronto's Union Station

Main image To date, Carillion has delivered some 50 new and refurbished schools as Public Private Partnership projects

## **Carillion can** provide construction services – a capability we are using increasingly to deliver integrated solutions for PPP and other projects

### **1 Schools**

Carillion is a leading supplier to the school building programme in England and Wales. We have built, or we are in the process of building, over 140 new or refurbished schools and academies, many of which have been Public Private Partnership (PPP) projects in which Carillion has invested equity and for which Carillion provides long-term support services. For example, Carillion is currently delivering major school building programmes for South Tyneside and Gateshead, Nottingham, Tameside, Durham, Rochdale and Wolverhampton, which together have a construction value of some £1.5 billion.

### **2 Royal School of Military Engineering**

Carillion is a partner in the Joint Venture that is delivering the £3 billion, Royal School of Military Engineering PPP project for the UK Ministry of Defence. In addition to investing £5.5 million of equity in this project, Carillion is delivering a 7-year, £300 million construction programme, including new and refurbished soldier accommodation, providing some 1,700 bed spaces, together with greatly improved training facilities and retail, catering and leisure facilities, which will create a family-friendly environment.

### **3 Union Station, Toronto**

In addition to a substantial portfolio of construction contracts for PPP projects, in Canada we are using our ability to provide integrated solutions and our reputation for quality and delivery, to win other major contracts. The most recent is a 5-year, £360 million contract to revitalise Toronto's Union Station, for which we will provide professional services, contract management and supervision to co-ordinate and control all construction activities. The 5-year programme includes the restoration of heritage features in the existing station and the construction of a new upper-level transport concourse and a new retail concourse beneath the station, to create a world-class transport and retail facility.

---

Find out more about what we can do at [www.carillionplc.com/annualreport10](http://www.carillionplc.com/annualreport10)

# The Group continues to perform well.

I am pleased to report that Carillion performed well in 2010, building on its strong track record to deliver good earnings growth, despite tough market conditions, particularly in the UK

**Philip Rogerson**  
Chairman

The Group has also continued its strategic development to support its objectives of making further progress in 2011 and over the medium term, of delivering strong international growth together with substantial growth in UK support services

These significant achievements are due to a strong management team and the skills, professionalism and commitment of all our people. On behalf of the Board, I should like to thank all our employees for the contributions they have made to Carillion's success in 2010

Carillion's resilient and well-balanced UK support services and international business mix continues to be reflected in its financial results. Underlying profit before tax<sup>(1)</sup> increased by seven per cent to £188.1 million (2009<sup>(2)</sup> £175.5 million), with the Group's

underlying operating margin increasing to 4.2 per cent (2009<sup>(2)</sup> 3.8 per cent). Underlying earnings per share<sup>(3)</sup> increased by six per cent to 39.4 pence (2009<sup>(2)</sup> 37.3 pence)

Profit continues to be cash-backed, with underlying cash flow from operations of £230.2 million (2009 £268.2 million) substantially ahead of underlying profit from operations of £194.9 million (2009<sup>(2)</sup> £190.1 million). Consequently, the Group's financial position remains very strong, with net cash at 31 December 2010 of £120.2 million (2009 £24.9 million)

As expected, revenue, including joint ventures, reduced by nine per cent to £5.1 billion (2009<sup>(2)</sup> £5.6 billion) primarily due to the sale of non-core businesses and equity investments in Public Private

(1) After Joint Ventures taxation of £4.7 million (2009<sup>(2)</sup> £3.9 million) and before intangible amortisation, non-recurring operating items and non-operating items

(2) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

(3) Before intangible amortisation, non-recurring operating items and non-operating items

(4) Based on expected revenue and secure and probable orders, which exclude variable work and re-bids



Carillion's total shareholder return increased by 32 per cent in 2010, compared with an increase in the return for the FTSE 350 of 14 per cent

## 2010 total shareholder return

---

### Compound annual growth rates 2006-2010

#### Dividend

**14%**

#### Underlying earnings per share<sup>(3)</sup>

**14%**

Partnership projects in 2009, the planned reduction in UK construction activity and an ongoing focus on contract selectivity and financial discipline

The Group continues to have good revenue visibility, which at 31 December 2010 was 82 per cent<sup>(4)</sup> for 2011. This reflects a strong work winning performance, which maintained the Group's forward order book at some £18.2 billion (2009<sup>(2)</sup> £17.9 billion) at 31 December 2010, despite the sale of a further Public Private Partnership equity investment during 2010 that removed £0.5 billion from the order book. Probable orders at 31 December 2010 stood at approximately £0.9 billion (2009 £2.0 billion). In addition, by the year end, the Group had its largest ever pipeline of contract opportunities, notably in markets where we are targeting strong or substantial growth over the medium term, namely Canada, the Middle East and UK support services.

The Board is recommending a final ordinary dividend for 2010 of 10.7 pence per share making the total dividend for 2010 15.5 pence per share (2009 14.6 pence). This represents an increase of six per cent on the total paid in respect of 2009, in line with the Group's policy of increasing the dividend in line with earnings growth.

Looking forward, we expect the global economic environment to continue to make trading conditions difficult, especially in our UK markets. However, Carillion has a resilient and well-balanced business mix, good revenue visibility and a record pipeline of contract opportunities. Therefore, the Board believes that Carillion is well positioned to make further progress in 2011 and to achieve its objectives for medium-term growth, namely, to double its revenues in Canada and in the Middle East and to deliver substantial growth in UK support services.

Since the year end, Carillion has announced a recommended offer for the acquisition of Eaga plc, a leading UK provider of energy efficiency solutions. The offer values each Eaga share at £1.20 and the issued, and to be issued, share capital of Eaga at £306.5 million. The acquisition would bring together two complementary companies and enhance Carillion's position as one of the UK's leading support services companies. It is expected to be immediately earnings enhancing and would build on Carillion's previously announced objectives for growth. The acquisition is expected to complete in April and the Board is confident that it offers the prospect of creating significant value for shareholders of the enlarged Group.

**Philip Rogerson**  
Chairman  
2 March 2011

# Good earnings growth.

Having a strong and resilient business has enabled us to deliver an eighth successive year of earnings and dividend growth, despite difficult market conditions, especially in the UK.

**John McDonough**  
Group Chief Executive

Our continuing success is the result of rigorously implementing our strategy for sustainable profitable growth, an absolute commitment to behaving in accordance with our core values and strong risk management

## **Our strategy**

To deliver sustainable, profitable growth through

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

Early in 2010, we reviewed our strategy for UK construction in anticipation of substantial cuts in Government capital investment, which were confirmed in the Government's Spending Review in October 2010. In May 2010, we announced a strategic re-scaling of our UK construction business by tightening its focus on delivering integrated solutions for Public Private Partnership projects and support services customers. As a result, we expect to reduce our UK construction revenue by around one third from its 2009 level of some £1.8 billion to around £1.2 billion over the next three years. This very selective approach will also help to support margins by enabling us to avoid bidding for lower margin work, as the UK market is expected to become increasingly competitive following the Government's decision to reduce capital investment in real terms by around one third over the next four years.

(1) Before Group eliminations and unallocated items of £9.0 million (2009: £10.5 million), intangible amortisation, non-recurring operating items and share of Joint Ventures net financial expense and taxation

(2) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

## Principal operational risks and mitigation

Risk	Mitigation
Continuing to win contracts consistent with our target margins in markets that are more competitive	<ul style="list-style-type: none"> <li>&gt; Continually seeking to differentiate our offering by reviewing our competitive strategy and target markets</li> <li>&gt; 'Living' our values and listening to our customers in order to develop services that meet their needs</li> <li>&gt; Focusing on our efficiency and cost reduction programmes to remain competitive</li> </ul>
Managing our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base	<ul style="list-style-type: none"> <li>&gt; The Group's main defined benefit pension schemes have been closed to future accruals</li> <li>&gt; Regularly reviewing our investment policies to ensure that employee and company contributions, together with scheme benefits remain appropriate</li> </ul>
Managing major contracts to ensure they are delivered on time, to budget and to the required standards	<ul style="list-style-type: none"> <li>&gt; Applying selectivity criteria to ensure we take on contracts only where we understand, and can manage, the risks involved</li> <li>&gt; Applying rigorous policies and processes to monitor and manage contract performance</li> <li>&gt; Ensuring we have high-quality people delivering projects</li> </ul>
Maintaining financial discipline	<ul style="list-style-type: none"> <li>&gt; Applying strong cash management policies and processes to deliver cash-backed profit</li> </ul>
Attracting, developing and retaining excellent people	<ul style="list-style-type: none"> <li>&gt; Developing and implementing leadership, personal development and employee engagement programmes that encourage and support all our people to achieve their full potential</li> </ul>
Maintaining high standards of performance in respect of security, Health & Safety and other statutory requirements	<ul style="list-style-type: none"> <li>&gt; Applying rigorous risk management processes supported by robust business continuity plans</li> <li>&gt; An ongoing commitment to 'Target Zero', our programme to eliminate reportable accidents, including implementing management systems that conform to Occupational Health &amp; Safety Assessment System 18001</li> <li>&gt; Implementing thorough, mandatory staff training programmes</li> </ul>

### Underlying operating profit by reporting segment<sup>(1)</sup>

**£222.5m**

2009<sup>(2)</sup> £226.3m

#### Our values

Six core values guide our behaviour in everything we do and define the culture of our business

- > Openness
- > Collaboration
- > Mutual dependency
- > Professional delivery
- > Innovation
- > Sustainable profitable growth

#### Operational risk management

We apply strong operational risk management policies and processes to identify, mitigate and manage strategic, Group-wide risks and risks specific to our individual business units and contracts, including economic, social, environmental and ethical risks

These policies and processes are described in more detail in the Corporate Governance report on page 44. We also say more about financial risk management in the Operating and Financial review on page 30. To ensure that our operational risk management policies are applied rigorously throughout the Group we have clearly defined processes managed by the Group Head of Risk

The Group Head of Risk is responsible for

- > advising on strategic risks affecting the Group
- > conducting independent risk appraisals of all projects prior to them being submitted to the Major Projects Committee which is a committee of the Board with delegated authority to sanction major commitments and transactions, including capital expenditure, major contracts and business acquisitions and disposals, up to specified levels of risk, beyond which they are referred to the Board
- > overseeing risk training across the Group

We apply our risk management processes to every aspect of our operations, from choosing the geographies in which we operate, our market sectors and the contracts for which we bid, to the selection of our customers, partners and suppliers. We also apply them to every stage of a contract, from its inception to completion, in order to deliver value-for-money services for our customers and the cash-backed profit we expect

The principal risks affecting the Group are summarised in the table above together with the measures we are taking to mitigate and manage these risks

#### The effects of our strategy

Our strategy, supported by strong risk management and a commitment to behaving in accordance with our core values has

- > created a resilient and well balanced UK support services and international business mix
- > produced a strong balance sheet
- > delivered eight successive years of significant earnings and dividend growth
- > enabled the Group to consistently achieve or exceed all its financial and strategic objectives
- > positioned the Group to target further progress in 2011 and, over the medium term, strong international growth and substantial growth in UK support services

#### A resilient and well-balanced business

In 2010, 60 per cent of underlying operating profit came from stable long-term contracts for support services and PPP projects which continue to provide considerable resilience in the current challenging economic climate. The remaining 40 per cent of underlying operating profit came from construction services, where earnings have also become more resilient due to contract selectivity and geographical diversification which has greatly reduced our dependence on the UK and increased the contributions from our international businesses in the Middle East and in Canada

### Support services

**£110.4m**

2009 £117.7m

### Public Private Partnership projects

**£23.4m**

2009<sup>(2)</sup> £30.7m

### Middle East construction services

**£47.5m**

2009 £47.0m

### Construction services (excluding the Middle East)

**£41.2m**

2009 £30.9m

## Group Chief Executive's review

continued

In 2010, Middle East construction services accounted for 21 per cent of underlying operating profit with Construction services (excluding the Middle East) namely in the UK, Canada and the Caribbean, accounting for 19 per cent.

### A strong balance sheet

Our focus on cash management and the delivery of cash-backed profit has consistently delivered strong cash flow from operations. Over the past five years, underlying cash flow from operations has increased at a Compound Annual Growth Rate (CAGR) of 20 per cent, and in each of those years it has comfortably exceeded underlying profit from operations. Strong cash generation has supported our growth and enabled us to transform Carillion into a leading support services company, notably through two major acquisitions, namely Mowlem plc in 2006 and Alfred McAlpine plc in 2008. These acquisitions were funded in part by £528 million of borrowing that by 31 December 2009 had been paid down, to leave the Group with net cash of £24.9 million. At 31 December 2010, net cash had increased to £120.2 million. This, together with committed bank facilities of £737.5 million, maturing in March 2016, provide the Group with a very strong balance sheet.

### Eight successive years of earnings and dividend growth

Over the past eight years, we have delivered significant year-on-year earnings and dividend growth, with both underlying earnings per share and our dividend increasing over the last five years at a compound annual growth rate of 14 per cent. Although the global economic downturn has made trading conditions more difficult, especially in our UK markets, earnings in 2010 increased by six per cent. Our ability to deliver good earnings growth despite tough market conditions demonstrates the strength and resilience of our business mix.

### Consistently achieved or exceeded our financial and strategic objectives

We have a strong track record of consistently achieving or exceeding our financial and strategic objectives, for which we publish key performance indicators (KPIs) each year in our Annual Report and Accounts. Our performance in respect of the five KPIs set for 2010 is summarised opposite. Overall, we performed well in respect of these KPIs, including reducing our Accident Frequency Rate to achieve our target for 2010. However, we deeply regret that six people suffered fatal injuries on Carillion work sites in 2010 and we recognise that we must redouble our efforts if we are to achieve our objective of reducing reportable accidents to zero.

## 1 To attract, develop and retain excellent people

Attracting, developing and retaining excellent people continues to be our top priority because our ability to deliver the high quality services our customers expect, which is vital to Carillion's reputation and also to that of our customers, depends on having excellent people with the appropriate skills and commitment at every level throughout the Group. We therefore continue to invest in the development and implementation of bespoke leadership, personal development and employee engagement programmes which are designed to enable all our people to achieve their full potential. Communicating with all our people to engage and empower them to contribute to the development of our business, through creating a culture of openness and trust is fundamental to our success. We do this through managers and supervisors holding regular one-to-one meetings with all their people, monthly Team Talks, our award-winning company newspaper 'Spectrum' and internal newsletters. We also monitor and measure our progress through employee surveys, notably 'The Great Debate', an annual interactive survey of people selected randomly from across all our businesses. In 2010, 13,554 people took part in 'The Great Debate', the results of which showed that overall the satisfaction of our people and the extent to which they feel valued and proud to work for Carillion, continues to improve.

## 2 Be a recognised leader in Health & Safety and sustainability in the sectors in which we operate

Our absolute commitment to the Health & Safety of our people and of everyone who works with us or is affected by our operations remains paramount, together with our objective, known as 'Target Zero' of eliminating all reportable accidents. To achieve this challenging objective, we continue to use a wide range of measures, including training, audits, Safety Action Groups, strong visible leadership, such as

Directors' Safety Tours and employee engagement tools. Our hazard reporting programme, 'Don't Walk By', encourages our people to report for immediate action anything they believe to be unsafe. In 2010 we renewed our focus on 'Don't Walk By' which resulted in a 60 per cent increase in the number of reports per employee and a 23 per cent reduction in our Accident Frequency Rate (AFR) to 0.1 reportable accidents per 100,000 employee hours worked (2009: 0.13), with three out of four of our projects achieving zero reportable accidents during 2010. An AFR of 0.1 represents a sector-leading performance.

Despite this further improvement in our overall safety performance, five fatal accidents occurred at Carillion work sites during 2010 in which six people tragically lost their lives. An employee of a sub-contractor was fatally injured while clearing vegetation on a Carillion project at Barrow-in-Furness. In Alberta, Canada, a Carillion Canada employee died while carrying out highway maintenance work, after being struck by a vehicle driven by a member of the public. In Egypt, an employee of our joint venture partner, Orascom, was fatally injured by a fall, after being struck by a prop being used for construction work at the Cairo Festival City project. In Abu Dhabi, two employees of Al Futtaim Carillion died when they were struck by a pre-cast concrete floor section which had been in place for several days before suddenly collapsing without warning. In Oman, a Carillion Alawi employee was fatally injured when he fell and was run over by a water tanker. During 2010, one prosecution of a Carillion company was completed by the Health & Safety Executive.

Carillion continues to be a leader in sustainability. We retained our 'Platinum' ranking in Business in the Community's Corporate Responsibility Index, in which we also topped the support services sector, we came eighth in the Sunday Times list of Best Green Companies and maintained our membership of the FTSE4Good Index. We believe that being a leader in delivering sustainable solutions for our customers differentiates Carillion from its peers and therefore helps us to win work. More details about our programme for becoming a more sustainable business and how this helps us to achieve our financial and strategic objectives can be found in the sustainability section of this report on page 32.

### 3. Continuously improve customer satisfaction and brand reputation

Our performance against this KPI, which was introduced for the first time in 2010, is being measured by an independent annual survey of customer perception. The results of the survey for 2010 show that average customer perception across all our market sectors improved in 2010 and remained well above a commercially acceptable level. Within this average, perception improved in six of our eight UK key market sectors, with perception unchanged in one sector and slightly down in one sector, but this was still well ahead of that in 2008. In 2010 we carried out perception surveys in our international businesses – namely the Middle East and Canada – which will provide a baseline for comparison in 2011.

### 4. Continue to reduce costs and improve efficiency to support earnings growth

In 2010, we continued to reduce our cost base and improve efficiency. Our success is reflected in the substantial improvement we achieved in overall underlying operating margin, from 3.8 per cent to 4.2 per cent. This reflected significant improvements in operating margin in our business segments, with the operating margin increasing in support services from 4.9 per cent to 5.2 per cent, in Middle East construction services from 8.5 per cent to 9.6 per cent and in construction services (excluding the Middle East) from 1.4 per cent to 1.9 per cent. Reducing costs and improving efficiency also helps us to remain competitive, with our success evident in the value of our year-end forward order book, which we maintained at £18.2 billion, despite the sale of a further Public Private Partnership equity investment which removed £0.5 billion from the order book and challenging market conditions.

### 5. Generate cash-backed profit

We have a strong track record of consistently delivering cash-backed profit from operations, which remains a key priority for all our business units. In 2010, underlying cash flow from operations of £230.2 million was once again comfortably ahead of underlying profit from operations of £194.9 million.

#### Positioned for further progress and growth

Although trading conditions are expected to remain difficult, especially in our UK markets, we are well positioned to make further progress in 2011 and to achieve our objectives for medium term growth, namely doubling the revenues of our international businesses while delivering substantial growth in UK support services.

#### Order book

The Group maintained a strong forward order book worth some £18.2 billion at 31 December 2010 (2009<sup>(1)</sup> £17.9 billion), despite the sale of a further Public Private Partnership equity investment which removed £0.5 billion from the order book, and the effects of more difficult market conditions. The value of probable orders at 31 December 2010 reduced to £0.9 billion (2009 £2.0 billion), which primarily reflects the timing of achieving financial close on a number of Public Private Partnership projects. At 31 December 2010, the Group's revenue visibility for 2011 was 82 per cent<sup>(2)</sup>. Our pipeline of contract opportunities, namely contracts for which we are either currently bidding or which we expect to bid, increased significantly to the record level of over £25 billion (2009 £17.1 billion).

#### Support services

In support services, we continue to have good revenue visibility, with 75 per cent of expected 2011 revenue currently covered by secure and probable orders. This, together with the substantial opportunities we have to win new work in 2011, means that we expect support services to continue to be resilient despite our expectation that market conditions will remain difficult in 2011. Over the medium term, we continue to target substantial growth in UK support services driven primarily by an increase in public sector outsourcing, notably by UK Local Authorities as they seek to deliver the substantial reductions in running costs announced in the UK Government's 2010 Spending Review. Given we are targeting large complex contracts that take considerable time to bid, we continue to expect the benefits of more public sector outsourcing to come through towards the end of 2011, leading to substantial growth in 2012 and beyond. We will continue to support our operating margin in this segment through applying strict selectivity criteria and maintaining our financial discipline.

#### Order book

# £18.2bn

#### Support services

£11.7bn (2009 £11.1bn)

#### Public Private Partnership projects

£2.7bn (2009<sup>(1)</sup> £2.6bn)

#### Middle East construction services

£1.0bn (2009 £0.7bn)

#### Construction services (excluding the Middle East)

£2.8bn (2009 £3.5bn)

(1) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

#### Probable orders

# £0.9bn

#### Support services

£0.5bn (2009 £0.6bn)

#### Public Private Partnership projects

£nil (2009 £0.2bn)

#### Middle East construction services

£nil (2009 £0.2bn)

#### Construction services (excluding the Middle East)

£0.4bn (2009 £1.0bn)

(1) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

(2) Based on expected revenue and secure and probable orders which exclude variable work and re-bids

# Group Chief Executive's review

continued

## Pipeline

# £25.7bn

### ■ Support services

£8.3bn (2009 £5.5bn)

### ■ Public Private Partnership projects

£0.9bn (2009 £nil)

### ■ Middle East construction services

£8.8bn (2009 £4.2bn)

### ■ Construction services (excluding the Middle East)

£7.7bn (2009 £7.4bn)

### Public Private Partnership (PPP) projects

We expect to continue generating substantial value from our investments in PPP projects. To date we have invested some £71 million in our portfolio of 26 projects. A further £108 million has still to be invested in this portfolio, as projects currently under construction are completed and move into the operational phase. Furthermore, the prospects for adding new projects to our portfolio remain positive.

We have strong market positions in both the UK and in Canada. We are currently shortlisted for five projects in which we could invest up to a further £148 million of equity and we expect continuing opportunities to bid for new projects. In Canada, Infrastructure Ontario is expected to announce a major expansion to its programme of PPP projects in the first half of 2011, which will significantly increase the scale of Canada's current PPP programme of some £10 billion over the next three years. As the only company currently able to offer fully integrated solutions for PPP projects in Canada, we believe we are well positioned to benefit from this expected increase in investment. In the UK, the Government is continuing to use private finance to deliver existing infrastructure programmes and has also announced that private finance will play a key role in delivering the five-year, £200 billion National Infrastructure Plan, announced in October 2010. As the secondary equity market remains strong, we also expect to continue selling investments in mature projects, namely where construction has been completed and the project has moved successfully into the operational phase with the support services contract fully established. Therefore, we expect to continue generating significant value for the Group through our ability to win and successfully deliver PPP projects into the operational phase.

### Middle East construction services

In Middle East construction services, the outlook for growth remains positive with some 78 per cent<sup>(1)</sup> of expected 2011 revenue currently covered by secure and probable orders. Furthermore, our pipeline of contract opportunities has more than doubled to £8.8 billion (2009 £4.2 billion), which reflects the strength of our markets in Abu Dhabi, Oman and Qatar, where we established a new business during 2010, each of which has major investment programmes that are expected to continue to create significant opportunities for growth. Consequently, we expect to double our share of revenue in the Middle East to around £1.0 billion over the next three to five years. Over a similar period, we expect our operating margin to reduce steadily to around six per cent, as we continue to competitively tender for new contracts having previously negotiated all our contracts for a number of years. However, our Joint Venture businesses in the region will continue to use their reputations for delivering projects to the highest standards of quality and

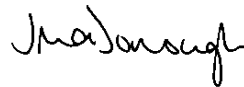
reliability to target large, prestigious contracts, which we believe will enable us to stabilise our operating margin at this relatively healthy level over the medium-term and therefore target substantial earnings growth over this period.

### Construction services (excluding the Middle East)

In construction services (excluding the Middle East), revenue visibility for 2011 was 89 per cent<sup>(1)</sup> at 31 December 2010. This provides a strong platform to continue the strategic re-scaling of our UK business that we announced in May 2010. At the same time we continue to target strong growth in Canada. We expect this growth to be driven primarily by the construction of PPP projects, given that the current £10 billion PPP programme in Canada is expected to increase significantly over the next 10 years. Therefore, revenue growth in Canada will largely offset the planned reduction in the UK. Taking an even more selective approach to UK construction will help to support our operating margin in this segment by enabling us to avoid lower margin work, as we expect the UK construction market to become increasingly competitive, due to the substantial cuts in capital expenditure announced in the UK Government's 2010 Spending Review.

### Recommended acquisition of Eaga plc

Since the year end, Carillion has announced a recommended offer for the acquisition of Eaga plc, a leading UK provider of energy efficiency solutions. The acquisition would bring together two complementary companies and enhance Carillion's position as one of the UK's leading support services companies. Carillion has identified the low carbon market as a strategic area of growth and the acquisition of Eaga would create a scalable platform to build the UK's largest independent energy services provider. It would also extend Carillion's capability to provide integrated support services solutions for its existing customers for whom energy services are an increasingly important requirement. The acquisition is expected to be immediately earnings enhancing and would build on Carillion's previously announced objectives for growth.



**John McDonough**  
Group Chief Executive  
2 March 2011

<sup>(1)</sup> Based on expected revenue and secure and probable orders, which exclude variable work and re-bids.

The Group has set the following key performance indicators for 2011.

- > To attract, develop and retain excellent people

---

- > Be a recognised leader in Health & Safety and Sustainability in the sectors in which we operate

---

- > Continuously improve customer satisfaction and brand reputation

---

- > Grow revenue in support services

---

- > Grow revenues in Canada and in the Middle East, consistent with our objective of doubling each of them to around £1 billion over the next three to five years

---

- > Continue to re-scale our UK construction capability consistent with our objective of reducing this by one third over the next three years to around £1.2 billion

---

- > Continue to reduce costs and improve efficiency to support margins and earnings growth

---

- > Generate cash-backed profit after adjusting for the strategic re-scaling of our UK construction business

---

# Strong and resilient business.

Carillion has continued to perform well in challenging market conditions to deliver a seven per cent increase in underlying profit before tax<sup>(1)</sup> and a six per cent increase in underlying earnings per share<sup>(2)</sup>.

**Richard Adam**  
Group Finance Director

## Group overview

Carillion is one of the UK's leading support services companies with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities. Having this wide range of skills and resources enables the Group to deliver fully integrated solutions for buildings and infrastructure from project finance through design and construction, to life-time asset management. The Group has operations in the UK, Middle East and North Africa and Canada and the Caribbean, as described on pages 4 and 5.

Growth in 2010 has more than offset the £17 million of underlying profit before taxation contributed by the non-core businesses and investments in Public Private Partnership projects that were sold in 2009.

We also maintained our strong track record of delivering cash-backed profit, with underlying cash flow from operations of £230.2 million once again comfortably ahead of underlying profit from operations of £194.9 million. At 31 December 2010 the Group had net cash of £120.2 million.

As expected, total revenue in 2010 reduced by nine per cent to £5,139.0 million (2009<sup>(3)</sup> £5,629.3 million), including revenue from Joint Ventures of £902.5 million (2009<sup>(3)</sup> £1,125.1 million), reflecting the sale of non-core businesses and equity investments in Public Private Partnership projects, the strategic reduction in UK construction activity and an ongoing focus on selectivity and financial discipline.

Total underlying profit from operations<sup>(4)</sup> increased by three per cent to £194.9 million (2009<sup>(3)</sup> £190.1 million), including profit from Joint Ventures of £46.0 million (2009<sup>(3)</sup> £59.2 million). The total margin based on underlying profit from operations increased to 3.8 per cent (2009<sup>(3)</sup> 3.4 per cent), reflecting our focus on contract selectivity, financial discipline and larger contracts for customers seeking innovative value for money solutions.

After a net financial expense of £6.8 million (2009: £14.6 million), underlying profit before taxation<sup>(1)</sup> was £188.1 million (2009<sup>(3)</sup> £175.5 million), an increase of seven per cent. Underlying earnings per share<sup>(2)</sup> on the same basis increased by six per cent to 39.4 pence (2009<sup>(3)</sup> 37.3 pence).



## Operating profit by financial reporting segment

Financial reporting segments and analysis	2010 £m	2009 <sup>(1)</sup> £m	Change from 2009 %
Support services	110.4	117.7	-6
Public Private Partnership projects	23.4	30.7	-24
Middle East construction services	47.5	47.0	+1
Construction services (excluding the Middle East)	41.2	30.9	+33
	222.5	226.3	-2
Group eliminations and unallocated items	(9.0)	(10.5)	+14
Profit from operations before Joint Ventures net financial expense and taxation	213.5	215.8	-1
Share of Joint Ventures net financial expense	(13.9)	(21.8)	+36
Share of Joint Ventures taxation	(4.7)	(3.9)	-21
<b>Underlying profit from operations<sup>(4)</sup></b>	<b>194.9</b>	<b>190.1</b>	<b>+3</b>
Intangible amortisation	(27.6)	(30.8)	+10
Non-recurring operating items	(9.4)	(15.2)	+38
<b>Reported profit from operations</b>	<b>157.9</b>	<b>144.1</b>	<b>+10</b>

Intangible amortisation was £27.6 million (2009 £30.8 million), non-recurring operating and non-operating items amounted to an income of £7.4 million (2009<sup>(3)</sup> £8.8 million charge), leaving profit before taxation of £167.9 million (2009<sup>(3)</sup> £135.9 million) an increase of 24 per cent

The Group taxation charge of £15.1 million (2009 £11.5 million) when combined with Joint Ventures taxation of £4.7 million (2009<sup>(3)</sup> £3.9 million), represented an underlying effective tax rate of 16 per cent (2009 16 per cent). Profit after tax was £152.8 million (2009<sup>(3)</sup> £124.4 million). After non-controlling interests of £5.6 million (2009 £3.8 million), profit attributable to Carillion shareholders was £147.2 million (2009<sup>(3)</sup> £120.6 million) and basic earnings per share were 36.9 pence (2009<sup>(3)</sup> 30.5 pence), an increase of 21 per cent

Underlying cash flow from operations of £230.2 million (2009 £268.2 million) represented 118 per cent of underlying profit from operations of £194.9 million (2009<sup>(3)</sup> £190.1 million). After payments to pension funds of £35.2 million (2009 £29.0 million) in line with our pension deficit recovery plan, net capital expenditure of £15.3 million (2009 £47.3 million), restructuring costs of £15.6 million (2009 £17.1 million), interest tax and dividend payments of £65.9 million (2009 £63.2 million) and net income from acquisitions and disposals of £2.7 million (2009 £142.7 million), the Group had net cash at 31 December 2010 of £120.2 million (2009 £24.9 million)

### Accounting policies

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The following new accounting standards and interpretations which became effective after 1 January 2010 have been adopted during the year:

- > International Financial Reporting Interpretations Committee (IFRIC) 12 'Service concession arrangements'
- > International Financial Reporting Interpretations Committee (IFRIC) 15 'Agreement for the construction of real estate'
- > International Financial Reporting Interpretations Committee (IFRIC) 16 'Hedges of a net investment in a foreign operation'
- > International Accounting Standard (IAS) 27 'Consolidated and separate financial statements (revised 2008)'
- > International Financial Reporting Standards (IFRS) 3 'Business Combinations (revised 2008)'

International Financial Reporting Interpretations Committee (IFRIC) 12 'Service concession arrangements' applies to accounting for Public Private Partnership (PPP) projects in which the Group participates through joint ventures. The overall impact of IFRIC 12 is to change the timing of when revenue and profit are recognised for PPP projects, but it does not affect the total profit recognised or the cash

flows generated during the life of PPP projects. The principal change requires revenue and profit to be recognised during the construction period, which was not previously required, and for borrowing costs to be expensed immediately, rather than capitalised during the construction period. As IFRIC 12 has no effect on cash flows, there is no impact on the Directors' valuation of the Group's PPP portfolio. Following the adoption of IFRIC 12 comparative information for 2009 has been restated accordingly, reducing underlying profit before tax<sup>(1)</sup> by £6.7 million at 31 December 2009. More details of this restatement are given in note 32 to the financial information on page 97. The other new accounting standards and interpretations are described on page 59 and none of these have had a material effect on the Group. The Group's other significant accounting policies are described on pages 59 to 62.

### Segmental reporting and analysis

Operating profit by financial reporting segment is summarised in the table above and a detailed segmental analysis of the Group's businesses is provided in note 2 to the financial statements on page 63. Operating performance in each of our financial reporting segments is discussed in more detail on pages 24 to 27.

- (1) After Joint Ventures taxation of £4.7 million (2009<sup>(3)</sup> £3.9 million) and before intangible amortisation non-recurring operating items and non-operating items
- (2) Before intangible amortisation non-recurring operating items and non-operating items
- (3) Restated on adoption of International Reporting Interpretations Committee (IFRIC) 12
- (4) After Joint Ventures net financial expense of £13.9 million (2009<sup>(3)</sup> £21.8 million) and taxation of £4.7 million (2009<sup>(3)</sup> £3.9 million) and before intangible amortisation non-recurring operating items and non-operating items

## Our performance

# Operating and financial review

continued

## Support services

### Revenue

**£2.1bn**

### Underlying operating profit

**£110.4m**

	2010 £m	2009 £m	Change from 2009 %
<b>Revenue</b>			
– Group	1,842.1	2,108.3	
– Share of Joint Ventures	266.5	281.2	
	2,108.6	2,389.5	-12
<b>Underlying operating profit<sup>(1)</sup></b>			
– Group	92.3	102.9	
– Share of Joint Ventures	18.1	14.8	
	110.4	117.7	-6

(1) Before intangible amortisation and non-recurring operating items

**1** Carillion is a leading supplier of facilities management services to NHS hospitals, including 'soft' services such as laundry, cleaning and catering, and 'hard' services such as mechanical and electrical engineering maintenance and building fabric maintenance

**2** Carillion has long-term contracts to provide management and maintenance services for 17 000 kilometres of road networks in the UK and Canada

**1**

**2**

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

Revenue reduced by 12 per cent to £2 108.6 million in line with our expectations, and reflected the disposal of non-core businesses in 2009 together with an ongoing focus on contract selectivity and financial discipline in order to support margins

Consequently the operating margin in this segment increased to 5.2 per cent (2009 4.9 per cent) with underlying operating profit reducing by six per cent to £110.4 million

We continue to use our extensive capabilities and nationwide resources to target large complex contracts for the management and maintenance of property and infrastructure. The breadth and scale of our capabilities, together with our ability to provide innovative solutions to improve efficiency and reduce costs for our customers is a key strength that helps to differentiate Carillion from its competitors and support our margins in this segment

Our ability to combine our support services capabilities with our project finance design and construction capabilities to provide integrated solutions for Public Private Partnership (PPP) projects is also

fundamental to our success in winning PPP concession contracts and with them long-term support services contracts. These contracts contribute approximately 25 per cent of revenue in this segment

Despite challenging market conditions, we have continued to win new work, increasing the total value of our support services order book to £11.7 billion at 31 December 2010 (2009 £11.1 billion). The value of probable orders at the year end was £0.5 billion (2009 £0.6 billion). We therefore continue to have good revenue visibility, which at 31 December 2010 was 75 per cent<sup>(2)</sup> for 2011

Furthermore, we have our largest ever pipeline of contract opportunities in support services that has increased by £2.8 billion to some £8.3 billion (31 December 2009 £5.5 billion), primarily as a result of public sector customers notably UK Local Authorities, seeking to improve efficiency and reduce costs through outsourcing more services. We have also noticed that Local Authorities are looking to extend the range of services included in outsourcing contracts which therefore require more bundled or integrated solutions

(2) Based on expected revenue and secure and probable orders which exclude variable work and re-bids

## Public Private Partnership projects

### Revenue

£0.3bn

### Underlying operating profit

£23.4m

	2010 £m	2009 <sup>(1)</sup> £m	Change from 2009 %
<b>Revenue</b>			
– Group	12	11	
– Share of Joint Ventures	310.7	417.3	
	311.9	418.4	-25
<b>Underlying operating profit<sup>(2)</sup></b>			
– Group	10.7	–	
– Share of Joint Ventures	12.7	30.7	
	23.4	30.7	-24

(1) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

(2) Before intangible amortisation and non-recurring operating items

1 Carillion is a leading supplier of new schools over 50 of which have been delivered as Public Private Partnership projects, that are helping to create first-class learning environments

1

2

2 Our latest Public Private Partnership project in Canada is the Forensic Services and Coroners' Complex in Toronto on which construction started in August 2010

In this segment we report the results of our investing activities in Public Private Partnership (PPP) projects. The results of the support services and construction services we provide as part of delivering PPP projects are reported in our Support services and Construction services (excluding the Middle East) segments, respectively.

Our target internal rate of return is 15 per cent on our equity investments in PPP projects over the life of concession contracts which are typically between 25 and 35 years. Once construction of the asset is complete and the project has moved into the operational phase with the support services contract firmly established, we have the option of selling our equity investments and reinvesting the proceeds in new projects.

The market for equity in mature PPP projects remains strong. During 2010 we sold the whole of our equity investment in the Queen Alexandra Hospital, Portsmouth, and a further five per cent of our equity in the Allenby Connaught project for the Ministry of Defence that reduced our equity interest in this project to 12.5 per cent. These equity sales generated proceeds of £45.8 million.

In 2010 we added four new projects to our portfolio of financially closed projects – Southmead Hospital, the Rochdale and Wolverhampton Building Schools for the Future (BSF) programmes and the Forensic Services and Coroners' Complex in Toronto – in which Carillion expects to invest a combined total of £68.1 million of equity.

At 31 December 2010, we had a portfolio of 26 financially closed projects in which we had invested some £71 million of equity, and in which we will invest a further £108 million as projects still in the construction phase are completed. The Directors' valuation

of this portfolio at 31 December 2010 was approximately £135 million (31 December 2009: £115 million), based on a discount rate of nine per cent (2009: nine per cent).

At 31 December 2010, our PPP forward order book was worth £2.7 billion (31 December 2009<sup>(1)</sup>: £2.6 billion). Probable orders had reduced to zero at the year end (31 December 2009: £0.2 billion) as a result of achieving financial close on the four projects for which we were the preferred bidder at December 2009.

The outlook for adding further investments to our portfolio continues to be encouraging. We are currently shortlisted for a further five projects in the UK and Canada in which Carillion could potentially invest up to £148 million. Looking further forward we expect continuing opportunities to bid for new projects. In Canada, Infrastructure Ontario is expected to announce a major expansion of its PPP investment programme in the first half of 2011. This is expected to increase the capital value of the PPP programme in Canada significantly from its current level of some £10 billion over the next three years. In the UK, the Government continues to use private finance to deliver existing building and infrastructure projects and has also announced that private finance will play a significant role in delivering the five-year, £200 billion National Infrastructure Plan, announced in October 2010.

# Operating and financial review

continued

## Middle East construction services

### Revenue

£0.5bn

### Underlying operating profit

£47.5m

	2010 £m	2009 £m	Change from 2009 %
<b>Revenue</b>			
– Group	190.9	130.2	
– Share of Joint Ventures	302.1	423.4	
	493.0	553.6	-11
<b>Underlying operating profit<sup>(1)</sup></b>			
– Group	14.0	6.8	
– Share of Joint Ventures	33.5	40.2	
	47.5	47.0	+1

(1) Before intangible amortisation and non-recurring operating items

**1** In Abu Dhabi, Al Futtair Carillion is building the Al Muneera development, which includes offices, apartments, town houses and villas and forms part of ALDAR's extensive Al Raha Beach development

**2** In May 2010, Al Futtair Carillion was awarded a contract to build the UAE University in Al Ain, Abu Dhabi, which closely followed its success in securing the contract to build Abu Dhabi's New York University in April 2010

1

2

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

As expected, revenue grew very strongly in the second half of 2010, which contributed £312.5 million to full-year revenue of £493.0 million, reflecting the timing of new project starts. Consequently, full-year revenue was only some 11 per cent lower than in 2009, compared with the 44 per cent reduction reported at the half year.

Underlying operating profit remained broadly unchanged at £47.5 million, as the effect of lower revenue was offset by an improved operating margin of 9.6 per cent (2009: 8.5 per cent). This improvement reflects a strong operating performance, the benefits of a number of negotiated contracts and our ongoing efficiency and cost reduction programmes. Cash flow remained strong, which supported a nine per cent increase in the dividends received from our Middle East businesses.

Our markets continue to be strong in Abu Dhabi and Oman, where we secured a number of significant new contracts during 2010. Notable successes include two University projects in Abu Dhabi, a £570 million contract for New York University and an £80 million contract for the UAE University, and an £80 million contract for an air traffic control tower and other new facilities at Muscat International Airport. In Qatar, which also has major investment programmes, the new business we established in the first half of 2010 has submitted its first substantial bids. In general, activity levels in Dubai have remained relatively low, in line with our expectations.

However, we secured one substantial new project in Dubai during 2010, namely a £124 million contract to build two residential towers in Downtown Dubai for which funding is secure.

At 31 December 2010, Carillion's share of the forward order book of our Middle East businesses was worth £1.0 billion (2009: £0.7 billion) and our revenue visibility for 2011 was 78 per cent<sup>(2)</sup>. By the year end, our pipeline of probable new orders had reduced to near zero (December 2009: £0.2 billion), primarily because all contracts are now competitively tendered, rather than negotiated using procurement processes that generally do not involve a preferred bidder stage. However, by the year end, our pipeline of contract opportunities had more than doubled to around £8.8 billion, reflecting the strength of our existing markets. We also continue to explore further geographical expansion of our operations in the medium term into Saudi Arabia, which also has major investment programmes that could offer substantial opportunities for us to grow our revenue in the region.

Consequently, we continue to believe we are well-positioned to make further progress in 2011 towards our objective of doubling our share of revenue from our Middle East businesses to £1 billion over the next three to five years. We still expect margins in the Middle East to reduce steadily to around six per cent over the medium term as a result of the return to competitive tendering. But given our prospects for revenue growth, we continue to target substantial earnings growth over the medium term.

(2) Based on expected revenue and secure probable orders, which exclude variable work and re-bids.

## Construction services (excluding the Middle East)

### Revenue

**£2.2bn**

### Underlying operating profit

**£41.2m**

	2010 £m	2009 £m	Change from 2009 %
<b>Revenue</b>			
– Group	2,202.3	2,264.6	
– Share of Joint Ventures	23.2	3.2	
	2,225.5	2,267.8	-2
<b>Underlying operating profit<sup>(1)</sup></b>			
– Group	40.9	31.7	
– Share of Joint Ventures	0.3	(0.8)	
	41.2	30.9	+33

(1) Before intangible amortisation, non-recurring operating items

**1** In 2010, Carillion completed the construction phase of the Joint Permanent Headquarters Public Private Partnership project for the UK Ministry of Defence, for which Carillion is also providing facilities management services as part of a 25-year concession contract.

**1**

**2**

**2** In Bristol, Carillion is building the new 800-bed Southmead Hospital, for which Carillion will also provide facilities management and life-cycle maintenance services as part of a 30-year Public Private Partnership concession contract.

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

A two per cent reduction in total revenue reflects the first effects of the strategic re-scaling of our UK construction capability, which we announced in May 2010, partially offset by growth in Canada. The strategic re-scaling of our UK capability, through progressively basing our activities around the delivery of integrated solutions for Public Private Partnership (PPP) projects and support services customers, resulted in UK revenue reducing to £1,726.0 million in 2010 (2009: £1,840.6 million). We expect to continue reducing UK construction revenue over the next three years to around £1.2 billion. Revenue in Canada increased to £499.5 million (2009: £427.2 million) as we make progress towards our target of broadly doubling our revenue in Canada over the next three to five years.

Tightening our already selective approach to UK construction is helping to support margins by enabling us to avoid bidding for lower margin work. We believe this will become increasingly important, because market conditions are expected to become more competitive as a result of the UK Government's decision to reduce capital investment in real terms by around one third over the next four years.

The benefits of our selective approach together with an ongoing focus on efficiency and cost reduction are evident in our operating margin, which increased to 1.9 per cent (2009: 1.4 per cent), with operating profit rising by 33 per cent to £41.2 million.

We have continued to win new orders consistent with our strict selectivity criteria. Notable successes in 2010 included the £430 million Southmead Hospital PPP project in Bristol, the £306 million Forensic Services and Coroners' Complex PPP project in Ontario, Canada and UK schools programmes worth approximately £300 million. Although UK Government curtailed the programme previously known as 'Building Schools for the Future' (BSF), Carillion retained some 68 per cent of its BSF programme schools compared with an average of around 32 per cent for all contractors, and there was no impact on our order book as no contractually committed schools were cancelled.

At 31 December 2010, we had a forward order book worth £2.8 billion (2009: £3.5 billion) and a pipeline of probable new orders worth approximately £0.4 billion (2009: £1.0 billion), which primarily reflected the highly selective approach we have adopted in order to reduce UK construction revenue. Our pipeline of potential contract opportunities remained stable at around £7.7 billion (2009: £7.4 billion).

# Operating and financial review

continued

## Intangible amortisation

Intangible amortisation of £27.6 million (2009 £30.8 million) relates to the amortisation of intangible assets arising primarily from the acquisition of Mowlem in 2006 and Alfred McAlpine and the Vanbots Group in 2008.

## Non-recurring operating items

These costs are summarised in the table below

	2010 £m	2009 £m
Rationalisation costs	(9.4)	(9.9)
Office of Fair Trading penalty relating to Mowlem	–	(5.4)
Curtailment gain	–	0.1
	(9.4)	(15.2)

Rationalisation costs of £9.4 million relate primarily to redundancy and other costs associated with rescaling the Group's UK construction business to ensure its size reflects the reduction in capital investment indicated in the UK Government's Emergency Budget on 22 June 2010 and confirmed in the Comprehensive Spending Review in October 2010.

Rationalisation costs of £9.9 million in 2009 relate to redundancy and other associated costs incurred in rationalising the Group's structure, including ensuring that the size of the UK construction capability reflects the expected decline in our general construction markets.

The Office of Fair Trading (OFT) penalty in 2009 of £5.4 million was imposed on Carillion JM Limited (CJM), which was formerly Mowlem plc prior to its acquisition by Carillion. Mowlem was one of 103 companies penalised following an OFT investigation into

cover pricing in the construction industry under the Competition Act 1998. The anti-competitive activities for which Mowlem was penalised related to the activities of Mowlem prior to its acquisition by Carillion in February 2006. No other Carillion companies were subject to the OFT investigation.

Following the closure of four Carillion defined benefit pension schemes to future accrual, which generated a £35.5 million curtailment gain in 2008 from 31 December 2009, benefits paid in respect of the Alfred McAlpine Pension Plan were no longer linked to final salary (see 'Retirement benefits' on page 29). This gave rise to a curtailment gain of £0.1 million (net of expenses) in 2009.

## Non-operating items

Non-operating income in 2010 amounted to £16.8 million (2009<sup>(1)</sup> £6.4 million) and comprised the profit on the sale of two investments in Public Private Partnership (PPP) projects.

## Net financial expense

The Group had a net financial expense of £6.8 million (2009 £14.6 million). This comprised a net expense of £7.6 million in respect of borrowings (2009 £15.8 million), a net interest charge of £3.6 million (2009 £2.2 million) in respect of retirement benefit schemes and an interest credit of £4.4 million (2009 £3.4 million) in respect of loans to Special Purpose Companies for PPP projects.

## Taxation

The effective tax rate on underlying profit was 16 per cent (2009 16 per cent), which is below the UK standard rate of corporation tax, principally reflecting the fact that from July 2009 dividends received from overseas

companies are now exempt from UK taxation, together with the utilisation of UK tax losses. At 31 December 2010 the Group had £306 million (2009 £375 million) of corporate tax losses that are available to reduce future tax payments.

## Earnings per share

Underlying earnings per share increased by six per cent to 39.4 pence (2009<sup>(1)</sup> 37.3 pence). This reflected a strong operating performance in difficult market conditions, notably through improving operating margins through focusing on contract selectivity and financial discipline, supported by our ongoing efficiency and cost reduction programmes.

## Dividend

Carillion has a dividend policy of progressively increasing the dividend paid to shareholders broadly in line with earnings growth, after taking account of the investment needs of the business. Consistent with this policy, the Board has recommended a final dividend in respect of 2010 of 10.7 pence, making the full-year dividend 15.5 pence, an increase of six per cent on the total paid in respect of 2009 (14.6 pence). Underlying dividend cover was 2.5 times (2009<sup>(1)</sup> 2.6 times).

## Cash flow

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

	2010 £m	2009 £m
<b>Cash flow</b>		
Underlying Group operating profit	148.9	130.9
Depreciation and other non-cash items	32.0	38.8
Working capital	1.2	59.9
Dividends received from Joint Ventures	48.1	38.6
<b>Underlying cash inflow from operations</b>	<b>230.2</b>	<b>268.2</b>
Deficit pension contributions	(35.2)	(29.0)
Rationalisation costs	(15.6)	(17.1)
Interest, tax and dividends	(65.9)	(63.2)
Net capital expenditure	(15.3)	(47.3)
Acquisitions and disposals	2.7	142.7
Other	(5.6)	(2.7)
<b>Change in net cash/(borrowing)</b>	<b>95.3</b>	<b>251.6</b>
<b>Net cash/(borrowing) at 1 January</b>	<b>24.9</b>	<b>(226.7)</b>
<b>Net cash at 31 December</b>	<b>120.2</b>	<b>24.9</b>
<b>Average net borrowing</b>	<b>(41.8)</b>	<b>(274.4)</b>

(1) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

Through a continuing focus on strong cash management we have maintained our strong track record of consistently delivering cash-backed profit. Underlying cash flow from operations of £230.2 million is once again significantly ahead of underlying profit from operations of £194.9 million which made a significant contribution to increasing the Group's net cash position at 31 December 2010 to £120.2 million (2009: £24.9 million).

The additional cash payments to the Group's pensions schemes of £35.2 million, reflect the agreement reached with the Group's main defined benefit pension scheme's Trustees during the year, covering deficit payments through to the end of 2011. The cash cost of rationalisation of £15.6 million includes costs relating to the integration of the Alfred McAlpine business, which was acquired in 2008, and costs relating to restructuring the Carillion Group, as described under non-recurring operating items on page 28. Net capital expenditure of £15.3 million was lower than in 2009 because expenditure in 2009 was higher than normal due to additional investment in IT infrastructure in order to accommodate the Alfred McAlpine businesses and deliver planned synergy benefits and in plant and equipment to support the growth of our business in Canada. The cash inflow in respect of acquisitions and disposals reduced in 2010, primarily due to a reduction in proceeds from the sale of non-core businesses and Public Private Partnership (PPP) equity investments – Carillion IT Services. Enviro's and four PPP investments were sold in 2009 for £157.9 million, whereas two PPP investments were sold in 2010 for £45.8 million – and an increase in 2010 in the level of investment in new PPP projects and in other trade investments to £38.4 million, compared with £15.2 million in 2009.

#### Balance sheet

Carillion continues to have a strong balance sheet, which is supported by committed bank facilities of £752.5 million.

Balance sheet	2010 £m	2009 <sup>(1)</sup> £m
Property, plant and equipment	157.2	168.2
Intangible assets	1,221.2	1,241.3
Investments	176.7	172.0
	<b>1,555.1</b>	<b>1,581.5</b>
Inventories, receivables and payables	(613.8)	(608.0)
Net retirement benefit liability (net of tax)	(182.1)	(211.1)
Other	(14.2)	(15.2)
<b>Net operating assets</b>	<b>745.0</b>	<b>747.2</b>
Net cash	120.2	24.9
<b>Net assets</b>	<b>865.2</b>	<b>772.1</b>

(1) Restated on adoption of International Financial Reporting Interpretations Committee (IFRIC) 12

Property, plant and equipment reduced due largely to the depreciation charge being £12.5 million higher than capital expenditure. Intangible assets reduced primarily as a result of amortisation. Investments increased mostly due to an increase in investments in Public Private Partnership (PPP) projects, net of the effect of two PPP equity sales in 2010.

#### Retirement benefits

Detailed information on the Group's pension arrangements can be found in note 30 on pages 90 to 96 of the consolidated financial statements.

The Group operates pension arrangements for the benefit of eligible employees. There are 15 defined benefit schemes, which have a total pension obligation amounting to £2,138.0 million (i.e. the 'liabilities'). The total pension assets relating to these liabilities are £1,888.6 million giving a deficit of £249.4 million before deferred tax and £182.1 million after deferred tax.

The Board applies significant time and resources to managing the pension schemes and their inherent risks. In particular there is the following:

- > a Board sub-committee is specifically tasked with the monitoring and management of the defined benefit pension arrangements
- > an executive committee reporting to the above sub-committee has been established comprising of the Group Finance Director, Group Financial Controller and Group Head of Reward
- > the executive committee meets monthly to consider pension issues

The Group operates the following policies in respect of defined benefit pension arrangements:

- > defined benefit pensions should not be offered to employees except where required under legislation or to meet the requirements of work-winning
- > where defined benefits need to be offered to meet legislative or work-winning requirements, business protocols are in place to manage the risk involved and to ensure that the risk and costs are fully factored into pricing
- > investment risks should be monitored and gradually reduced commensurate with a balanced approach to risk and cost

Reflecting the above policies three of the Group's principal schemes, the Carillion Staff Mowlem Staff and Alfred McAlpine Pension Plan, are all closed to new entrants and members no longer accrue benefits for future service.

As noted previously the total deficit included in the Group's balance sheet at 31 December 2010 in relation to defined benefit schemes amounted to £249.4 million (2009: £293.8 million). The reduction in the deficit in the year largely derives from deficit payments and a reduction in liabilities arising from using an inflation assumption for certain benefits based on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as announced by the UK Government in 2010. These improvements have been partially reduced by higher obligations following a reduction in the discount rate reflecting market bond yields and an increase in life expectancy assumptions in line with those used in the latest actuarial valuations.

During 2010 valuations and revised funding arrangements were agreed with the Trustees of six of the principal defined benefit schemes. The Group has committed funding arrangements across all its defined benefit schemes which amount to around £35 million per annum, in the short term. Each scheme has its own specific funding arrangement and these funding arrangements will be reviewed following subsequent valuations.

# Operating and financial review

continued

The key assumptions used in the International Accounting Standards (IAS) 19 deficit position are summarised below

	2010 %	2009 %
Discount rate	5.4	5.8
Inflation		
RPI	3.4	3.4
CPI	2.8	N/A
Salary increase	4.4	4.4
Expected return on assets		
Equities/Property	7.65	8.2
Gilts	3.9	4.35
Corporate Bonds	5.25	5.5
Cash	0.5	1.0
Average allocation of assets		
Equities/Property	51	49
Gilts	17	20
Corporate Bonds	31	29
Cash	1	2

The discount rate of 5.4 per cent is based on AA bond yields appropriate to the liability duration. The RPI inflation rate of 3.4 per cent is based on the duration derived market implied RPI.

The pension liabilities of the Group are subject to fluctuations arising from changes in the key assumptions above that are determined by general market conditions which are outside the control of the Group. In particular, a 0.1 per cent reduction in the discount rate would increase the overall deficit by around £33.0 million, whilst a 0.1 per cent increase in the inflation rate would increase the overall deficit by around £28.0 million.

The Group's ongoing pensions charge against profit in 2010, including defined contribution schemes was £29.9 million (2009: £28.6 million).

## Committed bank facilities

Since the year end the Group has put in place new committed bank facilities of £752.5 million. These comprise a £737.5 million syndicated five-year facility and a £15 million 364-day facility. The £737.5 million facility is repayable in March 2016, having been arranged in February 2011.

## Share price

Carillion's share price was 384.4 pence at the close of business on 31 December 2010, an increase of 26.5 per cent on the closing price on 31 December 2009 of 303.8 pence.

Carillion's total shareholder return increased in 2010 by 32 per cent, compared with an increase in the return for the FTSE 350 of 14 per cent. Over the last five years Carillion's total shareholder return has significantly outperformed the FTSE 350. The FTSE 350 has been chosen by the Board as the best comparator to illustrate Carillion's performance against a broad equity market index.

## Operational and financial risk management

The application of rigorous risk management policies and processes plays an essential role in Carillion's success. These policies and processes are firmly embedded in our culture and designed to identify, mitigate and manage strategic risks and those specific to individual business and contracts including economic, social, environmental and ethical risks. Our operational risk management policies and processes are described in more detail on page 17 of the Group Chief Executive's review, together with a summary of the Group's principal risks and the measures we have taken to mitigate them.

## Treasury policy and financial risk management

The Group has a centralised Treasury function whose primary role is to manage funding, liquidity and financial risks. In addition, Treasury sources and administers contract bond and guarantee facilities for the Group. Treasury is not a profit centre and does not enter into speculative transactions. The Board

## One-year total shareholder return

## Five-year total shareholder return



sets policies within which Treasury operates that ensure the most effective financing of the Group's operations and limit exposure to financial risk. The areas of significant financial risk facing the Group relate to funding and liquidity, counterparty risk, foreign exchange and interest rates

#### Funding and liquidity

In addition to Carillion plc's principal borrowing facilities described on page 30, money market and short-term overdraft facilities are available to Carillion plc and certain subsidiaries. Operating and finance leases are also employed to fund longer-term assets. The quantum of committed borrowing facilities available to the Group is regularly reviewed by the Carillion Board and is designed to satisfy the requirements of the Group's business plan. At 31 December 2010, the Group had undrawn committed facilities amounting to £456.5 million (2009: £518.4 million). This excludes the Group's share of cash balances amounting to £175.1 million (2009: £144.5 million) within jointly controlled operations, which are outside of the Group's facilities. These cash balances are available to the Group to the extent that they are not needed to meet the working capital requirements of the jointly controlled operations.

#### Counterparty risk

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

#### Foreign exchange

The Group hedges all significant currency transaction exposures using foreign exchange risk management techniques. In order to protect the Group's balance sheet from the impact of exchange rate volatility, foreign currency net assets are hedged using matching currency loans equivalent to at least 60 per cent of the net asset value where these assets exceed the equivalent of

£10 million. Profits arising within overseas subsidiaries are not hedged unless it is planned to make a distribution. Such distributions are then treated as currency transactions and hedged accordingly.

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

Sterling	Average		Year End	
	2010	2009	2010	2009
Middle East				
(US Dollar)	1.55	1.56	1.57	1.61
Oman (Rial)	0.60	0.60	0.60	0.62
UAE (Dirhams)	5.69	5.72	5.75	5.93
Canada (Dollar)	1.60	1.78	1.56	1.69
Trinidad (Dollar)	9.84	9.81	10.02	10.23

#### Interest rates

The Group's borrowing facilities are at floating rates of interest linked to the London InterBank Offered Rate, UK base rate or prevailing local currency interest rates. Short-term bank deposits and foreign currency hedging transactions are executed only with highly credit-rated authorised counterparties and credit exposures to counterparties are monitored regularly so that exposure to any one counterparty is either within Board approved limits or approved by the Board. The Group has not entered into interest rate derivatives to fix or hedge interest rate risk and currently none are outstanding. Certain longer-term assets have been financed using fixed rate leases.

Carillion has invested equity in a number of Joint Venture Special Purpose Companies (SPC) to deliver Public Private Partnership projects. SPCs obtain funding for these projects in the form of long-term bank loans or corporate bonds without recourse to the Joint Venture partners and secured on the assets of the SPC. A number of SPCs have entered into interest rate derivatives as a means of hedging interest rate risk. These derivatives are interest rate swaps that effectively fix the rate of interest payable.

#### Credit risk

An analysis of the Group's credit risk is provided in note 26 on page 85.

#### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 14 to 31, entitled 'Our Performance'. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors confirm that, after making enquiries, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

**Richard Adam FCA**  
Group Finance Director  
2 March 2011

# Sector leading performance.

In this section of our Annual Report we provide a summary of what we are doing to make our business more sustainable. A more detailed account will be provided in our 2010 Sustainability Report, which will be published on our website [www.carillionplc.com/sustainability](http://www.carillionplc.com/sustainability) in April 2011.

**Making tomorrow a better place**

1 Professor Quentin Leiper (left) Carillion Group Chief Engineer is congratulated by Jonathan Porritt for being named among the top 50 sustainability leaders in 2010

1

2 The Al Futtaim Carillion Joint Venture won Construction Week's 2010 Corporate Social Responsibility Award, which was received by Stuart Mee, Head of Sustainability for Carillion's Middle East and North Africa business, and Arthika Narth Sustainability Coordinator for Al Futtaim Carillion, at the awards ceremony in Dubai

2

### Our sustainability strategy

Our sustainability strategy has been thoroughly embedded across all our businesses over the last 10 years and is regularly reviewed and updated. Our current strategy model for sustainable development continues to be aligned with the four priority areas defined by the UK Government in its sustainable development strategy, 'Securing the Future', namely

- > Sustainable communities and workforce
- > Natural resource protection and environmental enhancement
- > Climate change and energy
- > Sustainable consumption and production

We have identified 12 behaviours and activities across these four priority areas which affect the delivery of our business objectives. These behaviours and their relationships with the four priority areas of 'Securing the Future' are illustrated in the diagram on page 32

During 2010, we began to redefine our future sustainability strategy working in partnership with Forum for the Future. We plan to publish the results of this detailed exercise in our 2011 report and further details of the work we are doing can be found in our 2010 Sustainability Report

### Managing sustainability

Our commitment to sustainability is driven by our Board, supported by a Sustainability Committee. This Committee is chaired by our Chief Executive John McDonough, and includes a number of Executive and Senior Directors. The Committee also benefits from expert advice from two external members Dame Julia Cleverdon, Vice President of Business in the Community (BITC) and Jonathan Porritt, Founder Director of Forum for the Future

The Sustainability Committee is supported by a Group Sustainability Forum, comprising our senior business leaders, that informs the development of our sustainability strategy shares best practice and ensures the effective dissemination of our sustainability strategy and policies to each business. All our businesses have a sustainability plan and objectives which form an integral part of their annual business plans. Since 2003 we have organised an annual Sustainability Week to coincide with World Environment Day in June. In 2010 this event focused on raising awareness of the impact of the everyday actions of our people on the environment and on the communities in which we live and work. We organised a walk a mile challenge during the week and captured a total of 7,000 miles walked by our people.

### Our performance

In the 2010 UK Sunday Times Best Green Company awards Carillion was ranked in the Top 10. We also maintained our 'Platinum' ranking in Business in the Community's Corporate Responsibility Index, with a score of 96.5 per cent. The Corporate Responsibility Index involves a detailed, independent assessment of Carillion's sustainability strategy, management processes and performance. Such assessments enable us to benchmark our performance against other companies including those in different market sectors.

Carillion continues to be a member of the FTSE4Good Index and in 2010 we submitted a full response to the Carbon Disclosure Project, having done so for the first time in 2009.

For the second year running one of our Joint Venture businesses in the Middle East, Al Futtaim Carillion, won the Corporate Social Responsibility Award at the 2010 Construction Week Awards held in Dubai. Carillion Al Futtaim was declared the 'clear winner' by the judges for addressing 'every aspect of life and work for their employees both staff and labour'.

In 2010, as well as continuing to set specific sustainability targets for each of our business units and for the Group as a whole, we focused on a number of important specific areas, namely

- > engaging with Forum for the Future, a selection of our customers and also with our own people to establish our future sustainability strategy
- > focusing on our carbon reduction strategy to work towards the delivery of our target to reduce carbon emissions by our UK businesses by 50 per cent by 2010, measured against a 2006 baseline
- > setting challenging carbon emissions targets for our Middle East and North Africa businesses against a 2009 baseline and establishing a carbon emissions baseline for our business in Canada
- > delivering our commitment to halve the volume of construction waste we send to landfill by 2012
- > enable over 110 candidates to gain valuable two-week work placements in our businesses and supporting their re-introduction to employment, through the Business Action on Homelessness programme

The Group's sustainability targets for 2010 were based on 14 specific and measurable targets. In order to drive continuous improvement we set demanding targets and our performance against them is independently verified. A full report on what we have achieved will be published in our 2010 Sustainability Report.

## Sustainability review continued

### Sustainable communities and workforce

Creating a sustainable business requires the commitment of all our people. We seek to achieve this through our Health & Safety leadership, personal development and employee engagement programmes, which are described in more detail on pages 18, 38 and 39.

How we do business is based on our belief that it is not only what we do that matters, but also how we do it, which drives our commitment to living our values in everything we do. We make Values Awards to our people to recognise the outstanding contributions they make to our success in delivering an excellent service to our customers and to creating a positive impact on the communities in which we operate.

We feel proud that our people are also winning prestigious awards. Our Group Chief Engineer, Professor Quentin Leiper, CBE was named one of the Top 50 Green Leaders in the West Midlands by Sustainability West Midlands (SWM).

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

Carillion gives over one per cent of its pre-tax profits in cash or in kind to community activities. We are a national partner in the Business Action on Homelessness (BAOH) campaign, designed to help homeless people break the cycle of 'no home, no job' and since becoming a partner in 2006 we have assisted over 100 homeless people every year on their journey to full employment. In 2010, as part of our regular giving to good causes, Carillion donated a total of £25,000 to a wide variety of charities nominated by our people, all of whom were asked to put forward their recommendations and the reasons why they wanted Carillion to support their chosen charity.

In 2010, Carillion became a supporter of the Defence Career Partnership, 'Return to Work' Initiative. Carillion will run a pilot programme for this scheme, offering a number of work placements to the Ministry of Defence for ex-military personnel. This project will continue in 2011, as we are committed to ensuring that this programme is a success.

As one of the UK's leading providers of training for support services and construction skills, we continue to work with the Construction Industry Training Board and contribute to the development of individuals and communities.

### National resource protection and environmental enhancement

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

Carillion has developed and implemented environmental management systems across the Group and all our UK and Middle East and North Africa operations are accredited to ISO14001 by a registered third party. A number of contracts within our Canada business have also become accredited in 2010 and we have a programme to extend accreditation to more contracts in 2011.

The preservation of natural habitats and the wildlife they support is important both socially and environmentally. 2010 marked a major milestone for our work with the UK Wildlife Trusts. Over the past ten years Carillion has supported the Wildlife Trusts through voluntary work by our employees and annual donations to the Natural Habitats Funds. To date we have donated over £300,000 to this fund which has supported 48 projects. The local Wildlife Trusts, which care for almost 2,500 nature reserves across the UK, are able to apply for grants from the Fund to support conservation projects. We also encourage our employees to work with their local Wildlife Trusts on these projects, especially where projects are close to Carillion offices or worksites.

In recognition of our ongoing commitment to integrate sustainability into our supply chain, we continue to apply the principles of the UK Government's Sustainable Procurement Taskforce (SPTF) 'Flexible Framework'. In 2010, we produced a new Sustainable Supplier Charter, online accreditation process and e-invoicing system, with which our suppliers are required to comply when working for Carillion.

Carillion continues to be a member of the WWF-UK Forest and Trade Network (FTN) and during 2010 we continued to work towards ensuring we use timber products from sources certified by the Forest Stewardship Council (FSC) on all our projects. We report the volumes and sources of the timber we use to the WWF-UK FTN annually and develop detailed action plans for improvement. During 2010 we successfully achieved full FSC Chain of Custody for our joinery workshop in Oman and for our product sourcing business in China.

---

Mike Dilger from the BBC's 'One Show', accepts a cheque for £35,000 on behalf of the Wildlife Trusts, bringing Carillion's total donations to the Wildlife Trusts to over £300,000.

### Climate change and energy

Climate change is increasingly recognised as the most serious long-term threat to human prosperity and lifestyle. The effective management and reduction of greenhouse gas (GHG) emissions has become increasingly important, as it is now widely accepted that companies will need to make substantial changes to the ways in which they operate if we are to respond effectively to this threat.

In 2007, Carillion set the challenging target of reducing its direct UK carbon emissions by 50 per cent by 2010 – measured against the Group's 2006 carbon emissions, adjusted for revenue growth. Our progress towards this target will be verified by a third party and published in our 2010 Sustainability Report in April 2011. To support the achievement of this target, we have developed a carbon reduction strategy and policy which involves measuring and reporting our carbon footprint each quarter, in accordance with the Greenhouse Gas Protocol carbon accounting standard. Our carbon footprint covers our direct emissions generated from buildings, transport, travel, waste and from plant powered by fossil fuel on project sites.

In addition, Carillion has registered for the Carbon Reduction Commitment and has invested resources to ensure we meet our obligations under these regulations.

As a member of Business in the Community's 'May Day' network, Carillion was invited to present its work on sustainability at the START event held in Birmingham in 2010. START is a national initiative, led by The Prince of Wales' Charities Foundation that seeks to help people lead more sustainable lives by encouraging them to work towards a more energy efficient, cleaner and healthier future.

Carillion supported the WWF Earth Hour during 2010 where lights were simultaneously switched off for an hour across the regions in which we operate to show our commitment to climate change.

For many of the schools we are constructing in the UK, we are now providing Combined Heat and Power plants. Furthermore, we are delivering some of these schools as Public Private Partnerships, using private finance, which means we also provide maintenance and facilities management services for these schools over the lives of the concession contracts. In the Middle East, we are installing photovoltaic panels at our office in Abu Dhabi and we plan to extend this to other offices during 2011.

In 2010, we continued to develop our understanding of how our operations affect climate change, together with our commitment to developing new measures to reduce these effects. We regard this as fundamental to the development of our business and we have also linked this to other measures we are pursuing, including the reduction of our overall cost base. We continue to promote the use of telephone and video conferencing to reduce the need to travel, introduced more fuel efficient cars and procured all the electricity for our permanent offices from renewable or climate change levy-exempt sources. We are also working with our customers to provide sustainable building, infrastructure and lifetime facilities management and services.

Our 2010 Sustainability Report will provide more information on our carbon reduction programme when it is published on our website in April 2011.

### Sustainable consumption and production

Carillion's leadership in developing and implementing its sustainability strategy model, which relates our impacts on the environment and on society to business performance, has made a major contribution to the Group's risk management policies and processes.

These policies and processes address strategic risks and those specific to individual businesses and contracts, including economic, social, environmental and ethical risks, and are therefore fundamental to the management of the Group and all its operations.

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

This demonstrates how Carillion's leadership in sustainability helps to differentiate us from our competitors and contributes to the strong positions we hold in our chosen market sectors.

1

2

---

1 During our 2010 'Values Week', Carillion employees volunteered for work on Wildlife Trusts projects.

---

2 Carillion employees at the Great Western Hospital Swindon, are helping students in local schools to understand sustainability and how we can make our lifestyles more sustainable.

---

# Experienced leadership.

**01 Philip Rogerson  
Chairman<sup>3,4</sup>**

Age 66 Philip was appointed to the Board in October 2004 becoming Chairman in May 2005. He is Chairman of both the Nominations Committee and the Business Integrity Committee. Philip is also Chairman of Aggreko plc and Bunzl plc. He was an Executive Director of BG plc from 1992 to 1998, latterly as Deputy Chairman.

**02 John McDonough  
Group Chief Executive<sup>1</sup>**

Age 59 John was appointed Group Chief Executive in January 2001 having formerly been Vice President, Integrated Facilities Management, Europe, the Middle East and Africa of Johnson Controls Inc. He is a member of the Nominations Committee. John is Chairman of the CBI's Construction Council and a member of the CBI's President's Committee. John was a Non-Executive Director of Tomkins plc until its takeover in 2010.

**03 Richard Adam  
Group Finance Director**

Age 53 Richard was appointed Group Finance Director in April 2007. He qualified as a chartered accountant with KPMG in 1982 and gained broad experience in a number of public and private company finance director roles from the age of 30. Immediately prior to joining Carillion, Richard was Group Finance Director of Associated British Ports Holdings plc. He was also a Non-Executive Director and the chairman of the Audit Committee of SSL International plc until its takeover in 2010.

**04 David Garman  
Senior Independent  
Non-Executive Director<sup>1,2,3</sup>**

Age 59 Appointed to the Board in September 2004, David is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. David was Group Chief Executive of TDG plc until its takeover in 2008 before which he was an Executive Director of Associated British Foods plc, having previously held senior positions in a number of leading UK food companies. He is a Non-Executive Director of Phoenix IT Group plc, St Modwen plc and a number of private companies.

01

02

03

04

**05 Richard Howson**  
**Chief Operating Officer**

Age 42. Richard was appointed to the Board on 10 December 2009 and has direct responsibility for all of the Group's business units and for the Group's Health & Safety and Sustainability programmes. In June 2007, Richard was appointed Managing Director of Carillion's Middle East and North Africa businesses prior to which he held senior positions in the Group's Infrastructure and Building businesses.

**06 David Maloney**  
**Non-Executive Director<sup>1 2 3</sup>**

Age 55. David was appointed to the Board in November 2005 and is Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees. David is a Non-Executive Director of Micro Focus International plc, Ludorum plc, Cineworld Group plc and Enterprise Inns plc. He is also Chairman of the Board of Trustees for Make a Wish Foundation UK. Before taking

up these appointments, David held senior positions in a number of services sector companies, including Chief Financial Officer for Le Meridien Hotels and Resorts Limited, Chief Financial Officer for Thomson Travel Group (Holdings) plc and Group Finance Director of Avis Europe plc.

**07 Steve Mogford**  
**Non-Executive Director<sup>1 2 3 4</sup>**

Age 54. Steve was appointed to the Board in September 2006 and is a member of the Audit, Nominations, Remuneration and Business Integrity Committees. Steve was appointed to the Board of United Utilities Group PLC as Chief Executive designate with effect from 5 January 2011. He will become Chief Executive of United Utilities Group PLC on 31 March 2011.

Prior to this appointment, Steve was Chief Executive of Selex Galileo Ltd, a Finmeccanica company, which he joined in May 2007. From April 2000 to May 2007, he was a

**Key**

- 1 Audit Committee
- 2 Remuneration Committee
- 3 Nominations Committee
- 4 Business Integrity Committee

Chief Operating Officer and Director of BAE Systems plc with responsibility latterly for UK naval sector consolidation.

**08 Vanda Murray OBE**  
**Non-Executive Director<sup>1 2 3 4</sup>**

Age 50. Vanda was appointed to the Board in June 2005 and is a member of the Audit, Nominations, Remuneration and Business Integrity Committees. Vanda is Chairman of Vphase plc, Deputy Chairman of the North West Regional Development Agency and is a Fellow of the Chartered Institute of Marketing. She is also a Non-Executive Director of SIG plc and The Manchester Airport Group plc. Vanda was Chief Executive Officer of Blick plc from 2001 to 2004, a Director of Ultraframe plc from 2002 to 2006, Non-Executive Chairman of Eazyfone Limited from 2006 to 2009 and has also served as a Trustee and Non-Executive Director of The Manufacturing Institute. She was appointed OBE in 2002 for Services to Industry and to Export.

05

06

07

08

# Report of the Directors

The Directors' report should be read in conjunction with the Chairman's statement, the Group Chief Executive's review, the Operating and financial review, the Corporate Governance report and the Remuneration report which are incorporated by reference in (and shall be deemed to form part of) this report.

## Principal activities and business review

Carillion is a leading UK integrated support services company with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities. The Group has operations in the UK, the Middle East and North Africa and in Canada and the Caribbean.

A review of the Group's businesses, financial performance and future developments is contained in the Chairman's statement, Group Chief Executive's review and the Operating and financial review.

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

- > achievements in respect of the Group's Key Performance Indicators (KPIs) in 2010 and the KPIs set for 2011 (Group Chief Executive's review – see pages 16 to 21)
- > financial performance in 2010 (Operating and financial review – see pages 22 to 31)
- > principal operational risks and risk management (Group Chief Executive's review – see page 17)
- > treasury policy and financial risk management (Operating and financial review – see pages 30 and 31)
- > social, community and environmental issues (Sustainability review – see pages 32 to 35)
- > resources and employees (Group Chief Executive's review see page 18 and Report of the Directors – see pages 38 and 39)

Analysis of revenue and net assets by business segment and geographical location are given in note 2 on pages 63 to 66.

## Share capital

Carillion has only one class of shares, with one vote for every share.

## Profits and dividends

The consolidated income statement is shown on page 54. Profit before tax was £167.9 million (2009 restated £135.9 million).

A 2010 interim dividend of 4.8 pence per ordinary share (2009 4.6 pence) was paid in November 2010. It is proposed to pay a final dividend of 10.7 pence per ordinary share (2009 10.0 pence) on 17 June 2011 to shareholders on the register at the close of business on 17 May 2011. The record date and the payment date for the final dividend are subject to change due to the timing of the effective completion of the proposed acquisition of Eaga plc. Any change to the aforementioned dates will be notified to shareholders via a regulatory announcement. The payment of these 2010 interim and final dividends amounts to £62.0 million (2009 £57.9 million).

A dividend reinvestment plan (DRIP) will also be offered allowing shareholders a convenient means of reinvesting their dividends in the Company by buying further shares. A DRIP application form is available from the share registrar, Equiniti (see page 106 for contact details).

## Directors

The Directors of the Company who served during 2010 are shown on page 47 of the Remuneration report. Biographical details for each Director at 31 December 2010 are given on pages 36 and 37.

In accordance with the requirements of the UK Corporate Governance Code, all continuing Directors will offer themselves for re-election at the Annual General Meeting on 4 May 2011. Richard Adam, Richard Howson and John McDonough have contracts of service all of which are subject to one year's notice of termination by the Company.

Don Kenny served as an Executive Director until he stood down from the Board in August 2010. Don was appointed to the Board of Carillion plc in September 2006 and was responsible for much of Carillion's Support services business.

The interests of the Directors and their families in the share capital of the Company are shown in the Directors' report on page 40.

## Indemnity

To the extent permitted by the Companies Acts, the Company may indemnify any Director, Secretary or other officer of the Company against any liability and may purchase and maintain insurance against any liability. The Company purchased and maintained throughout 2010, Directors' and Officers' liability insurance.

## Conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. The Board considers that the procedures it has in place for reporting and considering conflicts of interest are effective.

## Key contractual arrangements

There are no persons with whom the Group or Company has contractual or other arrangements, who are deemed to be essential to the business of the Group or Company.

## Employees

Information relating to employee numbers and remuneration is given in note 6 on page 68.

Employees are key to achieving Carillion's business strategy and the Group is committed to improving their skills through training and development and through nurturing a culture in which employees feel valued for the contributions they make to the Company and motivated to achieve their full potential.

Carillion's core values of openness, collaboration, mutual dependency, sustainable profitable growth, professional delivery and innovation help to differentiate Carillion from its competitors by creating a culture in which everyone in Carillion is encouraged to understand the needs of their customers and to work in partnership with customers and suppliers to deliver high-quality, value for money services.



It is Carillion's aim to foster a working environment in which all employees are treated with courtesy, dignity and respect. Carillion strives continually to eliminate all bias and unlawful discrimination in relation to job applicants, employees, business partners and members of the public. Employees who become disabled are, wherever possible, retrained or provided with equipment that enables them to continue their employment.

The objectives of Carillion's Equal Opportunity and Diversity Policy are to

- > have a workforce that represents and responds to the diversity of customers and today's society
- > improve safety and quality delivered through a balanced and productive workforce
- > reduce employee turnover, absenteeism and sickness levels and thereby reduce costs and improve efficiency
- > provide a fair working environment in which discrimination is not tolerated
- > create a working environment free from discrimination, harassment, victimisation and bullying
- > work towards finding ways in which under-represented groups can fully realise their potential within the Group and to take reasonable steps to help such groups
- > ensure that all employees are aware of the Group Equal Opportunities and Diversity Policy and to provide any necessary ongoing training to enable them to comply with it
- > be an organisation that understands and values employee diversity and recognises the merits of having a workforce that reflects the diverse backgrounds and skills available within the total population and accordingly provides all employees with opportunities to develop and reach their full potential
- > ensure that all applicants are treated fairly during recruitment processes and in accordance with relevant legislation and Codes of Practice
- > regularly review procedures and selection criteria for promotion to ensure that individuals are selected and treated according to their individual abilities and merits

Carillion places great importance on open and regular communication with employees through both formal and informal processes. As part of this commitment, a Group newspaper, 'Spectrum' is produced on a regular basis for all employees.

The views of employees on matters affecting their interests and the success of Carillion are also sought through 'The Great Debate', 'People Forums', 'Team Talks', and one-to-one meetings between employees and their line managers.

'The Great Debate' is a major exercise which has been undertaken by the Group in each of the last seven years involving a wide range of employees that form a statistically significant sample. The results of each Great Debate are used to inform and guide the development of work related initiatives as part of Carillion's strategy to be an employer of choice. 'The Great Debate' forms part of the Group's ongoing programme to

- > engage with employees to improve motivation and morale
- > empower employees to contribute to the Group's development both as an employer and as a business
- > demonstrate Carillion's commitment to listening to, and responding to, the views of its employees

Carillion also involves, engages and consults with employees through 'People Forums' which give employees an opportunity to express their views on business issues. The main objectives of the 'People Forums' are to

- > improve employee information and consultation
- > help employees feel more involved and valued
- > support the continued education and development of employees
- > improve business performance by improving the awareness of employees to the business climate in which they operate
- > help employees to be responsive and better prepared for change

'Team Talks' which are held monthly provide Carillion employees with a face-to-face communication with their line managers and facilitates two-way communication, discussion and feedback. It focuses on local issues and key corporate messages and information.

One-to-one meetings between individual employees and their line managers are also held to discuss performance and progress in order to help all employees to develop and reach their full potential.

Employees can also exchange best practice information via BusinessXchange on the Group intranet.

Carillion seeks to involve all employees in its leading edge programmes to integrate safety into every aspect of the Group's operations and to improve its environmental performance, including the understanding and application of the principles of sustainability. Further information on Health & Safety is given in the Group Chief Executive's review on page 18 and on Sustainability in the Sustainability review on pages 32 to 35.

#### Capital and shareholders

As at 31 December 2010, the issued share capital of the Company comprised a single class of ordinary shares of 50 pence each. Details of shares issued during the year and outstanding options are given in Notes 22 and 24 on pages 80 and 81 to the consolidated financial statements which form part of this report. Details of the share schemes in place are also provided on pages 49 to 51 of the Remuneration Report.

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote and on a poll every holder of ordinary shares present in person or by proxy and entitled to vote, shall have one vote for every ordinary share held.

The notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be put to the Annual General Meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced and published on the Company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the Company other than in relation to certain restrictions that are imposed from time to time by laws and regulations (for example insider trading laws). In addition, pursuant to the Listing Rules of the Financial Services Authority, Directors and certain officers and employees of the Group require the approval of the Company to deal in ordinary shares of the Company.

The Company is not aware of any agreements between shareholders that restrict the transfer of shares or voting rights attached to the shares.

# Report of the Directors

continued

## Substantial share interests

As at 2 March 2011, the Company had received formal notification under the Disclosure and Transparency Rules of the following material holdings in its shares

	Number of shares held	Percentage
Schroders plc	43,868,272	10.98
Standard Life Investments Ltd	27,932,723	6.99
Ameriprise Financial Inc and its Group	20,084,340	5.03
F&C Asset Management plc	19,246,558	4.82
Legal & General Group Plc	15,783,867	3.95
HBOS plc	14,036,048	3.51
UBS Investment Bank	13,424,716	3.36

## Policy for payment of suppliers

The Group's policy is that its individual businesses should agree terms and conditions for transactions with its suppliers and for payment to be made on these terms providing suppliers meet their obligations to the businesses' satisfaction. The Group as a whole does not apply a general payment policy as this would not be practicable or appropriate, given the diverse nature of the transactions undertaken by its business units. The Company does not have any trade creditors.

The number of days credit outstanding for the Group averaged 60 days at 31 December 2010 (58 days at 31 December 2009).

## Change of control

A number of agreements take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as loan agreements and employee share plans.

Carillion's main credit facilities, including the £737.5 million Syndicated Multicurrency Revolving Credit Facility dated 4 February 2011, contain a provision such that in the event of a change of control any lender may, within a 30 day consultation period and if it so requires, notify the Company that it wishes to cancel its commitment. Any such cancellation of commitment and the repayment of any outstanding borrowings will occur on the date falling 31 days after the expiry of the consultation period.

## Charitable and political contributions

Payments for charitable purposes made by the Group during the year ended 31 December 2010 amounted to £200,000 (2009 £200,000). The primary beneficiaries of these charitable donations were The Transformation Trust, The Wildlife Trust, the British Occupational Health Research Foundation, Business in the Community, CRASH, RedR and Walking with Wounded.

The Carillion Group also contributes more than one per cent of profits per annum in cash or in-kind (staff time on community projects) to community activities and is a corporate member of Business in the Community.

The Company and its subsidiaries made no political donations during the period under review.

## Property

There are differences between market and book values of interest in land held as fixed assets, however, the differences are not material in relation to the affairs of the Group.

## Financial instruments

Information on the Carillion Group's use of financial instruments, financial risk management objectives and policies and exposure is given in note 26 on pages 83 to 87 of the consolidated financial statements.

## Directors' share interests

### Ordinary shares

The beneficial interests of the Directors, their immediate families and connected persons in the ordinary share capital of the Company as at 31 December 2010 are shown below.

Fully paid 50p ordinary shares owned	As at 1 January 2010 Number	As at 31 December 2010 Number
<b>Executive Director</b>		
Richard Adam	16,419	138,019
Richard Howson	2,435	2,533
John McDonough	992,211	635,093
<b>Non-Executive Directors</b>		
David Garman	14,300	14,300
David Maloney	10,000	10,000
Steve Mogford	–	–
Vanda Murray	12,300	12,300
Philip Rogerson	39,630	39,630

There has been no change in Directors' interests in the period 1 January to 2 March 2011.

## Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of the shareholders. The powers of the Board are described in the Corporate Governance report on pages 41 to 43.

## Annual General Meeting

The Annual General Meeting will be held at 12 noon on Wednesday 4 May 2011 at Austin Court, 80 Cambridge Street, Birmingham B1 2NP. The notice of the Annual General Meeting accompanies this Annual Report and Accounts.

Included in the AGM business is the proposal to renew the authority for the Company to purchase its own shares. As at 31 December 2010, the Company had authority from shareholders for the purchase of 39,948,133 of its own shares.

## Recommended cash acquisition of Eaga plc

On 11 February 2011 it was announced that the Boards of Carillion plc and Eaga plc had reached agreement on the terms of the recommended cash acquisition by Carillion of Eaga plc, a leading provider of energy efficiency solutions in the UK. The terms of the offer values Eaga plc at approximately £306.5 million. Subject to the necessary approvals, the acquisition will be effected by scheme of arrangement pursuant to Part 26 of the Companies Act 2006.

## Auditor

Resolutions to reappoint KPMG Audit Plc as auditor and to authorise the Directors to determine its remuneration will be proposed at the Annual General Meeting.

Approved by order of the Board



**R F Tapp**  
Secretary  
2 March 2011

# Corporate Governance report

## General principles

The Board is firmly committed to high standards of corporate governance. During the year to 31 December 2010 as detailed below and in the Remuneration report on page 46, the Company complied fully with the provisions set out in Section 1 of the Combined Code on Corporate Governance (June 2008)

The Company will also comply fully with the requirements of the UK Corporate Governance Code (June 2010) which replaces the former Combined Code on Corporate Governance and which applies to financial years beginning on or after 29 June 2010

The UK Corporate Governance Code is publicly available at [www.frc.org.uk](http://www.frc.org.uk)

## Ethics and Business Integrity Policy

Carillion has a clear and unequivocal approach to business integrity and ethics which underlies the Group's core values of openness, collaboration, mutual dependency, sustainable, profitable growth, professional delivery and innovation. The Ethics and Integrity Policy is designed to ensure that Carillion conducts its business to the highest ethical standards

The Ethics and Business Integrity Policy sets out the standards and behaviours that all Carillion employees are expected to meet wherever in the world we operate. The way Carillion delivers this policy is reflected in the way the Group competes for business and delivers its services – focused on quality, value for money and the reliability and reputation of its employees

The policy is

**Prohibition of fraud, bribery and corruption** Carillion takes extremely seriously the effective prevention and detection of fraud, bribery and corruption and any other fraudulent or corrupt activity. It will not tolerate them in any form. The Board is fully committed to promoting a zero tolerance approach across the Carillion Group

**Gifts and hospitality** It is prohibited for a Carillion employee to offer or receive gifts or hospitality that could influence or be perceived to be capable of influencing the outcome of transactions or decisions relating to Carillion's business. There is a Gifts and Hospitality Policy

**Insider trading** Those who have access to inside information are advised of their responsibilities under the insider dealing rules. There is a Carillion Insider Dealing Code

**Conflicts of interest** All Carillion employees must disclose or seek direction on any issues that could potentially conflict with their responsibilities to the Company. There is a Conflicts of Interest Policy

**Working with others** We must ensure that we maintain our ethical standards and behave respectfully when working with others. The relationships with Carillion's suppliers and business partners are based on the principle of fair and honest dealings at all times and in all ways. We expect our suppliers and business associates and joint venture partners to extend the same high standards to all others with whom they do business – including employees, sub-contractors and other third parties. There is a Purchasing and Supply Chain Code of Ethics and a Sustainable Supplier Charter

**Competition law** Carillion plc, its subsidiaries and associated companies under Carillion control have a policy that all business activities are carried out in full compliance with competition laws – the laws which prevent anti-competitive behaviour. Competition law prevents us from carrying out any activities that restrict competition and makes illegal activities such as price fixing, unfair pricing, market sharing and refusal to supply customers. There is a Competition Compliance Guide

**Money laundering** Carillion aims to maintain high standards of conduct by preventing criminal activity through money laundering. There is a detailed Money Laundering Policy

**Universal Declaration on Human Rights** We support the belief that human rights are universal and adhere to the principles of human rights in our operations. We support the United Nations Declaration on Human Rights and work hard to ensure that in all areas of interaction with our employees, clients, suppliers, third parties, interviewees and joint venture parties that everyone is protected and treated absolutely fairly. Carillion has a Health & Safety Policy and an Equal Opportunities and Diversity Policy

**Law and regulation** Carillion respects the rule of law in all our dealings and has minimum standard compliance with all law and regulation to which our businesses are subject. We have legal compliance programmes for

- > European Union and United Kingdom Competition Laws
- > Bribery Act 2010
- > Canadian Criminal Code C46
- > Corruption of Foreign Public Officials Act (Canada)

**Responsibility** All of Carillion's employees have a responsibility to protect Carillion's assets – including information and goodwill as well as property. Carillion encourages its people to raise genuine concerns about malpractice at the earliest possible stage and in the right way. There is a Whistleblowing Policy and an Ethics and Business Integrity Incident Response Plan

This Ethics and Business Integrity Policy is applied by all Carillion's business through a series of detailed procedures. They allow Carillion to carry into practice its reputation for conducting business to the highest ethical standards, which are essential to its relationships with customers, business partners, employees, shareholders and the public. The detailed procedures reflect the way Carillion competes for business, through the quality and value of its work and through the reliability and reputation of its people

The Ethics and Business Integrity Policy is overseen by the Business Integrity Committee and its implementation is reviewed annually by the Board

## Directors

### The Board

At the year ended 31 December 2010, the Company was led by a Board comprising three Executive and five Non-Executive Directors. The Chairman and each of the Non-Executive Directors are considered to be independent of management. They each have substantial relevant experience and have no business or other relationship that could materially interfere with their independent judgement. David Garman is the Senior Independent Non-Executive Director

In accordance with the Combined Code, the Executive Directors' service contracts are terminable by one year's notice

In 2010, a detailed internal evaluation of the Board's corporate governance procedures and compliance was conducted by the Chairman in conjunction with the Company Secretary. The internal evaluation took into account the views of each of the Directors on (i) the role of Directors, (ii) the collective and individual performance of the Board and all its members, (iii) Board Committees, (iv) leadership and culture, (v) Corporate Governance, (vi) Directors' remuneration, (vii) relations with shareholders and (viii) Board accountability and audit. The Board at its meeting in November 2010 reviewed the results of the internal evaluation and where required, issues were acted upon in order to further enhance the effectiveness of the Board's procedures and working practices. Such an evaluation has been conducted in each of the last nine years and will be repeated annually. In addition, the performance of each individual Director has been reviewed

# Corporate Governance report

continued

The division of responsibilities between the Chairman and the Group Chief Executive has been agreed by the Board and encompasses the following parameters

- > the primary job of the Chairman of a public company is to provide continuity, experience and governance while the Group Chief Executive provides leadership, energy, imagination and the driving force
- > the Chairman is viewed by investors as the ultimate steward of the business and the guardian of the interests of all the shareholders. Nonetheless it is essential that the outline of their respective roles encourages the Chairman and Group Chief Executive to work well together to provide effective and complementary stewardship
- > the Chairman must
  - take overall responsibility for the composition and capability of the Board
  - consult regularly with the Group Chief Executive and be available on a flexible basis for providing advice, counsel and support to the Group Chief Executive
- > the Group Chief Executive must
  - manage the Executive Directors and the Group's day-to-day activities
  - prepare and present to the Board strategic options for growth in shareholder value
  - set the operating plans and budgets required to deliver the agreed strategy
  - ensure that the Group has in place appropriate risk management and control mechanisms

The Board had a programme of 10 meetings in 2010 and it also met on an ad hoc basis as required

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

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

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

All Directors have access to the Company Secretary, who is responsible to the Board for ensuring that agreed procedures and applicable rules and regulations are observed. The Board approves the appointment and removal of the Company Secretary

Any Director may, in furtherance of his duties, take independent professional advice when necessary, at the expense of the Company

The Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on trading matters, markets, Health & Safety, sustainability and other relevant issues

## Board Committees

The principal Board Committees are the Remuneration Committee, the Audit Committee, the Nominations Committee and the Business Integrity Committee. The Company Secretary acts as secretary to each of these committees. The terms of reference of each of the Board Committees are available on the Carillion website at [www.carillionplc.com](http://www.carillionplc.com) or on request from the Company Secretary

The membership of each of the principal committees is as follows

### Remuneration Committee

David Garman, Chairman  
David Maloney  
Steven Mogford  
Vanda Murray

The Committee consists entirely of independent Non-Executive Directors and has a key role in reviewing and advising the Board on the appropriate remuneration for the Executive Directors of Carillion plc. Further details on remuneration issues are given on pages 46 to 51

### Audit Committee

David Maloney, Chairman  
David Garman  
Steven Mogford  
Vanda Murray

This Committee consists entirely of independent Non-Executive Directors. For further information see the Report of the Audit Committee on pages 43 and 44

### Nominations Committee

Philip Rogerson, Chairman  
David Garman  
David Maloney  
John McDonough  
Steven Mogford  
Vanda Murray

The Committee reviews the structure, size, composition, balance of skills, knowledge and experience of the Board and makes recommendations to the Board with regard to any changes that are deemed desirable. The Committee also reviews succession planning to ensure that processes and plans are in place with regard to both Board and senior appointments

### Business Integrity Committee

Philip Rogerson, Chairman  
Steven Mogford  
Vanda Murray

The Committee established in December 2010 in succession to the Review Committee, reviews and oversees the implementation of the Group's Ethics and Business Integrity Policy, monitors the Group's compliance with relevant legislation such as the Bribery Act 2010 and the Competition Act 2006, ensures that the Group's communication and training programmes on ethics and business integrity is effective in reinforcing ethical values and good practice and reviews the policies and practice in respect of business ethics and integrity in relation to the commencement of operations in any new country or territory in which the Company has not previously operated

### Attendance at meetings in 2010

The number of full scheduled Board and Committee meetings attended by each Director during 2010 was as follows

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	10	4	3	3
Richard Adam	10	—	—	—
David Garman	10	4	3	3
Richard Howson	10	—	—	—
Donald Kenny*	6	—	—	—
David Maloney	10	4	3	3
John McDonough	10	—	—	3
Steven Mogford	10	4	3	3
Vanda Murray	10	4	3	3
Philip Rogerson	10	—	—	3

\* Mr Kenny stood down from the Board in August 2010

The Business Integrity Committee was established in December 2010 in succession to the Review Committee and a schedule of meetings is planned for in 2011

### Other Board matters

#### Policy on external appointments

Recognising that external appointments can broaden their knowledge and so be of benefit to the Company Executive Directors are permitted, at the discretion of the Board, to accept a limited number of such appointments and retain the fees received for such appointments. John McDonough was a Non-Executive Director of Tomkins plc and Richard Adam was a Non-Executive Director of SSL International plc until these companies were each taken over in 2010

### Nomination and remuneration of Directors

The appointment of a Director is a matter for resolution by the Board as a whole, taking advice from the Nominations Committee

For Board appointments the Nominations Committee has used the services of the executive recruitment consultants JCA and Odgers. Details of potential candidates are provided by the consultants and initially reviewed by a sub-committee of the Nominations Committee. Meetings with selected candidates are then held with Directors. Subsequently, the Nominations Committee meets to recommend an appointment, which is then proposed to the Board for approval

In the case of Non-Executive Directors, initial appointments are normally for three years, reappointment is subject to review and is not automatic

The fees of Non-Executive Directors are determined by the Board as a whole, taking into account the commitment required and participation in the work of committees and other advisory services in relation to the business of the Group. In advising the Board on such fees it is the policy of the Executive Directors to seek independent external advice concerning the appropriateness of the amounts by comparison with general practice. The level of fees currently payable to the Non-Executive Directors is based on independent external advice

The remuneration of the Directors is dealt with in the Remuneration report on pages 46 to 51

### Retirement of Directors

In accordance with the UK Corporate Governance Code, all Directors will submit themselves for re-election at the Annual General Meeting to be held on 4 May 2011 with the exception of David Garman who will stand down from the Board at the AGM

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

### Induction and development of Directors

Directors are provided with a comprehensive information pack on joining the Company and are advised of their legal and other duties and obligations as a director of a listed company. In addition, all new Directors receive induction on their appointment covering such matters as the operation and activities of the Group, the role of the Board and the Company's corporate governance procedures. Directors are also briefed by the Company's external advisers, where appropriate, on changes to legislation or regulation or market practice as well as receiving briefings from business units throughout the year

At least once a year, the Board visits an operational site and in November 2010 the Directors visited the Group's operations in Oman. Directors also visit other operations and meet a wide range of employees

The regular updating of Directors' skills and knowledge is encouraged and a procedure has been established whereby the Company Secretary is notified by Directors of their requirements in this respect

### Relations with shareholders

In addition to communicating with shareholders generally from time to time, the Executive Directors and the Director of Group Corporate Affairs meet regularly with representatives of major shareholders in order to foster the mutual understanding of objectives. Meetings are also held with other shareholders and prospective shareholders. The details of these meetings are reported to the Board. The Chairman and Senior Independent Non-Executive Director are available for meetings with representatives of major shareholders as required

Private and institutional shareholders are encouraged to attend the Company's Annual General Meeting

The Company complies fully with the provisions of the UK Corporate Governance Code in respect of the notice, content of agenda and conduct of its Annual General Meetings. The Chairmen of the Remuneration and Audit Committees will be present at the Annual General Meeting on 4 May 2011 to respond to shareholders' questions

### Accountability and Audit

#### Report of the Audit Committee

The Audit Committee consists entirely of independent Non-Executive Directors

David Maloney, Chairman  
David Garman  
Steve Mogford  
Vanda Murray

David Maloney is an accountant who previously held a number of senior finance posts including Chief Financial Officer for Le Meridien Hotels and Resorts, Chief Financial Officer for the Thomson Travel Group (Holdings) plc and Group Finance Director of Avis Europe plc. David was appointed to the Audit Committee in December 2005

David Garman was appointed to the Audit Committee in October 2004. Until takeover in 2008, David was Chief Executive of TDG plc. David is a Non-Executive Director of Phoenix IT Group plc, St. Modwen plc and a number of private companies

Vanda Murray is Chairman of Vphase plc, Deputy Chairman of the North West Regional Development Agency and a Non-Executive Director of SIG plc and The Manchester Airport Group plc. Vanda was appointed to the Audit Committee in July 2005

Steve Mogford is Chief Executive designate of United Utilities Group PLC and will become Chief Executive on 31 March 2011. Prior to this appointment, Steve was Chief Executive of Selex Galileo Ltd. From April 2000 to May 2007, he was a Director of BAE Systems plc. Steve was appointed to the Audit Committee in September 2006

Appointments to the Committee are made by the Board

# Corporate Governance report

continued

The Audit Committee has in attendance at meetings, by invitation of the Committee Executive Directors, representatives of the external auditors (KPMG Audit Plc), the Group Head of Risk and the Head of Internal Audit. It is also able to invite others as it requires from time to time. The Committee also meets privately with both the external and internal auditors.

The responsibilities of the Audit Committee include

- > the review of the annual and interim financial statements
- > consideration of the impact of changes to accounting regulations and the financial and accounting policies of the Carillion Group
- > compliance with statutory and other external requirements
- > reviewing the role of the internal audit function and the results of its audit work and the response of management
- > reviewing the scope and results of the external audit and its cost-effectiveness
- > ensuring that the internal and external audit functions are complementary
- > monitoring the independence and objectivity of the external auditors and ensuring that the services provided (including non-audit services) provide a proper balance between objectivity and value for money
- > recommending to the Board the external auditors to be proposed to shareholders for appointment

The Committee is authorised by the Board to (i) seek any information necessary to fulfil its duties, (ii) call any member of staff to be questioned at a meeting of the Committee as and when required and (iii) obtain external professional advice, at the Company's expense which might be necessary for the fulfilment of its duties.

## Main activities of the Audit Committee in the year to 31 December 2010

In 2010 the Committee met on four occasions and dealt with the following matters

- > internal audit reports including control of risk
- > annual and interim financial statements
- > KPMG Audit Plc audit review
- > reappointment of KPMG Audit Plc
- > 2010 external audit plan
- > 2010 and 2011 internal audit plans
- > assessment of the going concern basis
- > review of compliance with the Combined Code on Corporate Governance (June 2008)
- > the external audit fee

An evaluation of the external audit function was undertaken and considered by the Audit Committee, following which the Committee recommended to the Board the reappointment of KPMG Audit Plc as auditor to the Company and for it to be put to shareholders in general meeting.

The members of the Committee receive fees as Non-Executive Directors which also reflect their membership of the Audit Committee and other Board committees. The chairman of the Audit Committee receives an additional fee for this role. Details of remuneration are given on page 47.

## Internal controls

The Board is ultimately responsible for the Group's system of internal control. This responsibility includes clearly determining the control environment and reviewing annually the effectiveness of the internal control system. However such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

In accordance with the Turnbull Guidance for Directors 'Internal Control: Guidance for Directors on the Combined Code', the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks (both financial and non-financial and including Corporate Social Responsibility risks) faced by the Group (including Joint Ventures and overseas businesses). The process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts and is regularly reviewed by the Board.

Assurance over the design and operation of internal controls across the Group is provided through a combination of techniques

- > Internal Audit carries out audits to assess the adequacy and effectiveness of internal controls over the key risks faced by the business and reports its findings to management, the Executive Directors and the Audit Committee. The Audit Plan is presented to and approved by the Audit Committee annually.
- > recommendations to improve the system of control are made by Internal Audit. The implementation of these recommendations is followed up and reported on quarterly.
- > Internal Audit independently reviews the risk identification procedures and control processes implemented by management.
- > a process of Control Risk Self-Assessment is used in the Group where Directors and senior managers are required to detail and certify controls in operation to ensure the control environment in their business areas is appropriate. They also confirm annually in writing, that risk management processes and appropriate controls are in place and are operating effectively.
- > Internal Audit advises on aspects of the design and application of internal controls in key business projects and on policy and procedure changes.

Internal Audit reports to the Audit Committee on a regular basis. The Audit Committee reviews the assurance procedures and ensures that the level of confidence required by the Board is obtained. It also ensures the financial reporting process is credible and reliable. The Audit Committee presents its findings to the Board regularly and the Head of Internal Audit has direct access to the Audit Committee members.

Any significant internal control issues would be disclosed in this report. On the basis of the assurances given in 2010, no disclosures in this respect are required.

## Risk management

The Board is ultimately responsible for ensuring that the Group's systems for risk management are appropriate and operating effectively. However such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group Head of Risk is responsible for advising on strategic risk issues across the Group, and for oversight of risk training. The Group Head of Risk is also responsible for carrying out an independent appraisal of all projects before submission to the Major Projects Committee (see page 45). This appraisal ensures that the differentiating factors of the Group's offer have been properly identified so maximising the opportunities available, it also involves ensuring that all inherent and residual risks associated with the project have been properly identified and considered.

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

The Major Projects Committee, a committee of the Board, acts as the sanctioning body for major commitments and transactions including capital expenditure, major contracts and company and business acquisitions and disposals. This committee has delegated authority up to specified levels of risk as determined by a risk assessment matrix beyond which Board approval is required.

In addition, practical guidance for all staff is maintained in Group policy and procedure documents regarding the authorisation levels for commitments, contract selectivity and bidding, the provision of guarantees and management accounting as well as reporting and resolution of suspected fraudulent activities.

The Board has a policy to prosecute individuals found to have defrauded the Company or its subsidiaries. Learning points for management are identified and action plans implemented to minimise the recurrence of fraud.

Employees are encouraged to raise genuine concerns about malpractice at the earliest possible stage and a confidential 'whistleblowing' hotline provided by an independent third party is available.

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Group Finance Director provides the Board with regular financial information which includes key performance indicators and a summary of risk. These key performance indicators and risks are listed in the Group Chief Executive's review on pages 16 to 21. Where areas for improvement are identified, the Board considers the recommendations made both by the Executive Directors and by the Audit Committee.

#### **Audit independence**

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

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

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

The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Audit Committee after discussions between the businesses and the local KPMG offices and are then referred to the Board for approval. Rotation of audit director's responsibilities within KPMG is required by their profession's ethical standards. The current audit director responsible for the Carillion engagement is in his second year of signing the report. There is also rotation of key members within the audit team.

Assignments awarded to KPMG and its associates have been and are subject to controls by management that have been agreed by the Audit Committee so that audit independence is not compromised. In summary, the procedures are:

- > audit related services: as auditor this is the main area of work of KPMG and its associates. If any additional accounting support is required then this is considered competitively.
- > tax consulting: in cases where they are best suited, Carillion uses KPMG and its associates but the Group also uses other tax consultancies. Significant pieces of tax work are evaluated competitively.
- > general and systems consulting: all significant consulting projects are subject to competitive tender.

Other than audit, the Group Finance Director is required to give prior approval of work carried out by KPMG and its associates in excess of a predetermined threshold. Part of this review is to determine that other potential providers of the services have been adequately considered.

These controls provide the Audit Committee with adequate confidence in the independence of KPMG in their reporting on the audit of the Group.

#### **Health & safety and sustainability**

A review of the Group's progress on Health & Safety is provided in the Group Chief Executive's review on page 18 and the Group's Sustainability performance is contained in the Sustainability review on pages 32 to 35.

*R F Tapp*

**R F Tapp**  
Secretary  
2 March 2011

## Remuneration report

This report explains what we pay to the Directors of Carillion plc and why. It has been prepared on behalf of the Board by the Remuneration Committee. It will be presented for approval at the Annual General Meeting on 4 May 2011 and David Garman, Chairman of the Remuneration Committee, will be available to answer shareholders' questions.

### Remuneration Committee members and advisers

The Remuneration Committee consists exclusively of independent Non-Executive Directors, David Garman, David Maloney, Steve Mogford and Vanda Murray. Its terms of reference can be found on the Company's website [www.carillionplc.com](http://www.carillionplc.com). The Committee determines policy for remuneration of the Executive Directors of Carillion plc and key members of the senior management team.

The Remuneration Committee is assisted in its work by Susan Morton, Group HR Director, and by John McDonough, Group Chief Executive. The Group Chief Executive is consulted on the remuneration of those who report directly to him and also of other senior executives. No Executive Director or employee is present or takes part in discussions in respect of matters relating directly to their own remuneration.

Additionally, the Remuneration Committee uses Deloitte LLP to provide salary survey and benchmarking information and external and internal contextual information and analysis as required. Deloitte LLP, which was appointed in 2005, also provides internal audit services and certain specialist consultancy services (including accounting advice in relation to the acquisition of Eaga plc) but otherwise has no other connections with the Group.

The Committee adopts the principles of good governance as set out in the Combined Code and complies with the Listing Rules of the Financial Services Authority and the Directors' Remuneration Report Regulations 2002. The Committee will comply with the requirements of The UK Corporate Governance Code. It met three times during the year and all members attended all meetings.

### Remuneration philosophy

Carillion's remuneration philosophy is that reward should be used to incentivise Executive Directors in a manner which is consistent with the Group's objectives and

- (i) supports its strategic objective of attracting, developing and retaining excellent people and encouraging them to work in line with Carillion's values
- (ii) aligns the interests of the Directors with those of shareholders and other stakeholders. As a result, a substantial proportion of Executive Directors' remuneration is variable
- (iii) applies demanding performance conditions to deliver sustained profitable growth
- (iv) has due regard to actual and expected market conditions and
- (v) includes achieving high standards in respect of Carillion's Health & Safety, environmental and social performance targets

Remuneration and other benefits are reviewed annually with regard to competitive market practice and where considered appropriate are supported by external independent surveys.

### Elements of remuneration

#### Basic salary

This is reviewed annually, taking account of individual experience and performance and by reference to information provided by independent sources. The Remuneration Committee has adopted a policy of setting basic salary within the market range of salaries for equivalent roles and expects to pay around the median when the individual has been performing in the role for a reasonable period of time.

With the exception of Richard Howson whose salary was increased from £295,000 to £385,000 on his appointment as Chief Operating Officer, salary increases for Executive Directors in 2010 were zero in line with pay for other employees and in 2011 will be zero in line with pay for other senior employees.

#### Annual performance bonus and deferred bonus plan

The bonus plan is designed to drive and reward excellent operational performance, linking the interests of shareholder and participants by paying one half of the bonus in cash immediately and investing the other half in shares of the Company for a two year deferment.

#### Long-term share incentives

These require and reward exceptional performance based on performance targets that are aligned to the interests of shareholders. Awards are made under the Carillion plc Long Term Incentive Plan 2006, known internally as the Leadership Equity Award Plan ('LEAP'). Each Executive Director is required to hold shares acquired through LEAP until the value of their total shareholding is equal to their annual salary. 'Good leavers' during the performance period receive a pro-rata award at the normal release date provided the plan meets its performance requirements.

Carillion share incentives comply with the share dilution guidelines.

#### Pension benefits

Following the closure to future accrual of its defined benefit pension schemes in April 2009, the Company offers competitive defined contribution pensions to all Executive Directors. Pensionable salary is limited by an internal cap and salary supplements are paid on earnings above the cap.

#### Other benefits

These include a car or car allowance by individual choice and private healthcare.



## 2010 Remuneration

The remuneration of the Directors of Carillion plc for the year ended 31 December 2010 is set out in the table below. This is audited information.

	Basic salary/fees £000	Annual performance bonus <sup>4</sup>		Other benefits £000	Compensation <sup>4</sup> £000	Total 2010 £000	Total 2009 £000
		Cash £000	Shares deferred two years £000				
Richard Adam	408	48	48	165	–	669	740
Richard Howson	325	45	45	217	–	632	33
Don Kenny*	207	–	–	86	386	679	548
John McDonough	632	75	75	240	–	1,022	1,162
<b>Total for Executive Directors</b>	<b>1,572</b>	<b>168</b>	<b>168</b>	<b>708</b>	<b>386</b>	<b>3,002</b>	<b>2,483</b>
David Garman	61	–	–	–	–	61	61
David Maloney	58	–	–	–	–	58	58
Steve Mogford	48	–	–	–	–	48	48
Vanda Murray	48	–	–	–	–	48	48
Philip Rogerson	188	–	–	–	–	188	188
<b>Total for Non-Executive Directors</b>	<b>403</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>403</b>	<b>403</b>
<b>Total for all Directors</b>	<b>1,975</b>	<b>168</b>	<b>168</b>	<b>708</b>	<b>386</b>	<b>3,405</b>	<b>2,886</b>

\* Don Kenny stood down from the Board on 31 August 2010.

- (i) There are no long term benefits other than pensions (see pages 48 and 49) and share incentives (see pages 49 to 51).
- (ii) Included in 'Other benefits' is a salary supplement for John McDonough of £168,210 (2009: £169,788) for Richard Adam of £92,812 (2009: £94,390) for Richard Howson of £64,921 (2009: £nil) and for Don Kenny £40,273 (2009: £61,832) in respect of salary over the internal pensions earnings cap. Also included in 'Other benefits' are the costs of accommodation and schooling provided to Richard Howson of £78,130 in association with his overseas posting to UAE.
- (iii) The Board determines the fees of the Non-Executive Directors based on independent external advice.
- (iv) John McDonough retained the fee of £56,439 he was paid in 2010 as a Non-Executive Director of Tomkins plc and Richard Adam retained the fee of £48,750 paid as a Non-Executive Director of SSL International plc.
- (v) 50 per cent of the bonus is payable in cash and the balance deferred for two years in Carillion shares until March 2013.
- (vi) Compensation in respect of his employment contract was paid to Don Kenny in September 2010.

## 2010 Bonus Plan

In 2010 Executive Directors had the opportunity to earn up to 100 per cent of their basic salary through the bonus plan comprising up to 25 per cent for personal objectives and 75 per cent for financial objectives. Awards under the personal element are based on delivery against clear and stretching objectives closely aligned to the strategic aims of the Company.

The personal objectives of the Executive Directors were agreed by the Remuneration Committee at their 3 December 2009 meeting and assessed at 25 February 2011 to establish the extent to which they had been met. The objectives included:

### John McDonough

- > Deliver the Group reorganisation seamlessly to rescale UK Construction business and to support growth in the Group's international businesses and UK support services in line with the Group's published objectives
- > Deliver the 'Step Up' programme to achieve efficiency, quality and cost reduction targets to support margins, profit and profit growth in 2010
- > Drive contract selectivity and risk management processes to deliver cash-backed profit

### Richard Howson

- > Lead the Group's Health & Safety strategy and programmes and make progress towards Target Zero, our objective of achieving zero reportable accidents
- > Lead and deliver an ongoing succession plan, in consultation with the Executive Directors, to ensure that we have strong and effective business units and contract management teams
- > Demonstrate professional engagement with Carillion's key customers and suppliers

### Richard Adam

- > Achieve 2010 budgeted net debt, average net debt, and underlying profit before tax, consistent with the Group's prudent approach to managing profit and cash
- > Agree the Group's main UK defined benefit pension scheme valuations with the Trustees and pension deficit recovery payments that reflect this valuation satisfactorily
- > Undertake the preparatory work required to refinance the Group's banking facilities in 2011

# Remuneration report

continued

The financial element is determined by outstanding performance against stretching targets based on growth in earnings per share. The 2010 plan limits the amount of any award that may be taken in cash to 50 per cent of the bonus earned overall. The balance is deferred into shares of the Company that are held in trust and vest after two years. The number of shares allocated is determined by the price prevailing at the date of bonus award and by using this mechanism the value individuals receive at the point of vesting is aligned to the value delivered to shareholders over the same period. The bonuses awarded to the Executive Directors in respect of 2010 are shown in the remuneration table on page 47 (half of these benefits being paid in cash in 2011 and the balance deferred to March 2013). Tax and National Insurance is calculated on the deferred element based on the value of the shares at the vesting date and paid at that point.

Similar deferral mechanisms have operated in respect of earlier years and during 2010 the following deferred bonus shareholdings vested

	Bonus year	Number of shares
Richard Adam	2007	67,555
Richard Howson	2008	17,100
Don Kenny*	2007	48,888
John McDonough	2007	104,627

\* Don Kenny stood down from the Board on 31 August 2010

The price prevailing on the above shares at the date of award was 382.5 pence (2007 bonus) and 250 pence (2008 bonus). At the vesting date of the 2007 bonus the share price was 290.05 pence and 319.5 pence for the 2008 bonus.

## Pension benefits

In April 2009 the Company closed the Carillion 'B' Pension Scheme to future accrual and the Executive Directors who were members of this scheme became deferred pensioners, their deferred benefits being based on pensionable salary and service at the date of closure. Future service accrual will be on a defined contribution basis and benefits will be delivered through the Carillion 2009 Pension Plan. This is a trust-based, contracted-in defined contribution plan set up for former members of the four closed defined benefit schemes.

Defined benefit pensions accruing during 2010 to Executive Directors in their capacity as Directors of Carillion plc are set out below. This is audited information.

	Accrued pension at 31 December 2010 <sup>(1)(2)</sup> £ per annum	Increase in accrued pension over year excluding inflation allowance <sup>(3)</sup> £ per annum	Increase in accrued pension over year including inflation allowance <sup>(3)</sup> £ per annum	Transfer value of pension accrued during the period less member contributions <sup>(4)(5)</sup> £	Transfer value at start of year £	Transfer value at end of year <sup>(5)</sup> £	Increase in transfer value over the period after member contributions <sup>(5)</sup> £
Richard Howson	22,946	1,045	–	–	159,086	172,802	13,716
Don Kenny*	27,571	1,255	–	–	463,982	488,987	25,005
John McDonough	34,551	1,573	–	–	669,549	702,957	33,408

\* Don Kenny stood down from the Board on 31 August 2010

- (1) The accrued pension for Don Kenny is at 5 April 2009 increased by inflation to 31 August 2010
- (2) The accrued pensions for John McDonough and Richard Howson are leaving service benefits at 5 April 2009 increased by inflation to 31 December 2010
- (3) These are the accrued pensions at 31 December 2010 less the accrued pensions at 31 December 2009 (the 2009 figure having been increased for inflation to 31 December 2010)
- (4) The value of accrued benefits includes the provision of life cover over the entire year (to 31 August 2010 for Don Kenny)
- (5) Figures based on market conditions at 31 December 2010

The total number of Directors to whom retirement benefits accrued during the year was 3 (2009: 3)

The Group makes contributions of 40 per cent of the internal earnings cap to registered defined contribution plans on behalf of the Executive Directors in respect of earnings up to the internal earnings cap. Executive Directors are required to pay 10 per cent of the earnings cap.

The contributions made to defined contribution pension plans on behalf of the Directors are set out in the table below. This is audited information.

	Plan	Amount £
Richard Adam	Carillion Pension Plan	52,709
Richard Howson	Carillion 2009 Pension Plan	52,709
Don Kenny*	Carillion 2009 Pension Plan	35,017
John McDonough	Carillion 2009 Pension Plan	52,709

\* These contributions are in respect of the period from 1 January 2010 to 31 August 2010

Death in service benefits are provided as part of membership of these plans. Where applicable, the value of these benefits is also disclosed in the table above.

The Company agreed with the Trustees of the Carillion pension schemes to continue to operate an earnings cap after April 2006 when the external cap was removed. The Carillion cap commenced at the level of £110,000 for the tax year 2006-07 and rises in line with the published increases in HMRC's Life Time Allowance up until 2010 in line with the table below. Future increases are at the discretion of the Remuneration Committee.

Year	Cap £
2009-10	129,000
2010-11	132,700

All the Executive Directors will be subject to this cap on salary in respect of their pensionable pay. Bonus and other benefits received by Executive Directors do not count towards pensionable pay.

In addition, a salary supplement of 33.6 per cent is paid in respect of earnings over the internal cap in place of the contributions the Company would have made towards pension provision had the cap not been in place. Salary supplements are taxed at source.

No compensation will be provided in respect of the change to the Annual Allowance effective from 6 April 2011. The pension benefit structure for Executive Directors will remain unchanged. To the extent that the joint contributions to the pension plans exceed £50,000 for individuals and they consent to the arrangement, the Company will divert excess contributions into gross pay (subject to tax and national insurance contributions).

The Company does not contribute to any pension arrangements for Non-Executive Directors.

#### Service contracts

Name	Commencement	Notice Period	Term
Richard Adam	2 April 2007	12 months	rolling
Richard Howson	10 December 2009	12 months	rolling
John McDonough	1 January 2001	12 months	rolling

Executive Directors have no additional entitlement to compensation for loss of office. Service contracts contain provision for early termination and in such cases, the Remuneration Committee will consider the specific circumstances together with the Company's commitments under the individual's contract and the requirement to mitigate. Mitigation is applied to reduce any compensation payable to departing Directors.

Non-Executive Directors are not employed under contracts of service, but are generally appointed for fixed terms of three years renewable for further terms of one to three years, if both parties agree.

#### Long-term (share) incentives

##### The Leadership Equity Award Plan ('LEAP')

The LEAP is offered to key people in the Company to provide an opportunity to earn a potentially higher level of reward but only where there is commitment from those individuals and stretching performance targets are met.

In any financial year, Executive Directors may receive an award under the LEAP over shares worth 150 per cent of their basic annual salary (excluding bonuses and benefits in kind), other senior executives may receive an award under the LEAP over shares worth up to 100 per cent of their basic annual salary. The extra 50 per cent awarded to Executive Directors will only vest if exceptional performance is achieved. In exceptional circumstances a first award of up to 200 per cent of salary can be made under the rules. Thereafter the maximum opportunity will be 150 per cent of basic salary.

Under the terms of the LEAP, awards of ordinary shares in the Company can be made for nil consideration.

All awards are subject to a minimum three-year performance period from the date of the award. The vesting of the shares is subject to the relevant participant remaining in employment and the achievement of specified stretching performance conditions based on annual average growth in earnings per share above the Retail Price Index. 'Good leavers' during the performance period receive a pro-rata award at the normal release date provided the plan meets its performance requirements. The progression is linear between each of the target levels specified. The requirements for current plans are as follows:

Growth in earnings per share		
Level 1	RPI + 3% pa	30% vests
Level 2	RPI + 7% pa	50% vests
Level 3	RPI + 12% pa	100% vests
Level 4	RPI + 25% pa	Extra 50% vests

Levels 1 to 3 apply to all participants, level 4 applies to the Executive Directors.

## Governance

# Remuneration report

continued

Awards were made in July 2006, April 2007, April 2008, April 2009 and March 2010. At 31 December 2010 a total of 3 022 900 shares were outstanding under the LEAP.

The awards held by Executive Directors of the Company under LEAP as at 31 December 2010 are shown below. This is audited information.

	As at 1 January 2010 Number	LEAP awards granted during the year Number	Awards vesting during the year Number	Awards/options lapsing during the year Number	As at 31 December 2010 Number	Date of award	Mid market share price on date of award Pence
<b>John McDonough</b>							
LEAP 2007 (maximum)	206 773	–	175 757	31 016	Nil	10 04 2007	420 8
LEAP 2008 (maximum)	242,187	–	–	–	242,187	04 04 2008	383 8
LEAP 2009 (maximum)	366,963	–	–	–	366,963	07 04 2009	252 25
LEAP 2010 (maximum)	–	297 740	–	–	297 740	17 03 2010	318 6
<b>Richard Adam</b>							
LEAP 2007 (maximum)	180,629	–	139 084	41 545	Nil	10 04 2007	420 8
LEAP 2008 (maximum)	156,250	–	–	–	156,250	04 04 2008	383 8
LEAP 2009 (maximum)	236 750	–	–	–	236 750	07 04 2009	252 25
LEAP 2010 (maximum)	–	192 090	–	–	192 090	17 03 2010	318 6
<b>Richard Howson</b>							
LEAP 2007 (maximum)	19,013	–	19 013	–	Nil	10 04 2007	420 8
LEAP 2008 (maximum)	29,296	–	–	–	29 296	04 04 2008	383 8
LEAP 2009 (maximum)	68,544	–	–	–	68 544	07 04 2009	252 25
LEAP 2010 (maximum)	–	138 888	–	–	138 888	17 03 2010	318 6
<b>Don Kenny*</b>							
LEAP 2007 (maximum)	98,039	–	83 333	14,706	Nil	10 04 2007	420 8
LEAP 2008 (maximum)	119,140	–	–	13,238	105,902	04 04 2008	383 8
LEAP 2009 (maximum)	180,522	–	–	80,232	100 290	07 04 2009	252 25
LEAP 2010 (maximum)	–	146 421	–	146,421	Nil	17 03 2010	318 6

\* Don Kenny stepped down from the Board on 31 August 2010.

On 3 March 2010, 175,757 shares vested to John McDonough, 139,084 to Richard Adam and 83 333 to Don Kenny. The market price of Carillion shares on 3 March 2010 was 290 05 pence. The net asset value (before tax and national insurance) received by these Directors/former Director was therefore, respectively, £509,783, £403 413 and £241,707.

On 23 March 2010, 19,013 shares vested to Richard Howson. The market price of Carillion shares on 23 March 2010 was 319 5 pence realising a net asset value (before tax and national insurance) to Mr Howson of £60,747.

### Share options held by Executive Directors

The number of options over Carillion plc shares held by Executive Directors of the Company under the Executive Share Option Scheme (ESOS) in the period ending 31 December 2010 are shown below. This is audited information.

	As at 1 January 2010 Number	Granted during the year Number	Exercised during the year Number	Options lapsing during the year Number	As at 31 December 2010 Number	Exercise price Pence	Earliest date from which exercisable	Expiry date	Mid market share price on date of grant Pence
<b>John McDonough</b>									
ESOS 2001	501,930	–	501 930	–	Nil	129 5	09 01 04	09 01 11	135 5
ESOS 2002	254,532	–	254 532	–	Nil	210 7	19 03 05	19 03 12	197 5
ESOS 2003	150 795	–	150,795	–	Nil	163 4	01 07 06	01 07 13	159 0
ESOS 2004	124 728	–	124 728	–	Nil	184 9	31 03 07	31 03 14	187 0

John McDonough exercised the above Executive Share Options on 3 March 2010. The market price of Carillion shares on this date was 290 05 pence. The net asset value (before tax and national insurance) received by John McDonough was therefore £1,329,953.

The option over 254,532 shares at an option price of 210 7 pence granted to John McDonough in March 2002 was made later in the year than had been specified at the time of his appointment which resulted in an increased option price of 67 3 pence. Therefore, in order to ensure that he was in no worse nor better a position as a result of the delay in the grant, a cash adjustment of 67 3 pence per share (less tax) was made when the option was exercised.

The ESOS options were granted at an exercise price equal to the market value of the Company's shares on the three business days immediately preceding the date of grant. Options under the Inland Revenue Approved Executive Share Option Scheme 1999 (which carries certain tax advantages for UK employees) and the Executive Share Option Scheme 1999 are exercisable normally between three and 10 years after the date of grant, subject to the achievement of the performance condition. For options granted from 2003 onwards, the following performance condition prevailed:

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

Grants of options using this performance condition were made in 2003, 2004 and 2005. Carillion met the performance target such that 80 per cent, 71 per cent and 100 per cent, respectively of the shares under option became exercisable.

For options granted before 1 July 2003 the performance target required that the earnings per share of Carillion over a rolling three-year period must increase by a percentage not less than the increase in the UK Retail Prices Index over the same period, expressed as a percentage, plus four percentage points per annum. All options granted pre-2003 have been exercised.

At 31 December 2010, 56,401 Executive Share Options were outstanding (2009: 1,408,032 shares under option).

Sharesave options were granted in November 1999 over 6,140,194 shares, in October 2002 over 3,995,803 shares and in November 2006 over 2,580,461 shares. At 31 December 2010, there were no options outstanding under the Sharesave Scheme (2009: 1,349,565 shares under option).

The Sharesave options granted in November 2006 became exercisable in 2010. However, as the option price was more than the prevailing market price of Carillion shares, the majority of Sharesave options lapsed unexercised.

There have been no changes to the interests of Executive Directors in share incentives and options in the period 1 January to 2 March 2011.

#### Employee Benefit Trust

An employee benefit trust was established to acquire shares in Carillion plc and hold them for the benefit of participants (including Executive Directors) in the share incentive and share option schemes. At 31 December 2010, the Trust held 38,302 Carillion shares (2009: 362,909 shares) representing 0.009 per cent of the issued share capital (2009: 0.09 per cent) acquired over a period in the open market and which have a carrying value of £0.1 million (2009: £1.1 million). The market value of the shares held at 31 December 2010 was £0.1 million (2009: £1.1 million).

Additionally, a Qualifying Employee Share Ownership Trust (QUEST) operated in conjunction with Carillion in providing shares to employees under its Sharesave Scheme. At 31 December 2010, the QUEST held 129,979 Carillion shares (2009: 134,683 shares) representing 0.03 per cent of the issued share capital (2009: 0.03 per cent) at subscription prices ranging from 115.5 pence to 296.25 pence per share, to enable it to satisfy options under the Sharesave Scheme. The market value of the shares held by the QUEST at 31 December 2010 was £0.5 million (2009: £0.4 million).

For details of dividends paid to the above trusts see note 23 to the consolidated financial statements on page 81.

The closing mid-market price of Carillion shares at 31 December 2010 and the highest and lowest mid-market prices during the year were as follows:

	Share price Pence
31 December 2010	384.4
High (29 December)	385.9
Low (25 February)	273.0

#### Total Shareholder Return (TSR) performance graph

The following graph shows the TSR of Carillion plc compared with the TSR of the FTSE 350 Index. The FTSE 350 was chosen as the comparator group in order to illustrate the Company's TSR performance against a broad equity market index of the UK's leading companies. TSR is not used as a performance measure for any benefits provided to Executive Directors.

#### TSR graph for period 1 January 2006 to 31 December 2010

Approved by order of the Board

**D N C Garman**  
Chairman of the Remuneration Committee  
2 March 2011

## Statement of Directors' responsibilities in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

- > select suitable accounting policies and then apply them consistently
- > make judgements and estimates that are reasonable and prudent
- > for the Group financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU
- > for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

### Directors' responsibility statement

Each of the Directors of Carillion plc, whose names and functions are set out on pages 36 and 37, confirms that to the best of his or her knowledge

- > the financial statements prepared in accordance with the applicable set of accounting standards and contained in this 2010 Annual Report and Accounts give a true and fair view of the assets, liabilities, financial position and profit of Carillion plc and the Carillion Group taken as a whole and
- > the business review, contained in the Directors' Report and the operating and financial review section in this 2010 Annual Report and Accounts, includes a fair review of the development and performance of the business and the position of Carillion plc and the Carillion Group taken as a whole, together with principal risks and uncertainties they face

### Disclosure of information to auditors

The Directors of Carillion plc confirm that at the date of this statement and as far as they are individually aware, the Company's auditors are aware of all relevant audit information and each Director has taken all reasonable steps to make him or herself aware of relevant audit information and to establish that the Company's auditors are aware of that information

Approved by order of the Board



**Richard Adam FCA**  
Group Finance Director  
2 March 2011

# Independent auditor's report to the members of Carillion plc

We have audited the financial statements of Carillion plc for the year ended 31 December 2010. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements 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 52, 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 APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## Opinion on financial statements

In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended
- > the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU
- > the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- > the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- > 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

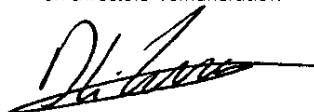
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- > the Parent Company financial statements and the part of the Directors' Remuneration report to be audited 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

Under the Listing Rules we are required to review:

- > the Directors' statement, set out on page 31, in relation to going concern
- > the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- > certain elements of the report to shareholders by the Board on Directors' remuneration



**D K Turner**  
Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

2 March 2011

## Consolidated income statement

For the year ended 31 December 2010

	Note	2010 £m	2009 <sup>(1)</sup> £m
Total revenue		<b>5,139 0</b>	5,629 3
Less: Share of jointly controlled entities' revenue		<b>(902 5)</b>	(1,125 1)
<b>Group revenue</b>	2	<b>4,236 5</b>	4,504 2
Cost of sales		<b>(3,885 3)</b>	(4,154 4)
<b>Gross profit</b>		<b>351 2</b>	349 8
Administrative expenses		<b>(239 3)</b>	(264 9)
<b>Group operating profit</b>	3	<b>111 9</b>	84 9
Analysed between			
Group operating profit before intangible amortisation and non-recurring operating items		<b>148 9</b>	130 9
Intangible amortisation		<b>(27 6)</b>	(30 8)
Non-recurring operating items <sup>(2)</sup>	4	<b>(9 4)</b>	(15 2)
<b>Share of results of jointly controlled entities</b>	2	<b>46 0</b>	59 2
Analysed between			
Operating profit		<b>64 6</b>	84 9
Net financial expense		<b>(13 9)</b>	(21 8)
Taxation		<b>(4 7)</b>	(3 9)
<b>Profit from operations</b>		<b>157 9</b>	144 1
Analysed between			
Profit from operations before intangible amortisation and non-recurring operating items		<b>194 9</b>	190 1
Intangible amortisation		<b>(27 6)</b>	(30 8)
Non-recurring operating items <sup>(2)</sup>	4	<b>(9 4)</b>	(15 2)
Non operating items	4	<b>16 8</b>	6 4
Net financial expense	5	<b>(6 8)</b>	(14 6)
Analysed between			
Financial income		<b>123 6</b>	113 4
Financial expense		<b>(130 4)</b>	(128 0)
<b>Profit before taxation</b>		<b>167 9</b>	135 9
Analysed between			
Profit before taxation, intangible amortisation, non-recurring operating items and non-operating items		<b>188 1</b>	175 5
Intangible amortisation		<b>(27 6)</b>	(30 8)
Non-recurring operating items <sup>(2)</sup>	4	<b>(9 4)</b>	(15 2)
Non-operating items	4	<b>16 8</b>	6 4
Taxation	7	<b>(15 1)</b>	(11 5)
<b>Profit for the year</b>		<b>152 8</b>	124 4
<b>Profit attributable to</b>			
Equity holders of the parent		<b>147 2</b>	120 6
Non-controlling interests		<b>5 6</b>	3 8
<b>Profit for the year</b>		<b>152 8</b>	124 4
<b>Earnings per share</b>	8		
Basic		<b>36 9p</b>	30 5p
Diluted		<b>36 7p</b>	30 3p

(1) Restated on adoption of IFRIC 12 (see note 32)

(2) This includes rationalisation costs, curtailment gain and the Office of Fair Trading penalty (see note 4)



# Consolidated statement of comprehensive income

For the year ended 31 December 2010

	Note	2010 £m	2009 <sup>(1)</sup> £m
<b>Profit for the year</b>		<b>152 8</b>	<b>124 4</b>
Net (loss)/gain on hedge of net investment in foreign operations		(3 8)	1 0
Currency translation differences on foreign operations		4 7	(20 0)
Currency translation differences relating to non-controlling interests		–	0 1
Increase in fair value of available for sale financial assets		5 9	–
Actuarial gains/(losses) on defined benefit pension schemes		11 9	(220 0)
		<b>18 7</b>	<b>(238 9)</b>
Taxation in respect of the above	7	(4 7)	61 3
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)		0 2	8 3
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)		(13 4)	(4 2)
<b>Other comprehensive income/(expense) for the year</b>		<b>0 8</b>	<b>(173 5)</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>153 6</b>	<b>(49 1)</b>
<b>Attributable to</b>			
Equity holders of the parent		<b>148 0</b>	<b>(53 0)</b>
Non-controlling interests		<b>5 6</b>	<b>3 9</b>
		<b>153 6</b>	<b>(49 1)</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

## Financial statements

## Consolidated statement of changes in equity

For the year ended 31 December 2010

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Equity shareholders' funds £m	Non controlling interests £m	Total equity £m
At 1 January 2010 as previously reported	198 6	16 8	(20 1)	(15 4)	–	419 4	171 6	770 9	6 3	777 2
Impact of adoption of IFRIC 12	–	–	–	4 8	–	–	(9 9)	(5 1)	–	(5 1)
At 1 January 2010 as restated	198 6	16 8	(20 1)	(10 6)	–	419 4	161 7	765 8	6 3	772 1
<b>Comprehensive income</b>										
Profit for the year	–	–	–	–	–	–	147 2	147 2	5 6	152 8
<b>Other comprehensive income/(expense)</b>										
Net loss on hedge of net investment in foreign operations	–	–	(3 8)	–	–	–	–	(3 8)	–	(3 8)
Currency translation differences on foreign operations	–	–	4 7	–	–	–	–	4 7	–	4 7
Increase in fair value of available for sale assets	–	–	–	–	5 9	–	–	5 9	–	5 9
Actuarial gains on defined benefit schemes	–	–	–	–	–	–	11 9	11 9	–	11 9
Taxation	–	–	1 1	–	–	–	(5 8)	(4 7)	–	(4 7)
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	–	–	–	0 2	–	–	–	0 2	–	0 2
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	–	–	–	(13 4)	–	–	–	(13 4)	–	(13 4)
Transfer between reserves	–	–	–	–	–	(26 3)	26 3	–	–	–
<b>Total comprehensive income/(expense)</b>	–	–	2 0	(13 2)	5 9	(26 3)	179 6	148 0	5 6	153 6
<b>Transactions with owners</b>										
<b>Contributions by and distributions to owners</b>										
New share capital issued	1 2	4 4	–	–	–	–	–	5 6	–	5 6
Acquisition of own shares	–	–	–	–	–	–	(5 6)	(5 6)	–	(5 6)
Share options exercised by employees	–	–	–	–	–	–	3 7	3 7	–	3 7
Equity settled transactions (net of deferred tax)	–	–	–	–	–	–	(2 8)	(2 8)	–	(2 8)
Dividends paid	–	–	–	–	–	–	(59 1)	(59 1)	(2 3)	(61 4)
<b>Total transactions with owners</b>	1 2	4 4	–	–	–	–	(63 8)	(58 2)	(2 3)	(60 5)
<b>At 31 December 2010</b>	199 8	21 2	(18 1)	(23 8)	5 9	393 1	277 5	855 6	9 6	865 2
At 1 January 2009 as previously reported	197 8	12 9	(0 9)	(17 0)	–	449 1	222 3	864 2	3 4	867 6
Impact of adoption of IFRIC 12	–	–	–	2 3	–	–	1 9	4 2	–	4 2
At 1 January 2009 as restated	197 8	12 9	(0 9)	(14 7)	–	449 1	224 2	868 4	3 4	871 8
<b>Comprehensive income<sup>(1)</sup></b>										
Profit for the year	–	–	–	–	–	–	120 6	120 6	3 8	124 4
<b>Other comprehensive income/(expense)</b>										
Net gain on hedge of net investment in foreign operations	–	–	1 0	–	–	–	–	1 0	–	1 0
Currency translation differences on foreign operations	–	–	(20 0)	–	–	–	–	(20 0)	–	(20 0)
Currency translation differences relating to non-controlling interests	–	–	–	–	–	–	–	–	0 1	0 1
Actuarial losses on defined benefit schemes	–	–	–	–	–	–	(220 0)	(220 0)	–	(220 0)
Taxation	–	–	(0 2)	–	–	–	61 5	61 3	–	61 3
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	–	–	–	8 3	–	–	–	8 3	–	8 3
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	–	–	–	(4 2)	–	–	–	(4 2)	–	(4 2)
Transfer between reserves	–	–	–	–	–	(29 7)	29 7	–	–	–
<b>Total comprehensive income/(expense)</b>	–	–	(19 2)	4 1	–	(29 7)	(8 2)	(53 0)	3 9	(49 1)
<b>Transactions with owners</b>										
<b>Contributions by and distributions to owners</b>										
New share capital issued	0 8	3 9	–	–	–	–	–	4 7	–	4 7
Acquisition of own shares	–	–	–	–	–	–	(4 2)	(4 2)	–	(4 2)
Share options exercised by employees	–	–	–	–	–	–	0 5	0 5	–	0 5
Equity settled transactions (net of deferred tax)	–	–	–	–	–	–	2 8	2 8	–	2 8
Dividends paid	–	–	–	–	–	–	(53 4)	(53 4)	(1 0)	(54 4)
<b>Total transactions with owners</b>	0 8	3 9	–	–	–	–	(54 3)	(49 6)	(1 0)	(50 6)
<b>At 31 December 2009</b>	198 6	16 8	(20 1)	(10 6)	–	419 4	161 7	765 8	6 3	772 1

(1) Restated on adoption of IFRIC 12 (see note 32)

# Consolidated balance sheet

	Note	At 31 December 2010 £m	At 31 December 2009 <sup>(1)</sup> £m	At 1 January 2009 <sup>(1)</sup> £m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	10	157 2	168 2	167 2
Intangible assets	11	1,221 2	1,241 3	1,276 9
Retirement benefit assets	30	0 9	2 6	37 1
Investments in jointly controlled entities	12	134 8	125 8	242 8
Other investments	13	41 9	46 2	–
Deferred tax assets	14	101 7	132 5	103 5
<b>Total non-current assets</b>		<b>1,657 7</b>	<b>1,716 6</b>	<b>1,827 5</b>
<b>Current assets</b>				
Inventories	15	40 6	37 2	44 6
Trade and other receivables	17	1,052 4	1,038 4	1,186 8
Cash and cash equivalents	18	396 7	267 2	257 3
Income tax receivable		3 9	4 6	0 6
Derivative financial instruments	26	–	1 0	1 1
<b>Total current assets</b>		<b>1,493 6</b>	<b>1,348 4</b>	<b>1,490 4</b>
<b>Total assets</b>		<b>3,151 3</b>	<b>3,065 0</b>	<b>3 317 9</b>
<b>Current liabilities</b>				
Borrowing	19	(52 0)	(54 0)	(58 0)
Derivative financial instruments	26	(0 2)	–	–
Trade and other payables	20	(1,706 8)	(1 683 6)	(1,721 8)
Provisions	21	(13 5)	(12 5)	(23 4)
Income tax payable		(5 1)	(11 3)	(3 1)
<b>Total current liabilities</b>		<b>(1,777 6)</b>	<b>(1,761 4)</b>	<b>(1 806 3)</b>
<b>Non-current liabilities</b>				
Borrowing	19	(224 5)	(188 3)	(426 0)
Retirement benefit liabilities	30	(250 3)	(296 4)	(146 2)
Deferred tax liabilities	14	(28 0)	(37 3)	(59 6)
Provisions	21	(5 7)	(9 5)	(8 0)
<b>Total non-current liabilities</b>		<b>(508 5)</b>	<b>(531 5)</b>	<b>(639 8)</b>
<b>Total liabilities</b>		<b>(2,286 1)</b>	<b>(2 292 9)</b>	<b>(2 446 1)</b>
<b>Net assets</b>		<b>865 2</b>	<b>772 1</b>	<b>871 8</b>
<b>Equity</b>				
Share capital	22	199 8	198 6	197 8
Share premium	23	21 2	16 8	12 9
Translation reserve	23	(18 1)	(20 1)	(0 9)
Hedging reserve	23	(23 8)	(10 6)	(14 7)
Fair value reserve	23	5 9	–	–
Merger reserve	23	393 1	419 4	449 1
Retained earnings	23	277 5	161 7	224 2
<b>Equity attributable to shareholders of the parent</b>		<b>855 6</b>	<b>765 8</b>	<b>868 4</b>
<b>Non-controlling interests</b>		<b>9 6</b>	<b>6 3</b>	<b>3 4</b>
<b>Total equity</b>		<b>865 2</b>	<b>772 1</b>	<b>871 8</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

The financial statements were approved by the Board of Directors on 2 March 2011 and were signed on its behalf by



Richard Adam FCA  
Group Finance Director

## Consolidated cash flow statement

For the year ended 31 December 2010

	Note	2010 £m	2009 £m
<b>Cash flows from operating activities</b>			
Group operating profit		111 9	84 9
Depreciation and amortisation		63 4	67 7
(Profit)/loss on disposal of property, plant and equipment		(1 3)	2 5
Share-based payment (income)/expense		(3 9)	3 9
Other non-cash movements		1 4	(4 5)
Non-recurring operating items		9 4	15 2
<b>Operating profit before changes in working capital</b>		<b>180 9</b>	<b>169 7</b>
(Increase)/decrease in inventories		(3 4)	4 1
(Increase)/decrease in trade and other receivables		(8 3)	107 3
Increase/(decrease) in trade and other payables		12 9	(51 5)
<b>Cash generated from operations before pension deficit recovery payments and rationalisation costs</b>		<b>182 1</b>	<b>229 6</b>
Deficit recovery payments to pension schemes		(35 2)	(29 0)
Rationalisation costs		(15 6)	(17 1)
<b>Cash generated from operations</b>		<b>131 3</b>	<b>183 5</b>
Financial income received		11 7	11 6
Financial expense paid		(13 5)	(23 3)
Taxation		(2 7)	2 9
<b>Net cash flows from operating activities</b>		<b>126 8</b>	<b>174 7</b>
<b>Cash flows from investing activities</b>			
Disposal of property, plant and equipment		5 5	5 5
Disposal of jointly controlled entity and other investments	29	45 8	100 7
Dividends received from jointly controlled entities		48 1	38 6
Disposal of businesses, net of cash disposed of	29	(4 7)	57 2
Acquisition of intangible assets		(7 5)	(4 3)
Acquisition of property, plant and equipment		(17 1)	(48 5)
Acquisition of equity in and net loan advances to jointly controlled entities		(34 5)	(15 2)
Acquisition of other non-current asset investments		(3 9)	–
<b>Net cash flows from investing activities</b>		<b>31 7</b>	<b>134 0</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		–	1 0
Proceeds from exercise of employee share options		2 3	–
Drawn down/(repayment) of bank and other loans		50 2	(233 6)
Proceeds from finance leaseback		3 8	–
Payment of finance lease liabilities		(17 3)	(16 8)
Dividends paid to equity holders of the parent		(59 1)	(53 4)
Dividends paid to non-controlling interests		(2 3)	(1 0)
<b>Net cash flows from financing activities</b>		<b>(22 4)</b>	<b>(303 8)</b>
<b>Increase in net cash and cash equivalents</b>		<b>136 1</b>	<b>4 9</b>
Net cash and cash equivalents at 1 January		252 4	250 0
Effect of exchange rate fluctuations on net cash and cash equivalents		2 6	(2 5)
<b>Net cash and cash equivalents at 31 December</b>	18	<b>391 1</b>	<b>252 4</b>

# Notes to the consolidated financial statements

## 1 Significant accounting policies

Carillion plc (the 'Company') is a company domiciled and incorporated in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in jointly controlled entities.

The consolidated financial statements were authorised for issuance on 2 March 2011.

### Statement of compliance

The Group's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP. These are presented on pages 100 to 105.

### Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The financial statements are prepared on a going concern basis based on the assessment made by the Directors as described in the Operating and financial review on page 31.

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

The following standards and interpretations have been adopted in 2010 as they are mandatory for the year ended 31 December 2010:

- International Accounting Standard (IAS) 27 'Consolidated and separate financial statements (revised 2008)'
- International Financial Reporting Standard (IFRS) 3 'Business combinations (revised 2008)'
- International Financial Reporting Interpretations Committee (IFRIC) 12 'Service concession arrangements'
- International Financial Reporting Interpretations Committee (IFRIC) 15 'Agreements for the construction of real estate'
- International Financial Reporting Interpretations Committee (IFRIC) 16 'Hedges of a net investment in a foreign operation'

IAS 27 'Consolidated and separate financial statements (revised 2008)' and IFRS 3 'Business combinations (revised 2008)' include revisions relating to the accounting for acquisitions. The principal change in accounting policy is that attributable transaction costs relating to business acquisitions which complete on or after 1 January 2010 are expensed in the income statement in the period incurred. Previously such costs would have been capitalised as part of goodwill relating to the acquisition. In addition, the term 'non-controlling interest' has been introduced to replace the term 'minority interest'. The revisions to IAS 27 and IFRS 3 have had no impact on profit, earnings per share or net assets in the year ended 31 December 2010.

IFRIC 12 'Service concession arrangements' applies to the accounting for Public Private Partnership (PPP) projects in which the Group participates through jointly controlled entities. Principally, the impact of IFRIC 12 on the Group's PPP projects is to:

- recognise revenue and profit during the construction period which was not previously required
- expense borrowing costs in relation to financial asset projects which previously were capitalised on the balance sheet
- re-assess the obligation in relation to life-cycle maintenance of the asset constructed

The overall impact of IFRIC 12 is to change the timing of when profits are recognised in PPP projects but it does not impact the total profit recognised or cash flows during the life of the PPP project. Comparative information has been restated for the effect of the retrospective application of IFRIC 12 as disclosed in note 32.

IFRIC 15 'Agreements for the construction of real estate' clarifies the situations when a contract for the construction of property should be accounted for in accordance with IAS 11 'Construction contracts' or IAS 18 'Revenue'. Where a contract comprises separately identifiable components, the fair value of the total consideration is required to be allocated to each component and revenue is then recognised depending upon whether the component relates to the construction of an asset (in accordance with IAS 11) or the rendering of services or delivery of goods (in accordance with IAS 18) based upon a risks and rewards approach. The adoption of IFRIC 15 has had no impact on profit, earnings per share or net assets in the year ended 31 December 2010.

IFRIC 16 'Hedges of a net investment in a foreign operation' clarifies the accounting treatment of hedges in a foreign operation, specifically the nature of the item to be hedged and the amount for which a hedging relationship can be designated, where in the Group the hedging item can be held and the treatment on disposal of a foreign operation. The adoption of IFRIC 16 has had no impact on profit, earnings per share or net assets at the year ended 31 December 2010.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ending 31 December 2010, have been adopted in 2010. None of these amendments have had a material impact on the Group's financial statements.

The following standards and interpretations are effective for year ended 31 December 2010 but are not applicable to the Group:

- Amendment to International Accounting Standard (IAS) 39 'Financial instruments: recognition and measurement'
- International Financial Reporting Interpretations Committee (IFRIC) 17 'Distributions of non-cash assets to owners'
- International Financial Reporting Interpretations Committee (IFRIC) 18 'Transfer of assets from customers'
- Amendment to International Financial Reporting Standard (IFRS) 2 'Group cash settled share based payment transactions'

The following standards and interpretations are effective for the year ended 31 December 2011:

- Amendments to International Financial Reporting Interpretations Committee (IFRIC) 14 'Prepayment of a minimum funding requirement'
- International Financial Reporting Interpretations Committee (IFRIC) 19 'Extinguishing financial liabilities with equity instruments'
- Amendment to International Financial Reporting Standard (IFRS) 7 'Improving disclosures about financial instruments'
- International Accounting Standard (IAS) 24 'Related party disclosures (revised 2009)'
- Amendment to International Accounting Standard (IAS) 32 'Classification of rights issue'

The Group has considered the impact of these new standards and interpretations in future periods on profit, earnings per share and net assets. None of the above standards or interpretations are expected to have an impact. The Group has chosen not to early adopt any of the above standards and interpretations.

# Notes to the consolidated financial statements

continued

## 1 Significant accounting policies (continued)

### Basis of Consolidation

#### (a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 31 December 2010. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the Parent Company.

The purchase method is used to account for the acquisition of subsidiaries.

#### (b) Joint ventures

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

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

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

Both of these entities have 31 March year ends, and their results are included in the Group accounts based on management accounts.

Where a Group company is party to a jointly controlled operation that company accounts for the assets it controls, the liabilities and expenses it incurs and its share of the income. Such arrangements are reported in the consolidated financial statements on the same basis.

### Goodwill and other intangible assets

Goodwill arising on acquisitions that have occurred since 1 January 2004 represents the difference between the fair value of the cost of acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired entity. For acquisitions completed before 1 January 2010 attributable costs of the acquisition formed part of goodwill. For acquisitions completed after 1 January 2010 attributable costs of the acquisition are expensed in the income statement in the period incurred. In respect of acquisitions prior to 1 January 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice.

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

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

#### Computer software and licences

- straight-line over three to five years

#### Customer contracts and lists

- Planned Maintenance Group  
consumption of economic benefits over six years
- Mowlem  
consumption of economic benefits over 35 years
- Alfred McAlpine  
consumption of economic benefits over 12 years
- Vanbots Group  
consumption of economic benefits over five years

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets subject to depreciation and amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement based on the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

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

### Other non-current asset investments

Other non-current asset investments are classified as available for sale financial assets and are recognised at fair value. Changes in fair value in the year are recognised directly in the statement of comprehensive income. Dividend income from investments is recognised in the income statement when the right to receive payment is established.

### Construction contracts

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

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

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable.

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

## 1 Significant accounting policies (continued)

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

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

### Pre-contract costs

Pre-contract costs are expensed as incurred until the Group is appointed preferred bidder or formal notification of the intention to appoint is received. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is probable, pre-contract costs incurred post the appointment as preferred bidder are included in amounts owed by customers on construction contracts.

Where pre-contract bid costs are reimbursed at financial close the proceeds are initially applied against the asset included in amounts owed by customers on construction contracts. Any excess recoveries relating to internal costs are carried forward as deferred income and released to profit over the period of the contract.

### Revenue recognition

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

### Property, plant and equipment

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

Freehold buildings	40-50 years
Leasehold buildings and improvements	Period of lease
Plant, machinery and vehicles	Three-ten years

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

### Leasing

Operating lease rental charges are charged to the income statement on a straight-line basis over the life of each lease.

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

### Inventories

Inventories comprise raw materials and land for development and are valued at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Foreign currencies

In individual entities, transactions denominated in foreign currencies are translated into sterling and recorded using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains and losses on translation are included in the income statement.

On consolidation, the balance sheets of overseas entities are translated into sterling at the rates of exchange ruling at the balance sheet date. Income statements and cash flows of overseas entities are translated into sterling at rates approximating to the foreign exchange rates at the date of the transaction. Gains or losses arising from the consolidation of overseas entities are recognised in the translation reserve.

Net investment hedging of overseas operations is achieved through borrowings denominated in the relevant foreign currencies. Gains and losses arising from the effective portion of the hedges are recognised in equity and ineffective portions are recognised immediately in the income statement.

### Employee benefits

#### (a) Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

For defined benefit pension schemes, the IAS 19 cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the income statement reflects the current service cost of such obligations and, where applicable, past service cost.

The expected return on plan assets and the interest cost of scheme liabilities are included within financial income and expense in the income statement.

The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of the scheme liabilities over the fair value of scheme assets. When the calculation results in an asset to the Group, the amount recognised is limited on certain schemes where the Group does not have an unconditional right to refund of any surplus which may exist.

Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of comprehensive income in the year.

The Group's contributions to the scheme are paid in accordance with the scheme rules and the recommendations of the actuary.

#### (b) Other post-retirement benefit obligations

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

# Notes to the consolidated financial statements

continued

## 1 Significant accounting policies (continued)

### (c) Share-based payments

Members of the Group's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP). In addition, UK employees are able to participate in the Sharesave scheme.

The fair value of the LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model. For both 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.

### Borrowing costs

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

Borrowing costs incurred within the Group's jointly controlled entities relating to the construction of intangible assets in Public Private Partnership projects are capitalised until the relevant assets are brought into operational use.

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

### Share capital

The ordinary share capital of the Company is recorded at the proceeds received, net of directly attributable incremental issue costs.

Consideration paid for shares in the Company held by the Employee Share Ownership Plan (ESOP) Trust are deducted from the retained earnings reserve. Where such shares subsequently vest in the employees under the terms of the Group's share option schemes or are sold, any consideration received is included in the retained earnings reserve.

### Provisions

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

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

### Financial instruments

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

#### (a) Other non-current investments

Other non-current investments relate to unquoted equity interests that are not designated on initial recognition as at fair value through the income statement. Instead, they are recognised at fair value with movements in fair value recognised in the fair value reserve.

#### (b) Trade receivables

Trade receivables are initially recognised at fair value and then are stated at amortised cost.

#### (c) Cash and cash equivalents

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

#### (d) Trade payables

Trade payables are initially recognised at fair value and then are stated at amortised cost.

#### (e) Bank and other borrowings

Interest-bearing bank loans and overdrafts and other borrowings are recognised initially at amortised cost less attributable transaction costs. All borrowings are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the income statement over the period to redemption.

#### (f) Derivative financial instruments

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

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

The Group also enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, movements in fair value are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

### Net borrowing

Net borrowing comprises cash and cash equivalents together with bank overdrafts and loans, finance leases and other loans.

## 2 Segmental reporting

Segment information is presented in respect of the Group's strategic operating segments. The operating segment reporting format reflects the differing economic characteristics and nature of the services provided by the Group and is the basis on which strategic operating decisions are made by the Group Chief Executive, who is the Group's chief operating decision maker.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, except finance items and income tax.

### Operating segments

The Group is comprised of the following main operating segments:

#### Support services

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

#### Public Private Partnership projects

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

#### Middle East construction services

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

#### Construction services (excluding the Middle East)

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



## 2 Segmental reporting (continued)

### Segmental revenue and profit

	2010		2009 <sup>(1)</sup>	
	Revenue £m	Operating profit before intangible amortisation and non- recurring operating items £m	Revenue £m	Operating profit before intangible amortisation and non- recurring operating items £m
<b>Support services</b>				
Group	1,842.1	92.3	2,108.3	102.9
Share of jointly controlled entities	266.5	18.1	281.2	14.8
	2,108.6	110.4	2,389.5	117.7
Inter-segment	107.3	–	117.7	–
<b>Total</b>	<b>2,215.9</b>	<b>110.4</b>	<b>2,507.2</b>	<b>117.7</b>
<b>Public Private Partnership projects</b>				
Group	1.2	10.7	1.1	–
Share of jointly controlled entities	310.7	12.7	417.3	30.7
	311.9	23.4	418.4	30.7
Inter-segment	–	–	–	–
<b>Total</b>	<b>311.9</b>	<b>23.4</b>	<b>418.4</b>	<b>30.7</b>
<b>Middle East construction services</b>				
Group	190.9	14.0	130.2	6.8
Share of jointly controlled entities	302.1	33.5	423.4	40.2
	493.0	47.5	553.6	47.0
Inter-segment	–	–	–	–
<b>Total</b>	<b>493.0</b>	<b>47.5</b>	<b>553.6</b>	<b>47.0</b>
<b>Construction services (excluding the Middle East)</b>				
Group	2,202.3	40.9	2,264.6	31.7
Share of jointly controlled entities	23.2	0.3	3.2	(0.8)
	2,225.5	41.2	2,267.8	30.9
Inter-segment	4.2	–	57.7	–
<b>Total</b>	<b>2,229.7</b>	<b>41.2</b>	<b>2,325.5</b>	<b>30.9</b>
<b>Group eliminations and unallocated items</b>	<b>(111.5)</b>	<b>(9.0)</b>	<b>(175.4)</b>	<b>(10.5)</b>
<b>Consolidated</b>				
Group	4,236.5	148.9	4,504.2	130.9
Share of jointly controlled entities	902.5	64.6	1,125.1	84.9
<b>Total</b>	<b>5,139.0</b>	<b>213.5</b>	<b>5,629.3</b>	<b>215.8</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

# Notes to the consolidated financial statements

continued

## 2 Segmental reporting (continued)

### Segmental revenue and profit (continued)

Reconciliation of operating segment results to reported results

	2010 £m	2009 <sup>(1)</sup> £m
<b>Group and share of jointly controlled entities' operating profit before intangible amortisation and non-recurring operating items</b>	<b>213 5</b>	<b>215 8</b>
Net financial expense		
– Group	(6 8)	(14 6)
– Share of jointly controlled entities	(13 9)	(21 8)
Share of jointly controlled entities' taxation	(4 7)	(3 9)
<b>Underlying profit before taxation</b>	<b>188 1</b>	<b>175 5</b>
Intangible amortisation <sup>(2)</sup>	(27 6)	(30 8)
Non-recurring operating items <sup>(2)</sup>	(9 4)	(15 2)
Non-operating items <sup>(2)</sup>	16 8	6 4
<b>Profit before taxation</b>	<b>167 9</b>	<b>135 9</b>
Taxation	(15 1)	(11 5)
<b>Profit for the year</b>	<b>152 8</b>	<b>124 4</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

(2) Intangible amortisation, non-recurring operating items and non-operating items arise in the following segments

	2010			2009 <sup>(1)</sup>		
	Intangible amortisation £m	Non recurring operating items £m	Non-operating items £m	Intangible amortisation £m	Non recurring operating items £m	Non operating items £m
Support services	(19 8)	(0 4)	–	(22 5)	(4 6)	10 3
Public Private Partnership projects	–	–	16 8	–	–	(3 9)
Construction services (excluding the Middle East)	(7 8)	(6 1)	–	(8 3)	(9 7)	–
Unallocated Group items	–	(2 9)	–	–	(0 9)	–
	<b>(27 6)</b>	<b>(9 4)</b>	<b>16 8</b>	<b>(30 8)</b>	<b>(15 2)</b>	<b>6 4</b>

Depreciation, amortisation and capital expenditure arise in the following segments

	2010		2009	
	Depreciation and amortisation £m	Capital expenditure £m	Depreciation and amortisation £m	Capital expenditure £m
Support services	(37 0)	(10 8)	(42 5)	(30 3)
Middle East construction services	(2 1)	(2 1)	(2 0)	(1 9)
Construction services (excluding the Middle East)	(11 2)	(1 9)	(11 1)	(4 3)
Unallocated Group items	(13 1)	(14 5)	(12 1)	(16 6)
	<b>(63 4)</b>	<b>(29 3)</b>	<b>(67 7)</b>	<b>(53 1)</b>

## 2 Segmental reporting (continued)

### Segmental net assets

	2010			2009 <sup>(1)</sup>		
	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m
<b>Support services</b>						
Intangible assets <sup>(2)</sup>	936 5	–	936 5	956 5	–	956 5
Operating assets	486 4	–	486 4	434 4	–	434 4
Investments	9 6	–	9 6	11 3	–	11 3
Total operating assets	1,432 5	–	1,432 5	1,402 2	–	1,402 2
Total operating liabilities	–	(475 7)	(475 7)	–	(528 9)	(528 9)
<b>Net operating assets/(liabilities)</b>	<b>1,432 5</b>	<b>(475 7)</b>	<b>956 8</b>	<b>1 402 2</b>	<b>(528 9)</b>	<b>873 3</b>
<b>Public Private Partnership projects</b>						
Operating assets	5 5	–	5 5	5 5	–	5 5
Investments	74 5	–	74 5	65 8	–	65 8
Total operating assets	80 0	–	80 0	71 3	–	71 3
Total operating liabilities	–	(11 6)	(11 6)	–	(15 4)	(15 4)
<b>Net operating assets/(liabilities)</b>	<b>80 0</b>	<b>(11 6)</b>	<b>68 4</b>	<b>71 3</b>	<b>(15 4)</b>	<b>55 9</b>
<b>Middle East construction services</b>						
Operating assets	172 2	–	172 2	101 6	–	101 6
Investments	48 9	–	48 9	45 4	–	45 4
Total operating assets	221 1	–	221 1	147 0	–	147 0
Total operating liabilities	–	(192 4)	(192 4)	–	(127 0)	(127 0)
<b>Net operating assets/(liabilities)</b>	<b>221 1</b>	<b>(192 4)</b>	<b>28 7</b>	<b>147 0</b>	<b>(127 0)</b>	<b>20 0</b>
<b>Construction services (excluding the Middle East)</b>						
Intangible assets <sup>(2)</sup>	269 4	–	269 4	276 0	–	276 0
Operating assets	548 2	–	548 2	583 4	–	583 4
Investments	43 7	–	43 7	49 5	–	49 5
Total operating assets	861 3	–	861 3	908 9	–	908 9
Total operating liabilities	–	(1,022 7)	(1,022 7)	–	(939 6)	(939 6)
<b>Net operating assets/(liabilities)</b>	<b>861 3</b>	<b>(1,022 7)</b>	<b>(161 4)</b>	<b>908 9</b>	<b>(939 6)</b>	<b>(30 7)</b>
<b>Consolidated before Group items</b>						
Intangible assets <sup>(2)</sup>	1,205 9	–	1,205 9	1,232 5	–	1 232 5
Operating assets	1,212 3	–	1,212 3	1,124 9	–	1 124 9
Investments	176 7	–	176 7	172 0	–	172 0
Total operating assets	2,594 9	–	2,594 9	2,529 4	–	2 529 4
Total operating liabilities	–	(1,702 4)	(1,702 4)	–	(1,610 9)	(1 610 9)
<b>Net operating assets/(liabilities) before Group items</b>	<b>2,594 9</b>	<b>(1,702 4)</b>	<b>892 5</b>	<b>2 529 4</b>	<b>(1,610 9)</b>	<b>918 5</b>
<b>Group items</b>						
Deferred tax	101 7	(28 0)	73 7	132 5	(37 3)	95 2
Net cash/(borrowing)	396 7	(276 5)	120 2	267 2	(242 3)	24 9
Retirement benefits (gross of taxation)	0 9	(250 3)	(249 4)	2 6	(296 4)	(293 8)
Income tax	3 9	(5 1)	(1 2)	4 6	(11 3)	(6 7)
Other	53 2	(23 8)	29 4	128 7	(94 7)	34 0
<b>Net assets/(liabilities)</b>	<b>3,151 3</b>	<b>(2,286 1)</b>	<b>865 2</b>	<b>3,065 0</b>	<b>(2 292 9)</b>	<b>772 1</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

(2) Arising from business combinations

# Notes to the consolidated financial statements

continued

## 2 Segmental reporting (continued)

### Geographic information – by origin

	2010 £m	2009 <sup>(1)</sup> £m
<b>United Kingdom</b>		
Total revenue from external customers	3,848 6	4 411 1
Less share of jointly controlled entities' revenue	(469 6)	(607 7)
<b>Group revenue from external customers</b>	<b>3,379 0</b>	<b>3,803 4</b>
<b>Non-current assets</b>	<b>1,317 1</b>	<b>1,363 6</b>
<b>Middle East</b>		
Total revenue from external customers	504 2	564 4
Less share of jointly controlled entities' revenue	(313 3)	(434 2)
<b>Group revenue from external customers</b>	<b>190 9</b>	<b>130 2</b>
<b>Non-current assets</b>	<b>56 3</b>	<b>53 7</b>
<b>Canada and the Caribbean</b>		
Total revenue from external customers	709 8	574 1
Less share of jointly controlled entities' revenue	(70 5)	(36 5)
<b>Group revenue from external customers</b>	<b>639 3</b>	<b>537 6</b>
<b>Non-current assets</b>	<b>137 9</b>	<b>114 6</b>
<b>Rest of the World</b>		
Total revenue from external customers	76 4	79 7
Less share of jointly controlled entities' revenue	(49 1)	(46 7)
<b>Group revenue from external customers</b>	<b>27 3</b>	<b>33 0</b>
<b>Non-current assets</b>	<b>1 9</b>	<b>3 4</b>
<b>Consolidated</b>		
Total revenue from external customers	5,139 0	5,629 3
Less share of jointly controlled entities' revenue	(902 5)	(1,125 1)
<b>Group revenue from external customers</b>	<b>4,236 5</b>	<b>4 504 2</b>
<b>Non-current assets</b>		
Total of geographic analysis above	1,513 2	1 535 3
Retirement benefit assets	0 9	2 6
Other investments	41 9	46 2
Deferred tax assets	101 7	132 5
<b>Total non-current assets</b>	<b>1,657 7</b>	<b>1,716 6</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

Revenue from the Group's major customer is shown below

	Support services		Public Private Partnership projects		Construction services (excluding the Middle East)		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
UK Government	782 5	823 8	222 7	175 3	1,263 0	1,065 6	2,268 2	2,064 7

### 3 Group operating profit

	2010 £m	2009 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	31.8	34.7
Amortisation of intangible assets	31.6	33.0
Impairment of trade receivables	0.5	2.9
(Profit)/loss on disposal of property, plant and equipment	(1.3)	2.5
Operating lease charges	55.8	82.6
Foreign exchange loss/(gain)	0.4	(2.3)
Loss on derivative financial assets and liabilities held for trading	1.2	0.1
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the annual accounts	0.3	0.3
Fees payable to the Company's auditor and its associates for other services		
– Audit of the Company's subsidiaries, pursuant to legislation	0.9	0.8
– Other services pursuant to legislation	0.1	0.1
– Taxation services	0.3	0.3
Fees in respect of Group pension schemes		
– Audit	0.1	0.1

Carillion's share of the fees paid to KPMG Audit Plc and its associates by Group jointly controlled entities in respect of audit services amounted to £0.2 million (2009: £0.1 million)

### 4 Non-recurring operating items and non-operating items

Non-recurring operating items	2010 £m	2009 £m
Rationalisation costs	(9.4)	(9.9)
Office of Fair Trading penalty	–	(5.4)
Curtailment gain	–	0.1
	(9.4)	(15.2)

Rationalisation costs of £9.4 million in 2010 relate to non-recurring redundancy and other associated costs incurred to ensure that the Group's cost base reflects the expected reduction in our UK construction market as indicated in the UK Government's Emergency Budget on 22 June 2010 and confirmed in the Comprehensive Spending Review in October 2010.

Rationalisation costs in 2009 of £9.9 million relate to non-recurring redundancy and other associated costs incurred in rationalising the Group's structure, including ensuring that the size of the Group's UK construction capability reflects the expected decline in our general construction markets, while maintaining the capability to support the delivery of Public Private Partnership projects and meet the needs of the support service business.

The Office of Fair Trading (OFT) penalty of £5.4 million was imposed on Carillion JM Limited (CJM) (formerly Mowlem) in 2009 following the conclusion of the OFT's investigation of cover pricing in the construction industry (under the Competition Act 1998). The penalty relates to CJM's construction business and relates entirely to the period prior to CJM's acquisition by Carillion. No other member of the Group was subject to the investigation.

In the year ended 31 December 2009, as part of the Group's strategy for managing defined benefit pension scheme risk, the benefits for members of the Alfred McAlpine Pension Plan were no longer linked to final salary resulting in a curtailment gain of £0.1 million (net of expenses of £3.2 million).

An income tax credit of £1.6 million (2009: £2.8 million) relating to the above has been included within taxation in the income statement.

Non-operating items	2010 £m	2009 <sup>(1)</sup> £m
Profit/(loss) on disposal of jointly controlled entity and other investments	16.8	(3.9)
Profit on disposal of businesses	–	10.3
	16.8	6.4

(1) Restated on adoption of IFRIC 12 (see note 32)

Further information on the Group's sale of businesses and investments can be found in note 29.

There is no income tax associated with any of the non-operating items in either 2010 or 2009.

# Notes to the consolidated financial statements

continued

## 5 Financial income and expense

	2010 £m	2009 £m
<b>Financial income</b>		
Bank interest receivable	11	11
Other interest receivable	106	105
Expected return on retirement plan assets	1119	1018
	<b>1236</b>	<b>1134</b>
<b>Financial expense</b>		
Interest payable on bank loans and overdrafts	(33)	(105)
Other interest payable and similar charges	(116)	(135)
Interest cost on retirement plan obligations	(1155)	(1040)
	<b>(1304)</b>	<b>(1280)</b>
<b>Net financial expense</b>	<b>(68)</b>	<b>(146)</b>

Other interest payable and similar charges includes finance lease charges of £3.7 million (2009 £4.1 million)

No borrowing costs have been capitalised in either 2010 or 2009 as they are not material

## 6 Payroll costs and employee numbers

	2010 £m	2009 £m
Wages and salaries	7467	8895
Social security costs	660	802
Pension costs	295	253
Equity settled transactions	(39)	39
	<b>8383</b>	<b>9989</b>

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 30 and includes a curtailment gain of £0.4 million (2009 £3.3 million) and a charge of £22.8 million (2009 £20.5 million) in respect of defined contribution schemes

Detailed information concerning Directors' remuneration, including their pension benefits and long term incentive arrangements, is set out in the Remuneration report on pages 46 to 51

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

	2010 Number	2009 Number
Support services	17,331	20,350
Public Private Partnership projects	33	37
Middle East construction services	6,795	4,578
Construction services (excluding the Middle East)	5,593	8,032
Corporate centre	304	315
	<b>30,056</b>	<b>33,312</b>
UK	19,476	23,972
Overseas	10,580	9,340
	<b>30,056</b>	<b>33,312</b>

In addition to the above there are 15,441 staff (2009 18,448) employed within the Group's jointly controlled entities located in the Middle East

**7 Income tax**  
**Recognised in the income statement**

	2010 £m	2009 £m
<b>Current tax expense</b>		
Current year		
– UK	(2 2)	0 9
– Overseas	3 8	5 1
Adjustments for prior years		
– UK	(3 4)	(4 1)
– Overseas	0 1	(0 7)
<b>Total current tax</b>	<b>(1 7)</b>	<b>1 2</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	16 8	5 7
Adjustments for prior years	–	4 6
<b>Total deferred tax</b>	<b>16 8</b>	<b>10 3</b>
<b>Total income tax expense in the income statement</b>	<b>15 1</b>	<b>11 5</b>

**Reconciliation of effective tax rate**

	2010 £m	2009 <sup>(1)</sup> £m
<b>Profit before tax</b>	<b>167 9</b>	<b>135 9</b>
Tax of jointly controlled entities	4 7	3 9
	<b>172 6</b>	<b>139 8</b>
Income tax at UK standard corporation tax rate of 28% (2009 28%)	48 3	39 1
Permanent differences	3 0	3 0
Unrelieved trade losses	5 0	4 8
Capital items not taxable/not deductible	(4 8)	(6 5)
Effect of utilisation of brought forward tax losses	(5 6)	(3 8)
Effect of tax rates in foreign jurisdictions	(10 6)	(12 4)
Effect of foreign profits exemption	–	(8 6)
Change in rate	0 2	–
Over provided in prior years	(5 1)	(0 2)
Recognition of deferred tax on prior year losses	(10 6)	–
<b>Total tax (including tax of jointly controlled entities)</b>	<b>19 8</b>	<b>15 4</b>
Tax of jointly controlled entities	(4 7)	(3 9)
<b>Group income tax expense</b>	<b>15 1</b>	<b>11 5</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

On 21 July 2010 the Finance (No. 2) Act 2010 was substantively enacted, implementing from 1 April 2011 a reduction in the mainstream corporate tax rate from 28 per cent to 27 per cent. Within the above deferred tax charge of £16.8 million is a charge of £0.2 million with respect to this change in rate.

Following the introduction of the foreign profits exemption in 2009, the profits earned in low tax jurisdictions no longer require a provision for a taxable temporary difference, the impact of which is included with 'Effect of the tax rates in foreign jurisdictions'.

The release of the over-provision relating to prior years of £5.1 million (2009 £0.2 million) includes an amount of £4.2 million which is attributable to the agreement of certain issues with the tax authorities. Tax of jointly controlled entities of £4.7 million in 2010 includes a £1.8 million credit arising from a review of the nature of tax issues in certain entities.

**Tax liability/(asset) recognised directly in equity or other comprehensive income**

	2010 £m	2009 £m
Deferred tax on actuarial gains and losses on defined benefit pension schemes	5 8	(61 5)
Current tax on foreign exchange translation adjustments	(1 1)	0 2
Tax recognised in statement of comprehensive income	4 7	(61 3)
Deferred tax on equity settled transactions	(1 1)	1 1
<b>Total tax recognised in equity</b>	<b>3 6</b>	<b>(60 2)</b>

Deferred tax on actuarial gains on defined benefit pension schemes of £5.8 million in 2010 includes £2.5 million in respect of the change in tax rate from 28 per cent to 27 per cent on 1 April 2011.

# Notes to the consolidated financial statements

continued

## 8 Earnings per share

### (a) Basic earnings per share

The calculation of earnings per share for the year ended 31 December 2010 is based on the profit attributable to equity holders of the parent of £147.2 million (2009<sup>(1)</sup> £120.6 million) and a weighted average number of ordinary shares in issue of 399.0 million (2009 396.0 million), calculated as follows

In millions of shares	2010	2009
Issued ordinary shares at 1 January	397.3	395.7
Effect of shares issued in the year	1.9	0.7
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust	(0.2)	(0.4)
Weighted average number of ordinary shares at 31 December	399.0	396.0

### (b) Underlying performance

A reconciliation of profit before taxation and basic earnings per share, as reported in the income statement, to underlying profit before taxation and earnings per share is set out below. The adjustments made in arriving at the underlying performance measures are made to illustrate the impact of non-trading and non-recurring items

	2010		2009 <sup>(1)</sup>	
	Profit before tax £m	Tax £m	Profit before tax £m	Tax £m
<b>Profit before taxation</b>				
Profit before taxation as reported in the income statement	167.9	15.1	135.9	11.5
Amortisation of intangible assets arising from business combinations	27.6	8.7	30.8	8.6
Curtailment gain	–	–	(0.1)	–
Rationalisation costs	9.4	1.6	9.9	2.8
Office of Fair Trading penalty	–	–	5.4	–
Profit on disposal of investments and businesses	(16.8)	–	(6.4)	–
<b>Underlying profit before taxation</b>	<b>188.1</b>	<b>25.4</b>	<b>175.5</b>	<b>22.9</b>
Underlying taxation	(25.4)	–	(22.9)	–
Underlying profit attributable to non-controlling interests <sup>(2)</sup>	(5.6)	–	(5.0)	–
<b>Underlying profit attributable to shareholders</b>	<b>157.1</b>	<b>–</b>	<b>147.6</b>	<b>–</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

(2) A reconciliation of non-controlling interests as reported in the income statement to underlying profit attributable to non-controlling interests shown above is set out below

	2010 £m	2009 £m
Profit attributable to non-controlling interests as reported in the income statement	5.6	3.8
Rationalisation costs (net of tax)	–	1.2
<b>Underlying profit attributable to non-controlling interests</b>	<b>5.6</b>	<b>5.0</b>

	2010 Pence per share	2009 <sup>(1)</sup> Pence per share
<b>Earnings per share</b>		
<b>Basic earnings per share</b>	<b>36.9</b>	<b>30.5</b>
Amortisation of intangible assets arising from business combinations	4.7	5.6
Rationalisation costs – Group	2.0	1.8
– attributable to non-controlling interests	–	(0.3)
Office of Fair Trading penalty	–	1.4
Profit on disposal of investments and businesses	(4.2)	(1.7)
<b>Underlying basic earnings per share</b>	<b>39.4</b>	<b>37.3</b>
<b>Underlying diluted earnings per share (post-tax basis)</b>	<b>39.2</b>	<b>37.1</b>

(1) Restated on adoption of IFRIC 12 (see note 32)



## 8 Earnings per share (continued)

### (c) Diluted earnings per share

The calculation of diluted earnings per share is based on profit as shown in note 8(a) and (b) and a weighted average number of ordinary shares outstanding calculated as follows

In millions of shares	2010	2009
Weighted average number of ordinary shares	399 0	396 0
Effect of share options in issue	1 7	2 2
<b>Weighted average number of ordinary shares (diluted) at 31 December</b>	<b>400 7</b>	<b>398 2</b>

## 9 Dividends

The following dividends were paid by the Company

	£m	2010 Pence per share	£m	2009 Pence per share
Previous year final dividend	39.9	10 0	35 2	8 9
Current year interim dividend	19.2	4 8	18 2	4 6
	<b>59 1</b>	<b>14 8</b>	<b>53 4</b>	<b>13 5</b>

The following dividends were proposed by the Company

	£m	2010 Pence per share	£m	2009 Pence per share
Interim	19.2	4 8	18 2	4 6
Final	42.8	10 7	39 7	10 0
	<b>62 0</b>	<b>15 5</b>	<b>57 9</b>	<b>14 6</b>

The final dividend for 2010 of 10 7 pence per share was approved by the Board on 2 March 2011 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 17 June 2011 to shareholders on the register on 17 May 2011. The record date and the payment date for the final dividend are subject to change due to the timing of the effective completion of the proposed acquisition of Eaga plc. Any change to the aforementioned dates will be notified to shareholders via a regulatory announcement.

## 10 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
<b>Cost</b>			
At 1 January 2010	29 5	159 8	189 3
Additions	2 9	16 4	19 3
Disposals	(2 6)	(34 7)	(37 3)
Reclassification (to intangible assets)	—	(0 4)	(0 4)
Effect of movements in foreign exchange rates	2 4	7 2	9 6
<b>At 31 December 2010</b>	<b>32 2</b>	<b>148 3</b>	<b>180 5</b>
<b>Depreciation and impairment losses</b>			
At 1 January 2010	—	21 1	21 1
Depreciation charge for the year	3 3	28 5	31 8
Disposals	(2 0)	(31 1)	(33 1)
Effect of movements in foreign exchange rates	0 4	3 1	3 5
<b>At 31 December 2010</b>	<b>1 7</b>	<b>21 6</b>	<b>23 3</b>
At 1 January 2010	29 5	138 7	168 2
<b>At 31 December 2010</b>	<b>30 5</b>	<b>126 7</b>	<b>157 2</b>

## Notes to the consolidated financial statements

continued

**10 Property, plant and equipment** (continued)

Included in the net book value of plant, equipment and vehicles is £41.9 million (2009: £40.2 million) in respect of assets held under finance leases and hire purchase contracts. The leased equipment secures lease obligations as disclosed in note 19.

	Land and buildings £m	Plant equipment and vehicles £m	Total £m
<b>Cost</b>			
At 1 January 2009	20.5	175.9	196.4
Additions	17.4	31.5	48.9
Disposals	(7.7)	(38.6)	(46.3)
Disposals arising from sale of businesses (see note 29)	(0.2)	(9.2)	(9.4)
Reclassification (to intangible assets)	–	(1.4)	(1.4)
Effect of movements in foreign exchange rates	(0.5)	1.6	1.1
<b>At 31 December 2009</b>	<b>29.5</b>	<b>159.8</b>	<b>189.3</b>
<b>Depreciation and impairment losses</b>			
At 1 January 2009	1.5	27.7	29.2
Depreciation charge for the year	3.8	30.9	34.7
Disposals	(5.3)	(33.0)	(38.3)
Disposals arising from sale of businesses (see note 29)	–	(3.7)	(3.7)
Reclassification (to intangible assets)	–	(1.0)	(1.0)
Effect of movements in foreign exchange rates	–	0.2	0.2
<b>At 31 December 2009</b>	<b>–</b>	<b>21.1</b>	<b>21.1</b>
<b>Net book value</b>			
At 1 January 2009	19.0	148.2	167.2
<b>At 31 December 2009</b>	<b>29.5</b>	<b>138.7</b>	<b>168.2</b>

**11 Intangible assets**

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
<b>Cost</b>					
At 1 January 2010	1,101.3	240.9	1,342.2	16.5	1,358.7
Additions	–	–	–	10.0	10.0
Disposals	–	–	–	(0.1)	(0.1)
Reclassification (from property, plant and equipment)	–	–	–	0.4	0.4
Effect of movements in foreign exchange rates	0.9	0.2	1.1	0.2	1.3
<b>At 31 December 2010</b>	<b>1,102.2</b>	<b>241.1</b>	<b>1,343.3</b>	<b>27.0</b>	<b>1,370.3</b>
<b>Amortisation and impairment losses</b>					
At 1 January 2010	–	109.7	109.7	7.7	117.4
Amortisation for the year	–	27.6	27.6	4.0	31.6
Disposals	–	–	–	(0.1)	(0.1)
Effect of movements in foreign exchange rates	–	0.1	0.1	0.1	0.2
<b>At 31 December 2010</b>	<b>–</b>	<b>137.4</b>	<b>137.4</b>	<b>11.7</b>	<b>149.1</b>
<b>Net book value</b>					
At 1 January 2010	1,101.3	131.2	1,232.5	8.8	1,241.3
<b>At 31 December 2010</b>	<b>1,102.2</b>	<b>103.7</b>	<b>1,205.9</b>	<b>15.3</b>	<b>1,221.2</b>

## 11 Intangible assets (continued)

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
<b>Cost</b>					
At 1 January 2009	1,100.8	250.6	1,351.4	13.3	1,364.7
Additions	–	–	–	4.3	4.3
Disposals	–	–	–	(2.5)	(2.5)
Disposals arising from sale of businesses (see note 29)	–	(9.8)	(9.8)	–	(9.8)
Reclassification (from property, plant and equipment)	–	–	–	1.4	1.4
Effect of movements in foreign exchange rates	0.5	0.1	0.6	–	0.6
<b>At 31 December 2009</b>	<b>1,101.3</b>	<b>240.9</b>	<b>1,342.2</b>	<b>16.5</b>	<b>1,358.7</b>
<b>Amortisation and impairment losses</b>					
At 1 January 2009	–	80.8	80.8	7.0	87.8
Amortisation for the year	–	30.8	30.8	2.2	33.0
Disposals	–	–	–	(2.5)	(2.5)
Disposals arising from sale of businesses (see note 29)	–	(2.0)	(2.0)	–	(2.0)
Reclassification (from property, plant and equipment)	–	–	–	1.0	1.0
Effect of movements in foreign exchange rates	–	0.1	0.1	–	0.1
<b>At 31 December 2009</b>	<b>–</b>	<b>109.7</b>	<b>109.7</b>	<b>7.7</b>	<b>117.4</b>
<b>Net book value</b>					
At 1 January 2009	1,100.8	169.8	1,270.6	6.3	1,276.9
<b>At 31 December 2009</b>	<b>1,101.3</b>	<b>131.2</b>	<b>1,232.5</b>	<b>8.8</b>	<b>1,241.3</b>

### Impairment tests for cash generating units containing goodwill

The following units have significant amounts of goodwill

	2010 £m	2009 <sup>(1)</sup> £m
<b>Construction services (excluding the Middle East) segment</b>		
UK construction	233.0	233.0
Canada construction	11.4	10.5
	<b>244.4</b>	<b>243.5</b>
<b>Support services segment</b>		
Business services	805.7	805.7
Infrastructure services	52.1	52.1
	<b>857.8</b>	<b>857.8</b>
<b>Total goodwill</b>	<b>1,102.2</b>	<b>1,101.3</b>

(1) Following a Group reorganisation the Building and Infrastructure units within Construction services (excluding the Middle East) segment were merged to form the UK construction unit. Accordingly the 2009 disclosure has been amended to reflect this change.

Each year and whenever events or a change in the economic environment indicates a risk of impairment, the Group reviews the value of goodwill balances allocated to its cash generating units. In the absence of any identified impairment risks, tests are performed based on internal valuations of each cash generating unit (CGU).

Management consider Support services, Public Private Partnerships projects, Middle East construction services and Construction services (excluding the Middle East) as distinct reporting segments. Goodwill has been allocated to the applicable cash generating units (CGUs), within the Construction services (excluding the Middle East) and Support services reporting segments detailed above. Our CGUs have been identified within our reporting segments as those businesses that generate cash inflows largely independently of other businesses within the Group and which are subject to independent management.

The recoverable amounts of the CGUs are determined from value in use calculations. The value in use in 2010 was determined on a similar basis to 2009. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the period. These assumptions were reviewed in 2009 and revisited in 2010 in the light of the challenging economic environment. The impact of the Comprehensive Spending Review on the financial stability of our customers, partners and suppliers will be mitigated by continuing to apply rigorous selectivity criteria in relation to their financial stability, the security of project funding and contractual terms and conditions.

# Notes to the consolidated financial statements

continued

## 11 Intangible assets (continued)

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Whilst the Group has four CGUs, the risks and rewards associated with Construction services (excluding the Middle East) are consistent, and therefore one discount rate has been applied to each CGU. Similarly the risks and rewards encountered in the Support services CGUs are consistent so one discount rate has been applied to each CGU. In determining the discount rate management have sought to arrive at a pre-tax Weighted Average Cost of Capital (WACC) using the capital asset pricing model to determine the cost of equity and then weighting the overall cost of capital for the Group by equity and debt. The rate used to discount the forecast cash flows for the CGUs in Construction services (excluding the Middle East) was 12.0 per cent (2009: 12.4 per cent) and for the CGUs in Support services was 9.4 per cent (2009: 9.5 per cent). The annual growth rates are based on internal assessments. Growth is expected in the Business services CGU at 5.0 per cent for the next five years, 2.5 per cent growth per annum for years six to ten which reflects expected changes to the Retail Price Index and no growth thereafter. In respect of the Construction services (excluding the Middle East) segment, the cash flow forecast used assumes no growth, fully reflecting the expected reduction in UK construction revenue which is largely offset by revenue growth in Canada. These growth rates do not exceed the long-term industry average and reflect the synergies from recent acquisitions.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the following year and extrapolates cash flows based upon the growth rates indicated above. Sensitivity analysis on the discount rate shows that the discount rate would have to increase to 12.9 per cent for Support services and to 23.5 per cent for Construction services (excluding the Middle East) before an impairment was triggered. In addition management have considered whether there would have been an impairment if the Building and Infrastructure units had remained separate. Management have concluded that no such impairment would have arisen.

As at 31 December 2010, based on internal valuations, Carillion plc management concluded that the recoverable value of the cash generating units tested exceeded their carrying amount.

### Amortisation charge

The amortisation charge of £31.6 million (2009: £33.0 million) is recognised in administrative expenses in the income statement. Amortisation of the intangible assets of £119.0 million arising on the acquisition of Mowlem in 2006 will be 79 per cent complete by 2016. The remaining amortisation charge is incurred over the following 25 years. Amortisation of the intangible assets of £125.4 million arising on the acquisition of Alfred McAlpine in 2008 will be 84 per cent complete by 2013 with the remaining amortisation charge continuing until 2019.

## 12 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
<b>Cost</b>					
At 1 January 2010	58.6	41.5	100.1	2.1	102.2
Equity investments	0.9	–	0.9	–	0.9
Disposals	(0.1)	(12.2)	(12.3)	–	(12.3)
Net loans advanced	–	33.6	33.6	–	33.6
Reclassifications	8.4	(8.4)	–	–	–
Effect of movements in foreign exchange rates	1.2	0.5	1.7	–	1.7
<b>At 31 December 2010</b>	<b>69.0</b>	<b>55.0</b>	<b>124.0</b>	<b>2.1</b>	<b>126.1</b>
<b>Share of post acquisition results</b>					
At 1 January 2010	23.6	–	23.6	–	23.6
Share of results for the year after taxation	46.0	–	46.0	–	46.0
Share of change in fair value of cash flow hedges (net of tax)	(13.4)	–	(13.4)	–	(13.4)
Disposals	0.3	–	0.3	–	0.3
Distributions received	(50.3)	–	(50.3)	–	(50.3)
Effect of movements in foreign exchange rates	2.5	–	2.5	–	2.5
<b>At 31 December 2010</b>	<b>8.7</b>	<b>–</b>	<b>8.7</b>	<b>–</b>	<b>8.7</b>
<b>Net book value</b>					
At 1 January 2010	82.2	41.5	123.7	2.1	125.8
<b>At 31 December 2010</b>	<b>77.7</b>	<b>55.0</b>	<b>132.7</b>	<b>2.1</b>	<b>134.8</b>

Equity investments of £0.9 million include £0.5 million relating to the acquisition in cash of interests in a number of development jointly controlled entities in Canada and £0.4 million relating to the acquisition in cash of interests in a number of PPP jointly controlled entities. During the year, the Group disposed of its equity investment in a PPP jointly controlled entity as disclosed in note 29.

## 12 Investments in jointly controlled entities (continued)

	Equity investments <sup>(1)</sup> £m	Loan advances £m	Total investments <sup>(1)</sup> £m	Goodwill £m	Total <sup>(1)</sup> £m
Cost					
At 1 January 2009	146 6	51 8	198 4	2 1	200 5
Equity investments	2 8	–	2 8	–	2 8
Disposals	(56 2)	(24 0)	(80 2)	–	(80 2)
Net loans advanced	–	12 4	12 4	–	12 4
Reclassification to other investments (see note 13)	(35 4)	–	(35 4)	–	(35 4)
Effect of movements in foreign exchange rates	0 8	1 3	2 1	–	2 1
At 31 December 2009	58 6	41 5	100 1	2 1	102 2
Share of post acquisition results					
At 1 January 2009	42 3	–	42 3	–	42 3
Share of results for the year after taxation	59 2	–	59 2	–	59 2
Share of change in fair value of cash flow hedges (net of tax)	(4 2)	–	(4 2)	–	(4 2)
Disposals	(15 8)	–	(15 8)	–	(15 8)
Distributions received	(41 7)	–	(41 7)	–	(41 7)
Reclassification to other investments (see note 13)	(10 8)	–	(10 8)	–	(10 8)
Effect of movements in foreign exchange rates	(5 4)	–	(5 4)	–	(5 4)
At 31 December 2009	23 6	–	23 6	–	23 6
Net book value					
At 1 January 2009	188 9	51 8	240 7	2 1	242 8
At 31 December 2009	82 2	41 5	123 7	2 1	125 8

Equity investments of £2 8 million relates to the acquisition in cash of interests in a number of PPP jointly controlled entities. During 2009, the Group disposed of four PPP investments as disclosed in note 29.

As disclosed in note 35, the Group has equity interests in a number of PPP jointly controlled entities that are in excess of 50 per cent of the issued share capital of the entities concerned. The Group accounts for these interests using the equity method as the power to govern the financial and operating policies of the entities is shared under the terms of the shareholder agreements.

The Group's aggregate share of net assets of jointly controlled entities is analysed below. Borrowing within jointly controlled entities amounting to £921 9 million (2009: £736 7 million) are without recourse to the Carillion Group.

	2010			2009 <sup>(1)</sup>		
	PPP projects £m	Other £m	Total £m	PPP projects £m	Other £m	Total £m
Non-current assets	1,145 6	94 4	1,240 0	850 4	81 1	931 5
Cash	73 4	34 6	108 0	34 6	66 6	101 2
Other current assets	77 9	378 9	456 8	41 6	387 8	429 4
<b>Share of gross assets</b>	<b>1,296 9</b>	<b>507 9</b>	<b>1,804 8</b>	<b>926 6</b>	<b>535 5</b>	<b>1,462 1</b>
Current borrowing	(26 6)	(18 3)	(44 9)	(19 5)	(34 2)	(53 7)
Current liabilities	(67 0)	(353 0)	(420 0)	(36 5)	(379 6)	(416 1)
Non-current borrowing	(845 6)	(31 4)	(877 0)	(660 8)	(22 2)	(683 0)
Non-current liabilities	(344 3)	(5 5)	(349 8)	(200 7)	(1 6)	(202 3)
Provisions	(7 7)	–	(7 7)	(10 3)	–	(10 3)
<b>Share of gross liabilities</b>	<b>(1,291 2)</b>	<b>(408 2)</b>	<b>(1,699 4)</b>	<b>(927 8)</b>	<b>(437 6)</b>	<b>(1,365 4)</b>
<b>Share of net assets excluding derivatives</b>	<b>5 7</b>	<b>99 7</b>	<b>105 4</b>	<b>(1 2)</b>	<b>97 9</b>	<b>96 7</b>
Financial instrument derivatives	(25 6)	–	(25 6)	(12 4)	–	(12 4)
<b>Share of net (liabilities)/assets</b>	<b>(19 9)</b>	<b>99 7</b>	<b>79 8</b>	<b>(13 6)</b>	<b>97 9</b>	<b>84 3</b>
Loan advances	55 0	–	55 0	41 5	–	41 5
<b>Total investment in jointly controlled entities</b>	<b>35 1</b>	<b>99 7</b>	<b>134 8</b>	<b>27 9</b>	<b>97 9</b>	<b>125 8</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

Non-current assets within PPP projects include cumulative capitalised interest amounting to £3 8 million (2009: £3 8 million). On adoption of IFRIC 12 capitalised interest on other current assets has been written off through reserves as a prior year adjustment.

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

# Notes to the consolidated financial statements

continued

## 13 Other investments

	£m
<b>Fair value</b>	
At 1 January 2010	60.0
Additions	3.9
Disposals	(14.1)
Increase in fair value	5.9
<b>At 31 December 2010</b>	<b>55.7</b>

<b>Impairment losses</b>	
At 1 January and 31 December 2010	13.8

<b>Net book value</b>	
At 1 January 2010	46.2
<b>At 31 December 2010</b>	<b>41.9</b>

	£m <sup>(1)</sup>
<b>Fair value</b>	
At 1 January 2009	13.8
Reclassification from investments in jointly controlled entities	46.2
<b>At 31 December 2009</b>	<b>60.0</b>

<b>Impairment losses</b>	
At 1 January and 31 December 2009	13.8

<b>Net book value</b>	
At 1 January 2009	–
<b>At 31 December 2009</b>	<b>46.2</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

Following the disposal of the Group's 32.5 per cent interest in Aspire Defence Holdings Limited on 4 December 2009, the remaining 17.5 per cent non-quoted equity interest that the Group retained was reclassified to other non-current investments. Upon reclassification, the Group's interest was recognised at fair value, which equated to book value on the date of reclassification. Fair value is based on the discounted future cash flows expected to arise from the investment. On 21 December 2010 the Group disposed of a further five per cent of its equity interest and as a result the Group's equity interest was 12.5 per cent at the balance sheet date (see note 29).

The remaining other investments cost of £13.8 million relates to the non-quoted equity investment in the Alice Springs to Darwin railway. The investment has been fully impaired following the project being placed in administration.

## 14 Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

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

	Assets		Liabilities		Net	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Property, plant and equipment	10.5	16.9	–	–	10.5	16.9
Intangible assets	–	–	(27.8)	(36.5)	(27.8)	(36.5)
Employee benefits	67.3	82.7	–	–	67.3	82.7
Working capital	4.8	8.0	–	–	4.8	8.0
Tax value of carry forward losses recognised	18.9	24.1	–	–	18.9	24.1
<b>Tax assets/(liabilities)</b>	<b>101.5</b>	<b>131.7</b>	<b>(27.8)</b>	<b>(36.5)</b>	<b>73.7</b>	<b>95.2</b>
Set off of tax	0.2	0.8	(0.2)	(0.8)	–	–
<b>Net tax assets/(liabilities)</b>	<b>101.7</b>	<b>132.5</b>	<b>(28.0)</b>	<b>(37.3)</b>	<b>73.7</b>	<b>95.2</b>

### Unrecognised deferred tax assets

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

	2010 £m	2009 £m
Tax losses	64.0	81.0

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these losses due to the lack of certainty concerning the quantum and timing of future years taxable profits of the companies concerned.

#### 14 Deferred tax assets and liabilities (continued)

Following the introduction of the foreign profits exemption with effect from 1 July 2009, no deferred tax liability is required to be recognised in relation to taxable temporary differences arising on unremitted earnings from overseas businesses

Movements in temporary differences during the year are as follows

	Balance 1 January 2010 £m	Recognised in income £m	Recognised in equity £m	Balance 31 December 2010 £m
Property, plant and equipment	16 9	(6 4)	–	10 5
Intangible assets	(36 5)	8 7	–	(27 8)
Employee benefits	82 7	(9 6)	(5 8)	67 3
Working capital	8 0	(3 2)	–	4 8
Tax value of carry forward losses recognised	24 1	(5 2)	–	18 9
Equity settled transactions	–	(1 1)	1 1	–
	95 2	(16 8)	(4 7)	73 7

	Balance 1 January 2009 £m	Disposals £m	Recognised in income £m	Recognised in equity £m	Balance 31 December 2009 £m
Property, plant and equipment	18 9	(1 0)	(1 0)	–	16 9
Intangible assets	(47 3)	2 2	8 6	–	(36 5)
Employee benefits	32 9	–	(11 7)	61 5	82 7
Working capital	23 7	–	(15 7)	–	8 0
Other items	(12 7)	–	12 7	–	–
Tax value of carry forward losses recognised	28 4	–	(4 3)	–	24 1
Equity settled transactions	–	–	1 1	(1 1)	–
	43 9	1 2	(10 3)	60 4	95 2

The UK Government's Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28 per cent to 24 per cent over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28 per cent to 27 per cent was substantively enacted on 21 July 2010 and will be effective from 1 April 2011 and its impact is highlighted in note 7. It has not yet been possible to quantify the full anticipated effect of the announced further three per cent rate reduction, although this will further reduce the Group's future current tax charge and reduce the Group's deferred tax assets and liabilities accordingly.

#### 15 Inventories

	2010 £m	2009 £m
Raw materials and consumables	21 2	16 3
Development work in progress	19 4	20 9
	40 6	37 2

The amount of inventories recognised as an expense during the year was £26.3 million (2009: £28.1 million) and the amount of any write down of inventories recognised as an expense was £120,551 (2009: £106,845). Development work in progress of £13.5 million (2009: £13.9 million) is expected to be recovered after more than 12 months.

#### 16 Construction contracts

Contracts in progress at the balance sheet date

	2010 £m	2009 £m
Due from customers for contract work	338 0	328 8
Due to customers for contract work	(202 6)	(188 1)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £4,806.2 million (2009: £5,866.8 million). Advances received from customers relating to contracts in progress amounted to £170.8 million (2009: £166.1 million).

The amount of construction contract revenue recognised in the year amounted to £2,393.2 million (2009: £2,632.8 million).

# Notes to the consolidated financial statements

continued

## 17 Trade and other receivables

	2010 £m	2009 £m
Trade receivables	280 1	304 0
Amounts owed by customers on construction contracts	338 0	328 8
Other receivables and prepayments	320 0	303 7
Amounts owed by jointly controlled entities	108 5	85 6
Amounts owed under jointly controlled operations	5 8	16 3
	<b>1,052 4</b>	<b>1,038 4</b>

In 2009 trade receivables have been restated to include both balances previously analysed as amounts owed by customers on construction contracts, and to exclude balances which have now been analysed as amounts owed by jointly controlled entities

At 31 December 2010 retentions of £64.8 million (2009 £67.2 million) relating to construction contracts and other amounts recoverable after more than one year of £24.3 million (2009 £23.9 million) are included above as they are recoverable within the normal operating cycle of the Group

## 18 Cash and cash equivalents and net cash

Cash and cash equivalents and net cash comprise

	2010 £m	2009 £m
Cash and cash equivalents	396 7	267 2
Bank overdrafts	(5 6)	(14 8)
<b>Net cash and cash equivalents</b>	<b>391 1</b>	<b>252 4</b>
Bank loans	(201 4)	(141 4)
Finance lease obligations	(53 8)	(64 6)
Other loans	(15 7)	(21 5)
<b>Net cash</b>	<b>120 2</b>	<b>24 9</b>

Reconciliation of cash flow to movement in net cash

	2010 £m	2009 £m
Increase in cash and cash equivalents	136 1	4 9
(Draw down)/repayment of bank and other loans	(50 2)	233 6
Proceeds from finance leaseback	(3 8)	–
Payment of finance lease liabilities	17 3	16 8
<b>Change in net cash resulting from cash flows</b>	<b>99 4</b>	<b>255 3</b>
Finance lease additions	(0 4)	(0 4)
Currency translation differences	(3 7)	(3 3)
<b>Change in net cash</b>	<b>95 3</b>	<b>251 6</b>
Net cash/(borrowing) at 1 January	24 9	(226 7)
<b>Net cash at 31 December</b>	<b>120 2</b>	<b>24 9</b>

## 19 Borrowing

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26

	2010 £m	2009 £m
<b>Current liabilities</b>		
Bank overdrafts	5 6	14 8
Bank loans	10 8	11 0
Finance lease obligations	20 2	16 4
Other loans	15 4	11 8
	<b>52 0</b>	<b>54 0</b>
<b>Non-current liabilities</b>		
Bank loans	190 6	130 4
Finance lease obligations	33 6	48 2
Other loans	0 3	9 7
	<b>224 5</b>	<b>188 3</b>
<b>Total borrowing</b>	<b>276 5</b>	<b>242 3</b>

Bank loans and overdrafts are largely unsecured and bear interest at floating rates linked to London Interbank Offered Rate. Within bank loans of £10.8 million in current liabilities are loans amounting to £3.0 million which are secured on the assets to which they relate. Other loans and finance lease obligations are secured on the assets to which they relate.



## 19 Borrowing (continued)

### Finance lease liabilities

Finance lease liabilities are payable as follows

	Minimum lease payments 2010 £m	Interest 2010 £m	Principal 2010 £m	Minimum lease payments 2009 £m	Interest 2009 £m	Principal 2009 £m
Less than one year	22.9	(2.7)	20.2	19.8	(3.4)	16.4
Between one and five years	35.9	(2.3)	33.6	52.2	(4.0)	48.2
	58.8	(5.0)	53.8	72.0	(7.4)	64.6

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

## 20 Trade and other payables

	2010 £m	2009 £m
Trade payables	606.6	599.6
Amounts owed to customers on construction contracts	202.6	188.1
Other tax and social security costs	29.2	43.2
Amounts owed to jointly controlled entities	25.5	40.8
Amounts owed under jointly controlled operations	–	15.4
Other creditors	249.7	212.1
Accruals and deferred income	593.2	584.4
	1,706.8	1,683.6

Within trade and other payables are £39.3 million (2009: £36.0 million) of liabilities due in more than one year but are payable within the normal operating cycle of the Group. All other trade and other payables are due within one year.

## 21 Provisions

	Rationalisation £m	Onerous leases £m	Total £m
At 1 January 2010	5.9	16.1	22.0
Provisions created	9.4	0.2	9.6
Discount unwind	–	1.4	1.4
Provisions utilised	(10.4)	(3.4)	(13.8)
<b>At 31 December 2010</b>	<b>4.9</b>	<b>14.3</b>	<b>19.2</b>
Disclosed within:			
Current liabilities	4.9	8.6	13.5
Non-current liabilities	–	5.7	5.7
	4.9	14.3	19.2

The rationalisation provision at 1 January 2010 relates to a review of the Group's requirement following the acquisition of Alfred McAlpine and the Vanbots Group in 2008 and a review of the Group's requirements following the rationalisation of the operating structure at the end of 2009. The provisions created in the year of £9.4 million relates to non-recurring redundancy and other associated costs incurred to ensure that the Group's cost base reflects the expected reduction in our UK construction market as indicated in the UK Government Emergency Budget on 22 June 2010 and confirmed in the Comprehensive Spending Review in October 2010.

The onerous lease provision at 1 January 2010 relates to a number of onerous leases acquired with Mowlem and Alfred McAlpine and provisions created for property interests retained in the disposal of Carillion IT Services Limited and Enviro Group Limited. The provision is expected to be utilised over a period of five years.

# Notes to the consolidated financial statements

continued

## 21 Provisions (continued)

	Restructuring £m	Onerous leases £m	Total £m
At 1 January 2009	15.0	16.4	31.4
Provisions created	4.8	1.5	6.3
Discount unwind	-	0.7	0.7
Provisions utilised	(13.9)	(2.5)	(16.4)
At 31 December 2009	5.9	16.1	22.0
Disclosed within			
Current liabilities	5.9	6.6	12.5
Non-current liabilities	-	9.5	9.5
	5.9	16.1	22.0

## 22 Share capital

	2010		2009	
	Number million	£m	Number million	£m
<b>Issued and fully paid</b>				
At 1 January	397.3	198.6	395.7	197.8
New share capital issued	2.4	1.2	1.6	0.8
At 31 December	399.7	199.8	397.3	198.6

The Company has one class of ordinary share which carries no right to fixed income

## 23 Reserves

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Group's net investment in foreign operations. The translation reserve also includes any related current taxation.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred taxation.

### Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised together with any related deferred taxation.

### Merger reserve

The merger reserve arose on the demerger from Tarmac plc on 29 July 1999. The reserve increased on acquisition of Mowlem on 23 February 2006 and Alfred McAlpine on 12 February 2008 whereby the consideration included the issue of Carillion plc shares. The Group has opted to credit the merger reserve rather than the share premium account as permitted by The Companies Act. The £26.3 million transfer to the retained earnings reserve during the year represents the amortisation of intangible assets recognised on the Mowlem and Alfred McAlpine acquisitions.

### Retained earnings

Retained earnings include the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movements in the reserve for own shares included within retained earnings are as follows:

	2010 £m	2009 £m
At 1 January	(11)	(13)
Share options exercised by employees (exercise price)	37	0.5
Proceeds from exercise of share options	23	-
Share options exercised (transfer to retained earnings)	0.6	3.9
Acquisition of own shares	(5.6)	(4.2)
<b>At 31 December</b>	<b>(0.1)</b>	<b>(1.1)</b>

## 23 Reserves (continued)

At 31 December 2010 the ESOP held 38 302 (2009 362,909) of the Company's shares and had a market value of £0.1 million (2009 £1.1 million). During the year the Company acquired 2.3 million of its own shares for £5.6 million to meet the plan's future commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('QUEST'). During the year, 4 704 ordinary shares (2009 91,376) in the Company held by the QUEST were transferred to employees of the Group following the exercise of options under the Sharesave Scheme.

At 31 December 2010 the total number of shares held under the QUEST amounted to 129,979 (2009 134 683) and had a market value of £0.5 million (2009 £0.4 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

## 24 Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to shares in the Company. Full details of share option schemes can be found in the Remuneration report on pages 46 to 51.

The recognition and measurement principles in International Financial Reporting Standard 2 'Share-based payment' (IFRS 2) have not been applied to grants of options before 7 November 2002 in accordance with the transitional provisions in International Financial Reporting Standard 1 'First-time adoption of International Financial Reporting Standards' and IFRS 2.

The terms and conditions of option schemes within the scope of IFRS 2 are as follows, whereby all options are settled by physical delivery of shares.

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Exercise price
ESOS option grant at 1 July 2003	11 015	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three year period	10 years	163.4p
ESOS option grant at 15 March 2005	45,386	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three year period	10 years	242.75p
LEAP option grant at 4 April 2008	897,461	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
LEAP option grant at 7 April 2009	1,195,610	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
LEAP option grant at 17 March 2010	929 829	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
<b>Total share options</b>	<b>3,079,301</b>			

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

	Weighted average exercise price 2010	Number of options 2010	Weighted average exercise price 2009	Number of options 2009
At 1 January	116.4p	5,931,478	135.8p	6 677 809
Forfeited during the year	222.8p	(2,036,889)	131.8p	(952 345)
Exercised during the year	114.0p	(1,962,762)	70.2p	(1,290 975)
Granted during the year	–	1,147,474	–	1,496,989
<b>At 31 December</b>	<b>4.2p</b>	<b>3,079,301</b>	<b>116.4p</b>	<b>5,931,478</b>
<b>Exercisable at the end of the year</b>	<b>227.3p</b>	<b>56,401</b>	<b>250.4p</b>	<b>2,757 597</b>

The range of option prices for those options exercisable at the end of the year is 163.4 pence – 242.75 pence and the weighted average remaining contractual term is four years. The weighted average share price during the year was 324.6 pence.

# Notes to the consolidated financial statements

continued

## 24 Share-based payments (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model using the following assumptions:

	2010 LEAP	2009 LEAP	2008 LEAP	2007 LEAP
<b>Fair value of share options and assumptions</b>				
Fair value at grant date	<b>275 9p</b>	232 5p	358 5p	392 0p
Share price at grant date	<b>318 6p</b>	258 5p	383 8p	421 0p
Exercise price	<b>nil</b>	nil	nil	nil
Expected volatility	<b>19 70%</b>	18 04%	16 01%	21 97%
Option life	<b>3 years</b>	3 years	3 years	3 years
Expected dividend yield	<b>4 80%</b>	3 54%	2 27%	2 34%
Risk-free interest rate (based on national government bonds)	<b>1 22%</b>	2 16%	3 96%	5 35%

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)/expense

	2010 £m	2009 £m
Equity settled share options granted in		
2006	<b>(2 2)</b>	0 5
2007	<b>(1 0)</b>	1 2
2008	<b>(0 6)</b>	1 3
2009	<b>(0 9)</b>	0 9
2010	<b>0 8</b>	—
<b>Total (income)/expense recognised as employee costs</b>	<b>(3 9)</b>	3 9

Share option income in 2010 of £3.9 million arises from a change in the estimated number of shares expected to vest. The income recognised for share options granted in 2006 of £2.2 million could only be recognised after the vesting period expired on 31 July 2010.

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 estimated 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.

## 25 Guarantees and contingent liabilities

	2010 £m	2009 £m
Guarantees in respect of interest payments in Construction services (excluding the Middle East) jointly controlled entities	<b>11</b>	—
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP jointly controlled entities	<b>77 0</b>	52 4
Guarantees in respect of letters of credit issued by banks in relation to performance of contracts for PPP customers	<b>66 6</b>	30 0

Guarantees and counter indemnities have been given to financial institutions in respect of the provision of performance and other contract related bonds that are issued in the normal course of business.

Claims under contracts and other agreements, including joint arrangements, are outstanding in the normal course of business.

The Group, in the normal course of its construction activities, is the subject of certain legal proceedings. The resolution of these proceedings is regarded as unlikely to succeed or to have a material effect on the Group's financial position.

There are no liabilities of jointly controlled entities for which the Group is contingently liable.

## 26 Financial instruments

### Categories of financial instruments

	Loans and receivables at amortised cost £m	Financial liabilities at amortised cost £m	Available for sale £m	Financial liabilities held for trading £m	Total £m
<b>31 December 2010</b>					
<b>Financial assets</b>					
Other non-current investments	–	–	41 9	–	41 9
Cash and cash equivalents	396 7	–	–	–	396 7
Trade receivables	280 1	–	–	–	280 1
	<b>676 8</b>	<b>–</b>	<b>41 9</b>	<b>–</b>	<b>718 7</b>
<b>Financial liabilities</b>					
Bank overdrafts	–	(5 6)	–	–	(5 6)
Bank loans	–	(201 4)	–	–	(201 4)
Finance lease obligations	–	(53 8)	–	–	(53 8)
Other loans	–	(15 7)	–	–	(15 7)
Trade payables	–	(606 6)	–	–	(606 6)
Derivative financial instruments	–	–	–	(0 2)	(0 2)
	<b>–</b>	<b>(883 1)</b>	<b>–</b>	<b>(0 2)</b>	<b>(883 3)</b>
<b>31 December 2009</b>					
<b>Financial assets</b>					
Other non-current investments	–	–	46 2	–	46 2
Cash and cash equivalents	267 2	–	–	–	267 2
Trade receivables <sup>(1)</sup>	304 0	–	–	–	304 0
Derivative financial instruments	–	–	–	1 0	1 0
	<b>571 2</b>	<b>–</b>	<b>46 2</b>	<b>1 0</b>	<b>618 4</b>
<b>Financial liabilities</b>					
Bank overdrafts	–	(14 8)	–	–	(14 8)
Bank loans	–	(141 4)	–	–	(141 4)
Finance lease obligations	–	(64 6)	–	–	(64 6)
Other loans	–	(21 5)	–	–	(21 5)
Trade payables	–	(599 6)	–	–	(599 6)
	<b>–</b>	<b>(841 9)</b>	<b>–</b>	<b>–</b>	<b>(841 9)</b>

(1) Re presented as disclosed in note 17

#### Financial risk management

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

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

#### Foreign currency risk

The Group operates in a number of overseas regions, primarily the Middle East, Canada and the Caribbean. In order to protect the Group's balance sheet from the impact of foreign exchange rate volatility, foreign currency denominated net assets that exceed £10 million equivalent are hedged, as a minimum, to at least 60 per cent of the net asset value. Net investment hedging of overseas operations is achieved through borrowing denominated in the relevant foreign currencies or where this is not practicable in a currency which the relevant currency closely follows.

Group policy is to recognise gains and losses from the effective portions of the hedges in equity and to recognise ineffective portions immediately in the income statement.

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

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

# Notes to the consolidated financial statements

continued

## 26 Financial instruments (continued)

### Foreign currency exposure

The carrying amount of the Group's borrowing denominated in foreign currency is as follows

	2010 £m	2009 £m
United States of America Dollar	(17 6)	(15 6)
Canadian Dollar	(82 0)	(91 6)
United Arab Emirates Dirham	(7 9)	(7 6)
Other	(2 1)	(0 5)
	(109 6)	(115 3)

Of the total foreign currency borrowing of £109 6 million (2009 £115 3 million) the amount of borrowing used for hedging overseas currency asset amounts to £65 4 million (2009 £61 6 million). The whole of the foreign exchange loss of £3 8 million (2009 £1 0 million gain) on translation of the borrowing into sterling has been recognised in the translation reserve as these hedging loans are effective hedges.

The Group does not have a significant amount of foreign currency exposure in respect of financial assets.

Each movement of five per cent in exchange rates against sterling would have changed reported profit before tax and equity as follows

	Five per cent increase		Five per cent decrease	
	Profit £m	Equity £m	Profit £m	Equity £m
United States of America Dollar	–	0 8	–	(0 8)
Canadian Dollar	(0 4)	(4 3)	0 5	4 8
Euro	(0 2)	0 4	0 2	(0 4)
United Arab Emirates Dirham	(1 6)	(3 5)	1 8	3 9
Oman Rials	1 0	(0 3)	(0 1)	1 4
Danish Kroner	–	1 1	–	(1 2)
Other	(0 2)	(0 9)	0 2	0 9

### Interest rate risk

The Group's interest bearing debt is predominantly sterling borrowing to fund ongoing working capital requirements and foreign currency denominated borrowings for hedging net assets of overseas operations. Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate. No interest rate hedging is currently undertaken by the Group's subsidiaries. However, a number of the Group's Public Private Partnership jointly controlled entities have entered into interest rate swaps.

A one percentage point rise in interest rates in respect of US dollar denominated borrowings would increase the annual net interest charge by approximately £0 2 million, in respect of Canadian dollar denominated borrowings an increase of £0 6 million, in respect of sterling denominated borrowings an increase of £0 8 million and in respect of United Arab Emirates Dirham denominated borrowings an increase of £0 1 million.

### Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of a syndicated facility, a bilateral facility and short term overdraft facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels. The average net borrowing during 2010 was £41 8 million (2009 £274 4 million).

### Maturity of financial liabilities

The contractual maturity profile of the Group's liabilities is as follows

	Trade and other payables £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
<b>31 December 2010</b>						
Less than one year	(606 6)	(5 6)	(12 9)	(15 5)	(22 9)	(663 5)
Between one and two years	–	–	(192 1)	(0 1)	(19 5)	(211 7)
Between two and three years	–	–	–	(0 4)	(14 2)	(14 6)
Between three and four years	–	–	–	–	(2 0)	(2 0)
Between four and five years	–	–	–	–	(0 2)	(0 2)
	(606 6)	(5 6)	(205 0)	(16 0)	(58 8)	(892 0)

## 26 Financial instruments (continued)

31 December 2009	Trade and other payables £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
Less than one year	(599.6)	(14.8)	(13.3)	(12.5)	(19.8)	(660.0)
Between one and two years	-	-	(2.5)	(4.4)	(21.3)	(28.2)
Between two and three years	-	-	(131.1)	(3.5)	(17.9)	(152.5)
Between three and four years	-	-	(0.5)	(3.0)	(12.3)	(15.8)
Between four and five years	-	-	-	-	(0.7)	(0.7)
	(599.6)	(14.8)	(147.4)	(23.4)	(72.0)	(857.2)

### Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met

	2010 £m	2009 £m
Expiring within one year	7.2	7.4
Expiring between one and two years	449.3	-
Expiring between two and five years	-	511.0
	456.5	518.4

In February 2011, the Group refinanced its banking facilities, to comprise a £737.5 million five year facility maturing in March 2016 and a £15.0 million 364-day facility. Undrawn committed borrowing facilities measured against the new facilities at 31 December 2010 would be £7.2 million expiring within one year and £546.8 million expiring after five years.

### Credit risk

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

The maximum exposure to credit risk for receivables at 31 December by geographic region was

	2010 £m	2009 £m
United Kingdom	150.2	197.8
Middle East	39.8	32.9
Canada and the Caribbean	86.7	71.6
Rest of the World	3.4	1.7
	280.1	304.0

The maximum exposure to credit risk for receivables at 31 December by segment was

	2010 £m	2009 £m
Support services	124.8	137.0
Public Private Partnership projects	0.1	0.1
Middle East construction services	39.8	32.9
Construction services (excluding the Middle East)	115.4	134.0
	280.1	304.0

The Group's most significant customer, the UK Government, accounts for £46.6 million of the trade receivables carrying amount at 31 December 2010.

## Notes to the consolidated financial statements

continued

**26 Financial instruments (continued)**

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

	2010		2009	
	Net trade receivables £m	Impairment £m	Net trade receivables £m	Impairment £m
Not past due	177.3	–	181.1	–
Past due less than three months	72.1	0.5	85.0	0.8
Past due between three and six months	13.1	1.6	19.4	4.6
Past due between six and 12 months	4.3	0.5	8.1	1.5
Past due more than 12 months	13.3	5.2	10.4	2.7
	<b>280.1</b>	<b>7.8</b>	<b>304.0</b>	<b>9.6</b>

	2010 £m	2009 £m
At 1 January	9.6	16.8
Provision created	0.5	2.9
Provision utilised	(1.4)	(7.6)
Provision released	(0.9)	(2.5)
At 31 December	<b>7.8</b>	<b>9.6</b>

Whilst uncertainty surrounding counterparty risk has increased, on balance the Group believes that debtors will meet their payment obligation in respect of the amount of trade receivables recognised in the balance sheet that are past due and unprovided as at 31 December 2010.

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

**Derivative financial instruments**

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts	–	(0.2)	1.0	–

The movement in fair value of forward foreign currency contracts has been recognised in administrative expenses in the income statement.

In addition to the above, a number of the Group's Public Private Partnership (PPP) jointly controlled entities have entered into interest rate derivatives as a means of hedging interest rate risk. Interest bearing debts and the associated interest rate derivatives within these PPP jointly controlled entities are without recourse to the Group. The life of these hedge arrangements track PPP contract terms and hedge future movements across a range spanning up until February 2040. The fair value of these derivatives is based on quoted prices in active markets, with the movement in fair value each year recognised in the share of change in fair value of effective cash flow hedges within jointly controlled entities in the statement of comprehensive income. At 31 December 2010 the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £107.4 million (2009: £31.6 million) of which £35.1 million (2009<sup>(1)</sup>: £17.2 million) (and the related deferred tax asset of £9.5 million (2009<sup>(1)</sup>: £4.8 million)) has been recognised in the hedging reserve.

**Fair values**

Financial instruments carried at fair value in the balance sheet are non-current asset investments and derivative financial instruments. The fair value of non-current asset investments is determined based on a level 3 valuation method, using valuation techniques that include inputs that are not based on market data. Fair value is calculated by discounting expected future cash flows using asset specific discount rates, with the movement in fair value each year recognised in the fair value movement on available for sale assets in the statement of comprehensive income. The fair value of derivative financial instruments is based on a level 2 valuation method, using inputs from quoted prices in active markets, with the movement in fair value each year recognised in administrative expenses in the income statement.

The movement in the fair value of non-current asset investment derived using a level 3 valuation method is shown below

	£m
At 1 January 2010 <sup>(1)</sup>	46.2
Additions	3.9
Disposals	(14.1)
Recognised in the statement of comprehensive income	5.9
At 31 December 2010	<b>41.9</b>

(1) Restated on adoption of IFRIC 12 (see note 32)

The fair value of non-current investments is most sensitive to movements in the discount rate used. A one percentage point increase in the discount rate would reduce the fair value by £4.5 million.



## 26 Financial instruments (continued)

Where there are differences between the amortised cost carrying value and fair value of the Group's principal financial instruments at 31 December 2010 these are shown below

	2010		2009	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Trade receivables	280 1	279 1	304 0	303 1
Trade payables	(606 6)	(606 6)	(599 6)	(599 6)
Cash and cash equivalents	396 7	396 7	267 2	267 2
Bank overdrafts	(5 6)	(5 6)	(14 8)	(14 8)
Bank loans	(201 4)	(201 4)	(141 4)	(141 4)
Finance lease obligations	(53 8)	(47 9)	(64 6)	(56 6)
Other loans	(15 7)	(15 7)	(21 5)	(21 5)

Fair value is calculated by discounting future cash flows using appropriate interest rates. Finance lease obligations are valued by calculating the present value of the future minimum lease payments.

### Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and for other stakeholders and to maintain an optimal debt and equity structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group has a policy of progressively increasing dividends paid to shareholders broadly in line with underlying earnings per share growth, after taking account of the investment needs of the business. No changes were made in the objectives, policies or process during the years ended 31 December 2010 and 31 December 2009.

	2010 £m	2009 <sup>(1)</sup> £m
Total borrowings	270 9	227 5
Less: net cash and cash equivalents (note 18)	(391 1)	(252 4)
Net cash	(120 2)	(24 9)
Total equity	865 2	772 1
Total capital	745 0	747 2

(1) Restated on adoption of IFRIC 12 (see note 32)

## 27 Financial and capital commitments

	2010 £m	2009 £m
Commitments for equity and subordinated debt investments in PPP jointly controlled entities	108 0	75 2

Non-cancellable operating lease rentals are payable as follows:

	2010		2009	
	Property £m	Other £m	Property £m	Other £m
Within one year	13 0	28 1	16 0	31 5
Between one and five years	36 2	42 8	40 8	52 8
Over five years	28 7	4 3	31 9	1 3
	77 9	75 2	88 7	85 6

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of 3-5 years. None of the leases includes contingent rentals.

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases amount to £5.0 million (2009: £3.9 million) at the balance sheet date.

# Notes to the consolidated financial statements

continued

## 28 Related parties

The Group has related party relationships with its key management personnel and jointly controlled entities

### Transactions with key management personnel

The Group's key management personnel are the Executive and Non-Executive Directors as identified in the Remuneration report on page 47

In addition to their salaries, the Group also provides non-cash benefits to Executive Directors, and contributes to a post-employment defined benefit plan or a defined contribution plan on their behalf. Executive Directors also participate in the Group's share option programme

Non-Executive Directors receive a fee for their services to the Carillion plc Board

Full details of key management personnel compensation is given in the Remuneration report on pages 46 to 51

Other than disclosed in the Remuneration report, there were no other transactions with key management personnel in either the current or preceding year. The IFRS 2 cost credited to administrative expenses relating to share options of key management personnel amounted to £1.2 million (2009: £2.0 million charge)

### Transactions with jointly controlled entities

The table below summarises the principal receivable and payable balances, together with sales to the Group's jointly controlled entities, which are in the normal course of business and on commercial terms

	2010			2009		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
<b>PPP jointly controlled entities</b>						
Aspire Defence Holdings Ltd	202.3	3.0	(10.0)	191.4	1.9	(10.0)
The Hospital Company (Southmead) Ltd	156.0	2.4	–	–	–	–
Vanmed Construction Company (Canada)	64.4	19.2	–	29.7	8.6	–
Inspiredspaces STAG Ltd	63.3	–	–	40.6	5.1	–
Inspiredspaces Nottingham Ltd	58.7	–	–	45.3	6.6	–
Holdfast Training Services Ltd	49.9	4.0	–	32.0	0.5	(4.5)
Inspiredspaces Tameside Ltd	41.6	0.1	–	7.9	0.2	–
Eastbury Park Holdings Ltd	35.1	0.3	–	45.1	2.1	–
Inspiredspaces Tameside (Projectco2) Ltd	34.1	–	–	–	–	–
COE (CAMH) Limited Partnership (Canada)	31.9	8.8	–	7.9	0.8	–
Carillion Secure Solutions (Canada)	27.6	6.4	–	–	–	–
The Healthcare Infrastructure Company of Canada (WOHC) Inc	26.7	2.7	–	30.4	2.6	–
Inspiredspaces Durham (Projectco1) Ltd	26.3	4.1	–	–	–	–
Clinicenta (Hertfordshire) Ltd	20.8	–	–	13.9	–	–
Inspiredspaces Tameside (Projectco1) Ltd	20.5	3.1	–	16.7	1.5	–
Inspiredspaces Rochdale Ltd	18.9	–	–	–	–	–
The Hospital Company (Portsmouth) Holdings Ltd	18.2	–	–	34.8	0.1	–
Inspiredspaces Wolverhampton (Projectco1) Ltd	11.3	1.5	–	–	–	–
Inspiredspaces STAG (Projectco2) Ltd	10.7	0.3	–	–	–	–
Vanbrook Construction Company (Canada)	10.4	0.8	–	23.1	7.7	–
Inspiredspaces Rochdale (Projectco1) Ltd	10.4	1.8	–	–	–	–
Inspiredspaces Durham Ltd	10.2	–	–	14.1	1.1	–
The Healthcare Infrastructure Company of Canada (ROH) Inc	7.0	0.7	–	6.1	0.8	–
Inspiredspaces Nottingham (Projectco1) Ltd	6.0	3.4	–	22.6	3.3	–
LCED (Sault) Limited Partnership (Canada)	4.5	5.8	–	20.4	8.5	–
Education 4 Ayrshire (Holdings) Ltd	0.9	0.1	–	5.5	1.8	–
Integrated Accommodation Services Ltd	0.2	10.8	–	12.0	11.3	–
Other	21.7	5.8	–	39.9	3.4	(5.2)
	<b>989.6</b>	<b>85.1</b>	<b>(10.0)</b>	<b>639.4</b>	<b>67.9</b>	<b>(19.7)</b>
<b>Other jointly controlled entities</b>						
CarillionEnterprise Ltd	36.6	4.6	–	45.3	–	(3.2)
Modern Housing Solutions (Prime) Ltd	6.6	–	–	0.9	–	–
Al Futtaim Carillion LLC	4.4	3.5	(1.5)	3.9	3.0	(0.7)
Carillion Richardson Worcester	3.0	0.1	–	–	–	–
Al Futtaim Carillion (Abu Dhabi) LLC	2.1	1.7	–	–	–	–
Carillion Richardson Partnership	–	10.4	–	–	14.3	(6.2)
Carillion Richardson	–	–	(11.7)	–	–	(10.8)
Other	1.4	3.1	(2.3)	1.3	0.4	(0.2)
	<b>1,043.7</b>	<b>108.5</b>	<b>(25.5)</b>	<b>690.8</b>	<b>85.6</b>	<b>(40.8)</b>

Comparative figures for 2009 have been re-presented to include a number of Canadian PPP jointly controlled entities

## 29 Disposals

### Disposals in 2010

Following completion of legal and other due diligence procedures in 2010, the provisional profit on disposal of Carillion IT Services Limited and Enviros Group Limited in 2009 of £10.3 million was unchanged. The following cash transactions occurred in relation to amounts provided in 2009 on the disposal of Carillion IT Services Limited and Enviros Group Limited, which are disclosed in the cash flow statement within disposal of businesses.

	£m
Deferred consideration received	1.6
Transaction and other costs paid	(6.3)
<b>Net cash outflow</b>	<b>(4.7)</b>

During 2010, the Group disposed of its equity investment in a Public Private Partnership jointly controlled entity. The disposal generated a cash consideration of £31.3 million and a non-operating profit of £16.3 million.

During 2010 the Group disposed of a further five per cent of its non-quoted equity interest in Aspire Defence Holdings Limited, a Public Private Partnership project. The disposal generated a cash consideration of £14.5 million and a non-operating profit of £0.5 million.

### Disposals in 2009

On 30 June 2009, the Group disposed of the entire issued share capital of Carillion IT Services Limited for total cash consideration of £36.0 million and on 30 October 2009 disposed of the entire issued share capital of Enviros Group Limited for a total cash consideration of £26.4 million.

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

#### Net assets at the date of disposal

	Carillion IT Services Limited £m	Enviros Group Limited £m	Total £m
Property, plant and equipment	(4.8)	(0.9)	(5.7)
Intangible assets	(2.2)	(5.6)	(7.8)
Inventories	(0.3)	–	(0.3)
Deferred tax assets	–	(1.0)	(1.0)
Trade and other receivables	(21.3)	(8.4)	(29.7)
Cash and cash equivalents	(0.5)	(1.3)	(1.8)
Trade and other payables	8.5	5.7	14.2
Deferred tax liabilities	0.6	1.6	2.2
<b>Net identifiable liabilities</b>	<b>(20.0)</b>	<b>(9.9)</b>	<b>(29.9)</b>
<b>Total consideration</b>	<b>36.0</b>	<b>28.0<sup>(1)</sup></b>	<b>64.0</b>
Transaction costs	(7.7)	(2.3)	(10.0)
Other costs of disposal	(6.8)	(7.0)	(13.8)
<b>Profit on disposal</b>	<b>1.5</b>	<b>8.8</b>	<b>10.3</b>

(1) Includes £1.6 million of deferred consideration payable on agreement of completion accounts.

Cash flows associated with disposals are included in the cash flow statement as follows:

	Carillion IT Services Limited £m	Enviros Group Limited £m	Total £m
Cash proceeds received	36.0	26.4	62.4
Disposal costs paid	(3.1)	(0.3)	(3.4)
Cash and cash equivalents disposed	(0.5)	(1.3)	(1.8)
<b>Net cash inflow on disposal</b>	<b>32.4</b>	<b>24.8</b>	<b>57.2</b>

During 2009, the Group disposed of equity investments in four Public Private Partnership jointly controlled entities. The disposals generated cash consideration of £100.4 million (after deducting disposal costs of £0.3 million) and a non-operating loss of £3.9 million (restated – see note 32).

# Notes to the consolidated financial statements

continued

## 30 Retirement benefit obligations

Carillion operates a number of pension schemes for eligible employees as disclosed below

### Principal defined benefit schemes

#### Carillion Staff and 'B' Pension Schemes

Both schemes are defined benefit schemes and were closed to new entrants on 1 April 2003. Existing members no longer accrue benefits for future service with effect from 5 April 2009 but instead are eligible to participate in the Carillion 2009 Pension Plan, which is a defined contribution scheme.

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 is due at 31 December 2011.

Regular ongoing contributions are no longer payable following the closure of the Staff and 'B' schemes to future accrual on 5 April 2009 (2009: £2.4 million and £0.2 million respectively).

As part of the deficit recovery plan agreed with the Trustees of the Staff and 'B' schemes, payments were made to the schemes during 2010 of £2.3 million and £2.1 million respectively (2009: £2.6 million and £0.3 million respectively). Recovery payments of £0.5 million and £2.1 million to the Staff and 'B' schemes respectively are scheduled to be made in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levies for the year ended 31 March 2010 were £1.8 million (2009: £1.0 million) for the Staff scheme and £27,000 (2009: £16,000) for the 'B' scheme.

#### Mowlem Staff Pension and Life Assurance Scheme

The Mowlem Staff Pension and Life Assurance Scheme was part of Mowlem, which was acquired on 23 February 2006.

The majority of employees who participate in the scheme are in defined benefit arrangements. The defined benefit section of the Mowlem Staff Pension and Life Assurance Scheme closed to new entrants on 1 January 2003. Existing members will no longer accrue benefits for future service with effect from 5 April 2009 but instead are eligible to participate in the Carillion 2009 Pension Plan, which is a defined contribution scheme.

A defined contribution section was opened for new employees from 1 April 2003. Existing final salary members could opt to continue on that basis from 1 April 2003 if they agreed to pay a higher member contribution or could pay the same rate and accrue benefits on a Career Average Revalued Earnings (CARE) basis from that date.

An actuarial valuation of the Mowlem Staff scheme was undertaken by the Trustees' independent actuaries as at 31 December 2008 using the attained age method. The market value of the schemes' assets at that date were £381.7 million, representing approximately 73 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 is due at 31 December 2011.

Regular ongoing contributions are no longer payable following the closure of the scheme to future accrual on 5 April 2009 (2009: £1.7 million).

As part of the deficit recovery plan agreed with the Trustees, payments were made to the Mowlem Staff scheme in the year of £10.2 million (2009: £5.9 million). Recovery payments of £10.1 million are scheduled to be paid in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2010 was £3.2 million (2009: £1.6 million).

#### Carillion Public Sector Pension Scheme

The scheme is a defined benefit scheme and remains open to eligible employees transferring from the public sector as part of the commercial obligations under PFI, PPP and Best Value contracts with public sector employers.

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 December 2007 using the attained age method. The market value of the schemes' assets at that date was £105.3 million, which represented approximately 89 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 at 31 December 2010.

The regular ongoing employer contributions paid during the year were £3.4 million (2009: £3.3 million). The Group expects to pay regular contributions amounting to £3.4 million, representing 27.5 per cent of pensionable salaries, during 2011. If any employees are admitted into the Scheme through PFI, PPP or Best Value contracts during 2011, the level of contributions will increase.

As part of the deficit recovery plan agreed with the Trustees, payments of £2.5 million were made during 2010 (2009: £4.7 million). Further payments of £2.3 million are scheduled to be paid in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the above. The PPF levy for the year ended 31 March 2010 was £0.5 million (2009: £0.4 million).

### 30 Retirement benefit obligations (continued)

#### Shared Cost Sections of the Railways Pension Scheme (RPS)

Employees of GTRM and Centrac, and former employees of British Rail transferred to these businesses, have pension provision via Shared Cost Sections of the Railways Pension Scheme. Both the GTRM and Centrac Sections are closed to new entrants. Shared cost arrangements are such that the employer and members share the cost of future service liabilities on a 60/40 split respectively and any surplus or deficit emerging over time is dealt with on a similar basis.

Independent actuaries appointed by the Railways Pension Trustee Company Limited carried out a formal valuation of the Railways Pension Scheme at 31 December 2007 using the projected unit credit method for GTRM and the attained age method for Centrac. The market values of the scheme assets of the GTRM Section and Centrac Section at 31 December 2007 were £152.9 million and £22.1 million respectively, which represented approximately 99 per cent and 106 per cent of benefits that had accrued to members at that date on an ongoing basis, after taking account of future increases in salaries, contributions payable and reserves. The next actuarial valuation of the schemes by the Trustees' independent actuaries is due at 31 December 2010.

The regular ongoing contributions paid by the employer during the year were £1.4 million (2009: £1.6 million). The Group expects to pay regular ongoing contributions in 2011 amounting to £1.5 million and £0.2 million, representing 21.5 and 19.6 per cent of pensionable salaries for the GTRM and Centrac sections respectively.

Deficit recovery plan payments of £0.6 million were made during 2010 (2009: £nil). As part of the deficit recovery plan agreed with Trustees a payment of £0.6 million is scheduled to be paid in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2010 for both sections totalled £1.6 million (2009: £0.6 million).

#### Alfred McAlpine Pension Plan

The Alfred McAlpine Pension Plan was part of Alfred McAlpine, which was acquired on 12 February 2008. The pension plan is a defined benefit arrangement which was closed to future service accrual on 31 July 2003. During 2009, it was agreed that the benefits for members will no longer be linked to final salary with effect from 31 December 2009.

An actuarial valuation of the pension plan was undertaken by the Trustees' independent actuaries as at 31 December 2008 using the projected unit credit method. The market value of the plan assets at that date were £233.4 million, which represented approximately 65 per cent of the benefits that had accrued to members at that date. The next actuarial valuation of the schemes by the Trustees' independent actuaries is due at 31 December 2011.

Regular ongoing employer contributions are no longer payable following the closure of the scheme to future accrual (2009: £0.2 million).

As part of the deficit recovery plan agreed with the Trustees, payments were made in 2010 of £10.8 million (2009: £9.3 million). Recovery payments of £9.5 million are scheduled to be paid in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2010 was £0.7 million (2009: £0.2 million).

#### Other defined benefit schemes

##### The PME Staff Pension and Life Assurance Scheme

The PME Staff Pension and Life Assurance Scheme is a defined benefit scheme and is closed to new entrants. Existing members will no longer accrue benefits for future service with effect from 5 April 2009 but instead are eligible to participate in the Carillion 2009 Pension Plan, which is a defined contribution scheme.

The deficit in the scheme at 31 December 2010 in accordance with IAS 19, is £5.0 million (2009: £7.3 million).

An actuarial valuation of the scheme was undertaken by the Trustee's independent actuaries as at 31 December 2008 using the attained age method. The market value of the scheme's assets at that date was £46.0 million, which represented approximately 78 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 is due at 31 December 2011.

Regular ongoing contributions are no longer payable following the closure of the scheme to future accrual on 5 April 2009 (2009: £0.5 million).

As part of the deficit recovery plan agreed with the Trustees, a payment of £1.3 million was made during 2010. Recovery payments of £0.9 million have been scheduled to be paid in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2010 was £0.1 million (2009: £0.1 million).

# Notes to the consolidated financial statements

continued

## 30. Retirement benefit obligations (continued)

### Carillion Canada Inc

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc managed locally which was closed to future accrual with effect from 31 December 2010. In addition certain executives have supplemental arrangements in place namely the Senior Executive Retirement Plan and the Post Retirement Benefit Plan. The net deficit in total for these three schemes at 31 December 2010, calculated in accordance with IAS 19, is £6.8 million (2009 £4.2 million).

Contributions during the year were £nil (2009 £nil) in respect of the Carillion Canada Inc defined benefit scheme and £0.4 million (2009 £0.4 million) in respect of other post-retirement benefits for senior Canadian employees. Contributions for 2011 are estimated to be £0.2 million.

### Mowlem (1993) Pension Scheme

The Mowlem (1993) Pension Scheme was part of Mowlem, which was acquired on 23 February 2006. The scheme is a defined benefit arrangement.

The deficit in the scheme at 31 December 2010, calculated in accordance with IAS 19 is £4.1 million (2009 £8.8 million).

An actuarial valuation of the Mowlem (1993) scheme was undertaken by independent actuaries as at 31 December 2008 using the attained age method. The market value of the schemes' assets at that date were £49.1 million, representing approximately 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 scheme by the Trustees' independent actuaries is due at 31 December 2011.

The regular ongoing contributions paid during the year were £2.4 million (2009 £2.7 million). The Group expects to pay regular ongoing contributions amounting to £2.4 million, representing 27.7 per cent of pensionable salary to the Mowlem (1993) scheme during 2011.

As part of the deficit recovery plan agreed with the Trustees, payments were made to the scheme during 2010 amounting to £3.9 million (2009 £3.9 million). Recovery payments of £3.6 million are scheduled to be made in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2010 was £0.3 million (2009 £0.6 million).

### ESPS Scheme

The ESPS scheme was part of Alfred McAlpine, which was acquired on 12 February 2008 and is a defined benefit arrangement.

The deficit in the scheme at 31 December 2010, calculated in accordance with IAS 19 is £15.4 million (2009 £18.4 million).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 March 2007 using the projected unit credit method. The market value of the plan assets at that date were £47.1 million, which represented approximately 76 per cent of the benefits that had accrued to members at that date. The next actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 March 2010 is currently being undertaken.

The regular ongoing employer contributions paid during the year were £0.4 million (2009 £0.5 million). The Group expects to pay regular ongoing contributions of £0.4 million in 2011, representing 25.6 per cent of pensionable salary.

As part of the deficit recovery plan agreed with the Trustees, payments were made in the year of £1.1 million (2009 £1.0 million). Recovery payments of £1.5 million are scheduled to be made in 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2010 was £0.4 million (2009 £0.3 million).

### Bower Group Retirement Benefit Scheme

The Bower Group Retirement Benefit Scheme was part of Mowlem, which was acquired on 23 February 2006. The scheme is a defined benefit arrangement and is closed to future accrual.

The deficit in the scheme at 31 December 2010, calculated in accordance with IAS 19 is £2.0 million (2009 £2.2 million).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 28 February 2007 using the projected unit credit method. The market value of the plan assets at that date were £7.4 million, which represented approximately 70 per cent of the benefits that had accrued to members at that date. An actuarial valuation of the scheme by the Trustees' independent actuaries as at 28 February 2010 is currently being undertaken.

As the scheme is closed to future accrual, the Group does not make any regular ongoing contributions to the scheme.

There were £0.4 million of deficit recovery payments made during 2010 (2009 £nil). Recovery payments of £0.8 million are expected to be made during 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2010 was £0.1 million (2009 £0.1 million).

### 30 Retirement benefit obligations (continued)

#### Alfred McAlpine (Ireland) Pension Plan and Irishenco Pension Plan

The Group has two small defined benefit pension schemes for the employees of operations in the Republic of Ireland, the Alfred McAlpine (Ireland) Pension Plan and the Irishenco Pension Plan. The deficit in the schemes in the Group balance sheet at 31 December 2010, calculated in accordance with IAS 19, is £nil (2009 £0.4 million) and £0.5 million (2009 £0.5 million) for the Alfred McAlpine (Ireland) Pension Plan and the Irishenco Pension Plan respectively.

#### Defined contribution schemes

The Group operates four principal UK defined contribution schemes, the Carillion 2009 Pension Plan, the Carillion Pension Plan, the PME Defined Contribution Plan and the Carillion Retirement Plan (closed to new entrants since 2001). In addition, the Group operates two Stakeholder Plans ('Stakeholder Plus' and the Alfred McAlpine 2003 Pension Plan).

The Carillion 2009 Pension Plan commenced on 6 April 2009 for existing employee members of the Carillion Staff, Carillion 'B' Mowlem Staff and PME Staff Pension and Life Assurance Schemes which closed to future service accrual on 5 April 2009. Under the plan employees contribute a minimum of 5.0 per cent and the employer a minimum of 10.0 per cent of basic salaries. Death in service lump sum benefits are provided in addition. The employer meets the cost of administration and managing the Plan. Employer contributions during the year were £12.8 million (2009 £9.6 million).

The Carillion Pension Plan commenced on 1 April 2003. The majority of new employees across the Group are eligible to join this Plan. Employees contribute a minimum of 5.0 per cent and the employer a minimum of 7.0 per cent of basic salaries. Up to 3.0 per cent of any additional voluntary contributions paid by employees is matched by the employer resulting in a maximum employer contribution of 10.0 per cent of basic salary. The employer meets the cost of administration and managing the Plan equivalent to a further 2.0 per cent of basic pay. Employer contributions during the year were £4.2 million (2009 £4.1 million).

During the year the defined contribution section of Mowlem Staff Scheme was closed to any further contributions. Employer contributions during the year were £nil (2009 £0.2 million).

Employees of Carillion Services Limited who are not eligible for the Carillion Pension Plan are invited to participate in the Carillion Stakeholder Plus managed by BlackRock Pensions Limited. Employees contribute 5.0 per cent and the employer 6.5 per cent of basic salary. Death in service lump sum benefits are provided in addition. Employer contributions during the year were £0.7 million (2009 £0.7 million).

The PME Defined Contribution Plan commenced in April 1999. All new PME employees are offered membership of the Plan. Employees contribute 4.0 per cent of basic pay and the employer pays 5.0 per cent of basic pay (inclusive of a 1.0 per cent allowance for insurance premiums and audit fees). Employer contributions during the year were £0.6 million (2009 £0.7 million).

Employer contributions to the Carillion Retirement Plan during the year were £47,847 (2009 £74,635).

Employees of businesses acquired on the purchase of Alfred McAlpine may be eligible to participate in the Alfred McAlpine 2003 Pension Plan managed by Zurich Assurance. Employees contribute between 3.0 per cent and 9.0 per cent depending upon job grade and the employer contributes matching amounts. Death in service lump sum benefits are provided in addition. Employer contributions during the year were £3.9 million (2009 £3.5 million).

Stakeholder pensions are also provided by B&CE Insurance and Scottish Widows where required by Working Rule Agreements and defined contribution pensions provided where required by the Joint Industries Board Working Rules Agreements.

Various companies within the Group participate in admission agreements with local authorities in order to allow former public sector employees to continue membership of the Local Government Pension Scheme. Contributions during the year, which have been accounted for on a defined contribution basis, were £0.6 million (2009 £0.5 million).

#### IAS 19 disclosures

The weighted average of the principal assumptions used by the independent qualified actuaries in providing the IAS 19 position were:

	31 December 2010		31 December 2009	
	UK	Canada	UK	Canada
Rate of increase in salaries	4.40%	2.00%	4.40%	3.00%
Rate of increase in pensions*	3.40%	2.00%	3.40%	2.00%
Inflation rate (RPI)	3.40%	2.00%	3.40%	2.00%
Inflation rate (CPI)	2.80%	N/A	N/A	N/A
Discount rate	5.40%	5.33%	5.80%	6.25%

\* Where schemes have adopted the 2.5 per cent per annum cap on increases to pensions in payment the assumption is 2.4 per cent per annum (2009 2.4 per cent p.a.) rather than the higher amount shown above.

For the majority of schemes, the inflation assumption for certain benefits is now based on the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) following the change announced by the UK Government in 2010.

The market values of the schemes' assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised. The present values of the schemes' liabilities are calculated by reference to the investment return on Grade AA corporate bonds. The assumptions used do not necessarily represent the investment return that may be achieved.

# Notes to the consolidated financial statements

continued

## 30 Retirement benefit obligations (continued)

For all schemes except the Railways Pension Scheme, the mortality assumptions adopted have been updated in 2010 and are SINA (YoB) mc tables with a 1 per cent floor and scheme specific age ratings. The Railways Pension Scheme uses scheme specific assumptions based on industry experience.

The life expectancies at 65 for males aged 45 – 65 are shown below

	Valuation at 31 December 2008	
	Non retired members (aged 45 years currently)	Retired members (aged 65 years currently)
Carillion Staff	PA92(YoB) MC + 2 years 21 3 years	PA92(YoB) MC + 2 years 20 3 years
Mowlem Staff	PA92(YoB) MC 21 3 years	PA92(YoB) MC 22 0 years
Carillion 'B'	PA92(YoB) MC - 2 years 29 8 years	PA92(YoB) MC - 2 years 28 6 years
Alfred McAlpine Pension Plan	PA92(YoB) MC + 0 years 23 1 years	PA92(YoB) MC + 2 years 20 3 years
PME Staff Pension and Life Assurance Scheme	PA92(YoB) MC 23 1 years	PA92(YoB) MC 22 0 years
Mowlem (1993)	PA92(YoB) MC + 2 years 21 3 years	PA92(YoB) MC + 2 years 20 3 years

The previous bases at the last valuation for the Carillion Staff Scheme, the Mowlem Staff scheme, the Carillion 'B' the Mowlem (1993) Scheme, and Alfred McAlpine Pension Plan was the 'PA92(YoB=1965)mc + 2 years' table for non retired member's mortality and the PA92(YoB=1935)mc + 2 years' for retired members'. This is still being adopted for the Carillion Public Sector scheme until the next valuation. For the Planned Maintenance Engineering Scheme the previous base was PA92(YoB) MC for both retired and non retired members.

The Canadian Actuary annually undertakes an actuarial valuation and accounting exercise for reporting on local employee benefits under the local GAAP, CICA 3461. The same assumptions have been used for local medical and dental inflation rates in relation to the Post Retirement Benefit Plan. The immediate trend rate is seven per cent per annum with an ultimate trend rate of three per cent per annum (2030). An increase of one per cent in the valuation trend would increase liabilities by £0.8 million and the total service cost by £0.1 million. A decrease of one per cent in the valuation trend would reduce liabilities by £0.6 million and total service cost by £0.1 million. The overall expected rate of return on assets is determined by reference to local long term interest rates, the yield on gilts or Treasury stock and the Actuary's recommendation on the allowance for the potential long-term extra return from investing in equities.

Carillion has adopted immediate recognition of any actuarial gains or losses through the Statement of Comprehensive Income as permitted under IAS 19.

The IAS 19 position for the schemes is as follows

	Expected rate of return %		Carillion Staff £m	Mowlem Staff £m	Carillion B Pension Plan £m	Alfred McAlpine Pension Plan £m	Public Sector £m	Railways Pension £m	Other Schemes £m	Total £m
31 December 2010	UK	Canada								
Equities	7.65	8.57	187.1	264.4	26.4	177.9	82.6	117.4	108.6	964.4
Government bonds	3.90	4.10	146.3	15.5	32.6	52.0	20.1	18.4	42.7	327.6
Corporate bonds	5.25	-	228.8	160.9	43.6	63.8	27.7	5.6	46.6	577.0
Other	0.50	2.20	2.9	6.1	1.5	2.9	0.2	1.8	4.2	19.6
Market value of scheme assets			565.1	446.9	104.1	296.6	130.6	143.2	202.1	1,888.6
Present value of funded scheme obligation			(584.1)	(546.9)	(123.6)	(343.3)	(134.7)	(160.1)	(228.2)	(2,120.9)
Present value of unfunded scheme obligation			-	-	-	-	-	-	(7.7)	(7.7) <sup>(1)</sup>
Minimum funding requirement			-	-	-	-	(9.4)	-	-	(9.4)
Total deficit			(19.0)	(100.0)	(19.5)	(46.7)	(13.5)	(16.9)	(33.8)	(249.4)
Related deferred tax asset										67.3
Net pension liability										(182.1)

(1) All schemes are funded except for the Senior Executive Retirement Plan and the Post Retirement Benefit Plan held in Canada.

	Expected rate of return %		Carillion Staff £m	Mowlem Staff £m	Carillion B Pension Plan £m	Alfred McAlpine Pension Plan £m	Public Sector £m	Railways Pension £m	Other Schemes £m	Total £m
31 December 2009	UK	Canada								
Equities	8.20	8.57	183.2	230.1	24.5	164.4	73.1	90.5	94.3	860.1
Government bonds	4.35	5.20	173.5	14.2	40.7	43.2	23.0	9.7	44.3	348.6
Corporate bonds	5.50	-	173.6	159.8	32.7	56.3	17.3	21.3	38.6	499.6
Other	1.00	3.25	3.7	4.4	1.1	5.6	1.2	13.3	3.8	33.1
Market value of scheme assets			534.0	408.5	99.0	269.5	114.6	134.8	181.0	1,741.4
Present value of funded scheme obligation			(573.0)	(497.3)	(111.9)	(337.8)	(122.7)	(163.0)	(216.0)	(2,021.7)
Present value of unfunded scheme obligation			-	-	-	-	-	-	(6.8)	(6.8) <sup>(1)</sup>
Minimum funding requirement			-	-	-	-	(6.7)	-	-	(6.7)
Total deficit			(39.0)	(88.8)	(12.9)	(68.3)	(14.8)	(28.2)	(41.8)	(293.8)
Related deferred tax asset										82.7
Net pension liability										(211.1)



### 30. Retirement benefit obligations (continued)

#### Expense recognised in the income statement

	2010 £m	2009 £m
<b>(Charge)/credit to operating profit</b>		
Current service cost relating to defined benefit schemes	(7 1)	(8 1)
Curtailments	0 4	3 3
<b>Total</b>	<b>(6 7)</b>	<b>(4 8)</b>
<b>Credit/(charge) to other finance income</b>		
Expected return on pension scheme assets	111 9	101 8
Interest cost on pension scheme liabilities	(115 5)	(104 0)
<b>Net finance charge</b>	<b>(3 6)</b>	<b>(2 2)</b>
<b>Total actuarial (losses)/gains recognised in the Statement of comprehensive income</b>		
Effects of changes in assumptions underlying the present value of scheme liabilities	(61 2)	(319 2)
Difference between actual and expected return on scheme assets	75 8	85 9
Movement in minimum funding requirement	(2 7)	13 3
<b>Total actuarial gains/(losses) recognised in the Statement of comprehensive income</b>	<b>11 9</b>	<b>(220 0)</b>

	2010 £m	2009 £m
<b>Changes in defined benefit obligation</b>		
Obligation at 1 January	(2,028 5)	(1,683 6)
Current service cost	(7 1)	(8 1)
Interest cost	(115 5)	(104 0)
Contributions from scheme members	(1 0)	(2 7)
Benefits paid	86 0	86 7
Curtailments	0 4	3 3
Actuarial losses	(61 2)	(319 2)
Effect of movements in foreign exchange rates	(1 7)	(0 9)
<b>Obligation at 31 December</b>	<b>(2,128 6)</b>	<b>(2,028 5)</b>

	2010 £m	2009 £m
<b>Changes in the fair value of scheme assets</b>		
Fair value at 1 January	1,741 4	1,594 5
Expected return on scheme assets	111 9	101 8
Contributions from the employer	43 2	42 5
Contributions from scheme members	1 0	2 7
Benefits paid	(86 0)	(86 7)
Actuarial gains	75 8	85 9
Effect of movements in foreign exchange rates	1 3	0 7
<b>Fair value at 31 December</b>	<b>1,888 6</b>	<b>1,741 4</b>

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

	2010 £m	2009 £m
Present value of defined benefit obligation	(2,128 6)	(2,028 5)
Fair value of scheme assets	1,888 6	1 741 4
Minimum funding requirement	(9 4)	(6 7)
	<b>(249 4)</b>	<b>(293 8)</b>
Schemes in surplus (within non-current assets)	0 9	2 6
Schemes in deficit (within non-current liabilities)	(250 3)	(296 4)
	<b>(249 4)</b>	<b>(293 8)</b>

The actual return on plan assets was £187.7 million (2009: £187.7 million)

# Notes to the consolidated financial statements

continued

## 30. Retirement benefit obligations (continued)

### History of experience gains and losses

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of the defined benefit obligation	(2,128 6)	(2,028 5)	(1,683 6)	(1,591 3)	(1,589 0)
Fair value of scheme assets	1,888 6	1,741 4	1,594 5	1,567 0	1 476 1
Minimum funding requirement	(9 4)	(6 7)	(20 0)	(21 6)	(12 8)
Deficit	(249 4)	(293 8)	(109 1)	(45 9)	(125 7)
Experience gains and losses on scheme obligation	(£m) (61 2)	(319 2)	309 2	47 2	12 8
Percentage of defined benefit obligation	(%) (2 9)	(15 7)	18 4	3 0	0 8
Difference between expected and actual returns on scheme assets	(£m) 75 8	85 9	(416 6)	(15 0)	21 8
Percentage of scheme assets	(%) 4 0	4 9	(26 1)	(1 0)	1 5

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group statement of comprehensive income is £224.6 million (2009 £236.5 million). The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £85.2 million and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes. Therefore the Group is unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of comprehensive income before 1 January 2004.

## 31 Accounting estimates and judgements

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

### Construction contracts

In determining the revenue and costs to be recognised each year for work done on construction contracts, estimates are made in relation to final out-turn on each contract. On major construction contracts, it is assessed, based on past experience, that their outcome cannot be estimated reliably during the early stages of the contract, but that costs incurred will be recoverable. Once the outcome can be estimated reliably, the estimates of final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. Management continually reviews the estimated final out-turn on contracts and makes adjustments where necessary.

### Intangible assets

In determining the fair value of identifiable assets, liabilities and contingent liabilities of businesses acquired, judgement is required in relation to final out-turn on construction contracts, discount rates and expected future cash flows and profitability.

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from the cash-generating unit to which the intangible assets are attached. Note 11 provides details of the carrying value of intangible assets.

### Retirement benefits

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group.

- > expected return on plan assets,
- > inflation rate,
- > mortality,
- > discount rate and
- > salary and pension increases.

Details of the assumptions used are included in note 30.

### 32 New accounting standards and interpretations

As described in note 1, IFRIC 12 clarifies the accounting for Public Private Partnership (PPP) projects which the Group participates in through jointly controlled entities. The overall impact of IFRIC 12 is to change the timing of when profits are recognised in PPP projects but it does not impact the total profit recognised or cash flows during the life of the PPP project. This has resulted in a restatement of the Group's share of the results of jointly controlled entities and the non-operating profit arising from the disposal of investments in jointly controlled entities.

The adoption of IFRIC 12 has had an impact on the Group's share of movements in the fair value of interest rate swaps within PPP jointly controlled entities. For a number of jointly controlled entities, the impact of IFRIC 12 on its carrying value in the Group's balance sheet requires the Group's share of fair value movements in interest rate swaps to be restricted to avoid the carrying value of the jointly controlled entities concerned from becoming negative. This adjustment has been reflected in the statement of comprehensive income.

Upon the adoption of IFRIC 12 on 1 January 2010 the Group has restated prior period information, which has had the following impact on reported profit, earnings per share and net assets:

	Year ended 31 December 2009
£m unless otherwise stated	
<b>Income statement</b>	
Total revenue as previously reported	5,426.5
Impact of adoption of IFRIC 12	202.8
Total revenue as restated	5,629.3
Share of jointly controlled entities' revenue as previously reported	922.3
Impact of adoption of IFRIC 12	202.8
Share of jointly controlled entities' revenue as restated	1,125.1
Profit before tax as previously reported	147.7
Impact of adoption of IFRIC 12 on share of jointly controlled entities	
– operating profit	(1.5)
– net financial expense	(7.8)
– taxation	2.6
Impact of adoption of IFRIC 12 on underlying <sup>(1)</sup> profit before tax	(6.7)
Impact of adoption of IFRIC 12 on non-operating items	(5.1)
Profit before tax as restated	135.9
Earnings per share as previously reported (pence)	33.4
Impact of IFRIC 12 as noted above (pence)	(2.9)
Earnings per share as restated (pence)	30.5
Diluted earnings per share as previously reported (pence)	33.2
Impact of IFRIC 12 as noted above (pence)	(2.9)
Diluted earnings per share as restated (pence)	30.3
<b>Statement of comprehensive income</b>	
Share of recycled cash flow hedges within jointly controlled entities as previously reported	9.9
Impact of adoption of IFRIC 12	(1.6)
Share of recycled cash flow hedges within jointly controlled entities as restated	8.3
Share of change in fair value of effective cash flow hedges within jointly controlled entities as previously reported	(8.3)
Impact of adoption of IFRIC 12	4.1
Share of change in fair value of effective cash flow hedges within jointly controlled entities as restated	(4.2)

(1) As defined in note 8b

# Notes to the consolidated financial statements

continued

## 32 New accounting standards and interpretations (continued)

### Balance sheet

	31 December 2009 £m	1 January 2009 £m
Net assets as previously reported	777.2	867.6
Impact of adoption of IFRIC 12 on investments in jointly controlled entities	(7.5)	4.2
Impact of adoption of IFRIC 12 on other investments	2.4	–
<b>Net assets as restated</b>	<b>772.1</b>	<b>871.8</b>

The adoption of IFRIC 12 reduced underlying<sup>(1)</sup> profit before tax from £182.2 million to £175.5 million and underlying<sup>(1)</sup> earnings per share from 39.0 pence to 37.3 pence at 31 December 2009.

In the year ended 31 December 2010, the adoption of IFRIC 12 reduced the Group's share of results of jointly controlled entities and therefore underlying<sup>(1)</sup> profit before tax from £192.3 million to £188.1 million and consequently underlying<sup>(1)</sup> earnings per share reduced from 40.4 pence to 39.4 pence.

The adoption of IFRIC 12 also increased non-operating profit in the year ended 31 December 2010 by £6.1 million, therefore reported profit before tax increased from £161.8 million to £167.9 million and consequently basic earnings per share increased from 36.4 pence to 36.9 pence and diluted earnings per share increased from 36.2 pence to 36.7 pence. In the statement of comprehensive income, IFRIC 12 reduced the loss recognised on the Group's share of the change in fair value of effective cash flow hedges within jointly controlled entities by £5.3 million. The adoption of IFRIC 12 increased net assets in the year ended 31 December 2010 by £7.2 million.

(1) As defined in note 8b.

### 33 Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of the Group's principal activities that are not required to be included on the Group balance sheet. The principal off-balance sheet arrangements that the Group are party to are as follows:

- > operating leases (see note 27)
- > pledged assets securing finance lease liabilities (see note 10)
- > guarantees for deferred equity payments and performance of contracts for PPP customers (see note 25)
- > capital commitments for capital expenditure and equity and subordinated debt in PPP controlled entities (see note 27)
- > outsourcing contracts

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office functions with a third party provider. These arrangements are on commercial terms and any penalty or termination clauses associated with these arrangements will not have material impact on the financial position of the Group.

### 34 Post-balance sheet events

In February 2011, the Group extended its banking facilities by securing a syndicated facility of £737.5 million which is repayable in March 2016 together with a 364-day £15.0 million facility.

On 11 February 2011, Carillion plc reached agreement on the terms of a recommended acquisition of the entire issued, and to be issued, share capital of Eaga plc, a leading provider of energy efficiency solutions in the UK, for a total consideration of £306.5 million. The acquisition is subject to approval by the shareholders of Eaga plc, change of control approval from the Financial Services Authority and confirmation by the Court, and is expected to become effective in April 2011.

### 35 Principal subsidiaries, jointly controlled entities and jointly controlled operations

A list of significant investments in subsidiaries, jointly controlled entities and jointly controlled operations including the name country of incorporation and proportion of ownership interest is shown below

Except where shown, all subsidiary undertakings and jointly controlled entities are incorporated in Great Britain and operate in the UK All holdings are of ordinary shares and except where shown, all subsidiary undertakings are 100% owned (with equivalent voting rights) and jointly controlled entities and jointly controlled operations are 50% owned Shares of those undertakings marked with an asterisk are directly owned by Carillion plc

#### Principal subsidiary undertakings

Carillion (Aspire Construction) Holdings No 2 Ltd  
Carillion (Aspire Services) Holdings No 2 Ltd  
Carillion Canada Inc (Canada)  
Carillion CR Ltd  
Carillion Construction Ltd\*  
Carillion Fleet Management Ltd\*  
Carillion Highway Maintenance Ltd\*  
Carillion Private Finance Ltd\*  
Carillion Services Ltd\*  
Monteray Ltd 51%  
Planned Maintenance Engineering Ltd  
Postworth Ltd\*  
Sovereign Hospital Services Ltd  
Carillion (AMBS) Ltd

#### Nature of business

Military accommodation at Aldershot and Salisbury Plain  
Facilities management  
Construction and infrastructure services  
Holding company for property development  
Construction and infrastructure management  
Supply and maintenance of vehicles  
Roads and ground maintenance and repair  
Holding company for PPP project companies  
Facilities management  
Property and facilities management services  
Building services and maintenance  
Supply of operatives to the construction industry  
Facilities management in healthcare sector  
Facilities management

#### Principal jointly controlled entities

##### Public Private Partnerships

Accommodation Services (Holdings) Ltd 20%  
Arden Partnership (Derby) Holdings Ltd  
Arden Partnership (Leicester) Holdings Ltd  
Arden Partnership (Lincolnshire) Holdings Ltd  
CSS (FSCC) Partnership (Canada)  
Clinicenta (Hertfordshire) Ltd  
COE (CAMH) Limited Partnership (Canada)  
Eastbury Park (Holdings) Ltd  
Education 4 Ayrshire (Holdings) Ltd 47 5%  
Ellenbrook Holdings Ltd  
Holdfast Training Services Ltd 26%  
Inspiredspaces Durham (Holdings1) Ltd 80%  
Inspiredspaces STaG (Holdings1) Ltd 40 4%  
Inspiredspaces STaG (Holdings2) Ltd 76 4%  
Inspiredspaces Nottingham (Holdings1) Ltd 80%  
Inspiredspaces Rochdale (Holdings1) Ltd 80%  
Inspiredspaces Tameside (Holdings1) Ltd 80%  
Inspiredspaces Wolverhampton (Holdings1) Ltd 80%  
LCED (Sault) Limited Partnership 25% (Canada)  
Road Management Services (A13) Holdings Ltd 25%  
Sheppey Route (Holdings) Ltd  
STaG PCT (Holdco) Ltd  
The Healthcare Infrastructure Company of Canada (ROH) Inc (Canada)  
The Healthcare Infrastructure Company of Canada (WOHC) Inc (Canada)  
The Hospital Company (Southmead) Holdings Ltd  
UK Highways A55 (Holdings) Ltd  
Yorkshire Transformations Holdings Ltd 33 3%

#### Associated Project

GCHQ, Cheltenham  
Mental health facilities, Derbyshire  
Mental health facilities Leicestershire  
Mental health facilities, Lincolnshire  
Forensic Services and Coroners' Complex, Toronto  
The Lister Surgicentre, Hertfordshire  
Centre for Addiction & Mental Health, Toronto  
Permanent Joint Headquarters, Northwood  
South Ayrshire Schools  
University of Hertfordshire Student Accommodation  
Royal School of Military Engineering, Chatham  
Durham Schools  
South Tyneside and Gateshead Schools (Jarrow)  
South Tyneside and Gateshead Schools (South Shields)  
Nottingham Schools  
Rochdale Schools  
Tameside Schools  
Wolverhampton Schools  
Sault Area Hospital, Toronto  
A13 Thames Gateway  
A249 Kent  
Cleadow Park Primary Care Centre  
Royal Ottawa Hospital Ottawa  
William Osler Hospital, Ontario  
Southmead Hospital Bristol  
A55 North Wales  
Swarcliffe Social Housing, Leeds

#### Others

CarillionEnterprise Ltd 50 1%  
Modern Housing Solutions (Prime) Ltd 67%  
Al Futtaim Carillion LLC (UAE) 49%  
Carillion Alawi LLC (Oman) 49%  
Carillion Richardson Partnership  
Emrill Services LLC (UAE)\* 33%  
Servus Ltd (Trinidad & Tobago)

#### Nature of business

Ministry of Defence buildings  
Ministry of Defence housing  
Building and civil engineering  
Building and civil engineering  
Property Development  
Facilities management  
Facilities management

#### Jointly controlled operations

Name, proportion of interest held and address of principal place of business

Carillion Telent Joint Venture 60%  
Carillion-URS Joint Venture 70%

Carillion-WSP Joint Venture 60%

Hayward Road, Warwick, England  
Pythley Maintenance Compound, Pegasus Court, Kettering South  
Business Park Kettering Northamptonshire, England  
Bradford, West Yorkshire England

A complete list of Group subsidiary undertakings will be attached to the Company's annual return to the Registrar of Companies

## Financial statements

## Company balance sheet

As at 31 December 2010

	Note	2010 £m	2009 £m
<b>Fixed assets</b>			
Investments in subsidiary undertakings and joint ventures	3	1,253 0	1 146 2
<b>Current assets</b>			
Debtors	4	686 1	602 7
Cash at bank and in hand		11 6	49 2
		697 7	651 9
<b>Creditors amounts falling due within one year</b>	5		
Borrowing		(10 8)	(152 3)
Other creditors		(720 7)	(516 9)
		(731 5)	(669 2)
<b>Net current (liabilities)/assets</b>			
Due within one year		(33 9)	(17 6)
Debtors due after more than one year	4	0 1	0 3
		(33 8)	(17 3)
<b>Total assets less current liabilities</b>		1,219 2	1 128 9
<b>Creditors amounts falling due after more than one year</b>			
Borrowing	6	(191 0)	(129 8)
<b>Net assets</b>		1,028 2	999 1
<b>Financed by</b>			
<b>Capital and reserves</b>			
Issued share capital	7	199 8	198 6
Share premium	8	21 2	16 8
Merger reserve	8	516 3	516 3
Other reserve	8	2 0	5 2
Profit and loss account	8	288 9	262 2
<b>Equity shareholders' funds</b>	9	1,028 2	999 1

The financial statements were approved by the Board of Directors on 2 March 2011 and were signed on its behalf by



Richard Adam FCA  
Group Finance Director

# Notes to the Company financial statements

## 1 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

### Basis of preparation

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

### Taxation

Deferred tax assets or liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation that have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'. Liabilities are calculated on a non-discounted full provision basis. Assets are calculated on the same basis, but are recognised only to the extent that it is probable that they will be recovered

### Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost, less provision for any impairment

### Leasing

The Company enters into finance lease arrangements on behalf of subsidiary companies. As permitted by SSAP 21 'Accounting for leases and hire purchase contracts', the assets relating to the finance leases are included in the financial statements of the subsidiaries concerned. The capital element of outstanding finance leases is included within borrowings. The finance charge element of rentals is charged to the profit and loss account at a constant periodic rate of charge on the outstanding obligations

### Own shares

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

### Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account

### Financial instruments

The Company's principal financial assets and liabilities are cash at bank and in hand and borrowings. Cash at bank and in hand is carried in the balance sheet at amortised cost. Borrowings are recognised initially at fair value less attributable transaction costs and subsequently at amortised cost. In addition, the Company enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. The forward contracts are measured initially at fair value, with changes in fair value during the year recognised in the profit and loss account. Fair values are based on quoted market prices at the balance sheet date. The Company has taken the exemption within FRS 29 'Financial Instruments: Disclosure' and does not present all the disclosures required by the standard. Company specific disclosures are included in the consolidated financial statements of which the Company is the parent

## Share-based payments

Members of the Group's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP). In addition, UK employees are able to participate in the Sharesave scheme

The fair value of the LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model. For both schemes the fair value determined at grant date is expensed on a straight-line basis over the period in which any performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date)

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

## Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee

## Retirement benefit obligations

Pension costs are recognised in the financial statements in accordance with the requirements of FRS 17 'Retirement benefits'. Employees of the Company participate in the Carillion 'Staff' and 'B' schemes which provide pensions on a defined benefit basis. The assets and liabilities of these schemes relating to the Company cannot be readily ascertained on a reasonable and consistent basis as the schemes are operated for the benefit of the Carillion Group as a whole. Consequently, the Company accounts for these schemes as if they were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 30 of the consolidated financial statements

## Cash flow statement

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

## 2 Profit for the year and dividends

As permitted by the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Carillion plc reported a profit for the financial year ended 31 December 2010 of £88.6 million (2009: £167.5 million)

Fees paid to KPMG Audit Plc and its associates for non audit services to the Company itself are not disclosed in the individual accounts of Carillion plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis

A final dividend, declared in the previous year, of 10.0 pence per share was paid during the year, amounting to £39.9 million (2009: £35.2 million)

An interim dividend of 4.8 pence per share was paid during the year, amounting to £19.2 million (2009: £18.2 million)

A final dividend of 10.7 pence (2009: 10.0 pence) per share, amounting to £42.8 million (2009: £39.7 million), was approved by the Board on 2 March 2011 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 17 June 2011 to shareholders on the register on 17 May 2011. The record date and the payment date for the final dividend are subject to change due to the timing of the effective completion of the proposed acquisition of Eaga plc. Any changes to the aforementioned dates will be notified to shareholders via a regulatory announcement

# Notes to the Company financial statements

continued

## 3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
<b>Cost</b>			
At 1 January 2010	1,156 6	0 2	1,156 8
Additions	110 0	–	110 0
Share options	(3 2)	–	(3 2)
<b>At 31 December 2010</b>	<b>1,263 4</b>	<b>0 2</b>	<b>1,263 6</b>
<b>Impairment losses</b>			
At 1 January 2010	10 6	–	10 6
Charge	–	–	–
<b>At 31 December 2010</b>	<b>10 6</b>	<b>–</b>	<b>10 6</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>1,252 8</b>	<b>0 2</b>	<b>1,253 0</b>
At 31 December 2009	1 146 0	0 2	1,146 2

Additions in the year of £110 0 million relates to additional shares in Carillion Construction Limited amounting to £50 0 million and additional shares in Carillion JM Limited amounting to £60 0 million, both acquired at par. The share option movement relates to a credit recognised this year for an overcharge in prior years for share options issued to employees of subsidiaries.

The principal subsidiary undertakings and joint ventures of the Company are shown on page 99.

## 4 Debtors

	2010 £m	2009 £m
<b>Amounts falling due within one year</b>		
Amounts owed by Group undertakings	673 2	597 6
Other debtors	0 3	0 7
Amounts owed by joint ventures	–	0 7
Income tax	12 5	2 4
Derivative financial instruments	–	1 0
<b>Amounts falling due within one year</b>	<b>686 0</b>	<b>602 4</b>
<b>Amounts falling due after more than one year</b>		
Amounts owed by Group undertakings	0 1	0 3
<b>Total debtors</b>	<b>686 1</b>	<b>602 7</b>

The amounts owed by Group undertakings falling due after more than one year of £0 1 million (2009: £0 3 million) relates to finance lease transactions entered into with Carillion Fleet Management Limited. Further details are disclosed in note 6.

## 5 Creditors amounts falling due within one year

	2010 £m	2009 £m
Bank overdrafts	2 8	144 1
Bank loans	7 8	7 6
Net obligations due under finance leases	0 2	0 6
<b>Borrowings</b>	<b>10 8</b>	<b>152 3</b>
Amounts owed to Group undertakings	699 1	482 4
Amounts owed to joint ventures	20 9	34 0
Other tax and social security costs	0 2	–
Derivative financial instruments	0 2	–
Accruals and deferred income	0 3	0 5
	<b>731 5</b>	<b>669 2</b>

## 6 Creditors amounts falling due after more than one year

	2010 £m	2009 £m
Bank loans	190 6	129 5
Other loans	0 3	–
Net obligations due under finance leases	0 1	0 3
	<b>191 0</b>	<b>129 8</b>



## 6 Creditors amounts falling due after more than one year (continued)

Net obligations due under finance leases relate to financing agreements for fixed assets that are used by Carillion Fleet Management Limited, a wholly owned subsidiary. The assets have been recognised in the accounts of the Carillion Fleet Management Limited in accordance with 'SSAP 21 Accounting for leases and hire purchase contracts', together with corresponding liabilities to the Company.

The Company recognises these inter company debts within amounts owed by Group undertakings in note 4. Interest is charged on the above bank loans at floating rates linked to London Interbank Offered Rate.

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

The maturity profile of all borrowings is disclosed in note 13 on page 105.

## 7 Share capital Issued and fully paid

	2010		2009	
	Number million	£m	Number million	£m
At 1 January	397.3	198.6	395.7	197.8
New share capital issued	2.4	1.2	1.6	0.8
At 31 December	399.7	199.8	397.3	198.6

## 8 Reserves

	Share premium account £m	Merger reserve £m	Profit and loss account £m	Other reserve £m	Total £m
At 1 January 2010	16.8	516.3	262.2	5.2	800.5
Profit for the year	-	-	88.6	-	88.6
New share capital subscribed	4.4	-	-	-	4.4
Acquisition of own shares	-	-	(5.6)	-	(5.6)
Share options exercised by employees	-	-	3.7	-	3.7
Equity settled transactions (net of deferred tax)	-	-	(0.9)	(3.2)	(4.1)
Dividend paid to shareholders	-	-	(59.1)	-	(59.1)
At 31 December 2010	21.2	516.3	288.9	2.0	828.4

The profit and loss account reserve includes the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movements in the reserve for own shares included within the profit and loss account reserve are as follows:

	2010 £m	2009 £m
At 1 January	(1.1)	(1.3)
Share options exercised by employees (exercise price)	3.7	0.5
Proceeds from exercise of share options	2.3	-
Share options exercised (transfer to retained earnings)	0.6	3.9
Acquisition of own shares	(5.6)	(4.2)
At 31 December	(0.1)	(1.1)

At 31 December 2010, the ESOP held 38,302 (2009: 362,909) of the Company's shares and had a market value of £0.1 million (2009: £1.1 million). During the year the Company acquired 2.3 million of its own shares for £5.6 million to meet the plan's future commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('QUEST'). During the year, 4,704 ordinary shares (2009: 91,376) in the Company held by the QUEST were transferred to employees of the Group following the exercise of options under the Sharesave Scheme.

At 31 December 2010 the total number of shares held under the QUEST amounted to 129,979 (2009: 134,683) and had a market value of £0.5 million (2009: £0.4 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

# Notes to the Company financial statements

continued

## 9 Reconciliation of movement in shareholders' funds

	2010 £m	2009 £m
Profit for the year	88 6	167 5
New share capital issued	5 6	4 7
Equity settled transactions (net of deferred tax)	(4 1)	3 4
Share options exercised by employees	3 7	0 5
Acquisition of own shares	(5 6)	(4 2)
Dividends paid to shareholders	(59 1)	(53 4)
<b>Net addition to shareholders' funds</b>	<b>29 1</b>	<b>118 5</b>
Shareholders' funds at 1 January	999 1	880 6
<b>Shareholders' funds at 31 December</b>	<b>1,028 2</b>	<b>999 1</b>

## 10 Other guarantees and contingent liabilities

	2010 £m	2009 £m
Guarantees in respect of borrowings of subsidiaries	2 8	89 0
Guarantees in respect of interest payments in Construction services (excluding the Middle East) jointly controlled entities	1 1	–
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP joint ventures	77 0	52 4
Guarantees in respect of letters of credit issued by banks in relation to performance of contracts for PPP customers	66 6	30 0

The Company has issued performance guarantees in respect of its subsidiaries, joint ventures and joint arrangements in the normal course of business

Guarantees and counter indemnities have been given to financial institutions in respect of the provision of performance and other contract related bonds that are issued in the normal course of business

## 11 Pension arrangements

As the Carillion Staff and 'B' defined benefit schemes are run for the Carillion Group as a whole the Company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17, the schemes are accounted for by the Company separately as if the schemes were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 30 to the consolidated financial statements

## 12 Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to purchase shares in the Company. Details of the Group's share option programme are disclosed in note 24 to the consolidated financial statements and in the Remuneration report on page 49

## 13 Financial instruments

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

### Derivative financial instruments

	2010		2009	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts	–	(0 2)	1 0	–

### Foreign currency exposure

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

	2010 £m	2009 £m
United States of America Dollars	(17 6)	(15 6)
Canadian Dollars	(41 7)	(38 5)
United Arab Emirates Dirhams	(7 9)	(7 6)
Other	(1 1)	(0 5)
	<b>(68 3)</b>	<b>(62 2)</b>

Of the total foreign currency borrowing of £68 3 million (2009: £62 2 million) the amount of borrowing used for hedging currency net assets of overseas operations of the Group amounts of £65 4 million (2009: £61 6 million). The foreign exchange loss of £3 8 million (2009: £1 0 million gain) on translation of the borrowing into sterling has been recognised in the profit and loss account

### 13 Financial instruments (continued)

#### Fair values

Where there are differences between the carrying and fair values of the Company's principal financial instruments at 31 December 2010 these are shown below

	2010		2009	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Finance lease obligations	(0.3)	(0.3)	(0.9)	(0.8)

#### Maturity of financial liabilities

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

	Bank overdrafts £m	Bank loans £m	Finance leases £m	Other loans £m	Total £m
<b>31 December 2010</b>					
Between one and two years	–	192.1	0.1	0.1	192.3
Between two and three years	–	–	–	0.4	0.4
Between three and four years	–	–	–	–	–
Between four and five years	–	–	–	–	–
More than five years	–	–	–	–	–
More than one year	–	192.1	0.1	0.5	192.7
Less than one year	2.8	9.9	0.2	0.1	13.0
	2.8	202.0	0.3	0.6	205.7
<b>31 December 2009</b>					
Between one and two years	–	2.1	0.2	–	2.3
Between two and three years	–	130.7	0.1	–	130.8
Between three and four years	–	0.4	–	–	0.4
Between four and five years	–	–	–	–	–
More than five years	–	–	–	–	–
More than one year	–	133.2	0.3	–	133.5
Less than one year	144.1	9.9	0.6	–	154.6
	144.1	143.1	0.9	–	288.1

#### Borrowing facilities

The Company had the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met

	2010 £m	2009 £m
Expiring within one year	7.2	7.4
Expiring between one and two years	449.3	–
Expiring between two and five years	–	511.0
	456.5	518.4

### 14 Related party transactions

In accordance with Financial Reporting Standard 8 'Related party transactions' the Company has taken the exemption to not disclose transactions with other subsidiaries within the Carillion Group

### 15 Post balance sheet events

In February 2011, the Group re-financed its banking facilities, which comprise a £737.5 million five-year facility maturing in March 2016 and a £15.0 million 364-day facility

On 11 February 2011 Carillion plc reached agreement on the terms of a recommended acquisition of the entire issued, and to be issued share capital of Eaga plc, a leading provider of energy efficiency solutions in the UK, for a total consideration of £306.5 million. The acquisition is subject to approval by the shareholders of Eaga plc, change of control approval from the Financial Services Authority and confirmation by the Court, and is expected to become effective in April 2011

## Shareholder information

### Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2010 will be payable on 17 June 2011 to those shareholders on the register on 17 May 2011.

The record date and the payment date for the final dividend are subject to change due to the timing of the effective completion of the proposed acquisition of Eaga plc. Any change to the above mentioned dates will be notified to shareholders via a regulatory announcement.

A dividend reinvestment plan (DRIP) will also be offered.

For those shareholders who prefer not to participate in the DRIP, arrangements can be made to pay your dividends automatically into your bank or building society account. This service has a number of benefits:

- > there is no chance of the dividend cheque going missing in the post
- > the dividend payment is received more quickly as the cash is paid directly into your account on the payment date without the need to wait for the cheque to clear, and
- > you will help Carillion to improve its efficiency by reducing printing and cheque clearing costs.

If you wish to register for this service please call Equiniti on the number detailed below to request a dividend mandate form.

### Results

Half year to 30 June 2011 announced August 2011

Full year to 31 December 2011 announced March 2012

### Shareholder Enquiries

Equiniti maintain the share register of the Company. If you have any queries concerning your shareholding or if any of your details change, please contact Equiniti:

Equiniti  
Aspect House  
Lancing  
West Sussex  
BN99 6DA

Telephone 0871 384 2522\*

Textphone for shareholders with hearing difficulties 0871 384 2255  
Non-UK callers should dial +44(0) 121 415 7047

Lines are open 8.30am to 5.30pm, Monday to Friday

\* Calls to this number cost eight pence per minute from a BT landline  
other providers' costs may vary

### Share Dealing Service

Carillion offers its UK shareholders Shareview Dealing, a telephone and internet share dealing service operated by Equiniti. For telephone purchases and sales call 0845 603 7037 between 8.30am and 4.30pm Monday to Friday or log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). For the sale of shares you will need your shareholder reference number as shown on your share certificate.

### Multiple Accounts on the Shareholder Register

If you have received two or more sets of the documents concerning the Annual General Meeting this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way. For security reasons, Equiniti will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account please write to Equiniti at the address given on page 107.

### Shareview (Electronic Communications)

[www.shareview.co.uk](http://www.shareview.co.uk) is a service offered by Equiniti that enables you to check your holdings in many UK companies and helps you to organise your investments electronically. You can also notify Equiniti of a change of address or a change to dividend mandate instructions. You can register for this portfolio service which is easy to use, secure and free as long as you have access to the internet by logging on to [www.shareview.co.uk](http://www.shareview.co.uk) and following a simple registration process.

### Electronic Proxy Appointments

For the AGM to be held on 4 May 2011, you may, if you wish, register the appointment of a proxy electronically by logging on to the website [www.sharevote.co.uk](http://www.sharevote.co.uk).

You will need your voting reference numbers (the three 8-digit numbers shown on your form of proxy). Alternatively, if you have registered for a Shareview portfolio, log on to your portfolio at [www.shareview.co.uk](http://www.shareview.co.uk) and click on the link 'vote' under your Carillion plc details, then follow the on-screen directions.

Please note that any electronic communication that is found to contain a computer virus will not be accepted.

### ShareGift

ShareGift is a charity share donation scheme for shareholders administered by the Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomic to sell on a commission basis. Further information can be obtained at [www.sharegift.org](http://www.sharegift.org) or from Equiniti.

# Board of Directors and Advisers

## Non-Executive Directors

Philip Rogerson (Chairman)<sup>(3 4)</sup>  
David Garman (Senior Independent Non-Executive Director)<sup>(1 2 3)</sup>  
David Maloney<sup>(1 2 3)</sup>  
Steve Mogford<sup>(1 2 3 4)</sup>  
Vanda Murray<sup>(1 2 3 4)</sup>

## Executive Directors

John McDonough (Group Chief Executive)<sup>(3)</sup>  
Richard Adam (Group Finance Director)  
Richard Howson (Chief Operating Officer)

- (1) Member of the Audit Committee
- (2) Member of the Remuneration Committee
- (3) Member of the Nominations Committee
- (4) Member of the Business Integrity Committee

## Secretary and Registered Office

Richard Tapp  
Birch Street  
Wolverhampton  
WV1 4HY  
United Kingdom

T +44 (0) 1902 422 431  
F +44 (0) 1902 316 165  
www.carillionplc.com

## Auditor

KPMG Audit Plc  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

## Banker

National Westminster Bank plc  
16 South Parade  
Nottingham  
NG1 2JX

## Joint Brokers

Morgan Stanley  
25 Cabot Square  
Canary Wharf  
London  
E14 5QA

Oriel Securities  
125 Wood Street  
London  
EC2V 7AN

## Financial Adviser

Lazard  
50 Stratton Street  
London  
W1J 8LL

## Legal Adviser

Slaughter and May  
One Bunhill Row  
London  
EC1Y 8YY

## Share Registrar

Equiniti  
Aspect House  
Lancing  
West Sussex  
BN99 6DA

## Five Year Review

Group income statement		2010 £m	2009 <sup>(1)</sup> £m	2008 <sup>(1)</sup> £m	2007 <sup>(1)</sup> £m	2006 <sup>(1)</sup> £m
<b>Total revenue</b>		<b>5,139 0</b>	<b>5 629 3</b>	<b>5,457 2</b>	<b>4,162 9</b>	<b>3,781 3</b>
<b>Analysed between</b>						
Support services		<b>2,108 6</b>	2 389 5	2,463 5	1,793 6	1 458 7
Public Private Partnership projects		<b>311 9</b>	418 4	429 8	365 3	416 9
Middle East construction services		<b>493 0</b>	553 6	464 2	337 0	268 7
Construction services (excluding the Middle East)		<b>2,225 5</b>	2 267 8	2 099 7	1,667 0	1,637 0
<b>Underlying Group and Joint Ventures operating profit before intangible amortisation, impairment of goodwill and other investments, non-recurring operating items and jointly controlled entities net financial expense and taxation</b>		<b>213 5</b>	<b>215 8</b>	<b>194 9</b>	<b>120 8</b>	<b>108 6</b>
<b>Analysed between</b>						
Support services		<b>110 4</b>	117 7	113 5	73 9	58 8
Public Private Partnership projects		<b>23 4</b>	30 7	30 6	26 1	37 7
Middle East construction services		<b>47 5</b>	47 0	34 5	25 4	13 9
Construction services (excluding the Middle East)		<b>41 2</b>	30 9	28 7	16 0	18 5
Group eliminations and unallocated items		<b>(9 0)</b>	(10 5)	(12 4)	(20 6)	(20 3)
Share of jointly controlled entities net financial expense		<b>(13 9)</b>	(21 8)	(14 7)	(12 0)	(15 7)
Share of jointly controlled entities taxation		<b>(4 7)</b>	(3 9)	(11 9)	(8 6)	(9 1)
<b>Underlying operating profit before intangible amortisation, impairment of goodwill and other investments, non-recurring operating items and non-operating items</b>		<b>194 9</b>	<b>190 1</b>	<b>168 3</b>	<b>100 2</b>	<b>83 8</b>
Group net financial (expense)/income		<b>(6 8)</b>	(14 6)	(7 7)	0 6	1 3
<b>Underlying profit before tax</b>		<b>188 1</b>	<b>175 5</b>	<b>160 6</b>	<b>100 8</b>	<b>85 1</b>
Intangible amortisation and impairment of goodwill and other investments		<b>(27 6)</b>	(30 8)	(54 5)	(21 5)	(17 2)
Non-recurring operating items		<b>(9 4)</b>	(15 2)	(22 7)	(14 2)	(22 6)
Non-operating items		<b>16 8</b>	6 4	34 9	28 3	31 2
<b>Profit before taxation</b>		<b>167 9</b>	<b>135 9</b>	<b>118 3</b>	<b>93 4</b>	<b>76 5</b>
Taxation		<b>(15 1)</b>	(11 5)	(4 1)	(8 3)	(7 2)
<b>Profit from continuing operations</b>		<b>152 8</b>	<b>124 4</b>	<b>114 2</b>	<b>85 1</b>	<b>69 3</b>
<b>Discontinued operations</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(7 6)</b>	<b>(0 5)</b>
<b>Analysed between</b>						
Trading loss from discontinued operations		-	-	-	(1 4)	(0 5)
Loss on disposal of discontinued operations		-	-	-	(6 2)	-
<b>Profit for the year</b>		<b>152 8</b>	<b>124 4</b>	<b>114 2</b>	<b>77 5</b>	<b>68 8</b>
<b>Group financial statistics</b>						
<b>Underlying operating profit margin</b>						
Support services	Percentage	<b>5 2</b>	4 9	4 6	4 1	4 0
Middle East construction services	Percentage	<b>9 6</b>	8 5	7 4	7 5	5 2
Construction services (excluding the Middle East)	Percentage	<b>1 9</b>	1 4	1 4	1 0	1 1
<b>Underlying operating profit margin</b>						
Total Group before share of jointly controlled entities' net financial (expense)/income and taxation	Percentage	<b>4 2</b>	3 8	3 6	2 9	2 9
<b>Underlying profit from operations margin</b>						
Total Group	Percentage	<b>3 8</b>	3 4	3 1	2 4	2 2

# Five Year Review

continued

<b>Group balance sheet</b>	<b>2010</b> £m	<b>2009<sup>(1)</sup></b> £m	<b>2008<sup>(1)</sup></b> £m	<b>2007<sup>(1)</sup></b> £m	<b>2006<sup>(1)</sup></b> £m
Property, plant and equipment	157 2	168 2	167 2	131 5	146 6
Intangible assets	1,221 2	1,241 3	1,276 9	555 8	596 1
Investments	176 7	172 0	242 8	188 8	182 3
	1,555 1	1 581 5	1 686 9	876 1	925 0
Inventories, receivables and payables	(613 8)	(608 0)	(490 4)	(286 5)	(282 0)
Net retirement benefit liability (net of deferred tax)	(182 1)	(211 1)	(76 2)	(29 4)	(84 8)
Other net liabilities	(14 2)	(15 2)	(21 8)	(25 1)	(22 0)
Net operating assets	745 0	747 2	1,098 5	535 1	536 2
Net cash/(borrowing)	120 2	24 9	(226 7)	(44 9)	(108 0)
<b>Net assets</b>	<b>865 2</b>	<b>772 1</b>	<b>871 8</b>	<b>490 2</b>	<b>428 2</b>

## Group cash flow statement

Underlying Group operating profit	148 9	130 9	120 1	64 4	49 7
Depreciation and other non-cash items	32 0	38 8	19 2	15 9	18 5
Working capital	1 2	59 9	34 0	31 7	15 2
Dividends received from joint ventures	48 1	38 6	25 0	23 7	15 7
<b>Underlying cash flow from operations</b>	<b>230 2</b>	<b>268 2</b>	<b>198 3</b>	<b>135 7</b>	<b>99 1</b>
Deficit pension contributions	(35 2)	(29 0)	(50 5)	(46 3)	(31 8)
Rationalisation costs	(15 6)	(17 1)	(32 4)	(6 5)	(18 2)
Interest, tax and dividends	(65 9)	(63 2)	(62 2)	(30 4)	(25 7)
Net capital expenditure	(15 3)	(47 3)	(26 4)	4 4	(28 2)
Acquisitions and disposals	2 7	142 7	(227 0)	9 6	(190 9)
Other (including discontinued operations)	(5 6)	(2 7)	18 4	(3 4)	(3 1)
Change in net liquidity	95 3	251 6	(181 8)	63 1	(198 8)
Net cash/(borrowing) at 1 January	24 9	(226 7)	(44 9)	(108 0)	90 8
<b>Net cash/(borrowing) at 31 December</b>	<b>120 2</b>	<b>24 9</b>	<b>(226 7)</b>	<b>(44 9)</b>	<b>(108 0)</b>

## Group financial statistics

### Earnings per share

Underlying earnings per share – continuing operations	Pence	39 4	37 3	35 1	28 5	24 6
Underlying earnings per share – continuing and discontinued operations	Pence	39 4	37 3	35 1	25 8	24 4
Basic earnings per share – continuing and discontinued operations	Pence	36 9	30 5	29 0	26 7	24 7

### Dividends

Proposed full year dividend per share	Pence	15 5	14 6	13 0	11 0	9 0
Underlying proposed dividend cover – continuing operations	Times	2 5	2 6	2 7	2 6	2 7
Basic proposed dividend cover – continuing and discontinued operations	Times	2 4	2 1	2 2	2 4	2 7

(1) Prior year information has been restated where relevant following the adoption of International Financial Reporting Interpretations Committee (IFRIC) 12 Service concession arrangements on 1 January 2010



**Carillion plc**

Birch Street  
Wolverhampton WV1 4HY  
United Kingdom

Registered Number 3782379

T +44 (0)1902 422431

F +44 (0)1902 316165

[www.carillionplc.com](http://www.carillionplc.com)



This report is printed on Lock which is 100% ECF (Elemental Chlorine Free) pulp and is 100% recyclable and sourced from carefully managed and renewed commercial forests certified in accordance with the FSC (Forest Stewardship Council). The mill is ISO 14001 certified. Our printers are fully accredited to the ISO 14001 environmental management system. They utilise vegetable based inks and operate a direct computer to plate repro system eliminating the need for film with its chemicals such as developer and acid fixers.

Designed and produced by Carnegie Orr +44(0)20 7610 6140  
[www.carnegieorr.co.uk](http://www.carnegieorr.co.uk)