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Annual report and accounts 2008
The UK's leading support services company

Sustainable
earnings growth

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Making tomorrow a better place

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Annual report and accounts 2008

Who we are
The UK's leading support services company

What we do
Deliver integrated solutions for
infrastructure, buildings and services

How we do it
By being open, collaborative, mutually
dependent, professional and innovative
in everything we do and by focusing on
sustainable, profitable growth

Why we do it
To fulfil our mission of making tomorrow
a better place

Where we do it
Carillion employs over 50,000 people and
operates in the UK, the Middle East and in
Canada and the Caribbean

A strong and resilient business
Underlying operating profit by reporting segment

2008	2007
£206.5m +47%	£140.7m +20%

- 1 Support services **£113.5m** (2007: £73.9m)
- 2 Public Private Partnership projects **£29.8m** (2007: £25.4m)
- 3 Middle East construction services **£34.5m** (2007: £25.4m)
- 4 Construction services (excluding the Middle East) **£28.7m** (2007: £16.0m)

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Financial and strategic highlights

Key

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

(1) Continuing operations

(2) Continuing operations before intangible amortisation impairment of other investments curtailment gain restructuring costs and non operating items

(3) Before Group eliminations unallocated items and Joint Venture net financial expense and taxation

Support services

+54%

increase in underlying operating profit⁽²⁾

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

47%
of total

Revenue⁽¹⁾

	2008 £m	2007 £m
Group	2,227.1	1,569.4
Share of		
Joint Ventures	236.4	224.2
Total	2,463.5 +37%	1,793.6

55%
of total⁽³⁾

Underlying operating profit⁽²⁾

	2008 £m	2007 £m
Group	99.5	62.4
Share of		
Joint Ventures	14.0	11.5
Total	113.5 +54%	73.9

57%
of total⁽³⁾

Reported operating profit⁽¹⁾

	2008 £m	2007 £m
Group	50.5	48.0
Share of		
Joint Ventures	14.0	11.5
Total	64.5 +8%	59.5

+63%

increase in underlying profit from operations to £165.2 million

Total revenue and operating profit

Group eliminations and unallocated items

Profit from operations before Joint Ventures net financial expense and taxation

Share of Joint Ventures net financial expense

Share of Joint Ventures taxation

Profit from operations

Public Private Partnership projects

+17%

increase in underlying operating profit⁽²⁾

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

4%
of total

Revenue⁽¹⁾

	2008 £m	2007 £m
Group	0.9	0.9
Share of		
Joint Ventures	177.5	153.2
Total	178.4 +16%	154.1

14%
of total⁽³⁾

Underlying operating profit⁽²⁾

	2008 £m	2007 £m
Group	(0.2)	0.7
Share of		
Joint Ventures	30.0	24.7
Total	29.8 +17%	25.4

16%
of total⁽³⁾

Reported operating profit⁽¹⁾

	2008 £m	2007 £m
Group	(11.9)	(1.2)
Share of		
Joint Ventures	29.6	24.7
Total	17.7 -25%	23.5

Revenue ⁽¹⁾			Underlying profit ⁽²⁾		Reported profit ⁽¹⁾	
2008 £m		2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
5,205.8	+32%	3,951.7	206.5 (12.4)	140.7 (20.6)	113.0 3.9	120.2 (35.8)
			194.1 (18.2) (10.7)	120.1 (9.9) (9.0)	116.9 (18.2) (10.7)	84.4 (9.9) (9.0)
			165.2	+63% 101.2	88.0	+34% 65.5

Middle East construction services

+36%
increase in underlying operating profit⁽²⁾

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

Construction services (excluding the Middle East)

+79%
increase in underlying operating profit⁽²⁾

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

Revenue⁽¹⁾

	2008 £m	2007 £m
Group	111.7	100.0
Share of		
Joint Ventures	352.5	237.0
Total	464.2	+38% 337.0

9%
of total

Revenue⁽¹⁾

	2008 £m	2007 £m
Group	2,094.1	1,660.4
Share of		
Joint Ventures	5.6	6.6
Total	2,099.7	+26% 1,667.0

40%
of total

Underlying operating profit⁽²⁾

	2008 £m	2007 £m
Group	6.4	9.6
Share of		
Joint Ventures	28.1	15.8
Total	34.5	+36% 25.4

17%
of total⁽¹⁾

Underlying operating profit⁽²⁾

	2008 £m	2007 £m
Group	26.8	12.3
Share of		
Joint Ventures	1.9	3.7
Total	28.7	+79% 16.0

14%
of total

Reported operating profit⁽¹⁾

	2008 £m	2007 £m
Group	6.4	9.6
Share of		
Joint Ventures	28.1	15.8
Total	34.5	+36% 25.4

30%
of total⁽¹⁾

Reported operating (loss)/profit⁽¹⁾

	2008 £m	2007 £m
Group	(5.6)	8.1
Share of		
Joint Ventures	1.9	3.7
Total	(3.7)	-131% 11.8

(3%)
of total⁽¹⁾

01

Financial and strategic highlights

Total revenue⁽¹⁾

2007 £4.0bn

£5.2bn

+32%

Underlying profit before tax⁽²⁾

2007 £101.8m

£157.5m

+55%

Underlying earnings per share⁽²⁾

2007 28.9p

34.3p

+19%

Reported profit before tax⁽¹⁾

2007 £94.4m

£115.9m

+23%

Reported earnings per share⁽³⁾

2007 27.1p

28.4p

+5%

Total dividend

2007 11.0p

13.0p

+18%

Order book

2007 £16.0bn

£20.4bn

+28%

> Alfred McAlpine successfully integrated – integration and re-organisation cost savings target increased by 67%, with savings of £15m in 2008, £35m in 2009 and £50m in 2010

> Balance sheet remains robust – strong cash flow with cash backed profit, net borrowing reduced well ahead of target and secured financing until 2012

> Strong revenue growth in support services – operating margin improved to 4.6% (2007 4.1%)⁽²⁾

> Public Private Partnership projects creating significant value – 23 investments sold over the last five years for £179m generating a pre-tax profit of £104m

> Strong revenue growth in Middle East business – strong and rising contribution from Abu Dhabi keeps us on track to increase revenue to around £600m by the end of 2009 (2008 £464m)

> Satisfactory performance in construction services (excluding the Middle East) – operating margin increased to 1.4% (2007 1.0%)⁽²⁾

> Underlying effective tax rate reduced to 20% (2007 25%)

> £20.4bn order book (2007 £16.0bn)

> Expect to deliver materially enhanced earnings in 2009

(1) Continuing operations

(2) Continuing operations before intangible amortisation impairment of other investments curtailment gain restructuring costs and non operating items

(3) Continuing and discontinued operations

02

What we do

- 04 Support services
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(excluding the Middle East)

32%

Growth in total revenue during
the year to £5.2bn

A Carillion Joint Venture is delivering the £12 billion Allenby Connaught Public Private Partnership project for the Ministry of Defence. This project is providing new accommodation and other facilities for the British Army across the South of England together with facilities management and services under a 35 year contract.

Support services

As the UK's largest support services business, we provide facilities management and services for large, complex property estates, infrastructure services for roads and railways, utility services and consultancy services, for a wide range of public and private sector customers. Around 80 per cent of our revenue in this sector is generated from customers in the public and regulated sectors.

- > Our support services activities continue to be a major driver of earnings growth as we continue to grow revenue at margins of between four and five per cent
- > Our forward order book for support services at 31 December 2008 was worth £10.8 billion (2007 £8.4 billion) and we had a pipeline of probable new orders worth approximately £0.6 billion (2007 £0.6 billion)

£2,463.5m

(2007 £1,793.6m)

Revenue

£113.5m

(2007 £73.9m)

Underlying operating profit

In 2008 Carillion renewed its contract to provide integrated facilities management services for all BT's UK properties which will generate over £500 million of revenue for the Group over five years

Market sectors

UK facilities management and services

Carillion provides public and private sector customers with a wide range of facilities management and other support services for buildings and infrastructure, from fully integrated property management solutions for large, complex estates to single services in selected markets, such as mechanical and electrical engineering maintenance. For example, we provide integrated property management services for HSBC's UK network of retail banks, BT, Virgin Media and for Her Majesty's Revenue and Customs. We also manage Norwich Union's domestic and commercial property insurance claims, from customer call centres to the completion of repairs.

UK infrastructure services

Carillion has long-term contracts for the Highways Agency and for Local Authorities for the management and maintenance of around 20,000 kilometres of the UK road network. We also provide a wide range of rail services, including project and consultancy services for Network Rail, Transport for London and Passenger Transport Executives, and we maintain the Channel Tunnel Rail Link. We are also one of the UK's leading suppliers of infrastructure services for the installation, repair and maintenance of utility services, including water, gas, electricity and telecommunications.

UK Government services

In this sector, our services are primarily focused on defence, health and education. We use our wide range of capabilities, including project finance, design, construction, maintenance and facilities management, to deliver services through Public Private Partnerships (PPP) and non-PPP contracts. We are the largest private sector supplier of support services to Defence Estates, the largest private sector supplier of non-clinical support services to the NHS and a leading supplier for the UK Government's Building Schools for the Future (BSF) programme. In each of these sectors, we provide project finance, design and construction services, as well as facilities management.

Middle East facilities management and services

In the Middle East, our Joint Venture business, Emrill, provides facilities management services for a growing portfolio of properties, including those we are building for our Joint Venture partners, Al Futtaim and Emaar Properties, for whom Emrill is the preferred supplier of facilities management services. Emrill therefore complements our construction activities in the Middle East and we expect it to grow steadily as new Al Futtaim and Emaar properties are completed and added to Emrill's portfolio.

Canada and the Caribbean road maintenance and facilities management and services

Carillion is the leading private sector supplier of road management and maintenance services in Ontario and Alberta, where we maintain the equivalent of some 16,000 kilometres of two-lane highway. Our facilities management business in Canada is also growing, driven by our market leadership in Public Private Partnership (PPP) projects in the health sector. We have completed two of the first PPP hospitals to be built in Canada in which we provide non-clinical services; we have our third major PPP hospital under construction and a good pipeline of further opportunities in this sector.

Public Private Partnership projects

Carillion has been at the forefront of the Private Finance Initiative and Public Private Partnership (PPP) projects since their inception in the early 1990s. To date we have financially closed 47 projects in the UK and Canada, with a total capital value of over £3.6 billion.

- > We continue to use the strong positions we have established in our chosen sectors of the UK and Canada PPP markets to win and deliver projects in which our equity investments create significant value for the Group
- > Our forward order book for PPP projects at 31 December 2008 was worth £5.3 billion (2007: £5.1 billion) and we had a pipeline of probable new orders worth approximately £0.1 billion (2007: £0.2 billion)

£178.4m

(2007: £154.1m)

Revenue

£29.8m

(2007: £25.4m)

Underlying operating profit

The new £254 million Queen Alexandra Hospital Portsmouth is a Public Private Partnership project being delivered by a Carillion joint venture for the Portsmouth Hospital NHS Trust under a 35 year contract which includes the provision of project finance, design, construction, maintenance and facilities management.

Market sectors

UK health

Carillion has delivered a total of 10 PPP hospitals and other healthcare facilities and has a further three under construction. Our projects included the first PPP hospitals in the UK and in Canada: the Darent Valley Hospital, Kent, and the Royal Ottawa Hospital. Carillion has since sold its equity investments in a number of projects, generating substantial value for the Group. At 31 December 2008, our PPP portfolio included three UK hospital projects. In addition, we are currently the preferred bidder for two Independent Sector Treatment Centres and Carillion has been announced as the frontrunner to become the preferred bidder for a major new PPP hospital in Bristol.

UK transport

In the transport sector, we have delivered six major PPP highway projects, including one of the first in the UK, namely the widening of the M40 between Junctions 1A and 3. Carillion also delivered the first PPP rail project in the UK, which involved upgrading sections of the Chiltern Line Railway together with London's Marylebone Station. The sale of equity investments in transport projects has also created substantial value for the Group. At 31 December 2008, our portfolio of PPP investments included three major highway projects.

UK defence

Our projects in this sector include the Government Communications Headquarters in Cheltenham, Gloucestershire, which has won a number of awards as one of the UK's outstanding PPP projects. We also have three projects under construction for the Ministry of Defence: Allenby Connaught, one of the largest PPP projects in the UK to date, to provide new accommodation and other facilities for the Army across the South of England; the new Permanent Joint Headquarters, Northwood; and the Royal School of Military Engineering in Chatham, Kent.

UK education

To date, Carillion has built over 50 schools under the PPP and Building Schools for the Future (BSF) programmes. We currently have 18 schools under construction and we are shortlisted for a further 200 schools under the UK Government's £45 billion BSF programme to replace or upgrade all secondary schools in England. We were also recently awarded one of the first contracts to provide a new primary school under the UK Government's £7 billion Primary Capital Programme to replace or upgrade Primary Schools.

Canada health

Canada has a substantial PPP investment programme, currently estimated to be worth in the region of £10 billion. Carillion has established a leading position in the health sector, delivering two of the first PPP hospitals in Canada: the new William Osler Hospital in Toronto and the Royal Ottawa Hospital, both of which have moved successfully into the operational phase. We are currently building our third PPP hospital, the Sault Area Hospital in Ontario, and early in 2009 we were awarded the contract to finance and build a major extension to the Royal Victoria Hospital in Barrie, Ontario.

Middle East construction services

We have had Joint Venture businesses in the Middle East for over 35 years. These businesses have built strong reputations for quality and reliability and have established long-term relationships with the region's premier customers.

- > Our Middle East businesses performed strongly in 2008 and we remain on track to achieve our objective of increasing our share of revenue from our Middle East businesses from £337 million in 2007 to around £600 million by the end of 2009, at an operating margin of some six per cent
- > Our forward order book for Middle East construction services at 31 December 2008 was worth £0.8 billion (2007: £0.7 billion) and we had a pipeline of probable new orders worth approximately £0.9 billion (2007: £1.0 billion)

£464.2m

(2007: £337.0m)

Revenue

£34.5m

(2007: £25.4m)

Underlying operating profit

Market sectors

Abu Dhabi

Our Joint Venture business, Al Futtaim Carillion, was awarded two major projects in Abu Dhabi in 2008: the £250 million Marina Hotel, which will span the new Formula 1 racetrack on Yas Island, and infrastructure works for a new aluminium smelter for Emirates Aluminium, worth some £200 million. During a visit to Abu Dhabi in November 2008 by UK Prime Minister Gordon Brown and UK Secretary of State for Business, Enterprise and Regulatory Reform Lord Mandelson, Al Futtaim Carillion signed a heads of terms agreement with ALDAR to build the £550 million Al Muneera development.

Dubai

In 2008, Al Futtaim Carillion continued to focus selectively on building and infrastructure projects for some of the region's leading developers, with whom we have established strong long-term relationships. These projects included further phases of a number of multi-billion pound developments, notably Dubai Festival City for our joint venture partner Al Futtaim, the Burj development for Emaar Properties and the Motor City development for Union Properties. We are also a long-standing supplier to Dubai Aluminium, for whom we secured further infrastructure work in 2008.

Egypt

In 2008, Al Futtaim Carillion started work on the first phase of Cairo Festival City, an Al Futtaim development with an estimated construction value of some £2 billion. The scope of this development is very similar to that of Dubai Festival City and includes retail, leisure, commercial and residential elements.

Oman

Our Joint Venture business in Oman, Carillion Alawi, delivers a wide range of building and infrastructure projects. Its current projects include the prestigious House of Musical Arts, for which it was awarded a £120 million contract in 2007 by the Oman Royal Court Affairs, and infrastructure works for the Asian Beach Games, for which it was awarded a £20 million contract in 2008.

Construction services (excluding the Middle East)

In Construction services (excluding the Middle East) we are focused on selected sectors of the non-housing building and infrastructure markets in the UK, Canada and the Caribbean. Around 80 per cent of our work in this segment comes from public sector customers.

- > We have made progress with our objective of improving operating margins in this segment in order to increase the combined margin for all our construction activities, including the Middle East, towards three per cent by 2010
- > Our forward order book for construction services (excluding the Middle East) at 31 December 2008 was worth £3.5 billion (2007: £1.8 billion) and we had a pipeline of probable new orders worth approximately £1.5 billion (2007: £0.9 billion)

£2,099.7m

(2007: £1,667.0m)

Revenue

£28.7m

(2007: £16.0m)

Underlying operating profit

Education is a key growth sector for Carillion in which we secured a number of major contracts in 2008 including a £57 million contract to build high quality student accommodation for Aston University in Birmingham

Market sectors

UK Government services

Government services includes our construction activities in the defence, education and health sectors. Our current contracts include the construction work for three Carillion Public Private Partnership (PPP) projects for the Ministry of Defence, with a combined construction value of over £1.0 billion; the construction of 12 schools under the £45 billion Building Schools for the Future programme in England and six PPP schools in Scotland. We are also currently building the £254 million Queen Alexandra Hospital, Portsmouth, a Carillion Public Private Partnership project, and a number of smaller healthcare facilities for the NHS.

UK building

In UK building, we are focused on selected sectors of the non-housing commercial building market, including airport developments, retail, offices, industrial, leisure and urban regeneration. Our projects include the £330 million second satellite at Heathrow Terminal 5, part of BAA's £4 billion capital works programme at Heathrow Airport, for which Carillion is a framework contractor; a £90 million contract for the first phase of the £2 billion Kings Cross Central regeneration project; a £250 million contract for the 2012 London Olympics Media Centre and framework contracts for the Scottish Prison Service worth some £75 million.

UK infrastructure services

Our infrastructure activities include road construction, marine works, flood defence, industrial, water, wind energy and other specialist civil engineering services, primarily for public sector customers. Current projects include seven major road schemes, the largest of which being an Early Contractor Involvement contract to improve the M1 motorway between junctions 10 and 13, which we expect to have an estimated construction value of some £300 million. We also have framework contracts for Network Rail worth approximately £375 million and flood defence work for Edinburgh and Glasgow City Councils, worth £34 million.

Canada and the Caribbean

In Canada, a substantial proportion of our construction services work relates to the delivery of Public Private Partnership (PPP) projects, notably in the health sector, where we are building our third PPP hospital, the £200 million Sault Area Hospital in Ontario. Other major projects in Canada include the £70 million Sunnybrook Hospital and a £35 million Honda Campus development. In the Caribbean, we have a number of substantial contracts, including the £70 million Viceroy Resort in Anguilla and the £30 million Board of Inland Revenue Tower in Trinidad.

03

Our performance

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Stafford Leisure Centre - a £9 million project completed by Carillion in 2008 - provides the local community with first class leisure and sports facilities including a competition standard eight lane pool

19%

Growth in underlying earnings
per share to 34.3p

Five years of growth

Total revenue⁽¹⁾ (£m)	Underlying profit before tax⁽²⁾ (£m)	Underlying earnings per share⁽³⁾ (p)
+32%	+55%	+19%

Reported profit before tax⁽¹⁾ (£m)	Reported earnings per share⁽³⁾ (p)	Dividend per share (p)
+23%	+5%	+18%

(1) Continuing operations

(2) Continuing operations before intangible amortisation
impairment of other investments, curtailment gain,
restructuring costs and non operating items

(3) Continuing and discontinued operations

Chairman's statement

Philip Rogerson
Chairman

Carillion continued to perform strongly in 2008 and has once again delivered substantial earnings growth. This has been achieved in an increasingly challenging economic environment and reflects the success of the Group's strategy in creating a strong and resilient business.

Revenue, including Joint Ventures⁽¹⁾ increased by 32 per cent to £5.2 billion (2007: £4.0 billion), primarily due to the acquisition of Alfred McAlpine in February 2008.

Underlying profit before tax⁽²⁾ increased by 55 per cent to £157.5 million (2007: £101.8 million) and underlying earnings per share⁽²⁾ grew by 19 per cent to 34.3 pence per share (2007: 28.9 pence), reflecting both revenue and margin growth.

The Group's balance sheet remains robust, with underlying cash flow from operations of £198.3 million (2007: £135.7 million) again well ahead of underlying profit from operations of £165.2 million (2007: £101.2 million). Net borrowing at 31 December 2008 was £226.7 million (2007: £44.9 million), considerably better than our year-end target of £300 million. The increase in net borrowing since December 2007 reflects a number of investments made during the year, the largest of which was the acquisition of Alfred McAlpine.

This acquisition represented a major step in Carillion's strategic development by creating the UK's largest support services business and significantly increasing the Group's overall strength and resilience. The benefits of the acquisition continue to exceed our expectations, with integration and re-organisation cost savings now expected to increase by 67 per cent from our original target of £30 million per annum to an annual run rate of £50 million by the end of 2009. Absolute savings were £15 million in 2008 and are expected to be £35 million in 2009 and £50 million in 2010.

At the year end, the Group had a forward order book of £20.4 billion (2007: £16.0 billion) with the increase due to the acquisition of Alfred McAlpine and to organic growth. In addition, the Group had a pipeline of probable new orders at the year end worth some £3.1 billion (2007: £3.6 billion).

In view of the Group's strong performance in 2008 and positive prospects for 2009, the Board is recommending a final ordinary dividend for 2008 of 8.9 pence per share, making the total dividend for 2008 13.0 pence, an increase of 18 per cent on the total paid in respect of 2007 (11.0 pence). The final dividend for 2008 will be paid on 19 June 2009 to shareholders on the register at close of business on 24 April 2009.

Delivering such a strong performance in 2008 while successfully integrating the Alfred McAlpine business is testimony to the quality and commitment of our people. On behalf of the Board I should like to thank all our employees for the outstanding contribution they have made to Carillion's success in 2008.

Roger Robinson has decided to retire from the Board and as a Director of the Company at the Annual General Meeting on the 6th May 2009. Roger joined the Board in 1999 when Carillion was launched as an independent company, following its de-merger from Tarmac plc, where he had served in a number of senior positions. Roger has played a major part in Carillion's development and success and is widely respected throughout our industry, in which he intends to maintain an active interest. He leaves the Board with our grateful thanks and very best wishes for the future.

With the wider economic background expected to become increasingly difficult, delivery of our business objectives will become more challenging. However, Carillion is a well balanced and resilient business, with a robust balance sheet, a £20.4 billion order book and strong market positions. Therefore, the Board continues to expect the Group to deliver materially enhanced earnings in 2009.

Philip Rogerson
Chairman
4 March 2009

(1) Continuing operations

(2) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non operating items

Group Chief Executive's review

John McDonough
Group Chief Executive

Carillion's strong progress continues to be driven by our consistent and successful strategy for sustainable, profitable growth. This strategy has delivered a sixth successive year of significant earnings and dividend growth, as well as creating a balanced and resilient business.

We are committed to the highest standards of corporate responsibility through behaving in accordance with our core values and our award-winning sustainability strategy.

Our strategy

- > Grow support services and Public Private Partnership projects organically and by acquisition
- > Develop and market integrated solutions tailored to the needs of customers, including project finance design and construction, maintenance and lifetime asset management
- > Maintain a strong and selective construction capability focused on higher added-value contracts for long-term customers

Our values

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

Operational 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 processes are described in more detail in the Corporate Governance report on page 49. The more significant areas of risk for the Group and the measures being taken to mitigate and manage them are summarised here.

We apply our risk management processes to every aspect of our operations from choosing our market sectors and the contracts we bid for to the selection of our suppliers and sub-contractors. We also apply them to every stage of a contract from inception to completion, in order to deliver the cash-backed profit we expect and high-quality services for our customers.

Headline objectives

Support services

- > To grow earnings at operating margins of between four and five per cent

Public Private Partnership projects

- > To use the strong positions we have established in our chosen sectors of the Private Finance market in the UK and Canada to win projects in which equity investments will create significant value for the Group

Middle East construction services

- > To increase Carillion's share of revenue from our joint venture businesses in the Middle East from £337 million in 2007 to around £600 million by the end of 2009 at an operating margin of some six per cent

Construction services (excluding the Middle East)

- > To increase the operating margins of our construction activities in the UK, Canada and the Caribbean in order to improve the combined margins for all our construction activities, including the Middle East, towards three per cent by 2010

Risk

- > The impact of the current global economic downturn on the financial stability of our customers, partners and suppliers

Mitigation

- > Applying 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

Risk

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

Mitigation

- > Applying rigorous selectivity criteria to ensure that we take on contracts only where we understand the risks involved and can manage them, applying equally rigorous policies and processes to monitor and manage contract performance

Our strategic and financial performance against seven Group key performance indicators (KPIs), which reflect our strategy, is discussed on pages 18 to 20. Our performance against the specific objectives set for each of our financial reporting segments is discussed in more detail in the Operating and Financial Review on pages 22 to 34.

Group key performance indicators in 2008 and progress

Attract, develop and retain excellent people by becoming an employer of choice

- > We continued to implement successful leadership, personal development and employee engagement programmes

Be a recognised leader in the delivery of safety and sustainability

- > Our accident frequency rate in 2008 of 0.14 ranked with the best in our sector
- > Carillion received the 2008 Sunday Times 'Best Green Companies Award' for large and medium-sized companies with a high environmental impact
- > Carillion achieved a gold performance ranking in Business in the Community's Corporate Responsibility Index

Successfully integrate Alfred McAlpine and deliver integration cost savings that put the Group on track to achieve savings at an annual run rate of £30 million by the end of 2009

- > Savings of £15 million were delivered in 2008 and we are on track to deliver annual integration and re-organisation cost savings at a run rate of £50 million a year by the end of 2009

Risk

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

Mitigation

- > Having already closed the Group's main defined benefit schemes to new entrants, these schemes will close to future accrual and be replaced with defined contribution schemes from April 2009; investment policies are reviewed regularly to ensure that employee and company contributions and scheme benefits remain appropriate

Risk

- > Attracting, developing and retaining excellent people to maintain service quality and brand leadership

Mitigation

- > The ongoing development and implementation of our leadership, personal development and employee engagement programmes

Deliver revenue growth of at least five per cent

- > Revenue⁽¹⁾ in 2008 increased by 32 per cent

Achieve earnings per share growth that puts the Group on track to deliver materially enhanced earnings per share in 2009, following the acquisition of Alfred McAlpine

- > Underlying earnings per share⁽²⁾ increased by 19 per cent in 2008 and we continue to expect to deliver materially enhanced earnings per share in 2009

Generate cash-backed operating profit

- > Underlying cash flow from operations in 2008 represented 120 per cent of underlying operating profit

Achieve year-end net borrowing in the region of £300 million

- > Net borrowing at the year end was £226.7 million

Risk

- > Winning new work to deliver growth

Mitigation

- > Maintaining a firm focus on cost reduction and efficiency to remain competitive 'living' our values in everything we do to ensure we listen to and understand the needs of our customers and offering solutions tailored to meet their needs

Risk

- > Maintaining financial discipline

Mitigation

- > In addition to strict contract selectivity criteria, applying strong cash management policies and processes to deliver cash-backed profit

(1) Continuing operations

(2) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non operating items

Group Chief Executive's review continued

A strong and resilient business

Underlying operating profit by reporting segment



- 1 Support services **£113.5m** (2007: £73.9m)
- 2 Public Private Partnership projects **£29.8m** (2007: £25.4m)
- 3 Middle East construction services **£34.5m** (2007: £25.4m)
- 4 Construction services (excluding the Middle East) **£28.7m** (2007: £16.0m)

2008 Acquisitions

Alfred McAlpine

The acquisition of Alfred McAlpine in February 2008 was a further major step in Carillion's strategic development and it continues to deliver benefits ahead of our original expectations.

The Carillion and Alfred McAlpine businesses are an excellent strategic fit and combining them has created the UK's largest support services business, with enhanced positions in our chosen market sectors.

Carillion is now a well balanced, more resilient and soundly financed business, with 55 per cent of our operating profit coming from support services, 14 per cent from our equity investments in Public Private Partnership projects, 17 per cent from Middle East construction services and 14 per cent from construction services (excluding the Middle East).

Combining the two businesses also created the opportunity to generate cost savings, which are now expected to reach an annual run rate of £50 million a year by the end of 2009, £20 million a year more than we expected at the time of acquisition.

Vanbots Group

The acquisition of the Vanbots Group, a well established construction management services group in Canada, for £17 million in October 2008, was also an important strategic development for our business in Canada. The skills and strong market reputation, particularly in the health sector, of the Vanbots Group have significantly enhanced our ability to provide integrated solutions, especially for Public Private Partnership (PPP) projects, further reinforcing our leadership in the PPP market and the health sector in particular.

Group key performance indicators in 2008

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

Meeting or exceeding our customers' expectations depends primarily on the quality of our people. Therefore, the ability to attract, develop and retain excellent people by becoming an employer of choice continues to be our top priority.

In 2008, we made further good progress through the leadership, personal development and employee engagement programmes we operate across the Group to help all our people fulfil their potential and contribute to Carillion's success.

Creating a culture of trust and open communication is essential to the success of our policies and programmes for developing our people. 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.

Listening to what our people tell us and acting upon it is vital to good communication. To that end and to help us monitor and measure our progress, we conduct employee surveys. For example, every year we hold 'The Great Debate', an interactive survey in which our people, selected randomly from across the Group, share their views on a wide range of issues which are important to their development and satisfaction and to the success of Carillion. In 2008, over 2,800 people took part in 'The Great Debate', the results of which showed that we continue to make good overall progress on these issues and that the levels of satisfaction expressed by our people compared favourably with those achieved by other top UK companies.

2 Be the recognised leader in the delivery of Safety and Sustainability

The Health and Safety of our people and everyone who works with us or is affected by our operations is paramount.

In 2005, we set the demanding objective of eliminating reportable accidents by 2010. Known as 'Target Zero', this objective is led by our Board and requires the constant vigilance and commitment of everyone in Carillion to ensure that safe working practices are consistently adopted and supported by rigorous reviews, audits and training.

In 2008, the Group's Accident Frequency Rate (AFR) remained at 0.14 reportable accidents per 100,000 man hours worked (2007 AFR 0.14), which continues to rank with the best in our sector and follows year on year reductions in our AFR of 22 per cent in 2007, 25 per cent in 2006 and 35 per cent in 2005.

While it is disappointing that we have not achieved a further reduction in 2008, we have maintained our AFR at this level during a period of considerable change and re-organisation resulting from acquiring and integrating the Alfred McAlpine business, during which time 79 per cent of our projects achieved zero reportable accidents.

The total number of hours worked in 2008 increased by 33 per cent to 281 million, with the total number of reportable accidents under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) increasing by 30 per cent to 384 (2007: 295).

We deeply regret that in 2008 there were three fatal accidents involving employees of sub contractors working on Carillion project sites, one in the UK, one in the Middle East and one in the Caribbean. Each of these incidents was a personal tragedy and our thoughts are very much with the families and friends of those who died. Six prosecutions of Carillion by the Health and Safety Executive were concluded in 2008. Four of these related to accidents that occurred in the former Mowlem and Alfred McAlpine businesses between 2003 and 2007, before they were acquired by Carillion.

In 2008, Carillion once again submitted information on the Health and Safety performance of all its UK business units to the Corporate Health and Safety Performance Index, having been the first and only major construction company to do so in 2006. This Index, which is sponsored by the Health and Safety Executive, covers all aspects of Health and Safety management and performance. A wide range of industries participate in the Index, which enables us to benchmark our performance beyond our own industry sector. In 2008, we improved our Index score to 8.0 (2007: 7.4), which was well above the mean score of 6.6.

In October 2008, Carillion launched 'Behaving Safely' which set out the behaviours expected of everyone, including supervisors and managers. This standard is being used throughout our business to challenge and improve safety behaviours.

In 2008, we continued to demonstrate our leadership in sustainability by winning the 2008 Sunday Times Best Green Companies Award for large and medium-sized companies with a high environmental impact. The award was based on a survey that tested the credentials of participating companies by examining their corporate policies and by asking employees to comment on whether green policies are truly embedded in the companies for which they work. A resounding 76 per cent of Carillion employees believed that Carillion practised what it preached.

We also achieved a 'gold' performance ranking in Business in the Community's Corporate Responsibility Index, published in 2008, achieving a score of 92.5 per cent and topping the Construction and Building Materials Sector. Alfred McAlpine also achieved a 'gold' performance ranking with a score of 90.5 per cent, which topped the Support Service Sector. The Corporate Responsibility Index involves a detailed assessment of strategy, management processes and performance. The average score of all participating companies was 82.6 per cent, which demonstrates that we not only continue to be the leader in our sector, but also that our performance compares favourably with that of all participating companies. Carillion also continues to be a member of the FTSE4Good Index and we were delighted to be ranked among the top 22 most ethical companies in the FTSE350 in 2008 by the Observer newspaper's 'Good Company Guide'.

Group Chief Executive's review continued

Group key performance indicators in 2008 (continued)

3 Deliver revenue growth of a minimum of five per cent

Total revenue⁽¹⁾ in 2008 increased by 32 per cent, due primarily to the acquisition of Alfred McAlpine

4 Successfully integrate Alfred McAlpine and deliver integration cost savings that put us on track to achieve savings at an annual run rate of £30 million per annum by the end of 2009

The integration of Alfred McAlpine has gone very well and by the year end was substantially complete, with the benefits of this acquisition well ahead of our original expectations. Integration and re-organisation cost savings are now expected to reach a run rate of £50 million per annum by the end of 2009, £20 million more than we expected at the time of acquisition. The one-off cost of delivering these savings is anticipated to be £55 million, an increase of £25 million on the £30 million we expected to incur to deliver savings at a run rate of £30 million per annum

5 Achieve earnings per share growth that puts us on track to deliver materially enhanced earnings per share in 2009, following the Alfred McAlpine acquisition

Underlying earnings per share⁽²⁾ increased by 19 per cent to 34.3 pence per share (2007: 28.9 pence). This reflected the Group's overall strong performance and better than expected benefits from the Alfred McAlpine acquisition, including a continuing improvement in the Group's operating margin to 3.2 per cent (2007: 2.6 per cent)

6 Generate cash-backed operating profit

The delivery of cash-backed profit continues to be an absolute priority within all our businesses. Our rigorous focus on cash management once again resulted in strong underlying cash flow from operations of £198.3 million (2007: £135.7 million) which represented 120 per cent of underlying profit from operations of £165.2 million (2007: £101.2 million)

7 Achieve year-end net borrowing in the region of £300 million

Net borrowing at 31 December 2008 was £226.7 million (2007: £44.9 million), considerably better than our target of £300 million. Net borrowing at 31 December 2008 was higher than at 31 December 2007 due to the acquisition of Alfred McAlpine, which was financed by a combination of borrowing and new Carillion shares. Reducing net borrowing to well below our £300 million year end target reflects our success in delivering strong cash flow from operations, in line with our continuing focus on cash management

Group key performance indicators in 2009

In order to continue the Group's strong progress and deliver materially enhanced earnings in 2009, the Board has set six Group key performance indicators for 2009: namely

- to attract, develop and retain excellent people by being an employer of choice
- be the recognised leader in the delivery of safety and sustainability in the sectors in which we operate
- deliver integration and re-organisation cost savings arising from the acquisition of Alfred McAlpine of £35 million in 2009 and achieve cost savings at an annual run rate of £50 million per annum by the end of 2009
- deliver materially enhanced earnings
- generate cash-backed operating profit
- continue to reduce year-end net borrowing

(1) Continuing operations

(2) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non operating items

Order book

£20.4bn
2007 £16.0bn

- 1 Support services **£10.8bn** (2007 £8.4bn)
- 2 Public Private Partnership projects **£5.3bn** (2007 £5.1bn)
- 3 Middle East construction services **£0.8bn** (2007 £0.7bn)
- 4 Construction services (excluding the Middle East) **£3.5bn** (2007 £1.8bn)

Probable orders

£3.1bn
2007 £3.6bn⁽¹⁾

- 1 Support services **£0.6bn** (2007 £0.6bn)
- 2 Public Private Partnership projects **£0.1bn** (2007 £0.2bn)
- 3 Middle East construction services **£0.9bn** (2007 £1.0bn)
- 4 Construction services (excluding the Middle East) **£1.5bn** (2007 £0.9bn)

(1) Includes £0.9bn of probable orders acquired with Alfred McAlpine

Outlook and prospects

An increasingly difficult economic environment background will undoubtedly make the delivery of our business objectives more challenging.

However, the acquisition and successful integration of the Alfred McAlpine business has created a well-balanced and more resilient business with a £20.4 billion order book, a pipeline of probable new orders of some £3.1 billion and strong positions in our chosen market sectors.

The outlook in support services remains positive as we continue to have our strongest ever pipeline of opportunities for new work, as public and private sector customers seek to reduce estate maintenance and facilities management costs through outsourcing these services. We therefore expect support services to remain a major driver of earnings growth in 2009.

In Public Private Partnership (PPP) projects we expect the outlook in our chosen market sectors to remain positive, particularly the UK education sector and the health sector in Canada. We continue to expect opportunities to add new projects to our portfolio of PPP equity investments and to continue our policy of selling equity investments in mature projects, which generates significant value for the Group.

The outlook in our Middle East markets changed significantly in the second half of 2008. The huge level of investment we have seen over the past few years in Dubai is now slowing down and we expect to see a reduction in our activities there in 2009. However, overall we expect further growth in Middle East construction services driven increasingly by the expansion of our activities in Abu Dhabi. Having broadened our geographical and customer base, we still expect to increase Carillion's share of revenue from our Middle East businesses from the 2007 level of £337 million to around £600 million by the end of 2009, at an operating margin of some six per cent.

In construction services (excluding the Middle East) we will continue to focus on growing margins rather than revenue, a strategy we put in place well before the current economic downturn. This supports our objective of increasing the operating margin for all of our construction activities towards three per cent by 2010. In Canada and the Caribbean, we expect to make further progress in 2009, driven primarily by growth in PPP construction and highways maintenance in Canada.

Given the overall outlook across each of our reporting segments, I believe that Carillion is well placed to make good progress in 2009 despite increasingly challenging market conditions. I therefore continue to expect Carillion to deliver materially enhanced earnings in 2009 in line with the objective set when we acquired Alfred McAlpine in February 2008 and to continue to reduce year-end net borrowing.

John McDonough
Group Chief Executive
4 March 2009

Operating and financial review

Richard Adam
Group Finance Director

Carillion performed strongly in 2008 to deliver 19 per cent growth in underlying earnings per share and to achieve or exceed all of our key financial and strategic objectives

Earnings growth in 2008 was driven by a strong underlying performance by the Carillion Group together with better than expected benefits from the acquisition of Alfred McAlpine in February 2008. This has created a solid platform upon which we expect to build in 2009 to deliver materially enhanced earnings growth.

Carillion is the UK's largest support services business with strong maintenance, private finance, design and construction capabilities, which enable the Group to deliver fully integrated, life-time asset management solutions for buildings and infrastructure.

The Group has operations in the UK, Middle East 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 and there have been no changes in accounting policies during 2008. The Group's significant accounting policies are described on pages 68 to 71.

Group overview

Total revenue from continuing operations in 2008 increased by 32 per cent to £5,205.8 million (2007: £3,951.7 million), including revenue from Joint Ventures of £772.0 million (2007: £621.0 million).

Total underlying profit from operations increased by 63 per cent to £165.2 million (2007: £101.2 million), including profit from Joint Ventures of £45.1 million (2007: £36.8 million).

The underlying profit from operations margin increased to 3.2 per cent (2007: 2.6 per cent) and reflected our continuing drive to improve margins through contract selectivity, cost reduction and greater efficiency.

After a net financial expense of £7.7 million (2007: £0.6 million income), underlying profit before tax was £157.5 million (2007: £101.8 million), an increase of 55 per cent. Underlying earnings per share on the same measure increased by 19 per cent to 34.3 pence (2007: 28.9 pence).

Intangible amortisation and impairment of other investments amounted to £54.5 million (2007: £21.5 million). Restructuring and re-organisation costs were £58.2 million (2007: £14.2 million), of which £55.0 million related to the acquisition of Alfred McAlpine and £3.2 million to the acquisition of the Vanbots Group. Non-operating income was £35.6 million (2007: £28.3 million), generated from the sale of equity investments in Public Private Partnership projects. In addition, a curtailment gain of £35.5 million (2007: Nil) has been recognised as a result of completing the consultation process relating to closing Carillion's main defined benefit pension schemes to future accrual on 5 April 2009. This is in line with the Group's strategy for managing the risk associated with these schemes, which have been closed to new members for a number of years.

Total exceptional and non-operating items therefore amounted to a net cost of £41.6 million (2007: £7.4 million), leaving reported profit before tax of £115.9 million (2007: £94.4 million).

Total Group taxation was £4.1 million (2007: £8.3 million). Group taxation on underlying profit before taxation⁽¹⁾ was £22.9 million (2007: £18.3 million), which when combined with Joint Ventures taxation of £10.7 million (2007: £9.0 million), represented an underlying effective tax rate of 20 per cent (2007: 25 per cent). Profit after tax was £111.8 million (2007: £86.1 million) and minority interests were £3.5 million (2007: £2.5 million), leaving profit attributable to Carillion shareholders of £108.3 million (2007: £76.0 million). Basic earnings per share were 28.4 pence (2007: 27.1 pence).

Underlying cash flow from operations of £198.3 million again comfortably exceeded underlying profit from operations of £165.2 million. After payments of £50.5 million to pension funds, in line with our pension deficit recovery plan, net capital expenditure of £26.4 million, restructuring and other costs of £32.4 million interest, tax and dividend payments of £62.2 million and a net cost for acquisitions and disposals of £227.0 million, net borrowing at 31 December 2008 increased by £181.8 million to £226.7 million (2007: £44.9 million), significantly better than our target of £300 million, set at the time of the Alfred McAlpine acquisition.

Acquisitions

On 12 February 2008, Carillion acquired UK support services company, Alfred McAlpine, for a total consideration of £554.5 million, satisfied by issuing 112.9 million Carillion shares, valued at the mid-market price at close of business on the day preceding the effective date of acquisition of 337.75 pence per share, £171.7 million in cash and £1.3 million of loan notes. At acquisition Alfred McAlpine had net borrowing of £96.4 million.

The Carillion and Alfred McAlpine businesses are an excellent strategic fit and combining them has created the UK's largest support services business, with enhanced positions in our chosen market sectors. Therefore, the acquisition of Alfred McAlpine was a further major step in Carillion's strategic development, giving us a well balanced and more resilient business. Combining the two businesses has also enabled us to improve efficiency and deliver substantial integration and re-organisation cost savings, which we expect to reach an annual run rate of £50 million a year by the end of 2009. £20 million a year more than we expected at the time of acquisition.

On 8 October 2008, Carillion acquired the Vanbots Group, a well-established construction management services group in Canada for a consideration of £17.0 million. The skills and strong market reputation, particularly in the health sector, of the Vanbots Group have significantly enhanced our ability to provide integrated solutions, especially for Public Private Partnership (PPP) projects, further reinforcing our leadership in the PPP market and the health sector in particular.

Segmental reporting and analysis

Operating profit by financial reporting segment is summarised in the table on this page and a detailed segmental analysis of the Group's businesses is provided in Note 2 to the financial statements on page 72. Operating performance in each of our financial reporting segments is discussed in more detail on pages 24 to 31.

Operating profit by financial reporting segment

	2008 £m	2007 £m	Change from 2007 %
Support services	113.5	73.9	54
Public Private Partnership projects	29.8	25.4	17
Middle East construction services	34.5	25.4	36
Construction services (excluding the Middle East)	28.7	16.0	79
	206.5	140.7	47
Group eliminations and unallocated items	(12.4)	(20.6)	40
Profit from operations before Joint Ventures			
net financial expense and taxation	194.1	120.1	62
Share of Joint Ventures net financial expense	(18.2)	(9.9)	(84)
Share of Joint Ventures taxation	(10.7)	(9.0)	(19)
Underlying profit from operations⁽¹⁾	165.2	101.2	63
Intangible amortisation and impairment			
of other investments	(54.5)	(21.5)	(153)
Curtailment gain	35.5	-	-
Restructuring costs	(58.2)	(14.2)	(310)
Reported profit from operations⁽²⁾	88.0	65.5	34

(1) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non-operating items.

(2) Continuing operations.

Operating and financial review

continued

Support services

Revenue in support services increased by 37 per cent to £2,463.5 million, primarily due to the acquisition of Alfred McAlpine.

Underlying operating profit increased by 54 per cent to £113.5 million, reflecting revenue growth and a significant improvement in the operating margin to 4.6 per cent (2007: 4.1 per cent).

The value of our forward order book for support services at 31 December 2008 was £10.8 billion (2007: £8.4 billion), with the increase due to the acquisition of Alfred McAlpine and organic growth. In addition, we had a pipeline of probable new orders worth £0.6 billion (2007: £0.6 billion).

During the year we secured a number of significant new contracts in our key market sectors of integrated facilities management, especially for large complex property estates, and infrastructure services. Notable successes in integrated facilities management included renewing our existing contract with BT for a further five years, worth over £500 million, and new contracts for up to five years for Philips AXA Northamptonshire County Council and Nationwide, together worth over £450 million.

In infrastructure services, we secured an £85 million five-year contract for the Highways Agency for the maintenance of motorways and trunk roads in Hertfordshire, Bedfordshire, Cambridgeshire and Northamptonshire, together with those in the Luton and Milton Keynes Unitary Authorities.

Our utility services business also made good progress in 2008, winning new contracts for infrastructure services in its key market sectors of electricity, water, gas and telecommunications. Notable successes included a £60 million contract for Scottish Power, electricity infrastructure contracts worth over £17 million, contracts for gas metering worth over £15 million and extensions to existing contracts worth in the region of £50 million.

We have made a good start to 2009, winning a five-year integrated facilities management contract for a multi-national blue-chip customer, worth some £75 million, a seven-year UK rail maintenance contract worth £80 million and a six-year highways maintenance contract in Canada, worth £170 million.

Our pipeline of contract opportunities also continues to be strong, as both public and private sector customers continue to seek outsourcing solutions for facilities management and infrastructure and utility services. Therefore, we expect to make further progress in support services in 2009.

Revenue⁽¹⁾

+37%

47%
of total

	2008 £m	2007 £m
Group	2,227.1	1,569.4
Share of Joint Ventures	236.4	224.2
Total	2,463.5 +37%	1,793.6

Underlying operating profit⁽²⁾

+54%

55%
of total⁽³⁾

	2008 £m	2007 £m
Group	99.5	62.4
Share of Joint Ventures	14.0	11.5
Total	113.5 +54%	73.9

Key

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

- (1) Continuing operations
 (2) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non operating items
 (3) Before Group eliminations, unallocated items and Joint Venture net financial expense and taxation

Integrated facilities management for Philips

Carillion's joint venture in the Netherlands with Arcadis NL was awarded a £350 million, five year facilities management contract by Philips in 2008. The Joint Venture is providing an integrated service solution including facilities management, maintenance, cleaning, security, logistics and space planning for around 1.6 million square metres of Philips estate in the Netherlands, including office and production facilities.

Operating and financial review continued

Public Private Partnership projects

At 31 December 2008 we had a portfolio of 21 equity investments (2007: 23) in financially closed Public Private Partnership (PPP) projects in which we had already invested some £56.9 million of equity and had commitments to invest a further £88.4 million which will bring our total equity investment in these projects to £145.3 million.

Our ability to win and deliver PPP projects successfully into the operational phase continues to create significant value for the Group. PPP concession contracts are typically for 25 to 35 years. When bidding for these projects we target a 15 per cent internal rate of return on our equity investments over the concession period. The net present value of an equity investment is calculated by discounting the cash returns it generates over the concession period at a discount rate appropriate to the risk associated with achieving these returns. When the construction of a project is complete and it has moved successfully into the operational phase, this risk is significantly reduced, which attracts a lower discount rate and a higher net present value. At this point the project is mature and we have the option of selling our equity investment and reinvesting the proceeds in new projects.

During 2008 we added three new projects to our portfolio – the Nottingham City Council Building Schools for the Future project, Cleadon Park Health Centre in South Tyneside and the Royal School of Military Engineering project for the UK Ministry of Defence – in which we expect to invest a total of £8.2 million of equity. In March 2009 the North Bristol NHS Trust announced that it is planning to appoint Carillion as the preferred bidder for the new £1.6 billion hospital at Southmead in Bristol, in which we expect to invest up to £40 million of equity.

We also sold equity investments in a further six mature projects generating net cash proceeds of £59.9 million, which reflected a net present value for the cash flows from these investments based on an average underlying discount rate of under 5.5 per cent. These latest sales bring the total number of equity investments that we have sold over the last five years to 23, which has generated cash proceeds of £179 million and a pre-tax profit of £104 million.

The Directors' valuation of our portfolio at 31 December 2008 was £216 million (2007: £266 million), based on discounting the cash flows from our remaining portfolio of investments, at an average of nine per cent (2007: eight per cent), which reflects the fact that our current projects are at various stages of completion, with 10 fully operational and 11 still in construction.

Underlying operating profit in this segment increased by 17% to £29.8 million, as growing returns from our maturing portfolio of investments more than offset the cumulative effects of selling three equity investments in December 2007 and six investments during 2008.

In 2009 we expect to reach financial close on the three projects for which we are currently the preferred bidder and in which we plan to invest approximately £5.3 million of equity. In addition we are shortlisted for a further eight projects with a potential equity requirement of up to £76 million. With this strong pipeline of new projects and both the UK and Canadian authorities committed to long-term PPP programmes, notably the Building Schools for the Future programme in the UK and the hospital programme in Ontario, we believe the outlook in this segment remains positive.

Revenue⁽¹⁾

+16%

4%
of total

	2008 £m	2007 £m
Group	0.9	0.9
Share of Joint Ventures	177.5	153.2
Total	178.4 +16%	154.1

Underlying operating profit⁽²⁾

+17%

14%
of total⁽³⁾

	2008 £m	2007 £m
Group	(0.2)	0.7
Share of Joint Ventures	30.0	24.7
Total	29.8 +17%	25.4

Key

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

- (1) Continuing operations
 (2) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non operating items
 (3) Before Group eliminations, unallocated items and Joint Venture net financial expense and taxation

**19% decrease in Directors' valuation after selling
equity investments for £59.9m**

Carillion is a member of the Local Education Partnership (LEP) that was selected in 2008 to deliver the £208 million Nottingham Building Schools for the Future (BSF) programme. The LEP is delivering eight secondary schools and two academy schools in the current wave of the BSF programme, including Big Wood School illustrated in this artist impression.

Operating and financial review continued

Middle East construction services

Our share of the revenues of our Middle East businesses increased by 38 per cent to £464.2 million as a result of organic growth in Dubai and Oman and first-time contributions in particular from Abu Dhabi where we started work on two major new projects in 2008 and from Egypt.

Underlying operating profit rose by 36 per cent to £34.5 million, reflecting revenue growth at a stable operating margin of 7.4 per cent (2007: 7.5 per cent).

In 2008, our Middle East businesses continued to use their strong market positions and reputation for high quality services to negotiate new orders with selected customers in our chosen sectors of the building and infrastructure markets. At 31 December 2008, our Middle East construction services order book stood at £0.8 billion (2007: £0.7 billion) and we had a pipeline of probable new orders worth £0.9 billion (2007: £1.0 billion).

During 2008, we were awarded a number of significant new projects in Abu Dhabi, Dubai and Oman.

We have been particularly successful in extending our operations into Abu Dhabi, where Al Futtaim Carillion was awarded a £250 million contract by ALDAR to build the prestigious Marina Hotel that will sit astride the new Formula 1 race track on Yas Island and contracts by EMAL (Emirates Aluminium) for infrastructure work worth over £200 million. In addition, Al Futtaim Carillion signed a heads of terms agreement with ALDAR to build the £550 million Al Muneera development in Abu Dhabi, the contract for which was signed in February 2009. In Oman, Carillion Alawi was awarded a £20 million contract by the Oman Tourist Development Company to build the next phase of the infrastructure for the Asian Games.

The outlook in our Middle East markets changed significantly in the second half of 2008. The huge level of investment we have seen over the past few years in Dubai is now slowing down and we expect to see a reduction in our activities there in 2009. In anticipation of this, we had already diversified our business in the region by extending operations to Abu Dhabi and Egypt early in 2008. As Dubai slows, we expect our growth in the region to be increasingly driven by Abu Dhabi, which continues to implement its 'Plan 2030' involving major investment in building and infrastructure for which funding is expected to be secure.

Given the strength of our order book and pipeline of probable orders and the opportunities we expect for further projects, especially in Abu Dhabi, we expect to remain on track to achieve our objective of increasing our share of revenue in the Middle East from the 2007 level of £337 million to around £600 million by the end of 2009, at an operating margin of some six per cent.

Revenue⁽¹⁾

+38%

9%
of total

	2008 £m	2007 £m
Group	111.7	100.0
Share of Joint Ventures	352.5	237.0
Total	464.2 +38%	337.0

Underlying operating profit⁽²⁾

+36%

17%
of total⁽³⁾

	2008 £m	2007 £m
Group	6.4	9.6
Share of Joint Ventures	28.1	15.8
Total	34.5 +36%	25.4

Key

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

(1) Continuing operations

(2) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non operating items

(3) Before Group eliminations, unallocated items and Joint Venture net financial expense and taxation

Marina Hotel

The £250 million Marina Hotel on Yas Island in Abu Dhabi is being built by Al Futtaim Carillion for ALDAR. It forms part of an impressive development to accommodate the Formula 1 Grand Prix in November 2009, which will see the motor racing circuit pass through the centre of the new hotel from which the occupants will have excellent views of the circuit in luxurious surroundings.

Operating and financial review continued

Construction services (excluding the Middle East)

Revenue in construction services increased by 26 per cent to £2,099.7 million, primarily due to the acquisition of Alfred McAlpine.

The 79 per cent increase in underlying operating profit to £28.7 million, reflected the increase in revenue and an improved operating margin of 1.4 per cent (2007: 1.0 per cent) in line with our strategy of focusing on growing margins rather than revenue in order to improve our operating margin for all construction activities, including the Middle East, towards three per cent by 2010.

Focusing on long-term customers and projects that offer better margins and for which funding is expected to be more secure, has resulted in around 80 per cent of our work in this segment coming from the public and regulated sectors, with the remaining 20 per cent coming from the private sector. Overall, investment by the public and regulated sectors continues to hold up well, which is evidence of the Government's commitment to maintain and in some areas accelerate, projects to mitigate the effects of the economic downturn. Consequently, the impact on Carillion of the slow down in private sector investment has been relatively minor and more than outweighed by the progress we have made with growing margins through project selectivity.

New order intake remained healthy in 2008 and our order book at 31 December 2008 stood at £3.5 billion (2007: £1.8 billion) and our pipeline of probable new orders was worth some £1.5 billion (2007: £0.9 billion).

Notable new contracts in the UK in 2008 included Building Schools for the Future projects worth over £400 million, the £330 million second satellite at Heathrow Terminal 5, the £300 million Royal School of Military Engineering project, the £250 million Media Centre for the 2012 Olympic Games, the £157 million Library of Birmingham project and a £57 million contract for student accommodation at the University of Aston. In Canada, significant new contracts, including the Sault Area Hospital, a £200 million Public Private Partnership project, which will generate some £40 million of construction revenue, the £70 million Sunnybrook Hospital and a new £35 million campus development for Honda.

New order intake has also continued to be positive in the first two months of 2009. In the UK, we have been awarded a £120 million contract for the Bankside development in London and in Canada we have achieved financial close on our fourth major hospital to be built using private finance, the £144 million Royal Victoria Hospital, in Barrie, Ontario. In addition, the North Bristol NHS Trust has announced that it is planning to appoint Carillion as the preferred bidder for the new hospital at Southmead in Bristol, which is expected to generate approximately £450 million of construction revenue for the Group.

Going forward, we will continue to focus on increasing margins, even if this means that revenue reduces, in order to improve our combined operating margin for all of the Group's construction activities towards three per cent. This strategy is supported by our substantial, high quality order book and pipeline of probable orders, which provide sufficient visibility for us to be confident of achieving our expectations for construction services in 2009.

Revenue⁽¹⁾

+26%

40%
of total

	2008 £m	2007 £m
Group	2,094.1	1,660.4
Share of Joint Ventures	5.6	6.6
Total	2,099.7 +26%	1,667.0

Underlying operating profit⁽²⁾

+79%

14%
of total⁽³⁾

	2008 £m	2007 £m
Group	26.8	12.3
Share of Joint Ventures	1.9	3.7
Total	28.7 +79%	16.0

Key

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

(1) Continuing operations

(2) Continuing operations before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non operating items

(3) Before Group eliminations, unallocated items and Joint Venture net financial expense and taxation

HMP Edinburgh

Carillion is a framework contractor for the Scottish Prison Service and recently completed a £50 million redevelopment of HMP Edinburgh. Current projects include the redevelopment of HM Young Offenders Institute, Polmont, near Falkirk and the redevelopment of HMP Shotts in North Lanarkshire.

Operating and financial review

continued

Intangible amortisation and impairment of other investments

Intangible amortisation and impairment of other investments of £54.5 million (2007: £21.5 million) comprises £42.8 million in respect of intangible assets arising primarily from the acquisition of Mowlem in 2006, Alfred McAlpine in 2008 and the Vanbots Group in 2008 and an impairment charge of £11.7 million in respect of Carillion's investment in the Alice Springs to Darwin railway, a Public Private Partnership project acquired with Mowlem. The carrying value of our investment in this project has been reduced to zero following the project being placed in administration.

Curtailment gain

As part of the Group's policy for managing the risks and liabilities associated with its defined benefit pension schemes, Carillion's main defined benefit schemes will close to future accrual on 5 April 2009. As a result of completing the consultation process relating to closing these schemes to future accrual, a curtailment gain of £35.5 million (net of expenses of £2.8 million) has been recognised in the income statement.

Restructuring costs

A summary of these costs is provided in the table below.

	2008 £m	2007 £m
Alfred McAlpine integration and re-organisation costs	55.0	–
Vanbots Group integration and re-organisation costs	3.2	–
Mowlem integration and re-organisation costs	–	9.5
Operational structure review costs	–	4.5
Rail activities review costs	–	0.2
	58.2	14.2

The acquisition of Alfred McAlpine is delivering better than expected benefits, with integration and re-organisation cost savings expected to reach an annual run rate of £50 million by the end of 2009, £20 million more than expected at the time of acquisition. The one-off costs of delivering these savings have increased from £30 million to £55 million and have been recognised in full in 2008. Integration of the Vanbots Group is progressing well, with the costs and benefits in line with our expectations.

Non-operating items

Non-operating items in 2008 amounted to £35.6 million (2007: £28.3 million) and related to gains on the disposal of investments in mature Public Private Partnership projects, as described on page 26.

Net financial expense

The Group had a net financial expense of £7.7 million (2007: £0.6 million income). This comprised a net expense of £25.1 million in respect of borrowings, interest received in respect of loans to Special Purpose Companies for Public Private Partnership projects of £4.8 million and a net interest credit from retirement benefit schemes of £12.6 million.

Taxation

The effective tax rate on the Groups and Joint Ventures' underlying profit was 20 per cent. This reflects the agreement of certain prior year tax issues with the tax authorities, together with a mechanism for the use in 2008 and beyond of certain tax losses. At 31 December 2008 the Group had £355 million of corporate tax losses in the UK that are available to reduce future tax payments. The Group's ability to maintain its effective tax rate at 20 per cent is further underpinned by the UK Government's proposal to exempt UK companies from taxation on foreign earnings from April 2009.

Earnings per share

Underlying earnings per share from continuing operations increased by 19 per cent to 34.3 pence (2007: 28.9 pence). This substantial increase reflected the Group's strong operating performance, notably by growing operating margins on increased revenue and by reducing central costs.

Dividend

Carillion has a progressive dividend policy of 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 2008 of 8.9 pence, making the full-year dividend 13.0 pence, an increase of 18 per cent on the total paid in respect of 2007 (11.0 pence). Underlying dividend cover was 2.6 times and similar to that in 2007.

Cash flow

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

	2008 £m	2007 £m
Underlying Group operating profit	120.1	64.4
Depreciation and other non-cash items	19.2	15.9
Working capital	34.0	31.7
Dividends received from Joint Ventures	25.0	23.7
Total underlying cash inflow from operations	198.3	135.7
Deficit pension contributions	(50.5)	(46.3)
Restructuring and re-organisations costs	(32.4)	(6.5)
Interest, tax and dividends	(62.2)	(30.4)
Net (outflow)/inflow from capital expenditure/assets	(26.4)	4.4
Acquisitions and disposals	(227.0)	9.6
Other – including discontinued operations	18.4	(3.4)
Change in net borrowing	(181.8)	63.1
Net borrowing at 1 January	(44.9)	(108.0)
Net borrowing at 31 December	(226.7)	(44.9)
Average net borrowing⁽¹⁾	(329.8)	(130.3)

(1) Post the acquisition of Alfred McAlpine.

Carillion's rigorous focus on cash management and the delivery of cash-backed profit has resulted in underlying cash flow from operations of £198.3 million being significantly ahead of underlying profit from operations of £165.2 million. Net borrowing at 31 December 2008 has been reduced to £226.7 million, considerably better than our target of £300 million.

Additional cash payments to the Group's pension schemes amounted to £50.5 million, in line with our pensions deficit recovery plan. The cash cost of restructuring and re-organisation of £32.4 million was less than the £58.2 million charged to profit because the latter recognised in full the costs associated with the acquisitions of Alfred McAlpine and the Vanbots Group, including some whose cash impact will fall after 31 December 2008. Interest, tax and dividends on the Group's enlarged share capital base increased to £62.2 million. Net capital expenditure of £26.4 million reflected the needs of the enlarged group; the net cash inflow in 2007 arose because capital expenditure of £25.1 million was more than offset by income from the sale of assets, notably rail plant and property. The cash outflow in respect of acquisitions and disposals in 2008 primarily reflected the costs of acquiring Alfred McAlpine and the Vanbots Group, including debt acquired, together with the cost of investments in Public Private Partnerships (PPP) projects, net of proceeds from the sale of equity investments in PPP projects.

Balance sheet

Carillion's balance sheet remains strong and is supported by £590 million of committed bank facilities that mature on 30 September 2012.

	2008 £m	2007 £m
Property, plant and equipment	167.2	131.5
Intangible assets	1,267.5	555.8
Investments in Joint Ventures	238.6	185.9
	1,673.3	873.2
Inventories, receivables and payables	(490.4)	(286.5)
Net retirement benefits liability (net of tax)	(61.8)	(13.8)
Other	(21.8)	(25.1)
Net operating assets	1,099.3	547.8
Net borrowing	(226.7)	(44.9)
Net assets	872.6	502.9

The increases in property, plant and equipment and in intangible assets were predominantly due to the acquisition of Alfred McAlpine. The increase in investments in Joint Ventures reflected the Group's equity investments in Public Private Partnership projects: the acquisition of Alfred McAlpine and profit generated during the year. The movement in inventories, receivables and payables was also primarily due to the acquisition of Alfred McAlpine. The movement in the Group's net retirement benefits liability was due to a number of factors, with increases resulting from the acquisition of Alfred McAlpine and the deterioration in equity values during the year, being partially offset by the curtailment gain and additional cash payments made to our pensions schemes under our deficit recovery plan.

Share price

Carillion's share price closed at 248.0 pence on 31 December 2008, a reduction of 29 per cent on the closing price on 31 December 2007 of 351.25 pence.

In common with most companies, Carillion's total shareholder return reduced in 2008. The overall reduction of 26 per cent compared with a reduction of 30 per cent for the FTSE 350. Over the last five years, Carillion's total shareholder return has significantly outperformed that of the FTSE 350. The FTSE 350 was 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 2008 was £35.8 million (2007: £29.3 million). After the additional cash payments to the Group's pensions schemes of £50.5 million (2007: £46.3 million), in line with our pension deficit recovery plan, and the acquisition of Alfred McAlpine, the Group's pension schemes had a total deficit net of tax at 31 December 2008 of £61.8 million (2007: £13.8 million).

Operating and financial review continued

Committed bank facilities

The Group's main committed facility comprises a £590 million syndicated five-year facility, repayable on 30 September 2012. The syndicate comprises 14 relationship banks, including four mandated lead arrangers – The Royal Bank of Scotland plc, Bank of Scotland plc, Bayerische Landesbank, London branch, and Lloyds TSB Bank plc. This syndicated facility was arranged in September 2007 on favourable terms, before the severe tightening of the credit markets. This facility has proved to be more than adequate to finance the £171.7 million cash element of the £554.5 million consideration for the acquisition of Alfred McAlpine, in February 2008, and to support the operations of the enlarged group.

Treasury policy and 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.

Financial risk

The areas of significant financial risk facing the Group relate to funding, liquidity, counter party risk, foreign exchange and interest rates.

Funding and liquidity

In addition to Carillion plc's principal borrowing facilities described above, money market and short-term overdraft facilities are available to Carillion plc and certain subsidiaries. Operating 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.

Counter party risk

The Carillion Group undertakes significant financial transactions only with counter parties 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:

Esterling	Average		Year end	
	2008	2007	2008	2007
Middle East (US Dollar)	1.84	2.00	1.44	1.99
Oman (Rial)	0.71	0.77	0.55	0.77
UAE (Dirham)	6.75	7.63	5.28	7.31
Canada (Dollar)	1.95	2.14	1.77	1.96
Trinidad (Dollar)	11.52	12.64	9.04	12.52

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. 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 29 on page 98.

Operational risk management

The Group has rigorous policies in place to identify, mitigate and manage strategic risks and those specific to our individual businesses and contracts. These are summarised on pages 16 and 17 of the Group Chief Executive's review.

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 03 of the financial statements on pages 14 to 34, entitled Our Performance. In addition, note 29 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 risk 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
4 March 2009

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 2008 Sustainability Report, which will be published on our website in April 2009.

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, details of which can be found in our 2008 Sustainability Report that affect the delivery of our business objectives.

Managing sustainability

Our commitment to sustainability is driven by our Board supported by a Sustainability Advisory 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, Jonathon Porritt, Chair of the UK Government's Sustainable Development Commission and founder of Forum for the Future, and Julia Cleverdon, Vice President of Business in the Community (BITC).

The Sustainability Advisory Committee is supported by a Sustainability Forum comprising our senior business leaders, to inform the development of our sustainability strategy, share best practice and ensure the effective dissemination of our sustainability strategy and policies. All Carillion business units have a sustainability plan and objectives which form an integral part of their annual business plans.

Enviros, one of the UK's leading environmental consultancy businesses, which we acquired as part of Alfred McAlpine, has also been used to support the development of our sustainability strategy.

Each year we organise a 'Sustainability Week', a Group-wide programme that coincides with World Environment Day and focuses on how individuals and teams can adopt a more sustainable lifestyle and contribute to making Carillion a more sustainable business. In 2008, a graduate team organised the week's activities and succeeded in engaging the support of more of our employees than ever before. For the first time, we also supported a charity during our 2008 Sustainability Week, raising £10,000 for Barnardo's.

Our performance

In 2008, Carillion won the Sunday Times Best Green Companies Award for large and medium sized companies with a high environmental impact. The survey tested the credentials of participating companies by examining their corporate policies and by asking employees to comment on whether green policies are truly embedded in the companies for which they work. A resounding 76 per cent of Carillion employees believed that Carillion practised what it preached.

Presenting the award, the Managing Editor of The Sunday Times, commented, 'Carillion is no 'Johnny-come-lately' to the green cause. It has had an environmental policy in place for 14 years dating from the time when environmental protests about road building and other construction projects started to hit the public consciousness'.

We also achieved a 'gold' performance ranking in Business in the Community's Corporate Responsibility Index, published in 2008, achieving a score of 92.5 per cent and topping the Construction and Building Materials Sector. Alfred McAlpine also achieved a 'gold' performance ranking with a score of 90.5 per cent, which topped the Support Services Sector. The Corporate Responsibility Index involves a detailed assessment of strategy, management processes and performance, which enables us to benchmark our performance externally. The average score of all participating companies was 82.6 per cent, which demonstrates that we not only continue to be the leader in our sector, but also that our performance compares favourably with that of all participating companies.

Carillion continues to be a member of the FTSE4Good Index and we were delighted to be ranked among the top 22 most ethical companies in the FTSE350 in 2008 by the Observer newspaper's 'Good Company Guide'.

In 2008, as well as continuing to set specific sustainability targets for each of our business units and for the Group as a whole, we are focusing in particular on a number of important areas, namely:

- embedding our Sustainability Excellence Model into our business units and reviewing their progress on a quarterly basis
- a carbon reduction strategy with action plans to support delivery of our challenging target of reducing our carbon emissions by 50 per cent by 2010, measured against a 2006 baseline
- improving the processes through which we capture data on our carbon emissions
- delivering our commitments on sustainable procurement through applying the framework methodology developed by the UK Government's Sustainable Procurement Task Force
- improving our performance in the Business in the Community's Corporate Responsibility Index

The Group's sustainability targets for 2008 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 audited by Bureau Veritas. A full report on what we have achieved will be published in our 2008 Sustainability Report, in April 2009.

Sustainability review continued

Sustainable Communities and Workforce

Creating a sustainable business requires the commitment of all our people – the Carillion community. 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 18, 19, 42 and 43.

How we do business is based on our belief that it's 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. Through Values awards we recognise the outstanding contributions our people make to our success in delivering an excellent service to our customers and in 2008 1,322 Carillion people received a Values award.

We are proud that our people are also independently winning prestigious awards. Helen Jones, one of our chartered Civil Engineers, received the Future Star Award in the 2008 Property and Building Services sector of the Atkins Inspire Awards. These awards are made annually to encourage, recognise and reward exceptional women, aged between 21 and 30 and working in the built environment, who demonstrate significant personal achievements and the ability to be role models in the future.

Our commitment to sustainable communities also extends beyond our own people. We have a community engagement strategy for all our major worksites and projects and we encourage our people to understand how we 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. For example we support the Business Action on Homelessness (BAOH) campaign, designed to help homeless people break the cycle of 'no home, no job' through the Ready to Work programme.

As the UK's leading private sector provider of construction skills training, we contribute to the development of individuals and communities. At the end of 2008, we had nearly 2,700 people in apprenticeship and other training programmes in our 19 UK training centres. We also provided training on behalf of the Prince's Trust 'get into construction' programme to 315 candidates in 2008.

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 and we use our knowledge and skills to develop sustainable service solutions and to create positive impacts in these areas.

Carillion has developed and implemented environmental management systems across the Group and over 99 per cent of our UK 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. Eight years ago, we entered into a partnership with the Wildlife Trusts and established the Carillion Natural Habitats Fund. To date we have contributed over £220,000 to the fund to finance 38 projects providing opportunities for our people to volunteer and support the preservation of natural habitats. Our 2008 graduate induction programme included a programme of environmental improvement work at Rudyard Lake near Leek, Staffordshire.

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 plan to achieve Level 4 by 2010.

We understand that sustainable procurement is also important to our customers and this year Carillion signed the Ministry of Defence's Sustainable Procurement Charter, confirming our commitment to sustainability and procurement best practice as a major supplier to Defence Estates.

Carillion continues to be a member of the WWF-UK Forest and Trade Network and during 2008 re-affirmed our commitment to eradicating illegal timber products from our supply chain. We are committed to using timber 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. Effective management and reduction of greenhouse gas (GHG) emissions has become increasingly important, as we realise that the way in which companies operate will need to change significantly if we are to respond effectively to this threat.

We aim to build on our leadership in sustainability by reducing our direct CO₂ emissions by 50 per cent by 2010 from a 2006 baseline. We have developed a carbon reduction strategy and policy, which involves measuring and reporting every quarter on our carbon footprint in accordance with the Greenhouse Gas Protocol carbon accounting standard. Our carbon footprint covers our direct Scope 1 and 2 emissions generated from buildings, transport, travel, waste and from plant powered by fossil fuel on project sites.

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

- employee business travel
- commercial vehicles
- plant fuel
- our offices

The acquisition of Alfred McAlpine in February 2008 has had a significant effect on Carillion's carbon footprint, due to the size of the acquired business and carbon-intense nature of its activities. Details of our performance in respect of measuring and reducing our Carbon Footprint will be published in our 2008 Sustainability Report.

To manage our carbon emissions effectively, we also need to consider our indirect impacts and in 2009 we plan to identify and begin to manage our indirect Scope 3 emissions.

Our commitment to tackling climate change is also reflected in the way we work with our customers to provide sustainable buildings, infrastructure and lifetime facilities management and services.

Carillion will report in more detail on its carbon emissions in its 2008 Sustainability Report and through participation in the Carbon Disclosure Project.

Sustainable consumption and production

Carillion's leadership in developing and implementing its sustainability strategy model, which relates our impact 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 at every level of our activities.

In 2008, we undertook a customer perception survey, which sought the views of our customers on a wide range of issues, including the importance of sustainability. The survey showed that 70 per cent of our customers believe that sustainability and Carillion's ability to deliver sustainable solutions are very important, a two per cent increase on the figure reported in our 2007 customer perception survey.

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 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.

In 2008, Carillion Planned Maintenance received Energy Efficiency accreditation from the Carbon Trust for its Royal Courts of Justice contract. This is the first award of its kind within Her Majesty's Court Services (HMCS) and recognises that the Royal Courts are being managed and operated to optimise energy performance. Since 2006, when Carillion Planned Maintenance secured this contract for the Royal Courts of Justice, it has implemented initiatives to deliver greater efficiency and a reduced carbon footprint.

04

Governance

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members of Carillion plc

18%

Growth in dividend to 13.0 pence

01 Philip Rogerson
Chairman

Age 64 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 Northgate plc and a Non-Executive Director of The Davis Service Group plc. He was an Executive Director of BG plc from 1992 to 1998, latterly as Deputy Chairman.

02 John McDonough
Group Chief Executive

Age 57 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, Vice-Chairman of the CBI's Public Services Strategy Board and a member of the CBI's President's Committee. He is also a Non-Executive Director of Tomkins plc. John is a member of the Nominations Committee.

03 Richard Adam
Group Finance Director

Age 51 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 57 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. Prior to TDG plc, David 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, which offers management services to operational businesses.

05 David Hurcomb
Executive Director

Age 45 David was appointed to the Board on 1 January 2008. David has responsibility for Carillion's Building and PFI businesses. He also has Groupwide responsibility for sustainability and sits on the board of Business Action on Homelessness. A graduate engineer and chartered accountant, he joined Carillion in March 2005 from Balfour Beatty Plc. From 1990 to 2003, David was employed in a number of senior positions by Mansell plc, latterly as an Executive Director. Prior to 1990, David worked for KPMG.

06 Don Kenny
Executive Director

Age 54 Don was appointed to the Board in September 2006 and is responsible for Carillion's Business Services businesses. 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 chartered certified accountant.

07 David Maloney
Non-Executive Director

Age 53 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 52 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 Sensors and Airborne Systems SpA, 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 latterly for UK naval sector consolidation.

09 Vanda Murray OBE
Non-Executive Director

Age 48 Vanda was appointed to the Board in June 2005 and is a member of the Audit, Nominations and Remuneration Committees. Vanda is Non-Executive Chairman of Eazyfone Limited, Deputy Chairman of the North West Development Agency and is a Fellow of the Chartered Institute of Marketing. Vanda was a Director of Ultraframe plc prior to its takeover in 2006 and was previously Chief Executive of Blick plc and until April 2007, was a trustee and Non-Executive Director of The Manufacturing Institute. She was appointed OBE in 2002 for Services to Industry and to Export.

10 Roger Robinson
Executive Director

Age 57 Roger joined Tarmac Construction as Contracts Director in 1989 subsequently becoming Managing Director of Tarmac Civil Engineering, International and Rail. Roger was appointed to the Board of Carillion plc in May 1999 and has Groupwide responsibility for infrastructure, international commercial and health and safety matters. He is a Fellow of the Institution of Civil Engineers and was a member of the Government Taskforce on Modern Apprenticeships.

Report of the Directors

The Directors of Carillion plc present their annual report together with the audited financial statements for the year ended 31 December 2008

The Directors of the Company at the date of the approval of this Directors' report confirm that so far as they are individually aware, there is no relevant audit information of which the Company's auditors are unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Principal activities and business review

Carillion is the UK's leading support services company delivering integrated solutions for infrastructure, buildings and services both in the UK and in a number of overseas regional markets

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

- key objectives and performance in 2008 and objectives for 2009 (Group Chief Executive's review)
- performance in the financial year (Operating and financial review)
- treasury policy and risk management (Operating and financial review)
- social, community and environmental issues (Sustainability review)
- principal risks and uncertainties facing the Group (Group Chief Executive's review)
- employees (Group Chief Executive's review and Report of the Directors)
- financial risk (Operating and financial review)

Analysis of revenue and net assets by business segment and geographical location are given in Note 2 on page 72

Share capital

At the Extraordinary General Meeting of the Company held on 14 January 2008 to approve the Alfred McAlpine acquisition the authorised share capital of the Company was increased to 525,000,000 ordinary shares of 50p each. At 4 March 2009, the issued ordinary share capital of the Company was 395,714,176 shares. Carillion has only one class of shares, with one vote for every share.

Profits and dividends

The consolidated income statement is shown on page 64. Profit before tax was £115.9 million (2007: £94.4 million).

A 2008 interim dividend of 4.1 pence per ordinary share (2007: 3.5 pence) was paid in November 2008. It is proposed to pay a final dividend of 8.9 pence per ordinary share (2007: 7.5 pence) on 19 June 2009 to shareholders on the register at the close of business on 24 April 2009. The payment of these 2008 interim and final dividends will amount to £51.4 million (2007: £39.4 million).

A dividend reinvestment plan (DRIP) will also be offered.

Directors

The Directors of the Company who served during 2008 are shown on page 53 of the Remuneration report. Biographical details for each Director at 31 December 2008 are given on page 41.

In accordance with the Articles of Association, David Maloney and Vanda Murray retire by rotation and, being eligible, offer themselves for re-election at the Annual General Meeting on 6 May 2009.

The interests of the Directors and their families in the share capital of the Company are shown in the Remuneration report on page 58.

Employees

Information relating to employee numbers and remuneration is given in Note 7 on page 79.

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

Carillion's core values of openness, collaboration, mutual dependency, sustainable profitable growth, professional delivery and innovation have been developed to emphasise the changing working practices required to succeed in an environment where partnership and integrated solutions are becoming the norm.

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

The objectives of Carillion's Equal Opportunities and Diversity Policy are

- to have a workforce that represents and responds to the diversity of customers and today's society
- improved safety and quality provided by a balanced and productive workforce
- lower staff turnover, absenteeism and sickness levels leading to cost savings
- to provide a fair working environment in which discrimination will not be tolerated
- to create a working environment free from discrimination, harassment, victimisation and bullying
- to work towards finding ways for under-represented groups to fully realise their potential within the Carillion organisation and to take reasonable steps to help such groups
- to 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 meet their responsibilities under it
- Carillion also recognises the merit of developing a workforce that incorporates the many diverse skills and backgrounds available from within the total population and accordingly will strive to become an organisation that will recognise, value and understand diversity and to provide its employees with genuine opportunities to improve and reach their full potential
- to ensure that all applicants are treated fairly during recruitment processes and in accordance with legislation and The Codes of Practice covering all grounds for discrimination
- to regulate review procedures and selection criteria for promotion to ensure that individuals are selected and treated according to their relevant individual abilities and merits

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

The views of employees on matters affecting their interests are also sought through 'The Great Debate'. This is a major exercise which was undertaken by the Group in each of the last five years to capture the feelings and views of as wide a range of employees as possible. These views are then taken into account in the development of work-related initiatives as part of Carillion's strategy to become an employer of choice. In 2008, around 2,800 UK employees attended 'The Great Debate' sessions.

Carillion stages 'The Great Debate' as part of the ongoing quest for cultural change and to produce step changes which

- raise understanding of what drives motivation, morale, engagement and performance
- allows employees to take ownership and be empowered to build and implement solutions
- demonstrates Carillion's desire to change attitudes and behaviours based on listening to the views of its employees

Additionally, 'Team Talk' which is held monthly provides Carillion employees with 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.

Employees can also exchange best practice information via a Knowledge Management Forum on the Group intranet.

Carillion seeks to involve all employees in its leading edge programmes to integrate safety into everything it does 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 19 and on Sustainability in the Sustainability review on pages 35 to 37.

Carillion also involves, engages and consults with employees through 'People Forums' across the Group which give employees the opportunity to express their views on business issues. Specifically, the 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 enabling employees to be better aware of the business climate in which they operate
- help employees to be responsive to and better prepared for change

Substantial share interests

At 4 March 2009, the Company had received formal notification of the following persons interested directly or indirectly in three per cent or more of the issued ordinary share capital of the Company (being the threshold for notifications of interests in shares in the Disclosure and Transparency Rules of the FSA)

	Number of shares held	Percentage
Schroders plc	66,778,379	16.9
Standard Life Investments Ltd	39,218,124	9.9
F&C Asset Management plc	19,246,558	4.9
Legal & General Group Plc	15,787,739	4.0
HBOS plc	14,036,048	3.6
UBS Investment Bank	13,424,716	3.4

Report of the Directors

continued

Policy for payment of suppliers

It is the policy of the Group that each business agrees terms and conditions for transactions with its suppliers and for payment to be made on these terms providing the suppliers meet their obligations to the businesses' satisfaction. The Group as a whole does not apply a general recognised code with regard to the payment of all suppliers. The Company does not have any trade creditors.

The number of days credit outstanding for the Group averaged 65 days at 31 December 2008 (59 days at 31 December 2007).

Charitable and political contributions

Payments for charitable purposes made by the Group during the year ended 31 December 2008 amounted to £129,000 (2007: £150,000). The primary beneficiaries of these charitable donations were The Wildlife Trust, the British Occupational Health Research Foundation, the Beacon Centre for the Blind and The Princes Trust.

The Carillion Group also contributes in the region of one per cent of profits per annum in cash or in-kind (staff time on community projects) to community activities.

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 29 on page 96 of the consolidated financial statements.

Annual General Meeting

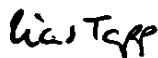
The Annual General Meeting will be held at 12 noon on Wednesday 6 May 2009 at Austin Court, 80 Cambridge Street, Birmingham B1 2NP.

Amongst the business to be transacted are proposals to renew the authority for the Company to purchase its own shares. As at 31 December 2008, the Company had authority from shareholders for the purchase of 39,419,196 of its own shares.

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
4 March 2009

Corporate Governance report

General principles

The Board is firmly committed to high standards of corporate governance. During the year to 31 December 2008 and as detailed below and in the Remuneration report, the Company complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (June 2006) except in respect of Board balance (Combined Code principle A 3.2). The reason for non-compliance in this matter is explained below.

Ethics and Business Integrity Policy

Carillion has a clear and unequivocal approach to business integrity and ethics which underlies the Carillion values of openness, collaboration, mutual dependency, sustainable, profitable growth, professional delivery and innovation. The Ethics and Business Integrity Policy demonstrates how 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 and will be reflected in the way the Group competes for business, through the quality and value of its work and through 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 will investigate fully all alleged breaches. We 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 our dealings.
- 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 carried 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 standard which is 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.

Directors

The Board

With effect from 1 January 2008, the Company is led by a Board comprising five 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 wide areas of 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.

Until 1 January 2008, the Chairman and Non-Executive Directors comprised more than half of the Board. However, given the increase in the size and complexity of the business due to acquisition, the Board resolved that additional executive representation on the Board was required. However, Roger Robinson has decided to retire as a Director at the Annual General Meeting on 6 May 2009. The Company will then once more be 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.

A detailed internal evaluation of the Board's corporate governance procedures and compliance was again conducted in 2008 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 2008 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.

This is the seventh year that this process has taken place and will be repeated annually as the Board considers it satisfactory. In addition, reviews of the performance of each of the Directors has taken place.

Corporate Governance report continued

The division of responsibilities between the Chairman and the Group Chief Executive as adopted by the Board 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 eight meetings in 2008 and also meets 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 matters such as the approval of final and interim financial statements and the recommendation of dividends
- appointments to, and removals from, the Board and the terms of reference and membership of Board committees
- approval of Group strategy and annual budgets
- approval of authority levels, financial and treasury policies
- authorisation for any acquisition or disposal
- review of the internal control arrangements and risk management strategies
- review of corporate governance arrangements

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

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

Any Director may, in furtherance of his or her 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
Steve 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 51 to 58

Audit Committee

David Maloney, Chairman
David Garman
Steve Mogford
Vanda Murray

This Committee consists entirely of independent Non-Executive Directors. For further information see the Report of the Audit Committee on pages 48 to 49

Nominations Committee

Philip Rogerson, Chairman
David Garman
David Maloney
John McDonough
Steve 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 2008

The number of full scheduled Board and Committee meetings attended by each Director during 2008 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	8	4	2	2
Richard Adam	8	–	–	–
David Garman	8	4	2	2
David Hurcomb	8	–	–	–
Donald Kenny	8	–	–	–
David Maloney	8	4	2	1
John McDonough	8	–	–	1
Steve Mogford	7	4	2	2
Vanda Murray	8	4	2	2
Roger Robinson	8	–	–	–
Philip Rogerson	8	–	–	2

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

In the case of Non-Executive Directors, initial appointments are normally for three years, 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 51 to 58.

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 6 May 2009 are David Maloney and Vanda Murray.

Additionally, new Directors are subject to election by shareholders at the first opportunity following their appointment.

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.

Roger Robinson will be retiring at the Annual General Meeting to be held on 6 May 2009 and will therefore not be seeking re-election.

Corporate Governance report continued

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 2008 the Directors visited the Group's operations in Dubai. Directors also visit other operations and staff.

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. 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 6 May 2009 to respond to shareholders' questions.

Accountability and Audit Report of the Audit Committee

The Audit Committee consists entirely of independent Non-Executive Directors:

David Maloney, Chairman
David Garman
Steve Mogford
Vanda Murray

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

David Garman was appointed to the Audit Committee in October 2004. Until its takeover in 2008, David was Chief Executive of TDG plc.

Vanda Murray is Non Executive Chairman of Eazyfone Group and Deputy Chairman of the North West Development Agency. Vanda was appointed to the Audit Committee in July 2005.

Steve Mogford is Chief Executive of Selex Sensors and Airborne Systems SpA and was appointed to the Audit Committee in September 2006.

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 Carillion Group
- compliance with statutory and other external requirements
- reviewing the systems of internal control including financial, operational compliance and risk management
- reviewing the role of the internal audit function and the results and effectiveness 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 2008, 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 review
- reappointment of KPMG
- 2008 audit plan
- internal audit review
- 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. See page 53 for details.

Main activities of the Audit Committee in the year to 31 December 2008

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 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 the following 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.

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 page 50). 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 risk 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.

Corporate Governance report continued

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

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.

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

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, in their reporting to shareholders.

The KPMG audit director and manager are 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 years 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 fourth 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 (when permissible) are subject to competitive tender.

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

With regard to the provision of non-audit services, relevant ethical guidance is taken into account.

The proceedings of the Audit Committee are reported to the Board, identifying any matters in respect of which action or improvement is required.

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

A review of the Group's progress on health and safety is provided in the Group Chief Executive's review on pages 16 to 21 and the Group's Sustainability performance is contained in the Sustainability review on pages 35 to 37.

RTM

R F Tapp
Secretary
4 March 2009

Remuneration report

This report has been prepared in accordance with the Companies Act (Schedule 7a) and Section 1 of the Combined Code on Corporate Governance (June 2006) and has been approved by the Board and the Remuneration Committee

The Board is responsible for determining policy for remuneration of the Directors of Carillion plc and key members of the senior management team. The Board determines the fees of the Non-Executive Directors based on independent external advice. The Remuneration Committee consists exclusively of independent Non-Executive Directors, namely David Garman (Chairman), David Maloney, Steve Mogford and Vanda Murray. The Remuneration Committee is responsible for formulating policy for remuneration of the Executive Directors, setting their remuneration framework and recommending to the Board the remuneration of the Executive Directors. The full terms of reference of the Remuneration Committee are available on the Company's website and are reviewed annually by the Board.

The Remuneration Committee is assisted in remuneration decisions by Susan Morton, Group HR Director and by John McDonough, Group Chief Executive. The Group Chief Executive is consulted on the remuneration of his direct reports and 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 & Touche LLP to provide salary survey and benchmarking information. Deloitte & Touche LLP, which was appointed in 2005, also advises the Company on pensions investment and has carried out due diligence in Canada for the Company, but otherwise has no other connections with the Company.

Executive Director remuneration policy

The Remuneration Committee ensures that the total remuneration package for Executive Directors is aligned with the Company reward philosophy to support its strategic objective of attracting, developing and retaining excellent people and encouraging them to work in line with Carillion's values. This specifically includes achieving high standards in respect of sustainability (which encompass 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.

The Remuneration Committee met twice during the year and all members attended both meetings.

The Remuneration Committee has agreed a balanced, fair and competitive reward package. The Group incentivises and rewards Executive Directors in a manner which is consistent with the Group's objectives and aligns the interests of the Directors with those of shareholders. As a result, a substantial proportion of Executive Directors' remuneration is variable.

Elements of Remuneration

The elements of Executive Director Remuneration are summarised below and explained in more detail on pages 52 to 57.

Basic salary

This is reviewed annually, taking account of individual experience and performance by reference to information provided by independent sources. The Remuneration Committee has adopted a policy of setting basic salary in line with the median of the market range of salaries for equivalent roles.

Annual performance bonus

This is also reviewed annually and the participants are employees who are able to influence and encourage collaboration across Carillion to meet demanding financial targets and the delivery of clear and stretching key performance indicators with regard to the personal element. The plan is designed to drive and reward excellent operational performance and encourage longer term sustainable growth.

Long-term (share-based) incentives

These are intended to require and reward exceptional performance and are linked to performance targets that are aligned to the interests of shareholders. Awards are currently made only 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.

Carillion share-based incentives comply with the share dilution guidelines.

Pension benefits

The Committee takes account of pension benefits and associated costs in reviewing remuneration policy. The aim is to offer competitive pension benefits whether delivered through defined benefit or defined contribution schemes.

Other benefits

These may include cars or car allowances, private healthcare and salary supplements in place of approved pension provision.

Remuneration report

continued

Service contracts

Each Executive Director's service contract is terminable on one year's notice from the Company. On termination of their employment, Executive Directors have no additional entitlement to compensation for loss of office. Service contracts also contain provision for early termination but the Remuneration Committee does not consider it to be in the best interests of shareholders to specify in these contracts the compensation payable in the event of early termination. In such cases, the Remuneration Committee will consider the specific circumstances together with the Company's commitments under the individual's contract. The principle of mitigation would be applied to reduce any compensation payable to departing directors, with each case being taken on its own merits. There were no termination benefits in the year to 31 December 2008.

Name	Commencement	Notice Period	Term
Richard Adam	2 April 2007	12 months	rolling
David Hurcomb	1 January 2008	12 months	rolling
Don Kenny	1 July 2006	12 months	rolling
John McDonough	1 January 2001	12 months	rolling
Roger Robinson	29 July 1999	12 months	rolling

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.

Basic salary and other benefits

Current salaries and benefits are set out in the table opposite. Salary increases for Executive Directors in 2008 averaged six per cent, in line with independent advice obtained from Deloitte & Touche LLP, with the exception of Don Kenny and David Hurcomb who, as recent and new appointments to the Board, received salary increases to reflect their increase in responsibilities. Increases in 2009 will be two per cent to reflect the current economic climate and in line with pay awards for other employees.

Annual performance bonus and deferred bonus plan

Annual bonuses are reviewed each year by the Remuneration Committee, which sets performance targets geared to key financial indicators and individual performance objectives. In 2008, the Executive Directors had the potential to earn annual bonuses up to a maximum of 100 per cent of their basic salary for outstanding performance in respect of specific financial targets (based on earnings per share) and confidential personal performance objectives. The 2008 maximum bonus opportunity limits the annual cash payment to 30 per cent of salary, with the balance deferred into shares of the Company that are held in a trust in the participant's name and vest after two years, subject to the participant still being employed by the Company. The number of shares allocated is determined by the price prevailing at the date the annual report and accounts for the prior year is published. 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 and may go up or down. The bonuses awarded to the Executive Directors are set out on page 53. In relation to potential future bonus opportunities, the weighting between the personal and financial elements changes to 25 per cent personal and 75 per cent financial and the maximum amount that may be taken in cash is limited to 50 per cent of the actual award made with a similar deferral mechanism for the balance. The assessment of the element in respect of personal performance is based on the delivery of clear and stretching key performance indicators. 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.

Directors' remuneration

The remuneration of the Directors of Carillion plc for the year ended 31 December 2008 is set out in the table below

	Basic salary/fees £000	Annual performance bonus £000	Other benefits £000	Total 2008 £000	Total 2007 £000
Richard Adam	400	392	116	908	735
David Hurcomb	275	264	68	607	-
Don Kenny	305	297	84	686	620
John McDonough	620	608	191	1,419	1,327
Roger Robinson	365	356	99	820	769
Total for Executive Directors	1,965	1,917	558	4,440	3,451
David Garman	58	-	-	58	52
David Maloney	56	-	-	56	50
Steve Mogford	46	-	-	46	43
Vanda Murray	46	-	-	46	43
Philip Rogerson	183	-	-	183	167
Total for Non-Executive Directors	389	-	-	389	355
Total for all Directors	2,354	1,917	558	4,829	3,806

- (i) There are no long term benefits other than pensions (see page 54 to 55) and share incentives (see pages 55 to 57)
- (ii) The auditors are required to report on the information contained in the above table
- (iii) Included in 'Other benefits' is a salary supplement for John McDonough of £167,890 (2007 £156,055) for Roger Robinson of £82,210 (2007 £75,852), for Don Kenny £62,050 (2007 £53,575), for David Hurcomb of £51,970 and for Richard Adam of £93,970 (2007 £66,175) in respect of salary over the internal pensions earnings cap
- (iv) There is no prior year comparator in this table for David Hurcomb as he was not an Executive Director during 2007
- (v) John McDonough retains the fee of £74,000 (including the purchase value of 2,000 ordinary shares in Tomkins plc) he was paid in 2008 as a Non-Executive Director of Tomkins plc and Richard Adam retains the fee of £47,750 paid as a Non-Executive Director of SSL International plc
- (vi) The bonus figures shown above are paid in two elements up to 30 per cent of basic salary is paid in cash and the balance in the form of deferred shares in the Company vesting after two years. The amounts shown above were therefore split as follows

	Cash payment £000	Value of deferred shares £000
Executive Director		
Richard Adam	120	272
David Hurcomb	83	181
Don Kenny	91	206
John McDonough	186	422
Roger Robinson	110	246

These shares will be held in Trust for two years and then transferred in April 2011 following payment of the tax and national insurance obligations

- (vii) In relation to the 2006 and 2007 bonus arrangements (as applicable), the Executive Directors, in April 2008 received the deferred elements as follows

	Number of shares
David Hurcomb	6,141
Don Kenny	15,794
John McDonough	44,778
Roger Robinson	27,839

Remuneration report

continued

Pension benefits

Executive pensions

Until April 2003 it was the Company's policy to offer membership of the Carillion 'B' Pension Scheme to Executive Directors and other senior employees. This scheme was operational from 1 October 1999. The scheme is a funded HMRC Registered, defined benefit scheme to which members contribute seven per cent of pensionable earnings. The main features are:

- pension payable at the normal retirement age of 60 (except in cases of ill health or early retirement)
- pension accrual rate for Executive Directors of 1/30th of final pensionable salary for each year of service subject to a limit on pension of two-thirds of final pensionable salary
- increases to pensions in payment (in excess of the State Guaranteed Minimum Pension) in line with price indexation up to five per cent per annum for service to 5 April 2006 and 2.5 per cent per annum for service after that date
- life assurance of four times salary
- pensions payable in the event of ill health and
- on death (in service or after retirement) spouse's and/or dependent's pension at two-thirds of member's prospective pension

The Carillion 'B' Pension Scheme was closed to new entrants with effect from 1 April 2003. Since that date, pension provisions for senior managers and Executives have been through their existing Carillion scheme (for current employees) or the Carillion Pension Plan (for new employees). The Carillion Pension Plan is a defined contribution pension arrangement that provides members with pensions at retirement based on the accumulated value of their notional pension account within the plan.

With the exception of Richard Adam and David Hurcomb, the Group makes contributions to a registered defined benefit scheme on behalf of the Executive Directors in respect of earnings up to the internal earnings cap. In addition, a salary supplement is paid in respect of earnings over the internal cap equal to the payments the Group would have paid to the registered defined benefit scheme had the cap not been in operation. Salary supplements are taxed at source. For Richard Adam and David Hurcomb, the Company makes contributions to a registered defined contribution pension plan (up to the internal earnings cap) and a salary supplement in respect of earnings in excess of the internal cap. During the year, the Company contributed £48,130 to the Carillion Pension Plan for Richard Adam and £48,130 for David Hurcomb. The Company does not contribute to any pension arrangements for Non-Executive Directors.

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 £
2008-09	121,300
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. Following the completion of consultation with the active members of the Carillion 'B' Pension Scheme, this Scheme will close to future accrual with effect from 5 April 2009 and past service benefits will be linked to pensionable salaries at that date. For service from 6 April 2009, the Executive Directors who are members of the Carillion 'B' Pension Scheme will receive benefits through the Carillion 2009 Pension Plan on a defined contribution basis consistent with that provided to Executive Directors in the Carillion Pension Plan.

Pensions accruing during the year to Executive Directors in their capacity as Directors of Carillion plc are set out below

	Accrued pension at 31 Dec 2008 £ per annum	Increase in accrued pension over year excluding inflation allowance £ per annum	Increase in accrued pension over year including inflation allowance £ per annum	Value of pension accrued during 2008 less member contributions £	Transfer value at start of year £	Transfer value at end of year £	Increase in transfer value over year after member contributions £
Don Kenny	25,608	4,737	4,539	65,824	286,225	442,625	147,977
John McDonough	32,347	4,954	4,694	79,293	433,211	644,534	202,900
Roger Robinson	72,224	5,907	5,278	96,443	1,118,668	1,536,811	409,721

The total number of Directors to whom retirement benefits accrued during the year was 3 (2007: 3)

The auditors are required to report on the information contained in the above table

Total Shareholder Return (TSR) Performance Graph

The following graph shows the TSR of Carillion plc compared with the TSR of the FTSE 350 Index for the period from 1 January 2004 to 31 December 2008. 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 graph for period 1 Jan 2004 to 31 Dec 2008

LEAP terms

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 Plan 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 Plan, awards of ordinary shares in the Company (for nil consideration or their nominal value) or grants of options over ordinary shares (with a zero or 0.01 pence per share exercise price) can be made. The Remuneration Committee determines the exercise price of an option.

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. The progression is linear between each of the target levels specified.

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 and April 2008. At 31 December 2008 a total of 2,909,871 shares were outstanding under the LEAP.

Long term (share) incentives

In 2006, the Carillion plc 2006 Long Term Incentive Plan (known internally as the Leadership Equity Award Plan (LEAP)) was approved and the existing Long Term Incentive Plan (LTIP) and Executive Share Option Scheme (ESOS) ceased to operate save in relation to awards outstanding at that time.

Executive Directors may also participate in the Company's Sharesave Scheme.

Remuneration report

continued

Share Awards held by Executive Directors

The awards held by Executive Directors of the Company under LEAP (and under the Long Term Incentive Plan which preceded it) as at 31 December 2008 are shown below

	As at 1 January 2008 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 2008 Number	Date of award	Mid market share price on date of award Pence
John McDonough							
LTIP 2005 (maximum)	191,043	–	(146,110)	(44,933)	Nil	15 03 2005	244.5
LEAP 2006 (maximum)	218,354	–	–	–	218,354	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
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
Roger Robinson							
LTIP 2005 (maximum)	122,178	–	(93,442)	(28,736)	Nil	15 03 2005	244.5
LEAP 2006 (maximum)	137,658	–	–	–	137,658	06 07 2006	319.0
LEAP 2007 (maximum)	121,675	–	–	–	121,675	10 04 2007	420.8
LEAP 2008 (maximum)	–	142,578	–	–	142,578	04 04 2008	383.8
Don Kenny							
LTIP 2005 (maximum)	81,637	–	(62,436)	(19,201)	Nil	15 03 2005	244.5
LEAP 2006 (maximum)	71,202	–	–	–	71,202	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
David Hurcomb							
LEAP 2006 (maximum)	26,898	–	–	–	26,898	06 07 2006	319.0
LEAP 2007 (maximum)	53,475	–	–	–	53,475	10 04 2007	420.8
LEAP 2008 (maximum)	–	107,421	–	–	107,421	04 04 2008	383.8

- (i) On 27 March 2008, 93,442 shares vested to Roger Robinson. The market price of Carillion shares on 27 March 2008 was 391.75 pence. On 2 April 2008, 62,436 shares vested to Don Kenny. The market price of Carillion shares on 2 April 2008 was 393.5 pence. On 3 April 2008, 146,110 shares vested to John McDonough. The market price of Carillion shares on 3 April 2008 was 384.0 pence. The net asset value received by these Directors was therefore respectively £366,059, £245,686 and £561,062.

- (ii) The auditors are required to report on the information contained in the above table.

- (iii) At 31 December 2008, all the outstanding Long Term Incentive Plan awards had vested and none remain outstanding. The performance target of the LTIP awarded on 15 March 2005 was met such that 76.48 per cent of the awards vested to participants in March 2008.

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 Schemes (ESOS) and Sharesave scheme as at 31 December 2008 are shown below

	As at 1 January 2008 Number	Granted during the year Number	Exercised during the year Number	Options lapsing during the year Number	As at 31 December 2008 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	125.2	17/10/05	17/10/12	128.0
ESOS 2003	60,709	-	-	-	60,709	163.4	01/07/06	01/07/13	159.0
ESOS 2004	53,894	-	-	-	53,894	184.9	31/03/07	31/03/14	187.0
David Hurcomb									
ESOS 2005	30,895	-	-	-	30,895	242.75	15/03/08	15/03/15	244.5
Sharesave 2006	840	-	-	-	840	337.5	01/02/10	30/07/10	385.0

(i) 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. With regard to the options granted on 1 July 2003, 31 March 2004 and 15 March 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.

- (ii) At 31 December 2008, Executive Share Options were outstanding over 1,754,361 shares (2007: 2,073,978 shares) under both schemes at exercise prices ranging from 125.2 pence to 242.75 pence.
- (iii) The option over 254,532 shares at an option price of 210.7 pence granted to John McDonough in March 2002 under the ESOS1999 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.
- (iv) David Hurcomb has an option under the Sharesave Scheme which was applied for prior to him being appointed an Executive Director. The option may normally be exercised on completion of a three year savings contract, at the exercise price of 337.5 pence.
- (v) 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 2008, options over 1,684,664 ordinary shares of 50 pence each were outstanding under the Sharesave Scheme (2007: 2,167,635 ordinary shares of 50 pence each). Additionally and in accordance with the terms of the acquisition, a number of participants in the Alfred McAlpine Sharesave Scheme, rolled over into Carillion shares their five year Sharesave options granted on 27th August 2003 at the option price of 148.54 pence. At 31 December 2008, options over 328,913 ordinary shares of 50 pence each were outstanding.
- (vi) The auditors are required to report on the information contained in the above table.

Remuneration report

continued

There have been no changes to the interests of Executive Directors in share incentives and options in the period 1 January to 4 March 2009

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 2008 are shown below

Fully paid 50p ordinary shares owned	As at 1 January 2008 Number	As at 31 December 2008 Number
Executive Director		
Richard Adam	15,044	15,647
David Hurcomb	5,000	11,254
Don Kenny	48,832	88,153
John McDonough	651,271	794,083
Roger Robinson	96,941	168,439
Non-Executive Directors		
David Garman	14,300	14,300
David Maloney	10,000	10,000
Steve Mogford	–	–
Vanda Murray	11,000	12,300
Philip Rogerson	29,630	39,630

There has been no change in Directors' interests in the period 1 January to 4 March 2009

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 2008, 1,257,104 shares were issued to the Trust. At 31 December 2008 the Trust held 419,827 Carillion shares (2007: 61,909 shares) 0.11 per cent of the issued share capital and a nominal value of £0.2 million (2007: 0.02 per cent and £31,000) acquired over a period in the open market and which have a carrying value of £1.3 million (2007: £0.7 million). The market value of the shares held at 31 December 2008 was £1.0 million (2007: £0.2 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 2008, the QUEST held 8,904 Carillion shares (2007: 219,763 shares) 0.002 per cent of the issued share capital and a nominal value of £4,000 (2007: 0.08 per cent and £0.1 million) 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 2008 was £22,100 (2007: £0.8 million).

For details of dividends paid to the above trusts see Note 25 to the consolidated financial statements on page 93.

The closing mid-market price of Carillion shares at 31 December 2008 and the highest and lowest mid-market prices during the year were as follows:

	Share price Pence
31 December 2008	248.0
High (1 April)	402.0
Low (28 October)	178.5

Approved by order of the Board

D N C Garman

Chairman of the Remuneration Committee
4 March 2009

Statement of Directors' responsibilities in respect of the annual report and financial statements

The Directors are responsible for preparing the annual report and the Group and Parent Company financial statements, in accordance with applicable law and regulations

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

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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.

Independent auditors' report to the members of Carillion plc

We have audited the Group and Parent Company financial statements (the financial statements) of Carillion plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we may state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company financial statements and the Remuneration report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 59.

Our responsibility is to audit the financial statements and the part of the Remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross-referred from the Principal Activities and Business Review section of the Directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the International Standards for Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration report to be audited.

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation
- the Parent Company financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008
- the Parent Company financial statements and the part of the Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985
- the information given in the Directors' report is consistent with the financial statements



KPMG Audit Plc
Chartered Accountants
Registered Auditor
2 Cornwall St
Birmingham
B3 2DL

4 March 2009

55%

Growth in underlying profit
before tax to £157.5m

05

Financial statements

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Carillion has long term contracts with the Highways Agency and Local Highways Authorities for the maintenance and management of around 20,000 kilometres of the UK road network. Our services include all routine maintenance activities as well as

Consolidated income statement

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Continuing operations			
Total revenue		5,205 8	3,951 7
Less: Share of jointly controlled entities' revenue		(772 0)	(621 0)
Group revenue	2	4,433 8	3,330 7
Cost of sales		(4,069 4)	(3,092 0)
Gross profit		364 4	238 7
Administrative expenses		(329 8)	(219 5)
Other operating income		8 3	9 5
Group operating profit		42 9	28 7
Analysed between:			
Group operating profit before intangible amortisation, impairment of other investments, curtailment gain and restructuring costs		120 1	64 4
Intangible amortisation and impairment of other investments	4	(54 5)	(21 5)
Curtailment gain	5	35 5	–
Restructuring costs	5	(58 2)	(14 2)
Share of results of jointly controlled entities	2	45 1	36 8
Analysed between:			
Operating profit		74 0	55 7
Net financial expense		(18 2)	(9 9)
Taxation		(10 7)	(9 0)
Profit from operations		88 0	65 5
Analysed between:			
Profit from operations before intangible amortisation, impairment of other investments, curtailment gain and restructuring costs		165 2	101 2
Intangible amortisation and impairment of other investments	4	(54 5)	(21 5)
Curtailment gain	5	35 5	–
Restructuring costs	5	(58 2)	(14 2)
Non-operating items	5	35 6	28 3
Net financial (expense)/income	6	(7 7)	0 6
Financial income		137 4	99 8
Financial expense		(145 1)	(99 2)
Profit before taxation		115 9	94 4
Analysed between:			
Profit before taxation, intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and non-operating items		157 5	101 8
Intangible amortisation and impairment of other investments	4	(54 5)	(21 5)
Curtailment gain	5	35 5	–
Restructuring costs	5	(58 2)	(14 2)
Non-operating items	5	35 6	28 3
Taxation	8	(4 1)	(8 3)
Profit from continuing operations		111 8	86 1
Discontinued operations	9	–	(7 6)
Profit for the year		111 8	78 5
Profit attributable to:			
Equity holders of the parent		108 3	76 0
Minority interests		3 5	2 5
Profit for the year		111 8	78 5
Earnings per share	10		
From continuing operations:			
Basic		28 4p	29 8p
Diluted		28 2p	29 5p
From continuing and discontinued operations:			
Basic		28 4p	27 1p
Diluted		28 2p	26 8p

Consolidated balance sheet
As at 31 December 2008

	Note	2008 £m	2007 £m
Assets			
Non-current assets			
Property, plant and equipment	12	167 2	131 5
Intangible assets	13	1,267 5	555 8
Retirement benefit assets	33	38 6	17 3
Investments in jointly controlled entities	14	238 6	185 9
Other investments	15	–	14 5
Deferred tax assets	16	98 3	9 3
Total non-current assets		1,810 2	914 3
Current assets			
Inventories	17	44 6	30 5
Trade and other receivables	19	1,186 8	858 7
Cash and cash equivalents	20	257 3	327 5
Income tax receivable		0 6	2 2
Derivative financial instruments	29	1 1	–
Total current assets		1,490 4	1,218 9
Total assets		3,300 6	2,133 2
Liabilities			
Current liabilities			
Borrowing	21	(58 0)	(13 9)
Derivative financial instruments	29	–	(0 7)
Trade and other payables	22	(1,721 8)	(1,175 7)
Provisions	23	(23 4)	(6 9)
Income tax payable		(3 1)	(2 3)
Total current liabilities		(1,806 3)	(1,199 5)
Non-current liabilities			
Borrowing	21	(426 0)	(358 5)
Retirement benefit liabilities	33	(127 7)	(41 6)
Deferred tax liabilities	16	(60 0)	(24 0)
Provisions	23	(8 0)	(6 7)
Total non-current liabilities		(621 7)	(430 8)
Total liabilities		(2,428 0)	(1,630 3)
Net assets		872 6	502 9
Equity			
Issued share capital	24	197 8	140 6
Share premium	25	12 9	8 6
Other reserves	25	431 2	150 0
Retained earnings	25	227 3	202 4
Equity attributable to shareholders of the parent	26	869 2	501 6
Minority interests	25	3 4	1 3
Total equity	25	872 6	502 9

The financial statements were approved by the Board of Directors on 4 March 2009 and were signed on its behalf by



Richard Adam FCA
Group Finance Director

Consolidated cash flow statement

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Continuing operations			
Cash flows from operating activities			
Group operating profit		42.9	28.7
Depreciation, amortisation and impairment		86.5	46.8
Profit on disposal of property, plant and equipment		(8.3)	(9.5)
Share-based payment expense		3.4	2.8
Curtailment gain		(35.5)	–
Other non-cash movements		(7.9)	(2.7)
Restructuring costs		58.2	14.2
Operating profit before changes in working capital		139.3	80.3
Decrease in inventories		4.1	7.2
Increase in trade and other receivables		(130.1)	(2.9)
Increase in trade and other payables		160.0	27.4
Cash generated from operations before pension deficit recovery payments and restructuring costs		173.3	112.0
Deficit recovery payments to pension schemes		(50.5)	(46.3)
Restructuring costs		(32.4)	(6.5)
Cash generated from operations		90.4	59.2
Financial income received		17.1	13.7
Financial expense paid		(36.6)	(19.9)
Taxation		4.7	4.4
Net cash flows from operating activities		75.6	57.4
Cash flows from investing activities			
Disposal of property, plant and equipment		20.5	29.5
Disposal of investments in jointly controlled entities		85.8	22.0
Dividends received from jointly controlled entities		25.0	23.7
Disposal of businesses, net of cash disposed of	32	–	8.2
Acquisition of subsidiaries, net of cash acquired	32	(138.2)	–
Acquisition of intangible assets		(2.7)	(1.6)
Acquisition of property, plant and equipment		(44.2)	(23.5)
Acquisition of equity in and loan advances to jointly controlled entities		(28.4)	(19.6)
Acquisition of other non-current asset investments		(1.7)	(1.0)
Net cash flows from investing activities		(83.9)	37.7
Cash flows from financing activities			
Proceeds from issue of share capital		0.3	–
(Repayment)/draw down of bank and other loans		(7.8)	116.5
Payment of finance lease liabilities		(16.3)	(10.9)
Dividends paid to equity holders of the parent		(45.8)	(26.4)
Dividends paid to minority interests		(1.6)	(2.2)
Net cash flows from financing activities		(71.2)	77.0
Net (decrease)/increase in cash and cash equivalents from continuing operations		(79.5)	172.1
Discontinued operations			
Increase in cash and cash equivalents from discontinued operations	9	–	12.4
Net (decrease)/increase in cash and cash equivalents		(79.5)	184.5
Cash and cash equivalents at 1 January		323.8	141.4
Effect of exchange rate fluctuations on cash held		5.7	(2.1)
Cash and cash equivalents at 31 December	20	250.0	323.8

Reconciliation of net cash flow to movement in net borrowing

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
(Decrease)/increase in cash and cash equivalents		(79 5)	184 5
Repayment/(draw down) of bank and other loans		7 8	(116 5)
Payment of finance lease liabilities		16 3	10 9
(Increase)/decrease in net borrowing resulting from cash flows		(55 4)	78 9
Net borrowing in subsidiaries acquired		(143 2)	–
Loan notes issued on acquisition of Alfred McAlpine		(1 3)	–
Finance lease additions		(2 1)	(5 5)
Finance lease disposals		7 3	–
Currency translation differences		12 9	(10 3)
Change in net borrowing during the year		(181 8)	63 1
Net borrowing at 1 January		(44 9)	(108 0)
Net borrowing at 31 December	20	(226 7)	(44 9)

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

	Note	2008 £m	2007 £m
Net loss on hedge of net investment in foreign operations		(8 9)	(2 7)
Currency translation differences on foreign operations		8 9	2 6
Currency translation differences relating to minority interests		0 2	–
Actuarial (losses)/gains on defined benefit pension schemes	33	(107 4)	30 2
		(107 2)	30 1
Taxation in respect of the above	8	31 9	(8 3)
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)		10 4	–
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)		(13 1)	(5 3)
Income and expense recognised directly in equity		(78 0)	16 5
Profit for the year		111 8	78 5
Total recognised income and expense for the year		33 8	95 0
Attributable to			
Equity holders of the parent		30 1	92 5
Minority interests		3 7	2 5
Total recognised income and expense for the year		33 8	95 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 2008 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 4 March 2009.

Statement of compliance

The Group's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (EU) ('Adopted IFRSs'). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 113 to 120.

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

The following interpretation has been endorsed by the EU by the year end and is effective for the year ending 31 December 2008:

- International Financial Reporting Interpretations Committee 11 'Group and treasury share transactions'

This interpretation has no impact on the Group's financial statements.

The following standards and interpretations have been endorsed by the EU by the year end but are not yet effective for the year ending 31 December 2008:

- Amendments to International Accounting Standard 1 'Presentation of financial statements – A revised presentation'
- Revised International Accounting Standard 23 'Borrowing costs'
- International Financial Reporting Standard 8 – 'Operating segments'
- International Financial Reporting Interpretations Committee 14 'The limit on a defined benefit asset, minimum funding requirements and their interaction'

The following interpretation is effective for the year ended 31 December 2008 but has not yet been endorsed by the EU:

- International Financial Reporting Interpretations Committee 12 'Service concession arrangements'

The following standards and interpretations are effective for the year ended 31 December 2009 but have not yet been endorsed by the EU:

- Revised International Financial Reporting Standard 3 'Business combinations'
- 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 reported profit and net assets. The only impact of the above presently identified is in relation to International Financial Reporting Interpretations Committee 14, which is expected to reduce net assets at 1 January 2009 by £14.4 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 2008. 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 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 jointly controlled entities 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:

- Modern Housing Solutions (Prime) Ltd

This entity has a 31 March year end, and the results are included in the Group accounts based on management accounts, prepared for the 12 months to 31 December 2008.

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

1. Significant accounting policies(continued)

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 recognised income and expense. Dividend income from investments is recognised when the right to receive payment is established.

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 GAAP.

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-five years

Customer contracts and lists

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

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

Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance

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.

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. 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.

Notes to the consolidated financial statements

continued

1 Significant accounting policies (continued)

Revenue recognition

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

Property, plant and equipment

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

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

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

Leasing

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

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

Inventories

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

Taxation

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

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

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

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 borrowing 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 International Accounting Standard 19 'Retirement benefits' 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.

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 to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. 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 recognised income and expense in the year.

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

1 Significant accounting policies(continued)

(b) Other post-retirement benefit obligations

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

(c) Share-based payments

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

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

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 (PPP) 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 is 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) Trade receivables

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

(b) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at fair value. 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.

(c) Trade payables

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

(d) Bank and other borrowing

Interest-bearing bank loans and overdrafts and other loans are recognised initially at fair value less attributable transaction costs. All borrowing is 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.

(e) 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.

Notes to the consolidated financial statements

continued

2 Segmental reporting

Segment information is presented in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

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.

Business segments

The Group is comprised of the following main business 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 investment in Public Private Partnership projects in our chosen sectors of Defence, Health, Education, Transport, Secure and other Government accommodation.

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

Segmental revenue and profit

	Year ended 31 December 2008					
	Revenue			Operating profit before intangible amortisation, impairment, curtailment gain and restructuring costs		
	UK, Canada and the Caribbean ⁽¹⁾ £m	Middle East £m	Total £m	UK, Canada and the Caribbean ⁽¹⁾ £m	Middle East £m	Total £m
Continuing operations						
Support services						
Group	2,227.1	–	2,227.1	99.5	–	99.5
Share of jointly controlled entities	227.0	9.4	236.4	13.4	0.6	14.0
	2,454.1	9.4	2,463.5	112.9	0.6	113.5
Inter-segment	124.3	–	124.3	–	–	–
Total	2,578.4	9.4	2,587.8	112.9	0.6	113.5
Public private partnership projects						
Group	0.9	–	0.9	(0.2)	–	(0.2)
Share of jointly controlled entities	177.5	–	177.5	30.0	–	30.0
	178.4	–	178.4	29.8	–	29.8
Inter-segment	–	–	–	–	–	–
Total	178.4	–	178.4	29.8	–	29.8
Construction services						
Group	2,094.1	111.7	2,205.8	26.8	6.4	33.2
Share of jointly controlled entities	5.6	352.5	358.1	1.9	28.1	30.0
	2,099.7	464.2	2,563.9	28.7	34.5	63.2
Inter-segment	39.5	–	39.5	–	–	–
Total	2,139.2	464.2	2,603.4	28.7	34.5	63.2
Group eliminations and unallocated items	(163.8)	–	(163.8)	(12.4)	–	(12.4)
Consolidated						
Group	4,322.1	111.7	4,433.8	113.7	6.4	120.1
Share of jointly controlled entities	410.1	361.9	772.0	45.3	28.7	74.0
Total	4,732.2	473.6	5,205.8	159.0	35.1	194.1

(1) Includes Rest of the World

2 Segmental reporting (continued)

Segmental revenue and profit (continued)

Year ended 31 December 2007						
	Revenue			Operating profit before intangible amortisation, impairment, curtailment gain and restructuring costs		
	UK, Canada and the Caribbean ⁽¹⁾ £m	Middle East £m	Total £m	UK, Canada and the Caribbean ⁽¹⁾ £m	Middle East £m	Total £m
Continuing operations						
Support services⁽²⁾						
Group	1,569.4	–	1,569.4	62.4	–	62.4
Share of jointly controlled entities	218.8	5.4	224.2	11.0	0.5	11.5
	1,788.2	5.4	1,793.6	73.4	0.5	73.9
Inter-segment	64.7	–	64.7	–	–	–
Total	1,852.9	5.4	1,858.3	73.4	0.5	73.9
Public private partnership projects						
Group	0.9	–	0.9	0.7	–	0.7
Share of jointly controlled entities	153.2	–	153.2	24.7	–	24.7
	154.1	–	154.1	25.4	–	25.4
Inter-segment	–	–	–	–	–	–
Total	154.1	–	154.1	25.4	–	25.4
Construction services						
Group	1,660.4	100.0	1,760.4	12.3	9.6	21.9
Share of jointly controlled entities	6.6	237.0	243.6	3.7	15.8	19.5
	1,667.0	337.0	2,004.0	16.0	25.4	41.4
Inter-segment	32.0	–	32.0	–	–	–
Total	1,699.0	337.0	2,036.0	16.0	25.4	41.4
Group eliminations and unallocated items	(96.7)	–	(96.7)	(20.6)	–	(20.6)
Consolidated						
Group	3,230.7	100.0	3,330.7	54.8	9.6	64.4
Share of jointly controlled entities	378.6	242.4	621.0	39.4	16.3	55.7
Total	3,609.3	342.4	3,951.7	94.2	25.9	120.1

(1) Includes Rest of the World

(2) Support services excludes the results of discontinued operations as disclosed in note 9

Notes to the consolidated financial statements

continued

2 Segmental reporting (continued)

Segmental revenue and profit (continued)

	2008 £m	2007 £m
Group and share of jointly controlled entities' operating profit before intangible amortisation, impairment of other investments, curtailment gain and restructuring costs	194 1	120 1
Net financial (expense)/income		
– Group	(7 7)	0 6
– Share of jointly controlled entities	(18 2)	(9 9)
Share of jointly controlled entities' taxation	(10 7)	(9 0)
Underlying profit before taxation from continuing operations	157 5	101 8
Intangible amortisation and impairment of other investments ⁽¹⁾	(54 5)	(21 5)
Curtailment gain ⁽¹⁾	35 5	–
Restructuring costs ⁽¹⁾	(58 2)	(14 2)
Non-operating items ⁽¹⁾	35 6	28 3
Profit before taxation from continuing operations	115 9	94 4
Taxation	(4 1)	(8 3)
Profit from continuing operations	111 8	86 1
Discontinued operations	–	(7 6)
Analysed between		
Trading loss from discontinued operations	–	(1 4)
Loss on disposal of discontinued operations	–	(6 2)
Profit for the year	111 8	78 5

⁽¹⁾ Intangible amortisation and impairment, curtailment gain, restructuring costs and non-operating items arise in the following segments

	2008				2007		
	Intangible amortisation and impairment £m	Curtailment gain £m	Restructuring costs £m	Non- operating items £m	Intangible amortisation and impairment £m	Restructuring costs £m	Non- operating items £m
Support services	(31 5)	–	(17 5)	–	(13 9)	(0 5)	–
Public Private Partnership projects	(11 7)	–	(0 4)	35 6	(1 9)	–	24 1
Construction services	(11 3)	–	(21 1)	–	(4 2)	–	4 2
Unallocated Group items	–	35 5	(19 2)	–	(1 5)	(13 7)	–
Total	(54 5)	35 5	(58 2)	35 6	(21 5)	(14 2)	28 3

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

	2008		2007	
	Depreciation, amortisation and impairment £m	Capital expenditure £m	Depreciation amortisation and impairment £m	Capital expenditure £m
Support services	50 2	17 1	28 3	15 0
Public Private Partnership projects	11 7	–	1 9	–
Construction services	15 0	8 8	7 5	4 2
Unallocated Group items	9 6	23 1	9 1	11 2
Total	86 5	49 0	46 8	30 4

2 Segmental reporting (continued)

The share of results of jointly controlled entities arises in the following segments

	2008 £m	2007 £m
Support services	10 3	8 5
Public Private Partnership projects	8 2	9 4
Construction services	26 6	18 9
	45 1	36 8

Segmental net assets

	2008			2007		
	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	977 3	–	977 3	286 6	–	286 6
Operating assets	541 2	–	541 2	429 7	–	429 7
Investments in jointly controlled entities	9 8	–	9 8	4 4	–	4 4
Total operating assets	1,528 3	–	1,528 3	720 7	–	720 7
Total operating liabilities	–	(651 9)	(651 9)	–	(392 4)	(392 4)
Net operating assets/(liabilities)	1,528 3	(651 9)	876 4	720 7	(392 4)	328 3
Public Private Partnership projects						
Operating assets	2 5	–	2 5	7 8	–	7 8
Investments in jointly controlled entities	136 8	–	136 8	134 9	–	134 9
Total operating assets	139 3	–	139 3	142 7	–	142 7
Total operating liabilities	–	(9 2)	(9 2)	–	(10 0)	(10 0)
Net operating assets/(liabilities)	139 3	(9 2)	130 1	142 7	(10 0)	132 7
Construction services						
Intangible assets	283 9	–	283 9	264 4	–	264 4
Operating assets	700 9	–	700 9	486 0	–	486 0
Investments in jointly controlled entities	92 0	–	92 0	46 6	–	46 6
Total operating assets	1,076 8	–	1,076 8	797 0	–	797 0
Total operating liabilities	–	(987 2)	(987 2)	–	(678 2)	(678 2)
Net operating assets/(liabilities)	1,076 8	(987 2)	89 6	797 0	(678 2)	118 8
Consolidated before Group items						
Intangible assets	1,261 2	–	1,261 2	551 0	–	551 0
Operating assets	1,244 6	–	1,244 6	923 5	–	923 5
Investments in jointly controlled entities	238 6	–	238 6	185 9	–	185 9
Total operating assets	2,744 4	–	2,744 4	1,660 4	–	1,660 4
Total operating liabilities	–	(1,648 3)	(1,648 3)	–	(1,080 6)	(1,080 6)
Net operating assets/(liabilities) before Group items	2,744 4	(1,648 3)	1,096 1	1,660 4	(1,080 6)	579 8
Group items						
Deferred tax	98 3	(60 0)	38 3	9 3	(24 0)	(14 7)
Net borrowing	257 3	(484 0)	(226 7)	327 5	(372 4)	(44 9)
Retirement benefits (gross of taxation)	38 6	(127 7)	(89 1)	17 3	(41 6)	(24 3)
Income tax	0 6	(3 1)	(2.5)	2 2	(2 3)	(0 1)
Other	161 4	(104 9)	56 5	116 5	(109 4)	7 1
Net assets/(liabilities)	3,300 6	(2,428 0)	872.6	2,133 2	(1,630 3)	502 9

Notes to the consolidated financial statements

continued

2 Segmental reporting (continued)

Geographic segments

	2008 £m	2007 £m
United Kingdom		
Total revenue from external customers	4,377.1	3,385.4
Less: share of jointly controlled entities' revenue	(359.8)	(334.7)
Group revenue from external customers	4,017.3	3,050.7
Total operating assets	2,398.7	1,361.9
Capital expenditure	37.1	22.1
Middle East		
Total revenue from external customers	473.6	342.4
Less: share of jointly controlled entities' revenue	(361.9)	(242.4)
Group revenue from external customers	111.7	100.0
Total operating assets	71.6	75.6
Capital expenditure	4.1	2.2
Canada and the Caribbean		
Total revenue from external customers	301.8	186.0
Less: share of jointly controlled entities' revenue	(7.5)	(7.5)
Group revenue from external customers	294.3	178.5
Total operating assets	216.0	146.9
Capital expenditure	7.7	5.9
Rest of the World		
Total revenue from external customers	53.3	37.9
Less: share of jointly controlled entities' revenue	(42.8)	(36.4)
Group revenue from external customers	10.5	1.5
Total operating assets	58.1	76.0
Capital expenditure	0.1	0.2
Consolidated		
Total revenue from external customers	5,205.8	3,951.7
Less: share of jointly controlled entities' revenue	(772.0)	(621.0)
Group revenue from external customers	4,433.8	3,330.7
Total operating assets	2,744.4	1,660.4
Capital expenditure	49.0	30.4

3. Group operating profit

	2008 £m	2007 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment ⁽¹⁾	30 6	24 3
Amortisation of intangible assets	44 2	20 6
Impairment of other non-current asset investments	11 7	1 9
Other operating income – profit on disposal of property, plant and equipment	(8 3)	(9 5)
Operating lease charges	106 0	81 6
Foreign exchange gains	(6 7)	(5 6)
Auditors' remuneration		
Fees payable to the Company's auditor for the audit of the annual accounts	0 4	0 4
Fees payable to the Company's auditor and its associates for other services		
– Audit of the Company's subsidiaries, pursuant to legislation	1 2	1 1
– Other services pursuant to legislation	0 2	–
– Taxation services	0 4	0 3
Fees in respect of Group pension schemes		
– Audit	0 1	0 1

(1) Excludes depreciation in 2007 of £0 4 million relating to discontinued operations

In addition to the above amounts included in operating profit, KPMG Audit Plc were paid fees in 2008 associated with the acquisition of Alfred McAlpine of £0 8 million (2007 Nil) and the acquisition of the Vanbots Group of £0 1 million (2007 Nil). Such fees are treated as attributable costs of acquisition.

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 (2007 £0 1 million).

4 Intangible amortisation and impairment of other investments

Amortisation and impairment costs

	2008 £m	2007 £m
Amortisation of intangible assets arising from business combinations	42 8	19 6
Impairment of other investments	11 7	1 9
	54 5	21 5

Amortisation for 2008 includes £24 7 million relating to the acquisition of Alfred McAlpine.

Following the project being placed in administration, an impairment charge of £11 7 million (2007 £1 9 million) has been recognised in 2008 in relation to the Alice Springs to Darwin railway investment which is classified as part of other investments in the balance sheet.

Notes to the consolidated financial statements

continued

5 Curtailment gain, restructuring costs and non-operating items

Curtailment gain

As part of the Group's strategy for managing defined benefit pension scheme risk, a number of defined benefit pension schemes will close to future accrual on 5 April 2009 following the completion of the consultation process in December 2008 resulting in a curtailment gain of £35.5 million (net of expenses of £2.8 million). A deferred tax charge relating to the curtailment gain of £9.9 million has been included within taxation in the income statement.

Restructuring costs

	2008 £m	2007 £m
Alfred McAlpine integration and re-organisation costs	55.0	–
Vanbots Group integration and re-organisation costs	3.2	–
Mowlem integration and re-organisation costs	–	9.5
Operational structure review costs	–	4.5
Rail activities review costs	–	0.2
	58.2	14.2

Alfred McAlpine and the Vanbots Group integration and re-organisation 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 during the year.

An income tax credit of £16.5 million (2007: £2.7 million) relating to the above restructuring costs has been included within taxation in the income statement.

Non-operating items

	2008 £m	2007 £m
Profit on disposal of investments in jointly controlled entities	35.6	24.5
Profit on disposal of businesses	–	3.7
Other	–	0.1
	35.6	28.3

Further disclosure on the Group's sale of investments in jointly controlled entities during 2008 can be found in note 32.

There is no income tax associated with any of the non-operating items in either 2008 or 2007.

6 Financial income and expense

	2008 £m	2007 £m
Financial income		
Bank interest receivable	7.3	5.1
Other interest receivable	9.8	8.6
Expected return on retirement plan assets	120.3	86.1
	137.4	99.8
Financial expense		
Interest payable on bank loans and overdrafts	(25.9)	(15.4)
Other interest payable and similar charges	(11.5)	(4.5)
Interest cost on retirement plan obligations	(107.7)	(79.3)
	(145.1)	(99.2)
Net financial (expense)/income	(7.7)	0.6

Other interest payable and similar charges includes finance lease charges of £4.6 million (2007: £2.8 million).

7 Payroll costs and employee numbers

	2008 £m	2007 £m
Wages and salaries	869.6	649.9
Social security costs	87.5	63.4
Pension (income)/costs	(2.5)	29.3
Equity settled transactions	3.4	2.8
	958.0	745.4

Pension (income)/costs represent amounts in respect of the Group's UK and overseas schemes as described in note 33 and includes a curtailment gain of £38.3 million (2007: Nil) and a charge of £10.5 million (2007: £5.4 million) in respect of defined contribution schemes

Detailed information concerning Directors' remuneration, including their pension benefits and long term incentive arrangements, is set out in the Remuneration report on pages 51 to 58

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

	2008 Number	2007 Number
Support services	23,026	18,495
Public Private Partnership projects	46	41
Construction services	12,189	11,818
Corporate centre	378	392
	35,639	30,746
UK	27,541	23,434
Overseas	8,098	7,312
	35,639	30,746

In addition to the above there are 22,839 staff (2007: 24,727) employed within the Group's jointly controlled entities located in the Middle East

8 Income tax Recognised in the income statement

	2008 £m	2007 £m
Current tax expense		
Current year		
– UK	2.6	(7.4)
– Overseas	2.9	3.0
Adjustments for prior years		
– UK	0.3	(9.0)
– Overseas	(1.8)	(1.3)
Total current tax	4.0	(14.7)
Deferred tax expense		
Origination and reversal of temporary differences	6.9	21.5
Adjustments for prior years	(6.8)	2.3
Change in tax rate	–	(0.8)
Total deferred tax	0.1	23.0
Total income tax expense in the income statement	4.1	8.3

Notes to the consolidated financial statements

continued

8 Income tax (continued)

Reconciliation of effective tax rate

	2008 £m	2007 £m
Profit before tax	115.9	94.4
Tax of jointly controlled entities	10.7	9.0
	126.6	103.4
Income tax at UK standard corporation tax rate of 28.5% (2007: 30%)	36.1	31.0
Permanent differences	1.4	4.5
Unrelieved trade losses	1.1	4.0
Capital items not taxable	(8.3)	(11.5)
Amortisation of intangible assets	(0.2)	0.3
Effect of tax losses utilised	(1.1)	(2.1)
Effect of tax rates in foreign jurisdictions	(1.9)	(0.1)
Over provided in prior years	(8.3)	(8.0)
Change in rate	–	(0.8)
Recognition of deferred tax on prior year losses	(4.0)	–
Total tax (including tax of jointly controlled entities)	14.8	17.3
Tax of jointly controlled entities	(10.7)	(9.0)
Group income tax expense	4.1	8.3

The release of the over-provision relating to prior years of £8.3 million (2007: £8.0 million) is 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

	2008 £m	2007 £m
Deferred tax on actuarial gains and losses on defined benefit pension schemes	(30.0)	9.1
Current tax on foreign exchange translation adjustments	(1.9)	(0.8)
Tax recognised in statement of recognised income and expense	(31.9)	8.3
Deferred tax on equity settled transactions	1.0	0.8
Total tax recognised in equity	(30.9)	9.1

9. Discontinued operations

The Group disposed of non-core rail activities in Sweden and Denmark in July 2007 and Pall Mall Holdings Limited and Sovereign Soft Services Limited in September 2007.

These operations, which were previously reported in the Support services segment, were classified as discontinued operations in 2007 and their results were as follows:

	2008 £m	2007 £m
Revenue	–	64.9
Cost of sales	–	(59.5)
Gross profit	–	5.4
Administrative expenses	–	(6.6)
Loss before tax	–	(1.2)
Taxation	–	(0.2)
Trading loss for the year	–	(1.4)
Loss on disposal	–	(6.2)
Loss from discontinued operations	–	(7.6)

The net cash flows relating to discontinued operations were as follows:

	2008 £m	2007 £m
Net cash outflow from operating activities	–	(9.3)
Net cash inflow from investing activities	–	21.7

10 Earnings per share

(a) Basic earnings per share

The calculation of earnings per share for the year ended 31 December 2008 is based on the profit attributable to equity holders of the parent of £108.3 million (2007: £76.0 million) and a weighted average number of ordinary shares in issue of 381.7 million (2007: 280.6 million), calculated as follows:

In millions of shares	2008	2007
Issued ordinary shares at 1 January	281.2	281.2
Effect of shares issued in the year	101.0	–
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust	(0.5)	(0.6)
Weighted average number of ordinary shares at 31 December	381.7	280.6

(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.

	2008		2007	
	Profit before tax £m	Tax £m	Profit before tax £m	Tax £m
Profit before taxation – continuing operations				
Profit before taxation as reported in the income statement	115.9	4.1	94.4	8.3
Amortisation of intangible assets arising from business combinations	42.8	12.2	19.6	7.3
Impairment of other investments	11.7	–	1.9	–
Curtailment gain	(35.5)	(9.9)	–	–
Restructuring costs	58.2	16.5	14.2	2.7
Profit on disposal of investments and businesses	(35.6)	–	(28.3)	–
Underlying profit before taxation – continuing operations	157.5	22.9	101.8	18.3
Underlying taxation	(22.9)	–	(18.3)	–
Minority interests	(3.5)	–	(2.5)	–
Underlying profit attributable to shareholders – continuing operations	131.1	–	81.0	–
Underlying loss attributable to shareholders – discontinued operations	–	–	(7.6)	–
Underlying profit attributable to shareholders – continuing and discontinued operations	131.1	–	73.4	–

	2008 Pence per share	2007 Pence per share
Earnings per share		
Basic earnings per share – continuing and discontinued operations	28.4	27.1
Amortisation of intangible assets arising from business combinations	8.0	4.4
Impairment of other investments	3.1	0.7
Curtailment gain	(6.7)	–
Restructuring costs	10.9	4.1
Profit on disposal of investments and businesses	(9.4)	(10.1)
Underlying basic earnings per share – continuing and discontinued operations	34.3	26.2
Discontinued operations	–	2.7
Underlying basic earnings per share – continuing operations	34.3	28.9
Diluted earnings per share – discontinued operations	–	(2.7)

(c) Diluted earnings per share

The calculation of diluted earnings per share is based on profit as shown in note 10(a) and (b) and a weighted average number of ordinary shares outstanding calculated as follows:

In millions of shares	2008	2007
Weighted average number of ordinary shares	381.7	280.6
Effect of share options in issue	2.8	3.0
Weighted average number of ordinary shares (diluted) at 31 December	384.5	283.6

Notes to the consolidated financial statements

continued

11 Dividends

The following dividends were paid by the Company

	2008		2007	
	£m	Pence per share	£m	Pence per share
Previous year final dividend	29.6	7.5	16.6	5.9
Current year interim dividend	16.2	4.1	9.8	3.5
	45.8	11.6	26.4	9.4

The following dividends were proposed by the Company

	2008		2007	
	£m	Pence per share	£m	Pence per share
Interim	16.2	4.1	9.8	3.5
Final	35.2	8.9	29.6	7.5
	51.4	13.0	39.4	11.0

The final dividend for 2008 of 8.9 pence per share was approved by the Board on 4 March 2009 and will be paid on 19 June 2009 to shareholders on the register on 24 April 2009

12 Property, plant and equipment

	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 32)	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 32

Included in the net book value of plant, equipment and vehicles is £47.7 million (2007: £40.9 million) in respect of assets held under finance leases and hire purchase contracts. The leased equipment secures lease obligations as disclosed in note 21.

12 Property, plant and equipment (continued)

	Land and buildings £m	Plant equipment and vehicles £m	Total £m
Cost			
At 1 January 2007	29.3	127.6	156.9
Additions	3.6	25.5	29.1
Disposals	(17.5)	(41.9)	(59.4)
Reclassification from intangible assets	2.6	(1.3)	1.3
Effect of movements in foreign exchange rates	0.8	9.5	10.3
At 31 December 2007	18.8	119.4	138.2
Depreciation and impairment losses			
At 1 January 2007	4.8	5.5	10.3
Depreciation charge for the year	2.2	22.5	24.7
Disposals	(5.0)	(26.2)	(31.2)
Reclassification	0.2	(0.2)	—
Effect of movements in foreign exchange rates	0.3	2.6	2.9
At 31 December 2007	2.5	4.2	6.7
Net book value			
At 1 January 2007	24.5	122.1	146.6
At 31 December 2007	16.3	115.2	131.5

13 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 2008	466.4	122.6	589.0	10.4	599.4
Acquisitions (see note 32)	624.1	127.8	751.9	—	751.9
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	1,091.4	250.6	1,342.0	13.3	1,355.3
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	1,091.4	169.8	1,261.2	6.3	1,267.5

Goodwill of £624.1 million and customer contracts and lists of £127.8 million arose in the year on the acquisition of Alfred McAlpine and the Vanbots Group as disclosed in note 32. 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.

Notes to the consolidated financial statements

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13 Intangible assets (continued)

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
Cost					
At 1 January 2007	484.4	125.6	610.0	10.1	620.1
Additions	–	–	–	1.6	1.6
Disposals	(18.0)	(3.0)	(21.0)	(0.1)	(21.1)
Reclassification to property, plant and equipment	–	–	–	(1.3)	(1.3)
Effect of movements in foreign exchange rates	–	–	–	0.1	0.1
At 31 December 2007	466.4	122.6	589.0	10.4	599.4
Amortisation and impairment losses					
At 1 January 2007	–	19.3	19.3	4.7	24.0
Amortisation for the year	–	19.6	19.6	1.0	20.6
Disposals	–	(0.9)	(0.9)	(0.1)	(1.0)
At 31 December 2007	–	38.0	38.0	5.6	43.6
Net book value					
At 1 January 2007	484.4	106.3	590.7	5.4	596.1
At 31 December 2007	466.4	84.6	551.0	4.8	555.8

Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill

	2008 £m	As restated 2007 £m
Construction services segment		
Building	163.0	163.0
Infrastructure	70.0	70.0
Canada	10.0	–
	243.0	233.0
Support services segment		
Business services	796.3	181.3
Infrastructure services	52.1	52.1
	848.4	233.4
Total goodwill	1,091.4	466.4

Each year, 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.

Management consider Support services, Construction services, Public Private Partnership Projects and Head Office as distinct reporting segments. Goodwill has been allocated to the applicable cash generating units (CGUs), detailed above, within the Construction services and Support services reporting segments. 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.

13 Intangible assets (continued)

Following the re-organisation of Carillion in December 2007 and the Alfred McAlpine acquisition in February 2008 a number of our businesses were consolidated and, as a result, the CGUs previously reported in our 2007 financial statements have been reclassified to align to our new structure. The restructuring allowed a clear mapping of the previously reported CGUs to the new CGUs based upon managerial responsibility. The main effects of these changes were to consolidate Regional and National Building, now fully integrated as our Building CGU, Regional Civils was mapped to our infrastructure CGU, with rail and rail projects being consolidated into our new infrastructure services CGU and all facilities businesses including Citex and Planned Maintenance into our Business services CGU.

The Carillion and Alfred McAlpine businesses are an excellent strategic fit and combining them has created the UK's largest support services business, with enhanced positions in our chosen market sectors. The acquisition of Alfred McAlpine was a strategic decision which enabled the Group to significantly enhance our support services capabilities and to generate substantial cost savings in business services and therefore the entire goodwill arising on this acquisition has been allocated to the Business services CGU.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes in revenue and direct costs during the period. These assumptions have been reviewed in the light of the current economic environment which has resulted in more conservative estimates about the future. The impact of the current 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 0.9. A market premium of 9.0 per cent was used to calculate a pre-tax discount rate of 13.0 per cent for the CGUs in the Construction services segment. A market premium of 5.1 per cent was used to calculate a pre-tax discount rate of 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 the Infrastructure services CGU and growth expected in the Business services CGU segment at 5.0 per cent for the next five years, 2.5 per cent growth for years six to ten which reflects expected changes in Retail Price Index and no growth thereafter.

The Group prepares cash flow forecasts derived from the most recent annual financial budgets approved by management and extrapolates cash flows based upon the growth rates indicated above. The impairment tests at 31 December 2008 show that for the Business services CGU the number of years required to recover the carrying value was 15 years and in all other CGUs this is less than seven 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 acquisitions of Mowlem and Alfred McAlpine.

As at 31 December 2008, 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 £44.2 million (2007: £20.6 million) is recognised in administrative expenses in the income statement. Amortisation of the intangible assets of £119.0 million arising on the acquisition of Mowlem will be 79 per cent complete by 2016. The remaining amortisation charge will be incurred over the following 25 years. Amortisation of the intangible assets of £125.4 million arising on the acquisition of Alfred McAlpine will be 84 per cent complete by 2013 with the remaining amortisation charge continuing until 2019.

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continued

14 Investments in jointly controlled entities

	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 32)	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 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 the year, the Group disposed of a portfolio of PPP investments as disclosed in note 32.

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2007	117.9	42.7	160.6	1.1	161.7
Equity investments	7.7	–	7.7	–	7.7
Disposals	–	(7.5)	(7.5)	(1.1)	(8.6)
Net loans advanced	–	11.7	11.7	–	11.7
Effect of movements in foreign exchange rates	1.5	–	1.5	–	1.5
At 31 December 2007	127.1	46.9	174.0	–	174.0
Share of post acquisition results					
At 1 January 2007	18.2	–	18.2	–	18.2
Share of results for the year after taxation	36.8	–	36.8	–	36.8
Share of change in fair value of cash flow hedges (net of tax)	(5.3)	–	(5.3)	–	(5.3)
Distributions received	(38.0)	–	(38.0)	–	(38.0)
Disposals	0.1	–	0.1	–	0.1
Other movements	0.1	–	0.1	–	0.1
At 31 December 2007	11.9	–	11.9	–	11.9
Impairment losses					
At 1 January 2007	–	–	–	1.1	1.1
Disposals	–	–	–	(1.1)	(1.1)
At 31 December 2007	–	–	–	–	–
Net book value					
At 1 January 2007	136.1	42.7	178.8	–	178.8
At 31 December 2007	139.0	46.9	185.9	–	185.9

14 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 £1,550.3 million (2007: £1,683.1 million) are without recourse to the Carillon Group.

	2008			2007		
	PPP projects £m	Other £m	Total £m	PPP projects £m	Other £m	Total £m
Non-current assets	615.1	60.8	675.9	202.2	11.0	213.2
Cash	161.1	18.9	180.0	197.0	18.5	215.5
Other current assets	1,149.5	452.7	1,602.2	1,453.9	278.4	1,732.3
Share of gross assets	1,925.7	532.4	2,458.1	1,853.1	307.9	2,161.0
Current borrowing	(25.6)	(0.7)	(26.3)	(9.4)	(5.6)	(15.0)
Current liabilities	(129.9)	(398.6)	(528.5)	(66.7)	(239.1)	(305.8)
Non-current borrowing	(1,506.5)	(17.5)	(1,524.0)	(1,655.9)	(12.2)	(1,668.1)
Non-current liabilities	(154.8)	(13.8)	(168.6)	(0.1)	–	(0.1)
Provisions	(5.1)	–	(5.1)	(16.9)	–	(16.9)
Share of gross liabilities	(1,821.9)	(430.6)	(2,252.5)	(1,749.0)	(256.9)	(2,005.9)
Share of net assets excluding derivatives	103.8	101.8	205.6	104.1	51.0	155.1
Financial instrument derivatives	(18.8)	–	(18.8)	(16.1)	–	(16.1)
Share of net assets	85.0	101.8	186.8	88.0	51.0	139.0
Loan advances	51.8	–	51.8	46.9	–	46.9
Total investment in jointly controlled entities	136.8	101.8	238.6	134.9	51.0	185.9

Non-current assets and other current assets within PPP projects include cumulative capitalised interest amounting to £3.8 million (2007: £3.8 million) and £66.2 million (2007: £70.5 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', 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.

15 Other investments

	£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 at 31 December 2008 of £13.8 million relates to the non-quoted equity investment in the Alice Springs to Darwin railway. This investment has been fully impaired following the project being placed in administration, with the impairment charge in the year of £11.7 million (2007: £1.9 million) recognised in administrative expenses.

Notes to the consolidated financial statements

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15 Other investments (continued)

	£m
Fair value	
At 1 January 2007	15.2
Additions	1.6
Disposals	(0.3)
Effect of movements in foreign exchange rates	0.1
At 31 December 2007	16.6
Impairment losses	
At 1 January 2007	0.2
Impairment charge	1.9
At 31 December 2007	2.1
Net book value	
At 1 January 2007	15.0
At 31 December 2007	14.5

16 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	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Property, plant and equipment	18.9	3.4	–	–	18.9	3.4
Intangible assets	–	–	(47.3)	(23.5)	(47.3)	(23.5)
Other investments	–	–	–	(0.4)	–	(0.4)
Employee benefits	36.7	15.2	(9.4)	(4.7)	27.3	10.5
Working capital	23.7	2.3	–	–	23.7	2.3
Other items	–	–	(12.7)	(7.0)	(12.7)	(7.0)
Tax value of carry forward losses recognised	28.4	–	–	–	28.4	–
Tax assets/(liabilities)	107.7	20.9	(69.4)	(35.6)	38.3	(14.7)
Set off of tax	(9.4)	(11.6)	9.4	11.6	–	–
Net tax assets/(liabilities)	98.3	9.3	(60.0)	(24.0)	38.3	(14.7)

Unrecognised deferred tax assets

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

	2008 £m	2007 £m
Tax losses	71.0	65.0

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.

Deferred tax includes a liability associated with temporary differences arising from unremitted earnings from investments in overseas subsidiaries, branches and jointly controlled entities of £12.7 million (2007: £7.0 million).

The aggregate amount of temporary differences associated with investments in subsidiaries and interests in jointly controlled entities for which deferred tax liabilities have not been recognised is £4.1 million (2007: £Nil).

16 Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year are as follows

	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	10 5	18 5	–	(31 7)	30 0	27 3
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)	–
	(14 7)	23 5	0 4	0 1	29 0	38 3

	Balance 1 Jan 07 £m	Acquisitions £m	Disposals £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 07 £m
Property, plant and equipment	4 2	–	–	(0 8)	–	3 4
Intangible assets	(31 3)	–	0 5	7 3	–	(23 5)
Other investments	(0 4)	–	–	–	–	(0 4)
Employee benefits	37 1	–	–	(17 5)	(9 1)	10 5
Working capital	6 4	–	(0 3)	(3 8)	–	2 3
Other items	(8 0)	–	–	1 0	–	(7 0)
Tax value of carry forward losses recognised	10 0	–	–	(10 0)	–	–
Equity settled transactions	–	–	–	0 8	(0 8)	–
	18 0	–	0 2	(23 0)	(9 9)	(14 7)

17 Inventories

	2008 £m	2007 £m
Raw materials and consumables	19 1	13 0
Development work in progress	25 5	17 5
	44 6	30 5

The amount of inventories recognised as an expense during the year was £14.8 million (2007 £29.6 million) and the amount of any write down of inventories recognised as an expense was £21,033 (2007 £0.3 million)

18 Construction contracts

Contracts in progress at the balance sheet date

	2008 £m	2007 £m
Due from customers for contract work	399 8	508 8
Due to customers for contract work	(163 0)	(256 9)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £3,821.0 million (2007 £4,331.0 million). Advances received from customers relating to contracts in progress amounted to £107.5 million (2007 £169.7 million)

The amount of construction contract revenue recognised as revenue in the year amounted to £2,409.2 million (2007 £2,183.5 million)

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19 Trade and other receivables

	2008 £m	2007 £m
Trade receivables	438 9	182 6
Amounts owed by customers on construction contracts	399 8	508 8
Other receivables and prepayments	302 1	111 1
Amounts owed by jointly controlled entities	37 0	34 1
Amounts owed under jointly controlled operations	9 0	22 1
	1,186.8	858 7

At 31 December 2008, retentions of £99.2 million (2007: £69.2 million) relating to construction contracts and other amounts recoverable after more than one year of £66.2 million (2007: £35.8 million) are included above as they are recoverable within the normal operating cycle of the Group.

20 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise

	2008 £m	2007 £m
Cash and cash equivalents	257 3	327 5
Bank overdrafts	(7 3)	(3 7)
Net cash and cash equivalents	250 0	323 8
Bank loans	(365 9)	(306 6)
Finance lease obligations	(79 1)	(48 1)
Other loans	(31 7)	(14 0)
Net borrowing	(226 7)	(44 9)

21 Borrowing

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowing. For more information about the Group's exposure to interest rate and foreign currency risk, see note 29.

	2008 £m	2007 £m
Current liabilities		
Bank overdrafts	7 3	3 7
Bank loans	10 9	–
Finance lease obligations	16 6	6 5
Other loans	23 2	3 7
	58 0	13 9
Non-current liabilities		
Bank loans	355 0	306 6
Finance lease obligations	62 5	41 6
Other loans	8 5	10 3
	426 0	358 5
Total borrowing	484 0	372 4

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.

21 Borrowing (continued)

Finance lease liabilities

Finance lease liabilities are payable as follows

	Minimum lease payments 2008 £m	Interest 2008 £m	Principal 2008 £m	Minimum lease payments 2007 £m	Interest 2007 £m	Principal 2007 £m
Less than one year	20 6	(4 0)	16 6	8 9	(2 4)	6 5
Between one and five years	69 0	(7 0)	62 0	37 8	(6 6)	31 2
More than five years	0 5	–	0 5	11 5	(1 1)	10 4
	90 1	(11 0)	79 1	58 2	(10 1)	48 1

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

22 Trade and other payables

	2008 £m	2007 £m
Trade payables	626 0	478 0
Amounts owed to customers on construction contracts	163 0	256 9
Other tax and social security costs	55 2	40 3
Amounts owed to jointly controlled entities	35 6	21 6
Amounts owed under jointly controlled operations	10 3	4 9
Other creditors	275 0	98 0
Accruals and deferred income	556 7	276 0
	1,721 8	1,175 7

Within trade and other payables are £34.7 million (2007: £5.2 million) of liabilities relating to retentions payable on construction contracts 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.

23 Provisions

	Restructuring £m	Onerous leases £m	Total £m
At 1 January 2008	5 1	8 5	13 6
Provisions created	15 9	5 9	21 8
Provisions acquired (see note 32)	–	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

The restructuring provision at 1 January 2008 relates primarily to a rationalisation of the operating structure at the end of 2007 and has been fully utilised in the year. The restructuring provision created in the year of £15.9 million arises from a review of the Group's requirements following the acquisition of Alfred McAlpine and the Vanbots Group.

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23 Provisions (continued)

The onerous lease provision at 1 January 2008 relates to a number of onerous leases acquired with Mowlem and is expected to be utilised over a period of eight years. The increase in the provision in the year derives from £4.5 million acquired with Alfred McAlpine and the creation of a further £5.9 million for onerous property leases following the integration of Alfred McAlpine and is expected to be utilised over a period of five years.

	Restructuring £m	Onerous leases £m	Total £m
At 1 January 2007	0.6	5.3	5.9
Provisions created	4.5	3.2	7.7
At 31 December 2007	5.1	8.5	13.6
Disclosed within			
Current liabilities	5.1	1.8	6.9
Non-current liabilities	–	6.7	6.7
	5.1	8.5	13.6

24 Share capital

	2008 £m	2007 £m
Authorised		
525,000,000 (2007: 423,000,000) ordinary shares of 50 pence each	262.5	211.5

The authorised share capital was increased during the year to facilitate the issue of ordinary shares on the acquisition of Alfred McAlpine.

Issued and fully paid

	2008		2007	
	Number million	£m	Number million	£m
At 1 January	281.2	140.6	281.2	140.6
New share capital issued	114.5	57.2	–	–
At 31 December	395.7	197.8	281.2	140.6

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

25 Reserves and statement of changes in total equity

Reconciliation of movement in reserves

	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 2008	140.6	8.6	(2.8)	(14.3)	0.9	166.2	202.4	501.6	1.3	502.9
Total recognised income and expense	–	–	1.9	(2.7)	–	–	30.9	30.1	3.7	33.8
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	227.3	869.2	3.4	872.6

25 Reserves and statement of changes in total equity (continued)

	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 2007	140.6	8.6	(3.4)	(9.6)	0.9	184.8	110.8	432.7	1.0	433.7
Total recognised income and expense	–	–	0.7	(5.3)	–	–	97.1	92.5	2.5	95.0
Share options exercised by employees	–	–	–	–	–	–	0.9	0.9	–	0.9
Equity settled transactions (net of deferred tax)	–	–	–	–	–	–	2.0	2.0	–	2.0
Transfer to income statement	–	–	(0.1)	–	–	–	–	(0.1)	–	(0.1)
Transfer between reserves	–	–	–	0.6	–	(18.6)	18.0	–	–	–
Dividends paid	–	–	–	–	–	–	(26.4)	(26.4)	(2.2)	(28.6)
At 31 December 2007	140.6	8.6	(2.8)	(14.3)	0.9	166.2	202.4	501.6	1.3	502.9

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 1985. The £42.1 million transfer to the retained earnings reserve during the year represents the amortisation of intangible assets recognised on the Mowlem and Alfred McAlpine acquisitions.

Retained earnings

Retained earnings include the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movements in the reserve for own shares included within retained earnings are as follows:

	2008 £m	2007 £m
At 1 January	(0.7)	(1.6)
Share options exercised by employees (exercise price)	–	0.9
Share options exercised (transfer to retained earnings)	4.1	–
Acquisition of own shares	(4.7)	–
At 31 December	(1.3)	(0.7)

At 31 December 2008, the ESOP held 419,827 (2007: 61,909) of the Company's shares. During the year the Company acquired 1,257,104 of its own shares for £4.7 million to meet the plan's future commitments. The ESOP has elected to waive all dividends except for a total payment of one 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, 210,859 (2007: 2,643) 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 2008 the total number of shares held under the QUEST amounted to 8,904 (2007: 219,763) and had a market value of £22,100 (2007: £0.8 million).

The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

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26 Reconciliation of movements in consolidated equity shareholders' funds

	2008 £m	2007 £m
Recognised income and expense	30 1	92 5
New share capital issued	386 5	–
Share options exercised by employees	–	0 9
Acquisition of own shares	(4 7)	–
Equity settled transactions (net of deferred tax)	2.4	2 0
Transfer to income statement	(0 9)	(0 1)
Dividends paid to equity holders of the parent	(45 8)	(26 4)
Net addition to equity shareholders' funds	367 6	68 9
Opening equity shareholders' funds	501 6	432 7
Closing equity shareholders' funds	869 2	501 6

27 Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity. Details of the current option schemes can be found in the Remuneration report on pages 55 to 57.

The recognition and measurement principles in International Financial Reporting Standard 2 'Share-based payment' (IFRS 2) have not been applied to grants of options before 7 November 2002 in accordance with the transitional provisions in International Financial Reporting Standard 1 'First-time adoption of International Financial Reporting Standards' and IFRS 2.

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

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Exercise price
ESOS option grant at 1 July 2003	360,265	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
Sharesave option grant at 27 August 2003	328,913	Five years of service	5 years	148 5p
ESOS option grant at 31 March 2004	236,434	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	146,929	Three years of service and increase in EPS of RPI plus a minimum of 4% over a rolling three year period	10 years	242 75p
LEAP option grant at 6 July 2006	920,817	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
Sharesave option grant at 8 November 2006	1,684,664	Three years of service	3 years	337 5p
LEAP option grant at 10 April 2007	941,246	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	1,047,808	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	5,667,076			

In addition to the above, the Group has four ESOS option schemes which have a grant date before 7 November 2002. The total number of options outstanding at 31 December 2008 for these schemes amounted to 1,010,733 (2007: 1,010,733) with a remaining contractual life of either two or three years.

Following the acquisition of Alfred McAlpine on 12 February 2008, 650,671 Carillion Sharesave options were granted to participating employees of the Alfred McAlpine Sharesave scheme. In the period since acquisition 303,849 share options were exercised and 17,909 share options were forfeited in respect of this scheme.

27 Share-based payments (continued)

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

	Weighted average exercise price 2008	Number of options 2008	Weighted average exercise price 2007	Number of options 2007
At 1 January	151 6p	6,905,249	169 3p	7,903,274
Forfeited during the year	150 2p	(639,699)	211 0p	(975,701)
Exercised during the year	109 6p	(1,286,220)	89 1p	(963,570)
Granted during the year	56 9p	1,698,479	–	941,246
At 31 December	135 8p	6,677,809	151 6p	6,905,249
Exercisable at the end of the year	162 2p	2,083,274	158 5p	1,677,500

The range of option prices for those options exercisable at the end of the year is 125 2 pence – 242 75 pence and the weighted average remaining contractual term is four years. The weighted average share price at the date of exercise during the year was 356 3 pence.

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

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

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

	2008 £m	2007 £m
Equity settled share options granted in		
2004	–	(0 2)
2005	(0 4)	0 4
2006	1 7	1 0
2007	1 2	1 6
2008	0 9	–
Total expense recognised as employee costs	3 4	2 8

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.

28 Guarantees and contingent liabilities

	2008 £m	2007 £m
Guarantees in respect of deferred equity payments in PPP jointly controlled entities	3 2	7 8
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP jointly controlled entities	77 4	88 7
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP jointly controlled entities	30 0	30 0

Notes to the consolidated financial statements

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28 Guarantees and contingent liabilities (continued)

Carillion JM Limited (CJM) (formerly Mowlem) has been the subject of the Office of Fair Trading's (OFT) on-going investigation of cover pricing in the construction industry (under The Competition Act 1988). The investigation relates to CJM's construction business and relates entirely to periods prior to CJM's acquisition. No other member of the Group has been subject to the investigation. CJM has co-operated fully with the OFT. Any fine ultimately arising would be subject to the statutory maximum financial penalty of 10 per cent of world-wide revenue of the undertaking concerned in the business year prior to the infringement. Group management believes that it is extremely unlikely that any fine imposed will approach this amount. Group management also does not believe that customers have suffered any loss or damage as a result of any actions taken by CJM.

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.

29 Financial instruments

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.

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.

Each movement of five per cent in exchange rates against sterling would have changed reported profit before tax and equity as follows:

	5% increase		5% decrease	
	Profit £m	Equity £m	Profit £m	Equity £m
United States of America Dollar	–	(1.6)	–	1.8
Canadian Dollar	(1.2)	(2.7)	1.3	2.9
Euro	(3.7)	(3.1)	4.0	3.4
United Arab Emirates Dirham	(1.7)	(2.3)	1.8	2.5
Danish Krona	1.4	1.4	(1.6)	(1.6)
Other	–	0.1	–	(0.1)

Foreign currency exposure

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

	2008 £m	2007 £m
United States of America Dollar	17.6	12.6
Canadian Dollar	82.2	57.9
United Arab Emirates Dirham	8.5	–
Other	1.5	0.1
	109.8	70.6

Of the total foreign currency borrowing of £109.8 million (2007: £70.6 million), the amount of borrowing used for hedging overseas

29 Financial instruments (continued)

The carrying amount of the Group's other financial assets and liabilities denominated in foreign currency is as follows

	2008		2007	
	Financial assets £m	Financial liabilities £m	Financial assets £m	Financial liabilities £m
Canadian Dollar	102.4	(119.6)	47.0	(96.9)
Oman Rial	66.5	(69.5)	56.5	(42.2)
Trinidad and Tobago Dollar	20.5	(21.5)	11.0	(11.8)
Euro	38.7	(56.8)	142.0	(188.7)
South Pacific Franc	–	(4.4)	–	(4.3)

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 borrowing for hedging net assets of overseas operations. Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate. No interest rate hedging is currently undertaken by the Group's subsidiaries. However, a number of the Group's Public Private Partnership jointly controlled entities have entered into interest rate swaps.

A one percentage point rise in interest rates in respect of US dollar borrowing would increase the annual net interest charge by approximately £0.3 million, in respect of Canadian dollar borrowing an increase of £0.4 million, in respect of United Arab Emirates Dirham denominated borrowing an increase of £0.1 million, and in respect of sterling borrowing an increase of £3.3 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 2008 in the period since the acquisition of Alfred McAlpine was £329.8 million (2007: £130.3 million).

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's non-current borrowing is as follows

	Bank loans £m	Other loans £m	Finance leases £m	Total £m
31 December 2008				
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
	404.0	9.0	69.5	482.5
31 December 2007				
Between one and two years	20.9	6.1	7.5	34.5
Between two and three years	20.9	3.0	7.5	31.4
Between three and four years	20.9	1.8	11.3	34.0
Between four and five years	322.2	–	11.5	333.7
More than five years	–	–	11.5	11.5
	384.9	10.9	49.3	445.1

Notes to the consolidated financial statements

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29 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

	2008 £m	2007 £m
Expiring within one year	6 5	–
Expiring between two and five years	235 8	283 4
	242 3	283 4

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and foreign currency hedging. 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.

Trade and other receivables included in the balance sheet are net of a bad debt 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 bad debt provision when management considers that the debt is no longer recoverable. The movement in the provision is as follows:

	2008 £m	2007 £m
At 1 January	13 4	11 3
Provision acquired	1 2	–
Provision created	3 4	4 9
Provision utilised	(0 4)	(1 7)
Provision released	(0 8)	(1 1)
At 31 December	16 8	13 4

There are £72.9 million (2007: £26.2 million) of trade receivables that are past due at the balance sheet date that have not been provided against, which are all more than six months overdue.

In the current global economic climate, whilst uncertainty surrounding counterparty risk has increased, on balance the Group believes that debtors will meet their payment obligations in respect of the amount of trade receivables and amounts owed by customers on contracts recognised in the balance sheet that are past due and unprovided as at 31 December 2008.

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

Derivative financial instruments

	2008		2007	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts	1 1	–	–	(0 7)

The movement in fair value of the above forward foreign currency contracts has been recognised within 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. At 31 December 2008 the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £43.7 million (2007: £34.5 million) of which £26.1 million (2007: £23.0 million) (and the related deferred tax asset of £7.3 million (2007: £6.9 million)) has been recognised in the hedging reserve.

29 Financial instruments (continued)

Fair values

Where there are differences between the carrying and fair values of the Group's principal financial instruments at 31 December 2008 these are shown below

	2008		2007	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Trade receivables	438.9	437.3	182.6	182.0
Amounts owed by customers on contracts	399.8	397.7	508.8	507.9
Trade payables	(626.0)	(626.0)	(478.0)	(478.0)
Amounts owed to customers on construction contracts	(163.0)	(162.2)	(256.9)	(256.9)
Cash and cash equivalents	257.3	257.3	327.5	327.5
Bank overdrafts	(7.3)	(7.3)	(3.7)	(3.7)
Bank loans	(365.9)	(365.9)	(306.6)	(306.6)
Finance lease obligations	(79.1)	(65.4)	(48.1)	(36.7)
Other loans	(31.7)	(31.7)	(14.0)	(14.0)

Fair value is calculated by discounting future cash flows using appropriate interest rates. The finance lease obligations are valued by calculating the present value of the future minimum lease payments.

Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and for other stakeholders and to maintain an optimal capital 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. No changes were made in the objectives, policies or process during the years ended 31 December 2008 and 31 December 2007.

	2008 £m	2007 £m
Total borrowings	476.7	368.7
Less: net cash and cash equivalents (note 20)	(250.0)	(323.8)
Net debt	226.7	44.9
Total equity	872.6	502.9
Total capital	1,099.3	547.8
Gearing ratio	20.6%	8.2%

30 Financial and capital commitments

	2008 £m	2007 £m
Commitments for capital expenditure in subsidiaries	10.0	1.3
Commitments for equity and subordinated debt in PPP jointly controlled entities	89.5	96.5
	99.5	97.8

Non-cancellable operating lease rentals are payable as follows:

	2008		2007	
	Property £m	Other £m	Property £m	Other £m
Within one year	17.7	18.5	11.8	13.5
Between one and five years	43.5	15.5	35.1	18.4
Over five years	33.7	0.1	25.0	0.2
	94.9	34.1	71.9	32.1

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.

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31 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 53

In addition to their salaries, the Group also provides non cash benefits to Executive Directors, and contributes to a post-employment defined benefit plan or a defined contribution plan on their behalf. Executive Directors also participate in the Group's share option programme

Non-Executive Directors receive a fee for their services to the Carillion plc Board

Full details of key management personnel compensation is given in the Remuneration report on pages 51 to 58

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 £1.8 million (2007: £1.3 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

	2008			2007		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
PPP jointly controlled entities						
Aspire Defence Holdings Limited	185.7	0.3	–	179.2	0.1	–
The Hospital Company (QAH Portsmouth) Holdings Limited	101.6	0.6	–	85.8	3.6	–
Eastbury Park (Holdings) Limited	76.8	–	–	48.4	4.7	–
Education 4 Ayrshire (Holdings) Limited	29.9	1.4	–	37.9	1.8	–
Inspiredspaces Nottingham (Holdings) Limited	13.0	–	–	–	–	–
Inspiredspaces STaG (Holdings) Limited	12.6	–	–	–	–	–
Inspiredspaces STaG Limited	11.3	–	–	–	–	–
The Hospital Company (Oxford John Radcliffe) Holdings Limited	10.0	–	–	16.0	0.9	–
Inspiredspaces Nottingham Limited	6.5	–	–	–	–	–
Sheppey Route (Holdings) Limited	1.5	0.9	(0.2)	–	0.2	–
Aspire Services Limited	–	–	(3.2)	–	1.5	–
Modern School (Exeter) Holdings Limited	2.9	0.2	–	–	–	–
RSP (Holdings) Limited	–	0.4	–	22.9	–	–
Other	18.4	0.5	(0.7)	15.4	1.9	–
	470.2	4.3	(4.1)	405.6	14.7	–
Other jointly controlled entities						
CarillionEnterprise Limited	67.3	6.6	(8.7)	62.4	1.5	–
CR Thanet Limited Partnership	7.3	1.7	(4.5)	–	14.3	(20.6)
Al Futtain Carillion LLC	4.8	5.0	(0.2)	–	–	–
Carillion Richardson	–	17.6	(10.2)	–	–	–
RT Bridgend Limited	–	–	(1.5)	–	–	–
Carillion Richardson Partnership	–	–	(6.2)	–	–	–
Modern Housing Solutions (Prime) Limited	–	0.3	–	12.6	0.6	–
Others	1.3	1.5	(0.2)	0.2	3.0	(1.0)
	550.9	37.0	(35.6)	480.8	34.1	(21.6)

32 Acquisitions and disposals

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.

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

	Carrying amounts £m	Fair value adjustments £m	Accounting policy adjustments £m	Acquired intangible assets £m	Recognised values £m
Property, plant and equipment	26.4	(0.7)	–	–	25.7
Intangible assets	184.5	(184.5)	–	125.4	125.4
Investments in jointly controlled entities	13.4	0.9	–	–	14.3
Deferred tax assets	57.3	0.9	–	–	58.2
Inventories	11.2	–	–	–	11.2
Trade and other receivables	202.8	–	(15.5)	–	187.3
Assets held for sale	16.7	2.3	–	–	19.0
Cash and cash equivalents	46.8	–	–	–	46.8
Borrowing	(143.2)	–	–	–	(143.2)
Trade and other payables	(292.2)	0.3	–	–	(291.9)
Income tax	(1.4)	–	–	–	(1.4)
Retirement benefit liabilities	(58.7)	(3.2)	–	–	(61.9)
Deferred tax liabilities	(2.9)	2.9	–	(35.1)	(35.1)
Provisions	(4.5)	–	–	–	(4.5)
Net identifiable assets and liabilities	56.2	(181.1)	(15.5)	90.3	(50.1)
Goodwill recognised on acquisition					615.0
Total consideration (including attributable costs)					564.9

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 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.

Goodwill arising on the acquisition of £615.0 million represents the present value of future income streams expected to be generated from margin growth in the Alfred McAlpine business together with identifiable cost savings within the enlarged group.

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 advisor costs incurred in relation to the acquisition contracts and due diligence procedures.

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32 Acquisitions and disposals (continued)

Acquisitions in 2008(continued)

On 8 October 2008, the Group acquired the entire issued share capital of the Vanbots Group for a total consideration of £17.0 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 (including attributable costs)					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 intangibles 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.

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

32 Acquisitions and disposals (continued)

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.

Acquisitions in 2007

There were no business acquisitions during 2007.

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.

Disposals in 2007

During 2007, the Group disposed of certain non-core businesses which were classified as discontinued operations. The effect on the Group of the disposal of these businesses is disclosed in note 9. In addition, in September 2007 the Group disposed of Sovereign Harbour Marina Limited, generating cash consideration of £10.7 million and a non-operating profit of £3.7 million. In December 2007, the Group disposed of equity investments in three Public Private Partnership jointly controlled entities. The disposal generated cash consideration of £21.5 million (after deducting costs of £50,000) and a non-operating profit of £23.6 million. Disposals of other jointly controlled entities in 2007 generated proceeds of £0.5 million and a non-operating profit of £0.9 million.

33 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 will no longer accrue benefits for future service with effect from 5 April 2009.

An actuarial valuation of the Staff and 'B' schemes was undertaken by the Trustees' independent actuary 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. The regular on-going contributions paid during the year were £9.9 million (2007: £10.7 million) in respect of the Carillion Staff Pension Scheme and £0.9 million (2007: £1.0 million) in respect of the Carillion 'B' Pension Scheme.

As part of the deficit recovery plan agreed with the Trustees of the Staff and 'B' schemes, payments were made to the schemes during 2008 of £16.0 million (2007: £18.0 million) and £2.0 million respectively (2007: £2.0 million). Recovery payments of £1.9 million and £0.2 million per annum to the Staff and 'B' schemes respectively are scheduled to commence from March 2010 and cease at the end of 2015. The next actuarial valuations are due at 31 December 2008.

The Group expects to pay regular ongoing contributions of approximately £2.4 million to the Staff scheme and £0.2 million to the 'B' scheme during 2009 representing contribution rates of 20.1 per cent and 36.5 per cent of payroll respectively.

The Pension Protection Fund (PPF) levy is payable in addition to the above. The PPF levies for the year ended 31 March 2008 were £1.0 million (2007: £0.3 million) for the Staff scheme and £14,000 (2007: £0.2 million) for the 'B' scheme.

Mowlem Staff Pension and Life Assurance Scheme

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

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

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.

Notes to the consolidated financial statements

continued

33 Retirement benefit obligations (continued)

An actuarial valuation of the Mowlem Staff scheme was undertaken by the Trustees' independent actuary 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. The next actuarial valuation is due at 31 December 2008.

The regular ongoing contributions paid during the year were £7.5 million (2007: £7.1 million).

As part of the deficit recovery plan agreed with the Trustees, payments were made to the Mowlem Staff scheme in the year of £5.4 million (2007: £11.4 million). Recovery payments of £4.8 million per annum continuing until 2012 have been agreed with the Trustees of the scheme.

The Group expects to pay regular ongoing contributions of approximately £1.8 million during 2009 representing a contribution rate of 20.3 per cent of pensionable salaries.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2008 was £1.6 million (2007: £1.9 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 actuary as at 31 December 2004 using the attained age method. The market value of the schemes' assets at that date was £74.9 million, which represented approximately 82 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. The regular ongoing employer contributions paid during the year were £3.4 million (2007: £3.1 million). An actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2007 is currently being undertaken.

As part of the deficit recovery plan agreed with the Trustees, payments of £4.3 million (2007: £4.3 million) were made during 2008. Further payments of £2.3 million per annum are scheduled to be paid until 2015.

The Group expects to pay regular contributions of approximately £3.5 million during 2009 representing 27.4 per cent of pensionable salaries.

If any employees are admitted into the scheme through PFI, PPP or Best Value contracts during 2009 the level of contributions will increase.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2008 was £0.3 million (2007: £0.1 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.

The independent actuary appointed by the Railways Pension Trustee Company Limited carried out a formal valuation of the Railways Pension Scheme as at 31 December 2004 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 2004 were £195.4 million and £27.4 million respectively, which represented approximately 94 per cent and 102 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 regular ongoing contributions paid by the employer during the year were £1.5 million (2007: £3.1 million) for GTRM and £0.1 million (2007: £0.3 million) for Centrac. An actuarial valuation of the scheme by the Trustees' independent actuary as at 31 December 2007 is currently being undertaken.

As part of the deficit recovery plan agreed with the Trustees, a payment of £2.0 million (2007: £2.0 million) was made during 2008 to the GTRM section.

33 Retirement benefit obligations (continued)

The Group expects to pay regular on-going contributions in 2009 for both sections of £1.6 million and £0.1 million representing 18.9 per cent and 19.7 per cent of pensionable salaries for GTRM and Centrac respectively.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2008 for both sections totalled £0.5 million (2007: £0.1 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.

An actuarial valuation of the pension plan was undertaken by the Trustees' independent actuary 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. The next actuarial valuation of the scheme is due at 31 December 2008. The regular on-going employer contributions paid during the period since acquisition were £0.1 million.

As part of the deficit recovery plan agreed with the Trustees, payments were made in the period since acquisition of £7.8 million. Recovery payments of £9.2 million are scheduled to be made in 2009 which will continue until 2015, increasing in each year by the increase in the Retail Price Index over the preceding twelve months.

A payment of £7.6 million under Section 75 of the Pensions Act 1995 was made in the post-acquisition period in relation to the former slate business of Alfred McAlpine.

The Group expects to pay regular on-going contributions of £0.2 million in 2009 representing 42 per cent of pensionable salaries.

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

Other defined benefit schemes

The PME Staff Pension and Life Assurance Scheme

The PME Staff Pension 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. The surplus in the scheme at 31 December 2008, calculated in accordance with IAS 19, is £1.5 million (2007: £2.2 million deficit).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuary 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. The regular ongoing contributions paid during the year were £1.5 million (2007: £1.1 million).

As part of the deficit recovery plan agreed with the Trustees, a payment of £1.0 million (2007: £1.0 million) was made during 2008. Recovery payments of £1.35 million per annum have been agreed for 2009, 2010 and 2011.

The Group expects to pay regular ongoing contributions in 2009 of approximately £0.4 million representing 17.5 per cent of pensionable salaries. The next actuarial valuation is due at 31 December 2009.

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 2008 (2007: £0.1 million).

Carillion Canada Inc

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc managed locally. In addition, supplemental arrangements are in place for certain executives, namely the Senior Executive Retirement Plan and the Post Retirement Benefit Plan. The net deficit in total for these three schemes at 31 December 2008, calculated in accordance with IAS 19, is £2.8 million (2007: £2.3 million).

Contributions during the year were £Nil (2007: £Nil) in respect of the Carillion Canada Inc defined benefit scheme and £0.3 million (2007: £0.2 million) in respect of other post-retirement benefits for senior Canadian employees. Contributions for 2009 are estimated to be £0.3 million.

Notes to the consolidated financial statements

continued

33 Retirement benefit obligations (continued)

Mowlem (1993) Pension Scheme

The Mowlem (1993) Pension scheme was part of Mowlem, which was acquired on 23 February 2006. The scheme is a defined benefit arrangement and is closed to future accrual. The deficit in the scheme at 31 December 2008 calculated in accordance with IAS 19 is £4.9 million (2007: £9.5 million).

An actuarial valuation of the Mowlem (1993) scheme was undertaken by the Trustees' independent actuary as at 31 December 2004 using the attained age method. The market value of the scheme's assets at that date were £30.3 million, representing approximately 71 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 2007 is currently being undertaken.

The regular ongoing contributions paid during the year were £2.7 million (2007: £2.5 million). As part of the deficit recovery plan agreed with the Trustees, payments were made to the scheme during 2008 amounting to £3.4 million (2007: £1.6 million). Recovery payments of £1.6 million per annum until 2016 have been agreed with the Trustees.

The Group expects to pay regular ongoing contributions of approximately £2.7 million representing 28.2 per cent of pensionable salary to the Mowlem (1993) scheme during 2009.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2008 was £0.6 million (2007: £0.3 million).

ESPS Scheme

The ESPS scheme was part of Alfred McAlpine, which was acquired on 12 February 2008 and is a defined benefit arrangement. The deficit in the scheme at 31 December 2008, calculated in accordance with IAS 19, is £10.0 million.

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuary 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 regular on-going employer contributions paid during the period since acquisition were £0.7 million.

As part of the deficit recovery plan agreed with the Trustees, payments were made in the period since acquisition of £1.0 million. Recovery payments of £1.5 million are scheduled to be made in 2009 which will continue until 2015, increasing in each year by the increase in the Retail Price Index over the preceding twelve months.

The Group expects to pay regular on-going contributions of £0.7 million in 2009 representing 29.6 per cent of pensionable salaries.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2008 was £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 2008, calculated in accordance with IAS 19, is £0.8 million (2007: £0.3 million).

An actuarial valuation of the scheme was undertaken by the Trustees' independent actuary as at 31 December 2004. The Group has not made any regular ongoing contributions to the scheme in the year. The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2008 was £0.1 million.

Defined contribution schemes

The Group operates six principal UK defined contribution schemes, the Carillion Pension Plan, the Mowlem Staff Scheme (defined contribution section), the PME Defined Contribution Plan, the Alfred McAlpine 2003 Pension Plan, Enviros Pension Plan and the Carillion Retirement Plan (closed to new entrants since 2001). In addition, the Group operates a Stakeholder Plan ('Stakeholder Plus'). From 6 April 2009, members of the Carillion Staff, Carillion 'B', Mowlem Staff and PME Staff Pension and Life Assurance Scheme will be eligible to participate in the Carillion 2009 Pension Plan.

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. Contributions during the year were £3.2 million (2007: £2.2 million).

33 Retirement benefit obligations (continued)

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. The employer meets the cost of the administration and managing the Plan in addition to the cost of the life assurance premiums. Contributions during the year were £0.8 million (2007: £1.3 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. Contributions during the year were £0.9 million (2007: £0.3 million).

The PME Defined Contribution Plan commenced in April 1999. All new PME employees are offered membership of the Plan. Employees contribute 4.0 per cent of basic pay and the employer pays 5.0 per cent of basic pay (inclusive of a 1.0 per cent allowance for insurance premiums and audit fees). Contributions during the year were £0.8 million (2007: £1.3 million).

Contributions to the Carillion Retirement Plan during the year were £0.1 million (2007: £0.1 million).

Employees of businesses acquired on the acquisition 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. Contributions during the period since acquisition were £2.8 million.

Employees of Enviro Limited, which was part of Alfred McAlpine, are invited to participate in a pension plan provided by Friends Provident. Employees contribute between 3.0 per cent and 6.0 per cent and employers contribute between 3.0 per cent and 10.0 per cent. Contributions during the year were £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 Rules Agreements.

Various companies within the Group participate in admission agreements with local authorities in order to allow former public sector employees to continue membership of the Local Government Pension Scheme. Contributions during the year, which have been accounted for on a defined contribution basis, were £0.6 million (2007: £0.2 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 2008		31 December 2007	
	UK	Canada	UK	Canada
Rate of increase in salaries	3.80%	3.00%	4.90%	3.20%
Rate of increase in pensions*	2.80%	2.04%	3.40%*	2.20%
Inflation rate	2.80%	2.04%	3.40%	2.20%
Discount rate	6.30%	7.50%	5.60%	5.55%

* Where schemes have adopted the new 2.5 per cent per annum cap on increases to pensions in payment the assumption is 2.2 per cent per annum (2.4 per cent p.a. in 2007) 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 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 members' mortality at the last valuation. The previous bases were 'PA92(Base) - 3 years' and 'PA92(Base) - 1 year' respectively.

[illegible]

33 Retirement benefit obligations (continued)

Expense recognised in the Income Statement

	2008 £m	2007 £m
(Charge)/credit to operating profit		
Current service cost relating to defined benefit schemes	(24 1)	(27 2)
Past service cost relating to defined benefit schemes	–	(0 4)
Settlements	(1 2)	0 7
Curtailments	38 3	3 0
Total	13 0	(23 9)

Credit/(charge) to other finance income

Expected return on pension scheme assets	120 3	86 1
Interest cost on pension scheme liabilities	(107 7)	(79 3)
Net finance return	12 6	6 8

Total actuarial (losses)/gains recognised in the Statement of Recognised Income and Expense

Effects of changes in assumptions underlying the present value of scheme liabilities	309 2	47 2
Difference between actual and expected return on scheme assets	(416 6)	(15 0)
Restriction on surplus recognised	–	(2 0)
Total actuarial (losses)/gains recognised in the Statement of Recognised Income and Expense	(107 4)	30 2

	2008 £m	2007 £m
Changes in defined benefit obligation		
Obligation at 1 January	(1,591 3)	(1,589 0)
Current service cost	(24 1)	(27 2)
Interest cost	(107 7)	(79 3)
Contributions from scheme members	(7 8)	(8 2)
Past service cost	–	(0 4)
Acquisition of Alfred McAlpine	(384 1)	–
Benefits paid	70 4	59 0
Settlements	15 2	6 3
Curtailments	38 3	3 0
Actuarial gains	309 2	47 2
Effect of movements in foreign exchange rates	(1 7)	(2 7)
Obligation at 31 December	(1,683 6)	(1,591 3)

	2008 £m	2007 £m
Changes in the fair value of scheme assets		
Fair value at 1 January	1,567 0	1,476 1
Expected return on scheme assets	120 3	86 1
Contributions from the employer	79 1	75 7
Contributions from scheme members	7 8	8 2
Acquisition of Alfred McAlpine	322 2	–
Benefits paid	(70 4)	(59 0)
Settlements	(16 4)	(5 6)
Actuarial losses	(416 6)	(15 0)
Restriction on surplus recognised	–	(2 0)
Effect of movements in foreign exchange rates	1 5	2 5
Fair value at 31 December	1,594 5	1,567 0

Notes to the consolidated financial statements

continued

33 Retirement benefit obligations (continued)

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

	2008 £m	2007 £m
Present value of defined benefit obligation	(1,683 6)	(1,591 3)
Fair value of scheme assets	1,594 5	1,567 0
Net deficit	(89 1)	(24 3)
Schemes in surplus (within non-current assets)	38 6	17 3
Schemes in deficit (within non-current liabilities)	(127 7)	(41 6)
	(89 1)	(24 3)

The actual loss on plan assets was £296 3 million (2007 £71 1 million return)

History of experience gains and losses

		2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit obligation		(1,683 6)	(1,591 3)	(1,589 0)	(963 7)	(862 0)
Fair value of scheme assets		1,594 5	1,567 0	1,476 1	895 8	776 8
Net deficit		(89 1)	(24 3)	(112 9)	(67 9)	(85 2)
Experience gains and losses on scheme obligation	(£m)	309 2	47 2	12 8	(198 8)	(1 7)
Percentage of defined benefit obligation	(%)	18 4	3 0	1 0	20 6	0 2
Difference between expected and actual returns on scheme assets	(£m)	(416 6)	(15 0)	21 8	205 5	28 0
Percentage of scheme assets	(%)	26 1	1 0	1 5	22 9	3 6

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group statement of recognised income and expense is £(9 6) million (2007 £97 8 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 recognised income and expense before 1 January 2004.

34 Accounting estimates and judgements

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below

Construction contracts

In determining the revenue and costs to be recognised each year for work done on construction contracts, estimates are made in relation to final out turn on each contract. On major construction contracts, it is assessed, based on past experience, that their outcome cannot be estimated reliably during the early stages of the contract, but that costs incurred will be recoverable. Once the outcome can be estimated reliably the estimates of final out turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. Management continually reviews the estimated final out turn on contracts and makes adjustments where necessary.

Intangible assets

In determining the fair value of identifiable assets, liabilities and contingent liabilities of businesses acquired, judgement is required in relation to final out turn on construction contracts, discount rates and expected future cash flows and profitability.

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from the cash-generating unit to which the intangible assets are attached. Note 13 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 33.

35 Principal subsidiary undertakings, 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 112.

Notes to the consolidated financial statements

continued

35 Principal subsidiary undertakings, jointly controlled entities and jointly controlled operations (continued)

Except where shown, all subsidiary undertakings and jointly controlled entities are incorporated in Great Britain and operate in the UK. All holdings are of ordinary shares and except where shown, all subsidiary undertakings are 100 per cent owned (with equivalent voting rights) and jointly controlled entities and jointly controlled operations are 50 per cent owned. Shares of those undertakings marked with an asterisk are directly owned by Carillion plc.

Principal subsidiary undertakings

Asprea Ltd
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 *
Carillion Services 2006 Ltd
Monteray Ltd 51%
Planned Maintenance Engineering Ltd
Postworth Ltd *
Sovereign Hospital Services Ltd
Carillion Capital Projects Ltd
Carillion (AMBS) Ltd

Principal jointly controlled entities

Public Private Partnerships

Accommodation Services (Holdings) Ltd 40%
Arden Partnership (Derby) Holdings Ltd
Arden Partnership (Leicester) Holdings Ltd
Arden Partnership (Lincolnshire) Holdings Ltd
Aspire Defence Holdings Ltd
Eastbury Park (Holdings) Ltd
Education 4 Ayrshire (Holdings) Ltd 47 5%
Ellenbrook Holdings Ltd
Holdfast Training Services Ltd 26%
Inspiredspaces STaG (Holdings1) Ltd 40%
Inspiredspaces Nottingham (Holdings1) Ltd 80%
LCED (Sault) Limited Partnership (Canada) 25%
Modern Schools (Exeter) Holdings Ltd
Road Management Group Services (A13) Holdings Ltd 25%
RSP (Holdings) Ltd 30%
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 Futtam Carillion LLC (UAE) 49%
Arcadis Aquamen Facility Management BV (The Netherlands)
Carillion Alawi LLC (Oman) 49%
Carillion Richardson Partnership
Carillion Richardson Thanet Ltd
Emrill 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 JV – East London Line 50%
Carillion-URS Joint Venture 70%

Carillion-WSP JV 60%

Nature of business

Insurance claim handling
MoD accommodation construction 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
Facilities management
Property and facilities management services
Building services and maintenance
Supply of operatives to the construction industry
Facilities management in healthcare sector
Construction and infrastructure services
Facilities management

Associated project

GCHQ, Cheltenham
Mental health facilities, Derbyshire
Mental health facilities, Leicestershire
Mental health facilities, Lincolnshire
Military accommodation at Aldershot and Salisbury Plain
Permanent Joint Headquarters, Northwood
South Ayrshire Schools
University of Hertfordshire Student Accommodation
Royal School of Military Engineering, Chatham
South Tyneside and Gateshead Schools
Nottingham Schools
Sault Area Hospital, Canada
Exeter Schools
A13, Thames Gateway
Renfrewshire Schools
A249 Kent
Cleadow Park Primary Care Centre
Royal Ottawa Hospital, Canada
William Osler Hospital, Canada
Queen Alexandra Hospital, Portsmouth
A55 North Wales
Swarcliffe Social Housing, Leeds

Nature of business

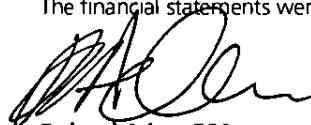
MoD buildings
MoD housing
Building and civil engineering
Facilities management
Building and civil engineering
Property development
Property development
Facilities management
Facilities management

Bonhill Street, London, England
Pythley Maintenance Compound, Pegasus Court, Kettering
South Business Park, Kettering, Northamptonshire, England
Bradford, West Yorkshire England

Company balance sheet
As at 31 December 2008

	Note	2008 £m	2007 £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	3	1,104 2	537 8
Current assets			
Debtors	4	811 9	344 2
Cash at bank and in hand		7 1	177 9
		819 0	522 1
Creditors amounts falling due within one year	5		
Borrowing		(103 6)	(1 3)
Other creditors		(583 1)	(266 1)
		(686 7)	(267 4)
Net current assets			
Due within one year		131 4	227 8
Debtors due after more than one year	4	0 9	26 9
		132 3	254 7
Total assets less current liabilities		1,236 5	792 5
Creditors amounts falling due after more than one year	6		
Borrowing		(355 9)	(313 5)
Net assets		880 6	479 0
Financed by			
Capital and reserves			
Issued share capital	7	197 8	140 6
Share premium	8	12 9	8 6
Merger reserve	8	516 3	191 3
Other reserve	8	3 2	1 5
Profit and loss account	8	150 4	137 0
Equity shareholders' funds	9	880 6	479 0

The financial statements were approved by the Board of Directors on 4 March 2009 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 borrowing. 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 borrowing. Cash at bank and in hand is carried in the balance sheet at amortised cost. Borrowing is 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 Executive Share Option Scheme (ESOS) and the Leadership Equity Award Plan (LEAP). In addition, UK employees are able to participate in the Sharesave scheme

The fair value of the ESOS, LEAP and Sharesave schemes at the date of grant are estimated using the Black-Scholes pricing model. For all schemes the fair value determined at grant date is expensed on a straight-line basis over the period in which any performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date)

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of the investment in subsidiary

If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend to the extent that it reflects post acquisition profits of the subsidiary

Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee

Retirement benefit obligations

Pension costs are recognised in the financial statements in accordance with the requirements of FRS 17 'Retirement benefits'. Employees of the Company participate in the Carillion 'Staff' and 'B' schemes which provide pensions on a defined benefit basis. The assets and liabilities of these schemes relating to the Company cannot be readily ascertained on a reasonable and consistent basis as the schemes are operated for the benefit of the Carillion Group as a whole. Consequently, the Company accounts for these schemes as if they were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 33 of the consolidated financial statements

For defined contribution schemes in which the Company's employees participate, amounts payable by the Company are charged to the profit and loss account as they fall due

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 section 230 of the Companies Act 1985, 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 2008 of £62.5 million (2007: £17.6 million).

Fees paid to KPMG Audit Plc and its associates for non audit services to the Company itself are not disclosed in the individual accounts of Carillion plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

A final dividend, declared in the previous year, of 7.5 pence per share was paid during the year, amounting to £29.6 million (2007: £16.6 million).

An interim dividend of 4.1 pence per share was paid during the year, amounting to £16.2 million (2007: £9.8 million).

A final dividend of 8.9 pence (2007: 7.5 pence) per share, amounting to £35.2 million (2007: £29.6 million), was approved by the Board on 4 March 2009 and will be paid on 19 June 2009 to shareholders on the register on 24 April 2009.

Payroll costs and employee numbers	2008 £m	2007 £m
Wages and salaries	42	46
Social security costs	0.9	1.0
Pension costs	1.0	0.9
Equity settled transactions	1.8	1.3
	7.9	7.8

Pension costs represent amounts paid in respect of the Company's pension schemes as defined in note 11 and includes £0.4 million (2007: £0.4 million) in respect of defined contribution schemes. There were no outstanding or prepaid contributions at the beginning or end of the financial year.

The average number of employees during each year, including Directors, was 63 (2007: 66).

Details of the Director's remuneration can be found in the Remuneration report on pages 51 to 58.

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost			
At 1 January 2008	548.2	0.2	548.4
Additions	566.6	–	566.6
Disposals	(0.2)	–	(0.2)
At 31 December 2008	1,114.6	0.2	1,114.8
Impairment losses			
At 1 January and 31 December 2008	10.6	–	10.6
Net book value			
At 31 December 2008	1,104.0	0.2	1,104.2
At 31 December 2007	537.6	0.2	537.8

Additions in the year of £566.6 million relates principally to the acquisition of Alfred McAlpine on 12 February 2008 for a total consideration (including attributable costs) of £564.9 million.

The principal subsidiary undertakings and joint ventures of the Company are shown on page 112.

Notes to the Company financial statements

continued

4 Debtors

	2008 £m	2007 £m
Amounts falling due within one year		
Amounts owed by Group undertakings	799.3	305.5
Other debtors	0.3	6.8
Amounts owed by joint ventures	0.8	–
Income tax	9.5	5.0
Derivative financial instruments	1.1	–
Amounts falling due within one year	811.0	317.3
Amounts falling due after more than one year		
Amounts owed by Group undertakings	0.9	26.9
Total debtors	811.9	344.2

The amounts owed by Group undertakings falling due after more than one year of £0.9 million (2007: £7.0 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

	2008 £m	2007 £m
Bank overdrafts	94.5	–
Bank loans	8.5	–
Net obligations due under finance leases	0.6	1.3
Borrowing	103.6	1.3
Amounts owed to Group undertakings	555.9	227.9
Amounts owed to joint ventures	22.1	36.8
Accruals and deferred income	5.1	0.7
Derivative financial instruments	–	0.7
	686.7	267.4

6 Creditors amounts falling due after more than one year

	2008 £m	2007 £m
Bank loans	355.0	306.5
Net obligations due under finance leases	0.9	7.0
	355.9	313.5

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 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 borrowing is disclosed in note 13 on page 120.

7 Share capital

	2008 £m	2007 £m
Authorised		
525,000,000 (2007 423,000,000) ordinary shares of 50 pence each	262.5	211.5

The authorised share capital was increased during the year to facilitate the issue of ordinary shares on the acquisition of Alfred McAlpine

Issued and fully paid

	2008		2007	
	Number million	£m	Number million	£m
At 1 January	281.2	140.6	281.2	140.6
New share capital issued	114.5	57.2	–	–
At 31 December	395.7	197.8	281.2	140.6

The Company has one class of ordinary shares which carry no right to fixed income. During the year 112.9 million Carillion plc shares were issued in relation to the acquisition of Alfred McAlpine.

8 Reserves

	Share premium account £m	Merger reserve £m	Profit and loss account £m	Other reserve £m	Total £m
At 1 January 2008	8.6	191.3	137.0	1.5	338.4
Profit for the year	–	–	62.5	–	62.5
New share capital subscribed	4.3	325.0	–	–	329.3
Acquisition of own shares	–	–	(4.7)	–	(4.7)
Equity settled transactions (net of deferred tax)	–	–	1.4	1.7	3.1
Dividend paid to shareholders	–	–	(45.8)	–	(45.8)
At 31 December 2008	12.9	516.3	150.4	3.2	682.8

The merger reserve arose from the acquisition of Mowlem in 2006 and Alfred McAlpine in 2008 whereby the consideration included the issue of Carillion plc shares. The Company has credited the premium arising on the shares issued to the merger reserve rather than the share premium account as permitted by the Companies Act 1985.

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:

	2008 £m	2007 £m
At 1 January	(0.7)	(1.6)
Share options exercised by employees (exercise price)	–	0.9
Share options exercised (transfer to retained earnings)	4.1	–
Acquisition of own shares	(4.7)	–
At 31 December	(1.3)	(0.7)

At 31 December 2008, the ESOP held 419,827 (2007 61,609) of the Company's shares. During the year the Company acquired 1,257,104 of its own shares for £4.7 million to meet the plan's future commitments. The ESOP has elected to waive all dividends except for a total payment of one 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, 210,859 (2007 2,643) 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 2008 the total number of shares held under the QUEST amounted to 8,904 (2007 219,763) and had a market value of £22,100 (2007 £0.8 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

Notes to the Company financial statements

continued

9 Reconciliation of movement in shareholders' funds

	2008 £m	2007 £m
Profit for the year	62 5	17 6
New share capital issued	386 5	–
Equity settled transactions (net of deferred tax)	3 1	2 4
Share options exercised by employees	–	0 9
Acquisition of own shares	(4 7)	–
Dividends paid to shareholders	(45 8)	(26 4)
Net addition to (reduction in) shareholders' funds	401 6	(5 5)
Shareholders' funds at 1 January	479 0	484 5
Shareholders' funds at 31 December	880 6	479 0

10 Other guarantees and contingent liabilities

	2008 £m	2007 £m
Guarantees in respect of borrowing of subsidiaries, joint ventures and joint arrangements	32 3	2 0
Guarantees in respect of deferred equity payments in PPP joint ventures	3 2	7 8
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP joint ventures	77 4	88 7
Guarantees in respect of letters of credit issued by banks in relation to performance contracts in PPP joint ventures	30 0	30 0
Guarantees in respect of letters of credit issued by banks in relation to pension scheme deficit recovery payments	–	21 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 33 to the consolidated financial statements

12 Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to purchase shares in the Company. Details of the Group's share option programme are disclosed in note 27 to the consolidated financial statements and in the Remuneration report on pages 51 to 58

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

	2008		2007	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts	1.1	-	-	0.7

The movement in fair value of the above forward foreign currency contracts has been recognised in the profit and loss account.

Effective interest rates

The Company's interest bearing borrowing were subject to effective interest rates at the balance sheet date as follows:

	2008 Range (%)	2007 Range (%)
Bank overdrafts	3.00	3.20 to 6.50
Bank loans	2.65 to 6.99	5.46 to 7.31
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:

	2008 £m	2007 £m
United States of America Dollar	17.6	12.7
Canadian Dollar	36.7	19.9
United Arab Emirates Dirham	8.5	-
Euro	1.4	-
	64.2	32.6

Of the total foreign currency borrowing of £64.2 million (2007: £32.6 million) the amount of borrowing used for hedging currency net assets of overseas operations of the Group amounts to £62.6 million (2007: £32.6 million). The foreign exchange loss of £8.9 million (2007: loss £2.7 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 2008 these are shown below:

	2008		2007	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Finance lease obligations	(1.5)	(1.4)	(8.3)	(7.1)

Notes to the Company financial statements

continued

13 Financial instruments (continued)

Maturity of financial liabilities

The maturity profile of the carrying amount of the Company's non-current borrowing is as follows

	Bank overdrafts £m	Bank loans £m	Finance leases £m	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

	Bank loans £m	Finance leases £m	Total £m
31 December 2007			
Between one and two years	20 9	1 7	22 6
Between two and three years	20 9	1 8	22 7
Between three and four years	20 9	1 3	22 2
Between four and five years	322 2	1 1	323 3
More than five years	–	2 8	2 8
More than one year	384 9	8 7	393 6
Less than one year	–	1 7	1 7
	384 9	10 4	395 3

Borrowing facilities

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

	2008 £m	2007 £m
Expiring within one year	6 5	–
Expiring between two and five years	235 8	283 5
	242 3	283 5

14 Related party transactions

In accordance with Financial Reporting Standards 8 'Related party transactions', the Company has taken the exemption not to disclose transactions with subsidiaries within the Carillon Group

Shareholder information

Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2008 will be payable on 19 June 2009 to those shareholders on the register on 24 April 2009.

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
- 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 2009 announced August 2009
Full year to 31 December 2009 announced March 2010

Shareholder enquiries

Equiniti maintain the share register of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact Equiniti:

Equiniti
Aspect House
Spencer Road
Lancing
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 sale service operated by Equiniti. For telephone sales call 0845 603 7037 between 8.00 am and 4.30 pm, Monday to Friday, and for internet sales log on to www.shareview.co.uk/dealing. You will need your shareholder reference number as shown on your share certificate.

Multiple accounts on the shareholder register

If you have received two or more sets of the documents concerning the Annual General Meeting this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way. For security reasons, Equiniti will not amalgamate the accounts without your written consent, so if you would like any multiple accounts combined into one account, please write to Equiniti at the address given on this page.

Electronic communications

In September 2008, Carillion wrote to shareholders detailing changes regarding shareholder communications following the introduction of the Companies Act 2006 ('the Act'). The Act recognises the growing importance of electronic communications and, following the adoption of updated articles of association at the May 2007 AGM, the Company is now able to provide information to shareholders via the Company's website.

Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly and cost effective way. It also offers advantages in terms of speed and convenience and is a secure method of delivering shareholder documentation.

If you wish to register to receive future notifications issued by the Company by e-mail rather than by letter, please visit our registrars' website at www.shareview.co.uk and complete your registration details.

Shareview

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 6 May 2009, 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 Voting ID, Task ID and shareholder reference number 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.

Five Year Review

Group income statement

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Continuing operations					
Total revenue	5,205.8	3,951.7	3,512.4	2,249.1	1,954.4
Analysed between					
Support services	2,463.5	1,793.6	1,458.7	953.6	886.5
Public Private Partnership projects	178.4	154.1	148.0	65.4	62.5
Middle East construction services	464.2	337.0	268.7	160.5	102.4
Construction services (excluding the Middle East)	2,099.7	1,667.0	1,637.0	1,069.6	903.0
Underlying Group and Joint Ventures operating profit before intangible amortisation, impairment of other investments, curtailment gain, restructuring costs and jointly controlled entities net financial (expense)/income and taxation	194.1	120.1	97.4	55.3	50.7
Analysed between					
Support services	113.5	73.9	58.8	40.5	40.8
Public Private Partnership projects	29.8	25.4	26.5	8.3	6.1
Middle East construction services	34.5	25.4	13.9	4.2	1.8
Construction services (excluding the Middle East)	28.7	16.0	18.5	12.7	10.7
Group eliminations and unallocated items	(12.4)	(20.6)	(20.3)	(10.4)	(8.7)
Share of jointly controlled entities net financial (expense)/income	(18.2)	(9.9)	(8.0)	1.1	(3.4)
Share of jointly controlled entities taxation	(10.7)	(9.0)	(8.1)	(5.0)	(2.2)
Underlying operating profit before intangible amortisation, impairment of other investments, curtailment gain and restructuring costs	165.2	101.2	81.3	51.4	45.1
Group net financial (expense)/income	(7.7)	0.6	1.3	4.0	4.1
Underlying profit before tax	157.5	101.8	82.6	55.4	49.2
Curtailment gain	35.5	-	-	-	-
Intangible amortisation and impairment of other investments	(54.5)	(21.5)	(17.2)	(2.8)	(0.3)
Restructuring costs	(58.2)	(14.2)	(22.6)	-	7.2
Non-operating items	35.6	28.3	25.3	(0.8)	11.8
Profit before taxation	115.9	94.4	68.1	51.8	67.9
Taxation	(4.1)	(8.3)	(7.2)	(11.1)	(8.6)
Profit from continuing operations	111.8	86.1	60.9	40.7	59.3
Discontinued operations	-	(7.6)	(0.5)	0.1	(1.1)
Analysed between					
Trading loss from discontinued operations	-	(1.4)	(0.5)	0.1	(1.1)
Loss on disposal of discontinued operations	-	(6.2)	-	-	-
Profit for the year	111.8	78.5	60.4	40.8	58.2

Group financial statistics

Underlying operating profit margin					
Support services	Percentage	4.6	4.1	4.0	4.2
Middle East construction services	Percentage	7.4	7.5	5.2	2.6
Construction services (excluding the Middle East)	Percentage	1.4	1.0	1.1	1.2
Underlying profit from operations margin					
Total Group	Percentage	3.2	2.6	2.3	2.3

Prior year information for 2004 has been restated from previous GAAP following adoption of International Financial Reporting Standards in 2005

Group balance sheet

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Property, plant and equipment	167 2	131 5	146 6	100 9	69 9
Intangible assets	1,267 5	555 8	596 1	62 3	20 3
Investments in joint ventures	238 6	185 9	178 8	62 7	65 1
	1,673 3	873 2	921 5	225 9	155 3
Inventories, receivables and payables	(490 4)	(286 5)	(282 0)	(119 5)	(79 1)
Net retirement benefit liability (net of deferred tax)	(61 8)	(13 8)	(75 8)	(47 5)	(59 7)
Other net (liabilities)/assets	(21 8)	(25 1)	(22 0)	0 1	(17 7)
Net operating assets/(liabilities)	1,099 3	547 8	541 7	59 0	(1 2)
Net (borrowing)/cash	(226 7)	(44 9)	(108 0)	90 8	128 8
Net assets	872 6	502 9	433 7	149 8	127 6

Group cash flow statement

Underlying Group operating profit	120 1	64 4	49 7	35 0	44 7
Depreciation and other non-cash items	19 2	15 9	18 5	14 4	20 0
Working capital	34 0	31 7	15 2	36 0	26 4
Dividends received from joint ventures	25 0	23 7	15 7	8 4	7 3
Underlying cash flow from operations	198 3	135 7	99 1	93 8	98 4
Deficit pension contributions	(50 5)	(46 3)	(31 8)	(10 0)	–
Restructuring costs	(32 4)	(6 5)	(18 2)	–	–
Interest, tax and dividends	(62 2)	(30 4)	(25 7)	(35 3)	(27 4)
Net capital expenditure	(26 4)	4 4	(28 2)	(46 4)	(19 1)
Acquisitions and disposals	(227 0)	9 6	(190 9)	(35 4)	15 8
Other (including discontinued operations)	18 4	(3 4)	(3 1)	(4 7)	1 5
Change in net liquidity	(181 8)	63 1	(198 8)	(38 0)	69 2
Net (borrowing)/cash at 1 January	(44.9)	(108 0)	90 8	128 8	59 6
Net (borrowing)/cash at 31 December	(226 7)	(44 9)	(108 0)	90 8	128 8

Group financial statistics

Earnings per share

Underlying earnings per share					
– continuing operations	Pence	34 3	28 9	23 7	20 4
Underlying earnings per share					
– continuing and discontinued operations	Pence	34.3	26 2	23 5	20 4
Basic earnings per share					
– continuing and discontinued operations	Pence	28.4	27 1	21 6	18 7

Dividends

Proposed full year dividend per share	Pence	13.0	11 0	9 0	8 0
Underlying proposed dividend cover					
– continuing operations	Times	2.6	2 6	2 6	2 5
Basic proposed dividend cover					
– continuing and discontinued operations	Times	2.2	2 5	2 4	2 3

Prior year information for 2004 has been restated from previous GAAP following adoption of International Financial Reporting Standards in 2005

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)
David Hurcomb (Executive Director)
Don Kenny (Executive Director)
Roger Robinson (Executive Director)

- (1) Member of the Audit Committee
(2) Member of the Remuneration Committee
(3) Member of the Nominations Committee

Secretary and Registered Office

Richard Tapp
Birch Street
Wolverhampton
WV1 4HY
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Banker

National Westminster Bank plc
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Nottingham
NG1 2JX

Joint Brokers

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Canary Wharf
London
E14 5QA

Oriel Securities
125 Wood Street
London
EC2V 7AN

Financial Adviser

Lazard
50 Stratton Street
London
W1J 8LL

Legal Adviser

Slaughter and May
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London
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Share Registrar

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Further information

Want to find out more?

Investors

www.carillionplc.com/investors

Health and Safety

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