



Annual Report and Accounts
2012

MAKING TOMORROW A BETTER PLACE



Together

We can make
tomorrow a
better place

Our vision
To be the partner of choice for delivering,
managing and servicing buildings
and infrastructure

How?

By offering
great service,
innovation and
sustainable value

Our company
Carillion is one of the UK's leading integrated
support services companies with a substantial
portfolio of Public Private Partnership
projects, extensive construction capabilities
and a sector leading capability in delivering
sustainable solutions

Where?

In the UK, Canada
and the Middle
East and
North Africa

Our core capabilities
Support services
Public Private Partnership projects
Construction services

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- (1) After Joint Ventures net financial expense of £16.0 million (2011: £18.8 million) and taxation charge of £1.7 million (2011: £3.5 million) and before intangible amortisation, non-recurring operating items and non-operating items (see note 4 on page 77)
- (2) Restated following the change in presentation of profits from the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011)
- (3) Before Joint Ventures net financial expense and taxation, intangible amortisation and non-recurring operating items (see note 4 on page 77)
- (4) After Joint Ventures taxation charge of £1.7 million (2011: £3.5 million) and before intangible amortisation, non-recurring operating items and non-operating items (see note 4 on page 77)
- (5) Before intangible amortisation, non-recurring operating items and non-operating items (see note 4 on page 77)
- (6) Based on expected revenue and secure and probable orders which exclude variable work and re-bids

Front cover image

In 2012 Carillion was awarded a 10 year contract, worth up to £700 million, by Oxfordshire County Council to provide integrated property and facilities management services for schools, offices, health facilities, fire stations, libraries and other public sector buildings in the County. This contract, which is already the largest of its kind to be let in the UK to date, can be extended to 20 years and to include the properties of other public sector organisations in Oxfordshire.

2012 Results

Revenue

£4.4bn
2011 £5.1bn

Underlying profit from operations⁽¹⁾

£232.4m
2011 £227.4m⁽²⁾

Underlying operating margin⁽³⁾

5.7%
2011 4.9%⁽²⁾

Underlying profit before taxation⁽⁴⁾

£214.7m
2011 £223.5m⁽²⁾

Underlying earnings per share⁽⁵⁾

43.0p
2011 45.7p⁽²⁾

Profit before taxation

£179.5m
2011 £142.8m

Basic earnings per share

37.2p
2011 32.0p

Proposed full year dividend per share

17.25p
2011 16.9p

Net borrowing

£155.8m
2011 £50.7m

Robust financial performance

- > Revenue reduced as previously guided, primarily due to the planned rescaling of UK construction
- > Underlying profit from operations⁽¹⁾ increased, reflecting an improvement in total operating margin
- > Reported profit before taxation and basic earnings per share both increased substantially, due to minimal non-recurring and non-operating items
- > Underlying profit before taxation⁽⁴⁾ and underlying earnings per share⁽⁵⁾ reduced slightly, due to a higher net financial expense, including an increase in the non-cash interest charge relating to pensions

Strong balance sheet

- > Net borrowing of £155.8 million (2011 £50.7 million) reflects the expected outflow of working capital, primarily due to the rescaling of UK construction, and the acquisition of the Bouchier Group in Canada
- > Over £1 billion of committed borrowing facilities and private placement funding

Proposed full year dividend increased by 2% to 17.25p (2011 16.9p)

Strong order book and record pipeline of contract opportunities

- > £5.2 billion of new and probable orders in 2012
- > Total order book plus probable orders of £18.1 billion (2011 £19.1 billion), with the reduction on 2011 due primarily to the sale of equity investments in Public Private Partnership (PPP) projects and the rescaling of UK construction
- > 75% revenue visibility⁽⁶⁾ for 2013 (2011 77% for 2012)
- > Pipeline of contract opportunities worth some £35.2 billion (2011 £33.1 billion)

How it works

Our capabilities

We provide all the services needed to create and manage buildings and infrastructure, from project finance through design and construction to lifetime maintenance, facilities management and energy efficiency.

We report our results in four business segments – Support services, Public Private Partnership projects, Middle East construction services and Construction services (excluding the Middle East).

Group overview

	2012 £m		Restated 2011 ⁽¹⁾ £m
Revenue			
– Group	3,666.2		4,153.2
– Share of Joint Ventures	736.6		898.0
	4,402.8	-13%	5,051.2
Underlying operating profit			
– Group	205.9		188.2
– Share of Joint Ventures	52.0		71.0
	257.9		259.2
Group eliminations and unallocated items	(7.8)		(9.5)
Profit from operations before Joint Ventures' net financial expense and taxation	250.1		249.7
Share of Joint Ventures' net financial expense	(16.0)		(18.8)
Share of Joint Ventures' taxation	(1.7)		(3.5)
Underlying profit from operations	232.4	+2%	227.4
Group interest	(17.7)		(3.9)
Underlying profit before taxation⁽²⁾	214.7	-4%	223.5
Intangible amortisation ⁽³⁾	(31.4)		(31.0)
Non-recurring operating items	(2.6)		(42.8)
Non-operating items	(1.2)		(6.9)
Reported profit before taxation	179.5	+26%	142.8

(1) Restated following the change in presentation of profits from the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011)

(2) After Joint Ventures' taxation of £1.7 million (2011: £3.5 million) and before intangible amortisation, non-recurring operating items and non-operating items

(3) Arising from business combinations

1

Support services

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

Underlying operating profit

£122.7m

2011: £120.8m

Order book plus probable orders

£13.1bn

2011: £12.9bn

Find out more

Group Chief Executive's review
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Operating and financial review
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2

Public Private Partnership projects

In this segment we report the results of our investing activities in Public Private Partnership projects for Government buildings and infrastructure, mainly in the defence, health, education, transport and secure accommodation sectors

Underlying operating profit

£33.8m

2011 £31.4m

Order book plus probable orders

£2.2bn

2011 £2.8bn

Find out more
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3

Middle East construction services

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

Underlying operating profit

£29.0m

2011 £49.1m

Order book plus probable orders

£0.8bn

2011 £1.0bn

Find out more
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Construction services (excluding the Middle East)

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

Underlying operating profit

£72.4m

2011 £57.9m

Order book plus probable orders

£2.0bn

2011 £2.4bn

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We have a resilient UK and international business mix, well positioned in markets offering good prospects for growth



1 Canada

Operations

- > Support services
- > Public Private Partnership projects
- > Construction services

Market sectors

- > We have operated in Canada for around 50 years, delivering a wide range of construction services for public and private sector customers
- > An increasing proportion of our construction work in Canada relates to Public Private Partnership (PPP) projects, for which Carillion has built a market-leading reputation, especially in the health sector
- > We have also established leading positions in the road maintenance markets of Ontario and Alberta, where we have long-term contracts to manage and maintain substantial lengths of the provincial highway network
- > We provide facilities management and maintenance services for our PPP hospitals

Revenue⁽¹⁾

£650.9m
2011 £782.3m

Percentage of revenue

15%
2011 16%

(1) Includes £10.5 million (2011 £7.1 million) of revenue generated in the Caribbean

2 UK

Operations

- > Support services
- > Public Private Partnership projects
- > Construction services

Market sectors

- > We provide all the facilities management, maintenance and other services needed to keep buildings, in particular large, complex property estates, fully operational for public and private sector customers
- > Energy efficiency services for domestic, commercial and public sector customers
- > We provide asset management and maintenance services for road and railway infrastructure and for utilities, including telecommunications electricity and gas
- > We have a strong and selective construction services capability, which plays a key role in providing integrated solutions for PPP projects and for our support services customers

Revenue⁽²⁾

£3,264.8m

2011 £3,707.6m

Percentage of revenue

74%

2011 73%

⁽²⁾ Includes £16.9 million (2011 £43.6 million) of revenue generated outside of the UK, Middle East and North Africa and Canada

3 Middle East and North Africa

Operations

- > Support services
- > Construction services

Market sectors

- > We have around 40 years' experience of operating in this region, where we have well-established Joint Venture businesses in the United Arab Emirates, Oman, Qatar and Egypt, providing construction services for buildings and infrastructure
- > These businesses have market-leading reputations for delivering high-quality projects for a small number of long-term, financially robust customers
- > We also provide facilities management services for which there are growing opportunities across the Gulf region

Revenue

£487.1m

2011 £561.3m

Percentage of revenue

11%

2011 11%

Chairman's statement

Carillion has continued to deliver a robust performance, with underlying earnings per share slightly ahead of the market consensus forecast. Having rescaled our UK construction activities, we have also further improved the risk profile and the overall quality of our business.

Philip Rogerson
Chairman

Total revenue, including joint ventures, reduced to £4.4 billion (2011: £5.1 billion), primarily due to the planned rescaling of our UK construction business, which has been achieved by tightening the criteria we use to select the contracts for which we bid, to ensure that the size of this business remains aligned with the shrinking UK construction market. Furthermore, rescaling our UK construction activities has supported margins and improved the overall risk profile and quality of our business mix. Revenue contributions from the Middle East and Canada were also lower in 2012 due to the timing of our opportunities in those markets. However, we continue to believe that we can deliver strong medium-term growth in both the Middle East and Canada.

In our pre-close trading update on 12 December 2012, we announced that from 2012 onwards profits from the sale of equity investments in Public Private Partnership (PPP) projects would be treated as part of underlying profit, instead of non-operating profit, as this is consistent with the treatment now adopted by most of our industry. PPP equity sales made modest contributions to underlying profit from operations of £11.5 million in 2011 and £13.2 million in 2012. Our 2011 results have been restated to reflect this change in treatment.

In 2012, underlying profit from operations⁽¹⁾ increased by two per cent to £232.4 million (2011: £227.4 million⁽²⁾). The total operating margin increased to 5.7 per cent (2011: 4.9 per cent⁽²⁾), as we continued to benefit from rescaling UK construction and our highly selective approach to the contracts for which we bid, together with an ongoing focus on cost management and operational efficiency. Underlying profit before taxation⁽¹⁾ reduced by four per cent to £214.7 million (2011: £223.5 million⁽²⁾), due to a substantial increase in the Group's net financial expense to £17.7 million (2011: £3.9 million) including an increase in the interest charge relating to the Group's pension schemes. For the same reason, underlying earnings per share⁽¹⁾ reduced six per cent to 43.0 pence (2011: 45.7 pence⁽²⁾).

Reported profit before taxation increased by 26 per cent to £179.5 million (2011: £142.8 million) and basic earnings per share increased by 16 per cent to 37.2 pence (2011: 32.0 pence).

Canillion continues to have a strong balance sheet. Net borrowing at 31 December 2012 was £155.8 million (2011: £50.7 million), which reflected the expected outflow of working capital attendant on rescaling UK construction and the acquisition of the Bouchier Group in Canada. During 2012, the addition of a further £210 million of private placement funding took the Group's total bank facilities and private placement funding to over £1 billion.

New order intake has remained strong with £5.2 billion of new and probable orders during the year. At 31 December 2012, the total value of the Group's order book plus probable orders, which exclude variable work and re-bids, was some £18.1 billion (2011: £19.1 billion), with the reduction due primarily to the sale of equity in Public Private Partnership projects and the rescaling of UK construction. The Group continues to have good revenue visibility, which is currently around 75 per cent of anticipated revenue in 2013 (2011: 77 per cent for 2012). At 31 December 2012, we had a pipeline of contract opportunities worth some £35.2 billion (2011: £33.1 billion), which continues to support our targets for growth.

The Board is recommending a final dividend of 11.85 pence per share (2011: 11.6 pence), making the total dividend for 2012 17.25 pence, an increase of two per cent on the 16.9 pence paid in respect of 2011.

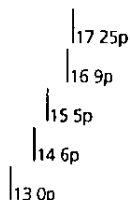
Looking forward, we expect market conditions to remain challenging in 2013. However, with a resilient business model, a strong order book and a substantial pipeline of contract opportunities, the Group remains well positioned to achieve its targets of delivering annual growth in support services and of doubling annual revenues in the Middle East and in Canada, in each case to around £1 billion, in the five-year period from 2010 to 2015.

Philip Rogerson

Philip Rogerson
Chairman
27 February 2013

Dividend – five-year compound annual growth rate

9%



(1) The underlying results stated above are based on the definitions included in the financial highlights on page 1.
(2) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011).

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Group Chief Executive's review

Our vision is to
be the partner of
choice for delivering,
managing and
servicing buildings
and infrastructure.

Richard Howson
Group Chief Executive

Carillion's robust performance in challenging market conditions continues to reflect the success of our strategy in creating a resilient UK and international business mix. As well as enabling the Group to perform well in an economic downturn, our strategy has also positioned the Group to take advantage of opportunities for growth over the medium term.

Our strategy

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

Our strategy continues to be supported by our commitments to

- > Being a recognised leader in Health & Safety and sustainability
- > Our core values
- > Strong risk management and
- > Operational excellence

A strong and resilient business

The consistent implementation of our strategy has created a leading integrated support services business with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities. We use our world-class skills to design unique integrated solutions tailored to the specific needs of our customers. This, together with operational excellence and the resources necessary to deliver solutions for large, complex contracts, helps to differentiate us from our competitors.

With operations across the UK and in Canada and the Middle East, we continue to have a well-balanced UK and international business mix, focused on markets offering good opportunities for growth, especially over the medium and long term. As a result of the prompt action we took in 2010, to begin rescaling our UK construction business in anticipation of planned Government cuts to investment in construction, we have aligned this business to the size of the UK market.

Our business model

Creating sustainable value
for our customers

Generates sustainable returns
for our stakeholders

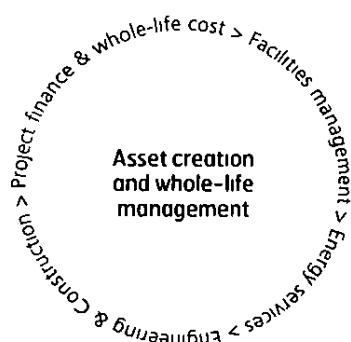
We use our wide range of skills and resources both within and across our three core capabilities, to create integrated solutions tailored to meet the needs of our customers

About us

Our performance

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Support services

- > Sector leading facilities management and energy services
- > Long-term contracts and good visibility
- > Resilient revenue platform
- > Growth underpinned by public sector outsourcing

Revenue
£2,359.7m

2011 £2,345.2m

Underlying operating profit

£122.7m

Order book plus probable orders

£13.1bn

Pipeline

£11.5bn

PPP projects

- > Specialist skills that provide a competitive advantage
- > Valuable equity investments, recycled to generate cash and profit
- > Secures long-term support services contracts
- > Secures good quality construction

Revenue
£287.7m

2011 £309.8m

Underlying operating profit

£33.8m

Order book plus probable orders

£2.2bn

Pipeline

£1.6bn

Construction

(UK, Middle East and Canada)

- > Strong engineering capabilities
- > Selectively focused on quality and delivery
- > Rigorous risk management
- > Strong track record of good quality earnings
- > Positive cash flow dynamics

Revenue
£1,755.4m

2011 £2,396.2m

Underlying operating profit

£101.4m

Order book plus probable orders

£2.8bn

Pipeline

£22.1bn

Group Chief Executive's review

continued

The rescaling of UK construction has been achieved by being very selective in terms of the contracts for which we bid, in order to focus on higher added-value contracts for long-term customers. Since 2009, our annual UK construction revenue has reduced by nearly £900 million to under £1 billion, which has significantly improved the risk profile and overall quality of our business mix.

In 2012, support services and investments in Public Private Partnership projects contributed 60 per cent of revenue (2011: 53 per cent) and 61 per cent of underlying operating profit (2011: 59 per cent), with construction contributing 40 per cent of revenue (2011: 47 per cent) and 39 per cent of underlying operating profit (2011: 41 per cent).

Acquisition of the Bouchier Group

In December 2012, we acquired a 49 per cent interest in the Bouchier Group for a cash consideration of £23.8 million, which is being paid in phased instalments over the period to January 2014. The Bouchier Group is based in Alberta, Canada, and provides a range of support services, including road maintenance, infrastructure services and facilities management, primarily for customers in the oil sector. In the 12 month period to 31 March 2012, the Bouchier Group had revenue of £46.3 million and pre-tax profit of £7.8 million. The provision of support services to companies in the power, oil and gas sectors across all the geographies in which we operate, offers significant new opportunities for growth. The acquisition of the Bouchier Group provides an excellent platform from which to grow our activities in this market in Canada.

Health & Safety and sustainability

Our commitment to being a recognised leader in Health & Safety and sustainability drives everything we do. Providing a safe working environment for all our people and ensuring the safety of those who are affected by what we do, is our first priority. We view this as an integral part of our wider responsibility to deliver sustainable solutions for our customers by using the opportunities we have to create positive impacts on the environment and on the communities in which we operate. Our Health & Safety and sustainability strategies and programmes, together with our performance measured against a number of key performance indicators are published in our Annual Sustainability Report, in April. However, a summary of our performance can be found in this report on pages 11 and 36.

Our values

How we work together within Carillion and with external partners, suppliers and customers, is driven by our six core values of:

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

Behaving in accordance with our values in everything we do, plays a vital role in building a sustainable, profitable business, for which our people can be proud to work.

Strong risk management

Carillion has rigorous operational and financial risk management processes to identify, mitigate and manage strategic Group-wide risks and risks specific to our individual business units and contracts, including economic, social, environmental and ethical risks. The Group's principal risks, their potential impacts on our business and the processes and measures we have in place to manage and mitigate these risks, are explained in more detail on pages 22 and 23.

Operational excellence

Operational excellence is also a key strength. It begins with strong management teams and excellent people who listen to customers to understand their needs and to work with customers to help shape the contracts they bring to market. We then use our skills and resources to design value for money solutions to meet the specific needs of each customer. The ability to use our sector leadership in sustainability to design sustainable solutions is also an increasingly important capability, which helps to differentiate us from our competitors.

These capabilities, together with our annual cost management and efficiency programmes, lead to operational excellence, which enables us to win contracts and to win them on profitable terms. With external expenditure of over £3 billion a year, best practice in supply chain management is vital to cost management and efficiency. An excellent example of innovation in supply chain management is Carillion Direct Sourcing, a company we have established in China to source products directly from manufacturers. This cuts out the middle men and, because Carillion Direct Sourcing supplies all our businesses worldwide, we buy in greater volumes at better prices.

2012 Key Performance Indicators

How we performed in relation to the eight Key Performance Indicators we set for 2012

To attract, develop and retain excellent people	We have maintained investment in leadership, personal development and employee engagement programmes, designed to enable all our people to achieve their full potential. This is underpinned by good communication to create a culture of openness and trust among all our people to enable them to contribute to the development of our business. We measure our progress through annual employee surveys, notably The Great Debate, which involved 9,777 of our people in 2012. The results for 2012 showed that the overall satisfaction of our people reduced slightly with the percentage saying that they are proud to work for Carillion reducing from 75 per cent to 71 per cent, which reflected the impact of rescaling parts of our business to align them with smaller markets.
Be a recognised leader in Health & Safety and sustainability	<p>Our objective of reducing reportable accidents to zero remains our top priority. We continue to invest in programmes to engage, educate and train all our people, backed by strong, visible leadership, including Directors' Safety Tours and Safety Action Groups, together with safety audits. Through our hazard reporting programme 'Don't Walk By', everyone in Carillion is encouraged to report for immediate action anything they consider to be unsafe. In 2012, our Accident Frequency Rate (AFR) increased slightly to 0.076 reportable accidents per 100,000 employee hours worked (2011: 0.074), with more than four out of five projects achieving zero reportable accidents. An AFR of 0.076 continues to be a sector-leading performance. Going forward, we will change this Key Performance Indicator to the Lost Time Incident Frequency Rate (LTIFR), which is the internationally accepted measure of performance. In 2012, our LTIFR per 200,000 hours worked was 0.52. We deeply regret that one fatal accident occurred on a Carillion work site in 2012, when an employee was fatally injured when he was struck by a train. This personal tragedy has been deeply felt by all his colleagues in Carillion and our thoughts are with his family and friends. During 2012, one prosecution of a Carillion company was completed by the Health & Safety Executive. This concerned an accident in 2008 that occurred at Meridian Quay, Swansea, in which a scaffolder, working for a subcontractor, was fatally injured when he fell while dismantling scaffolding.</p> <p>Carillion continues to be a recognised leader in sustainability in our sector, a key measure of which is our ranking in Business in the Community's Corporate Responsibility Index. In 2011 we maintained our 'Platinum' ranking in this Index with a score of 97 per cent and our objective is to at least match our 2011 ranking when the 2012 index is published in April 2013. We report in more detail on our sustainability performance in the sustainability section of this report on page 36 and in our Annual Sustainability Report, which will be published in April 2013.</p>
Continuously improve customer satisfaction	We measure our performance by using an independent customer perception survey. The results of the 2012 survey showed that Carillion achieved an overall rating that exceeded a commercially acceptable level, with market-leading ratings for our civil engineering and building businesses.
Deliver growth in support services	Despite challenging market conditions, revenue and underlying operating profit in support services both moved ahead slightly in 2012, with a one per cent increase in revenue and a two per cent increase in underlying operating profit, compared with 2011.
Grow annual revenues in Canada and the Middle East by doubling each of them to around £1 billion by 2015	Annual revenues in Canada and in the Middle East reduced in 2012, the reasons for which are explained on pages 28 and 29. But we believe the medium-term outlook in both Canada and the Middle East remains positive and our targets of doubling revenues from 2010 in both cases to around £1 billion by 2015, remains unchanged.
Continue to rescale our UK construction capability consistent with our objective of reducing annual revenue to around £1.2 billion	The rescaling of our UK construction business to ensure it remains aligned with the size of the UK market is largely complete. We have benefited significantly from the prompt action we took in 2010 to begin rescaling this business, which is clearly evident in our results, on which we comment in more detail on page 29.
Continue reducing costs and improving efficiency to support margins and earnings growth	Driving rigorous annual cost management and efficiency programmes throughout our business has continued to provide customers with attractive and competitive offerings, as evidenced by our success in securing new and probable orders worth £5.2 billion in 2012, and by the improvement in our total operating margin from 4.9 per cent in 2011 to 5.7 per cent in 2012.
Generate cash-backed profit after adjusting for the strategic rescaling of our UK construction activities	After adjusting for the planned working capital outflow due to rescaling our UK construction activities and some short-term working capital phasing between 2011 and 2012, underlying cash flow from operations was equal to 98 per cent of underlying profit from operations.

Group Chief
Executive's
review
continued

Our people and values
drive the Group's performance

Innovation

Collaboration

Openness

Carillion has leading positions in the Ontario
and Alberta highways maintenance market,
providing year-round services under
long-term contracts

Mutual
dependency

Sustainable
profitable growth

Professional
delivery

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Group Chief Executive's review continued

Support services

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

Having the ability to combine our extensive support services capabilities to provide customers with fully integrated, nationwide solutions is a key strength that helps to differentiate Carillion from our competitors. It is also fundamental to our success in delivering Public Private Partnership (PPP) projects. The long-term support services contracts we have – some of them for more than 30 years – provide good visibility of future revenues and make a major contribution to the resilience of our business mix.

Property

We provide an extensive range of support services for property, notably integrated facilities management solutions for public and private sector customers with large, complex property estates. We have strong positions in a number of market sectors, particularly for customers in the financial services, commercial, utilities, media and telecommunications sectors. In the UK public sector, we are a major supplier of integrated facilities management services to central and local government, notably in the defence, health, education and general office accommodation sectors. In Canada, we have a growing business, driven by our success in winning PPP projects, especially in the health sector, for which we provide facilities management services.

Infrastructure

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


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

Energy services

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

Power, oil and gas

In 2012, we used our facilities and asset management capabilities to take advantage of new market opportunities, notably in the power, oil and gas sectors in the UK and the Middle East. For example, we were appointed as the preferred bidder for our largest ever support services contract in the Middle East, a three-year, £75 million contract for Petroleum Development Oman. The acquisition in December 2012 of a 49 per cent interest in the Bouchier Group, which provides support services to customers in the oil sector in Canada, also provides an excellent platform to grow our activities in this market.


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Operating and financial review
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Right

In 2012, we continued to build on the leading positions we hold in the highways maintenance markets in Ontario and Alberta, Canada, winning new contracts and contract renewals, which together are worth in excess of £500 million over 12 years.

Far right

Carillion is a leading supplier of support services to the UK Defence Infrastructure Organisation, for whom we provide a wide range of property and facilities management services, including building fabric maintenance, catering, laundry, cleaning and security, for military establishments and accommodation across the UK.

Support
services
Manage
Maintain
Operate

Find out more
www.carillionplc.com/our-capabilities

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**Public Private
Partnership
projects
Finance
Design
Build
Maintain**

Find out more
www.carillionplc.com/our-capabilities

Group Chief Executive's review continued

Public Private Partnership projects

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

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

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

Health

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

Defence

Carillion has three major PPP defence projects for the UK Ministry of Defence. The largest of these is Allenby Connaught, a 35-year concession contract that commenced in 2006 to rebuild Army accommodation across the South of England and to provide support services for the estate over the life of the concession.

Secure accommodation

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

Education

We have built a strong track record in the education sector, where we have delivered, or are in the process of delivering, around 160 new schools and academies. Some 50 of these schools and academies have been funded by private finance and include the provision of support services.

Roads

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

Canada

Canada also uses private finance to deliver public buildings and infrastructure with a similar procurement model to that used in the UK. Carillion is a leader in this market, especially in the health sector, having delivered two of the first privately financed hospitals in Canada – the Royal Ottawa and the new William Osler Hospital in Brampton, Ontario, for which we also have long-term facilities management contracts. We have since delivered a further four major projects in Ontario and have another under construction. Going forward we expect to bid for new projects in both Ontario and British Columbia.

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During 2012, Carillion completed the Royal Victoria Hospital expansion project in Ontario, Canada. This £160 million project included 101 new in-patient beds, two additional patient care units with 64 beds, a coronary care unit, operating theatres and expanded emergency, diagnostic imaging and laboratory facilities.

Right

Carillion has recently completed the £157 million, Phase 1B of the redevelopment of the Centre for Addiction and Mental Health in Toronto, Canada. This project is part of a programme to transform an institutional campus into an urban village style hospital.

Group Chief Executive's review continued

Middle East construction services

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

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

Abu Dhabi

Since extending the operations of Al Futtaim Carillion to Abu Dhabi in 2008, our business there has grown substantially and in 2012 it contributed 23 per cent of our total Middle East construction services revenue. Since completing our first project in Abu Dhabi in 2009, the prestigious 500-bedroom Yas Hotel that forms the centrepiece of Abu Dhabi's Formula 1 Grand Prix circuit, we have won a series of further major projects. These include Stage 3 of the UAE University Al Muneera, a major mixed-use development for ALDAR and Al Bahar Towers, a new headquarters for the Abu Dhabi Investment Authority. Currently we are building New York University for Mubadala, on which we continue to make good progress.

Oman

Our business in Oman, Carillion Alawi, has a long history of delivering high-profile projects to exacting standards, including the Guest Palace Qas'r Al Alam, the Grand Mosque, the Royal Opera House and the Majlis, a new parliament building. Current projects include the National Museum, an extension to Muscat Airport, which involves the construction of a new control tower and ancillary facilities and a major mixed-use development for the Public Authority for Social Insurance. In 2012, Carillion Alawi continued to grow and contributed some 37 per cent of our total construction services revenue in the Middle East.

Dubai

In Dubai, Al Futtaim Carillion has an outstanding track record for delivering high-quality projects, including Dubai Festival City Motor City, infrastructure for the Downtown Dubai development and infrastructure for Dubai Aluminium. Activity levels in Dubai fell significantly as a result of the global economic downturn, but have recently begun to recover slowly, with Dubai contributing some 16 per cent of our Middle East construction revenue in 2012. Al Futtaim Carillion's largest current project in Dubai is the £112 million Al Jalila Children's Speciality Hospital.

Egypt

Al Futtaim Carillion extended its operations to Egypt in 2008 specifically to build the £2 billion Cairo Festival City development for our Joint Venture partner, Al Futtaim. In 2012, this project contributed 15 per cent of our Middle East construction services revenue as work on the Cairo Festival City development increased.

Qatar

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

Saudi Arabia

In line with our strategy of geographical diversification, we have recently agreed a letter of intent to deliver our first major contract in Saudi Arabia.

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In 2012, Al Futtaim Carillion completed the £550 million Al Muneera mixed-use development in Abu Dhabi for ALDAR. This development included apartment buildings, town houses, luxury villas and office accommodation, together with two road bridges joining the development to the mainland and other associated infrastructure works.

Far right
Carillion Alawi has recently completed the Majlis, a magnificent new Parliament building in Muscat, Oman. The £275 million contract included the construction of the new Parliament building, which houses the Majlis Oman, Majlis A'shura and Majlis A'ddowla, together with VIP areas, an information centre, library, offices and other support facilities.

Middle East construction services Build sustainably

Find out more
www.carillionplc.com/our-capabilities

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**Construction
services
(excluding the
Middle East)
Design
Build
sustainably**

Find out more
www.carillionplc.com/our-capabilities

Group Chief Executive's review continued

Construction services (excluding the Middle East)

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

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

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

In the UK, we began rescaling our construction business in 2010, through being even more selective in respect of the contracts for which we bid, to ensure this business remains aligned to the size of the UK market, having correctly anticipated that this market would shrink significantly. Our strategy is to base our capabilities around delivering integrated solutions for PPP projects and support services customers and high-quality added-value contracts for long-term customers to support margins and create a best-in-class business. Our UK construction revenue has reduced from £1.8 billion in 2009 to around £0.9 billion in 2012, but with strong margins and improved profitability

In Canada, our ability to deliver integrated solutions has helped us to establish a leading position in delivering public sector buildings and infrastructure using a private finance model (AFP), which is similar to the UK's PPP procurement model. We expect the new 10-year AFP investment programme to be a key driver of growth over the medium term, supporting our objective of doubling our revenue in Canada to around £1 billion per annum

UK

A significant proportion of our UK construction revenue already comes from PPP projects. For example, we have two major PPP projects for the Ministry of Defence – Allenby Connaught, which involves building and refurbishing Army accommodation across the South of England, and the Royal School of Military Engineering. We also continue to be a leading supplier to the schools building programme, which includes some PPP projects, and to the health sector, in which our largest project is the new Southmead Hospital in Bristol. We also provide construction services for other long-term customers where quality, delivery and our sector-leading sustainability credentials differentiate our offering

Our largest sectors of the UK infrastructure market are roads and railways, in which we had significant success during 2012. Our construction capabilities in these sectors are also key to our success in winning and delivering PPP projects, long-term maintenance contracts for roads and railways and contracts for the Highways Agency's 'managed motorways' programme

Canada

In Canada, where our business was established some 50 years ago, we have strong construction capabilities, both for buildings and infrastructure. We delivered two of the first privately financed hospitals to be built in Canada, both of which are fully operational, and for which Carillion has long-term support services contracts. We have since delivered four more hospital projects and early in 2013 we completed a new Forensic Services and Coroners' Complex in Toronto. Carillion is also delivering other high-profile construction projects, including the refurbishment and extension of Toronto's Union Station

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A Carillion Joint Venture delivered the £209 million contract to upgrade the A1 between Dishforth and Leeming in Yorkshire, from a dual two-lane trunk road to a dual three-lane motorway. The project included extensive environmental protection measures, including low-noise surfacing and noise barriers, together with protection for the natural habitats of deer, badgers, great crested newts, otters and migratory birds

Right

The Nottingham Academy, which was completed in 2012, is one of some 160 schools and academies that have been, or are in the process of being delivered, by Carillion in England

Group Chief Executive's review continued

Order book plus probable orders

£18.1bn
2011 £19.1bn

- 1 Construction services
(excluding the Middle East)
2012 £2.0bn / 2011 £2.4bn
- 2 Middle East construction services
2012 £0.8bn / 2011 £1.0bn
- 3 Support services
2012 £13.1bn / 2011 £12.9bn
- 4 Public Private Partnership projects
2012 £2.2bn / 2011 £2.8bn

Pipeline of contract opportunities

£35.2bn
2011 £33.1bn

- 1 Construction services
(excluding the Middle East)
2012 £10.7bn / 2011 £8.4bn
- 2 Middle East construction services
2012 £11.4bn / 2011 £11.4bn
- 3 Support services
2012 £11.5bn / 2011 £12.3bn
- 4 Public Private Partnership projects
2012 £1.6bn / 2011 £1.0bn

Well positioned for the future

New order intake remained strong in 2012, despite difficult market conditions, with £5.2 billion of new and probable orders secured during the year. At 31 December 2012, the Group had orders and probable orders worth £18.1 billion (31 December 2011: £19.1 billion). Of this total, orders – which are defined as signed contracts, amounted to £16.6 billion. Probable orders, which are contracts for which we have been selected as the preferred bidder and have a greater than 90 per cent probability of being signed, amounted to £1.5 billion. The reduction in the value of orders and probable orders compared with December 2011, was due to the sale of equity investments in Public Private Partnership projects and the rescaling of our UK construction business. The Group has revenue visibility⁽¹⁾ for 2013 of 75 per cent, based on expected revenue in 2013 and secure and probable orders.

The value of our pipeline of contract opportunities at the year end remained very strong at £35.2 billion (2011: £33.1 billion). This pipeline includes specific contracts that have passed our initial selectivity criteria and have either come to market, or are expected to come to market.

Although we expect our markets to remain challenging in 2013, given the strength of our order book and the size of our pipeline of contract opportunities, our targets for growth remain unchanged, namely:

- > To deliver annual revenue growth in support services, with solid single digit growth in 2013
- > To win an average of one in three of the Public Private Partnership projects for which we bid, in which we can invest equity that generates valuable returns and for which we can secure long-term support services contracts and good quality construction contracts
- > To double our revenue in the Middle East to around £1 billion in the five-year period to 2015, with double digit growth in 2013
- > To grow revenue in construction services (excluding the Middle East), with single digit growth in 2013
- > To double our revenue in Canada to around £1 billion in the five-year period to 2015 to support our targets for growth in both our support services and construction services (excluding the Middle East) segments

Importantly, we continue to have a strong balance sheet to support the delivery of our strategy and targets for growth. At 31 December 2012, the Group had net borrowing of £155.8 million and committed bank facilities and private placement funding of over £1 billion.

Key Performance Indicators for 2013

To support our strategy and the delivery of our targets for growth, we have set Key Performance Indicators for 2013 in respect of the following objectives:

- > To be an employer of choice that attracts, develops and retains excellent people
- > To be a recognised leader in Health & Safety and Sustainability
- > To improve customer satisfaction
- > To reduce costs and improve efficiency to support margins
- > To deliver cash-backed profit after adjusting for the effect on working capital of having largely completed the planned rescaling our UK construction activities in 2012

Operational risk management

Carillion has rigorous operational risk management policies and processes to identify, mitigate and manage strategic Group-wide risks and risks specific to our individual business units and contracts, including economic, social, environmental and ethical risks.

Carillion has a Group Head of Risk who is responsible for:

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

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



Richard Howson
Group Chief Executive
27 February 2013

⁽¹⁾ Based on expected revenue and secure and probable orders – which exclude variable work and re-bids

Operational risk management



The Group's principal risks

Potential impact

Mitigation

Continuing to win contracts in our existing and new target markets and geographies, consistent with our strategy for growth and on satisfactory terms and conditions	Failure to achieve targets for revenue growth, cash-backed profits and earnings	<ul style="list-style-type: none"> > Continually analysing our markets to ensure we understand the opportunities they offer > Listening to our customers to ensure we understand their needs > Continually seeking to differentiate our offering to ensure it meets customers' needs > Implementing annual efficiency and cost reduction programmes to remain competitive > Behaving in accordance with our values to support our objective of being the partner of choice for our customers
Managing our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base	An increase in liabilities would reduce Carillion's net assets and adversely affect the market's valuation of Carillion and its share price	<ul style="list-style-type: none"> > The Group's main defined benefit pension schemes have been closed to future accrual > Regularly reviewing our investment policies to ensure that employee and company contributions, together with scheme benefits, remain appropriate
Managing major contracts to ensure that they are delivered on time, to budget and to the required standards	Failure to achieve the margins, profits and the cash flows we expect from contracts, with consequent damage to our brand reputation	<ul style="list-style-type: none"> > Applying well-defined selectivity criteria to ensure we take on contracts only where we understand and can manage the risks involved > Applying our rigorous policies and processes to monitor and manage contract performance > Ensuring we have high-quality people delivering projects
Selecting high-quality joint venture and supply chain partners	Failure to deliver contracts on time and to budget, with consequent damage to our brand reputation	<ul style="list-style-type: none"> > Applying selectivity criteria to ensure we choose partners and suppliers that satisfy our standards for quality, reliability and financial stability
Attracting, developing and retaining excellent people by being an employer of choice	Failure to deliver high-quality services to our customers, with consequent effects on profits, brand reputation and our ability to win new contracts and achieve our targets for growth	<ul style="list-style-type: none"> > Developing and implementing leadership, personal development and employee engagement programmes that encourage and support all our people to achieve their full potential
Maintaining high standards of performance in respect of security, Health & Safety and other statutory requirements	Adverse effects on employee morale leading to increases in employee dissatisfaction and employee turnover rates, together with the loss of customer, supplier and partner confidence and consequent damage to our brand reputation	<ul style="list-style-type: none"> > Applying rigorous risk management processes supported by robust business continuity plans > An ongoing commitment to 'Target Zero', our programme to eliminate reportable accidents, including implementing management systems that conform to Occupational Health & Safety Assessment System 18001 > Implementing thorough, mandatory staff training programmes to support the delivery of our objectives and to ensure compliance with our statutory obligations and policies in respect of ethics and values

Operating and financial review

Underlying profit from operations⁽¹⁾ increased by two per cent to £232.4 million, with the total underlying operating margin increasing to 5.7 per cent. Reported profit from operations increased by 29 per cent to £198.4 million.

Richard Adam
Group Finance Director

Financial reporting segments and analysis

Operating profit by financial reporting segment	2012 £m	2011 ⁽¹⁾ £m	Change from 2011 %
Support services	122.7	120.8	+2
Public Private Partnership projects	33.8	31.4	+8
Middle East construction services	29.0	49.1	-41
Construction services (excluding the Middle East)	72.4	57.9	+25
	257.9	259.2	-1
Group eliminations and unallocated items	(7.8)	(9.5)	+18
Profit from operations before Joint Ventures			
net financial expense and taxation	250.1	249.7	-
Share of Joint Ventures' net financial expense	(16.0)	(18.8)	+15
Share of Joint Ventures' taxation	(1.7)	(3.5)	+51
Underlying profit from operations⁽¹⁾	232.4	227.4	+2
Intangible amortisation	(31.4)	(31.0)	-1
Non-recurring operating items	(2.6)	(42.8)	+94
Reported profit from operations	198.4	153.6	+29

Group overview

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

Total revenue reduced in 2012 to £4.4 billion (2011: £5.1 billion), including revenue from Joint Ventures of £736.6 million (2011: £898.0 million), primarily because of the rescaling of UK construction which began in 2010 and was largely complete by the end of 2012.

Following the change in treatment of profit from the sale of equity investments in Public Private Partnership projects, which contributed £13.2 million of profit in 2012 (2011: £11.5 million), total underlying profit from operations⁽¹⁾ increased by two per cent to £232.4 million (2011: £227.4 million⁽²⁾). This included profit from Joint Ventures of £34.3 million (2011: £48.7 million), with the total underlying operating margin increasing to 5.7 per cent (2011: 4.9 per cent⁽²⁾).

After a substantial increase in the net financial expense to £17.7 million (2011: £3.9 million), which included a significant increase in the interest charge relating to pensions, underlying profit before taxation⁽⁴⁾ was four per cent lower at £214.7 million (2011: £223.5 million⁽²⁾).

Intangible amortisation was £31.4 million (2011: £31.0 million) and non-recurring operating items and non-operating items together amounted to a charge of £3.8 million (2011: £49.7 million⁽²⁾), leaving profit before taxation 26 per cent higher at £179.5 million (2011: £142.8 million).

The underlying Group taxation charge⁽⁵⁾ of £23.5 million (2011: £27.8 million), when combined with a taxation charge on Joint Ventures of £1.7 million (2011: £3.5 million), represented an underlying effective tax rate of 12 per cent (2011: 14 per cent⁽²⁾). Profit after tax increased by 20 per cent to £166.2 million (2011: £138.0 million). After non-controlling interests of £6.1 million (2011: £3.4 million), profit attributable to Carillion shareholders was £160.1 million (2011: £134.6 million) and basic earnings per share increased by 16 per cent to 37.2 pence (2011: 32.0 pence).

Underlying cash flow from operations⁽⁶⁾ was £97.9 million and represented 42 per cent of underlying profit from operations⁽¹⁾ (2011: 112 per cent⁽²⁾) with the reduction due primarily to the expected working capital outflow attendant on the rescaling of UK construction. In addition, as previously indicated, we received substantial, unexpected payments close to the 2011 year end, which caused a temporary reduction in net borrowing of some £50 million at 31 December 2011, which reversed early in 2012, adding some £50 million to the outflow of working capital in 2012. At 31 December 2012, net borrowing was £155.8 million (2011: £50.7 million).

(1) After Joint Ventures net financial expense of £16.0 million (2011: £18.8 million) and taxation charge of £1.7 million (2011: £3.5 million) and before intangible amortisation and non-recurring operating items (see note 4 on page 77).

(2) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011).

(3) Before Joint Ventures net financial expense and taxation, intangible amortisation and non-recurring operating items (see note 4 on page 77).

(4) After Joint Ventures taxation charge of £1.7 million (2011: £3.5 million) and before intangible amortisation, non-recurring operating items and non-operating items (see note 4 on page 77).

(5) Before intangible amortisation, non-recurring operating items and non-operating items (see note 4 on page 77).

(6) Before deficit recovery payments and non-recurring operating items and after dividends received from Joint Ventures.

Operating and financial review

continued

Support services

	2012 £m	2011 £m	Change from 2011 %
Revenue			
– Group	2,131.4	2,119.8	
– Share of Joint Ventures	228.3	225.4	
	2,359.7	2,345.2	+1
Underlying operating profit⁽¹⁾			
– Group	101.8	105.7	
– Share of Joint Ventures	20.9	15.1	
	122.7	120.8	+2

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

Revenue in support services showed a marginal improvement with the expected reduction in revenue from Carillion Energy Services due to contracts coming to an end, offset by organic growth in both the UK and Canada. Despite a high level of bidding activity and the associated costs and ongoing competitive market pressures, operating performance in this segment remained strong, with underlying operating profit also marginally ahead as we maintained our operating margin at 5.2 per cent.

New order intake in 2012 remained very healthy, with a substantial number of new contracts and contract extensions across all the sectors and geographies in which we operate, including several notable successes. In the UK, pressure on Local Authorities to reduce spending continues to create a substantial pipeline of opportunities as more Authorities look to outsource services to reduce costs and increase efficiency. In April 2012, Carillion was awarded a 10-year contract by Oxfordshire County Council to provide integrated property and facilities management services. This contract, which was the first of its kind to be let in the UK, is initially expected to be worth up to £700 million, but this could potentially increase significantly as the contract is extendable to 20 years. We also secured a 10-year strategic partnership with Lancashire County Council to deliver property services, initially worth up to £150 million, but again with the potential for this to increase substantially, as the contract provides for the scope of services to be expanded considerably. In November 2012, Carillion achieved financial close on the first major energy services contract that implements the provisions of the UK Government's 'Green Deal' legislation, namely an eight-year contract for Birmingham City Council potentially worth up to some £1.5 billion.

In Canada, we won new contracts and successfully re-bid contracts for highways maintenance worth £525 million. In the Middle East, where we are seeing an increasing number of support services opportunities, we had two particularly notable successes, which together will nearly treble our support services revenue in the region – a highways maintenance contract in Qatar worth £36 million over three years, our first contract of this kind in the region, and our appointment as the preferred bidder for a facilities management contract for Petroleum Development Oman worth some £75 million over the initial contract period of three years, which is extendable to eight years.

Consequently, notwithstanding the in-sourcing of two contracts by customers, the value of our support services order book and probable orders was £13.1 billion at the year end (2011: £12.9 billion). This continues to provide good revenue visibility, which currently stands at 71 per cent⁽²⁾ of expected revenue for 2013 (2011: 79 per cent for 2012). We have also maintained a strong pipeline of contract opportunities worth some £11.5 billion (2011: £12.3 billion), which supports our overall objective of delivering annual revenue growth in support services and our target of single digit growth in 2013.

In June 2012, the Ministry of Defence awarded Carillion a five-year contract worth some £45 million to provide facilities management services for the bases used by the United States Visiting Forces in the UK.

(1) Before intangible amortisation and non recurring operating items
(2) Based on expected revenue and secure and probable orders which exclude variable work and re bids

Public Private Partnership projects

	2012 £m	2011 ⁽¹⁾ £m	Change from 2011 %
Revenue			
– Group	13	12	
– Share of Joint Ventures	286.4	308.6	
	287.7	309.8	-7
Underlying operating profit⁽²⁾			
– Group	17.3	14.2	
– Share of Joint Ventures	16.5	17.2	
	33.8	31.4	+8

In this segment we report equity returns on investments in Public Private Partnership (PPP) projects in the UK and Canada, including those from the sale of equity investments

Our integrated business model enables us to combine our capabilities in project finance, design, construction and life-time asset management, to win and deliver PPP projects in which we make equity investments and for which we also secure long-term support services contracts and good quality construction contracts. These support services and construction services contracts are reported in our support services and construction services (excluding the Middle East) segments, respectively

Carillion has led the market in recycling equity investments, namely selling investments after projects have passed from construction into the operational phase and reinvesting the proceeds in new projects. Given the strength of our portfolio of financially closed projects and of our pipeline of project opportunities, we expect to continue recycling equity investments for the foreseeable future. Accordingly, and consistent with the treatment adopted by most of our industry, from 2012 onwards profit from selling PPP equity investments is being treated as part of underlying operating profit, rather than as non-operating profit

Our portfolio of investments continued to perform well in 2012, in line with our target internal rate of return of 15 per cent. During the year we sold our equity investments in seven projects – the Cleadon Park Health Centre and the University of Hertfordshire, together with 90 per cent of our equity in the Durham, Nottingham, South Tyneside & Gateshead, Tameside and Wolverhampton Building Schools for the Future projects. These sales generated total gross proceeds of £34.8 million, which reflected an average discount rate of seven per cent, and an operating profit of £13.2 million

Revenue reduced in 2012 as a result of selling equity investments in 2011 and 2012. Operating profit increased by eight per cent, because the £13.2 million of profit generated from equity sales in 2012 more than offset the equity returns no longer received from the investments sold. In 2011, equity sales generated £11.5 million of operating profit and the previously reported operating profit for 2011 of £19.9 million has been restated as £31.4 million to reflect this change in treatment

At 31 December 2012, we had a portfolio of 23 financially closed projects in which we had invested £101.3 million (2011: £96.0 million) of equity and in which we have commitments to invest a further £85.6 million. The Directors' valuation of existing investments in this portfolio at 31 December 2012, using a nine per cent discount rate, increased to £173 million (2011: £164 million). The value of our order book plus probable orders was approximately £2.2 billion at 31 December 2012 (2011: £2.8 billion), with the reduction on 2011 due to selling seven equity investments in 2012

The outlook in this segment is positive, as our pipeline of contract opportunities has increased substantially to £1.6 billion (2011: £1.0 billion). In the UK, we are shortlisted for two projects – the Royal Liverpool Hospital project, in which we could invest up to £25 million of equity, and on which a preferred bidder decision is expected in the first half of 2013, and the M8 motorway improvements project, in which we could also invest up to £20 million. In Canada, which has a PPP programme with an estimated value of approximately C\$60 billion, we are shortlisted for three projects – the Kingston Provident Care Centre and Hamilton Health Sciences, in Ontario, and North Island Hospital in Vancouver, British Columbia – in which we could invest up to £20 million. Furthermore, we aim to increase the number of projects for which we are shortlisted in Canada to up to seven during 2013, which will be the largest number of PPP projects that we have ever bid concurrently. In the UK, we expect the recent positive outcome of the Government's review of private finance to lead to a new pipeline of opportunities, notably in the education and defence sectors where Carillion has strong track records

Carillion is an equity partner in the Special Purpose Company delivering the £3 billion Royal School of Military Engineering Public Private Partnership project. Carillion is also delivering the construction of enhanced training facilities and accommodation for military personnel, together with new retail, catering and leisure facilities

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(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011)

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

Operating and financial review

continued

Middle East construction services

	2012 £m	2011 £m	Change from 2011 %
Revenue			
– Group	261.4	218.9	
– Share of Joint Ventures	212.2	330.0	
	473.6	548.9	-14
Underlying operating profit⁽¹⁾			
– Group	13.8	13.9	
– Share of Joint Ventures	15.2	35.2	
	29.0	49.1	-41

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

As expected, full-year revenue reduced despite a strong performance in the second-half of 2012 to deliver revenue of £272.0 million, which was significantly higher than first-half revenue of £201.6 million. Substantial fluctuations in revenue between accounting periods are not unusual in the Middle East, because the timing of project awards can have a significant effect on revenue, given our strategy is to focus on large projects for a small number of financially robust customers, for whom quality and reliability are paramount. Operating profit reduced, reflecting both lower revenue and a lower operating margin of 6.1 per cent (2011: 8.9 per cent), which is in line with the guidance we have been giving since 2010 that margins in this segment would reduce to around six per cent as negotiated contracts are replaced by contracts won through competitive tendering. The operating margin in 2011 also benefited from favourable outturns on certain projects that reached completion in 2011 and this has not been repeated in 2012.

Although customer decisions on contract awards have been slower during 2012, we won a number of significant new contracts during the year. Notable successes in 2012 included a £113 million contract to build a mixed use development for the Oman Public Authority for Social Infrastructure, a £45 million infrastructure contract for EMAL (Emirates Aluminium) in Abu Dhabi, a £42 million contract to build the Sultan Qaboos Mosque at Nizwa for the Oman Royal Court Affairs, a £40 million contract to construct Sidab Harbour for the Royal Oman Police and a £35 million contract for the Al Baleed Resort Company in Oman.

The value of Carillion's share of the Middle East order book and probable orders was £0.8 billion at the year end (2011: £1.0 billion), which reflects the effect of the slow down in contract awards. Our pipeline of new contract opportunities of £11.4 billion (2011: £11.4 billion) includes opportunities in all the countries in which we currently operate, namely the UAE (Abu Dhabi and Dubai), Oman, Qatar and Egypt, and also in Saudi Arabia. In line with our strategy of geographical diversification, we have recently agreed a letter of intent to deliver our first major contract in Saudi Arabia. With revenue visibility for 2013 of 94 per cent⁽²⁾ (2011: 70 per cent for 2012) and a strong pipeline of contract opportunities, we are confident of delivering double digit revenue growth in 2013 and of making progress towards our target of doubling our share of revenue in the Middle East to around £1 billion over the five year period from 2010 to 2015 at a margin of around six per cent.

Al Futtaim Carillion built the infrastructure for the Downtown Dubai development for Emaar Properties, including roads, utility works and underground car parking, together with 1,800 apartments in seven blocks around the perimeter of this development, in the centre of which is the Burj Khalifa Tower. The total value of these projects was some £400 million.

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

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

Construction services (excluding the Middle East)

	2012 £m	2011 £m	Change from 2011 %
Revenue			
– Group	1,272.1	1,813.3	
– Share of Joint Ventures	9.7	34.0	
	1,281.8	1,847.3	-31
Underlying operating profit⁽¹⁾			
– Group	73.0	54.4	
– Share of Joint Ventures	(0.6)	3.5	
	72.4	57.9	+25

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

Our performance in this segment has continued to benefit from the swift action we took in 2010 to begin rescaling our UK business to ensure it remained aligned in size to the shrinking UK construction market. Revenue reduced, largely due to the effect of rescaling UK construction, but with operating profit increasing as a result of the margin improving to 5.6 per cent (2011: 3.1 per cent). The rescaling of our UK business has been achieved through tightening the criteria we use to select the contracts for which we bid in order to avoid low margin work and to focus increasingly on the delivery of integrated solutions for PPP projects and support services customers, and projects for other customers with whom we have long-term relationships.

In 2012, UK construction revenue was approximately £0.9 billion and we believe the process of rescaling is now largely complete. Our performance has continued to benefit from taking a highly selective approach to the contracts for which we bid, lower bid costs, a rigorous focus on cost management and positive settlements on contracts reaching completion. Clearly, some of these benefits arise only because we have been rescaling our UK business. But we believe our strategy has not only increased profitability during the period of rescaling, but created a stronger business, capable of delivering higher margins than the industry average, as we begin to target revenue growth going forward.

We won a number of significant new contracts in 2012, consistent with our selective approach. In the UK, these included contracts for the Highways Agency worth around £250 million to Carillion, including two major projects that were allocated funding in the Government's pre-budget statement, namely the A1(M) upgrade between Leeming and Barton and the A5-M1 link road scheme, which we are delivering with Joint Venture partners. In addition, we secured a £45 million contract to reconfigure Pier 5 at Gatwick Airport, a £42 million contract for Argent in Manchester and Academy Schools contracts worth over £40 million. Since the year end, Carillion has also been awarded a £115 million contract to upgrade the A465 in Wales.

As previously announced, we expected construction revenue in Canada to reduce and in 2012 it contributed some £0.4 billion of revenue to this segment (2011: £0.5 billion). In Canada, where we also apply strict contract selectivity criteria, a key element of our strategy for achieving strong medium-term growth is to win PPP projects. New PPP programmes, worth in total some C\$60 billion, were launched in Canada towards the end of 2011 and bidding on PPP projects that form part of these programmes is now well underway and we have already been shortlisted for three projects, with a construction value to Carillion of some £0.5 billion. During 2013, we aim to increase the number of projects for which we are shortlisted to up to seven, as we continue to believe the strength of our PPP offering will play a key part in enabling us to achieve our objective of doubling total revenue in Canada to around £1 billion, in the five year period from 2010 to 2015.

In 2012, Carillion was selected to deliver further construction work worth some £120 million for the Thameslink Programme, under Network Rail's Multi Asset Framework Agreement. As a Delivery Partner to Network Rail's Thameslink Team, Carillion is building improvements to support the provision of a reliable service throughout the Thameslink route.

At the year end, we had orders and probable orders in this segment worth some £2.0 billion (2011: £2.4 billion), with the reduction on 2011 primarily due to the rescaling of our UK business. Revenue visibility for 2013 is currently 72 per cent⁽²⁾ (2011: 72 per cent for 2012). Encouragingly, our pipeline of contract opportunities at 31 December 2012 increased to £10.7 billion (2011: £8.4 billion), which not only includes significant opportunities in Canada, but also opportunities in the UK, especially over the medium term. In 2013 our target is to deliver single digit revenue growth in this segment, with our operating margin remaining above the industry average.

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(1) Before intangible amortisation and non-recurring operating items.
(2) Based on expected revenue and secure and probable orders, which exclude variable work and re-bids.

Operating and financial review

continued

Group income statement

Intangible amortisation

Intangible amortisation of £31.4 million (2011: £31.0 million) related to the amortisation of intangible assets primarily arising from the acquisitions of Eaga (since re-branded as Carillion Energy Services) in 2011, Alfred McAlpine in 2008 and Mowlem in 2006.

Non-recurring operating items

The non-recurring operating charge of £2.6 million (2011: £42.8 million) related to a payment made to the Carillion Energy Services Employee Share Scheme in lieu of Carillion dividends waived by the Eaga Partnership Trusts of £2.6 million. The Eaga Partnership Trusts hold 3.9 per cent of Carillion's issued share capital, which they acquired as a result of Carillion's acquisition of Carillion Energy Services in 2011.

Non-operating items

The non-operating charge of £1.2 million (2011: £6.9 million⁽¹⁾) comprised £0.9 million of costs relating to the acquisition of the Boucher Group and £0.3 million of costs associated with the closure and disposal of small non-core businesses.

Net financial expense

The Group's net financial expense of £17.7 million (2011: £3.9 million) comprised the following items: a net expense of £21.5 million (2011: £14.0 million) in respect of borrowings and other liabilities, with the increase compared to 2011 largely due to higher borrowings, a net interest charge in respect of defined benefit pension schemes of £3.6 million (2011: £3.2 million credit), with the movement due primarily to a reduction in the AA bond yield and interest received in respect of loans to PPP Joint Venture projects of £7.4 million (2011: £6.9 million).

Taxation

The underlying Group taxation charge⁽²⁾ of £23.5 million (2011: £27.8 million) when combined with a taxation charge on Joint Ventures of £1.7 million (2011: £3.5 million), represented an underlying effective tax rate⁽²⁾ of 12 per cent (2011: 14 per cent⁽¹⁾). This is significantly below the UK standard rate of corporation tax of 24.5 per cent for 2012, because our profits in the Middle East are subject to zero or low rates of tax, agreement of certain historic tax issues with HM Revenue and Customs and because we utilise carried forward tax losses in the UK that were largely inherited with the acquisitions of Mowlem, Alfred McAlpine and Carillion Energy Services. At 31 December 2012, the Group had £250 million of corporate tax losses (2011: £348 million) that are available to reduce future tax payments.

Earnings per share

Underlying earnings per share⁽²⁾ reduced by six per cent to 43.0 pence, compared with the restated figure for 2011 of 45.7 pence⁽¹⁾. The weighted average number of shares in issue in 2012 was 430.1 million (2011: 420.9 million), with the increase due to the full-year effect of issuing 30.6 million of shares in respect of the acquisition of Carillion Energy Services in April 2011.

Dividend

Carillion has a progressive dividend policy that aims to increase the dividend per share broadly in line with growth in underlying earnings per share⁽²⁾, subject to the investment needs of the business. The Board has recommended a final dividend of 11.85 pence per share for 2012, making the proposed full-year dividend 17.25 pence per share (2011: 16.9 pence per share), an increase of two per cent on the total paid in respect of 2011. The Board's decision to recommend an increase in the dividend, despite underlying earnings per share⁽²⁾ in 2012 remaining unchanged on 2011 before restatement and some six per cent lower than underlying earnings per share in 2011 after restatement, reflects the Board's confidence in the Group's resilience and ability to achieve its medium-term growth targets. Dividend cover based on the proposed full-year dividend of 17.25 pence per share and underlying earnings per share⁽²⁾ is 2.5 times (2011: 2.7 times⁽¹⁾).

In the Middle East, we have an increasing number of opportunities to grow our support services activities. In 2012, Carillion was appointed as the preferred bidder for a facilities management contract for Petroleum Development Oman. This will be our largest ever support services contract in the region, worth some £75 million over three years and extendable to eight years.

(1) Restated following the change in presentation of profits from the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011).

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

Cash flow

Summary of the Group's cash flow

	2012 £m	2011 ⁽¹⁾ £m
Underlying Group operating profit	198.1	178.7
Depreciation and other non-cash items	22.4	32.1
Working capital	(136.2)	5.1
Dividends received from Joint Ventures	13.6	39.6
Underlying cash inflow from operations	97.9	255.5
Deficit pension contributions	(30.2)	(36.2)
Rationalisation costs	(28.6)	(34.4)
Interest, tax and dividends	(87.2)	(77.1)
Net capital (expenditure)/income	(15.6)	4.6
Acquisitions and disposals	(32.6)	(276.6)
Other	(8.8)	(6.7)
Change in net borrowing	(105.1)	(170.9)
Net (borrowing)/cash at 1 January	(50.7)	120.2
Net borrowing at 31 December	(155.8)	(50.7)

(1) Restated following the change in presentation of profits from the disposal of Public Private Partnership equity investments from non operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011)

Strong cash management remains a priority and this has been reflected in the Group's track record of consistently delivering cash-backed profit. However, as expected, this was not the case in 2012, when cash flow from operations represented 42 per cent of underlying profit from operations. This was primarily due to two previously announced reasons. First, when we announced our decision in 2010 to rescale our UK construction activities, we indicated that, while this would have significant overall benefits for the Group, it would also result in a substantial outflow of working capital, some £80 million of which occurred in 2012. Second, as we indicated when presenting our 2011 results, net borrowing at 31 December 2011 was some £50 million lower than we expected, because we received substantial payments from customers close to the year end. This resulted in a temporary reduction in net borrowing at 31 December 2011 that reversed early in 2012, adding some £50 million to the outflow of working capital in 2012. Adjusting for these two factors, underlying cash flow from operations was 98 per cent of underlying profit from operations.

Deficit recovery payments to the Group's pension funds of £30.2 million remain in line with the agreement reached in 2010 with the Trustees of the Group's main defined benefit schemes. The £28.6 million of rationalisation costs primarily relate to the integration of Carillion Energy Services. Interest, tax and dividend payments of £87.2 million included higher interest and dividends payable due to the acquisition of Carillion Energy Services. Net capital expenditure of £15.6 million included £18.3 million of capital investment, net of proceeds received from disposals of £2.7 million. Net payments of £32.6 million in respect of acquisitions and disposals primarily comprised net equity investments in Joint Ventures of £20.1 million and Bouchier acquisition related payments of £10.1 million.

The above items, together with other payments of £8.8 million, resulted in a change in net borrowing of £105.1 million, leaving the Group with net borrowing of £155.8 million at 31 December 2012 (2011: £50.7 million).

Balance sheet

Summary of the Group's balance sheet

	2012 £m	2011 £m
Property, plant and equipment	127.1	134.2
Intangible assets	1,540.1	1,547.6
Investments	237.9	210.9
	1,905.1	1,892.7
Inventories, receivables and payables	(460.6)	(607.4)
Net retirement benefit liability (net of tax)	(269.9)	(229.3)
Other	(9.3)	(22.8)
Net operating assets	1,165.3	1,033.2
Net borrowing	(155.8)	(50.7)
Net assets	1,009.5	982.5
Average net borrowing	(344.1)	(218.9)⁽²⁾

Carillion is one of four contractors appointed by the UK Highways Agency to deliver Managed Motorway schemes in England. These schemes involve the installation of variable speed limits and hard shoulder running to reduce congestion and improve safety during peak periods.

(2) Post acquisition of Carillion Energy Services

Operating and financial review

continued

There are three notable movements in the table on page 31. First, the movement in inventories, receivables and payables, which reflected the movement in working capital described in the commentary on the summary cash flow statement on page 31. Second, the increase in the Group's net retirement benefit liability, which was primarily due to a reduction in the AA bond yield, which is used as the discount rate in calculating retirement scheme obligations. Third, the increase in average net borrowing, which is largely due to the working capital movement described in the commentary on the summary cash flow statement on page 31.

Retirement benefits

Detailed information on the Group's pension arrangements can be found in note 31 on pages 100 to 105 of the consolidated financial statements. The Group operates pension arrangements for the benefit of eligible employees. The Group has 15 defined benefit schemes, which have a total pension obligation amounting to £2,363.3 million (the 'liabilities'). Total pension assets relating to these liabilities are £2,012.3 million, giving a deficit of £351.0 million before deferred tax and £269.9 million after deferred tax.

The Board devotes significant time and resources to managing the Group's pension schemes and their inherent risks, through the following committees:

- > A Board sub-committee, which is specifically tasked with monitoring and managing defined benefit pension arrangements.
- > An executive committee, which reports to the Board Committee, and comprises the Group Finance Director, Group Financial Controller and Group Head of Reward. The executive committee meets monthly to consider pension issues and to oversee the implementation of the following policies in respect of defined benefit pension arrangements:

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

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

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

As noted above the total deficit included in the Group's balance sheet at 31 December 2012 in relation to defined benefit schemes amounted to £351.0 million (2011: £305.8 million). The increase in the net deficit since the end of 2011 is primarily due to a reduction in the AA Bond rate which is used as the discount rate to calculate scheme liabilities.

During 2012 discussions with the Trustees commenced in respect of valuations and revised funding arrangements for the Group's principal defined benefit schemes. It is anticipated that the valuations and revised funding arrangements will be concluded during the course of 2013. The Group has committed funding arrangements across all its defined benefit schemes which amount to around £34 million per annum, in the short term. Each scheme has its own specific funding arrangement and these funding arrangements will be reviewed following subsequent valuations.

The key assumptions used in the International Accounting Standard (IAS) 19 'Employee benefits' deficit position are summarised below:

	2012 %	2011 %
Discount rate	4.55	4.8
Inflation		
RPI	2.9	3.0
CPI	2.05	1.9
Salary increase	3.4	3.5
Expected return on assets		
Equities/Property	7.05	6.95
Gilts	3.05	2.95
Corporate Bonds	4.15	4.55
Cash	0.5	0.5
Average allocation of assets		
Equities/Property	48	48
Gilts	18	20
Corporate Bonds	32	31
Cash	2	1

Carillion Energy Services is fitting an increasing number of EcoPod heating systems, a revolutionary energy efficiency solution. EcoPod combines a wide range of technologies, including highly efficient cascade boilers with biomass, ground source and gas absorption heat pumps and thermal solar panels, to deliver savings on annual heating bills of up to 43 per cent. EcoPod is fully commissioned and working prior to delivery and can be fitted, or retrofitted, externally or internally, to apartment blocks, offices, hotels, schools and hospitals.

Carillion provides a total facilities management service, including energy efficiency services, for the Nationwide Building Society's administration estate and its 800 high-street branches throughout the UK

The discount rate of 4.55 per cent is based on AA bond yields appropriate to the liability duration. The RPI inflation rate of 2.9 per cent is based on the duration derived market implied RPI.

The pension liabilities of the Group are subject to fluctuations arising from changes in the key assumptions above that are determined by general market conditions, which are outside the control of the Group. In particular, a 0.1 per cent reduction in the discount rate would increase the overall deficit by around £42 million, whilst a 0.1 per cent increase in the inflation rate would increase the overall deficit by around £38 million.

The Group's ongoing total pensions charge against profit in 2012 amounted to £25.9 million (2011: £29.3 million).

Acquisition of the Bouchier Group

The Group acquired a 49 per cent interest in the Bouchier Group, a support services company in Canada, on 11 December 2012 for a cash consideration of £23.8 million. The consideration will be paid in instalments over the period to January 2014, with instalments adjusted to ensure that the acquisition is completed on a debt free, cash free basis. Following a provisional assessment of the fair value of assets and liabilities at the acquisition date, goodwill arising on this acquisition amounted to £20.8 million.

The Group has options to acquire the remaining 51 per cent of the Bouchier Group over the next 10 years. The Bouchier Group is being consolidated as a subsidiary on the basis of the terms of these options and the powers granted as a shareholder which enable Carillion management to exert control.

Share price

Carillion's share price was 317.0 pence at the close of business on 31 December 2012, an increase of 5.4 per cent on the closing price on 31 December 2011 of 300.8 pence. Carillion's total shareholder return increased in 2012 by 12.1 per cent, compared with an increase in the return for the FTSE 350 of 12.0 per cent.

Committed bank facilities and private placements

The Group has committed bank facilities and private placement funds of £1,062.5 million. This comprises a £737.5 million syndicated five-year facility maturing in March 2016 and a £15.0 million 364-day facility, together with borrowing of £310 million under three private placements: a £100 million placement that commenced in August 2011, comprising a £49 million seven-year facility at 4.38 per cent per annum and a £51 million 10-year facility at 5.1 per cent per annum, a £35 million placement in August 2012 split equally between seven year and 10-year notes at 3.6 per cent and 4.2 per cent respectively, and a £175 million US dollar denominated placement that commenced in November 2012, comprising a £15 million five-year facility at 3.5 per cent per annum, a £50 million seven-year facility at 4.3 per cent per annum, a £88 million 10-year facility at 4.9 per cent per annum and a £22 million 12-year facility at 5.0 per cent per annum.

Funding and liquidity

In addition to Carillion plc's principal borrowing facilities described above, money market and short-term overdraft facilities are available to Carillion plc and certain subsidiaries. Operating and finance leases are also employed to fund longer-term assets. The quantum of committed borrowing facilities available to the Group is regularly reviewed by the Carillion Board and is designed to satisfy the requirements of the Group's business plan. At 31 December 2012, the Group had undrawn committed facilities amounting to £288.6 million (2011: £356.1 million). This excludes the Group's share of cash balances amounting to £49.4 million (2011: £94.2 million) within jointly controlled operations, which are outside of the Group's facilities.

Operational and financial risk management

The application of rigorous risk management policies and processes plays an essential role in Carillion's success. These policies and processes are firmly embedded in our culture and designed to identify, mitigate and manage strategic risks and those specific to individual businesses and contracts, including economic, social, environmental and ethical risks. Our operational risk management policies and processes are described in more detail on pages 22 and 23 of the Group Chief Executive's review, together with a summary of the Group's principal risks and the measures we have taken to mitigate them.

Treasury policy and financial risk management

The Group has a centralised Treasury function whose primary role is to manage funding, liquidity and financial risks. In addition, Treasury sources and administers contract bond and guarantee facilities for the Group. Treasury is not a profit centre and does not enter into speculative transactions. The Board sets policies within which Treasury operates that ensure the most effective financing of the Group's operations and limit exposure to financial risk. The areas of significant financial risk facing the Group relate to funding and liquidity, counterparty risk, foreign exchange and interest rates.

Operating and financial review

continued

Counterparty risk

The Group undertakes significant financial transactions only with counterparties that have strong credit ratings. Credit exposures to counterparties are monitored regularly so that exposure to any one counterparty is either within Board approved limits or approved by the Board.

Country risk

The Group has overseas activities in Canada, the Middle East, where our operations are based in Abu Dhabi, Dubai, Oman and Qatar, and in Egypt, in which we have one project that accounted for less than two per cent of the Group's total revenue in 2012.

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

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

Foreign exchange

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

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

Sterling	Average		Year End	
	2012	2011	2012	2011
Middle East (US Dollar)	1 59	1 61	1 63	1 55
Oman (Rial)	0 61	0 62	0 63	0 60
UAE (Dirham)	5 84	5 90	5 97	5 71
Canada (Dollar)	1 59	1 58	1 62	1 58

Interest rates

The Group's £737.5 million five-year syndicated borrowing facility and £15.0 million 364-day borrowing facility are at floating rates of interest linked to the London InterBank Offered Rate. The Group's £310.0 million of private placement funding is at various fixed interest rates. Other than in respect of Public Private Partnership projects noted on page 35, the Group has not entered into interest rate derivatives to fix or hedge interest rate risk and currently none are outstanding. In addition to the Group's private placement funding, certain longer-term assets have been financed at fixed interest rates.

Carillion is a delivery partner of Argent for its £2 billion redevelopment project at Kings Cross in London. This mixed-use development, which is transforming the area, involves the construction of some 50 new buildings and associated infrastructure, including commercial and retail premises, schools, community facilities and apartments.

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

Credit risk

An analysis of the Group's credit risk is provided in note 27 on pages 94 and 95.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described on pages 6 to 35, entitled 'Our Performance'. In addition, note 27 on pages 92 to 96 of the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

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

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



Richard Adam FCA
Group Finance Director
27 February 2013

Sustainability review

Sector leading
performance

In this section of our Annual Report we provide a summary of what we are doing to make our business more sustainable

For a more detailed account, please see our 2012 Sustainability Report, which will be published on our website in April 2013.

Enabling low-carbon economies



Objectives

Our services will help Carillion's customers work towards carbon neutrality so together we become the lowest carbon producers in our respective sectors

Supporting sustainable communities



Objectives

Our leadership in creating employment and skills opportunities coupled with our understanding of the needs of our communities will ensure we have a significant and positive contribution everywhere we work

Leading the way in our sector



Objectives

We will be recognised as the benchmark in sustainability and innovation in turn driving demand as the service provider of choice for customers

Protecting the environment



Objectives

We will work with our customers and suppliers to be best-in-class in reducing waste managing use of water and raw materials and protecting biodiversity wherever we operate

Providing better prospects for our people



Objectives

We will maximise the prospects of our people by offering opportunities for learning and development and create safe healthy places to work

Building a successful business



Objectives

Through our sector leadership and role in creating a more sustainable economy we will increase shareholder value

Our sustainability strategy

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

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

Our sustainability efforts contribute directly to our corporate strategy to deliver sustainable, profitable growth by, for example

- > Enabling us to win and retain more contracts
- > Attracting and retaining the best people
- > Enhancing our reputation in the marketplace and among our stakeholders
- > Reducing operating costs and risk
- > Maintaining our licence to operate

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

Building a successful business

Our 2020 sustainability strategy is driven directly by the Carillion plc Board and is implemented and monitored within robust governance frameworks

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

Supporting the Sustainability Advisory Committee, we have a Group Sustainability Forum of our senior business leaders which is chaired by our Chief Sustainability Officer, Tom Robinson. The Forum informs the development of our sustainability strategy, shares best practice and ensures the effective dissemination of our sustainability strategy and policies to each business unit. All our businesses have a sustainability plan and objectives, which form an integral part of their annual business plans.

The Group's sustainability targets are based on 43 specific and measurable targets to be achieved by 2020. To drive continual improvement, we set ambitious targets and our performance against them is independently verified. A detailed account of our progress against these targets will be included in our 2012 Sustainability Report, which will be published in April 2013.

In 2011, we achieved a 'Platinum' ranking in Business in the Community's Corporate Responsibility Index for the third year running, with a score of 97 per cent. The index involves a detailed, independent assessment of Carillion's sustainability strategy, management processes and performance. Such assessments enable us to benchmark our performance against other companies, including those in different market sectors. Our objective is to at least match our 2011 ranking when the 2012 index is published in April 2013.

Carillion continues to be a member of the FTSE4Good Index and in 2012 we submitted a full response to the Carbon Disclosure Project. In 2012, we also maintained our Certified Emissions Measurement and Reduction Scheme (CEMARS) accreditation.

There were a number of notable highlights in 2012:

- > In the Middle East and North Africa, we won the Arabia CSR Award and the *Construction Week* Sustainability Award for the second year, in addition to being highly commended in the CSR Award category.
- > We became key partners in the UK Government's Green Deal and a Gold Leaf Member of the UK Green Building Council.
- > We celebrated our 500th work placement and 200th job outcome through the Business Action on Homelessness partnership, becoming the largest-scale corporate delivery partner.

In 2012, we continued to deliver specific sustainability targets for each of our businesses and for the Group as a whole, focusing on a number of objectives, including the following:

- > Reducing waste sent to landfill to zero by 2015 – in 2012 86 per cent of our waste was diverted from landfill, compared with 82 per cent in 2011.
- > Contributing at least 1 per cent of our profits, in cash and kind, to good causes – in 2012, we contributed over £2 million.
- > Customer perception – in our 2012 market perception survey, Carillion's overall rating was commercially acceptable, with market-leading ratings for some of our businesses.

Simon Webb (right), Managing Director of Al Futtaim Carillion, collecting the award for Sustainability Initiative of the Year on behalf of Al Futtaim Carillion in the Construction Week Awards 2012.

Enabling low carbon economies

By partnering with others, we are well placed to tackle the global challenge of climate change, and to harness the opportunities presented by low-carbon markets. We are helping our customers work towards carbon neutrality, so that together we become the lowest carbon producers in our respective sectors.

Sustainability review

continued

Merseyside MPs, Joe Benton and Steve Rotherham, visited the Carillion Training Centre in Liverpool, where they met Alison Valentine, Carillion Training Centre manager and Carillion trainees. Carillion is one of the largest private sector providers of training services in the UK, with up to 2,000 apprentices in training each year.

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

We also submit data to the Carbon Disclosure Project (CDP) – an independent, not-for-profit organisation that aims to increase transparency and promote climate change data as a factor in business, policy and investment decisions.

Carillion Energy Services (CES) is the UK's leading independent provider of energy efficiency services, capable of creating major new opportunities in the energy services market. With sector-leading expertise in energy efficiency solutions, we are in a position to transform the sustainable energy market in the UK. In 2012 we delivered energy efficiency savings for our customers reducing carbon by 3.7 million tonnes.

In 2012, CES became a key delivery partner of the Green Deal, a UK Government initiative to help householders and businesses save money through energy efficiency. In 2012, Carillion was awarded the Birmingham Energy Savers (BES) contract worth up to £1.5 billion over eight years. This is a joint initiative with Birmingham City Council, initially to refurbish around 60,000 homes and non-domestic buildings with energy-saving measures, such as insulation and new boilers. This contract also enables other Local Authorities in the West Midlands to take advantage of the energy-saving measures that CES is providing to Birmingham City Council.

Protecting the environment

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

We are proud to report that all of our UK and Middle East and North Africa (MENA) operations are certified to the ISO 14001 international standard. Carillion's Canadian Joint Venture, TWD Roads Management, is also certified. Our standards are subject to audits by an external verification company.

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

Our strategic target is to send zero non-hazardous waste to landfill by 2015. For us, this is not just an environmental imperative, but a valuable efficiency driver in a competitive market. The absolute volume of waste we produce declined in 2012 as a result of determined efforts across our operations to cut costs and protect the environment.

We work not only to protect the biodiversity of sites and neighbouring land across the projects in which we are involved, but to enhance it. We assess our impact on biodiversity through our Biodiversity Risk Assessment Process, a requirement on all contracts. In 2012, we updated the assessments and action plans to cover restoration activities and better reflect the current biodiversity issues across our regions. We have also continued the Carillion Natural Habitats Fund, which we set up in 2001, to support The Wildlife Trusts. Our donations and employee volunteering help The Wildlife Trusts' essential habitat and conservation work, and to date the fund has supported 60 projects with grants totalling over £370,000.

Supporting sustainable communities

Doing business within thriving communities is vital for our future growth. Strong communities provide a loyal customer base, a pipeline of skilled people, a balanced civil society, resilient supply chains and long-term investors.

In 2012, we increased our focus on getting people into employment through the Business Action on Homelessness Ready for Work Programme. We offered 188 placements in 2012 (against a target of 145 and our highest number to date), which resulted in 77 people gaining employment, 25 with Carillion, eight with our supply chain partners and the remaining 44 with other employers. By working in collaboration with our partners and our people, Carillion is now offering more work placements under the Ready for Work Programme than any of the other 140 corporate supporters in the UK.

We are proud to have been a partner of the UK Government agency, Jobcentre Plus, since 2007. This agency is now our largest provider of employees, helping us to recruit 492 people in 2012.

Since 2001, we have given at least one per cent of our annual pre-tax profits to charitable and community causes through a combination of cash and in-kind donations including time spent by Carillion employees working on community and charity projects.

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

Providing better prospects for our people

Carillion's success relies on our ability to attract and retain a diverse range of talented employees from thriving communities. The health, safety, wellbeing, and development of our people are of utmost importance. We have provided more details on our performance against Key Performance Indicators on page 11.

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

Our annual S Factor competition celebrates inspiring examples of individuals across the business who have gone the extra mile in the name of sustainability. 2012 saw over 200 applications submitted from across the Group. The overall winner was Piccadilly Estate Management Team where the team has reduced CO₂ emissions by 250 tonnes and water consumption by 200,000 litres annually. This equates to approximately £30,000 saved, which is passed straight back to the tenants in the building. The competition was a great success and demonstrated the high level of engagement in sustainability across the Group.

Leading the way in our sector

Sustainable leadership is about bringing others along the journey. By involving customers and suppliers, we can fulfil our vision to be the provider of choice for delivering, managing, and servicing assets.

As well as our ongoing interaction and relationship-building with customers, there are formal feedback points built into the contract lifecycle at which we ask our customers to share their perspectives. Our annual customer satisfaction survey is carried out by an independent company to encourage honest feedback. All feedback is communicated to the business and action plans are developed to address improvements. The survey also includes a number of questions relating to sustainability, which help us to track our performance against our strategy. In the 2012 survey, Carillion achieved an overall rating that exceeded a commercially acceptable level, with market-leading ratings for our civil engineering and building activities.

Globally, Carillion buys a wide variety of products and services and has an annual procurement spend of more than £3 billion. We therefore have a significant opportunity to extend our influence and values beyond our immediate business. Our 'Leading the Way' strategy focuses on the following objectives:

- > Purchasing responsibly and ethically sourced products and materials
- > Ensuring all timber sourced meets Forest Stewardship Council or equivalent standards
- > Targeting our top suppliers to collaborate on developing enhanced sustainable products and services
- > Benchmarking suppliers through Carillion's accreditation process and providing guidance to help those who meet only our basic requirements to improve
- > Maximising local spend and employment, including spend with small and medium-size enterprises

As a major consumer of timber, we are committed to the responsible procurement of these products. We aim to source all forest products (including those sourced by subcontractors on our behalf) from well-managed forests, which have been certified to Forestry Stewardship Council (FSC) or equivalent standards. Carillion's joinery workshop in Oman, part of our Middle East and North Africa (MENA) business, is the only operator in the country to have FSC chain of custody certification, providing assurance on the responsible sourcing of our timber products. In 2012, this initiative won the *Construction Week Sustainability Oman Award*.

Find out more
www.carillionplc.com/sustainability

Board of Directors

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04

01 Philip Rogerson 3,4 Chairman

Philip was appointed to the Board in October 2004, becoming Chairman in May 2005. He is Chairman of both the Nominations Committee and the Business Integrity Committee. Philip is also Chairman of Bunzl plc and De La Rue plc. He was an Executive Director of BG plc from 1992 to 1998, latterly as Deputy Chairman. He is a Fellow of both the Institute of Chartered Accountants and the Institute of Corporate Treasurers. Age 68

02 Richard Howson 3 Group Chief Executive

Richard has been Group Chief Executive since 1 January 2012. He served as the Chief Operating Officer from September 2010 to 31 December 2011 having been appointed to the Board in December 2009 as Executive Director with responsibility for the Middle East, North Africa and UK Construction businesses and for the Group's Health & Safety and Sustainability programmes. Prior to appointment to the Board, Richard was Managing Director of Carillion's Middle East and North Africa businesses before which he held senior positions in the Group's Infrastructure and Building businesses. Richard has worked for the Company for 17 years. He is a Fellow of the Institution of Civil Engineers. Age 44

03 Richard Adam Group Finance Director

Richard was appointed Group Finance Director in April 2007. He qualified as a chartered accountant with KPMG Audit Plc 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 Zattikka plc having previously been a Non-Executive Director and Chairman of the Audit Committee of SSL International plc until its takeover in 2010. Age 55

04 Philip Green 1,2,3,4 Senior Independent Non-Executive Director

Appointed to the Board in June 2011, Philip is a member of the Audit, Nominations, Remuneration and Business Integrity Committees. Philip was Chief Executive of United Utilities Group PLC from 2006 to 2011. His earlier business experience includes serving as Chief Executive of Royal P&O Nedlloyd, as a Director and Chief Operating Officer at Reuters Group PLC and as a Chief Operating Officer at DHL for Europe and Africa. He is Non-Executive Chairman of US industrial services company, BakerCorp. Age 59

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07

**05 Andrew Dougal 1,2,3,4
Non-Executive Director**

Andrew was appointed to the Board in October 2011 and is Chairman of the Audit Committee and a member of the Nominations, Remuneration and Business Integrity Committees. Andrew was Chief Executive of Hanson plc, the international building materials company after its demerger from Hanson, the Anglo-American diversified industrial group, where he was Finance Director. Since his retirement from Hanson plc in 2002, Andrew has been a Non-Executive Director of Premier Farnell plc and Creston plc currently, and formerly Taylor Wimpey plc, Taylor Woodrow plc and BPB plc. He has served as a member of the Audit Committee at all these companies and Audit Committee Chairman at Taylor Wimpey, Taylor Woodrow and Creston. Mr Dougal is a member of the Institute of Chartered Accountants of Scotland and is a member of its Council and Chair of its Technical Policy Board. Age 61

**06 Steven Mogford 1,2,3,4
Non-Executive Director**

Steve was appointed to the Board in September 2006 and is a member of the Audit, Nominations, Remuneration and Business Integrity Committees. Steve is Chief Executive of United Utilities Group PLC which he joined in March 2011. Before joining United Utilities, Steve was appointed in May 2007 to Finmeccanica, Italy's principal defence and security company, as Chief Executive of Selex Galileo. From April 2000 to May 2007, he was a Chief Operating Officer and a Director of BAE Systems plc. Age 56

**07 Vanda Murray OBE 1,2,3,4
Non-Executive Director**

Vanda was appointed to the Board in June 2005 and is Chairman of the Remuneration Committee and a member of the Audit, Nominations and Business Integrity Committees. Vanda is Chairman of Vphase plc, Senior Non-Executive Director of Fenner plc, and a Non-Executive Director of Chemring Group PLC, Microgen plc and The Manchester Airport Group plc. Vanda was Chief Executive Officer of Blick plc from 2001 to 2004, a Director of Ultraframe plc from 2002 to 2006, Non-Executive Chairman of Eazzyfone Limited from 2006 to 2009 and has also served as a Trustee and Non-Executive Director of The Manufacturing Institute. She was appointed OBE in 2002 for Services to Industry and to Export and is a Fellow of the Chartered Institute of Marketing. Age 52

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

Report of the Directors

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

Principal activities and business review

Carillion is one of the UK's leading integrated support services companies with a substantial portfolio of Public Private Partnership projects, extensive construction capabilities and a sector leading capability in delivering sustainable solutions. The Group has operations in the UK, Canada and in the Middle East and North Africa

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

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

- > Achievements in respect of the Group's Key Performance Indicators (KPIs) in 2012 and the KPIs set for 2013 (Group Chief Executive's review – see pages 8 to 23)
- > Financial performance in 2012 (Operating and financial review – see pages 24 to 35)
- > Principal operational risks and risk management (Group Chief Executive's review – see pages 22 to 23)
- > Treasury policy and financial risk management (Operating and financial review – see page 33)
- > Social, community and environmental issues (Sustainability review – see pages 36 to 39)
- > Resources and employees (Group Chief Executive's review – see page 11 and Report of the Directors – see pages 42 to 43)

Analysis of revenue and net assets by operating segment and geographical location are given in note 2 on pages 73 to 76

Profits and dividends

The consolidated income statement is shown on page 64. Profit before tax was £179.5 million (2011: £142.8 million)

A 2012 interim dividend of 5.4 pence per ordinary share (2011: 5.3 pence) was paid in November 2012. It is proposed to pay a final dividend of 11.85 pence per ordinary share (2011: 11.6 pence) on 14 June 2013 to shareholders on the register at the close of business on 17 May 2013. The payment of these 2012 interim and final dividends amounts to £72.9 million (2011: £71.5 million)

A dividend reinvestment plan (DRIP) will also be offered allowing shareholders a convenient means of reinvesting their dividends in the Company by buying further shares. If required, a DRIP application form is available from the share registrar, Equiniti (see page 114 for contact details)

Directors

The Directors of the Company who served during 2012 are shown on page 60 of the Remuneration report. Biographical details for each Director at 31 December 2012 are given on pages 40 and 41

In accordance with the requirements of the UK Corporate Governance Code, all Directors will offer themselves for re-election at the Annual General Meeting on 1 May 2013. Richard Adam and Richard Howson have contracts of service which are subject to one year's notice of termination by the Company

The interests of the Directors and their families in the share capital of the Company are shown in the Report of the Directors on page 44

Indemnity

To the extent permitted by the Companies Acts, the Company may indemnify any Director, Secretary or other officer of the Company against any liability and may purchase and maintain insurance against any liability. The Company purchased and maintained throughout 2012 Directors' and Officers' liability insurance

Conflicts of interest

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

Key contractual arrangements

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

Employees

Information relating to employee numbers and remuneration is given in note 6 on page 78

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

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

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

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

- > Have a workforce that represents and responds to the diversity of customers and society in general
- > Improve safety and quality provided by a balanced and productive workforce
- > Reduce staff turnover, absenteeism and sickness levels
- > Provide a fair working environment in which discrimination will not be tolerated
- > Create a working environment free from discrimination, harassment, victimisation and bullying
- > Work towards finding ways for under-represented groups to fully realise their potential within Carillion and take reasonable steps to help such groups
- > Ensure that all employees are aware of the Equal Opportunities and Diversity Policy and to provide any necessary ongoing training to enable them to meet their responsibilities under it
- > Recognise the merits of developing a workforce that incorporates the many diverse skills and backgrounds available from within the total population and, accordingly, strive to be an organisation that will recognise, value and understand diversity and provide all employees with opportunities to develop and reach their full potential
- > Ensure that all applicants are treated fairly during recruitment processes and in accordance with relevant legislation and Codes of Practice
- > Regularly review procedures and selection criteria for promotion to ensure that individuals are selected and treated according to their individual abilities and merits

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

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

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

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

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

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

'Team Talks', which are held monthly, provide Carillion employees with a face-to-face communication with their line managers and facilitate discussion and feedback. They focus on local issues and key corporate messages. One-to-one meetings between individual employees and their line managers are also held to discuss performance and progress in order to help all employees to develop and reach their full potential

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

Carillion seeks to involve all employees in its cutting edge programmes to integrate safety into every aspect of the Group's operations and to improve its environmental performance, including the understanding and application of the principles of sustainability. Further information on Health & Safety is given in the Group Chief Executive's review on page 10 and on Sustainability in the Sustainability review on pages 36 to 39

Share capital

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

As at 31 December 2012, the issued share capital of the Company comprised a single class of ordinary shares of 50 pence each. Details of shares issued during the year and outstanding options are given in notes 23 and 25 on pages 89, 90 and 91 to the consolidated financial statements which form part of this report. Details of the share schemes in place are also provided on pages 59 to 61 of the Remuneration Report

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

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

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

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

Report of the Directors

continued

Substantial share interests

As at 27 February 2013, the Company had received under the Financial Services Authority's Disclosure and Transparency Rules, formal notification of the following holdings of voting rights in its share capital exceeding the 3% notification threshold

	Nature of interest	% of issued share capital held
Schroders plc	Indirect	9.26
	Contracts for Difference	0.01
Standard Life Investments Ltd	Direct	3.931
	Indirect	2.332
	Total	6.263
Templeton Global Advisers Ltd	Indirect	5.22
BlackRock, Inc	Indirect	4.29
	Contracts for Difference	0.71
Ameriprise Financial Inc and its group	Direct	0.063
	Indirect	4.822
	Total	4.885
F&C Asset Management plc	Indirect	4.47
Eaga Partnership Trust	Direct	1.96
	Indirect	1.96
	Total	3.92
HBOS plc	Direct	1.25
	Indirect	2.013
	Total	3.263
UBS Investment Bank	Direct	3.12

Policy for payment of suppliers

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

The number of days credit outstanding for the Group averaged 69 days at 31 December 2012 (67 days at 31 December 2011).

Change of control

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

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

Charitable and political contributions

Payments for charitable purposes made by the Group during the year ended 31 December 2012 amounted to £200,000 (2011: £200,000). The primary beneficiaries of these charitable donations were Employee nominated charities, The Wildlife Trust, Business in the Community, CRASH, RedR, Walking with Wounded and The Royal British Legion.

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

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

Property

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

Financial instruments

Information on the Carillion Group's use of financial instruments, financial risk management objectives and policies and exposure is given in note 27 on pages 92 to 96 of the consolidated financial statements.

Directors' share interests

Ordinary shares

The beneficial interests of the Directors, their immediate families and connected persons in the ordinary share capital of the Company as at 31 December 2012 are shown below.

	As at 1 January 2012 Number	As at 31 December 2012 Number
Fully paid 50p ordinary shares owned		
Executive Directors		
Richard Adam	232,203	157,004
Richard Howson	41,845	67,572
Non-Executive Directors		
Philip Green	10,000	10,000
Andrew Dougal	5,000	5,000
Steven Mogford	Nil	Nil
Vanda Murray	12,300	12,300
Philip Rogerson	39,630	39,630

There has been no change in Directors' interests in the period 1 January 2013 to 27 February 2013.

Additional information for shareholders

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of the shareholders. The powers of the Board are described in the Corporate Governance report on pages 45 to 52.

Annual General Meeting

The Annual General Meeting (AGM) will be held at 12 noon on 1 May 2013 at Austin Court, 80 Cambridge Street, Birmingham B1 2NP. The Notice of the Annual General Meeting accompanies this Annual Report and Accounts.

Included in the AGM business is the proposal to renew the authority for the Company to purchase its own shares. As at 31 December 2012, the Company had authority from shareholders for the purchase of 43,025,462 of its own shares.

Auditor

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

Approved by order of the Board

Richard Tapp

Richard Tapp
Secretary
27 February 2013

Richard Tapp

Corporate Governance report

Governance

The Board is firmly committed to the highest standards of corporate governance and considers that good governance commences with an effective Board providing strong and respected leadership

The Non-Executive Directors bring their wide experience to the boardroom to both support and develop business strategy and operations and to constructively challenge the Executive Directors. In addition, the Board evaluation process which we introduced in 2002 supports the culture of constructive challenge and confirms that Non-Executive Directors are independent in their judgement

During the year to 31 December 2012 as detailed below and in the Remuneration report on page 53, the Company complied fully with the requirements of the UK Corporate Governance Code (June 2010). Carillion is now addressing the UK Corporate Governance Code published by the Financial Reporting Council in September 2012. The UK Corporate Governance Code is publicly available at www.frc.org.uk

Ethics and Business Integrity Policy

The Board remains committed to maintaining high standards of ethics and business integrity throughout the organisation recognising this to be essential to both Group performance and reputation

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

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

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

The policy is

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

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

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

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

Ethical procurement Carillion seeks to ensure that it maintains its ethical standards and behaves respectfully when working with others. The relationships with Carillion's suppliers and business partners are based on the principle of fair and honest dealings at all times and in all ways. Carillion expects its suppliers and business associates and joint venture partners to extend the same high standards to all others with whom they do business, including employees, sub-contractors and other third parties. There is a Purchasing and Supply Chain Code of Ethics and a Sustainable Supplier Charter.

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

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

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

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

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

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

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

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

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

Corporate Governance report

continued

Directors The Board

Main principle

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

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

In 2012, the Company was led by a Board comprising two Executive and five Non-Executive Directors. The Chairman and each of the Non-Executive Directors are considered to be independent of management. They each have substantial relevant experience and have no business or other relationship that could materially interfere with their independent judgement. Philip Green is the Senior Independent Non-Executive Director.

Chief Executive's Leadership Team

In discharging his responsibilities, Richard Howson, the Group Chief Executive, is assisted by the Chief Executive's Leadership Team (CELT) which meets every month. The CELT is a management and strategy forum which is chaired by Mr Howson. Its primary responsibilities include strategy development, operational and financial management and the executive management of the Group's businesses. In addition to Mr Howson, the CELT comprises the Group Finance Director, the Managing Directors of the Business Units, the Group Development and Strategy Director, the Group HR Director and the Company Secretary and Director of Legal Services.

Main principle

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

All Directors are subject to annual re-election.

Main principle

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

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

Board and committee performance evaluation

In 2012, a detailed performance evaluation of the Board, the committees and each Director was conducted as it has been in each of the last 11 years.

The 2012 Board performance evaluation involved an external facilitator, Lintstock Limited ('Lintstock'), a London based corporate advisory firm. Lintstock has, for a number of years, supplied software to the Company Secretariat for the provision of online questionnaires used for Board performance evaluation. Other than this, Lintstock does not provide any services to Carillion and acted as an independent facilitator for the Board evaluation.

Lintstock initially engaged with the Chairman and the Company Secretary to set the context for the 2012 evaluation and subsequently reviewed and reported on the performance of the Carillion Board and Committees during 2012.

Directors completed online questionnaires addressing

- > Board composition
- > The role of Directors and the Board
- > Effectiveness of Board meetings
- > The Committee structure and Committee performance
- > Succession planning and human resource management
- > Monitoring performance
- > Leadership and culture
- > Directors' remuneration
- > Management of subsidiary companies
- > Relations with shareholders
- > Board accountability and audit
- > Priorities for change

Separate questionnaires covered the operation and effectiveness of the Board's Committees. The performance of the Chairman and each Director was reviewed as part of the Board evaluation process.

The online process ensures the anonymity of respondents and thus openness and a frank exchange of views.

At the November 2012 Board meeting, the Directors reviewed the results of the evaluation. The findings confirmed that amongst a number of things, Board composition and dynamics were highly rated as were the roles and terms of reference of the Board Committees, succession planning for top management and the understanding of the risks and opportunities inherent in the Group structure. In addition, information provided to the Board was rated highly as was testing and developing the Group's strategy. It was also confirmed that each Director continues to perform effectively and to demonstrate commitment to the role.

The key priorities for the Board in 2013 were identified as overseeing strategic decisions and direction setting, risk management and Board composition.

The Board intends to continue to comply with the UK Corporate Governance Code guidance that the evaluation should be externally facilitated at least every three years.

Main principle

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

The division of responsibilities between the Chairman and the Group Chief Executive are as follows:

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

Main principle

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

The Board had a programme of 10 meetings in 2012. In addition, the Chairman holds meetings with the Non-Executive Directors without the Executive Directors present and, at least once a year, the Non-Executive Directors meet without the Chairman present.

The Board generally meets in Central London, but at least one Board meeting each year is held at one of the Group's overseas locations (either in the Middle East or Canada), which gives the Directors the opportunity to review the operations and to meet local management.

Main activities of the Board in the year to 31 December 2012

In 2012, the Board dealt with the following matters:

- > Health & Safety
- > Sustainability policy and practice
- > Presentations on the business units' performance and strategy
- > Group strategy
- > Risk management
- > Financial and interim management statements
- > Quarterly forecasts
- > Regulatory announcements
- > Dividends
- > Monthly management results
- > Work winning
- > Three year business plan
- > Board committee reports
- > Review of policies such as ethics and business integrity
- > Annual Board evaluation review
- > Delegation of authorities
- > Insurance matters
- > AGM business
- > Major projects
- > Acquisitions and disposals
- > Regulatory issues and briefings
- > Succession planning
- > Directors' share dealings
- > Appeals committee funding
- > Review of conflicts of interest
- > Review of third party benefits
- > Site visits to operations
- > Meeting local management and employees

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

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

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

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

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

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

Documents are made available to all Directors five working days in advance of the Board meeting. Since late 2010, the Board has used a secure electronic portal to receive Board papers. The portal provides information in a timely and secure manner, enabling the Directors to receive Board papers quickly and to access them via tablet computers wherever they may be.

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

Attendance at meetings in 2012

The number of scheduled Board and Committee meetings attended by each Director during 2012 was as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee	Business Integrity Committee
Number of meetings held	10	4	3	2	2
Richard Adam	10	—	—	—	—
Andrew Dougal	9*	4	3	2	1
Philip Green	10	4	3	2	1
Richard Howson	10	—	—	2	—
Steven Mogford	10	4	3	2	2
Vanda Murray	10	4	3	2	2
Philip Rogerson	10	—	—	2	2

* Andrew Dougal was unable to attend the June Board meeting as a result of a conflicting board meeting which had been agreed prior to his appointment.

** Andrew Dougal and Philip Green were appointed to the Business Integrity Committee in August 2012.

Board Committees

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

Corporate Governance report continued

Remuneration Committee

Vanda Murray, Chairman
Andrew Dougal
Philip Green
Steven Mogford

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

Main principle

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

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

Further details on remuneration issues are given on pages 53 to 61

Main principle

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

Audit Committee

Andrew Dougal, Chairman
Philip Green
Steven Mogford
Vanda Murray

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

Andrew Dougal is a member of the Institute of Chartered Accountants of Scotland and is a member of its Council and Chair of its Technical Policy Board. He was appointed to the Audit Committee in October 2011. Andrew was Chief Executive of Hanson plc, the international building materials company, after its demerger from Hanson, the Anglo-American diversified industrial group, where he was Finance Director. Andrew is Chairman of the Audit Committee of Creston plc and a member of the Premier Farnell plc Audit Committee. He has previously been Audit Committee Chairman at Taylor Wimpey plc and Taylor Woodrow plc.

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

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

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

Further biographical details can be found on pages 40 and 41

Main principle

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

Nominations Committee

Philip Rogerson, Chairman
Andrew Dougal
Philip Green
Richard Howson
Steven Mogford
Vanda Murray

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

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

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

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

The remuneration of the Directors is dealt with in the Remuneration report on pages 53 to 61.

Board Diversity

Carillion recognises the importance of gender diversity throughout the Group. Currently, one of Carillion's seven Board members is female. The Board aims to have a broad range of skills, backgrounds and experience. While Carillion will continue to follow a policy of ensuring that the best people are appointed for the relevant roles, the benefits of greater diversity are recognised and will continue to be taken account of when considering any particular appointment.

Business Integrity Committee

Philip Rogerson, Chairman
Andrew Dougal
Philip Green
Steven Mogford
Vanda Murray

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

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

Other Board matters

Policy on external appointments

Recognising that external appointments can broaden experience and knowledge and so be of benefit to the Company, Executive Directors are permitted, at the discretion of the Board, to accept a limited number of such appointments and retain the fees received for such appointments.

Richard Adam is a Non-Executive Director of Zattikka plc.

Re-election of Directors

In accordance with the UK Corporate Governance Code, all Directors will submit themselves for re-election at the Annual General Meeting to be held on 1 May 2013. All have been subject to formal performance evaluation and are effective members of the Board who are committed to the role and to the time required for Board and, where applicable, Committee meetings and any other duties required of them.

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

Induction and development of Directors

Main principle

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

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

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

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

Relations with shareholders

Main principle

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

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

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

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

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

The Company complies fully with the provisions of the UK Corporate Governance Code in respect of the notice, content of agenda and conduct of its Annual General Meetings. The Chairmen of all the Board Committees will be present at the Annual General Meeting on 1 May 2013 to respond to shareholders' questions.

Corporate Governance report continued

Report of the Audit Committee

Dear Shareholder,

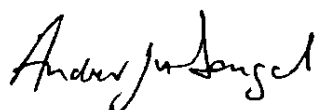
The role of the Audit Committee is to review and report to the Board on the Group's financial reporting, internal control and risk management processes and the independence and effectiveness of the auditor, KPMG Audit Plc

The Committee's terms of reference are reviewed annually and in 2012, they were reviewed and updated in the light of the publication by the Financial Reporting Council of the revised UK Corporate Governance Code (September 2012). As a consequence, the terms of reference were updated to address the following key areas

- > Annual report and financial statements taken as a whole to be fair, balanced and understandable
- > Greater disclosure around audit committee activities
- > External audit tenders and
- > Boardroom diversity

The terms of reference of the Audit Committee are available at www.carillionplc.com or from the Company Secretary

The following report details the Committee's responsibilities and key tasks in 2012 which I trust shareholders and others will find useful



Andrew Dougall
Chairman of the Audit Committee
27 February 2013

The Audit Committee has in attendance at meetings, by invitation of the Committee, the Chairman, 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 integrity of the Company's financial statements, including its annual and half-yearly reports, interim management statements and any other formal announcement relating to its financial performance, together with significant financial reporting issues and any judgements which they contain
- > Consideration of the impact of changes to accounting regulations and the financial and accounting policies of the Carillion Group
- > Compliance with statutory and other external requirements
- > Reviewing the role and effectiveness of the internal audit function and the results of its audit work and the response of management
- > Reviewing the scope and results of the external audit and its cost effectiveness
- > Ensuring that the internal and external audit functions are complementary
- > Monitoring the independence and objectivity of the external auditors and ensuring that the services provided (including non-audit services) provide a proper balance between objectivity and value for money
- > Recommending to the Board, the appointment, reappointment and removal of the external auditor

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 independent legal, accounting or other professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties

The internal audit function is undertaken by Deloitte LLP

Main activities of the Audit Committee in the year to 31 December 2012

The Audit Committee met on four occasions in 2012 and primarily dealt with the following matters

- > Review of the full year and interim results and interim management statements including consideration of key accounting judgements and the Carillion plc non-consolidated profit and loss account
- > Review and consideration of the reports from the external auditor KPMG Audit Plc, including reports on the 2011 full year and 2012 interim results and making recommendations to the Board on an appropriate management representation letter to KPMG Audit Plc
- > The basis for preparing the financial statements on a going concern basis including consideration of concerns faced as part of the Sharman Inquiry
- > Review and consideration of reports from the internal auditor
- > Review and agreement of both external and internal audit plans and peer review plans
- > Evaluation of the external audit function
- > Reappointment of the external auditor and agreement of KPMG Audit Plc's fees for statutory and non-statutory audit activities
- > Evaluation of the internal audit function
- > Review of compliance with the UK Corporate Governance Code and the Financial Services Authority's Listing Rules and Disclosure and Transparency Rules
- > Selectivity and risk management
- > Annual evaluation of the performance of the Audit Committee and the annual review of its terms of reference

In addition, the Audit Committee met with the Head of Internal Audit and separately, KPMG Audit Plc without others present

With regard to the evaluation of the external audit function, the Committee recommended to the Board the reappointment of KPMG Audit Plc as auditor and for it to be put to shareholders at the 2012 Annual General Meeting. KPMG Audit Plc were appointed the Company's auditor in 1999

The members of the Committee receive fees as Non-Executive Directors which also reflect their membership of the Audit Committee and other Board committees. The Chairman of the Audit Committee receives an additional fee for this role. Details of remuneration are given on page 60

Internal controls

Main principle

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

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

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

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

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

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

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

Any significant internal control issues would be disclosed in this report. On the basis of the assurances given in 2012, no disclosures in this respect are required.

Risk management

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

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

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

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

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

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

Corporate Governance report continued

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

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

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Group Finance Director provides the Board with regular financial information, which includes key performance indicators and a summary of risk. These key performance indicators and risks are listed in the Group Chief Executive's review on pages 8 to 23. Where areas for improvement are identified, the Board considers the recommendations made by both the Executive Directors and the Audit Committee.

Audit independence

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

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

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

The scope of the forthcoming year's audit is discussed in advance by the Audit Committee. Audit fees are reviewed by the Audit Committee after discussions between the businesses and the local KPMG Audit Plc offices and are then referred to the Board for approval. Rotation of Audit Directors' responsibilities within KPMG Audit Plc 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 Audit Plc 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 Audit Plc 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 Audit Plc and its associates but the Group also uses other tax consultancies.
- > General and systems consulting: all significant consulting projects are subject to competitive tender.

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

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

Health & safety and sustainability

A review of the Group's progress on Health & Safety is provided in the Group Chief Executive's review on page 11 and the Group's Sustainability performance is contained in the Sustainability review on pages 36 to 39.

Richard Tapp

Richard Tapp
Secretary
27 February 2013

Richard Tapp

Remuneration report

Remuneration Committee Chairman's Letter

Dear Shareholder,

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for 2012, which sets out the remuneration policy for the Directors of Carillion and the amounts earned in respect of the year ended 31 December 2012. The report is subject to an advisory shareholder vote and a resolution to approve the Directors' Remuneration Report will be proposed at the Annual General Meeting on 1 May 2013.

Recent changes in executive remuneration

The Remuneration Committee has continued to monitor our executive remuneration policy to take account of evolving market practice whilst also seeking to ensure that a stable framework is maintained and avoiding making unnecessary and frequent changes to the structure of pay. Accordingly, the existing remuneration policy and fundamental structure of the package remains largely unchanged and the overall quantum of the package has not changed. However, after extensive consultation with, and good support from our major shareholders, the Remuneration Committee has implemented the following changes for the financial year beginning 1 January 2012:

- > The annual bonus deferral period has been extended from two to three years to place a further emphasis on shareholder alignment.
- > A claw back provision has been introduced to deferred bonus awards in order to protect the Company and shareholders in exceptional circumstances of material misstatement or material losses.
- > New performance targets for the Carillion plc Leadership Equity Award Plan have been introduced for 2012 to ensure that they remain appropriately stretching in the current environment and continue to be aligned with the business strategy and creation of shareholder value. Growth in earnings per share remains as the primary performance condition and an average annual cash flow conversion target has also been included to take account of the importance of the sustained delivery of cash-backed profits. Stretching targets will continue to be set to act as an appropriate incentive for executives and to deliver sustained business performance without encouraging excessive risk.

We are mindful of wider economic conditions including the interface between the performance of the economy and the Company, as well as the remuneration arrangements throughout the Group for all employees. Following the base salary increases for Richard Howson on his appointment as Group Chief Executive on 1 January 2012 and for Richard Adam on 1 July 2012 to reflect his increased responsibilities, there will be no salary increases for Executive Directors in 2013.

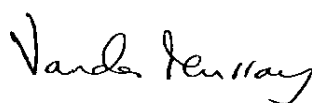
The Remuneration Committee feel very strongly that rewards should be linked to both Group and personal performance. Due to the economic conditions in Carillion's industry sectors and the Group's financial performance requirements for the 2012 bonus were not met and therefore no bonus has been awarded to the Executive Directors for the year ended 31 December 2012.

Further details regarding base salary increases and bonus payments made to employees below the Board are set out on page 56.

Governance

We remain committed to a responsible approach in respect of executive pay. The Remuneration Committee will continue to actively engage with and seek to incorporate the views of its shareholders in any major changes to the Executive Directors' remuneration policy.

We are mindful of the need for transparency in relation to remuneration reporting and therefore we have, as far as practicable, incorporated a number of the key principles set out in the proposed regulations put forward by the Department of Business, Innovation and Skills regarding new disclosure requirements for the Directors' Remuneration Report.



Vanda Murray OBE
Chairman of the Remuneration Committee
27 February 2013

Policy report Summary of 2013 remuneration policy

Remuneration philosophy

Carillion's remuneration policy is to provide the Executive Directors with appropriate incentives to encourage enhanced performance in a manner consistent with the Group's objectives and to reward them in a fair and responsible manner for their individual contributions to the success of the Group.

Carillion's remuneration philosophy is that reward should be used to incentivise Executive Directors in a manner that is consistent with the Group's objectives. The package has been designed based on the following key principles:

Key focus	Remuneration policy
To attract, develop and retain excellent people	To reward all employees fairly according to their role, experience and performance and with due regard to actual and expected market conditions and the financial performance of the Group.
Alignment with interests of shareholders	A substantial proportion of the package for the Executive Directors is delivered in the Company's shares to ensure that the interests of executives are aligned with shareholders. This is further supported by shareholding guidelines ensuring that a meaningful portion of each Executive Directors' personal wealth is linked to the share price performance.
Pay for performance	A substantial proportion of Executive Director remuneration is variable, linked to the Group's performance, in particular, to the delivery of sustained profitable growth and to the performance of the individual.
Be a recognised leader in Health & Safety and sustainability	To ensure that remuneration arrangements support our sustainability agenda, the quality of performance in terms of business results and leadership is considered, including achieving high standards in respect of Carillion's Health & Safety, environmental and social performance targets.

Remuneration report

continued

Key elements of pay

The table below summarises how the Remuneration Committee sets remuneration for the Executive Directors, the key elements of their remuneration and principal pension arrangements

Element	Purpose and link to strategy	Operation
Base salary	<p>Core element of fixed remuneration that provides the basis for a market competitive package to recruit and retain talent</p> <p>Reflects individual skills, experience and responsibility</p> <p>Reward individual performance</p>	<p>Reviewed annually and usually fixed for 12 months commencing 1 January. The decision is influenced by</p> <ul style="list-style-type: none"> > role, experience and performance, > average change in broader workforce salary > total organisational salary budgets, and > group profitability and prevailing market conditions <p>External benchmark data against companies of a similar size and complexity is also considered</p> <p>Policy is to set basic salary within the market range of salaries for equivalent roles and expect to pay around the median when the individual has been performing in the role for a reasonable period of time</p>
Benefits	Help recruit and retain employees	Base salary is supplemented with normal benefits, available to senior managers within the Group, including car or car allowance and healthcare arrangements
Annual performance bonus and deferred bonus plan	<p>Drive and reward the achievement of annual financial and strategic business targets and delivery of personal objectives relevant to Carillion's long-term strategic objectives</p> <p>Provide alignment with shareholders' interests</p> <p>Deferred proportion of award, delivered in shares, supports retention and promotes share ownership</p>	<p>Awards based on annual performance against key financial and strategic targets and the delivery of personal objectives</p> <p>Payments are determined by the Remuneration Committee after year end, based on performance against targets</p> <p>50% of any bonus earned is paid in cash and 50% is deferred and paid in shares which must be held for a minimum three year period</p> <p>A claw back provision gives the Remuneration Committee the right to reduce any deferred bonus awards which have not yet vested in relation to circumstances of corporate failure which may have occurred at any time before claw back is operated</p> <p>Structure of the plan is reviewed annually</p>
Long Term Incentive – Carillion plc Leadership Equity Award Plan (LEAP)	<p>Drive and reward the achievement of longer-term objectives aligned closely to shareholders' interests</p> <p>Retain key executives over a longer-term measurement period</p> <p>Provide alignment with shareholders' interests</p> <p>Support retention and promotes share ownership</p>	<p>Carillion plc has one long-term incentive plan which was agreed by shareholders on 10 May 2006</p> <p>Annual awards of conditional shares or nil cost options under the LEAP are made with vesting dependent on the achievement of performance conditions over the three subsequent years</p> <p>Targets, whilst stretching, do not encourage inappropriate business risks to be taken</p>
Pension and other benefits	<p>Help recruit and retain employees</p> <p>Ensure adequate income in retirement</p>	<p>The Company offers competitive defined contribution pensions to all Executive Directors</p> <p>Where contributions exceed the £50,000 Annual Allowance or the Life Time Allowance for a tax free pension accrual, Executives have the choice of receiving excess contributions as a salary supplement (subject to tax and national insurance contributions)</p> <p>In circumstances where there are historical contractual commitments benefits in part are provided through membership of the Staff Pension Scheme. In April 2009, the Company closed this scheme to future accrual and the Executive Directors who were members of this scheme became deferred pensioners. Their deferred benefits are based on pensionable salary and service at the date of closure</p> <p>Death in service benefits are provided as part of membership of these plans</p> <p>Bonus and other benefits received by Executive Directors do not count towards pensionable pay</p>
Share ownership guideline	<p>Provide alignment with shareholders' interests</p> <p>Promotes share ownership</p>	Each Executive Director is required to hold shares acquired through the LEAP until the value of their total shareholding is equal to their annual salary

Opportunity	Performance metrics	Changes in year
<p>Salary increases will normally not exceed the average increase awarded to other employees in the Group. However, larger increases may be awarded where the Committee considers that there is a compelling reason to do so, for example:</p> <ul style="list-style-type: none"> > there is an increase in scope and responsibility or > a new Executive Director is being moved to market positioning over time or > where the Executive Director has fallen significantly below the market positioning, or > in other exceptional circumstances 	N/A	<p>Richard Howson – £560 000 with effect from 1 January 2012 on his appointment as Group Chief Executive</p> <p>Richard Adam – £450 000 with effect from 1 July 2012 to reflect his increased responsibilities (specific increase in responsibilities for supply chain as well as general increase in contribution reflecting the reduction in the number of Executive Directors from three to two on John McDonough's retirement)</p> <p>There will be no salary increases for Executive Directors in 2013</p>
Set at a level which the Remuneration Committee considers to be appropriately positioned against peers and to provide a sufficient level of benefit based on their grade and circumstances	N/A	N/A
Maximum award: 100% of base salary	<p>Stretching targets are set each year reflecting business priorities which underpin Group strategy and align with financial key performance indicators</p> <p>Targets whilst stretching do not encourage inappropriate business risks to be taken</p> <p>For 2012</p> <p>75% of the bonus was based on achieving target underlying earnings per share (EPS) and the personal objectives proportion accounted for up to 25% of the bonus</p>	<p>Annual bonus deferral period was extended from two to three years to place a further emphasis on shareholder alignment</p> <p>A claw back provision was introduced in 2012</p>
<p>Normal maximum award: 150% of base salary</p> <p>Current scheme rules permit grants up to 200% of base salary in exceptional circumstances</p>	<p>For the 2012 and 2013 LEAP awards for the Executive Directors, 100% of salary will be based on annual average growth in EPS, and 50% of salary on an average annual cash flow conversion target</p> <p>These measures provide a robust and transparent basis on which to measure Carillion's performance and are aligned with Carillion's business strategy</p> <p>The Remuneration Committee will regularly review the performance conditions and targets for future awards to ensure they are aligned with Carillion's business strategy and remain challenging</p>	<p>From 2012, new performance targets were introduced for the 2012 awards which take account of the changed profile of the Group and market conditions since 2006 (when the targets were last changed)</p> <p>The proportion of the award vesting for threshold performance was reduced from 30% of salary to 25% of salary</p>
<p>Pensionable salary is limited by an internal cap. The Carillion cap commenced at the level of £110 000 for the tax year 2006-07 and rose in line with the published increases in HMRC's Life Time Allowance to the current level of £132,700 which has applied since 2010-11. Future increases are at the discretion of the Remuneration Committee</p> <p>Executives receive a contribution of 40% of capped salary. Executives are required to pay 10% of the earnings cap</p> <p>Salary supplements are paid on earnings over the cap at the rate of up to 33.6% of excess earnings</p> <p>Richard Howson is also a deferred member of the Carillion Staff Pension Scheme</p>	N/A	N/A
N/A	N/A	N/A

Remuneration report

continued

Remuneration policy for new appointments

In the cases of hiring or appointing a new Executive Director, the Remuneration Committee will typically align the remuneration package with the Remuneration Policy detailed on pages 54 and 55, however, the Remuneration Committee retains the discretion to make remuneration decisions which are outside the policy to facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy

In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors (including quantum, the nature of remuneration and the jurisdiction the candidate was recruited

Non-Executive Directors

Element	Purpose and link to strategy	Operation	Opportunity	Changes in year
Non-Executive Director fees	Core element of remuneration, paid for fulfilling the role in question	<p>The remuneration of the Chairman of the Board is set by the Remuneration Committee</p> <p>The Board as a whole is responsible for deciding Non-Executive Directors' fees</p> <p>The Company does not contribute to any pension arrangements for Non-Executive Directors</p>	Based on the level of fees paid to Non-Executive Directors serving on Boards of similarly-sized UK-listed companies and the time commitment and contribution expected for the role	<p>Following a review of fees paid to Non-Executive Directors in similarly-sized UK-listed companies the following fee levels were set with effect from April 2012</p> <p>Basic fees Non-Executive Chairman – £192,000 Non-Executive Director – £50,000</p> <p>Additional fees Senior Independent Director – £10,200</p> <p>Audit Committee Chairman – £10,200</p> <p>Remuneration Committee Chairman – £10,200</p>

Executive Director Pay Mix – 2013

50% of each Executive Director's total target remuneration is variable and is linked to corporate performance. At maximum performance around two thirds (as a proportion of the maximum reward potential) of each Executive Director's total remuneration is variable and is linked to corporate performance

The charts below illustrate the proportions of the Executive Directors' remuneration packages comprising fixed (i.e. salary and pension) and variable elements of pay, assuming i) a target performance scenario and ii) maximum performance is achieved

Target

Maximum

1 Salary and benefits (including pension) 50%	1 Salary and benefits (including pension) 35%
2 Annual bonus (cash) 10%	2 Annual bonus (cash) 12.5%
3 Annual bonus (deferred shares) 10%	3 Annual bonus (deferred shares) 12.5%
4 Long-Term Incentive 30%	4 Long-Term Incentive 40%

from) to ensure that arrangements are in the best interests of both Carillion and its shareholders

The Remuneration Committee may make an award in respect of hiring to 'buy-out' incentive arrangements forfeited on leaving a previous employer. In doing so the Remuneration Committee will take account of relevant factors including any performance conditions attached to these awards and the time over which they would have vested

Carillion may make use of the Listing Rule 9.4.2 if appropriate

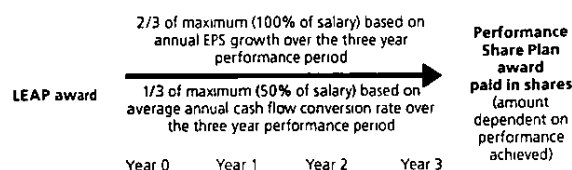
The Committee believes that the level of remuneration that can be delivered in the various scenarios is appropriate for the level of performance delivered and the value that would be delivered to shareholders

Pay policy for other employees

The remuneration policy applied to the Chief Executive's Leadership Team and the most senior executives in the Group is similar to the policy for the Executive Directors in that a significant element of remuneration is dependent on company and individual performance. The key principles of the remuneration philosophy are applied consistently across the Group below this level, taking account of seniority and local market practice

Performance conditions for the LEAP

Following extensive consultation with our major shareholders new performance targets were introduced for the 2012 awards which take account of the changed profile of the Group and market conditions since 2006 (when the targets were last changed). The structure of the LEAP awards granted to Executive Directors in 2012 is as follows



Annual compound growth in EPS element (100% of salary for the Executive Directors)

Growth in EPS will be measured based on the underlying basic earnings per share as disclosed in the relevant annual report and accounts. This is calculated before intangible amortisation, non-recurring operating items and non-operating items (and post any impairment of goodwill or intangibles). The following EPS targets apply to awards made from 2012 onwards.

	Vesting (% of salary for Executive Directors)	100% of salary based on EPS growth
Threshold	16.7%	6% p.a.
Target	50%	9% p.a.
Maximum	100%	12% p.a.

Average annual cash flow conversion rate element (50% of salary for the Executive Directors)

Calculated as the underlying cash flow from operations divided by the underlying profit from operations as reported in the annual report and accounts. The annual cash flow conversion rate over the three year performance period will be averaged to provide a focus on the continued sustained delivery of cash-backed profits. The following cash conversion rate targets apply to awards made from 2012 onwards.

	Vesting (% of salary for Executive Directors)	50% of salary based on annual average cash flow conversion rate
Threshold	8.3%	95%
Target	25%	100%
Maximum	50%	110%

Wider workforce remuneration

When determining the remuneration arrangements for Executive Directors, the Remuneration Committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group. In particular, the Remuneration Committee is kept informed on:

- > Salary increase for the general employee population
- > Overall spend on annual bonus
- > Participation levels in the annual bonus and share plans

There will be no salary increases for Executive Directors in 2013. The general salary increase for employees other than Executive Directors will be approximately 1.75%. The Chief Executive's Leadership Team has waived this general increase. However, awards will be made to employees below the main Board to take account of changes in scope and responsibility. In July 2012, a one-off payment of £600 per employee was paid to a targeted employee population.

The threshold earnings target for the 2012 bonus was not met and therefore no bonus has been awarded to the Executive Directors for the year ended 31 December 2012.

The Group has various ways of engaging our employees collectively, as teams and one to one. A number of methods are common across all the Group (Team Talk, Performance Development Review, Job Chat, Great Debate and Chief Executive's Leadership Team Lunches) and a number are business or area specific (newsletters, dial in, consultation groups and socials). The Board does receive updates and feedback on employee engagement.

Service contracts and termination payments

The policy set out below provides the framework for contracts for Executive Directors.

Policy

Notice period on termination by employing company	12 calendar months
Termination payment	Severance payments in relation to the service contract are limited to no more than one year's salary plus benefits in kind and pension entitlements.

Vesting of incentives for leavers	The Committee has the discretion to determine appropriate bonus amounts taking into consideration the circumstances in which an Executive Director leaves. Typically for 'good leavers', bonus amounts (as estimated by the Committee) will be pro-rated for time in service to termination and will be, subject to performance, paid at the usual time.
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The vesting of share based awards is governed by the rules of the relevant incentive plan, as approved by shareholders.

- > Under the LEAP, the provisions for 'good leavers' and on a change of control provide that awards will vest at the date of cessation of employment/on a change of control (and, unless the Remuneration Committee determines otherwise, subject to pro-rating for time and performance).
- > Under the deferred bonus plan, the provisions for 'good leavers' and on a change of control provide that deferred share awards will be released in full at the date of cessation of employment/on a change of control.

The following table sets out the details of the Executive Directors' service contracts.

Name	Commencement	Notice Period	Term
Richard Adam	2 April 2007	12 months	rolling
Richard Howson	10 December 2009	12 months	rolling

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.

Shareholder engagement

The Remuneration Committee engages in regular dialogue with shareholders to discuss and take feedback on its remuneration policy and governance matters. In particular, the Remuneration Committee discusses any significant changes to the policy or the measures used to assess performance.

The Remuneration Committee undertook an extensive consultation with major shareholders and investor bodies in respect of the proposed changes to the LEAP for the financial year beginning 1 January 2012.

No significant amendments were made to the remuneration policy for 2013 and the Remuneration Committee did not therefore feel it necessary to undertake a further consultation exercise.

The Remuneration Committee will continue to actively engage with and seek to incorporate the views of its shareholders in any major changes to the Executive Director remuneration policy.

Remuneration report continued

Implementation Report summary of 2012 remuneration outcomes

Single figure of remuneration for each Director

Element and methodology	Richard Howson £000	Richard Adam £000
Base salary		
Full base salary paid during the year	560	429
Benefits		
The value of any taxable benefits for 2012. This includes a car/car allowance, fuel benefit and private medical care	21	21
Pension and cash supplement in lieu of pension		
The pension figure represents the cash value of pension contribution received by the Executive Directors. This includes the Company's contributions, additional amounts paid over the internal earnings cap and any salary supplement in excess of the annual allowance	210	153
Annual bonus		
The annual bonus is the cash value of the bonus earned in respect of the year ended 31 December 2012 (including the deferred shares which must be held for a minimum three year period)	Nil	Nil
LEAP		
The value of the long term incentive award earned in respect of the performance period commencing 1 January 2010 and ending 31 December 2012		
The value of the vested shares is the face value of shares at the vesting date or estimate of total market value if not yet vested	Nil	Nil
2012 Total	791	603

Pay for performance for 2012

2012 Annual Bonus

For 2012, the annual bonus was based on the following performance targets

Executive Director	Financial performance	Personal performance
Richard Howson	75% of salary based on growth in earnings per share	25% of salary based on individual objectives
Richard Adam		

Performance against targets

Due to the economic conditions in Carillion's industry sectors and the Group's performance, the financial performance requirements for the 2012 bonus were not met and therefore no bonus has been awarded to the Executive Directors for the year ended 31 December 2012

Financial performance	Target underlying EPS of 45p not achieved. No bonus awarded for financial performance element
Personal performance	<p>The personal objectives of the Executive Directors, as noted below, were agreed by the Remuneration Committee at their December 2011 meeting, and assessed at February 2013 to establish the extent to which they had been met</p> <p>However, the threshold earnings target of 45p was not met and therefore no bonus has been awarded for the personal performance element</p> <p>Richard Howson</p> <p>Lead the Group's Health & Safety strategy and make progress towards achieving the objective of zero reportable accidents</p> <p>Progress the Group's strategy in line with the Group's published objectives</p> <p>Facilitate the delivery of 2012 targeted net debt, average net debt and underlying profit before tax consistent with the Group's prudent approach to managing profit and cash</p> <p>Lead the ongoing succession plan for the Group and encourage cross business unit engagement to ensure the Group has a strong and effective management team</p> <p>Richard Adam</p> <p>Support and facilitate the delivery of 2012 targeted net debt, average net debt and underlying profit before tax consistent with the Group's prudent approach to managing profit and cash</p> <p>Continue to implement the Group's profit improvement and cost management targets through engagement with the business and the delivery of the Group's supply chain management programme</p> <p>Continue to review the financing structure of the Group and by securing further US private placement facilities, reprofile the maturity dates of the Group's borrowing facilities</p>

Value earned from long-term incentive awards

The Leadership Equity Award Plan ('LEAP')

LEAP awards granted to Executive Directors prior to 2012 were based on growth in earnings per share against the Retail Price Index (RPI) as shown below

Growth in earnings per share		% of base salary
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

Performance against targets

EPS performance achieved in three year performance period to 31 December 2012	RPI +1.8%
% of 2010 award due to vest in April 2013	Nil

Long term incentives awarded during the financial year

The table below outlines awards made under the LEAP to Executive Directors in 2012

		Award basis	Face value of the award	Vesting at threshold	Performance period
5 April 2012	Richard Howson	150% of base salary	£840,000	1/6th of the maximum	1 January 2012 to 31 December 2014
5 April 2012	Richard Adam	150% of base salary	£675,000	1/6th of the maximum	1 January 2012 to 31 December 2014

The performance conditions attaching to these awards are detailed in the table on page 55

Total shareholdings of directors

	Shareholder requirement	Current shareholdings (per cent of salary)	Owned outright	Number of shares subject to deferral without performance conditions	Number of shares subject to performance conditions
Richard Adam	100 per cent of salary	157,004 (110.6%)	157,004	74,318	586,163
Richard Howson	100 per cent of salary	67,572 (38.3%)	67,572	70,130	581,398

Remuneration Committee members and advisers

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

The Remuneration Committee is assisted in its work by Susannah Clements, Group HR Director and previously by her predecessor Susan Morton. Philip Rogerson, Chairman and Richard Howson, Group Chief Executive also assisted the Remuneration Committee during the year. The Group Chief Executive is consulted on the remuneration of those who report directly to him and also of other senior executives. No Executive Director or employee is present or takes part in discussions in respect of matters relating directly to their own remuneration.

Additionally, the Remuneration Committee uses Deloitte LLP to provide salary survey and benchmarking information and external and internal contextual information and analysis as required. The Remuneration Committee took into account the Remuneration Consultants Group's Code of Conduct when appointing Deloitte LLP as adviser to the Remuneration Committee. Deloitte LLP's fees for providing such advice amounted to approximately £20,163 (2011 £40,600) for the year ended 31 December 2012. The Remuneration Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender. The Remuneration Committee undertook such an assessment during the year and remains satisfied with Deloitte LLP's appointment as advisers to the Remuneration Committee. Deloitte LLP, which was appointed in 2005, also provides certain specialist consultancy services including internal audit services but otherwise has no other connections with the Group.

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

Additional information

Total Shareholder Return (TSR) performance graphs

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

Carillion TSR vs FTSE 350 1 January 2008 – 31 December 2012 Rebased to 100

Carillion TSR vs FTSE 350 1 January 2012 – 31 December 2012 Rebased to 100

Remuneration report

continued

Directors' emoluments

The remuneration of the Directors of Carillion plc for the year ended 31 December 2012 is set out in the table below. This is audited information.

	Basic salary/fees £000	Annual performance bonus			Total 2012 £000	Total 2011 £000
		Cash £000	Shares deferred three years £000	Other benefits ⁽ⁱ⁾ £000		
Richard Adam	429	–	–	174	603	951
Richard Howson	560	–	–	231	791	902
Total for Executive Directors	989	–	–	405	1,394	1,853
Steven Mogford	50	–	–	–	50	48
Vanda Murray	60	–	–	–	60	55
Philip Rogerson	192	–	–	–	192	189
Philip Green	60	–	–	–	60	34
Andrew Dougal	60	–	–	–	60	15
Total for Non-Executive Directors	422	–	–	–	422	341
Total for all Directors	1,411	–	–	405	1,816	2,194

(i) Included in 'Other benefits' is a salary supplement for Richard Adam of £99,557 (2011: £92,500) and for Richard Howson of £143,568 (2011: £84,773) in respect of salary over the internal pensions earnings cap. Also included in 'Other benefits' is an allowance for Richard Adam in place of contributions to the Carillion Pension Plan on earnings up to the internal earnings cap of £53,080 (2011: £39,810 – for nine months).

Payments to Former Directors

John McDonough

Bonus of £632,400 in respect of 2011 performance and disclosed in the 2011 Remuneration Report was paid to John McDonough in April 2012. The LEAP 2009 award vested with an award of 21% of the total available. 77,062 shares were awarded on 10 April 2012.

Directors' pensions

Defined benefit pensions accruing during 2012 to Executive Directors in their capacity as Directors of Carillion plc are set out below. This is audited information.

	Accrued pension at 31 December 2012 ⁽¹⁾ £ per annum	Accrued pension at 31 December 2011 £ per annum	Increase in accrued pension over year including inflation allowance £ per annum	Value of pension accrued during 2012 less member contributions £	Transfer value at start of year £	Transfer value at end of year ⁽³⁾ £	Increase in transfer value over year after member contributions ⁽³⁾ £
Richard Howson	26,870	710	–	–	295,640	303,129	7,489

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

(2) The accrued pension amount at 31 December 2011 has been updated to reflect changes in the pension provided by the scheme administrator following an update of pension at the date of leaving on the member's record. The figure disclosed last year was £23,909.

(3) Figures based on market conditions at 31 December 2012.

(4) The transfer value for the previous period has been recalculated using the updated accrued pension figures provided by the administrator and the assumptions appropriate for the Carillion Staff Pension Scheme and assume that the transferred-in element does not contain any Guaranteed Minimum Pension from the previous arrangement.

(5) The accrued pension allows for inflation from the member's date of leaving to the current date. The benefit the member may receive on retirement is based on statutory revaluations which may differ.

The total number of Directors to whom retirement benefits accrued during the year was 1 (2011: 2).

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

	Plan	Amount £
Richard Howson	Carillion 2009 Pension Plan	50,707

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

Directors' share awards

The awards held by Executive Directors of the Company under LEAP as at 31 December 2012 are shown below. This is audited information.

	As at 1 January 2012 Number	Awards granted during the year Number	Awards vesting during the year Number	Awards lapsing during the year Number	As at 31 December 2012 Number	Date of award	Mid market share price on date of award Pence
Richard Adam							
LEAP 2009 (maximum)	236,750	–	49,717	187,033	Nil	07/04/09	252.25
LEAP 2010 (maximum)	192,090	–	–	–	192,090	17/03/10	318.6
LEAP 2011 (maximum)	159,209	–	–	–	159,209	08/04/11	384.4
LEAP 2012 (maximum)	–	234,864	–	–	234,864	05/04/12	287.4
Richard Howson							
LEAP 2009 (maximum)	68,544	–	21,934	46,610	Nil	07/04/09	252.25
LEAP 2010 (maximum)	138,888	–	–	–	138,888	17/03/10	318.6
LEAP 2011 (maximum)	150,234	–	–	–	150,234	08/04/11	384.4
LEAP 2012 (maximum)	–	292,276	–	–	292,276	05/04/12	287.4

On 10 April 2012, 49,717 shares vested to Richard Adam and 21,934 to Richard Howson. The market price of Carillion shares on 10 April 2012 was 282.8 pence.

Executive Share Option Schemes

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

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

At 31 December 2012, 56,401 Executive Share Options were outstanding (2011: 56,401 shares under option).

The Executive Directors do not hold any Executive Share Options.

There have been no changes to the interests of Executive Directors in share incentives in the period 1 January 2013 to 27 February 2013.

Carillion Energy Services' Share Incentive Plan (SIP)

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

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

The cost of implementing and administering the SIP is borne by the two Eaga Partnership Trusts (the EPT).

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

As at the date of this report, Carillion had been formally notified under the Disclosure and Transparency Rules that the EPT held a combined total of 16,879,323 Carillion plc shares representing 3.92 per cent of the issued share capital.

The EPT waived in part the 2011 final dividend paid by Carillion plc in June 2012 and in full the 2012 interim dividend paid in November 2012. These funds have been used by CES to fund the share award under the SIP.

Employee Benefit Trusts

An employee benefit trust was established to acquire shares in Carillion plc and hold them for the benefit of participants (including Executive Directors) in the share incentive and share option schemes. At 31 December 2012, the Trust held 250 Carillion plc shares (2011: 74,290 shares) representing 0.000058 per cent of the issued share capital (2011: 0.017 per cent) acquired over a period in the open market and which have a carrying value of £250 (2011: £0.2 million). The market value of the shares held at 31 December 2012 was £793 (2011: £0.2 million).

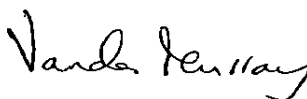
Additionally, a Qualifying Employee Share Ownership Trust (QUEST) operated in conjunction with Carillion in providing shares to employees under its Sharesave Scheme. At 31 December 2012, the QUEST held 129,979 Carillion shares (2011: 129,979 shares) representing 0.03 per cent of the issued share capital (2011: 0.03 per cent) at subscription prices ranging from 115.5 pence to 296.25 pence per share, to enable it to satisfy options under the Sharesave Scheme. The market value of the shares held by the QUEST at 31 December 2012 was £0.4 million (2011: £0.4 million).

For details of dividends paid to the above trusts see note 24 to the consolidated financial statements on page 90.

The closing mid-market price of Carillion shares at 31 December 2012 and the highest and lowest mid-market prices during the year were as follows:

	Share price Pence
31 December 2012	317.0
High 23 February 2012	344.0
Low 24 July 2012	235.5

Approved by order of the Board



Vanda Murray OBE

Chairman of the Remuneration Committee
27 February 2013

Statement of Directors' responsibilities in respect of the Annual Report and the 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 they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to

- > Select suitable accounting policies and then apply them consistently,
- > Make judgements and estimates that are reasonable and prudent,
- > For the Group financial statements, state whether they have been prepared in accordance with IFRSs 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, and
- > Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

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

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

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

Directors' responsibility statement

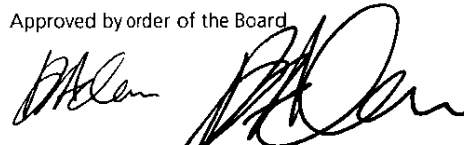
Each of the Directors of Carillion plc, whose names and functions are set out on pages 40 and 41, confirms that to the best of his or her knowledge

- > The financial statements, prepared in accordance with the applicable set of accounting standards and contained in this 2012 Annual Report and Accounts, give a true and fair view of the assets, liabilities, financial position and profit of Carillion plc and the Carillion Group taken as a whole, and
- > The business review, contained in the Directors' Report and the Operating and Financial Review section in this 2012 Annual Report and Accounts, includes a fair review of the development and performance of the business and the position of Carillion plc and the Carillion Group, taken as a whole, together with principal risks and uncertainties they face

Disclosure of information to auditors

The Directors of Carillion plc confirm that at the date of this statement and as far as they are individually aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to ascertain any relevant audit information and to establish that the Company's auditors are aware of that information

Approved by order of the Board



Richard Adam FC
Group Finance Director
27 February 2013

Independent auditor's report to the members of Carillion plc

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We have audited the financial statements of Carillion plc for the year ended 31 December 2012, which comprises the Group Consolidated Income Statement, the Group Consolidated and Parent Company Balance Sheets, the Group Consolidated Statement of Comprehensive Income, the Group Consolidated Statement of Changes in Equity, the Group Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 62, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- > The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2012 and of the Group's profit for the year then ended,
- > The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- > The Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice,
- > The financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- > The part of the Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006,
- > The information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements, and
- > The information given in the Corporate Governance Statement set out in the Corporate Governance report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- > The Directors' statement, set out on page 35, in relation to going concern,
- > The part of the Corporate Governance Statement set out in the Corporate Governance report, relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- > Certain elements of the report to shareholders by the Board on Directors' remuneration.



Darren Turner
Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill, Queensway
Birmingham
B4 6GH
27 February 2013

Consolidated income statement

For the year ended 31 December 2012

	Note	2012 £m	2011 ⁽¹⁾ £m
Total revenue		4,402 8	5,051 2
Less: Share of jointly controlled entities' revenue		(736 6)	(898 0)
Group revenue	2	3,666 2	4,153 2
Cost of sales		(3,279 4)	(3,761 8)
Gross profit		386 8	391 4
Administrative expenses		(235 9)	(298 0)
Profit on disposal of Public Private Partnership equity investments		13 2	11 5
Group operating profit	3	164 1	104 9
Analysed between			
Group operating profit before intangible amortisation and non-recurring operating items		198 1	178 7
Intangible amortisation ⁽²⁾		(31 4)	(31 0)
Non-recurring operating items ⁽³⁾	4	(2 6)	(42 8)
Share of results of jointly controlled entities	2	34 3	48 7
Analysed between			
Operating profit		52 0	71 0
Net financial expense		(16 0)	(18 8)
Taxation		(1 7)	(3 5)
Profit from operations		198 4	153 6
Analysed between			
Profit from operations before intangible amortisation and non-recurring operating items		232 4	227 4
Intangible amortisation ⁽²⁾		(31 4)	(31 0)
Non-recurring operating items ⁽³⁾	4	(2 6)	(42 8)
Non-operating items	4	(1 2)	(6 9)
Net financial expense	5	(17 7)	(3 9)
Analysed between			
Financial income		115 3	132 0
Financial expense		(133 0)	(135 9)
Profit before taxation		179 5	142 8
Analysed between			
Profit before taxation, intangible amortisation, non-recurring operating items and non-operating items		214 7	223 5
Intangible amortisation ⁽²⁾		(31 4)	(31 0)
Non-recurring operating items ⁽³⁾	4	(2 6)	(42 8)
Non-operating items	4	(1 2)	(6 9)
Taxation	7	(13 3)	(4 8)
Profit for the year		166 2	138 0
Profit attributable to			
Equity holders of the parent		160 1	134 6
Non-controlling interests		6 1	3 4
Profit for the year		166 2	138 0
Earnings per share	8		
Basic		37 2p	32 0p
Diluted		37 0p	31 8p

(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011)

(2) Arising from business combinations

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

Consolidated statement of comprehensive income

For the year ended 31 December 2012

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	2012	2011
	£m	£m
Profit for the year	166 2	138 0
Net gain on hedge of net investment in foreign operations	1 5	0 1
Currency translation differences on foreign operations	(8 8)	1 9
Movement in fair value of cash flow hedging derivatives	(7 1)	–
Reclassification of effective portion of cash flow hedging derivatives to profit	2 1	–
Increase in fair value of available for sale assets	4 9	5 0
Actuarial losses on defined benefit pension schemes	(73 4)	(96 6)
	(80 8)	(89 6)
Taxation in respect of the above	11 4	20 0
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	10 4	13 4
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	(3 2)	(13 3)
Other comprehensive expense for the year	(62 2)	(69 5)
Total comprehensive income for the year	104 0	68 5
Attributable to		
Equity holders of the parent	97 9	65 1
Non-controlling interests	6 1	3 4
	104 0	68 5

Consolidated statement of changes in equity

For the year ended 31 December 2012

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Equity shareholders' funds £m	Non controlling interests £m	Total equity £m
At 1 January 2012	215.1	21.2	(16.1)	(23.7)	10.9	464.6	300.9	972.9	9.6	982.5
Comprehensive income										
Profit for the year	-	-	-	-	-	-	160.1	160.1	6.1	166.2
Other comprehensive income										
Net gain on hedge of net investment in foreign operations	-	-	1.5	-	-	-	-	1.5	-	1.5
Currency translation differences on foreign operations	-	-	(8.8)	-	-	-	-	(8.8)	-	(8.8)
Movement in fair value of cash flow hedging derivatives	-	-	-	(7.1)	-	-	-	(7.1)	-	(7.1)
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	2.1	-	-	-	2.1	-	2.1
Increase in fair value of available for sale assets	-	-	-	-	4.9	-	-	4.9	-	4.9
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	(73.4)	(73.4)	-	(73.4)
Taxation	-	-	(0.4)	-	-	-	11.8	11.4	-	11.4
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	10.4	-	-	-	10.4	-	10.4
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	(3.2)	-	-	-	(3.2)	-	(3.2)
Transfer between reserves (see note 24)	-	-	-	-	-	(31.4)	31.4	-	-	-
Total comprehensive income/(expense)	-	-	(7.7)	2.2	4.9	(31.4)	129.9	97.9	6.1	104.0
Transactions with owners										
Contributions by and distributions to owners										
Acquisition of own shares	-	-	-	-	-	-	(3.0)	(3.0)	-	(3.0)
Equity settled transactions (net of taxation)	-	-	-	-	-	-	2.3	2.3	-	2.3
Cash settlement of vested equity settled transactions	-	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Dividends paid	-	-	-	-	-	-	(70.4)	(70.4)	(8.2)	(78.6)
Non-controlling interests acquired	-	-	-	-	-	-	-	-	3.1	3.1
Total transactions with owners	-	-	-	-	-	-	(71.9)	(71.9)	(5.1)	(77.0)
At 31 December 2012	215.1	21.2	(23.8)	(21.5)	15.8	433.2	358.9	998.9	10.6	1,009.5
At 1 January 2011	199.8	21.2	(18.1)	(23.8)	5.9	393.1	277.5	855.6	9.6	865.2
Comprehensive income										
Profit for the year	-	-	-	-	-	-	134.6	134.6	3.4	138.0
Other comprehensive income										
Net gain on hedge of net investment in foreign operations	-	-	0.1	-	-	-	-	0.1	-	0.1
Currency translation differences on foreign operations	-	-	1.9	-	-	-	-	1.9	-	1.9
Increase in fair value of available for sale assets	-	-	-	-	5.0	-	-	5.0	-	5.0
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	(96.6)	(96.6)	-	(96.6)
Taxation	-	-	-	-	-	-	20.0	20.0	-	20.0
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	13.4	-	-	-	13.4	-	13.4
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	(13.3)	-	-	-	(13.3)	-	(13.3)
Transfer between reserves	-	-	-	-	-	(30.9)	30.9	-	-	-
Total comprehensive income/(expense)	-	-	2.0	0.1	5.0	(30.9)	88.9	65.1	3.4	68.5
Transactions with owners										
Contributions by and distributions to owners										
Share capital issued on acquisition of Eaga plc	15.3	-	-	-	-	102.4	-	117.7	-	117.7
Acquisition of own shares	-	-	-	-	-	-	(6.9)	(6.9)	-	(6.9)
Equity settled transactions (net of taxation)	-	-	-	-	-	-	6.0	6.0	-	6.0
Dividends paid	-	-	-	-	-	-	(64.6)	(64.6)	(3.4)	(68.0)
Total transactions with owners	15.3	-	-	-	-	102.4	(65.5)	52.2	(3.4)	48.8
At 31 December 2011	215.1	21.2	(16.1)	(23.7)	10.9	464.6	300.9	972.9	9.6	982.5

Consolidated balance sheet

At 31 December 2012

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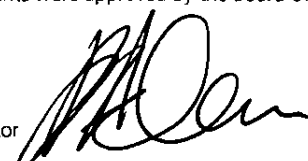
Governance

Financial statements

	Note	2012 £m	2011 £m
Non-current assets			
Property, plant and equipment	10	127 1	134 2
Intangible assets	11	1,540 1	1,547 6
Retirement benefit asset	31	0 7	–
Investments in jointly controlled entities	12	176 4	159 6
Other investments	13	61 5	51 3
Deferred tax assets	14	121 4	137 6
Total non-current assets		2,027 2	2,030 3
Current assets			
Inventories	15	55 3	71 6
Trade and other receivables	17	1,108 7	1,094 6
Cash and cash equivalents	18	657 1	490 7
Derivative financial instruments	27	0 4	–
Current asset investments	19	2 5	4 3
Income tax receivable		10 8	7 7
Total current assets		1,834 8	1,668 9
Total assets		3,862 0	3,699 2
Current liabilities			
Borrowing	20	(35 3)	(32 5)
Derivative financial instruments	27	(7 1)	(0 9)
Trade and other payables	21	(1,615 2)	(1,773 6)
Provisions	22	(27 0)	(45 8)
Income tax payable		(3 8)	(4 4)
Total current liabilities		(1,688 4)	(1,857 2)
Non-current liabilities			
Borrowing	20	(777 6)	(508 9)
Other payables	21	(9 4)	–
Retirement benefit liabilities	31	(351 7)	(305 8)
Deferred tax liabilities	14	(16 2)	(25 5)
Provisions	22	(9 2)	(19 3)
Total non-current liabilities		(1,164 1)	(859 5)
Total liabilities		(2,852 5)	(2,716 7)
Net assets		1,009 5	982 5
Equity			
Share capital	23	215 1	215 1
Share premium	24	21 2	21 2
Translation reserve	24	(23 8)	(16 1)
Hedging reserve	24	(21 5)	(23 7)
Fair value reserve	24	15 8	10 9
Merger reserve	24	433 2	464 6
Retained earnings	24	358 9	300 9
Equity attributable to shareholders of the parent		998 9	972 9
Non-controlling interests		10 6	9 6
Total equity		1,009 5	982 5

The financial statements were approved by the Board of Directors on 27 February 2013 and were signed on its behalf by


Richard Adam FCA
Group Finance Director



Consolidated cash flow statement

For the year ended 31 December 2012

	Note	2012 £m	2011 ⁽¹⁾ £m
Cash flows from operating activities			
Group operating profit		164 1	104 9
Depreciation and amortisation		62 2	62 3
Loss on disposal of property, plant and equipment		1 6	0 6
Profit on disposal of Public Private Partnership equity investments		(13 2)	(11 5)
Other non-cash movements		(10 0)	0 2
Non-recurring operating items		2 6	42 8
Operating profit before changes in working capital		207 3	199 3
Decrease in inventories		15 2	19 7
(Increase)/decrease in trade and other receivables		(36 6)	53 3
Decrease in trade and other payables		(143 5)	(81 6)
Cash generated from operations before pension deficit recovery payments, rationalisation costs and Eaga Partnership Trusts related charges		42 4	190 7
Deficit recovery payments to pension schemes		(30 2)	(36 2)
Rationalisation costs		(28 6)	(34 4)
Eaga Partnership Trusts related charges		–	(0 6)
Cash (used in)/generated from operations		(16 4)	119 5
Financial income received		15 8	16 0
Financial expense paid		(27 3)	(21 3)
Acquisition costs		(0 6)	(7 2)
Taxation receipts/(payments)		2 9	(3 8)
Net cash flows from operating activities		(25 6)	103 2
Cash flows from investing activities			
Disposal of property, plant and equipment		2 7	17 2
Disposal of jointly controlled entity and other investments	30	45 9	31 4
Dividends received from jointly controlled entities		13 6	39 6
Disposal and closure of businesses	30	(3 8)	(1 9)
Decrease in current asset investments		1 8	3 7
Acquisition of subsidiaries, net of cash acquired	30	(4 9)	(182 7)
Acquisition of intangible assets		(3 7)	(2 8)
Acquisition of property, plant and equipment		(14 6)	(9 8)
Acquisition of equity in and net loan advances to jointly controlled entities		(19 7)	(27 6)
Acquisition of other non-current asset investments		(3 0)	(3 4)
Net cash flows from investing activities		14 3	(136 3)
Cash flows from financing activities			
Draw down of bank and other loans		277 2	223 0
Payment of finance lease liabilities		(16 8)	(15 8)
Acquisition of own shares		(3 0)	(6 9)
Payment to employees in settlement of share options		(0 8)	(1 8)
Dividends paid to equity holders of the parent		(70 4)	(64 6)
Dividends paid to non-controlling interests		(8 2)	(3 4)
Net cash flows from financing activities		178 0	130 5
Increase in net cash and cash equivalents		166 7	97 4
Net cash and cash equivalents at 1 January		487 7	391 1
Effect of exchange rate fluctuations on net cash and cash equivalents		(2 2)	(0 8)
Net cash and cash equivalents at 31 December	18	652 2	487 7

(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011)

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 2012 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 27 February 2013.

Statement of compliance

The Group's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its financial statements in accordance with UK Generally Accepted Accounting Practice. These are presented on pages 108 to 113.

Basis of preparation

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

The financial statements are prepared on a going concern basis based on the assessment made by the Directors as described in the Operating and financial review on page 35.

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.

There have been no significant changes in accounting policies or any material impact on the Group arising from the adoption of new accounting standards and interpretations in 2012.

The following standards and interpretations which are not yet effective and have not been early adopted by the Group will be adopted in future accounting periods:

- > International Financial Reporting Standard (IFRS) 9 'Financial Instruments'
- > International Financial Reporting Standard (IFRS) 10 'Consolidated Financial Statements'
- > International Financial Reporting Standard (IFRS) 11 'Joint Arrangements'
- > International Financial Reporting Standard (IFRS) 12 'Disclosure of interests in other entities'
- > International Financial Reporting Standard (IFRS) 13 'Fair value measurement'
- > Amendment to International Accounting Standard (IAS) 19 'Employee benefits'

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

The amendment to IAS 19 makes significant changes to the recognition and measurement of the defined benefit pension expense and termination benefits and disclosures relating to all employee benefits. The amendment is effective for accounting periods commencing on 1 January 2013 and it is anticipated that the total pension cost relating to defined benefit schemes recognised in the income statement in 2013 will be approximately £28 million on a revised IAS 19 basis. In 2013, comparative information for 2012 will be restated on a revised IAS 19 basis, which will lead to an increase of £14.7 million in the reported 2012 total pension cost to £24.2 million.

Change in presentation

In 2012, profit from the disposal of equity investments in Public Private Partnership projects has been presented within Group operating profit in the income statement in recognition of the recurring nature of the disposals and to align the Group with current practice within the industry. Previously such profits were presented within non-operating items. Comparative information has been restated accordingly as disclosed in note 34.

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 2012. 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 interests in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the interests in the entity, the carrying amount is reduced to nil and recognition of further losses is discontinued. The Group's interest in the entity is the carrying amount of the investment together with any long-term interest that, in substance, forms part of the net investment in the entity.

Financial statements of jointly controlled entities are prepared for the same reporting periods as the Group except for Modern Housing Solutions (Prime) Limited which has a 31 March year end. Its results are included in the Group accounts based on additional financial statements for the 12 months to 31 December 2012.

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

Notes to the consolidated financial statements

continued

1 Significant accounting policies (continued)

Goodwill and other intangible assets

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

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

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

Computer software and licences

- > Straight-line over three to five years

Customer contracts and lists

- > Mowlem
 - consumption of economic benefits over 35 years
- > Alfred McAlpine
 - consumption of economic benefits over 12 years
- > Vanbots Group
 - consumption of economic benefits over five years
- > Carillion Energy Services
 - consumption of economic benefits over four years

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

Impairment

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

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

Other non-current asset investments

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

Construction contracts

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

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

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

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

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

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

Pre-contract costs

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

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

1 Significant accounting policies (continued)

Revenue recognition

Revenue represents the fair value of consideration receivable excluding value added tax, for services supplied to external customers. It also includes the Group's proportion of work carried out under jointly controlled operations during the year. Revenue from the Group's principal business streams is recognised on the following basis:

- > Revenue from service contracts is recognised by reference to services performed to date as a percentage of total services to be performed
- > Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts
- > Revenue from the delivery of carbon saving measures to utility companies and other related activities is recognised at the date of sale, except if services are to be provided over future periods, where the income is deferred and recognised over the relevant service period
- > Revenue from the installation of energy efficiency measures such as central heating and other renewable technologies is recognised by reference to the number of energy efficiency measures installed

Property, plant and equipment

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

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

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

Leasing

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

Inventories

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

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

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

Current asset investments

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

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

Taxation

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

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

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

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

Foreign currencies

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

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

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

Employee benefits

(a) Retirement benefit obligations

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

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

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

Notes to the consolidated financial statements

continued

1 Significant accounting policies (continued)

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

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

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

(b) Other post-retirement benefit obligations

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

(c) Share-based payments

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

The fair value of the LEAP, Sharesave and deferred bonus arrangements at the date of grant are estimated using the Black-Scholes pricing model. The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest and taking into account service and non-market conditions.

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

Borrowing costs

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

Borrowing costs incurred by entities relating to the construction of assets in Public Private Partnership projects are capitalised until the relevant assets are brought into operational use.

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

Share capital

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

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

Provisions

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

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

Financial instruments

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

(a) Other non-current investments

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

(b) Trade receivables

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

(c) Cash and cash equivalents

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

(d) Current asset investments

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

(e) Trade payables

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

(f) Bank and other borrowings

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

(g) Derivative financial instruments

Derivatives are initially recognised at fair value on the date the contract is entered into and subsequently remeasured in future periods at 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 transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, movements in fair value are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Net borrowing

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

2 Segmental reporting

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

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

Operating segments

The Group is comprised of the following main operating segments:

Support services

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

Public Private Partnership projects

In this segment we report the equity returns on our investing activities in Public Private Partnership projects for Government buildings and infrastructure, mainly in the defence, health, education, transport and secure accommodation sectors.

Middle East construction services

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

Construction services (excluding the Middle East)

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

Segmental revenue and profit

	2012		2011 ⁽¹⁾	
	Revenue £m	Operating profit before intangible amortisation and non-recurring operating items £m	Revenue £m	Operating profit before intangible amortisation and non-recurring operating items £m
Support services				
Group	2,131.4	101.8	2,119.8	105.7
Share of jointly controlled entities	228.3	20.9	225.4	15.1
	2,359.7	122.7	2,345.2	120.8
Inter-segment	87.3	–	75.2	–
Total	2,447.0	122.7	2,420.4	120.8
Public Private Partnership projects				
Group	1.3	17.3	1.2	14.2
Share of jointly controlled entities	286.4	16.5	308.6	17.2
	287.7	33.8	309.8	31.4
Inter-segment	–	–	–	–
Total	287.7	33.8	309.8	31.4
Middle East construction services				
Group	261.4	13.8	218.9	13.9
Share of jointly controlled entities	212.2	15.2	330.0	35.2
	473.6	29.0	548.9	49.1
Inter-segment	–	–	–	–
Total	473.6	29.0	548.9	49.1
Construction services (excluding the Middle East)				
Group	1,272.1	73.0	1,813.3	54.4
Share of jointly controlled entities	9.7	(0.6)	34.0	3.5
	1,281.8	72.4	1,847.3	57.9
Inter-segment	3.2	–	0.4	–
Total	1,285.0	72.4	1,847.7	57.9
Group eliminations and unallocated items	(90.5)	(7.8)	(75.6)	(9.5)
Consolidated				
Group	3,666.2	198.1	4,153.2	178.7
Share of jointly controlled entities	736.6	52.0	898.0	71.0
Total	4,402.8	250.1	5,051.2	249.7

(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011).

Notes to the consolidated financial statements

continued

2 Segmental reporting (continued)

Segmental revenue and profit (continued)

Reconciliation of operating segment results to reported results

	2012 £m	2011 ⁽¹⁾ £m
Group and share of jointly controlled entities' operating profit before intangible amortisation and non-recurring operating items	250 1	249 7
Net financial expense		
– Group	(17 7)	(3 9)
– Share of jointly controlled entities	(16 0)	(18 8)
Share of jointly controlled entities' taxation	(1 7)	(3 5)
Underlying profit before taxation	214 7	223 5
Intangible amortisation ⁽²⁾	(31 4)	(31 0)
Non-recurring operating items ⁽²⁾	(2 6)	(42 8)
Non-operating items ⁽²⁾	(1 2)	(6 9)
Profit before taxation	179 5	142 8
Taxation	(13 3)	(4 8)
Profit for the year	166 2	138 0

(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non operating items to operating items (amounting to £13 2 million in 2012 and £11 5 million in 2011)

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

	2012			2011 ⁽¹⁾		
	Intangible amortisation £m	Non-recurring operating items £m	Non operating items £m	Intangible amortisation £m	Non-recurring operating items £m	Non-operating items £m
Support services	(28 4)	(2 6)	(1 2)	(26 1)	(40 6)	(4 3)
Construction services (excluding the Middle East)	(3 0)	–	–	(4 9)	(2 2)	(2 6)
Total	(31 4)	(2 6)	(1 2)	(31 0)	(42 8)	(6 9)

(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non operating items to operating items (amounting to £13 2 million in 2012 and £11 5 million in 2011)

Depreciation, amortisation and capital expenditure arise in the following segments

	2012		2011	
	Depreciation and amortisation £m	Capital expenditure £m	Depreciation and amortisation £m	Capital expenditure £m
Support services	(40 7)	(13 6)	(40 3)	(4 1)
Middle East construction services	(2 0)	(1 1)	(2 1)	(1 1)
Construction services (excluding the Middle East)	(4 0)	(0 5)	(6 4)	(0 4)
Unallocated Group items	(15 5)	(12 1)	(13 5)	(7 8)
Total	(62 2)	(27 3)	(62 3)	(13 4)

2 Segmental reporting (continued)

Segmental net assets

	2012			2011		
	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m
Support services						
Intangible assets ⁽¹⁾	1,261 3	–	1,261 3	1,268 9	–	1,268 9
Operating assets	626 7	–	626 7	610 0	–	610 0
Investments	9 8	–	9 8	11 6	–	11 6
Total operating assets	1,897 8	–	1,897 8	1,890 5	–	1,890 5
Total operating liabilities	–	(587 0)	(587 0)	–	(622 1)	(622 1)
Net operating assets/(liabilities)	1,897 8	(587 0)	1,310 8	1,890 5	(622 1)	1,268 4
Public Private Partnership projects						
Operating assets	6 8	–	6 8	7 9	–	7 9
Investments	112 1	–	112 1	93 2	–	93 2
Total operating assets	118 9	–	118 9	101 1	–	101 1
Total operating liabilities	–	(17 8)	(17 8)	–	(9 6)	(9 6)
Net operating assets/(liabilities)	118 9	(17 8)	101 1	101 1	(9 6)	91 5
Middle East construction services						
Operating assets	263 4	–	263 4	226 5	–	226 5
Investments	73 0	–	73 0	57 3	–	57 3
Total operating assets	336 4	–	336 4	283 8	–	283 8
Total operating liabilities	–	(260 6)	(260 6)	–	(224 8)	(224 8)
Net operating assets/(liabilities)	336 4	(260 6)	75 8	283 8	(224 8)	59 0
Construction services (excluding the Middle East)						
Intangible assets ⁽¹⁾	261 2	–	261 2	264 5	–	264 5
Operating assets	363 5	–	363 5	425 4	–	425 4
Investments	43 0	–	43 0	48 8	–	48 8
Total operating assets	667 7	–	667 7	738 7	–	738 7
Total operating liabilities	–	(798 2)	(798 2)	–	(928 2)	(928 2)
Net operating assets/(liabilities)	667 7	(798 2)	(130 5)	738 7	(928 2)	(189 5)
Consolidated before Group items						
Intangible assets ⁽¹⁾	1,522 5	–	1,522 5	1,533 4	–	1,533 4
Operating assets	1,260 4	–	1,260 4	1,269 8	–	1,269 8
Investments	237 9	–	237 9	210 9	–	210 9
Total operating assets	3,020 8	–	3,020 8	3,014 1	–	3,014 1
Total operating liabilities	–	(1,663 6)	(1,663 6)	–	(1,784 7)	(1,784 7)
Net operating assets/(liabilities) before Group items	3,020 8	(1,663 6)	1,357 2	3,014 1	(1,784 7)	1,229 4
Group items						
Deferred tax assets/(liabilities)	121 4	(16 2)	105 2	137 6	(25 5)	112 1
Net cash/(borrowing)	657 1	(812 9)	(155 8)	490 7	(541 4)	(50 7)
Retirement benefits (gross of taxation)	0 7	(351 7)	(351 0)	–	(305 8)	(305 8)
Income tax	10 8	(3 8)	7 0	7 7	(4 4)	3 3
Other	51 2	(4 3)	46 9	49 1	(54 9)	(5 8)
Net assets/(liabilities)	3,862 0	(2,852 5)	1,009 5	3,699 2	(2,716 7)	982 5

(1) Arising from business combinations

Notes to the consolidated financial statements

continued

2 Segmental reporting (continued)

Geographic information – by origin

	2012 £m	2011 £m
United Kingdom		
Total revenue from external customers	3,247.9	3,664.0
Less: share of jointly controlled entities' revenue	(394.6)	(386.7)
Group revenue from external customers	2,853.3	3,277.3
Non-current assets	1,586.7	1,628.8
Middle East and North Africa		
Total revenue from external customers	487.1	561.3
Less: share of jointly controlled entities' revenue	(225.7)	(342.4)
Group revenue from external customers	261.4	218.9
Non-current assets	78.1	66.7
Canada		
Total revenue from external customers	650.9	782.3
Less: share of jointly controlled entities' revenue	(116.3)	(147.4)
Group revenue from external customers	534.6	634.9
Non-current assets	178.8	145.9
Rest of the World		
Total revenue from external customers	16.9	43.6
Less: share of jointly controlled entities' revenue	–	(21.5)
Group revenue from external customers	16.9	22.1
Non-current assets	–	–
Consolidated		
Total revenue from external customers	4,402.8	5,051.2
Less: share of jointly controlled entities' revenue	(736.6)	(898.0)
Group revenue from external customers	3,666.2	4,153.2
Non-current assets		
Total of geographic analysis above	1,843.6	1,841.4
Retirement benefit assets	0.7	–
Other investments	61.5	51.3
Deferred tax assets	121.4	137.6
Total non-current assets	2,027.2	2,030.3

Revenues from the Group's major customer, are shown below

	Support services		Public Private Partnership projects		Construction services (excluding the Middle East)		Total	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
UK Government	924.1	920.4	175.4	188.3	990.1	1,499.7	2,089.6	2,608.4

3 Group operating profit

	2012 £m	2011 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	27.1	27.7
Amortisation of intangible assets	35.1	34.6
Impairment of trade receivables	1.3	1.1
Impairment on re-measurement to fair value of Eaga plc shares at acquisition	-	0.5
Loss on disposal of property, plant and equipment and intangible assets	1.6	0.6
Operating lease charges	41.2	51.8
Foreign exchange losses/(gains)	0.6	(0.7)
(Gain)/loss on derivative financial assets and liabilities held for trading	(1.3)	1.5
Auditors' remuneration		
Fees payable to the Company's auditor for		
- the audit of the Company's annual accounts	0.3	0.3
- the audit of the Company's subsidiaries	0.9	0.8
Total audit fees	1.2	1.1
- audit-related assurance services	0.1	0.1
- taxation compliance services	0.3	0.4
- other assurance services	0.1	0.4
Total non-audit fees	0.5	0.9

Carillion's share of the fees paid to KPMG Audit Plc and its associates by Group jointly controlled entities in respect of audit services amounted to £0.2 million (2011: £0.2 million)

4 Non-recurring operating items and non-operating items

Non-recurring operating items	2012 £m	2011 £m
Integration and rationalisation costs	-	(40.0)
Eaga Partnership Trusts related charges	(2.6)	(2.8)
	(2.6)	(42.8)

The Group operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The Eaga Partnership Trusts (EPT) waived part of its entitlement to the 2011 final dividend and all of its entitlement to the 2012 interim dividend paid during the year amounting to £2.6 million. This £2.6 million has been used to satisfy UK SIP awards which vest immediately. These awards give rise to a charge under International Financial Reporting Standard 2 'Share-based payment' of £2.6 million. The Group is not committed to make any awards under the SIP in excess of those funded by the EPT. Where the award of shares under the SIP is fully funded by the waiver of dividends by the EPT, there is no material net impact on the net debt or net assets of the Group over the contractual life of the plan compared to if the EPT had not waived its dividends. As this charge has arisen from the decision by the EPT to waive its entitlement to dividends and is outside of the control of the normal operating parameters of the Group, the charge is classified as a non-recurring operating item. Further details on the SIP are given in the Remuneration report on page 61.

Integration and rationalisation costs of £40.0 million in 2011 primarily relates to redundancy and property exit costs arising from a review of the Group's requirements following the acquisition of Carillion Energy Services including relatively modest costs associated with focusing the Canadian construction services business on the growing Public Private Partnership market in the region.

An income tax credit of £0.6 million (2011: £11.9 million) relating to the above has been included within taxation in the income statement.

Non-operating items

	2012 £m	2011 ⁽¹⁾ £m
Profit on disposal of jointly controlled entity	-	3.8
Acquisition costs	(0.9)	(7.5)
Closure and disposal of non-core businesses	(0.3)	(3.2)
	(1.2)	(6.9)

(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011).

In 2011, the Group disposed of a small jointly controlled entity in the Netherlands. The disposal generated a cash consideration of £6.9 million (before disposal costs of £0.7 million) and a non-operating profit of £3.8 million. There is no income tax associated with this profit.

Acquisition costs in 2012 of £0.9 million relate to adviser costs incurred in relation to the Bouchier Group acquisition contract and due diligence procedures. Acquisition costs in 2011 of £7.5 million relate to adviser costs incurred in relation to the Carillion Energy Services acquisition contracts and due diligence procedures. An income tax credit of nil (2011: £0.6 million) has been included in the income statement in respect of these costs.

In 2012 costs of £0.3 million have arisen on the disposal and closure of a number of non-core businesses. In 2011, a number of small non-core businesses were also closed at a cost of £3.2 million. An income tax credit of £0.3 million (2011: £0.6 million) has been included in the income statement in respect of these costs.

Notes to the consolidated financial statements

continued

5 Financial income and expense

	2012 £m	2011 £m
Financial income		
Bank interest receivable	0.4	1.6
Other interest receivable	14.9	14.4
Expected return on retirement plan assets	100.0	116.0
	115.3	132.0
Financial expense		
Interest payable on bank loans and overdrafts	(11.5)	(9.6)
Other interest payable and similar charges	(17.9)	(13.5)
Interest cost on retirement plan obligations	(103.6)	(112.8)
	(133.0)	(135.9)
Net financial expense	(17.7)	(3.9)

Other interest payable and similar charges includes finance lease charges of £2.0 million (2011 £2.7 million) and the discount unwind associated with onerous lease provisions of £2.1 million (2011 £1.8 million)

No borrowing costs have been capitalised in either 2012 or 2011 as they are not material

6 Payroll costs and employee numbers

	2012 £m	2011 £m
Wages and salaries	670.8	744.7
Social security costs	61.5	67.0
Pension costs	25.9	29.3
Equity settled transactions (Group funded charges)	(0.3)	2.5
Equity settled transactions (Eaga Partnership Trusts related charges)	2.6	2.8
	760.5	846.3

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 31 and includes a charge of £20.0 million (2011 £22.7 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 53 to 61

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

	2012 Number	2011 Number
Support services	17,028	18,132
Public Private Partnership projects	26	32
Middle East construction services	6,551	7,405
Construction services (excluding the Middle East)	3,193	3,989
Corporate centre	628	434
	27,426	29,992
UK	17,616	19,797
Overseas	9,810	10,195
	27,426	29,992

In addition to the above there are 14,007 staff (2011 15,350) employed within the Group's jointly controlled entities located in the Middle East

7 Income tax

Recognised in the income statement

	2012 £m	2011 £m
Current tax (credit)/expense		
Current year		
– UK	(3 4)	(3 3)
– Overseas	4 6	3 0
Adjustments for prior years		
– UK	(4 3)	2 8
– Overseas	(0 8)	0 8
Total current tax	(3 9)	3 3
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	12 7	9 6
Change of rate	1 5	0 6
Adjustments for prior years	3 0	(8 7)
Total deferred tax	17 2	1 5
Total income tax expense in the income statement	13 3	4 8

Reconciliation of effective tax rate

	2012 £m	2011 £m
Profit before tax	179 5	142 8
Tax of jointly controlled entities	1 7	3 5
	181 2	146 3

Income tax at UK standard corporation tax rate of 24.5% (2011: 26.5%)

	2012 £m	2011 £m
Permanent differences	0 6	1 5
Unrelieved trade losses	0 5	8 2
Capital items not taxable/not deductible	(3 2)	(4 7)
Effect of utilisation of brought forward tax losses	(9 6)	(10 9)
Effect of tax rates in foreign jurisdictions	(4 6)	(9 6)
Change in rate	1 5	0 6
Over provided in prior years	(4 6)	(7 4)
Recognition of deferred tax on prior year losses	(10 0)	(8 2)
Total tax (including tax of jointly controlled entities)	15 0	8 3
Tax of jointly controlled entities	(1 7)	(3 5)
Group income tax expense	13 3	4 8

Reductions in the UK corporation tax rate to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Within the above deferred tax charge of £17.2 million is a charge of £1.5m with respect to these changes in rate.

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

The release of the over-provision relating to prior years of £4.6 million (2011: £7.4 million) includes an amount of £3.2 million which is attributable to the agreement of certain issues with the tax authorities. Tax of jointly controlled entities of £1.7 million in 2012 includes a £2.5 million credit arising from a review of the nature of tax issues in certain entities.

Tax (asset)/liability recognised either in the statement of other comprehensive income or directly in equity

	2012 £m	2011 £m
Deferred tax on actuarial losses on defined benefit pension schemes	(11 8)	(20 0)
Current tax on foreign exchange translation adjustments	0 4	–
Tax recognised in statement of comprehensive income	(11 4)	(20 0)
Tax directly recognised in equity		
– Current tax on equity settled transactions	(0 1)	(0 6)
– Deferred tax on equity settled transactions	0 1	(0 1)
Total tax recognised in equity	(11 4)	(20 7)

Deferred tax on actuarial losses on defined benefit pension schemes of £11.8 million in 2012 includes a £6.6 million charge in respect of the change in tax rate to 23 per cent as substantively enacted on 3 July 2012.

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8 Earnings per share

(a) Basic earnings per share

The calculation of earnings per share for the year ended 31 December 2012 is based on the profit attributable to equity holders of the parent of £160.1 million (2011: £134.6 million) and a weighted average number of ordinary shares in issue of 430.1 million (2011: 420.9 million), calculated as follows:

In millions of shares	2012	2011
Issued ordinary shares at 1 January	430.3	399.7
Effect of shares issued in the year	–	21.4
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust	(0.2)	(0.2)
Weighted average number of ordinary shares at 31 December	430.1	420.9

(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 the amortisation of intangible assets arising from business combinations, non-recurring operating items and non-operating items.

	2012		2011 ⁽¹⁾	
	Profit before tax £m	Tax £m	Profit before tax £m	Tax £m
Profit before taxation				
Profit before taxation as reported in the income statement	179.5	13.3	142.8	4.8
Amortisation of intangible assets arising from business combinations	31.4	9.3	31.0	9.9
Non-recurring operating items	2.6	0.6	42.8	11.9
Non-operating items	1.2	0.3	6.9	1.2
Underlying profit before taxation	214.7	23.5	223.5	27.8
Underlying taxation	(23.5)		(27.8)	
Underlying profit attributable to non-controlling interests	(6.1)		(3.4)	
Underlying profit attributable to shareholders	185.1		192.3	

	2012 Pence per share	2011 ⁽¹⁾ Pence per share
Earnings per share		
Basic earnings per share	37.2	32.0
Amortisation of intangible assets arising from business combinations	5.1	5.0
Non-recurring operating items	0.5	7.3
Non-operating items	0.2	1.4
Underlying basic earnings per share	43.0	45.7
Underlying diluted earnings per share (post-tax basis)	42.8	45.4

(1) Restated following the change in presentation of profits on the disposal of Public Private Partnership equity investments from non-operating items to operating items (amounting to £13.2 million in 2012 and £11.5 million in 2011).

(c) Diluted earnings per share

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

In millions of shares	2012	2011
Weighted average number of ordinary shares	430.1	420.9
Effect of share options in issue	2.1	2.5
Weighted average number of ordinary shares (diluted) at 31 December	432.2	423.4

9 Dividends

The following dividends were paid by the Company:

	2012		2011	
	£m	Pence per share	£m	Pence per share
Previous year final dividend	48.5	11.6	43.0	10.7
Current year interim dividend	21.9	5.4	21.6	5.3
	70.4	17.0	64.6	16.0

9 Dividends (continued)

The following dividends were proposed by the Company

	2012		2011	
	£m	Pence per share	£m	Pence per share
Interim	21.9	5.40	21.6	5.3
Final	51.0	11.85	49.9	11.6
	72.9	17.25	71.5	16.9

The final dividend for 2012 of 11.85 pence per share was approved by the Board on 27 February 2013 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 14 June 2013 to shareholders on the register on 17 May 2013

10 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2012	37.4	122.7	160.1
Acquisition of the Bouchier Group	1.3	7.9	9.2
Additions	2.1	17.9	20.0
Disposals	(2.3)	(30.4)	(32.7)
Disposals arising from the sale of businesses	(0.5)	(4.4)	(4.9)
Effect of movements in foreign exchange rates	(1.2)	(2.7)	(3.9)
At 31 December 2012	36.8	111.0	147.8
Depreciation and impairment losses			
At 1 January 2012	4.1	21.8	25.9
Depreciation charge for the year	3.7	23.4	27.1
Disposals	(2.2)	(26.3)	(28.5)
Disposals arising from the sale of businesses	–	(1.6)	(1.6)
Effect of movements in foreign exchange rates	(0.5)	(1.7)	(2.2)
At 31 December 2012	5.1	15.6	20.7
Net book value			
At 1 January 2012	33.3	100.9	134.2
At 31 December 2012	31.7	95.4	127.1

Included in the net book value of plant, equipment and vehicles is £38.4 million (2011: £35.1 million) in respect of assets held under finance leases and hire purchase contracts. The leased equipment secures lease obligations as disclosed in note 20.

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

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11 Intangible assets

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
Cost					
At 1 January 2012	1,431 3	270 5	1,701 8	28 5	1,730 3
Acquisition of the Bouchier Group	20 8	–	20 8	–	20 8
Additions	–	–	–	7 3	7 3
Disposals	–	–	–	(1 2)	(1 2)
Effect of movements in foreign exchange rates	(0 4)	(0 1)	(0 5)	(0 2)	(0 7)
At 31 December 2012	1,451 7	270 4	1,722 1	34 4	1,756 5
Amortisation and impairment losses					
At 1 January 2012	–	168 4	168 4	14 3	182 7
Amortisation for the year	–	31 4	31 4	3 7	35 1
Disposals	–	–	–	(1 1)	(1 1)
Effect of movements in foreign exchange rates	–	(0 2)	(0 2)	(0 1)	(0 3)
At 31 December 2012	–	199 6	199 6	16 8	216 4
Net book value					
At 1 January 2012	1,431 3	102 1	1,533 4	14 2	1,547 6
At 31 December 2012	1,451 7	70 8	1,522 5	17 6	1,540 1

The provisional goodwill recognised on the acquisition of the Bouchier Group of £20.8 million represents the present value of future income streams expected from the business. Due to the proximity of this acquisition to the year end, it has not been possible to identify the amount of goodwill attributable to other intangible assets. Following the expected finalisation of the completion accounts process in the first half of 2013, quantification of goodwill and other intangible assets arising from this acquisition will be completed.

Included in the net book value of computer software and licences is £3.5 million (2011: £nil) in respect of assets held under finance leases. The leased assets secure lease obligations as disclosed in note 20.

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
Cost					
At 1 January 2011	1,102 2	241 1	1,343 3	27 0	1 370 3
Acquisition of Carillion Energy Services (see note 30)	329 1	29 4	358 5	–	358 5
Additions	–	–	–	2 8	2 8
Disposals	–	–	–	(0 9)	(0 9)
Reclassification (to property, plant and equipment)	–	–	–	(0 4)	(0 4)
At 31 December 2011	1,431 3	270 5	1,701 8	28 5	1 730 3
Amortisation and impairment losses					
At 1 January 2011	–	137 4	137 4	11 7	149 1
Amortisation for the year	–	31 0	31 0	3 6	34 6
Disposals	–	–	–	(0 9)	(0 9)
Reclassification (to property, plant and equipment)	–	–	–	(0 1)	(0 1)
At 31 December 2011	–	168 4	168 4	14 3	182 7
Net book value					
At 1 January 2011	1,102 2	103 7	1,205 9	15 3	1,221 2
At 31 December 2011	1 431 3	102 1	1,533 4	14 2	1,547 6

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

Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill

	2012 £m	2011 £m
Construction services (excluding the Middle East) segment		
UK construction	233 0	233 0
Canada construction	11 0	11 4
	244 0	244 4
Support services segment		
Business services	1,134 8	1,134 8
Infrastructure services	52 1	52 1
Canada services	20 8	–
	1,207 7	1,186 9
Total Goodwill	1,451 7	1,431 3

11 Intangible assets (continued)

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

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

The acquisition of the Bouchier Group was a small acquisition which enables the Group to enhance its support services capabilities in Canada. The entire provisional goodwill arising on this acquisition has been allocated to the Canada services CGU.

The recoverable amounts of the CGUs are determined from value in use calculations. The value in use in 2012 was determined on a similar basis to 2011. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the period. These assumptions were reviewed in 2012 in the light of the continuing challenging economic environment. The impact of this on the financial stability of our customers, partners and suppliers will be mitigated by continuing to apply rigorous selectivity criteria in relation to their financial stability, the security of project funding and contractual terms and conditions.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Whilst the Group has five CGUs, the risks and rewards associated with Construction services (excluding the Middle East) are consistent and therefore one discount rate has been applied to each CGU. Similarly the risks and rewards encountered in the Support services CGUs are consistent and therefore one discount rate has been applied to each CGU. In determining the pre-tax discount rate management have derived a Weighted Average Cost of Capital (WACC) using the capital asset pricing model to determine the cost of equity and then weighting the overall cost of capital for the Group by equity and debt. The rate used to discount the forecast cash flows for the CGUs in the Construction services (excluding the Middle East) was 11.7 per cent (2011: 12.0 per cent) and for the CGUs in the Support services segment was 9.9 per cent (2011: 10.0 per cent).

The cash flows used to determine the value in use calculations are based upon the latest three year forecasts approved by management which are based upon secured and probable orders and the Group's overall strategic direction. The cash flows are extrapolated from year four, with a terminal value using a growth rate of 2.5 per cent. This growth rate does not exceed the long-term industry average and reflects the synergies from recent acquisitions.

Sensitivity analysis on the discount rate shows that the discount rate would have to increase to a minimum of 19.2 per cent for Construction services (excluding the Middle East) and to a minimum of 13.0 per cent for Support services before an impairment was triggered in any CGU.

As at 31 December 2012, based on internal valuations, Carillion plc management have concluded that the recoverable value of the Group's cash generating units exceeded their carrying amount.

Amortisation charge

The amortisation charge of £35.1 million (2011: £34.6 million) is recognised in administrative expenses in the income statement. Amortisation of the intangible assets of £119.0 million arising on the acquisition of Mowlem in 2006 will be 79 per cent complete by 2016. The remaining amortisation charge is incurred over the following 25 years. Amortisation of the intangible assets of £125.4 million arising on the acquisition of Alfred McAlpine in 2008 will be 84 per cent complete by 2013 with the remaining amortisation charge continuing until 2019. Amortisation of the intangible asset of £29.4 million arising on the acquisition of Carillion Energy Services will be completed by 2014.

12 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2012	77.7	63.9	141.6	2.1	143.7
Equity investments	8.7	–	8.7	–	8.7
Disposals	(3.6)	(23.5)	(27.1)	–	(27.1)
Net loans advanced	–	11.0	11.0	–	11.0
Effect of movements in foreign exchange rates	(0.6)	(0.4)	(1.0)	–	(1.0)
At 31 December 2012	82.2	51.0	133.2	2.1	135.3
Share of post acquisition results					
At 1 January 2012	15.9	–	15.9	–	15.9
Share of results for the year after taxation	34.3	–	34.3	–	34.3
Share of change in fair value of cash flow hedges (net of taxation)	(3.2)	–	(3.2)	–	(3.2)
Disposals	11.0	–	11.0	–	11.0
Distributions received	(13.6)	–	(13.6)	–	(13.6)
Effect of movements in foreign exchange rates	(3.3)	–	(3.3)	–	(3.3)
At 31 December 2012	41.1	–	41.1	–	41.1
Net book value					
At 1 January 2012	93.6	63.9	157.5	2.1	159.6
At 31 December 2012	123.3	51.0	174.3	2.1	176.4

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12 Investments in jointly controlled entities (continued)

Equity investments of £8.7 million includes £0.7 million relating to the acquisition in cash of interests in a number of land development jointly controlled entities in Canada and £8.0 million relating to the acquisition in cash of interests in a number of PPP jointly controlled entities. During the year, the Group disposed of equity investments in land development jointly controlled entities in Canada and seven PPP jointly controlled entities as disclosed in note 30.

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2011	69.0	55.0	124.0	2.1	126.1
Equity investments	1.1	–	1.1	–	1.1
Disposals	(3.6)	(9.7)	(13.3)	–	(13.3)
Net loans advanced	–	28.9	28.9	–	28.9
Reclassification	10.2	(10.2)	–	–	–
Reclassification (from trade and other receivables)	1.3	–	1.3	–	1.3
Effect of movements in foreign exchange rates	(0.3)	(0.1)	(0.4)	–	(0.4)
At 31 December 2011	77.7	63.9	141.6	2.1	143.7
Share of post acquisition results					
At 1 January 2011	8.7	–	8.7	–	8.7
Share of results for the year after taxation	48.7	–	48.7	–	48.7
Share of change in fair value of cash flow hedges (net of tax)	(13.3)	–	(13.3)	–	(13.3)
Disposals	8.4	–	8.4	–	8.4
Distributions received	(37.3)	–	(37.3)	–	(37.3)
Effect of movements in foreign exchange rates	0.7	–	0.7	–	0.7
At 31 December 2011	15.9	–	15.9	–	15.9
Net book value					
At 1 January 2011	77.7	55.0	132.7	2.1	134.8
At 31 December 2011	93.6	63.9	157.5	2.1	159.6

Equity investments of £1.1 million relate to the acquisition in cash of interests in a number of land development jointly controlled entities in Canada. During 2011, the Group disposed of its equity investments in the three Public Private Partnership projects and a small jointly controlled entity in the Netherlands. The £1.3 million reclassification from trade and other receivables relates to an item previously included within amounts owed by jointly controlled entities.

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

The Group's aggregate share of the net assets of jointly controlled entities is analysed below. Borrowing within jointly controlled entities amounting to £886.8 million (2011: £1,104.9 million) are without recourse to the Carillion Group.

	2012			2011		
	PPP projects £m	Other £m	Total £m	PPP projects £m	Other £m	Total £m
Non-current assets	952.7	103.3	1,056.0	1,105.1	125.5	1,230.6
Cash	65.2	49.0	114.2	87.0	49.0	136.0
Other current assets	105.2	219.9	325.1	147.7	335.1	482.8
Share of gross assets	1,123.1	372.2	1,495.3	1,339.8	509.6	1,849.4
Current borrowing	(10.0)	(0.2)	(10.2)	(29.8)	(1.7)	(31.5)
Current liabilities	(63.3)	(172.8)	(236.1)	(56.3)	(328.8)	(385.1)
Non-current borrowing	(841.6)	(35.0)	(876.6)	(1,034.9)	(38.5)	(1,073.4)
Non-current liabilities	(175.5)	(49.4)	(224.9)	(204.5)	(31.3)	(235.8)
Provisions	(3.8)	–	(3.8)	(2.4)	–	(2.4)
Share of gross liabilities	(1,094.2)	(257.4)	(1,351.6)	(1,327.9)	(400.3)	(1,728.2)
Share of net assets excluding derivatives	28.9	114.8	143.7	11.9	109.3	121.2
Financial instrument derivatives	(18.3)	–	(18.3)	(25.5)	–	(25.5)
Share of net assets/(liabilities)	10.6	114.8	125.4	(13.6)	109.3	95.7
Loan advances	44.0	7.0	51.0	56.9	7.0	63.9
Total investment in jointly controlled entities	54.6	121.8	176.4	43.3	116.3	159.6

Financial instrument derivatives within PPP projects relate to interest rate swaps entered into by the jointly controlled entities concerned as a means of hedging interest rate risk and are stated net of deferred tax. In accordance with International Accounting Standard 39 'Financial Instruments: Recognition and measurement', these derivatives are accounted for as cash flow hedges with the effective portion of movements in fair value each year recognised in the hedging reserve.

13 Other investments

	£m
Fair value	
At 1 January 2012	65.1
Acquisition of the Bouchier Group	0.7
Additions	3.0
Disposals	(1.4)
Fair value of equity interests retained on partial disposals	3.0
Increase in fair value through the fair value reserve	4.9
At 31 December 2012	75.3
Impairment losses	
At 1 January and 31 December 2012	13.8
Net book value	
At 1 January 2012	51.3
At 31 December 2012	61.5

Additions in 2012 of £3.0 million relates to cash paid in respect of subordinated debt invested in Aspire Defence Holdings Limited, a Public Private Partnership (PPP) unquoted entity in which the Group holds 12.5 per cent of the issued share capital. Disposals of £1.4 million relate to the sale of the Group's entire interest in HomeSun Holdings Limited for a cash consideration of £1.4 million. The fair value of equity interests retained on partial disposals arises on the partial disposal of equity interests in five PPP projects which were previously accounted for as investments in jointly controlled entities. The equity interests retained at the date of disposal have been recognised at fair value.

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

Additions in 2011 include £3.0 million paid in cash relating to subordinated debt invested in Aspire Defence Holdings Limited, a Public Private Partnership unquoted entity in which the Group holds 12.5 per cent of the issued share capital.

On the acquisition of Carillion Energy Services the Group acquired a £1.0 million investment in HomeSun Holdings Limited, a group involved in the sale of solar photovoltaic panels, and 19.9 per cent of the issued share capital of Solar Clean Energy Holdings Limited, a privately financed special purpose entity engaged in providing solar photovoltaic panels to residential dwellings in the UK. A further investment in HomeSun Holdings Limited in cash of £0.4 million was made in 2011 following acquisition and at 31 December 2011, the total investment of £1.4 million represents 9.1 per cent of HomeSun Holdings Limited's issued share capital.

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to temporary differences relating to the following

	Assets		Liabilities		Net	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Property, plant and equipment	12.9	16.9	—	—	12.9	16.9
Intangible assets	—	—	(16.2)	(25.5)	(16.2)	(25.5)
Liability for National Insurance on future Eaga Partnership						
Trusts distributions	4.2	4.3	—	—	4.2	4.3
Employee benefits	81.3	76.5	(0.2)	—	81.1	76.5
Working capital	1.1	13.4	—	—	1.1	13.4
Equity-settled transactions	—	0.7	—	—	—	0.7
Tax value of carry forward losses recognised	22.1	25.8	—	—	22.1	25.8
Tax assets/(liabilities)	121.6	137.6	(16.4)	(25.5)	105.2	112.1
Set off of tax	(0.2)	—	0.2	—	—	—
Net tax assets/(liabilities)	121.4	137.6	(16.2)	(25.5)	105.2	112.1

Notes to the consolidated financial statements

continued

14 Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets

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

	2012 £m	2011 £m
Tax losses	35.9	60.5

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.

Included in the tax value of carry forward losses recognised are losses acquired for which no value was recognised at the point of acquisition. Since acquisition, the recognition of value relating to the losses is attributable to the fact that the company now foresees taxable profits arising in the relevant legal entities over a period in line with its tax loss recognition policy. The assets further recognised in 2012 are £0.3 million and £5.4 million in relation to the Carillion Energy Services and Mowlem acquisitions respectively. These assets existed but were not recognised at the time of these acquisitions.

Following the introduction of the foreign profits exemption with effect from 1 July 2009, no deferred tax liability is required to be recognised in relation to taxable temporary differences arising on unremitted earnings from overseas businesses.

Movements in temporary differences during the year are as follows

	At 1 January 2012 £m	On acquisition of the Bouchier Group £m	Recognised in income £m	Recognised in equity £m	At 31 December 2012 £m
Property, plant and equipment	16.9	(0.7)	(3.3)	–	12.9
Intangible assets	(25.5)	–	9.3	–	(16.2)
Liability for National Insurance on future Eaga Partnership					
Trusts distributions	4.3	–	(0.1)	–	4.2
Employee benefits	76.5	–	(7.2)	11.8	81.1
Working capital	13.4	(0.7)	(11.6)	–	1.1
Equity settled transactions	0.7	–	(0.6)	(0.1)	–
Tax value of carry forward losses recognised	25.8	–	(3.7)	–	22.1
	112.1	(1.4)	(17.2)	11.7	105.2

	At 1 January 2011 £m	On acquisition of Carillion Energy Services £m	Recognised in income £m	Recognised in equity £m	At 31 December 2011 £m
Property, plant and equipment	10.5	2.0	4.4	–	16.9
Intangible assets	(27.8)	(7.6)	9.9	–	(25.5)
Liability for National Insurance on future Eaga Partnership					
Trusts distributions	–	4.8	(0.5)	–	4.3
Employee benefits	67.3	0.2	(11.0)	20.0	76.5
Working capital	4.8	9.1	(0.5)	–	13.4
Equity settled transactions	–	–	0.6	0.1	0.7
Tax value of carry forward losses recognised	18.9	11.3	(4.4)	–	25.8
	73.7	19.8	(1.5)	20.1	112.1

The Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

15 Inventories

	2012 £m	2011 £m
Raw materials and consumables	22.7	41.2
Work in progress	27.2	26.0
Finished goods	5.4	4.4
	55.3	71.6

Development work in progress of £20.8 million (2011: £15.2 million) is expected to be recovered after more than 12 months.

16 Construction contracts

Contracts in progress at the balance sheet date

	2012 £m	2011 £m
Due from customers for contract work	343 6	321 5
Due to customers for contract work	(169 2)	(207 2)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £4,078 4 million (2011 £3 890 6 million). Advances received from customers relating to contracts in progress amounted to £110 6 million (2011 £128 1 million).

The amount of construction contract revenue recognised as revenue in the year amounted to £1,533 5 million (2011 £2,032 2 million).

17 Trade and other receivables

	2012 £m	2011 £m
Trade receivables	236 1	282 7
Amounts owed by customers on construction contracts	343 6	321 5
Other receivables and prepayments	412 4	350 5
Amounts owed by jointly controlled entities	107 7	128 5
Amounts owed under jointly controlled operations	8 9	11 4
	1,108 7	1,094 6

At 31 December 2012, retentions of £53 8 million (2011 £29 0 million) relating to construction contracts and other amounts recoverable after more than one year of £43 8 million (2011 £45 1 million) are included above as they are recoverable within the normal operating cycle of the Group.

18 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise

	2012 £m	2011 £m
Cash and cash equivalents	657 1	490 7
Bank overdrafts	(4 9)	(3 0)
Net cash and cash equivalents	652 2	487 7
Bank loans	(466 2)	(399 7)
Finance lease obligations	(34 5)	(38 4)
Other loans	(307 3)	(100 3)
Net borrowing	(155 8)	(50 7)

Reconciliation of net cash flow to movement in net borrowing

	2012 £m	2011 £m
Increase in net cash and cash equivalents	166 7	97 4
Net cash and cash equivalents in subsidiaries acquired	–	1 5
Draw down of bank and other loans	(277 2)	(223 0)
Payment of finance lease liabilities	16 8	15 8
Change in net borrowing resulting from cash flows	(93 7)	(108 3)
Net borrowing in subsidiaries acquired	(4 6)	(61 5)
Finance lease additions	(9 0)	(0 8)
Currency translation differences	2 2	(0 3)
Change in net borrowing	(105 1)	(170 9)
Net (borrowing)/cash at 1 January	(50 7)	120 2
Net borrowing at 31 December	(155 8)	(50 7)

19 Current asset investments

	2012 £m	2011 £m
Current asset investments	2 5	4 3

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

Notes to the consolidated financial statements

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20 Borrowing

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

	2012 £m	2011 £m
Current liabilities		
Bank overdrafts	4.9	3.0
Bank loans	7.5	8.2
Finance lease obligations	22.5	21.3
Other loans	0.4	–
	35.3	32.5
Non-current liabilities		
Bank loans	458.7	391.5
Finance lease obligations	12.0	17.1
Other loans	306.9	100.3
	777.6	508.9
Total borrowing	812.9	541.4

Non-current other loans includes £306.8 million of private placement financing, of which £35.0 million was drawn in August 2012, £171.8 million in November 2012 and £100.0 million in September 2011. A summary of the private placement financing, which is at fixed rates of interest, is shown below.

Currency	Currency Amount	Sterling Amount £m	Interest Rate %	Maturity date
US \$	25.0	15.3	3.85	November 2017
£ Sterling	49.0	49.0	4.38	September 2018
£ Sterling	17.5	17.5	3.62	August 2019
US \$	80.0	49.1	4.29	November 2019
£ Sterling	51.0	51.0	5.10	September 2021
£ Sterling	17.5	17.5	4.19	August 2022
US \$	140.0	85.9	4.86	November 2022
US \$	35.0	21.5	5.01	November 2024
		306.8		

In relation to the US dollar denominated private placement financing, the Group has entered into cross-currency derivative instruments that correspond to the profile of the principal and interest repayments.

Bank loans and overdrafts are largely unsecured and bear interest at floating rates linked to London Interbank Offered Rate. Within non-current bank loans of £458.7 million (2011: £391.5 million) are loans amounting to £2.6 million (2011: £3.0 million) which are secured on the assets to which they relate. Finance lease obligations are secured on the assets to which they relate.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2012 £m	Interest 2012 £m	Principal 2012 £m	Minimum lease payments 2011 £m	Interest 2011 £m	Principal 2011 £m
Less than one year	24.6	(2.1)	22.5	22.9	(1.6)	21.3
Between one and five years	9.1	(0.7)	8.4	17.8	(0.7)	17.1
More than five years	4.0	(0.4)	3.6	–	–	–
	37.7	(3.2)	34.5	40.7	(2.3)	38.4

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

21 Trade and other payables

	2012 £m	2011 £m
Current liabilities		
Trade payables	643.3	741.6
Amounts owed to customers on construction contracts	169.2	207.2
Other tax and social security costs	36.7	43.6
Amounts owed to jointly controlled entities	55.3	15.5
Amounts owed under jointly controlled operations	9.4	–
Other creditors	263.1	274.5
Accruals and deferred income	428.7	491.2
Deferred consideration payable	9.5	–
	1,615.2	1,773.6

Within trade and other payables are £15.5 million (2011: £18.2 million) of liabilities due in more than one year but are payable within the normal operating cycle of the Group. All other trade and other payables are due within one year.

	2012 £m	2011 £m
Non-current liabilities		
Deferred consideration payable	9.4	–

The deferred consideration payable of £9.4 million relates to the acquisition of the Bouchier Group and is payable in January 2014.

22 Provisions

	Rationalisation £m	Onerous leases £m	EPT NI £m	Total £m
At 1 January 2012	19 1	27 6	18 4	65 1
Effect of movements in foreign exchange rates	(0 1)	–	–	(0 1)
Unused provisions	–	(3 7)	–	(3 7)
Discount unwind	–	2 1	–	2 1
Provisions utilised	(17 8)	(9 4)	–	(27 2)
At 31 December 2012	1 2	16 6	18 4	36 2
Disclosed within				
Current liabilities	1 2	7 4	18 4	27 0
Non-current liabilities	–	9 2	–	9 2
	1 2	16 6	18 4	36 2

The rationalisation provision at 1 January 2012 primarily relates to redundancy and other associated costs arising from a review of the Group's requirements following the acquisition of Carillion Energy Services (CES) in 2011. The provision remaining at 31 December 2012 of £1.2 million is expected to be fully utilised in the next 12 months.

The onerous lease provision at 1 January 2012 relates to a number of onerous leases acquired within Mowlem in 2006, Alfred McAlpine in 2008 and CES in 2011, and provisions created for property interests retained on the disposal of Carillion IT Services Limited and Enviros Group Limited in 2009. The provision is expected to be utilised over a period of four years.

The EPT NI provision was recognised on the acquisition of CES and relates to future distributions to employees from the Eaga Partnership Trusts (EPT) which crystallises a National Insurance cost to the Company as disclosed in note 30. Further details on the EPT are given in the Remuneration report on page 61.

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

23 Share capital

	2012		2011	
	Number million	£m	Number million	£m
Issued and fully paid				
At 1 January	430 3	215 1	399 7	199 8
New share capital issued	–	–	30 6	15 3
At 31 December	430 3	215 1	430 3	215 1

The Company has one class of ordinary share which carries no right to fixed income.

24 Reserves

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Group's net investment in foreign operations. The translation reserve also includes any related current taxation.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred taxation.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised, together with any related deferred taxation.

Notes to the consolidated financial statements

continued

24 Reserves (continued)

Merger reserve

The merger reserve initially arose on the demerger from Tarmac plc on 29 July 1999. The reserve increased on the acquisition of Mowlem on 23 February 2006, Alfred McAlpine on 12 February 2008 and Carillion Energy Services on 21 April 2011, whereby the consideration included the issue of Carillion plc shares. The premium on the shares issued in relation to these acquisitions has been credited to the merger reserve rather than the share premium account in accordance with the Companies Act 2006. The £31.4 million transfer to the retained earnings reserve during the year represents the amortisation of intangible assets recognised on the Mowlem, Alfred McAlpine and Carillion Energy Services acquisitions.

Retained earnings

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

	2012 £m	2011 £m
At 1 January	(0.2)	(0.1)
Share options exercised (transfer to retained earnings)	1.4	4.3
Acquisition of own shares	(1.2)	(4.4)
At 31 December	–	(0.2)

At 31 December 2012, the ESOP held 250 (2011: 74,290) of the Company's shares and had a market value of £793 (2011: £0.2 million). During the year the Company acquired 433,105 of its own shares for £1.2 million to meet the plan's commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('QUEST'). At 31 December 2012 the total number of shares held by the QUEST amounted to 129,979 (2011: 129,979) and had a market value of £0.4 million (2011: £0.4 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

During the year the Company also acquired 696,601 of its own shares for £1.8 million to facilitate an award under the Carillion Energy Services Share Incentive Plan (SIP) for UK partners as disclosed in note 4. In addition cash payments totalling £0.8 million were made to good leavers who were entitled to receive shares under the terms of the SIP. Awards under the SIP vest immediately in relation to UK partners and therefore the cost of these shares of £2.6 million has been charged directly to the retained earnings reserve. The £1.8 million payment to acquire Carillion plc shares is included within acquisition of own shares in the cash flow statement and the £0.8 million paid to good leavers is included within payment to employees in settlement of share options in the cash flow statement.

25 Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to shares in the Company. Full details of the share option schemes can be found in the Remuneration report on pages 53 to 61. In addition, under the terms of the Group's bonus arrangements, senior employees and Executive Directors receive a proportion of their bonus in shares, which vest a year after the award in respect of senior employees and three years after the award in respect of Executive Directors.

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

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

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Exercise price
LEAP option grant at 17 March 2010	772,517	Three years of service and increase in EPS of RPI plus a minimum of 3% over a rolling three year period	3 years	nil
LEAP option grant at 8 April 2011	699,270	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 11 April 2012	979,832	Three years of service, increase in EPS of a minimum of 6% and operating cash conversion of a minimum of 95% over a rolling three year period	3 years	nil
Deferred bonus scheme	603,917	Three years of service for Executive Directors and one year's service for senior employees	1-3 years	nil
Subtotal	3,055,536			
Other schemes	84,278			
Total share options	3,139,814			

Other schemes include the Executive Share Option Scheme (ESOS) and the Carillion Energy Services' Share Incentive Plan (SIP). International

25 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 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
At 1 January	3 3p	3,858,975	4 2p	3,079,301
Forfeited during the year	–	(1,203,998)	–	(575,728)
Exercised during the year	–	(1,216,570)	–	(1,211,308)
Granted during the year	–	1,701,407	–	2,566,710
At 31 December	4 1p	3,139,814	3 3p	3,858,975
Exercisable at the end of the year	227 3p	56,401	227 3p	56,401

The range of option prices for those options exercisable at the end of the year is 163 4 pence – 242 75 pence and the weighted average remaining contractual term for those options exercisable is two years. The weighted average share price during the year was 289 3 pence.

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

	2012 SIP International	2012 LEAP	2011 Deferred bonus	2011 SIP International	2011 LEAP
Fair value of share options and assumptions					
Fair value at grant date	214 0p	246 7p	284 8p	322 4p	337 9p
Share price at grant date	252 9p	284 6p	311 6p	366 8p	384 4p
Exercise price	nil	nil	nil	nil	nil
Expected volatility	11 59%	11 84%	13 97%	16 80%	15 85%
Option life	3 years	3 years	1 or 2 years	3 years	3 years
Expected dividend yield	5 57%	4 76%	4 50%	4 30%	4 30%
Risk-free interest rate (based on national government bonds)	0 19%	0 27%	0 45%	1 14%	1 10%

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

Employee expenses

	2012 £m	2011 £m
Equity settled share options and deferred bonus shares granted in		
2008	–	0 4
2009	–	0 5
2010	–	(0 2)
2011	(0 3)	1 8
2012	–	–
Total (income)/expense recognised as employee costs	(0 3)	2 5

In addition to the above, a share option charge of £2 6 million has arisen for shares awarded under the Canllion Energy Services Share Incentive Plan (SIP), which are wholly funded by the Eaga Partnership Trusts waived dividends and included in non-recurring operating items (see note 4). Shares awarded under the SIP to UK partners vest immediately and therefore the share-based payment charge is recognised in full at the date of award. Shares awarded under the SIP to international partners have a three year vesting period and the share-based payment charge is recognised over the vesting period.

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

Notes to the consolidated financial statements continued

26 Guarantees and contingent liabilities

	2012 £m	2011 £m
Guarantees in respect of interest payments in Construction services (excluding the Middle East) jointly controlled entities	0.2	0.2
Guarantees in relation to deferred equity payments in PPP special purpose entities	88.2	100.9
Guarantees in respect of letters of credit issued by banks in relation to performance on contracts for PPP customers	89.2	91.7

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

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

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

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

27 Financial instruments

Categories of financial instruments

31 December 2012

	Loans and receivables at amortised cost £m	Financial liabilities at amortised cost £m	Available for sale £m	Financial assets/ (liabilities) held for trading £m	Total £m
Financial assets					
Other non-current investments	-	-	61.5	-	61.5
Cash and cash equivalents	657.1	-	-	-	657.1
Current asset investments	2.5	-	-	-	2.5
Trade receivables	236.1	-	-	-	236.1
Derivative financial instruments	-	-	-	0.4	0.4
Total	895.7	-	61.5	0.4	957.6
Financial liabilities					
Bank overdrafts	-	(4.9)	-	-	(4.9)
Bank loans	-	(466.2)	-	-	(466.2)
Finance lease obligations	-	(34.5)	-	-	(34.5)
Other loans	-	(307.3)	-	-	(307.3)
Trade payables	-	(643.3)	-	-	(643.3)
Deferred consideration	-	(18.9)	-	-	(18.9)
Derivative financial instruments	-	-	-	(7.1)	(7.1)
Total	-	(1,475.1)	-	(7.1)	(1,482.2)

31 December 2011

	Loans and receivables at amortised cost £m	Financial liabilities at amortised cost £m	Available for sale £m	Financial liabilities held for trading £m	Total £m
Financial assets					
Other non-current investments	-	-	51.3	-	51.3
Cash and cash equivalents	490.7	-	-	-	490.7
Current asset investments	4.3	-	-	-	4.3
Trade receivables	282.7	-	-	-	282.7
Total	777.7	-	51.3	-	829.0
Financial liabilities					
Bank overdrafts	-	(3.0)	-	-	(3.0)
Bank loans	-	(399.7)	-	-	(399.7)
Finance lease obligations	-	(38.4)	-	-	(38.4)
Other loans	-	(100.3)	-	-	(100.3)
Trade payables	-	(741.6)	-	-	(741.6)
Derivative financial instruments	-	-	-	(0.9)	(0.9)
Total	-	(1,283.0)	-	(0.9)	(1,283.9)

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to foreign exchange risk, interest rate risk, liquidity risk and credit risk. The overall aim of the Group's financial risk management policies are to minimise potential adverse effects on financial performance and net assets.

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

27 Financial instruments (continued)

Foreign currency risk

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

In November 2012, the Group secured US\$280 million of private placement finance at fixed interest rates from a number of United States based investors in order to provide greater flexibility in relation to the maturity profile of Group borrowing. The Group has entered into a number of financial derivative contracts to hedge the exposure to foreign exchange rate volatility in relation to the associated capital and interest payments.

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

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

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

Further details concerning the risks associated with the overseas regions in which the Group operates can be found in the Operating and financial review on page 34.

Foreign currency exposure

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

	2012 £m	2011 £m
United States of America Dollar	(188.6)	(16.3)
Canadian Dollar	(90.7)	(94.8)
United Arab Emirates Dirham	(7.5)	(7.9)
Other	(3.0)	(1.9)
	(289.8)	(120.9)

Of the total foreign currency borrowing of £289.8 million (2011: £120.9 million), the amount of borrowing used for hedging overseas currency net asset amounts to £83.7 million (2011: £86.4 million). The foreign exchange gain of £1.5 million (2011: £0.1 million gain) on translation of the borrowing into sterling has been recognised in the translation reserve as these hedging loans are effective hedges.

The Group does not have a significant amount of foreign currency exposure in respect of financial assets.

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

	Five per cent increase		Five per cent decrease	
	Profit £m	Equity £m	Profit £m	Equity £m
United States of America Dollar	–	0.7	–	(0.8)
Canadian Dollar	(0.2)	(3.1)	0.3	(3.2)
Euro	(0.1)	1.0	0.1	(1.1)
United Arab Emirates Dirham	(0.7)	(3.6)	0.8	4.0
Oman Rials	(0.4)	(2.1)	0.5	2.3
Danish Kroner	–	1.1	–	(1.2)
Other	(0.2)	(1.0)	0.2	1.1

Interest rate risk

The Group's interest bearing debt is predominantly drawn from committed bank facilities to fund acquisitions and ongoing working capital requirements. In addition, foreign currency denominated borrowings have been drawn under the facilities to hedge net assets of overseas operations. Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate. During 2012, the Group secured additional finance of £210.0 million from a private placement at fixed rates of interest, as disclosed in note 20. The principal purpose of raising this finance at fixed interest rates was to ensure that a proportion of the Group's borrowing was not subject to floating rates of interest which may increase. No interest rate hedging is currently undertaken by the Group's subsidiaries. However, a number of Group's Public Private Partnership jointly controlled entities have entered into interest rate swaps.

A one percentage point rise in interest rates in respect of US dollar denominated borrowings would increase the annual net interest charge by approximately £0.2 million, in respect of Canadian dollar denominated borrowings an increase of £0.4 million, in respect of sterling denominated borrowings an increase of £3.9 million, and in respect of United Arab Emirates Dirham denominated borrowings an increase of £0.1 million.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of a syndicated loan, a bilateral facility, private placement financing and short-term overdraft facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels. The average net borrowing during 2012 was £344.1 million (2011: £149.4 million).

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27 Financial instruments (continued)

Maturity of financial liabilities

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

	Trade payables £m	Deferred consideration £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
31 December 2012							
Less than one year	(643 3)	(9 5)	(4 9)	(17 1)	(14 4)	(24 6)	(713 8)
Between one and two years	-	(9 4)	-	(9 5)	(14 1)	(5 7)	(38 7)
Between two and three years	-	-	-	(12 1)	(14 1)	(1 4)	(27 6)
Between three and four years	-	-	-	(458 5)	(14 1)	(1 2)	(473 8)
Between four and five years	-	-	-	-	(29 3)	(0 8)	(30 1)
More than five years	-	-	-	-	(339 4)	(4 0)	(343 4)
	(643 3)	(18 9)	(4 9)	(497 2)	(425 4)	(37 7)	(1,627 4)
31 December 2011							
Less than one year	-	(741 6)	(3 0)	(17 1)	(4 7)	(22 9)	(789 3)
Between one and two years	-	-	-	(8 9)	(4 7)	(15 1)	(28 7)
Between two and three years	-	-	-	(8 9)	(4 7)	(2 0)	(15 6)
Between three and four years	-	-	-	(8 8)	(4 7)	(0 3)	(13 8)
Between four and five years	-	-	-	(393 7)	(4 7)	(0 4)	(398 8)
More than five years	-	-	-	-	(116 1)	-	(116 1)
		(741 6)	(3 0)	(437 4)	(139 6)	(40 7)	(1,362 3)

The remaining contractual maturity profile of the Group's derivative financial liabilities is shown below. The Group's derivative financial liabilities relate to cross-currency derivatives that were entered into in 2012 to hedge principal and interest repayments associated with US dollar private placement financing. The maturity profile is based on the undiscounted gross payable and receivable amounts under the contracts

	Payable £m	Receivable £m	Net payable £m
Less than one year	(8 3)	8 0	(0 3)
Between one and two years	(8 3)	8 0	(0 3)
Between two and three years	(8 3)	8 0	(0 3)
Between three and four years	(8 3)	8 0	(0 3)
Between four and five years	(23 9)	23 3	(0 6)
More than five years	(193 5)	189 0	(4 5)
	(250 6)	244 3	(6 3)

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

	2012 £m	2011 £m
Expiring within one year	7 4	7 1
Expiring between two and five years	281 2	349 0
	288 6	356 1

Credit risk

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

The maximum exposure to credit risk for receivables at the 31 December by geographic region was

	2012 £m	2011 £m
United Kingdom	179 8	171 2
Middle East	9 6	34 2
Canada	45 8	75 6
Rest of the World	0 9	1 7
	236 1	282 7

27 Financial instruments (continued)

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

	2012 £m	2011 £m
Support services	149.1	162.5
Public Private Partnership projects	0.5	0.1
Middle East construction services	9.6	34.2
Construction services (excluding the Middle East)	76.9	85.9
	236.1	282.7

The Group's most significant debtor, Scottish Power, accounts for £10.5 million of the receivables carrying amount at 31 December 2012 (2011: UK Government £41.3 million)

Trade receivables included in the balance sheet are net of an impairment provision which has been estimated by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date. Receivables are written off against the impairment provision when management considers that the debt is no longer recoverable. The ageing of trade receivables is as follows

	2012		2011	
	Net trade receivables £m	Impairment £m	Net trade receivables £m	Impairment £m
Not past due	103.4	–	166.3	–
Past due less than three months	93.2	0.7	85.3	1.2
Past due between three and six months	16.0	0.4	11.7	1.0
Past due between six and 12 months	9.2	1.2	9.7	2.4
Past due more than 12 months	14.3	8.0	9.7	5.7
	236.1	10.3	282.7	10.3

The movement in the impairment provision is as follows

	2012 £m	2011 £m
At 1 January	10.3	7.8
Provision acquired with Canllion Energy Services	–	2.6
Provision created	1.3	1.1
Provision utilised	(1.3)	(0.8)
Provision released	–	(0.4)
At 31 December	10.3	10.3

Whilst uncertainty surrounding counterparty risk has increased due to the prevailing economic climate, on balance the Group believes that debtors will meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are past due and unprovided as at 31 December 2012

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

Derivative financial instruments

	2012		2011	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts and options – at fair value through the income statement	0.4	–	–	(0.9)
Cross-currency derivatives – cash flow hedging instruments	–	(7.1)	–	–
	0.4	(7.1)	–	(0.9)

A £1.3 million gain has been recognised in administrative expenses in the income statement in respect of the movement in the fair value of forward foreign currency contracts and options and a £7.1 million loss has been recognised in the hedging reserve in relation to the cross-currency derivatives which are effective hedges in respect of currency movements on US dollar denominated private placement financing

In addition to the above, a number of the Group's Public Private Partnership (PPP) jointly controlled entities have entered into interest rate derivatives as a means of hedging interest rate risk. Interest bearing debts and the associated interest rate derivatives within these PPP jointly controlled entities are without recourse to the Group. The life of these hedge arrangements track PPP contract terms and hedge future movements across a range up until February 2040. The fair value of these derivatives is based on quoted prices in active markets, with the movement in fair value each year recognised in the share of change in fair value of effective cash flow hedges within jointly controlled entities in the statement of comprehensive income. At 31 December 2012 the Group's share of the total net fair value liability of interest rate derivatives in PPP jointly controlled entities amounted to £99.2 million (2011: £161.3 million) of which £23.8 million (2011: £34.0 million) (and the related deferred tax asset of £5.5 million (2011: £8.5 million)) has been recognised in the hedging reserve.

Notes to the consolidated financial statements

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27 Financial instruments (continued)

Fair values

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

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

	£m
At 1 January 2012	49.9
Additions	3.0
Fair value of equity interests retained on partial disposal	3.0
Recognised in the statement of comprehensive income	4.9
At 31 December 2012	60.8

The fair value of non-current asset investments is most sensitive to movements in the discount rate used. A one percentage point increase in the discount rate would reduce the fair value by £5.5 million.

The fair value of derivative financial instruments is based on a level 2 valuation method, using inputs from quoted prices in active markets.

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

	2012		2011	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Trade receivables	236.1	235.5	282.7	282.2
Trade payables	(643.3)	(643.3)	(741.6)	(741.6)
Deferred consideration	(18.9)	(18.9)	-	-
Cash and cash equivalents	657.1	657.1	490.7	490.7
Current asset investments	2.5	2.5	4.3	4.3
Bank overdrafts	(4.9)	(4.9)	(3.0)	(3.0)
Bank loans	(466.2)	(466.2)	(399.7)	(399.7)
Finance lease obligations	(34.5)	(33.8)	(38.4)	(37.4)
Other loans	(307.3)	(305.7)	(100.3)	(99.2)

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

Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Where the Group makes significant acquisitions, these are financed with a combination of debt and equity in order to maintain a balanced capital structure. In order to have greater flexibility over the maturity profile of debt, the Group has secured around £310 million of private placement financing during the course of 2011 and 2012 with maturity dates between 2017 and 2024. The Group has a policy of progressively increasing dividends paid to shareholders broadly in line with earnings per share growth, after taking account of the investment needs of the business. No changes were made in the objectives, policies or process during the years ended 31 December 2012 and 31 December 2011.

	2012 £m	2011 £m
Total borrowings	808.0	538.4
Less: net cash and cash equivalents (note 18)	(652.2)	(487.7)
Net borrowing	155.8	50.7
Total equity	1,009.5	982.5
Total capital	1,165.3	1,033.2

28 Financial and capital commitments

	2012 £m	2011 £m
Commitments for equity and subordinated debt investments in PPP special purpose entities	85.6	124.9

Non-cancellable operating lease rentals are payable as follows

	2012		2011	
	Property £m	Other £m	Property £m	Other £m
Within one year	13.8	19.6	17.4	25.1
Between one and five years	34.2	28.1	50.0	30.1
Over five years	22.1	1.7	31.1	0.4
	70.1	49.4	98.5	55.6

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of four years. None of the leases includes contingent rentals.

29 Related parties

The Group has related party relationships with its key management personnel and jointly controlled entities

Transactions with key management personnel

The Group's key management personnel are the Executive and Non-Executive Directors as identified in the Remuneration Report on page 60

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

The total compensation paid to key management personnel is analysed below

	2012 £m	2011 £m
Short-term employee benefits	18	38
Post-employment benefits	0.1	0.4
Share-based payments	(0.2)	0.7
	17	49

The number of key management personnel included in the above analysis is seven (2011: 10)

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

	2012			2011		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
PPP jointly controlled entities						
CSS (FSCC) Partnership (Canada)	177.7	22.8	–	65.8	15.7	–
The Hospital Company (Southmead) Ltd	132.4	9.8	–	98.3	5.4	–
COE (CAMH) Limited Partnership (Canada)	113.6	1.1	–	65.3	13.1	–
Inspiredspaces Wolverhampton Ltd	71.1	1.5	–	55.0	8.3	–
Holdfast Training Services Ltd	49.4	–	(6.4)	86.1	3.5	–
Inspiredspaces Durham Ltd	40.7	6.6	–	20.9	6.1	–
Inspiredspaces Rochdale Ltd	36.8	0.1	(2.1)	29.3	5.4	–
Inspiredspaces Nottingham Ltd	27.0	–	(3.0)	38.4	1.9	–
The Healthcare Infrastructure Company of Canada (WOHC) Inc (Canada)	26.0	2.8	–	26.2	2.5	–
Inspiredspaces STAG Ltd	24.7	–	(0.4)	45.4	4.3	–
Eastbury Park	24.5	1.2	–	26.4	2.1	–
Inspiredspaces Wolverhampton (Projectco1) Ltd	14.6	1.0	–	18.9	0.7	–
Inspiredspaces Tameside Ltd	12.5	–	(1.6)	18.3	1.3	–
Inspiredspaces Rochdale (Projectco2) Ltd	11.3	–	–	–	–	–
Clinicenta (Hertfordshire) Ltd	7.7	2.2	–	13.8	0.8	–
The Healthcare Infrastructure Company of Canada (ROH) Inc	6.0	0.3	–	5.9	0.3	–
Inspiredspaces Nottingham (Projectco2) Ltd	5.2	–	–	–	–	–
Inspiredspaces Tameside (Projectco2) Ltd	3.8	–	–	27.9	–	–
LCED (Sault) Limited Partnership (Canada)	3.5	–	–	3.0	0.3	–
Integrated Accommodation Services Ltd	2.5	15.9	–	1.7	11.0	–
Inspiredspaces Tameside (Projectco1) Ltd	1.7	1.3	–	3.1	1.5	–
Inspiredspaces Rochdale (Projectco1) Ltd	1.1	–	–	10.4	–	–
Inspiredspaces STAG (Projectco2) Ltd	0.9	–	(0.2)	8.7	0.3	–
Inspiredspaces Durham (Projectco1) Ltd	0.4	–	–	8.8	–	–
Other	6.2	0.8	–	14.3	1.0	–
	801.3	67.4	(13.7)	691.9	85.5	–
Other jointly controlled entities						
Vanmed Construction Company (Canada)	141.5	16.1	–	38.9	17.4	–
CarillionEnterprise Ltd	16.7	2.1	–	14.3	3.9	–
Modern Housing Solutions (Prime) Ltd	13.8	–	–	12.2	–	–
Carillion Richardson Worcester	2.3	0.4	–	11.1	0.5	–
Al Futtaim Carillion LLC (UAE)	9.0	0.5	(33.6)	4.6	2.6	(7.5)
Carillion Richardson Partnership	–	15.4	–	–	12.0	–
Others	3.8	5.8	(8.0)	3.1	6.6	(8.0)
	988.4	107.7	(55.3)	776.1	128.5	(15.5)

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30 Acquisitions and disposals

Acquisitions in 2012

On 11 December 2012, the Group acquired a 49% equity shareholding in the Bouchier Group for a cash consideration of £23.8 million. The consideration is payable in instalments, with £4.9 million paid in December 2012 which is included in the cash flow statement within acquisition of subsidiaries, net of cash acquired. The remaining instalments of £9.5 million payable in early 2013 and £9.4 million payable in January 2014 have been included as deferred consideration payable within liabilities in the balance sheet. The Group has options to acquire the remaining 51% of the equity over the next 10 years for a consideration capped at £43.1 million. The Bouchier Group is being consolidated as a subsidiary on the basis of the terms of these options and the powers granted as a shareholder which enable Carillion management to exert control. A provisional assessment has been made of the fair value of the net assets acquired of £3.0 million. On the basis of this assessment the provisional goodwill arising on the acquisition amounts to £20.8 million. Due to the proximity of this acquisition to the year end, it has not been possible to identify the amount of goodwill attributable to other intangible assets. Following the expected finalisation of the completion accounts process in the first half of 2013, quantification of goodwill and other intangible assets arising from this acquisition will be completed. The Bouchier Group, which is based in Alberta, Canada, provides a range of services, including road maintenance, infrastructure services and facilities management. The acquisition complements the Group's existing support services activities in Canada and provides access to substantial new growth markets. Due to the immaterial nature of this acquisition, the full disclosures required under International Financial Reporting Standard 3 'Business combinations' have not been presented.

Acquisitions in 2011

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

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

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

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

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

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

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

30 Acquisitions and disposals (continued)

In addition to the adjustments noted above, following a dialogue between CES and Carillion's management teams during the course of the due diligence period granted to Carillion by CES, the £277 million carrying amount of net assets acquired at 21 April 2012 incorporates a number of adjustments made to CES's initial carrying amounts and followed a review of all balance sheet categories. These adjustments include a reduction in the valuation of inventories of £14.0 million, following a review of inventory held and its recoverability taking into account changes in contracts, technological advancement and product sales in the pre-acquisition period, a £24.3 million reduction in the carrying value of trade and other receivables, largely the result of the reassessment of aged debt, aged accrued income, supplier rebates and contract receivables in light of contract performance and certain contractual changes during the pre-acquisition period, an adjustment to trade and other payables of £46.9 million to reflect contract related liabilities and other identified obligations, and other adjustments of £0.3 million.

Total consideration for the acquisition comprises the following

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

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

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

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

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

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

In the period from acquisition to 31 December 2011, Carillion Energy Services contributed revenue of £379.8 million and a reported loss after tax of £27.9 million (after rationalisation costs and intangible amortisation) to consolidated profit for the period. If the acquisition had occurred on 1 January 2011, total revenue would have been £5,293.0 million and profit after tax would have been £36.0 million (after non-recurring post-taxation costs of £84.8 million) for the year ended 31 December 2011.

Disposals in 2012

In 2012, the Group disposed of equity interests in seven Public Private Partnership projects. The disposals generated a cash consideration of £34.8 million which is included in the cash flow statement within disposal of jointly controlled entity and other investments, and a profit of £13.2 million which is included in Group operating profit within the Public Private Partnership projects segment.

In addition, on 29 June 2012 the Group received cash proceeds of £7.1 million on exchange of contracts for the sale of an equity interest in a Public Private Partnership project. At 31 December 2012, all the conditions precedent had not been met in relation to the sale contract and therefore the disposal of this equity interest has not been recognised. The proceeds received of £7.1 million have been recognised within disposal of jointly controlled entity and other investments in the cash flow statement. Legal completion of the sale occurred in January 2013.

Proceeds of £2.6 million from the disposal of equity interests in land development jointly controlled entities in Canada and £1.4 million from the disposal of the Group's investment in HomeSun Holdings Limited are included in the cash flow statement within disposal of jointly controlled entity and other investments.

The Group disposed of its equity interests in two small wholly owned subsidiaries during the year for a total cash consideration of £1.0 million (net of expenses paid of £0.2 million). The net cash consideration received of £0.1 million (net of £0.9 million of cash in the subsidiaries sold) is included in the cash flow statement within disposal and closure of businesses, together with cash payments of £3.9 million in relation to business closures made in 2012 and 2011.

Disposals in 2011

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

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

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31 Retirement benefit obligations

Carillion operates a number of pension schemes for eligible employees as disclosed below

Principal defined benefit schemes

Carillion Staff and 'B' Pension Schemes

Both schemes are defined benefit schemes and were closed to new entrants on 1 April 2003. Existing members no longer accrue benefits for future service with effect from 5 April 2009 but instead are eligible to participate in the Carillion 2009 Pension Plan, which is a defined contribution scheme.

An actuarial valuation of the Staff and 'B' schemes was undertaken by independent actuaries as at 31 December 2008 using the defined accrued benefits method. The market value of the schemes' assets at that date were £507.0 million and £98.9 million respectively, which represented approximately 97 per cent and 76 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. The next actuarial valuation of the schemes by the Trustees' independent actuaries as at 31 December 2011 is currently being undertaken.

Regular ongoing contributions are no longer payable following the closure of the Staff and 'B' schemes to future accrual on 5 April 2009.

As part of the deficit recovery plan agreed with the Trustees of the Staff and 'B' schemes, payments were made to the schemes during 2012 of £0.3 million and £1.4 million respectively (2011: £0.6 million and £2.6 million respectively). Recovery payments of £2.0 million and £2.1 million to the Staff and 'B' schemes respectively are scheduled to be made in 2013.

The Pension Protection Fund (PPF) levy is payable in addition to the above. The PPF levies for the year ended 31 March 2013 were £0.6 million (year ended 31 March 2012: £0.2 million) for the Staff scheme and £7,779 (year ended 31 March 2012: £17,000) for the 'B' scheme.

Mowlem Staff Pension and Life Assurance Scheme

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

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

An actuarial valuation of the Mowlem Staff scheme was undertaken by independent actuaries as at 31 December 2008 using the defined accrued benefits method. The market value of the scheme's assets at that date were £381.7 million, representing approximately 73 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. The next actuarial valuation of the scheme by the Trustees' independent actuaries as at 31 December 2011 is currently being undertaken.

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

As part of the deficit recovery plan agreed with the Trustees, payments were made to the Mowlem Staff scheme in the year of £7.6 million (2011: £12.2 million). Recovery payments of £10.1 million are scheduled to be made in 2013.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2013 was £0.5 million (year ended 31 March 2012: £0.2 million).

Carillion Public Sector Pension Scheme

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

An actuarial valuation of the scheme was undertaken by independent actuaries as at 31 December 2010 using the attained age method. The market value of the schemes' assets at that date was £131.8 million, which represented approximately 82 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. The next actuarial valuation of the scheme by the Trustees' independent actuaries is due as at 31 December 2013.

The regular ongoing employer contributions paid during the year were £3.0 million (2011: £3.4 million). The Group expects to pay regular contributions amounting to £3.2 million representing 33.8 per cent of pensionable salaries during 2013. If any employees are admitted into the Scheme through PFI, PPP or Best Value contracts during 2013 the level of contributions will increase.

As part of the deficit recovery plan agreed with the Trustees, payments of £2.3 million were made during 2012 (2011: £2.3 million). Recovery payments of £2.7 million are scheduled to be made in 2013.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2013 was £0.3 million (year ended 31 March 2012: £0.4 million).

Shared Cost Sections of the Railways Pension Scheme (RPS)

Employees of GTRM and Centrac, and former employees of British Rail transferred to these businesses, have pension provision via Shared Cost Sections of the Railways Pension Scheme. Both the GTRM and Centrac Sections are closed to new entrants. Shared cost arrangements are such that the employer and members share the cost of future service liabilities on a 60/40 split respectively and any surplus or deficit emerging over time is dealt with on a similar basis.

Independent actuaries appointed by the Railways Pension Trustee Company Limited carried out a formal valuation of the Railways Pension Scheme at 31 December 2010 using the attained age method. The market values of the scheme assets of the GTRM Section and Centrac Section at 31 December 2007 were £220.6 million and £22.1 million respectively, which represented approximately 97.9 per cent and 103 per cent of benefits that had accrued to members at that date on an ongoing basis, after taking account of future increases in salaries, contributions payable and reserves. The next actuarial valuation of the schemes by the Trustees' independent actuaries is due as at 31 December 2013.

31 Retirement benefit obligations (continued)

The regular ongoing contributions paid by the employer during the year were £1.1 million (2011: £1.2 million). The Group expects to pay regular ongoing contributions in 2013 amounting to £1.0 million and £0.1 million for both sections representing 22.0 and 19.4 per cent of pensionable salaries for the GTRM and Centrac sections respectively.

As part of the deficit recovery plan agreed with Trustees, no payments were made in 2012 (2011: £1.2 million). Recovery payments of £0.6 million are scheduled to be made in 2013.

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

Alfred McAlpine Pension Plan

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

An actuarial valuation of the pension plan was undertaken by independent actuaries as at 31 December 2008 using the defined accrued benefit method. The market value of the plan assets at that date were £233.4 million, which represented approximately 65 per cent of the benefits that had accrued to members at that date. The next actuarial valuation of the schemes by the Trustees' independent actuaries as at 31 December 2011 is currently being undertaken.

Regular ongoing employer contributions are no longer payable following the closure of the scheme to future accrual.

As part of the deficit recovery plan agreed with the Trustees, payments were made in 2012 of £8.4 million (2011: £10.8 million). Recovery payments of £10.0 million are scheduled to be made in 2013.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2013 was £0.3 million (year ended 31 March 2012: £0.1 million).

Other defined benefit schemes

The PME Staff Pension and Life Assurance Scheme

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

The deficit in the scheme at 31 December 2012 in accordance with IAS 19, is £9.9 million (2011: £6.7 million).

An actuarial valuation of the scheme was undertaken by independent actuaries as at 31 December 2008 using the attained age method. The market value of the scheme's assets at that date was £46.0 million, which represented approximately 78 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. The next actuarial valuation of the schemes by the Trustees' independent actuaries as at 31 December 2011 is currently being undertaken.

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

As part of the deficit recovery plan agreed with the Trustees, a payment of £0.6 million was made during 2012 (2011: £1.2 million). Recovery payments of £0.9 million are scheduled to be made in 2013.

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 2013 (year ended 31 March 2012: £23,000).

Carillion Canada Inc

The Carillion Group operates a defined benefit scheme for employees of Carillion Canada Inc managed locally, which was closed to future accrual with effect from 31 December 2010. In addition certain executives have supplemental arrangements in place, namely the Senior Executive Retirement Plan and the Post Retirement Benefit Plan. The net deficit in total for these three schemes at 31 December 2012, calculated in accordance with IAS 19, is £11.3 million (2011: £10.3 million).

Regular contributions paid during the year were £nil (2011: £nil) in respect of the Carillion Canada Inc defined benefit scheme and £0.4 million (2011: £0.4 million) in respect of other post-retirement benefits for senior Canadian employees. Regular contributions for 2013 are estimated to be £0.4 million.

Mowlem (1993) Pension Scheme

The Mowlem (1993) Pension scheme was part of Mowlem, which was acquired on 23 February 2006. The scheme is a defined benefit arrangement.

The surplus in the scheme at 31 December 2012, calculated in accordance with IAS 19, is £0.7 million (2011: £4.9 million deficit).

An actuarial valuation of the Mowlem (1993) scheme was undertaken by independent actuaries as at 31 December 2011 using the attained age method. The market value of the schemes assets at that date were £75.5 million, representing approximately 78 per cent of the benefits that had accrued to members at that date on an ongoing basis, after allowing for future increases in salaries. The next actuarial valuation of the scheme by the Trustees' independent actuaries is due as at 31 December 2014.

The regular ongoing contributions paid during the year were £2.0 million (2011: £2.2 million). The Group expects to pay regular ongoing contributions amounting to £2.6 million, representing 36.1 per cent of pensionable salary, during 2013.

As part of the deficit recovery plan agreed with the Trustees, payments were made to the scheme during 2012 amounting to £3.6 million (2011: £3.0 million). Recovery payments of £3.6 million are scheduled to be made in 2013.

Notes to the consolidated financial statements continued

31 Retirement benefit obligations (continued)

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2013 was £0.1 million (year ended 31 March 2012: £0.1 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 2012, calculated in accordance with IAS 19, is £25.4 million (2011: £14.9 million).

An actuarial valuation of the scheme was undertaken by independent actuaries as at 31 March 2010 using the projected unit credit method. The market value of the plan assets at that date were £50.3 million, which represented approximately 66 per cent of the benefits that had accrued to members at that date. The next actuarial valuation of the scheme by the Trustees' independent actuaries due as at 31 March 2013 is currently being undertaken.

The regular ongoing employer contributions paid during the year were £0.3 million (2011: £0.4 million). The Group expects to pay regular ongoing contributions of £0.4 million in 2013 representing 28.2 per cent of pensionable salaries.

As part of the deficit recovery plan agreed with the Trustees, payments were made during 2012 of £5.1 million (2011: £1.1 million). Recovery payments of £2.7 million are scheduled to be made in 2013.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2013 was £0.3 million (year ended 31 March 2012: £0.6 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 2012, calculated in accordance with IAS 19, is £1.7 million (2011: £1.8 million).

An actuarial valuation of the scheme was undertaken by independent actuaries as at 28 February 2010 using the projected unit credit method. The market value of the plan assets at that date were £7.0 million, which represented approximately 63 per cent of the benefits that had accrued to members at that date. The next actuarial valuation of the scheme by the Trustees' independent actuaries is due as at 28 February 2013.

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

Deficit recovery payments of £0.7 million were made during 2012 (2011: £0.7 million). Recovery payments of £0.7 million are scheduled to be made in 2013.

The Pension Protection Fund (PPF) levy is payable in addition to the funding plan. The PPF levy for the year ended 31 March 2013 was £0.1 million (year ended 31 March 2012: £5,000).

Alfred McAlpine (Ireland) Pension Plan

The Group has a defined benefit pension scheme for the employees of operations in the Republic of Ireland, the Alfred McAlpine (Ireland) Pension Plan. The regular ongoing contributions paid during the year were £0.4 million. The deficit in the Alfred McAlpine (Ireland) Pension Plan in the Group balance sheet at 31 December 2012, calculated in accordance with IAS 19, is £0.4 million (2011: £0.2 million).

Permarock Pension Plan

The Permarock Pension plan was part of Carillion Energy Services, which was acquired on 21 April 2011. This scheme is a defined benefit arrangement which is closed to new entrants. Existing members no longer accrue benefits for future service. The deficit in the scheme in the Group balance sheet at 31 December 2012, calculated in accordance with IAS 19, is £0.4 million (2011: £0.7 million). Deficit recovery payments of £0.2 million were made during 2012. Recovery payments of £0.1 million are scheduled to be made in 2013.

Defined contribution schemes

The Group operates four principal UK defined contribution schemes, namely the Carillion 2009 Pension Plan, the Carillion Pension Plan, the PME Defined Contribution Plan and the Carillion Retirement Plan (closed to new entrants since 2001). In addition, the Group operates two Stakeholder Plans ('Stakeholder Plus' and the Alfred McAlpine 2003 Pension Plan), and two personal plans (acquired through Carillion Energy Services).

The Carillion 2009 Pension Plan commenced on 6 April 2009 for existing employee members of the Carillion Staff, Carillion 'B', Mowlem Staff and PME Staff Pension and Life Assurance Schemes, which closed to future service accrual on 5 April 2009. Under the plan employees contribute a minimum of 5.0 per cent and the employer a minimum of 10.0 per cent of basic salary. In addition to pension benefits, death in service lump sum benefits are provided. The employer meets the cost of administration and management of the Plan. Employer contributions during the year were £10.0 million (2011: £11.8 million).

The Carillion Pension Plan commenced on 1 April 2003. The majority of new employees across the Group are eligible to join this plan. Employees contribute a minimum of 5.0 per cent and the employer a minimum of 7.0 per cent of basic salary. Up to 3.0 per cent of any additional voluntary contributions paid by employees is matched by the employer resulting in a maximum employer contribution of 10.0 per cent of basic salary. The employer meets the cost of administration and management of the Plan equivalent to a further 2.0 per cent of basic pay. Employer contributions during the year were £3.9 million (2011: £3.8 million).

Employees of Carillion Services Limited who are not eligible for the Carillion Pension Plan are invited to participate in the Carillion Stakeholder Plus managed by BlackRock Pensions Limited. Employees contribute 5.0 per cent and the employer 6.5 per cent of basic salary. Death in service lump sum benefits are provided in addition to pension benefits. Employer contributions during the year were £0.7 million (2011: £0.7 million).

31 Retirement benefit obligations (continued)

The PME Defined Contribution Plan commenced in April 1999. All new PME employees are offered membership of the Plan. Employees contribute 4.0 per cent of basic pay and the employer pays 5.0 per cent of basic pay (inclusive of a 1.0 per cent allowance for insurance premiums and audit fees). Employer contributions during the year were £0.1 million (2011: £0.5 million).

Employer contributions to the Carillion Retirement Plan during the year were £34,002 (2011: £39,506).

Employees of businesses acquired on the purchase of Alfred McAlpine may be eligible to participate in the Alfred McAlpine 2003 Pension Plan managed by Zurich Assurance. Employees contribute between 3.0 per cent and 9.0 per cent depending upon job grade and the employer contributes matching amounts. Death in service lump sum benefits are provided in addition to pension benefits. Employer contributions during the year were £3.1 million (2011: £3.3 million).

Employees of businesses acquired on the purchase of Carillion Energy Services may be eligible to participate in the personal plans managed by Aegon and Clerical Medical and General. Employer contributions to these plans during the year were £1.7 million (2011: £1.9 million).

Stakeholder pensions are also provided by B&CE Insurance and Scottish Widows where required by Working Rule Agreements and defined contribution pensions provided where required by the Joint Industries Board Working 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 £0.5 million (2011: £0.7 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 2012		31 December 2011	
	UK	Canada	UK	Canada
Rate of increase in salaries	3.40%	N/A	3.50%	N/A
Rate of increase in pensions	2.90%	2.25%	3.00%	2.25%
Inflation rate – Retail Price Index	2.90%	2.25%	3.00%	2.25%
Inflation rate – Consumer Price Index	2.05%	N/A	1.90%	N/A
Discount rate	4.55%	4.35%	4.80%	4.93%

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.

The life expectancies at 65 for males aged 45-65 are shown below:

	Life expectancies		Valuation 31 December 2012	
	Non retired member (aged 45 years currently)	Retired member (aged 65 years currently)	Base table	Future improvements
Carillion Staff	23.2	21.4	S1NA	CMI 2009 1.25%
Public Sector	25.8	23.9	S1NA	CMI 2009 1.25%
Carillion 'B'	26.7	24.8	S1NA	CMI 2009 1.25%
Mowlem Staff	24.9	23.1	S1NA	CMI 2009 1.25%
Mowlem 1993	24.8	22.6	S1NA	CMI 2009 1.25%
Alfred McAlpine Pension Plan	24.9	21.4	S1NA	CMI 2009 1.25%
PME Staff	24.9	23.1	S1NA	CMI 2009 1.25%
ESPS	23.8	22.2	S1PA	CMI 2009 1.25%
Permarock	24.1	22.3	S1PA	CMI 2009 1.25%
Bower Group Retirement Benefit	25.3	22.9	PCA 00B	MC 1.25%/1.0% floor males/females
Shared Cost Section of the Railways Pension Scheme	24.8	22.7	S1NA	CMI 2009 1.5%
Carillion Canada Inc	–	–	1994	uninsured pensioners projected to 2020

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continued

31 Retirement benefit obligations (continued)

Carillion has adopted immediate recognition of any actuarial gains or losses through the Statement of comprehensive income as permitted under IAS 19

The IAS 19 position for the schemes is as follows

	Expected rate of return %		Carillion Staff £m	Mowlem Staff £m	Carillion B £m	Alfred McAlpine Pension Plan £m	Public Sector £m	Railways Pension £m	Other Schemes £m	Total £m
	UK	Canada								
31 December 2012										
Equities	7.05	7.85	175.2	297.7	25.2	193.3	88.2	64.1	127.5	971.2
Government bonds	3.05	2.16	161.0	2.6	36.3	52.3	24.8	21.5	58.1	356.6
Corporate bonds	4.15	—	261.3	164.2	50.3	57.1	34.4	33.8	39.8	640.9
Other	0.50	1.98	4.6	3.7	1.6	1.3	0.9	24.8	6.7	43.6
Market value of scheme assets			602.1	468.2	113.4	304.0	148.3	144.2	232.1	2,012.3
Present value of funded scheme obligation			(638.9)	(617.6)	(127.6)	(367.1)	(171.1)	(160.1)	(261.0)	(2,343.4)
Present value of unfunded scheme obligation			—	—	—	—	—	—	(9.1)	(9.1) ⁽¹⁾
Minimum funding requirement			—	—	—	—	(0.3)	—	(10.5)	(10.8)
Total deficit			(36.8)	(149.4)	(14.2)	(63.1)	(23.1)	(15.9)	(48.5)	(351.0)
Related deferred tax asset										81.1
Net pension liability										(269.9)

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

(1) All schemes are funded except the Senior Executive Retirement Plan and the Post Retirement Benefit Plan held in Canada

Expense recognised in the income statement

	2012 £m	2011 £m
Charge to operating profit		
Current service cost relating to defined benefit schemes	(5.9)	(6.6)
(Charge)/credit to other financial income and expense		
Expected return on retirement plan assets	100.0	116.0
Interest cost on retirement plan obligations	(103.6)	(112.8)
Net financial (expense)/income	(3.6)	3.2
Total actuarial (losses)/gains recognised in the Statement of comprehensive income		
Effects of changes in assumptions underlying the present value of scheme liabilities	(128.7)	(37.3)
Difference between actual and expected return on scheme assets	66.1	(68.7)
Movement in minimum funding requirement	(10.8)	9.4
Total actuarial losses recognised in the Statement of comprehensive income	(73.4)	(96.6)

31 Retirement benefit obligations (continued)

	2012 £m	2011 £m
Changes in defined benefit obligation		
Obligation at 1 January	(2,203 7)	(2,128 6)
Current service cost	(5 9)	(6 6)
Acquisition of Carillion Energy Services	–	(2 8)
Interest cost	(103 6)	(112 8)
Contributions from scheme members	(0 8)	(0 9)
Benefits paid	89 5	85 2
Actuarial losses	(128 7)	(37 3)
Effect of movements in foreign exchange rates	0 7	0 1
Obligation at 31 December	(2,352 5)	(2,203 7)

	2012 £m	2011 £m
Changes in the fair value of scheme assets		
Fair value at 1 January	1,897 9	1,888 6
Expected return on scheme assets	100 0	116 0
Acquisition of Carillion Energy Services	–	2 0
Contributions from the employer	37 4	44 3
Contributions from scheme members	0 8	0 9
Benefits paid	(89 5)	(85 2)
Actuarial gains/(losses)	66 1	(68 7)
Effect of movements in foreign exchange rates	(0 4)	–
Fair value at 31 December	2,012 3	1,897 9

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

	2012 £m	2011 £m
Present value of defined benefit obligation	(2,352 5)	(2,203 7)
Fair value of scheme assets	2,012 3	1,897 9
Minimum funding requirement	(10 8)	–
	(351 0)	(305 8)
Schemes in surplus (within non-current assets)	0 7	–
Schemes in deficit (within non-current liabilities)	(351 7)	(305 8)
	(351 0)	(305 8)

The actual return on plan assets was £166.1 million (2011: £47.3 million)

History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of the defined benefit obligation	(2,352 5)	(2,203 7)	(2,128 6)	(2,028 5)	(1,683 6)
Fair value of scheme assets	2,012 3	1,897 9	1,888 6	1,741 4	1,594 5
Minimum funding requirement	(10 8)	–	(9 4)	(6 7)	(20 0)
Deficit	(351 0)	(305 8)	(249 4)	(293 8)	(109 1)
Experience gains and losses on scheme obligation	(£m)	(128 7)	(37 3)	(61 2)	(319 2)
Percentage of defined benefit obligation	(%)	(5 5)	(1 7)	(2 9)	(15 7)
Difference between expected and actual returns on scheme assets	(£m)	66 1	(68 7)	75 8	85 9
Percentage of scheme assets	(%)	3 3	(3 6)	4 0	4 9

The cumulative amount of actuarial gains and losses recognised since 1 January 2004 in the Group statement of comprehensive income is £394.6 million (2011: £321.2 million). The Group is unable to determine how much of the pension scheme deficit recognised on transition to IFRS of £85.2 million and taken directly to total equity is attributable to actuarial gains and losses since inception of the schemes. Therefore, the Group is unable to determine the amount of actuarial gains and losses that would have been recognised in the Group statement of comprehensive income before 1 January 2004.

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32 Accounting estimates and judgements

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

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

Construction contracts

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

Intangible assets

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

Determining whether intangible assets are impaired requires an estimation of the discount rate and future cash flows expected to arise from the cash-generating unit to which the intangible assets are attached. Note 11 provides details of the carrying value of intangible assets.

Retirement benefits

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group.

- > Expected return on plan assets
- > Inflation rate
- > Mortality
- > Discount rate
- > Salary and pensions increases

Details of the assumptions used are included in note 31.

The valuation of defined benefit pension scheme liabilities in particular, is most sensitive to changes in the discount rate and inflation rate. A 0.1 per cent reduction in the discount rate would increase scheme liabilities by approximately £42 million, whilst a 0.1 per cent increase in the inflation rate would increase scheme liabilities by approximately £38 million.

33 Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of the Group's principal activities that are not required to be included on the Group balance sheet. The principal off-balance sheet arrangements that the Group are party to are as follows:

- > Operating leases (see note 28)
- > Pledged assets securing finance lease liabilities (see notes 10 and 11)
- > Contingent liabilities in respect of guarantees for deferred equity payments and performance contracts in PPP special purpose entities (see note 26)
- > Capital commitments for capital expenditure and equity and subordinated debt in PPP special purpose entities (see note 28)
- > Outsourcing contracts

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office functions with a third party provider. These arrangements are on commercial terms and any penalty or termination clauses associated with these arrangements will not have material impact on the financial position of the Group.

34 Change in presentation

As described in note 1, in 2012 profit from the disposal of equity investments in Public Private Partnership projects has been presented within Group operating profit in the income statement. Previously such profits were presented within non-operating items. Following this change in presentation, comparative information has been restated accordingly which has had the following impact on underlying profit before taxation, non-operating items and underlying earnings per share:

		Year ended 31 December 2011		
		As previously reported	Impact of change	As restated
Underlying profit before taxation	£m	212.0	11.5	223.5
Non-operating items	£m	4.6	(11.5)	(6.9)
Underlying earnings per share	Pence	43.0	2.7	45.7

There is no impact on reported profit before taxation and basic and diluted earnings per share.

35 Principal subsidiaries, jointly controlled entities and jointly controlled operations

A list of significant investments in subsidiaries, jointly controlled entities and jointly controlled operations, including the name, country of incorporation and proportion of ownership interest is given below

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

Principal subsidiary undertakings

Carillion (AMBS) Ltd
Carillion (Aspire Construction) Holdings No 2 Ltd
Carillion (Aspire Services) Holdings No 2 Ltd
Carillion Alawi LLC (Oman) 49%
Carillion Canada Inc (Canada)
Carillion CR Ltd
Carillion Construction Ltd *
Carillion Energy Services Ltd *
Carillion Fleet Management Ltd *
Carillion LGS Ltd *
Carillion Private Finance Ltd *
Carillion Services Ltd *
Postworth Ltd *
Sovereign Hospital Services Ltd
The Bouchier Group (Canada) 49%

Nature of business

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

Principal jointly controlled entities**Public Private Partnerships**

Accommodation Services (Holdings) Ltd 20%
CSS (FSCC) Partnership (Canada)
Clinicenta (Hertfordshire) Ltd
COE (CAMH) Limited Partnership (Canada)
Eastbury Park (Holdings) Ltd
Holdfast Training Services Ltd 26%
HIP (NOH) Limited Partnership (Canada) 40%
Inspiredspaces Nottingham (Holdings2) Ltd 80%
Inspiredspaces Rochdale (Holdings1) Ltd 80%
Inspiredspaces Rochdale (Holdings2) Ltd 80%
LCED (Sault) Limited Partnership 25% (Canada)
Road Management Services (A13) Holdings Ltd 25%
Yorkshire Transformations Holdings Ltd 33 3%
The Healthcare Infrastructure Company of Canada (ROH) Inc (Canada)
The Healthcare Infrastructure Company of Canada (WOHC) Inc (Canada)
The Hospital Company (Southmead) Holdings Ltd
UK Highways A55 (Holdings) Ltd

Associated project

GCHQ, Cheltenham
Forensic Services and Coroners' Complex, Toronto
The Lister Surgicentre Hertfordshire
Centre for Addiction & Mental Health, Toronto
Permanent Joint Headquarters, Northwood
Royal School of Military Engineering, Chatham
New Oakville Hospital, Halton
Nottingham Schools Phase 2
Rochdale Schools Phase 1
Rochdale Schools Phase 2
Sault Area Hospital, Canada
A13, Thames Gateway
Swarcliffe Social Housing, Leeds
Royal Ottawa Hospital, Canada
William Osler Hospital, Canada
Southmead Hospital, Bristol
A55 North Wales

Other Public Private Partnership Investments

Aspire Defence Holdings Ltd 12 5%

Inspiredspaces Durham (Holdings1) Ltd 8%
Inspiredspaces STaG (Holdings1) Ltd 4 4%
Inspiredspaces STaG (Holdings2) Ltd 4 4%
Inspiredspaces Nottingham (Holdings1) Ltd 8%
Inspiredspaces Tameside (Holdings1) Ltd 8%
Inspiredspaces Tameside (Holdings2) Ltd 8%
Inspiredspaces Wolverhampton (Holdings1) Ltd 8%

Military accommodation and facilities management at Aldershot and Salisbury Plain
Durham Schools
South Tyneside and Gateshead Schools (Jarrow)
South Tyneside and Gateshead Schools (South Shields)
Nottingham Schools Phase 1
Tameside Schools Phase 1
Tameside Schools Phase 2
Wolverhampton Schools

Others

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

Nature of business

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

Jointly controlled operations

Name, proportion of interest held and address of principal place of business

Carillion Telent Joint Venture 60%
Carillion-URS Joint Venture 70%

Hayward Road, Warwick, England
Pythley Maintenance Compound, Pegasus Court, Kettering South
Business Park, Kettering Northamptonshire, England
Bradford, West Yorkshire, England

Carillion-WSP JV 60%

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

Company balance sheet

As at 31 December 2012

	Note	2012 £m	2011 £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	3	1,566 1	1,563 6
Current assets			
Debtors	4	1,024 0	666 3
Cash at bank and in hand		46 6	10 2
		1,070 6	676 5
Creditors amounts falling due within one year	5		
Borrowing		(13 3)	(9 9)
Other creditors		(598 1)	(548 1)
		(611 4)	(558 0)
Net current assets		459 2	118 5
Total assets less current liabilities		2,025 3	1,682 1
Creditors amounts falling due after more than one year			
Borrowing	6	(762 9)	(488 8)
Net assets		1,262 4	1,193 3
Financed by			
Capital and reserves			
Share capital	7	215 1	215 1
Share premium	8	21 2	21 2
Merger reserve	8	618 7	618 7
Hedging reserve	8	(5 0)	—
Other reserve	8	9 2	6 7
Profit and loss account	8	403 2	331 6
Equity shareholders' funds	9	1,262 4	1,193 3

The financial statements were approved by the Board of Directors on 27 February 2013 and were signed on its behalf by



Richard Adam FCA
Group Finance Director



Notes to the Company financial statements

1 Significant accounting policies

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

Basis of preparation

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis, except for derivative financial instruments which are stated at fair value, and in accordance with applicable UK accounting standards and law.

Taxation

Deferred tax assets or liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation that have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'. Liabilities are calculated on a non-discounted full provision basis. Assets are calculated on the same basis, but are recognised only to the extent that it is probable that they will be recovered.

Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost, less provision for any impairment.

Leasing

The Company enters into finance lease arrangements on behalf of subsidiary companies. As permitted by SSAP 21 'Accounting for leases and hire purchase contracts', the assets relating to the finance leases are included in the financial statements of the subsidiaries concerned. The capital element of outstanding finance leases is included within borrowings. The finance charge element of rentals is charged to the profit and loss account at a constant periodic rate of charge on the outstanding obligations.

Own shares

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

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded using the exchange rate prevailing at the date of the transaction.

Financial instruments

The Company's principal financial assets and liabilities are cash at bank and in hand and borrowings. Cash at bank and in hand is carried in the balance sheet at amortised cost. Borrowings are recognised initially at fair value less attributable transaction costs and subsequently at amortised cost. In addition, the Company enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied. Where hedge accounting is not applied, movements in fair value during the year are recognised in the profit and loss account. Fair values are based on quoted market prices at the balance sheet date. The Company has taken the exemption within FRS 29 'Financial Instruments: Disclosure' and does not present all of the required disclosures as they are included in the consolidated financial statements of which the Company is the parent.

Share-based payments

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

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

Where the Company grants options over its own shares to the employees of its subsidiaries, it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of the investment in the subsidiary. If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend to the extent that it reflects post-acquisition profits of the subsidiary.

The Company also operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The fair value of the free shares are recognised as a dividend to the extent that it reflects post-acquisition profits of the subsidiary.

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

Financial guarantee contracts

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

Retirement benefit obligations

Pension costs are recognised in the financial statements in accordance with the requirements of FRS 17 'Retirement benefits'. Employees of the Company participate in the Carillion 'Staff' and 'B' schemes which provide pensions on a defined benefit basis. The assets and liabilities of these schemes relating to the Company cannot be readily ascertained on a reasonable and consistent basis as the schemes are operated for the benefit of the Carillion Group as a whole. Consequently, the Company accounts for these schemes as if they were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 31 of the consolidated financial statements.

Cash flow statement

A cash flow statement has not been presented as permitted by FRS 1 (revised) 'Cash flow statements'.

2 Profit for the year and dividends

As permitted by the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Carillion plc reported a profit for the financial year ended 31 December 2012 of £143.4 million (2011: £113.2 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 11.6 pence (2011: 10.7 pence) per share was paid during the year, amounting to £48.5 million (2011: £43.0 million).

An interim dividend of 5.4 pence (2011: 5.3 pence) per share was paid during the year, amounting to £21.9 million (2011: £21.6 million).

A final dividend of 11.85 pence (2011: 11.6 pence) per share, amounting to £51.0 million (2011: £49.9 million), was approved by the Board on 27 February 2013 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 14 June 2013 to shareholders on the register on 17 May 2013.

Notes to the Company financial statements

continued

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost			
At 1 January 2012	1,574 0	0 2	1,574 2
Share options granted to employees	2 5	–	2 5
At 31 December 2012	1,576 5	0 2	1,576 7
Impairment losses			
At 1 January 2012 and 31 December 2012	10 6	–	10 6
Net book value			
At 31 December 2012	1,565 9	0 2	1,566 1
At 31 December 2011	1,563 4	0 2	1,563 6

The principal subsidiary undertakings and joint ventures of the Company are shown on page 107

4 Debtors

	2012 £m	2011 £m
Amounts falling due within one year		
Amounts owed by Group undertakings	1,013 2	651 4
Other debtors and prepayments	–	1 7
Amounts owed by joint ventures	0 7	0 7
Derivative financial instruments	0 4	–
Income tax	9 7	12 5
Total debtors	1,024 0	666 3

5 Creditors amounts falling due within one year

	2012 £m	2011 £m
Bank overdrafts	5 6	1 9
Bank loans	7 5	7 9
Other loans	0 2	–
Net obligations due under finance leases	–	0 1
Borrowing	13 3	9 9
Other creditors	4 6	–
Amounts owed to Group undertakings	567 8	526 9
Amounts owed to joint ventures	5 6	18 0
Amounts owed to JANEs	10 0	–
Other tax and social security costs	0 2	0 1
Derivative financial instruments	7 1	0 9
Accruals and deferred income	2 8	2 2
Total creditors	611 4	558 0

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

6 Creditors amounts falling due after more than one year

	2012 £m	2011 £m
Bank loans	456.1	388.5
Other loans	306.8	100.3
Total	762.9	488.8

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

The maturity profile of all borrowings is disclosed in note 13 on page 113.

7 Share capital Issued and fully paid

	2012		2011	
	Number million	£m	Number million	£m
At 1 January	430.3	215.1	399.7	199.8
New share capital issued	–	–	30.6	15.3
At 31 December	430.3	215.1	430.3	215.1

8 Reserves

	Share premium account £m	Merger reserve £m	Hedging reserve £m	Other reserve £m	Profit and loss account £m	Total £m
At 1 January 2012	21.2	618.7	–	6.7	331.6	978.2
Profit for the year	–	–	–	–	143.4	143.4
Fair value movement on cash flow hedging derivatives	–	–	(7.1)	–	–	(7.1)
Reclassification of effective portion of cash flow hedging derivatives to profit	–	–	2.1	–	–	2.1
Acquisition of own shares	–	–	–	–	(1.2)	(1.2)
Equity settled transactions (net of tax)	–	–	–	2.5	(0.2)	2.3
Dividend paid to shareholders	–	–	–	–	(70.4)	(70.4)
At 31 December 2012	21.2	618.7	(5.0)	9.2	403.2	1,047.3

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 retained earnings are as follows:

	2012 £m	2011 £m
At 1 January	(0.2)	(0.1)
Share options exercised (transfer to retained earnings)	1.4	4.3
Acquisition of own shares	(1.2)	(4.4)
At 31 December	–	(0.2)

At 31 December 2012, the ESOP held 250 (2011: 74,290) of the Company's shares and had a market value of £793 (2011: £0.2 million). During the year the Company acquired 433,105 of its own shares for £1.2 million to meet the plan's commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

In addition to the ESOP, the Company has also established a Qualifying Employee Share Ownership Trust ('Quest'). At 31 December 2012, the total number of shares held by the QUEST amounted to 129,979 (2011: 129,979) and had a market value of £0.4 million (2011: £0.4 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

9 Reconciliation of movement in shareholders' funds

	2012 £m	2011 £m
Profit for the year	143.4	113.2
New share capital issued	–	117.7
Equity settled transactions (net of tax)	2.3	5.7
Fair value movement on cash flow hedging derivatives	(7.1)	–
Reclassification of effective portion of cash flow hedging derivatives to profit	2.1	–
Acquisition of own shares	(1.2)	(6.9)
Dividends paid to shareholders	(70.4)	(64.6)
Net addition to shareholders' funds	69.1	165.1
Shareholders' funds at 1 January	1,193.3	1,028.2
Shareholders' funds at 31 December	1,262.4	1,193.3

Notes to the Company financial statements

continued

10 Other guarantees and contingent liabilities

	2012 £m	2011 £m
Guarantees in respect of borrowings of subsidiaries	0.5	0.3
Guarantees in respect of interest payments in Construction services (excluding the Middle East) jointly controlled entities	0.2	0.2
Guarantees in respect of letters of credit issued by banks in relation to deferred equity payments in PPP special purpose entities	88.2	100.9
Guarantees in respect of letters of credit issued by banks in relation to performance contracts for PPP customers	89.2	91.7

The Company has issued performance guarantees in respect of its subsidiaries, joint ventures and joint arrangements in the normal course of business

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

11 Pension arrangements

As the Carillion Staff and 'B' defined benefit schemes are run for the Carillion Group as a whole, the Company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. Hence, as permitted by FRS 17, the schemes are accounted for by the Company separately as if the schemes were defined contribution schemes. Details of the Group's pension schemes are disclosed in note 31 to the consolidated financial statements.

12 Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to shares in the Company. Details of the Group's share option programme are disclosed in note 25 to the consolidated financial statements and in the Remuneration report on pages 53 to 61.

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

	2012		2011	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts and options – at fair value through profit and loss	0.4	–	–	(0.9)
Cross-currency derivatives – cash flow hedging instruments	–	(7.1)	–	–
Foreign currency exposure	0.4	(7.1)	–	(0.9)

The cross-currency derivatives hedge the exposure to foreign exchange rate volatility in relation to the capital and interest payments on United States of America Dollar denominated private placement and financing.

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

	2012 £m	2011 £m
United States of America Dollars	(188.6)	(16.3)
Canadian Dollars	(60.7)	(62.3)
United Arab Emirates Dirhams	(7.5)	(7.9)
Other	(3.0)	(1.8)
	(259.8)	(88.3)

Of the total foreign currency borrowing of £259.8 million (2011: £88.3 million) the amount of borrowing used for hedging currency net asset of overseas operations of the Group amounts of £83.7 million (2011: £86.4 million). The foreign exchange gain of £1.5 million (2011: £0.1 million gain) on translation of the borrowing into sterling has been recognised in the hedging reserve as these hedging loans are effective hedges.

Fair values

Where there are differences between the carrying and fair values of the Company's principal financial instruments at 31 December 2012 these are shown below:

	2012		2011	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Finance lease obligations	–	–	(0.1)	(0.1)

13 Financial instruments (continued)

Maturity of financial liabilities

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

31 December 2012	Bank overdrafts £m	Bank loans £m	Other loans £m	Total £m
Between one and two years	–	9 5	14 1	23 6
Between two and three years	–	9 5	14 1	23 6
Between three and four years	–	458 5	14 1	472 6
Between four and five years	–	–	29 3	29 3
More than five years	–	–	339 3	339 3
More than one year	–	477 5	410 9	888 4
Less than one year	5 6	17 0	14 3	36 9
	5 6	494 5	425 2	925 3

31 December 2011	Bank overdrafts £m	Bank loans £m	Finance leases £m	Other loans £m	Total £m
Between one and two years	–	8 8	–	4 7	13 5
Between two and three years	–	8 8	–	4 7	13 5
Between three and four years	–	8 8	–	4 7	13 5
Between four and five years	–	390 7	–	4 7	395 4
More than five years	–	–	–	116 0	116 0
More than one year	–	417 1	–	134 8	551 9
Less than one year	1 9	16 7	0 1	4 7	23 4
	1 9	433 8	0 1	139 5	575 3

Borrowing facilities

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

	2012 £m	2011 £m
Expiring within one year	7 4	7 1
Expiring between two and five years	281 2	349 0
	288 6	356 1

14 Related party transactions

In accordance with Financial Reporting Standard 8 'Related party transactions' the Company has taken the exemption to not disclose transactions with other wholly owned subsidiaries within the Carillion Group

Shareholder information

Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2012 will be payable on 14 June 2013 to those shareholders on the register on 17 May 2013.

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

For those shareholders who prefer not to participate in the DRIP, arrangements can be made to pay your dividends automatically into your bank or building society account. This service has a number of benefits:

- > There is no chance of the dividend cheque going missing in the post
- > The dividend payment is received more quickly as the cash is paid directly into your account on the payment date without the need to wait for the cheque to clear, and
- > You will help Carillion to improve its efficiency by reducing printing and cheque clearing costs

If you wish to register for this service please call Equiniti on the number detailed below to request a dividend mandate form.

Results

Half year to 30 June 2013: announced August 2013

Full year to 31 December 2013: announced March 2014

Shareholder Enquiries

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

Equiniti
Aspect House
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2522*

Textphone for shareholders with hearing difficulties 0871 384 2255

Non-UK callers should dial +44(0) 121 415 7047

Lines are open 8.00am to 5.30pm, Monday to Friday

* Calls cost eight pence per minute plus network extras

Warning to Shareholders – Boiler Room Scam

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

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

Share Dealing Service

Carillion offers its UK shareholders, Shareview Dealing, a telephone and internet share dealing service operated by Equiniti. For telephone purchases and sales call 0845 603 7037 between 8.00am and 4.30pm, Monday to Friday, or log on to www.shareview.co.uk/dealing. For the sale of shares, you will need your shareholder reference number as shown on your share certificate.

Multiple Accounts on the Shareholder Register

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

Shareview (Electronic Communications)

www.shareview.co.uk is a service offered by Equiniti that enables you to check your holdings in many UK companies and helps you to organise your investments electronically. You can also notify Equiniti of a change of address or a change to dividend mandate instructions. You can register for this portfolio service which is easy to use, secure and free as long as you have access to the internet by logging on to www.shareview.co.uk and following a simple registration process.

Electronic Proxy Appointments

For the Annual General Meeting to be held on 1 May 2013, you may, if you wish, register the appointment of a proxy electronically by logging on to the website www.sharevote.co.uk.

You will need your voting reference numbers (the three eight-digit numbers shown on your form of proxy). Alternatively, if you have registered for a Shareview portfolio, log on to your portfolio at www.shareview.co.uk and click on the link 'vote' under your Carillion plc details, then follow the on-screen directions.

Please note that any electronic communication that is found to contain a computer virus will not be accepted.

ShareGift

ShareGift is a charity share donation scheme for shareholders administered by The Orr Mackintosh Foundation. It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomic to sell on a commission basis. Further information can be obtained at www.sharegift.org or from Equiniti.

If you receive an unsolicited investment approach you should:

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

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

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

Board of Directors and Advisers

Non-Executive Directors

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

Executive Directors

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

(1) Member of the Audit Committee
(2) Member of the Remuneration Committee
(3) Member of the Nominations Committee
(4) Member of the Business Integrity Committee

Secretary and Registered Office

Richard Tapp
Birch Street
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United Kingdom

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F +44 (0) 1902 316 165
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Auditor

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Snow Hill Queensway
Birmingham
B4 6GH

Banker

National Westminster Bank plc
16 South Parade
Nottingham
NG1 2JX

Joint Brokers

Morgan Stanley
25 Cabot Square
Canary Wharf
London
E14 4QA

Oriel Securities
150 Cheapside
London
EC2V 6ET

Financial Adviser

Lazard
50 Stratton Street
London
W1J 8LL

Legal Adviser

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

Share Registrar

Equiniti
Aspect House
Lancing
West Sussex
BN99 6DA

About us

Our performance

Governance

Financial statements

Five year review

Group income statement		2012 £m	2011 ^(a) £m	2010 ^(a) £m	2009 ^(a) £m	2008 ^(a) £m
Total revenue		4,402.8	5,051.2	5,139.0	5,629.3	5,457.2
Analysed between						
Support services		2,359.7	2,345.2	2,108.6	2,389.5	2,463.5
Public Private Partnership projects		287.7	309.8	311.9	418.4	429.8
Middle East construction services		473.6	548.9	493.0	553.6	464.2
Construction services (excluding the Middle East)		1,281.8	1,847.3	2,225.5	2,267.8	2,099.7
Underlying Group and Joint Ventures operating profit before intangible amortisation, impairment of goodwill and other investments, non-recurring operating items and jointly controlled entities' net financial (expense)/income and taxation		250.1	249.7	230.3	211.9	229.8
Analysed between						
Support services		122.7	120.8	110.4	117.7	113.5
Public Private Partnership projects		33.8	31.4	40.2	26.8	65.5
Middle East construction services		29.0	49.1	47.5	47.0	34.5
Construction services (excluding the Middle East)		72.4	57.9	41.2	30.9	28.7
Group eliminations and unallocated items		(7.8)	(9.5)	(9.0)	(10.5)	(12.4)
Share of jointly controlled entities net financial expense		(16.0)	(18.8)	(13.9)	(21.8)	(14.7)
Share of jointly controlled entities taxation		(1.7)	(3.5)	(4.7)	(3.9)	(11.9)
Underlying operating profit before intangible amortisation, impairment of goodwill and other investments, and non-recurring operating items		232.4	227.4	211.7	186.2	203.2
Group net financial expense		(17.7)	(3.9)	(6.8)	(14.6)	(7.7)
Underlying profit before tax		214.7	223.5	204.9	171.6	195.5
Intangible amortisation and impairment of goodwill and other investments		(31.4)	(31.0)	(27.6)	(30.8)	(54.5)
Non-recurring operating items		(2.6)	(42.8)	(9.4)	(15.2)	(22.7)
Non-operating items		(1.2)	(6.9)	—	10.3	—
Profit before taxation		179.5	142.8	167.9	135.9	118.3
Taxation		(13.3)	(4.8)	(15.1)	(11.5)	(4.1)
Profit for the year		166.2	138.0	152.8	124.4	114.2
Group financial statistics						
Underlying operating profit margin						
Support services	Percentage	5.2	5.2	5.2	4.9	4.6
Middle East construction services	Percentage	6.1	8.9	9.6	8.5	7.4
Construction services (excluding the Middle East)	Percentage	5.6	3.1	1.9	1.4	1.4
Underlying operating profit margin						
Total Group before share of jointly controlled entities' net financial expense and taxation	Percentage	5.7	4.9	4.5	3.8	4.2
Underlying profit from operations margin						
Total Group	Percentage	5.3	4.5	4.1	3.3	3.7

Group balance sheet	2012 £m	2011 ⁽¹⁾ £m	2010 ⁽¹⁾ £m	2009 ⁽¹⁾ £m	2008 ⁽¹⁾ £m
Property, plant and equipment	127.1	134.2	157.2	168.2	167.2
Intangible assets	1,540.1	1,547.6	1,221.2	1,241.3	1,276.9
Investments	237.9	210.9	176.7	172.0	242.8
	1,905.1	1,892.7	1,555.1	1,581.5	1,686.9
Inventories, receivables and payables	(460.6)	(607.4)	(613.8)	(608.0)	(490.4)
Net retirement benefit liability (net of deferred tax)	(269.9)	(229.3)	(182.1)	(211.1)	(76.2)
Other net liabilities	(9.3)	(22.8)	(14.2)	(15.2)	(21.8)
Net operating assets	1,165.3	1,033.2	745.0	747.2	1,098.5
Net (borrowing)/cash	(155.8)	(50.7)	120.2	24.9	(226.7)
Net assets	1,009.5	982.5	865.2	772.1	871.8

Group cash flow statement	2012 £m	2011 ⁽¹⁾ £m	2010 ⁽¹⁾ £m	2009 ⁽¹⁾ £m	2008 ⁽¹⁾ £m
Underlying Group operating profit	198.1	178.7	165.2	127.0	155.0
Depreciation and other non-cash items	22.4	32.1	32.0	38.8	19.2
Working capital	(136.2)	5.1	16.2	164.2	59.0
Dividends received from joint ventures	13.6	39.6	48.1	38.6	25.0
Underlying cash flow from operations	97.9	255.5	261.5	368.6	258.2
Deficit recovery payments to pension schemes	(30.2)	(36.2)	(35.2)	(29.0)	(50.5)
Rationalisation costs	(28.6)	(34.4)	(15.6)	(17.1)	(32.4)
Interest, tax and dividends	(87.2)	(77.1)	(65.9)	(63.2)	(62.2)
Net capital (expenditure)/income	(15.6)	4.6	(15.3)	(47.3)	(26.4)
Acquisitions and disposals	(32.6)	(276.6)	(28.6)	42.3	(286.9)
Other	(8.8)	(6.7)	(5.6)	(2.7)	18.4
Change in net liquidity	(105.1)	(170.9)	95.3	251.6	(181.8)
Net (borrowing)/cash at 1 January	(50.7)	120.2	24.9	(226.7)	(44.9)
Net borrowing at 31 December	(155.8)	(50.7)	120.2	24.9	(226.7)

Group financial statistics

Earnings per share

Underlying earnings per share	Pence	43.0	45.7	43.6	36.3	44.3
Basic earnings per share	Pence	37.2	32.0	36.9	30.5	29.0

Dividends

Proposed full year dividend per share	Pence	17.25	16.9	15.5	14.6	13.0
Underlying proposed dividend cover	Times	2.5	2.7	2.8	2.5	3.4
Basic proposed dividend cover	Times	2.2	1.9	2.4	2.1	2.2

(1) Prior year income statement and cash flow statement information has been restated following the change in presentation of profits from the disposal of Public Private Partnership equity investments from non operating items to operating items

Prior to the restatement previously reported underlying profit before taxation and underlying earnings per share were as follows

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Underlying profit before taxation	214.7	212.0	188.1	175.5	160.6
Underlying earning per share	Pence	43.0	43.0	37.3	35.1



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