



Registration number:
3782379

MAKING TOMORROW A BETTER PLACE

A leading support
services company

Support
services

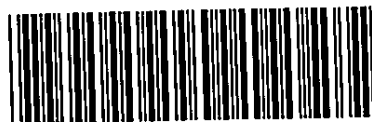
Public Private
Partnership
projects

Annual
Report and
Accounts
2009

Middle East
construction
services

Construction
services
(excluding the
Middle East)

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COMPANIES HOUSE

A strong and resilient business mix

Support services

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

Underlying
operating profit
£117.7m
+4%

Order book
£11.1bn

£m	2009	2008
Total revenue	2,389 5	2,463 5
Total underlying operating profit ⁽¹⁾	117 7	113 5
Total reported operating profit	90 6	64 5

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

Underlying
operating profit
£47.0m
+36%

Order book
£0.7bn

£m	2009	2008
Total revenue	553 6	464 2
Total underlying operating profit ⁽¹⁾	47 0	34 5
Total reported operating profit	47 0	34 5

Top – In 2009 a Carillion-led Joint Venture won a £1.0 billion, 7-year contract to provide asset management and maintenance services for Openreach, BT's local access network business
Bottom – In 2009 Al Futtaim Carillion completed the £350 million Yas Hotel which forms the centre piece of Abu Dhabi's new Formula 1 Grand Prix Circuit, which hosted its first Formula 1 race in November 2009

(1) Before intangible amortisation, impairment of other investments and non-recurring operating items

Public Private Partnership projects

In this segment we report the equity returns from our investments in Public Private Partnership projects

Underlying
operating profit
£32.2m
+8%

Order book
£2.4bn

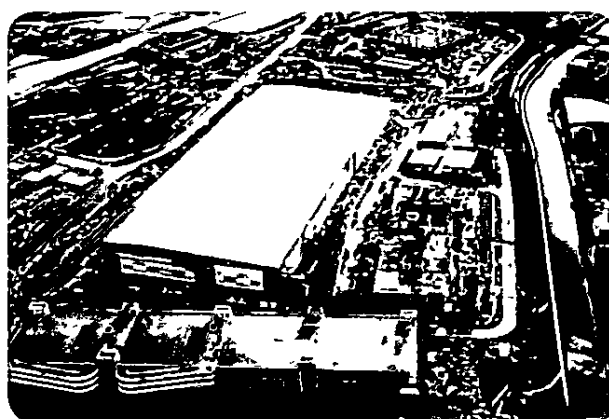
£m	2009	2008
Total revenue	215.6	178.4
Total underlying operating profit ⁽¹⁾	32.2	29.8
Total reported operating profit	32.2	17.7

Construction services (excluding the Middle East)

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

Underlying
operating profit
£30.9m
+8%

Order book
£3.5bn



£m	2009	2008
Total revenue	2,267.8	2,099.7
Total underlying operating profit ⁽¹⁾	30.9	28.7
Total reported operating profit/(loss)	12.9	(3.7)

Top – In 2009, a Carillion Joint Venture was awarded a 30-year concession contract to finance, design, build and maintain the Centre for Addiction and Mental Health in Toronto, Canada, including £157 million of construction and life-cycle maintenance services.
Bottom – Carillion is building the £340 million Media Centre for the 2012 London Olympic Games that will be home to around 20,000 broadcasters, journalists and photographers during the Games.

Carillion is a leading support services company, delivering integrated solutions for buildings, infrastructure and services.

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Another year of strong earnings growth, +14%⁽²⁾

Financial highlights

Total revenue
2008 £5.2bn +4%

£5.4bn

Net cash/(borrowing)
2008 £(226.7m)

£24.9m

Underlying profit before tax⁽¹⁾
2008 £157.5m +16%

£182.2m

Underlying earnings per share⁽²⁾
2008 34.3p +14%

39.0p

Reported profit before tax
2008 £115.9m +27%

£147.7m

Reported earnings per share
2008 28.4p +18%

33.4p

Total dividend
2008 13.0p +12%

14.6p

Order book
2008 £20.4bn -13%

£17.7bn

Operational highlights

- > **Underlying earnings per share up 14% and dividend up 12%** – continues strong compound annual growth rates in underlying earnings and dividend over last five years of 15% and 14%, respectively
- > **Improved total Group operating margin of 4.0% (2008 3.7%)** – support services operating margin increased to 4.9% (2008 4.6%) with support services making the largest contribution to total underlying operating profit of 52%
- > **Strong balance sheet and cash flow** – cash flow from operations of £268.2 million (2008 £198.3 million) with net cash of £24.9 million (31 December 2008 net borrowing £226.7 million)
- > **Disposed of two non-core businesses, external IT services and Enviros, and outsourced internal IT services** – generating cash proceeds of £102.4 million
- > **Equity investments in Public Private Partnership (PPP) projects continue to generate substantial value** – the sale of four investments in 2009 generated proceeds of £100.7 million
- > **Middle East construction services continued to perform strongly** – contributed 21% of total underlying operating profit at an improved operating margin of 8.5% (2008 7.4%) following successful expansion into Abu Dhabi and a strong performance in Oman
- > **Construction services (excluding the Middle East) performed satisfactorily** – contributed 13% of total underlying operating profit at a stable margin of 1.4%
- > **Stable high-quality order book of some £17.7 billion (2008 £20.4 billion)** – movement in order book due to PPP equity sales and non-core business disposals, excellent pipeline of probable orders and contract opportunities

Total revenue
by business segment

£5.4bn
+4%⁽⁴⁾

Underlying operating profit⁽³⁾
by business segment

£227.8m
+10%⁽⁴⁾

Reported operating profit
by business segment

£182.7m
+62%⁽⁴⁾

Support services
■ **£2,389.5m** (2008 £2,463.5m)

Public Private Partnership projects
■ **£215.6m** (2008 £178.4m)

Middle East construction services
■ **£553.6m** (2008 £464.2m)

Construction services (excluding the Middle East)
■ **£2,267.8m** (2008 £2,099.7m)

Support services
■ **£117.7m** (2008 £113.5m)

Public Private Partnership projects
■ **£32.2m** (2008 £29.8m)

Middle East construction services
■ **£47.0m** (2008 £34.5m)

Construction services (excluding the Middle East)
■ **£30.9m** (2008 £28.7m)

Support services
■ **£90.6m** (2008 £64.5m)

Public Private Partnership projects
■ **£32.2m** (2008 £17.7m)

Middle East construction services
■ **£47.0m** (2008 £34.5m)

Construction services (excluding the Middle East)
■ **£12.9m** (2008 £(3.7)m)

(1) After Joint Ventures taxation of £6.5 million (2008 £10.7 million) and before intangible amortisation impairment of other investments non recurring operating items and non-operating items

(2) Before intangible amortisation impairment of other investments non recurring operating items and non-operating items

(3) Before Group eliminations and unallocated items of £10.5 million (2008 £12.4 million) share of jointly controlled entities net financial expense and taxation and non recurring operating items

(4) Growth on 2008

Our operations

Carillion has annual revenue of over £5 billion, employs around 50,000 people and operates across the UK, in the Middle East and North Africa, Canada and the Caribbean.

UK

Operations

Support services
Public Private Partnership projects
Construction services

Underlying operating profit



Middle East
construction services
£47.0m⁽¹⁾

Revenue

£4,320.9m⁽²⁾

2009
80%
of total revenue

Market sectors

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

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

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

Middle East and North Africa

Operations

Support services
Construction services

Canada and the Caribbean

Operations

Support services
Public Private Partnership projects
Construction services

Revenue

£564.4m

2009
10%
of total revenue

Market sectors

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

Revenue

£541.2m

2009
10%
of total revenue

Market sectors

- > We have operated in Canada and the Caribbean for over 40 years, delivering a wide range of construction services for public and private sector customers
- > An increasing proportion of our construction and support services work in Canada notably in Ontario 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

Support services

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

Underlying
operating profit
£117.7m

Having the ability to combine these services and use leading-edge technology to provide customers with fully integrated, nationwide solutions is a key strength that helps to differentiate Carillion from many of our competitors

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

① Facilities management

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

② Government services

In the UK, we are a major supplier of integrated facilities management services to central and local government departments. For example,

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

we are the leading supplier to Defence Estates and to acute NHS hospitals. We also provide facilities management services for the HM Revenue and Customs estate and we have a growing presence in the education sector, as a leading supplier to the Building Schools for the Future programme. In Canada, we have a growing business, driven by our success in winning Public Private Partnership projects, especially in the health sector, for which we provide facilities management services.

② Planned Maintenance

Carillion Planned Maintenance is one of the top three suppliers of mechanical and electrical engineering (M&E) services in the UK. As well as providing

M&E services direct to its own extensive customer base, Planned Maintenance plays a key role in supporting our facilities management and government services businesses, because M&E services form a substantial part of the integrated facilities management contracts we have for public and private sector customers. These include Public Private Partnership projects, such as the UK Government Communications Headquarters, for which Planned Maintenance delivers M&E maintenance services.

④ Infrastructure services

We have long-term asset management and maintenance contracts for roads, railways and public utility services networks. In the UK, we are a leading supplier to the Highways Agency, providing integrated

management and maintenance services for motorways and trunk roads and we provide similar services for a number of Local Highway Authorities. In Canada, we have market-leading positions in the Ontario and Alberta road maintenance markets. In the rail sector, our main customers are Network Rail and Transport for London, for whom we recently secured a seven-year contract to maintain the East London Line. We also provide a wide range of support services to the telecommunications, water, gas and electricity supply industries. We significantly strengthened our position in the

telecommunications sector in 2009, when a Carillion-led Joint Venture secured a £1.0 billion, seven-year contract to provide nationwide asset management and maintenance services for Openreach, BT's local access network business.

⑤ Consulting

Our consultancy business provides engineering and architectural design and project management services. This business has a high-quality customer base and a strong track record on high-profile projects, such as Heathrow Terminal 5. Our consultancy business uses its specialist capabilities to support other Carillion businesses by providing the design services they need in order to deliver integrated solutions for buildings and infrastructure, notably Public Private Partnership projects.

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Support Services

- ① BT Tower, London
- ② Great Western Hospital, Swindon
- ③ Government Communications Headquarters, Cheltenham
- ④ Management and maintenance services for Openreach
- ⑤ London Heathrow, Terminal 5

Public Private Partnership projects

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

Underlying
operating profit
£32.2m⁽¹⁾

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

Once the construction phase is complete and the project has moved successfully into the operational phase, we have the option of selling our equity investments and reinvesting the proceeds in new projects. To date we have sold investments in 28 projects, generating proceeds of some £280 million and a pre-tax profit of £106 million.

● UK – education

Carillion has a strong track record in the education sector. We have delivered, or are in the process of delivering, over 140 new schools, most of which form part of the UK Government's £65 billion Building Schools for the Future (BSF) programme, which is being partly funded by private finance. We are one of the leading suppliers to the national BSF programme, having been awarded contracts for BSF programmes in Durham, Gateshead, Nottingham, Rochdale, South Tyneside and Tameside. The BSF programme also encompasses the delivery of the Academy schools programme for which Carillion has been selected by the UK Government as a framework supplier.

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

2 UK – health

As a leader in the development of PPP projects since their inception in the early 1990s, we delivered the UK's first PPP hospital in 1997, the Darent Valley Hospital, in Kent. Since then, we have maintained a leading position in the health sector of the UK PPP market. To date, we have secured contracts for 20 PPP hospitals and other healthcare facilities, of which 15 are in the UK. We have sold our equity investments in eight hospital projects, but continue to provide facilities management services for these hospitals. The construction phase of the new Queen Alexandra Hospital in Portsmouth will be completed in 2010 and Carillion is already providing facilities management services for both the old and new hospitals, as part of the 35-year concession contract.

3 UK – 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 with a six-year construction phase to rebuild Army accommodation across the South of England. Carillion is also providing facilities management services for the old estate as well as for the new accommodation being built to replace it. The other two projects are the Permanent Joint Headquarters, Northwood, construction of which is nearing completion and for which our facilities management contract is already fully operational, and the Royal School of Military Engineering, based at Bicester, Chatham and Minley, on which construction is due for completion in 2015.

4 UK – secure and other Government accommodation

Carillion delivered the first PPP prison in the UK, namely HM Prison Altcourse in Liverpool in 1997, and subsequently three

further prisons and secure training centres. We have sold our equity investments in all these projects, but continue to be well placed to deliver prisons under any future PPP investment programmes. Carillion also built the landmark Government Communications Headquarters at Cheltenham, one of the largest, technically complex and secure accommodation projects to be delivered under the PPP programme in the UK to date.

5 UK – roads

Carillion delivered one of the first privately financed road projects in the UK, namely the widening of 12 kilometres of the M40 between its junction with the M25 and Loudwater, which was completed in 1998. The 30-year PPP concession contract for this project also includes the management and maintenance

by Carillion of around 123 km of the M40, between the M25 and Warwick. In total, Carillion has built six PPP road projects, for which it continues to provide long-term maintenance services, and sold its equity investments in three of these, including the M40 widening project.

6 Canada – health

The UK PPP procurement model has been adopted in Canada where our well-established business is a leader in this market, especially in the health sector. Carillion delivered two of the first PPP hospitals in Canada, the Royal Ottawa and the new William Osler Hospital in Ontario, for which Carillion also has long-term facilities management contracts. Currently we have three further hospital projects under construction in Ontario, the Sault Area Hospital, the Royal Victoria Hospital in Barrie and the Centre for Addiction and Mental Health in Toronto.

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Public Private Partnership projects

- 1 Bigwood School Nottingham
- 2 Queen Alexandra Hospital Portsmouth
- 3 The Allenby Connaught project Salisbury Plain and Aldershot
- 4 Government Communications Headquarters Cheltenham
- 5 M40 motorway PPP project Buckinghamshire
- 6 Centre for Addiction and Mental Health Toronto Canada

Middle East construction services

We have nearly 40 years experience in the Middle East, during which time our businesses in the region have built an outstanding reputation for quality and reliability, having delivered some of the region's most prestigious buildings and infrastructure projects.

Underlying
operating profit
£47.0m⁽¹⁾

The growth we have achieved over the last two years, during which time revenue and underlying operating profit have increased by 64% and 85%, respectively, has been driven by our strategy of building strong relationships with a small number of selected, financially robust customers with long-term investment programmes, for whom quality and value for money are paramount

Geographical diversification, notably the extension of our operations into Abu Dhabi in 2008, has enabled us to continue to deliver substantial revenue and profit growth in the region despite the downturn in Dubai

● Abu Dhabi

We extended the operations of Al Futtaim Carillion to Abu Dhabi at the beginning of 2008. Since then, our business in Abu Dhabi has grown substantially, contributing 55 per cent of our total Middle East construction services revenue in 2009. Our first project in Abu Dhabi was the prestigious 500-bedroom Yas Hotel for Abu Dhabi's largest developer, ALDAR. This stunning hotel forms the centre piece of Abu Dhabi's new

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

Formula 1 Grand Prix circuit, which hosted its first F1 race in November 2009. Currently, we are building three more major projects in Abu Dhabi, the Al Muneera development for ALDAR, infrastructure for a new aluminium smelter for EMAL and a new headquarters for the Abu Dhabi Investment Council.

2 Oman

Our business in Oman, Carillion Alawi, has a long history of delivering high-profile projects to exacting standards, including the Guest Palace Qas'r Al Alam, the Grand Mosque and, currently, the Royal Opera House, which is due for completion in 2010. In 2009, we continued to grow our business in Oman, which contributes around 23 per cent of our Middle East construction services revenue, and won further major and prestigious projects, including the Majlis, a new parliament building, the National Museum and the Muscat Court Complex.

3 Dubai

In Dubai, Al Futtaim Carillion also has an outstanding track record for delivering high quality projects, including Dubai Festival City, Motor City, the infrastructure works for world-renowned Burj Dubai Development and infrastructure works for Dubai Aluminium. Although our activity levels in Dubai have reduced significantly over the last 12 months, from 55 per cent of our Middle East construction services revenue in 2008 to 20 per cent in 2009, we expect our markets to stabilise in 2010 and to use our market leading reputation to continue to win high-quality projects selectively, for financially robust customers.

4 Egypt

Al Futtaim Carillion extended its operations to Egypt to build the £2 billion Cairo Festival City development for our Joint Venture partner, Al Futtaim. In 2009, this project contributed some two per cent of our Middle East construction services revenue, but we expect activity levels on the project to increase in 2010 as further phases of the Cairo Festival City development are scheduled to start during the year.

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Middle East construction services

- 1 Yas Hotel, Abu Dhabi
- 2 Royal Opera House, Oman
- 3 Dubai Festival City
- 4 Cairo Festival City

Construction services (excluding the Middle East)

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
£30.9m⁽¹⁾

As well as creating value in its own right, a strong construction capability plays a key role in driving growth in Public Private Partnership (PPP) projects and in support services. It is fundamental to our ability to provide customers with the services they require, not only to create, but also to manage and operate buildings and infrastructure.

Having the capabilities to offer design and construction services gives us a competitive advantage when it comes to 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 PPP projects.

1 UK building – education

Our construction capability has played a key role in establishing the strong positions we have in our chosen sectors of the UK PPP market. For example, Carillion is a leading supplier to the UK Government's £65 billion Building Schools for the Future programme, significant parts of which are being procured through PPP projects. Combining our design and construction capabilities with our private finance and support services skills, has already secured contracts for over 140 schools and academies where we are creating state-of-the-art learning environments.

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

② UK building – health

Our design and construction capabilities are also fundamental to our success in the health sector of the PPP market. Carillion has won contracts for 20 PPP hospitals and other healthcare facilities, of which 15 are in the UK – including the UK's first PPP hospital, the Darent Valley Hospital in Kent – and five are in Canada. In December 2009, we were selected as the preferred bidder for the new Southmead Hospital in Bristol, on which we have since achieved financial close, with building work on the main hospital scheduled to begin in spring 2010.

③ UK building – defence

Having a strong construction capability is also enhancing the development of our support services business in the defence sector. For example, our Public Private Partnership projects, such as Allenby Connaught, where we are rebuilding Army accommodation across the South of England, and the Permanent Joint Headquarters project in North London, both include long-term support services contracts. Being the leading supplier of facilities management and maintenance services for Defence Estates, also creates opportunities for our construction business. For example, at Catterick Garrison, one of many Ministry of Defence locations where we provide facilities management and maintenance services, we have carried out extensive building work, including a new leisure and sports centre.

④ UK infrastructure

Our largest sectors of the UK infrastructure market are roads and railways. Current major contracts include upgrading the A1 in Yorkshire to motorway standards and upgrading the Airdrie to Bathgate rail link, which forms part of a programme to improve rail links in central Scotland. Our construction capabilities in these sectors are also key to our success in winning and delivering PPP road and rail projects, long-term maintenance contracts for roads and railways and contracts for the new 'managed motorways' programme. This programme involves the installation and operation of mandatory speed limits, together with hard-shoulder running, to improve traffic flow during peak periods, which requires both construction and support services skills.

⑤ Canada and the Caribbean building

In Canada and the Caribbean, where our businesses were established over 40 years ago, we have strong construction capabilities both for buildings and infrastructure. In Canada, PPP construction is growing strongly. Having delivered two of the first PPP hospitals to be built in Canada, we have since won a further three major PPP hospital projects, which are now under construction. In December 2009, we were awarded one of our largest ever contracts in Canada to extend and refurbish Toronto's Union Station, reflecting the reputation we have for delivering major high-quality projects.

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Construction services (excluding the Middle East)

- ① Mortimer College South Shields
- ② Southmead Hospital Bristol
- ③ Catterick Garrison, Yorkshire
- ④ A1 trunk road upgrade Yorkshire
- ⑤ Royal Ottawa Hospital Canada

Chairman's statement

I am delighted to report that Carillion achieved its objective of delivering materially enhanced earnings in 2009, despite challenging market conditions.

This strong performance reflects the resilience of the Group's business mix, the strength of the management team and the skills and commitment of Carillion's people. On behalf of the Board, I should like to thank all our employees for the contribution they have made to Carillion's success in 2009.

In line with the Group's strategy, support services continues to make the largest contribution to earnings. This was supported by a good performance in Public Private Partnership (PPP) projects, which more than offset the expected decline in UK construction revenue, and substantial growth in Middle East and Canada construction services.

By the year end, cost savings from integrating the Carillion and Alfred McAlpine businesses had reached a run rate of £50 million per annum, in line with our expectations, and this made a significant contribution to margin and earnings growth.

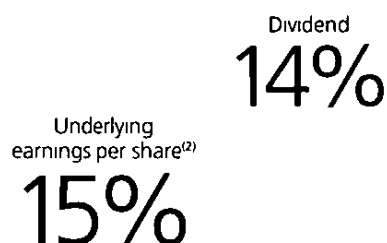
Revenue including joint ventures increased by four per cent to £5.4 billion (2008: £5.2 billion) and underlying profit before tax⁽¹⁾ increased by 16 per cent to £182.2 million (2008: £157.5 million). Underlying earnings per share⁽²⁾ increased by 14 per cent to 39.0 pence (2008: 34.3 pence).

The Group's profit was again strongly cash-backed, with underlying cash flow from operations of £268.2 million (2008: £198.3 million) substantially ahead of underlying profit from operations of £196.8 million (2008: £165.2 million). This, together with proceeds from the sale of equity investments in PPP projects and from the disposal of non-core businesses, has enabled the Group to achieve a net cash position of £24.9 million at 31 December 2009 (2008: net borrowing of £226.7 million).

The Group continues to have a substantial high-quality forward order book that was worth approximately £17.7 billion at the year end (2008: £20.4 billion), with the reduction since December 2008 primarily due to the sale of equity in PPP projects and the disposal of non-core businesses. Beyond that we have a strong pipeline of probable orders and contract opportunities, particularly in support services where we have our largest ever pipeline.

Philip Rogerson
Chairman

Compound annual growth rates 2005-2009



(1) After Joint Ventures taxation of £6.5 million (2008: £10.7 million) and before intangible amortisation, impairment of other investments, non-recurring operating items and non-operating items.

(2) Before intangible amortisation, impairment of other investments, non-recurring operating items and non-operating items.

In view of the Group's performance in 2009 and prospects for 2010, the Board is recommending a final ordinary dividend for 2009 of 10.0 pence per share, making the total dividend for 2009 14.6 pence per share, an increase of 12 per cent on the total paid in respect of 2008 (13.0 pence)

In December 2009, the executive responsibilities for the Group's UK Building, Private Finance and Middle East businesses were combined to streamline Board responsibilities and reflect the strategic development and needs of these businesses, which share common skill sets. Richard Howson who has been Managing Director of the Middle East businesses since July 2007, was appointed to the Board on 10 December 2009 as the Executive Director responsible for those businesses and for our UK Building and Private Finance businesses. Richard brings to the Board considerable knowledge and experience that will enable him to make a significant contribution to the Group's future development.

David Hurcomb, the Executive Director responsible for UK Building and Private Finance, decided to step down from the Board on 8 December 2009. David left the Group with the Board's best wishes and grateful thanks for the contribution he has made to Carillion and to the development of our UK Building business in particular.

In view of the wider economic environment we continue to expect market conditions to remain challenging in 2010. However, our performance has demonstrated that the Group has a resilient business mix, including strong international businesses, a substantial high-quality order book, a good pipeline of contract opportunities, good cash flow and a strong balance sheet. Consequently, the Group continues to be well positioned and the Board believes that it will make further progress in 2010.

Philip Rogerson
Chairman
3 March 2010

Total revenue
£m

+4%⁽¹⁾

Dividend per share
p

+12%⁽¹⁾

Underlying earnings per share⁽²⁾
p

+14%⁽¹⁾

Reported earnings per share
p

+18%⁽¹⁾

Underlying profit before tax⁽³⁾
£m

+16%⁽¹⁾

Reported profit before tax
£m

+27%⁽¹⁾

(1) Growth on 2008

(2) Before intangible amortisation, impairment of other investments, non-recurring operating items and non-operating items

(3) After Joint Ventures taxation of £6.5 million (2008: £10.7 million) and before intangible amortisation, impairment of other investments, non-recurring operating items and non-operating items

Group Chief Executive's review

A seventh successive year of substantial growth in earnings per share and dividend is an outstanding achievement, especially in the current economic climate, which has made market conditions very challenging

John McDonough
Group Chief Executive

Our ability to perform strongly in current market conditions reflects the benefits of implementing a consistent and successful strategy for sustainable profitable growth, supported by a commitment to behaving in accordance with our core values and applying rigorous risk management policies and processes

Our strategy

- > Growing support services and Public Private Partnership (PPP) projects
- > Developing and marketing integrated solutions tailored to the needs of customers, including project finance, design and construction, maintenance and lifetime asset management
- > Maintaining a strong and selective construction capability focused on higher added-value contracts for long-term customers, especially the delivery of PPP projects and integrated solutions for support services customers

The effects of our strategy

The success of our strategy is clearly evident in our track record, having

- > transformed Carillion from being primarily a UK construction company into a leading UK support services business
- > delivered seven successive years of significant earnings and dividend growth, with underlying earnings per share and our dividend increasing over the last five years at compound annual growth rates of 15 per cent and 14 per cent, respectively
- > consistently achieved or exceeded our financial and strategic objectives
- > created a resilient business mix with strong market positions, both in the UK and internationally

The transformation of Carillion's business away from a heavy dependence on UK construction into one of the UK's leading support services companies, with a large portfolio of PPP projects and a strong and selective construction capability, has given us the resilience to perform strongly in 2009 and the platform to make further progress in 2010

A resilient business mix

In 2009, 66 per cent of underlying operating profit came from long-term contracts for support services and PPP projects, which are more resilient in cyclical downturns. The remaining 34 per cent of underlying operating profit came from construction services, where earnings have also become more resilient, due to contract selectivity and geographical diversification, which have greatly reduced our dependence on the UK and increased the contributions from our international businesses, notably in the Middle East. In 2009, Middle East construction services accounted for 21 per cent of underlying operating profit, with construction services (excluding the Middle East) accounting for 13 per cent

Underlying operating profit by reporting segment⁽¹⁾

2008
£206.5m

2009
£227.8m

Support services

■ **£117.7m** (2008 £113.5m)

Public Private Partnership projects

■ **£32.2m** (2008 £29.8m)

Middle East construction services

■ **£47.0m** (2008 £34.5m)

Construction services (excluding the Middle East)

■ **£30.9m** (2008 £28.7m)

Strong market positions

In transforming our business mix, we have also developed strong positions in new market sectors, while selectively capitalising on our existing strengths

In support services, through organic growth and acquisitions, notably Mowlem and Alfred McAlpine, we have built a UK business that has the skills and resources to provide customers with nationwide services to manage, maintain and operate property and infrastructure. Our ability to combine our skills and resources and use leading-edge technology to deliver fully integrated services for large, complex property estates and infrastructure networks, is one of our key strengths. For example, we provide facilities management and other support services for hundreds of thousands of buildings, including an estate of around 43,000 houses for military personnel in the UK and some 7,000 properties for BT. We also provide management and maintenance services for over 17,000 kilometres of roads in the UK and Canada and for extensive sections of the UK's rail and public utilities networks

We have been a leader in Public Private Partnership (PPP) projects since the inception of the UK's Private Finance Initiative in the early 1990s. Since then, we have won over 50 PPP contracts in the UK and Canada, for hospitals, schools, prisons, military accommodation, roads and railways. We also led the way in developing the secondary market for PPP equity and to date we have sold 28 equity investments, generating proceeds of some £279.9 million and a pre-tax profit of £105.6 million.

In the Middle East, where we have had Joint Venture construction businesses for nearly 40 years, we have built an outstanding reputation for quality and reliability through delivering many of the region's most prestigious projects, including Dubai Festival City, the Grand Mosque in Oman and more recently the Yas Hotel, which forms the centrepiece of Abu Dhabi's new Formula 1 Grand Prix circuit.

In construction services (excluding the Middle East) our experience spans almost two centuries, as Carillion brings together the heritage of Tarmac, Mowlem and Alfred McAlpine. Our highly selective approach has focused our construction skills on fewer higher value-added projects for long-term customers, particularly PPP projects for which our ability to provide fully integrated solutions helps to differentiate us from our competitors. For example, our portfolio includes the UK Government Communications Headquarters in Cheltenham, 20 major hospitals and other healthcare facilities, over 140 new schools, several prisons and numerous motorway, trunk road and rail projects.

Our values

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

Applying our core values to everything we do is creating a culture focused on understanding the needs of customers and using the Group's wide range of skills and resources to create high-quality, value-for-money solutions to meet those needs.

(1) Before Group eliminations and unallocated items of £10.5 million (2008 £12.4 million) share of jointly controlled entities net financial expense and taxation and non recurring operating items

Group Chief Executive's review continued

Operational risk management

The application of rigorous risk management policies and processes also plays an essential role in our success. These policies and processes are firmly embedded in our culture and designed to identify, mitigate and manage strategic risks and those specific to individual business and contracts, including economic, social, environmental and ethical risks. These processes are described in more detail in the Corporate Governance report on page 45.

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 independent appraisals of all projects before these are submitted to the Major Projects Committee, which is a committee of the Board that sanctions all major commitments and transactions, including capital expenditure, major contracts and business acquisitions and disposals. The Committee has delegated authority up to specified levels of risk, beyond which Board approval is required.

We apply our risk management processes to every aspect of our operations, from choosing 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 high-quality services for our customers and the cash-backed profit we expect.

The principal risks facing the Group are summarised in the table below, together with the measures we have in place to mitigate and manage these risks.

Business disposals

In 2009, we disposed of two non-core businesses, Carillion IT Services and Enviros, an environmental consultancy business, generating total gross proceeds of £62.4 million. In line with our policy of selling equity investments in Public Private Partnership projects once they have moved successfully into the operational phase and reinvesting the proceeds in new projects, we sold investments in a further four mature projects during 2009, generating total proceeds of £100.7 million.

Group key performance indicators in 2009

The Board set six Group key performance indicators for 2009, in respect of which the Group has performed strongly, as discussed below.

1 To continue to attract, develop and retain excellent people by being an employer of choice

Delivering the high-quality services that our customers expect and upon which the reputation of Carillion and that of its customers depend, requires excellent people at all levels throughout the Group. The services we provide are often critical to the success

Operational risk management

Risk

- > Managing our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base
- > Continuing to win orders in markets that are more competitive
- > The impact of the current global economic downturn on the financial stability of our customers, partners and suppliers
- > Managing major contracts to ensure they are delivered on time, to budget and to the required standards
- > Maintaining financial discipline

Mitigation

- > The Group's main defined benefit schemes have been closed to future accruals and been replaced with defined contribution schemes. Investment policies are reviewed regularly to ensure that employee and company contributions, together with scheme benefits, remain appropriate.
- > We maintain a firm focus on cost reduction and efficiency to remain competitive. We are committed to 'living' our values in everything we do to ensure we listen to, and understand the needs of, our customers and offer solutions tailored to meet their needs.
- > We apply rigorous selectivity criteria to the choice of customers, projects, partners and suppliers, in relation to their financial stability, the security of project funding and contractual terms and conditions.
- > We apply rigorous selectivity criteria to ensure that we take on contracts only where we understand the risks involved and can manage them. We apply equally rigorous policies and processes to monitor and manage contract performance.
- > We apply strong cash management policies and processes to deliver cash-backed profit.

of the public and private sector organisations for which we work and for whom Carillion employees are frequently the ‘public face’. Consequently, our ability to attract, develop and retain excellent people by being an employer of choice remains our top priority.

In 2009, we continued to develop and implement our bespoke leadership, personal development and employee engagement programmes, which are designed to help all our people achieve their full potential.

We strongly believe in the power of engaging with, and empowering, our employees to play a full role in improving service delivery and the overall development of our business, through creating a culture of trust and open communication. Our managers and supervisors seek to engage with all our people through regular one-to-one meetings, individual performance and development reviews and monthly team talks, supported by newsletters and our national award winning company newspaper, ‘Spectrum’. Successful employee engagement depends on listening to what our people tell us and acting upon it. Therefore, in addition to one-to-one meetings and team talks, we also conduct regular employee surveys to help us monitor and measure our progress. For example, every year we conduct ‘The Great Debate’, a major interactive survey in which our people, selected randomly from across the Group, share their views on a wide range of issues that are important to their personal development and satisfaction and to the success of Carillion. In 2009, 3,867 people took part in The Great Debate, the results of which showed that we made very good progress across the Group, with improved responses in 21 out of 23 areas tested and significant improvements in key areas relating to the satisfaction of our people, such as the extent to which they feel valued at work and feel proud to work for Carillion.

2 Be a recognised leader in the delivery of safety and sustainability in the sectors in which we operate

The health and safety of our people and everyone who works with us or is affected by our operations is paramount. Our corporate objective, known as ‘Target Zero’, is to eliminate all reportable accidents. This demanding objective requires the constant vigilance and the commitment of everyone in Carillion in order to ensure that everyone consistently adopts safe working practices.

We support the achievement of Target Zero with a wide range of tools including training, audits, our hazard reporting programme ‘Don’t Walk By’, Safety Action Groups, strong visible leadership, such as regular Directors’ Safety Tours and employee engagement activities. Carillion’s behaviour standard, ‘Behaving Safely’, which was launched in 2008, was widely embedded across our businesses during 2009 and we have started to measure progress using workforce feedback.

In 2009, the Group’s Accident Frequency Rate (AFR) was 0.13 reportable accidents per 100,000 man hours worked (2008 AFR 0.14), with four out of five operational sites, worldwide, achieving Target Zero. The improvement we achieved in 2009, on an already relatively low accident rate in 2008, reflected our continuing and rigorous focus on reducing reportable accidents to zero. It is particularly pleasing to note that in 2009 the accident rates in our construction businesses in the UK and the Middle East reduced by around 40 per cent.

In 2009, we continued to submit information on the Health and Safety performances of all our business units to the Corporate Health and Safety Performance Index, which is sponsored by the Health and Safety Executive and covers all aspects of Health and Safety management and performance. A wide range of industries participates in the Index and this enables us to benchmark our performance beyond our own industry sector. In 2009, our Index score of 8.3 (2008 8.0) continued to show year-on-year improvement. This score compares very favourably with the average Index score of 6.7 and places Carillion in equal 16th place out of the 127 organisations that chose to take part in the 2009 Index.

We deeply regret that in 2009 there was one fatal accident in which Kenneth Campbell, a Carillion employee at a quarry in Scotland, was fatally injured when the vehicle he was driving overturned on the quarry haul road. No other vehicle was involved. Every accident is a personal tragedy and our thoughts are very much with the family and friends of Mr Campbell. Two prosecutions of Carillion companies by the Health and Safety Executive were completed in 2009. One of these related to an accident that occurred in the former Alfred McAlpine business, before it was acquired by Carillion.

Being a leader in delivering sustainable solutions for our customers continues to help differentiate Carillion from its peers. In 2009, Carillion was included in the Top 20 UK companies in the Sunday Times Best Green Companies. We also continued to improve our ranking in Business in the Community’s (BITC) Corporate Responsibility Index, moving from a ‘Gold’ to a ‘Platinum’ ranking, with a score of 96.5 per cent, which topped the support services sector. The Corporate Responsibility Index involves a detailed, independent third-party assessment of company strategy, management processes and performance. The average score of participating companies was 87.5 per cent, which demonstrates that Carillion not only continues to be a leader in the support services sector, but that our performance ranks favourably with that of all participating companies. Carillion also continues to be a member of the FTSE4Good Index.

Group Chief Executive's review continued

3 Deliver integration and re-organisation cost savings arising from the acquisition of Alfred McAlpine of £35 million in 2009 and achieve a run rate of £50 million per annum by the end of 2009

Absolute integration and re-organisation cost savings were £35 million in 2009 and by the year end we had achieved a run rate of £50 million a year, fully meeting this key performance indicator

4. Deliver materially enhanced earnings

Underlying earnings per share⁽¹⁾ increased by 14 per cent to 39.0 pence per share (2008: 34.3 pence per share). Achieving this key performance indicator, despite challenging market conditions, reflected the resilience of the Group's business mix, including strong international businesses, and the benefits of the Alfred McAlpine integration and re-organisation cost savings.

5. Generate cash-backed profit

Delivering cash-backed profit from operations continues to be an absolute priority for all Carillion's business units. A rigorous focus on cash management has once again resulted in strong underlying cash flow from operations of £268.2 million (2008: £198.3 million), which represented 136 per cent of underlying profit from operations of £196.8 million (2008: £165.2 million).

6 Continue to reduce year-end net borrowing

At 31 December, the Group had net cash of £24.9 million, compared with net borrowing at 31 December 2008 of £226.7 million. This reflected the Group's strong cash flow from operations, together with total gross cash proceeds of £163.1 million from the sale of investments in Public Private Partnership projects, in line with the Group's policy of recycling these investments, and from the disposal of non-core businesses.

2010 KPIs

The Board has set the following key performance indicators for 2010:

- > To attract, develop and retain excellent people
- > Be a recognised leader in Health & Safety and Sustainability in the sectors in which we operate
- > Continuously improve customer satisfaction and brand reputation
- > Continue to reduce costs and improve efficiency to support earnings growth
- > Generate cash-backed profit

Outlook and prospects

In view of the wider economic environment, we expect market conditions to remain challenging in 2010. However, we have a substantial high-quality order book and a good pipeline of contract opportunities in each of our business segments. Consequently, the Group continues to be well positioned with a resilient business mix and we believe we will make further progress in 2010.

The Group's order book was worth approximately £17.7 billion at the year end (2008: £20.4 billion), with the reduction since December 2008 due to the sale of equity in Public Private Partnership projects and the disposal of non-core businesses. In addition, we had a pipeline of probable new orders worth some £2.0 billion at the year end (2008: £3.1 billion).

Order book

2009 £17.7bn	Support services
	■ £11.1bn (2008: £10.8bn)
	Public Private Partnership projects
	■ £2.4bn (2008: £5.3bn)
	Middle East construction services
	■ £0.7bn (2008: £0.8bn)
	Construction services (excluding the Middle East)
	■ £3.5bn (2008: £3.5bn)

Probable orders

2009 £2.0bn	Support services
	■ £0.6bn (2008: £0.6bn)
	Public Private Partnership projects
	■ £0.2bn (2008: £0.1bn)
	Middle East construction services
	■ £0.2bn (2008: £0.9bn)
	Construction services (excluding the Middle East)
	■ £1.0bn (2008: £1.5bn)

(1) Before intangible amortisation, impairment of other investments, non-recurring operating items and non-operating items.

In support services, the outlook is positive. We have our largest ever pipeline of contract renewal and new contract opportunities, and currently only some 15 per cent of expected revenue in 2010 is not already covered by our order book and probable orders. The level of new contract opportunities reflects the pressure on both public and private sector organisations to reduce costs and increase efficiency through outsourcing non-core services. We expect this trend to continue and in the public sector to accelerate, following the UK General Election in 2010, as both central and local government are expected to step up their efforts to reduce the costs of delivering better public services. As market conditions are expected to remain competitive, we will maintain our financial discipline and continue to apply strict contract selectivity criteria in order to underpin our margins. Having increased our operating margin in this segment to 4.9 per cent in 2009 (2008: 4.6 per cent), we are targeting a margin of around five per cent in 2010.

In Public Private Partnership (PPP) projects, we have a good pipeline of concession contracts for which we are either the preferred bidder or shortlisted. This reflects the strong positions we have in our target market sectors in the UK and in Canada, where we expect continuing opportunities for new projects, notably in the education sector in the UK and in the health sector in Canada. Consequently, we expect to continue adding new PPP projects to our portfolio. We also expect to continue to explore opportunities for selling equity investments in mature projects, namely once construction of the asset has been completed and the project has moved successfully into the operational phase with the support services contract fully established. Therefore, we expect to continue generating significant value for the Group through our PPP equity investments.

In Middle East construction services, currently some 85 per cent of expected revenue in 2010 is already covered by our order book and probable orders. In addition, we have a strong pipeline of contract opportunities that is currently worth over £4 billion, the largest elements of which are in Abu Dhabi and Oman. Given our reputation for delivering projects to the highest standards of quality and reliability, we expect to continue benefiting from the region's major investment programmes, notably in Abu Dhabi and Oman, and also in Qatar where we have recently established a new business. Following the global economic downturn, rather than negotiating contracts we are now tendering competitively for contracts in this region. As a result, we expect our operating margin to reduce from the very high level we achieved in 2009 of 8.5 per cent (2008: 7.4 per cent). However, we are still targeting a healthy margin of over six per cent in 2010. Furthermore, given the scale of opportunities we have in the region, we believe that the medium to long-term outlook also continues to be positive, with margins expected to stabilise in the medium term at between five and six per cent.

In construction services (excluding the Middle East), we expect the contribution to revenue from the UK to continue to decline in 2010, in line with our expectations, by applying strict contract selectivity criteria. In Canada, we expect further growth in 2010 partially to offset the reduction in UK revenue. Through contract selectivity we will continue to ensure that the size of our construction business is appropriate to support the delivery of PPP projects, the needs of our support services business and our expectations for reduced demand in our other UK construction markets. We have already made significant progress in this regard and 100 per cent of expected revenue for the year in this segment is already covered by the order book and probable orders. Maintaining financial discipline and contract selectivity will also support our objective of moving the combined operating margin for all our construction activities, including the Middle East, towards three per cent in 2010.

John McDonough
Group Chief Executive
3 March 2010

Operating and financial review

Carillion performed strongly in difficult market conditions during 2009 to deliver a 19 per cent increase in underlying⁽¹⁾ profit from operations and a 14 per cent increase in underlying⁽²⁾ earnings per share

This was backed by strong cash generation that resulted in the Group having net cash at 31 December 2009 of £24.9 million, compared with net borrowing of £226.7 million at 31 December 2008

Profit and earnings growth were due to the Group's resilient business mix, which delivered a good underlying operating performance, together with the benefits of cost savings from integrating the Aifred McAlpine business, which was acquired in February 2008

Richard Adam
Group Finance Director

Carillion is a leading UK support services company with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities. Having this wide range of skills and resources enables the Group to deliver fully integrated solutions for buildings and infrastructure, from project finance through design and construction, to life-time asset management.

The Group has operations in the UK, Middle East and North Africa and Canada and the Caribbean and our principal market sectors and activities are described on pages 2 to 11.

Accounting policies

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The following new accounting standards and interpretations, which became effective after 1 January 2009, have been adopted during the year:

- > Amendments to International Accounting Standard (IAS) 1 'Presentation of financial statements – a revised presentation'
- > Revised International Accounting Standard (IAS) 23 'Borrowing costs'
- > International Financial Reporting Standard (IFRS) 8 'Operating segments'
- > International Financial Reporting Interpretations Committee (IFRIC) 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction'
- > Amendments to International Financial Reporting Standard (IFRS) 2 'Share-based payment – vesting conditions and cancellations'
- > Amendments to International Financial Reporting Standard (IFRS) 7 'Improving disclosure about financial instruments'

These new standards and interpretations, together with the Group's other significant accounting policies are described on pages 61 to 66.

Group overview

Total revenue in 2009 increased by four per cent to £5,426.5 million (2008: £5,205.8 million), including revenue from Joint Ventures of £922.3 million (2008: £772.0 million).

(1) Before intangible amortisation, impairment of other investments and non-recurring operating items

(2) Before intangible amortisation, impairment of other investments, non-recurring operating items and non-operating items

Total underlying profit from operations increased by 19 per cent to £196.8 million (2008: £165.2 million), including profit from Joint Ventures of £65.9 million (2008: £45.1 million)

The underlying profit from operations margin increased to 3.6 per cent (2008: 3.2 per cent) and reflected our continuing drive to improve margins through contract selectivity, cost reduction and greater efficiency

After a net financial expense of £14.6 million (2008: £7.7 million), underlying profit before tax was £182.2 million (2008: £157.5 million), an increase of 16 per cent. Underlying earnings per share on the same measure increased by 14 per cent to 39.0 pence (2008: 34.3 pence)

Intangible amortisation was £30.8 million (2008: £54.5 million, including impairment of other investments). Non-recurring operating costs amounted to £15.2 million (2008: £22.7 million) and non-operating income was £11.5 million (2008: £35.6 million). Total non-recurring operating and non-operating items therefore amounted to a net cost of £3.7 million (2008: £12.9 million income), leaving reported profit before tax of £147.7 million (2008: £115.9 million)

Group taxation was £11.5 million (2008: £4.1 million), which when combined with Joint Ventures taxation of £6.5 million (2008: £10.7 million) represented an underlying effective tax rate of 16 per cent (2008: 20 per cent). Profit after tax was £136.2 million (2008: £111.8 million) and minority interests were £3.8 million (2008: £3.5 million), leaving profit attributable to Canlion shareholders of £132.4 million (2008: £108.3 million). Basic earnings per share were 33.4 pence (2008: 28.4 pence)

Underlying cash flow from operations of £268.2 million (2008: £198.3 million) again comfortably exceeded underlying profit from operations of £196.8 million (2008: £165.2 million). After payments of £29.0 million to pension funds (2008: £50.5 million), in line with our pension deficit recovery plan, net capital expenditure of £47.3 million (2008: £26.4 million), restructuring and other costs of £17.1 million (2008: £32.4 million), interest, tax and dividend payments of £63.2 million (2008: £62.2 million) and a net income from disposals of £142.7 million (2008: £227.0 million net cost), the Group had net cash at 31 December of £24.9 million, compared with net borrowing at 31 December 2008 of £226.7 million

Segmental reporting and analysis

Operating profit by financial reporting segment is summarised in the table below and a detailed segmental analysis of the Group's businesses is provided in Note 2 to the financial statements on page 66. Operating performance in each of our financial reporting segments is discussed in more detail on pages 22 to 25

Financial reporting segments and analysis

Operating profit by financial reporting segment

	2009 £m	2008 £m	Change from 2008 %
Support services	117.7	113.5	4
Public Private Partnership projects	32.2	29.8	8
Middle East construction services	47.0	34.5	36
Construction services (excluding the Middle East)	30.9	28.7	8
	227.8	206.5	10
Group eliminations and unallocated items	(10.5)	(12.4)	15
Profit from operations before Joint Ventures net financial expense and taxation	217.3	194.1	12
Share of Joint Ventures net financial expense	(14.0)	(18.2)	23
Share of Joint Ventures taxation	(6.5)	(10.7)	39
Underlying profit from operations⁽¹⁾	196.8	165.2	19
Intangible amortisation and impairment of other investments	(30.8)	(54.5)	43
Non-recurring operating items	(15.2)	(22.7)	33
Reported profit from operations	150.8	88.0	71

(1) Before intangible amortisation, impairment of other investments and non-recurring operating items

Operating and financial review

continued

Support services

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

Underlying operating profit⁽¹⁾ increased by four per cent to £117.7 million, on revenue three per cent lower at £2,389.5 million, reflecting a substantial improvement in the operating margin from 4.6 per cent to 4.9 per cent. Margins improved, despite more competitive market conditions, as a result of maintaining our financial discipline through continuing to apply strict contract selectivity criteria, together with the benefits of the Alfred McAlpine integration and re-organisation costs savings, which are coming through as expected.

The reduction in revenue reflected the sale of non-core businesses, the loss of a contract to manage insurance claims for Aviva, following a strategic decision by Aviva to take in-house services that involve direct contact with their customers, and the effect of being financially disciplined and selective in respect of contract bids and re-bids.

In 2009, we continued to strengthen our position as one of the UK's leading support services companies through our ability to combine our extensive skills and nationwide resources to provide innovative cost-effective service solutions tailored to meet the needs of our customers. In particular, having the skills and resources to provide all the services needed to manage and maintain large, complex property estates and infrastructure helps to differentiate Carillion from its competitors. Our use of leading-edge technology to improve the quality and reduce the cost of these services has also become increasingly important to existing and new customers in the current economic climate.

Our order book has increased following a number of notable successes during the year. These included a £1.0 billion, seven-year contract awarded to a Carillion-led Joint Venture to provide Openreach, BT's local access network business, with nationwide asset management and maintenance services, facilities management and services contracts for the NHS worth some £240 million, road and rail infrastructure maintenance contracts worth £250 million, and facilities management contracts for other Government, regulated and blue-chip private sector customers worth approximately £400 million.

The strong positions we hold in Public Private Partnership (PPP) projects, both in the UK and Canada, through combining our project finance, design, construction and support services capabilities, continue to make significant contributions to this segment. The support services forward order book relating to PPP projects currently stands at £6.9 billion and provides exceptional long-term revenue visibility, given PPP contract periods are typically between 25 and 35 years.

The total value of our forward order book for support services at 31 December 2009 was £11.1 billion (2008: £10.8 billion). At the year end, we also had a pipeline of probable new orders worth £0.6 billion (2008: £0.6 billion) and our largest ever pipeline of contract opportunities.

Revenue

£2.4bn

Underlying operating profit⁽¹⁾

£117.7m

(£m)	2009	2008	% Change
Revenue			
– Group	2,108.3	2,227.1	
– Share of joint ventures	281.2	236.4	
	2,389.5	2,463.5	(3)
Underlying operating profit ⁽¹⁾			
– Group	102.9	99.5	
– Share of joint ventures	14.8	14.0	
	117.7	113.5	4

(1) Before intangible amortisation, impairment of other investments and non-recurring operating items

Public Private Partnership projects

In this segment we report the equity returns from our investments in Public Private Partnership (PPP) projects. The results of the support services and construction services we provide as part of delivering PPP projects are reported in 'support services' and 'construction services (excluding the Middle East)', respectively

Directors' valuation after selling equity investments for £100.7m during 2009
Net present value (£m)

Revenue

£0.2bn

Underlying operating profit⁽¹⁾

£32.2m

(£m)	2009	2008	% Change
Revenue			
– Group	11	0.9	
– Share of joint ventures	214.5	177.5	
	215.6	178.4	21
Underlying operating profit ⁽¹⁾			
– Group	–	(0.2)	
– Share of joint ventures	32.2	30.0	
	32.2	29.8	8

(1) Before intangible amortisation, impairment of other investments and non-recurring operating items

Our ability to combine our skills and resources in project finance, design, construction and support services to win and successfully deliver the high-quality assets and services expected from these projects, continues to generate considerable value for the Group.

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

During 2009, we sold investments in four mature projects – Exeter Schools, Renfrewshire Schools, the New Accommodation Project (Cheltenham) and Allenby Connaught – generating proceeds of £100.7 million, which reflected a net present value of the cash flows from these investments based on a discount rate of some eight per cent. Over the last six years, we have sold a total of 28 investments, generating proceeds of some £279.9 million and a pre-tax profit of £105.6 million.

During the year, we also continued to add new projects to our portfolio. Carillion joint ventures achieved financial close on five projects – two Building Schools for the Future (BSF) programmes, namely Tameside and Durham, the Lister Surgicentre in Hertfordshire, the Royal Victoria Hospital in Barrie, Ontario and the Centre for Addiction and Mental Health in Toronto – in which Carillion expects to invest total combined equity of some £22.8 million.

At the year end, we had a portfolio of 23 financially closed projects in which we had invested £46.6 million and had commitments to invest a further £74.1 million of equity. Following the equity disposals made during 2009, the Directors' valuation of our remaining equity investments at 31 December 2009 was £115 million (2008: £216 million), based on discounting the cash flows from these investments at an average discount rate of nine per cent. At 31 December 2009, we had a forward order book worth £2.4 billion (2008: £5.3 billion), with the reduction on 2008 reflecting the sale of four PPP equity investments during the year, and probable orders worth £0.2 billion (2008: £0.1 billion).

Since the year end, we have achieved financial close on Southmead Hospital, Bristol, in which we will invest £50 million of equity, and on the Rochdale BSF programme in which we will initially invest some £2.4 million of equity. We expect to make further equity investments in subsequent phases of the Rochdale programme.

In addition, we are currently the preferred bidder for the Wolverhampton BSF programme, in which we expect to invest up to £6 million of equity and we are shortlisted for a further four projects in the UK and Canada in which Carillion could potentially invest up to £59 million of equity.

Operating and financial review

continued

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

Our Middle East construction businesses have again performed strongly against our previously announced target of more than doubling our share of revenue from these businesses from £269 million in 2006 to around £600 million in 2009, at an operating margin in excess of six per cent. In 2009, revenue increased by 19 per cent to £554 million, with the underlying operating margin up from 7.4 per cent to 8.5 per cent which resulted in an increase of 36 per cent in underlying operating profit to £47.0 million. Cash flow has also remained strong with receipts from customers in 2009 of some £555 million, which supported an increase in the dividend received from our Middle East businesses.

We have continued to deliver substantial growth in the Middle East, despite the slowdown of construction activity in Dubai, through our strategy of geographical diversification and of focusing on a small number of financially robust customers with whom we have strong long-term relationships.

We commenced operations in Abu Dhabi in early 2008, since when its contribution to Middle East revenue has increased from 20 per cent in 2008 to 55 per cent in 2009, while the contribution from Dubai has reduced as expected from 55 per cent in 2008 to 20 per cent in 2009. Revenue in Oman has also grown significantly to leave its contribution broadly unchanged at 23 per cent, with the balance of two per cent coming from Egypt.

The successful completion in October 2009 of the £350 million Yas Hotel, the centre piece of Abu Dhabi's new Formula 1 Grand Prix circuit, for developer ALDAR, has further reinforced the reputation of Al Futtaim Carillion as one of the region's leading contractors, well positioned to continue winning high-quality work. For example, during 2009, Al Futtaim Carillion secured a number of new orders in Abu Dhabi, including a £550 million contract for ALDAR to build the Al Muneera development and a £150 million contract to build a new headquarters for the Abu Dhabi Investment Council, together with further infrastructure works for Emirates Aluminium and the Qasr Al Muwajji museum for the Authority for Culture and Heritage, together worth some £50 million.

Our business in Oman, Carillion Alawi, also used its reputation as a market leader in delivering high-quality projects to secure significant new contracts in 2009, the largest of which being a £275 million contract for the Royal Court Affairs to build the Majlis, a prestigious new Parliament building. In Egypt, we continue to make progress on the construction of Cairo Festival City, for which the customer is our Joint Venture partner, The Al Futtaim Group.

At the year end, Carillion's share of the forward order book of our Middle East businesses was £0.7 billion (2008: £0.8 billion). We also had probable new orders worth approximately £0.2 billion (2008: £0.9 billion) and a pipeline of contract opportunities worth over £4 billion.

Revenue

£0.6bn

Underlying operating profit⁽¹⁾

£47.0m

(£m)	2009	2008	% Change
Revenue			
– Group	130.2	111.7	
– Share of joint ventures	423.4	352.5	
	553.6	464.2	19
Underlying operating profit ⁽¹⁾			
– Group	6.8	6.4	
– Share of joint ventures	40.2	28.1	
	47.0	34.5	36

(1) Before intangible amortisation, impairment of other investments and non-recurring operating items.

Construction services

(excluding the Middle East)

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

Total revenue increased by eight per cent to £2,267.8 million. Within this total, UK revenue reduced slightly in line with our expectations, but this was more than offset by growth in Canada, primarily due to the acquisition of the Vanbots Group in October 2008. Underlying operating profit⁽¹⁾ increased by eight per cent, reflecting a stable operating margin of 1.4 per cent, which was a satisfactory result in challenging market conditions. The operating margin for all our construction activities, including Middle East construction services, increased to 2.8 per cent (2008: 2.5 per cent).

The UK contribution to revenue reduced slightly as a result of continuing to apply strict contract selectivity and risk management criteria, in order to secure high-quality projects for long-term customers in our chosen sectors of the non-housing, new-build market. As a result, we have continued to adjust the scope and scale of our construction capability to ensure it has the critical mass necessary to support the delivery of Public Private Partnership (PPP) projects and the needs of our support services business, while taking account of our expectations for reduced future demand in other UK construction markets.

The intake of new orders has remained healthy. Notable successes in the UK included contracts for the Building Schools for the Future (BSF) programme worth £800 million, a £209 million contract to upgrade the A1 trunk road to motorway standard in Yorkshire, a £130 million contract for a luxury residential development for Grosvenor on London's South Bank and a £116 million contract for HM Prison Low Moss in Scotland.

In Canada and the Caribbean, we have had a very successful year. The acquisition of the Vanbots Group further strengthened our construction capability and leadership position in the growing PPP projects market in Canada, as evidenced by a number of major contract wins in 2009. Notable successes in Canada included two PPP projects in the health sector – the £144 million Royal Victoria Hospital in Barrie, Ontario, and the £107 million Centre for Addiction and Mental Health in Toronto – and a £360 million contract for the revitalisation of Union Station in Toronto.

At the year end, our forward order book for construction services (excluding the Middle East) was worth £3.5 billion (2008: £3.5 billion) and we had a pipeline of probable new orders worth approximately £1.0 billion (2008: £1.5 billion).

Since the year end, we have achieved financial close on the Rochdale BSF programme and the Southmead Hospital PPP project in Bristol, which together will generate over £600 million of construction services revenue for Carillion.

Revenue

£2.2bn

Underlying operating profit⁽¹⁾

£30.9m

(£m)	2009	2008	% Change
Revenue			
– Group	2,264.6	2,094.1	
– Share of joint ventures	3.2	5.6	
	2,267.8	2,099.7	8
Underlying operating profit ⁽¹⁾			
– Group	31.7	26.8	
– Share of joint ventures	(0.8)	1.9	
	30.9	28.7	8

(1) Before intangible amortisation, impairment of other investments and non-recurring operating items.

Operating and financial review

continued

Intangible amortisation and impairment of other investments

Intangible amortisation of £30.8 million (2008: £54.5 million) relates to the amortisation of intangible assets arising primarily from the acquisition of Mowlem in 2006 and Alfred McAlpine and the Vanbots Group in 2008. The £54.5 million charge in 2008 included an impairment charge of £11.7 million in respect of the investment in the Alice Springs to Darwin railway, a Public Private Partnership project acquired with Mowlem.

Non-recurring operating items

These costs are summarised in the table below

(£m)	2009	2008
Rationalisation costs	(9.9)	–
Office of Fair Trading penalty	(5.4)	–
Curtailment gain	0.1	35.5
Alfred McAlpine integration and re-organisation costs	–	(55.0)
Vanbots Group integration and re-organisation costs	–	(3.2)
	(15.2)	(22.7)

Rationalisation costs of £9.9 million relate to redundancy and other associated costs incurred in rationalising the Group's structure at the end of 2009. This includes ensuring that the size of the Group's UK construction capability reflects the expected decline in our general construction markets, while maintaining the capability we need to support the delivery of Public Private Partnership projects and meet the needs of our support services business.

The Office of Fair Trading (OFT) penalty of £5.4 million was imposed on Carillion JM Limited, which was formerly Mowlem plc prior to its acquisition by Carillion. Mowlem was one of 103 companies penalised following an OFT investigation into cover pricing in the construction industry under the Competition Act 1998. The anti-competitive activities for which Mowlem was penalised related to the activities of Mowlem prior to its acquisition by Carillion in February 2006. No other Carillion companies were subject to the OFT investigation.

A curtailment gain of £35.5 million was recognised in 2008, as a result of closing four Carillion defined benefit pension schemes to future accrual, net of £2.8 million of expenses. From 31 December 2009, benefits paid in respect of the Alfred McAlpine Pension Plan will no longer be linked to final salary (see also 'Retirement benefits' on page 28). This gave rise to a curtailment gain of £0.1 million (net of expenses).

Non-operating items

Non-operating income in 2009 amounted to £11.5 million (2008: £35.6 million) and comprised a profit of £1.2 million on the sale of investments in Public Private Partnership projects and a provisional profit of £10.3 million on the sale of two non-core businesses – Carillion IT Services and the Group's environmental consultancy business, Enviro.

Net financial expense

The Group had a net financial expense of £14.6 million (2008: £77.7 million). This comprised a net expense of £15.8 million in respect of borrowings, a net interest charge of £2.2 million in respect of retirement benefit schemes and an interest credit of £3.4 million in respect of loans to Special Purpose Companies for Public Private Partnership projects.

Taxation

The effective tax rate on underlying profit was 16 per cent, which is below the UK standard rate of corporation tax, principally reflecting the change to UK legislation in July 2009 that made dividends received from overseas companies exempt from UK taxation, together with the utilisation of UK tax losses. At 31 December 2009 the Group had £375 million (2008: £355 million) of corporate tax losses in the UK that are available to reduce future tax payments.

Earnings per share

Underlying earnings per share increased by 14 per cent to 39.0 pence (2008: 34.3 pence). This substantial increase reflected the Group's strong operating performance, notably through growing operating margins and by reducing central costs.

Dividend

Carillion has a dividend policy of progressively increasing the dividend paid to shareholders broadly in line with earnings growth, after taking account of the investment needs of the business. Consistent with this policy, the Board has recommended a final dividend in respect of 2009 of 10.0 pence, making the full-year dividend 14.6 pence, an increase of 12 per cent on the total paid in respect of 2008 (13.0 pence). Underlying dividend cover was 2.7 times (2008: 2.6 times).

Cash flow

A summary of the Group's cash flows is shown below

(£m)	2009	2008
Underlying Group operating profit	130 9	120 1
Depreciation and other non-cash items	38 8	19 2
Working capital	59 9	34 0
Dividends received from Joint Ventures	38 6	25 0
Total underlying cash inflow from operations	268 2	198 3
Deficit pension contributions	(29 0)	(50 5)
Restructuring costs	(17 1)	(32 4)
Interest, tax and dividends	(63 2)	(62 2)
Net capital expenditure	(47 3)	(26 4)
Acquisitions and disposals	142 7	(227 0)
Other	(2 7)	18 4
Change in net borrowing	251 6	(181 8)
Net borrowing at 1 January	(226 7)	(44 9)
Net cash/(borrowing) at 31 December	24 9	(226 7)
Average net borrowing	(274 4)	(329 8)⁽¹⁾

(1) Post the acquisition of Alfred McAlpine

Our continuing focus on strong cash management and the delivery of cash-backed profit has produced underlying cash flow from operations of £268.2 million, significantly ahead of underlying profit from operations of £196.8 million. This, together with proceeds from the sale of four investments in Public private Partnership (PPP) projects and from the disposal of non-core businesses, namely, Carillion IT Services and Enviros, has resulted in the Group having net cash at 31 December 2009 of £24.9 million, compared with net borrowing of £226.7 million at 31 December 2008.

Additional cash payments to the Group's pension's schemes amounted to £29.0 million, in line with our pension deficit recovery plan. The cash cost of restructuring of £17.1 million includes costs relating to the integration of the Alfred McAlpine and Vanbots Group businesses, which were acquired in 2008, and costs relating to restructuring the Carillion Group, as described under 'Non-recurring operating items' on page 26. Net capital expenditure of £47.3 million was higher than in 2008, because the latter was net of disposal proceeds of £15.0 million, not repeated in 2009. Overall capital expenditure was higher than the Group's annual depreciation charge, because of additional investment in IT infrastructure, in order to accommodate the Alfred McAlpine businesses and deliver planned synergy benefits, and in plant and equipment to support the growth of our business in Canada. The cash inflow in respect of acquisitions and disposals in 2009 reflected £157.9 million of proceeds (net of costs) from the sale of investments in PPP projects and non-core businesses, net of £15.2 million of further investments in PPP projects.

Balance sheet

Carillion's balance sheet remains strong and is supported by committed bank facilities of £655 million, the largest of which is a £590 million syndicated facility which matures in September 2012.

(£m)	2009	2008
Property, plant and equipment	168 2	167 2
Intangible assets	1,241 3	1,276 9
Investments	177 1	238 6
	1,586 6	1,682 7
Inventories, receivables and payables	(608 0)	(490 4)
Net retirement benefits liability (net of tax)	(211 1)	(76 2)
Other	(15 2)	(21 8)
Net operating assets	752 3	1,094 3
Net cash/(borrowing)	24 9	(226 7)
Net assets	777 2	867 6

Intangible assets reduced primarily as a result of amortisation. The reduction in investments reflects the sale of four of the Group's equity investments in PPP projects. The movement in inventories, receivables and payables was primarily due to a £40 million receipt resulting from outsourcing Carillion's internal IT functions to Accenture, as announced in June 2009, and a reduction in working capital of some £33 million arising from the disposal of Enviros and our external IT business. The increase in the Group's net retirement benefits liability was due to a number of factors, but primarily reflects a reduction in market bond yields since December 2008, partially offset by additional cash payments to our pension schemes under our pension deficit recovery plan and a curtailment gain, which is explained on page 28 in the section headed 'Retirement benefits'.

Operating and financial review

continued

Share price

Carillion's share price was 303.8 pence at close of business on 31 December 2009, an increase of 22.5 per cent in the closing price on 31 December 2008 of 248.0 pence

Carillion's total shareholder return increased in 2009 by 23 per cent, broadly in line with the return for the FTSE 350. Over the last five years, Carillion's total shareholder return has significantly outperformed the FTSE 350. The FTSE 350 has been chosen by the Board as the best comparator to illustrate Carillion's performance against a broad equity market index

Five-year total shareholder return

One-year total shareholder return

Retirement benefits

The Group's ongoing pensions charge against profit in 2009 was £28.6 million (2008: £35.8 million). After additional cash payments to the Group's pension schemes of £29.0 million (2008: £50.5 million), in line with our deficit recovery plan, and a curtailment gain of £3.3 million (2008: £38.3 million), the Group's pension schemes had a total deficit net of tax at 31 December 2009 of £211.1 million (2008: £76.2 million). As part of the Group's strategy for managing the risks and liabilities associated with its defined benefit pension schemes, the benefits for members of the Alfred McAlpine Pension Plan will, as with other Carillion schemes, no longer be linked to final salary with effect from 31 December 2009.

Committed bank facilities

The Group's main committed bank facilities of £655 million comprise a £590 million syndicated five-year facility, bilateral facilities of £50 million and a £15 million 364-day facility. The £590 million facility is repayable on 30 September 2012, having been arranged in September 2007 on favourable terms, before the severe tightening of the credit markets. The bilateral facilities have repayment dates between September and December 2012. These facilities have proved to be more than adequate to support the operations of the Group.

Operational and financial risk management

Carillion has rigorous policies and processes in place to identify, mitigate and manage strategic risks and those specific to individual businesses and contracts, including economic, social, environmental and ethical risks. These are summarised on page 16 of the Group Chief Executive's review.

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 on page 28, money market and short-term overdraft facilities are available to Carillion plc and certain subsidiaries. Operating 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 2009, the Group had undrawn committed facilities amounting to £518.4 million (2008: £242.3 million). This excludes the Group's share of cash balances amounting to £144.5 million (2008: £157.7 million) within jointly controlled operations, which are outside of the Group's facilities. These cash balances are available to the Group to the extent that they are not needed to meet the working capital requirements of the jointly controlled operations.

Counterparty risk

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

Foreign exchange

The Group hedges all significant currency transaction exposures using foreign exchange risk management techniques. In order to protect the Group's balance sheet from the impact of exchange rate volatility, foreign currency net assets are hedged using matching currency loans equivalent to at least 60 per cent of the net asset value, where these assets exceed the equivalent of £10 million. Profits arising within overseas subsidiaries are not hedged unless it is planned to make a distribution. Such distributions are then treated as currency transactions and hedged accordingly.

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

(£ sterling)	Average		Year end	
	2009	2008	2009	2008
Middle East (US Dollar)	1.56	1.84	1.61	1.44
Oman (Rial)	0.60	0.71	0.62	0.55
UAE (Dirhams)	5.72	6.75	5.93	5.28
Canada (Dollar)	1.78	1.95	1.69	1.77
Trinidad (Dollar)	9.81	11.52	10.23	9.04

Interest rates

The Group's borrowing facilities are at floating rates of interest linked to the London Inter Bank 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 page 95.

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 in Section 3 on pages 12 to 29, entitled 'Our Performance'. In addition, note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

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

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

Richard Adam FCA

Group Finance Director
3 March 2010

Sustainability review

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 is provided in our 2009 Sustainability Report, which will be published on our website www.carillionplc.com/sustainability in April 2010.

Strategy

We have a well-established strategy model for sustainable development, which is aligned with the four priority areas defined by the UK Government in its sustainable development strategy, 'Securing the Future', namely

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

We have identified 12 behaviours and activities across these four priority areas, as illustrated in the diagram below, which affect the delivery of our business objectives

Managing sustainability

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

The Sustainability Committee is supported by a Sustainability Forum, comprising our senior business leaders, that informs the development of our sustainability strategy, shares best practice and ensures the effective dissemination of our sustainability strategy and policies to our business units. All our business units have a sustainability plan and objectives, which form an integral part of their annual business plans. Our seventh annual Sustainability Week was again organised to coincide with World Environment Day. In 2009, our focus for sustainability week was on carbon reduction and our chosen charity for the week was The Prince's Trust, for which we raised over £6,500 from employees' fundraising activities. We chose The Prince's Trust, because we already support the work it does to promote more sustainable practices, for example the 'Get Into Construction' programme.

Our performance

In 2009, Carillion was included in the Top 20 UK companies in the Sunday Times Best Green Companies. We also continued to improve our ranking in BITC's Corporate Responsibility Index, moving up from a 'Gold' to a 'Platinum' ranking, with a score of 96.5 per cent. The Corporate Responsibility Index involves a detailed, independent assessment of Carillion's sustainability strategy, management processes and performance. Such assessments enable us to benchmark our performance against other companies, including those in different market sectors.

Carillion continues to be a member of the FTSE4Good Index and this year we submitted a full response to the Carbon Disclosure Project for the first time.

Our Middle East and North Africa (MENA) business won the Corporate Social Responsibility (CSR) of the Year Award and the Build Safe UAE Award for best practice, at the 2009 Construction Week Awards held in Dubai. To win this award, our MENA business had to demonstrate that it has its employees' welfare and that of the community at heart. Our MENA business was specifically recognised for its efforts to protect the environment through efficient waste management techniques and a number of clean-up campaigns.

Our Joint Venture business, Al Futtaim Carillion, received The Health, Safety and Environment (HSE) award for 'Build Safe UAE' for its diligent and rigorous efforts to make its construction sites across the Middle East as safe as possible and by taking a very active role in the Build Safe UAE programme.

In 2009, as well as continuing to set specific sustainability targets for each of our business groups and for the Group as a whole, we focused on a number of important specific areas, namely:

- > embedding our carbon reduction strategy into all areas of our business with action plans to support the delivery of our target to reduce carbon emissions by 50 per cent by 2010, measured against a 2006 baseline
- > delivering the commitment we have made to halve the volume of construction waste sent to landfill by 2012
- > through the Business Action on Homelessness programme, enabling 100 candidates to gain valuable two-week work placements in our businesses and supporting their re-introduction to employment
- > working with communities and in particular ensuring that at least one per cent of our pre-tax profits are given in cash or kind to community activities
- > monitoring progress with implementing our apprenticeship charter to ensure at least 250 apprentices are gaining valuable work experience on our contracts and projects and
- > delivering our commitments on sustainable procurement through applying the framework methodology developed by the UK Government's Sustainable Procurement Task Force.

The Group's sustainability targets for 2009 were based on 14 specific and measurable targets. In order to drive continuous improvement we set demanding targets and our performance against them is independently verified by Bureau Veritas. A full report on what we have achieved will be published in our 2009 Sustainability Report, in April 2010.

Sustainability review continued

Sustainable communities and workforce

Creating a sustainable business requires the commitment of all our people. We seek to achieve this through our Health and Safety, leadership, personal development and employee engagement programmes, which are described in more detail on pages 16, 17, 37 and 38.

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

We feel proud that our people are also winning prestigious awards. Our Group Chief Engineer, Professor Quentin Leiper, was awarded the CBE in Her Majesty the Queen's 2009 Birthday Honours List. Quentin received the award for services to the Sustainability agenda as an employee of Carillion and also as a former President of the Institution of Civil Engineers.

Carillion Building's Tony Fleming won the Business in the Community (BITC) Midlands Region, Volunteer of the Year Award. Tony received this award for showing exceptional commitment to volunteering, through Carillion, to make a positive impact on his local community. Tony, who was also a Business Action on Homelessness champion, has now retired from Carillion, but remains committed to his involvement in the Carillion programme.

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

Carillion gives over one per cent of its pre-tax profits in cash or in kind to community activities. We are a national partner in the Business Action on Homelessness (BAOH) campaign, designed to help homeless people break the cycle of 'no home, no job' and since becoming a partner in 2006 we have assisted over 100 homeless people every year on their journey to full employment. As 2009 marked Carillion's tenth anniversary as an independent company, we donated £25,000 to charities in the UK, Canada and the Middle East. Donations of £500 were made to 50 different charities, nominated by our employees.

As one of the UK's leading providers of training for support services and construction skills, we continue to work with the Construction Industry Training Board and contribute to the development of individuals and communities. In 2009, 69 per cent of our apprentices successfully completed their training in one of our 18 UK training centres, including 258 people who were trained through The Prince's Trust 'Get into Construction' programme.

National resource protection and environmental enhancement

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

Carillion has developed and implemented environmental management systems across the Group and all our UK and Middle East and North Africa operations are accredited to ISO14001 by a registered third party.

The preservation of natural habitats and the wildlife they support is important both socially and environmentally. Since 2000, we have supported the UK Wildlife Trusts through the Carillion Natural Habitats Fund, and to date we have given over £255,000 to the Trusts to support 44 projects. The local Wildlife Trusts, which care for almost 2,500 nature reserves across the country, are able to apply for a grant from the Fund to support a conservation project. We also encourage our employees to work with their local Wildlife Trusts on these projects to improve nature conservation, especially where projects are close to Carillion offices or worksites.

In recognition of our ongoing commitment to integrate sustainability into everything we do, we have adopted the UK Government's Sustainable Procurement Taskforce (SPTF) 'Flexible Framework'. This framework provides a step-by-step approach to demonstrating leadership in sustainable procurement and we have plans in place to achieve the requirements of each phase of the framework.

Carillion continues to be a member of the WWF-UK Forest and Trade Network (FTN) and during 2009 we continued to work towards ensuring we use timber products from sources certified by the Forest Stewardship Council on all our projects. We report the volumes and sources of the timber we use to the WWF-UK FTN annually and develop detailed action plans for improvement.

Climate change and energy

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

In 2007, Carillion set the challenging target of reducing its direct carbon emissions by 50% by 2010. This target will be measured against the Group's 2006 carbon emissions, adjusted for revenue growth. In order to achieve this target, we have developed a carbon reduction strategy and policy, which involves measuring and reporting our carbon footprint each quarter, in accordance with the Greenhouse Gas Protocol carbon accounting standard. Our carbon footprint covers our direct emissions generated from buildings, transport, travel, waste and from plant powered by fossil fuel on project sites.

We are focusing on our activities in areas where we can have the greatest direct impact by reducing carbon emissions generated by

- > employee business travel
- > commercial vehicles
- > plant fuel
- > Carillion offices

In order to manage our carbon emissions effectively, we have begun a programme of work to understand our indirect impacts and in 2010 we will be trialling our models for managing these impacts on a selection of construction sites.

In 2009, we continued to develop our understanding of how our operations affect climate change, together with our commitment to developing new measures to reduce these effects. We regard this as fundamental to the development of our business and we have also linked this to other measures we are pursuing, including the reduction of our overall cost base. We continue to promote the use of telephone and video conferencing to reduce the need to travel, introduced more fuel efficient cars and procured all the electricity we use from renewable or climate change levy-exempt sources. We are also working with our customers to provide sustainable building, infrastructure and lifetime facilities management and services.

Our 2009 sustainability report provides more information on our carbon reduction programme and will be published in April 2010 on our website.

Sustainable consumption and production

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

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

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

For example, Carillion recently secured the prestigious Public Private Partnership project to finance, design, build and operate the new Southmead Hospital in Bristol. The delivery of sustainable solutions for all aspects of this project were key to Carillion's success, as Carillion and the North Bristol NHS Trust are both committed to achieving the highest standards of sustainability. The project will involve creating a state-of-the-art building that will be the most sustainable major acute hospital in the UK, with low energy utilisation and a carbon footprint below the government target of 3 43Tt CO₂ a year. This demonstrates how Carillion's leadership in sustainability helps to differentiate us from our competitors and contributes to the strong positions we hold in our chosen market sectors.

Board of Directors

01 Philip Rogerson Chairman

Age 65 Philip was appointed to the Board in October 2004 becoming Chairman in May 2005 He is Chairman of the Nominations Committee Philip is also Chairman of Aggreko plc and Bunzl plc He was an Executive Director of BG plc from 1992 to 1998, latterly as Deputy Chairman Philip joined the Board of Bunzl plc on 1 January 2010 becoming Chairman on 1 March 2010 In order to take up this appointment, Philip retired as Chairman of Northgate plc on 31 December 2009 and as a Non-Executive Director of Davis Service Group plc on 28 February 2010

02 John McDonough Group Chief Executive

Age 58 John was appointed Group Chief Executive in January 2001 having formerly been Vice President, Integrated Facilities Management, Europe, the Middle East and Africa of Johnson Controls Inc He is Chairman of the CBI's Construction Council and a member of the CBI's President's Committee John is a Non-Executive Director of Tomkins plc where he is also Chairman of the Remuneration Committee John is a member of the Nominations Committee

03 Richard Adam Group Finance Director

Age 52 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 is also a Non-Executive Director and the chairman of the Audit Committee of SSL International plc

04 David Garman Senior Independent Non-Executive Director

Age 58 Appointed to the Board in September 2004, David is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees David was Group Chief Executive of TDG plc until its takeover in 2008 before which he was an Executive Director of Associated British Foods plc, having previously held senior positions in a number of leading UK food companies He is also a Non-Executive Director of Phoenix IT Group plc and a Director of the Oakwood Partnership Ltd

05 Richard Howson Executive Director

Age 41 Richard was appointed to the Board on 10 December 2009 with responsibility for Carillion's UK Building, Private Finance and Middle East and North Africa businesses Richard has been the Managing Director of Carillion's Middle East and North Africa businesses since June 2007 prior to which he held senior positions in the Group's Infrastructure and Building businesses Richard has groupwide responsibility for health and safety matters

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06 Don Kenny
Executive Director

Age 55 Don was appointed to the Board in September 2006 and is responsible for much of Carillion's Support Services business. Don also has responsibility for the Group's sustainability programme. He joined Carillion from Johnson Controls Inc in 2002, having held a number of senior positions in Johnson Controls and prior to that in Mowlem plc. Don is a member of the CBI's Public Services' Strategy Board. He is a chartered certified accountant.

07 David Maloney
Non-Executive Director

Age 54 David was appointed to the Board in November 2005 and is Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees. David is Chairman of Hoseasons Holdings Ltd and a Non-Executive Director of Micro Focus International plc, Ludorum plc, Cineworld Group plc and Enterprise Inns plc. He is also Chairman of the Board of Trustees for Make a Wish Foundation UK. Before taking up these appointments, David held senior positions in a number of services sector companies, including Chief Financial Officer for Le Meridien Hotels and Resorts Limited, Chief Financial Officer for Thomson Travel Group (Holdings) plc and Group Finance Director of Avis Europe plc.

08 Steve Mogford
Non-Executive Director

Age 53 Steve was appointed to the Board in September 2006 and is a member of the Audit, Nominations and Remuneration Committees. Steve is Chief Executive of SELEX Galileo Limited, a Finmeccanica company, which he joined in May 2007. From April 2000 to May 2007, he was a Director of BAE Systems plc with responsibility for fixed wing military aircraft and naval business.

09 Vanda Murray OBE
Non-Executive Director

Age 49 Vanda was appointed to the Board in June 2005 and is a member of the Audit, Nominations and Remuneration Committees. Vanda is Deputy Chairman of the North West Development Agency and is a Fellow of the Chartered Institute of Marketing. She is also a Non-Executive Director of SIG plc and The Manchester Airport Group plc. Vanda was Chief Executive Officer of Blick plc from 2001 to 2004, a Director of Ultraframe plc from 2002 to 2006, Non-Executive Chairman of Eazyfone Limited from 2006 to 2009 and has also served as a Trustee and Non-Executive Director of The Manufacturing Institute. She was appointed OBE in 2002 for Services to Industry and to Export.

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Report of the Directors

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

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 largest 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 in Canada and the Caribbean

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

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

- > achievements in respect of the Group's Key Performance Indicators (KPI) in 2009 and the KPIs set for 2010 (Group Chief Executive's review – see pages 16 to 19)
- > financial performance in 2009 (Operating and financial review – see pages 20 to 29)
- > principal operational risks and risk management (Group Chief Executive's review – see page 16)

- > treasury policy and financial risk management (Operating and financial review – see pages 28 to 29)
- > social, community and environmental issues (Sustainability review – see pages 30 to 33)
- > resources and employees (Group Chief Executive's review – see page 16 and Report of the Directors – see pages 37 to 38)

Analysis of turnover and net assets by business segment and geographical location are given in Note 2 to the financial statements on page 66

Share capital

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

Profits and dividends

The consolidated income statement is shown on page 56. Profit before tax was £147.7 million (2008: £115.9 million)

A 2009 interim dividend of 4.6 pence per ordinary share (2008: 4.1 pence) was paid in November 2009. It is proposed to pay a final dividend of 10.0 pence per ordinary share (2008: 8.9 pence) on 18 June 2010 to shareholders on the register at the close of business on 23 April 2010. The payment of these 2009 interim and final dividends amounts to £57.9 million (2008: £51.4 million)

A dividend reinvestment plan (DRIP) will also be offered allowing shareholders a convenient means of reinvesting their dividends in the Company by buying further shares. A DRIP application form is available from the share registrar, Equiniti (see page 122 for contact details)

Directors

The Directors of the Company who served during 2009 are shown on page 48 of the Remuneration Report. Biographical details for each Director at 31 December 2009 are given on pages 34 and 35

Richard Howson was appointed a Director on 10 December 2009 and will hold office until the Annual General Meeting on 5 May 2010 at which, being eligible, he offers himself for election. Richard Howson has a contract of service which is subject to one year's notice of termination by the Company.

In accordance with the Articles of Association, Richard Adam, Don Kenny, John McDonough and Steve Mogford retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting on 5 May 2010. Richard Adam, Don Kenny and John McDonough have contracts of service all of which are subject to one year's notice of termination by the Company.

Roger Robinson served as an executive director until he stood down from the Board in May 2009. Roger was appointed to the Board of Carillion plc in May 1999 and had groupwide responsibility for Carillion's UK infrastructure and international businesses in the Middle East and Canada and the Caribbean. He was also the Board member responsible for Group Health and Safety matters.

David Hurcomb served as an executive director until he stood down from the Board in December 2009 having been appointed to the Board on 1 January 2008. David had responsibility for Carillion's UK Building and PFI businesses.

The interests of the Directors and their families in the share capital of the Company are shown on page 39.

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 2009, Directors' and Officers' liability insurance.

Conflicts of interest

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

Key contractual arrangements

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

Employees

Information relating to employee numbers and remuneration is given in Note 7 on page 73.

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

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

It is Carillion's aim to foster a working environment in which all employees are treated with courtesy, dignity and respect. Carillion strives continually to eliminate all bias and unlawful discrimination in relation to job applicants, employees, business partners and members of the public.

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

- > have a workforce that represents and responds to the diversity of customers and today's society
- > improve safety and quality delivered through a balanced and productive workforce
- > develop the Group's public image and market reputation and to improve links with the communities in which it operates
- > adhere to legal requirements
- > reduce employee turnover, absenteeism and sickness levels and thereby reduce costs and improve efficiency
- > provide a fair working environment in which discrimination is not tolerated
- > create a working environment free from discrimination, harassment, victimisation and bullying
- > work towards finding ways in which under-represented groups can fully realise their potential within the Group and to take reasonable steps to help such groups
- > ensure that all employees are aware of the Group Equal Opportunities and Diversity Policy and to provide any necessary ongoing training to enable them to comply with it
- > be an organisation that understands and values employee diversity and recognises the merits of having a workforce that reflects the diverse backgrounds and skills available within the total population and accordingly provides all employees with opportunities to develop and reach their full potential.

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 six years, involving a wide range of employees that forms a statistically significant sample. In 2009, around 3,900 UK employees took part in 'The Great Debate'. 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 become an employer of choice.

Report of the Directors

continued

'The Great Debate' forms part of the Group's ongoing programme to

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

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

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

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

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

Employees can also exchange best practice information via a Business Exchange forum on the Group intranet.

Carillion seeks to involve all employees in its leading-edge programmes to integrate safety into every aspect of the Group's operations and to improve its environmental performance, including the understanding and application of the principles of sustainability. Further information on Health and Safety is given in the Group Chief Executive's review on page 17 and on Sustainability in the Sustainability review on pages 30 to 33.

Employees with disabilities

Carillion is committed to providing equal opportunities to all employees and is supportive of the employment and advancement of disabled and disadvantaged persons. Employees who become disabled are, wherever possible, retrained or provided with equipment so that they can continue their employment.

Share Capital and Shareholders

As at 31 December 2009, the issued share capital of the Company comprised a single class of ordinary shares of 50 pence each. The authorised share capital of the Company is £350 million, comprising 700 million 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 88 and 90 to the consolidated financial statements which form part of this report. Details of the share schemes in place are also provided on pages 50 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.

At 3 March 2010, the Company had received formal notification under the Disclosure and Transparency Rules, of the following material holdings in its shares:

	Number of shares held	Percentage
Schroders plc	59,520,743	14.98
Standard Life Investments Ltd	32,079,188	8.07
F&C Asset Management plc	19,246,558	4.84
Legal & General Group Plc	15,783,867	3.97
HBOs plc	14,036,048	3.53
UBS Investment Bank	13,424,716	3.38

Policy for payment of suppliers

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

The number of days credit outstanding for the Group averaged 58 days at 31 December 2009 (65 days at 31 December 2008).

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 bank loan agreements and employee share plans

Carillion's main credit facilities, including the £590 million Syndicated Multicurrency Revolving Credit Facility dated 4 September 2007, contain a provision such that in the event of a change of control any lender may, within a limited time 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 30 days after the date of the change of control

Charitable and political contributions

Payments for charitable purposes made by the Group during the year ended 31 December 2009 amounted to £200,000 (2008 £129,000). 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 The Prince's Trust

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

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 page 92 of the consolidated financial statements

Directors' share interests

Ordinary shares

The beneficial interests of the Directors and their immediate families in the ordinary share capital of the Company as at 31 December 2009 are shown below

Fully paid 50p ordinary shares owned	As at 1 January 2009 Number	As at 31 December 2009 Number
Executive Director		
Richard Adam	15,647	16,419
Richard Howson	2,331	2,435
Don Kenny	88,153	92,505
John McDonough	794,083	992,211
Non-Executive Directors		
David Garman	14,300	14,300
David Maloney	10,000	10,000
Steve Mogford	–	–
Vanda Murray	12,300	12,300
Philip Rogerson	39,630	39,630

There has been no change in Directors' interests in the period 1 January 2010 to 3 March 2010

Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code on Corporate Governance and the Companies Act 2006 and related legislation. The Articles of Association themselves may be amended by special resolution of the shareholders. The powers of the Board are detailed on pages 41 and 42 of the Corporate Governance report

The Directors were authorised at the 2009 AGM to purchase the Company's own shares within certain limits. Although no such purchases were made during the financial year, the Directors will seek approval to renew this authority at the 2010 AGM (see below)

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

Annual General Meeting

The Annual General Meeting will be held at 12 noon on Wednesday 5 May 2010 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 are the following proposals

- to renew the authority for the Company to purchase its own shares (As at 31 December 2009, the Company had authority from shareholders for the purchase of 39,571,417 of its own shares)
- to adopt new Articles of Association that fully comply with the provisions of the Companies Act 2006

Auditor

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

Approved by order of the Board



R F Tapp

Secretary
3 March 2010

Corporate Governance report

The Board is firmly committed to high standards of corporate governance

General principles

The Board is firmly committed to high standards of corporate governance. During the year to 31 December 2009, as detailed below and in the Remuneration report on page 47, the Company complied with both the main principles and the provisions set out in Section 1 of the Combined Code on Corporate Governance (June 2008) except in respect of Board Balance (principle A 3.2). The reason for non-compliance in this matter is explained on page 41 of this report. Since the Annual General Meeting on 6 May 2009, the Company has been fully compliant with the Combined Code.

Ethics and Business Integrity Policy

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

The policy applies to all employees of any Carillion Group company. 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

- > business integrity: we do not give or accept bribes, we do not sanction or accept any illegal payments, allowances, or gifts-in-kind, we investigate fully all alleged breaches of this policy and will dismiss any employee who has breached this policy
- > mutual respect: we do what we say we will do, we treat our people fairly and with respect at all times, avoiding discrimination and bullying, we provide a safe and healthy working environment, and respect sustainable principles in all the Group's operations
- > trust: we engender trust within our work groups and companies, respecting diverse traditions and cultures, we respect the trust placed in us by others, not least when we are asked to take responsibility for aspects of their business or resources, we maintain and demand high professional standards and demand honesty and openness, we avoid conflicts of interest wherever possible, and we proactively declare any unavoidable conflicts for open scrutiny and resolution
- > legality: we respect the rule of law in all our dealings, we clearly communicate procedures for disciplining those who do not comply with the law or our standards and policies, we maintain a system for confidential reporting of breaches of our standards and policies
- > human rights: we support the belief that human rights are universal and adhere to the principles of human rights in our operations, we support the United Nations Universal Declaration on Human Rights

This policy is applied into 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 and its implementation is reviewed annually by the Board. The policy is currently under review in light of the Bribery Bill.

Directors

The Board

With effect from 6 May 2009, the Company has been led by a Board comprising four Executive and five Non-Executive Directors. The Chairman and each of the Non-Executive Directors are considered to be independent of management. They each have substantial relevant experience and have no business or other relationship that could materially interfere with their independent judgement. David Garman is the Senior Independent Non-Executive Director.

Between 1 January and 6 May 2009, the Board comprised five Executive and five Non-Executive Directors. However, Roger Robinson retired from the Board at the Annual General Meeting on 6 May 2009 such that the Company was once again fully compliant with the provisions set out in Section 1 of the Combined Code on Corporate Governance.

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

In 2009, 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 performance of the Board, the Chairman and the Non-Executive Directors, (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 2009 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 eight years and the intention is to repeat it annually. In addition, the performance of each individual Director has been reviewed.

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

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

The Board had a programme of ten meetings in 2009 and it also met on an ad hoc basis as required.

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

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

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

Corporate Governance report continued

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, sustainability and other relevant issues.

Board Committees

The principal Board Committees are the Remuneration Committee, the Audit Committee and the Nominations 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.

The membership of each of the principal committees is as follows:

Remuneration Committee

David Garman, Chairman
David Maloney
Steven Mogford
Vanda Murray

The Committee consists entirely of independent Non-Executive Directors and has a key role in reviewing and advising the Board on the appropriate remuneration for the Executive Directors of Carillion plc. Further details on remuneration issues are given on pages 47 to 53.

Audit Committee

David Maloney, Chairman
David Garman
Steven Mogford
Vanda Murray

This Committee consists entirely of independent Non-Executive Directors. For further information see the Report of the Audit Committee on pages 44 to 46.

Nominations Committee

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

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

Attendance at meetings in 2009

The number of scheduled Board and Committee meetings attended by each Director during 2009 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	10	4	3	1
Richard Adam	10	–	–	–
David Garman	10	4	3	1
David Hurcomb*	9	–	–	–
Don Kenny	10	–	–	–
David Maloney	10	4	3	1
John McDonough	10	–	–	1
Steven Mogford	9	4	3	1
Vanda Murray	10	4	3	1
Roger Robinson*	4	–	–	–
Philip Rogerson	10	–	–	1

* Roger Rogerson retired as a Director on 6 May 2009 and David Hurcomb on 8 December 2009.

Richard Howson was appointed to the Board on 10 December 2009 which was after the completion of the 2009 schedule of Board meetings.

Other Board matters

Policy on external appointments

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

Nomination and remuneration of Directors

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

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

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

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

The remuneration of the Directors is dealt with in the Remuneration Report on pages 47 to 53

Retirement of Directors by rotation

All Directors are required to submit themselves for re-election at least every three years. The Directors retiring and seeking re-election at the Annual General Meeting to be held on 5 May 2010 are Richard Adam, Don Kenny, John McDonough and Steve Mogford

Additionally, new Directors are subject to election by shareholders at the first opportunity following their appointment. Accordingly, Richard Howson will seek election at the Annual General Meeting to be held on 5 May 2010

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

Induction and development of Directors

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

At least once a year, the Board visits an operational site and in November 2009 the Directors visited the Group's operations in Dubai and Abu Dhabi. Directors also visit other operations and meet a wide range of employees

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

Relations with shareholders

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

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

The Company complies fully with the provisions of the Combined 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 5 May 2010 to respond to shareholders' questions

Accountability and Audit

Report of the Audit Committee

The Audit Committee consists entirely of independent Non-Executive Directors

David Maloney, Chairman
David Garman
Steve Mogford
Vanda Murray

David Maloney is an accountant who is Chairman of Hosesons Holdings Ltd and a Non-Executive Director of Micro Focus International plc, Ludorum plc, Cineworld Group plc and Enterprise Inns plc. He is also Chairman of the Board of Trustees for Make a Wish Foundation UK. Before taking up these appointments, David held senior positions in a number of services sector companies, including Chief Financial Officer for Le Meridien Hotels and Resorts Limited, Chief Financial Officer for Thomson Travel Group (Holdings) plc and Group Finance Director of Avis Europe plc

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Corporate Governance report continued

Vanda Murray is Deputy Chairman of the North West Development Agency and is a Fellow of the Chartered Institute of Marketing. She is also a Non-Executive Director of SIG plc and The Manchester Airport Group plc. Vanda was Chief Executive Officer of Blick plc from 2001 to 2004, a Director of Ultraframe plc from 2002 to 2006, Non-Executive Chairman of Eazyfone Limited from 2006 to 2009 and has also served as a Trustee and Non-Executive Director of The Manufacturing Institute. She was appointed OBE in 2002 for Services to Industry and to Export.

Steve Mogford is Chief Executive of SELEX Galileo Limited, a Finmeccanica company, which he joined in May 2007. From April 2000 to May 2007, he was a Director of BAE Systems plc with responsibility for fixed wing military aircraft and naval business.

Appointments to the Committee are made by the Board.

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 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.

In 2009, 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
- > top ten risks
- > reappointment of KPMG Audit Plc
- > 2009 external audit plan
- > internal audit review
- > 2010 internal audit plan
- > assessment of the going concern basis
- > review of compliance with the Combined Code
- > the external audit fee

The members of the Committee receive fees as Non-Executive Directors which also reflect their membership of the Audit Committee and other Board committees. Details of remuneration are given on page 48.

Main activities of the Audit Committee in the year to 31 December 2009

Financial statements

The Audit Committee reviews and discusses with management and the external auditors the annual and interim statements. In this context, the Committee also reviews the written reports of KPMG Audit Plc on issues arising from the annual audit and the review of the interim results.

Internal controls

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

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

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

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

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

Any significant internal control issues would be disclosed in this report. On the basis of the assurances given in 2009, no disclosures in this respect are required.

Following a review in 2009, the decision was taken to outsource the internal audit function to Deloitte LLP. After a transition period, Deloitte LLP assumed full responsibility for internal audit in January 2010.

Risk management

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 below). This appraisal ensures that the differentiating factors of the Group's offer have been properly identified so maximising the opportunities available, it also involves ensuring that all inherent and residual risks associated with the project have been properly identified and considered.

In addition, the Risk Forum, a committee of professionals from each of the business groups, meets on a quarterly basis to assess the strategic risks facing the Carillion Group. The conclusions of the Risk Forum are reported to the Board.

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

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

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

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

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

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Group Finance Director provides the Board with regular financial information, which includes key performance indicators and a summary of risk. These key performance indicators and risks are listed in the Group Chief Executive's Review on pages 14 to 19. Where areas for improvement are identified, the Board considers the recommendations made both by the Executive Directors and by the Audit Committee.

Corporate Governance report continued

This report is reviewed and approved by the Audit Committee

Audit independence

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

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

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

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

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

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

Other than audit, the Group Finance Director is required to give prior approval of work carried out by KPMG and its associates, 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 and safety and sustainability

A review of the Group's progress on health and safety is provided in the Group Chief Executive's review on page 17 and the Group's Sustainability performance is contained in the Sustainability review on pages 30 to 33.

R F Tapp
Secretary
3 March 2010

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 5 May 2010 and David Garman, Chairman of the Remuneration Committee, will be available to answer shareholders' questions.

Remuneration Committee members and advisers

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

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

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

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

Remuneration philosophy

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

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

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

Elements of remuneration

Basic salary

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

Salary increases for Executive Directors in 2009 were two per cent reflecting the economic climate and in 2010 will be zero, both in line with pay for other employees in both years.

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 deferral period.

Remuneration report

continued

Long-term share incentives

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

Carillion share incentives comply with the share dilution guidelines.

Pension benefits

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

Other benefits

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

2009 Remuneration

The remuneration of the Directors of Carillion plc for the year ended 31 December 2009 is set out in the table below. This is audited information.

	Basic salary/fees £000	Annual performance bonus ^(v) £000	Other benefits £000	Compensation ^(vi) £000	Total 2009 £000	Total 2008 £000
Richard Adam	408	221	111	–	740	908
Richard Howson*	18	6	9	–	33	–
David Hurcomb*	262	129	63	398	852	607
Don Kenny	311	153	84	–	548	686
John McDonough	632	342	188	–	1,162	1,419
Roger Robinson*	186	91	50	–	327	820
Total for Executive Directors	1,817	942	505	398	3,662	4,440
David Garman	61	–	–	–	61	58
David Maloney	58	–	–	–	58	56
Steve Mogford	48	–	–	–	48	46
Vanda Murray	48	–	–	–	48	46
Philip Rogerson	188	–	–	–	188	183
Total for Non-Executive Directors	403	–	–	–	403	389
Total for all Directors	2,220	942	505	398	4,065	4,829

* Roger Robinson retired as a director of Carillion plc on 6 May 2009 and David Hurcomb stepped down as a director on 8 December 2009. Richard Howson was appointed to the Board on 10 December 2009.

- (i) There are no long term benefits other than pensions (see page 49 to 50) and share incentives (see pages 50 to 52).
- (ii) Included in 'Other benefits' is a salary supplement for John McDonough of £169,788 (2008 £167,890), for Roger Robinson of £41,521 (2008 £82,210), for Don Kenny £61,832 (2008 £62,050), for David Hurcomb of £48,179 (2008 £51,970) and for Richard Adam of £94,390 (2008 £93,970) in respect of salary over the internal pensions earnings cap.
- (iii) The Board determines the fees of the Non-Executive Directors based on independent external advice.
- (iv) John McDonough retains the fee of £75,000 (including the purchase value of 2,000 ordinary shares in Tomkins plc) he was paid in 2009 as a Non-Executive Director of Tomkins plc and Richard Adam retains the fee of £50,000 paid as a Non-Executive Director of SSL International plc.
- (v) With the exception of David Hurcomb and Roger Robinson where it is paid entirely in cash, 50% of the bonus is payable in cash and the balance deferred in Carillion shares until March 2012.
- (vi) Compensation in respect of his employment contract was paid to David Hurcomb in January 2010.
- (vii) Salary and benefits for Richard Howson are pro-rata to his appointment as an Executive Director.

2009 Bonus Plan

In 2009, Executive Directors had the opportunity to earn up to 100 per cent of their basic salary through the bonus plan comprising up to 25 per cent for personal objectives and 75 per cent for financial objectives. Awards under the personal element are based on delivery against clear and stretching objectives closely aligned to the strategic aims of the Company. The financial element is determined by outstanding performance against stretching targets based on growth in earnings per share. The 2009 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 in the participant's name 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 2009 are shown in the remuneration table on page 48 (half of these benefits being paid in cash in 2010 and the balance deferred to March 2012). Tax and national insurance is calculated on the deferred element based on the value of the shares at the vesting date and paid at that point.

Similar deferral mechanisms have operated in respect of earlier years and during 2009 the following deferred bonus shareholdings vested

	Bonus year	Number of shares
Richard Adam	–	Nil
Richard Howson	2007	9,882
David Hurcomb	2007	40,000
Don Kenny	–	Nil
John McDonough	2006	75,911
Roger Robinson	2006	47,857

The price prevailing on the above shares at the date of award was 406.0 pence (2007 bonus) and 382.5 pence (2006 bonus). At the vesting date the share price was 218.0 pence.

Pension benefits

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

Defined benefit pensions accruing during the period to 5th April 2009 to Executive Directors in their capacity as Directors of Carillion plc are set out below. This is audited information.

	Accrued pension at 31 Dec 2009 ⁽¹⁾⁽²⁾ £ per annum	Increase in accrued pension over year excluding inflation allowance £ per annum	Increase in accrued pension over year including inflation allowance ⁽³⁾ £ per annum	Transfer value of pension accrued during the period less member contributions ⁽⁴⁾⁽⁵⁾ £	Transfer value at start of year £	Transfer value at end of year ⁽⁵⁾ £	Increase in transfer value over the period after member contributions ⁽⁵⁾ £
Don Kenny	26,316	708	94	(195)	442,625	463,982	19,234
John McDonough	32,978	631	(144)	(3,397)	644,534	669,549	22,893
Roger Robinson	70,095	(2,129)	(1,587)	(42,282)	1,536,811	1,664,563	125,629

(1) The accrued pension for Roger Robinson is as at 1 April 2009 – his date of retirement from the scheme.

(2) The accrued pension for John McDonough and Don Kenny are leaving service benefits at 5 April 2009 increased by inflation to 31 December 2009.

(3) These are the accrued pensions at 31 December 2009 less the accrued pensions at 31 December 2008 (the 2008 figure having been increased for inflation to 31 December 2009 (31 March 2009 for Roger Robinson)).

(4) The value of accrued benefits includes the provision of life cover over the entire year (to the date of retirement for Roger Robinson).

(5) Figures based on market conditions at 31 December 2009.

Remuneration report

continued

The total number of Directors to whom retirement benefits accrued during the year was 3 (2008 3)

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

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

	Plan	Amount £
Richard Adam	Carillion Pension Plan	50,830
Richard Howson*	Carillion 2009 Pension Plan	972
David Hurcomb	Carillion Pension Plan	66,055
Don Kenny	Carillion 2009 Pension Plan	48,375
John McDonough	Carillion 2009 Pension Plan	48,375
Roger Robinson	Carillion 2009 Pension Plan	16,125

* These contributions are in respect of the period 10 December to 31 December 2009.

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

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

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

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

In addition, a salary supplement of 33.6% 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.

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
Don Kenny	1 July 2006	12 months	rolling
John McDonough	1 January 2001	12 months	rolling

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

Non-Executive Directors are not employed under contracts of service, but are generally appointed for fixed terms of three years renewable for further terms of one to three years, if both parties agree. Steve Mogford, who will stand for re-election at the Annual General Meeting on 5 May 2010, has a letter of appointment until 4 September 2012 subject to re-appointment at the Annual General Meeting.

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

Growth in earnings per share

Level 1	RPI + 3% pa	30% vests
Level 2	RPI + 7% pa	50% vests
Level 3	RPI + 12% pa	100% vests
Level 4	RPI + 25% pa	Extra 50% vests

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

Awards were made in July 2006, April 2007, April 2008 and April 2009. At 31 December 2009 a total of 3,173,881 shares were outstanding under the LEAP.

The awards held by Executive Directors of the Company under LEAP as at 31 December 2009 are shown below. This is audited information.

	As at 1 January 2009 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 2009 Number	Date of award	Mid market share price on date of award Pence
John McDonough							
LEAP 2006 (maximum)	218,354	–	189,240	29,114	Nil	06 07 2006	319 0
LEAP 2007 (maximum)	206,773	–	–	–	206,773	10 04 2007	420 8
LEAP 2008 (maximum)	242,187	–	–	–	242,187	04 04 2008	383 8
LEAP 2009 (maximum)	–	366,963	–	–	366,963	07 04 2009	252 25
Richard Adam							
LEAP 2007 (maximum)	180,629	–	–	–	180,629	10 04 2007	420 8
LEAP 2008 (maximum)	156,250	–	–	–	156,250	04 04 2008	383 8
LEAP 2009 (maximum)	–	236,750	–	–	236,750	07 04 2009	252 25
Don Kenny							
LEAP 2006 (maximum)	71,202	–	71,202	–	Nil	06 07 2006	319 0
LEAP 2007 (maximum)	98,039	–	–	–	98,039	10 04 2007	420 8
LEAP 2008 (maximum)	119,140	–	–	–	119,140	04 04 2008	383 8
LEAP 2009 (maximum)	–	180,522	–	–	180,522	07 04 2009	252 25
Richard Howson*							
LEAP 2007 (maximum)	19,013	–	–	–	19,013	10 04 2007	420 8
LEAP 2008 (maximum)	29,296	–	–	–	29,296	04 04 2008	383 8
LEAP 2009 (maximum)	–	68,544	–	–	68,544	07 04 2009	252 25
David Hurcomb*							
LEAP 2006 (maximum)	26,898	–	26,898	–	Nil	06 07 2006	319 0
LEAP 2007 (maximum)	53,475	–	–	–	53,475	10 04 2007	420 8
LEAP 2008 (maximum)	107,421	–	–	35,808	71,613	04 04 2008	383 8
LEAP 2009 (maximum)	–	162,765	–	162,765	Nil	07 04 2009	252 25
Roger Robinson*							
LEAP 2006 (maximum)	137,658	–	119,304	18,354	Nil	06 07 2006	319 0
LEAP 2007 (maximum)	121,675	–	–	44,108	77,567	10 04 2007	420 8
LEAP 2008 (maximum)	142,578	–	–	83,170	59,408	04 04 2008	383 8

The LEAP 2006 performance condition was, at level 4, met at 130% with the result that John McDonough became entitled to 189,240 shares.

On 27 August 2009, 189,240 shares vested to John McDonough, 26,898 to David Hurcomb, 71,202 to Don Kenny and 119,304 to Roger Robinson. The market price of Carillion shares on 27 August 2009 was 294 0 pence. The net asset value received by these Directors/former Director was therefore, respectively, £556,366, £79,080, £209,334 and £350,753.

* Roger Robinson retired from the Board on 6 May 2009 and David Hurcomb on 8 December 2009. Richard Howson was appointed to the Board on 10 December 2009.

Remuneration report

continued

Share options held by Executive Directors

The number of options over Carillion plc shares held by Executive Directors of the Company under the Executive Share Option Scheme (ESOS) and Sharesave scheme as at 31 December 2009 are shown below. This is audited information.

	As at 1 January 2009 Number	Granted during the year Number	Exercised during the year Number	Options lapsing during the year Number	As at 31 December 2009 Number	Exercise price Pence	Earliest date from which exercisable	Expiry date	Mid market share price on date of grant Pence
John McDonough									
ESOS 2001	501,930	–	–	–	501,930	129.5	09 01 04	09 01 11	135.5
ESOS 2002	254,532	–	–	–	254,532	210.7	19 03 05	19 03 12	197.5
ESOS 2003	150,795	–	–	–	150,795	163.4	01 07 06	01 07 13	159.0
ESOS 2004	124,728	–	–	–	124,728	184.9	31 03 07	31 03 14	187.0
Don Kenny									
ESOS 2002	123,801	–	123,801	–	Nil	125.2	17 10 05	17 10 12	128.0
ESOS 2003	60,709	–	60,709	–	Nil	163.4	01 07 06	01 07 13	159.0
ESOS 2004	53,894	–	53,894	–	Nil	184.9	31 03 07	31 03 14	187.0
David Hurcomb									
ESOS 2005	30,895	–	30,895	–	Nil	242.75	15 03 08	15 03 15	244.5
Sharesave 2006	840	–	–	–	840	337.5	01 02 10	30 07 10	385.0

Don Kenny exercised Executive Share Options on 14 September 2009. The market price of Carillion Shares on this date was 293 pence. The net asset value received by Don Kenny was therefore £344,676. Similarly, David Hurcomb exercised an Executive Share Option on 25 November 2009 when the market price of Carillion shares was 300 pence. The net asset value received by David Hurcomb was £17,687.

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

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

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

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

At 31 December 2009, Executive Share Options were outstanding over 1,408,032 shares (2008: 1,754,361 shares) under both schemes at exercise prices ranging from 129.5 pence to 210.7 pence.

The option over 254,532 shares at an option price of 210.7 pence granted to John McDonough in March 2002 was made later in the year than had been specified at the time of his appointment which resulted in an increased option price of 67.3 pence. Therefore, in order to ensure that he will be in no worse nor better a position as a result of the delay in the grant, a maximum cash adjustment of 67.3 pence per share (less tax) will be made when and if the option is exercised.

Sharesave options were granted in November 1999 over 6,140,194 shares, in October 2002 over 3,995,803 shares and in November 2006 over 2,580,461 shares. At 31 December 2009, options over 1,349,565 ordinary shares of 50 pence each were outstanding under the Sharesave Scheme (2008 1,684,664 ordinary shares of 50 pence each)

There have been no changes to the interests of Executive Directors in share incentives and options in the period 1 January to 3 March 2010

Employee Benefit Trust

An employee benefit trust was established to acquire shares in Carillion plc and hold them for the benefit of participants (including Executive Directors) in the share incentive and share option schemes. During 2009, 1,400,000 shares were issued to the Trust. At 31 December 2009, the Trust held 362,909 Carillion shares (2008 419,827 shares) 0.09 per cent of the issued share capital (2008 0.11 per cent) acquired over a period in the open market and which have a carrying value of £1.1 million (2008 £1.3 million). The market value of the shares held at 31 December 2009 was £1.1 million (2008 £1.0 million).

Additionally, a Qualifying Employee Share Ownership Trust (QUEST) operates in conjunction with Carillion in providing shares to employees under its Sharesave Scheme. At 31 December 2009, the QUEST held 134,683 Carillion shares (2008 8,904 shares) (0.03 per cent of the issued share capital (2008 0.002 per cent) at subscription prices ranging from 115.5 pence to 296.25 pence per share, to enable it to satisfy, as and when required, options granted under the Sharesave Scheme. The market value of the shares held by the QUEST at 31 December 2009 was £409,167 (2008 £22,100).

For details of dividends paid to the above trusts see Note 24 to the consolidated financial statements on page 89.

The closing mid-market price of Carillion shares at 31 December 2009 and the highest and lowest mid-market prices during the year were as follows

	Share price Pence
31 December 2009	303.8
High (16 November)	312.5
Low (23 February)	206.5

Total Shareholder Return (TSR) Performance Graph

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

TSR graph for period 1 January 2005 to 31 December 2009

Approved by order of the Board

D N C Garman

Chairman of the Remuneration Committee
3 March 2010

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 IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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

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

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

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

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

Directors' responsibility statement

Each of the Directors of Carillion plc, whose names and functions are set out on pages 34 and 35, 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 2009 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 2009 Annual Report and Accounts, includes a fair review of the development and performance of the business and the position of Carillion plc and the Carillion Group taken as a whole, together with principal risks and uncertainties they face

Disclosure of information to auditors

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

Approved by order of the Board

Richard Adam FCA
Group Finance Director
3 March 2010

Independent auditors' report to the members of Carillion plc

We have audited the financial statements of Carillion plc for the year ended 31 December 2009 set out on pages 56 to 121. 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 auditors' 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 auditors

As explained more fully in the Directors' Responsibilities Statement 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 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 web-site at www.frc.org.uk/apb/scope/UKP.

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 2009 and of the Group's profit for the year then ended,
- > the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- > the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- > the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- > the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

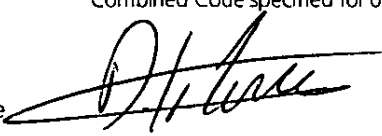
Matters on which we are required to report by exception

We have nothing to report in respect of the following. Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- > the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- > certain disclosures of Directors' remuneration specified by law are not made, or
- > we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- > the Directors' statement, set out on page 29, in relation to going concern, and
- > the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



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

3 March 2010

Consolidated income statement

For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Total revenue		5,426 5	5,205 8
Less Share of jointly controlled entities' revenue		(922 3)	(772 0)
Group revenue	2	4,504 2	4,433 8
Cost of sales		(4,154 4)	(4,069 4)
Gross profit		349 8	364 4
Administrative expenses		(262 4)	(329 8)
Other operating (expense)/income	3	(2 5)	8 3
Group operating profit	3	84 9	42 9
Analysed between			
Group operating profit before intangible amortisation, impairment of other investments and non-recurring operating items		130 9	120 1
Intangible amortisation and impairment of other investments	4	(30 8)	(54 5)
Non-recurring operating items ⁽¹⁾	5	(15 2)	(22 7)
Share of results of jointly controlled entities	2	65 9	45 1
Analysed between			
Operating profit		86 4	74 0
Net financial expense		(14 0)	(18 2)
Taxation		(6 5)	(10 7)
Profit from operations		150 8	88 0
Analysed between			
Profit from operations before intangible amortisation, impairment of other investments and non-recurring operating items		196 8	165 2
Intangible amortisation and impairment of other investments	4	(30 8)	(54 5)
Non-recurring operating items ⁽¹⁾	5	(15 2)	(22 7)
Non-operating items	5	11 5	35 6
Net financial expense	6	(14 6)	(7 7)
Analysed between			
Financial income		113 4	137 4
Financial expense		(128 0)	(145 1)
Profit before taxation		147 7	115 9
Analysed between			
Profit before taxation, intangible amortisation, impairment of other investments, non-recurring operating items and non-operating items		182 2	157 5
Intangible amortisation and impairment of other investments	4	(30 8)	(54 5)
Non-recurring operating items ⁽¹⁾	5	(15 2)	(22 7)
Non-operating items	5	11 5	35 6
Taxation	8	(11 5)	(4 1)
Profit for the year		136 2	111 8
Profit attributable to:			
Equity holders of the parent		132 4	108 3
Minority interests		3 8	3 5
Profit for the year		136 2	111 8
Earnings per share	9		
Basic		33 4p	28 4p
Diluted		33 2p	28 2p

(1) This includes rationalisation costs, curtailment gain and the Office of Fair Trading penalty (see note 5)

Consolidated statement of comprehensive income

For the year ended 31 December 2009

	2009		2008 ⁽¹⁾
	£m	£m	£m
Profit for the year		136 2	111 8
Net gain/(loss) on hedge of net investment in foreign operations	1 0		(8 9)
Currency translation differences on foreign operations	(20 0)		8 9
Currency translation differences relating to minority interests	0 1		0 2
Actuarial losses on defined benefit pension schemes	(220 0)		(92 7)
	(238 9)		(92 5)
Taxation in respect of the above	61 3		27 8
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	9 9		10 4
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	(8 3)		(13 1)
Other comprehensive expense for the year		(176 0)	(67 4)
Total comprehensive (expense)/income for the year		(39 8)	44 4
Attributable to			
Equity holders of the parent		(43 7)	40 7
Minority interests		3 9	3 7
		(39 8)	44 4

(1) Restated on adoption of IFRIC 14 (see note 33)

Consolidated statement of changes in equity

For the year ended 31 December 2009

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Equity share-holders funds £m	Minority interests £m	Total equity £m
At 1 January 2009 as previously reported	197 8	12 9	(0 9)	(17 0)	–	449 1	227 3	869 2	3 4	872 6
Impact of adoption of IFRIC 14	–	–	–	–	–	–	(5 0)	(5 0)	–	(5 0)
At 1 January 2009 as restated	197 8	12 9	(0 9)	(17 0)	–	449 1	222 3	864 2	3 4	867 6
Total comprehensive income ⁽¹⁾	–	–	(19 2)	1 6	–	–	(26 1)	(43 7)	3 9	(39 8)
New share capital issued	0 8	3 9	–	–	–	–	–	4 7	–	4 7
Acquisition of own shares	–	–	–	–	–	–	(4 2)	(4 2)	–	(4 2)
Share options exercised by employees	–	–	–	–	–	–	0 5	0 5	–	0 5
Equity settled transactions (net of deferred tax)	–	–	–	–	–	–	2 8	2 8	–	2 8
Transfer between reserves	–	–	–	–	–	(29 7)	29 7	–	–	–
Dividends paid	–	–	–	–	–	–	(53 4)	(53 4)	(1 0)	(54 4)
At 31 December 2009	198 6	16 8	(20 1)	(15 4)	–	419 4	171 6	770 9	6 3	777 2
At 1 January 2008 as previously reported	140 6	8 6	(2 8)	(14 3)	0 9	166 2	202 4	501 6	1 3	502 9
Impact of adoption of IFRIC 14	–	–	–	–	–	–	(15 6)	(15 6)	–	(15 6)
At 1 January 2008 as restated	140 6	8 6	(2 8)	(14 3)	0 9	166 2	186 8	486 0	1 3	487 3
Total comprehensive income ⁽¹⁾	–	–	1 9	(2 7)	–	–	41 5	40 7	3 7	44 4
New share capital issued	57 2	4 3	–	–	–	325 0	–	386 5	–	386 5
Acquisition of own shares	–	–	–	–	–	–	(4 7)	(4 7)	–	(4 7)
Equity settled transactions (net of deferred tax)	–	–	–	–	–	–	2 4	2 4	–	2 4
Transfer to income statement	–	–	–	–	(0 9)	–	–	(0 9)	–	(0 9)
Transfer between reserves	–	–	–	–	–	(42 1)	42 1	–	–	–
Dividends paid	–	–	–	–	–	–	(45 8)	(45 8)	(1 6)	(47 4)
At 31 December 2008	197 8	12 9	(0 9)	(17 0)	–	449 1	222 3	864 2	3 4	867 6

(1) Restated on adoption of IFRIC 14 (see note 33)

Consolidated balance sheet

	Note	At 31 December 2009 £m	At 31 December 2008 ⁽¹⁾ £m	At 1 January 2008 ⁽¹⁾ £m
Assets				
Non-current assets				
Property, plant and equipment	11	168 2	167 2	131 5
Intangible assets	12	1,241 3	1,276 9	555 8
Retirement benefit assets	31	2 6	37 1	11 6
Investments in jointly controlled entities	13	133 3	238 6	185 9
Other investments	14	43 8	–	14 5
Deferred tax assets	15	132 5	103 9	13 7
Total non-current assets		1,721 7	1,823 7	913 0
Current assets				
Inventories	16	37 2	44 6	30 5
Trade and other receivables	18	1,038 4	1,186 8	858 7
Cash and cash equivalents	19	267 2	257 3	327 5
Income tax receivable		4 6	0 6	2 2
Derivative financial instruments	27	1 0	1 1	–
Total current assets		1,348 4	1,490 4	1,218 9
Total assets		3,070 1	3,314 1	2,131 9
Liabilities				
Current liabilities				
Borrowing	20	(54 0)	(58 0)	(13 9)
Derivative financial instruments	27	–	–	(0 7)
Trade and other payables	21	(1,683 6)	(1,721 8)	(1,175 7)
Provisions	22	(12 5)	(23 4)	(6 9)
Income tax payable		(11 3)	(3 1)	(2 3)
Total current liabilities		(1,761 4)	(1,806 3)	(1,199 5)
Non-current liabilities				
Borrowing	20	(188 3)	(426 0)	(358 5)
Retirement benefit liabilities	31	(296 4)	(146 2)	(57 5)
Deferred tax liabilities	15	(37 3)	(60 0)	(22 4)
Provisions	22	(9 5)	(8 0)	(6 7)
Total non-current liabilities		(531 5)	(640 2)	(445 1)
Total liabilities		(2,292 9)	(2,446 5)	(1,644 6)
Net assets		777 2	867 6	487 3
Equity				
Share capital	23	198 6	197 8	140 6
Share premium		16 8	12 9	8 6
Translation reserve	24	(20 1)	(0 9)	(2 8)
Hedging reserve	24	(15 4)	(17 0)	(14 3)
Fair value reserve	24	–	–	0 9
Merger reserve	24	419 4	449 1	166 2
Retained earnings	24	171 6	222 3	186 8
Equity attributable to shareholders of the parent		770 9	864 2	486 0
Minority interests		6 3	3 4	1 3
Total equity		777 2	867 6	487 3

(1) Restated on adoption of IFRIC 14 (see note 33)

The financial statements were approved by the Board of Directors on 3 March 2010 and were signed on its behalf by



Richard Adam FCA
Group Finance Director

Consolidated cash flow statement

For the year ended 31 December 2009

	Note	2009 £m	2008 £m
Cash flows from operating activities			
Group operating profit		84 9	42 9
Depreciation, amortisation and impairment		67 7	86 5
Loss/(profit) on disposal of property, plant and equipment		2 5	(8 3)
Share-based payment expense		3 9	3 4
Other non-cash movements		(4 5)	(7 9)
Non-recurring operating items		15 2	22 7
Operating profit before changes in working capital		169 7	139 3
Decrease in inventories		4 1	4 1
Decrease/(increase) in trade and other receivables		107 3	(130 1)
(Decrease)/increase in trade and other payables		(51 5)	160 0
Cash generated from operations before pension deficit recovery payments and restructuring costs		229 6	173 3
Deficit recovery payments to pension schemes		(29 0)	(50 5)
Restructuring costs		(17 1)	(32 4)
Cash generated from operations		183 5	90 4
Financial income received		11 6	17 1
Financial expense paid		(23 3)	(36 6)
Taxation		2 9	4 7
Net cash flows from operating activities		174 7	75 6
Cash flows from investing activities			
Disposal of property, plant and equipment		5 5	20 5
Disposal of investments in jointly controlled entities		100 7	85 8
Dividends received from jointly controlled entities		38 6	25 0
Disposal of businesses, net of cash disposed of	30	57 2	–
Acquisition of subsidiaries, net of cash acquired	30	–	(138 2)
Acquisition of intangible assets		(4 3)	(2 7)
Acquisition of property, plant and equipment		(48 5)	(44 2)
Acquisition of equity in and net loan advances to jointly controlled entities		(15 2)	(28 4)
Acquisition of other non-current asset investments		–	(1 7)
Net cash flows from investing activities		134 0	(83 9)
Cash flows from financing activities			
Proceeds from issue of share capital		1 0	0 3
Repayment of bank and other loans		(233 6)	(7 8)
Payment of finance lease liabilities		(16 8)	(16 3)
Dividends paid to equity holders of the parent		(53 4)	(45 8)
Dividends paid to minority interests		(1 0)	(1 6)
Net cash flows from financing activities		(303 8)	(71 2)
Increase/(decrease) in net cash and cash equivalents		4 9	(79 5)
Net cash and cash equivalents at 1 January		250 0	323 8
Effect of exchange rate fluctuations on net cash and cash equivalents		(2 5)	5 7
Net cash and cash equivalents at 31 December	19	252 4	250 0

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 2009 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 3 March 2010.

Statement of compliance

The Group's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its parent company financial statements in accordance with UK GAAP. These are presented on pages 114 to 121.

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 29.

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 and financial instruments classified as available-for-sale.

The following relevant standards and interpretations have been adopted in 2009 as they are mandatory for the year ended 31 December 2009:

- > Amendments to International Accounting Standard (IAS) 1 'Presentation of financial statements – A revised presentation'
- > Revised International Accounting Standard 23 'Borrowing costs'
- > International Financial Reporting Standard (IFRS) 8 – 'Operating segments'
- > International Financial Reporting Interpretations Committee (IFRIC) 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction'
- > Amendments to International Financial Reporting Standard 2 'Share-based payment – vesting conditions and cancellations'
- > Amendments to International Financial Reporting Standard 7 'Improving disclosures about financial instruments'

IAS 1 'Presentation of financial statements – A revised presentation' requires the presentation of a consolidated statement of changes in equity as a primary statement rather than as a note. Since the changes are presentational only, there is no impact on profit, earnings per share or net assets.

Revised IAS 23 'Borrowing costs' requires the Group to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Previously, Group subsidiaries immediately recognised all borrowing costs as an expense. Revised IAS 23 has been applied prospectively from 1 January 2009 and has no material impact on profit, earnings per share or net assets in the year ended 31 December 2009.

IFRS 8 'Operating segments' requires operating segments to be identified on the basis of information that internally is provided to the Group Chief Executive, who is the Group's chief operating decision maker. Following the adoption of IFRS 8, Middle East construction services has been classified as a separate operating segment, whereas previously it was a component of the Construction services segment. In addition, IFRS 8 requires the Group to disclose on a segmental basis the revenue that is derived from individual customers that amounts to 10 per cent or more of Group revenue. Since the changes are presentational only, there is no impact on profit, earnings per share or net assets.

IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction' limits the amount of defined benefit pension assets which can be recognised on certain schemes where the Group does not have an unconditional right to the refund of any surplus which may exist. This results in the derecognition of any surplus and the recognition of a liability for deficit funding arrangements. Comparative information has been restated for the effect of the retrospective application of IFRIC 14, the impact of which has been to reduce net assets at 1 January 2009 by £5.0m (see note 33). The adoption of IFRIC 14 has no impact on profit or earnings per share.

The adoption of Amendments to IFRS 2 'Share based payment – vesting conditions and cancellations' and Amendments to IFRS 7 'Improving disclosures about financial instruments' in the current year has had no impact on the financial statements.

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS, which are mandatory for the year ending 31 December 2009, have been adopted in 2009. None of these amendments have had a material impact on the Group's financial statements.

Notes to the consolidated financial statements

continued

1. Significant accounting policies (continued)

The following standards and interpretations are effective for the year ended 31 December 2010

- > International Accounting Standard 27 'Consolidated and separate financial statements (revised 2008)'
- > International Financial Reporting Interpretations Committee 12 'Service concession arrangements'
- > Revised International Financial Reporting Standard 3 'Business combinations'
- > International Financial Reporting Interpretations Committee 15 'Construction of Real Estate'
- > International Financial Reporting Interpretations Committee 16 'Hedges of a net investment in a foreign operation'

The Group has considered the impact of these new standards and interpretations in future periods on profit, earnings per share and net assets. The only impact of the above is in relation to International Financial Reporting Committee 12, which is expected to reduce net assets at 1 January 2010 by £9.2 million. The Group has chosen not to early adopt any of the above standards and interpretations.

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 2009. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent Company.

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

(b) Joint ventures

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

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

- > Carillion Enterprise Ltd
- > Modern Housing Solutions (Prime) Ltd

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

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

Goodwill and other intangible assets

Goodwill arising on acquisitions that have occurred since 1 January 2004 represents the difference between the fair value of the cost of acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired entity. Consideration includes the attributable costs of the acquisition. In respect of acquisitions prior to 1 January 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice.

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

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

Computer software and licences

- > straight-line over three to five years

Customer contracts and lists

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

1. Significant accounting policies (continued)

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 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.

Revenue recognition

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

Notes to the consolidated financial statements

continued

1. Significant accounting policies (continued)

Property, plant and equipment

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

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

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

Leasing

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

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

Inventories

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

Taxation

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

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

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

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

Foreign currencies

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

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

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

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

Employee benefits

(a) Retirement benefit obligations

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

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

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

1. Significant accounting policies (continued)

The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of the scheme liabilities over the fair value of scheme assets. When the calculation results in an asset to the Group, the amount recognised is limited on certain schemes where the Group does not have an unconditional right to refund of any surplus which may exist. Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of comprehensive income in the year.

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

(b) Other post-retirement benefit obligations

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

(c) Share-based payments

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

The fair value of the LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model. For both schemes the fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest.

Borrowing costs

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

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

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

Share capital

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

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

Provisions

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

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

Financial instruments

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

(a) Other non-current investments

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

(b) Trade receivables

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

(c) Cash and cash equivalents

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

(d) Trade payables

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

Notes to the consolidated financial statements

continued

1. Significant accounting policies (continued)

(e) Bank and other borrowings

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

(f) Derivative financial instruments

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

A number of the Group's PPP jointly controlled entities have entered into interest rate derivatives as a means of hedging interest rate risk. The effective part of the change in fair value of these 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 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.

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.

Operating segments

The Group is comprised of the following main operating segments:

Support services

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

Public Private Partnership projects

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

Middle East construction services

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

Construction services (excluding the Middle East)

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

2 Segmental reporting (continued)

Segmental revenue and profit

	2009		2008	
	Revenue £m	Operating profit before intangible amortisation, impairment and non-recurring operating items £m	Revenue £m	Operating profit before intangible amortisation, impairment and non-recurring operating items £m
Support services				
Group	2,108 3	102 9	2,227 1	99 5
Share of jointly controlled entities	281 2	14 8	236 4	14 0
	2,389 5	117 7	2,463 5	113 5
Inter-segment	117 7	–	124 3	–
Total	2,507 2	117 7	2,587 8	113 5
Public Private Partnership projects				
Group	1 1	–	0 9	(0 2)
Share of jointly controlled entities	214 5	32 2	177 5	30 0
	215 6	32 2	178 4	29 8
Inter-segment	–	–	–	–
Total	215 6	32 2	178 4	29 8
Middle East construction services				
Group	130 2	6 8	111 7	6 4
Share of jointly controlled entities	423 4	40 2	352 5	28 1
	553 6	47 0	464 2	34 5
Inter-segment	–	–	–	–
Total	553 6	47 0	464 2	34 5
Construction services (excluding the Middle East)				
Group	2,264 6	31 7	2,094 1	26 8
Share of jointly controlled entities	3 2	(0 8)	5 6	1 9
	2,267 8	30 9	2,099 7	28 7
Inter-segment	57 7	–	39 5	–
Total	2,325 5	30 9	2,139 2	28 7
Group eliminations and unallocated items	(175 4)	(10 5)	(163 8)	(12 4)
Consolidated				
Group	4,504 2	130 9	4,433 8	120 1
Share of jointly controlled entities	922 3	86 4	772 0	74 0
Total	5,426 5	217 3	5,205 8	194 1

Notes to the consolidated financial statements

continued

2 Segmental reporting (continued)

Segmental revenue and profit (continued)

	2009 £m	2008 £m
Group and share of jointly controlled entities' operating profit before intangible amortisation, impairment of other investments and non-recurring operating items	217 3	194 1
Net financial expense		
– Group	(14 6)	(7 7)
– Share of jointly controlled entities	(14 0)	(18 2)
Share of jointly controlled entities' taxation	(6 5)	(10 7)
Underlying profit before taxation	182 2	157 5
Intangible amortisation and impairment of other investments ⁽¹⁾	(30 8)	(54 5)
Non-recurring operating items ⁽¹⁾	(15 2)	(22 7)
Non-operating items ⁽¹⁾	11 5	35 6
Profit before taxation	147 7	115 9
Taxation	(11 5)	(4 1)
Profit for the year	136 2	111 8

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

	2009			2008		
	Intangible amortisation £m	Non-recurring operating items £m	Non-operating items £m	Intangible amortisation and impairment ⁽²⁾ £m	Non-recurring operating items £m	Non-operating items £m
Support services	(22 5)	(4 6)	10 3	(31 5)	(17 5)	–
Public Private Partnership projects	–	–	1 2	(11 7)	(0 4)	35 6
Construction services (excluding the Middle East)	(8 3)	(9 7)	–	(11 3)	(21 1)	–
Unallocated Group items	–	(0 9)	–	–	16 3	–
Total	(30 8)	(15 2)	11 5	(54 5)	(22 7)	35 6

Depreciation, amortisation and impairment and capital expenditure arise in the following segments

	2009		2008	
	Depreciation and amortisation £m	Capital expenditure £m	Depreciation, amortisation and impairment ⁽²⁾ £m	Capital expenditure £m
Support services	(42 5)	(30 3)	(50 2)	(17 1)
Public Private Partnership projects	–	–	(11 7)	–
Middle East construction services	(2 0)	(1 9)	(1 2)	(4 1)
Construction services (excluding the Middle East)	(11 1)	(4 3)	(13 8)	(4 7)
Unallocated Group items	(12 1)	(16 6)	(9 6)	(23 1)
Total	(67 7)	(53 1)	(86 5)	(49 0)

(2) Includes impairment of other investments within Public Private Partnership projects of £11.7 million

2 Segmental reporting (continued)

Segmental net assets

	2009			2008 ⁽¹⁾		
	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 arising from business combinations	956 5	–	956 5	986 7	–	986 7
Operating assets	434 4	–	434 4	541 2	–	541 2
Investments	9 7	–	9 7	9 8	–	9 8
Total operating assets	1,400 6	–	1,400 6	1,537 7	–	1,537 7
Total operating liabilities	–	(528 9)	(528 9)	–	(651 9)	(651 9)
Net operating assets/(liabilities)	1,400 6	(528 9)	871 7	1,537 7	(651 9)	885 8
Public Private Partnership projects						
Operating assets	5 5	–	5 5	2 5	–	2 5
Investments	79 2	–	79 2	136 8	–	136 8
Total operating assets	84 7	–	84 7	139 3	–	139 3
Total operating liabilities	–	(15 4)	(15 4)	–	(9 2)	(9 2)
Net operating assets/(liabilities)	84 7	(15 4)	69 3	139 3	(9 2)	130 1
Middle East construction services						
Operating assets	101 6	–	101 6	71 6	–	71 6
Investments	48 0	–	48 0	42 7	–	42 7
Total operating assets	149 6	–	149 6	114 3	–	114 3
Total operating liabilities	–	(127 0)	(127 0)	–	(86 2)	(86 2)
Net operating assets/(liabilities)	149 6	(127 0)	22 6	114 3	(86 2)	28 1
Construction services (excluding the Middle East)						
Intangible assets arising from business combinations	276 0	–	276 0	283 9	–	283 9
Operating assets	583 4	–	583 4	629 3	–	629 3
Investments	40 2	–	40 2	49 3	–	49 3
Total operating assets	899 6	–	899 6	962 5	–	962 5
Total operating liabilities	–	(939 6)	(939 6)	–	(901 0)	(901 0)
Net operating assets/(liabilities)	899 6	(939 6)	(40 0)	962 5	(901 0)	61 5
Consolidated before Group items						
Intangible assets arising from business combinations	1,232 5	–	1,232 5	1,270 6	–	1,270 6
Operating assets	1,124 9	–	1,124 9	1,244 6	–	1,244 6
Investments	177 1	–	177 1	238 6	–	238 6
Total operating assets	2,534 5	–	2,534 5	2,753 8	–	2,753 8
Total operating liabilities	–	(1,610 9)	(1,610 9)	–	(1,648 3)	(1,648 3)
Net operating assets/(liabilities) before Group items	2,534 5	(1,610 9)	923 6	2,753 8	(1,648 3)	1,105 5
Group items						
Deferred tax	132 5	(37 3)	95 2	103 9	(60 0)	43 9
Net borrowing	267 2	(242 3)	24 9	257 3	(484 0)	(226 7)
Retirement benefits (gross of taxation)	2 6	(296 4)	(293 8)	37 1	(146 2)	(109 1)
Income tax	4 6	(11 3)	(6 7)	0 6	(3 1)	(2 5)
Other	128 7	(94 7)	34 0	161 4	(104 9)	56 5
Net assets/(liabilities)	3,070 1	(2,292 9)	777 2	3,314 1	(2,446 5)	867 6

(1) Restated on adoption of IFRIC 14 (see note 33)

Notes to the consolidated financial statements

continued

2. Segmental reporting (continued)

Geographic information – by origin

	2009 £m	2008 £m
United Kingdom		
Total revenue from external customers	4,241 2	4,377 1
Less share of jointly controlled entities' revenue	(437 8)	(359 8)
Group revenue from external customers	3,803 4	4,017 3
Non-current assets	1,414 9	1,523 8
Middle East		
Total revenue from external customers	564 4	473 6
Less share of jointly controlled entities' revenue	(434 2)	(361 9)
Group revenue from external customers	130 2	111 7
Non-current assets	53 7	51 6
Canada and the Caribbean		
Total revenue from external customers	541 2	301 8
Less share of jointly controlled entities' revenue	(3 6)	(7 5)
Group revenue from external customers	537 6	294 3
Non-current assets	114 6	102 2
Rest of the World		
Total revenue from external customers	79 7	53 3
Less share of jointly controlled entities' revenue	(46 7)	(42 8)
Group revenue from external customers	33 0	10 5
Non-current assets	3 4	5 1
Consolidated		
Total revenue from external customers	5,426 5	5,205 8
Less share of jointly controlled entities' revenue	(922 3)	(772 0)
Group revenue from external customers	4,504 2	4,433 8
Non-current assets		
Total of geographic analysis above	1,586 6	1,682 7
Retirement benefit assets	2 6	37 1
Deferred tax assets	132 5	103 9
Total non-current assets	1,721 7	1,823 7

2 Segmental reporting (continued)

Revenues from the Group's major customer is shown below

	Support services		Public Private Partnership projects		Construction services		Total	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m
UK Government	823.8	856.4	175.3	172.8	1,065.6	1,082.1	2,064.7	2,111.3

3 Group operating profit

	2009 £m	2008 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	34.7	30.6
Amortisation of intangible assets	33.0	44.2
Impairment of trade receivables	2.9	3.4
Impairment of other non-current asset investments	–	11.7
Other operating (expense)/income – loss/(profit) on disposal of property, plant and equipment	2.5	(8.3)
Operating lease charges	82.6	106.0
Foreign exchange gains	(2.3)	(6.7)
Loss on derivative financial assets and liabilities held for trading	0.1	1.8
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the annual accounts	0.3	0.4
Fees payable to the Company's auditor and its associates for other services		
– Audit of the Company's subsidiaries, pursuant to legislation	0.8	1.2
– Other services pursuant to legislation	0.1	0.2
– Taxation services	0.3	0.4
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 associated with the acquisition of Alfred McAlpine in 2008 of £0.8 million and the acquisition of the Vanbots Group in 2008 of £0.1 million. Such fees are treated as attributable costs of acquisition. There were no such fees in 2009.

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 £0.1 million (2008: £0.1 million).

4 Intangible amortisation and impairment of other investments

	2009 £m	2008 £m
Amortisation of intangible assets arising from business combinations	(30.8)	(42.8)
Impairment of other investments	–	(11.7)
	(30.8)	(54.5)

Following the project being placed in administration, an impairment charge of £11.7 million was recognised in 2008 in relation to the Alice Springs to Darwin railway investment which is classified as part of other non-current investments in the balance sheet.

Notes to the consolidated financial statements

continued

5. Non-recurring operating items and non-operating items

Non-recurring operating items

	2009 £m	2008 £m
Curtailment gain	0.1	35.5
Rationalisation costs	(9.9)	–
Alfred McAlpine integration and reorganisation costs	–	(55.0)
Vanbots Group integration and reorganisation costs	–	(3.2)
Office of Fair Trading penalty	(5.4)	–
	(15.2)	(22.7)

As part of the Group's strategy for managing defined benefit pension scheme risk, the benefits for members of the Alfred McAlpine Pension Plan will no longer be linked to final salary with effect from 31 December 2009 resulting in a curtailment gain of £0.1 million (net of expenses of £3.2 million). Following the completion of a consultation process on the closure to future accrual of four defined benefit schemes in December 2008, a curtailment gain of £35.5 million (net of expenses of £2.8 million) was recognised in 2008. There is no deferred tax relating to curtailment gains in 2009 (2008: £9.9 million).

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

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

Alfred McAlpine and Vanbots Group integration and reorganisation costs in 2008 primarily relate to redundancy and property exit costs arising from a review of the Group's requirements following the acquisition of these businesses in 2008.

An income tax credit of £2.8 million (2008: £16.5 million) relating to the above has been included within taxation in the income statement.

Non-operating items

	2009 £m	2008 £m
Profit on disposal of investments in jointly controlled entities	1.2	35.6
Profit on disposal of businesses	10.3	–
	11.5	35.6

Further disclosure on the Group's sale of businesses and investments in jointly controlled entities can be found in note 30.

There is no income tax associated with any of the non-operating items in either 2009 or 2008.

6 Financial income and expense

	2009 £m	2008 £m
Financial income		
Bank interest receivable	11	73
Other interest receivable	105	98
Expected return on retirement plan assets	1018	1203
	1134	1374
Financial expense		
Interest payable on bank loans and overdrafts	(105)	(259)
Other interest payable and similar charges	(135)	(115)
Interest cost on retirement plan obligations	(1040)	(1077)
	(1280)	(1451)
Net financial expense	(146)	(77)

Other interest payable and similar charges includes finance lease charges of £4.1 million (2008: £4.6 million)

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

7 Payroll costs and employee numbers

	2009 £m	2008 £m
Wages and salaries	8895	8696
Social security costs	802	875
Pension costs/(income)	253	(25)
Equity settled transactions	39	34
	9989	9580

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 £3.3 million (2008: £38.3 million) and a charge of £20.5 million (2008: £10.5 million) in respect of defined contribution schemes. The curtailment gain of £38.3 million in 2008 arose following the closure of a number of defined benefit pension schemes to future accrual.

Detailed information concerning Directors' remuneration, including their pension benefits and long term incentive arrangements, is set out in the Remuneration Report on pages 47 to 53.

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

	2009 Number	2008 Number
Support services	20,350	23,026
Public Private Partnership projects	37	46
Middle East construction services	4,578	4,902
Construction services (excluding the Middle East)	8,032	7,287
Corporate centre	315	378
	33,312	35,639
UK	23,972	27,541
Overseas	9,340	8,098
	33,312	35,639

In addition to the above there are 18,448 staff (2008: 22,839) employed within the Group's jointly controlled entities located in the Middle East.

Notes to the consolidated financial statements

continued

8 Income tax

Recognised in the income statement

	2009 £m	2008 £m
Current tax expense		
Current year		
– UK	0.9	2.6
– Overseas	5.1	2.9
Adjustments for prior years		
– UK	(4.1)	0.3
– Overseas	(0.7)	(1.8)
Total current tax	1.2	4.0
Deferred tax expense		
Origination and reversal of temporary differences	5.7	6.9
Adjustments for prior years	4.6	(6.8)
Total deferred tax	10.3	0.1
Total income tax expense in the income statement	11.5	4.1

Reconciliation of effective tax rate

	2009 £m	2008 £m
Profit before tax	147.7	115.9
Tax of jointly controlled entities	6.5	10.7
	154.2	126.6
Income tax at UK standard corporation tax rate of 28.0% (2008: 28.5%)	43.2	36.1
Permanent differences	3.0	1.2
Unrelieved trade losses	4.8	1.1
Capital items not taxable	(8.0)	(8.3)
Effect of tax losses utilised	(3.8)	(1.1)
Effect of tax rates in foreign jurisdictions	(12.4)	(1.9)
Effect of foreign profits exemption	(8.6)	–
Over provided in prior years	(0.2)	(8.3)
Recognition of deferred tax on prior year losses	–	(4.0)
Total tax (including tax of jointly controlled entities)	18.0	14.8
Tax of jointly controlled entities	(6.5)	(10.7)
Group income tax expense	11.5	4.1

The introduction of the foreign profits exemption with effect from 1 July 2009 has had a twofold impact on the current year tax charge. Firstly, current year profits earned in low tax jurisdictions no longer require the provision of a taxable temporary adjustment, the impact of which is included within 'Effect of tax rates in foreign jurisdictions'. Secondly, it has allowed the release of the liability that was associated with the taxable temporary differences that arose on the historical unremitted earnings from investments overseas.

The amount over provided in prior years of £0.2 million includes £Nil (2008: £8.3 million) attributable to the agreement of certain issues with the tax authorities and the release of a taxable timing difference associated with an investment in an overseas subsidiary.

Tax (asset)/liability recognised directly in equity

	2009 £m	2008 £m
Deferred tax on actuarial losses on defined benefit pension schemes	(61.5)	(25.9)
Current tax on foreign exchange translation adjustments	0.2	(1.9)
Tax recognised in statement of comprehensive income	(61.3)	(27.8)
Deferred tax on equity settled transactions	1.1	1.0
Total tax recognised in equity	(60.2)	(26.8)

9 Earnings per share

(a) Basic earnings per share

The calculation of earnings per share for the year ended 31 December 2009 is based on the profit attributable to equity holders of the parent of £132.4 million (2008: £108.3 million) and a weighted average number of ordinary shares in issue of 396.0 million (2008: 381.7 million), calculated as follows:

In millions of shares	2009	2008
Issued ordinary shares at 1 January	395.7	281.2
Effect of shares issued in the year	0.7	101.0
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust	(0.4)	(0.5)
Weighted average number of ordinary shares at 31 December	396.0	381.7

(b) Underlying performance

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

	2009		2008	
	Profit before tax £m	Tax £m	Profit before tax £m	Tax £m
Profit before taxation				
Profit before taxation as reported in the income statement	147.7	11.5	115.9	4.1
Amortisation of intangible assets arising from business combinations	30.8	8.6	42.8	12.2
Curtailment gain	(0.1)	–	(35.5)	(9.9)
Restructuring costs	9.9	2.8	58.2	16.5
Office of Fair Trading penalty	5.4	–	–	–
Profit on disposal of investments and businesses	(11.5)	–	(35.6)	–
Impairment of other investments	–	–	11.7	–
Underlying profit before taxation	182.2	22.9	157.5	22.9
Underlying taxation	(22.9)	–	(22.9)	–
Underlying profit attributable to minority interests ⁽¹⁾	(5.0)	–	(3.5)	–
Underlying profit attributable to shareholders	154.3		131.1	

(1) A reconciliation of minority interests as reported in the income statement to underlying profit attributable to minority interests shown above is set out below.

	2009 £m	2008 £m
Profit attributable to minority interests as reported in the income statement	3.8	3.5
Restructuring costs (net of tax of £0.5m)	1.2	–
Underlying profit attributable to minority interests	5.0	3.5

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continued

9. Earnings per share (continued)

	2009 Pence per share	2008 Pence per share
Earnings per share		
Basic earnings per share	33.4	28.4
Amortisation of intangible assets arising from business combinations	5.6	8.0
Curtailment gain	–	(6.7)
Restructuring costs – Group	1.8	10.9
– attributable to minority interests	(0.3)	–
Office of Fair Trading penalty	1.4	–
Profit on disposal of investments and businesses	(2.9)	(9.4)
Impairment of other investments	–	3.1
Underlying basic earnings per share	39.0	34.3
Underlying diluted earnings per share (post-tax basis)	38.7	34.1

(c) Diluted earnings per share

The calculation of diluted earnings per share is based on profit as shown in note 9 (a) and (b) and a weighted average number of ordinary shares outstanding calculated as follows

In millions of shares	2009	2008
Weighted average number of ordinary shares	396.0	381.7
Effect of share options in issue	2.2	2.8
Weighted average number of ordinary shares (diluted) at 31 December	398.2	384.5

10 Dividends

The following dividends were paid by the Company

	2009		2008	
	£m	Pence per share	£m	Pence per share
Previous year final dividend	35.2	8.9	29.6	7.5
Current year interim dividend	18.2	4.6	16.2	4.1
	53.4	13.5	45.8	11.6

The following dividends were proposed by the Company

	2009		2008	
	£m	Pence per share	£m	Pence per share
Interim	18.2	4.6	16.2	4.1
Final	39.7	10.0	35.2	8.9
	57.9	14.6	51.4	13.0

The final dividend for 2009 of 10.0 pence per share was approved by the Board on 3 March 2010 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 18 June 2010 to shareholders on the register on 23 April 2010

11 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2009	20 5	175 9	196 4
Additions	17 4	31 5	48 9
Disposals	(7 7)	(38 6)	(46 3)
Disposals arising from sale of businesses (see note 30)	(0 2)	(9 2)	(9 4)
Reclassification (to intangible assets)	–	(1 4)	(1 4)
Effect of movements in foreign exchange rates	(0 5)	1 6	1 1
At 31 December 2009	29 5	159 8	189 3
Depreciation and impairment losses			
At 1 January 2009	1 5	27 7	29 2
Depreciation charge for the year	3 8	30 9	34 7
Disposals	(5 3)	(33 0)	(38 3)
Disposals arising from sale of businesses (see note 30)	–	(3 7)	(3 7)
Reclassification (to intangible assets)	–	(1 0)	(1 0)
Effect of movements in foreign exchange rates	–	0 2	0 2
At 31 December 2009	–	21 1	21 1
Net book value			
At 1 January 2009	19 0	148 2	167 2
At 31 December 2009	29 5	138 7	168 2

Included in the net book value of plant, equipment and vehicles is £40 2 million (2008 £47 7 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 2008	18 8	119 4	138 2
Acquisitions (see note 30)	3 9	21 9	25 8
Additions	6 8	39 5	46 3
Disposals	(10 6)	(18 1)	(28 7)
Reclassification (net from intangible assets)	(1 0)	1 1	0 1
Effect of movements in foreign exchange rates	2 6	12 1	14 7
At 31 December 2008	20 5	175 9	196 4
Depreciation and impairment losses			
At 1 January 2008	2 5	4 2	6 7
Depreciation charge for the year	1 7	28 9	30 6
Disposals	(2 9)	(12 4)	(15 3)
Reclassification	(0 5)	0 5	–
Effect of movements in foreign exchange rates	0 7	6 5	7 2
At 31 December 2008	1 5	27 7	29 2
Net book value			
At 1 January 2008	16 3	115 2	131 5
At 31 December 2008	19 0	148 2	167 2

Acquisitions in 2008 of £25 8 million relate to the acquisition of Alfred McAlpine and the Vanbots Group as disclosed in note 30.

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12 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 2009	1,100.8	250.6	1,351.4	13.3	1,364.7
Additions	–	–	–	4.3	4.3
Disposals	–	–	–	(2.5)	(2.5)
Disposals arising from sale of businesses (see note 30)	–	(9.8)	(9.8)	–	(9.8)
Reclassification (from property, plant and equipment)	–	–	–	1.4	1.4
Effect of movements in foreign exchange rates	0.5	0.1	0.6	–	0.6
At 31 December 2009	1,101.3	240.9	1,342.2	16.5	1,358.7
Amortisation and impairment losses					
At 1 January 2009	–	80.8	80.8	7.0	87.8
Amortisation for the year	–	30.8	30.8	2.2	33.0
Disposals	–	–	–	(2.5)	(2.5)
Disposals arising from sale of businesses (see note 30)	–	(2.0)	(2.0)	–	(2.0)
Reclassification (from property, plant and equipment)	–	–	–	1.0	1.0
Effect of movements in foreign exchange rates	–	0.1	0.1	–	0.1
At 31 December 2009	–	109.7	109.7	7.7	117.4
Net book value					
At 1 January 2009	1,100.8	169.8	1,270.6	6.3	1,276.9
At 31 December 2009	1,101.3	131.2	1,232.5	8.8	1,241.3

	Goodwill ⁽¹⁾ £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
Cost					
At 1 January 2008	466.4	122.6	589.0	10.4	599.4
Acquisitions (see note 30)	633.5	127.8	761.3	–	761.3
Additions	–	–	–	2.7	2.7
Reclassification to property, plant and equipment	–	–	–	(0.1)	(0.1)
Effect of movements in foreign exchange rates	0.9	0.2	1.1	0.3	1.4
At 31 December 2008	1,100.8	250.6	1,351.4	13.3	1,364.7
Amortisation and impairment losses					
At 1 January 2008	–	38.0	38.0	5.6	43.6
Amortisation for the year	–	42.8	42.8	1.4	44.2
At 31 December 2008	–	80.8	80.8	7.0	87.8
Net book value					
At 1 January 2008	466.4	84.6	551.0	4.8	555.8
At 31 December 2008	1,100.8	169.8	1,270.6	6.3	1,276.9

(1) Upon the adoption of IFRIC 14 on 1 January 2009, goodwill arising on the acquisition of Alfred McAlpine in 2008 has been restated. This has resulted in an increase of £9.4 million in the goodwill arising on acquisition reflecting the recognition of deficit funding obligations in relation to defined benefit pension arrangements.

Goodwill of £633.5 million and customer contracts and lists of £127.8 million arose in 2008 on the acquisition of Alfred McAlpine and the Vanbots Group as disclosed in note 30. The goodwill recognised on these acquisitions represents the present value of future income streams expected to be generated from margin growth in the businesses acquired together with identifiable cost savings within the enlarged Group.

12 Intangible assets (continued)

Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill

	2009 £m	2008 ⁽¹⁾ £m
Construction services (excluding the Middle East) segment		
Building	163 0	163 0
Infrastructure	70 0	70 0
Canada	10 5	10 0
	243 5	243 0
Support services segment		
Business services	805 7	805 7
Infrastructure services	52.1	52 1
	857 8	857 8
Total goodwill	1,101 3	1,100 8

(1) Restated on adoption of IFRIC 14 (see note 33)

Each year, and whenever events or a change in the economic environment indicates a risk of impairment, the Group reviews the value of goodwill balances allocated to its cash generating units. In the absence of any identified impairment risks, tests are performed based on internal valuations of each cash generating unit (CGU).

Management consider Support services, Public Private Partnership projects, Middle East construction services, Construction services (excluding the Middle East), and Head office as distinct reporting segments. Goodwill has been allocated to the applicable cash generating units (CGUs), within the Construction services and Support services reporting segments detailed above. Our CGUs have been identified within our reporting segments as those businesses that generate cash inflows largely independently of other businesses within the Group, and which are subject to independent management.

The recoverable amounts of the CGUs are determined from value in use calculations. The value in use in 2009 was determined on a similar basis to 2008. 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 2008 and revisited in 2009 in the light of the challenging economic environment which resulted in more conservative estimates about the future. The impact of the global economic downturn 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 five CGUs, the risks and rewards associated with Construction services are consistent, and therefore one discount rate has been applied to each CGU. Similarly the risks and rewards encountered in the Support services CGUs are consistent so one discount rate has been applied to each CGU. In determining the discount rate management have sought to arrive at a pre-tax Weighted Average Cost of Capital (WACC) using the capital asset pricing model to determine the cost of equity and then weighting the overall cost of capital for the Group by equity and debt. In calculating the cost of equity a range of market risk premiums were used with a Beta value of 0.74 (2008: 0.9). A market premium of 9.0 per cent (2008: 9.0 per cent) was used to calculate a pre-tax discount rate of 12.4 per cent (2008: 13 per cent) for the CGUs in the Construction services (excluding the Middle East) segment. A market premium of 5.8 per cent (2008: 5.1 per cent) was used to calculate a pre-tax discount rate of 9.5 per cent (2008: 9.0 per cent) for the CGUs in the Support services segment. The annual growth rates are based on internal assessments with no growth anticipated for the Construction services segment and Infrastructure services CGU and growth expected in the Business services CGU at 5.0 per cent for the next 5 years, 2.5 per cent growth for years six to ten which reflects expected changes to the Retail Price Index and no growth thereafter.

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12 Intangible assets (continued)

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. These growth rates do not exceed the long term industry average and reflect the synergies from recent acquisitions. The impairment tests at 31 December 2009 show that for all CGUs the number of years required to recover the carrying value is below 11 years. Management consider that these pay back periods are not excessive given the long term strategic benefit of all the acquisitions and in particular the acquisition of Mowlem and Alfred McAlpine. Sensitivity analysis on the discount rate shows an increase of 1.0 per cent does not increase the number years to recover the carrying amount over 12 years for any of the CGUs. Sensitivity analysis on the Business services growth rate shows that with no growth the number of years required to recover the carrying value increases to 15 years.

As at 31 December 2009, 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 £33.0 million (2008: £44.2 million) is recognised in administrative expenses in the income statement. Amortisation of the intangible asset 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 asset 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.

13 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2009	146.6	51.8	198.4	2.1	200.5
Equity investments	2.8	–	2.8	–	2.8
Disposals	(56.2)	(24.0)	(80.2)	–	(80.2)
Net loans advanced	–	12.4	12.4	–	12.4
Reclassification to other investments (see note 14)	(35.4)	–	(35.4)	–	(35.4)
Effect of movements in foreign exchange rates	0.8	1.3	2.1	–	2.1
At 31 December 2009	58.6	41.5	100.1	2.1	102.2
Share of post acquisition results					
At 1 January 2009	38.1	–	38.1	–	38.1
Share of results for the year after taxation	65.9	–	65.9	–	65.9
Share of change in fair value of cash flow hedges (net of tax)	(8.3)	–	(8.3)	–	(8.3)
Disposals	(9.1)	–	(9.1)	–	(9.1)
Distributions received	(41.7)	–	(41.7)	–	(41.7)
Reclassification to other investments (see note 14)	(8.4)	–	(8.4)	–	(8.4)
Effect of movements in foreign exchange rates	(5.4)	–	(5.4)	–	(5.4)
At 31 December 2009	31.1	–	31.1	–	31.1
Net book value					
At 1 January 2009	184.7	51.8	236.5	2.1	238.6
At 31 December 2009	89.7	41.5	131.2	2.1	133.3

Equity investments of £2.8 million relates to the acquisition in cash of interests in a number of PPP project jointly controlled entities. During the year, the Group disposed of four PPP investments as disclosed in note 30.

13 Investments in jointly controlled entities (continued)

As disclosed in note 35, the Group has equity interests in a number of PPP jointly controlled entities that are in excess of 50 per cent of the issued share capital of the entities concerned. The Group accounts for these interests using the equity method as the power to govern the financial and operating policies of the entities is shared under the terms of shareholder agreements.

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2008	127.1	46.9	174.0	–	174.0
Acquisitions (see note 30)	14.5	–	14.5	–	14.5
Equity investments	3.3	–	3.3	2.1	5.4
Disposals	(0.2)	(18.1)	(18.3)	–	(18.3)
Net loans advanced	–	23.0	23.0	–	23.0
Effect of movements in foreign exchange rates	1.9	–	1.9	–	1.9
At 31 December 2008	146.6	51.8	198.4	2.1	200.5
Share of post acquisition results					
At 1 January 2008	11.9	–	11.9	–	11.9
Share of results for the year after taxation	45.1	–	45.1	–	45.1
Share of change in fair value of cash flow hedges (net of tax)	(13.1)	–	(13.1)	–	(13.1)
Disposals	7.1	–	7.1	–	7.1
Distributions received	(25.0)	–	(25.0)	–	(25.0)
Effect of movements in foreign exchange rates	12.1	–	12.1	–	12.1
At 31 December 2008	38.1	–	38.1	–	38.1
Net book value					
At 1 January 2008	139.0	46.9	185.9	–	185.9
At 31 December 2008	184.7	51.8	236.5	2.1	238.6

Equity investments in 2008 of £5.4 million relates to the acquisition in cash of interests in a number of development jointly controlled entities in Canada (£2.8 million) and the acquisition of an additional 17 per cent of the issued share capital of Modern Housing Solutions (Prime) Limited (£2.6 million). Goodwill of £2.1 million arose on the additional equity in Modern Housing Solutions (Prime) Limited. During 2008, the Group disposed of a portfolio of PPP investments as disclosed in note 30.

Notes to the consolidated financial statements

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13 Investments in jointly controlled entities (continued)

The Group's aggregate share of net assets of jointly controlled entities is analysed below. Borrowing within jointly controlled entities amounting to £736.7 million (2008: £1,550.3 million) are without recourse to the Carillion Group.

	2009			2008		
	PPP projects £m	Other £m	Total £m	PPP projects ⁽¹⁾ £m	Other £m	Total £m
Non-current assets	862.7	81.1	943.8	1,512.7	60.8	1,573.5
Cash	34.6	66.6	101.2	149.8	18.9	168.7
Other current assets	41.6	387.8	429.4	263.2	452.7	715.9
Share of gross assets	938.9	535.5	1,474.4	1,925.7	532.4	2,458.1
Current borrowing	(19.5)	(34.2)	(53.7)	(25.6)	(0.7)	(26.3)
Current liabilities	(36.5)	(379.6)	(416.1)	(129.9)	(398.6)	(528.5)
Non-current borrowing	(660.8)	(22.2)	(683.0)	(1,506.5)	(17.5)	(1,524.0)
Non-current liabilities	(200.7)	(1.6)	(202.3)	(154.8)	(13.8)	(168.6)
Provisions	(10.3)	–	(10.3)	(5.1)	–	(5.1)
Share of gross liabilities	(927.8)	(437.6)	(1,365.4)	(1,821.9)	(430.6)	(2,252.5)
Share of net assets excluding derivatives	11.1	97.9	109.0	103.8	101.8	205.6
Financial instrument derivatives	(17.2)	–	(17.2)	(18.8)	–	(18.8)
Share of net (liabilities)/assets	(6.1)	97.9	91.8	85.0	101.8	186.8
Loan advances	41.5	–	41.5	51.8	–	51.8
Total investment in jointly controlled entities	35.4	97.9	133.3	136.8	101.8	238.6

(1) Comparative amounts for 2008 in respect of PPP projects have been represented to reflect the reclassification of other current assets to non-current assets.

Non-current assets and other current assets within PPP projects include cumulative capitalised interest amounting to £3.8 million (2008: £3.8 million) and £52.2 million (2008: £66.2 million) respectively.

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.

14 Other investments

	£m
Fair value	
At 1 January 2009	13.8
Reclassification from investment in jointly controlled entities	43.8
At 31 December 2009	57.6
Impairment losses	
At 1 January and 31 December 2009	13.8
Net book value	
At 1 January 2009	–
At 31 December 2009	43.8

14 Other investments (continued)

Following the disposal of Group's 32.5 per cent interest in Aspire Defence Holdings Limited on 4 December 2009, the remaining 17.5 per cent non-quoted equity interest that the Group retained has been reclassified to other non-current investments. Upon reclassification, the Group's interest has been recognised at fair value, which equated to book value on the date of reclassification. Fair value is based on the discounted future cash flows expected to arise from the investment.

	£m
Fair value	
At 1 January 2008	16.6
Additions	1.7
Disposals	(4.5)
At 31 December 2008	13.8
Impairment losses	
At 1 January 2008	2.1
Impairment charge	11.7
At 31 December 2008	13.8
Net book value	
At 1 January 2008	14.5
At 31 December 2008	–

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, with the charge in 2008 of £11.7 million recognised in administrative expenses.

15 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	
	2009 £m	2008 ⁽¹⁾ £m	2009 £m	2008 ⁽¹⁾ £m	2009 £m	2008 ⁽¹⁾ £m
Property, plant and equipment	16.9	18.9	–	–	16.9	18.9
Intangible assets	–	–	(36.5)	(47.3)	(36.5)	(47.3)
Employee benefits	82.7	44.2	–	(11.3)	82.7	32.9
Working capital	8.0	23.7	–	–	8.0	23.7
Other items	–	–	–	(12.7)	–	(12.7)
Tax value of carry forward losses recognised	24.1	28.4	–	–	24.1	28.4
Tax assets/(liabilities)	131.7	115.2	(36.5)	(71.3)	95.2	43.9
Set off of tax	0.8	(11.3)	(0.8)	11.3	–	–
Net tax assets/(liabilities)	132.5	103.9	(37.3)	(60.0)	95.2	43.9

(1) Restated on adoption of IFRIC 14 (see note 33)

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15 Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets

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

	2009 £m	2008 £m
Tax losses	81 0	71 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 (2008 £12.7 million).

Movements in temporary differences during the year are as follows

	Balance 1 Jan 09 £m	Disposals £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 09 £m
Property, plant and equipment	18 9	(1 0)	(1 0)	–	16 9
Intangible assets	(47 3)	2 2	8 6	–	(36 5)
Employee benefits	32 9	–	(11 7)	61.5	82 7
Working capital	23 7	–	(15 7)	–	8 0
Other items	(12 7)	–	12 7	–	–
Tax value of carry forward losses recognised	28 4	–	(4 3)	–	24 1
Equity settled transactions	–	–	1 1	(1 1)	–
	43 9	1 2	(10 3)	60 4	95 2

	Balance 1 Jan 08 £m	Acquisitions £m	Disposals £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 08 £m
Property, plant and equipment	3 4	5 8	–	9 7	–	18 9
Intangible assets	(23 5)	(35 9)	–	12 1	–	(47 3)
Other investments	(0 4)	–	0 4	–	–	–
Employee benefits	16 5	22 2	–	(31 7)	25 9	32 9
Working capital	2 3	9 1	–	12 3	–	23 7
Other items	(7 0)	–	–	(5 7)	–	(12 7)
Tax value of carry forward losses recognised	–	26 0	–	2 4	–	28 4
Equity settled transactions	–	–	–	1 0	(1 0)	–
	(8 7)	27 2	0 4	0 1	24 9	43 9

16 Inventories

	2009 £m	2008 £m
Raw materials and consumables	16 3	19 1
Development work in progress	20 9	25 5
	37 2	44 6

The amount of inventories recognised as an expense during the year was £28.1 million (2008 £14.8 million) and the amount of any write down of inventories recognised as an expense was £106,845 (2008 £21,033). Development work in progress of £13.9 million (2008 £12.2 million) is expected to be recovered after more than 12 months.

17 Construction contracts

Contracts in progress at the balance sheet date

	2009 £m	2008 £m
Due from customers for contract work	361 7	399 8
Due to customers for contract work	(188 1)	(163 0)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £5,866.8 million (2008: £4,293.6 million). Advances received from customers relating to contracts in progress amounted to £166.1 million (2008: £107.5 million).

The amount of construction contract revenue recognised as revenue in the year amounted to £2,632.8 million (2008: £2,409.2 million).

18 Trade and other receivables

	2009 £m	2008 £m
Trade receivables	300 1	438 9
Amounts owed by customers on construction contracts	361 7	399 8
Other receivables and prepayments	303 7	302 1
Amounts owed by jointly controlled entities	56 6	37 0
Amounts owed under jointly controlled operations	16 3	9 0
	1,038 4	1,186 8

At 31 December 2009, retentions of £67.2 million (2008: £99.2 million) relating to construction contracts and other amounts recoverable after more than one year of £23.9 million (2008: £66.2 million) are included above as they are recoverable within the normal operating cycle of the Group.

19 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise

	2009 £m	2008 £m
Cash and cash equivalents	267 2	257 3
Bank overdrafts	(14 8)	(7 3)
Net cash and cash equivalents	252 4	250 0
Bank loans	(141 4)	(365 9)
Finance lease obligations	(64 6)	(79 1)
Other loans	(21.5)	(31 7)
Net cash/(borrowing)	24 9	(226 7)

Notes to the consolidated financial statements

continued

19 Cash and cash equivalents and net borrowing (continued)

Reconciliation of net cash flow to movement in net borrowing

	2009 £m	2008 £m
Increase/(decrease) in cash and cash equivalents	4 9	(79 5)
Repayment of bank and other loans	233 7	7 8
Payment of finance lease liabilities	16 8	16 3
Decrease/(increase) in net borrowing resulting from cash flows	255 4	(55 4)
Net borrowing in subsidiaries acquired	–	(143 2)
Loan notes issued on acquisition of Alfred McAlpine	–	(1 3)
Finance lease additions	(0 4)	(2 1)
Finance lease disposals	–	7 3
Currency translation differences	(3 4)	12 9
Change in net borrowing	251 6	(181 8)
Net borrowing at 1 January	(226 7)	(44 9)
Net cash/(borrowing) at 31 December	24 9	(226 7)

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

	2009 £m	2008 £m
Current liabilities		
Bank overdrafts	14 8	7 3
Bank loans	11 0	10 9
Finance lease obligations	16 4	16 6
Other loans	11 8	23 2
	54 0	58 0
Non-current liabilities		
Bank loans	130 4	355 0
Finance lease obligations	48 2	62 5
Other loans	9 7	8 5
	188 3	426 0
Total borrowing	242 3	484 0

All bank loans and overdrafts are unsecured and bear interest at floating rates linked to London Interbank Offered Rate. Other loans and finance lease obligations are secured on the assets to which they relate.

Finance lease liabilities

Finance lease liabilities are payable as follows

	2009			2008		
	Minimum lease payments £m	Interest £m	Principal £m	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	19 8	(3 4)	16 4	20 6	(4 0)	16 6
Between one and five years	52 2	(4 0)	48 2	69 0	(7 0)	62 0
More than five years	–	–	–	0 5	–	0 5
	72 0	(7 4)	64 6	90 1	(11 0)	79 1

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

21 Trade and other payables

	2009 £m	2008 £m
Trade payables	599.6	626.0
Amounts owed to customers on construction contracts	188.1	163.0
Other tax and social security costs	43.2	55.2
Amounts owed to jointly controlled entities	40.8	35.6
Amounts owed under jointly controlled operations	15.4	10.3
Other creditors	212.1	275.0
Accruals and deferred income	584.4	556.7
	1,683.6	1,721.8

Within trade and other payables are £36.0 million (2008: £34.7 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

	Restructuring £m	Onerous leases £m	Total £m
At 1 January 2009	15.0	16.4	31.4
Provisions created	4.8	2.2	7.0
Provisions utilised during the year	(13.9)	(2.5)	(16.4)
At 31 December 2009	5.9	16.1	22.0
Disclosed within			
Current liabilities	5.9	6.6	12.5
Non-current liabilities	–	9.5	9.5
	5.9	16.1	22.0

The restructuring provision at 1 January 2009 relates primarily to a review of the Group's requirements following the acquisition of Alfred McAlpine and the Vanbotts Group in 2008. The provisions created in the year of £4.8 million relates to operational structure review costs associated with the rationalisation of the Group's structure at the end of 2009.

The onerous lease provision at 1 January 2009 relates to a number of onerous leases acquired with Mowlem and Alfred McAlpine and is expected to be utilised over a period of four years. The provisions created in the year of £2.2 million relates primarily to property interests retained following the disposal of Carillion IT Services Limited and Enviros Group Limited.

	Restructuring £m	Onerous leases £m	Total £m
At 1 January 2008	5.1	8.5	13.6
Provision created	15.9	5.9	21.8
Acquisitions (see note 30)	–	4.5	4.5
Provisions utilised	(6.0)	(2.5)	(8.5)
At 31 December 2008	15.0	16.4	31.4
Disclosed within			
Current liabilities	15.0	8.4	23.4
Non-current liabilities	–	8.0	8.0
	15.0	16.4	31.4

Notes to the consolidated financial statements

continued

23 Share capital

	2009 £m	2008 £m
Authorised		
700,000,000 (2008 525,000,000) ordinary shares of 50p each	350 0	262 5

The increase in the authorised share capital was approved at the AGM on 6 May 2009

Issued and fully paid

	Number million	2009 £m	Number million	2008 £m
At 1 January	395 7	197 8	281 2	140 6
New share capital issued	1 6	0 8	114 5	57 2
At 31 December	397 3	198 6	395 7	197 8

The Company has one class of ordinary share which carries no right to fixed income. In 2008 112.9 million Carillion plc shares were issued in relation to the acquisition of Alfred McAlpine.

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 acquisition of Mowlem on 23 February 2006 and Alfred McAlpine on 12 February 2008 whereby the consideration included the issue of Carillion plc shares. The Group has opted to credit the merger reserve rather than the share premium account as permitted by The Companies Act. The £29.7 million transfer to the retained earnings reserve during the year represents the amortisation of intangible assets recognised on the Mowlem and Alfred McAlpine acquisitions.

24 Reserves (continued)**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:

	2009 £m	2008 £m
At 1 January	(1 3)	(0 7)
Share options exercised by employees (exercise price)	0 5	–
Share options exercised (transfer to retained earnings)	3 9	4 1
Acquisition of own shares	(4 2)	(4 7)
At 31 December	(1 1)	(1 3)

At 31 December 2009, the ESOP held 362,909 (2008: 419,827) of the Company's shares and had a market value of £1.1 million (2008: £1.0 million). During the year the Company acquired 1.4 million of its own shares for £4.2 million to meet the plan's future commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('Quest'). During the year, 91,376 ordinary shares (2008: 210,859) in the Company held by the QUEST were transferred to employees of the Group following the exercise of options under the Sharesave Scheme.

At 31 December 2009 the total number of shares held under the QUEST amounted to 134,683 (2008: 8,904) and had a market value of £409,167 (2008: £22,100). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

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 47 to 53.

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.

Notes to the consolidated financial statements

continued

25 Share-based payments (continued)

The terms and conditions of option schemes within the scope of IFRS 2 are as follows, whereby all options are settled by physical delivery of shares

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Exercise price
ESOS option grant at 1 July 2003	256,471	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 31 March 2004	182,540	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three year period	10 years	184 9p
ESOS option grant at 15 March 2005	116,034	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
Sharesave option grant at 8 November 2006	1,349,565	Three years of service	3 years	337 5p
LEAP option grant at 10 April 2007	910,827	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 4 April 2008	928,830	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
LEAP option grant at 7 April 2009	1,334,224	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
Total share options	5,078,491			

In addition to the above, the Group has three ESOS option schemes which have a grant date before 7 November 2002. The total number of options outstanding at 31 December 2009 for these schemes amounted to 852,987 (2008 1,010,733) with a remaining contractual life of either one or two years.

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

	Weighted average exercise price 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
At 1 January	135 8p	6,677,809	151 6p	6,905,249
Forfeited during the year	131 8p	(952,345)	150 2p	(639,699)
Exercised during the year	70 2p	(1,290,975)	109 6p	(1,286,220)
Granted during the year	–	1,496,989	56 9p	1,698,479
At 31 December	116 4p	5,931,478	135 8p	6,677,809
Exercisable at the end of the year	250 4p	2,757,597	162 2p	2,083,274

The range of option prices for those options exercisable at the end of the year is 129 5 pence – 337 5 pence and the weighted average remaining contractual term for these options exercisable is one year. The weighted average share price during the year was 269 1 pence.

25 Share-based payments (continued)

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model using the following assumptions:

	2009 LEAP	2008 LEAP	2007 LEAP	2006 Sharesave	2006 LEAP
Fair value of share options and assumptions					
Fair value at grant date	232 5p	358 5p	392 0p	102 0p	295 0p
Share price at grant date	258 5p	383 8p	421 0p	385 0p	319 0p
Exercise price	–	–	–	337 5p	–
Expected volatility	18 04%	16 01%	21 97%	27 44%	28 55%
Option life	3 years	3 years	3 years	3 years	3 years
Expected dividend yield	3 54%	2 27%	2 34%	2 45%	2 58%
Risk-free interest rate (based on national government bonds)	2 16%	3 96%	5 35%	5 0%	4 80%

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

	2009 £m	2008 £m
Equity settled share options granted in		
2005	–	(0 4)
2006	0 5	1 7
2007	1 2	1 2
2008	1 3	0 9
2009	0 9	–
Total expense recognised as employee costs	3 9	3 4

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

26 Guarantees and contingent liabilities

	2009 £m	2008 £m
Guarantees in respect of deferred equity payments in PPP jointly controlled entities	–	3 2
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP jointly controlled entities	52 4	77 4
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP jointly controlled entities	30 0	30 0

Guarantees and counter indemnities have been given to financial institutions in respect of the provision of performance and other contract related bonds that are issued in the normal course of business.

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

The Group, in the normal course of its construction activities, is the subject of certain legal proceedings. The resolution of these proceedings is regarded as unlikely to succeed or to have a material effect on the Group's financial position.

There are no liabilities of jointly controlled entities for which the Group is contingently liable.

Notes to the consolidated financial statements

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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 assets held for trading £m	Total £m
31 December 2009					
Financial assets					
Other non-current investments	–	–	43 8	–	43 8
Cash and cash equivalents	267 2	–	–	–	267 2
Trade receivables	300 1	–	–	–	300 1
Derivative financial instruments	–	–	–	1 0	1 0
Total	567 3	–	43 8	1 0	612 1
Financial liabilities					
Bank overdrafts	–	(14 8)	–	–	(14 8)
Bank loans	–	(141 4)	–	–	(141 4)
Finance lease obligations	–	(64 6)	–	–	(64 6)
Other loans	–	(21 5)	–	–	(21 5)
Trade payables	–	(599 6)	–	–	(599 6)
Total	–	(841 9)	–	–	(841 9)
31 December 2008					
Financial assets					
Cash and cash equivalents	257 3	–	–	–	257 3
Trade receivables	438 9	–	–	–	438 9
Derivative financial instruments	–	–	–	1 1	1 1
Total	696 2	–	–	1 1	697 3
Financial liabilities					
Bank overdrafts	–	(7 3)	–	–	(7 3)
Bank loans	–	(365 9)	–	–	(365 9)
Finance lease obligations	–	(79 1)	–	–	(79 1)
Other loans	–	(31 7)	–	–	(31 7)
Trade payables	–	(626 0)	–	–	(626 0)
Total	–	(1,110 0)	–	–	(1,110 0)

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 is to minimise potential adverse effects on financial performance and net assets.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board of Directors. Treasury is not a profit centre and does not enter into speculative transactions.

27 Financial instruments (continued)

Foreign currency risk

The Group operates in a number of overseas regions, primarily the Middle East, Canada and the Caribbean. In order to protect the Group's balance sheet from the impact of foreign exchange rate volatility, foreign currency denominated net assets that exceed £10 million equivalent are hedged, as a minimum, to at least 60 per cent of the net asset value. Net investment hedging of overseas operations is achieved through borrowing denominated in the relevant foreign currencies or where this is not practicable in a currency which the relevant currency closely follows.

Group policy is to recognise gains and losses from the effective portions of the hedges in equity and to recognise ineffective portions immediately in the income statement.

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

Primarily the Group has relatively small and infrequent transactional foreign currency exposures. Any individual exposures that are significant are hedged using forward contracts or other appropriate risk management techniques.

Foreign currency exposure

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

	2009 £m	2008 £m
United States of America Dollar	(15.6)	(17.6)
Canadian Dollar	(91.6)	(82.2)
United Arab Emirates Dirham	(7.6)	(8.5)
Other	(0.5)	(1.5)
	(115.3)	(109.8)

Of the total foreign currency borrowing of £115.3 million (2008: £109.8 million), the amount of borrowing used for hedging overseas currency net assets amounts to £61.6 million (2008: £62.6 million). The foreign exchange gain of £1.0 million (2008: loss of £8.9 million) on translation of the borrowing into sterling has been recognised in the translation reserve.

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	0.7	0.7	(0.8)	(0.8)
Canadian Dollar	(1.6)	(4.6)	1.8	5.1
United Arab Emirates Dirham	(1.9)	(4.2)	2.1	4.6
Oman Rial	1.4	0.4	(1.5)	(0.5)
Euro	0.1	1.6	(0.1)	(1.8)
Danish Kroner	(1.3)	(0.3)	1.5	0.3
Other	–	(0.5)	–	0.5

Notes to the consolidated financial statements

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27 Financial instruments (continued)

Interest rate risk

The Group's interest bearing debt is predominantly sterling borrowing that arose from the acquisition of Mowlem in 2006 and Alfred McAlpine in 2008, ongoing working capital requirements and foreign currency denominated borrowings for hedging net assets of overseas operations. Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate. No interest rate hedging is currently undertaken by the Group's subsidiaries. However, a number of the Group's Public Private Partnership jointly controlled entities have entered into interest rate swaps.

A one percentage point rise in respect of US dollar denominated borrowing interest rates would increase the annual net interest charge by approximately £0.3 million, in respect of Canadian dollar denominated borrowing an increase of £0.7 million, in respect of sterling denominated borrowing an increase of £3.1 million and in respect of United Arab Emirates Dirham denominated borrowing an increase of £0.4 million.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of a syndicated loan 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 2009 was £274.4 million (2008: £329.8 million for the period post the acquisition of Alfred McAlpine).

Maturity of financial liabilities

The maturity profile of the contractual cash flows of the Group's liabilities is as follows:

	Trade payables £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
31 December 2009						
Less than one year	599.6	14.8	13.3	12.5	19.8	660.0
Between one and two years	–	–	2.5	4.4	21.3	28.2
Between two and three years	–	–	131.1	3.5	17.9	152.5
Between three and four years	–	–	0.5	3.0	12.3	15.8
Between four and five years	–	–	–	–	0.7	0.7
	599.6	14.8	147.4	23.4	72.0	857.2
31 December 2008						
Less than one year	626.0	7.3	28.8	24.7	20.6	707.4
Between one and two years	–	–	17.8	4.1	19.4	41.3
Between two and three years	–	–	17.8	3.0	20.7	41.5
Between three and four years	–	–	368.4	1.7	17.3	387.4
Between four and five years	–	–	–	0.2	11.6	11.8
More than five years	–	–	–	–	0.5	0.5
	626.0	7.3	432.8	33.7	90.1	1,189.9

27 Financial instruments (continued)

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

	2009 £m	2008 £m
Expiring within one year	74	65
Expiring between two and five years	5110	2358
	5184	2423

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and foreign currency hedging contracts. Policies and procedures exist to ensure that customers have an appropriate credit history. Short-term bank deposits and foreign currency hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major rating agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are approved at main board level or within predetermined limits. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

Trade and other 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:

	2009		2008	
	Net trade receivables £m	Impairment £m	Net trade receivables £m	Impairment £m
Not past due	1827	–	2443	–
Past due less than 3 months	758	08	1181	11
Past due between 3 and 6 months	183	46	396	125
Past due between 6 and 12 months	129	15	280	21
Past due more than 12 months	104	27	89	11
	3001	96	4389	168

The movement in the impairment provision is as follows:

	2009 £m	2008 £m
At 1 January	168	134
Provision acquired	–	12
Provision created	29	34
Provision utilised	(76)	(04)
Provision released	(25)	(08)
At 31 December	96	168

In the current global economic climate, whilst uncertainty surrounding counterparty risk has increased, on balance the Group believes that debtors will meet their payment obligation in respect of the amount of trade receivables recognised in the balance sheet that are past due and unprovided as at 31 December 2009.

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

Notes to the consolidated financial statements

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27 Financial instruments (continued)

Derivative financial instruments

	2009		2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts	10	–	11	–

The movement in fair value of forward foreign currency contracts has been recognised in administrative expenses in the income statement

In addition to the above, a number of the Group's Public Private Partnership (PPP) jointly controlled entities have entered into interest rate derivatives as a means of hedging interest rate risk. Interest bearing debts and the associated interest rate derivatives within these PPP jointly controlled entities are without recourse to the Group. The life of these hedge arrangements track PPP contract terms and hedge future movements across a range spanning up until September 2035. 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 2009 the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £31.6 million (2008: £43.7 million) of which £23.9 million (2008: £26.1 million) (and the related deferred tax asset of £6.7 million (2008: £7.3 million)) has been recognised in the hedging reserve.

Fair values

Financial instruments carried at fair value in the balance sheet are non-current asset other investments and derivative financial instruments. The fair value of non-current asset other investments is determined based on a level 3 valuation method, using valuation techniques that include inputs that are not based on observable market data. Fair value is calculated by discounting expected future cash flows using asset specific discount rates, with the movement in fair value each year recognised in the fair value movement on available for sale assets in the statement of comprehensive income. The fair value of derivative financial instruments is based on a level 2 valuation method, using inputs from quoted prices in active markets, with the movement in fair value each year recognised in administrative expenses in the income statement.

The movement in fair value of non-current asset other investments derived using a level 3 valuation method is shown below

	£m
At 1 January 2009	–
Transfer from investments in jointly controlled entities	43.8
Fair value adjustments	–
At 31 December 2009	43.8

The fair value of non-current investments is most sensitive to movements in the discount rate used. A one percentage point increase in the discount rate would reduce the fair value by £5.3 million.

Where there are differences between the amortised cost carrying value and fair value of the Group's principal financial instruments at 31 December 2009 these are shown below

	2009		2008	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Trade receivables	300.1	299.2	438.9	437.3
Trade payables	(599.6)	(599.6)	(626.0)	(626.0)
Cash and cash equivalents	267.2	267.2	257.3	257.3
Bank overdrafts	(14.8)	(14.8)	(7.3)	(7.3)
Bank loans	(141.4)	(141.4)	(365.9)	(365.9)
Finance lease obligations	(64.6)	(56.6)	(79.1)	(65.4)
Other loans	(21.5)	(21.5)	(31.7)	(31.7)

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.

27 Financial instruments (continued)

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and for other stakeholders and to maintain an optimal debt and equity structure

In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group has a policy of progressively increasing dividends paid to shareholders broadly in line with earnings per share growth, after taking account of the investment needs of the business. No changes were made in the objectives, policies or process during the years ended 31 December 2009 and 31 December 2008

	2009 £m	2008 £m
Total borrowings	227.5	476.7
Less net cash and cash equivalents (note 19)	(252.4)	(250.0)
Net (cash)/borrowing	(24.9)	226.7
Total equity	777.2	867.6
Total capital	752.3	1,094.3

28 Financial and capital commitments

	2009 £m	2008 £m
Commitments for capital expenditure in subsidiaries	–	10.0
Commitments for equity and subordinated debt investments in PPP jointly controlled entities	75.2	89.5
	75.2	99.5

Non-cancellable operating lease rentals are payable as follows

	2009		2008	
	Property £m	Other £m	Property £m	Other ⁽¹⁾ £m
Within one year	16.0	31.5	17.7	26.7
Between one and five years	40.8	52.8	43.5	34.4
Over five years	31.9	1.3	33.7	4.2
	88.7	85.6	94.9	65.3

(1) Comparative amounts for 2008 in respect of other lease commitments have been restated to reflect operating lease commitments now identified as part of the integration of Alfred McAlpine

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 £3.9 million (2008: £4.7 million) at the balance sheet date.

29 Related parties

Identity of 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 48.

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.

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29 Related parties (continued)

Full details of key management personnel compensation is given in the Remuneration Report on pages 47 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 £2.0 million (2008: £1.8 million).

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.

	2009			2008		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
PPP jointly controlled entities						
Aspire Defence Holdings Limited	191.4	1.9	–	185.7	0.3	–
Inspiredspaces Nottingham Limited	45.3	6.6	–	6.5	–	–
Eastbury Park (Holdings) Limited	45.1	2.1	–	76.8	–	–
Inspiredspaces STaG Limited	40.6	5.1	(4.5)	11.3	–	–
The Hospital Company (QAH Portsmouth) Holdings Limited	34.8	0.1	–	101.6	0.6	–
Holdfast Training Services Ltd	32.0	0.5	–	–	–	–
Inspiredspaces Nottingham (Project Company 1) Limited	22.6	3.3	–	13.0	–	–
Inspiredspaces Tameside (Project Company 1) Limited	16.7	1.5	–	–	–	–
Inspiredspaces Durham Limited	14.1	1.1	–	–	–	–
Clinicenta (Hertfordshire) Ltd	13.9	–	–	–	–	–
Integrated Accommodation Services Limited	12.0	11.3	–	0.7	0.1	–
Inspiredspaces STaG (Holdings) Limited	11.1	–	(10.0)	12.6	–	–
Inspiredspaces Tameside Limited	7.9	0.2	–	–	–	–
Education 4 Ayrshire (Holdings) Limited	5.5	1.8	(5.2)	29.9	1.4	–
Sheppey Route (Holdings) Limited	1.8	2.0	–	1.5	0.9	(0.2)
Aspire Services Limited	–	–	–	–	–	(3.2)
Others	27.0	1.4	–	30.6	1.0	(0.7)
	521.8	38.9	(19.7)	470.2	4.3	(4.1)
Other jointly controlled entities						
CarillionEnterprise Limited	45.3	–	(3.2)	67.3	6.6	(8.7)
Al Futtaim Carillion LLC	3.9	3.0	(0.7)	4.8	5.0	(0.2)
Carillion Richardson Partnership	–	14.3	(6.2)	–	–	(6.2)
CR Thanet Limited Partnership	0.1	0.1	–	7.3	1.7	(4.5)
Carillion Richardson	–	–	(10.8)	–	17.6	(10.2)
Others	1.2	0.3	(0.2)	1.3	1.8	(1.7)
	572.3	56.6	(40.8)	550.9	37.0	(35.6)

30 Acquisitions and disposals

Acquisitions in 2009

There have not been any business acquisitions during 2009.

Acquisitions in 2008

On 12 February 2008, the Group acquired the entire issued share capital of Alfred McAlpine for total consideration of £554.5 million. The total consideration was satisfied by the issue of 112.9 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 337.75 pence and £171.7 million in cash and £1.3 million of loan notes.

30 Acquisitions and disposals (continued)

Alfred McAlpine, its subsidiaries and jointly controlled entities operate in a number of sectors and industries, particularly facilities management, infrastructure services, civil engineering and construction

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

Acquiree's net assets at the acquisition date

	Initial carrying amounts ⁽¹⁾ £m	Carrying amount adjustments ^(a) £m	Carrying amounts £m	Fair value adjustments ^(b) £m	Accounting policy adjustments £m	Acquired intangible assets £m	Recognised values £m
Property, plant and equipment	26 4	–	26 4	(0 7)	–	–	25 7
Intangible assets	229 8	(45 3)	184 5	(184 5)	–	125 4	125 4
Investments in jointly controlled entities	13 4	–	13 4	0 9	–	–	14 3
Deferred tax assets	27 9	33 1	61 0	0 9	–	–	61 9
Inventories	11 2	–	11 2	–	–	–	11 2
Trade and other receivables	304 0	(101 2)	202 8	–	(15 5)	–	187 3
Assets held for sale	16 7	–	16 7	2 3	–	–	19 0
Cash and cash equivalents	46 8	–	46 8	–	–	–	46 8
Borrowing	(143 2)	–	(143 2)	–	–	–	(143 2)
Trade and other payables	(292 2)	–	(292 2)	0 3	–	–	(291 9)
Income tax	(1 4)	–	(1 4)	–	–	–	(1 4)
Retirement benefit liabilities	(42 8)	(29 0)	(71 8)	(3 2)	–	–	(75 0)
Deferred tax liabilities	(2 9)	–	(2 9)	2 9	–	(35 1)	(35 1)
Provisions	(4 5)	–	(4 5)	–	–	–	(4 5)
Net identifiable assets and liabilities	189 2	(142 4)	46 8	(181 1)	(15 5)	90 3	(59 5)
Goodwill recognised on acquisition							624 4
Total consideration (including attributable costs)							564 9

(1) Upon the adoption of International Financial Reporting Interpretations Committee (IFRIC) 14 on 1 January 2009 the carrying amounts in relation to retirement benefit liabilities and deferred tax assets have been restated. This has resulted in an increase in the carrying amount adjustments to retirement benefit liabilities and deferred tax assets of £13.1 million and £3.7 million respectively reflecting the recognition of deficit funding obligations in relation to defined benefit pension arrangements together with the associated deferred tax asset. The overall impact of IFRIC 14 has been to increase goodwill recognised on acquisition by £9.4 million.

There are two types of adjustments which have been reflected in the above, (a) those which have been made to Alfred McAlpine's initial carrying amounts for events up to the acquisition date and (b) those which have been made to the acquired assets and liabilities of Alfred McAlpine. The allocation of these adjustments between these two categories involves a degree of judgement and both categories should therefore be considered when reviewing the Alfred McAlpine balance sheet.

The determination of the carrying amount adjustments by Alfred McAlpine included in (a) followed a dialogue between Alfred McAlpine's and Carillion's management teams during the course of the due diligence period granted to Carillion by Alfred McAlpine.

Both types of adjustments are discussed further below.

(a) Carrying amount adjustments

The £46.8 million carrying amount of net assets acquired at 12 February 2008 (restated for the impact of IFRIC 14 as set out above) incorporates a number of adjustments made to Alfred McAlpine's initial carrying amounts. These adjustments followed a rigorous review of all balance sheet categories, including over 400 contracts, and include the following items, which are stated net of deferred tax where appropriate.

A reduction in the capitalised value of IT assets of £45.3 million which followed an impairment review of all IT capitalised intangible assets.

A £101.2 million reduction in the carrying amount of contracts which comprised a £53.8 million reduction in the carrying amount of completed contracts, with a view to facilitating a swift resolution of all outstanding matters, including cash settlements pertaining to these contracts and a £47.4 million reduction in the carrying amount of ongoing contracts. A deferred tax asset of £25.0 million was recognised in relation to these reductions in carrying amounts.

The increase in retirement benefit liabilities of £29.0 million (restated for the impact of IFRIC 14 as set out above) reflected changes in general market assumptions in respect of the rate of increase in salaries, the rate of increase in pensions, the inflation rate and the discount rate. In addition to this an associated deferred tax asset of £8.1 million was also recognised.

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30 Acquisitions and disposals (continued)

(b) Fair value adjustments

The principal fair value adjustment relates to £184.5 million of goodwill on the Alfred McAlpine 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

The £15.5 million accounting policy adjustment results from applying Carillion's policy in respect of expensing rather than capitalising certain mobilisation costs associated with the commencement of new contracts

The £90.3 million of acquired intangible assets relates to the value ascribed to acquired customer lists and contracts

Total consideration for the acquisition comprises the following

	£m
Equity shares issued	381.5
Cash	171.7
Loan notes issued	1.3
	554.5
Attributable costs	10.4
Total consideration	564.9

Attributable costs include direct adviser costs incurred in relation to the acquisition contracts and due diligence procedures

On 8 October 2008, the Group acquired the entire issued share capital of the Vanbots Group for a total consideration of £18.4 million. The Vanbots Group operates primarily as a construction management services group in Canada.

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

Acquiree's net assets at the acquisition date

	Carrying amounts £m	Fair value adjustments £m	Accounting policy adjustments £m	Acquired intangible assets £m	Recognised values £m
Property, plant and equipment	0.2	(0.1)	–	–	0.1
Intangible assets	–	–	–	2.4	2.4
Investments in jointly controlled entities	0.5	(0.3)	–	–	0.2
Deferred tax assets	0.9	0.3	–	–	1.2
Trade and other receivables	34.2	(1.8)	(1.3)	–	31.1
Assets held for sale	0.8	1.8	–	–	2.6
Cash and cash equivalents	11.7	–	–	–	11.7
Trade and other payables	(40.3)	–	–	–	(40.3)
Income tax	1.1	–	–	–	1.1
Deferred tax liabilities	–	–	–	(0.8)	(0.8)
Net identifiable assets and liabilities	9.1	(0.1)	(1.3)	1.6	9.3
Goodwill recognised on acquisition					9.1
Total consideration					18.4

The principal fair value adjustments relate to a £1.8 million market value adjustment to the carrying value of an investment that was sold post acquisition and a £1.5 million provision against contract balances

The accounting policy adjustment of £1.3 million relates to the alignment of profit recognition policies on construction contracts

The £1.6 million of acquired intangible assets relates to the value ascribed to acquired customer lists and contracts

The goodwill recognised on acquisition of £9.1 million represents the present value of future income streams expected to be generated from margin growth in the Vanbots Group together with identifiable cost savings within the enlarged Group

30 Acquisitions and disposals (continued)

Total consideration for the acquisition comprises the following

	£m
Cash paid	13.2
Promissory note issued	2.6
Deferred consideration	1.2
	17.0
Attributable costs	1.4
Total consideration	18.4

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

	Alfred McAlpine £m	Vanbots £m	Total £m
Cash paid	171.7	13.2	184.9
Attributable costs paid	10.4	1.4	11.8
	182.1	14.6	196.7
Cash and cash equivalents acquired	(46.8)	(11.7)	(58.5)
Net cash outflow on acquisition	135.3	2.9	138.2

In the period from acquisition to 31 December 2008, Alfred McAlpine and the Vanbots Group contributed a reported loss before tax of £34.1 million (after £83.2 million of restructuring costs and intangible amortisation) to consolidated profit for the year. If both acquisitions had occurred on 1 January 2008, Group revenue would have been £4,681.4 million and profit before tax would have been £113.2 million for the year ended 31 December 2008.

Disposals in 2009

On 30 June 2009, the Group disposed of the entire issued share capital of Canllion IT Services Limited for total cash consideration of £36.0 million and on 30 October 2009 disposed of the entire issued share capital of Enviro Group Limited for a total cash consideration of £26.4 million.

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

Net assets at the date of disposal

	Canllion IT Services Limited £m	Enviro Group Limited £m	Total £m
Property, plant and equipment	(4.8)	(0.9)	(5.7)
Intangible assets	(2.2)	(5.6)	(7.8)
Inventories	(0.3)	–	(0.3)
Deferred tax assets	–	(1.0)	(1.0)
Trade and other receivables	(21.3)	(8.4)	(29.7)
Cash and cash equivalents	(0.5)	(1.3)	(1.8)
Trade and other payables	8.5	5.7	14.2
Deferred tax liabilities	0.6	1.6	2.2
Net identifiable liabilities	(20.0)	(9.9)	(29.9)
Total consideration	36.0	28.0⁽¹⁾	64.0
Transaction costs	(7.7)	(2.3)	(10.0)
Other costs of disposal	(6.8)	(7.0)	(13.8)
Profit on disposal	1.5	8.8	10.3

(1) Includes £1.6 million of deferred consideration payable on agreement of completion accounts

The above amounts are provisional pending completion of legal and other due diligence procedures

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30 Acquisitions and disposals (continued)

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

	Carillion IT Services Limited £m	Enviros Group Limited £m	Total £m
Cash proceeds received	36.0	26.4	62.4
Disposal costs paid	(3.1)	(0.3)	(3.4)
Cash and cash equivalents disposed	(0.5)	(1.3)	(1.8)
Net cash inflow on disposal	32.4	24.8	57.2

During 2009, the Group disposed of equity investments in four Public Private Partnership jointly controlled entities. The disposals generated cash consideration of £100.4 million (after deducting disposal costs of £0.3 million) and a non-operating profit of £1.2 million.

Disposals in 2008

During 2008, the Group disposed of equity investments in six Public Private Partnership jointly controlled entities. The disposals generated cash consideration of £59.9 million (after deducting disposal costs of £0.1 million) and a non-operating profit of £35.6 million.

In February and March 2008, the Group received £25.9 million of cash consideration relating to the disposal of three Public Private Partnership jointly controlled entities announced by Alfred McAlpine prior to acquisition. These disposals do not generate any profit in the post acquisition period as the investments were included at fair value in the acquired balance sheet of Alfred McAlpine.

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 2005 using the projected unit credit method. The market value of the schemes' assets at that date were £485.0 million and £106.4 million respectively, which represented approximately 90 per cent and 94 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. An actuarial valuation of the schemes by the Trustees' independent actuaries as at 31 December 2008 is currently being undertaken.

The regular ongoing contributions paid to 5 April 2009 were £2.4 million (2008: £9.9 million) in respect of the Carillion Staff Pension Scheme and £0.2 million (2008: £0.9 million) in respect of the Carillion 'B' Pension Scheme. 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 2009 of £2.6 million and £0.3 million respectively (2008: £16.0 million and £2.0 million respectively). Recovery payments of £2.6 million and £0.3 million to the Staff and 'B' schemes respectively are scheduled to be made in 2010.

The Pension Protection Fund (PPF) levy is payable in addition to the above. The PPF levies for the year ended 31 March 2009 were £1.0 million (2008: £1.0 million) for the Staff scheme and £16,000 (2008: £14,000) for the 'B' scheme.

31 Retirement benefit obligations (continued)

Mowlem Staff Pension and Life Assurance Scheme

The Mowlem Staff Pension and Life Assurance scheme was part of Mowlem, which was acquired on 23 February 2006

The majority of employees who participate in the scheme are in defined benefit arrangements. The defined benefit section of the Mowlem Staff Pension and Life Assurance scheme closed to new entrants on 1 January 2003. Existing members will no longer accrue benefits for future service with effect from 5 April 2009 but instead are eligible to participate in the Carillion 2009 Pension Plan, which is a defined contribution scheme.

A defined contribution section was opened for new employees from 1 April 2003. Existing final salary members could opt to continue on that basis from 1 April 2003 if they agreed to pay a higher member contribution or could pay the same rate and accrue benefits on a Career Average Revalued Earnings (CARE) basis from that date.

An actuarial valuation of the Mowlem Staff Pension and Life Assurance scheme was undertaken by independent actuaries as at 31 December 2006 using the attained age method. The market value of the schemes' assets at that date were £459.6 million, representing approximately 93 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. An actuarial valuation of the schemes by the Trustees' independent actuaries as at 31 December 2008 is currently being undertaken.

The regular ongoing contributions paid to 5 April 2009 were £1.7 million (2008: £7.5 million). 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 Pension and Life Assurance scheme in the year of £5.9 million (2008: £5.4 million). Recovery payments of £5.9 million per annum continuing until 2012 have been agreed with the Trustees of the scheme.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2009 was £1.6 million (2008: £1.6 million).

Carillion Public Sector Pension Scheme

The scheme is a defined benefit scheme and remains open to eligible employees transferring from the public sector as part of the commercial obligations under PFI, PPP and Best Value contracts with public sector employers.

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 December 2007 using the attained age method. The market value of the 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 is due at 31 December 2010.

The regular ongoing employer contributions paid during the year were £3.3 million (2008: £3.4 million). The Group expects to pay regular contributions of approximately £3.5 million during 2010 representing 27.5 per cent of pensionable salaries at the end of 2009. If any employees are admitted into the scheme through PFI, PPP or Best Value contracts during 2010 the level of contributions will increase.

As part of the deficit recovery plan agreed with the Trustees, payments of £4.7 million were made during 2009 (2008: £4.3 million). Further payments of £2.3 million per annum are scheduled to be paid until 2015.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2009 was £0.4 million (2008: £0.3 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.

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31. Retirement benefit obligations (continued)

Independent actuaries appointed by the Railways Pension Trustee Company Limited carried out a formal valuation of the Railways Pension Scheme at 31 December 2007 using the projected unit credit method for GTRM and the attained age method for Centrac. The market values of the scheme assets of the GTRM Section and Centrac Section at 31 December 2007 were £152.9 million and £22.1 million respectively, which represented approximately 99 per cent and 106 per cent of benefits that had accrued to members at that date on an ongoing basis, after taking account of future increases in salaries, contributions payable and reserves. The next actuarial valuation of the schemes by the Trustees' independent actuaries is due at 31 December 2010.

The regular ongoing contributions paid by the employer during the year were £1.6 million (2008: £1.6 million). The Group expects to pay regular ongoing contributions in 2010 for both sections of £1.8 million representing 21 per cent of pensionable salaries.

No deficit recovery plan payments were made during 2009 (2008: £2.0 million). As part of the deficit recovery plan agreed with Trustees, a payment of £0.6 million per annum will be made for 10 years commencing in 2010.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2009 for both sections totalled £0.6 million (2008: £0.5 million).

Alfred McAlpine Pension Plan

The Alfred McAlpine Pension Plan was part of Alfred McAlpine, which was acquired on 12 February 2008. The pension plan is a defined benefit arrangement which was closed to future service accrual on 31 July 2003. During the year, it was agreed that the benefits for members will no longer be linked to final salary with effect from 31 December 2009.

An actuarial valuation of the pension plan was undertaken by the Trustees' independent actuaries as at 31 December 2005 using the projected unit credit method. The market value of the plan assets at that date were £264.1 million, which represented approximately 71 per cent of the benefits that had accrued to members at that date. An actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2008 is currently being undertaken.

The regular ongoing employer contributions paid during the year were £0.2 million (2008: £0.1 million). The Group expects to pay regular ongoing contributions of £0.2 million in 2010 representing 42 per cent of pensionable salaries.

As part of the deficit recovery plan agreed with the Trustees, payments were made in 2009 of £9.3 million (2008: £7.8 million). Recovery payments of £9.5 million are scheduled to be made in 2010 which will continue until 2015, increasing in each year by the increase in the Retail Price Index over the preceding twelve months.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2009 was £0.2 million (2008: £0.2 million).

Other defined benefit schemes

The PME Staff Pension and Life Assurance Scheme

The PME Staff Pension and Life Assurance scheme is a defined benefit scheme and is closed to new entrants. Existing members will no longer accrue benefits for future service with effect from 5 April 2009 but instead are eligible to participate in the Carillion 2009 Pension Plan, which is a defined contribution scheme.

The deficit in the scheme at 31 December 2009, calculated in accordance with IAS 19, is £7.3 million (2008 restated: £3.5 million).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 December 2006 using the attained age method. The market value of the scheme's assets at that date was £49.7 million, which represented approximately 92 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. An actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2008 is currently being undertaken.

The regular ongoing contributions paid to 5 April 2009 were £0.5 million (2008: £1.5 million). Regular ongoing contributions are no longer payable following the closure of the scheme to future accrual on 5 April 2009.

31 Retirement benefit obligations (continued)

As part of the deficit recovery plan agreed with the Trustees, a payment of £1.3 million was made during 2009 (2008: £1.0 million). Recovery payments of £1.3 million per annum have been agreed for 2010 and 2011.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan and was £0.1 million for the year ended 31 March 2009 (2008: £0.1 million).

Carillion Canada Inc

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc managed locally. 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 2009, calculated in accordance with IAS 19, is £4.2 million (2008: £2.8 million).

Contributions during the year were £Nil (2008: £Nil) in respect of the Carillion Canada Inc defined benefit scheme and £0.4 million (2008: £0.3 million) in respect of other post-retirement benefits for senior Canadian employees. Contributions for 2010 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 and is a defined benefit arrangement.

The deficit in the scheme at 31 December 2009, calculated in accordance with IAS 19, is £8.8 million (2008 restated: £6.8 million).

An actuarial valuation of the Mowlem (1993) Pension scheme was undertaken by independent actuaries as at 31 December 2006 using the attained age method. The market value of the scheme's assets at that date were £46.1 million, representing approximately 80 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. An actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2008 is currently being undertaken.

The regular ongoing contributions paid during the year were £2.7 million (2008: £2.7 million). The Group expects to pay regular ongoing contributions of approximately £2.7 million representing 28.2 per cent of pensionable salary during 2010.

As part of the deficit recovery plan agreed with the Trustees, payments were made to the scheme during 2009 amounting to £3.9 million (2008: £3.4 million). Recovery payments of £3.9 million per annum until 2016 have been agreed with the Trustees.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2009 was £0.6 million (2008: £0.6 million).

ESPS Scheme

The ESPS scheme was part of Alfred McAlpine, which was acquired on 12 February 2008 and is a defined benefit arrangement.

The deficit in the scheme at 31 December 2009, calculated in accordance with IAS 19, is £18.4 million (2008: £10.0 million).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 31 March 2007 using the projected unit credit method. The market value of the plan assets at that date were £47.1 million, which represented approximately 76 per cent of the benefits that had accrued to members at that date. The next actuarial valuation of the scheme by the Trustees' independent actuaries is due as at 31 March 2010.

The regular ongoing employer contributions paid during the year were £0.5 million (2008: £0.7 million). The Group expects to pay regular ongoing contributions of £1.1 million in 2010 representing 50.0 per cent of pensionable salaries.

As part of the deficit recovery plan agreed with the Trustees, payments were made in the year of £1.0 million (2008: £1.0 million). Recovery payments of £1.0 million are scheduled to be made in 2010 which will continue until 2015.

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31. Retirement benefit obligations (continued)

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2009 was £0.3 million (2008: £0.3 million).

Bower Group Retirement Benefit Scheme

The Bower Group Retirement Benefit Scheme was part of Mowlem, which was acquired on 23 February 2006. The scheme is a defined benefit arrangement and is closed to future accrual.

The deficit in the scheme at 31 December 2009, calculated in accordance with IAS 19, is £2.2 million (2008: £0.8 million).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuaries as at 29 February 2004 using the projected unit credit method. The market value of the plan assets at that date were £5.0 million, which represented approximately 92 per cent of the benefits that had accrued to members at that date. An actuarial valuation of the scheme by the Trustees' independent actuaries as at 28 February 2007 is currently being undertaken.

As the scheme is closed to future accrual, the Group does not make any regular ongoing contributions to the scheme.

There were no deficit recovery payments made during 2009. Recovery payments of £0.8 million per annum have been agreed with the Trustees as part of the deficit recovery plan.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2009 was £0.1 million (2008: £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 deficit in the schemes at 31 December 2009, calculated in accordance with IAS 19, is £0.4 million and £0.5 million for the Alfred McAlpine (Ireland) Pension Plan and the Irishenco Pension Plan respectively.

Defined contribution schemes

The Group operates five principal UK defined contribution schemes, the Carillion 2009 Pension Plan, the Carillion Pension Plan, the Mowlem Staff Scheme (defined contribution section), the PME Defined Contribution Plan and the Carillion Retirement Plan (closed to new entrants since 2001). In addition, the Group operates two Stakeholder Plans ('Stakeholder Plus' and the Alfred McAlpine 2003 Pension Plan).

The Carillion 2009 Pension Plan commenced on 6 April 2009 for existing employee members of the Carillion Staff, Carillion 'B', Mowlem Staff and PME Staff Pension and Life Assurance Schemes, which closed to future service accrual on 5 April 2009. Under the plan employees contribute a minimum of 5.0 per cent and the employer a minimum of 10.0 per cent of basic salaries. Death in service lump sum benefits are provided in addition. The employer meets the cost of administration and managing the Plan. Employer contributions during the year were £9.6 million.

The Carillion Pension Plan commenced on 1 April 2003. The majority of new employees across the Group are eligible to join this Plan. Employees contribute a minimum of 5.0 per cent and the employer a minimum of 7.0 per cent of basic salaries. Up to 3.0 per cent of any additional voluntary contributions paid by employees is matched by the employer resulting in a maximum employer contribution of 10.0 per cent of basic salary. The employer meets the cost of administration and managing the Plan equivalent to a further 2.0 per cent of basic pay. Employer contributions during the year were £4.1 million (2008: £3.2 million).

The defined contribution section of the Mowlem Staff Scheme commenced on 1 April 2003. The plan is principally only open to late entrants on application. Employees contribute between 3.0 per cent and 5.0 per cent depending on their age and the employer between 4.5 per cent and 8.0 per cent of basic salary. The employer meets the cost of administration and managing the Plan in addition to the cost of the life assurance premiums. Employer contributions during the year were £0.2 million (2008: £0.8 million).

Employees of Carillion Services Limited who are not eligible for the Carillion Pension Plan are invited to participate in the Carillion Stakeholder Plus managed by BlackRock Pensions Limited. Employees contribute 5.0 per cent and the employer 6.5 per cent of basic salary. Death in service lump sum benefits are provided in addition. Employer contributions during the year were £0.7 million (2008: £0.9 million).

31 Retirement benefit obligations (continued)

The PME Defined Contribution Plan commenced in April 1999. All new PME employees are offered membership of the Plan. Employees contribute 4.0 per cent of basic pay and the employer pays 5.0 per cent of basic pay (inclusive of a 1.0 per cent allowance for insurance premiums and audit fees). Employer contributions during the year were £0.7 million (2008: £0.8 million).

Employer contributions to the Carillion Retirement Plan during the year were £0.1 million (2008: £0.1 million).

Employees of businesses acquired on the purchase of Alfred McAlpine may be eligible to participate in the Alfred McAlpine 2003 Pension Plan managed by Zurich Assurance. Employees contribute between 3.0 per cent and 9.0 per cent depending upon job grade and the employer contributes matching amounts. Death in service lump sum benefits are provided in addition. Employer contributions during the year were £3.5 million (2008: £2.8 million).

Until the disposal of the company on 30 October 2009, employees of Enviros Group Limited were able to participate in a pension plan provided by Friends Provident. Employer contributions in the period until disposal amounted to £1.0 million (2008: £1.3 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 £0.5 million (2008: £0.6 million).

IAS 19 disclosures

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

	31 December 2009		31 December 2008	
	UK	Canada	UK	Canada
Rate of increase in salaries	4.40%	3.00%	3.80%	3.00%
Rate of increase in pensions*	3.40%	2.00%	2.80%	2.04%
Inflation rate	3.40%	2.00%	2.80%	2.04%
Discount rate	5.80%	6.25%	6.30%	7.50%

* Where schemes have adopted the 2.5% per annum cap on increases to pensions in payment the assumption is 2.4% per annum (2.2% p.a. in 2008) rather than the higher amount shown above.

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 the mortality basis is in line with the basis used by the respective Trustee at the last valuation. All the schemes, except the Railways Pension Scheme, have adopted a basis using the medium cohort tables on the recommendation of the Scheme Actuary. The Railways Pension Scheme uses scheme specific assumptions based on industry experience.

The Carillion Staff Scheme, the Carillion Public Sector Scheme, the Mowlem Staff Scheme, the Mowlem (1993) Scheme and the Alfred McAlpine Pension Plan adopted the 'PA92(YOB=1965)mc + 2 years' table for non-retired member's mortality and the 'PA92(YOB=1935)mc + 2 years' for retired member's mortality at the last valuation. The previous bases were 'PA92(Base) – 3 years' and 'PA92(Base) – 1 year' respectively.

The life expectancies for a male aged 65 are shown below:

	2009	2008
	PA92(YOB=1965)mc + 2 yrs	PA92(YOB=1965)mc + 2 yrs
Non-retired members	21.3 years	21.3 years
	PA92(YOB=1935)mc + 2 yrs	PA92(YOB=1935)mc + 2 yrs
Retired members	19.7 years	19.7 years

Notes to the consolidated financial statements

continued

31 Retirement benefit obligations (continued)

The Canadian Actuary annually undertakes an actuarial valuation and accounting exercise for reporting on local employee benefits under the local GAAP, CICA 3461. The same assumptions have been used for local medical and dental inflation rates in relation to the Post Retirement Benefit Plan. The immediate trend rate is eight per cent per annum with an ultimate trend rate of five per cent per annum (2013). An increase of one per cent in the valuation trend would increase liabilities by £0.8 million and the total service cost by £0.1 million. A decrease of one per cent in the valuation trend would reduce liabilities by £0.6 million and total service cost by £0.1 million. The overall expected rate of return on assets is determined by reference to local long term interest rates, the yield on gilts or Treasury stock and the Actuary's recommendation on the allowance for the potential long term extra return from investing in equities.

Carillion has adopted immediate recognition of any actuarial gains or losses through the Statement of Comprehensive Income as permitted under IAS 19.

Following the adoption of IFRIC 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction' on 1 January 2009, comparative information for 2008 has been restated accordingly.

The IAS 19 position for the schemes is as follows:

	Expected rate of return %		Carillion Staff	Mowlem Staff	Carillion "B"	Alfred McAlpine Pension Plan	Public Sector	Railways Pension	Other schemes	Total
	UK	Canada	£m	£m	£m	£m	£m	£m	£m	£m
31 December 2009										
Equities	8.20	8.57	183.2	230.1	24.5	164.4	73.1	90.5	94.3	860.1
Government bonds	4.35	5.20	173.5	14.2	40.7	43.2	23.0	9.7	44.3	348.6
Corporate bonds	5.50	–	173.6	159.8	32.7	56.3	17.3	21.3	38.6	499.6
Other	1.00	3.25	3.7	4.4	1.1	5.6	1.2	13.3	3.8	33.1
Market value of scheme assets			534.0	408.5	99.0	269.5	114.6	134.8	181.0	1,741.4
Present value of funded scheme obligation			(573.0)	(497.3)	(111.9)	(337.8)	(122.7)	(163.0)	(216.0)	(2,021.7)
Present value of unfunded scheme obligation			–	–	–	–	–	–	(6.8) ⁽¹⁾	(6.8)
Minimum funding requirement			–	–	–	–	(6.7)	–	–	(6.7)
Total deficit			(39.0)	(88.8)	(12.9)	(68.3)	(14.8)	(28.2)	(41.8)	(293.8)
Related deferred tax asset										82.7
Net pension liability										(211.1)

(1) All schemes are funded except the Senior Executive Retirement Plan and the Post Retirement Benefit Plan held in Canada.

	Expected rate of return %		Carillion Staff	Mowlem Staff	Carillion "B"	Alfred McAlpine Pension Plan	Public Sector	Railways Pension	Other schemes	Total
	UK	Canada	£m	£m	£m	£m	£m	£m	£m	£m
31 December 2008 (Restated)										
Equities	7.90	7.85	163.9	198.6	23.5	141.0	57.4	82.4	77.0	743.8
Government bonds	3.65	7.12	170.6	26.5	42.0	47.3	19.5	9.4	44.2	359.5
Corporate bonds	6.55	–	166.3	152.8	32.2	42.7	14.5	20.3	33.8	462.6
Other	3.00	2.50	4.6	3.0	1.2	2.6	1.0	12.8	3.4	28.6
Market value of scheme assets			505.4	380.9	98.9	233.6	92.4	124.9	158.4	1,594.5
Present value of funded scheme obligation			(470.9)	(418.8)	(101.5)	(298.8)	(92.4)	(125.8)	(170.0)	(1,678.2)
Present value of unfunded scheme obligation			–	–	–	–	–	–	(5.4)	(5.4)
Minimum funding requirement			–	–	–	–	(13.1)	–	(6.9)	(20.0)
Total surplus/(deficit)			34.5	(37.9)	(2.6)	(65.2)	(13.1)	(0.9)	(23.9)	(109.1)
Related deferred tax asset										32.9
Net pension liability										(76.2)

31 Retirement benefit obligations (continued)

Expense recognised in the income statement

	2009 £m	2008 £m
(Charge)/credit to operating profit		
Current service cost relating to defined benefit schemes	(8 1)	(24 1)
Settlements	–	(1 2)
Curtailments	3 3	38 3
Total	(4 8)	13 0
Credit/(charge) to other finance income		
Expected return on pension scheme assets	101 8	120 3
Interest cost on pension scheme liabilities	(104 0)	(107 7)
Net finance return	(2 2)	12 6
Total actuarial (losses)/gains recognised in the Statement of Comprehensive Income		
Effects of changes in assumptions underlying the present value of scheme liabilities	(319 2)	309 2
Difference between actual and expected return on scheme assets	85 9	(416 6)
Movement in minimum funding requirement	13 3	14 7
Total actuarial losses recognised in the Statement of Comprehensive Income	(220 0)	(92 7)

	2009 £m	2008 £m
Changes in defined benefit obligation		
Obligation at 1 January	(1,683 6)	(1,591 3)
Current service cost	(8 1)	(24 1)
Interest cost	(104 0)	(107 7)
Contributions from scheme members	(2 7)	(7 8)
Acquisition of Alfred McAlpine	–	(384 1)
Benefits paid	86 7	70 4
Settlements	–	15 2
Curtailments	3 3	38 3
Actuarial (losses)/gains	(319 2)	309 2
Effect of movements in foreign exchange rates	(0 9)	(1 7)
Obligation at 31 December	(2,028 5)	(1,683 6)

	2009 £m	2008 £m
Changes in the fair value of scheme assets		
Fair value at 1 January	1,594 5	1,567 0
Expected return on scheme assets	101 8	120 3
Contributions from the employer	42 5	79 1
Contributions from scheme members	2 7	7 8
Acquisition of Alfred McAlpine	–	322 2
Benefits paid	(86 7)	(70 4)
Settlements	–	(16 4)
Actuarial gains/(losses)	85 9	(416 6)
Effect of movements in foreign exchange rates	0 7	1 5
Fair value at 31 December	1,741 4	1,594 5

Notes to the consolidated financial statements

continued

31. Retirement benefit obligations (continued)

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

	2009 £m	2008 ⁽¹⁾ £m
Present value of defined benefit obligation	(2,028 5)	(1,683 6)
Fair value of scheme assets	1,741 4	1,594 5
Minimum funding requirement	(6 7)	(20 0)
Net deficit	(293 8)	(109 1)
Schemes in surplus (within non-current assets)	2 6	37 1
Schemes in deficit (within non-current liabilities)	(296 4)	(146 2)
	(293 8)	(109 1)

The actual return on plan assets was £187 7 million (2008 £296 3 million)

History of experience gains and losses

	2009 £m	2008 ⁽¹⁾ £m	2007 ⁽¹⁾ £m	2006 ⁽¹⁾ £m	2005 ⁽¹⁾ £m
Present value of the defined benefit obligation	(2,028 5)	(1,683 6)	(1,591 3)	(1,589 0)	(963 7)
Fair value of scheme assets	1,741 4	1,594 5	1,567 0	1,476 1	895 8
Minimum funding requirement	(6 7)	(20 0)	(21 6)	(12 8)	(4 7)
Deficit	(293 8)	(109 1)	(45 9)	(125 7)	(72 6)
Experience gains and losses on scheme obligation	(£m)	(319 2)	309 2	47 2	12 8
Percentage of defined benefit obligation	(%)	15 7	18 4	3 0	0 8
Difference between expected and actual returns on scheme assets	(£m)	85 9	(416 6)	(15 0)	21 8
Percentage of scheme assets	(%)	4 9	26 1	1 0	1 5

(1) Restated on adoption of IFRIC 14 (see note 33)

The cumulative amount of actuarial losses recognised since 1 January 2004 in the Group statement of comprehensive income is £236 5 million (2008 restated £16 5 million). The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £85 2 million and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes. Therefore, the Group is unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of comprehensive income before 1 January 2004.

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.

32 Accounting estimates and judgements (continued)

Intangible assets

In determining the fair value of identifiable assets, liabilities and contingent liabilities of businesses acquired, judgement is required in relation to final out-turn on construction contracts, discount rates and expected future cash flows and profitability

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from the cash-generating unit to which the intangible assets are attached. Note 12 provides details of the carrying value of intangible assets

Defined benefit pension scheme valuations

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

33 New accounting standards and interpretations

Upon the adoption of IFRIC 14 on 1 January 2009, the Group has restated prior year information, which has had the following impact on net assets

	At 31 December 2008 £m	At 1 January 2008 £m
Net assets as previously reported	872.6	502.9
Impact of adoption of IFRIC 14 on – goodwill	9.4	–
– retirement benefits	(20.0)	(21.6)
– deferred tax	5.6	6.0
	(5.0)	(15.6)
Net assets as restated	867.6	487.3

The impact on goodwill of £9.4 million relates to the effect of IFRIC 14 on retirement benefit liabilities (net of deferred tax) at the date of acquisition of Alfred McAlpine on 12 February 2008 reflecting the recognition of minimum funding arrangements. In addition to the above, IFRIC 14 reduced actuarial losses and taxation in the 2008 consolidated statement of comprehensive income by £14.7 million and £4.1 million respectively.

In 2009, IFRIC 14 reduced actuarial losses and taxation in the consolidated statement of comprehensive income by £13.3 million and £3.7 million respectively, leading to an increase in net assets of £9.6 million.

The adoption of IFRIC 14 has no impact on reported profit or cash flow. None of the other new accounting standards adopted on 1 January 2009 as referred to in note 1 has any impact upon reported profit, net assets or cash flows.

Notes to the consolidated financial statements

continued

34 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 11)
- > contingent liabilities in respect of guarantees for deferred equity payments and performance contracts in PPP jointly controlled entities (see note 26)
- > capital commitments for capital expenditure and equity and subordinated debt investments in PPP jointly controlled 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.

35 Principal subsidiaries, jointly controlled entities and jointly controlled operations

A list of significant investments in subsidiaries, jointly controlled entities and jointly controlled operations, including the name, country of incorporation and proportion of ownership interest is given on page 113.

Except where shown, all subsidiary undertakings and jointly controlled entities are incorporated in Great Britain and operate in the UK. All holdings are of ordinary shares and except where shown, all subsidiary undertakings are 100% owned (with equivalent voting rights) and jointly controlled entities and jointly controlled operations are 50% owned. Shares of those undertakings marked with an asterisk are directly owned by Carillion plc.

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

Carillion (Aspire Construction) Holdings No 2 Ltd
 Carillion Canada Inc (Canada)
 Carillion (Caribbean) Ltd (Trinidad & Tobago)
 Carillion CR Limited
 Carillion Construction Ltd *
 Carillion Fleet Management Ltd *
 Carillion Highway Maintenance Ltd *
 Carillion Private Finance Ltd *
 Carillion Services Ltd *
 Monteray Ltd 51%
 Planned Maintenance Engineering Ltd
 Postworth Ltd *
 Sovereign Hospital Services Ltd
 Carillion (AMBS) Ltd

Principal jointly controlled entities**Public Private Partnerships**

Accommodation Services (Holdings) Ltd 20%
 Arden Partnership (Derby) Holdings Ltd
 Arden Partnership (Leicester) Holdings Ltd
 Arden Partnership (Lincolnshire) Holdings Ltd
 COE (CAMH) Limited Partnership (Canada)
 Clinicenta (Hertfordshire) Ltd
 Eastbury Park (Holdings) Ltd
 Education 4 Ayrshire (Holdings) Ltd 47.5%
 Ellenbrook Holdings Ltd
 Holdfast Training Services Ltd 26%
 Inspiredspaces Durham (Holdings1) Ltd 80%
 Inspiredspaces STaG (Holdings1) Ltd 40%
 Inspiredspaces STaG (Holdings2) Ltd 80%
 Inspiredspaces Nottingham (Holdings1) Ltd 80%
 Inspiredspaces Tameside (Holdings1) Ltd 80%
 LCED (Sault) Limited Partnership 25% (Canada)
 Road Management Services (A13) Holdings Ltd 25%
 Sheppey Route (Holdings) Ltd
 STaG PCT (Holdco) Ltd
 The Healthcare Infrastructure Company of Canada (ROH) Inc (Canada)
 The Healthcare Infrastructure Company of Canada (WOHC) Inc (Canada)
 The Hospital Company (QAH Portsmouth) Holdings Ltd
 UK Highways A55 (Holdings) Ltd
 Yorkshire Transformations Holdings Ltd 33.3%

Others

CarillionEnterprise Ltd 50.1%
 Modern Housing Solutions (Prime) Ltd 67%
 Al Futtaim Carillion LLC (UAE) 49%
 Arcadis Aquamen Facility Management BV (The Netherlands)
 Carillion Alawi LLC (Oman) 49%
 Carillion Richardson Partnership
 Emnil Services LLC (UAE)* 33%
 Servus Ltd (Trinidad & Tobago)

Jointly controlled operations

Name, proportion of interest held and address of principal place of business

Balfour Beatty Carillion Joint Venture – East London Line 50%
 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

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

Associated Project

GCHQ, Cheltenham
 Mental health facilities, Derbyshire
 Mental health facilities, Leicestershire
 Mental health facilities, Lincolnshire
 Centre for Addiction & Mental Health, Toronto
 Lister Surgicentre, Stevenage
 Permanent Joint Headquarters, Northwood
 South Ayrshire Schools
 University of Hertfordshire Student Accommodation
 Royal School of Military Engineering, Chatham
 Durham Schools
 South Tyneside and Gateshead Schools (Jarrow)
 South Tyneside and Gateshead Schools (South Shields)
 Nottingham Schools
 Tameside Schools
 Sault Area Hospital, Canada
 A13, Thames Gateway
 A249 Kent
 Cleadon Park Primary Care Centre
 Royal Ottawa Hospital, Canada
 William Osler Hospital, Canada
 Queen Alexandra Hospital, Portsmouth
 A55 North Wales
 Swardcliffe Social Housing, Leeds

Nature of business

MoD buildings
 MoD housing
 Building and civil engineering
 Facilities management
 Building and civil engineering
 Property Development
 Facilities management
 Facilities management

Bonhill Street, London, England
 Pytchley Maintenance Compound, Pegasus Court, Kettering, England
 South Business Park, Kettering, Northamptonshire, England
 Bradford, West Yorkshire, England

Company balance sheet

As at 31 December 2009

	Note	2009 £m	2008 £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	3	1,146.2	1,104.2
Current assets			
Debtors	4	602.7	811.9
Cash at bank and in hand		49.2	7.1
		651.9	819.0
Creditors amounts falling due within one year	5		
Borrowing		(152.3)	(103.6)
Other creditors		(516.9)	(583.1)
		(669.2)	(686.7)
Net current (liabilities)/assets			
Due within one year		(17.6)	131.4
Debtors due after more than one year	4	0.3	0.9
		(17.3)	132.3
Total assets less current liabilities		1,128.9	1,236.5
Creditors amounts falling due after more than one year			
Borrowing	6	(129.8)	(355.9)
Net assets		999.1	880.6
Financed by			
Capital and reserves			
Share capital	7	198.6	197.8
Share premium	8	16.8	12.9
Merger reserve	8	516.3	516.3
Other reserve	8	5.2	3.2
Profit and loss account	8	262.2	150.4
Equity shareholders' funds	9	999.1	880.6

The financial statements were approved by the Board of Directors on 3 March 2010 and were signed on its behalf by



Richard Adam FCA
Group Finance Director

Notes to the Company financial statements

1 Significant accounting policies

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

Basis of preparation

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis, except for derivative financial instruments which are stated at fair value, and in accordance with applicable UK accounting standards and law

Taxation

Deferred tax assets or liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation that have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'. Liabilities are calculated on a non-discounted full provision basis. Assets are calculated on the same basis, but are recognised only to the extent that it is probable that they will be recovered

Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost, less provision for any impairment

Leasing

The Company enters into finance lease arrangements on behalf of subsidiary companies. As permitted by SSAP 21 'Accounting for leases and hire purchase contracts', the assets relating to the finance leases are included in the financial statements of the subsidiaries concerned. The capital element of outstanding finance leases is included within borrowings. The finance charge element of rentals is charged to the profit and loss account at a constant periodic rate of charge on the outstanding obligations

Own shares

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

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account

Financial instruments

The Company's principal financial assets and liabilities are cash at bank and in hand and borrowings. Cash at bank and in hand is carried in the balance sheet at amortised cost. Borrowings are recognised initially at fair value less attributable transaction costs and subsequently at amortised cost. In addition, the Company enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. The forward contracts are measured initially at fair value, with changes in fair value during the year recognised in the profit and loss account. Fair values are based on quoted market prices at the balance sheet date

Share-based payments

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

The fair value of the LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model. For both schemes the fair value determined at grant date is expensed on a straight-line basis over the period in which any performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date)

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of the investment in subsidiary. If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend to the extent that it reflects post acquisition profits of the subsidiary

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee

Notes to the Company financial statements

continued

1 Significant accounting policies (continued)

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 2009 of £167.5 million (2008: £62.5 million).

Fees paid to KPMG Audit Plc and its associates for non-audit services to the Company itself are not disclosed in the individual accounts of Carillion plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

A final dividend, declared in the previous year, of 8.9 pence per share was paid during the year, amounting to £35.2 million (2008: £29.6 million).

An interim dividend of 4.6 pence per share was paid during the year, amounting to £18.2 million (2008: £16.2 million).

A final dividend of 10.0 pence (2008: 8.9 pence) per share, amounting to £39.7 million (2008: £35.2 million), was approved by the Board on 3 March 2010 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 18 June 2010 to shareholders on the register on 23 April 2010.

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost			
At 1 January 2009	1,114.6	0.2	1,114.8
Additions	42.0	–	42.0
Disposals	–	–	–
At 31 December 2009	1,156.6	0.2	1,156.8
Impairment losses			
At 1 January and 31 December 2009	10.6	–	10.6
Net book value			
At 31 December 2009	1,146.0	0.2	1,146.2
At 31 December 2008	1,104.0	0.2	1,104.2

Additions in the year of £42.0 million relates principally to additional shares in Carillion Construction Limited amounting to £40.0 million acquired at par.

The principal subsidiary undertakings and joint ventures of the Company are shown on page 113.

4 Debtors

	2009 £m	2008 £m
Amounts falling due within one year		
Amounts owed by Group undertakings	597.6	799.3
Other debtors	0.7	0.3
Amounts owed by joint ventures	0.7	0.8
Income tax	2.4	9.5
Derivative financial instruments	1.0	1.1
Amounts falling due within one year	602.4	811.0
Amounts falling due after more than one year		
Amounts owed by Group undertakings	0.3	0.9
Total debtors	602.7	811.9

The amounts owed by Group undertakings falling due after more than one year of £0.3 million (2008: £0.9 million) relates to finance lease transactions entered into with Carillion Fleet Management Limited. Further details are disclosed in note 6.

5 Creditors amounts falling due within one year

	2009 £m	2008 £m
Bank overdrafts	144.1	94.5
Bank loans	7.6	8.5
Net obligations due under finance leases	0.6	0.6
Borrowing	152.3	103.6
Amounts owed to Group undertakings	482.4	555.9
Amounts owed to joint ventures	34.0	22.1
Accruals and deferred income	0.5	5.1
	669.2	686.7

6 Creditors amounts falling due after more than one year

	2009 £m	2008 £m
Bank loans	129.5	355.0
Net obligations due under finance leases	0.3	0.9
	129.8	355.9

Net obligations due under finance leases relate to financing agreements for fixed assets that are used by Carillion Fleet Management Limited, a wholly owned subsidiary. The assets have been recognised in the accounts of the Carillion Fleet Management Limited in accordance with 'SSAP 21 Accounting for leases and hire purchase contracts', together with corresponding liabilities to the Company. The Company recognises these inter company debts within amounts owed by Group undertakings in note 4.

Interest is charged on the above bank loans at floating rates linked to London Interbank Offered Rate.

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

The maturity profile of all borrowings is disclosed in note 13 on page 121.

Notes to the Company financial statements

continued

7 Share capital

	2009 £m	2008 £m
Authorised		
700,000,000 (2008 525,000,000) ordinary shares of 50p each	350 0	262 5

The increase in the authorised share capital was approved at the AGM on 6 May 2009

Issued and fully paid

	2009		2008	
	Number million	£m	Number million	£m
At 1 January	395 7	197 8	281 2	140 6
New share capital issued	1 6	0 8	114 5	57 2
At 31 December	397 3	198 6	395 7	197 8

8 Reserves

	Share premium £m	Merger reserve £m	Profit and loss account £m	Other reserve £m	Total £m
At 1 January 2009	12 9	516 3	150 4	3 2	682 8
Profit for the year	-	-	167 5	-	167 5
New share capital subscribed	3 9	-	-	-	3 9
Acquisition of own shares	-	-	(4 2)	-	(4 2)
Share options exercised by employees	-	-	0 5	-	0 5
Equity settled transactions (net of deferred tax)	-	-	1 4	2.0	3 4
Dividend paid to shareholders	-	-	(53 4)	-	(53 4)
At 31 December 2009	16 8	516 3	262.2	5 2	800 5

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

	2009 £m	2008 £m
At 1 January	(1 3)	(0 7)
Share options exercised by employees (exercise price)	0 5	-
Share options exercised (transfer to retained earnings)	3 9	4 1
Acquisition of own shares	(4 2)	(4 7)
At 31 December	(1 1)	(1 3)

At 31 December 2009, the ESOP held 362,909 (2008 419,827) of the Company's shares and had a market value of £1.1 million (2008 £1.0 million). During the year the Company acquired 1.4 million of its own shares for £4.2 million to meet the plan's future commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('QUEST'). During the year, 91,376 (2008 210,859) ordinary shares in the Company held by the QUEST were transferred to employees of the Group following the exercise of options under the Sharesave Scheme.

At 31 December 2009 the total number of shares held under the QUEST amounted to 134,683 (2008 8,904) and had a market value of £409,167 (2008 £22,100). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

9 Reconciliation of movement in shareholders' funds

	2009 £m	2008 £m
Profit for the year	167 5	62 5
New share capital issued	4 7	386 5
Equity settled transactions (net of deferred tax)	3 4	3 1
Share options exercised by employees	0 5	–
Acquisition of own shares	(4 2)	(4 7)
Dividends paid to shareholders	(53 4)	(45 8)
Net addition to shareholders' funds	118 5	401 6
Shareholders' funds at 1 January	880 6	479 0
Shareholders' funds at 31 December	999 1	880 6

10 Other guarantees and contingent liabilities

	2009 £m	2008 £m
Guarantees in respect of borrowings of subsidiaries, joint ventures and joint arrangements	89 0	32 3
Guarantees in respect of deferred equity payments in PPP joint ventures	–	3 2
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP joint ventures	52 4	77 4
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP joint ventures	30 0	30 0

The Company has issued performance guarantees in respect of its subsidiaries, joint ventures and joint arrangements in the normal course of business

Guarantees and counter indemnities have been given to financial institutions in respect of the provision of performance and other contract related bonds that are issued in the normal course of business

11 Pension arrangements

As the Carillion Staff and 'B' defined benefit schemes are run for the Carillion Group as a whole, the Company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17, the schemes are accounted for by the Company separately as if the schemes were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 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 50

Notes to the Company financial statements

continued

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

	2009		2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts	1.0	–	1.1	–

Effective interest rates

The Company's interest bearing borrowing were subject to effective interest rates at the balance sheet date as follows:

	2009 Range (%)	2008 Range (%)
Bank overdrafts	1.50 to 5.20	3.00
Bank loans	0.80 to 3.12	2.65 to 6.99
Finance lease obligations	4.00 to 6.54	4.00 to 6.54

Foreign currency exposure

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

	2009 £m	2008 £m
United States of America Dollars	15.6	17.6
Canadian Dollars	38.5	36.7
United Arab Emirates Dirhams	7.6	8.5
Euro	0.5	1.4
	62.2	64.2

Of the total foreign currency borrowing of £62.2 million (2008: £64.2 million) the amount of borrowing used for hedging currency net assets of overseas operations of the Group amounts of £61.6 million (2008: £62.6 million). The foreign exchange gain of £1.0 million (2008: loss £8.9 million) on translation of the borrowing into sterling has been recognised in the profit and loss account.

Fair values

Where there are differences between the carrying and fair values of the Company's principal financial instruments at 31 December 2009 these are shown below:

	2009		2008	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Finance lease obligations	(0.9)	(0.8)	(1.5)	(1.4)

13 Financial instruments (continued)

Maturity of financial liabilities

The maturity profile of the contractual cash flows of the Company's non-current borrowing is as follows

	Bank overdrafts £m	Bank loans £m	Finance leases £m	Total £m
31 December 2009				
Between one and two years	–	2 1	0 2	2 3
Between two and three years	–	130 7	0 1	130 8
Between three and four years	–	0 4	–	0 4
Between four and five years	–	–	–	–
More than five years	–	–	–	–
More than one year	–	133 2	0 3	133 5
Less than one year	144 1	9 9	0 6	154 6
	144 1	143 1	0 9	288 1

	Bank overdrafts £m	Bank loans £m	Finance leases £m	Total £m
31 December 2008				
Between one and two years	–	17 8	0 8	18 6
Between two and three years	–	17 8	0 2	18 0
Between three and four years	–	368 4	–	368 4
Between four and five years	–	–	–	–
More than five years	–	–	–	–
More than one year	–	404 0	1 0	405 0
Less than one year	94 5	8 5	0 6	103 6
	94 5	412 5	1 6	508 6

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

	2009 £m	2008 £m
Expiring within one year	7 4	6 5
Expiring between two and five years	511 0	235 8
	518 4	242 3

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 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 2009 will be payable on 18 June 2010 to those shareholders on the register on 23 April 2010.

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 2010 announced 26 August 2010

Full year to 31 December 2010 announced March 2011

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
The Causeway
Worthing
West Sussex
BN99 6DA

Telephone 0871 384 2522
Textphone for shareholders
with hearing difficulties 0871 384 2255

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 above.

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 5 May 2010, 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 "Company Meetings".

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.

Board of Directors and Advisers

Non-Executive Directors

Philip Rogerson (Chairman)⁽³⁾
 David Garman (Senior Independent Non-Executive Director)^(1 2 3)
 David Maloney^(1 2 3)
 Steve Mogford^(1 2 3)
 Vanda Murray^(1 2 3)

Executive Directors

John McDonough (Group Chief Executive)⁽³⁾
 Richard Adam (Group Finance Director)
 Richard Howson (Executive Director)
 Don Kenny (Executive Director)

- (1) Member of the Audit Committee
 (2) Member of the Remuneration Committee
 (3) Member of the Nominations Committee

Secretary and Registered Office

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National Westminster Bank plc
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 Nottingham
 NG1 2JX

Joint Brokers

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 25 Cabot Square
 London
 E14 4QA

Oriel Securities
 125 Wood Street
 London
 EC2V 7AN

Financial Adviser

Lazard
 50 Stratton Street
 London
 W1J 8LL

Legal Adviser

Slaughter and May
 One Bunhill Row
 London
 EC1Y 8YY

Share Registrar

Equiniti
 The Causeway
 Worthing
 West Sussex
 BN99 6DA

Five Year Review

Group income statement		2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Total revenue		5,426 5	5,205 8	3,951 7	3,512 4	2,249 1
Analysed between						
Support services		2,389 5	2,463 5	1,793 6	1,458 7	953 6
Public Private Partnership projects		215 6	178 4	154 1	148 0	65 4
Middle East construction services		553 6	464 2	337 0	268 7	160 5
Construction services (excluding the Middle East)		2,267 8	2,099 7	1,667 0	1,637 0	1,069 6
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		217 3	194 1	120 1	97 4	55 3
Analysed between						
Support services		117 7	113 5	73 9	58 8	40 5
Public Private Partnership projects		32 2	29 8	25 4	26 5	8 3
Middle East construction services		47 0	34 5	25 4	13 9	4 2
Construction services (excluding the Middle East)		30 9	28 7	16 0	18 5	12 7
Group eliminations and unallocated items		(10 5)	(12 4)	(20 6)	(20 3)	(10 4)
Share of jointly controlled entities' net financial (expense)/income		(14 0)	(18 2)	(9 9)	(8 0)	1 1
Share of jointly controlled entities' taxation		(6 5)	(10 7)	(9 0)	(8 1)	(5 0)
Underlying profit from operations before intangible amortisation, impairment of goodwill and other investments and non-recurring operating items		196 8	165 2	101 2	81 3	51 4
Group net financial (expense)/income		(14 6)	(7 7)	0 6	1 3	4 0
Underlying profit before tax		182 2	157 5	101 8	82 6	55 4
Intangible amortisation and impairment of goodwill and other investments		(30 8)	(54 5)	(21 5)	(17 2)	(2 8)
Non-recurring operating items		(15 2)	(22 7)	(14 2)	(22 6)	–
Non-operating items		11 5	35 6	28 3	25 3	(0 8)
Profit before taxation		147 7	115 9	94 4	68 1	51 8
Taxation		(11 5)	(4 1)	(8 3)	(7 2)	(11 1)
Profit from continuing operations		136 2	111 8	86 1	60 9	40 7
Discontinued operations		–	–	(7 6)	(0 5)	0 1
Analysed between						
Trading loss from discontinued operations		–	–	(1 4)	(0 5)	0 1
Loss on disposal of discontinued operations		–	–	(6 2)	–	–
Profit for the year		136 2	111 8	78 5	60 4	40 8
Group financial statistics						
Underlying operating profit margin						
Support services	Percentage	4 9	4 6	4 1	4 0	4 2
Middle East construction services	Percentage	8 5	7 4	7 5	5 2	2 6
Construction services (excluding the Middle East)	Percentage	1 4	1 4	1 0	1 1	1 2
Underlying operating profit margin						
Total Group before share of jointly controlled entities' net financial (expense)/income and taxation	Percentage	4 0	3 7	3 0	2 8	2 5
Underlying profit from operations margin						
Total Group	Percentage	3 6	3 2	2 6	2 3	2 3

Group balance sheet	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Property, plant and equipment	168 2	167 2	131 5	146 6	100 9
Intangible assets	1,241 3	1,276 9	555 8	596 1	62 3
Investments	177 1	238 6	185 9	178 8	62 7
	1,586 6	1,682 7	873 2	921 5	225 9
Inventories, receivables and payables	(608 0)	(490 4)	(286 5)	(282 0)	(119 5)
Net retirement benefit liability (net of deferred tax)	(211 1)	(76 2)	(29 4)	(84 8)	(50 8)
Other net (liabilities)/assets	(15 2)	(21 8)	(25 1)	(22 0)	0 1
Net operating assets	752 3	1,094 3	532 2	532 7	55 7
Net cash/(borrowing)	24 9	(226 7)	(44 9)	(108 0)	90 8
Net assets	777 2	867 6	487 3	424 7	146 5

Group cash flow statement

Underlying Group operating profit	130 9	120 1	64 4	49 7	35 0
Depreciation and other non-cash items	38 8	19 2	15 9	18 5	14 4
Working capital	59 9	34 0	31 7	15 2	36 0
Dividends received from joint ventures	38 6	25 0	23 7	15 7	8 4
Underlying cash flow from operations	268 2	198 3	135 7	99 1	93 8
Deficit pension contributions	(29 0)	(50 5)	(46 3)	(31 8)	(10 0)
Restructuring costs	(17 1)	(32 4)	(6 5)	(18 2)	–
Interest, tax and dividends	(63 2)	(62 2)	(30 4)	(25 7)	(35 3)
Net capital expenditure	(47 3)	(26 4)	4 4	(28 2)	(46 4)
Acquisitions and disposals	142 7	(227 0)	9 6	(190 9)	(35 4)
Other (including discontinued operations)	(2 7)	18 4	(3 4)	(3 1)	(4 7)
Change in net liquidity	251 6	(181 8)	63 1	(198 8)	(38 0)
Net (borrowing)/cash at 1 January	(226 7)	(44 9)	(108 0)	90 8	128 8
Net cash/(borrowing) at 31 December	24 9	(226 7)	(44 9)	(108 0)	90 8

Group financial statistics**Earnings per share**

Underlying earnings per share – continuing operations	Pence	39 0	34 3	28 9	23 7	20 4
Underlying earnings per share – continuing and discontinued operations	Pence	39 0	34 3	26 2	23 5	20 4
Basic earnings per share – continuing and discontinued operations	Pence	33 4	28 4	27 1	21 6	18 7

Dividends

Proposed full year dividend per share	Pence	14 6	13 0	11 0	9 0	8 0
Underlying proposed dividend cover – continuing operations	Times	2 7	2 6	2 6	2 6	2 6
Basic proposed dividend cover – continuing and discontinued operations	Times	2 3	2 2	2 5	2 4	2 3

Prior year balance sheet information has been restated following the adoption of International Financial Reporting Interpretations Committee (IFRIC) 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction' on 1 January 2009



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