



Registration number:
3782379

A leading integrated
support services company

Annual Report and Accounts 2011

MAKING TOMORROW A BETTER PLACE



Transforming delivery

Transforming delivery

We are in the business of transforming the delivery of services for buildings and infrastructure.

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Our company

Carillion plc is one of the UK's leading integrated support services companies, with a substantial integrated portfolio of Public Private Partnership projects and extensive construction capabilities

Our vision

To be the partner of choice for delivering, managing and servicing assets

Our values

Carillion has a unique approach that builds long-term relationships with our customers, based on our values of

- openness
- collaboration
- mutual dependency
- professional delivery
- sustainable, profitable growth
- innovation

Go online

for the online version of our Annual Report
www.carillionplc.com/annualreport2011

2011 highlights

Financial highlights

Underlying profit before tax⁽¹⁾

£212.0m

2010 £188.1m

+13%

Underlying earnings per share⁽²⁾

43.0p

2010 39.4p

+9%

Total dividend

16.9p

2010 15.5p

+9%

Reported profit before tax

£142.8m

2010 £167.9m

-15%

Reported earnings per share

32.0p

2010 36.9p

-13%

Net (borrowing)/cash

£(50.7)m

2010 £120.2m

-142%

Total revenue

£5.1bn

2010 £5.1bn

n/a

Order book plus probable orders

£19.1bn

2010 £19.1bn

n/a

Pipeline of contract opportunities

£33.1bn

2010 £25.7bn

+29%

Strong financial performance

- Revenue unchanged, with the increase due to the acquisition of Canillion Energy Services (CES) offset by the planned re-scaling of UK construction
- Strong growth in underlying profit before taxation and underlying earnings per share (eps) reflected a substantial increase in total underlying operating margin⁽³⁾ from 4.2% to 4.7%
- Reported profit before taxation and basic eps includes a total of £47.5m of one-off costs relating to the acquisition and integration of CES
- Proposed full-year dividend up 9%, reflecting a strong performance and positive outlook

Strong balance sheet

- Strong cash flow from operations of £230.3m was equal to 107% of profit from operations
- Net debt of £50.7m was substantially better than expectations
- New revolving credit facility of £737.5m to 2016 and £100.0m 7 to 10 year private placement financing

Good revenue visibility and record pipeline of contract opportunities

- 2012 revenue visibility⁽⁴⁾ of 77% (2010 82% for 2011)
- Order book plus probable orders of £19.1bn (2010 £19.1bn) remains very strong
- Pipeline of contract opportunities up 29% to £33.1bn, includes major public sector outsourcing opportunities

(1) After Joint Ventures taxation charge of £3.5 million (2010 £4.7 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) Before Joint Ventures net financial expense and (taxation) intangible amortisation and non-recurring operating items

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

Our capabilities

An integrated UK support services and international business

1 Support services

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

Group overview

	2011 £m		2010 £m
Revenue			
– Group	4,153.2		4,236.5
– Share of Joint Ventures	898.0		902.5
	5,051.2	-2%	5,139.0
Underlying operating profit			
– Group	176.7		157.9
– Share of Joint Ventures	71.0		64.6
	247.7		222.5
Group eliminations and unallocated items	(9.5)		(9.0)
Profit from operations before Joint Ventures' net financial expense and taxation	238.2		213.5
Share of Joint Ventures' net financial expense	(18.8)		(13.9)
Share of Joint Ventures' taxation	(3.5)		(4.7)
Underlying profit from operations	215.9	+11%	194.9
Group interest	(3.9)		(6.8)
Underlying profit before taxation⁽¹⁾	212.0	+13%	188.1
Intangible amortisation ⁽²⁾	(31.0)		(27.6)
Non-recurring operating items	(42.8)		(9.4)
Non-operating items	4.6		16.8
Reported profit before taxation	142.8	-15%	167.9

(1) After Joint Ventures taxation of £3.5 million (2010: £4.7 million) and before intangible amortisation non-recurring operating items and non-operating items

(2) Arising from business combinations

Underlying operating profit

£120.8m

2010: £110.4m

Order book plus probable orders

£12.9bn

Revenue

£m	2011	2010
Group	2,119.8	1,842.1
Share of Joint Ventures	225.4	266.5
Total	2,345.2	2,108.6

Underlying operating profit

£m	2011	2010
Group	105.7	92.3
Share of Joint Ventures	15.1	18.1
Total	120.8	110.4

Reported operating profit

£m	2011	2010
Group	39.0	72.1
Share of Joint Ventures	15.1	18.1
Total	54.1	90.2



Go to pages 06 and 26 for more information

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

£19.9m

2010 £23.4m

Order book plus probable orders

£2.8bn

Revenue

£m	2011	2010
Group	1.2	1.2
Share of		
Joint Ventures	308.6	310.7
Total	309.8	-1% 311.9

Underlying operating profit

£m	2011	2010
Group	2.7	10.7
Share of		
Joint Ventures	17.2	12.7
Total	19.9	-15% 23.4

Reported operating profit

£m	2011	2010
Group	2.7	10.7
Share of		
Joint Ventures	17.2	12.7
Total	19.9	-15% 23.4



Go to pages 08 and 27 for more information

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

£49.1m

2010 £47.5m

Order book plus probable orders

£1.0bn

Revenue

£m	2011	2010
Group	218.9	190.9
Share of		
Joint Ventures	330.0	302.1
Total	548.9	+11% 493.0

Underlying operating profit

£m	2011	2010
Group	13.9	14.0
Share of		
Joint Ventures	35.2	33.5
Total	49.1	+3% 47.5

Reported operating profit

£m	2011	2010
Group	13.9	14.0
Share of		
Joint Ventures	35.2	33.5
Total	49.1	+3% 47.5



Go to pages 10 and 28 for more information

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

Underlying operating profit

£57.9m

2010 £41.2m

Order book plus probable orders

£2.4bn

Revenue

£m	2011	2010
Group	1,813.3	2,202.3
Share of		
Joint Ventures	34.0	23.2
Total	1,847.3	-17% 2,225.5

Underlying operating profit

£m	2011	2010
Group	54.4	40.9
Share of		
Joint Ventures	3.5	0.3
Total	57.9	+41% 41.2

Reported operating profit

£m	2011	2010
Group	47.3	27.0
Share of		
Joint Ventures	3.5	0.3
Total	50.8	+86% 27.3



Go to pages 12 and 29 for more information

Our operations

Transforming delivery in the UK and internationally

Carillion has an annual revenue of over £5 billion, employs around 45,000 people and operates across the UK, in the Middle East and North Africa and Canada.

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
- Energy efficiency services for domestic, commercial and public sector customers
- We 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⁽¹⁾

£3,707.6m

2010: £3,925.0m

Percentage of revenue

73%

2010: 76%

(1) Includes £43.6 million (2010: £79.7 million) of revenue generated outside of the UK, Middle East and North Africa and Canada

Middle East and North Africa

Operations

Support services

Construction services

- 1 Egypt
- 2 Qatar
- 3 United Arab Emirates
- 4 Oman

Market sectors

- We have around 40 years' experience of operating in this region, where we have well-established Joint Venture businesses in the United Arab Emirates, Oman and Egypt, providing construction services for buildings and infrastructure
- These businesses have market-leading reputations for delivering high-quality projects for a small number of long-term, financially robust customers
- In 2011 we extended our operations into Qatar where we are building our first major project
- We also have a Joint Venture business that provides facilities management services

Revenue

£561.3m

2010 £504.2m

Percentage of revenue

11%

2010 10%

Canada

Operations

Support services

Public Private Partnership projects

Construction services

- 1 Ontario
- 2 Alberta
- 3 British Columbia

Market sectors

- We have operated in Canada for around 50 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⁽²⁾

£782.3m

2010 £709.8m

Percentage of revenue

16%

2010 14%

(2) Includes £71 million (2010: £23.3 million) of revenue generated in the Caribbean

Our capabilities Support services

Transforming delivery...

We are one of the UK's largest support services companies providing all the services needed to manage, maintain and operate buildings and infrastructure, notably for large property estates and for transport and utility services networks

Underlying operating profit⁽¹⁾

£120.8m

2010 £110.4m

Percentage of total underlying operating profit⁽¹⁾

49%

2010 50%

(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 extensive support services capabilities 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.

Energy services

The acquisition of Carillion Energy Services (CES – formerly Eaga plc) in April 2011, extended our support services offering to include energy efficiency services. Rising energy costs and Government legislation to reduce carbon emissions have made energy services an increasingly important part of the integrated solutions we provide. The acquisition of CES has also taken the Group into new growth markets for energy services, namely for private housing and for Local Authority and Social Landlord housing.

The long-term support services contracts we have – some of them for more than 30 years – 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.

In the UK public sector, we are a major supplier of integrated facilities management services to central and local government, notably in the defence, health, education and general office accommodation sectors. 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.

Infrastructure

We have long-term asset management and maintenance contracts for roads, railways and public utility services networks. In the UK, we provide integrated management and maintenance services for motorways and trunk roads for the Highways Agency and also for local road networks on behalf 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 provide a wide range of asset management and maintenance services to the telecommunications, water, gas and electricity supply industries.

We also have in-house engineering and architectural design and project management capabilities which play an important role in supporting the delivery of integrated solutions for buildings and infrastructure, notably for PPP projects.

...through innovative, value for money solutions

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1 In 2011, Carillion extended its contract to provide facilities management services for the Nationwide Building Society's administration estate to include the Society's 800 retail branches in the UK. As a result of acquiring CES, we were also able to extend the scope of the services we provide to include energy management and efficiency, one feature of which is the installation of a 50kW solar photovoltaic system to generate electricity to power the Society's head office. This is just one of many examples where we are extending the scope of our facilities management contracts to include energy management and efficiency services, in response to increasing demand from our commercial and non-domestic customers.

2 In 2011, Carillion renewed its contract to provide facilities management services for Virgin Media's UK national estate. This reflected the successful partnership between Carillion and Virgin Media through which service provision has been transformed by focusing on improving both the efficiency of service delivery as well as a high-quality customer experience. Reducing Virgin Media's energy consumption is also an important element of the services being provided by Carillion.

Our capabilities

Public Private Partnerships projects

Transforming delivery...

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⁽¹⁾

£19.9m

2010 £23.4m

Percentage of total underlying operating profit⁽¹⁾

8%

2010 10%

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

Our success is based on our ability to combine our expertise in private finance with our support services and construction capabilities to win and deliver fully integrated solutions for PPP projects, in which we invest equity and for which we secure construction contracts and long-term support services contracts.

Once the construction phase is complete and projects have moved successfully into the operational phase, we have the option of selling our equity investments and reinvesting the proceeds in new projects.

Health

In the UK, we are currently delivering our fifteenth PPP healthcare facility, the new Southmead Hospital in Bristol. We secured support services contracts for 12 of these facilities, making Carillion a leading supplier of non-clinical services to the National Health Service.

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.

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, around 160 new schools and academies. Some 50 of these schools and academies have been funded by private finance and include the provision of support services.

Roads

We have delivered a total of six PPP road projects, two of which included long-term management and maintenance services that remain in our support services portfolio.

Canada

Canada also uses private finance to deliver public buildings and infrastructure. This is known as the Alternative Financing Procurement (AFP) model and is similar to the PPP procurement model used in the UK.

Carillion is a leader in the AFP market, especially in the health sector, having delivered two of the first 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 five AFP projects under construction in Ontario, including four major hospitals for which we will also provide long-term support services.

...of public infrastructure and services

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1 In 2011, a Carillion joint venture – Hospital Infrastructure Partners – was awarded a £1.7 billion, 30-year contract to finance, design, build and operate the new Oakville Hospital in Ontario, Canada, using the Alternative Financing Procurement (AFP) model, which is similar to the UK's Public Private Partnership model. Oakville Hospital is Carillion's sixth AFP hospital in Canada. We will invest £28 million of equity in this project, as well as delivering construction, facilities management and life-cycle maintenance services over the 34-year life of the contract. The new hospital has been designed to meet high standards of sustainability, a key strength that helps to differentiate Carillion from its competitors.

2 The new Southmead Hospital in Bristol is being delivered as a Public Private Partnership project. In addition to financing and building the new hospital, at a capital cost of some £430 million, Carillion will invest £48.7 million of equity in this project and provide facilities management and life-cycle maintenance services over the 30-year life of the contract. The new state-of-the-art 800-bed hospital will also be the most sustainable major acute hospital in the UK, with low energy utilisation and a carbon footprint below the Government target.

Our capabilities Middle East construction services

Transforming delivery...

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

Underlying operating profit⁽¹⁾

£49.1m

2010 £47.5m

Percentage of total underlying operating profit⁽¹⁾

20%

2010 21%

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

In the Middle East, we have built strong relationships with a small number of high-quality, financially robust customers with long-term investment programmes for whom quality and value for money are paramount. This strategy has enabled us to deliver a consistently strong financial performance in the region.

Abu Dhabi

Since extending the operations of Al Futtaim Carillion to Abu Dhabi in 2008, our business there has grown substantially and in 2011 it contributed 43 per cent of our total Middle East construction services revenue. Since completing our first project in Abu Dhabi in 2009, the prestigious 500-bedroom Yas Hotel that forms the centrepiece of Abu Dhabi's Formula 1 Grand Prix circuit, we have won a series of further major projects. These include Stage 3 of the UAE University, which was completed in 2011, a new headquarters for the Abu Dhabi Investment Authority and the Al Muneera development, both of which are nearing completion, and New York University, on which we continue to make good progress.

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 the Royal Opera House, which was completed in 2011. Current projects include the Majlis, a new parliament building, the National Museum and an extension to Muscat Airport, which involves the construction of a new control tower and ancillary facilities. In 2011, Carillion Alawi continued to grow and contributed some 30 per cent of our total construction services revenue in the Middle East.

Dubai

In Dubai, Al Futtaim Carillion has an outstanding track record for delivering high-quality projects, including Dubai Festival City, Motor City, infrastructure for the Downtown Dubai development and infrastructure for Dubai Aluminium. Activity levels in Dubai fell significantly as a result of the global economic downturn, but have recently begun to recover slowly, with Dubai contributing some 11 per cent of our Middle East construction revenue in 2011. We continue to target new work selectively in Dubai and in 2011, Al Futtaim Carillion won a number of new contracts, the largest of which was a £112 million contract to build the Al Jalila Children's Speciality Hospital.

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 2011, this project contributed 16 per cent of our Middle East construction services revenue as work on the Cairo Festival City development increased.

Qatar

In 2011, we continued to diversify geographically, winning our first contract in Qatar – a £395 million contract for the Heart of Doha Development for Msheireb Properties. This contract, which was won in joint venture with Qatar Building Company, will generate some £316 million of revenue for Carillion. Qatar has major investment programmes in a number of sectors where Carillion has strong capabilities, including heritage, health, education and infrastructure, which offer substantial prospects for growth.

...for the most prestigious projects in the world

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1 In 2011, Carillion Alawı completed the magnificent Royal Opera House in Muscat (also pictured on the front cover of this report), Oman, for the Oman Royal Court Affairs. Built at a capital cost of some £120 million, this state-of-the-art concert and theatre facility seats 1,000 people and can accommodate the full-range of performing arts, including music and drama as well as opera. This is the first facility of its kind in the Middle East and the outstanding quality of the external and internal finishes, together with beautiful landscaping, make the Royal Opera House one of the finest buildings in the world.

2 The prestigious £550 million Al Muneera project, which forms part of the £10 billion Al Raha Beach development in Abu Dhabi, is being built by Al Futtaim Carillion. Al Muneera comprises a 14-storey office development, 16 apartment buildings of between 11 and 14 floors, 148 town houses and 11 villas.

Our capabilities

Construction services (excluding the Middle East)

Transforming delivery...

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

Underlying operating profit⁽¹⁾

£57.9m

2010 £41.2m

Percentage of total underlying operating profit⁽¹⁾

23%

2010 19%

(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 for buildings and infrastructure

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. Our objective is to increasingly base our capabilities around delivering integrated solutions for PPP projects and support services customers and high-quality added-value contracts for long-term customers. As a result, we expect to reduce our UK construction revenue from its 2009 level of £1.8 billion to around £1.2 billion in 2012 compared to its current level of £1.3 billion, and to reinforce our position as a leader in delivering integrated solutions.

In Canada, our ability to deliver integrated solutions has helped us to establish a leading position in delivering public sector buildings and infrastructure using the Alternative Financing Procurement (AFP) model, which is similar to the UK's Public Private Partnership procurement model. We expect the new 10-year AFP investment programme to be a key driver of growth over the medium term, supporting our objective of doubling our revenue in Canada 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 also continue to be a leading supplier to the schools building programme which includes some PPP projects, and to the health sector. We also provide construction services for other long-term customers where quality, delivery and our sector-leading sustainability credentials differentiate our offering.

Our largest sectors of the UK infrastructure market are roads and railways. Our construction capabilities in these sectors are also key to our success in winning and delivering PPP projects, long-term maintenance contracts for roads and railways and contracts for the Highways Agency's 'managed motorways' programme.

Canada

In Canada, where our business was established some 50 years ago, we have strong construction capabilities both for buildings and infrastructure. We delivered two of the first privately financed 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 four more AFP hospital projects, together with an AFP contract to provide a new Forensic Services and Coroners' Complex in Toronto. Carillion is also delivering other high-profile construction projects, including the £360 million refurbishment and extension of Toronto's Union Station.

...of buildings and infrastructure

ABOUT US

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1 In 2011, Carillion completed the International Broadcast Centre and Main Press Centre for the London 2012 Olympic and Paralympic Games. Located in the Northwest corner of the Olympic Park, close to the community of Hackney Wick in East London, the Centre will provide accommodation for 20,000 journalists during the Games. Sustainable construction was also a major feature of this project. For example, through processing and recycling waste we made a net saving of 4,177 tonnes of carbon on the project, which exceeded the 3,479 tonnes of carbon produced by the energy used in its construction.

2 As the main contractor for the £157 million Library of Birmingham project, Carillion is providing design and construction services to deliver one of the finest libraries in the world for Birmingham City Council. Carillion is also building a new Birmingham Repertory Theatre as an integral part of this prestigious development, which is making a major contribution to the regeneration of Birmingham City Centre's Westside and Centenary Square.

Chairman's statement

Strong growth in underlying profit and earnings

Philip Rogerson
Chairman

Carillion's integrated UK support services and international business mix has once again enabled the Group to perform strongly, despite challenging market conditions.

Financial performance

Total revenue, including joint ventures, remained unchanged at £5.1 billion, primarily because the contribution from Carillion Energy Services (CES – formerly Eaga plc) was offset by a reduction in UK construction revenue, as we continued to make progress with the planned re-scaling of our UK construction activities.

Underlying profit before tax⁽¹⁾ increased by 13 per cent to £212.0 million (2010: £188.1 million), with the Group's underlying operating margin increasing to 4.7 per cent (2010: 4.2 per cent) which reflects our ongoing focus on margins through applying strict contract selectivity criteria and strong cost management. Underlying earnings per share⁽²⁾ increased by nine per cent to 43.0 pence (2010: 39.4 pence).

Profit continues to be cash-backed, with underlying cash flow from operations of £230.3 million (2010: £230.2 million) ahead of underlying profit from operations of £215.9 million (2010: £194.9 million). Net borrowing at 31 December 2011 was £50.7 million (2010: net cash of £120.2 million), significantly better than the target we set at the half-year of reducing net debt to below £125 million by the year end, following the acquisition of CES for £298.4 million in April 2011.

Strategy

The Group continued its strategic development with the acquisition of CES, the largest independent energy efficiency services company in the UK. Carillion now has the in-house capabilities to meet the increasing demand for energy efficiency services from existing and prospective customers. The acquisition has also taken the Group into new energy services markets, in which there are significant opportunities for growth. Progress with the integration of CES remains ahead of expectations with integration cost savings expected to reach a run rate of £25 million per annum by the end of 2013, at a one-off cost of £40 million.

Sustainability

In 2011, we launched our '2020 Sustainability Strategy' with the objective of being recognised as a leader in sustainability and the leading sustainable support services company. Our ability to deliver sustainable solutions for customers is already a key differentiator for Carillion, helping us to win work in the UK and internationally. Our 2020 Strategy forms an integral part of our business plan to support our growth over the next decade.

Order book

The value of the Group's order book and probable orders at 31 December 2011 remained strong at £19.1 billion (2010: £19.1 billion), with the value of orders and probable orders acquired with CES broadly offset by the reduction resulting from the planned re-scaling of our UK construction activities. The Group continues to have good revenue visibility which at 31 December 2011 was 77 per cent⁽³⁾ for 2012 (2010: 82 per cent for 2011). In addition, at the year end the Group's pipeline of contract opportunities had increased by 29 per cent to a record level of £33.1 billion (2010: £25.7 billion), which continues to support our targets for growth in 2012 and over the medium term.

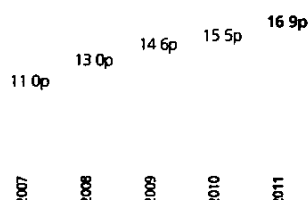
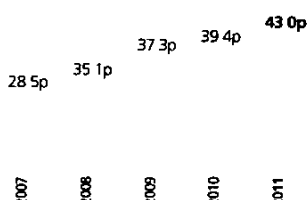
Dividend

The Board is recommending a final ordinary dividend for 2011 of 11.6 pence per share, making the total dividend for 2011 16.9 pence per share (2010: 15.5 pence). This represents an increase of nine per cent on the total paid in respect of 2010, in line with the Group's policy of increasing the dividend in line with earnings growth.

(1) After Joint Ventures taxation of £3.5 million (2010: £4.7 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) Based on expected revenue and secure and probable orders, which exclude variable work and re-bids.

Dividend – five year compound annual growth rate**13%****Underlying earnings per share⁽²⁾ – five year compound annual growth rate****12%****People**

A strong management team and the skills, professionalism and commitment of all our people continue to drive the Group's success and on behalf of the Board I should like to thank all our employees for the contributions they have made to Carillion's achievements in 2011

Board changes

On 31 December 2011, John McDonough retired from the Board and from the Company, having served as Group Chief Executive since January 2001. John has been succeeded as Group Chief Executive by Richard Howson. Richard has worked for Carillion for 16 years and during that time he has successfully led our UK construction, Middle East and Rail businesses and for the last two years he has been our Chief Operating Officer.

John McDonough joined the Board as Group Chief Executive in January 2001 and has made a major contribution to Carillion's success. Under his leadership, Carillion's earnings and dividends per share have broadly trebled as the company has been transformed from being largely focused on UK construction into an international support services company with a strong, selective construction capability. John's contribution to the UK construction industry was recently recognised by the award of a CBE in her Majesty the Queen's 2011 Birthday Honours list. John leaves the Board and the company with our grateful thanks and very best wishes for his retirement.

Philip Green joined the Board as our Senior Independent Non-Executive Director in June 2011. Philip brings extensive experience to the Board having previously served as Chief Executive of United Utilities Group plc and of Royal P&O Nedlloyd. David Garman stepped down from the Board in May 2011. Having joined the Board as a Non-Executive Director in 2004, David served as Senior Independent Non-Executive Director from 2005 and made a valuable contribution to Carillion's progress and success. Andrew Dougal joined the Board as a Non-Executive Director in October 2011. Andrew also brings considerable experience to the Board having held a number of senior executive positions, including Chief Executive of Hanson plc until his retirement in 2002. Andrew has succeeded David Maloney as chairman of the Audit Committee, as David has stepped down from the Board having served as a Non-Executive Director for six years, during which time he made a significant contribution to Carillion's development and success.

Outlook and prospects

Given the wider economic outlook, we expect trading conditions to remain challenging in 2012. However, with a strong and resilient business, good revenue visibility and a record pipeline of contract opportunities, we continue to target growth in support services together with the doubling of our revenues in the Middle East and in Canada, in each case to around £1 billion, by 2015. Consequently, Carillion remains well-positioned to deliver further growth in 2012 and beyond.

Philip Rogerson
Chairman
29 February 2012

Group Chief Executive's review

Strong and resilient business

In this, my first annual review since becoming Group Chief Executive on 1 January 2012, I should like to begin by saying that it is a privilege to take over the leadership of a company with such a strong track record that is also well-positioned to build on its success and its targets for growth

Carillion's ability to deliver strong cash-backed earnings and dividend growth reflects the continuing success of our strategy in creating a resilient and well-balanced UK support services and international business mix, with good positions in markets offering opportunities for growth. Having worked for Carillion for 16 years, most recently as Chief Operating Officer, I have been closely involved in the development and implementation of the Group's strategy, which I believe will continue to deliver sustainable profitable growth.

A consistent and successful strategy

Implementing our strategy for sustainable, profitable growth has

- > created a resilient and well-balanced UK support services and international business mix, through a combination of strong organic growth and transformational acquisitions
- > delivered nine successive years of significant cash-backed earnings and dividend growth
- > created a strong balance sheet to support our strategy for growth
- > positioned the Group to make further progress in 2012 and beyond by
 - targeting growth in support services
 - doubling our revenues in the Middle East and in Canada, in each case to around £1 billion, by 2015
 - re-scaling UK construction to reduce its revenue from the 2009 level of some £1.8 billion to around £1.2 billion

Importantly, our strategy is supported by commitments to being a recognised leader in Health & Safety and sustainability, to behaving in accordance with our core values and to strong operational and financial risk management.

Richard Howson
Group Chief Executive

Underlying operating profit by reporting segment⁽¹⁾

£247.7m

2010 £222.5m

Construction services
(excluding the Middle East)

£57.9m

2010 £41.2m

Support services

£120.8m

2010 £110.4m

Middle East
construction services

£49.1m

2010 £47.5m

Public Private
Partnership projects

£19.9m

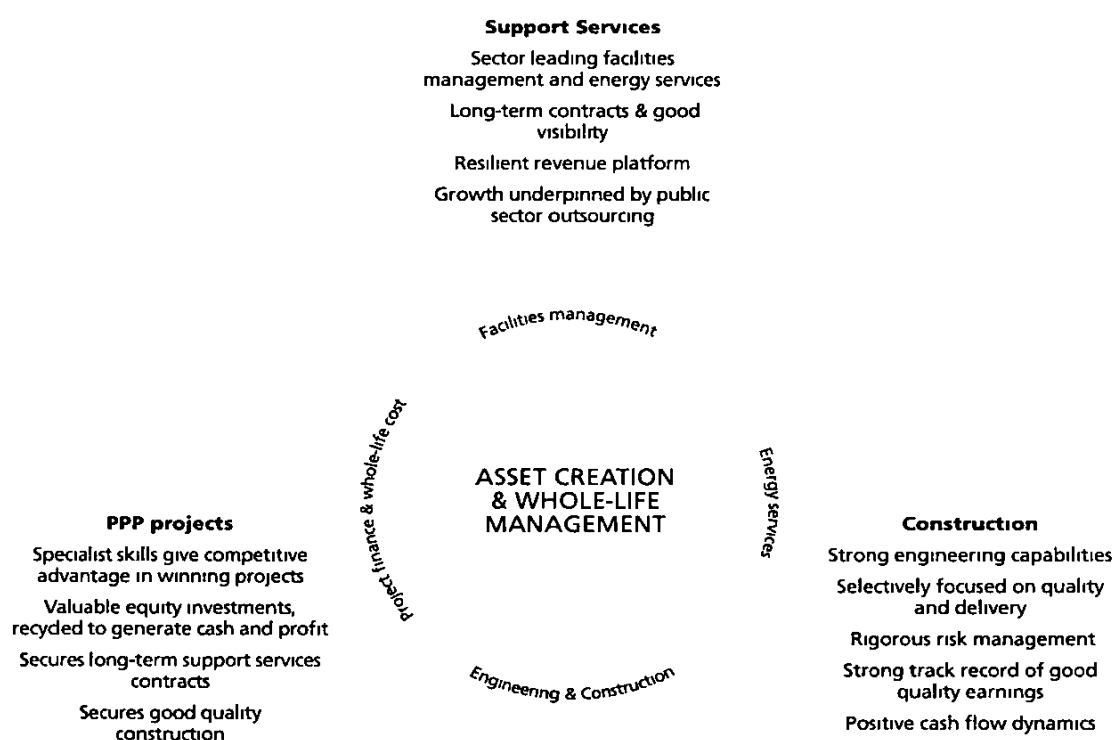
2010 £23.4m

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

A consistent and successful strategy for sustainable, profitable growth

- > 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

Creating value Through our integrated business model



We have specifically developed our capabilities in support services, construction and project finance to create a strong and resilient business model focused on providing integrated solutions tailored to the needs of our customers – from the provision of project finance, design and construction of buildings and infrastructure, through to lifetime management of these assets. With strong management teams in each of our business units, we are implementing this model in all the territories in which we operate.

Group Chief Executive's review

continued

Health & Safety and sustainability

We are committed to being a recognised leader in Health & Safety and sustainability because providing a safe working environment for all our people is our first priority and because we have a responsibility and the opportunity to create positive impacts on the environment and on the communities in which we operate. Our performance in these areas is measured annually through Key Performance Indicators (KPI) and our performance in respect of these KPIs in 2011 is reported in the table on page 19.

In 2011, we launched a new "2020 strategy" for sustainability which forms an integral part of our business plans to support our objectives for growth over the next decade. Our new "2020 sustainability strategy" is described in more detail on page 34 of this report.

Our values

Our commitment to behaving in accordance with our six core values in everything we do determines the culture of our business.

- > openness
- > collaboration
- > mutual dependency
- > professional delivery
- > sustainable profitable growth
- > innovation

The acquisition of Carillion Energy Services (CES)

The acquisition of CES (formerly Eaga plc) in April 2011 was an important strategic development, driven primarily by the need to extend our support services capabilities to include energy efficiency services. These services are becoming an increasingly important part of the integrated facilities management and maintenance solutions required by our commercial and non-domestic customers, due primarily to the rising cost of energy and Government legislation to reduce carbon emissions. The acquisition of CES has also taken the Group into other new growth markets for energy services, namely private housing and Local Authority and Social Landlord housing.

The prospects for growth in our energy services markets have been further enhanced by UK Government announcements regarding the implementation of the Energy Act 2011 and in particular The Green Deal and the Energy Company Obligation. The Green Deal, which is to receive an additional £200 million of Government funding, is expected to kick-start some £14 billion of investment in energy efficiency measures over the next decade. The Energy Company Obligation, which the Government is committed to introduce in October 2012, is expected to create a market worth some £1.3 billion a year, initially up to 2015, but the present Government intends to extend this period to 2020.

The UK Government's decision to reduce Feed-in-Tariffs (FITs) for solar photovoltaic systems (Solar PV) sooner and by far more than expected, will limit growth in the Solar PV market. But to put this into perspective, before the UK Government announced this decision, the total value of the UK Solar PV market was expected to be worth between £800 million and £900 million per annum. This represents around six per cent of the total UK energy services market, which we currently estimate to be worth some £15 billion per annum. As a result of the decision to reduce FITs, we estimate that the UK Solar PV market will reduce to around £400 million per annum, or some three per cent of the total UK energy services market.

Overall, the integration of CES is well ahead of expectations and we are on track to deliver the previously announced increase in synergy and restructuring cost savings from a run rate of £15 million per annum to £25 million per annum by the end of 2013 at a one-off cost of £40 million.

A resilient and well-balanced business

In 2011, 57 per cent of underlying operating profit came from long-term contracts for support services and PPP projects, which provide considerable resilience in the current challenging economic climate.

The remaining 43 per cent of underlying operating profit came from construction services, which also generate resilient, good quality earnings as a result of our strategy of

- > applying strict contract selectivity and rigorous risk management processes
- > growing our international construction revenue, while reducing UK construction revenue to anticipate the effect of a one-third cut in Government capital spending on infrastructure over its current four-year spending plan.

In 2011, we made further good progress with re-scaling UK construction by tightening our selectivity criteria to base our UK construction activities around the delivery of integrated solutions for PPP projects and support services customers. Consequently, we remain on track to achieve our objective of reducing UK construction revenue to around £1.2 billion by 2013.

Our decision to re-scale UK construction not only anticipated the impact of cuts in Government capital investment, but is also helping us to improve margins, because we can avoid bidding for low margin work at a time when the UK construction market is becoming increasingly competitive.

Nine successive years of significant, cash-backed earnings and dividend growth

Delivering a nine per cent increase in underlying earnings and dividend per share in 2011 extended our strong track record to a ninth successive year of significant earnings and dividend growth, backed by strong cash flow from operations. Over the last five years, underlying earnings per share and our full-year dividend have increased at compound annual growth rates of 12 per cent and 13 per cent, respectively.

A strong balance sheet

A strong focus on cash management and financial discipline has resulted in the consistent delivery of cash-backed profit. This has supported our growth and enabled us to transform Carillion into a leading support services company, notably through a combination of strong organic growth and three major acquisitions, namely Mowlem plc in 2006, Alfred McAlpine plc in 2008 and CES in 2011. These acquisitions were funded in part by £528 million of borrowing, but through strong cash generation the Group's net borrowing at 31 December 2011 was only £50.7 million, which was considerably better than expectations. This, together with a committed syndicated bank facility of £737.5 million maturing in March 2016 and a £100 million private placement arranged in August 2011, comprising a seven-year £49 million loan and a 10-year £51 million loan, gives the Group an extremely strong balance sheet to support our strategy for growth.

Key performance indicators

In 2010 the Group set eight Key Performance Indicators (KPI) for 2011. These are described below together with our achievements.

To attract, develop and retain excellent people

Attracting, developing and retaining excellent people continues to be our top priority as this underpins every aspect of our performance. Our ability to deliver the high-quality services our customers expect, which is vital to Carillion's reputation and profitability, 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. We also believe that good communication with all our people to create a culture of openness and trust, is essential to engaging and empowering them to contribute to the development of our business. 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 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 2011 12 480 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, continued to improve.

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 2011, our Accident Frequency Rate (AFR) reduced to 0.07 reportable accidents per 100,000 employee hours worked (2010: 0.10), with four out of five projects achieving zero reportable accidents during the year. An AFR of 0.07 represents a sector-leading performance. Despite this further improvement in our overall safety performance, we deeply regret that three fatal accidents occurred at Carillion work sites during 2011. An employee of a sub-contractor fell from a window opening after climbing onto the guard-rail. An employee of a sub-contractor was struck by a steel beam as it was being lifted. A Carillion employee was struck by a glass panel that toppled over while it was being unloaded from a container. These accidents are all personal tragedies and our thoughts are with the families and friends of those who died.

During 2011, two prosecutions of Carillion companies were completed by the Health & Safety Executive. One arose as a result of an accident in 2004 that occurred in the M25 Holmesdale Tunnel where an employee of a sub-contractor was fatally injured during roadworks as a result of being struck by a vehicle unconnected to the roadworks. The other related to an accident on a Carillion Energy Services worksite prior to its acquisition by Carillion, due to a failure to protect an opening in a floor during the installation of central heating.

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 10th in the Sunday Times list of Best Green Companies and fourth in our category for large and medium-sized companies with high environmental impact. We also maintained our membership of the FTSE4Good Index. Being a leader in delivering sustainable solutions for our customers differentiates Carillion from its peers and helps us to win work. In 2011, we launched our 2020 Sustainability Strategy to support our business plans and targets for growth over the next decade. More details about this and how we are becoming a more sustainable business can be found in the sustainability section of this report on page 34.

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 2011 survey showed that, while our average customer perception scores across our businesses and market sectors remained unchanged in 2011, it was ahead of the average for peer group companies and well above a commercially acceptable level.

Grow revenue in support services

Support services revenue increased by 11 per cent as a result of the acquisition of CES in April 2011. The revenue acquired with CES was partially offset by the effects of demobilising certain contracts in 2010 and by our continuing focus on contract selectivity and financial discipline to support margins.

Grow annual revenues in Canada and in the Middle East consistent with our objective of doubling each of them to around £1 billion by 2015

In 2011, revenue in the Middle East increased by 11 per cent to £561.3 million and revenue in Canada increased by 10 per cent to £782.3 million. Given the strength of our pipelines of contract opportunities in the Middle East and in Canada, we remain confident of achieving our target of doubling their annual revenues to around £1 billion by 2015.

Continue to re-scale our UK construction capability consistent with our objective of reducing annual revenue by one third to around £1.2 billion

We have made further good progress with re-scaling our UK construction activities, reducing their revenue to £1.3 billion in 2011 in line with this objective, which we set in 2010. Re-scaling is being achieved by being very selective in terms of the contracts for which we bid, which has resulted in significant improvements in operating margin and profit for UK construction.

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

We continue to focus on cost management and efficiency savings across our business. Our ongoing success is evident in the substantial improvement we achieved in the Group's total underlying operating margin, which increased from 4.2 per cent in 2010 to 4.7 per cent in 2011, with underlying earnings per share increasing by nine per cent.

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

In 2011, we maintained our strong track record of consistently delivering cash-backed profit. Underlying cash flow from operations of £230.3 million was equal to 107 per cent of underlying profit from operations, without adjusting for the effects of re-scaling UK Construction.

Group Chief Executive's review

continued

Operational risk management

Carillion has rigorous 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.

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

Our risk management processes are applied 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.

Risk

Continuing to win contracts consistent with our target margins in markets that are more competitive

Managing our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base

Managing our major contracts to ensure that they are delivered on time, to budget and to the required standards

Business integration and re-scaling, notably of Carillion Energy Services and UK construction

Attracting, developing and retaining excellent people

Maintaining high standards of performance in respect of security, Health & Safety and other statutory requirements

Identifying and assessing significant risk



Potential impact	Mitigation
Failure to achieve targets for growth in revenue, cash-backed profits and earnings	<ul style="list-style-type: none"> > Continually seeking to differentiate our offering by reviewing our competitive strategy and target markets > 'Living' our values and listening to our customers in order to develop services that meet their needs > Focusing on our efficiency and cost reduction programmes to remain competitive
An increase in liabilities that would reduce Carillion's net assets and adversely affect the market's valuation of Carillion and its share price	<ul style="list-style-type: none"> > The Group's main defined benefit pension schemes have been closed to future accrual > Regular reviews of our investment policies to ensure that employee and company contributions, together with scheme benefits, remain appropriate
Failure to achieve the margins, profits and cash flows we expect from contracts and also damage to Carillion's brand reputation	<ul style="list-style-type: none"> > Applying selectivity criteria to ensure we take on contracts only where we understand, and can manage, the risks involved > Applying rigorous policies and processes to monitor and manage contract performance > Ensuring we have high-quality people delivering projects
Failure to deliver the Group's strategic objectives, adversely affecting its financial performance	<ul style="list-style-type: none"> > Experienced and dedicated teams are in place to deliver integration and re-scaling > Progress is closely monitored and measured by the Executive Directors
Failure to deliver high-quality services to our customers, with consequent effects on profit, reputation and our ability to win new contracts and achieve our targets for growth	<ul style="list-style-type: none"> > Developing and implementing leadership, personal development and employee engagement programmes that encourage and support all our people to achieve their full potential
Adverse effects on the confidence and morale of our employees leading to increased employee turnover rates, loss of customer, supplier and partner confidence, and damage to Carillion's brand reputation, with consequent impacts on our ability to win new contracts	<ul style="list-style-type: none"> > Applying rigorous risk management processes supported by robust business continuity plans > An ongoing commitment to 'Target Zero', our programme to eliminate reportable accidents, including implementing management systems that conform to Occupational Health & Safety Assessment System 18001 > Implementing thorough, mandatory staff training programmes to support the delivery of our objectives and to ensure compliance with our statutory obligations and company policies in respect of ethics and values

Group Chief Executive's review

continued

Order book plus probable orders

£19.1bn

2010 £19.1bn

Construction services (excluding the Middle East)

£2.4bn

2010 £3.2bn

Middle East construction services

£1.0bn

2010 £1.0bn

Support services

£12.9bn

2010 £12.2bn

Public Private Partnership projects

£2.8bn

2010 £2.7bn

Pipeline of contract opportunities

£33.1bn

2010 £25.7bn

Construction services (excluding the Middle East)

£8.4bn

2010 £7.7bn

Middle East construction services

£11.4bn

2010 £8.8bn

Support services

£12.3bn

2010 £8.3bn

Public Private Partnership projects

£1.0bn

2010 £0.9bn

Order book and probable orders

The Group maintained a strong forward order book plus probable new orders which at 31 December 2011 was worth some £19.1 billion (2010 £19.1 billion), where a "probable order" is defined as an order that we believe we have a greater than 90 per cent chance of securing. Within this total, the order book was worth £17.9 billion at 31 December 2011 (2010 £18.2 billion) and probable orders were worth £1.2 billion (2010 £0.9 billion). The value of orders and probable orders acquired with Carillion Energy Services was broadly offset by the reduction due to the planned re-scaling of UK construction. At 31 December 2011, the Group's revenue visibility for 2012 was 77 per cent⁽¹⁾ (2010 82 per cent for 2011).

Pipeline of contract opportunities

Our pipeline of contract opportunities, namely contracts for which we are either currently bidding or which we expect to bid, increased significantly to a record level of £33.1 billion (2010 £25.7 billion). This reflected increases within each of our business segments, notably in support services which increased by 48 per cent, and in Middle East construction services, which increased by 30 per cent.

Well-positioned to achieve our targets for growth

Although trading conditions are expected to remain difficult, with good revenue visibility and a record pipeline of contract opportunities we remain well-positioned to make further progress in 2012 and beyond by:

- > targeting growth in support services
- > doubling our revenues in the Middle East and in Canada, in each case to around £1 billion, by 2015
- > re-scaling UK construction to reduce its revenue from the 2009 level of some £1.8 billion to around £1.2 billion



Richard Howson
Group Chief Executive
29 February 2012

(1) 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 2012.

- > To attract, develop and retain excellent people
- > Be a recognised leader in Health & Safety and Sustainability
- > Continuously improve customer satisfaction
- > Deliver growth in support services
- > Grow annual revenues in Canada and in the Middle East, by doubling each of them to around £1 billion by 2015
- > Continue to re-scale our UK construction activities consistent with our objective of reducing their annual revenue to around £1.2 billion
- > Continue reducing costs and improving efficiency to support margins and earnings growth
- > Generate cash-backed profit after adjusting for the strategic re-scaling of our UK construction activities

Operating and financial review

Well-positioned for growth

Richard Adam
Group Finance Director

Carillion has continued to perform well in challenging market conditions to deliver a 13 per cent increase in underlying profit before tax⁽²⁾ and a nine per cent increase in underlying earnings per share.⁽³⁾

Group overview

Carillion is one of the UK's leading integrated 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 lifetime asset management. The Group has operations in the UK, Middle East and North Africa and Canada, as described on pages 04 and 05.

Underlying cash flow from operations remained strong at £230.3 million representing 107 per cent of underlying profit from operations⁽¹⁾, despite the expected working capital outflow associated with downsizing our UK construction operations. At 31 December 2011, the Group had net borrowing of £50.7 million (31 December 2010: net cash of £120.2 million), which was substantially better than expected following the acquisition of Carillion Energy Services in April 2011.

Total revenue of £5.1 billion (2010: £5.1 billion), including revenue from Joint Ventures of £898.0 million (2010: £902.5 million) was unchanged, with the revenue contribution acquired with Carillion Energy Services offset by a reduction in UK construction revenue in line with the planned re-scaling of our UK construction activities.

Total underlying profit from operations⁽¹⁾ increased by 11 per cent to £215.9 million (2010: £194.9 million), including profit from Joint Ventures of £48.7 million (2010: £46.0 million). As a result, the total underlying operating margin increased to 4.7 per cent (2010: 4.2 per cent).

After a net financial expense of £3.9 million (2010: £6.8 million), underlying profit before taxation⁽²⁾ was £212.0 million (2010: £188.1 million) an increase of 13 per cent. Underlying earnings per share⁽³⁾ on the same basis increased by nine per cent to 43.0 pence (2010: 39.4 pence).

Intangible amortisation was £31.0 million (2010: £27.6 million) and non-recurring operating and non-operating items amounted to a charge of £38.2 million (2010: £7.4 million income), leaving profit before taxation of £142.8 million (2010: £167.9 million) a reduction of 15 per cent. The main components of the £38.2 million of non-recurring and non-operating items were costs associated with the acquisition and integration of CES and income from the disposal of equity investments in Public Private Partnership projects.

The underlying Group taxation charge of £27.8 million when combined with a taxation charge on Joint Ventures of £3.5 million (2010: £4.7 million), represented an underlying effective tax rate of 15 per cent (31 December 2010: 16 per cent). Profit after tax was £138.0 million (2010: £152.8 million). After non-controlling interests of £3.4 million (2010: £5.6 million), profit attributable to Carillion shareholders was £134.6 million (2010: £147.2 million) and basic earnings per share were 32.0 pence (2010: 36.9 pence), a reduction of 13 per cent.

(1) After Joint Ventures net financial expense of £18.8 million (2010: £13.9 million) and taxation of £3.5 million (2010: £4.7 million) and before intangible amortisation non-recurring operating items and non-operating items.

(2) After Joint Ventures taxation of £3.5 million (2010: £4.7 million) and before intangible amortisation non-recurring operating items and non-operating items.

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

Operating profit by financial reporting segment

Financial reporting segments and analysis	2011 £m	2010 £m	Change from 2010 %
Support services	120.8	110.4	+9
Public Private Partnership projects	19.9	23.4	-15
Middle East construction services	49.1	47.5	+3
Construction services (excluding the Middle East)	57.9	41.2	+41
	247.7	222.5	+11
Group eliminations and unallocated items	(9.5)	(9.0)	-6
Profit from operations before Joint Ventures net financial expense and taxation	238.2	213.5	+12
Share of Joint Ventures net financial expense	(18.8)	(13.9)	-35
Share of Joint Ventures taxation	(3.5)	(4.7)	+26
Underlying profit from operations	215.9	194.9	+11
Intangible amortisation ⁽¹⁾	(31.0)	(27.6)	-12
Non-recurring operating items	(42.8)	(9.4)	-355
Reported profit from operations	142.1	157.9	-10

(1) Arising from business combinations

Underlying cash flow from operations of £230.3 million (2010: £230.2 million) represented 107 per cent of underlying profit from operations. After payments to pension funds of £36.2 million (2010: £35.2 million), in line with our pension deficit recovery plan, net capital income of £4.6 million (2010: £15.3 million expenditure) restructuring costs of £34.4 million (2010: £15.6 million), interest tax and dividend payments of £77.1 million (2010: £65.9 million) and net payments in respect of acquisitions and disposals of £251.4 million (2010: £2.7 million income), the Group had net borrowing at 31 December 2011 of £50.7 million (2010: £120.2 million net cash).

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 have been adopted in 2011 as they are mandatory 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'
- > International Accounting Standard (IAS) 24 'Related party disclosures (revised 2009)'
- > Amendment to International Accounting Standard (IAS) 32 'Classification of rights issues'
- > Amendment to International Financial Reporting Standard (IFRS) 7 'Improving disclosures about financial instruments'

The new accounting standards and interpretations have had no impact on profit, earnings per share or net assets in the year ended 31 December 2011. These new accounting standards and interpretations are described in more detail on page 61, together with other amendments to accounting standards, which also had no material impact on the Group's financial statements. The Group's other significant accounting policies are described on pages 61 to 64.

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 65. Operating performance in each of our financial reporting segments is discussed in more detail on pages 26 to 29.

Operating and financial review

continued

Support services

Carillion has provided facilities management services for Centrica's UK property portfolio, including environmental management services, since 2005

Revenue

£2.3bn

2010 £2.1bn

Underlying operating profit

£120.8m

2010 £110.4m

	2011 £m	2010 £m	Change from 2010 %
Revenue			
– Group	2,119.8	1,842.1	
– Share of Joint Ventures	225.4	266.5	
	2,345.2	2,108.6	+11
Underlying operating profit⁽¹⁾			
– Group	105.7	92.3	
– Share of Joint Ventures	15.1	18.1	
	120.8	110.4	+9

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

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

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

Revenue increased by 11 per cent to £2,345.2 million with the acquired revenue contribution from CES partially offset by the previously reported revenue reductions arising from contract demobilisations during 2010, notably contracts for Aviva and the Highways Agency, and the effect of our continuing focus on margins through contract selectivity. This focus enabled us to maintain our operating margin in this segment at 5.2 per cent, despite challenging market conditions with underlying operating profit increasing by nine per cent to £120.8 million, broadly half of the Group's total underlying operating profit.

The acquisition of CES in April 2011 was an important strategic development, driven primarily by the need to extend our support services offering to include energy efficiency services, given that these services are an increasingly important part of the integrated facilities management and maintenance solutions required by our customers. The acquisition has also taken the Group into new markets with good prospects for growth. While the UK Government's decision to reduce Feed-in-Tariffs for solar photovoltaic systems (Solar PV) is expected to limit growth in the Solar PV market, CES continues to have good growth prospects in its other markets. These prospects have been boosted by the UK Government's announcements regarding implementation of the provisions of the Energy Act 2011 and in particular, the Green Deal and the Energy Company Obligation (ECO). The Green Deal, which is to receive an additional £200 million of Government funding, is expected to kick-start at least £14 billion of investment in energy efficiency measures over the next decade. The ECO, which the Government is committed to introduce in October 2012, is expected to create a market worth some £1.3 billion a year, initially up to 2015, but the present Government intends to extend this period to 2020.

During 2011, we continued to win new orders by using our extensive capabilities and nationwide resources to target large complex contracts. At 31 December 2011, our forward order book for support services was worth £12.3 billion (2010: £11.7 billion) and in addition we had probable orders worth £0.6 billion (2010: £0.5 billion). The combined value of our strong order book and probable orders continues to provide good visibility, which at 31 December 2011 was 79 per cent⁽²⁾ of expected revenue for 2012 (2010: 75 per cent for 2011).

Our top 10 support services contracts account for around 26 per cent of our revenue in this segment and with none of these contracts due for re-bid in 2012 or 2013, we have a solid revenue platform for the medium term. Furthermore, our pipeline of contract opportunities continues to increase and at the year end was worth £12.3 billion (2010: £8.3 billion) of which a major proportion relates to public sector organisations seeking to outsource non-core services in order to reduce operating costs.

Consequently, we continue to target growth in support services.

Public Private Partnership projects

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A Carillion Joint Venture is delivering the £157 million Centre for Addiction and Mental Health in Toronto, Canada, using the Alternative Financing Procurement model, which is similar to the UK's Public Private Partnership model

Revenue

£0.3bn

2010 £0.3bn

Underlying operating profit

£19.9m

2010 £23.4m

	2011 £m	2010 £m	Change from 2010 %
Revenue			
– Group	1.2	1.2	
– Share of Joint Ventures	308.6	310.7	
	309.8	311.9	-1
Underlying operating profit⁽¹⁾			
– Group	2.7	10.7	
– Share of Joint Ventures	17.2	12.7	
	19.9	23.4	-15

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

In this segment we report the equity returns on investments in Public Private Partnership (PPP) projects in the UK and Canada

We combine our expertise in private finance with our support services and construction capabilities to win and deliver fully integrated solutions for PPP projects, in which we invest equity and for which we secure construction contracts and long-term support services contracts, typically for up to 35 years. The results of our PPP construction and support services contracts are reported in our "Construction services (excluding the Middle East)" and "Support services" segments, respectively. Once a project is mature, having passed from construction into the operational phase, we have the option of selling our equity and reinvesting the proceeds in new projects.

The one per cent reduction in revenue in 2011 reflected the sale of our equity investments in the Queen Alexandra Hospital project in June 2010 and in three further projects in 2011, partially offset by growth in the remainder of the portfolio. The 15 per cent reduction in operating profit in 2011 reflected these equity sales and the fact that profit in 2010 benefited from the receipt of higher than normal fees upon achieving financial close on four large projects.

In 2011, a Carillion joint venture achieved financial close on a £1.7 billion, 30-year contract for the New Oakville Hospital PPP project in Ontario, Canada, our sixth PPP hospital in Canada, in which we expect to invest some £28 million of equity. During 2011, we also sold equity investments in three mature projects, namely South Ayrshire Schools, Three Shires Hospitals and the A249 Sheppey Route. These sales generated total gross proceeds of £25.4 million, which represented an average discount rate of seven per cent, and a non-operating profit of £11.5 million.

At 31 December 2011, we had a portfolio of 25 financially closed projects in which we had invested some £96 million of equity. The Directors' valuation of this portfolio at 31 December 2011 increased to £164 million (2010 £135 million), based on discounting the cash flows from our investments at nine per cent. At 31 December 2011 we also had commitments to invest a further £125 million of equity in financially closed projects that are still in the construction phase. Our forward order book at 31 December 2011 was £2.7 billion (2010 £2.7 billion) and we had probable orders worth £0.1 billion (2010 nil). In addition we are currently short-listed for two further projects in which we could potentially invest up to £65 million, namely the Royal Liverpool Hospital and Sheffield Highways.

Going forward, we continue to expect opportunities to add projects to our portfolio. In Canada, Infrastructure Ontario has published details of the first 20 projects that will form part of the C\$35 billion of investment planned over the first three years of its new 10-year PPP programme. We expect to bid a number of these projects in 2012, as the majority of these 20 projects are in the healthcare sector where Carillion is a market leader. In the UK, the review of the Private Finance Initiative (PFI) announced by the Government in November 2011 clearly indicates that, while the current PFI model may change, private finance will continue to play a significant role in delivering UK public infrastructure and services. We therefore continue to expect opportunities in the UK over the medium term, for example from the £2 billion schools PFI programme and from the National Infrastructure Plan 2011, which comprises over 500 projects worth in excess of £250 billion, some two thirds of which will be delivered using private finance.

Operating and financial review

continued

Middle East construction services

Al Futtaim Carillion is building the £570 million New York University campus in Abu Dhabi, for Mubadala Infrastructure

Revenue

£0.5bn

2010 £0.5bn

Underlying operating profit

£49.1m

2010 £47.5m

	2011 £m	2010 £m	Change from 2010 %
Revenue			
– Group	218.9	190.9	
– Share of Joint Ventures	330.0	302.1	
	548.9	493.0	+11
Underlying operating profit⁽¹⁾			
– Group	13.9	14.0	
– Share of Joint Ventures	35.2	33.5	
	49.1	47.5	+3

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

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

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

We continued to make good progress in the Middle East with revenue increasing by 11 per cent to £548.9 million. Operating profit increased by three per cent to £49.1 million (2010: £47.5 million), despite the operating margin reducing to 8.9 per cent (2010: 9.6 per cent) in line with the expectations we announced in 2010, namely that margins in this segment would ease back to around six per cent by 2013, because all our contracts are now competitively tendered rather than negotiated.

Our progress in 2011 continues to reflect the strength of our markets together with the reputation we have built over the last 40 years for high-quality and on-time delivery. As well as continuing to win contracts in the territories where we have well-established businesses, namely Abu Dhabi, Oman and Dubai, we successfully extended our Middle East operations to Qatar, where a Carillion joint venture won its first contract in 2011 – a £395 million contract to deliver a major phase of the Msheireb Heart of Doha development for Msheireb Properties, a subsidiary of Qatar Foundation for Education, Science and Community Development. This high-profile and prestigious mixed-use development is worth some £316 million to Carillion.

At 31 December 2011, Carillion's share of the forward order book of our Middle East businesses was some £1.0 billion (2010: £1.0 billion) and our revenue visibility for 2012 was 70 per cent⁽²⁾ (2010: 78 per cent for 2011). In assessing our prospects in the Middle East, our pipeline of contract opportunities is especially important, given that we are focused on large projects that can move quickly from tender stage to contract signature, causing substantial movements in order book value. At 31 December 2011, our pipeline of contract opportunities had increased substantially to a new record level of £11.4 billion (2010: £8.8 billion).

We are optimistic that during 2012 we can extend our Middle East operations to Saudi Arabia, which has major investment programmes in sectors where we have already established strong reputations in our existing territories.

Given our record pipeline of contract opportunities, which reflects the strength of our current and prospective markets, we remain confident that we can achieve our target of doubling our revenue in the Middle East to around £1 billion by 2015.

Construction services (excluding the Middle East)

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The £130 million NEO Bankside development is being built by Carillion on London's South Bank for developers Native Land and Grosvenor

Revenue

£1.8bn

2010 £2.2bn

Underlying operating profit

£57.9m

2010 £41.2m

	2011 £m	2010 £m	Change from 2010 %
Revenue			
– Group	1,813.3	2,202.3	
– Share of Joint Ventures	34.0	23.2	
	1,847.3	2,225.5	-17
Underlying operating profit⁽¹⁾			
– Group	54.4	40.9	
– Share of Joint Ventures	3.5	0.3	
	57.9	41.2	+41

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

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

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

Revenue in this segment reduced by 17 per cent as we continued to make progress with our objective of re-scaling UK construction to reduce its revenue by approximately one third, from the 2009 level of £1.8 billion to £1.2 billion which we expect to achieve in 2012. In 2011, UK construction revenue reduced by 24 per cent to £1.3 billion (2010 £1.7 billion). Re-scaling is being achieved by tightening our contract selectivity criteria to base our UK activities progressively around the delivery of integrated solutions for PPP projects and support services customers, and high-quality, value-added contracts for long-term customers. As expected, construction revenue in Canada remained broadly unchanged.

Our decision to re-scale UK construction anticipated the Government's cuts in capital spending of some 30 per cent in real terms over the current four-year spending plan. It has also helped us to improve the operating margin in this segment, as we have avoided bidding for lower margin work at a time when the UK market is becoming increasingly competitive. This, together with the benefits of a number of contracts completing or moving towards completion with favourable out-turns, has enabled us to improve the operating margin to 3.1 per cent (2010 1.9 per cent) with operating profit increasing by 41 per cent to £57.9 million.

At 31 December 2011, we had a forward order book in this segment worth some £2.0 billion (2010 £2.8 billion) and probable orders of £0.4 billion (2010 £0.4 billion). At the year end, revenue visibility for 2012 was 72 per cent⁽²⁾ (2010 89 per cent for 2011). In addition, we had a pipeline of contract opportunities at 31 December 2011 worth approximately £8.4 billion (2010 £7.7 billion).

In 2012, UK market conditions are expected to remain competitive as Government cuts in capital spending continue to bite. We will continue to re-scale our UK business by maintaining a very selective approach to the contracts for which we bid, which will also continue to support margins. Over the medium term, we remain well-placed to benefit from new planned public sector investment in the UK such as the £2 billion PFI schools programme and the National Infrastructure Plan 2011, which comprises over 500 projects worth in excess of £250 billion over a five-year period.

In Canada we continue to target growth in construction over the medium term to support our target of doubling total revenue to around £1 billion by 2015. We expect the Alternative Financing Procurement (AFP) market (similar to Public Private Partnerships in the UK) to be an important driver of growth particularly in Ontario. The Ontario Government has announced details of 20 projects that comprise the first phase of its new 10-year AFP programme under which it plans to invest C\$35 billion over the first three years, and we expect to bid a number of these projects in 2012.

Operating and financial review

continued

Intangible amortisation

Intangible amortisation arising from business combinations of £31.0 million (2010: £27.6 million) included £10.0 million in relation to CES, with the balance relating to the amortisation of intangible assets primarily arising from the acquisitions of Mowlem in 2006 and Alfred McAlpine in 2008.

Non-recurring operating items

The non-recurring operating charge of £42.8 million (2010: £9.4 million) relates to the payment into the CES Employee Share Scheme in lieu of the final Carillion dividend waived by the Eaga Partnership Trusts⁽¹⁾ of £2.8 million, along with the £40.0 million restructuring and property exit costs associated with the integration of CES.

Rationalisation costs of £9.4 million in 2010 relate to non-recurring redundancy and other associated costs associated with re-scaling 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.

Non-operating items

These costs are summarised in the table below.

	2011 £m	2010 £m
Profit on disposal of jointly controlled entity and other investments	15.3	16.8
Acquisition costs	(7.5)	—
Closure of non-core businesses	(3.2)	—
	4.6	16.8

Non-operating income of £15.3 million from the disposal of investments comprised a £11.5 million profit on the sale of equity investments in three Public Private Partnership projects and a £3.8 million profit on the disposal of a small joint venture in the Netherlands.

Acquisition costs in 2011 of £7.5 million relate to adviser costs in respect of the acquisition of CES in April 2011.

During 2011 we closed three non-core businesses due to the re-scaling of our UK construction activities including redundancy and property costs of £3.2 million.

In 2010, the Group disposed of its equity interest in two Public Private Partnership investments. The disposals generated a non-operating profit of £16.8 million.

Net financial expense

The Group's net financial expense of £3.9 million (2010: £6.8 million) comprised the following items: a net expense of £14.0 million (2010: £7.6 million) in respect of borrowings and other liabilities, with the increase compared to 2010 largely due to higher net borrowings following the acquisition of CES; a net interest credit in respect of defined benefit pension schemes of £3.2 million (2010: £3.6 million charge) due to favourable movements in market conditions and interest received in respect of loans to PPP Joint Venture projects of £6.9 million (2010: £4.4 million).

Taxation

The underlying Group taxation charge of £27.8 million, when combined with a taxation charge on Joint Ventures of £3.5 million (2010: £4.7 million) represented an underlying effective tax rate of 15 per cent (2010: 16 per cent). This is significantly below the UK standard rate of corporation tax of 26.5 per cent for 2011 because our profits in the Middle East are subject to zero or low rates of tax and because we utilise carried forward tax losses in the UK that were largely inherited with the acquisitions of Mowlem and Alfred McAlpine. At 31 December 2011, the Group had £348 million (2010: £306 million) of corporate tax losses that are available to reduce future tax payments.

Earnings per share

Underlying earnings per share increased by nine per cent to 43.0 pence (2010: 39.4 pence), reflecting the acquisition of CES and the substantial improvement in total operating margin. Following the issue of 30.6 million shares on the acquisition of CES on 21 April 2011, the weighted average number of shares in issue in 2011 increased to 420.9 million (2010: 399.0 million).

Dividend

Carillion has a progressive dividend policy which aims to increase the dividend per share broadly in line with the growth in underlying earnings per share, subject to the investment needs of the business. Consistent with this policy, the Board has recommended a final dividend for the 2011 financial year of 11.6 pence per share, making the proposed full-year dividend 16.9 pence per share (2010: 15.5 pence per share), an increase of nine per cent on the total paid in respect of 2010. Dividend cover based on the proposed full-year dividend of 16.9 pence per share and underlying earnings per share is 2.5 times (2010: 2.5 times).

Cash flow

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

	2011 £m	2010 £m
Cash flow		
Underlying Group operating profit	167.2	148.9
Depreciation and other non-cash items	32.1	32.0
Working capital	(8.6)	1.2
Dividends received from Joint Ventures	39.6	48.1
Underlying cash inflow from operations	230.3	230.2
Deficit pension contributions	(36.2)	(35.2)
Rationalisation costs	(34.4)	(15.6)
Interest, tax and dividends	(77.1)	(65.9)
Net capital income/(expenditure)	4.6	(15.3)
Acquisitions and disposals	(251.4)	2.7
Other	(6.7)	(5.6)
Change in net (borrowing)/cash	(170.9)	95.3
Net cash at 1 January	120.2	24.9
Net (borrowing)/cash at 31 December	(50.7)	120.2
Average net borrowing⁽²⁾	(218.9)	(41.8)

(1) The Eaga Partnership Trusts held a 5.9 per cent shareholding in Carillion plc immediately following the acquisition of CES.

(2) Post the acquisition of CES in April 2011.

Strong cash management is a priority and this is reflected in the Group's track record of consistently delivering cash-backed profit. Underlying cash flow from operations of £230.3 million represents 107 per cent of underlying profit from operations, which is a significant achievement given the re-scaling of UK construction is, as expected, resulting in an outflow of working capital.

Deficit recovery payments to the Group's pension funds of £36.2 million are in line with the agreement reached in 2010 with the Trustees of the Group's main defined benefit schemes. The £34.4 million of rationalisation costs primarily related to the integration of CES and the re-scaling of UK construction. Interest, tax and dividend payments of £77.1 million included higher interest and dividends payable due to the acquisition of CES. Net income of £4.6 million in respect of capital items included proceeds of £17.2 million following the sale of vehicles to Tarmac following the unwind of an arrangement which had been in existence since 1999, along with the disposal of surplus assets.

Net payments in respect of acquisitions and disposals amounted to £251.4 million, including £249.9 million relating to the cash element of the consideration, acquisition costs and net debt acquired in respect of CES, net equity investments in joint ventures of £31.0 million, proceeds of £25.2 million (net of expenses) from the sale of equity in three Public Private Partnership projects and proceeds of £6.2 million (net of expenses) from the sale of a small joint venture in the Netherlands.

The above items, together with other payments of £6.7 million, resulted in a change in net borrowing of £170.9 million, leaving the Group with net borrowing of £50.7 million at 31 December 2011 (2010: £120.2 million net cash).

Balance sheet

A summary of the Group's balance sheet is shown below.

Balance sheet	2011 £m	2010 £m
Property, plant and equipment	134.2	157.2
Intangible assets	1,547.6	1,221.2
Investments	210.9	176.7
	1,892.7	1,555.1
Inventories, receivables and payables	(607.4)	(613.8)
Net retirement benefit liability (net of tax)	(229.3)	(182.1)
Other	(22.8)	(14.2)
Net operating assets	1,033.2	745.0
Net (borrowing)/cash	(50.7)	120.2
Net assets	982.5	865.2

Property, plant and equipment reduced from £157.2 million to £134.2 million largely due to the sale of vehicles to Tarmac and the disposal of surplus assets. The increase in intangible assets to £1,547.6 million was mainly due to the acquisition of CES in April 2011. Investments increased to £210.9 million at the end of 2011 due largely to equity investments in PPP projects of £29.0 million.

Retirement benefits

Detailed information on the Group's pension arrangements can be found in note 31 on pages 94 to 101 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 £2,203.7 million (i.e. the 'liabilities'). The total pension assets relating to these liabilities are £1,897.9 million, giving a deficit of £305.8 million before deferred tax and £229.3 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 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 2011 in relation to defined benefit schemes amounted to £305.8 million (2010: £249.4 million). The increase in the net deficit since the end of 2010 is due to a combination of a reduction in asset values following the fall in global equity markets and a reduction to the discount rate reflecting the movement in market bond yields.

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 £36 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

	2011 %	2010 %
Discount rate	4.8	5.4
Inflation		
RPI	3.0	3.4
CPI	1.9	2.8
Salary increase	3.5	4.4
Expected return on assets		
Equities/Property	6.95	7.65
Gilts	2.95	3.9
Corporate Bonds	4.55	5.25
Cash	0.5	0.5
Average allocation of assets		
Equities/Property	48	51
Gilts	20	17
Corporate Bonds	31	31
Cash	1	1

The discount rate of 4.8 per cent is based on AA bond yields appropriate to the liability duration. The RPI inflation rate of 3.0 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 £37 million, whilst a 0.1 per cent increase in the inflation rate would increase the overall deficit by around £32 million.

The Group's ongoing total pensions charge against profit in 2011 amounted to £29.3 million (2010: £29.9 million).

Acquisition of CES

The Group acquired the entire share capital of CES in 2011 for a total consideration of £298.4 million, satisfied by the issue of 30.6 million Carillion plc shares and £181.2 million in cash. Following an assessment of the fair value of assets and liabilities at the acquisition date, goodwill arising on this acquisition amounted to £329.1 million.

Committed bank facilities

In February 2011, the Group put in place new committed bank facilities of £752.5 million, which comprise a £737.5 million syndicated five-year facility maturing in March 2016 and a £15.0 million 364-day facility. In August 2011, we also completed a £100 million private placement which comprised a £49 million seven-year loan at 4.38 per cent per annum and a £51 million 10-year loan at 5.1 per cent per annum. Securing these facilities reflects the Group's positive prospects and gives the Group the financial strength to support its strategy for sustainable profitable growth.

Share price

Carillion's share price was 300.8 pence at the close of business on 31 December 2011, a decrease of 22 per cent on the closing price on 31 December 2010 of 384.4 pence.

Carillion's total shareholder return decreased in 2011 by 18 per cent, compared with a decrease in the return for the FTSE 350 of three per cent.

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 businesses and contracts, including economic, social, environmental and ethical risks. Our operational risk management policies and processes are described in more detail on page 20 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 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 above, 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 2011, the Group had undrawn committed facilities amounting to £356.1 million (2010: £456.5 million). This excludes the Group's share of cash balances amounting to £94.2 million (2010: £175.1 million) within jointly controlled operations, which are outside of the Group's facilities.

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.

Country risk

The Group has overseas activities in Canada, the Middle East, where our operations are centred upon Abu Dhabi, Dubai, Oman and Qatar, and in Egypt where we have one project that accounted for less than two per cent of the Group's total revenue in 2011.

Through our strategy of creating a well-balanced and geographically diversified business, we seek to minimise the political and socio-economic risks to our business. We also seek to mitigate the risks attendant on our overseas activities by ensuring that we operate only where we can apply high standards of corporate governance and corporate social responsibility and by regularly repatriating profits and cash to the UK. We have no operations in mainland Europe and therefore no direct exposure to the risks attendant on operating in euro zone countries. The overseas countries in which we operate have been largely unaffected by the global banking crisis, with the exception of Dubai which has been supported by Abu Dhabi. Furthermore, our strategy in the Middle East and North Africa of focusing on a small number of financially robust customers has enabled our businesses in the region to maintain strong operating cash flows and remain financially independent.

The risk of political instability in Canada is judged to be minimal, as Canada has a stable parliamentary democracy. Having deliberately centred our activities in the Middle East on countries that have a history of social stability, we have been unaffected by the recent unrest seen elsewhere in the Middle East. Social unrest in Egypt has affected the one project we have there, causing us to suspend construction work for a few weeks early in 2011, but since then work on this project has continued normally. While the potential for political unrest and conflict in the Middle East and North Africa to escalate or to spread to countries so far unaffected remains a possibility, we believe our policy of focusing on countries with a history of stability, together with our rigorous corporate governance and financial management policies and processes, provides adequate mitigation against these risks.

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	
	2011	2010	2011	2010
Middle East (US Dollar)	1.61	1.55	1.55	1.57
Oman (Rial)	0.62	0.60	0.60	0.60
UAE (Dirhams)	5.90	5.69	5.71	5.75
Canada (Dollar)	1.58	1.60	1.58	1.56
Trinidad (Dollar)	10.29	9.84	9.97	10.02

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 27 on pages 87 and 88.

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 33, entitled 'Our Performance'. In addition, note 27 on pages 85 to 90 of 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
29 February 2012

Sustainability review

Sector leading performance

Making tomorrow a better place

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 2011 Sustainability Report, which will be published on our website www.carillionplc.com/sustainability in April 2012.

Our sustainability strategy

During 2011, we launched a new sustainability strategy. After reviewing our business we engaged with stakeholders and worked with Forum for the Future to develop this strategy which we introduced to our people during Carillion's Sustainability Week, which coincides with World Environment Day in June.

Our 2020 strategy supports our business strategy and growth plans for the remainder of this decade, by effectively managing the sustainability risks and opportunities for Carillion. We want to be recognised as a leading sustainable business and the leading sustainable support services company.

Our new strategy focuses on sharing knowledge and working closely with customers and suppliers to deliver sustainable solutions that reach beyond our immediate operations. We will consciously drive this strategy externally helping our customers to meet their sustainability objectives while contributing to the creation of a low-carbon economy and supporting vibrant, healthy communities. We understand that to be recognised as a leader, we have to manage the impacts and opportunities of our projects, services and supply chains.

We believe that championing sustainability is critical to the long-term success of our business and this strategy will help us to maintain our position as sector leader.

We have developed six positive outcomes that define the key areas of focus for our 2020 strategy and build on our sustainability achievements to date.

- > **Enable low-carbon economies** Our services will help Carillion's customers work towards carbon neutrality, so together we become the lowest carbon producers in our respective sectors.
- > **Protect the environment** We will work with our customers and suppliers to be best-in-class in reducing waste, managing the use of water and raw materials, and protecting biodiversity wherever we operate.
- > **Support sustainable communities** We will make a positive contribution to the development of our local communities, enabling them to thrive and prosper.
- > **Provide better prospects for our people** We will improve the prospects of our people by offering opportunities for learning and development and create safe, healthy places to work.
- > **Lead the way in our sector** We will be recognised as the benchmark in sustainability and innovation, in turn driving demand as the service provider of choice for customers.
- > **Building a successful business** Through our sector leadership and role in creating a more sustainable economy, we will increase shareholder value.

Managing sustainability

Our commitment to sustainability is driven by our Board, supported by a Sustainability Advisory Committee. This Committee is chaired by our Group Chief Executive, Richard Howson, and includes our Group Finance Director and a number of senior managers. The Committee also benefits from expert advice from two external members, Dame Julia Cleverdon, Vice President of Business in the Community (BITC) and Special Advisor to the Prince's Charities and Jonathon Porritt, Founder Director of Forum for the Future.

The Sustainability Advisory Committee is supported by a Group Sustainability Forum of our senior business leaders and chaired by our Chief Sustainability Officer, Tom Robinson. The Forum informs the development of our sustainability strategy, shares best practice and ensures the effective dissemination of our sustainability strategy and policies to each business unit. 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 2011, this event focused on launching our new 2020 sustainability strategy and on raising internal awareness of our new targets and vision. We produced seven videos to explain our strategy and thousands of employees joined in, as well as some of their clients and suppliers, and went the extra mile to make the launch of our Sustainability Strategy a resounding success. In total, we received over 300 reports of activities supporting the launch from across the Group.

Our performance

The Group's sustainability targets for 2011 were based on 20 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 in our 2011 Sustainability Report, which will be published in April 2012.

In the 2011 UK Sunday Times Best Green Company awards, Carillion was ranked in the Top 10. Carillion is one of only 15 companies to remain in the Best Green Companies top 60 list since it started four years ago. We also achieved a 'Platinum' ranking in Business in the Community's Corporate Responsibility Index for the third year running, with a score of 97 per cent. The Corporate Responsibility Index involves a detailed,

A member of



As a member of the Business Action on Homelessness Board, we celebrated the 10th birthday of the programme with the organisation's president, the Prince of Wales

Carillion staff gave the UK Prime Minister, the Rt Hon David Cameron MP and the Netherlands Prime Minister, Mark Rutte, a tour of the Library of Birmingham project with commentary on its design and construction, as well as the employment and training benefits that the project has brought to the people of Birmingham

ABOUT US

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 2011 we submitted a full response to the Carbon Disclosure Project and were included in the FTSE 350 Carbon Disclosure Leadership Index for the first time with a disclosure of 82 out of 100 (Performance rating B). In 2011 we also achieved the Certified Emissions Measurement and Reduction Scheme (CEMARS) accreditation for the first time

Carillion won the Arabia Corporate Social Responsibility Award in 2011, in the large company category. This represents a huge achievement as over 100 entries were received from 12 countries across the Middle East region in over 15 different sectors. In addition, Carillion won the following awards at the Construction Week Awards held in Dubai in 2011

- > Corporate Social Responsibility of the Year Award for Sustainability Week, which saw our people spending over 4,000 hours involved in community engagement activities in the Middle East
- > Construction Sustainability Award for the practical implementation of our new sustainability strategy through our Sustainability Action Teams

Our joinery workshop in Muscat, Oman was also highly commended for achieving Forest Stewardship Council (FSC) Chain of Custody certification

In 2011, 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 the following important specific areas namely

- > We launched our new 2020 targets that start to be monitored during 2012
- > We developed a Sustainability Leadership Plan (SLP) to help our business units deliver their targets and establish a baseline to measure and report against our 2020 Sustainability KPIs
- > We developed a new Community Needs Plan and revised our Biodiversity Toolkit, which will be implemented in 2012
- > We appointed Tom Robinson as Chief Sustainability Officer. This is a new post and marks our commitment to the delivery of our 2020 Sustainability Strategy
- > We set up a baseline against which to measure all of our water consumption
- > We enabled over 148 candidates (against our target of 100) to gain valuable two-week work placements in our businesses and supported their re-introduction to employment through the Business Action on Homelessness programme

Supporting sustainable communities

Vibrant, thriving communities are the foundation on which our business relies. We believe that by supporting the sustainable development of the communities in and around the areas in which we operate, we are helping to secure the long-term wellbeing of our current and future employees, customers and suppliers

Working with organisations such as Business Action on Homelessness and The Prince's Trust, Carillion has offered training placements to 174 people over the past year, including the long-term unemployed and ex-offenders

As we have every year since 2001, in 2011 we gave at least one per cent of our pre-tax profits to charitable and community causes through a combination of cash and in-kind donations including time spent by Carillion employees

We believe that by engaging with community and charity groups, we increase the morale and motivation of our people while delivering tangible benefits to the communities in which we work. We are delighted to support the diverse and enterprising volunteering efforts of our people across many different sectors, which also add value to our business through the development of skills and community engagement. In line with this, we have processes in place to allow employees the opportunity to use their working time to support external initiatives

Providing better prospects for our people

Carillion is a business built on the talents and dynamism of our people. We value their diversity, encourage them to fulfil their potential, and make the safeguarding of their health and safety our highest priority, which we describe in more detail on pages 19, 40 and 41 of this report

Carillion recognises that one of its greatest sustainability impacts is the provision of employment, both within our business directly and also through our sub-contractors and suppliers. Where feasible, we are committed to sourcing our employees locally in the areas where we work, helping to improve economic prospects, reduce the carbon footprint of our activities, provide skills training for the local population and support sustainable communities

In 2011 we launched the "5" Factor competition across Carillion. Contestants have to submit information about their sustainability achievements. They then go through a public vote within Carillion and the final contestants make personal presentations to a panel of judges who select category winners and an overall winner. The 2011 overall winner was the Library of Birmingham team who achieved over 100 local employment places with local subcontractors with at least 50 per cent gaining full-time roles on this project. They were awarded £1,000 that they donated to the Birmingham Children's Hospital. The competition was a great success and the 240 entries received showed the level of engagement in sustainability across the Group

Protecting our environment

Across all our operations, protecting the environment is fundamental to the way we work. We seek to manage our environmental impacts by using natural resources efficiently, sourcing responsibly, protecting biodiversity and reducing waste – and by helping our customers do the same

All our UK and Middle East and North Africa (MENA) operations are certified to the ISO 14001 international standard. Carillion's Joint Venture, TWD Roads Management Inc. in Canada, is also certified to ISO 14001. This ISO standard requires formal environmental management systems, including specific policies, plans, registers, training and communication programmes, objectives and targets

As part of the 2020 vision, our biodiversity risk assessments and plans have been reviewed so that restoration activities are now considered. We work not only to protect the biodiversity of sites and neighbouring land across the projects in which we are involved, but to enhance it. Our people in MENA often get involved in beach clean-up campaigns and the Carillion Natural Habitats Fund has supported 54 Wildlife Trust projects in the UK since 2001, with donations totalling over £335,000

In 2011, we set a target for all permanent UK contracts and projects to capture water consumption data and keep monitoring this every year in order to have reduced our water consumption by 25 per cent by 2015

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Sustainability review

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UK Construction's Simon Dingle (Operations Director), Sinead Mackenzie (Project Manager for Employment and Training) and Michael Winhall (Sustainability & Communications Manager) were crowned overall winners of the Carillion "S" Factor 2011

Adam Green, Managing Director of Carillion UK Construction, presenting Crown House Technologies with the 2011 Carillion Supply Chain Sustainability Champion Award

The Al Futtaim Carillion team at our New York University project in Abu Dhabi pulled out all the stops and organised 44 different activities to celebrate Sustainability Week

In 2011, Carillion won two prestigious awards – the Arabia Corporate Social Responsibility Award and the Construction Week Sustainability Award – with both citing the pioneering efforts of our joinery workshop in Oman. We also received a Special Commendation by the Oman Green Awards judging panel

Enabling low carbon economies

We are helping our customers work towards carbon neutrality, so that together we become the lowest carbon producers in our respective sectors. Enabling low-carbon economies is one of the six positive outcomes of our 2020 sustainability strategy.

We calculate and publish details of our carbon footprint annually. In 2010, Carillion registered with the UK Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, which applies mandatory emission cuts to large commercial and public sector organisations. We installed smart meters across our sites to provide instant, accurate measurements of the electricity, gas and oil used to power our offices, site accommodation and construction projects. In 2011, we were ranked in the top 10 per cent of the CRC league table.

We also submit data to the Carbon Disclosure Project (CDP) – an independent, not-for-profit organisation that aims to increase transparency and promote climate change data as a factor in business, policy and investment decisions. Companies are scored on their climate change disclosure and high scores indicate good internal data management and understanding of the climate change issues affecting the company. We achieved an impressive score of 82 out of 100 and featured in the 2011 FTSE 350 Carbon Disclosure Leadership Index.

With the acquisition of Eaga plc, now called Carillion Energy Services (CES), we became the UK's largest independent energy services provider, with major new opportunities in the energy services market. With sector-leading expertise in energy efficiency solutions, we are in a position to enhance the scope of our integrated services offering for existing and new customers.

Home energy improvements provided by CES are already helping households to reduce their fuel costs and live more comfortably. The Warm Front Scheme, being delivered by CES, provides grants of up to £3,500 to install a package of heating and insulation measures to help people vulnerable to fuel poverty keep warm and manage their fuel bills. Installing loft or cavity wall insulation and energy-efficient heating systems can cut household fuel bills by between £300 and £600 a year.

CES was recognised for its low-carbon energy housing solutions at the Microgeneration UK Awards in June 2011.







Our 2011 Sustainability Report will provide more information on our carbon reduction programme when it is published on our website in April 2012.

Leading the way – customers and suppliers

Carillion develops strong relationships with customers and suppliers, based on mutual respect and a focus on sustainable practices. We are a customer-focused business, providing innovative, sustainable solutions that deliver long-term added-value across a broad range of sectors.

Throughout the lifecycle of a project, our business units ask for feedback on the levels of service we provide and we conduct regular customer satisfaction surveys to assess our performance. We use an independent specialist company to conduct these surveys to encourage honest feedback. Sustainability questions are included in these surveys so we can monitor customer perception of our sustainability performance.

Positive outcomes that define the key areas of focus

Vision	Objectives
Enable low-carbon economies 	Our services will help Carillion's customers work towards carbon neutrality, so together we become the lowest carbon producers in our respective sectors
Protect the environment 	We will work with our customers and suppliers to be best-in-class in reducing waste, managing use of water and raw materials, and protecting biodiversity wherever we operate
Support sustainable communities 	We will make a positive contribution to the development of our local communities, enabling them to thrive and prosper
Provide better prospects for our people 	We will improve the prospects of our people by offering opportunities for learning and development and create safe, healthy places to work
Lead the way in our sector 	We will be recognised as the benchmark in sustainability and innovation, in turn driving demand as the service provider of choice for customers
Building a successful business 	Through our sector leadership and role in creating a more sustainable economy, we will increase shareholder value

We assess the feedback in respect of each of our business units and if we are not meeting the high standards our customers expect from us we devise action plans and follow robust procedures to address any issues swiftly and effectively to ensure customer satisfaction. We continually seek to take customer service delivery to new levels, and Carillion Facilities Management (CFM) was the proud winner of the British Institute for Facilities Management Award for Innovation in Customer Service in 2011.

Our relationships with thousands of suppliers all over the world include multinational organisations, small and medium-sized enterprises (SMEs), individual suppliers and third-sector organisations. As with all our stakeholders, the relationships we have with our suppliers are built upon our values and we expect our suppliers to demonstrate the same high standards of corporate responsibility as Carillion. We also have specific supply chain principles, such as safety, delivering quality products and services, putting customers first and minimising costs by developing innovative ways of working.

In 2011, we launched the Carillion Supply Chain Sustainability Champions Award as part of Sustainability Week – a chance for suppliers to tell us about the sustainable initiative they are most proud of in their business. Focusing on the six positive outcomes of our 2020 sustainability strategy, we had an overwhelming response of high-quality submissions from a very wide range of suppliers. After much deliberation, Crown House Technologies was selected as the inaugural Carillion Supply Chain Sustainability Champion for its innovative Learning and Development Programme, which features presentations by key suppliers, in-house experts and guest speakers on important topics recorded in front of a live audience.

Board of Directors

Experienced leadership

01 Philip Rogerson^{3,4}

Chairman

Age 67 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 and will be appointed a Non-Executive Director of De La Rue plc with effect from 1 March 2012. He was an Executive Director of BG plc from 1992 to 1998, latterly as Deputy Chairman.

02 Richard Howson³

Group Chief Executive

Age 43 Richard was appointed Group Chief Executive on 1 January 2012. He was appointed to the Board in December 2009 as Executive Director with responsibility for the Middle East, North Africa and UK Construction businesses and for the Group's Health & Safety and Sustainability programmes. He was appointed Chief Operating Officer in September 2010. Prior to appointment to the Board, Richard was Managing Director of Carillion's Middle East and North Africa businesses before which he held senior positions in the Group's Infrastructure and Building businesses. Richard has worked for the Company for 16 years. He is a Fellow of the Institution of Civil Engineers.

03 Richard Adam

Group Finance Director

Age 54 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 Philip Green^{1,2,3}

Senior Independent

Non-Executive Director

Age 58 Appointed to the Board in June 2011. Philip is a member of the Audit, Nominations and Remuneration Committees. He is Non-Executive Chairman of US industrial services company, BakerCorp. Philip was Chief Executive of United Utilities Group plc from 2006 to 2011. His earlier business experience includes serving as Chief Executive of Royal P&O Nedlloyd until its acquisition by AP Moller-Maersk A/S, as a Director and Chief Operating Officer at Reuters Group PLC and as a Chief Operating Officer at DHL for Europe and Africa.

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Key

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

John McDonough

John McDonough was Group Chief Executive from January 2001 until he retired from the Board and the Company on 31 December 2011

05 Andrew Dougal^{1 2 3}

Non-Executive Director

Age 60 Andrew was appointed to the Board in October 2011 and is Chairman of the Audit Committee and a member of Nominations and Remuneration Committees. Andrew is a chartered accountant and has held a number of senior executive positions including Chief Executive of Hanson plc, the international building materials company after its demerger from Hanson, the Anglo-American diversified industrial group, where he was Finance Director. Since his retirement from Hanson plc in 2002, he has served as a Non-Executive Director of a number of UK public companies, including Premier Farnell plc and Creston plc currently, and formerly Taylor Wimpey plc, Taylor Woodrow plc and BPB plc. He has served as a member of the Audit Committee on all of these companies and Audit Committee Chairman of Taylor Wimpey, Taylor Woodrow and Creston.

06 Steve Mogford^{1 2 3 4}

Non-Executive Director

Age 55 Steve was appointed to the Board in September 2006 and is a member of the Audit, Nominations, Remuneration and Business Integrity Committees. Steve became 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 Chief Operating Officer and Director of BAE Systems plc.

07. Vanda Murray OBE^{1 2 3 4}

Non-Executive Director

Age 51 Vanda was appointed to the Board in June 2005 and is Chairman of the Remuneration Committee and a member of the Audit, Nominations and Business Integrity Committees. Vanda is Chairman of Vphase plc and a Non-Executive Director of Fenner plc, Chemring Group plc, Microgen 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 and is a Fellow of the Chartered Institute of Marketing.

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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 one of the UK's leading integrated support services companies, 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.

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 2011 and the KPIs set for 2012 (Group Chief Executive's review – see pages 16 to 23)
- > financial performance in 2011 (Operating and financial review – see pages 24 to 33)
- > principal operational risks and risk management (Group Chief Executive's review – see pages 20 and 21)
- > treasury policy and financial risk management (Operating and financial review – see page 32)
- > social, community and environmental issues (Sustainability review – see pages 34 to 37)
- > resources and employees (Group Chief Executive's review see page 19 and Report of the Directors – see pages 40 and 41)

Analysis of revenue and net assets by operating segment and geographical location are given in note 2 on pages 65 to 68.

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 56. Profit before tax was £142.8 million (2010: £167.9 million).

A 2011 interim dividend of 5.3 pence per ordinary share (2010: 4.8 pence) was paid in November 2011. It is proposed to pay a final dividend of 11.6 pence per ordinary share (2010: 10.7 pence) on 15 June 2012 to shareholders on the register at the close of business on 18 May 2012. The payment of these 2011 interim and final dividends amounts to £71.5 million (2010: £62.0 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. If required, a DRIP application form is available from the share registrar, Equiniti (see page 110 for contact details).

Directors

The Directors of the Company who served during 2011 are shown on page 50 of the Remuneration report. Biographical details for each Director at 31 December 2011 are given on pages 38 and 39.

In accordance with the requirements of the UK Corporate Governance Code, all Directors will offer themselves either for election or re-election at the Annual General Meeting on 2 May 2012. Richard Adam and Richard Howson have contracts of service which are subject to one year's notice of termination by the Company.

Philip Green was appointed to the Board as Senior Independent Non-Executive Director in June 2011. He is a member of the Audit, Remuneration and Nominations Committees.

The Board appointed Andrew Dougal a Non-Executive Director in October 2011. He is Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees.

David Garman served as the Senior Independent Non-Executive Director until he stood down from the Board in May 2011. David was appointed to the Board of Carillion plc in September 2004 and was Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees.

Vanda Murray succeeded David Garman as Chairman of the Remuneration Committee.

David Maloney served as a Non-Executive Director until he stood down from the Board in October 2011. David was appointed to the Board of Carillion plc in November 2005 and was Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees.

John McDonough was Group Chief Executive until he retired from the Board and Company on 31 December 2011.

The interests of the Directors and their families in the share capital of the Company are shown in the Report of the Directors on page 42.

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 2011 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, whom 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 70.

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.

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.

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 society in general
- > improve safety and quality provided by a balanced and productive workforce
- > reduce staff turnover, absenteeism and sickness levels
- > provide a fair working environment in which discrimination will not be tolerated
- > create a working environment free from discrimination, harassment, victimisation and bullying
- > work towards finding ways for under-represented groups to fully realise their potential within Carillion and take reasonable steps to help such groups
- > ensure that all employees are aware of the Equal Opportunities and Diversity Policy and to provide any necessary ongoing training to enable them to meet their responsibilities under it
- > recognise the merits of developing a workforce that incorporates the many diverse skills and backgrounds available from within the total population and, accordingly, will strive to be an organisation that will recognise, value and understand diversity and 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 eight 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 facilitate two-way communication, discussion and feedback. They focus on local issues and key corporate messages. 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 cutting 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 34 to 37.

Capital and shareholders

As at 31 December 2011, 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 23 and 25 on pages 82 and 83 to the consolidated financial statements which form part of this report. Details of the share schemes in place are also provided on pages 52 to 53 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 29 February 2012 the Company had received formal notification of the following holdings of voting rights in its shares under the Disclosure and Transparency Rules of the Financial Services Authority

	Nature of interest	% of issued share capital held
Schroders plc	Indirect	9.26
	Contracts for Difference	0.01
	Total	9.27
Standard Life Investments Ltd	Direct	5.123
	Indirect	3.057
	Total	8.18
Templeton Global Advisors Ltd	Indirect	5.22
Ameriprise Financial, Inc and its group	Direct	0.063
	Indirect	4.822
	Total	4.885
F&C Asset Management plc	Indirect	4.47
Legal & General Group Plc	Direct	3.67
HBOS plc	Direct	1.25
	Indirect	2.013
	Total	3.263
UBS Investment Bank	Direct	3.12

Carillion has received formal notification under the Disclosure and Transparency Rules that the two Eaga Partnership Trusts hold a combined total of 25,511,644 Carillion plc shares representing 5.9 per cent of the issued share capital. These two Trusts provide shares for the Carillion Energy Services' Share Incentive Plan. See page 53 for more details.

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 that payment 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 67 days at 31 December 2011 (60 days at 31 December 2010).

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 share incentive 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 three 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 2011 amounted to £200,000 (2010: £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 27 on pages 85 to 90 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 2011 are shown below.

	As at 1 January 2011 Number	As at 31 December 2011 Number
Fully paid 50p ordinary shares owned		
Executive Director		
Richard Adam	138,019	232,203
Richard Howson	2,533	41,845
John McDonough**	635,093	780,844
Non-Executive Directors		
Philip Green*	NA	10,000
Andrew Dougal*	NA	5,000
Steve Mogford	Nil	Nil
Vanda Murray	12,300	12,300
Philip Rogerson	39,630	39,630

* Philip Green was appointed to the Board on 1 June 2011 and Andrew Dougal on 3 October 2011.

** John McDonough retired from the Board and the Company on 31 December 2011.

There has been no change in Directors' interests in the period 1 January 2012 to 29 February 2012.

Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance 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 43 to 48.

Annual General Meeting

The Annual General Meeting will be held at 12 noon on 2 May 2012 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 2011 the Company had authority from shareholders for the purchase of 39,964,143 of its own shares.

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

Richard Tapp

Richard Tapp

R F Tapp
Secretary
29 February 2012

Corporate Governance report

General principles

The Board is firmly committed to high standards of corporate governance. During the year to 31 December 2011 as detailed below and in the Remuneration report on page 49, the Company complied fully with the requirements of the UK Corporate Governance Code (June 2010). The UK Corporate Governance Code is publicly available at www.frc.org.uk

Ethics and Business Integrity Policy

Carillion is committed to the preservation of its reputation and integrity through compliance with applicable laws, regulations and ethical standards across all territories in which it operates

Carillion's clear and unequivocal approach to business integrity and ethics 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 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

Ethical procurement Carillion seeks to ensure that it maintains its ethical standards and behaves 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. Carillion expects its 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 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 companies 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 Money Laundering Policy

Respect for Human Rights Carillion supports the belief that human rights are universal and adheres to the principles of human rights in its operations. Carillion supports the United Nations Declaration on Human Rights and works hard to ensure that in all areas of interaction with its 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 its businesses are subject. Carillion has 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)

Ethics and Compliance Office As a response to the introduction of the Bribery Act 2010, the Ethics and Compliance Office was established in 2010. This Office reviews and monitors compliance and ensures that Carillion maintains high ethical standards. It reports to the Business Integrity Committee on key global compliance risks and functional activity

Reporting, disclosure and whistleblowing 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

Main principle

There should be a clear division of responsibilities at the head of the Company between the running of the Board and the executive responsibility for the running of the Company's business. No one individual should have unfettered powers of decision

As part of their role as members of a unitary Board, Non-Executive Directors should constructively challenge and help develop proposals on strategy

For the year beginning 1 January 2012, the Company is led by a Board comprising two 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. Philip Green is the Senior Independent Non-Executive Director

Corporate Governance report

continued

Main principle

All Directors should be submitted for re-election at regular intervals subject to continued satisfactory performance

In accordance with the UK Corporate Governance Code all Directors are subject to annual re-election

Main principle

The Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively

The Board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors

In 2011 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 2011, 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 10 years and will be repeated annually. In addition, the performance of each individual Director has been reviewed.

Main principle

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role

The division of responsibilities between the Chairman and the Group Chief Executive 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

Main principle

All Directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively

The Board had a programme of 10 meetings in 2011 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
- > 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

In pursuit of best practice, the Carillion plc Board regularly receives presentations on governance and regulatory matters. In February 2012, Richard Alderman, Director of the Serious Fraud Office, attended a Board meeting to discuss the Bribery Act 2010 and related anti-corruption issues and the Group's response to this legislation through risk assessment, training and compliance processes

Attendance at meetings in 2011

The number of scheduled Board and Committee meetings attended by each Director during 2011 was as follows

	Board Committee	Audit Committee	Remuneration Committee	Nominations Committee	Business Integrity Committee
Number of meetings held	10	4	4	5	3
Richard Adam	10	–	–	–	–
David Garman*	4	1	1	2	–
Richard Howson	10	–	–	–	–
David Maloney*	7	3	2	4	–
John McDonough	10	–	–	5	–
Steven Mogford	10	4	4	5	3
Vanda Murray	10	4	4	5	3
Philip Rogerson	10	–	–	5	3
Philip Green*	6	3	3	3	–
Andrew Dougal**	2	1	1	–	–

* David Garman stood down from the Board in May 2011

** David Maloney stood down from the Board in October 2011

Philip Green was appointed to the Board in June 2011

Andrew Dougal was appointed to the Board in October 2011

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 or on request from the Company Secretary

Remuneration Committee

Vanda Murray Chairman
Andrew Dougal
Philip Green
Steven Mogford

The Committee consists entirely of independent Non-Executive Directors and determines and makes recommendations on the Group's remuneration policy and framework to recruit, retain and reward Executive Directors and senior executives

Main principle

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his or her own remuneration.

The Remuneration Committee is assisted in its work by Susan Morton, Group HR Director and by the 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.

Further details on remuneration issues are given on pages 49 to 53

Main principle

The Board should present a balanced and understandable assessment of the Company's position and prospects

Audit Committee

Andrew Dougal, Chairman
Philip Green
Steven Mogford
Vanda Murray

The Audit Committee consists entirely of independent Non-Executive Directors. All members of the Audit Committee have recent and relevant financial experience. Appointments to the Committee are made by the Board.

Andrew Dougal is a Chartered Accountant and was appointed to the Audit Committee in October 2011. Andrew held a number of senior executive positions, including Chief Executive of Hanson plc, the international building materials company, after its demerger from Hanson, the Anglo-American diversified industrial group, where he was Finance Director. Andrew is Chairman of the Audit Committee of Creston plc and a member of the Premier Farnell plc Audit Committee. He has previously been Audit Committee Chairman at Taylor Wimpey plc and Taylor Woodrow plc.

Philip Green was appointed to the Audit Committee in June 2011. Philip was Chief Executive of United Utilities Group plc from 2006 to 2011. His earlier business experience includes serving as Chief Executive of Royal P&O and Chief Operating Officer at Reuters Group.

Steve Mogford was appointed to the Audit Committee in September 2006. Steve is Chief Executive Officer of United Utilities. Prior to this appointment, Steve was Chief Executive of Selex Galileo Ltd.

Vanda Murray was appointed to the Audit Committee in July 2005. Vanda is Chairman of Vphase plc and a Non-Executive Director of Fenner plc, Chemring Group plc, Microgen plc and The Manchester Airport Group plc.

Nominations Committee

Philip Rogerson Chairman
Andrew Dougal
Philip Green
Richard Howson
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.

Nomination of Directors

Main principle

There should be a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

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 Odgers Berndtson. 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 the Directors. Subsequently, the Nominations Committee meets to recommend an appointment, which is then proposed to the Board for approval.

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 49 to 53.

Women on Boards

The Board noted the publication of the Davies Review on Women on Boards in February 2011 and the subsequent consultation undertaken by the Financial Reporting Council in relation to potential changes to the UK Corporate Governance Code. Carillion recognises the importance of gender diversity throughout the Group. Currently, one of Carillion's seven Board members is female. The Board aims to have a broad range of skills, backgrounds and experience. While Carillion will continue to follow a policy of ensuring that the best people are appointed for the relevant roles, the benefits of greater diversity are recognised and will continue to be taken account of when considering any particular appointment.

Corporate Governance report

continued

Business Integrity Committee

Philip Rogerson Chairman
Steven Mogford
Vanda Murray

The 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 are 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

The terms of reference of the Remuneration, Audit, Nominations and Business Integrity Committees can be found on the Company's website www.carillionplc.com

Other Board matters

Policy on external appointments

Recognising that external appointments can broaden experience and 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

Re-election of Directors

In accordance with the UK Corporate Governance Code, all Directors will submit themselves for election or re-election at the Annual General Meeting to be held on 2 May 2012. The Directors seeking election are Andrew Dougal and Philip Green and those seeking re-election are Richard Adam, Richard Howson, Steve Mogford, Vanda Murray and Philip Rogerson. All have been subject to formal performance evaluation and are effective members of the Board who are committed to the role and to the time required for Board and where applicable Committee meetings and any other duties required of them.

The service contracts of the Executive Directors and the letters 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

Main principle

All Directors should receive induction on joining the Board and should regularly update and refresh their skills and knowledge.

The Board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

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.

The regular updating of Directors' skills and knowledge is encouraged, including in relation to environmental, sustainability and governance matters, and a procedure has been established whereby the Company Secretary is notified by Directors of their requirements in this respect. Training for Directors is kept under review during the year.

At least once a year the Board visits an operational site and in June 2011, the Directors visited the Group's operations in Canada. Directors also visit other operations and meet a wide range of employees.

Relations with shareholders

Main principle

There should be a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Board should use the AGM to communicate with investors and to encourage their participation.

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.

The Chairman and Company Secretary also meet with major shareholders and fund managers to discuss governance matters.

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 2 May 2012 to respond to shareholders' questions.

Report of the Audit Committee

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 2011

In 2011, 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
- > 2011 external audit plan
- > 2011 and 2012 internal audit plans
- > review of compliance with the UK Corporate Governance Code
- > reappointment of KPMG Audit Plc
- > 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 50.

Internal controls

Main principle

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board should maintain sound risk management and internal control systems.

The Board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

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 2011, 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 48). This appraisal ensures that the differentiating factors of the Group's offer have been properly identified, thus 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 catastrophes and regulatory requirements. Management is supported in this process by a system of 'peer reviews', under which the performance of individual contracts is reviewed by experienced teams drawn from outside of the business unit responsible for the contract in question. 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.

Corporate Governance report

continued

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. To minimise the occurrence of fraud, learning points for management are identified and action plans implemented.

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.

A monthly report on issues raised on the Whistleblowing hotline and subsequent investigations is compiled by the Whistleblowing and Fraud Committee and forwarded to the Board.

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 23. Where areas for improvement are identified, the Board considers the recommendations made by both the Executive Directors and 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, who take into account the views of management. Feedback is then 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 judgemental 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 directors' responsibilities within KPMG is required by their profession's ethical standards. The current Audit Director responsible for the Carillion engagement is in his third 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.
- > 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 34 to 37.

R F Tapp

R F Tapp
Secretary
29 February 2012

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 2 May 2012 and Vanda Murray, 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, Vanda Murray, Steve Mogford, Philip Green and Andrew Dougal. Its terms of reference can be found on the Company's website 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 Richard Howson, 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. The Remuneration Committee took into account the Remuneration Consultants Group's Code of Conduct when appointing Deloitte as adviser to the Remuneration Committee. Deloitte's fees for providing such advice amounted to approximately £40,600 (2010: £8,500) for the year ended 31 December 2011. The Remuneration Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender. The Remuneration Committee undertook such an assessment during the year and remains satisfied with Deloitte's appointment as advisers to the Committee. Deloitte, which was appointed in 2005, also provides certain specialist consultancy services but otherwise has no other connections with the Group.

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

Remuneration philosophy

Main principle

Levels of remuneration should be sufficient to attract, retain and motivate Directors of the quality required to run the Company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.

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

- supports its strategic objective of attracting, developing and retaining excellent people and encouraging them to work in line with Carillion's values;
- 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;
- applies demanding performance conditions to deliver sustained profitable growth;
- has due regard to actual and expected market conditions; and
- 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, external independent surveys (where considered appropriate) and pay and employment conditions of employees elsewhere in the Company.

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.

Salary increases for Executive Directors in 2011 were zero during the financial year under review in line with pay for other senior employees. On his appointment as Group Chief Executive on 1 January 2012, Richard Howson's salary increased by 45 per cent to £560,000. Richard Adam's salary will increase by 10 per cent to £450,000 on 1 July 2012 to reflect his increased responsibilities. The increases for Richard Howson and Richard Adam coincide with the retirement of John McDonough and the total for Executive Directors reduces from £1,425,000 to £1,010,000.

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.

For bonuses granted in respect of 2012 onwards, the deferment period will increase to three years with the addition of a "claw-back" provision. The Company may claw-back any deferred bonus awards which have not yet vested in relation to circumstances of corporate failure which may have occurred at any time before claw-back operated.

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.

Following shareholder consultation, new performance targets for 2012 are to be introduced which take account of the changed profile of the Group and market conditions since 2006, which is when the targets were last changed. EPS will remain as a measure (without reference to RPI) with an additional average annual cash flow conversion target added. The total maximum incentive opportunity remains at 150 per cent but the award at threshold performance will reduce from 30 per cent to 25 per cent of salary.

Carillion share incentives comply with the share dilution guidelines.

Pension benefits

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.

Remuneration report

continued

2011 Remuneration

The remuneration of the Directors of Carillion plc for the year ended 31 December 2011 is set out in the table below. This is audited information.

	Basic salary/fees £000	Annual performance bonus		Other benefits £000	Total 2011 £000	Total 2010 £000
		Cash £000	Shares deferred two years £000			
Richard Adam	408	189	188	166	951	669
Richard Howson	385	178	178	161	902	632
John McDonough	632	632	–	239	1,503	1,022
Total for Executive Directors	1,425	999	366	566	3,356	2,323
David Garman	21	–	–	–	21	61
David Maloney	49	–	–	–	49	58
Steve Mogford	48	–	–	–	48	48
Vanda Murray	55	–	–	–	55	48
Philip Rogerson	189	–	–	–	189	188
Philip Green	34	–	–	–	34	–
Andrew Dougal	15	–	–	–	15	–
Total for Non-Executive Directors	411	–	–	–	411	403
Total for all Directors	1,836	999	366	566	3,767	2,726

(i) There are no long-term benefits other than pensions (see pages 51 and 52) and share incentives (see pages 52 to 53).

(ii) Included in 'Other benefits' is a salary supplement for John McDonough of £167,899 (2010: £168,210) for Richard Adam of £92,500 (2010: £92,812) and for Richard Howson of £84,773 (2010: £64,921) in respect of salary over the internal pensions earnings cap. Also included in 'Other benefits' is an allowance for Richard Adam in place of contributions to the Carillion Pension Plan on earnings up to the internal earnings cap of £39,810 (2010: £nil) from April 2011 onwards.

(iii) The Board determines the fees of the Non-Executive Directors based on independent external advice.

(iv) 50 per cent of the bonus is payable in cash and the balance deferred for two years in Carillion shares until March 2014. There is no requirement for John McDonough to defer 50 per cent of his 2011 bonus. His deferred bonus payments from 2009 and 2010 vested early in January 2012 following his retirement on 31 December 2011.

(v) Don Kenny was a Director of the Company until he stood down from the Board on 31 August 2010. Mr Kenny's salary and benefits in 2010 of £579,000 are not included in the 2010 comparative figures.

2011 Bonus Plan

In 2011, 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 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 2 December 2010 meeting and assessed at 23 February 2012 to establish the extent to which they had been met. The objectives and a summary of the extent to which they were met are shown below and resulting bonuses are shown in the table above.

John McDonough

- > Progress the Group's strategy in line with the Group's published objectives including the rescaling of the UK Construction business and supporting growth in the Group's international businesses and UK support services
- > Drive contract selectivity and risk management processes to deliver cash-backed profit
- > Lead and deliver the ongoing succession plan for the Chief Executive's role

John exceeded all of his performance objectives and earned 100 per cent of his basic salary through the bonus plan, comprising 25.0 per cent and 75.0 per cent for personal objectives and financial objectives respectively.

Richard Howson

- > Lead the Group's Health and Safety strategy and programmes and make progress towards Target Zero, Carillion's 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 met all and exceeded some of his performance objectives and earned 92.5 per cent of his basic salary through the bonus plan comprising 17.5 per cent and 75.0 per cent for personal objectives and financial objectives respectively.

Richard Adam

- > Achieve 2011 targeted net debt, average net debt, and underlying profit before tax, consistent with the Group's prudent approach to managing profit and cash
- > Complete the refinancing of the Group's banking facilities in 2011
- > Deliver the 'Step Up' programme to achieve efficiency, quality and cost reduction targets to support margin improvement in 2011

Richard met all and exceeded some of his performance objectives and earned 92.5 per cent of his basic salary through the bonus plan, comprising 17.5 per cent and 75.0 per cent for personal objectives and financial objectives respectively.

The financial element is determined by outstanding performance against stretching targets based on growth in earnings per share. The 2011 Bonus 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 2011 are shown in the remuneration table above (half of these benefits being paid in cash in 2012 and the balance deferred to March 2014 except as noted above). 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. For bonuses in respect of 2012 onwards the requirement to defer extends to three years with a claw-back provision that allows the Group to recover all or part of the deferred element of the bonus in relation to circumstances of corporate failure over the three-year deferral.

Similar deferral mechanisms (excluding claw-back) have operated in respect of earlier years. During 2011 the following deferred bonus shareholdings vested

	Bonus year	Number of shares
Richard Adam	2008	108,800
Richard Howson	2009	14,337
John McDonough	2008	168,640

The price prevailing on the above shares at the date of award was 250 pence (2008 bonus) and 318.6 pence (2009 bonus). At the vesting date of the bonuses the share price was 368.4 pence for the 2008 bonus and 368.4 pence for the 2009 bonus.

Pension benefits

In April 2009, the Company closed the Carillion 'B' and Staff Pension Schemes 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. Pension accrual in respect of service after 2009 has been on a defined contribution basis and benefits are delivered through the Carillion 2009 Pension Plan. This is a trust-based, contracted-in defined contribution plan set up for former members of the closed defined benefit schemes. Pension benefits for Executive Directors who were not members of the defined benefit arrangements are delivered through the Carillion Pension Plan which is also a trust-based, contracted-in defined contribution arrangement.

Defined benefit pensions accruing during 2011 to Executive Directors in their capacity as Directors of Carillion plc are set out below. This is audited information.

	Accrued pension at 31 December 2011 ⁽¹⁾ £ per annum	Accrued pension at 31 December 2010 £ per annum	Increase in accrued pension over year including inflation allowance £ per annum	Value of pension accrued during 2011 less member contributions £	Transfer value at start of year £	Transfer value at end of year ⁽²⁾ £	Increase in transfer value over year after member contributions ⁽³⁾ £
Richard Howson	23,909	963	—	—	172,802	219,990	47,188
John McDonough	32,955	(1,596)	—	—	702,957	935,922	232,965

(1) The pension figures assume that CPI (rather than RPI) applies to revalue deferred benefits from 1 January 2011.

(2) For John McDonough the accrued pension is at 8 November 2011 (his pension retirement date).

(3) Figures based on market conditions at 31 December 2011.

The total number of Directors to whom retirement benefits accrued during the year was 2 (2010: 3).

The Group makes contributions of 40 per cent of the internal earnings cap to the 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. As Richard Adam had used all of his Life Time Allowance for tax free pension accrual at April 2011, he elected to receive the contribution the Group would have made to the Carillion Pension Plan on his behalf as a taxable allowance instead, as provided for in the terms of his contract.

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*	13,270
Richard Howson	Carillion 2009 Pension Plan	53,080
John McDonough	Carillion 2009 Pension Plan	41,189

* Period to 31 March 2011 only.

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 rose in line with the published increases in HMRC's Life Time Allowance up until 2011 in line with the table below. Future increases are at the discretion of the Remuneration Committee.

Year	Cap £
2010-11	132,700
2011-12	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 was provided in respect of the change to the Annual Allowance effective from 6 April 2011, the pension benefit structure for Executive Directors remains 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).

Remuneration report

continued

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

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.

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 performance condition for awards made up to and including those in April 2011 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.

Awards were made in July 2006, April 2007, April 2008, April 2009, March 2010 and April 2011. At 31 December 2011 a total of 2,874,584 shares were outstanding under the LEAP.

New performance targets for 2012 are to be introduced which take account of the changed profile of the Group and market conditions since 2006, which is when the targets were last changed. EPS will remain as a measure (without reference to RPI) with an additional average annual cash flow conversion target added. The total maximum incentive opportunity remains at 150 per cent but the award at threshold performance will reduce from 30 per cent to 25 per cent of salary.

The awards held by Executive Directors of the Company under LEAP as at 31 December 2011 are shown below. This is audited information.

	As at 1 January 2011 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 2011 Number	Date of award	Mid-market share price on date of award Pence
John McDonough							
LEAP 2008 (maximum)	242,187	–	128,359	113,828	Nil	04 04 08	383.8
LEAP 2009 (maximum)	366,963	–	–	–	366,963	07 04 09	252.25
LEAP 2010 (maximum)	297,740	–	–	–	297,740	17 03 10	318.6
LEAP 2011 (maximum)	Nil	246,774	–	–	246,774	08 04 11	384.4
Richard Adam							
LEAP 2008 (maximum)	156,250	–	82,812	73,438	Nil	04 04 08	383.8
LEAP 2009 (maximum)	236,750	–	–	–	236,750	07 04 09	252.25
LEAP 2010 (maximum)	192,090	–	–	–	192,090	17 03 10	318.6
LEAP 2011 (maximum)	Nil	159,209	–	–	159,209	08 04 11	384.4
Richard Howson							
LEAP 2008 (maximum)	29,296	–	23,144	6,152	Nil	04 04 08	383.8
LEAP 2009 (maximum)	68,544	–	–	–	68,544	07 04 09	252.25
LEAP 2010 (maximum)	138,888	–	–	–	138,888	17 03 10	318.6
LEAP 2011 (maximum)	Nil	150,234	–	–	150,234	08 04 11	384.4

On 4 April 2011, 128,359 shares vested to John McDonough, 82,812 to Richard Adam and 23,144 to Richard Howson. The market price of Carillion shares on 4 April 2011 was 381.6 pence. The net asset value (before tax and national insurance) received by these Directors/former Director was therefore, respectively, £489,818, £316,011 and £88,318.

Executive share option scheme

Options under the Carillion plc Executive Share Option Schemes are exercisable normally between three and 10 years after the date of grant

Following shareholder approval of the Carillion plc Long Term Incentive Plan at the 2006 AGM, no further options were granted under the Carillion plc Executive Share Option Schemes

At 31 December 2011, 56 401 Executive Share Options were outstanding (2010 56 401 shares under option)

The Executive Directors do not hold any Executive Share Options

There have been no changes to the interests of Executive Directors in share incentives in the period 1 January 2012 to 29 February 2012

Carillion Energy Services' Share Incentive Plan (SIP)

Carillion Energy Services (CES – previously Eaga plc) operates a HMRC approved SIP for the benefit of employees of the former Eaga companies. The SIP provides for the award of free shares or share options in Carillion plc to all qualifying CES employees. Those qualifying employees resident in the UK receive free shares under the HMRC Approved SIP while those resident outside the UK are granted share options under the International SIP arrangement. The vesting period for awards is three years for non-UK based employees while the free share awards to UK resident employees vest on the date of grant. Whilst they remain in employment with Carillion qualifying employees must hold their shares or options for at least three years before they can be accessed

The SIP is well received by employees with over 97 per cent participation

The cost of implementing and administering the SIP is borne by the EPT

Employee Benefit Trusts

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 2011, the Trust held 74,290 Carillion shares (2010 38 302 shares) representing 0.017 per cent of the issued share capital (2010 0.009 per cent) acquired over a period in the open market and which have a carrying value of £0.2 million (2010 £0.1 million). The market value of the shares held at 31 December 2011 was £0.2 million (2010 £0.1 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 2011, the QUEST held 129,979 Carillion shares (2010 129 979 shares) representing 0.03 per cent of the issued share capital (2010 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 2011 was £0.4 million (2010 £0.5 million)

All qualifying CES' employees are beneficiaries of the two Eaga Partnership Trusts (the EPT). The EPT is the vehicle in which shares in Carillion plc and other assets are held in trust for the benefit of qualifying employees. The EPT is subject to a constitution and trust deed and is independent of all companies now within the Carillion Group. The EPT's affairs are managed by two corporate trustees, each governed by a board of directors including independent trustees

As at 31 December 2011, Carillion had been formally notified under the Disclosure and Transparency Rules that the EPT held a combined total of 25 511,644 Carillion plc shares representing 5.9 per cent of the issued share capital

The EPT waived the interim dividend paid by Eaga plc in March 2011 and the final dividend paid by Carillion plc in June 2011. These funds have been used by CES to fund part of the 'free share' award under

the SIP. In addition, the EPT made a direct gift of 1 873 875 Carillion shares to the SIP Trust

For details of dividends paid to the above trusts see note 24 to the consolidated financial statements on page 82

The closing mid-market price of Carillion shares at 31 December 2011 and the highest and lowest mid-market prices during the year were as follows

	Share price Pence
30 December 2011	300.8
High (13 May 2011)	403.2
Low (23 November 2011)	281.0

Total Shareholder Return (TSR) performance graphs

The following graphs show 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 2007 to 31 December 2011**TSR graph for period 1 January 2011 to 31 December 2011**

Approved by order of the Board

V Murray OBE
Chairman of the Remuneration Committee
29 February 2012

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)

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company as at the end of that period and of their profit and loss for that period. 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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and 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

The Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with applicable law and 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 38 and 39, 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 2011 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 2011 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 there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to ascertain any 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
29 February 2012

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 2011, which comprises the Group Consolidated Income Statement, the Group Consolidated and Parent Company Balance Sheets, the Group Consolidated Statement of Comprehensive Income, the Group Consolidated Statement of Changes in Equity, the Group Consolidated Cash flow Statement and the related notes. 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 Statement of Directors' Responsibilities set out on page 54, 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.

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 2011 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 Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- > the information given in the Report of the Directors report for the financial year for which the financial statements are prepared is consistent with the financial statements,
- > the information given in the Corporate Governance statement set out in the Corporate Governance report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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 33, in relation to going concern,
- > the part of the Corporate Governance Statement, set out in the Corporate Governance Report, relating to the Company's compliance with the nine provisions of the UK Corporate Governance 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

29 February 2012

Consolidated income statement

For the year ended 31 December

	Note	2011 £m	2010 £m
Total revenue		5,051.2	5,139.0
Less: Share of jointly controlled entities' revenue		(898.0)	(902.5)
Group revenue	2	4,153.2	4,236.5
Cost of sales		(3,761.8)	(3,885.3)
Gross profit		391.4	351.2
Administrative expenses		(298.0)	(239.3)
Group operating profit	3	93.4	111.9
Analysed between			
Group operating profit before intangible amortisation and non-recurring operating items		167.2	148.9
Intangible amortisation ⁽¹⁾		(31.0)	(27.6)
Non-recurring operating items ⁽²⁾	4	(42.8)	(9.4)
Share of results of jointly controlled entities	2	48.7	46.0
Analysed between			
Operating profit		71.0	64.6
Net financial expense		(18.8)	(13.9)
Taxation		(3.5)	(4.7)
Profit from operations		142.1	157.9
Analysed between			
Profit from operations before intangible amortisation and non-recurring operating items		215.9	194.9
Intangible amortisation ⁽¹⁾		(31.0)	(27.6)
Non-recurring operating items ⁽²⁾	4	(42.8)	(9.4)
Non-operating items	4	4.6	16.8
Net financial expense	5	(3.9)	(6.8)
Analysed between			
Financial income		132.0	123.6
Financial expense		(135.9)	(130.4)
Profit before taxation		142.8	167.9
Analysed between			
Profit before taxation, intangible amortisation, non-recurring operating items and non-operating items		212.0	188.1
Intangible amortisation ⁽¹⁾		(31.0)	(27.6)
Non-recurring operating items ⁽²⁾	4	(42.8)	(9.4)
Non-operating items	4	4.6	16.8
Taxation	7	(4.8)	(15.1)
Profit for the year		138.0	152.8
Profit attributable to			
Equity holders of the parent		134.6	147.2
Non-controlling interests		3.4	5.6
Profit for the year		138.0	152.8
Earnings per share	8		
Basic		32.0p	36.9p
Diluted		31.8p	36.7p

(1) Arising from business combinations

(2) This includes integration and rationalisation costs and Eaga Partnership Trusts (EPT) related charges (see note 4)

Consolidated statement of comprehensive income

For the year ended 31 December

	2011		2010	
	£m	£m	£m	£m
Profit for the year		138 0		152 8
Net gain/(loss) on hedge of net investment in foreign operations	0 1		(3 8)	
Currency translation differences on foreign operations	1 9		4 7	
Increase in fair value of available for sale assets	5 0		5 9	
Actuarial (losses)/gains on defined benefit pension schemes	(96 6)		11 9	
	(89 6)		18 7	
Taxation in respect of the above	20 0		(4 7)	
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	13 4		0 2	
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	(13 3)		(13 4)	
Other comprehensive (expense)/income for the year		(69 5)		0 8
Total comprehensive income for the year		68 5		153 6
Attributable to				
Equity holders of the parent		65 1		148 0
Non-controlling interests		3 4		5 6
		68 5		153 6

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Consolidated statement of changes in equity

For the year ended 31 December

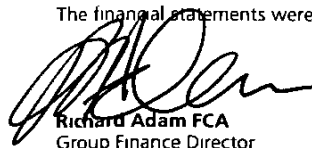
	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Equity shareholders funds £m	Non-controlling interests £m	Total equity £m
At 1 January 2011	199 8	21 2	(18 1)	(23 8)	5 9	393 1	277 5	855 6	9 6	865 2
Comprehensive income										
Profit for the year	-	-	-	-	-	-	134 6	134 6	3 4	138 0
Other comprehensive income										
Net gain on hedge of net investment in foreign operations	-	-	0 1	-	-	-	-	0 1	-	0 1
Currency translation differences on foreign operations	-	-	1 9	-	-	-	-	1 9	-	1 9
Increase in fair value of available for sale assets	-	-	-	-	5 0	-	-	5 0	-	5 0
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	(96 6)	(96 6)	-	(96 6)
Taxation	-	-	-	-	-	-	20 0	20 0	-	20 0
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	13 4	-	-	-	13 4	-	13 4
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	(13 3)	-	-	-	(13 3)	-	(13 3)
Transfer between reserves	-	-	-	-	-	(30 9)	30 9	-	-	-
Total comprehensive income/(expense)	-	-	2 0	0 1	5 0	(30 9)	88 9	65 1	3 4	68 5
Transactions with owners										
Contributions by and distributions to owners										
Share capital issued on acquisition of Eaga plc	15 3	-	-	-	-	102 4	-	117 7	-	117 7
Acquisition of own shares	-	-	-	-	-	-	(6 9)	(6 9)	-	(6 9)
Equity settled transactions (net of taxation)	-	-	-	-	-	-	6 0	6 0	-	6 0
Dividends paid	-	-	-	-	-	-	(64 6)	(64 6)	(3 4)	(68 0)
Total transactions with owners	15 3	-	-	-	-	102 4	(65 5)	52 2	(3 4)	48 8
At 31 December 2011	215 1	21 2	(16 1)	(23 7)	10 9	464 6	300 9	972 9	9 6	982 5
At 1 January 2010	198 6	16 8	(20 1)	(10 6)	-	419 4	161 7	765 8	6 3	772 1
Comprehensive income										
Profit for the year	-	-	-	-	-	-	147 2	147 2	5 6	152 8
Other comprehensive income										
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 pension 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	-	-	-
Total comprehensive income/(expense)	-	-	2 0	(13 2)	5 9	(26 3)	179 6	148 0	5 6	153 6
Transactions with owners										
Contributions by and distributions to owners										
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 taxation)	-	-	-	-	-	-	(2 8)	(2 8)	-	(2 8)
Dividends paid	-	-	-	-	-	-	(59 1)	(59 1)	(2 3)	(61 4)
Total transactions with owners	1 2	4 4	-	-	-	-	(63 8)	(58 2)	(2 3)	(60 5)
At 31 December 2010	199 8	21 2	(18 1)	(23 8)	5 9	393 1	277 5	855 6	9 6	865 2

Consolidated balance sheet

As at 31 December

	Note	2011 £m	2010 £m
Non-current assets			
Property, plant and equipment	10	134 2	157 2
Intangible assets	11	1,547 6	1,221 2
Retirement benefit assets	31	–	0 9
Investments in jointly controlled entities	12	159 6	134 8
Other investments	13	51 3	41 9
Deferred tax assets	14	137 6	101 7
Total non-current assets		2,030.3	1,657 7
Current assets			
Inventories	15	71 6	40 6
Trade and other receivables	17	1,094 6	1,052 4
Cash and cash equivalents	18	490 7	396 7
Current asset investments	19	4 3	–
Income tax receivable		7 7	3 9
Total current assets		1,668 9	1,493 6
Total assets		3,699 2	3,151 3
Current liabilities			
Borrowing	20	(32 5)	(52 0)
Derivative financial instruments	27	(0 9)	(0 2)
Trade and other payables	21	(1,773 6)	(1,706 8)
Provisions	22	(45 8)	(13 5)
Income tax payable		(4 4)	(5 1)
Total current liabilities		(1,857 2)	(1,777 6)
Non-current liabilities			
Borrowing	20	(508 9)	(224 5)
Retirement benefit liabilities	31	(305 8)	(250 3)
Deferred tax liabilities	14	(25 5)	(28 0)
Provisions	22	(19 3)	(5 7)
Total non-current liabilities		(859 5)	(508 5)
Total liabilities		(2,716 7)	(2,286 1)
Net assets		982 5	865 2
Equity			
Share capital	23	215 1	199 8
Share premium	24	21 2	21 2
Translation reserve	24	(16 1)	(18 1)
Hedging reserve	24	(23 7)	(23 8)
Fair value reserve	24	10 9	5 9
Merger reserve	24	464 6	393 1
Retained earnings	24	300 9	277 5
Equity attributable to shareholders of the parent		972 9	855 6
Non-controlling interests		9 6	9 6
Total equity		982 5	865 2

The financial statements were approved by the Board of Directors on 29 February 2012 and were signed on its behalf by



Richard Adam FCA
Group Finance Director

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Consolidated cash flow statement

For the year ended 31 December

	Note	2011 £m	2010 £m
Cash flows from operating activities			
Group operating profit		93 4	111 9
Depreciation and amortisation		62 3	63 4
Loss/(profit) on disposal of property, plant and equipment		0 6	(1 3)
Share-based payment expense/(income)		2 5	(3 9)
Other non-cash movements		(2 3)	1 4
Non-recurring operating items		42 8	9 4
Operating cash flows before changes in working capital		199 3	180 9
Decrease/(increase) in inventories		19 7	(3 4)
Decrease/(increase) in trade and other receivables		53 3	(8 3)
(Decrease)/increase in trade and other payables		(81 6)	12 9
Cash generated from operations before pension deficit recovery payments, rationalisation costs and Eaga Partnership Trusts related charges		190 7	182 1
Deficit recovery payments to pension schemes		(36 2)	(35 2)
Rationalisation costs		(34 4)	(15 6)
Eaga Partnership Trusts related charges		(0 6)	–
Cash generated from operations		119 5	131 3
Financial income received		16 0	11 7
Financial expense paid		(21 3)	(13 5)
Acquisition costs		(7 2)	–
Taxation		(3 8)	(2 7)
Net cash flows from operating activities		103 2	126 8
Cash flows from investing activities			
Disposal of property, plant and equipment		17 2	5 5
Disposal of jointly controlled entity and other investments	30	31 4	45 8
Dividends received from jointly controlled entities		39 6	48 1
Disposal and closure of businesses	30	(1 9)	(4 7)
Decrease in current asset investments		3 7	–
Acquisition of subsidiaries, net of cash acquired	30	(182 7)	–
Acquisition of intangible assets		(2 8)	(7 5)
Acquisition of property, plant and equipment		(9 8)	(17 1)
Acquisition of equity in and net loan advances to jointly controlled entities		(27 6)	(34 5)
Acquisition of other non-current asset investments		(3 4)	(3 9)
Net cash flows from investing activities		(136 3)	31 7
Cash flows from financing activities			
Proceeds from exercise of employee share options		–	2 3
Draw down of bank and other loans		223 0	50 2
Proceeds from finance leaseback		–	3 8
Payment of finance lease liabilities		(15 8)	(17 3)
Acquisition of own shares		(6 9)	–
Payment to employees in settlement of share options		(1 8)	–
Dividends paid to equity holders of the parent		(64 6)	(59 1)
Dividends paid to non-controlling interests		(3 4)	(2 3)
Net cash flows from financing activities		130 5	(22 4)
Increase in net cash and cash equivalents		97 4	136 1
Net cash and cash equivalents at 1 January		391 1	252 4
Effect of exchange rate fluctuations on net cash and cash equivalents		(0 8)	2 6
Net cash and cash equivalents at 31 December	18	487 7	391 1

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 2011 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 29 February 2012.

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 European Union ('Adopted IFRSs'). The Company has elected to prepare its financial statements in accordance with UK GAAP. These are presented on pages 104 to 109.

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 33.

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, other non-current asset investments and financial instruments classified as available-for-sale.

The following standards and interpretations have been adopted in 2011 as they are mandatory 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'
- International Accounting Standard (IAS) 24 'Related party disclosures (revised 2009)'
- Amendment to International Accounting Standard (IAS) 32 'Classification of rights issues'

The amendment to IFRIC 14 'Prepayment of a minimum funding requirement' removes the unintended consequence of when an entity is subject to a minimum funding requirement (MFR) and makes an early payment of contributions to cover those requirements. The amendment results in a prepayment of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment has had no impact on profit, earnings per share or net assets in the year ended 31 December 2011.

IFRIC 19 'Extinguishing financial liabilities with equity instruments' clarifies the accounting treatment for when an entity renegotiates the terms of its debt such that the liability is extinguished, in whole or in part, by the entity issuing its own equity instruments to the lender (referred to as a 'debt for equity swap'). The adoption of IFRIC 19 has had no impact on profit, earnings per share or net assets in the year ended 31 December 2011.

The amendment to IAS 24 'Related party disclosures (revised 2009)' clarifies disclosure requirements for Government-related entities and amends the definition of a related party. The amendment to IAS 24 has had no impact on profit, earnings per share or net assets in the year ended 31 December 2011.

The amendment to IAS 32 'Classification of rights issues' states that if such rights are issued pro rata to all of an entity's existing shareholders in the same class of a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment to IAS 32 has had no impact on profit, earnings per share or net assets in the year ended 31 December 2011.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS which are mandatory for the year ended 31 December 2011, have been adopted in 2011. None of these amendments have had a material impact on the Group's financial statements.

The following standards and interpretations are not yet effective and have not been early adopted by the Group.

- Amendment to International Accounting Standard (IAS) 12 'Deferred taxes: Recovery of underlying assets'
- International Financial Reporting Standard (IFRS) 9 'Financial instruments'
- International Financial Reporting Standard (IFRS) 13 'Fair value measurement'
- Amendment to International Accounting Standard (IAS) 1 'Presentation of items of other comprehensive income'
- Amendment to International Accounting Standard (IAS) 19 'Employee benefits'

Except for the amendment to IAS 19, none of these standards, interpretations or amendments are expected to impact profit, earnings per share and net assets in future periods.

The amendment to IAS 19 makes significant changes to the recognition and measurement of the defined benefit pension expense and termination benefits and disclosures relating to all employee benefits. It is anticipated that the amendment will increase the pension cost recognised in the income statement. The amendment is effective for accounting periods commencing 1 January 2013.

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 2011. 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 for the majority of principal trading subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the Company. The exception to this is Carillion Energy Services Limited and its subsidiaries, who principally have a reporting period end of 30 November 2011, with the exception of Carillion Clean Energy Limited which has a reporting period from its incorporation on 29 March 2010 to 29 September 2011. The post-acquisition results and financial position of Carillion Energy Services Limited and its subsidiaries have been included in the consolidated financial statements based on additional financial statements drawn up to 31 December 2011. Carillion Energy Services Limited and its subsidiaries will be aligned with the same reporting period end as the Company at 31 December 2012.

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. The Group's interest in the entity is the carrying amount of the investment together with any long-term interest that, in substance, form part of the net investment in the entity.

Notes to the consolidated financial statements

continued

1 Significant accounting policies (continued)

Financial statements of jointly controlled entities are prepared for the same reporting period as the Group except for Modern Housing Solutions (Prime) Limited which has a 31 March year end. Its results are included in the Group accounts based on additional financial statements for the 12 months to 31 December 2011.

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 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

- 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
- Carillion Energy Services
consumption of economic benefits over four 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.

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 are carried forward as deferred income and released to profit over the period of the contract.

1 Significant accounting policies (continued)

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 the Group's principal business streams is recognised on the following basis:

- 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
- Revenue from the delivery of carbon saving measures to utility companies and other related activities is recognised at the date of sale, except if services are to be provided over future periods, where the income is deferred and recognised over the relevant service period
- Revenue from the installation of energy efficiency measures such as central heating and other renewable technologies is recognised by reference to the number of energy efficiency measures installed

Property, plant and equipment

Depreciation is based on historical cost less estimated residual value and the estimated economic life 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 assets.

Leasing

Operating lease rentals 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 cost element of rentals is charged to the income statement at a constant periodic rate of charge on the outstanding obligations.

Inventories

Inventories comprise land for development, raw materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their location and condition at the balance sheet date. Inventories are valued at the lower of cost and net realisable value. Cost is calculated using either the weighted average method or the first-in, first out method.

Carbon credits, which are included within finished goods, are charged at the cost of delivering carbon savings and are recorded as inventory at the lower of cost and net realisable value and on a first-in, first out basis.

Provision is made for obsolete, slow moving or defective items where appropriate.

Current asset investments

Current asset investments include cash balances held on deposit for periods greater than three months and certain restricted cash balances.

These balances have been excluded from cash in the Group's balance sheet and cash flow statement.

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 its functional currency and recorded using the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into its functional currency at the exchange rate 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 defined accrued benefits method for schemes closed to future accrual and the projected unit credit method or the attained age method for ongoing schemes. 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 on scheme liabilities are included within financial income and expenses in the income statement.

The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of scheme liabilities over the fair value of scheme assets. 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 a 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 and movements in minimum funding requirements, are recognised in the statement of comprehensive income.

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

Notes to the consolidated financial statements

continued

1 Significant accounting policies (continued)

(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.

(c) Share-based payments

Members of the Group's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP) and UK employees are able to participate in the Sharesave scheme. Under the terms of the Group's bonus arrangements, Executive Directors and certain senior employees receive a proportion of their bonus in shares, which are deferred for a period of up to two years.

The fair value of shares for the LEAP, Sharesave and deferred bonus arrangements at the date of grant are estimated using the Black-Scholes pricing model. 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 and taking into account service and non-market conditions.

The Group also operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The fair value of the free shares are recognised as an expense in the income statement over the vesting period of the shares.

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 by entities relating to the construction of 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) Current asset investments

Current asset investments are carried in the balance sheet at amortised cost.

(e) Trade payables

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

(f) Bank and other borrowings

Interest bearing bank loans and overdrafts and other loans 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.

(g) 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 fair value. The method of recognising the resulting change in fair value is dependent on whether the derivative is designated as a hedging instrument.

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

The Group also enters into forward contracts and options 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, energy services, road maintenance, rail services, utilities services and consultancy businesses.

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 energy services 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.

Segmental revenue and profit

	2011		2010	
	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
Support services				
Group	2,119.8	105.7	1,842.1	92.3
Share of jointly controlled entities	225.4	15.1	266.5	18.1
	2,345.2	120.8	2,108.6	110.4
Inter-segment	75.2	–	107.3	–
Total	2,420.4	120.8	2,215.9	110.4
Public Private Partnership projects				
Group	1.2	2.7	1.2	10.7
Share of jointly controlled entities	308.6	17.2	310.7	12.7
	309.8	19.9	311.9	23.4
Inter-segment	–	–	–	–
Total	309.8	19.9	311.9	23.4
Middle East construction services				
Group	218.9	13.9	190.9	14.0
Share of jointly controlled entities	330.0	35.2	302.1	33.5
	548.9	49.1	493.0	47.5
Inter-segment	–	–	–	–
Total	548.9	49.1	493.0	47.5
Construction services (excluding the Middle East)				
Group	1,813.3	54.4	2,202.3	40.9
Share of jointly controlled entities	34.0	3.5	23.2	0.3
	1,847.3	57.9	2,225.5	41.2
Inter-segment	0.4	–	4.2	–
Total	1,847.7	57.9	2,229.7	41.2
Group eliminations and unallocated items	(75.6)	(9.5)	(111.5)	(9.0)
Consolidated				
Group	4,153.2	167.2	4,236.5	148.9
Share of jointly controlled entities	898.0	71.0	902.5	64.6
Total	5,051.2	238.2	5,139.0	213.5

Notes to the consolidated financial statements

continued

2 Segmental reporting (continued)

Segmental revenue and profit (continued)

Reconciliation of operating segment results to reported results

	2011 £m	2010 £m
Group and share of jointly controlled entities' operating profit before intangible amortisation and non-recurring operating items	238 2	213 5
Net financial expense		
– Group	(3 9)	(6 8)
– Share of jointly controlled entities	(18 8)	(13 9)
Share of jointly controlled entities' taxation	(3 5)	(4 7)
Underlying profit before taxation	212 0	188 1
Intangible amortisation ⁽¹⁾	(31 0)	(27 6)
Non-recurring operating items ⁽¹⁾	(42 8)	(9 4)
Non-operating items ⁽¹⁾	4 6	16 8
Profit before taxation	142 8	167 9
Taxation	(4 8)	(15 1)
Profit for the year	138 0	152 8

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

	2011			2010		
	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	(26 1)	(40 6)	(4 3)	(19 8)	(0 4)	–
Public Private Partnership projects	–	–	11 5	–	–	16 8
Construction services (excluding the Middle East)	(4 9)	(2 2)	(2 6)	(7 8)	(6 1)	–
Unallocated Group items	–	–	–	–	(2 9)	–
Total	(31 0)	(42 8)	4 6	(27 6)	(9 4)	16 8

Depreciation and amortisation and capital expenditure arise in the following segments

	2011		2010	
	Depreciation and amortisation £m	Capital expenditure £m	Depreciation and amortisation £m	Capital expenditure £m
Support services	(40 3)	(4 1)	(37 0)	(10 8)
Middle East construction services	(2 1)	(1 1)	(2 1)	(2 1)
Construction services (excluding the Middle East)	(6 4)	(0 4)	(11 2)	(1 9)
Unallocated Group items	(13 5)	(7 8)	(13 1)	(14 5)
Total	(62 3)	(13 4)	(63 4)	(29 3)

2 Segmental reporting (continued)

Segmental net assets

	2011			2010		
	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m
Support services						
Intangible assets ⁽¹⁾	1,268 9	–	1,268 9	936 5	–	936 5
Operating assets	610 0	–	610 0	486 4	–	486 4
Investments	11 6	–	11 6	9 6	–	9 6
Total operating assets	1,890 5	–	1,890 5	1,432 5	–	1,432 5
Total operating liabilities	–	(622 1)	(622 1)	–	(475 7)	(475 7)
Net operating assets/(liabilities)	1,890 5	(622 1)	1,268 4	1,432 5	(475 7)	956 8
Public Private Partnership projects						
Operating assets	7 9	–	7 9	5 5	–	5 5
Investments	93 2	–	93 2	74 5	–	74 5
Total operating assets	101 1	–	101 1	80 0	–	80 0
Total operating liabilities	–	(9 6)	(9 6)	–	(11 6)	(11 6)
Net operating assets/(liabilities)	101 1	(9 6)	91 5	80 0	(11 6)	68 4
Middle East construction services						
Operating assets	226 5	–	226 5	172 2	–	172 2
Investments	57 3	–	57 3	48 9	–	48 9
Total operating assets	283 8	–	283 8	221 1	–	221 1
Total operating liabilities	–	(224 8)	(224 8)	–	(192 4)	(192 4)
Net operating assets/(liabilities)	283 8	(224 8)	59 0	221 1	(192 4)	28 7
Construction services (excluding the Middle East)						
Intangible assets ⁽¹⁾	264 5	–	264 5	269 4	–	269 4
Operating assets	425 4	–	425 4	548 2	–	548 2
Investments	48 8	–	48 8	43 7	–	43 7
Total operating assets	738 7	–	738 7	861 3	–	861 3
Total operating liabilities	–	(928 2)	(928 2)	–	(1,022 7)	(1,022 7)
Net operating assets/(liabilities)	738 7	(928 2)	(189 5)	861 3	(1,022 7)	(161 4)
Consolidated before Group items						
Intangible assets ⁽¹⁾	1,533 4	–	1,533 4	1,205 9	–	1,205 9
Operating assets	1,269 8	–	1,269 8	1,212 3	–	1,212 3
Investments	210 9	–	210 9	176 7	–	176 7
Total operating assets	3,014 1	–	3,014 1	2,594 9	–	2,594 9
Total operating liabilities	–	(1,784 7)	(1,784 7)	–	(1,702 4)	(1,702 4)
Net operating assets/(liabilities) before Group items	3,014 1	(1,784 7)	1,229 4	2,594 9	(1,702 4)	892 5
Group items						
Deferred tax assets/(liabilities)	137 6	(25 5)	112 1	101 7	(28 0)	73 7
Net cash/(borrowing)	490 7	(541 4)	(50 7)	396 7	(276 5)	120 2
Retirement benefits (gross of taxation)	–	(305 8)	(305 8)	0 9	(250 3)	(249 4)
Income tax	77	(4 4)	3 3	3 9	(5 1)	(1 2)
Other	49 1	(54 9)	(5 8)	53 2	(23 8)	29 4
Net assets/(liabilities)	3,699 2	(2,716 7)	982 5	3,151 3	(2,286 1)	865 2

(1) Arising from business combinations

Notes to the consolidated financial statements

continued

2 Segmental reporting (continued)

Geographic information – by origin

	2011 £m	2010 £m
United Kingdom		
Total revenue from external customers	3,664 0	3,848 6
Less share of jointly controlled entities' revenue	(386 7)	(469 6)
Group revenue from external customers	3,277 3	3,379 0
Non-current assets	1,628 8	1,317 1
Middle East and North Africa		
Total revenue from external customers	561 3	504 2
Less share of jointly controlled entities' revenue	(342 4)	(313 3)
Group revenue from external customers	218 9	190 9
Non-current assets	66 7	56 3
Canada		
Total revenue from external customers	782 3	709 8
Less share of jointly controlled entities' revenue	(147 4)	(70 5)
Group revenue from external customers	634 9	639 3
Non-current assets	145 9	137 9
Rest of the World		
Total revenue from external customers	43 6	76 4
Less share of jointly controlled entities' revenue	(21 5)	(49 1)
Group revenue from external customers	22 1	27 3
Non-current assets	–	1 9
Consolidated		
Total revenue from external customers	5,051 2	5,139 0
Less share of jointly controlled entities' revenue	(898 0)	(902 5)
Group revenue from external customers	4,153 2	4,236 5
Non-current assets		
Total of geographic analysis above	1,841 4	1 513 2
Retirement benefit assets	–	0 9
Other investments	51 3	41 9
Deferred tax assets	137 6	101 7
Total non-current assets	2,030 3	1,657 7

Revenue from the Group's major customer is shown below

	Support services		Public Private Partnership projects		Construction services (excluding the Middle East)		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
UK Government	920 4	782 5	188 3	222 7	1,499 7	1,263 0	2,608 4	2,268 2

3 Group operating profit

	2011 £m	2010 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property plant and equipment	27.7	31.8
Amortisation of intangible assets	34.6	31.6
Impairment of trade receivables	1.1	0.5
Impairment on re-measurement to fair value of Eaga plc shares at acquisition	0.5	–
Loss/(profit) on disposal of property, plant and equipment	0.6	(1.3)
Operating lease charges	51.8	55.8
Foreign exchange (gains)/losses	(0.7)	0.4
Loss on derivative financial assets and liabilities held for trading	1.5	1.2
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	0.8	0.9
– Other services pursuant to legislation	0.4	0.1
– Taxation services	0.4	0.3
Fees in respect of Group pension schemes		
– Audit	0.1	0.1

In addition to the above amounts included in operating profit, KPMG Audit Plc were paid fees in 2011 associated with the acquisition of Carillion Energy Services of £0.3 million. Such fees are included in acquisition costs within non-operating items.

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 (2010: £0.2 million).

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

	2011 £m	2010 £m
Integration and rationalisation costs	(40.0)	(9.4)
Eaga Partnership Trusts related charges	(2.8)	–
	(42.8)	(9.4)

Integration and rationalisation costs of £40.0 million primarily relates to redundancy and property exit costs arising from a review of the Group's requirements following the acquisition of Carillion Energy Services (CES – formerly Eaga plc), including relatively modest costs associated with focusing the Canadian construction services business on the growing Public Private Partnership market in the region.

The Group operates a Share Incentive Plan (SIP) under which qualifying CES partners may receive free shares. The Eaga Partnership Trusts (EPT) waived its entitlement to the 2010 final dividend paid during the year amounting to £3.0 million. Of this £3.0 million, £2.5 million has been paid to acquire Carillion plc shares to satisfy the UK SIP awards which vest immediately and the remaining £0.5 million will be paid to fund the international SIP awards when they vest in three years time. These awards give rise to a charge under International Financial Reporting Standard 2 'Share-based payment' of £2.8 million. The Group is not committed to make any awards under the SIP in excess of those funded by the EPT. Where the award of shares under the SIP is fully funded by the waiver of dividends by the EPT, there is no material net impact on the net debt or net assets of the Group over the contractual life of the plan compared to if the EPT had not waived its dividends. As this charge has arisen from the decision by the EPT to waive its entitlement to dividends and is outside of the control of the normal operating parameters of the Group, the charge is classified as a non-recurring operating item. Further details on the SIP are given in the Remuneration report on page 53.

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 the 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.

An income tax credit of £11.9 million (2010: £1.6 million) relating to the above has been included within taxation in the income statement.

Non-operating items

	2011 £m	2010 £m
Profit on disposal of jointly controlled entity and other investments	15.3	16.8
Acquisition costs	(7.5)	–
Closure of non-core businesses	(3.2)	–
	4.6	16.8

Notes to the consolidated financial statements

continued

4 Non-recurring operating items and non-operating items (continued)

In the year ended 31 December 2011, the Group disposed of its equity investment in three Public Private Partnership jointly controlled entities. The disposals generated cash consideration of £25.4 million (before disposal costs of £0.2 million) and a non-operating profit of £11.5 million. There is no income tax associated with this profit.

In addition, the Group disposed of a small jointly controlled entity in the Netherlands. The disposal generated a cash consideration of £6.9 million (before disposal costs of £0.7 million) and a non-operating profit of £3.8 million. There is no income tax associated with this profit.

Acquisition costs in 2011 of £7.5 million relate to adviser costs incurred in relation to the CES acquisition contracts and due diligence procedures. An income tax credit of £0.6 million has been included in the income statement in respect of these costs.

During the year a number of small non-core businesses were closed at a cost of £3.2 million. An income tax credit of £0.6 million has been included in the income statement in respect of these costs.

In the year ended 31 December 2010, the Group disposed of its equity interest in two Public Private Partnership investments. The disposals generated cash consideration of £45.8 million and a non-operating profit of £16.8 million. There is no income tax associated with this profit.

5 Financial income and expense

	2011 £m	2010 £m
Financial income		
Bank interest receivable	1.6	1.1
Other interest receivable	14.4	10.6
Expected return on retirement plan assets	116.0	111.9
	132.0	123.6
Financial expense		
Interest payable on bank loans and overdrafts	(9.6)	(3.3)
Other interest payable and similar charges	(13.5)	(11.6)
Interest cost on retirement plan obligations	(112.8)	(115.5)
	(135.9)	(130.4)
Net financial expense	(3.9)	(6.8)

Other interest payable and similar charges include finance lease charges of £2.7 million (2010: £3.7 million).

No borrowing costs have been capitalised in either 2011 or 2010 as they are not material.

6 Payroll costs and employee numbers

	2011 £m	2010 £m
Wages and salaries	744.7	746.7
Social security costs	67.0	66.0
Pension costs	29.3	29.5
Equity-settled transactions (Group funded charges)	2.5	(3.9)
Equity-settled transactions (Eaga Partnership Trusts related charges)	2.8	–
	846.3	838.3

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 31 and includes a curtailment gain of £nil (2010: £0.4 million) and a charge of £22.7 million (2010: £22.8 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 49 to 53.

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

	2011 Number	2010 Number
Support services	18,132	17,331
Public Private Partnership projects	32	33
Middle East construction services	7,405	6,795
Construction services (excluding the Middle East)	3,989	5,593
Corporate centre	434	304
	29,992	30,056
UK	19,797	19,476
Overseas	10,195	10,580
	29,992	30,056

In addition to the above there are 15,350 staff (2010: 15,441) employed within the Group's jointly controlled entities located in the Middle East.

7 Income tax

Recognised in the income statement

	2011 £m	2010 £m
Current tax (credit)/expense		
Current year		
– UK	(3 3)	(2 2)
– Overseas	3 0	3 8
Adjustments for prior years		
– UK	2 8	(3 4)
– Overseas	0 8	0 1
Total current tax	3 3	(1 7)
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	9 6	16 6
Change of rate	0 6	0 2
Adjustments for prior years	(8 7)	–
Total deferred tax	1 5	16 8
Total income tax expense in the income statement	4 8	15 1

Reconciliation of effective tax rate

	2011 £m	2010 £m
Profit before tax	142 8	167 9
Tax of jointly controlled entities	3 5	4 7
	146 3	172 6
Income tax at UK standard corporation tax rate of 26.5% (2010: 28.0%)	38 8	48 3
Permanent differences	1 5	3 0
Unrelieved trade losses	8 2	5 0
Capital items not taxable/not deductible	(4 7)	(4 8)
Effect of utilisation of brought forward tax losses	(10 9)	(5 6)
Effect of tax rates in foreign jurisdictions	(9 6)	(10 6)
Change in rate	0 6	0 2
Over provided in prior years	(7 4)	(5 1)
Recognition of deferred tax on prior year losses	(8 2)	(10 6)
Total tax (including tax of jointly controlled entities)	8 3	19 8
Tax of jointly controlled entities	(3 5)	(4 7)
Group income tax expense	4 8	15 1

On 5 July 2011 the Finance (No 3) Act 2011 was substantively enacted, implementing from 1 April 2012 a reduction in the mainstream corporate tax rate from 26 per cent to 25 per cent. Within the above deferred tax charge of £1.5 million is a charge of £0.6 million with respect to this change in rate.

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

The release of the over-provision relating to prior years of £7.4 million (2010: £5.1 million) includes an amount of £3.0 million which is attributable to the agreement of certain issues with the tax authorities. Tax of jointly controlled entities of £3.5 million in 2011 includes a £2.3 million credit arising from a review of the nature of tax issues in certain entities.

Tax (asset)/liability recognised directly in equity

	2011 £m	2010 £m
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(20 0)	5 8
Current tax on foreign exchange translation adjustments	–	(1 1)
Tax recognised in statement of comprehensive income	(20 0)	4 7
Tax directly recognised in equity		
– Current tax on equity-settled transactions	(0 6)	–
– Deferred tax on equity-settled transactions	(0 1)	(1 1)
Total tax recognised in equity	(20 7)	3 6

Deferred tax on actuarial gains and losses on defined benefit pension schemes of £20.0 million in 2011 includes £6.1 million in respect of the change in tax rate to 25 per cent as substantively enacted on 5 July 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 2011 is based on the profit attributable to equity holders of the parent of £134.6 million (2010: £147.2 million) and a weighted average number of ordinary shares in issue of 420.9 million (2010: 399.0 million), calculated as follows:

In millions of shares	2011	2010
Issued ordinary shares at 1 January	399.7	397.3
Effect of shares issued in the year	21.4	1.9
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust	(0.2)	(0.2)
Weighted average number of ordinary shares at 31 December	420.9	399.0

(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-recurring operating items and non-operating items.

	2011		2010	
	Profit before tax £m	Tax £m	Profit before tax £m	Tax £m
Profit before taxation				
Profit before taxation as reported in the income statement	142.8	4.8	167.9	15.1
Amortisation of intangible assets arising from business combinations	31.0	9.9	27.6	8.7
Non-recurring operating items	42.8	11.9	9.4	1.6
Non-operating items	(4.6)	1.2	(16.8)	—
Underlying profit before taxation	212.0	27.8	188.1	25.4
Underlying taxation	(27.8)		(25.4)	
Underlying profit attributable to non-controlling interests	(3.4)		(5.6)	
Underlying profit attributable to shareholders	180.8		157.1	

	2011 Pence per share	2010 Pence per share
Earnings per share		
Basic earnings per share	32.0	36.9
Amortisation of intangible assets arising from business combinations	5.0	4.7
Non-recurring operating items	7.3	2.0
Non-operating items	(1.3)	(4.2)
Underlying basic earnings per share	43.0	39.4
Underlying diluted earnings per share (post-tax basis)	42.7	39.2

(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	2011	2010
Weighted average number of ordinary shares	420.9	399.0
Effect of share options in issue	2.5	1.7
Weighted average number of ordinary shares (diluted) at 31 December	423.4	400.7

9 Dividends

The following dividends were paid by the Company:

	2011		2010	
	£m	Pence per share	£m	Pence per share
Previous year final dividend	43.0	10.7	39.9	10.0
Current year interim dividend	21.6	5.3	19.2	4.8
Total	64.6	16.0	59.1	14.8

9. Dividends (continued)

The following dividends were proposed by the Company in respect of the financial year ending 31 December

	2011		2010	
	£m	Pence per share	£m	Pence per share
Interim	21.6	5.3	19.2	4.8
Final	49.9	11.6	42.8	10.7
Total	71.5	16.9	62.0	15.5

The final dividend for 2011 of 11.6 pence per share was approved by the Board on 29 February 2012 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 15 June 2012 to shareholders on the register on 18 May 2012.

10 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2011	32.2	148.3	180.5
Acquisition of Carillion Energy Services (see note 30)	5.6	6.9	12.5
Additions	1.0	9.6	10.6
Disposals	(2.2)	(40.3)	(42.5)
Reclassification (from intangible assets)	–	0.4	0.4
Reclassification	1.1	(1.1)	–
Effect of movements in foreign exchange rates	(0.3)	(1.1)	(1.4)
At 31 December 2011	37.4	122.7	160.1
Depreciation and impairment losses			
At 1 January 2011	1.7	21.6	23.3
Depreciation charge for the year	4.2	23.5	27.7
Disposals	(2.0)	(22.7)	(24.7)
Reclassification (from intangible assets)	–	0.1	0.1
Reclassification	0.2	(0.2)	–
Effect of movements in foreign exchange rates	–	(0.5)	(0.5)
At 31 December 2011	4.1	21.8	25.9
At 1 January 2011	30.5	126.7	157.2
At 31 December 2011	33.3	100.9	134.2

Included in the net book value of plant, equipment and vehicles is £35.1 million (2010: £41.9 million) in respect of assets held under finance leases and hire purchase contracts. The leased equipment secures lease obligations as disclosed in note 20.

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
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
At 31 December 2010	32.2	148.3	180.5
Depreciation and impairment losses			
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
At 31 December 2010	1.7	21.6	23.3
Net book value			
At 1 January 2010	29.5	138.7	168.2
At 31 December 2010	30.5	126.7	157.2

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11 Intangible assets

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
Cost					
At 1 January 2011	1,102.2	241.1	1,343.3	27.0	1,370.3
Acquisition of Carillion Energy Services (see note 30)	329.1	29.4	358.5	—	358.5
Additions	—	—	—	2.8	2.8
Disposals	—	—	—	(0.9)	(0.9)
Reclassification (to property, plant and equipment)	—	—	—	(0.4)	(0.4)
At 31 December 2011	1,431.3	270.5	1,701.8	28.5	1,730.3
Amortisation and impairment losses					
At 1 January 2011	—	137.4	137.4	11.7	149.1
Amortisation for the year	—	31.0	31.0	3.6	34.6
Disposals	—	—	—	(0.9)	(0.9)
Reclassification (to property, plant and equipment)	—	—	—	(0.1)	(0.1)
At 31 December 2011	—	168.4	168.4	14.3	182.7
Net book value					
At 1 January 2011	1,102.2	103.7	1,205.9	15.3	1,221.2
At 31 December 2011	1,431.3	102.1	1,533.4	14.2	1,547.6

The goodwill recognised on the acquisition of Carillion Energy Services represents the present value of future income streams expected to be generated from margin growth in the business acquired together with identifiable cost savings within the enlarged Group

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
Cost					
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
At 31 December 2010	1,102.2	241.1	1,343.3	27.0	1,370.3
Amortisation and impairment losses					
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
At 31 December 2010	—	137.4	137.4	11.7	149.1
Net book value					
At 1 January 2010	1,101.3	131.2	1,232.5	8.8	1,241.3
At 31 December 2010	1,102.2	103.7	1,205.9	15.3	1,221.2

11 Intangible assets (continued)

Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill

	2011 £m	2010 £m
Construction services (excluding the Middle East) segment		
UK construction	233 0	233 0
Canada construction	11 4	11 4
	244 4	244 4
Support services segment		
Business services	1,134 8	805 7
Infrastructure services	52 1	52 1
	1,186 9	857 8
Total goodwill	1,431 3	1,102 2

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 (CGUs). In the absence of any identified impairment risks, tests are performed based on internal valuations of each 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 CGUs within the Construction services (excluding the Middle East) and Support services reporting segments detailed above. The CGUs have been identified within the 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 acquisition of Carillion Energy Services was a strategic decision which enabled the Group to significantly enhance its support services capabilities and to generate substantial cross-selling opportunities and cost savings in Business services. Therefore, the entire goodwill arising on this acquisition has been allocated to the Business services CGU.

The recoverable amounts of the CGUs are determined from value in use calculations. The value in use in 2011 was determined on a similar basis to 2010. 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 2011 in the light of the prevailing challenging economic environment, including the impact of the Government deficit reduction programme and the decision to reduce Feed-in-Tariffs for solar photovoltaic systems in the UK and the sovereign debt crisis in the Eurozone. The impact of this 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.

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) CGUs 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 and therefore 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 the Construction services (excluding the Middle East) segment was 12.0 per cent (2010: 12.0 per cent) and for the CGUs in the Support services segment was 10.0 per cent (2010: 9.4 per cent). The annual growth rates are based on internal assessments. Growth is expected in the Business services CGU at 5.0 per cent per annum for the next five years (2010: 5.0 per cent), 2.5 per cent per annum for years six to ten (2010: 2.5 per cent) 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 re-scaling of UK construction activity currently being undertaken. 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 28.4 per cent for Construction services (excluding the Middle East) and to 14.3 per cent for Support Services before an impairment was triggered.

As at 31 December 2011, 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 £34.6 million (2010: £31.6 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. Amortisation of the intangible asset of £29.4 million arising on the acquisition of Carillion Energy Services will be complete by 2014.

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12 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2011	69 0	55 0	124 0	2 1	126 1
Equity investments	1 1	–	1 1	–	1 1
Disposals	(3 6)	(9 7)	(13 3)	–	(13 3)
Net loans advanced	–	28 9	28 9	–	28 9
Reclassification	10 2	(10 2)	–	–	–
Reclassification (from trade and other receivables)	1 3	–	1 3	–	1 3
Effect of movements in foreign exchange rates	(0 3)	(0 1)	(0 4)	–	(0 4)
At 31 December 2011	77 7	63 9	141 6	2 1	143 7
Share of post acquisition results					
At 1 January 2011	8 7	–	8 7	–	8 7
Share of results for the year after taxation	48 7	–	48 7	–	48 7
Share of change in fair value of cash flow hedges (net of tax)	(13 3)	–	(13 3)	–	(13 3)
Disposals	8 4	–	8 4	–	8 4
Distributions received	(37 3)	–	(37 3)	–	(37 3)
Effect of movements in foreign exchange rates	0 7	–	0 7	–	0 7
At 31 December 2011	15 9	–	15 9	–	15 9
Net book value					
At 1 January 2011	77 7	55 0	132 7	2 1	134 8
At 31 December 2011	93 6	63 9	157 5	2 1	159 6

Equity investments of £1 1 million relate to the acquisition in cash of interests in a number of development jointly controlled entities in Canada. During the year, the Group disposed of its equity investments in three Public Private Partnership projects and a small jointly controlled entity in the Netherlands. The £1 3 million reclassification from trade and other receivables relates to an item previously included within amounts owed by jointly controlled entities.

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
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
Reclassification	8 4	(8 4)	–	–	–
Effect of movements in foreign exchange rates	1 2	0 5	1 7	–	1 7
At 31 December 2010	69 0	55 0	124 0	2 1	126 1
Share of post acquisition results					
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
At 31 December 2010	8 7	–	8 7	–	8 7
Net book value					
At 1 January 2010	82 2	41 5	123 7	2 1	125 8
At 31 December 2010	77 7	55 0	132 7	2 1	134 8

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 2010, the Group disposed of its equity investment in a PPP jointly controlled entity as disclosed in note 30.

As disclosed in note 34, 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 shareholder agreements.

The Group's aggregate share of net assets of jointly controlled entities is analysed below. Borrowing within jointly controlled entities amounting to £1,104 9 million (2010: £921 9 million) are without recourse to the Carillion Group.

12 Investments in jointly controlled entities (continued)

	2011			2010		
	PPP projects £m	Other £m	Total £m	PPP projects £m	Other £m	Total £m
Non-current assets	1,105.1	125.5	1,230.6	1,145.6	94.4	1,240.0
Cash	87.0	49.0	136.0	73.4	34.6	108.0
Other current assets	147.7	335.1	482.8	77.9	378.9	456.8
Share of gross assets	1,339.8	509.6	1,849.4	1,296.9	507.9	1,804.8
Current borrowing	(29.8)	(1.7)	(31.5)	(26.6)	(18.3)	(44.9)
Current liabilities	(56.3)	(328.8)	(385.1)	(67.0)	(353.0)	(420.0)
Non-current borrowing	(1,034.9)	(38.5)	(1,073.4)	(845.6)	(31.4)	(877.0)
Non-current liabilities	(204.5)	(31.3)	(235.8)	(344.3)	(5.5)	(349.8)
Provisions	(2.4)	–	(2.4)	(7.7)	–	(7.7)
Share of gross liabilities	(1,327.9)	(400.3)	(1,728.2)	(1,291.2)	(408.2)	(1,699.4)
Share of net assets excluding derivatives	11.9	109.3	121.2	5.7	99.7	105.4
Financial instrument derivatives	(25.5)	–	(25.5)	(25.6)	–	(25.6)
Share of net (liabilities)/assets	(13.6)	109.3	95.7	(19.9)	99.7	79.8
Loan advances	56.9	7.0	63.9	55.0	–	55.0
Total investment in jointly controlled entities	43.3	116.3	159.6	35.1	99.7	134.8

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.

13 Other investments

	£m
Fair value	
At 1 January 2011	55.7
Additions	3.4
Acquisition of Carillion Energy Services (see note 30)	1.0
Increase in fair value	5.0
At 31 December 2011	65.1
Impairment losses	
At 1 January and 31 December 2011	13.8
Net book value	
At 1 January 2011	41.9
At 31 December 2011	51.3

Additions in the year include £3.0 million paid in cash relating to subordinated debt invested in Aspire Defence Holdings Limited, a Public Private Partnership unquoted entity in which the Group holds 12.5 per cent of the issued share capital.

On the acquisition of Carillion Energy Services the Group acquired a £1.0 million investment in Homesun Holdings Limited, a group involved in the sale of solar photovoltaic panels, and 19.9 per cent of the issued share capital of Solar Clean Energy Holdings Limited, a privately financed special purpose entity engaged in providing solar photovoltaic panels to residential dwellings in the UK. A further investment in Homesun Holdings Limited in cash of £0.4 million was made in the period following acquisition and at the balance sheet date, the total investment of £1.4 million represents 9.1 per cent of Homesun Holdings Limited's issued share capital.

	£m
Fair value	
At 1 January 2010	60.0
Additions	3.9
Disposals	(14.1)
Increase in fair value	5.9
At 31 December 2010	55.7
Impairment losses	
At 1 January and 31 December 2010	13.8
Net book value	
At 1 January 2010	46.2
At 31 December 2010	41.9

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13 Other investments (continued)

On 21 December 2010 the Group disposed of 5 per cent of its equity interest in Aspire Defence Holdings Limited and as a result, the Group's interest in Aspire Defence Holdings Limited was 12.5 per cent at the balance sheet date.

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	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Property, plant and equipment	16.9	10.5	—	—	16.9	10.5
Intangible assets	—	—	(25.5)	(27.8)	(25.5)	(27.8)
Liability for National Insurance on future Eaga Partnership	—	—	—	—	—	—
Trusts distributions	4.3	—	—	—	4.3	—
Employee benefits	76.5	67.3	—	—	76.5	67.3
Working capital	13.4	4.8	—	—	13.4	4.8
Equity-settled transactions	0.7	—	—	—	0.7	—
Tax value of carry forward losses recognised	25.8	18.9	—	—	25.8	18.9
Tax assets/(liabilities)	137.6	101.5	(25.5)	(27.8)	112.1	73.7
Set off of tax	—	0.2	—	(0.2)	—	—
Net tax assets/(liabilities)	137.6	101.7	(25.5)	(28.0)	112.1	73.7

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2011 £m	2010 £m
Tax losses	60.5	64.0

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.

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 2011 £m	On acquisition of Carillion Energy Services £m	Recognised in income £m	Recognised in equity £m	Balance 31 December 2011 £m
Property, plant and equipment	10.5	2.0	4.4	—	16.9
Intangible assets	(27.8)	(7.6)	9.9	—	(25.5)
Liability for National Insurance on future Eaga Partnership	—	—	—	—	—
Trusts distributions	—	4.8	(0.5)	—	4.3
Employee benefits	67.3	0.2	(11.0)	20.0	76.5
Working capital	4.8	9.1	(0.5)	—	13.4
Equity-settled transactions	—	—	0.6	0.1	0.7
Tax value of carry forward losses recognised	18.9	11.3	(4.4)	—	25.8
	73.7	19.8	(1.5)	20.1	112.1

	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
Equity-settled transactions	—	(1.1)	1.1	—
Tax value of carry forward losses recognised	24.1	(5.2)	—	18.9
	95.2	(16.8)	(4.7)	73.7

The UK Government's Budget on 23 March 2011 announced that the UK corporation tax rate will reduce to 23 per cent over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28 per cent (effective from 1 April 2011) was substantively enacted on 20 July 2010 and further reductions to 26 per cent (effective from 1 April 2011) and 25 per cent (effective from 1 April 2012) were substantively enacted on 29 March 2011 and 5 July 2011 respectively. This will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2011 has been calculated based on the rate of 25 per cent substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 2 per cent rate reduction to 23 per cent, although this will further reduce the Company's future current tax charge and reduce the Company's deferred tax asset accordingly.

15 Inventories

	2011 £m	2010 £m
Raw materials and consumables	41 2	21 2
Work in progress	26 0	19 4
Finished goods	4 4	–
	71 6	40 6

The amount of inventories recognised as an expense during the year was £144 6 million (2010 £26 3 million) and the amount of any write down of inventories recognised as an expense was £3 1 million (2010 £0 1 million), with the increase in the year reflecting the acquisition of Carillion Energy Services. Development work in progress of £15 2 million (2010 £13 5 million) is expected to be recovered after more than 12 months.

16 Construction contracts

Contracts in progress at the balance sheet date

	2011 £m	2010 £m
Due from customers for contract work	321 5	338 0
Due to customers for contract work	(207 2)	(202 6)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £3,890 6 million (2010 £4,806 2 million). Advances received from customers relating to contracts in progress amounted to £128 1 million (2010 £170 8 million).

The amount of construction contract revenue recognised as revenue in the year amounted to £2,032 2 million (2010 £2 393 2 million).

17 Trade and other receivables

	2011 £m	2010 £m
Trade receivables	282 7	283 1
Amounts owed by customers on construction contracts	321 5	338 0
Other receivables and prepayments	350 5	320 0
Amounts owed by jointly controlled entities	128 5	105 5
Amounts owed under jointly controlled operations	11 4	5 8
	1,094 6	1,052 4

In 2010 trade receivables have been re-presented to include balances previously analysed as amounts owed by jointly controlled entities. At 31 December 2011, retentions of £29 0 million (2010 £64 8 million) relating to construction contracts and other amounts recoverable after more than one year of £45 1 million (2010 £24 3 million) are included above as they are recoverable within the normal operating cycle of the Group.

18 Cash and cash equivalents and net (borrowing)/cash

Cash and cash equivalents and net (borrowing)/cash comprise

	2011 £m	2010 £m
Cash and cash equivalents	490 7	396 7
Bank overdrafts	(3 0)	(5 6)
Net cash and cash equivalents	487 7	391 1
Bank loans	(399 7)	(201 4)
Finance lease obligations	(38 4)	(53 8)
Other loans	(100 3)	(15 7)
Net (borrowing)/cash	(50 7)	120 2

Reconciliation of net cash flow to movement in net (borrowing)/cash

	2011 £m	2010 £m
Increase in net cash and cash equivalents	97 4	136 1
Net cash and cash equivalents in subsidiaries acquired (see note 30)	1 5	–
Draw down of bank and other loans	(223 0)	(50 2)
Proceeds from finance leaseback	–	(3 8)
Payment of finance lease liabilities	15 8	17 3
Change in net (borrowing)/cash resulting from cash flows	(108 3)	99 4
Net borrowing in subsidiaries acquired (see note 30)	(61 5)	–
Finance lease additions	(0 8)	(0 4)
Currency translation differences	(0 3)	(3 7)
Change in net (borrowing)/cash	(170 9)	95 3
Net cash at 1 January	120 2	24 9
Net (borrowing)/cash at 31 December	(50 7)	120 2

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19 Current asset investments

	2011 £m	2010 £m
Current asset investments	4.3	-

Current asset investments include cash balances held on deposit for periods greater than three months and certain restricted cash balances, which are held at floating interest rates linked to the UK Bank Base Rate

20 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 27

	2011 £m	2010 £m
Current liabilities		
Bank overdrafts	3.0	5.6
Bank loans	8.2	10.8
Finance lease obligations	21.3	20.2
Other loans	-	15.4
	32.5	52.0
Non-current liabilities		
Bank loans	391.5	190.6
Finance lease obligations	17.1	33.6
Other loans	100.3	0.3
	508.9	224.5
Total borrowing	541.4	276.5

Other loans includes £100.0 million of private placement financing completed in August 2011. The private placement comprises a £49.0 million seven year loan at a fixed interest rate of 4.38 per cent per annum and a £51.0 million 10-year loan at a fixed interest rate of 5.1 per cent per annum.

Bank loans and overdrafts are largely unsecured and bear interest at floating rates linked to London Interbank Offered Rate. Within bank loans of £391.5 million (2010: £190.6 million) in non-current liabilities are loans amounting to £3.0 million (2010: £3.0 million) which are secured on the assets to which they relate. Other loans are not secured and finance lease obligations are secured on the assets to which they relate.

Finance lease liabilities

Finance lease liabilities are payable as follows

	Minimum lease payments 2011 £m	Interest 2011 £m	Principal 2011 £m	Minimum lease payments 2010 £m	Interest 2010 £m	Principal 2010 £m
Less than one year	22.9	(1.6)	21.3	22.9	(2.7)	20.2
Between one and five years	17.8	(0.7)	17.1	35.9	(2.3)	33.6
	40.7	(2.3)	38.4	58.8	(5.0)	53.8

Under the terms of the lease agreements, no contingent rents are payable

21 Trade and other payables

	2011 £m	2010 £m
Trade payables	741 6	616 6
Amounts owed to customers on construction contracts	207 2	202 6
Other tax and social security costs	43 6	29 2
Amounts owed to jointly controlled entities	15 5	15 5
Other creditors	274 5	249 7
Accruals and deferred income	491 2	593 2
	1,773 6	1,706 8

In 2010 trade payables have been re-presented to include balances previously analysed as amounts owed to jointly controlled entities. Within trade and other payables are £18.2 million (2010: £39.3 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.

22 Provisions

	Rationalisation £m	Onerous leases £m	EPT NI £m	Total £m
At 1 January 2011	4 9	14 3	–	19 2
Provisions created	37 8	4 7	–	42 5
Provisions acquired with Carillion Energy Services (see note 30)	6 3	13 7	19 0	39 0
Discount unwind	–	1 8	–	1 8
Provisions utilised	(29 9)	(6 9)	(0 6)	(37 4)
At 31 December 2011	19 1	27 6	18 4	65 1
Disclosed within				
Current liabilities	19.1	8 3	18 4	45 8
Non-current liabilities	–	19 3	–	19 3
	19 1	27 6	18 4	65 1

The rationalisation provision at 1 January 2011 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. The provision created in the year primarily relates to redundancy and other associated costs arising from a review of the Group's requirements following the acquisition of Carillion Energy Services (CES).

The onerous lease provision at 1 January 2011 relates to a number of onerous leases acquired with Mowlem in 2006 and Alfred McAlpine in 2008 and provisions created for property interests retained on the disposal of Carillion IT Services Limited and Enviro Group Limited in 2009. The provisions created during the year relates to a number of onerous leases acquired with CES. The provision is expected to be utilised over a period of five years.

A provision of £19.0 million has been recognised on the acquisition of CES in relation to future distributions to employees from the Eaga Partnership Trusts (EPT) which crystallises a National Insurance cost to the Company as disclosed in note 30. In the period since acquisition, the EPT made a distribution of assets to employees whereby 1,873,875 Carillion shares held by the EPT arising from the acquisition were placed into the Share Incentive Plan. Further details on the EPT are given in the Remuneration report on page 53. The utilisation of this provision in the period is included within Eaga Partnership Trusts related charges in the cash flow statement.

	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)
At 31 December 2010	4 9	14 3	19 2
Disclosed within			
Current liabilities	4 9	8 6	13 5
Non-current liabilities	–	5 7	5 7
	4 9	14 3	19 2

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continued

23 Share capital

	2011		2010	
	Number million	£m	Number million	£m
Issued and fully paid				
At 1 January	399.7	199.8	397.3	198.6
New share capital issued	30.6	15.3	2.4	1.2
At 31 December	430.3	215.1	399.7	199.8

The Company has one class of ordinary share which carries no right to fixed income. During the year 30,613,192 shares were issued in relation to the acquisition of Carillion Energy Services (formerly Eaga plc).

24 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 the acquisition of Mowlem on 23 February 2006, Alfred McAlpine on 12 February 2008 and Carillion Energy Services on 21 April 2011, whereby the consideration included the issue of Carillion plc shares. The premium on the shares issued in relation to these acquisitions has been credited to the merger reserve rather than the share premium account in accordance with The Companies Act 2006. The £30.9 million transfer to the retained earnings reserve during the year represents the amortisation of intangible assets recognised on the Mowlem, Alfred McAlpine and Carillion Energy Services 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:

	2011 £m	2010 £m
At 1 January	(0.1)	(1.1)
Share options exercised by employees (exercise price)	–	3.7
Proceeds from exercise of share options	–	2.3
Share options exercised (transfer to retained earnings)	4.3	0.6
Acquisition of own shares	(4.4)	(5.6)
At 31 December	(0.2)	(0.1)

At 31 December 2011, the ESOP held 74,290 (2010: 38,302) of the Company's shares and had a market value of £0.2 million (2010: £0.1 million). During the year the Company acquired 1.2 million of its own shares for £4.4 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'). At 31 December 2011 the total number of shares held by the QUEST amounted to 129,979 (2010: 129,979) and had a market value of £0.4 million (2010: £0.5 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

During the year the Company also acquired 0.7 million of its own shares for £2.5 million to facilitate an award under the Carillion Energy Services Share Incentive Plan (SIP) for UK partners as disclosed in note 4. Awards under the SIP vest immediately in relation to UK partners and therefore the cost of these shares of £2.5 million has been charged directly to the retained earnings reserve and is included within acquisition of own shares in the cash flow statement.

25 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 52 to 53. In addition, under the terms of the Group's bonus arrangements, senior employees and Executive Directors receive a proportion of their bonus in shares, which vest a year after the award in respect of senior employees and two years after the award in respect of Executive Directors.

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 the 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 7 April 2009	1,139,034	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	871,764	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 8 April 2011	863,786	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
SIP International option grant at 29 July 2011	79,715	Three years of service	3 years	nil
Deferred bonus scheme	848,275	Two years of service for Executive Directors and one years service for senior employees	1-2 years	nil
Total share options	3,858,975			

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

	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010
At 1 January	4 2p	3,079,301	116 4p	5,931,478
Forfeited during the year	–	(575,728)	222 8p	(2,036,889)
Exercised during the year	–	(1,211,308)	114 0p	(1,962,762)
Granted during the year	–	2,566,710	–	1,147,474
At 31 December	3 3p	3,858,975	4 2p	3,079,301
Exercisable at the end of the year	227 3p	56,401	227 3p	56,401

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 for these options exercisable is three years. The weighted average share price during the year was 355 65 pence.

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25 Share-based payments (continued)

The fair value of services received in return for share options granted is measured based on a Black-Scholes model using the following assumptions

	2011 Deferred bonus	2011 SIP	2011 LEAP	2010 LEAP	2009 LEAP	2008 LEAP
Fair value of share options and assumptions						
Fair value at grant date	284 8p	322 4p	337 9p	275 9p	232 5p	358 5p
Share price at grant date	311 6p	366 8p	384 4p	318 6p	258 5p	383 8p
Exercise price	nil	nil	nil	nil	nil	nil
Expected volatility	13 97%	16 80%	15 85%	19 70%	18 04%	16 01%
Option life	1 or 2 years	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	4 50%	4 30%	4 30%	4 80%	3 54%	2 27%
Risk-free interest rate (based on national government bonds)	0 45%	1 14%	1 10%	1 22%	2 16%	3 96%

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

Employee expenses

	2011 £m	2010 £m
Equity-settled share options and deferred bonus shares granted in		
2006	–	(2 2)
2007	–	(1 0)
2008	0 4	(0 6)
2009	0 5	(0 9)
2010	(0 2)	0 8
2011	1 8	–
Total expense/(income) recognised as employee costs	2 5	(3 9)

In addition to the above, a share option charge of £2.8 million has arisen for shares awarded under the Carillion Energy Services Share Incentive Plan (SIP), which are wholly funded by the Eaga Partnership Trusts waived dividend and included in non-recurring operating items (see note 4). Shares awarded under the SIP to UK partners vest immediately and therefore the share-based payment charge is recognised in full at the date of award. Shares awarded under the SIP to international partners have a three year vesting period and the share-based payment charge is recognised over the vesting period.

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

26 Guarantees and contingent liabilities

	2011 £m	2010 £m
Guarantees in respect of interest payments in Construction services (excluding the Middle East) jointly controlled entities	0 2	1 1
Guarantees in relation to deferred equity payments in PPP special purpose entities	100 9	77 0
Guarantees in respect of letters of credit issued by banks in relation to performance on contracts for PPP customers	91 7	66 6

Guarantees and counter indemnities have, in the normal course of business, been given to financial institutions in respect of the provision of performance and other contract related bonds and to certain defined benefit pension schemes in respect of deficit recovery payments. The Group considers such guarantees and counter indemnities to be insurance arrangements and accounts for them as such. The Group treats guarantees and counter indemnities of this nature as contingent liabilities until such time as it becomes probable that the Group will be required to make a payment under the terms of the arrangement.

Claims under contracts and other agreements including joint arrangements are outstanding in the normal course of business.

26 Guarantees and contingent liabilities (continued)

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.

27 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
31 December 2011					
Financial assets					
Other non-current asset investments	–	–	51 3	–	51 3
Cash and cash equivalents	490 7	–	–	–	490 7
Current asset investments	4 3	–	–	–	4 3
Trade receivables	282 7	–	–	–	282 7
Total	777 7	–	51 3	–	829 0
Financial liabilities					
Bank overdrafts	–	(3 0)	–	–	(3 0)
Bank loans	–	(399 7)	–	–	(399 7)
Finance lease obligations	–	(38 4)	–	–	(38 4)
Other loans	–	(100 3)	–	–	(100 3)
Trade payables	–	(741 6)	–	–	(741 6)
Derivative financial instruments	–	–	–	(0 9)	(0 9)
Total	–	(1,283 0)	–	(0 9)	(1,283 9)
31 December 2010					
Financial assets					
Other non-current asset investments	–	–	41 9	–	41 9
Cash and cash equivalents	396 7	–	–	–	396 7
Trade receivables	283 1	–	–	–	283 1
Total	679 8	–	41 9	–	721 7
Financial liabilities					
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	–	(616 6)	–	–	(616 6)
Derivative financial instruments	–	–	–	(0 2)	(0 2)
Total	–	(893 1)	–	(0 2)	(893 3)

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. The treasury department 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 and Canada. 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.

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.

Further details concerning the risks associated with the overseas regions in which the Group operates can be found in the Operating and financial review on page 33.

Notes to the consolidated financial statements

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27 Financial instruments (continued)

Foreign currency exposure

The carrying amount of the Group's borrowing denominated in foreign currency is as follows

	2011 £m	2010 £m
United States of America Dollar	(16 3)	(17 6)
Canadian Dollar	(94 8)	(82 0)
United Arab Emirates Dirham	(7 9)	(7 9)
Other	(1 9)	(2 1)
	(120 9)	(109 6)

Of the total foreign currency borrowing of £120.9 million (2010: £109.6 million) the amount of borrowing used for hedging overseas currency net assets amounts to £86.4 million (2010: £65.4 million). The foreign exchange gain of £0.1 million (2010: £3.8 million loss) 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 9)
Canadian Dollar	–	2 9	–	(3 2)
Euro	(0 4)	1 1	0 4	(1 2)
United Arab Emirates Dirham	(1 7)	(4 1)	1 8	4 6
Oman Rials	0 9	(0 7)	(0 7)	1 0
Danish Kroner	–	1 2	–	(1 3)
Other	–	(0 6)	–	0 7

Interest rate risk

The Group's interest bearing debt is predominantly drawn from committed bank facilities to fund acquisitions and ongoing working capital requirements. In addition, foreign currency denominated borrowings have been drawn under the facilities to hedge net assets of overseas operations. Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate. During 2011 the Group secured additional finance of £100 million from a private placement at fixed rates of interest, as disclosed in note 20. The principal purpose of raising this finance at fixed interest rates was to ensure that around 20% of the Group's borrowing was not subject to floating rates of interest which may increase. 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 £0.1 million. In respect of Canadian dollar denominated borrowings an increase of £0.6 million, in respect of sterling denominated borrowings an increase of £2.8 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 borrowings are provided by a group of core relationship banks in the form of a syndicated facility, a bilateral facility, private placement financing 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 2011 was £149.4 million (2010: £41.8 million).

27 Financial instruments (continued)**Maturity of financial liabilities**

The remaining contractual maturity profile of the Group's liabilities, which includes estimated future interest payments, is as follows

	Trade payables £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
31 December 2011						
Less than one year	(741 6)	(3 0)	(17 1)	(4 7)	(22 9)	(789 3)
Between one and two years	–	–	(8 9)	(4 7)	(15 1)	(28 7)
Between two and three years	–	–	(8 9)	(4 7)	(2 0)	(15 6)
Between three and four years	–	–	(8 8)	(4 7)	(0 3)	(13 8)
Between four and five years	–	–	(393 7)	(4 7)	(0 4)	(398 8)
More than five years	–	–	–	(116 1)	–	(116 1)
	(741 6)	(3 0)	(437 4)	(139 6)	(40.7)	(1,362 3)
31 December 2010						
Less than one year	(616 6)	(5 6)	(12 9)	(15 5)	(22 9)	(673 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)
	(616 6)	(5 6)	(205 0)	(16 0)	(58 8)	(902 0)

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

	2011 £m	2010 £m
Expiring within one year	71	72
Expiring between one and two years	–	449 3
Expiring between two and five years	349 0	–
	356 1	456 5

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and foreign currency contracts. Policies and procedures exist to ensure that customers have an appropriate credit history. Short-term bank deposits and foreign currency contracts 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 trade receivables at 31 December by geographic region was

	2011 £m	2010 £m
United Kingdom	171 2	153 2
Middle East	34 2	39 8
Canada	75 6	86 7
Rest of the World	1 7	3 4
	282 7	283 1

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27 Financial instruments (continued)

The maximum exposure to credit risk for trade receivables at 31 December by segment was

	2011 £m	2010 £m
Support services	162.5	124.8
Public Private Partnership projects	0.1	0.1
Middle East construction services	34.2	39.8
Construction services (excluding the Middle East)	85.9	118.4
	282.7	283.1

The Group's most significant customer, the UK Government, accounts for £41.3 million of the trade receivables carrying amount at 31 December 2011 (2010: £46.6 million)

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:

	2011		2010	
	Net trade receivables £m	Impairment £m	Net trade receivables £m	Impairment £m
Not past due	166.3	–	180.3	–
Past due less than three months	85.3	1.2	72.1	0.5
Past due between three and six months	11.7	1.0	13.1	1.6
Past due between six and 12 months	9.7	2.4	4.3	0.5
Past due more than 12 months	9.7	5.7	13.3	5.2
	282.7	10.3	283.1	7.8

The movement in the impairment provision is as follows:

	2011 £m	2010 £m
At 1 January	7.8	9.6
Provision acquired with Carillion Energy Services	2.6	–
Provision created	1.1	0.5
Provision utilised	(0.8)	(1.4)
Provision released	(0.4)	(0.9)
At 31 December	10.3	7.8

Whilst uncertainty surrounding counterparty risk has increased due to the prevailing economic climate, on balance the Group believes that debtors will meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are past due and unprovided as at 31 December 2011.

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

Derivative financial instruments

	2011		2010	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts and options	–	(0.9)	–	(0.2)

The movement in fair value of forward foreign currency contracts and options 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 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 2011 the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £161.3 million (2010: £107.4 million) of which £34.0 million (2010: £35.1 million) (and the related deferred tax asset of £8.5 million (2010: £9.5 million)) has been recognised in the hedging reserve.

27 Financial instruments (continued)**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 the investment in Aspire Defence Holdings Limited 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 an asset specific discount rate, 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 movement in the fair value of the investment in Aspire Defence Holdings Limited derived using a level 3 valuation method is shown below

	£m
At 1 January 2011	41.9
Additions	3.0
Recognised in the statement of comprehensive income	5.0
At 31 December 2011	49.9

The fair value of the investment in Aspire Defence Holdings Limited 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 £4.8 million. The fair value of the equity investment in Homesun Holdings Limited cannot be measured reliably as the equity instrument is not quoted in an active market and the Group's shareholding of 9.1% does not give significant influence over access to cash flow information to derive a level 3 fair value. For these reasons the equity interest in Homesun Holdings Limited is carried in the statement of financial position at cost of £1.4 million.

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.

Where there are differences between the amortised cost carrying value and fair value of the Group's principal financial instruments at 31 December these are shown below

	2011		2010	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Trade receivables	282.7	282.2	283.1	282.1
Trade payables	741.6	741.6	616.6	616.6
Cash and cash equivalents	490.7	490.7	396.7	396.7
Current asset investments	4.3	4.3	-	-
Bank overdrafts	(3.0)	(3.0)	(5.6)	(5.6)
Bank loans	(399.7)	(399.7)	(201.4)	(201.4)
Finance lease obligations	(38.4)	(37.4)	(53.8)	(47.9)
Other loans	(100.3)	(99.2)	(15.7)	(15.7)

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 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 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 earnings per share growth, after taking account of the investment needs of the business. No changes were made in the capital risk management objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010.

Notes to the consolidated financial statements

continued

27 Financial instruments (continued)

The capital structure of the Group comprises borrowing, net cash and cash equivalents and total equity as shown below

	2011 £m	2010 £m
Total borrowing	538 4	270 9
Less net cash and cash equivalents (note 18)	(487 7)	(391 1)
Net borrowing/(cash)	50 7	(120 2)
Total equity	982 5	865 2
Total capital	1,033 2	745 0

28 Financial and capital commitments

	2011 £m	2010 £m
Commitments for equity and subordinated debt investments in PPP special purpose entities	124 9	108 0

Non-cancellable operating lease rentals are payable as follows

	2011		2010	
	Property £m	Other £m	Property £m	Other £m
Within one year	17 4	25 1	13 7	27 4
Between one and five years	50 0	30 1	39 1	39 9
Over five years	31 1	0 4	32 7	0 3
	98 5	55 6	85 5	67 6

In 2010 non-cancellable operating lease rentals within property have been re-presented to include balances previously analysed in other leases

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 £1.6 million (2010: £5.0 million) at the balance sheet date.

29 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 50.

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 49 to 53.

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 charged to administrative expenses relating to share options of key management personnel amounted to £0.7 million (2010: £1.2 million credit).

29 Related parties(continued)

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

	2011			2010		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
PPP jointly controlled entities						
The Hospital Company (Southmead) Ltd	98.3	5.4	—	156.0	2.4	—
Holdfast Training Services Ltd	86.1	3.5	—	49.9	4.0	—
Carillion Secure Solutions (Canada)	65.8	15.7	—	27.6	6.4	—
COE (CAMH) Limited Partnership (Canada)	65.3	13.1	—	31.9	8.8	—
Inspiredspaces Wolverhampton Ltd	55.0	8.3	—	—	—	—
Inspiredspaces STAG Ltd	45.4	4.3	—	63.3	—	—
Inspiredspaces Nottingham Ltd	38.4	1.9	—	58.7	—	—
Inspiredspaces Rochdale Ltd	29.3	5.4	—	18.9	—	—
Inspiredspaces Tameside (Projectco2) Ltd	27.9	—	—	34.1	—	—
Eastbury Park Holdings Ltd	26.4	2.1	—	35.1	0.3	—
The Healthcare Infrastructure Company of Canada (WOHC) Inc	26.2	2.5	—	26.7	2.7	—
Inspiredspaces Durham Ltd	20.9	6.1	—	10.2	—	—
Inspiredspaces Wolverhampton (Projectco1) Ltd	18.9	0.7	—	11.3	1.5	—
Inspiredspaces Tameside Limited	18.3	1.3	—	41.6	0.1	—
Clinicenta (Hertfordshire) Ltd	13.8	0.8	—	20.8	—	—
Inspiredspaces Rochdale (Projectco1) Ltd	10.4	—	—	10.4	1.8	—
Inspiredspaces Durham (Projectco1) Ltd	8.8	—	—	26.3	4.1	—
Inspiredspaces STAG (Projectco2) Ltd	8.7	0.3	—	10.7	0.3	—
The Healthcare Infrastructure Company of Canada (ROH) Inc	5.9	0.3	—	7.0	0.7	—
Inspiredspaces Tameside (Projectco1) Ltd	3.1	1.5	—	20.5	3.1	—
LCED (Sault) Limited Partnership (Canada)	3.0	0.3	—	4.5	5.8	—
Integrated Accommodation Services Ltd	1.7	11.0	—	0.2	10.8	—
Inspiredspaces Nottingham (Projectco1) Ltd	1.7	0.1	—	6.0	3.4	—
Education 4 Ayrshire (Holdings) Ltd	0.4	—	—	0.9	0.1	—
The Hospital Company (Portsmouth) Holdings Ltd	—	—	—	18.2	—	—
Other	12.2	0.9	—	21.7	5.8	—
	691.9	85.5	—	712.5	62.1	—
Other jointly controlled entities						
Vanmed Construction Company (Canada)	38.9	17.4	—	64.4	19.2	—
CarillionEnterprise Ltd	14.3	3.9	—	36.6	4.6	—
Modern Housing Solutions (Prime) Ltd	12.2	—	—	6.6	—	—
Carillion Richardson Worcester	11.1	0.5	—	3.0	0.1	—
Al Futtaim Carillion LLC	4.6	2.6	(7.5)	4.4	3.5	(1.5)
Al Futtaim Carillion (Abu Dhabi) LLC	0.5	0.1	—	2.1	1.7	—
Carillion Richardson Partnership	—	12.0	—	—	10.4	—
Carillion Richardson	—	—	—	—	—	(11.7)
Vanbrook Construction Company (Canada)	—	—	—	10.4	0.8	—
Other	2.6	6.5	(8.0)	1.4	3.1	(2.3)
	776.1	128.5	(15.5)	841.4	105.5	(15.5)

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30 Acquisitions and disposals

Acquisitions

On 14 February 2011, Carillion plc purchased 41,580,041 Eaga plc shares in the market representing 16.5 per cent of the issued share capital at a cash cost of £49.9 million. On 21 April 2011 the Group obtained control of the remaining issued share capital of Eaga plc, which when combined with the cost of acquiring shares on 14 February 2011, resulted in a total consideration of £298.4 million. The total consideration was satisfied by the issue of 30.6 million Carillion plc shares valued at the quoted mid-market price at the close of business on the day preceding the effective date of acquisition of 384.36 pence and £181.2 million in cash.

On acquisition, Eaga plc was rebranded Carillion Energy Services (CES). CES is a leading provider of energy efficiency solutions. The Group believes that the acquisition represents a strategic move that will provide the Group with a strong position in a number of new and attractive markets and enhance its ability to provide existing and new customers with integrated support services solutions. The Group believes it can achieve synergies in the enlarged Group of £25 million per annum by the end of 2013 with one-off costs of delivering those savings in the region of £40 million.

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

Acquiree's net assets/(liabilities) at the acquisition date

	Carrying amounts £m	Fair value adjustments – goodwill £m	Fair value adjustments – other £m	Accounting policy adjustments £m	Acquired intangible assets £m	Recognised values £m
Property, plant and equipment	12.5	–	–	–	–	12.5
Intangible assets	61.1	(61.1)	–	–	29.4	29.4
Non-current asset investments	1.0	–	–	–	–	1.0
Deferred tax assets	20.9	–	4.8	1.7	–	27.4
Inventories	54.0	–	–	–	–	54.0
Trade and other receivables	103.7	–	–	(6.6)	–	97.1
Income tax	3.2	–	–	–	–	3.2
Derivative assets	1.7	–	–	–	–	1.7
Current asset investments	8.0	–	–	–	–	8.0
Net cash and cash equivalents	(1.5)	–	–	–	–	(1.5)
Borrowing	(60.0)	–	–	–	–	(60.0)
Trade and other payables	(156.1)	–	–	–	–	(156.1)
Retirement benefit liabilities	(0.8)	–	–	–	–	(0.8)
Deferred tax liabilities	–	–	–	–	(7.6)	(7.6)
Provisions	(20.0)	–	(19.0)	–	–	(39.0)
Net identifiable assets and liabilities	27.7	(61.1)	(14.2)	(4.9)	21.8	(30.7)
Goodwill recognised on acquisition						329.1
Total consideration						298.4

Based on the assessment of the recognised values of assets and liabilities, goodwill arising on the acquisition amounted to £329.1 million. The goodwill recognised represents the benefits of cost savings arising from the elimination of duplication and the potential for significant cross-selling opportunities within the enlarged Group, together with providing the enlarged Group with access to energy efficiency markets that have substantial growth prospects.

The principal fair value adjustment relates to £61.1 million of goodwill on the CES balance sheet at the date of acquisition which is reclassified at the same value as goodwill on Carillion's balance sheet under the requirements of International Financial Reporting Standards. A contingent liability of £14.2 million has been recognised for the future distributions to employees from the Eaga Partnership Trusts (EPT) which crystallises a National Insurance cost to the Company. A full provision has been recognised at the current employer National Insurance rate of 13.8 per cent on the total assets currently held by the EPT which are available for distribution. The timing and quantum of future distributions are determined by the EPT. The £4.9 million accounting policy adjustment results from applying Carillion's policy in respect of expensing rather than capitalising certain costs associated with the securing of new contracts. The £21.8 million of acquired intangible assets relates to the value ascribed to acquired customer lists and contracts, net of attributable deferred tax.

In addition to the adjustments noted above, following a dialogue between CES and Carillion's management teams during the course of the due diligence period granted to Carillion by CES, the £27.7 million carrying amount of net assets acquired at 21 April 2011 incorporates a number of adjustments made to CES's initial carrying amounts and followed a review of all balance sheet categories. These adjustments include a reduction in the valuation of inventories of £14.0 million following a review of inventory held and its recoverability taking into account changes in contracts, technological advancement and product sales in the pre-acquisition period; a £24.3 million reduction in the carrying value of trade and other receivables, largely the result of the reassessment of aged debt, aged accrued income, supplier rebates and contract receivables in light of contract performance and certain contractual changes during the pre-acquisition period; an adjustment to trade and other payables of £46.9 million to reflect contract related liabilities and other identified obligations and other adjustments of £0.3 million.

30 Acquisitions and disposals (continued)

Total consideration for the acquisition comprises the following

	£m
Cash paid to acquire shares in the market	49.9
Cash paid to acquire control	131.3
Total cash paid	181.2
Loss on re-measurement to fair value of shares acquired in the market	(0.5)
Element of consideration relating to cash	180.7
Equity shares issued	117.7
Total consideration	298.4

The value of the equity shares issued is based on the mid-market price of Carillion plc shares at the close of business on 20 April 2011 of 384.36 pence and the total number of shares issued of 30,613,192

At the point of obtaining control of Eaga plc on 21 April 2011, the shares purchased on 14 February 2011 had a fair value of £49.4 million as a result of the shares becoming ex-dividend. As a result of re-measuring these shares to fair value on acquisition, a loss of £0.5 million has been recognised within administrative expenses in the income statement. This has been offset by the Eaga plc 2011 interim dividend which was paid to Carillion plc in respect of the Eaga plc shares held.

Cash flows associated with this acquisition are included in the cash flow statement as follows

	£m
Total cash paid	(181.2)
Net cash and cash equivalents acquired	(1.5)
Net cash outflow on acquisition	(182.7)

Acquisition costs of £7.5 million were incurred in relation to the acquisition contracts and due diligence procedures. These costs have been included as a non-operating item in the income statement (see note 4).

In the period from acquisition to 31 December 2011, CES contributed revenue of £379.8 million and a reported loss after tax of £27.9 million (after rationalisation costs and intangible amortisation) to consolidated profit for the year. If the acquisition had occurred on 1 January 2011, total revenue would have been £5,293.0 million and profit after tax would have been £120.8 million for the year ended 31 December 2011.

Disposals and closure of businesses in 2011

During 2011, the Group disposed of equity investments in three Public Private Partnership projects and a small jointly controlled entity in the Netherlands. The disposals generated a cash consideration of £31.4 million (net of expenses paid of £0.9 million) which is included in the cash flow statement within disposal of jointly controlled entity and other investments, and a non-operating profit of £15.3 million (see note 4).

A cash outflow of £1.9 million is shown in the cash flow statement within disposal and closure of businesses and comprises of the payment of costs in relation to disposals made in 2009 of £1.6 million and £0.3 million in relation to non-core business closures as disclosed in note 4.

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 and closure of businesses.

	£m
Deferred consideration received	1.6
Transaction and other costs paid	(6.3)
	(4.7)

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.

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31 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 defined accrued benefits 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.

As part of the deficit recovery plan agreed with the Trustees of the Staff and 'B' schemes, payments were made to the schemes during 2011 of £0.6 million and £2.6 million respectively (2010: £2.3 million and £2.1 million respectively). Recovery payments of £0.3 million and £1.4 million to the Staff and 'B' schemes respectively are scheduled to be made in 2012.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levies for the year ended 31 March 2012 were £0.2 million (year ended 31 March 2011: £1.8 million) for the Staff scheme and £17,000 (year ended 31 March 2011: £27,000) 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 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 Mowlem Staff scheme was undertaken by the Trustees' independent actuaries as at 31 December 2008 using the defined accrued benefits method. The market value of the scheme's assets at that date was £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 scheme 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.

As part of the deficit recovery plan agreed with the Trustees, payments were made to the Mowlem Staff scheme in the year of £12.2 million (2010: £10.2 million). Recovery payments of £7.6 million are scheduled to be made in 2012 and £10.1 million per annum thereafter continuing until 2021.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2012 was £0.2 million (year ended 31 March 2011: £3.2 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 scheme's 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 as at 31 December 2010 is currently being undertaken.

The regular ongoing contributions paid during the year were £3.4 million (2010: £3.4 million). The Group expects to pay regular contributions amounting to £3.4 million, representing 27.5 per cent of pensionable salaries, during 2012. If any employees are admitted into the Scheme through PFI, PPP or Best Value contracts during 2012 the level of contributions will increase.

31 Retirement benefit obligations (continued)

As part of the deficit recovery plan agreed with the Trustees, payments of £2.3 million were made during 2011 (2010 £2.5 million). Further payments of £2.3 million are scheduled to be made in 2012.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2012 was £0.4 million (year ended 31 March 2011 £0.5 million).

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 attained age method. 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 as at 31 December 2010 is currently being undertaken.

The regular ongoing contributions paid for both sections in total during the year were £1.2 million (2010 £1.4 million). The Group expects to pay regular ongoing contributions in 2012 amounting to £1.3 million and £0.1 million representing 21.5 and 19.6 per cent of pensionable salaries for the GTRM and Centrac sections respectively.

As part of the deficit recovery plan agreed with the Trustees, payments of £1.2 million were made during 2011 (2010 £0.6 million). No deficit recovery payments are scheduled to be made in 2012.

The Pension Protection Fund (PPF) levy is paid by the scheme as part of the funding arrangement.

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 scheme was undertaken by the Trustees' independent actuaries as at 31 December 2008 using the defined accrued benefit method. The market value of the plan assets at that date was £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 scheme 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.

As part of the deficit recovery plan agreed with the Trustees, payments were made in 2011 of £10.8 million (2010 £10.8 million). Recovery payments of £8.4 million are scheduled to be made in 2012.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2012 was £0.1 million (year ended 31 March 2011 £0.7 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 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 2011, calculated in accordance with IAS 19, is £6.7 million (2010 £5.0 million).

An actuarial valuation of the scheme was undertaken by the Trustees' 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 scheme by the Trustees' independent actuaries is due at 31 December 2011.

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31 Retirement benefit obligations (continued)

Regular ongoing contributions are no longer payable following the closure of the scheme to future accrual on 5 April 2009

As part of the deficit recovery plan agreed with the Trustees, payments of £1.2 million were made during 2011 (2010: £1.3 million). Recovery payments of £0.6 million are scheduled to be made in 2012.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy was £23,000 for the year ended 31 March 2012 (year ended 31 March 2011: £0.1 million).

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 2011, calculated in accordance with IAS 19, is £10.3 million (2010: £6.8 million).

Regular ongoing contributions paid during the year were £nil (2010: £nil) in respect of the Carillion Canada Inc defined benefit scheme and £0.4 million (2010: £0.4 million) in respect of other post-retirement benefits for senior Canadian employees. Regular ongoing contributions for 2012 are estimated to be £0.4 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 2011, calculated in accordance with IAS 19, is £4.9 million (2010: £4.1 million).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 December 2008 using the attained age method. The market value of the scheme's assets at that date was £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 £2.2 million (2010: £2.4 million). The Group expects to pay regular ongoing contributions amounting to £2.2 million representing 27.7 per cent of pensionable salary, during 2012.

As part of the deficit recovery plan agreed with the Trustees, payments were made to the scheme during 2011 amounting to £3.0 million (2010: £3.9 million). Recovery payments of £3.6 million are scheduled to be made in 2012.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2012 was £0.1 million (year ended 31 March 2011: £0.3 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 2011, calculated in accordance with IAS 19, is £14.9 million (2010: £15.4 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 was £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 (2010: £0.4 million). The Group expects to pay regular ongoing contributions of £0.4 million in 2012 representing 28.2 per cent of pensionable salaries.

As part of the deficit recovery plan agreed with the Trustees, payments were made during 2011 of £1.1 million (2010: £1.1 million). The schedule of payments to be made in 2012 will be agreed with the Trustees following completion of the actuarial valuation as at 31 March 2010.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2012 was £0.6 million (year ended 31 March 2011: £0.4 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 2011, calculated in accordance with IAS 19, is £1.8 million (2010: £2.0 million).

31 Retirement benefit obligations (continued)

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 28 February 2010 using the defined accrued benefits method. The market value of the plan assets at that date was £7.0 million, which represented approximately 63 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 is due at 28 February 2013.

Regular ongoing contributions are no longer payable as the scheme is closed to future accrual.

Deficit recovery payments of £0.7 million were made during 2011 (2010: £0.4 million). Recovery payments of £0.7 million are scheduled to be made in 2012.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2012 was £5,000 (year ended 31 March 2011: £0.1 million).

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 regular ongoing contributions paid during the year were £0.5 million in respect of the Alfred McAlpine (Ireland) Pension Plan and £0.1 million in respect of the Irishenco Pension Plan. During the year a deficit payment of £0.5 million was made to the Irishenco Pension Plan in full and final settlement of the pension liability. The deficit in the Alfred McAlpine (Ireland) Pension Plan in the Group balance sheet at 31 December 2011, calculated in accordance with IAS 19, is £0.2 million (2010: nil).

Permarock Pension Plan

The Permarock Pension Plan was part of Carillion Energy Services, which was acquired on 21 April 2011. This scheme is a defined benefit arrangement which is closed to new entrants. Existing members no longer accrue benefits for future service. The deficit in the scheme in the Group balance sheet at 31 December 2011, calculated in accordance with IAS 19, is £0.7 million.

Defined contribution schemes

The Group operates four principal UK defined contribution schemes, namely 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), and two Group personal plans (acquired through Carillion Energy Services).

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 salary. In addition to pension benefits, death in service lump sum benefits are provided. The employer meets the cost of administration and management of the plan. Employer contributions during the year were £11.8 million (2010: £12.8 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 salary. 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 management of the plan equivalent to a further 2.0 per cent of basic salary. Employer contributions during the year were £3.8 million (2010: £4.2 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 to pension benefits. Employer contributions during the year were £0.7 million (2010: £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 salary (inclusive of a 1.0 per cent allowance for insurance premiums and audit fees). Employer contributions during the year were £0.5 million (2010: £0.6 million).

Employer contributions to the Carillion Retirement Plan during the year were £39,506 (2010: £47,847).

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 of basic salary depending upon job grade and the employer contributes matching amounts. Death in service lump sum benefits are provided in addition to pension benefits. Employer contributions during the year were £3.3 million (2010: £3.9 million).

Employees of businesses acquired on the purchase of Carillion Energy Services may be eligible to participate in the personal plans managed by Aegon and Clerical Medical and General. Employer contributions to these plans during the period since acquisition were £1.9 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 Rule 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 £0.7 million (2010: £0.6 million).

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31 Retirement benefit obligations (continued)

IAS 19 disclosures

The weighted average of the principal assumptions used by the independent qualified actuaries in providing the IAS 19 position were

	2011		2010	
	UK	Canada	UK	Canada
Rate of increase in salaries	3.50%	N/A	4.40%	2.00%
Rate of increase in pensions*	3.00%	2.25%	3.40%	2.00%
Inflation rate (RPI)	3.00%	2.25%	3.40%	2.00%
Inflation rate (CPI)	1.90%	N/A	2.80%	N/A
Discount rate	4.80%	4.93%	5.40%	5.33%

N/A Not applicable

* Where schemes have adopted the 2.5% per annum cap on increases to pensions in payment the assumption is 2.3% per annum (2.4% p.a. in 2010) 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.

For all schemes, except the Railways Pension Scheme, the mortality assumptions adopted have been updated in 2011 and are S1NA (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) ⁽¹⁾
Carillion Staff	S1NA (YOB) MC 1% Floor +1 year 22.2 years	S1NA (YOB) MC 1% Floor +1 year 20.3 years
Mowlem Staff	S1NA (YOB) MC 1% Floor -1 year 23.9 years	S1NA (YOB) MC 1% Floor -1 year 22.0 years
Carillion 'B'	S1NA (YOB) MC 1% Floor -3 years 25.7 years	S1NA (YOB) MC 1% Floor -3 years 23.7 years
Alfred McAlpine Pension Plan	S1NA (YOB) MC 1% Floor -1 year 23.9 years	S1NA (YOB) MC 1% Floor +1 year 20.3 years
PME Staff Pension and Life Assurance Scheme	S1NA (YOB) MC 1% Floor -1 year 23.9 years	S1NA (YOB) MC 1% Floor -1 year 22.0 years
Mowlem 1993	S1NA (YOB) MC 1% Floor +1 year 22.2 years	S1NA (YOB) MC 1% Floor +1 year 20.3 years

(1) With the exception of the Carillion 'B' scheme which has a normal retirement date at aged 60 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 were the 'PA92(YOB=1965)mc + 2 years' table for non-retired members' mortality and the PA92(YOB=1935) mc + 2 years' table for retired members'. This is still being adopted for the Carillion Public Sector scheme until the next valuation. For the PME Staff Pension and Life Assurance 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 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 rate 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 rate 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.

31 Retirement benefit obligations (continued)

The IAS 19 position for the schemes is as follows

	Expected rate of return %		Carillion Staff £m	Mowlem Staff £m	Carillion 'B' £m	Alfred McAlpine Pension Plan £m	Public Sector £m	Railways Pension £m	Other Schemes £m	Total £m
	UK	Canada								
31 December 2011										
Equities	6.95	8.22	157.3	270.4	22.2	174.8	77.4	99.3	115.5	916.9
Government bonds	2.95	2.99	165.8	14.5	38.0	56.2	25.0	25.0	47.6	372.1
Corporate bonds	4.55	—	250.3	148.4	46.7	53.0	30.4	9.1	44.8	582.7
Other	0.50	2.30	3.2	3.8	2.1	2.3	0.8	8.0	6.0	26.2
Market value of scheme assets			576.6	437.1	109.0	286.3	133.6	141.4	213.9	1,897.9
Present value of funded scheme obligation			(599.9)	(561.1)	(125.8)	(353.4)	(160.2)	(150.3)	(244.6)	(2,195.3)
Present value of unfunded scheme obligation			—	—	—	—	—	—	(8.4)	(8.4) ⁽¹⁾
Total deficit			(23.3)	(124.0)	(16.8)	(67.1)	(26.6)	(8.9)	(39.1)	(305.8)
Related deferred tax asset										76.5
Net pension liability										(229.3)
31 December 2010										
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) ⁽¹⁾
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 the Senior Executive Retirement Plan and the Post-Retirement Benefit Plan held in Canada

Notes to the consolidated financial statements

continued

31. Retirement benefit obligations (continued)

Expense recognised in the income statement

	2011 £m	2010 £m
(Charge)/credit to operating profit		
Current service cost relating to defined benefit schemes	(6 6)	(7 1)
Curtailments	–	0 4
Total	(6 6)	(6 7)
Credit/(charge) to other financial income and expense		
Expected return on retirement plan assets	116 0	111 9
Interest cost on retirement plan obligations	(112 8)	(115 5)
Net financial income/(expense)	3 2	(3 6)
Total actuarial (losses)/gains recognised in the Statement of comprehensive income	(37 3)	(61 2)
Effects of changes in assumptions underlying the present value of scheme liabilities	(68 7)	75 8
Difference between actual and expected return on scheme assets	9 4	(2 7)
Movement in minimum funding requirement	–	–
Total actuarial (losses)/gains recognised in the Statement of comprehensive income	(96 6)	11 9

	2011 £m	2010 £m
Changes in defined benefit obligation		
Obligation at 1 January	(2,128 6)	(2,028 5)
Current service cost	(6 6)	(7 1)
Acquisition of Carillion Energy Services	(2 8)	–
Interest cost	(112 8)	(115 5)
Contributions from scheme members	(0 9)	(1 0)
Benefits paid	85 2	86 0
Curtailments	–	0 4
Actuarial losses	(37 3)	(61 2)
Effect of movements in foreign exchange rates	0 1	(1 7)
Obligation at 31 December	(2,203 7)	(2,128 6)

	2011 £m	2010 £m
Changes in the fair value of scheme assets		
Fair value at 1 January	1,888 6	1,741 4
Expected return on scheme assets	116 0	111 9
Acquisition of Carillion Energy Services	2 0	–
Contributions from the employer	44 3	43 2
Contributions from scheme members	0 9	1 0
Benefits paid	(85 2)	(86 0)
Actuarial (losses)/gains	(68 7)	75 8
Effect of movements in foreign exchange rates	–	1 3
Fair value at 31 December	1,897 9	1 888 6

The amount included in the balance sheet in respect of defined benefit schemes is as follows

	2011 £m	2010 £m
Present value of defined benefit obligation	(2,203 7)	(2,128 6)
Fair value of scheme assets	1,897 9	1 888 6
Minimum funding requirement	–	(9 4)
	(305 8)	(249 4)
Schemes in surplus (within non-current assets)	–	0 9
Schemes in deficit (within non-current liabilities)	(305 8)	(250 3)
	(305 8)	(249 4)

The actual return on plan assets was £47 3 million (2010: £187 7 million)

31 Retirement benefit obligations (continued)**History of experience gains and losses**

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligation	(2,203 7)	(2,128 6)	(2,028 5)	(1,683 6)	(1 591 3)
Fair value of scheme assets	1,897 9	1,888 6	1,741 4	1,594 5	1,567 0
Minimum funding requirement	–	(9 4)	(6 7)	(20 0)	(21 6)
Total deficit	(305 8)	(249 4)	(293 8)	(109 1)	(45 9)
Experience gains and losses on scheme obligation	(£m) (37 3)	(61 2)	(319 2)	309 2	47 2
Percentage of defined benefit obligation	(%) (1 7)	(2 9)	(15 7)	18 4	3 0
Difference between expected and actual returns on scheme assets	(£m) (68 7)	75 8	85 9	(416 6)	(15 0)
Percentage of scheme assets	(%) (3 6)	4 0	4 9	(26 1)	(1 0)

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group statement of comprehensive income is £321.2 million (2010 £224.6 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.

32 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 discount rate and 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
- salary and pensions increases

Details of the assumptions used are included in note 31.

Notes to the consolidated financial statements

continued

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 28)
- pledged assets securing finance lease liabilities (see note 10)
- contingent liabilities in respect of guarantees for deferred equity payments and performance contracts in PPP special purpose entities (see note 26)
- capital commitments for capital expenditure and equity and subordinated debt in PPP special purpose entities (see note 28)
- 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 a material impact on the financial position of the Group.

34 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 on page 103.

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 per cent owned (with equivalent voting rights) and jointly controlled entities and jointly controlled operations are 50 per cent owned. Shares of those undertakings marked with an asterisk are directly owned by Carillion plc.

34 Principal subsidiaries, jointly controlled entities and jointly controlled operations (continued)**Principal subsidiary undertakings**

Carillion (AMBS) Ltd
 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 Energy Services Ltd *
 Carillion Fleet Management Ltd *
 Carillion LGS Ltd *
 Carillion Private Finance Ltd *
 Carillion Services Ltd *
 Monteray Ltd 51%
 Postworth Ltd *
 Sovereign Hospital Services Ltd
 WarmSure Ltd

Principal jointly controlled entities**Public Private Partnerships**

Accommodation Services (Holdings) Ltd 20%
 CSS (FSCC) Partnership (Canada)
 Clinicenta (Hertfordshire) Ltd
 COE (CAMH) Limited Partnership (Canada)
 Eastbury Park (Holdings) Ltd
 Ellenbrook Holdings Ltd
 Holdfast Training Services Ltd 26%
 HIP (NOH) Limited Partnership (Canada) 40%
 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 Tameside (Holdings2) Ltd 80%
 Inspiredspaces Wolverhampton (Holdings1) Ltd 80%
 LCED (Sault) Limited Partnership 25% (Canada)
 Road Management Services (A13) Holdings Ltd 25%
 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%

Others

Al Futtaim Carillion LLC (UAE) 49%
 Carillion Alawi LLC (Oman) 49%
 CarillionEnterprise Ltd 50 1%
 Carillion Richardson Partnership
 Emrill Services LLC (UAE)* 33%
 Modern Housing Solutions (Prime) Ltd 67%
 Servus Ltd (Trinidad & Tobago)

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 JV 60%

A complete list of Group subsidiary undertakings will be attached to the Company's annual return to the Registrar of Companies

Nature of business

Facilities management
 Military accommodation at Aldershot and Salisbury Plain
 Facilities management
 Construction and infrastructure services
 Holding company for property development
 Construction and infrastructure services
 Renewable energy support services
 Supply and maintenance of vehicles
 Roads and ground maintenance and repair
 Holding company for PPP project companies
 Facilities management
 Property and facilities management services
 Supply of operatives to the construction industry
 Facilities management in the healthcare sector
 Energy efficiency services

Associated project

GCHQ, Cheltenham
 Forensic Services and Coroners' Complex, Toronto
 The Lister Surgicentre, Hertfordshire
 Centre for Addiction & Mental Health Toronto
 Permanent Joint Headquarters, Northwood
 University of Hertfordshire Student Accommodation
 Royal School of Military Engineering, Chatham
 New Oakville Hospital, Halton
 Durham Schools
 South Tyneside and Gateshead Schools (Jarrow)
 South Tyneside and Gateshead Schools (South Shields)
 Nottingham Schools
 Rochdale Schools
 Tameside Schools Phase 1
 Tameside Schools Phase 2
 Wolverhampton Schools
 Sault Area Hospital, Toronto
 A13, Thames Gateway
 Cleadon Park Primary Care Centre
 Royal Ottawa Hospital Canada
 William Osler Hospital, Canada
 Southmead Hospital, Bristol
 A55 North Wales
 Swarcliffe Social Housing Leeds

Nature of business

Building and civil engineering
 Building and civil engineering
 Ministry of Defence buildings
 Property Development
 Facilities management
 Ministry of Defence housing
 Facilities management

Company balance sheet

As at 31 December

	Note	2011 £m	2010 £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	3	1,563 6	1,253 0
Current assets			
Debtors	4	666 3	686 1
Cash at bank and in hand		10 2	11 6
		676 5	697 7
Creditors amounts falling due within one year	5		
Borrowing		(9 9)	(10 8)
Other creditors		(548 1)	(720 7)
		(558 0)	(731 5)
Net current assets/(liabilities)			
Due within one year		118 5	(33 9)
Debtors due after more than one year	4	–	0 1
		118 5	(33 8)
Total assets less current liabilities		1,682 1	1,219 2
Creditors amounts falling due after more than one year			
Borrowing	6	(488 8)	(191 0)
Net assets		1,193 3	1,028 2
Financed by			
Capital and reserves			
Issued share capital	7	215 1	199 8
Share premium	8	21 2	21 2
Merger reserve	8	618 7	516 3
Other reserve	8	6 7	2 0
Profit and loss account	8	331 6	288 9
Equity shareholders' funds	9	1,193 3	1,028 2

The financial statements were approved by the Board of Directors on 29 February 2012 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 and options 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 of the required disclosures as they 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) and UK employees are able to participate in the Sharesave scheme. Under the terms of the Group's bonus arrangements, Executive Directors and certain senior employees receive a proportion of their bonus in shares which are deferred for a period of up to two years

The fair value of shares for the LEAP, Sharesave and deferred bonus arrangements at the date of grant are estimated using the Black-Scholes pricing model. 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 the 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

The Company also operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The fair value of the free shares are recognised as an expense in the income statement over the vesting period of the shares

To the extent that share-based payment costs incurred by the Company are funded by the Eaga Partnership Trusts (EPT) through the waiver of its entitlement to Carillion plc dividends, the associated charges are treated in accordance with the Company's accounting policies

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 31 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 2011 of £113.2 million (2010: £88.6 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 10.7 pence (2010: 10.0 pence) per share was paid during the year, amounting to £43.0 million (2010: £39.9 million)

An interim dividend of 5.3 pence (2010: 4.8 pence) per share was paid during the year, amounting to £21.6 million (2010: £19.2 million)

A final dividend of 11.6 pence (2010: 10.7 pence) per share, amounting to £49.9 million (2010: £42.8 million), was approved by the Board on 29 February 2012 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 15 June 2012 to shareholders on the register on 18 May 2012

Notes to the Company financial statements

continued

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost			
At 1 January 2011	1,263 4	0 2	1,263 6
Additions	305 9	–	305 9
Share options granted to employees	4 7	–	4 7
At 31 December 2011	1,574 0	0 2	1,574 2
Impairment losses			
At 1 January 2011 and at 31 December 2011	10 6	–	10 6
Net book value			
At 31 December 2011	1,563 4	0 2	1,563 6
At 31 December 2010	1,252 8	0 2	1,253 0

Additions in the year of £305.9 million relates to the acquisition of Carillion Energy Services (formerly Eaga plc) on 21 April 2011 for a consideration of £298.4 million including £7.5 million of directly attributable costs relating to the acquisition contracts and due diligence procedures

The principal subsidiary undertakings and joint ventures of the Company are shown on page 103

4 Debtors

	2011 £m	2010 £m
Amounts falling due within one year		
Amounts owed by Group undertakings	651 4	673 2
Other debtors and prepayments	1 7	0 3
Amounts owed by joint ventures	0 7	–
Income tax	12 5	12 5
Amounts falling due within one year	666 3	686 0
Amounts falling due after more than one year		
Amounts owed by Group undertakings	–	0 1
Total debtors	666 3	686 1

5 Creditors amounts falling due within one year

	2011 £m	2010 £m
Bank overdrafts	1 9	2 8
Bank loans	7 9	7 8
Net obligations due under finance leases	0 1	0 2
Borrowing	9 9	10 8
Amounts owed to Group undertakings	526 9	699 1
Amounts owed to joint ventures	18 0	20 9
Other tax and social security costs	0 1	0 2
Derivative financial instruments	0 9	0 2
Accruals and deferred income	2 2	0 3
Total creditors	558 0	731 5

All bank overdrafts and loans are unsecured. Net obligations due under finance leases are secured on the assets to which they relate.

6 Creditors amounts falling due after more than one year

	2011 £m	2010 £m
Bank loans	388 5	190 6
Other loans	100 3	0 3
Net obligations due under finance leases	–	0 1
Total	488 8	191 0

All bank and other loans 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 109.

7 Share capital issued and fully paid

	2011		2010	
	Number million	£m	Number million	£m
At 1 January	399 7	199 8	397 3	198 6
New share capital issued	30 6	15 3	2 4	1 2
At 31 December	430 3	215 1	399 7	199 8

During the year 30,613 192 shares were issued in relation to the acquisition of Carillion Energy Services.

8 Reserves

	Share premium account £m	Merger reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 1 January 2011	21 2	516 3	2 0	288 9	828 4
Profit for the year	–	–	–	113 2	113 2
Share capital issued on acquisition of Carillion Energy Services	–	102 4	–	–	102 4
Acquisition of own shares	–	–	–	(6 9)	(6 9)
Equity-settled transactions (net of tax)	–	–	4 7	1 0	5 7
Dividends paid to shareholders	–	–	–	(64 6)	(64 6)
At 31 December 2011	21 2	618 7	6 7	331 6	978 2

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:

	2011 £m	2010 £m
At 1 January	(0 1)	(1 1)
Share options exercised by employees (exercise price)	–	3 7
Proceeds from exercise of share options	–	2 3
Share options exercised (transfer to retained earnings)	4 3	0 6
Acquisition of own shares	(4 4)	(5 6)
At 31 December	(0 2)	(0 1)

At 31 December 2011 the ESOP held 74 290 (2010: 38,302) of the Company's shares and had a market value of £0 2 million (2010: £0 1 million). During the year the Company acquired 1 2 million of its own shares for £4 4 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'). At 31 December 2011 the total number of shares held by the QUEST amounted to 129 979 (2010: 129,979) and had a market value of £0 4 million (2010: £0 5 million). The QUEST has elected to waive all dividends in excess of 0 01 pence per share.

During the year the Company also acquired 0 7 million of its own shares for £2 5 million to facilitate an award under the Carillion Energy Services Share Incentive Plan (SIP).

Notes to the Company financial statements

continued

9 Reconciliation of movement in shareholders' funds

	2011 £m	2010 £m
Profit for the year	113.2	88.6
New share capital issued	117.7	5.6
Equity-settled transactions (net of tax)	5.7	(4.1)
Share options exercised by employees	—	3.7
Acquisition of own shares	(6.9)	(5.6)
Dividends paid to shareholders	(64.6)	(59.1)
Net addition to shareholders' funds	165.1	29.1
Shareholders' funds at 1 January	1,028.2	999.1
Shareholders' funds at 31 December	1,193.3	1,028.2

10 Other guarantees and contingent liabilities

	2011 £m	2010 £m
Guarantees in respect of borrowings of subsidiaries	0.3	2.8
Guarantees in respect of interest payments in Construction services (excluding the Middle East) jointly controlled entities	0.2	1.1
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP special purpose entities	100.9	77.0
Guarantees in respect of letters of credit issued by banks in relation to performance on contracts for PPP customers	91.7	66.6

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, in the normal course of business, been given to financial institutions in respect of the provision of performance and other contract related bonds and to certain defined benefit pension schemes in respect of deficit recovery payments. The Company considers such guarantees and counter indemnities to be insurance arrangements and accounts for them as such. The Company treats guarantees and counter indemnities of this nature as contingent liabilities until such time as it becomes probable that the Company will be required to make a payment under the terms of the arrangement.

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 31 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 shares in the Company. Details of the Group's share option programme are disclosed in note 25 to the consolidated financial statements and in the Remuneration Report on page 52.

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

	2011		2010	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts and options	—	(0.9)	—	(0.2)

Foreign currency exposure

The carrying amount of the Company's borrowing denominated in foreign currency is as follows:

	2011 £m	2010 £m
United States of America Dollars	(16.3)	(17.6)
Canadian Dollars	(62.3)	(41.7)
United Arab Emirates Dirhams	(7.9)	(7.9)
Other	(1.8)	(1.1)
	(88.3)	(68.3)

Of the total foreign currency borrowing of £88.3 million (2010: £68.3 million) the amount of borrowing used for hedging currency net assets of overseas operations of the Group amounts to £86.4 million (2010: £65.4 million). The foreign exchange gain of £0.1 million (2010: £3.8 million loss) 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 2011 these are shown below

	2011		2010	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Finance lease obligations	(0.1)	(0.1)	(0.3)	(0.3)

Maturity of financial liabilities

The maturity profile of the Company's non-current borrowing, which includes estimated future interest payments, is as follows

	Bank overdrafts £m	Bank loans £m	Finance leases £m	Other loans £m	Total £m
31 December 2011					
Between one and two years	-	8.8	-	4.7	13.5
Between two and three years	-	8.8	-	4.7	13.5
Between three and four years	-	8.8	-	4.7	13.5
Between four and five years	-	390.7	-	4.7	395.4
More than five years	-	-	-	116.0	116.0
More than one year	-	417.1	-	134.8	551.9
Less than one year	1.9	16.7	0.1	4.7	23.4
	1.9	433.8	0.1	139.5	575.3
31 December 2010					
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

Borrowing facilities

The Company had the following undrawn committed borrowing facility available at the year end in respect of which all conditions precedent had been met

	2011 £m	2010 £m
Expiring within one year	7.1	7.2
Expiring between one and two years	-	449.3
Expiring between two and five years	349.0	-
	356.1	456.5

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 wholly owned subsidiaries within the Carillion Group

Shareholder information

Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2011 will be payable on 15 June 2012 to those shareholders on the register on 18 May 2012.

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 2012 announced August 2012

Full year to 31 December 2012 announced February 2013

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.

Warning to Shareholders – Boiler Room Scam

Carillion is aware that shareholders have received unsolicited telephone calls from fraudulent organisations offering to buy Carillion plc shares at a substantial premium to the prevailing market price. These calls are usually from overseas organisations targeting UK shareholders. These operations are commonly known as 'boiler room scams' and the 'brokers' who call shareholders can be extremely persuasive and persistent.

Boiler room scams usually come out of the blue, with most fraudsters cold-calling investors after taking their details from publicly available shareholder lists, but the high-pressure sales tactics can also come by other means such as email or post. The scam is designed to sound attractive, but typically at some point in the process the perpetrator usually asks for money in advance of concluding the main transaction, for example by way of a pre-payment or vendor bond. The transaction is never concluded, and the shareholder loses the money.

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. 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 111.

Shareview (Electronic Communications)

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 and following a simple registration process.

Electronic Proxy Appointments

For the AGM to be held on 2 May 2012, you may, if you wish, register the appointment of a proxy electronically by logging on to the website 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 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 or from Equiniti.

If you receive an unsolicited investment approach you should:

- > confirm the correct names of the person calling and the organisation they represent,
- > check that they are an authorised firm with the Financial Services Authority (FSA) by calling 0845 606 1234 or by visiting www.fsa.gov.uk/register/ and contact the firm using the details on the register,
- > report the matter to the FSA by calling 0845 606 1234 or by visiting www.fsa.gov.uk/pages/consumerinformation
- > if the calls persist, hang up.

Please be aware that fraudsters will often use the name of a legitimate organisation or organisations, sometimes in combination with others so that the organisation may sound familiar to you. They may have also created a scam website, so simply checking that an organisation appears to have a presence on the web is not a guarantee that you are dealing with a legitimate organisation.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. Further information on this or similar activity can be found on the FSA website www.moneymade.clear.fsa.gov.uk.

Board of Directors and Advisers

Non-Executive Directors

Philip Rogerson (Chairman)^{(3) (4)}
 Philip Green (Senior Independent Non-Executive Director)^{(1) (2) (3)}
 Andrew Dougal^{(1) (2) (3)}
 Steve Mogford^{(1) (2) (3) (4)}
 Vanda Murray^{(1) (2) (3) (4)}

Executive Directors

Richard Howson (Group Chief Executive)⁽³⁾
 Richard Adam (Group Finance Director)

(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
 150 Cheapside
 London
 EC2V 6ET

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

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Five Year Review

Group income statement		2011 £m	2010 £m	2009 ⁽¹⁾ £m	2008 ⁽¹⁾ £m	2007 ⁽¹⁾ £m
Total revenue		5,051.2	5,139.0	5,629.3	5,457.2	4,162.9
Analysed between						
Support services		2,345.2	2,108.6	2,389.5	2,463.5	1,793.6
Public Private Partnership projects		309.8	311.9	418.4	429.8	365.3
Middle East construction services		548.9	493.0	553.6	464.2	337.0
Construction services (excluding the Middle East)		1,847.3	2,225.5	2,267.8	2,099.7	1,667.0
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)/income and taxation		238.2	213.5	215.8	194.9	120.8
Analysed between						
Support services		120.8	110.4	117.7	113.5	73.9
Public Private Partnership projects		19.9	23.4	30.7	30.6	26.1
Middle East construction services		49.1	47.5	47.0	34.5	25.4
Construction services (excluding the Middle East)		57.9	41.2	30.9	28.7	16.0
Group eliminations and unallocated items		(9.5)	(9.0)	(10.5)	(12.4)	(20.6)
Share of jointly controlled entities' net financial expense		(18.8)	(13.9)	(21.8)	(14.7)	(12.0)
Share of jointly controlled entities' taxation		(3.5)	(4.7)	(3.9)	(11.9)	(8.6)
Underlying operating profit before intangible amortisation, impairment of goodwill and other investments, and non-recurring operating items		215.9	194.9	190.1	168.3	100.2
Group net financial (expense)/income		(3.9)	(6.8)	(14.6)	(7.7)	0.6
Underlying profit before tax		212.0	188.1	175.5	160.6	100.8
Intangible amortisation and impairment of goodwill and other investments		(31.0)	(27.6)	(30.8)	(54.5)	(21.5)
Non-recurring operating items		(42.8)	(9.4)	(15.2)	(22.7)	(14.2)
Non-operating items		4.6	16.8	6.4	34.9	28.3
Profit before taxation		142.8	167.9	135.9	118.3	93.4
Taxation		(4.8)	(15.1)	(11.5)	(4.1)	(8.3)
Profit from continuing operations		138.0	152.8	124.4	114.2	85.1
Discontinued operations		-	-	-	-	(7.6)
Analysed between						
Trading loss from discontinued operations		-	-	-	-	(1.4)
Loss on disposal of discontinued operations		-	-	-	-	(6.2)
Profit for the year		138.0	152.8	124.4	114.2	77.5
Group financial statistics						
Underlying operating profit margin						
Support services	Percentage	5.2	5.2	4.9	4.6	4.1
Middle East construction services	Percentage	8.9	9.6	8.5	7.4	7.5
Construction services (excluding the Middle East)	Percentage	3.1	1.9	1.4	1.4	1.0
Underlying operating profit margin						
Total Group before share of jointly controlled entities' net financial (expense)/income and taxation	Percentage	4.7	4.2	3.8	3.6	2.9
Underlying profit from operations margin						
Total Group	Percentage	4.3	3.8	3.4	3.1	2.4

Five Year Review

continued

Group balance sheet	2011 £m	2010 £m	2009 ⁽¹⁾ £m	2008 ⁽¹⁾ £m	2007 ⁽¹⁾ £m
Property, plant and equipment	134 2	157 2	168 2	167 2	131 5
Intangible assets	1,547 6	1 221 2	1 241 3	1 276 9	555 8
Investments	210 9	176 7	172 0	242 8	188 8
	1,892 7	1 555 1	1 581 5	1 686 9	876 1
Inventories, receivables and payables	(607 4)	(613 8)	(608 0)	(490 4)	(286 5)
Net retirement benefit liability (net of deferred tax)	(229 3)	(182 1)	(211 1)	(76 2)	(29 4)
Other net liabilities	(22 8)	(14 2)	(15 2)	(21 8)	(25 1)
Net operating assets	1,033 2	745 0	747 2	1 098 5	535 1
Net (borrowing)/cash	(50 7)	120 2	24 9	(226 7)	(44 9)
Net assets	982 5	865 2	772 1	871 8	490 2

Group cash flow statement

Underlying Group operating profit	167 2	148 9	130 9	120 1	64 4
Depreciation and other non-cash items	32 1	32 0	38 8	19 2	15 9
Working capital	(8 6)	1 2	59 9	34 0	31 7
Dividends received from joint ventures	39 6	48 1	38 6	25 0	23 7
Underlying cash flow from operations	230 3	230 2	268 2	198 3	135 7
Deficit pension contributions	(36 2)	(35 2)	(29 0)	(50 5)	(46 3)
Rationalisation costs	(34 4)	(15 6)	(17 1)	(32 4)	(6 5)
Interest, tax and dividends	(77 1)	(65 9)	(63 2)	(62 2)	(30 4)
Net capital income/(expenditure)	4 6	(15 3)	(47 3)	(26 4)	4 4
Acquisitions and disposals	(251 4)	2 7	142 7	(227 0)	9 6
Other (including discontinued operations)	(6 7)	(5 6)	(2 7)	18 4	(3 4)
Change in net liquidity	(170 9)	95 3	251 6	(181 8)	63 1
Net cash/(borrowing) at 1 January	120 2	24 9	(226 7)	(44 9)	(108 0)
Net (borrowing)/cash at 31 December	(50 7)	120 2	24 9	(226 7)	(44 9)

Group financial statistics

Earnings per share

Underlying earnings per share – continuing operations	Pence	43 0	39 4	37 3	35 1	28 5
Underlying earnings per share – continuing and discontinued operations	Pence	43 0	39 4	37 3	35 1	25 8
Basic earnings per share – continuing and discontinued operations	Pence	32 0	36 9	30 5	29 0	26 7

Dividends

Proposed full year dividend per share	Pence	16 9	15 5	14 6	13 0	11 0
Underlying proposed dividend cover – continuing operations	Times	2 5	2 5	2 6	2 7	2 6
Basic proposed dividend cover – continuing and discontinued operations	Times	1 9	2 4	2 1	2 2	2 4

(1) Prior year information was restated in 2010 following the adoption of International Financial Reporting Interpretations Committee (IFRIC) 12 Service concession arrangements on 1 January 2010

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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



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