carillion

Registered Number
3782379

Making tomorrow a better place

Annual Report and Accounts 2013

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About us

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 ability to deliver sustainable solutions.

Front Cover Over the last 18 months, Carillion has won facilities management contracts for Shell in the UK and Qatar and for a Shell Joint Venture in Oman

Inside Front Cover Carillion provides facilities management services for the Nationwide Building Society's corporate offices and some 770 high street branches in the UK

2013 Highlights

Revenue
£4.1bn
2012 £4 4bn

Underlying profit from operations[1]
£214.3m
2012 £2279m[2]

Underlying operating margin[3]
5.6%
2012 5 6%[2]

Basic earnings per share
23.3p
2012 34 6p[2]

Net borrowing
£215.2m
2012 £1558m

Underlying profit before taxation[4]
£174.7m
2012 £2000m[2]

Underlying earnings per share[5]
34.7p
2012 40 4p[2]

Profit before taxation
£110.6m
2012 £164 8m[2]

Proposed full-year dividend per share
17.50p
2012 1725p

Committed funding
£1.1bn+
2012 £1 0bn+

Financial performance in line with expectations

- Revenue was lower as expected, primarily due to the rescaling of UK construction
- Underlying operating margin[3] maintained at 5 6%
- The reductions in underlying profit before taxation[4] and underlying earnings per share[5] reflected business rescaling and an increase in the net financial expense
- Reported profit before taxation and basic earnings per share reflected the £42 9 million charge for restructuring energy services

Strong work-winning performance

- £4 9 billion of additional orders and probable orders in the year
- Order book plus probable orders of £18 0 billion (2012 £18 1 billion) after deducting £1 7 billion due to selling equity investments in Public Private Partnership (PPP) projects and reduced expectations from the Green Deal and Energy Company Obligation markets, partially offset by the addition of £0 8 billion of orders acquired with John Laing Integrated Services
- Substantial framework contracts secured in 2013 whose value is not included in the order book
- 81% revenue visibility[6] for 2014 (2012 75% for 2013)
- Pipeline of contract opportunities worth some £37 5 billion (2012 £35 2 billion)

Net borrowing reduced from half-year

- Net borrowing of £215 2 million (2012 £155 8 million), down from £270 8 million at the half-year, despite the additional second half costs of restructuring energy services and of acquiring John Laing Integrated Services, with a significantly improved working capital performance in the second half of the year, reflecting completion of the rescaling of UK construction
- Main revolving credit facility of £770 million extended from 2016 to 2018
- Over £1 1 billion of committed borrowing facilities and private placement funding to support strategy for growth over the medium term

Business rescaling complete with Group now well positioned for the future

- Planned rescaling of UK construction complete with revenue run-rate stabilised by the year end
- UK energy services restructured as previously announced to reflect lower expectations for Green Deal and Energy Company Obligation markets

Proposed full-year dividend increased by 1% to 17 50p (2012 17 25p)

(1) After Joint Ventures net financial expense of £10 1 million (2012 £16 0 million) and taxation charge of £4 4 million (2012 £1 7 million) and before intangible amortisation non recurring operating items and non operating items

(4) After Joint Ventures taxation charge of £4 4 million (2012 £1 7 million) and before intangible amortisation non recurring operating items and non operating items (see note 4 on page 87)

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 also provide services to public and private sector customers to support the delivery of public services and business objectives.

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

	2013 £m	Restated 2012[1] £m
Revenue		
- Group	**3,332 6**	3,666 2
- Share of Joint Ventures	**748 3**	736 6
	4,080 9	4,402 8
Underlying operating profit[2]		
- Group	**199 0**	204 1
- Share of Joint Ventures	**41 0**	52 0
	240 0	256 1
Group eliminations and unallocated items	**(11 2)**	(10 5)
Profit from operations before Joint Ventures' net financial expense and taxation	**228 8**	245 6
Share of Joint Ventures net financial expense	**(10 1)**	(16 0)
Share of Joint Ventures taxation	**(4 4)**	(1 7)
Underlying profit from operations	**214 3**	227 9
Group interest	**(39 6)**	(27 9)
Underlying profit before taxation[3]	**174 7**	200 0
Intangible amortisation[4]	**(19 2)**	(31 4)
Non-recurring operating items	**(44 2)**	(2 6)
Non-operating items	**(0 7)**	(1 2)
Reported profit before taxation	**110 6**	164 8

(1) Restated on adoption of the amendment to IAS 19 (see note 34 on page 112)
(2) Before Group eliminations and unallocated items

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 in the UK, Canada and the Middle East

Underlying operating profit
£118.0m
2012 £120 9m

Order book plus probable orders
£13.6bn
2012 £13 1bn

Find out more
Market review
Pages 10-12

Performance and financial review
Page 26

Public Private Partnership projects

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

Underlying operating profit
£58.4m
2012 £33 8m

Order book plus probable orders
£1.2bn
2012 £2 2bn

Find out more
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Performance and financial review
Page 27

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
£19.2m
2012 £29 0m

Order book plus probable orders
£0.9bn
2012 £0 8bn

Find out more
Market review
Pages 10-12

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
£44.4m
2012 £72 4m

Order book plus probable orders
£2.3bn
2012 £2 0bn

Find out more
Market review
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Chairman's statement

In 2013, Carillion has continued to respond decisively to challenging market conditions, including completing the rescaling of its UK construction activities and the restructuring of its energy services business, which are now aligned in size to their respective markets, while continuing to develop and strengthen its positions in new and existing markets that offer good opportunities for growth.

Philip Rogerson,
Chairman

Good governance
Strong corporate governance is the cornerstone of Carillion's business

1 2 3 4

1 Philip Rogerson
Chairman Nominations Committee and Chairman Business Integrity Committee

2 Andrew Dougal
Chairman Audit Committee

3 Vanda Murray
Chairman Remuneration Committee

4 Philip Green
Senior Independent Non-Executive Director and Chairman designate

The reduction in total revenue to £4 1 billion (2012 £4 4 billion) was primarily due to the rescaling of our UK construction activities to ensure they are aligned in size to our chosen sectors of the market We believe that the process of rescaling, which we began in 2010, is now complete and that by the end of 2013 the revenue run rate in UK construction had stabilised Furthermore, the overall quality and risk profile of our business mix has improved, because we have remained very selective in choosing the contracts for which we bid Our focus has been on larger projects and on customers with whom we have long-term relationships, especially those for whom we provide integrated solutions Revenue in support services was also slightly lower than in 2012, due to the Green Deal and Energy Company Obligation markets offering fewer opportunities than originally expected, which more than offset the strong growth we achieved in other support services markets

The reduction in underlying profit from operations[1] to £214 3 million (2012 £227 9 million[2]) broadly reflected the reduction in revenue, with the total underlying operating margin[1] maintained at 5 6 per cent Reductions in the contributions to profit from construction services (excluding the Middle East) Middle East construction services and support services were partially offset by an increased contribution from Public Private Partnership (PPP) projects which included an increased contribution from the sale of equity investments in PPP projects Underlying profit before taxation[1] of £174 7 million (2012 £200 0 million[2]) reflected the reduction in underlying operating profit and an increase in the Group s net financial expense to £39 6 million (2012 £27 9 million[2]) After an underlying taxation charge of £19 4 million underlying earnings per share[1] were 34 7 pence (2012 40 4 pence[2]) Reported profit before taxation was £110 6 million (2012 £164 8 million[2]) and basic earnings per share were 23 3 pence (2012 34 6 pence[2]) which reflected both the reduction in underlying profit before taxation and an increase in non-recurring operating items and non-operating items to £44 9 million (2012 £3 8 million), the largest element of which was a £42 9 million charge for restructuring our energy services business in line with the announcement we made in our Third Quarter Interim Management Statement on 3 October 2013

Net borrowing at 31 December 2013 was £215 2 million (2012 £155 8 million) This has fallen from a peak of £270 8 million at 30 June 2013 despite the additional second half cash costs relating to the restructuring of our energy services business and the acquisition of John Laing Integrated Services (JLIS), with a positive second half working capital movement consistent with completing the rescaling of our UK construction activities In December 2013 we renewed the Group's main revolving credit facility of £770 0 million and extended its maturity date from March 2016 to March 2018 This facility, together with private placement funding of £303 7 million and other bank facilities, gives the Group total borrowing capacity of some £1 1 billion to support our medium-term strategy for growth

We have also taken a further significant step towards reducing the risks and potential liabilities in respect of the Group's main defined benefit pension schemes Having already closed these schemes to new entrants and ceased the accrual of future benefits for existing scheme members, in December 2013 the Group's main pension schemes entered into a longevity swap which hedges the financial risks of future increases in longevity The swap covers 9 000 pensioners with a combined liability of £1 billion or some 40 per cent of the total liabilities in respect of these defined benefit schemes

During 2013, we continued to win new orders and probable orders together worth £4 9 billion, which was well in excess of the Group's revenue for 2013 and enabled us to maintain the value of our order book plus probable orders at £18 0 billion at 31 December 2013 (2012 £18 1 billion) Overall, this reflects a healthy work winning performance and the addition of £0 8 billion of orders acquired with JLIS, largely offset by the removal from our order book of £1 1 billion of orders due to the sale of equity investments in PPP projects and £0 6 billion of orders due to reduced expectations from Green Deal and Energy Company Obligation contracts We continue to have good revenue visibility[3] which is currently around 81 per cent of anticipated revenue in 2014 (2012 75 per cent for 2013) Furthermore, at 31 December 2013, our pipeline of contract opportunities had also increased to £37 5 billion (2012 £35 2 billion)

The Board is recommending a final dividend of 12 00 pence per share (2012 11 85 pence per share), making the total dividend for 2013 17 50 pence, an increase of one per cent on the 17 25 pence paid in respect of 2012

Dividend
Five year compound annual growth rate

+6%

Having served as Chairman of Carillion for nine years I plan to retire from the Board at the Company's Annual General Meeting on 7 May 2014 I will be succeeded as Chairman by Philip Green who joined the Carillion Board in June 2011 and is currently Senior Independent Non-Executive Director Philip Green will also succeed me as chairman of the Nominations Committee and chairman of the Business Integrity Committee Steve Mogford, who joined the Board as a Non-Executive Director in September 2006, will succeed Philip Green as Senior Independent Non-Executive Director

Vanda Murray OBE will also retire from the Board at the Company's Annual General Meeting on 7 May 2014 Vanda joined the Board in June 2005 and currently chairs the Remuneration Committee Vanda has made a major contribution to the Board and to the Group's development and success and leaves with the Board's grateful thanks Alison Horner, who was appointed as a Non-Executive Director of the Company on 1 December 2013, will succeed Vanda Murray as chairman of the Remuneration Committee

As announced on 20 February 2014, Ceri Powell will be appointed as a Non-Executive Director of the Company on 2 April 2014 Ceri is Executive Vice President for Exploration of Royal Dutch Shell and her considerable experience as a business leader will enable her to make a valuable contribution to Carillion's development Ceri will serve on the Audit Remuneration Nominations and Business Integrity Committees

Looking forward we expect market conditions to remain challenging in 2014 However having continued to win work in 2013 and in the early part of 2014 and having maintained a healthy pipeline of contract opportunities, the Group is well positioned for the future

Philip Rogerson
Chairman
5 March 2014

(1) The underlying results stated above are based on the definitions included in the financial highlights on page 1
(2) Restated on the adoption of the amendment to IAS 19
(3) Based on expected revenue and secure and probable orders which exclude variable work and re bids

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In 2013, Carillion was awarded a £400 million contract for the first phase of the redevelopment of Battersea Power Station in London

Strategy

In this section

Introduction

In this section

Having completed the rescaling of our UK construction activities and the restructuring of our energy services business, I believe we are now well positioned to deliver growth over the medium term.

Richard Howson,
Group Chief Executive

Business reshaped
As expected, market conditions remained challenging in 2013 and we continued to respond to this by

- completing the rescaling of our UK construction activities and the restructuring of our energy services business, to ensure these remain aligned to the size of their respective markets
- developing and strengthening our positions in new and existing markets that offer opportunities for growth
- diversifying our support services offering to enable us to enter new growth markets

As a result, we have reshaped our business and created a platform from which I believe we can now take the Group forward To achieve this we have also adjusted our strategy, refreshed our Vision and Values and set new targets for growth, about which we say more on pages 16 and 17

By the year end, we had successfully completed the rescaling of our UK construction activities, which we began in 2010, with a stabilised revenue run rate from these activities Rescaling has created a strong, high-quality construction business in the UK, which is capable of achieving growth, while continuing to be selective in terms of the contracts for which it bids in order to maintain its operating margin above the industry average

We also completed the restructuring of our energy services business, in line with the announcement we made in our Third Quarter Interim Management Statement on 3 October 2013, in response to both the Green Deal and Energy Company Obligation markets being considerably smaller in size than both the industry expected and the UK Government predicted at the beginning of 2013, when these markets were created by UK Government legislation

At the same time, we have successfully developed and strengthened our positions in new and existing markets that offer good opportunities for growth For example, having entered the support services market for oil sector customers in late 2012, through the acquisition of the Bouchier Group in Canada and by winning a major contract for Petroleum Development Oman in the Middle East, in 2013 we won further substantial contracts in this sector, notably for Shell in the UK, Qatar and Canada

In the UK we continued to win support services contracts for both public and private sector customers, including Local Authorities, as a number of these Authorities look to the private sector for help in reducing costs and improving efficiency We became the preferred bidder for a number of substantial support services contracts for private sector customers, including Royal Bank of Scotland and Arqiva, and this is particularly pleasing as relatively few large contracts for private sector customers have come to market in recent years We have also continued to be successful in winning support services contracts for infrastructure, particularly in the rail and telecommunications sectors

In line with our strategy of enhancing and diversifying our support services offering, we acquired John Laing Integrated Services (JLIS) on 18 October 2013 for a gross consideration of £17 5 million or £13 4 million net of £4 1 million of cash held by JLIS at acquisition JLIS provides support services across the UK local government, education police, health library and rail sectors Combining the skills and knowledge of JLIS with those of Carillion has enhanced our existing capabilities and taken us into new sectors that offer opportunities for growth

In Canada we have also continued to focus on opportunities for growth in our support services business and secured significant new contracts in the natural resources sector notably the oil sector, and in highways maintenance Growth in support services is also coming from our Public Private Partnership (PPP) projects as these move from construction into the operational phase To deliver medium term growth in construction in Canada, we remain focused on bidding for PPP projects especially in the health sector as these continue to account for a substantial proportion of Canada's large PPP investment programme

In the Middle East, the construction markets continue to offer opportunities for growth and we expect the pace of contract awards to increase going forward, notably in Oman, Qatar and Saudi Arabia in the short-term, and in the medium-term in the United Arab Emirates, especially given the additional investment that is now expected in Dubai following its success in being chosen to host Expo 2020 We are also seeing an increasing number of opportunities for our support services businesses in the Middle East notably for facilities management in the oil and health sectors and in highways maintenance

We say more about the contracts we have won in 2013 and the outlook for our business segments in the 'Performance' section of this report on pages 23 to 33, and about the markets we are targeting going forward on pages 10 to 12

Market review
Pages 10 to 12

Performance
Pages 23 to 33

Health & Safety and sustainability
Our commitment to being a recognised leader in Health & Safety and in sustainability continues to be an integral part of our strategy for growth Providing a safe working environment for all our people and ensuring the safety of those who work with us or are affected by what we do, is our first priority and fundamental to our wider responsibility of delivering sustainable solutions for our customers that create positive impacts on the environment and on the communities in which we operate Our Health & Safety and sustainability strategies and programmes are published in our Annual Sustainability Report in April However a summary of our performance can be found in this report on pages 34 to 37

Our people
We have also continued to invest in developing and attracting excellent people to create a vibrant, diverse and flexible workforce which is fundamental to the success of our business This consistently features among our annual Key Performance Indicators, on which we report progress on pages 20 and 21 In particular, we have continued our drive towards greater diversity in our business At 31 December 2013 the Group had a total of 41 304 employees of which some 16,000 were female and 25,000 were male Of the 493 senior managers in the Group, 57 were female and 436 were male The Carillion plc Board comprised six male and two female Directors Of the 83 members of the Chief Executive's Leadership team and their direct reports 14 were female and 69 were male

Retirement of our Chairman
As our Chairman has said in his Statement on page 5, he plans to retire from the Board at the Company's AGM on 7 May 2014, having served as Chairman for nine years Under Philip's chairmanship, Carillion has delivered substantial growth in revenue profit and dividends, driven by the Group s transformation from being primarily a UK construction company into an international, integrated support services company with a substantial portfolio of PPP projects, high quality construction capabilities and sector-leading expertise in delivering sustainable projects and services I should like to thank Philip personally and on behalf of the Board for the outstanding contribution he has made to the Group's success

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Market review

Three core capabilities
We have three core capabilities - support services, construction services and project finance - and we use these capabilities, either individually or in combinations, to design and deliver services to meet the specific needs of our customers

Having this wide range of capabilities, together with the scale and resources to deliver large, complex projects and nationwide support services solutions, helps to differentiate Carillion from its competitors

Our integrated business model is illustrated on page 15

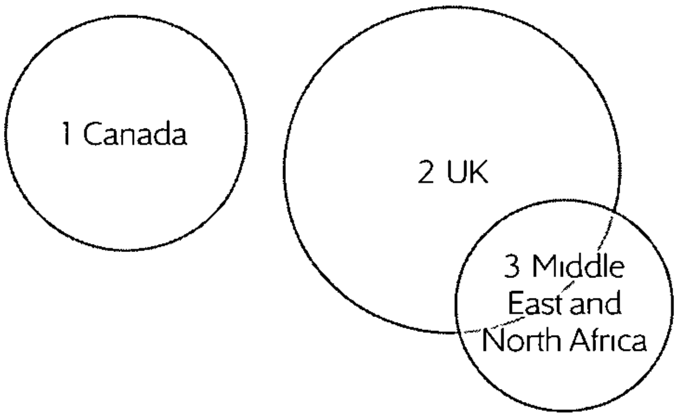
Support services
We are a leading international support services company with all the skills and capabilities needed to manage, maintain and operate buildings and infrastructure, notably for large property estates and for transport and utility networks We also provide services to public and private sector customers to support the delivery of public services and business objectives

Construction services
We have sector leading construction capabilities in the UK, Middle East and Canada, selectively focused on large, higher added-value contracts for customers with whom we have or can build long term relationships

Project finance
We are one of the world's leading companies in delivering Public Private Partnership projects, for which we use our sector leading expertise in arranging project finance, combined with our construction and support services capabilities to deliver a wide range of asset-based services for public sector customers

Three geographies
We operate in the UK, Canada and the Middle East and North Africa, in which we target a number of market sectors, as described on the following pages

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



Split of revenue

1 Canada - 16%
2013 £671 1m[1]

2 UK - 71%
2013 £2,878 2m[2]

3 Middle East and North Africa - 13%
2013 £531 6m

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Market review
continued

UK

Key target market sectors

Support services
- Infrastructure services
  - Rail
  - Roads
  - Telecommunications
  - Power distribution networks
- Oil sector services
- Property and facilities management
  - Central government
  - Local authorities
  - Private sector
- Energy services

Construction services
- Transport
  - Roads
  - Rail
  - Airports
- Defence
- Education
- Private sector

Public Private Partnership projects
- Health
- Defence
- Education

Revenue

£2,878.2m(1)
(2012 £3,264 8m)

Percentage of total Group revenue

71%
(2012 74%)

(1) Includes £33 3 million (2012 £16 9 million) of revenue generated outside of the UK Middle East and North Africa and Canada

Canada

We have operated in Canada for 50 years and have a well-established business targeting the following key market sectors

Support services
- Infrastructure services
  - Highways maintenance
  - Power distribution networks
- Oil sector services
- Property and facilities management
  - Health
  - Defence
  - Education
  - Municipalities

Construction services
- Transport
  - Highways
  - Rail
  - Airports
  - Power
- Health

Public Private Partnership projects
- Health

Revenue

£671.1m(2)
(2012 £650 9m)

Percentage of total Group revenue

16%
(2012 15%)

(2) Includes £10 7 million (2012 £10 5 million) of revenue generated in the Caribbean

Middle East and North Africa (MENA)

We have operated in MENA for 40 years and have well-established businesses targeting the following key market sectors

Construction services
- Buildings and infrastructure
  - Oman
  - Dubai
  - Abu Dhabi
  - Qatar
  - Saudi Arabia

Support services
- Oil sector services
- Property and facilities management
- Infrastructure services
  - Highways maintenance
- Energy services

Public Private Partnership (PPP) projects
- There is potential for PPP projects in the region in the future notably in the health sector
- Actively bidding in the health sector in Turkey

Revenue

£531.6m
(2012 £487 1m)

Percentage of total Group revenue

13%
(2012 11%)

Integrated business model

In this section

Resources

We continue to invest in developing and attracting excellent people to create a vibrant, diverse and flexible workforce, because this is essential to the success of our business Consequently operational excellence is one of our key strengths that is based on strong management teams and skilled and committed people who listen to our customers to understand their needs and 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 for our customers is an increasingly important resource and capability, which helps to differentiate Carillion from our competitors

We have a strong culture and an excellent track record in managing costs and improving efficiency Our annual cost reduction and efficiency programmes make a major contribution to operational excellence, which enables us to win contracts on profitable terms With external expenditure with suppliers of some £3 billion a year, we have focused on developing a best-in class supply-chain management team as this is vital to managing our costs and delivering right first time services for our customers A good example of our innovation in supply chain management is Carillion Direct Sourcing (CDS), a company we have established in China to source products directly from manufacturers This cuts out the 'middle men' and enables us to buy in greater volumes because CDS supplies all our businesses worldwide

Integrated business model
Creating unique offerings

Integrated solutions

Support services

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

Construction

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

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

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Vision, values, strategy and risk management

In this section

To support our strategy for growth we have refreshed our vision and values

Our vision
To be the trusted partner for providing services, delivering infrastructure and creating places that bring lasting benefits to our customers and the communities in which we live and work

Our values
We care
- We respect each other and we do things safely and sustainably It's good for our people our business and our local communities

We achieve together
- We value the contribution of each individual and we work together to build strong open and trusting partnerships

We improve
- We listen, learn and adapt our ideas and experience into better solutions and service for our customers

We deliver
- We set ourselves stretching goals, taking pride in doing a great job and helping our customers and partners to succeed

Strategy
Our strategy is to achieve sustainable profitable growth by

- investing in our people and capabilities
- building long-term, trusted partnerships
- transferring knowledge and skills to new and existing markets so we can expand our services and infrastructure activities
- providing a selective high-quality construction capability

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

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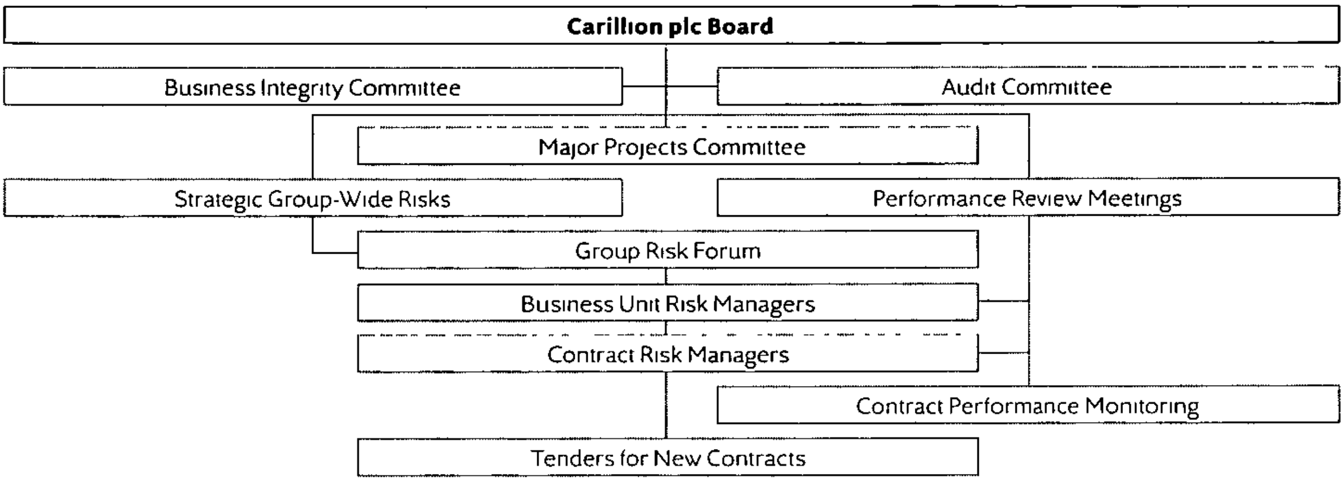
Vision, values, strategy and risk management
continued

Operational risk management
The Group's structure for managing operational risk is illustrated below



Principal risks and uncertainties

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	› 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 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	› 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
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	› The Group's main defined benefit pension schemes have been closed to future accrual › The Group's main pension schemes have entered into a longevity swap which hedges the financial risks of future increases in the longevity of 9,000 pensioners in these schemes (see page 31) › Regularly reviewing our investment policies to ensure that employee and company contributions, together with scheme benefits, remain appropriate
Attracting, developing and retaining excellent people	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	› 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, including cyber 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	› 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
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	› Applying selectivity criteria to ensure we choose partners and suppliers that satisfy our standards for quality, reliability and financial stability

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2013 Key Performance Indicators

In this section

How we performed in relation to the five Key Performance Indicators we set for 2013

To be an employer of choice that attracts, develops and retains excellent people
As the skills, knowledge and commitment of our people are fundamental to Carillion's success, we continued to focus on improving employee engagement throughout 2013 This included more extensive and direct employee communication, led by our Chief Executive, Richard Howson, through his monthly newsletters to all employees and regular telephone conference calls with up to 1,600 managers and supervisors across the Group In 2013, we set up an international action group to address the feedback received through our annual employee survey The Great Debate which has led to a number of changes including the introduction of improved flexible working arrangements that are open to all We have also significantly improved maternity pay arrangements to support our drive for greater diversity at all levels and we will develop this further in 2014

We have continued our very successful Leadership and Futures programmes underpinned by job-family career management, to encourage people to make their careers with Carillion Through a pan Carillion working group we engaged our employees in developing new company Values which are featured on page 17 of this report We have also refreshed The Great Debate survey and our recently announced partnership with Barnardo's, one of the leading children s charities, will offer new opportunities for our people to volunteer and engage with the communities in which we work, which our people tell us makes Carillion an attractive employer

To be a recognised leader in Health & Safety and sustainability
Our objective of reducing accidents to zero remains at the core of our Health & Safety agenda and we target zero accidents each and every day If an accident does occur we ensure we learn from it and target zero the next day 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 and in 2013 over 1 5 million Don t Walk By reports were raised by employees and subcontractors worldwide

In 2013 we changed our Key Performance Indicator from the Accident Frequency Rate based on the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, to the Lost Time Incident Frequency Rate (LTIFR), which is the internationally accepted measure of performance - a change that we said we intended to make in our 2012 Annual Report In 2013, our LTIFR per 200,000 hours worked was 0 29, which represented a 44 per cent improvement on our performance in 2012 when our LTIFR was 0 52

We deeply regret that one fatal accident occurred on a Carillion work site in 2013, when an employee was fatally injured as a result of a vehicle from a public road losing control and entering the site while he was carrying out highway maintenance work in Alberta, Canada This personal tragedy has been deeply felt by all his colleagues in Carillion

During 2013 two prosecutions of Carillion companies were completed by the Office of Rail Regulation and the Health & Safety Executive The first concerned a fatal accident in 2003 when an employee was crushed in moving parts of a railway machine The second concerned an accident to a motorcyclist in 2010 when he collided with barriers erected to manage traffic during highway maintenance work

Carillion continues to be a recognised leader in sustainability in our sector A key measure of this is our ranking in Business in the Community s Corporate Responsibility Index In 2013, we achieved the 'Platinum Big Tick' ranking, a new ranking that sits above 'Platinum', the ranking we received each year from 2008 to 2012 In 2013, we also became one of the top 10 UK companies in tackling climate change, through our Carbon Disclosure Project[(1)] (CDP) score of '92A', which placed us in both the CDP Disclosure and Performance Leadership Indices

Our Annual Sustainability Report won the FTSE 250 Sustainability Reporting category in this year s PwC Building Public Trust Awards' Through our proactive approach we estimate that we delivered some £20 million of additional profit to the Group in 2013 through environmental and social sustainability savings in line with our 2020 sustainability strategy We report in more detail on our sustainability performance in the sustainability section of this report on page 34 and in our Annual Sustainability Report which will be published in April 2014

To improve customer satisfaction
In 2013, we formally adopted Net Promoter Score (NPS), an international standard that allows us to measure customer satisfaction and benchmark ourselves against other organisations and the wider business world Customers are asked in surveys and interviews to indicate how likely they are to recommend Carillion's services to others NPS's range from -100 to +100 and our score in 2013 was +33, which was ahead of our target of +30 We believe our score compares favourably with those of others in our market sectors We also use the NPS model to gather feedback and information to help us improve the services we provide for our customers

To reduce costs and improve efficiency to support margins
Carillion has ongoing cost reduction and efficiency programmes across all our business units and central functions Rigorous cost management and a relentless focus on efficiency have continued to support our ability to provide customers with offerings that are attractive in terms of price, as well as quality This was evident in our ability to continue winning contracts in 2013 in line with our selective approach despite challenging market conditions, while maintaining our underlying operating margin at a healthy 5 6 per cent

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
Strong cash management remains a priority and this has been particularly important during the rescaling of our UK construction activities Contrary to our expectations at the beginning of 2013, we had to continue rescaling our UK construction activities throughout the year in order to ensure these activities remain aligned in size to the UK market However, we believe that by the end of 2013 rescaling was complete and that the revenue run rate in UK construction had stabilised This has resulted in a significant improvement in our second-half working capital performance, with full year cash flow from operations representing 75 per cent of full year underlying profit from operations (2012 43 per cent) and second-half cash flow from operations representing 128 per cent of second-half underlying profit from operations (2012 44 per cent)

(1) CDP is an international not for profit organisation providing the only global system for companies and cities to measure disclose manage and share vital environmental information

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Outlook

In this section

Order book plus probable orders

£18.0bn at 31 December 2013 (2012 £18 1bn)

1 Construction services (excluding the Middle East) 2013 £2 3bn / 2012 £2 0bn

2 Middle East construction services 2013 £0 9bn / 2012 £0 8bn

3 Support services 2013 £13 6bn / 2012 £13 1bn

4 Public Private Partnership projects 2013 £1 2bn / 2012 £2 2bn

Pipeline of contract opportunities

£37.5bn at 31 December 2013 (2012 £35 2bn)

1 Construction services (excluding the Middle East) 2013 £11 0bn / 2012 £10 7bn

2 Middle East construction services 2013 £13 1bn / 2012 £11 4bn

3 Support services 2013 £10 4bn / 2012 £11 5bn

4 Public Private Partnership projects 2013 £3 0bn / 2012 £1 6bn

Outlook

Despite difficult market conditions, we continued to win substantial new orders and probable orders in 2013 worth some £4 9 billion, which is well in excess of the Group's revenue in 2013 At 31 December 2013, the Group had orders and probable orders worth £18 0 billion (31 December 2012 £18 1 billion) of which £16 4 billion related to signed contracts and £1 6 billion to probable orders, which are contracts that we have a greater than 90 per cent probability of signing, where, for example, we have been selected as the preferred bidder

This represented a very healthy work winning performance, given that in 2013 we removed from our order book £1 7 billion of orders due to the sale of equity investments in Public Private Partnership projects and reduced expectations from Green Deal and Energy Company Obligation contracts, and added £0 8 billion of orders acquired with John Laing Infrastructure Services We therefore continue to have good revenue visibility, which is currently around 81 per cent of anticipated revenue in 2014 (2012 75 per cent for 2013)

We were also selected for a number of large framework agreements in the UK during 2013, for both support services and construction Although we expect these frameworks to generate significant revenue for the Group, we have not included them within our order book or probable orders because they have no guaranteed revenue value until contracts are awarded under the framework agreements

The value of our pipeline of contract opportunities at the year end increased to £37 5 billion (2012 £35 2 billion) which includes specific contracts that have passed our initial selectivity criteria, and have either come to market or are expected to come to market

Therefore, despite the fact that we expect our markets to remain challenging in 2014 I believe we are now well positioned to resume top line revenue growth by the end of 2014 More specifically, we expect to resume full-year revenue growth in

- support services and
- construction services (excluding the Middle East)

We also expect to

- continue growing annual revenue in Canada and in the Middle East and
- continue winning Public Private Partnership projects in which we can make equity investments that generate good financial returns targeting an internal rate of return of 15 per cent

Across all our markets we will remain very selective in choosing the contracts for which we bid in order to maintain margin discipline and we will once again target cash-backed profit now that we have completed the rescaling of our UK construction activities

Key Performance Indicators for 2014

To support our strategy and the delivery of our medium term targets for growth, we have set the following Key Performance Indicators for 2014

- To develop and attract excellent people to create a vibrant diverse and flexible workforce
- 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

Approved by order of the Board

Richard Howson

Group Chief Executive
5 March 2014

Performance

In this section

Performance and financial review

Following the successful rescaling of our UK construction activities, net borrowing has reduced significantly from the half-year position.

Richard Adam,
Group Finance Director

Financial reporting segments and analysis

Operating profit by financial reporting segment

	2013 £m	2012[1] £m	Change from 2012 %
Support services	**118 0**	120 9	-2
Public Private Partnership projects	**58 4**	33 8	+73
Middle East construction services	**19 2**	29 0	34
Construction services (excluding the Middle East)	**44 4**	72 4	-39
	240 0	256 1	-6
Group eliminations and unallocated items	**(11 2)**	(10 5)	7
Profit from operations before Joint Ventures net financial expense and taxation	**228 8**	245 6	-7
Share of Joint Ventures net financial expense	**(10 1)**	(16 0)	+37
Share of Joint Ventures taxation	**(4 4)**	(1 7)	159
Underlying profit from operations[2]	**214 3**	227 9	6
Intangible amortisation	**(19 2)**	(31 4)	+39
Non recurring operating items	**(44 2)**	(2 6)	-1,600
Reported profit from operations	**150 9**	193 9	-22

(1) Restated on adoption of the amendment to IAS 19 (see note 34 on page 112)

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, together with business support services that add value for our customers and the communities in which we operate The group has operations in the UK, Canada and the Middle East and North Africa as described on pages 11 and 12

Total revenue reduced in 2013 to £4 1 billion (2012 £4 4 billion), including revenue from Joint Ventures of £748 3 million (2012 £736 6 million), primarily because of the rescaling of our UK construction activities, which began in 2010 We believe that we have now completed this rescaling and that the revenue run-rate in UK construction had stabilised by the end of 2013 Total underlying profit from operations[1] reduced by six per cent to £214 3 million (2012 £227 9 million[2]) This included profit from Joint Ventures of £26 5 million (2012 £34 3 million), with the total underlying operating margin[3] maintained at 5 6 per cent (2012 5 6 per cent[2])

After a substantial increase in the net financial expense to £39 6 million (2012 £27 9 million[2]), underlying profit before taxation[4] was 13 per cent lower at £174 7 million (2012 £200 0 million[2])

Intangible amortisation was £19 2 million (2012 £31 4 million) and non-recurring operating items and non-operating items together amounted to a charge of £44 9 million (2012 £3 8 million) leaving profit before taxation 33 per cent lower at £110 6 million (2012 £164 8 million[2])

The underlying Group taxation charge[5] of £19 4 million (2012 £20 1 million[2]) when combined with a taxation charge on Joint Ventures of £4 4 million (2012 £1 7 million) represented an underlying effective tax rate of 13 per cent (2012 11 per cent[2]) Profit after tax reduced by 31 per cent to £106 3 million (2012 £154 9 million[2]) After non-controlling interests of £6 1 million (2012 £6 1 million), profit attributable to Carillion shareholders was £100 2 million (2012 £148 8 million[2]) and basic earnings per share reduced by 33 per cent to 23 3 pence (2012 34 6 pence[2])

Underlying cash flow from operations[6] was £160 9 million and represented 75 per cent of underlying profit from operations[1] (2012 43 per cent[2]) This reflected a substantial improvement in working capital in the second half, in which cash flow from operations represented 128 per cent of underlying profit from operations, with net borrowing reducing from the half year position of £270 8 million due to the rescaling of UK construction being completed by the year end At 31 December 2013, net borrowing was £215 2 million (2012 £155 8 million)

(1) After Joint Ventures net financial expense of £10 1 million (2012 £16 0 million) and taxation charge of £4 4 million (2012 £1 7 million) and before intangible amortisation non recurring operating items and non operating items (see note 4 on page 87)
(2) Restated on adoption of the amendment to IAS 19 (see note 34 on page 112)
(3) Before Joint Ventures net financial expense and taxation intangible amortisation and non recurring operating items (see note 4 on page 87)
(4) After Joint Ventures taxation charge of £4 4 million (2012 £1 7 million) and before intangible amortisation non recurring operating items and non operating items (see note 4 on page 87)
(5) Before intangible amortisation non recurring operating items and non operating items (see note 4 on page 87)
(6) Before pension deficit recovery payments and non recurring operating items and after dividends received from Joint Ventures and proceeds on the disposal of Public Private Partnership equity investments

Carillion is providing 26 new schools for Wolverhampton City Council using a combination of public and private finance that will transform education for secondary-age students in the City

Carillion continues to be the largest supplier of outsourced highways maintenance services in Canada where we deliver services for some 42,000 single-lane kilometres of highway

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Performance and financial review
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Support services

	2013 £m	2012[1] £m	Change from 2012 %
Revenue			
- Group	**2,029 4**	2,131 4	
- Share of Joint Ventures	**271 5**	228 3	
	2,300 9	2 359 7	-2
Underlying operating profit[2]			
- Group	**92 8**	100 0	
- Share of Joint Ventures	**25 2**	20 9	
	118 0	120 9	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

Although revenue in support services was two per cent lower than in 2012, we continued to win new contracts that have enabled us to make good progress towards replacing the £400 million of annual revenue lost as a result of a number of energy services contracts ending as expected due to changes in Government policy and legislation, and because two contracts were taken in house for strategic reasons specific to the customers in question at the end of 2012 After adjusting for these specific issues, we have achieved underlying growth despite disappointing activity levels in the Green Deal and Energy Company Obligation markets that have not grown as expected and envisaged by the UK Government, which created these new markets

However, we have had some success with EcoPod sales Over the period from 2011 to 2013 Carillion acquired the exclusive worldwide rights to sell and licence EcoPod, a heating system which combines a range of technologies, including highly efficient cascade boilers with biomass, ground source and gas absorption heat pumps and thermal solar panels to deliver major energy savings EcoPod generated revenue, including licence fees, of some £36 million in 2013 and has delivered an overall return on our investment of over two times which compares favourably with the returns we expect from other investment decisions[3]

The operating margin was maintained at 5 1 per cent with operating profit reduced, broadly in line with the reduction in revenue

In 2013, we won new support services contracts and contract extensions worth some £1 9 billion, with notable successes in markets where we are seeking to develop and increase our presence, in line with our strategy of diversifying our support services business in each of our three geographies into sectors such as oil, power distribution and highways maintenance In the UK notable contract wins included an extension to our contract with BT Openreach for Broadband Delivery UK worth some £500 million over three and a half years, a five-year contract to provide facilities management services for Shell worth up to £150 million, contracts for Network Rail worth over £120 million a 10-year contract for the Sussex Energy Saving Programme worth up to £100 million, a strategic property services partnership for Stockport Metropolitan Borough, initially worth over £100 million and a contract worth some £100 million as a result of winning the concession contract to deliver the Royal Liverpool Hospital Public Private Partnership project

In Canada, where we have continued to grow our support services business in 2013, we secured a number of significant contract wins, including support services contracts in the oil and gas sector worth some £125 million and a 12-year highway maintenance contract worth over £100 million In the Middle East, where we also achieved significant growth in support services in 2013, we won a contract for Shell in Qatar worth some £17 million over three years, a highways maintenance contract in Qatar worth some £36 million over three years and a number of smaller facilities management contracts, reflecting the growth we are seeing in the support services market across the Middle East region

Consequently, the value of our support services order book and probable orders at 31 December 2013 increased to £13 6 billion (2012 £13 1 billion), despite removing some £600 million from the order book in 2013, because of reduced expectations from Green Deal and Energy Company Obligation contracts We therefore have good revenue visibility of 78 per cent[4] of expected revenue for 2014 (2012 71 per cent for 2013) Although our pipeline of contract opportunities had decreased at the year end to £10 4 billion (2012 £11 5 billion), this was due to removing opportunities relating to the Green Deal and Energy Company Obligations in line with the current outlook in these markets However, the rest of our pipeline remains strong and we expect to resume annual revenue growth in this segment in 2014, with increased contributions from the UK Canada and the Middle East

(1) Restated on adoption of the amendment to IAS 19 (see note 34 on page 112)
(2) Before intangible amortisation and non recurring operating items
(3) Refer to note 2 on page 83 for further revenue and segmental information
(4) Based on expected revenue and secure and probable orders which exclude variable work and re bids

A Carillion telent Joint Venture delivers a wide range of infrastructure services for BT Openreach and in 2013 BT awarded the Joint Venture a £500 million contract extension for Broadband Delivery UK

Public Private Partnership projects

	2013 £m	2012 £m	Change from 2012 %
Revenue			
- Group	**2 3**	1 3	
- Share of Joint Ventures	**234 6**	286 4	
	236 9	2877	-18
Underlying operating profit[1]			
- Group	**46 0**	17 3	
- Share of Joint Ventures	**12 4**	16 5	
	58 4	33 8	+73

In this segment we report the financial returns generated by the investments we make 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

Carillion has led the market in recycling equity investments in PPP projects, namely selling investments in mature projects (those that have passed from construction into the operational phase) and reinvesting the proceeds in new projects In 2013, we sold equity investments in seven projects for cash proceeds of £151 2 million, which represented an average discount rate of some seven per cent and generated a pre tax profit of £44 6 million

In 2013 our investments in PPP projects continued to perform well and in line with our objective of achieving a 15 per cent internal rate of return Revenue in 2013 reduced due to the effects of selling seven equity investments in 2012, as previously reported, together with the effects of selling further investments in 2013 Operating profit increased, because profit from the sale of equity investments more than offset the equity returns no longer received from the investments sold

At 31 December 2013, we had 19 PPP projects in which we had invested £53 million of equity and into which we are committed to make further planned investments of £95 million The Directors' valuation of these investments at 31 December 2013, using a nine per cent discount rate, was £68 million (2012 £173 million), which reduced due to the effect of selling investments during the year[2]

At 31 December 2013, the value of our order book plus probable orders was some £1 2 billion (2012 £2 2 billion), with the reduction on 2012 again due to the sale of equity investments in 2013 However the outlook for replenishing our portfolio of investments is positive In December 2013, we achieved financial close on the Royal Liverpool Hospital project, in which we will invest £15 million of equity

Beyond this we have a good pipeline of opportunities, which by the year end had increased substantially and contained projects that could generate some £3 0 billion (2012 £1 6 billion) of revenue in this segment In Canada, we are shortlisted for three projects - North Island Hospital in Vancouver, British Columbia, Erinoak Kids Centre for Treatment and Development in Ontario and Swift Current Long Term Care Facility in Saskatchewan - in which we could invest up to £12 million of equity In the UK we are shortlisted for the Aberdeen Western Peripheral Route in which we could invest up to £30 million of equity and in the Republic of Ireland we are shortlisted for a schools project in which we could invest £5 million of equity We also continue to look for opportunities to deploy our expertise in project finance in new markets During the year we entered into a memorandum of understanding as a precursor to becoming the preferred bidder for a hospital project in Turkey in which we could invest up to £35 million of equity Beyond this we expect further opportunities in Canada and in the UK to come to market in 2014, notably in the healthcare sector

(1) Before intangible amortisation and non recurring operating items
(2) Refer to note 2 on page 83 for further revenue and segmental information

The new Southmead Hospital in Bristol is a Public Private Partnership project being delivered by Carillion at a capital cost of over £400 million

Performance and financial review
continued

Middle East construction services

	2013 £m	2012 £m	Change from 2012 %
Revenue			
- Group	**250 3**	261 4	
- Share of Joint Ventures	**233 2**	212 2	
	483 5	473 6	+2
Underlying operating profit[1]			
- Group	**15 4**	13 8	
- Share of Joint Ventures	**3 8**	15 2	
	19 2	29 0	-34

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

Full-year revenue increased as the pace of contract awards improved during the year, although there continued to be some slippage in respect of a number of contracts that we have been targeting that we now expect to be awarded in 2014 Given that our strategy is to focus on large, high quality projects, for customers for whom quality and reliability are paramount fluctuations in Middle East construction revenue between accounting periods is not unusual and we expect to benefit in 2014 from projects that we originally expected to be awarded in 2013 Operating profit reduced in 2013 due to our operating margin reducing to 4 0 per cent (2012 6 1 per cent) which continues to reflect the fact that our markets across the region remain competitive[2]

During 2013, we won a number of substantial new contracts For example in Oman, Carillion Alawi won a £130 million contract to build the Oman Convention and Exhibition Centre and a £92 million contract to build the Kempinski Wave Hotel In Abu Dhabi, our Joint Venture business Al Futtaim Carillion (AFC) won a £130 million contract to build the Four Seasons Hotel and became preferred bidder for a £110 million contract for the Hard Rock Hotel, for which we have signed a contract since the year end In Dubai, AFC became the preferred bidder for a £155 million contract to build the 'City Walk' retail development As a result, the value of our order book and probable orders for Middle East construction services increased to £0 9 billion at the year end (2012 £0 8 billion) Revenue visibility for 2014 is 85 per cent[3] (2012 94 per cent for 2013) Our pipeline of contract opportunities also increased at the year end to £13 1 billion (2012 £11 4 billion) with notable opportunities in Oman Qatar and Saudi Arabia, and we expect to deliver further revenue growth in this segment in 2014 Over the medium term, we expect new opportunities in the United Arab Emirates where, for example, Dubai's success in being chosen to host Expo 2020 will lead to additional investment in buildings and infrastructure Also, over the medium term we expect margins in this segment to increase and to reach our target of six per cent

(1) Before intangible amortisation and non recurring operating items
(2) Refer to note 2 on page 83 for further revenue and segmental information
(3) Based on expected revenue and secure and probable orders which exclude variable work and re bids

A Carillion Joint Venture is building a £395 million phase of the Msheireb Downtown Doha project in Qatar for Msheireb Properties, a subsidiary of Qatar Foundation for Education Science and Community Development

Part of the multi-billion pound mixed-use Cairo Festival City development that is being built by Al Futtaim Carillion

Construction services (excluding the Middle East)

	2013 £m	2012 £m	Change from 2012 %
Revenue			
- Group	**1,050 6**	1,272 1	
- Share of Joint Ventures	**9 0**	9 7	
	1,059 6	1,281 8	-17
Underlying operating profit[1]			
- Group	**44 8**	73 0	
- Share of Joint Ventures	**(0 4)**	(0 6)	
	44 4	72 4	39

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 continues to reflect the rescaling of our UK construction activities that we announced in 2010 Through this process we have ensured that these activities remain aligned in size to the sectors of the UK market on which we have chosen to focus, namely on large, higher added-value contracts that can be delivered only by contractors with the necessary scale and sector-leading capabilities and on contracts for customers with whom we have, or can build strong long-term relationships especially customers for whom we provide integrated solutions This focus has created a high quality UK construction business and improved the overall quality and risk profile of our business

Contrary to our expectations at the beginning of 2013, the need to rescale our UK construction activities continued throughout the year, with total UK construction revenue reducing to around £0 8 billion in 2013 (2012 £0 9 billion) However we now believe rescaling is complete and that our revenue run-rate in UK construction had stabilised by the year end and now has the potential for modest growth in the second half of 2014 Our construction activities in Canada contributed some £0 3 billion of revenue in 2013 which was slightly lower than in 2012, as we continue to maintain a very selective approach to the contracts for which we bid, with a particular focus on bidding for Public Private Partnership projects for which we expect contract awards to be made in 2014

The reduction in operating profit reflected lower revenue and a reduction in operating margin to 4 2 per cent (2012 5 6 per cent), which was in line with our expectations The margin was lower because some of the factors that have contributed to higher margins, namely lower bid costs the action we took to reduce overheads and favourable outturns on contracts being completed, are temporary and their effects are declining Nevertheless we believe that our strategy of being very selective in terms of the contracts for which we bid will have a permanent benefit to margins and we continue to expect our normalised, long term margin to remain above the industry average[2]

We won a number of significant new contracts and frameworks in 2013 These included a £400 million contract for the first phase of the redevelopment of Battersea Power Station, the Public Private Partnership project for the new Royal Liverpool Hospital, which has a construction value of some £335 million and highways contracts worth over £100 million In addition we secured a number of major framework agreements the values of which have not been included in our order book These included being selected by Manchester Airports Group (MAG) as a strategic partner to deliver Airport City in Manchester, which is potentially worth up to £580 million to Carillion, additionally as one of four contractors to deliver MAG's £800 million Capital Delivery Framework, as Sunderland City Council s strategic partner to deliver its £800 million regeneration programme and as one of five contractors to deliver the £400 million National Capital Works Framework for the UK Ministry of Defence

As a result of these contract wins, the value of orders and probable orders at 31 December 2013 increased to £2 3 billion (2012 £2 0 billion), and revenue visibility for 2014 is currently 80 per cent[3] (2012 72 per cent for 2013) Our pipeline of contract opportunities at the year end was worth £11 0 billion (2012 £10 7 billion), which is also healthy given the current size of our businesses in this segment We therefore expect to grow revenue in this segment in 2014 with increased contributions from the UK and from Canada

(1) Before intangible amortisation and non recurring operating items
(2) Refer to note 2 on page 83 for further revenue and segmental information
(3) Based on expected revenue and secure and probable orders which exclude variable work and re bids

Carillion has been selected by Manchester Airports Group as a partner to deliver its £800 million Airport City development at Manchester Airport

Performance and financial review
continued

Group income statement, cash flow and balance sheet items

Intangible amortisation

Intangible amortisation of £19 2 million (2012 £31 4 million) related to the amortisation of intangible assets, largely arising from the acquisitions of Eaga plc (since rebranded as Carillion Energy Services) in 2011, Alfred McAlpine plc in 2008 and Mowlem plc in 2006

Non-recurring operating items

The non-recurring operating charge of £44 2 million (2012 £2 6 million) primarily comprised £42 9 million relating to the previously announced restructuring of our energy services business and a £1 1 million payment into the Carillion Energy Services Employee Share Scheme in lieu of a Carillion dividend of £1 1 million that was waived by the Eaga Partnership Trusts which hold 3 92 per cent of the issued share capital, which they acquired as a result of the acquisition of Carillion Energy Services in 2011 In addition, we have amended two provisions relating to obligations entered into prior to the acquisition of Carillion Energy Services in 2011 [1]

Non-operating items

The non operating charge of £0 7 million related to the acquisition costs of John Laing Integrated Services which was acquired by Carillion in October 2013 Non-operating costs in 2012 of £1 2 million consisted of £0 9 million relating to the Bouchier Group acquisition and non-core business closure costs of £0 3 million

Net financial expense

The Group's net financial expense of £39 6 million (2012 £27 9 million[2]) comprised the following items a net expense of £26 9 million (2012 £21 5 million) in respect of borrowings and other liabilities, with the increase compared to 2012 due largely to higher borrowings a net interest charge in respect of defined benefit pension schemes of £15 1 million (2012 £13 8 million[2]), and interest received in respect of loans to PPP Joint Venture projects of £2 4 million (2012 £7 4 million)

Taxation

The overall Group taxation charge for the year amounted to £4 3 million (2012 £9 9 million[2]) and comprised a Group underlying taxation charge of £19 4 million (2012 £20 1 million[2]) being largely offset by a Group taxation credit of £5 9 million (2012 £9 3 million) in relation to the amortisation of intangible assets arising from business combinations and a Group taxation credit of £9 2 million (2012 £0 9 million) in relation to non-recurring operating items and non-operating items

The underlying Group taxation charge[3] of £19 4 million (2012 £20 1 million[2]), when combined with a taxation charge on Joint Ventures of £4 4 million (2012 £1 7 million) represented an underlying effective tax rate[2] of 13 per cent (2012 11 per cent[2]) This is below the UK standard rate of corporation tax of 23 per cent for 2013, because our profits in the Middle East and from the disposal of PPP equity are subject to zero or low rates of tax and the utilisation of tax losses in the UK that were largely inherited with the acquisitions of Mowlem plc Alfred McAlpine plc and Eaga plc At 31 December 2013 the Group had £275 million of corporate tax losses (2012 £250 million) that are available to reduce future tax payments

Earnings per share

Underlying earnings per share[3] reduced by 14 per cent to 34 7 pence, compared with the restated figure for 2012 of 40 4 pence[2] The weighted average number of shares in issue in 2013 was 430 1 million (2012 430 1 million)

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[3], subject to the investment needs of the business The Board has recommended a final dividend of 12 0 pence per share for 2013, making the proposed full year dividend 17 5 pence per share (2012 17 25 pence per share), an increase of one per cent on the total paid in respect of 2012 The Board's decision to recommend an increase in the dividend despite underlying earnings per share[3] being lower in 2013, reflects its confidence in the Group's resilience and ability to achieve to med m term gro th targets D dend co er based on the proposed

Cash flow

Summary of the Group's cash flow

	2013 £m	2012[2] £m
Underlying Group operating profit	**187 8**	193 6
Depreciation and other non cash items	**21 3**	26 9
Working capital	**(66 4)**	(136 2)
Dividends received from Joint Ventures	**18 2**	13 6
Underlying cash inflow from operations	**160 9**	97 9
Deficit pension contributions	**(39 2)**	(30 2)
Integration and rationalisation costs	**(22 0)**	(28 6)
Interest tax and dividends	**(90 9)**	(87 2)
Net capital expenditure	**(27 2)**	(15 6)
Acquisitions and disposals	**(28 6)**	(32 6)
Other	**(12 4)**	(8 8)
Change in net borrowing	**(59 4)**	(105 1)
Net borrowing at 1 January	**(155 8)**	(50 7)
Net borrowing at 31 December	**(215 2)**	(155 8)

Strong cash management remains a priority and this has been particularly important during the rescaling of our UK construction activities which inevitably resulted in an outflow of working capital The working capital outflow of £66 4 million in 2013 included the outflow relating to the final phase of rescaling UK construction, together with a number of other smaller expected outflows, offset by some £100 2 million from the sale of equity investments in Public Private Partnership projects As we expected, there was a significant improvement in our working capital performance in the second half of 2013 as the process of rescaling slowed towards completion around the year end Consequently, cash conversion in 2013 improved, with full-year cash flow from operations representing 75 per cent of full year underlying profit from operations (2012 43 per cent[2]) and second-half cash flow from operations representing 128 per cent of second half underlying profit (2012 44 per cent[2])

Deficit recovery payments to the Group's pension funds of £39 2 million remain in line with the agreement reached in 2010 with the Trustees of the Group's main defined benefit schemes The £22 0 million of rationalisation costs primarily relate to the previously announced restructuring of Carillion Energy Services Interest, tax and dividend payments of £90 9 million included the increases in interest and dividends payable Net capital expenditure of £27 2 million mainly related to investment in the Group's IT systems and in highways maintenance vehicles and equipment in Canada The £28 6 million payment in respect of acquisitions and disposals primarily comprised equity investments in Joint Ventures of £6 1 million, the net cost of acquiring John Laing Integrated Services in October 2013 of £14 1 million and a £6 9 million payment in respect of the second instalment for the acquisition of a 49 per cent interest in the Bouchier Group which completed in December 2012, in line with the previously announced agreement to pay the consideration of £20 9 million in instalments over the period from December 2012 to January 2014

The above items together with other changes of £12 4 million, resulted in an increase in net borrowing of £59 4 million, leaving the Group with net borrowing of £215 2 million at 31 December 2013 (2012 £155 8 million)

(1) Refer to note 4 for further information
(2) Restated on adoption of the amendment to IAS 19 (see note 34 on page 112)
(3) The underlying results stated above are based on the definitions included in the key financial figures on page 1

Balance sheet
Summary of the Group's balance sheet

	2013 £m	2012[1] £m
Property, plant and equipment	**128 2**	125 8
Intangible assets	**1,552 8**	1,536 6
Investments	**159 3**	237 9
	1,840 3	1,900 3
Inventories, receivables and payables	**(327 6)**	(456 7)
Net retirement benefit liability (net of tax)	**(295 1)**	(269 9)
Other	**(18 8)**	(7 2)
Net operating assets	**1,198 8**	1,166 5
Net borrowing	**(215 2)**	(155 8)
Net assets	**983 6**	1,010 7
Average net borrowing	**(490 6)**	(344 1)

There are four notable movements in the table above First the movement in investments reflects the sale of equity investments in Public Private Partnerships during 2013 Second, the movement in inventories, receivables and payables reflects the change in working capital described in the commentary on the summary cash flow statement on page 30 Third, the increase in the Group's net retirement benefit liability, which was primarily due to the positive impacts from improved investment return and the change in the discount rate being more than offset by the increase in liabilities arising from an increase in the assumption on inflation Fourth, the increase in average net borrowing, which is largely due to the working capital movement described above

Retirement benefits
Detailed information on the Group's pension arrangements can be found in note 31 on pages 108 to 111 of the consolidated financial statements The Group operates pension arrangements for the benefit of eligible employees The Group has a number of defined benefit schemes and other post-retirement benefit arrangements which have a total pension obligation amounting to £2,506 3 million (the liabilities') Total pension assets relating to these liabilities are £2,136 2 million, giving a deficit of £370 1 million before deferred tax and £295 1 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 Group's 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 benefit pensions 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, the majority of the Group's principal schemes are closed to new entrants and members no longer accrue benefits for future service

We have also taken a further significant step towards reducing the risks and potential liabilities in respect of the Group's main defined benefit pension schemes In December 2013 the Group's main pension schemes entered into a longevity swap which hedges the financial risks of future increases in longevity The swap covers 9,000 pensioners with a combined longevity liability of around £1 billion, or some 40 per cent of the total liabilities in respect of these defined benefit schemes As noted above the total deficit included in the Group's balance sheet at 31 December 2013 in relation to defined benefit schemes amounted to £295 1 million after deferred tax (2012 £269 9 million)

The increase in the net deficit since the end of 2012 is primarily due to the impact of an increase in market implied RPI inflation amounting to approximately £180 million partially offset by an increase in the market value of scheme assets of £124 million and the impact of an increase in the discount rate of approximately £22 million reflecting market bond yield movements

During 2013, discussions with the Trustees continued 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 2014

Following the acquisition of John Laing Integrated Services, the Group assumed responsibility for a defined benefit pension scheme with an actuarial deficit of £0 3 million

The Group has committed funding arrangements across all its defined benefit schemes which currently amount to £39 2 million per annum, together with other payments that arise 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 revised 'Employee benefits' deficit position are summarised below

	2013 %	2012 %
Discount rate	**4 60**	4 55
Inflation		
RPI	**3 40**	2 90
CPI	**2 35**	2 05
Salary increase	**3 90**	3 40
Average allocation of assets		
Equities/property	**52**	48
Gilts	**18**	18
Corporate bonds	**28**	32
Cash	**2**	2

The discount rate of 4 60 per cent is based on AA bond yields appropriate to the liability duration

The RPI inflation rate of 3 40 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 pre tax deficit by around £44 million, whilst a 0 1 per cent increase in the inflation rate would increase the overall pre-tax deficit by around £36 million

The Group's ongoing total pensions charge against profit in 2013, amounted to £34 4 million (2012 £30 4 million[2])

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012
(2) Restated on adoption of the amendments to IAS 19 (see note 34 on page 112)

Performance and financial review
continued

Acquisition of John Laing Integrated Services
The Group acquired John Laing Integrated Services (JLIS) on 18 October 2013 for a gross consideration of £17 5 million, which after adding acquisition costs of £0 7 million and subtracting £4 1 million of cash on the JLIS balance sheet at acquisition, resulted in a net cost of acquisition of £14 1 million JLIS provides support services across the local government, education, police, health, library and rail sectors and has enhanced our capabilities in existing and new market sectors and created opportunities for growth

Share price
Carillion's share price was 330 5 pence at the close of business on 31 December 2013, an increase of 4 3 per cent on the closing price on 31 December 2012 of 317 0 pence Carillion delivered total shareholder return in 2013 of 11 2 per cent, compared with the return for the FTSE 350 of 20 5 per cent

Committed bank facilities and private placements
The Group has committed bank facilities and private placement funds of over £1 1 billion This includes a £770 0 million syndicated facility, which was renewed in December 2013 The new facility, which was oversubscribed, has been extended from March 2016 to March 2018 and as part of the renewal process the National Bank of Abu Dhabi became one of our syndicate banks, which we believe reflects the Group's strength and prospects for growth in the Middle East We also have a £50 0 million facility maturing in April 2017 and a £15 0 million facility that matures in March 2016, together with borrowing of £303 7 million under private placements expiring between 2017 and 2024

Funding and liquidity
In addition to Carillion plc's principal borrowing facilities and private placement funding 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 Board and is designed to satisfy the requirements of the Group's business plan At 31 December 2013, the Group had undrawn committed facilities amounting to £550 5 million (2012 £288 6 million) This excludes the Group's share of cash balances amounting to £52 5 million (2012 £49 4 million) within jointly controlled operations which are outside of the Group's facilities

Operational and financial risk management
Carillion has rigorous policies and processes in place to identify mitigate and manage strategic risks and those specific to individual businesses and contracts, including economic, social environmental and ethical risks The Group's risk management policies and processes, together with the principal operational and financial risks to our UK and overseas operations and the measures being taken to mitigate and manage them, are described in detail on pages 17 and 19 The Board regularly reviews the risks facing the Group to ensure they are up to date and the appropriate measures are in place to mitigate and manage them In summary, the Group's principal risks are as follows continuing to win work in our existing and new target markets and geographies delivering major contracts successfully, managing our pension schemes effectively, attracting, developing and retaining excellent people, selecting high quality joint venture and supply chain partners and maintaining high standards of performance in respect of security, including cyber security Health and Safety and other statutory requirements

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, country risk, foreign exchange and interest rates

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 managed against Board approved limits, or approved directly 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 0 5 per cent of the Group's total revenue in 2013

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

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 While the potential for political unrest and conflict in the Middle East and North Africa to recur 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 Furthermore our strategy in the Middle East and North Africa of focusing on a small number of financially robust customers has enabled our businesses in the region to maintain healthy operating cash flows and remain financially independent

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, policy is to hedge foreign currency net assets 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

	Average		Year End	
£sterling	**2013**	2012	**2013**	2012
Middle East (US Dollar)	**1 57**	1 59	**1 66**	1 63
Oman (Rial)	**0 60**	0 61	**0 64**	0 63
UAE (Dirham)	**5 77**	5 84	**6 08**	5 97
Canada (Dollar)	**1 62**	1 59	**1 76**	1 62

Interest rates
The Group's £770 0 million five-year syndicated borrowing facility and £65 0 million bilateral borrowing facilities are at floating rates of interest linked to the London Interbank Offered Rate, the Canadian Dealer Offered Rate or the Emirates Interbank Offered Rate The Group's £303 7 million of private placement funding is at various fixed interest rates as disclosed in note 20 on page 98

The Group has entered into cross currency swaps and a fixed and floating swap to fix or hedge interest rate risk In addition to the Group's private placement funding, certain longer-term assets have been financed at fixed interest rates

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 104 and 105

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 23 to 33 entitled Performance and financial review In addition note 27 on pages 102 to 106 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

In assessing the Company's ability to continue as a going concern the Board reviews 18 month forecasts of the Group's borrowing requirements compared to available bank facilities The forecasts are based on the latest available Budgets and Business plans that have been approved by the Board and adjusted where appropriate to reflect known variations The Board applies sensitivity analysis to these forecasts to assess the impact of potential risks and opportunities in order to provide additional comfort on the level of headroom against available bank facilities The Board's review also includes a forecast of the covenants associated with the Group's bank facilities and private placement funding in order to provide comfort that funding covenants will continue to be met

The Directors confirm that, after due consideration they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that there are no material uncertainties in relation to going concern of which they are aware For this reason they continue to adopt the going concern basis in preparing the financial statements

Richard Adam FCA
Group Finance Director
5 March 2014

Sustainability review

Building a successful business

Objectives
Through our sector leadership and the contributions to profitability made by sustainable efficiencies value creation and waste elimination, we will increase shareholder value

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 help us to make a net positive contribution everywhere we work

Leading the way in our sector

Objectives
We will be 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

Our sustainability strategy

Our sustainability vision is to be a leading sustainable business and the leading sustainable support services company By working closely with customers and suppliers, we can deliver sustainable solutions by contributing to the creation of a low carbon economy and supporting vibrant communities

Our 2020 sustainability strategy and programmes are an integral part of our corporate strategy to deliver sustainable, profitable growth by enabling us to win and retain contracts, attract and retain the best people, enhance our reputation and reduce operating costs and risk

Building a successful business

We believe that sustainability and profitability go hand in hand and by adopting a responsible approach and creating wider benefits for society, we can achieve greater commercial success This is the essence of becoming a more sustainable business

Our strong focus on sustainability is a positive factor in winning new work In 2013 we secured orders and probable orders worth £4 9 billion Examples include the £400 million redevelopment of London's Battersea Power Station, the £335 million Public Private Partnership project to deliver the Royal Liverpool University Hospital and support services contracts worth some £100 million for customers in the oil sector

There were important wins too for our businesses outside the UK In Oman, we won a £130 million contract to build a new Convention and Exhibition Centre, in Qatar we won a further support services contract for Shell and in Canada we secured highways maintenance contracts worth some £170 million

At the heart of all our contracts is a commitment to helping the local communities in which we work by creating positive benefits and legacies For example, we used our project to build the Library of Birmingham to enable more than 300 unemployed people to gain jobs, 82 young people to undertake apprenticeships and 600 schoolchildren to participate in activity days

We made good progress on the demanding sustainability targets we set for 2020, particularly in reducing water consumption, increasing the recycling of waste, engaging with suppliers, and supporting local communities These areas are outlined in the rest of this section and a full account of our independently verified progress against all our targets can be found in our 2013 Sustainability Report

In 2013, Carillion completed the stunning £157 million New Library of

We also achieved some notable successes in a number of leading performance indices

- We achieved our highest ever score in the Carbon Disclosure Project's (CDP) annual FTSE 350 Climate Change Report, which makes Carillion one of the top 10 companies in the UK on climate change
- We achieved a Platinum Big Tick' rating - the highest possible level - in the Business in the Community (BITC) Corporate Responsibility Index Award, and met our target to maintain our previous year's score of 97 per cent
- We continue to be included in the FTSE4Good

There were other notable highlights in 2013

- Our 2012 Annual Sustainability Report won the FTSE 250 Sustainability Reporting category at the PwC Building Public Trust Awards
- In the Middle East and North Africa, Carillion won the Arabia CSR Award, the Construction Week Sustainability Award and the Construction Week CSR Award
- Our recruitment arm, SkyBlue, won a RoSPA Gold Award 2013 for 'Health and Safety'
- We offered 140 work placements to homeless people through our Business Action on Homelessness programme and have helped more than 300 people into work to date

Our 2020 sustainability strategy is driven by the Carillion plc Board, supported by a Sustainability Advisory Committee The Committee is chaired by our Chief Executive, Richard Howson and comprises our Group Finance Director, a number of senior managers and 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 is the Group Sustainability Forum, which comprises our senior business leaders and is chaired by our Chief Sustainability Officer (CSO), David Picton, who was formerly Carillion's Supply Chain Development Director until his appointment as CSO in 2013 The Forum's remit includes the dissemination of our sustainability strategy and policies to each business unit All our businesses have sustainability objectives, which form an integral part of their annual business plans

Enabling low-carbon economies
By partnering with others, we are well placed to work on the global challenge of climate change to harness the opportunities presented by low carbon markets and to help communities and customers decarbonise through greater energy efficiency

Reducing fuel poverty in our communities is an important impetus Through our work with the UK Department of Energy and Climate Change, we have helped some 2 3 million households to cut domestic bills in order to reduce fuel poverty risk

Energy efficiency and carbon reduction are also an integral part of the work we are doing to transform the area around Battersea Power Station in London as part of our £400 million contract to deliver the first phase of the area's redevelopment that will incorporate energy-efficient technology including a communal heating system The project will also leave a positive legacy in the community by generating up to 500 new jobs, with the target of employing the majority of people from the local community including the long term unemployed In Canada, we are providing more than 1,000 households in aboriginal communities with much needed energy efficiency upgrades

Other examples of where we have used our expertise to reduce carbon include Southmead Hospital in Bristol, one of our Public Private Partnership projects where we have achieved a BREEAM (Building Research Establishment Environmental Assessment Methodology) rating of 'Excellent', which is one of the highest ever scores for an acute hospital in the UK, and solar powered street lighting in Abu Dhabi, which creates zero emissions

Carbon neutral or low carbon operations are increasingly important for our customers and we can contribute to this by using our sustainable design and delivery expertise In 2013, we joined other industry leaders and the UK Government to develop the Infrastructure Carbon Review framework which aims to cut 24 million tonnes of carbon from infrastructure projects in the UK by 2050

In our own operations, we are working towards becoming a carbon neutral business in 2015 and developing a complete view of the direct and indirect carbon emissions from our global operations From 2014 we will be tracking embodied carbon for certain projects Our commitment to transparency and improvement contributed to our highest-ever Carbon Disclosure Project (CDP) score in 2013 Our ranking in the CDP's FTSE 350 Climate Change Report makes us one of the 10 most progressive companies on climate change in the UK and a leader in our sector

We summarise our global Greenhouse Gas Emissions for 2013 in the Report of the Directors on page 44

Protecting the environment
We want to move beyond reducing our impact on the environment to make a positive contribution to society in the widest sense possible, but this does not mean relaxing our efforts to improve our own environmental performance We have a number of ambitious strategic targets and following an independent review by Forum for the Future some of these will be revised to ensure that they are realistic and drive real positive impacts

Protecting the environment is integral to delivering contracts and services for our customers During 2013, we met our target of diverting 91 per cent of our waste from landfill through a series of action plans for each of our business units and we continue to focus on our longer-term goal of sending zero non-hazardous waste to landfill We also assess and address biodiversity risk for every contract we undertake

Sustainability Review
continued

In the United Arab Emirates we have established the first plasterboard 'take back' scheme diverting over 5,000m³ of plasterboard waste from landfill and in Oman we have increased our timber recycling rate by turning our timber waste into compost that has been used in the landscaping of our projects Recognising that water scarcity is a pressing concern in the region, we have continued to develop our approach to reducing water consumption and have introduced a Water Use Permit on our projects which has helped to save 1 6 million litres of water on one project alone

As a major timber buyer and member of the Global Forest Trade Network, we are committed to sourcing timber responsibly We aim to source all forest products (including those sourced through subcontractors) from well-managed forests certified to Forest Stewardship Council (FSC) Carillion's joinery workshop in Oman is the only operator in the country to have FSC 'chain of custody' certification

We also actively consider how our construction projects may affect local biodiversity Assessing the risks and developing Biodiversity Action Plans is firmly engrained in our project planning Where possible, we also create or enhance habitats to encourage local wildlife to flourish

Supporting sustainable communities
Helping the communities in which we operate to thrive, contributes to the success of our business Reflecting this commitment, our Chief Executive was appointed Chair of Business in the Community's (BITC's) Community Leadership team, which is aiming to develop pioneering approaches that will facilitate investment by businesses in the most vulnerable communities

We continue to be the UK construction industry's largest employer of apprentices with up to 2,000 in training each year in our 14 UK training centres, or some 10 per cent of the apprenticeships in our sector

Through our flagship projects, we are creating significant local employment and commercial opportunities In addition to projects like the Library of Birmingham, we have many others where we are providing similar opportunities We also seek to support businesses, especially Small and Medium sized Enterprises local to our contracts For example, 60 per cent of the suppliers we use for our support services contract for Oxfordshire County Council are based locally

We continue to support the BITC Business Action on Homelessness campaign, and have now helped more than 300 people find work through the Ready for Work scheme

In 2013, we formed a new partnership with leading children s charity Barnardo's and made an initial donation of £20,000 Established nearly 150 years ago, the charity now has over 900 services and projects across the UK and helps 200,000 children and their families each year We will support Barnardo's through sponsorship and fundraising events, volunteering, mentoring and skills training We were also one of the first 50 companies to sign up to the UK Government's Armed Forces Corporate Covenant, a new voluntary pledge of support from businesses to the Armed Forces community In Carillion Canada, community engagement has seen a 100 per cent increase in the hours spent by our employees on voluntary work to help local communities compared to 2012

In the United Arab Emirates we have become members of ENGAGE Dubai (Dubai Chamber of Commerce employee volunteering programme) and we have joined the Steering Committee through which we are helping to increase the quality and quantity of employee volunteering among the UAE's business community In Oatar, we developed and delivered our first environmental visual impact training courses both for internal and external communities, including the Hope Oatar Centre for Special Needs, raising awareness of sustainability and contributing to the development of our own people

In Canada, where work experience is often a prerequisite for a job, we offer seven weeks of classroom tuition followed by a nine-week voluntary work placement We regularly place participants with our support services team at the Brampton Civic Hospital, where two students have become permanent employees

It is important for us to quantify and evaluate our contributions to the communities in which we work in order to continue to improve our engagement with, and the contributions we make, to the communities in which we operate Working closely with organisations like Business in the Community and Trading for Good helps us to support and develop our contributions to making communities more sustainable and we will say more about this in our first 'Social value report' that we intend to publish later this year In addition to supporting communities through our projects, we continue to contribute annually the equivalent of one per cent of our pre tax profit in cash and in kind and in 2013 to charities and other good causes

In 2013 Carillion formed a new partnership with leading children's

Carillion employees in Oatar pictured with some of the children and

Providing better prospects for our people
Carillion employs more than 40,000 people and we remain committed to investing in developing and attracting excellent people in order to create a vibrant, diverse and flexible workforce

We are working with BITC to support its 'Opportunity Now, which seeks to improve gender balance, and 'Race for Opportunity' which relates to ethnic diversity We are committed to helping women to move into leadership positions and aim to increase the proportion of our senior managers who are female from 10 7 per cent to 29 per cent To support this, we have changed our maternity and paternity policy to include enhanced pay for mothers on maternity leave and we are helping mothers returning to work to achieve a good work-life balance through better flexible working opportunities and supportive internal networks

In 2013 we made significant progress in developing our e-learning capabilities, with our people completing 5 000 e learning training modules, a five-fold increase on 2012

Through a range of programmes and training we are working hard to achieve our target of zero reportable accidents by making health and safety a key personal performance objective for all our managers Despite this, we deeply regret that one employee tragically lost his life on a Carillion highways maintenance work site in Canada in July 2013, when a vehicle passing the site on a public road lost control and entered the site

In 2014 a major new campaign focused on employee health, 'Health Like Safety' is under way As part of our wider industry advocacy role we are committed to the UK Department of Health's Responsibility Deal We have also pledged to optimise our procedures for managing those with chronic conditions at work, to use SEQOHS (Safety Effective Quality Occupational Health Service) accredited occupational health services and to increase physical activity in the workplace Additionally, we are supporting the new Construction and Civil Engineering pledge which focuses on managing the causes of occupational disease and improving employee health and wellbeing

Leading the way in our sector
Despite the last few years being particularly challenging for our industry, we remain committed to developing cutting-edge, sustainable solutions for our customers and to collaborating with our suppliers to deliver great results and promote transparency throughout the supply chain

Collaboration is central to our sustainability efforts and we are working closely with our suppliers to help them to reduce their environmental and social impacts A major example of this is the Supply Chain Sustainability School, of which Carillion is now a partner This is a large scale, collaborative construction industry initiative to help educate our suppliers on how to become more sustainable Some 2,250 professionals are members, representing 1,300 companies The school won both the 'Corporate Responsibility' and the overall award at the 2013 Chartered Institute of Purchasing and Supply (CIPS) Supply Management Awards

Our contract with the Barts Health NHS Trust across three London hospital sites illustrates our approach to innovation in partnership We provide catering, cleaning and general facilities services and have a wider sponsorship agreement with the Trust to encourage healthier living in the London Borough of Tower Hamlets We reviewed the commercial catering service we provide at the Royal London and London Chest hospitals, engaging a dietitian to evaluate our 160 recipes and adapting our ingredients and food preparation techniques Following a hygiene and healthy food assessment audit we received a gold 'Food for Health' award from Tower Hamlets Council

Carillion provides some 13 000 patient meals a day as part of the

Find out more

Governance

In this section

Chairman's introduction to Corporate Governance

Dear Shareholder,

In this section of our Annual Report, we set out the measures we take, and the results we have achieved, to ensure that high standards of corporate governance continue to be the cornerstone of Carillion s business This is essential to the success of our business and to giving shareholders, customers, partners, suppliers and the communities in which we work the confidence they need as stakeholders in Carillion

Under the Board's direction, Carillion has put in place comprehensive policies, management structures and processes that are applied rigorously to ensure that the company complies with the requirements of the UK Corporate Governance Code But on its own this is not enough To achieve consistently high standards of corporate governance we recognise that we need a culture throughout the Group in which high standards of ethics and integrity are natural and instinctive and that the behaviour of all our people reflects our core values

Philip Rogerson,
Chairman

Good corporate governance begins with having a Board whose membership has an appropriate range of skills and experience, gained from the senior executive roles they hold or have held, in other companies and from their experience as Non Executive Directors of other companies Carillion has a strong, well-balanced Board, comprising four male and two female Non Executive Directors, and two male Executive Directors The performance of all Board members is reviewed and assessed each year to ensure that each member continues to make a strong and appropriate contribution to the Board

A clear division of responsibilities between those of the Board and those of the executive directors is also essential in achieving high standards of corporate governance The Board is responsible for setting the Group's policies and procedures, for reviewing them annually and, where appropriate, revising and updating them The Executive Directors are responsible for implementing these policies and the operating procedures and processes that support them

The assurance framework within which the Board operates is based on management reports and presentations on visits to the Group's operations and on meetings and discussions with a wide range of employees from across the Group This enables the Non-Executive Directors to maintain a good understanding of the Group's businesses, which is essential to the effective operation of the Board

To create a culture in which high standards of ethics and integrity are natural and instinctive, Carillion promotes encourages and rewards behaviours that reflect our core values using a variety of measures, starting with top-down leadership and supported by training, local "values champions" and "values awards" Through an annual employee survey known as The Great Debate, we give our people the opportunity to provide feedback on a wide range of issues that concern them and to which Carillion is committed to respond In addition managers and supervisors also seek to engage with their people at all levels to give them a voice in determining how they work and how our business develops

We also believe that high standards of ethics and integrity include making the Health and Safety of our people and all those who are affected by our operations the top priority Carillion was the first in its sector to set a target of zero accidents on all its work sites To achieve this we have uncompromising policies and procedures, rigorous training programmes, covering both processes and personal behaviours, and we have empowered everyone in Carillion to stop and report any activity that they believe to be unsafe

Carillion is also a leader in its sector in building a more sustainable business, which goes beyond the requirements of the UK Corporate Governance Code, in order to deliver services that create positive impacts on the environment and on the communities in which we operate This provides opportunities for our people to engage in voluntary work to support charities and other organisations in the communities in which they live and work

In summary, the Board believes that through a combination of comprehensive policies, rigorous processes, strong leadership and measures designed to create a culture in which high standards of ethics and integrity are instinctive, strong corporate governance will continue to be the cornerstone of Carillion's success

Philip Rogerson

Philip Rogerson
Chairman
5 March 2014

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Board of Directors

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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 and Chairman of the Advisory Board of the North and East London Commissioning Support Unit of the NHS 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 69

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 his 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 18 years He is a Fellow of the Institution of Civil Engineers Age 45

03 Richard Adam
Group Finance Director
Richard was appointed Group Finance Director in April 2007 He qualified as a chartered accountant with KPMG in 1982 and gained broad experience in a number of public and private company finance director roles from the age of 30 Immediately prior to joining Carillion, Richard was Group Finance Director of Associated British Ports Holdings plc He has previously been a Non Executive Director and the Chairman of the Audit Committee of SSL International plc Age 56

04 Philip Green [1,2,3,4]
Senior Independent Non-Executive Director and Chairman Designate
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 for Europe and Africa at DHL He is Non-Executive Chairman of US industrial services company BakerCorp and is Chairman Designate of Williams & Glyn Bank Limited Mr Green will stand down from the Board of global integrated shipping services provider Clarkson plc on 9 May 2014 Age 60

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08

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 For five years until 2002 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 Group Finance Director He is Senior Independent Non-Executive Director and Audit Chair of Creston plc and a Non-Executive Director of Premier Farnell plc Formerly he was a Non Executive Director of Taylor Wimpey plc and Taylor Woodrow plc for both of which he chaired the Audit Committee, and BPB plc Mr Dougal is a member of The Institute of Chartered Accountants of Scotland and a member of its Council and Oversight Board Age 62

06 Alison Horner [1,2,3,4]
Non-Executive Director
Appointed to the Board in December 2013, Alison is a member of the Audit, Nominations Remuneration and Business Integrity Committees Alison is Group Personnel Director of Tesco, having joined the organisation in 1999 In 2006, she was appointed Tesco's first female Operations Director, and in 2011, she became the Group Personnel Director and joined the Executive Committee to lead its People Matters Group for 525,000 colleagues worldwide She is a Trustee of the Tesco Pension Scheme and, until 2011, was a Non Executive Director of Tesco Bank Age 47

07 Steve 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 57

08 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 the Senior Non Executive Director of Fenner plc and a Non-Executive Director of Chemring Group PLC, Manchester Airports Holdings Limited and Microgen plc, where she is Remuneration Committee Chair Vanda was Chief Executive Officer of Blick plc from 2001 to 2004, a Director of Ultraframe plc from 2002 to 2006, 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 53

Board changes
Both our Chairman, Philip Rogerson, and Vanda Murray will retire from the Board at the Company's AGM on 7 May 2014 Philip Rogerson will be succeeded as Chairman by Philip Green, who is currently the Senior Independent Non-Executive Director Steve Mogford will succeed Philip Green as Senior Independent Non-Executive Director

In addition, Ceri Powell will join the Board as a Non Executive Director on 2 April 2014 Ceri is Executive Vice President for Exploration of Royal Dutch Shell Ceri will serve on the Audit, Remuneration, Nominations and Business Integrity Committees

Report of the Directors

The Directors' report should be read in conjunction with the Chairman's statement, the Strategic report the Performance 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

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

- achievements in respect of the Group's Key Performance Indicators (KPIs) in 2013 and the KPIs set for 2014 (Strategic report - see pages 20 and 21)
- financial performance in 2013 (Performance and financial review - see pages 23 to 33)
- principal operational risks and risk management (Strategic report - see pages 17 to 19)
- treasury policy and financial risk management (Performance and financial review - see page 32)
- social, community and environmental issues (Sustainability report - see pages 34 to 37)
- resources and employees (Strategic report see page 14 and Report of the Directors - see pages 42 and 43)

Analysis of revenue and net assets by operating segment and geographical location are given in note 2 on pages 83 to 86

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

Profits and dividends
The consolidated income statement is shown on page 74 Profit before tax was £110 6 million (2012 £164 8 million)

A 2013 interim dividend of 5 5 pence per ordinary share (2012 5 4 pence) was paid in November 2013 It is proposed to pay a final dividend of 12 0 pence per ordinary share (2012 11 85 pence) on 13 June 2014 to shareholders on the register at the close of business on 16 May 2014 The payment of these 2013 interim and final dividends amounts to £75 2 million (2012 £72 9 million)

A dividend reinvestment plan (DRIP) will also be offered allowing shareholders a convenient means of reinvesting their dividends in the Company by buying further shares If required, a DRIP application form is available from the share registrar, Equiniti (see page 121 for contact details)

Directors
The Directors of the Company who served during 2013 are shown on page 61 of the Remuneration report Biographical details for each Director at 31 December 2013 are given on pages 40 and 41

In accordance with the requirements of the UK Corporate Governance Code, all Directors will offer themselves either for election or re-election at the Annual General Meeting on 7 May 2014 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 2013 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 88

Carillion's core values as detailed on page 17 help to differentiate Carillion from its competitors by creating a culture in which everyone in Carillion is encouraged to understand the needs of their customers and to work in partnership with customers and suppliers to deliver high-quality, value for-money services

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

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

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

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

Carillion places great importance on open and regular communication with employees through both formal and informal processes As part of this commitment a Group publication, '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', Chief Executive's Leadership Team lunches, and one-to-one meetings between employees and their line managers

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

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

In 2013, Carillion set up an international action group to address the feedback received through The Great Debate which has led to a number of changes including the introduction of improved flexible working arrangements that are open to all

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

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

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

Employees can also exchange best practice information via BusinessXchange and Yammer 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 For example, a major new campaign focused on employee health, 'Health Like Safety' was launched in 2014

Further information on Health & Safety is given in the Strategic review on page 21 and on Sustainability in the Sustainability review on pages 34 to 37

Capital and shareholders
As at 31 December 2013, 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 100 and 101 to the consolidated financial statements which form part of this report Details of the share incentives in place are also provided on pages 64 and 65 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 Conduct 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

Substantial share interests
As at 5 March 2014, the Company had received formal notification of the following holdings of voting rights in its shares under the Disclosure and Transparency Rules of the Financial Conduct Authority

	Nature of interest	% of issued share capital held
Ameriprise Financial Inc and its group	Direct	0 06
	Indirect	4 82
	Total	4 88
Eaga Partnership Trusts	Direct	1 96
	Indirect	1 96
	Total	3 92
F&C Asset Mangement plc	Indirect	4 47
HBOS plc	Direct	1 91
	Indirect	3 08
	Total	4 99
Schroders plc	Indirect	4 97
Standard Life Investments Ltd	Direct	2 95
	Indirect	2 02
	Total	4 97
Templeton Global Advisors Limited	Indirect	5 22
UBS Investment Bank	Direct	3 12

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 £770 million Syndicated Multicurrency Revolving Credit Facility, 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

Report of the Directors
continued

Charitable and political contributions
Payments for charitable purposes made by the Group during the year ended 31 December 2013 amounted to £200,000 (2012 £200,000) The primary beneficiaries of these charitable donations were The Wildlife Trust, Business in the Community CRASH, Barnardo's and Walking With The Wounded

Carillion launched its new national charity partnership in December 2013, with Barnardo's one of the UK's leading children's charities Formed in 1867, Barnardo's now has over 900 services and projects based in local communities across the UK and supports thousands of disadvantaged children and their families every year with help ranging from emergency accommodation to counselling and training This new charity partnership aligns with Carillion's sustainability strategy and in particular the commitment to building sustainable communities It means that Carillion will be working closely with Barnardo's to support the charity through volunteering and fundraising, and it provides opportunities for Carillion people to play a part in their local communities and join together with colleagues, customers, suppliers, friends and family to help young people across the UK Carillion people have the skills and expertise that Barnardo's needs in volunteers project management, training, mentoring and coaching, plus practical construction and services skills which can be put to great use on a range of projects There will also be more strategic opportunities to work with Barnardo's which is extensively involved in the social care, education and justice sectors, as well as being a provider of training and apprenticeships to young people

To mark the launch of the new partnership a donation of £20,000 was made to Barnardo's and earmarked for its Invisible Walls Project (Birmingham) which supports children and families affected by imprisonment Based on successful work that Barnardo s has established at HMP Parc in South Wales, the Birmingham project aims to support families in the local community By working with prisoners to maintain family contact and improve visitor facilities (so that prison visits are less frightening for children), Barnardo's hopes to turn around the lives of children affected by parental imprisonment The work will also contribute to existing rehabilitation programmes

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

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

Financial instruments
Information on the Carillion Group's use of financial instruments, financial risk management objectives and policies and exposure is given in note 27 on pages 102 to 106 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 2013 are shown below

Fully paid 50p ordinary shares owned	As at 1 January 2013 Number	As at 31 December 2013 Number
Executive Director		
Richard Adam	157,004	118,238
Richard Howson	67,572	85,341
Non-Executive Directors		
Andrew Dougal	5,000	5 000
Philip Green	10,000	10,000
Alison Horner[1]	Nil[2]	Nil
Steve Mogford	Nil	Nil
Vanda Murray	12 300	12,300
Philip Rogerson	39,630	39,630

(1) Alison Horner was appointed to the Board in December 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 49

Annual General Meeting
The Annual General Meeting will be held at 12 noon on 7 May 2014 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 2013, the Company had authority from shareholders for the purchase of 43,025,462 of its own shares

Disclosure of information to auditors
The Directors of Carillion plc confirm that at the date of this Report of the Directors 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 this information

Auditor
KPMG Audit Plc have notified the Company that it has instigated an orderly wind-down of the business The Board has decided to put KPMG LLP forward to be appointed as auditor and resolutions to appoint KPMG LLP as auditor and to authorise the Directors to determine its remuneration will therefore be proposed at the Annual General Meeting

Greenhouse Gas (GHG) Emissions
In the table below, we report CO_2 emissions from the sources required under the Companies Act 2006 (Strategic Report and Director's Report Regulations 2013) We have used the GHG reporting protocol to calculate our GHG emissions for 2013, based on data gathered to fulfil our requirements under the CRC Energy Efficiency scheme and on emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014 We have quoted figures for all sources whose costs are included in the consolidated financial statements We do not record 'fugitive emissions' as these are not part of our core operations

Global Greenhouse Gas (GHG) Emissions Data for the period 1 January to 31 December 2013

Emissions from	CO_2 tonnes
Combustion of fuel and operation of facilities (Scope 1)	157,293
Electricity, heat, steam and cooling purchased for own use (Scope 2)	19 786
Transport, paper and others including electricity gas (WTT) and electricity (WTT) (Scope 3)	16,241
Chosen intensity metric Emissions (tonnes) per million (£) revenue	47 4

Approved by order of the Board

Richard Tapp
Secretary
5 March 2014

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 2013 as detailed below and in the Remuneration report on page 53, the Company complied fully with the requirements of the UK Corporate Governance Code (September 2012) except as explained in the section entitled 'External Audit Tendering' on page 52 of the Report of the Audit Committee, where the requirements and associated transitional arrangements of various regulatory bodies are still being established

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 as detailed on page 17 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 in existence

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 subcontractors 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 business partners, employees, shareholders and the public The detailed procedures reflect the way Carillion competes for business through the quality and value of its work and through the reliability and reputation of its people

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

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

The Company is led by a Board comprising two Executive and six 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

Both our Chairman, Philip Rogerson and Vanda Murray will retire from the Board at the Company's AGM on 7 May 2014 Philip Rogerson will be succeeded as Chairman by Philip Green Steve Mogford will succeed Philip Green as Senior Independent Non-Executive Director

In addition, Ceri Powell will join the Board as a Non Executive Director on 2 April 2014 Ceri is Executive Vice President for Exploration of Royal Dutch Shell

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 2013, a detailed performance evaluation of the Board, the committees and each Director was conducted as it has been in each of the last 12 years

The 2013 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 2013 evaluation and subsequently reviewed and reported on the performance of the Carillion Board and Committees during 2013

Directors completed online questionnaires addressing

- Board composition
- The role of Directors and the Board
- Effectiveness of Board meetings
- The Committee structure and Committee performance
- Strategy
- 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 January 2014 Board meeting, the Directors reviewed the results of the evaluation The findings confirmed that, amongst a number of things

- the balance of skills and expertise amongst the Board members was highly rated
- the effectiveness with which the skills and expertise amongst the Non-Executive Directors were drawn upon to support the strategic direction of the Company was positively rated
- the Board s knowledge and understanding of the markets in which the Group operates was highly rated
- the role of the Board in setting strategy was seen to be clearly defined
- the key performance indicators provided to the Board to support the analysis of the performance of the business was rated very highly
- the risk appetite of the Board was seen as appropriate and the Board's management of the main risks to the business was rated positively
- the Board's succession planning for Directors was highly rated, as was the effectiveness with which the Board ensures that it has visibility of potential successors for key positions within the business

The key priorities for the Board in 2014 were identified as (i) managing Chairman and Non Executive Director rotation, (ii) supporting senior management and (iii) addressing specific business challenges

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 role of the Chairman is to provide continuity, experience and governance while the Group Chief Executive is responsible for leading the Group and delivering its operational plans and strategy
- The Chairman is the ultimate steward of the business and the guardian of the interests of all the shareholders The Chairman and Group Chief Executive work together to provide effective and complementary stewardship
- The Chairman
  - takes overall responsibility for the composition and capability of the Board
  - consults regularly with the Group Chief Executive and is available for providing advice, counsel and support to the Group Chief Executive
- The Group Chief Executive
  - manages the Group's day-to-day activities
  - prepares and presents to the Board strategic options for growth in shareholder value
  - sets the operating plans and budgets required to deliver the agreed strategy
  - ensures 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 2013 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 2013
In 2013, 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
- Full and half year financial statements
- Forecasts and budgets
- Regulatory announcements
- Dividends
- Monthly management results
- Work winning
- Three year business plan
- Board committee reports
- Review of policies such as ethics and business integrity
- Delegation of authorities
- AGM business
- Major projects
- Acquisitions and disposals
- Regulatory issues and briefings
- Succession planning
- Directors' share dealings
- Review of conflicts of interest
- 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 receives presentations on governance and regulatory matters

Attendance at meetings in 2013
The number of scheduled Board and Committee meetings attended by each Director during 2013 was as follows

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

* Alison Horner was appointed to the Board in December 2013
** Mr Mogford was unable to attend the December meeting of the Audit Committee due to regulatory commitments
*** Mr Rogerson was unable to attend the December Nominations Committee meeting as he was hosting a Royal visit to another company of which he is chairman
**** Mr Green took no part in the December Nominations Committee meeting which

Corporate Governance report
continued

Board Committees
The principal Board Committees are the Audit Committee, the Remuneration 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

Audit Committee
Andrew Dougal, Chairman
Philip Green
Alison Horner
Steve Mogford
Vanda Murray

The Audit Committee consists entirely of independent Non-Executive Directors The Chairman of the Audit Committee has 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 Oversight 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 Group 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 Philip is Non Executive Chairman of BakerCorp and Chairman Designate of Williams & Glyn Bank Limited

Alison Horner was appointed to the Audit Committee in December 2013 Alison is Group Personnel Director of Tesco

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

Vanda Murray was appointed to the Audit Committee in July 2005 Vanda is the Senior Non-Executive Director of Fenner plc and a Non-Executive Director of Chemring Group PLC, Microgen plc and Manchester Airports Holdings Limited

The Report of the Audit Committee can be found on pages 50 to 52

Remuneration Committee
Vanda Murray, Chairman
Andrew Dougal
Philip Green
Alison Horner
Steve 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

The Remuneration Committee is assisted in its work by Janet Dawson, 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

The Remuneration Report can be found on pages 53 to 68

Nominations Committee
Philip Rogerson, Chairman
Andrew Dougal
Philip Green
Alison Horner
Richard Howson
Steve Mogford
Vanda Murray

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

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

For the Board appointment of Alison Horner, the Nominations Committee has used the services of the executive recruitment consultants The Lygon Group 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 68

Business Integrity Committee
Philip Rogerson, Chairman
Andrew Dougal
Philip Green
Alison Horner
Steve 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, 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

Other Board matters

Board diversity
Carillion recognises the importance of gender diversity throughout the Group Currently, two of Carillion's eight Board members are 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

Ceri Powell will join the Board as a Non-Executive Director on 2 April 2014 Ceri is Executive Vice President for Exploration of Royal Dutch Shell Following Ceri's appointment, and the retirement from the Board of Philip Rogerson and Vanda Murray on 7 May 2014, the Board will comprise seven directors of whom two are women

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

Neither of the Executive Directors currently holds an external appointment

Re-election of Directors
In accordance with the UK Corporate Governance Code, all Directors will submit themselves for either election or re election at the Annual General Meeting to be held on 7 May 2014 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

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 7 May 2014 to respond to shareholders' questions

Health & safety and sustainability
A review of the Group's progress on Health & Safety is provided in the Strategic review on page 21 and the Group's Sustainability performance is contained in the Sustainability review on pages 34 to 37

Richard Tapp

Richard Tapp
Secretary
5 March 2014

Report of the Audit Committee

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2013 This report describes the Committee's ongoing responsibilities and key tasks as well as its major areas of activity over the last year

The key elements of our role are to review and report to the Board on the Group s financial reporting, internal control and risk management processes and the performance, independence and effectiveness of the auditor, KPMG Audit Plc

The assurance framework required by the Audit Committee is provided by complementary contributions from management reports, internal and external audit reports and from risk management reports

As Chairman of the Committee, I have regular meetings with both the Company's external and internal auditors, Richard Adam, the Group Finance Director and Robin Herzberg, the Group Head of Risk, in which key issues relevant to the Committee's work are discussed In addition, I and my colleagues on the Committee visit contract operations in both the support services and construction areas of the business in order to maintain a more detailed understanding of the Group's businesses which together with the reports we receive, facilitates the ongoing effective operation of the Committee

In order to ensure that we remain at the forefront of best practice, the Committee's terms of reference are reviewed annually In 2013, the terms of reference were updated in respect of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, which resulted in some minor changes The updated terms of reference can be viewed at www carillionplc com or a copy obtained on request from the Company Secretary

Members' attendance at meetings held during the year ended 31 December 2013

Committee member	Meeting attendance
A Dougal (Chairman)	4
P Green	4
S Mogford*	3
V Murray	4
A Horner**	1

* Mr Mogford was unable to attend the December meeting of the Audit Committee due to regulatory commitments
** Alison Horner was appointed as a Non Executive Director on 1 December 2013

The Committee benefits from the skills and experience gained by its members from current and former senior executive roles and from their experience as Non-Executive Directors in other companies

Other attendees
We also have in attendance at meetings, by invitation of the Committee the Chairman, Executive Directors, representatives of both the external auditors (KPMG Audit Plc) and the internal auditors (Deloitte LLP) and the Group Head of Risk The Committee also meets privately with both the external and internal auditors

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

Main activities of the Audit Committee in the year to 31 December 2013
The main responsibilities of the Audit Committee are as follows

> Monitoring and reviewing the Company's internal and risk management control systems on behalf of the Board
> Reviewing the integrity of the Company's financial statements including its annual and half-year reports, interim management statements and any other formal announcement relating to
> Reviewing the role and effectiveness of the internal audit function, 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) have a proper balance between objectivity and value for money
> Recommending to the Board, the appointment, reappointment or removal of the external auditor

The Audit Committee met on four occasions in 2013 and dealt with the following matters

	Feb	July	August	Dec
Financial reporting and significant financial judgements				
Full year results and associated announcements	•			
Half-year results and associated announcements			•	
Going concern report	•		•	
External audit				
Review and consideration of the Audit Memorandum	•		•	
Board representation letter	•		•	
Evaluation of external audit function	•			
Re appointment recommendation to the Board	•			
Fees for non-statutory audit activities	•			
Audit plan		•		
Year end audit plan update				•
Committee meeting with external auditor	•	•	•	•
Internal audit				
Internal audit report	•		•	•
Evaluation of internal audit function				•
2014 Internal audit plan				•
Peer review plan for 2014				•
Committee meeting with head of internal audit	•		•	•
Other				
Annual review of terms of reference				•
Annual evaluation of the Committee				•
Compliance with the UK Corporate Governance Code and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules	•		•	

In addition to the above meetings in 2013, at its meeting in February 2014, the Committee reviewed the Company's financial statements and other relevant disclosures in this 2013 Annual Report and Accounts

Financial reporting and significant judgements
The Committee is responsible for reviewing whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements in the preparation of the financial statements In respect of the financial statements for the year ended 31 December 2013, the significant issues reviewed and how these issues were addressed are summarised below

Revenue and margin recognition
Note 32 on page 111 of the financial statements describes the estimation techniques used by management to determine the amount of revenue and costs to be recognised in relation to construction and services contracts (including licensing income) Given the Company's extensive portfolio of contracts, a significant proportion of the Committee's time is spent on reviewing contract judgements During 2013 the Committee reviewed the positions and judgements taken by management on a number of material contracts across the Group including the impact on working capital performance and the assessment of licensing income through

Valuation of goodwill
Note 11 on page 92 of the financial statements describes the estimation techniques used by management to assess whether there has been an impairment to the carrying value of goodwill and other intangible assets The Committee considered and critically reviewed the assumptions used in management's impairment calculations and considered the views of the external auditor on this issue This included a review of the sensitivity analysis undertaken by management and the external auditor On the basis of this review, the Committee agreed with management that no impairment to goodwill was necessary

Non-recurring operating items
Note 4 on page 87 of the financial statements describes the nature of the £42 9 million of non recurring operating items recognised in relation to restructuring costs in the year The Committee considered the accounting treatment and disclosure of these costs in the financial statements through a detailed review of management's plans in relation to the restructuring The Committee also sought the views of the external auditor in relation to the appropriateness of the accounting treatment and disclosures On the basis of this review, the Committee concluded that the accounting treatment and disclosures in relation to these restructuring costs were appropriate

Other matters considered by the Audit Committee
Cash flow and working capital
The Group's processes for the management of cash flow and working capital are key areas to which the Committee has paid particular attention especially during the period over which the Group has been rescaling its UK construction activities The Committee is satisfied that these processes have continued to work well, with the rescaling process successfully completed by the end of 2013

Control environment
During 2013, there were a number of changes to the control environment, with the outsourcing of some central shared services

Overall the Committee noted a smooth transition and an ongoing strong control environment

Risk management and Internal Control
The Board is ultimately responsible for (i) determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and, in this regard, the Board maintains risk management and internal control systems and (ii) that the Group's systems for risk management and internal control are appropriate and operating effectively

Additionally, the Board has established formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditors

During the year the Audit Committee monitored and reviewed the effectiveness of the Group's internal control systems including its risk management procedures and reported thereon to the Board It is acknowledged that such systems can provide only reasonable and not absolute assurance against material misstatement or loss

The risk management and internal control procedures and environment within the Carillion Group are as follows

Risk management
The Group Head of Risk, Robin Herzberg 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 to 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 Robust summaries of the peer review reports are provided to, and reviewed by, the Audit Committee

Management is also responsible for timely and accurate reporting of business performance and for ensuring compliance with the policies set by the Board Regular performance review meetings are held in which senior managers report 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 for reporting and resolving suspected fraudulent activities

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

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

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

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks The Group Finance Director provides the Board with regular financial information, which includes key performance indicators and a summary of risk These key performance indicators and risks are listed in the Strategic review on pages 21 and 22 Where areas for improvement are identified, the Board considers the recommendations made by both the Executive Directors and the Audit Committee

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

Deloitte LLP provide the internal audit function for the Carillion Group

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

Report of the Audit Committee
continued

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 2013, no disclosures in this respect are required

Oversight of external audit
Both the Audit Committee and the 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 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 fifth 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 following procedures and controls are applied

- 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

The Group Finance Director is required to give prior approval of non-audit work carried out by KPMG Audit Plc and its associates in excess of a predetermined threshold In addition any such work incurring fees in excess of £250,000 is discussed with me prior to its commencement These measures are designed to ensure that other potential providers of the services required have been adequately considered Details of audit and non-audit fees paid to KPMG Audit Plc can be found in note 3 on page 87 In addition, the Audit Committee is closely monitoring European Union proposals which are expected to prohibit the provision of certain services by the auditor and cap the amount of fees generated from the

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

The overall performance of the auditor is reviewed annually by the Audit Committee, which in addition to the completion of a detailed questionnaire by all of the Committee members, also takes 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 In each of its meetings, the Audit Committee has discussions with the auditor, without management being present, on the adequacy of controls and on any judgemental areas These discussions have proved satisfactory

In its evaluation of the external audit function, the Committee concluded that it was satisfied with the work of KPMG Audit Plc and that KPMG Audit Plc continued to be effective objective and independent Accordingly, the Audit Committee recommended to the Board the reappointment of KPMG and for this to be put to shareholders at the 2014 AGM The reappointment was approved by shareholders at the AGM held on 1 May 2013

External audit tendering
The UK Corporate Governance Code 2012 requires that FTSE 350 companies should put the external audit contract out to tender at least every 10 years or provide an explanation of why it is considered not appropriate to do so In addition, it is likely that European Union legislation will in due course require public interest entities to rotate audit firms after an engagement period of 10 years, with such engagements being eligible for an extension of a further 10 years, subject to a competitive tender being undertaken by the entity These developments are also consistent with the measures recommended by the UK's Competition Commission, following its investigation into the market for the provision of statutory audit services to large companies One of the main recommendations from the Commission's findings is to require FTSE 350 companies to put their statutory audit engagement out to tender at least every 10 years

KPMG Audit Plc was appointed as the Company's auditor at its inception in 1999 The Audit Committee continues to annually monitor and test auditor independence through a range of measures In addition KPMG's performance is reviewed in detail annually as part of this review, the Committee considers the scope of KPMG's work, their effectiveness and the quality of reporting

Taking into account the Board changes referred to in the Chairman's Statement (see page 5) that affect the composition of the Audit Committee, the Committee concluded that in order to maintain and ensure continuity during and immediately following this period of change it would not be appropriate to put the audit out to tender in 2014 The Committee intends to keep this area under regular review as all of the regulatory requirements and the associated transitional arrangements are more clearly established

Audit Committee members' fees
The members of the Committee receive fees as Non Executive Directors that also reflect their membership of the Audit Committee and other Board committees There is also an additional fee for the role of Chairman of the Audit Committee Details of remuneration are given on page 61

Andrew Dougal
Chairman of the Audit Committee
5 March 2014

Remuneration report

Remuneration Committee Chairman's Letter

Dear Shareholder,

On behalf of the Board, I am pleased to present our Directors' Remuneration report for 2013, which sets out the remuneration policy for the Directors of Carillion and the amounts earned in respect of the year ended 31 December 2013.

The Report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the 2012 UK Corporate Governance Code ('the Code') and the Financial Conduct Authority Listing Rules. To reflect the requirements of the revised remuneration reporting regulations this report is presented in two sections: the Directors' Remuneration Policy and the Annual Report on Remuneration. The Directors' Remuneration Policy sets out the forward-looking remuneration policy. It will be subject to a binding vote at the Annual General Meeting. The Annual Report on Remuneration provides details of the amounts earned in respect of the year ended 31 December 2013 and how the Directors' Remuneration Policy will be operated for the year commencing 1 January 2014. This is subject to an advisory vote at the 2014 Annual General Meeting.

2013 key decisions and incentive out-turns
Throughout the year, the Remuneration Committee continued to apply the remuneration policy prudently with a strong alignment to the interests of shareholders. In this regard, the Remuneration Committee feels strongly that rewards should be linked to both Group and personal performance.

To encourage behaviours which facilitate profitable growth and the future development of the business, for 2013, 50% of the annual bonus opportunity was based on Earnings Per Share ('EPS') performance, 25% was based on personal targets and 25% was based on 'stretch' individual targets (individual strategic objectives that required a significant level of performance to be achieved). As described in the business review section of this Annual Report, the trading conditions within Carillion's target markets continued to remain challenging and consequently no bonus payments are to be made in relation to the EPS target. However, as set out on page 63 both Executive Directors made good progress against their personal and stretch individual targets for 2013 and consequently an annual bonus of 36.25% of base salary was earned by Richard Howson and 42.5% of base salary was earned by Richard Adam for the year ended 31 December 2013. 50% of the bonus earned is awarded in cash and 50% is awarded in shares which are deferred for a three year period before vesting.

Due to the challenging economic conditions in Carillion's industry sectors over the three year performance period to 31 December 2013, the Group's annual average growth in EPS was -4.7%. Therefore no long-term incentive awards vested under Carillion plc Leadership Equity Award Plan (the 'LEAP') in respect of the year ending 31 December 2013.

The Remuneration Committee has also considered the base pay of the Executive Directors and decided that in line with the approach to employees' base pay across the Group, no increase would be awarded in 2014.

Further details regarding base salary and bonus payments made to the Executive Directors are set out on page 62.

Proposed changes in executive remuneration for 2014
The Remuneration Committee has continued to monitor executive remuneration policy to take account of evolving market practice whilst also seeking to ensure that a stable framework is maintained to avoid 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 incentives has not changed.

The current LEAP rules expire in May 2016. However, with the introduction of the binding vote on Directors' Remuneration Policy, the Remuneration Committee is keen to ensure that its remuneration arrangements are appropriate, up to date, reflect best practice and are well-positioned for the ensuing three years for which the policy vote will apply. We have therefore decided to seek approval for a new set of rules to govern the LEAP at the next Annual General Meeting in May 2014. The rules are broadly similar to those already in place but have been updated to ensure that they include governance provisions which have emerged since the last set of rules was adopted. A summary of the key terms of the new rules is set out in the notice of the Annual General Meeting.

The purpose of the LEAP is to drive and reward the achievement of longer-term objectives aligned closely to shareholders' interests. To ensure that the performance metrics and targets for the LEAP are consistent with the Group's objectives, for 2014, the Remuneration Committee is also proposing the addition of quantifiable and stretching strategic objectives which will complement the financial objectives already embedded in the LEAP. These strategic objectives support our focus on three key areas of the business, growth, sustainability and employee contribution to the wider community. For 2014, two-thirds of the LEAP award (up to 100% of salary for Executive Directors) will continue to be subject to the existing EPS and cash flow conversion performance targets and one third (up to 50% of salary for Executive Directors) will be subject to strategic performance metrics that are aligned to Carillion's long term strategy.

In the current economic environment the Remuneration Committee recognises that the EPS and cash flow conversion targets introduced in 2012 are considered extremely challenging. Nevertheless, the Remuneration Committee recognises the importance of maintaining a level of consistency with the changes made in 2012. The majority of any 2014 LEAP award will therefore continue to be subject to these targets as set out on pages 56 and 57.

For the avoidance of doubt, no changes are proposed to the maximum LEAP opportunity which will remain at 150% of salary annually and the proportion of the award vesting for threshold performance remains at 25% of salary.

The Remuneration Committee is not making any changes to the annual bonus for 2014. The bonus design for 2014 will mirror that of the 2013 scheme.

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.

Vanda Murray OBE

Chairman of the Remuneration Committee
5 March 2014

Remuneration report
continued

Directors' Remuneration Policy

This part of the report sets out the Company's Directors' Remuneration Policy which, subject to shareholder approval at the 2014 Annual General Meeting, shall take binding effect from the date of that meeting

Remuneration Policy table – Executive Directors

Element	Purpose and link to strategy	Operation
Base salary	Core element of fixed remuneration that provides the basis to recruit and retain talent necessary to deliver the business strategy Reflects individual skills, experience and the scope of the executive's responsibility Takes into account an individual's performance	Usually reviewed annually (but may be reviewed more frequently) with any changes typically effective from 1 April The decision is influenced by a range of factors including, but not limited to › role, experience and performance, › average change in broader workforce salary, › total organisational salary budgets and › group profitability and prevailing market conditions External benchmark data against companies of a similar size and complexity are also considered
Benefits	To provide market-competitive benefits at a level needed to attract and retain talent necessary to deliver the business strategy	Base salary is supplemented with a range of benefits based on the role and individual's circumstances These benefits include, but are not limited to, company car or car allowance fuel benefit and healthcare arrangements Other benefits may be provided based on individual circumstances, such as, but not limited to housing or relocation allowances travel allowance or other expatriate benefits
Retirement benefits	To provide market-competitive retirement benefits at a level needed to attract and retain talent necessary to deliver the business strategy	The Company may make payments into an occupational pension (up to the limit of pensionable pay) and/or a salary supplement The Company operates a defined contribution plan for this purpose For salary in excess of pensionable pay an allowance (set as a percentage of excess pensionable pay) may be paid Where contributions exceed HMRC limits for a tax free pension accrual, Executive Directors have the choice of receiving excess contributions as a salary supplement (subject to tax and national insurance contributions) In circumstances where there are historical contractual commitments, benefits in part may be provided through membership of the defined benefit pension schemes operated by the Group but now closed Deferred benefits from these schemes are based on pensionable salary and service at the date of closure Death-in service benefits are provided as part of membership of the defined contribution plans based on contractual entitlement and on a life-cover only basis of membership if applicable Bonus and other benefits received by Executive Directors do not count towards pensionable pay

Opportunity	Performance metrics
To avoid setting expectations of Executive Directors and other employees, no maximum base salary has been set under the Remuneration Policy Increases in salary will not normally exceed the range of increases awarded to other employees in the group However, larger increases may be awarded in certain circumstances including, but not limited to › increases in scope or responsibility, or › a new Executive Director being moved to market positioning over time › where the Executive Director has fallen below the market positioning, or › other exceptional circumstances Such increases may be implemented over such time period as the Remuneration Committee deems appropriate	N/A
Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Remuneration Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances	N/A
Pensionable pay 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 Executive Directors receive a contribution of up to 40% of basic salary paid as a contribution to a pension plan or a taxable allowance as appropriate to their individual circumstances	N/A

Remuneration report
continued

Remuneration Policy table – Executive Directors (continued)

Element	Purpose and link to strategy	Operation
Annual performance bonus and deferred bonus plan	Drive and reward the achievement of annual financial and/or strategic business targets and/or delivery of personal objectives relevant to Carillion's long term strategic objectives Provide alignment with shareholders' interests Compulsory deferral of a proportion of bonus earned, delivered in the Company's shares, supports the creation of long term sustainable value, promotes share ownership and also provides a retention element	Awards based on annual performance against key financial and/or strategic targets and/or the delivery of personal objectives Payments are determined by the Remuneration Committee after the year end, based on performance against targets set annually The Remuneration Committee may adjust the bonus pay out either up or down should the formulaic outcome be considered not to reflect underlying business performance The circumstances where such a change might be made are set out under the explanation of chosen targets and how performance is measured below At least 50% of any bonus earned is paid in cash and 50% is awarded in shares which vest after three years (subject to a de minimus threshold of £10,000) Deferred share awards may be released early on a change of control (or other relevant event) or in 'good leaver' circumstances (as shown on page 59) The Remuneration Committee has 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 reduction is operated (ie a malus provision) The Remuneration Committee may increase the number of shares subject to a deferred share award to reflect dividends that would have been paid over the deferral period on shares that vest, or make a cash payment equal to the value of those additional shares ('Dividend Equivalents')
Long Term Incentive – Carillion plc Leadership Equity Award Plan (LEAP)	Drive and reward the achievement of longer-term objectives aligned closely to shareholders' interests Retain key executives over a longer-term measurement period Provide alignment with shareholders' interests Supports retention and promotes share ownership	The Remuneration Committee intends to make future long term incentive awards under the 2014 LEAP to be approved by shareholders at the 2014 Annual General Meeting Annual awards of conditional shares, restricted stock or nil cost options (or similar cash equivalent) under the 2014 LEAP can be made with vesting dependent on the achievement of performance conditions, normally over a three year performance period Targets, whilst stretching, do not encourage inappropriate business risks to be taken The Remuneration Committee has the right to reduce any LEAP awards which have not yet vested in relation to circumstances of corporate failure which may have occurred at any time before the reduction is operated (ie a malus provision) Awards under the LEAP may vest early on a change of control (or other relevant event) subject to satisfaction of the performance conditions and pro-rating for time although the Remuneration Committee has discretion to increase the extent of vesting having due regard to performance over the period to vesting As described on page 59, LEAP awards may also vest early in 'good leaver' circumstances The Remuneration Committee may make a dividend equivalent payment ('Dividend Equivalents') to reflect dividends that would have been paid over the period to vesting on shares that vest This payment may be in the form of additional shares or a cash payment equal to the value of those additional shares

Opportunity	Performance metrics
Up to 100% of base salary	Targets are set annually reflecting the Group's strategy and align with key financial, strategic and/or individual objectives Targets, whilst stretching, do not encourage inappropriate business risks to be taken At least 50% of the bonus is assessed against key financial performance metrics of the business and the balance may be based on non financial strategic measures and/or individual performance **Financial metrics** There is no minimum payment at threshold performance, 50% of the maximum potential for this element of the bonus will vest for on-target performance and all of the maximum potential will vest for maximum performance **Non-financial or individual metrics** Vesting of the non-financial or individual metrics will apply on a sliding scale between 0% and 100% based on the Remuneration Committee's assessment of the extent to which a non financial or individual performance metric has been met
Under the new LEAP rules the overall maximum opportunity is 200% of salary in respect of a financial year Normal maximum award 150% of salary in respect of a financial year	Awards will vest subject to the achievement of performance assessed over more than one financial year, normally three years against key metrics aligned to the business strategy Performance measures for the LEAP will be a combination of financial measures, and/or strategic performance metrics, including (but not exclusively) › earnings per share growth, › cash flow conversion rate, and › key strategic objectives Weightings will be as follows › at least two-thirds will be based on financial metrics, and › no more than one-third will be based on strategic performance metrics **Financial metrics** For the achievement of the threshold level of performance (the minimum level of performance for vesting to occur) up to one sixth of maximum opportunity will vest under each performance measure For the achievement of the target level of performance up to 50% of the maximum opportunity will vest under each performance measure For the achievement of the maximum level of performance (the highest level of performance that results in any vesting) 100% of the maximum opportunity will vest Straight-line vesting will usually apply between these levels of performance **Strategic metrics** Vesting under the strategic element will apply on a sliding scale between 0% and 100% for each measure to avoid 'cliff edge' vesting The Remuneration Committee must be satisfied that vesting reflects the underlying performance of the Company and retains the flexibility to adjust the vesting amount to ensure it remains appropriate to the business performance delivered

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Remuneration policy for the Chairman and Non-Executive Directors

Element	Approach of the Company
Chairman fees	The remuneration of the Chairman of the Board is set by the Remuneration Committee Fees are set at a level which reflects the skills, knowledge and experience of the individual, whilst taking into account appropriate market data The fee is set as a fixed annual fee and may be paid wholly or partly in cash or Company shares
Non-Executive Director fees	The Board as a whole is responsible for deciding Non Executive Directors fees Fees are set taking into account several factors including the size and complexity of the business, fees paid to Non Executive Directors of UK listed companies of a similar size and complexity and the expected time commitment and contribution for the role Fees are structured as a basic fee with additional fees payable for chairmanship or membership of a committee or other additional responsibilities The fee is set as a fixed annual fee and may be paid wholly or partly in cash or Company shares Overall fees paid to Directors will remain within the limit set out in the Company's Articles of Association of £500,000 per annum

Explanation of chosen performance measures and how targets are set

The annual bonus is assessed against both financial and individual targets determined by the Remuneration Committee This incentivises executives to focus on delivering the key financial goals of the Company as well as specific strategic objectives for each Director which are aligned to delivering the overall business strategy and to encourage behaviours which facilitate profitable growth and the future development of the business

Long-term performance measures are chosen by the Remuneration Committee to provide a robust and transparent basis on which to measure Carillion's performance over the longer term and to provide alignment with Carillion's business strategy They are selected to be aligned with the interests of shareholders and to drive business performance and link to the Group strategy whilst not encouraging excessive risk taking

The Remuneration Committee considers carefully the target ranges to be attached to bonus and long-term incentive awards, taking into account a number of factors which could include future growth expectations, the market environment and the requirement to set stretching but achievable targets

The Committee retails the ability to adjust/or set different performance measures if events occur (such as a change in strategy a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose

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

Remuneration policy for new appointments

In the cases of hiring/appointing a new Executive Director, the Remuneration Committee will typically align the remuneration package with the above Remuneration Policy However, the Remuneration Committee retains the discretion to make payments or awards which are outside the Policy to facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy subject to the principles and limits set out below The individual will move over time onto a remuneration package that is consistent with the Policy set out in the table above

In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors (including the quantum and nature of remuneration) to ensure that arrangements are in the best interests of both Carillion and its shareholders This may, for example, include (but is not limited to) the following circumstances

- an interim appointment is made to fill an Executive Director role on a short-term basis,
- exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis
- an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis,
- the Executive received benefits at his previous employer which the Committee considers it appropriate to offer

The Committee may also alter the performance measures, performance period and vesting period of the annual bonus or long-term incentive, subject to the rules of the scheme, if the Committee determines that the circumstances of the recruitment merit such alteration The rationale will be clearly explained

The Remuneration Committee may make an award in respect of hiring to 'buy out' remuneration arrangements forfeited on leaving a previous employer In doing so the Remuneration Committee will take account of relevant factors regarding the forfeited arrangements which may include any performance conditions attached to awards forfeited (and the likelihood of meeting those conditions), the time over which they would have vested and the form of the awards (eg cash or shares) It will generally seek to structure buy out awards on a comparable basis to remuneration arrangements forfeited These payments or awards are excluded from the maximum level of variable remuneration referred to below, however, the Remuneration Committee's intention is that the value awarded would be no higher than the expected value of the forfeited arrangements Where considered appropriate buy-out awards will be subject to forfeiture or clawback on early departure

Where necessary, the Company will pay appropriate relocation costs The Remuneration Committee will seek to ensure that no more is paid than is necessary

The maximum level of variable remuneration (excluding buy-out awards) which may be awarded to a new Executive Director is 300% of base salary Subject to this overall maximum variable remuneration, incentive awards may be granted within the first 12 months of appointment above the normal maximum annual award opportunities The Remuneration Committee will ensure that such awards are linked to the achievement of appropriate and challenging performance

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans If necessary, and subject to the limits referred to above, in order to facilitate the awards mentioned above the Committee may rely on exemption 9 4 2 of the Listing Rules which allows for the grant of awards to facilitate, in exceptional circumstances, the recruitment of a Director

Where a position is fulfilled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms

Fees payable to a newly-appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment

Service contracts
The Board's policy for current and new Executive Directors is that service contracts are one-year rolling basis and have a notice period that should not exceed one year

	Date of contract	Date of appointment	Notice from the Company	Notice from Director
Richard Howson	8 Dec 2009	8 Dec 2009	12 months	6 months
Richard Adam	11 Dec 2006	2 Apr 2007	12 months	6 months

Non-Executive Directors are not employed under contacts 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

	Date of appointment	Unexpired term on contract at 31 December 2013
Philip Rogerson*	1 Oct 2004	4 months
Philip Green	1 June 2011	5 months
Andrew Dougal	3 Oct 2011	9 months
Alison Horner	1 Dec 2013	35 months
Steven Mogford	5 Sep 2006	20 months
Vanda Murray*	1 June 2005	4 months

* Both Mr Rogerson and Mrs Murray will retire as Directors at the AGM on 7 May 2014

All Directors offer themselves for annual re-election at each AGM in accordance with the UK Corporate Governance Code Service contracts for the Executive Directors and letters of appointment for the Non-Executive Directors are available for inspection at the registered office address of the Company

Payments for loss of office
The policy set out below provides the framework for contracts for Executive Directors

Element	Policy
Notice period on termination by employing company	12 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 (including company car or car allowance and private health insurance) and pension contributions (which may include salary supplements) Benefits provided in connection with termination of employment may also include, but are not limited to, outplacement and legal fees
Vesting of incentives for leavers	The Remuneration 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 Remuneration Committee) will be pro rated for time in service to termination and will be subject to performance, paid at the usual time 'Good leavers' typically include leavers due to death, illness injury disability redundancy, retirement with the consent of the Company or any other reason as determined by the Remuneration Committee › The vesting of share based awards is governed by the rules of the relevant incentive plan as approved by shareholders › Under the 2014 LEAP the provisions for 'good leavers' provide that awards will vest at the end of the normal vesting period but the Remuneration Committee has the discretion to accelerate vesting to the date of cessation of employment If accelerated to the date of cessation of employment vesting will take account of performance over the period to the date of cessation of employment and will be subject to pro-rating for time (although the Remuneration Committee has discretion to increase the extent of vesting having due regard to performance over the period to vesting) › Under the deferred bonus plan, the provisions for 'good leavers' provide that deferred share awards will be released in full at the date of cessation of employment › In circumstances other than good leavers awards will lapse Were a buy out award to be made under Listing Rule 9 4 2 then the leaver provisions would be determined at the time of the award

Richard Adam's service agreement provides that in the period of 12 weeks following a change of control of the Company if there has been a change in his duties, responsibilities, status or reporting line which is materially less favourable to him he may confirm that such a change has taken place or is proposed Following any such confirmation by Mr Adam his employment will terminate and he will be receive a payment in lieu of notice consisting of 12 months' basic salary, car allowance (or taxable value of the company car), pension contributions and taxable value of participation in the company's private health insurance scheme

Richard Howson's service agreement contains a similar provision in the event of a change of control of the Company, except that his payment in lieu of notice is subject to an obligation to mitigate

Remuneration report
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Under the terms of their engagement, the notice period to be given by the Non-Executive Directors on the Company is six months and the Company is obliged to give 12 months Discretion is retained to terminate with or without due notice or paying any payment in lieu of notice dependent on what is considered to be in the best interests of the Company in the particular circumstances The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment

Illustration of remuneration policy
This chart provides an illustration of the range of remuneration that may be received by Executive Directors in 2014 based on the assumptions noted below

Assumptions

Minimum performance	Fixed elements of remuneration only - base salary, benefits and pension only
Performance in line with expectations	Total fixed pay as above, plus Assumes 50% of maximum pay-out under the annual bonus (ie 50% of salary) Assumes 50% of maximum pay-out under the LEAP (ie 75% of salary)
Maximum performance	Total fixed pay as above, plus Assumes 100% of maximum pay-out under the annual bonus (ie 100% of salary) Assumes 100% of maximum pay-out under the LEAP (ie 150% of salary)

Notes
1 As required by the regulations the scenarios do not include any share price growth assumptions or take into account any dividends that may be paid
2 Base salary is the latest known salary (ie the salary effective from 1 April 2014) and the value for pension and benefits has been assumed to be equivalent to that included in the single figure calculation on page 61

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, and
- participation levels in the annual bonus and share plans

Although no consultation with employees takes place in relation to determining the remuneration policy for Directors the Group has various ways of engaging employees collectively, as teams and one to one A number of methods are common across all the Group (Team Talk, Performance Development Reviews, 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 receives updates and feedback on employee engagement

Existing contractual arrangements
The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out below where the terms of the payment were agreed

(i) before 27 June 2012 or
(ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee the payment was not in consideration for the individual becoming a Director of the Company

For these purposes payments' include the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted For the avoidance of doubt, the Remuneration Committee's discretion includes discretion to determine, in accordance with the rules of the current LEAP, the extent to which awards under that plan may vest in the event of a change of control or in a 'good leaver' circumstance

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

No significant amendments were made to the Remuneration Policy for 2014 and the Remuneration Committee did not therefore feel it necessary to undertake a further consultation exercise on its overall remuneration proposals However in the interests of ensuring ongoing and transparent dialogue with shareholders, the Remuneration Committee consulted shareholders on changes to the performance conditions attaching to LEAP awards for 2014 There were no other significant changes to the Executive Director Remuneration Policy proposed for 2014

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

Annual Report on Remuneration

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 Director's personal wealth is linked to the share price performance
Pay for performance	A substantial proportion of Executive Director remuneration is variable and 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 This is further supported by the introduction of strategic objectives into the LEAP from 2014 which include specific and quantifiable sustainability metrics

Single figure of remuneration for each Director
The remuneration of the Directors of Carillion plc for the year ended 31 December 2013 and the previous year is set out in the tables below This information has been audited

Director	Salary/fees[a]	Benefits[b]	Bonus[c]	Long term incentives[d]	Pension[e]	Total remuneration
Year ended 31 December 2013, £'000						
Executive						
Richard Howson	560	73	203	-	198	1,034
Richard Adam	450	21	191	-	175	837
Total for Executive Directors	1,010	94	394	-	373	1,871
Non-Executive						
Philip Rogerson	193	-	-	-	-	193
Philip Green	60	-	-	-	-	60
Andrew Dougal	60	-	-	-	-	60
Steve Mogford	50	-	-	-	-	50
Vanda Murray	60	-	-	-	-	60
Total for Non-Executive Directors	423	-	-	-	-	423
Total	1 433	94	394	-	373	2,294

Executive	Salary/fees[a]	Benefits[b]	Bonus[c]	Long term incentives[d]	Pension[e]	Total remuneration
Year ended 31 December 2012, £'000						
Executive						
Richard Howson	560	21	-	-	210	791
Richard Adam	429	21	-	-	153	603
Total for Executive Directors	989	42	-	-	363	1,394
Non-Executive						
Philip Rogerson	192	-	-	-	-	192
Philip Green	60	-	-	-	-	60
Andrew Dougal	60	-	-	-	-	60
Steve Mogford	50	-	-	-	-	50
Vanda Murray	60	-	-	-	-	60
Total for Non-Executive Directors	422	-	-	-	-	422
Total	1,411	42	-	-	363	1 816

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The figures in the single-figure table above are derived from the following

(a) Salary and Fees	The amount of salary/fees received in the year
(b) Benefits	This is the taxable value of benefits received in the year This includes a car/car allowance fuel benefit and private medical care For 2013 only it includes £51,919 19 in respect of a contractual gratuity earned by Richard Howson during his time in the UAE (a local statutory pension provision)
(c) Bonus	Bonus is the cash value of the bonus earned in respect of the year including the value of the deferred shares which must be held for a minimum three year period A description of performance against the objectives which applied for the financial year is provided on page 63
(d) Long-term incentives	Long-term incentives is the value of performance-related incentives vesting in respect of the financial year LEAP awards granted to Executive Directors prior to 2012 were based on growth in earnings per share against RPI as discussed on page 64 For the year ended 31 December 2012 comparative figures, the LEAP awards in respect of the performance period commencing 1 January 2010 and ending 31 December 2012 lapsed in full For the year ended 31 December 2013, the Group's annual average growth in EPS over the three year performance period commencing 1 January 2011 and ending 31 December 2013 was -4 7% therefore the LEAP awards in respect of the year ending 31 December 2013 will also lapse in full
(e) Pension	The pension figure represents the cash value of pension contributions received by the Executive Directors This includes the Company's contributions to the defined contribution pension scheme and any salary supplement in lieu of a Company pension contribution and the allowance paid for salary in excess of the internal cap on pensionable salary

Individual elements of remuneration
Base salary and fees

Base salaries for individual Directors are reviewed annually by the Remuneration Committee and are set with reference to individual performance experience and responsibilities within the Group as well as with reference to similar roles in comparable companies As reported in the Company's previous Directors' Remuneration Report, there were no salary increases for Executive Directors in 2013 This information has been audited

For 2014 Richard Howson and Richard Adam did not receive an increase in salary

The base salaries for 2013 and 2014 are as set out below

	2013 base salary	**2014 base salary***	Increase
Richard Adam	£450,000	**£450,000**	Nil
Richard Howson	£560,000	**£560,000**	Nil

* 2014 base salaries are payable from 1 April 2014

The remuneration policy for Non-Executive Directors, other than the Chairman, is determined by the Board Fees reflect the responsibilities and duties placed upon Non Executive Directors whilst also having regard to market practice The Non-Executive Directors do not participate in any of the Group's share incentive plans nor do they receive any benefits or pension contributions

Non Executive Director fees		2013	**2014**
	Basic fee	£50,000	**£50,000**
	Additional fee for		
	- Chairmanship of the Remuneration Committee	£10,200	**£10,200**
	- Chairmanship of the Audit Committee	£10,200	**£10,200**
	- Senior Independent Non Executive Director	£10,200	**£10,200**

Phillip Rogerson received a fee of £193,000 in 2013 and no increase is proposed for 2014 He does not receive any additional fees for Committee memberships On appointment as Chairman in 2014 Philip Green will receive a fee of £193,000 annually

2013 Annual Bonus

To encourage behaviours which facilitate profitable growth and future development of business, for 2013, the annual bonus was based on the following performance targets This information has been audited

Executive Director	Financial performance	Personal performance
Richard Howson and Richard Adam	50% of salary based on achievement and out performance of EPS target	25% of salary based on personal objectives 25% of salary based on 'stretch' individual targets The personal objectives and 'stretch' individual targets of the Executive Directors were agreed by the Remuneration Committee at the start of the 2013 financial year, and assessed in February 2014 to establish the extent to which they had been met

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Performance against targets

Financial performance (up to 50% of salary)	Target EPS of 40 0 pence was not achieved and therefore no bonus was awarded for financial performance
Personal objectives (up to 25% of salary)	For 2013, these objectives included **Richard Howson** Lead the Group's Health & Safety and Sustainability strategies and aim to deliver continuous improvement in performance Ensure effective succession management is in place for leadership populations across the Group Maximise returns from work-winning opportunities and target continuous improvement in the Group's customer satisfaction metrics Lead the ongoing development of the Group's strategy in line with its published objectives Following its review in February 2014 the Committee concluded that Richard Howson had met sufficient of his personal objectives for 2013 to award 17 5 per cent of salary in respect of this element **Richard Adam** Maximise the Group's operating performance by reference to underlying profit before tax, and cash flow conversion Drive margin improvement through effective control of overhead costs Ensure the Group maximises returns from its supply-chain initiatives Lead the Group's investor relations programme and ensure the Group's performance and other developments are effectively communicated to its debt and equity investors Following its review in February 2014, the Committee concluded that Richard Adam had met sufficient of his personal objectives for 2013 to award 17 5 per cent of salary in respect of this element
'Stretch' individual targets (up to 25% of salary)	For 2013, these objectives included **Richard Howson** Maximise returns from the Group's work winning activities and ensure that by 31 December 2013 the Group has adequate levels of revenue visibility against its budgeted targets for 2014 Ensure strong and effective management is in place to deliver the business plan targets across all of the Group's key operating entities Drive contract performance improvements across the Group Following its review in February 2014, the Committee concluded that Richard Howson had met sufficient of his stretch objectives for 2013 to award 18 75 per cent of salary in respect of this element **Richard Adam** Deliver significant cost savings through a review of the Group's back-office processing functions Implement improvement initiatives as required to maximise the performance of the Group Target to deliver improvements in the Group's performance on working capital management, particularly during the second half of 2013 Following its review in February 2014, the Committee concluded that Richard Adam had met sufficient of his stretch objectives for 2013 to be awarded 25 per cent of salary in respect of this element

Annual bonus payments to Executive Directors also have the following additional restrictions applied

- 50% of any bonus earned is deferred into shares in the Company for a period of three years under the deferred bonus plan
- A malus provision is operated which 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 malus is operated

For 2013, the value of each Executive Directors' annual bonus paid in cash and deferred into shares were as follows

	Cash payment	Deferred into shares	Total annual bonus shown in column (c) of total remuneration table on page 61 in respect of 2013
Richard Adam	£95,625	£95 625	£191 250
Richard Howson	£101,500	£101 500	£203,000

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Summary of 2014 bonus operation

The Remuneration Committee is not making any changes to the annual bonus policy and structure for 2014 The bonus design for 2014 will mirror that of the 2013 scheme and the maximum annual bonus opportunity remains at 100% of base salary The Remuneration Committee considers that the actual annual bonus targets are commercially sensitive and should therefore remain confidential to the Company They provide our competitors with insight into our business plans, expectations and our strategic actions However, the Remuneration Committee will continue to disclose how the bonus pay-out delivered relates to performance against the targets on a retrospective basis

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 RPI as shown below This information has been audited

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 2013	(4 7)% pa
% of 2011 award due to vest in April 2014	Nil

Long-term incentives awarded during the financial year

The table below outlines awards made under the LEAP to Executive Directors in 2013 This information has been audited

		Award basis	Number of shares	Face value of the award	Vesting at threshold	Performance period
4 April 2013	Richard Adam	150% of base salary	244 477	£675,001	25% of base salary	1 January 2013 to 31 December 2015
4 April 2013	Richard Howson	150% of base salary	304,238	£840,001	25% of base salary	1 January 2013 to 31 December 2015

* The face value is based on the issue price at the date of grant of £2 761

The performance conditions for these LEAP awards are as follows

Annual compound growth in EPS element (100% of salary)

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

	Vesting (% of salary for Executive Directors)	EPS growth
Threshold	16 7%	6% pa
Target	50%	9% pa
Maximum	100%	12% pa

Average annual cash flow conversion rate element (50% of salary)

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

	Vesting (% of salary for Executive Directors)	Annual average cash flow conversion rate
Threshold	8 3%	95%
Target	25%	100%
Maximum	50%	110%

Long-term incentive awards for 2014
It is intended that the LEAP awards for 2014 will be made under the new LEAP being put to shareholders for approval at the Annual General Meeting The rules are broadly similar to those already in place but have been updated to ensure that they include good governance provisions which have emerged since the last set of rules was adopted A summary of the key terms of the new rules are set out in the notice of the Annual General Meeting

To ensure that the performance metrics and targets for the LEAP are consistent with the Group's objectives, for 2014, the Remuneration Committee is also proposing the addition of quantifiable and stretching strategic objectives which will complement the financial objectives already embedded in the LEAP These strategic objectives support our focus on three key areas of the business growth, sustainability and employee contribution to the wider community

In summary the structure of the LEAP awards for 2104 is as follows

LEAP award

1/3 of maximum (50% of salary) based on average annual EPS growth
1/3 of maximum (50% of salary) based on cash flow conversion rate over the three year performance period
1/3 of maximum (50% of salary) based on strategic performance metrics that are aligned to Carillion s long term strategy period

Year 0 Year 1 Year 2 Year 3

Performance Share Plan award paid in shares (amount dependent on performance achieved)

The majority of any 2014 LEAP award will therefore continue to be subject to the EPS and cash flow conversion targets, as set out in the table below

	Vesting (% of maximum for Executive Directors)	50% of salary based on EPS growth	50% of salary based on annual average cash flow conversion rate
Threshold	16 7%	6% pa	95%
Target	50%	9% pa	100%
Maximum	100%	12% pa	110%

One-third of any 2014 LEAP award will be subject to strategic performance metrics that are aligned to the Company s sustainability agenda and that drive shareholder value For 2014, this will be based on three quantifiable and stretching strategic measures that will apply equally

- delivery of sustainability through measurable cost-saving and efficiencies that will provide contributions to the Company's profit of £25 million £30 million and £32 million in 2014 2015 and 2016 respectively,
- delivery of employee engagement in sustainability measured through a target of 25% of Carillion's employees undertaking community work in Company time by the end of 2016, and
- strategic growth measured through the achievement of secured and probable, profitable new orders over the performance period with a book-to bill ratio of more than 1

The Remuneration Committee will determine any sliding scale of performance assessment to apply to each strategic element when the grant is made Vesting under each strategic element will be based on an audited assessment of performance that will be provided to the Remuneration Committee

In addition, the Remuneration Committee must be satisfied that the vesting reflects the underlying performance of Carillion and retains the flexibility to adjust the vesting amount to ensure it remain appropriate It is often not possible to assess this formulaically and any adjustment will depend on the nature timing and materiality of any contributory factors

In order to maintain transparency the Remuneration Committee will disclose how the Company has performed against each of the strategic metrics at the end of the performance period and will disclose any adjustments made to ensure that vesting reflects appropriately the underlying performance of the business

For the avoidance of doubt, no changes are proposed to the maximum LEAP opportunity which will remain at a policy of awarding 150 per cent of salary annually and the proportion of the award vesting for threshold performance remains at 25 per cent of salary

Total pension entitlements (including defined benefit schemes)
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 Salary supplements are paid on salary over the internal cap

Executive Directors receive pension contributions and supplements up to 40% of salary Executive Directors who participate in the Company's defined contribution plan are required to pay 10% of the earnings cap

Richard Howson is also a deferred member of the defined benefit scheme The defined benefit scheme was closed to future accrual in April 2009 and 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 Richard Howson is a deferred member of this scheme and details of the pension accrued to him is included below

	Accrued pension at 31 December 2013/(2012)	Change in accrued pension over 2013 net of inflation	Normal Retirement Date
Richard Howson	£27 407 (£26,870)	Nil (nil)	3 August 2033

1 The pension figures use CPI (rather than RPI) to revalue deferred benefits from 1 January 2011 in line with legal advice received from the legal advisors to the trustee of the scheme
2 The accrued pension allows for inflation from the member s date cessation to future accrual to the current date consistent with the approach taken in prior years The benefit the member will receive on retirement will be based on statutory revaluations which may differ
3 Figures are calculated in line with the requirements effective from 1 October 2013
4 Prior year figures are shown in brackets

As the defined benefit scheme is closed, early retirement benefits (not on the grounds of ill health) are available from age 55 reduced for early payment In the event of ill health early retirement the accrued benefits may be paid at any age with or without a reduction for early payment at the discretion of the pension scheme trustees

Death-in service benefits are provided as part of membership of these plans

Payments to past Directors
There were no payments made to past Directors during the period in respect to services provided to the Company as a Director

Payments for loss of office
There were no payments for loss of office during the period

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Shareholding guidelines and total shareholdings of Directors

To provide alignment with shareholders' interests and to promote share ownership, each Executive Director is required to hold the net number of shares acquired through the LEAP and, with effect from 1 January 2014, the deferred bonus plan until the value of their total shareholding is equal to their annual salary The extent to which each Executive Director has met the shareholding guideline is shown in the table below This information has been audited

	Shareholding guidelines	Current shareholdings (per cent of salary)	Type	Owned outright	Unvested: Subject to performance conditions	Unvested: Not subject to performance conditions	Total as at 31 December 2013
Executive Directors							
Richard Adam	100 per cent of salary	118,238	Shares	118,238	N/A	N/A	118,238
		99%*	LEAP award	N/A	638,550	N/A	638,550
			DBP shares	N/A	N/A	61,008	61,008
Richard Howson	100 per cent of salary	85,341	Shares	85,341	N/A	N/A	85,341
		58%*	LEAP award	N/A	746,748	N/A	746,748
			DBP shares	N/A	N/A	57,570	57,570
Non-Executive Directors							
Philip Rogerson	N/A	N/A	Shares	39,630	N/A	N/A	39,630
Philip Green	N/A	N/A	Shares	10,000	N/A	N/A	10,000
Andrew Dougal	N/A	N/A	Shares	5,000	N/A	N/A	5,000
Alison Horner	N/A	N/A	Shares	Nil	N/A	N/A	Nil
Steve Mogford	N/A	N/A	Shares	Nil	N/A	N/A	Nil
Vanda Murray	N/A	N/A	Shares	12,300	N/A	N/A	12,300

* The current shareholdings as a percentage of salary are calculated using the closing Carillion plc share price on 4 March 2014 of 378 pence

Outstanding directors' share awards

The awards held by Executive Directors of the Company under LEAP as at 31 December 2013 are shown below

	As at 1 January 2013 Number	LEAP awards granted during the year Number	Awards vesting during the year Number	Awards/options lapsing during the year Number	As at 31 December 2013 Number	Date of award	Mid market share price on date of award Pence
Richard Adam							
LEAP 2010 (maximum)	192,090	-	-	192,090	Nil	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
LEAP 2013 (maximum)	-	244,477	-	-	244,477	04 04 13	270 1
Richard Howson							
LEAP 2010 (maximum)	138,888	-	-	138,888	Nil	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
LEAP 2013 (maximum)	-	304 238	-	-	304,238	04 04 13	270 1

Performance graph and table

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

TSR Performance 1 January 2013 – 31 December 2013
Rebased to 100

TSR Performance 1 January 2009 – 31 December 2013
Rebased to 100

Table of historic CEO data

Year	CEO	CEO Single figure of remuneration (£ 000)	Annual bonus payout against maximum opportunity (%)	LEAP vesting rates against maximum opportunity (%)
2013	Richard Howson	1,034	36 25%	Nil
2012	Richard Howson	791	Nil	Nil
2011	John McDonough	1,719	100%	21%
2010	John McDonough	1,512	24%	53%
2009	John McDonough	1,666	54%	85%

Percentage change in remuneration of Director undertaking the role of CEO

The table below sets out in relation to salary taxable benefits and annual bonus the increase in pay for Richard Howson compared to all UK employees and the top 100 management roles between 2012 and 2013 The latter population provides a comparison that is based on a consistent set of employees and is a fair representation of our worldwide employee base who are eligible to earn an annual bonus and receive benefits that are broadly consistent with those provided to the Chief Executive

	CEO	Top 100 globally	All UK employees
Salary	Nil	2 61%	2 17%
Taxable benefits	Nil	Nil	Nil
Annual bonus	203,000	16,277	2,196

In 2013, bonuses were paid as shown above Since no bonus was paid in 2012, these have been shown as the percentage change for each category year on year in order to produce a meaningful comparison

Relative importance of spend on pay

The following table sets out the percentage change in dividends and the overall expenditure on pay (as a whole across the organisation)

	2013	2012	Change
Dividends	£75 2m**	£72 9m	3 2%
Overall expenditure on pay	£751 0m	£765 0m	(1 8)%

* Dividends payable in respect of the year ended 31 December 2012
** Dividends payable in respect of the year ended 31 December 2013

The Remuneration Committee considers the spend on sustainability to be another significant use of profits and cash flow A summary of the Company's spend on sustainability can be found in the Sustainability review on pages 34 to 37 (with more details available in our 2013 Sustainability Report which will be published on our website in April 2014)

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Remuneration Committee members and advisers
The Remuneration Committee is responsible for

- setting the framework and policy for remuneration of the Executive Directors,
- determining the remuneration packages for the Executive Directors and the Chairman,
- monitoring the level and structure of remuneration for senior management and approving bonus payments, and
- noting any major changes in employee benefit structures throughout the Group and ensuring that Executive Director remuneration practice is consistent with any such changes

The Remuneration Committee consists exclusively of independent Non Executive Directors Vanda Murray, Steve Mogford, Philip Green and Andrew Dougal Its terms of reference can be found on the Company's website, www carillionplc com The Remuneration Committee determines the 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 the Group HR Director 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 reviewing the ongoing appointment of Deloitte as adviser to the Remuneration Committee Deloitte's fees for providing such advice are charged on a time basis and amounted to £20,025 (2012 £20,163) for the year ended 31 December 2013 The Remuneration Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender The Remuneration Committee undertook such an assessment during the year and remains satisfied with Deloitte's appointment as advisers to the Remuneration Committee Deloitte, which was appointed by the Remuneration Committee in 2005, also provides certain specialist consultancy services and internal audit resource but otherwise has no other connections with the Group The Remuneration Committee is satisfied that the remuneration advice provided by Deloitte is objective and independent

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 Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended in 2013) It met three times during the year and all members attended all meetings

Statement of voting at 2013 Annual General Meeting

Resolution Text	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
Approval of Remuneration Report	257,157,227	92%	21 616 032	8%	279,038,219	440,113

Approved by order of the Board

Vanda Murray OBE
Chairman of the Remuneration Committee
5 March 2014

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

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

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year Under that law 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

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 Strategic Report, 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

Responsibility statement of the Directors in respect of the annual financial report

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 2013 Annual Report and Accounts, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole,
- the Strategic Report, included in this 2013 Annual Report and Accounts, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and
- the 2013 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

Approved by order of the Board

Richard Adam FCA

Group Finance Director
5 March 2014

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Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Carillion plc for the year ended 31 December 2013 which comprise the Group Consolidated Income Statement, the Group Consolidated and Parent Company Balance Sheets, the Group Consolidated Statement of Comprehensive Income, the Group Consolidated changes in Equity, the Group Consolidated Cash Flow Statement and the related notes 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 2013 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS),
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, and
- 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

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows

Revenue and margin recognition (total revenue £4,080 9 million)

Refer to page 50 (Report of the Audit Committee), page 81 (Note 1 Significant accounting policies - Revenue recognition) and page 111 (Note 32 Accounting estimates and judgements - Revenue recognition)

Contract judgements

The risk - The Group recognises revenue based on the stage of completion of contracts by taking the proportion of costs incurred to the balance sheet date compared to the estimated final costs of the contract at completion and therefore relies on estimates in relation to the final out-turn of costs on each contract Changes to these estimates could give rise to material variances in the amount of revenue and margin recognised Cost contingencies may also be included in these estimates to take account of specific risks, or claims against the Group, arising within each contract These contingencies are reviewed by the Group on a regular basis throughout the contract life and adjusted where appropriate Finally, variations and claims are recognised on a contract by contract basis where the Group believes the rights and obligations exist given the progress of negotiations There is therefore a high degree of management judgement in assessing the level of these contingencies recognising variations and claims, and estimating the revenue recognised by the Group with respect to the final out-turn on contracts

Our response - We evaluated the controls designed and implemented by the Group to provide assurance that the estimates used in assessing the final out-turn of costs on each contract are appropriate We then selected a sample of contracts using a variety of quantitative and qualitative factors to ensure that we assess and challenge the most significant and more complex contract positions In this area our audit procedures included, among others

- considering the financial performance of contracts against budget and historical trends and assessing the accuracy of the amounts recognised in the financial statements,
- obtaining detailed position papers from the Group to support estimates made, challenging these estimates with senior operational, commercial and financial management and assessing whether or not these estimates showed any evidence of management bias,
- assessing the recoverability of contract balances by way of agreement to third party certifications and confirmations, and comparing against the underlying books and records,
- completing a number of site visits across the UK, Middle East and Canada, meeting local management and overseas auditors physically inspecting the stage of completion of individual projects and identifying areas of complexity through observation and discussion with site personnel,
- challenging the Group's judgement in respect of forecast contract out-turn, quantum and allocation of contingencies, settlements and the recoverability of contract balances with reference to our own assessments, historical outcomes and industry norms,
- analysing correspondence and meeting minutes with customers around variations and claims, obtaining assessments of these from the Group's legal or technical experts, if applicable
- inspecting the contracts for key clauses, identifying relevant contractual mechanisms such as pain/gain" shares liquidated damages and success fees and assessing their impact on the accuracy of the amounts recognised in the financial statements and
- assessing whether the amounts recognised in the financial statements resulting from the estimates and assumptions applied represented a balanced view of the risks and opportunities across the portfolio of contract positions, and
- we also considered the adequacy of the Group's disclosures in respect of these judgements

Other revenue judgements

The risk - The timing of revenue recognition from licence arrangements is dependent on a number of criteria, including the estimated fair value of any future revenue streams These criteria state that revenue recognition is required to be consistent with the transfer of the risks and rewards to the contract counterparty The Group's estimate of the fair value of future royalty streams is judgemental and where this is estimated as not significant then the determinable element of the sale income is recognised immediately with contingent future royalty revenue recognised when earned If the fair value of the future royalty stream is assessed as significant this indicates that the risks and rewards of ownership have not substantially transferred to the counterparty such that the determinable element of revenue should be spread over an appropriate period Given that the fair value assessments are based on a range of variables outside of management's control, this represents an area of judgement

Our response - In transactions where there is a potential future royalty stream we obtained and assessed the contractual terms of the transaction We also considered the Group's assessment of the fair value attributed to the future royalty stream and challenged the assumptions applied with reference to prevailing market data, including historical experience in other territories

We also considered the adequacy of the Group's disclosures for such transactions in respect of the accounting policies adopted revenue income recognised in the period and the key judgements and estimates made by the Group in arriving at the conclusions

Valuation of goodwill (£1,449 7 million)
Refer to page 51 (Report of the Audit Committee), page 80 (Note 1 Significant accounting policies - Goodwill and other intangible assets) and pages 92 to 93 (Note 11 Intangible assets)

The risk - The Group's balance sheet includes goodwill principally arising from historic acquisitions in the UK The risk is that the aggregated book value of the goodwill exceeds its recoverable amount and therefore this asset is impaired and should be written down in value Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas for our audit Given the relative size of the goodwill in the Group balance sheet, relatively small changes in these assumptions could give rise to material changes in the assessment of the carrying value of goodwill

Our response - The Group annually carries out an impairment assessment of goodwill using a value in use model which is based on the net present value of the forecast earnings of the cash generating unit The value in use of each cash generating unit ("CGU") is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts

Our procedures included, among others, assessing the key assumptions applied by the Group in determining the recoverable amounts of these CGUs In particular, we considered the consistency and appropriateness of allocation of businesses into CGUs and the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy, challenged the assumptions used in the calculation of the discount rates used by the Group, including comparisons with external data sources and consideration of the potential risk of management bias, and performed our own sensitivity analysis, including a reasonably probable reduction in assumed growth rates and cash flows We also assessed whether the Group's disclosures (see Note 11) about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of goodwill

Non-recurring operating and non-operating items (£44 9 million)
Refer to page 51 (Report of the Audit Committee) and pages 87 and 88 (Note 4 Non recurring operating items and non operating items)

The risk - The Group recognises adjustments for non-recurring operating and non operating items to reconcile from operating profit under EU-IFRS to 'underlying profit" Given the scrutiny of underlying profit by external parties any adjustments remain judgemental and are therefore subject to greater risk In the current year the Group has specifically recognised a net £44 9 million in respect of non recurring operating and non operating items in arriving at underlying profit

Our response - In this area our audit procedures included among others obtaining a breakdown of costs recognised in the period, agreeing amounts back to available evidence, particularly payroll records and leasing documentation, and challenging the Group's classification in respect of amounts separately disclosed as distinct from those which are absorbed within operating profit without separate disclosure We also considered whether, (a) appropriate prominence is given in the Annual Report to the EU IFRS financial information and related commentary compared to the "underlying" financial information and related commentary, (b) whether the EU-IFRS and "underlying" financial information is reconciled with sufficient prominence given to that reconciliation, (c) whether the basis of the "underlying" financial information is clearly and accurately described, and (d) whether the "underlying" financial information is not otherwise misleading in the form and context in which it appears in the Annual Report

3 Our application of materiality and an overview of the scope of our audit
The materiality for the financial statements as a whole was set at £13 0 million This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the company in assessing financial performance of the Group Materiality represents 8 5% of group profit before taxation adjusted for the rationalisation costs set out in Note 4 (Non-recurring operating items and non operating items) and 11 8% of the Group profit before taxation as disclosed on the face of the income statement

We agreed with the Audit Committee to report to it separately each corrected or uncorrected misstatement we identified through our audit with a value in excess of £9 7 million, other audit misstatements below £9 7 million that we believe warranted separate reporting on qualitative grounds, and the aggregate of other corrected and uncorrected misstatements we identified through our audit with an individual value in excess of £650,000

Audits for Group reporting purposes were performed by the Group audit team in the United Kingdom and by component audit teams in Canada, the United Arab Emirates, and Oman These audits covered over 94% of total Group revenue, over 84% of Group profit before taxation, and over 89% of total Group assets

The audits undertaken for Group reporting purposes at the key reporting components of the company were all performed to component materiality levels These component materiality levels were set individually for each component and ranged from £8 0 million to £10 0 million

Detailed audit instructions were sent to all the auditors in these locations These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the Group audit team The Group audit team visited the following locations the United Kingdom Canada, the United Arab Emirates, and Oman Telephone meetings were also held with the auditors at these locations and the majority of the other locations that were not physically visited

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified
In our opinion

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

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5 We have nothing to report in respect of matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact or that is otherwise misleading

In particular, we are required to report to you if

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, or
- the Report of the Audit Committee does not appropriately address matters communicated by us to the audit committee

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 69, in relation to going concern, and
- the part of the Corporate Governance Statement on page 45 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review, and

We have nothing to report in respect of the above responsibilities

Scope of report and responsibilities
As explained more fully in the Directors' responsibilities statement (set out on page 69), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view 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 This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www kpmg com/uk/auditscopeukco2013a which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions

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
5 March 2014

Financials

In this section

Consolidated income statement
For the year ended 31 December 2013

	Note	2013 £m	2012[1] £m
Total revenue		**4,080 9**	4,402 8
Less Share of jointly controlled entities' revenue		**(748 3)**	(736 6)
Group revenue	2	**3,332 6**	3,666 2
Cost of sales		**(2,984 6)**	(3,279 4)
Gross profit		**348 0**	386 8
Administrative expenses		**(268 2)**	(240 4)
Profit on disposal of Public Private Partnership equity investments		**44 6**	13 2
Group operating profit	3	**124 4**	159 6
Analysed between			
Group operating profit before intangible amortisation and non recurring operating items		**187 8**	193 6
Intangible amortisation[2]		**(19 2)**	(31 4)
Non-recurring operating items[3]	4	**(44 2)**	(2 6)
Share of results of jointly controlled entities	2	**26 5**	34 3
Analysed between			
Operating profit		**41 0**	52 0
Net financial expense		**(10 1)**	(16 0)
Taxation		**(4 4)**	(1 7)
Profit from operations		**150 9**	193 9
Analysed between			
Profit from operations before intangible amortisation and non recurring operating items		**214 3**	227 9
Intangible amortisation[2]		**(19 2)**	(31 4)
Non recurring operating items[3]	4	**(44 2)**	(2 6)
Non-operating items	4	**(0 7)**	(1 2)
Net financial expense	5	**(39 6)**	(27 9)
Analysed between			
Financial income		**7 7**	15 3
Financial expense		**(47 3)**	(43 2)
Profit before taxation		**110 6**	164 8
Analysed between			
Profit before taxation, intangible amortisation, non recurring operating items and non-operating items		**174 7**	200 0
Intangible amortisation[2]		**(19 2)**	(31 4)
Non-recurring operating items[3]	4	**(44 2)**	(2 6)
Non-operating items	4	**(0 7)**	(1 2)
Taxation	7	**(4 3)**	(9 9)
Profit for the year		**106 3**	154 9
Profit attributable to			
Equity holders of the parent		**100 2**	148 8
Non-controlling interests		**6 1**	6 1
Profit for the year		**106 3**	154 9
Earnings per share	8		
Basic		**23 3p**	34 6p
Diluted		**23 2p**	34 4p

(1) Restated on adoption of the amendment to IAS 19 (see note 34)
(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 2013

	2013 £m	2013 £m	2012[1] £m	2012[1] £m
Profit for the year		**106 3**		154 9
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of net defined benefit liability	**(42 4)**		(58 7)	
Taxation relating to items that will not be reclassified	**(1 3)**		8 4	
	(43 7)		(50 3)	
Items that may be reclassified subsequently to profit or loss				
Gain on hedge of net investment in foreign operations	**3 3**		1 5	
Currency translation differences on foreign operations	**(15 5)**		(8 8)	
Movement in fair value of cash flow hedging derivatives	**(6 1)**		(7 1)	
Reclassification of effective portion of cash flow hedging derivatives to profit	**3 1**		2 1	
Increase in fair value of available for sale assets	**-**		4 9	
Reclassification of fair value movements on disposal of available for sale assets	**(15 6)**		-	
Taxation relating to items that may be reclassified	**1 9**		(0 4)	
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	**18 3**		10 4	
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	**(2 1)**		(3 2)	
	(12 7)		(0 6)	
Other comprehensive expense for the year		**(56 4)**		(50 9)
Total comprehensive income for the year		**49 9**		104 0
Attributable to				
Equity holders of the parent		**44 2**		97 9
Non controlling interests		**5 7**		6 1
		49 9		104 0

(1) Restated on adoption of the amendment to IAS 19 (see note 34)

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Consolidated statement of changes in equity

For the year ended 31 December 2013

	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 2013	**215 1**	**21 2**	**(23 8)**	**(21 5)**	**15 8**	**433 2**	**358 9**	**998 9**	**11 8**	**1,010 7**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	**100 2**	**100 2**	**6 1**	**106 3**
Other comprehensive income										
Net gain on hedge of net investment in foreign operations	-	-	**3 3**	-	-	-	-	**3 3**	-	**3 3**
Currency translation differences on foreign operations	-	-	**(15 1)**	-	-	-	-	**(15 1)**	**(0 4)**	**(15 5)**
Movement in fair value of cash flow hedging derivatives	-	-	-	**(6 1)**	-	-	-	**(6 1)**	-	**(6 1)**
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	**3 1**	-	-	-	**3 1**	-	**3 1**
Reclassification of fair value movements on disposal of available for sale assets	-	-	-	-	**(15 6)**	-	-	**(15 6)**	-	**(15 6)**
Remeasurement of net defined benefit liability	-	-	-	-	-	-	**(42 4)**	**(42 4)**	-	**(42 4)**
Taxation	-	-	**(0 8)**	**2 7**	-	-	**(1 3)**	**0 6**	-	**0 6**
Share of recycled cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	**18 3**	-	-	-	**18 3**	-	**18 3**
Share of change in fair value of effective cash flow hedges within jointly controlled entities (net of taxation)	-	-	-	**(2 1)**	-	-	-	**(2 1)**	-	**(2 1)**
Transfer between reserves (see note 24)	-	-	-	-	-	**(18 6)**	**18 6**	-	-	-
Total comprehensive income/(expense)	-	-	**(12 6)**	**15 9**	**(15 6)**	**(18 6)**	**75 1**	**44 2**	**5 7**	**49 9**
Transactions with owners										
Contributions by and distributions to owners										
Acquisition of own shares	-	-	-	-	-	-	**(2 2)**	**(2 2)**	-	**(2 2)**
Equity settled transactions (net of taxation)	-	-	-	-	-	-	**1 2**	**1 2**	-	**1 2**
Cash settlement of vested equity settled transactions	-	-	-	-	-	-	**(0 3)**	**(0 3)**	-	**(0 3)**
Dividends paid	-	-	-	-	-	-	**(74 6)**	**(74 6)**	**(1 1)**	**(75 7)**
Total transactions with owners	-	-	-	-	-	-	**(75 9)**	**(75 9)**	**(1 1)**	**(77 0)**
At 31 December 2013	**215 1**	**21 2**	**(36 4)**	**(5 6)**	**0 2**	**414 6**	**358 1**	**967 2**	**16 4**	**983 6**
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[1]	-	-	-	-	-	-	148 8	148 8	6 1	154 9
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
Remeasurement of net defined benefit liability[1]	-	-	-	-	-	-	(58 7)	(58 7)	-	(58 7)
Taxation[1]	-	-	(0 4)	-	-	-	8 4	8 0	-	8 0
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[2]	-	-	-	-	-	-	-	-	4 3	4 3
Total transactions with owners	-	-	-	-	-	-	(71 9)	(71 9)	(3 9)	(75 8)
At 31 December 2012	215 1	21 2	(23 8)	(21 5)	15 8	433 2	358 9	998 9	11 8	1 010 7

(1) [illegible]

Consolidated balance sheet

As at 31 December 2013

	Note	2013 £m	2012[1] £m
Non-current assets			
Property, plant and equipment	10	**128 2**	125 8
Intangible assets	11	**1,552 8**	1,536 6
Retirement benefit assets	31	**3 8**	0 7
Investments in jointly controlled entities	12	**152 0**	176 4
Other investments	13	**7 3**	61 5
Deferred tax assets	14	**112 6**	123 8
Total non-current assets		**1,956 7**	2,024 8
Current assets			
Inventories	15	**48 6**	55 3
Trade and other receivables	17	**1,212 3**	1 111 5
Cash and cash equivalents	18	**413 7**	657 1
Derivative financial instruments	27	**2 2**	0 4
Current asset investments	19	**2 4**	2 5
Income tax receivable		**4 0**	10 8
Total current assets		**1,683 2**	1 837 6
Total assets		**3,639 9**	3,862 4
Current liabilities			
Borrowing	20	**(22 5)**	(35 3)
Derivative financial instruments	27	**(13 2)**	(7 1)
Trade and other payables	21	**(1,588 5)**	(1,614 6)
Provisions	22	**(32 7)**	(27 0)
Income tax payable		**(4 7)**	(3 8)
Total current liabilities		**(1,661 6)**	(1 687 8)
Non-current liabilities			
Borrowing	20	**(606 4)**	(777 6)
Other payables	21	**-**	(9 1)
Retirement benefit liabilities	31	**(373 9)**	(351 7)
Deferred tax liabilities	14	**(10 2)**	(16 3)
Provisions	22	**(4 2)**	(9 2)
Total non-current liabilities		**(994 7)**	(1,163 9)
Total liabilities		**(2,656 3)**	(2,851 7)
Net assets		**983 6**	1,010 7
Equity			
Share capital	23	**215 1**	215 1
Share premium	24	**21 2**	21 2
Translation reserve	24	**(36 4)**	(23 8)
Hedging reserve	24	**(5 6)**	(21 5)
Fair value reserve	24	**0 2**	15 8
Merger reserve	24	**414 6**	433 2
Retained earnings	24	**358 1**	358 9
Equity attributable to shareholders of the parent		**967 2**	998 9
Non-controlling interests		**16 4**	11 8
Total equity		**983 6**	1,010 7

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

The financial statements were approved by the Board of Directors on 5 March 2014 and were signed on its behalf by

Richard Adam FCA
Group Finance Director
5 March 2014

Consolidated cash flow statement

For the year ended 31 December 2013

	Note	2013 £m	2012[1] £m
Cash flows from operating activities			
Group operating profit		**124 4**	159 6
Depreciation and amortisation		**44 3**	62 2
Loss on disposal of property, plant and equipment		**2 3**	1 6
Profit on disposal of Public Private Partnership equity investments		**(44 6)**	(13 2)
Other non-cash movements		**(6 1)**	(5 5)
Non-recurring operating items		**44 2**	2 6
Operating profit before changes in working capital		**164 5**	207 3
(Increase)/decrease in inventories		**(1 1)**	15 2
Increase in trade and other receivables		**(123 8)**	(36 6)
Decrease in trade and other payables		**(40 6)**	(143 5)
Cash (used in)/generated from operations before pension deficit recovery payments and rationalisation costs		**(1 0)**	42 4
Deficit recovery payments to pension schemes		**(39 2)**	(30 2)
Rationalisation costs		**(22 0)**	(28 6)
Cash used in operations		**(62 2)**	(16 4)
Financial income received		**11 1**	15 8
Financial expense paid		**(30 9)**	(27 3)
Acquisition costs		**(1 0)**	(0 6)
Taxation receipts		**4 6**	2 9
Net cash flows from operating activities		**(78 4)**	(25 6)
Cash flows from investing activities			
Disposal of property, plant and equipment		**0 9**	2 7
Disposal of jointly controlled entity and other investments	30	**143 7**	45 9
Dividends received from jointly controlled entities		**18 2**	13 6
Loan advance repayments received from jointly controlled entities		**2 9**	6 0
Disposal and closure of businesses	30	**(0 3)**	(3 8)
Decrease in current asset investments		**0 1**	1 8
Acquisition of subsidiaries, net of cash acquired	30	**(20 3)**	(4 9)
Acquisition of intangible assets		**(6 5)**	(3 7)
Acquisition of property, plant and equipment		**(21 6)**	(14 6)
Acquisition of equity in and loan advances to jointly controlled entities		**(6 1)**	(25 7)
Acquisition of other non-current asset investments		**(3 8)**	(3 0)
Net cash flows from investing activities		**107 2**	14 3
Cash flows from financing activities			
(Repayment)/draw down of bank and other loans		**(171 0)**	277 2
Repayment of finance lease liabilities		**(16 7)**	(16 8)
Acquisition of own shares		**(2 2)**	(3 0)
Payment to employees in settlement of share options		**(0 3)**	(0 8)
Dividends paid to equity holders of the parent		**(74 6)**	(70 4)
Dividends paid to non-controlling interests		**(1 1)**	(8 2)
Net cash flows from financing activities		**(265 9)**	178 0
(Decrease)/increase in net cash and cash equivalents		**(237 1)**	166 7
Net cash and cash equivalents at 1 January		**652 2**	487 7
Effect of exchange rate fluctuations on net cash and cash equivalents		**(4 7)**	(2 2)
Net cash and cash equivalents at 31 December	18	**410 4**	652 2

(1) Restated on adoption of the amendment to IAS 19 (see note 34)

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 2013 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 5 March 2014

Statement of compliance
The Group's financial statements have been approved by the Directors and prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU) The Company has elected to prepare its financial statements in accordance with UK GAAP These are presented on pages 114 to 119

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

The financial statements are prepared on a going concern basis based on the assessment made by the Directors as described in the Operating and financial review on page 33

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

The following standards and interpretations have been adopted in 2013 as they are mandatory for the year ended 31 December 2013

- Amendment to International Accounting Standard (IAS) 1 'Presentation of items of other comprehensive income'
- Amendment to International Accounting Standard (IAS) 19 Employee benefits'
- International Financial Reporting Standard (IFRS) 13 'Fair value measurement'

The amendment to IAS 1 'Presentation of items of other comprehensive income' increases the required level of disclosure within the statement of comprehensive income The amendment requires items within the statement of comprehensive income to be analysed between items that will not be reclassified subsequently to profit or loss and items that may be reclassified subsequently to profit or loss in accordance with the respective IFRS to which the item relates The amendment has been applied retrospectively and hence the presentation of items in the statement of comprehensive income has been restated to reflect the change The amendment to IAS 1 has had no impact on profit, earnings per share or net assets in the year ended 31 December 2013

The amendment to IAS 19 'Employee benefits' makes changes to the recognition and measurement of the defined benefit pension expense and termination benefits and disclosures relating to all employee benefits The interest cost and expected return on scheme liabilities and assets used in the previous version of IAS 19 have been replaced with a 'net interest' amount which is calculated by applying a discount rate to the net defined benefit obligation This amendment has a corresponding impact on remeasurement of net defined benefit liability recognised in the statement of comprehensive income with no overall change to the net retirement benefit liability in the balance sheet Furthermore, certain costs previously recorded as part of finance expenses have now been presented within administrative expenses Comparative information has been restated for the effect of the retrospective application of the amendment to IAS 19 as disclosed in note 34

IFRS 13 'Fair value measurement' establishes a single framework for measuring fair value that is required by other standards The standard applies to both financial and non-financial items measured at fair value The standard defines fair value on the basis of an 'exit price' and uses a fair value hierarchy', which results in a market-based, rather than entity specific measurement The standard will impact upon the measurement of fair value for certain assets and liabilities as well as the associated disclosures The adoption of this standard has had no material impact on profit, earnings per share or net assets in the year ended 31 December 2013

The following standards and interpretations, which were not effective as at 31 December 2013 and have not been early adopted by the Group, will be adopted in future accounting periods

- International Financial Reporting Standard (IFRS) 9 Financial instruments'[1]
- International Financial Reporting Standard (IFRS) 10 Consolidated financial statements'[2]
- International Financial Reporting Standard (IFRS) 11 'Joint arrangements'[2]
- International Financial Reporting Standard (IFRS) 12 Disclosure of interests in other entities'[2]

None of the standards above are expected to have a material impact on the Group

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 2013 Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases The financial statements for the vast majority 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 form 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 2013

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

(1) Not yet endorsed by the EU
(2) Effective date 1 January 2014

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 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
- John Laing Integrated Services consumption of economic benefits over 25 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

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1 Significant accounting policies (continued)

Revenue recognition

Revenue represents the fair value of consideration receivable, excluding sales-related taxation, 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
- Revenue from the sale of a licence is recognised immediately where an agreement is in substance, an outright sale For an outright sale to have occurred, the Group must have a signed non cancellable contract have provided the licensee with the rights to freely exploit its contractual rights have no significant ongoing delivery obligations to perform and have received a fee which is not expected to be subject to material adjustment based on future activity Where there is an element of contingent revenue to such an agreement, an assessment of the estimated fair value of this future revenue is considered If this fair value is minimal then the risks and rewards of the agreement are considered to have been transferred in full and therefore the determinable sale income is recognised as revenue immediately with any contingent revenue recognised as it is earned Should the contingent revenue be assessed as significant, the sale income is recognised as revenue over a period consistent with the life of the technology or other appropriate measure

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 improvements	Period of lease
Plant, machinery and vehicles	Three-10 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 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 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

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

Current asset investments

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

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

Taxation

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

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

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

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

Foreign currencies

In individual entities, transactions denominated in foreign currencies are translated into the appropriate 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 prevailing at the balance sheet date Income statements and cash flows of overseas entities are translated into sterling at rates approximating to the foreign exchange rates at the date of the transaction Gains or losses arising from the consolidation of overseas entities are recognised in the translation reserve

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

Employee benefits

(a) Retirement benefit obligations

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

For defined benefit pension schemes, the IAS 19 cost of providing benefits is calculated annually by independent actuaries using the defined accrued benefits method for schemes closed to future accrual and the projected unit credit method for ongoing schemes The charge to the income statement reflects the current service cost of such obligations, and where applicable past service costs and is included within administrative expenses

The net interest expense in the income statement is calculated by applying a discount rate to the net defined benefit obligation Certain costs associated with the administration of the Group's defined benefit pensions schemes are included within administrative expenses

The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of the scheme liabilities over the fair value of scheme assets When the calculation results

Notes to the consolidated financial statements
continued

1 Significant accounting policies (continued)
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 small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above.

Where hedge accounting is not applied, movements in fair value are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

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

2 Segmental reporting

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

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

Operating segments

The Group is comprised of the following main operating segments

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

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

	2013		2012[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[2]				
Group	**2,029 4**	**92 8**	2,131 4	100 0
Share of jointly controlled entities	**271 5**	**25 2**	228 3	20 9
	2,300 9	**118 0**	2,359 7	120 9
Inter segment	**85 0**	**-**	87 3	-
Total	**2,385 9**	**118 0**	2,447 0	120 9
Public Private Partnership projects				
Group	**2 3**	**46 0**	1 3	17 3
Share of jointly controlled entities	**234 6**	**12 4**	286 4	16 5
	236 9	**58 4**	287 7	33 8
Inter-segment	**-**	**-**	-	-
Total	**236 9**	**58 4**	287 7	33 8
Middle East construction services				
Group	**250 3**	**15 4**	261 4	13 8
Share of jointly controlled entities	**233 2**	**3 8**	212 2	15 2
	483 5	**19 2**	473 6	29 0
Inter-segment	**-**	**-**	-	-
Total	**483 5**	**19 2**	473 6	29 0
Construction services (excluding the Middle East)				
Group	**1,050 6**	**44 8**	1,272 1	73 0
Share of jointly controlled entities	**9 0**	**(0 4)**	9 7	(0 6)
	1,059 6	**44 4**	1,281 8	72 4
Inter segment	**2 1**	**-**	3 2	-
Total	**1,061 7**	**44 4**	1,285 0	72 4
Group eliminations and unallocated items	**(87 1)**	**(11 2)**	(90 5)	(10 5)
Consolidated				
Group	**3,332 6**	**187 8**	3 666 2	193 6
Share of jointly controlled entities	**748 3**	**41 0**	736 6	52 0
Total	**4,080 9**	**228 8**	4,402 8	245 6

(1) [illegible] IAS 19 [illegible]

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2 Segmental reporting (continued)
Segmental revenue and profit (continued)
Reconciliation of operating segment results to reported results

	2013 £m	2012[1] £m
Group and share of jointly controlled entities' operating profit before intangible amortisation and non-recurring operating items	**228 8**	245 6
Net financial expense		
- Group	**(39 6)**	(27 9)
- Share of jointly controlled entities	**(10 1)**	(16 0)
Share of jointly controlled entities' taxation	**(4 4)**	(1 7)
Underlying profit before taxation	**174 7**	200 0
Intangible amortisation arising from business combinations	**(19 2)**	(31 4)
Non recurring operating items	**(44 2)**	(2 6)
Non operating items	**(0 7)**	(1 2)
Profit before taxation	**110 6**	164 8
Taxation	**(4 3)**	(9 9)
Profit for the year	**106 3**	154 9

(1) Restated on adoption of the amendment to IAS 19 (see note 34)

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

	2013			2012		
	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	**(17 1)**	**(44 2)**	**(0 7)**	(28 4)	(2 6)	(1 2)
Construction services (excluding the Middle East)	**(2 1)**	-	-	(3 0)	-	-
Total	**(19 2)**	**(44 2)**	**(0 7)**	(31 4)	(2 6)	(1 2)

Depreciation, amortisation and capital expenditure arise in the following segments

	2013		2012	
	Depreciation and amortisation £m	**Capital expenditure £m**	Depreciation and amortisation £m	Capital expenditure £m
Support services	**(27 7)**	**(28 2)**	(40 7)	(13 6)
Middle East construction services	**(2 0)**	**(1 3)**	(2 0)	(1 1)
Construction services (excluding the Middle East)	**(2 7)**	**(1 4)**	(4 0)	(0 5)
Unallocated Group items	**(11 9)**	**(12 9)**	(15 5)	(12 1)
Total	**(44 3)**	**(43 8)**	(62 2)	(27 3)

2 Segmental reporting (continued)
Segmental net assets

	2013			2012[1]		
	Operating assets £m	**Operating liabilities £m**	**Net operating assets/ (liabilities) £m**	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m
Support services						
Intangible assets[2]	**1,270 7**	**-**	**1,270 7**	1,257 8	-	1,257 8
Operating assets	**642 6**	**-**	**642 6**	628 2	-	628 2
Investments	**11 8**	**-**	**11 8**	9 8	-	9 8
Total operating assets	**1,925 1**	**-**	**1,925 1**	1,895 8	-	1 895 8
Total operating liabilities	**-**	**(651 7)**	**(651 7)**	-	(586 1)	(586 1)
Net operating assets/(liabilities)	**1,925 1**	**(651 7)**	**1,273 4**	1,895 8	(586 1)	1,309 7
Public Private Partnership projects						
Operating assets	**2 6**	**-**	**2 6**	6 8	-	6 8
Investments	**36 0**	**-**	**36 0**	112 1	-	112 1
Total operating assets	**38 6**	**-**	**38 6**	118 9	-	118 9
Total operating liabilities	**-**	**(12 8)**	**(12 8)**	-	(17 8)	(17 8)
Net operating assets/(liabilities)	**38 6**	**(12 8)**	**25 8**	118 9	(17 8)	101 1
Middle East construction services						
Operating assets	**275 8**	**-**	**275 8**	263 4	-	263 4
Investments	**76 2**	**-**	**76 2**	73 0	-	73 0
Total operating assets	**352 0**	**-**	**352 0**	336 4	-	336 4
Total operating liabilities	**-**	**(256 8)**	**(256 8)**	-	(260 6)	(260 6)
Net operating assets/(liabilities)	**352 0**	**(256 8)**	**95 2**	336 4	(260 6)	75 8
Construction services (excluding the Middle East)						
Intangible assets[2]	**258 4**	**-**	**258 4**	261 2	-	261 2
Operating assets	**406 8**	**-**	**406 8**	363 5	-	363 5
Investments	**35 3**	**-**	**35 3**	43 0	-	43 0
Total operating assets	**700 5**	**-**	**700 5**	667 7	-	667 7
Total operating liabilities	**-**	**(652 8)**	**(652 8)**	-	(798 2)	(798 2)
Net operating assets/(liabilities)	**700 5**	**(652 8)**	**47 7**	667 7	(798 2)	(130 5)
Consolidated before Group items						
Intangible assets[2]	**1,529 1**	**-**	**1,529 1**	1,519 0	-	1,519 0
Operating assets	**1,327 8**	**-**	**1,327 8**	1,261 9	-	1 261 9
Investments	**159 3**	**-**	**159 3**	237 9	-	237 9
Total operating assets	**3,016 2**	**-**	**3,016 2**	3,018 8	-	3,018 8
Total operating liabilities	**-**	**(1,574 1)**	**(1,574 1)**	-	(1,662 7)	(1,662 7)
Net operating assets/(liabilities) before Group items	**3,016 2**	**(1,574 1)**	**1,442 1**	3,018 8	(1,662 7)	1,356 1
Group items						
Deferred tax assets/(liabilities)	**112 6**	**(10 2)**	**102 4**	123 8	(16 3)	107 5
Net cash/(borrowing)	**413 7**	**(628 9)**	**(215 2)**	657 1	(812 9)	(155 8)
Retirement benefits (gross of taxation)	**3 8**	**(373 9)**	**(370 1)**	0 7	(351 7)	(351 0)
Income tax	**4 0**	**(4 7)**	**(0 7)**	10 8	(3 8)	7 0
Other	**89 6**	**(64 5)**	**25 1**	51 2	(4 3)	46 9
Net assets/(liabilities)	**3,639 9**	**(2,656 3)**	**983 6**	3,862 4	(2 851 7)	1 010 7

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012
(2) Arising from business combinations

Notes to the consolidated financial statements
continued

2 Segmental reporting (continued)
Geographic information – by origin

	2013 £m	2012[1] £m
United Kingdom		
Total revenue from external customers	**2,844 9**	3,247 9
Less share of jointly controlled entities' revenue	**(376 7)**	(394 6)
Group revenue from external customers	**2,468 2**	2,853 3
Non-current assets	**1,586 0**	1 586 7
Middle East and North Africa		
Total revenue from external customers	**531 6**	487 1
Less share of jointly controlled entities' revenue	**(250 9)**	(225 7)
Group revenue from external customers	**280 7**	261 4
Non-current assets	**80 5**	78 1
Canada		
Total revenue from external customers	**671 1**	650 9
Less share of jointly controlled entities' revenue	**(120 7)**	(116 3)
Group revenue from external customers	**550 4**	534 6
Non-current assets	**166 5**	174 0
Rest of the World		
Total revenue from external customers	**33 3**	16 9
Less share of jointly controlled entities' revenue	**-**	-
Group revenue from external customers	**33 3**	16 9
Non-current assets	**-**	-
Consolidated		
Total revenue from external customers	**4,080 9**	4,402 8
Less share of jointly controlled entities' revenue	**(748 3)**	(736 6)
Group revenue from external customers	**3,332 6**	3,666 2
Non-current assets		
Total of geographic analysis above	**1,833 0**	1,838 8
Retirement benefit assets	**3 8**	0 7
Other investments	**7 3**	61 5
Deferred tax assets	**112 6**	123 8
Total non-current assets	**1,956 7**	2,024 8

Revenue from the Group's major customer, the UK Government, is shown below

	2013 £m	2012 £m
Support services	**842 5**	924 1
Public Private Partnership projects	**121 3**	175 4
Construction services (excluding the Middle East)	**706 4**	990 1
	1,670 2	2,089 6

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

3 Group operating profit

	2013 £m	2012 £m
Group operating profit has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	**21 5**	27 1
Amortisation of intangible assets	**22 8**	35 1
Impairment of trade receivables	**0 2**	1 3
Loss on disposal of property, plant and equipment	**2 3**	1 6
Operating lease charges	**41 3**	41 2
Foreign exchange losses	**0 6**	0 6
Gain on derivative financial assets and liabilities held for trading	**(1 8)**	(1 3)
Auditors' remuneration		
Fees payable to the Company's auditor		
- the audit of the Company's annual accounts	**0 3**	0 3
- the audit of the Company's subsidiaries	**0 9**	0 9
Total audit fees	**1 2**	1 2
- audit related assurance services	**0 1**	0 1
- taxation compliance services	**0 2**	0 3
- other assurance services	**-**	0 1
Total non audit fees	**0 3**	0 5

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 (2012 £0 2 million)

4 Non-recurring operating items and non-operating items

Non-recurring operating items

	2013 £m	2012 £m
Rationalisation of energy business	**(42 9)**	-
Eaga Partnership Trusts related charges	**(1 1)**	(2 6)
Costs of integration of John Laing Integrated Services	**(0 5)**	-
	(44 5)	(2 6)
Eaga Partnership Trusts National Insurance provision	**14 2**	-
Performance obligations on old energy schemes	**(13 9)**	-
	0 3	-
Total	**(44 2)**	(2 6)

Non recurring operating items amounted to £44 2 million (2012 £2 6 million) and comprised the following

Rationalisation costs of £42 9 million (2012 Nil) relate to the restructuring of Carillion's energy business and include redundancy, restructuring and other costs relating to the Group's commitments under energy efficiency programmes, including the reassessment of the carrying value of assets These costs arose as a result of the Group's decision to review the operational structure of Carillion's energy business in order to ensure that its business model is better aligned to the current market conditions which are being affected by the slow start to the Green Deal and Energy Company Obligation market as described in the Strategy review on page 9 and the Performance and financial review on page 26

Eaga Partnership Trusts (EPT) related charges of £1 1 million (2012 £2 6 million) relate to a Share Incentive Plan (SIP) under which certain employees are able to receive free shares at the discretion of the EPT The cost of these shares is borne by the EPT through the waiver of its entitlement to dividends from its holding of Carillion plc shares However, under International Financial Reporting Standard 2 'Share-based payments' the Group is required to recognise a non-cash charge in its income statement in relation to awards made under the SIP Given that the Group does not control the timing and quantum of any awards made under the SIP and in view of the fact that the cost of these awards is borne by the EPT, charges in relation to the awards are classified as non recurring operating items

The acquisition of John Laing Integrated Services (JLIS) was completed on 18 October 2013 and £0 5 million (2012 Nil) of costs have been incurred in integrating the business into the Group

In addition, we have amended two provisions relating to obligations entered into prior to the Group's acquisition of Carillion Energy Services in 2011 Following clarification of the tax treatment of certain potential distributions to beneficiaries by the EPT, and in particular those beneficiaries who are no longer employed by the Group, the provision has been reduced by £14 2 million during the year The impact of this release was however partially offset by a separate £13 9 million increase in liabilities on onerous contracts associated with the UK Government's old energy efficiency programmes

An income tax credit of £9 2 million (2012 £0 6 million), relating to the above items has been included within taxation in the income statement

Notes to the consolidated financial statements
continued

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

Non-operating items

Non-operating items of £0 7 million relate to adviser costs incurred on the acquisition of JLIS Non operating costs in 2012 of £1 2 million consisted of £0 9 million relating to the Bouchier Group acquisition and non-core business closure costs of £0 3 million There is no income tax associated with these costs (2012 £0 3 million)

5 Financial income and expense

	2013 £m	2012[1] £m
Financial income		
Bank interest receivable	**0 6**	0 4
Other interest receivable	**7 1**	14 9
	7 7	15 3
Financial expense		
Interest payable on bank loans and overdrafts	**(9 5)**	(11 5)
Other interest payable and similar charges	**(22 7)**	(17 9)
Net interest expense on defined benefit pension obligations	**(15 1)**	(13 8)
	(47 3)	(43 2)
Net financial expense	**(39 6)**	(27 9)

Other interest payable and similar charges include Private Placement financing interest of £14 3 million (2012 £6 0 million), finance lease charges of £1 2 million (2012 £2 0 million) and the discount unwind associated with onerous lease provisions of £1 4 million (2012 £2 1 million) No borrowing costs have been capitalised in either of the above years

6 Payroll costs and employee numbers

	2013 £m	2012[1] £m
Wages and salaries	**657 6**	670 8
Social security costs	**57 8**	61 5
Pension costs	**34 4**	30 4
Equity settled transactions (Group funded charges)	**0 1**	(0 3)
Equity settled transactions (Eaga Partnership Trusts related charges)	**1 1**	2 6
	751 0	765 0

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 31 and includes a charge of £23 2 million (2012 £20 0 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 68

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

	2013 Number	2012 Number
Support services	**16,057**	17,028
Public Private Partnership projects	**24**	26
Middle East construction services	**6,614**	6 551
Construction services (excluding the Middle East)	**2,708**	3,193
Corporate centre	**512**	628
	25,915	27,426
UK	**16,149**	17,616
Overseas	**9,766**	9,810
	25,915	27,426

In addition to the above there are 12,909 staff (2012 14,007) employed within the Group's jointly controlled entities located in the Middle East

(1) Restated on adoption of the amendment to IAS 19 (see note 34)

7 Income tax

Recognised in the income statement

	2013 £m	2012[1] £m
Current tax (credit)/expense		
Current year		
- UK	**(5 5)**	(3 4)
- Overseas	**4 5**	4 6
Adjustments for prior years		
- UK	**3 4**	(4 3)
- Overseas	**0 6**	(0 8)
Total current tax	**3 0**	(3 9)
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**5 4**	9 1
Change of rate	**4 0**	1 7
Adjustments for prior years	**(8 1)**	3 0
Total deferred tax	**1 3**	13 8
Total income tax expense in the income statement	**4 3**	9 9

Reconciliation of effective tax rate

	2013 £m	2012[1] £m
Profit before tax	**110 6**	164 8
Tax of jointly controlled entities	**4 4**	1 7
	115 0	166 5
Income tax at UK standard corporation tax rate of 23 25% (2012 24 50%)	**26 7**	40 8
Permanent differences	**(0 1)**	0 6
Unrelieved trade losses	**1 3**	0 5
Capital items not taxable/not deductible	**(15 0)**	(3 2)
Effect of utilisation of brought forward tax losses	**(2 1)**	(9 6)
Effect of tax rates in foreign jurisdictions	**(3 1)**	(4 6)
Change in rate	**4 0**	1 7
Over provided in prior years	**(4 1)**	(4 6)
Deferred tax relating to prior year losses	**1 1**	(10 0)
Total tax (including tax of jointly controlled entities)	**8 7**	11 6
Tax of jointly controlled entities	**(4 4)**	(1 7)
Group income tax expense	**4 3**	9 9

Reductions in the UK corporation tax rate to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were both substantively enacted on 2 July 2013 Within the above deferred tax charge of £1 3 million is a charge of £4 0 million 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 taxable temporary differences, 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 1 million (2012 £4 6 million) includes an amount of £1 1 million which is attributable to the agreement of certain issues with the tax authorities Tax of jointly controlled entities of £4 4 million in 2013 (2012 £1 7 million) includes a £0 1 million credit (2012 £2 5 million) arising from a review of the nature of tax issues in certain entities

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

	2013 £m	2012[1] £m
Deferred tax on actuarial losses on defined benefit pension schemes	**1 3**	(8 4)
Deferred tax on cash flow hedging derivatives	**(2 7)**	-
Current tax on foreign exchange translation adjustments	**0 8**	0 4
Tax recognised in statement of comprehensive income	**(0 6)**	(8 0)
Tax directly recognised in equity		
- Current tax on equity settled transactions	**-**	(0 1)
- Deferred tax on equity settled transactions	**-**	0 1
Total tax recognised in equity	**(0 6)**	(8 0)

Deferred tax on actuarial losses on defined benefit pension schemes of £1 3 million in 2013 includes a £10 8 million charge in respect of the change in tax rate to 20 per cent as substantively enacted on 2 July 2013

(1) Restated on adoption of the amendment to IAS 19 (see note 34)

Notes to the consolidated financial statements
continued

8 Earnings per share
(a) Basic earnings per share
The calculation of earnings per share for the year ended 31 December 2013 is based on the profit attributable to equity holders of the parent of £100 2 million (2012 £148 8 million) and a weighted average number of ordinary shares in issue of 430 1 million (2012 430 1 million), calculated as follows

In millions of shares	2013	2012
Issued ordinary shares at 1 January	**430 3**	430 3
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**	430 1

(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

	2013		2012[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	**110 6**	**4 3**	164 8	9 9
Amortisation of intangible assets arising from business combinations	**19 2**	**5 9**	31 4	9 3
Non-recurring operating items	**44 2**	**9 2**	2 6	0 6
Non-operating items	**0 7**	**-**	1 2	0 3
Underlying profit before taxation	**174 7**	**19 4**	200 0	20 1
Underlying taxation	**(19 4)**		(20 1)	
Underlying profit attributable to non controlling interests	**(6 1)**		(6 1)	
Underlying profit attributable to shareholders	**149 2**		173 8	

	2013 Pence per share	2012[1] Pence per share
Earnings per share		
Basic earnings per share as reported in the income statement	**23 3**	34 6
Amortisation of intangible assets arising from business combinations	**3 1**	5 1
Non-recurring operating items	**8 1**	0 5
Non-operating items	**0 2**	0 2
Underlying basic earnings per share	**34 7**	40 4
Underlying diluted earnings per share (post-tax basis)	**34 5**	40 2

(1) Restated on adoption of the amendment to IAS 19 (see note 34)

(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	2013	2012
Weighted average number of ordinary shares (see note 8(a) above)	**430 1**	430 1
Effect of share options in issue	**1 8**	2 1
Weighted average number of ordinary shares (diluted) at 31 December	**431 9**	432 2

9 Dividends
The following dividends were paid by the Company

	2013		2012	
	£m	Pence per share	£m	Pence per share
Previous year final dividend	**51 0**	**11 85**	48 5	11 60
Current year interim dividend	**23 6**	**5 50**	21 9	5 40
	74 6	**17 35**	70 4	17 00

The following dividends were proposed by the Company

	2013		2012	
	£m	Pence per share	£m	Pence per share
Interim	**23 6**	**5 50**	21 9	5 40
Final	**51 6**	**12 00**	51 0	11 85
	75 2	**17 50**	72 9	17 25

10 Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
Cost			
At 1 January 2013	**36 8**	**109 7**	**146 5**
Acquisition of John Laing Integrated Services	**-**	**0 4**	**0 4**
Additions	**2 5**	**31 4**	**33 9**
Disposals	**(1 1)**	**(16 3)**	**(17 4)**
Effect of movements in foreign exchange rates	**(2 6)**	**(7 6)**	**(10 2)**
At 31 December 2013	**35 6**	**117 6**	**153 2**
Depreciation and impairment losses			
At 1 January 2013	**5 1**	**15 6**	**20.7**
Depreciation charge for the year	**3 5**	**18 0**	**21 5**
Disposals	**(0 5)**	**(11 3)**	**(11 8)**
Effect of movements in foreign exchange rates	**(1 1)**	**(4 3)**	**(5 4)**
At 31 December 2013	**7 0**	**18 0**	**25 0**
At 1 January 2013	**31 7**	**94 1**	**125 8**
At 31 December 2013	**28 6**	**99 6**	**128 2**

Included in the net book value of plant, equipment and vehicles is £41 4 million (2012 £38 4 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[1] £m	Total[1] £m
At 1 January 2012	37 4	122 7	160 1
Acquisition of the Bouchier Group	1 3	6 6	7 9
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	109 7	146 5
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	94 1	125 8

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

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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 2013	**1,447 6**	**271 0**	**1,718 6**	**34 4**	**1,753 0**
Acquisition of John Laing Integrated Services	**4 3**	**27 2**	**31 5**	**-**	**31 5**
Additions	**-**	**-**	**-**	**9 9**	**9 9**
Disposals	**-**	**-**	**-**	**(0 8)**	**(0 8)**
Effect of movements in foreign exchange rates	**(2 2)**	**-**	**(2 2)**	**(0 4)**	**(2 6)**
At 31 December 2013	**1,449 7**	**298 2**	**1,747 9**	**43 1**	**1,791 0**
Amortisation and impairment losses					
At 1 January 2013	**-**	**199 6**	**199 6**	**16 8**	**216 4**
Amortisation for the year	**-**	**19 2**	**19 2**	**3 6**	**22 8**
Disposals	**-**	**-**	**-**	**(0 8)**	**(0 8)**
Effect of movements in foreign exchange rates	**-**	**-**	**-**	**(0 2)**	**(0 2)**
At 31 December 2013	**-**	**218 8**	**218 8**	**19 4**	**238 2**
Net book value					
At 1 January 2013	**1,447 6**	**71 4**	**1,519 0**	**17 6**	**1,536 6**
At 31 December 2013	**1,449 7**	**79 4**	**1,529 1**	**23 7**	**1,552 8**

The provisional goodwill recognised on the acquisition of John Laing Integrated Services of £4 3 million represents the present value of future synergies and growth prospects expected from the business

Included in the net book value of computer software and licences is £5 0 million (2012 £3 5 million) in respect of assets held under finance leases The leased assets secure lease obligations as disclosed in note 20

	Goodwill(1) £m	Customer contracts and lists(1) £m	Total arising from business combinations(1) £m	Computer software and licences £m	Total(1) £m
Cost					
At 1 January 2012	1 431 3	270 5	1,701 8	28 5	1,730 3
Acquisition of the Bouchier Group	16 7	0 6	17 3	-	17 3
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	1,447 6	271 0	1,718 6	34 4	1,753 0
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)
Reclassification (to property, plant and equipment)	-	(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	1,447 6	71 4	1,519 0	17 6	1,536 6

Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill

	2013 £m	2012(1)(2) £m
Construction services (excluding the Middle East) segment		
UK construction	**233 0**	233 0
Canada construction	**10 1**	11 0
	243 1	244 0
Support services segment		
UK services	**1,191 2**	1,186 9
Canada services	**15 4**	16 7
	1,206 6	1,203 6
Total goodwill	**1,449 7**	1,447 6

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012
(2) Restated following a review of the operating structure of the business

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 Partnerships Projects, Middle East construction services and Construction services (excluding the Middle East) as distinct reporting segments Goodwill has been allocated to the applicable cash-generating units (CGUs), within the Construction services (excluding the Middle East) and Support services reporting segments detailed above Our CGUs have been identified within our reporting segments as those businesses that generate cash inflows largely independently of other businesses within the Group, and which are subject to independent management Following a review of the operating structure of the business, the Infrastructure Services CGU has been combined with the Business Services CGU The combined CGU has been named the UK Services CGU and comprises the goodwill previously allocated to the Business Services CGU and Infrastructure Services CGU

John Laing Integrated Services has been integrated into the Group's Support Services reporting segment and consequently the goodwill and customer contracts and lists recognised on this acquisition have been allocated to the UK services CGU

The recoverable amounts of the CGUs are determined from value in use calculations The value-in-use in 2013 was determined on a similar basis to 2012 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 2013 in the light of the challenging economic environment The impact of the Comprehensive Spending Review on the financial stability of our customers partners and suppliers will be mitigated by continuing to apply rigorous selectivity criteria in relation to their financial stability, the security of project funding and contractual terms and conditions

Discount rates have been estimated based on pre tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs Whilst the Group has four CGUs, the risks and rewards associated with Construction services (excluding the Middle East) are consistent, and therefore one discount rate has been applied to each CGU Similarly the risks and rewards encountered in the Support services CGUs are consistent and therefore one discount rate has been applied to each CGU Management has 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 WACC was then used to determine the pre-tax discount rates for each CGU The rate used to discount the forecast cash flows for the CGUs in the Construction services (excluding the Middle East) was 10 0 per cent (2012 11 7 per cent) and for the CGUs in the Support services segment was 8 8 per cent (2012 9 9 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

Carillion plc management has undertaken sensitivity analysis on a number of the key assumptions in the value-in use calculations Sensitivity analysis on the discount rate shows that the discount rate would have to increase to a minimum of 17 6 per cent for Construction services (excluding the Middle East) and to a minimum of 14 7 per cent for Support services before an impairment was triggered in any CGU Sensitivity analysis was applied to the cash flows used to determine the value in use by reducing the approved three year forecasts for the UK Construction CGU by 21% and by 30% for the UK Services CGU together with an assumption of no growth in cash flows from year four onwards On the basis of the sensitivity analysis undertaken in relation to cash flows, Carillion plc management concluded that there is a more than adequate amount of headroom in the value in use calculations before an impairment would be triggered In addition Carillion plc management has also considered recoverable amounts on the basis of estimated cash flows for the CGUs that were reported in 2012 and concluded that they exceeded their recoverable amount

Overall as at 31 December 2013, based on internal valuations, Carillion plc management concluded that the recoverable value of the Group's CGUs exceeded their carrying amount

Amortisation charge
The amortisation charge of £22 8 million (2012 £35 1 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, with the remaining amortisation charge incurred over the following 25 years Amortisation of the intangible assets of £125 4 million arising on the acquisition of Alfred McAlpine in 2008 is 84 per cent complete at the end of 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 in 2011 will be completed in 2014 Amortisation of the intangible asset of £27 2 million arising on the acquisition of John Laing Integrated Services in the year will be 74 per cent complete by 2023 with the remaining amortisation charge continuing until 2041

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12 Investments in jointly controlled entities

	Equity investments £m	Loan advances £m	Total investments £m	Goodwill £m	Total £m
Cost					
At 1 January 2013	**82 2**	**51 0**	**133 2**	**2 1**	**135 3**
Equity investments	**0 6**	**–**	**0 6**	**–**	**0 6**
Disposals	**(6 8)**	**(34 9)**	**(41 7)**	**–**	**(41 7)**
Net loans advanced	**–**	**2 6**	**2 6**	**–**	**2 6**
Effect of movements in foreign exchange rates	**(1 9)**	**(1 2)**	**(3 1)**	**–**	**(3 1)**
At 31 December 2013	**74 1**	**17 5**	**91 6**	**2 1**	**93 7**
Share of post-acquisition results					
At 1 January 2013	**41 1**	**–**	**41 1**	**–**	**41 1**
Share of results for the year after taxation	**26 5**	**–**	**26 5**	**–**	**26 5**
Share of change in fair value of cash flow hedges (net of taxation)	**(2 1)**	**–**	**(2 1)**	**–**	**(2 1)**
Disposals	**13 1**	**–**	**13 1**	**–**	**13 1**
Distributions received	**(18 2)**	**–**	**(18 2)**	**–**	**(18 2)**
Effect of movements in foreign exchange rates	**(2 1)**	**–**	**(2 1)**	**–**	**(2 1)**
At 31 December 2013	**58 3**	**–**	**58 3**	**–**	**58 3**
Net book value					
At 1 January 2013	**123 3**	**51 0**	**174 3**	**2 1**	**176 4**
At 31 December 2013	**132 4**	**17 5**	**149 9**	**2 1**	**152 0**

Equity investments of £0 6 million relate to the acquisition in cash of interests in a number of jointly controlled entities engaged in land development in Canada

During the year, the Group disposed of a number equity investments in jointly controlled entities engaged in land development in Canada and jointly controlled entities engaged in PPP activities as disclosed in note 30

	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

Equity investments of £8 7 million includes £0 7 million relating to the acquisition in cash of interests in a number of jointly controlled entities engaged in land development in Canada and £8 0 million relating to the acquisition in cash of interests in a number of jointly controlled entities engaged in PPP activities During the year, the Group disposed of equity investments in jointly controlled entities engaged in land development in Canada and a number of PPP jointly controlled entities as disclosed in note 30

12 Investments in jointly controlled entities (continued)

	2013			2012		
	PPP projects £m	**Other £m**	**Total £m**	PPP projects £m	Other £m	Total £m
Non-current assets	**507 7**	**108 2**	**615 9**	952 7	103 3	1,056 0
Cash	**45 4**	**34 5**	**79 9**	65 2	49 0	114 2
Other current assets	**8 3**	**255 3**	**263 6**	105 2	219 9	325 1
Share of gross assets	**561 4**	**398 0**	**959 4**	1,123 1	372 2	1 495 3
Current borrowing	**(4 3)**	**(0 2)**	**(4 5)**	(10 0)	(0 2)	(10 2)
Current liabilities	**(13 2)**	**(204 1)**	**(217 3)**	(63 3)	(172 8)	(236 1)
Non-current borrowing	**(445 9)**	**(28 3)**	**(474 2)**	(841 6)	(35 0)	(876 6)
Non-current liabilities	**(71 4)**	**(52 5)**	**(123 9)**	(175 5)	(49 4)	(224 9)
Provisions	**(2 9)**	**-**	**(2 9)**	(3 8)	-	(3 8)
Share of gross liabilities	**(537 7)**	**(285 1)**	**(828 8)**	(1,094 2)	(257 4)	(1,351 6)
Share of net assets excluding derivatives	**23 7**	**112 9**	**136 6**	28 9	114 8	143 7
Financial instrument derivatives	**(2 2)**	**-**	**(2 2)**	(18 3)	-	(18 3)
Share of net assets	**21 5**	**112 9**	**134 4**	10 6	114 8	125 4
Loan advances	**8 6**	**9 0**	**17 6**	44 0	7 0	51 0
Total investment in jointly controlled entities	**30 1**	**121 9**	**152 0**	54 6	121 8	176 4

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 and recycled on disposal

13 Other investments

	£m
Fair value	
At 1 January 2013	**75 3**
Additions	**3 8**
Disposals	**(58 3)**
Fair value of equity interests retained on partial disposals	**0 3**
At 31 December 2013	**21 1**
Impairment losses	
At 1 January and 31 December 2013	**13 8**
Net book value	
At 1 January 2013	**61 5**
At 31 December 2013	**7 3**

Additions in 2013 of £3 8 million includes cash paid of £3 3 million in respect of a long-term stakeholder loan to the Green Deal Finance Company Limited and £0 5 million in respect of Public Private Partnership subordinated debt in unquoted entities Disposals of £58 3 million relate predominantly to the disposal of the Group's 12 5 per cent holding in Aspire Defence Holdings Limited, a Public Private Partnership unquoted entity 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 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	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

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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

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	
	2013 £m	2012[1] £m	**2013 £m**	2012[1] £m	**2013 £m**	2012[1] £m
Property, plant and equipment	**19 6**	13 8	**–**	–	**19 6**	13 8
Intangible assets	**–**	–	**(15 8)**	(16 3)	**(15 8)**	(16 3)
Liability for National Insurance on future Eaga Partnership Trust's distributions	**0 9**	4 2	**–**	–	**0 9**	4 2
Employee benefits	**75 0**	81 3	**–**	(0 2)	**75 0**	81 1
Working capital	**–**	2 6	**(4 3)**	–	**(4 3)**	2 6
Tax value of carry forward losses recognised	**27 0**	22 1	**–**	–	**27 0**	22 1
Tax assets/(liabilities)	**122 5**	124 0	**(20 1)**	(16 5)	**102 4**	107 5
Set off of tax	**(9 9)**	(0 2)	**9 9**	0 2	**–**	–
Net tax assets/(liabilities)	**112 6**	123 8	**(10 2)**	(16 3)	**102 4**	107 5

Unrecognised deferred tax assets

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

	2013 £m	2012 £m
Tax losses	**33 0**	35 9

The tax losses do not expire under current tax legislation Deferred tax assets have not been recognised in respect of these losses due to the lack of certainty concerning the quantum and timing of future years' taxable profits of the companies concerned

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

Movements in temporary differences during the year are as follows

	Balance 1 January 2013[1][2] £m	**On acquisition of John Laing Integrated Services £m**	**Recognised in income £m**	**Recognised in equity £m**	**Balance 31 December 2013 £m**
Property, plant and equipment	**13 8**	**0 1**	**5 7**	**–**	**19 6**
Intangible assets	**(16 3)**	**(5 4)**	**5 9**	**–**	**(15 8)**
Liability for National Insurance on future Eaga Partnership Trust's distributions	**4 2**	**–**	**(3 3)**	**–**	**0 9**
Employee benefits	**81 1**	**0 1**	**(4 9)**	**(1 3)**	**75 0**
Working capital	**2 6**	**–**	**(9 6)**	**2 7**	**(4 3)**
Tax value of carry forward losses recognised	**22 1**	**–**	**4 9**	**–**	**27 0**
	107 5	**(5 2)**	**(1 3)**	**1 4**	**102 4**

	Balance 1 January 2012 £m	On acquisition of the Bouchier Group[1] £m	Recognised in income[2] £m	Recognised in equity[2] £m	Balance 31 December 2012[1] £m
Property, plant and equipment	16 9	0 2	(3 3)	–	13 8
Intangible assets	(25 5)	(0 1)	9 3	–	(16 3)
Liability for National Insurance on future Eaga Partnership Trust's distributions	4 3	–	(0 1)	–	4 2
Employee benefits	76 5	–	(3 8)	8 4	81 1
Working capital	13 4	0 8	(11 6)	–	2 6
Equity-settled transactions	0 7	–	(0 6)	(0 1)	–
Tax value of carry forward losses recognised	25 8	–	(3 7)	–	22 1
	112 1	0 9	(13 8)	8 3	107 5

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group 2012
(2) Restated on adoption of the amendment to IAS 19 (see note 34)

The UK Government's Budget on 20 March 2013 announced that the UK corporation tax rate will reduce to 20% with effect from 1 April 2015 This reduction in the rate to 20% was substantively enacted on 2 July 2013 Accordingly the deferred tax asset at 31 December 2013 has been calculated based on the rate of 20% substantively enacted at the balance sheet date

15 Inventories

	2013 £m	2012 £m
Raw materials and consumables	**22 4**	227
Work in progress	**26 2**	272
Finished goods	**–**	5 4
	48 6	553

Development work in progress of £22 0 million (2012 £20 8 million) is expected to be recovered after more than 12 months

16 Construction contracts

Contracts in progress at the balance sheet date

	2013 £m	2012 £m
Due from customers for contract work	**386 0**	343 6
Due to customers for contract work	**(101 1)**	(169 2)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £4,527 6 million (2012 £4,078 4 million) Advances received from customers relating to contracts in progress amounted to £99 0 million (2012 £110 6 million)

The amount of construction contract revenue recognised as revenue in the year amounted to £1,300 9 million (2012 £1,533 5 million)

17 Trade and other receivables

	2013 £m	2012[1] £m
Trade receivables	**219 7**	2361
Amounts owed by customers on construction contracts	**386 0**	343 6
Other receivables and prepayments	**482 3**	415 2
Amounts owed by jointly controlled entities	**108 8**	1077
Amounts owed under jointly controlled operations	**15 5**	8 9
	1,212 3	1,111 5

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

At 31 December 2013, retentions of £61 2 million (2012 £53 8 million) relating to construction contracts and other amounts recoverable after more than one year of £75 9 million (2012 £43 8 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

	2013 £m	2012 £m
Cash and cash equivalents	**413 7**	6571
Bank overdrafts	**(3 3)**	(4 9)
Net cash and cash equivalents	**410 4**	652 2
Bank loans	**(292 3)**	(466 2)
Finance lease obligations	**(29 5)**	(34 5)
Other loans	**(303 8)**	(307 3)
Net borrowing	**(215 2)**	(155 8)

Reconciliation of net cash flow to movement in net borrowing

	2013 £m	2012 £m
(Decrease)/increase in net cash and cash equivalents	**(2371)**	1667
Net cash and cash equivalents in subsidiaries acquired	**(4 1)**	-
Repayment/(draw down) of bank and other loans	**171 0**	(277 2)
Payment of finance lease liabilities	**16 7**	16 8
Change in net borrowing resulting from cash flows	**(53 5)**	(93 7)
Net cash/(borrowing) in subsidiaries acquired	**4 1**	(4 6)
Finance lease additions	**(14 0)**	(9 0)
Currency translation differences	**4 0**	2 2
Change in net borrowing	**(59 4)**	(105 1)
Net borrowing at 1 January	**(155 8)**	(50 7)
Net borrowing at 31 December	**(215 2)**	(155 8)

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19 Current asset investments

	2013 £m	2012 £m
Current asset investments	**2 4**	2 5

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

20 Borrowing

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

	2013 £m	2012 £m
Current liabilities		
Bank overdrafts	**3 3**	4 9
Bank loans	**9 6**	7 5
Finance lease obligations	**9 5**	22 5
Other loans	**0 1**	0 4
	22 5	35 3
Non-current liabilities		
Bank loans	**282 7**	458 7
Finance lease obligations	**20 0**	12 0
Other loans	**303 7**	306 9
	606 4	777 6
Total borrowing	**628 9**	812 9

Non-current other loans in 2013 of £303 7 million relates to private placement financing at fixed rates of interest, as shown below

Currency	Currency amount	Sterling amount £m	Interest rate %	Maturity date
US$	25 0	15 1	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	48 2	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	84 3	4 86	November 2022
US$	35 0	21 1	5 01	November 2024
		303 7		

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 £282 7 million (2012 £458 7 million) are loans amounting to £6 8 million (2012 £2 6 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 2013 £m	Interest 2013 £m	Principal 2013 £m	Minimum lease payments 2012 £m	Interest 2012 £m	Principal 2012 £m
Less than one year	**10 5**	**(1 0)**	**9 5**	24 6	(2 1)	22 5
Between one and five years	**18 4**	**(1 5)**	**16 9**	9 1	(0 7)	8 4
More than five years	**3 2**	**(0 1)**	**3 1**	4 0	(0 4)	3 6
	32 1	**(2 6)**	**29 5**	37 7	(3 2)	34 5

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

21. Trade and other payables

Current liabilities	2013 £m	2012[1] £m
Trade payables	**541 9**	643 3
Amounts owed to customers on construction contracts	**101 1**	169 2
Other tax and social security costs	**60 7**	36 7
Amounts owed to jointly controlled entities	**48 8**	55 3
Amounts owed under jointly controlled operations	**1 9**	9 4
Other creditors	**404 6**	263 1
Accruals and deferred income	**421 0**	430 7

21 Trade and other payables (continued)
Within trade and other payables are £2 9 million (2012 £15 5 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

Non-current liabilities	2013 £m	2012[1] £m
Deferred consideration payable	–	9 1

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

The deferred consideration payable in 2012 of £9 1 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	Onerous contracts £m	Total £m
At 1 January 2013	**1 2**	**16 6**	**18 4**	**–**	**36 2**
Provisions created	**25 9**	**1 0**	**–**	**13 9**	**40 8**
Reclassification	**(0 4)**	**0 4**	**–**	**–**	**–**
Unused provisions	**–**	**(5 2)**	**(14 2)**	**–**	**(19 4)**
Discount unwind	**–**	**1 4**	**–**	**–**	**1 4**
Provisions utilised	**(15 7)**	**(6 4)**	**–**	**–**	**(22 1)**
At 31 December 2013	**11 0**	**7 8**	**4 2**	**13 9**	**36 9**
Disclosed within					
Current liabilities	**11 0**	**3 6**	**4 2**	**13 9**	**32 7**
Non current liabilities	**–**	**4 2**	**–**	**–**	**4 2**
	11 0	**7 8**	**4 2**	**13 9**	**36 9**

The rationalisation provision at 1 January 2013 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 created in the year of £25 9 million relates to the restructuring of the Group's energy services business following changes in the Energy market, including the slow start to the Green Deal market and the delayed start in the Energy Company Obligation (ECO) market, and the costs of integration of John Laing Integrated Services as disclosed in note 4 The rationalisation provision created includes redundancy, restructuring and other costs relating to the Group s commitments under energy efficiency programmes These costs were incurred in the review of the operational structure of the energy business and the way it delivers services in order to ensure it is aligned to the size of markets in which it operates The majority of this provision was utilised during the year, with the remaining provision at 31 December 2013 of £11 0 million expected to be fully utilised in the next 12 months

The onerous lease provision at 1 January and 31 December 2013 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 created in the year of £1 0 million relates to obligations arising from the restructuring of the Group's energy services business as described above The provision is expected to be utilised over a period of three years

The Eaga Partnership Trust (EPT) NI provision at 1 January 2013 relates to the provision which was recognised on the acquisition of CES in 2011 in connection with future distributions to employees from the EPT which crystallises a National Insurance cost to the Company Following clarification of the tax treatment of certain potential distributions to beneficiaries by the EPT, and in particular those beneficiaries who are no longer employed by the Group the provision has been reduced by £14 2 million during the year and is included within non-recurring operating items (see note 4) The onerous contracts provision created in the year of £13 9 million relates to onerous contractual obligations entered into by CES prior to acquisition by Carillion and are no longer continuing Whilst both the quantum and timing of settlement of these contracts is uncertain, the provision created reflects management's best estimate of the expenditure required to settle the present obligations Both of these items are linked to obligations entered into by CES prior to acquisition and estimates for both of these obligations were initially made in the fair value acquisition balance sheet during 2011 Given that these are substantial movements to these provisions we have highlighted these items separately in the non-recurring operating items note (see note 4)

	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

Notes to the consolidated financial statements
continued

23 Share capital

	2013 Number million	2013 £m	2012 Number million	2012 £m
Issued and fully paid				
As at 1 January and 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

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 £18 6 million (2012 £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

	2013 £m	2012 £m
At 1 January	**–**	(0 2)
Share options exercised (transfer to retained earnings)	**1 4**	1 4
Acquisition of own shares	**(1 4)**	(1 2)
At 31 December	**–**	–

At 31 December 2013, the ESOP held 7 (2012 250) of the Company's shares and had a market value of £23 (2012 £793) During the year the Company acquired 471 407 of its own shares for £1 4 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 2013 the total number of shares held by the QUEST amounted to 84,593 (2012 129,979) and had a market value of £0 4 million (2012 £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 293,745 of its own shares for £0 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 3 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 £1 1 million has been charged directly to the retained earnings reserve The £0 8 million payment to acquire Carillion plc shares is included within acquisition of own shares in the cash flow statement and the £0 3 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 share option schemes can be found in the Remuneration report on pages 53 to 68 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

25 Share-based payments (continued)

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

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Exercise price
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	937,208	Three years of service and 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
LEAP option grant at 4 April 2013	963 337	Three years of service and 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	118,578	Three years of service for Executive Directors and one year's service for senior employees	1 3 years	Nil
Total share options	**2,718,393**			

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

	Weighted average exercise price 2013	Number of options 2013	Weighted average exercise price 2012	Number of options 2012
At 1 January	**4 1p**	**3,139,814**	3 3p	3,858,975
Forfeited during the year	**-**	**(906,304)**	-	(1,203,998)
Exercised during the year	**15 4p**	**(831,882)**	-	(1 216 570)
Granted during the year	**-**	**1,316,765**	-	1,701,407
At 31 December	**-**	**2,718,393**	4 1p	3,139 814
Exercisable at the end of the year	**-**	**-**	227 3p	56,401

There were no share options exercisable at the end of 2013 The weighted average share price during the year was 290 6 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

	2013 LEAP	2012 SIP International	2012 LEAP
Fair value of share options and assumptions			
Fair value at grant date	**230 6p**	214 0p	246 7p
Share price at grant date	**276 1p**	252 9p	284 6p
Exercise price	**Nil**	Nil	Nil
Expected volatility	**12 16%**	11 59%	11 84%
Option life	**3 years**	3 years	3 years
Expected dividend yield	**6 00%**	5 57%	4 76%
Risk-free interest rate (based on national government bonds)	**0 32%**	0 19%	0 27%

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

	2013 £m	2012 £m
Equity settled share options and deferred bonus shares granted in		
2011	**-**	(0 3)
2012	**-**	-
2013	**0 1**	-
Total expense/(income) recognised as employee costs	**0 1**	(0 3)

In addition to the above, a share option charge of £1 1 million has arisen for shares awarded under the Carillion Energy Services Share Incentive Plan (SIP), which are wholly funded by the Eaga Partnership Trusts waived 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
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26 Guarantees and contingent liabilities

	2013 £m	2012 £m
Guarantees in respect of borrowing in Construction services (excluding the Middle East) jointly controlled entities	**3 1**	0 2
Guarantees in relation to deferred equity payments in PPP special purpose entities	**98 1**	88 2
Guarantees in respect of letters of credit issued by banks in relation to performance on contracts for PPP customers	**38 8**	89 2

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 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 2013	Loans and receivables £m	Other financial liabilities £m	Available for sale £m	Financial assets held for trading £m	Fair value hedging instruments £m	Total £m
Financial assets						
Non-current asset investments	–	–	**7 3**	–	–	**7 3**
Cash and cash equivalents	**413 7**	–	–	–	–	**413 7**
Current asset investments	**2 4**	–	–	–	–	**2 4**
Trade receivables	**219 7**	–	–	–	–	**219 7**
Derivative financial instruments	–		–	**2 2**	–	**2 2**
Total	**635 8**	–	**7 3**	**2 2**	–	**645 3**
Financial liabilities						
Bank overdrafts	–	**(3 3)**	–	–	–	**(3 3)**
Bank loans	–	**(292 3)**	–	–	–	**(292 3)**
Finance lease obligations	–	**(29 5)**	–	–	–	**(29 5)**
Other loans	–	**(303 8)**	–	–	–	**(303 8)**
Trade payables	–	**(541 9)**	–	–	–	**(541 9)**
Deferred consideration	–	**(8 5)**	–	–	–	**(8 5)**
Derivative financial instruments	–	–	–	–	**(13 2)**	**(13 2)**
Total	–	**(1,179 3)**	–	–	**(13 2)**	**(1,192 5)**

31 December 2012	Loans and receivables £m	Other financial[1] liabilities £m	Available for sale £m	Financial assets/ (liabilities) held for trading £m	Fair value hedging instruments £m	Total £m
Financial assets						
Non-current asset investments	–	–	61 5	–	–	61 5
Cash and cash equivalents	6571	–	–	–	–	6571
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	–	(16 0)	–	–	–	(16 0)
Derivative financial instruments	–	–	–	–	(7 1)	(7 1)
Total	–	(1,472 2)	–	–	(7 1)	(1,479 3)

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

27 Financial instruments (continued)

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 There has been no change to the Group's exposure to financial risk or the manner in which these risks are managed and measured

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

Foreign currency risk

The Group operates in a number of overseas regions, primarily the Middle East 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 2012 the Group secured US$280 million of private placement finance at fixed interest rates from a number of United States of America 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 a distribution is planned 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 Performance and financial review on page 32

Foreign currency exposure

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

	2013 £m	2012 £m
United States of America Dollar	**(184 0)**	(188 6)
Canadian Dollar	**(80 5)**	(90 7)
United Arab Emirates Dirham	**(7 4)**	(7 5)
Other	**(3 0)**	(3 0)
	(274 9)	(289 8)

Of the total foreign currency borrowing of £274 9 million (2012 £289 8 million) the amount of borrowing used for hedging overseas currency net asset amounts to £78 4 million (2012 £83 7 million) The foreign exchange gain of £3 3 million (2012 £1 5 million gain) on translation of the borrowing into sterling has been recognised in the translation reserve as these hedging loans are effective hedges Exposure to United States of America dollar denominated private placement borrowing included above amounting to £168 7 million (2012 £171 8 million) is hedged by cross currency derivative instruments as disclosed on page 105

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 1)**	**(2 7)**	**0 1**	**2 9**
Euro	**-**	**1 9**	**-**	**(2 1)**
United Arab Emirates Dirham	**(0 1)**	**(3 0)**	**0 1**	**3 4**
Oman Rial	**(0 5)**	**(2.4)**	**0 6**	**2 7**
Other	**(0 2)**	**(1 2)**	**0 2**	**1 3**

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 In addition the Group has secured additional finance of £303 7 million from private placements 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 In addition, the Group entered into a fixed rate interest swap during the year which swaps the floating rate to a fixed rate on £40 million of the Group's principal bank facilities In addition, a number of Group's Public Private Partnership jointly controlled entities have entered into interest rate swaps

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Notes to the consolidated financial statements
continued

27 Financial instruments (continued)
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 2013 was £490 6 million (2012 £344 1 million)

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

31 December 2013	**Trade payables £m**	**Deferred consideration £m**	**Bank overdrafts £m**	**Bank loans £m**	**Other loans £m**	**Finance leases £m**	**Total £m**
Less than one year	**(541 9)**	**(8 5)**	**(3 3)**	**(13 2)**	**(14 1)**	**(10 5)**	**(591 5)**
Between one and two years	**-**	**-**	**-**	**(8 3)**	**(13 9)**	**(7.4)**	**(29 6)**
Between two and three years	**-**	**-**	**-**	**(5 7)**	**(13 9)**	**(4 2)**	**(23 8)**
Between three and four years	**-**	**-**	**-**	**(5 7)**	**(28 9)**	**(3 2)**	**(37 8)**
Between four and five years	**-**	**-**	**-**	**(277 4)**	**(12 8)**	**(3 6)**	**(293 8)**
More than five years	**-**	**-**	**-**	**-**	**(323 1)**	**(3 2)**	**(326 3)**
	(541 9)	**(8 5)**	**(3 3)**	**(310 3)**	**(406 7)**	**(32 1)**	**(1,302 8)**

31 December 2012	Trade payables £m	Deferred consideration[1] £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total[1] £m
Less than one year	(643 3)	(6 9)	(4 9)	(17 1)	(14 4)	(24 6)	(711 2)
Between one and two years	-	(9 1)	-	(9 5)	(14 1)	(5 7)	(38 4)
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)	(16 0)	(4 9)	(497 2)	(425 4)	(37 7)	(1,624 5)

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

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 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

	2013			2012		
	Payable £m	**Receivable £m**	**Net payable £m**	Payable £m	Receivable £m	Net payable £m
Less than one year	**(8 3)**	**7 8**	**(0 5)**	(8 3)	8 0	(0 3)
Between one and two years	**(8 3)**	**7 8**	**(0 5)**	(8 3)	8 0	(0 3)
Between two and three years	**(8 3)**	**7 8**	**(0 5)**	(8 3)	8 0	(0 3)
Between three and four years	**(23 9)**	**22 9**	**(1 0)**	(8 3)	8 0	(0 3)
Between four and five years	**(7 7)**	**7 2**	**(0 5)**	(23 9)	23 3	(0 6)
More than five years	**(185 8)**	**178 4**	**(7 4)**	(193 5)	189 0	(4 5)
	(242 3)	**231 9**	**(10 4)**	(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

	2013 £m	2012 £m
Expiring within one year	**7 5**	7 4
Expiring between two and five years	**543 0**	281 2
	550 5	288 6

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

The maximum exposure to credit risk for receivables at 31 December by geographic region was

	2013 £m	2012 £m
United Kingdom	**155 6**	179 8
Middle East	**33 0**	9 6
Canada	**29 6**	45 8
Rest of the World	**1 5**	0 0

27 Financial instruments (continued)

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

	2013 £m	2012 £m
Support services	**156 8**	149 1
Public Private Partnership projects	**0 3**	0 5
Middle East construction services	**33 0**	9 6
Construction services (excluding the Middle East)	**29 6**	76 9
	219 7	236 1

The Group's most significant debtor, Capital Hospital Services Ltd accounts for £9 1 million of the receivables carrying amount at 31 December 2013 (2012 Scottish Power £10 5 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

	2013		2012	
	Net trade receivables £m	Impairment £m	Net trade receivables £m	Impairment £m
Not past due	**122 4**	**-**	103 4	-
Past due less than three months	**54 3**	**0 2**	93 2	0 7
Past due between three and six months	**24 1**	**0 4**	16 0	0 4
Past due between six and 12 months	**11 5**	**0 8**	9 2	1 2
Past due more than 12 months	**7 4**	**6 5**	14 3	8 0
	219 7	**7 9**	236 1	10 3

The movement in the impairment provision is as follows

	2013 £m	2012 £m
At 1 January	**10 3**	10 3
Provision acquired with John Laing Integrated Services	**0 1**	-
Provision created	**0 2**	1 3
Provision utilised	**(2 7)**	(1 3)
At 31 December	**7 9**	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 2013

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

Derivative financial instruments

	2013		2012	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts and options - at fair value through the income statement	**2 2**	**-**	0 4	-
Fixed rate interest derivatives - cash flow hedging instruments	**-**	**(2 5)**	-	-
Cross currency derivatives - cash flow hedging instruments	**-**	**(10 7)**	-	(7 1)
	2 2	**(13 2)**	0 4	(7 1)

A £1 8 million gain (2012 £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 a £6 1 million loss (2012 £7 1 million loss) has been recognised in the hedging reserve in relation to the fixed rate interest derivatives and the cross currency derivatives which are effective cash flow hedges

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 2013 the Group's share of the total net fair value liability of interest rate derivative in PPP jointly controlled entities amounted to £67 4 million (2012 £99 2 million) of which £2 8 million (2012 £23 8 million) (and the related deferred tax asset of £0 7 million (2012 £5 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-quoted equity shareholdings within 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 2013	**60 8**
Additions	**3 8**
Fair value of equity interests retained on partial disposal	**0 3**
Disposals	**(57 6)**
At 31 December 2013	**7 3**

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 £0 4 million

The fair value of derivative financial instruments is based on a level 2 valuation method using inputs from quoted prices in active markets There are no material differences between the fair value and the carrying value of the Group's principal financial instruments

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 £304 million of private placement financing 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 2013 and 31 December 2012

	2013 £m	2012 £m
Total borrowings	**625 6**	808 0
Less net cash and cash equivalents (note 18)	**(410 4)**	(652 2)
Net borrowing	**215 2**	155 8
Total equity	**983 6**	1,009 5
Total capital	**1,198 8**	1,165 3

28 Financial and capital commitments

	2013 £m	2012 £m
Commitments for equity and subordinated debt investments in PPP special purpose entities	**95 4**	85 6

Non-cancellable operating lease rentals are payable as follows

	2013		2012	
	Property £m	Other £m	Property £m	Other £m
Within one year	**13 1**	**20 9**	13 8	19 6
Between one and five years	**32 1**	**33 0**	34 2	28 1
Over five years	**19 0**	**1 1**	22 1	1 7
	64 2	**55 0**	70 1	49 4

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 61

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

	2013 £m	2012 £m
Short term employee benefits	2 3	1 8
Post employment benefits	0 1	0 1
Share based payments	0 1	(0 2)
	2 5	1 7

The number of key management personnel included in the above analysis is seven (2012 seven)

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

	2013			2012		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
PPP jointly controlled entities						
CSS (FSCC) Partnership (Canada)	23 9	1 2	-	177 7	22 8	-
The Hospital Company (Southmead) Ltd	95 3	16 6	(10 7)	132 4	9 8	-
COE (CAMH) Limited Partnership (Canada)	1 6	0 7	-	113 6	1 1	-
Inspiredspaces Wolverhampton Ltd	68 7	8 6	(4 3)	71 1	1 5	-
Holdfast Training Services Ltd	43 8	-	-	49 4	-	(6 4)
Inspiredspaces Durham Ltd	28 8	6 0	-	40 7	6 6	-
Inspiredspaces Rochdale Ltd	19 2	0 2	(0 2)	36 8	0 1	(2 1)
Inspiredspaces Nottingham Ltd	12 9	2 7	(4 0)	27 0	-	(3 0)
The Healthcare Infrastructure Company of Canada (WOHC) Inc (Canada)	-	-	-	26 0	2 8	-
Healthcare Infrastructure Partners (NOH) Partnership	76 4	13 9	-	-	-	-
Inspiredspaces STAG Ltd	1 6	1 5	(0 1)	24 7	-	(0 4)
Eastbury Park Ltd	0 2	-	-	24 5	1 2	-
Inspiredspaces Wolverhampton (Projectco1) Ltd	0 3	0 6	-	14 6	1 0	-
Inspiredspaces Tameside Ltd	4 3	1 3	(2 0)	12 5	-	(1 6)
Inspiredspaces Rochdale (Projectco2) Ltd	21 6	0 5	(1 2)	11 3	-	-
Clinicenta (Hertfordshire) Ltd	-	-	-	7 7	2 2	-
The Healthcare Infrastructure Company of Canada (ROH) Inc	6 2	0 4	-	6 0	0 3	-
Inspiredspaces Nottingham (Projectco2) Ltd	11 8	0 3	-	5 2	-	-
Inspiredspaces Tameside (Projectco2) Ltd	-	-	-	3 8	-	-
LCED (Sault) Limited Partnership (Canada)	3 5	0 3	-	3 5	-	-
Integrated Accommodation Services Ltd	4 5	18 4	-	2 5	15 9	-
Inspiredspaces Tameside (Projectco1) Ltd	-	0 1	-	1 7	1 3	-
Inspiredspaces Rochdale (Projectco1) Ltd	0 7	-	-	1 1	-	-
Inspiredspaces STAG (Projectco2) Ltd	1 1	-	-	0 9	-	(0 2)
Inspiredspaces Durham (Projectco1) Ltd	-	-	-	0 4	-	-
The Hospital Company (Liverpool) Ltd	26 9	0 4	(4 5)	-	-	-
Carillion Eltel JV Ltd	1 9	-	-	-	-	-
Yorkshire Transformation Holdings Ltd	3 6	-	-	-	-	-
Integrated Accomodation Services plc	1 8	-	-	-	-	-
Other	0 2	-	-	6 2	0 8	-
	460 8	73 7	(27 0)	801 3	67 4	(13 7)
Other jointly controlled entities						
Vanmed Construction Company (Canada)	3 8	1 2	-	141 5	16 1	-
CarillionEnterprise Ltd	10 0	3 7	(0 2)	16 7	2 1	-
Modern Housing Solutions (Prime) Ltd	7 6	0 1	-	13 8	-	-
Carillion Richardson Worcester	-	-	-	2 3	0 4	-
Al Futtaim Carillion LLC (UAE)	4 0	6 6	(6 0)	9 0	0 5	(33 6)
Carillion Richardson Partnership	-	18 1	-	-	15 4	-
Carillion Richardson Partnership Thanet Phase 2 Ltd	-	-	(5 1)	-	-	-
Others	-	5 4	(10 5)	3 8	5 8	(8 0)
	486 2	108 8	(48 8)	988 4	107 7	(55 3)

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30 Acquisitions and disposals

Acquisitions in 2013

On 18 October 2013, the Group acquired the entire share capital of John Laing Integrated Services (JLIS) for a cash consideration of £17 5 million The consideration paid is shown in the cash flow statement within acquisition of subsidiaries, net of cash acquired after deducting cash on the acquisition balance sheet, amounting to £4 1 million The provisional assessment of goodwill and intangible assets arising on the acquisition amounts to £4 3 million and £27 2 million respectively The acquisition complements the Group's existing support services activities in the UK local government education, police, health, rail and library sectors Due to the immaterial nature of this acquisition, the full disclosures required under International Financial Reporting Standard 3 'Business combinations' have not been presented

During 2013 the Group paid in cash the second instalment relating to the acquisition of the Bouchier Group which completed in 2012, amounting to £6 9 million This amount has been included in the cash flow statement within acquisition of subsidiaries net of cash acquired

Acquisitions in 2012

On 11 December 2012 the Group acquired a 49 per cent equity shareholding in the Bouchier Group Due to the proximity of the acquisition to the 2012 year end a provisional assessment was made of the fair value of consideration payable and the net assets acquired leading to the recognition of provisional goodwill of £20 8 million Following the finalisation of the completion accounts process in 2013, the provisional amounts in 2012 have been adjusted leading to the recognition of revised goodwill on the acquisition of £16 7 million as shown below

	£m
Provisional goodwill	20 8
Reduction in consideration payable	(2 9)
Changes to provisional fair value adjustments	(1 8)
Intangible assets identified	0 6
Revised goodwill	16 7

As the adjustments to the provisional amounts recognised in 2012 are within the measurement period, prior year comparatives have been restated accordingly leading to an increase in net assets with a corresponding increase in non-controlling interests amounting to £1 2 million

Disposals in 2013

In 2013, the Group disposed of equity interests in a number of Public Private Partnership projects The disposals generated a cash consideration of £151 2 million (of which £6 4 million was received on exchange of contracts in 2012), which together with disposal costs paid of £1 1 million is included in the cash flow statement within disposal of jointly controlled entity and other investments, and an operating profit of £44 6 million which is included in Group operating profit within the Public Private Partnership projects segment

During 2013, the Group made cash payments of £0 3 million in relation to the disposal of businesses that occurred in prior years

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 £6 4 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 £6 4 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 2012 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

31 Retirement benefit obligations

The Carillion Group operates 15 defined benefit pension schemes for eligible employees, of which 13 are in the UK, one is in Canada and one is in the Republic of Ireland In addition, the Group provides other post retirement benefits under four separate arrangements in Canada The defined benefit schemes are administered by Trustee Boards which largely comprise independent Trustees together with Company and employee representatives The assets of the schemes are held separately from the Company's assets and are managed by the Trustee Boards Pension scheme valuations are carried out by independent actuaries to determine pension costs for pension funding every three years and bi-annually to calculate the IAS19 deficit included in the financial statements Eight of the 15 defined benefit schemes within the Group are closed to future accrual with payments into these schemes made in line with deficit recovery plans which have been agreed with pension scheme trustees

The different scheme characteristics can be summarised below

			2013			2012
	Assets £m	**Obligations £m**	**Total £m**	Assets £m	Obligations £m	Total £m
Schemes closed to future accrual	**1,646 1**	**(1,943 9)**	**(297 8)**	1,570 8	(1,848 7)	(277 9)
Open schemes	**490 1**	**(553 4)**	**(63 3)**	441 5	(505 5)	(64 0)
Unfunded schemes[1]	**-**	**(9 0)**	**(9 0)**	-	(9 1)	(9 1)
Total	**2,136 2**	**(2,506 3)**	**(370 1)**	2 012 3	(2 363 3)	(351 0)

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31 Retirement benefit obligations (continued)
The Group also operates defined contribution schemes for all qualifying employees The total cost charged to the income statement of £23 2 million (2012 £20 0 million) represents contributions payable to the schemes by the Group at rates specified by the scheme rules

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

	2013		2012	
	UK	**Canada**	UK	Canada
Rate of increase in salaries	**3 90%**	**N/A**	3 40%	N/A
Rate of increase in pensions	**3 30%**	**2 25%**	2 90%	2 25%
Inflation rate - (Retail Price Index)	**3 40%**	**2 25%**	2 90%	2 25%
Inflation rate - (Consumer Price Index)	**2 35%**	**N/A**	2 05%	N/A
Discount rate	**4 60%**	**4 60%**	4 55%	4 35%

The valuation of defined benefit pension scheme liabilities in particular, is most sensitive to changes in the discount, inflation and mortality rates A 0 1 per cent reduction in the the discount rate would increase scheme liabilities by approximately £44 million, whilst a 0 1 per cent increase in the inflation rate would increase scheme liabilities by approximately £36 million An increase of one year to the mortality rate would increase scheme liabilities by approximately £59 million, although this has been mitigated in part through the purchase of a longevity swap

The overall weighted average duration of scheme liabilities as at 31 December 2013 is approximately 18 years Over the next five years benefits of £512 7 million are expected to be paid and benefits of £602 6 million are expected to be paid over the subsequent five year period

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 for all schemes are shown below

	Life expectancies (years)
Retired member (currently 65 years)	21 7-27 0
Non retired member (currently 45 years)	19 8 25 1

Expense recognised in the income statement

	2013 £m	2012[1] £m
Charge to operating profit		
Current service cost relating to defined benefit schemes	**(6 0)**	(5 9)
Administrative expenses relating to defined benefit schemes	**(5 2)**	(4 5)
Defined contribution schemes	**(23 2)**	(20 0)
Total	**(34 4)**	(30 4)

Financial expense

Net interest expense on defined benefit obligation	**(15 1)**	(13 8)

Amounts recognised in the statement of comprehensive income are as follows	2013 £m	2012[1] £m
The return on scheme assets, excluding amounts included in interest	**79 6**	80 8
Actuarial gains and losses arising from changes in demographic assumptions	**(12 3)**	(22 3)
Actuarial gains and losses arising from changes in financial assumptions	**(111 1)**	(109 1)
Actuarial gains arising from experience adjustments	**(2 0)**	2 7
Movement in minimum funding requirement	**3 4**	(10 8)
Remeasurement of the net defined benefit liability	**(42 4)**	(58 7)

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

	2013 £m	2012 £m
Present value of defined benefit obligation	**(2,498.9)**	(2,352 5)
Fair value of scheme assets	**2,136 2**	2,012 3
Minimum funding requirement	**(7 4)**	(10 8)
Net pension liability	**(370 1)**	(351 0)
Schemes in surplus (within non current assets)	**3 8**	0 7
Schemes in deficit (within non-current liabilities)	**(373 9)**	(351 7)
	(370 1)	(351 0)
Related deferred tax asset	**75 0**	81 1
Net pension liability after tax	**(295 1)**	(269 9)

(1) Restated on adoption of the amendment to IAS 19 (see note 34)

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31 Retirement benefit obligations (continued)
Reconciliation of net defined benefit obligation

	2013 £m	2012 £m
Defined benefit obligation at 1 January	**(351 0)**	(305 8)
Acquisition of John Laing Integrated Services	**(0 3)**	-
Defined benefit costs included in the income statement	**(26 3)**	(24 2)
Remeasurements included in other comprehensive income	**(42 4)**	(58 7)
Contributions from employer	**48 9**	37 4
Effect of movements on exchange rates	**1 0**	0 3
Defined benefit obligation at 31 December	**(370 1)**	(351 0)

	2013 £m	2012 £m
Changes in defined benefit obligation		
Obligation at 1 January	**(2,352 5)**	(2,203 7)
Acquisition of John Laing Integrated Services	**(3 6)**	-
Current service cost	**(6 0)**	(5 9)
Interest cost	**(105 4)**	(103 6)
Contributions from scheme members	**(0 8)**	(0 8)
Remeasurements (gains/losses)		
Actuarial losses arising from changes in demographic assumptions	**(12 3)**	(22 3)
Actuarial losses arising from changes in financial assumptions	**(111 1)**	(109 1)
Actuarial losses arising from experience adjustments	**(2 0)**	2 7
Benefits paid	**92 5**	89 5
Effect of movements in foreign exchange rates	**2 3**	0 7
Obligation at 31 December	**(2,498 9)**	(2,352 5)

The defined benefit obligation analysed by participant status is shown below

	2013		2012	
	Number of members	**Defined benefit obligation £m**	Number of members	Defined benefit obligation £m
Active	**942**	**(165 9)**	1 133	(145 4)
Deferred	**16,764**	**(1,343 6)**	16 787	(1 222 4)
Pensioners	**11,079**	**(989 4)**	11,241	(984 7)
	28,785	**(2,498 9)**	29,161	(2,352 5)

	2013 £m	2012 £m
Changes in the fair value of scheme assets		
Fair value at 1 January	**2,012 3**	1 897 9
Acquisition of John Laing Integrated Services	**3 3**	-
Interest income	**90 3**	89 8
Remeasurements (gains/losses)		
Return on scheme assets (excluding amounts included in net interest expense)	**79 6**	80 8
Administrative expenses paid from plan assets	**(5 2)**	(4 5)
Contributions from the employer	**48 9**	37 4
Contributions from scheme members	**0 8**	0 8
Benefits paid	**(92 5)**	(89 5)
Effect of movements in foreign exchange rates	**(1 3)**	(0 4)
Fair value at 31 December	**2,136 2**	2,012 3

The major categories and fair values of scheme assets as at 31 December 2013 are as follows

31 December 2013	2013 £m	2012 £m
Equities	**1,030 8**	893 6
Corporate bonds	**604 4**	640 9
Government bonds	**378 5**	356 6
Real estate	**78 5**	77 6
Cash and cash equivalents	**40 8**	41 0
Other	**3 2**	2 6
Market value of scheme assets	**2,136 2**	2,012 3
Present value of funded scheme obligation	**(2,489 9)**	(2,343 4)
Present value of unfunded scheme obligation	**(9 0)**	(9 1)
Minimum funding requirement	**(7 4)**	(10 8)
Total deficit	**(370 1)**	(351 0)

31 Retirement benefit obligations (continued)
The actual return on plan assets was £164 7 million (2012 £166 1 million)

The Group expects to make a contribution of £44 7 million (2012 £37 4 million) to the defined benefit schemes during the next financial year

A longevity swap has been entered into by five of the Group's defined benefit schemes which insures the Group against the financial risk of pensioners in payment living longer than currently expected The swap covers around 9,000 pensioners with a combined liability of some £1 billion, which represents around 40 per cent of the total liabilities in respect of the Group's defined benefit schemes The swap was entered into in December 2013 and in accordance with the amendment to IAS 19 'Retirement benefits' has been recognised as part of scheme assets At inception the swap is recognised at fair value using market longevity and discount rate assumptions in accordance with IFRS 13 'Fair value measurement As such at 31 December 2013 the fair value of the longevity swap was assessed as nil as the swap was entered into on an arms length basis and no premium was paid In future periods the Group will re evaluate the fair value of the longevity swap with the movement in fair value recognised in the consolidated statement of comprehensive income

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

Revenue recognition
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

In respect of licensing revenue a number of judgements are made by management in determining whether the criteria (as stated in the company's accounting policies 'note 1') have been met in order to allow for the full immediate recognition of the sale income These judgements may involve the estimation of the fair value of future royalty income receivable based on which management will assess whether the licence sale revenue should be recognised immediately or spread over a period consistent with the life of the technology or other appropriate measure The assessment of that future royalty revenue stream relies on forecast data and a number of variables which are outside of Carillion's control, and hence judgemental The licence revenue recognised in the year (see note 2) related to amounts recognised immediately, given that contingent revenues arising in future periods from these licensing activities were assessed as not significant

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 contracts, discount rates and expected future cash flows and profitability

Determining whether intangible assets are impaired requires an estimation of the future cash flows expected to arise from the cash-generating unit to which the intangible assets are attached Note 11 provides details of the carrying value of intangible assets

Retirement benefits
In determining the valuation of defined benefit pension scheme assets and liabilities a number of key assumptions, which are largely dependent on factors outside the control of the Group, have been made in relation to

- Expected return on plan assets
- Inflation rate
- Mortality
- Discount rate
- Salary and pension increases

Details of these assumptions used, together with sensitivity analysis on the discount rate and inflation rate are included in note 31

Deferred tax
In determining the quantum of deferred tax assets to be recognised judgement is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned Management use forecasts of future taxable profits and make assumptions on growth rates for each entity at each year end in assessing the recoverability of assets recognised

33 Off-balance sheet arrangements
The Group is party to a number of contractual arrangements for the purposes of the Group's principal activities that are not required to be included on the Group balance sheet The principal off balance sheet arrangements that the Group are party to are as follows,

- operating leases (see note 28)
- pledged assets securing finance lease liabilities (see note 10 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

Notes to the consolidated financial statements
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34 Change of accounting policy

Upon the adoption of the amendment to IAS 19 on 1 January 2013, the Group has restated prior period information which has had the following impact on reported profit and earnings per share

Income statement

	Year ended 31 December 2012 £m	£m
Profit before tax as previously reported		179 5
Impact of amendment to IAS 19		
- operating profit	(4 5)	
- net financial expense	(10 2)	
		(14 7)
Profit before tax restated		164 8
Taxation as previously reported	(13 3)	
Impact of amendment to IAS 19	3 4	
Taxation restated		(9 9)
Profit after tax restated		154 9

Earnings per share	Pence per share
Basic earnings per share as previously reported	37 2
Impact of amendment to IAS 19	(2 6)
Basic earnings per share restated	34 6
Diluted earnings per share as previously reported	37 0
Impact of amendment to IAS 19	(2 6)
Diluted earnings per share restated	34 4

The amendment to IAS 19 has also reduced underlying earnings per share by 2 6 pence for the year ended 31 December 2012

Statement of comprehensive income

	Year ended 31 December 2012 Remeasurements £m	Deferred Tax £m
As previously reported	(73 4)	11 8
Impact of amendment to IAS 19	14 7	(3 4)
As restated	(58 7)	8 4

As described in note 1, the amendment to IAS 19 has changed the accounting for defined benefit schemes and termination benefits The interest cost and expected return on scheme assets used in the previous version of IAS 19 have been replaced with a 'net interest' amount which is calculated by applying a discount rate to the net defined benefit obligation This amendment has a corresponding impact on remeasurements recognised in the statement of comprehensive income with no overall change to the net retirement benefit liability in the balance sheet Furthermore, certain costs previously recorded as part of finance expenses have now been presented within administrative expenses

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	**Nature of business**
Carillion (AMBS) Ltd	Facilities management
Carillion (Aspire Construction) Holdings No 2 Ltd	Military accommodation at Aldershot and Salisbury Plain
Carillion (Aspire Services) Holdings No 2 Ltd	Facilities management
Carillion Alawi LLC (Oman) 49%	Building and civil engineering
Carillion Canada Inc (Canada)	Construction and infrastructure services
Carillion CR Ltd	Holding company for property development
Carillion Construction Ltd *	Construction and infrastructure services
Carillion Energy Services Ltd *	Renewable energy support services
Carillion Fleet Management Ltd *	Supply and maintenance of vehicles
Carillion LGS Ltd *	Roads and ground maintenance and repair
Carillion Private Finance Ltd *	Holding company for PPP project companies
Carillion Services Ltd *	Facilities management
Sovereign Hospital Services Ltd	Facilities management in the healthcare sector
The Bouchier Group (Canada) 49%	Road maintenance, infrastructure services and facilities management
Carillion Integrated Services Ltd (formerly John Laing Integrated Services Ltd)	Facilities management

Principal jointly controlled entities

Public Private Partnerships	**Associated project**
Accommodation Services (Holdings) Ltd 20%	GCHO Cheltenham
CSS (FSCC) Partnership (Canada)	Forensic Services and Coroners' Complex, Toronto
COE (CAMH) Limited Partnership (Canada)	Centre for Addiction and Mental Health Toronto
HIP (NOH) Limited Partnership (Canada) 40%	New Oakville Hospital Halton
Inspiredspaces Nottingham (Holdings2) Ltd 80%	Nottingham Schools Phase 2
Inspiredspaces Rochdale (Holdings2) Ltd 80%	Rochdale Schools Phase 2
LCED (Sault) Limited Partnership 25% (Canada)	Sault Area Hospital Canada
Road Management Services (A13) Holdings Ltd 25%	A13 Thames Gateway
The Healthcare Infrastructure Company of Canada (ROH) Inc (Canada)	Royal Ottawa Hospital Canada
The Hospital Company (Southmead) Holdings Ltd	Southmead Hospital Bristol
UK Highways A55 (Holdings) Ltd	A55 North Wales
The Hospital Company (Liverpool) Holdings Ltd	Royal Liverpool University Hospital

Other Public Private Partnership Investments	
Inspiredspaces Durham (Holdings1) Ltd 8%	Durham Schools
Inspiredspaces STaG (Holdings1) Ltd 4 4%	South Tyneside and Gateshead Schools (Jarrow)
Inspiredspaces Rochdale (Holdings1) Ltd 8%	Rochdale Schools Phase 1
Inspiredspaces STaG (Holdings2) Ltd 4 4%	South Tyneside and Gateshead Schools (South Shields)
Inspiredspaces Nottingham (Holdings1) Ltd 8%	Nottingham Schools Phase 1
Inspiredspaces Tameside (Holdings1) Ltd 8%	Tameside Schools Phase 1
Inspiredspaces Tameside (Holdings2) Ltd 8%	Tameside Schools Phase 2
Inspiredspaces Wolverhampton (Holdings1) Ltd 8%	Wolverhampton Schools Phase 1

Others	**Nature of business**
Al Futtaim Carillion LLC (UAE) 49%	Building and civil engineering
CarillionEnterprise Ltd 50 1%	Ministry of Defence buildings
Carillion Richardson Partnership	Property Development
Emrill Services LLC (UAE)* 33%	Facilities management
Modern Housing Solutions (Prime) Ltd 67%	Ministry of Defence housing
Servus Ltd (Trinidad & Tobago)	Facilities management

Jointly controlled operations

Name proportion of interest held and address of principal place of business

Carillion telent Joint Venture 60%	Hayward Road Warwick, England
Carillion URS Joint Venture 70%	Pytchley Maintenance Compound, Pegasus Court Kettering South Business Park, Kettering, Northamptonshire, England
Carillion WSP JV 60%	Bradford, West Yorkshire, England

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

Company balance sheet
As at 31 December 2013

As at 31 December 2013

	Note	2013 £m	2012 £m
Fixed assets			
Investments in subsidiary undertakings and joint ventures	3	**1,566 1**	1,566 1
Current assets			
Debtors	4	**930 1**	1,024 0
Cash at bank and in hand		**14 6**	46 6
		944 7	1,070 6
Creditors amounts falling due within one year	5		
Borrowing		**(11 3)**	(13 3)
Other creditors		**(711 6)**	(598 1)
		(722 9)	(611 4)
Net current assets		**221 8**	459 2
Total assets less current liabilities		**1,787 9**	2,025 3
Creditors amounts falling due after more than one year			
Borrowing	6	**(579 7)**	(762 9)
Net assets		**1,208 2**	1,262 4
Financed by			
Capital and reserves			
Issued share capital	7	**215 1**	215 1
Share premium	8	**21 2**	21 2
Merger reserve	8	**618 7**	618 7
Hedging reserve	8	**(8 0)**	(5 0)
Other reserve	8	**9 2**	9 2
Profit and loss account	8	**352 0**	403 2
Equity shareholders' funds	9	**1,208 2**	1,262 4

The financial statements were approved by the Board of Directors on 5 March 2014 and were signed on its behalf by

Richard Adam FCA
Group Finance Director
5 March 2014

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 Trust (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 2013 of £24 7 million (2012 £143 4 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 85 pence (2012 11 6 pence) per share was paid during the year amounting to £51 0 million (2012 £48 5 million)

Notes to the Company financial statements
continued

2 Profit for the year and dividends (continued)
An interim dividend of 5 5 pence (2012 5 4 pence) per share was paid during the year amounting to £23 6 million (2012 £21 9 million)

A final dividend of 12 0 pence (2012 11 85 pence) per share amounting to £51 6 million (2012 £51 0 million), was approved by the Board on 5 March 2014 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 13 June 2014 to shareholders on the register on 16 May 2014

3 Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
Cost			
At 1 January 2013 and 31 December 2013	**1,576 5**	**0 2**	**1,576 7**
Impairment losses			
At 1 January 2013 and 31 December 2013	**10 6**	**-**	**10 6**
Net book value			
At 31 December 2013	**1,565 9**	**0 2**	**1,566 1**
At 31 December 2012	1,565 9	0 2	1,566 1

The principal subsidiary undertakings and joint ventures of the Company are shown on page 113

4 Debtors

	2013 £m	2012 £m
Amounts falling due within one year		
Amounts owed by Group undertakings	**914 4**	1,013 2
Other debtors and prepayments	**0 7**	-
Amounts owed by joint ventures	**0 7**	0 7
Derivative financial instruments	**2 2**	0 4
Income tax	**12 1**	9 7
Total debtors	**930 1**	1,024 0

5 Creditors amounts falling due within one year

	2013 £m	2012 £m
Bank overdrafts	**3 9**	5 6
Bank loans	**7 4**	7 5
Other loans	**-**	0 2
Borrowing	**11 3**	13 3
Other creditors	**-**	4 6
Amounts owed to Group undertakings	**680 3**	567 8
Amounts owed to joint ventures	**4 7**	5 6
Amounts owed to JANEs	**10 0**	10 0
Other tax and social security costs	**0 2**	0 2
Derivative financial instruments	**13 2**	7 1
Accruals and deferred income	**3 2**	2 8
Total creditors	**722 9**	611 4

All bank overdrafts and loans are unsecured

6 Creditors amounts falling due after more than one year

	2013 £m	2012 £m
Bank loans	**276 0**	456 1
Other loans	**303 7**	306 8
	579 7	762 9

All bank and other loans are unsecured

The maturity profile of all borrowings is disclosed in note 13 on page 119

7 Share capital
Issued and fully paid

	2013		2012	
	Number million	**£m**	Number million	£m
At 1 January and 31 December	**430 3**	**215 1**	430 3	215 1

8 Reserves

	Share premium account £m	Merger reserve £m	Hedging reserves £m	Other reserves £m	Profit and loss account £m	Total £m
At 1 January 2013	**21 2**	**618 7**	**(5 0)**	**9 2**	**403 2**	**1,047 3**
Profit for the year	-	-	-	-	**24 7**	**24 7**
Fair value movement on cash flow hedging derivatives	-	-	**(6 1)**	-	-	**(6 1)**
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	**3 1**	-	-	**3 1**
Acquisition of own shares	-	-	-	-	**(1 4)**	**(1 4)**
Equity settled transactions (net of tax)	-	-	-	-	**0 1**	**0 1**
Dividend paid to shareholders	-	-	-	-	**(74 6)**	**(74 6)**
At 31 December 2013	**21 2**	**618 7**	**(8 0)**	**9 2**	**352 0**	**993 1**

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

	2013 £m	2012 £m
At 1 January	-	(0 2)
Share options exercised (transfer to retained earnings)	**1 4**	1 4
Acquisition of own shares	**(1 4)**	(1 2)
At 31 December	**-**	-

At 31 December 2013 the ESOP held 7 (2012 250) of the Company's shares and had a market value of £23 (2012 £793) During the year the Company acquired 471,407 of its own shares for £1 4 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 2013, the total number of shares held by the QUEST amounted to 84,593 (2012 129 979) and had a market value of £0 4 million (2012 £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

	2013 £m	2012 £m
Profit for the year	**24 7**	143 4
Equity settled transactions (net of tax)	**0 1**	2 3
Fair value movement on cash flow hedging derivatives	**(6 1)**	(7 1)
Reclassification of effective portion of cash flow hedging derivatives to profit	**3 1**	2 1
Acquisition of own shares	**(1 4)**	(1 2)
Dividends paid to shareholders	**(74 6)**	(70 4)
Net reduction to shareholders' funds	**(54 2)**	69 1
Shareholders funds at 1 January	**1,262 4**	1,193 3
Shareholders' funds at 31 December	**1,208 2**	1,262 4

Notes to the Company financial statements
continued

10 Other guarantees and contingent liabilities

	2013 £m	2012 £m
Guarantees in respect of borrowings of subsidiaries	**23 1**	0 5
Guarantees in respect of borrowing in Construction services (excluding the Middle East) jointly controlled entities	**3 1**	0 2
Guarantees in relation to deferred equity payments in PPP special purpose entities	**98 1**	88 2
Guarantees in respect of letters of credit issued by banks in relation to performance contracts for PPP customers	**38 8**	89 2

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 68

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

	2013		2012	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Forward foreign currency contracts and options - at fair value through profit and loss	**2 2**	**-**	0 4	-
Fixed-rate interest derivatives - cash flow hedging instruments	**-**	**(2 5)**	-	-
Cross-currency derivatives - cash flow hedging instruments	**-**	**(10 7)**	-	(7 1)
Foreign currency exposure	**2 2**	**(13 2)**	0 4	(7 1)

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 financing The fixed interest rate derivatives hedge the exposure to interest rate movements on borrowings with floating rates of interest

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

	2013 £m	2012 £m
United States of America Dollar	**(184 0)**	(188 6)
Canadian Dollar	**(56 4)**	(60 7)
United Arab Emirates Dirham	**(7 4)**	(7 5)
Other	**(0 5)**	(3 0)
	(248 3)	(259 8)

Of the total foreign currency borrowing of £248 3 million (2012 £259 8 million) the amount of borrowing used for hedging currency net asset of overseas operations of the Group amounts of £78 4 million (2012 £83 7 million) The foreign exchange gain of £3 3 million (2012 £1 5 million gain) on translation of the borrowing into sterling has been recognised in the hedging reserve as these hedging loans are effective hedges

13 Financial instruments (continued)

Maturity of financial liabilities

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

31 December 2013	**Bank overdrafts £m**	**Bank loans £m**	**Other loans £m**	**Total £m**
Between one and two years	**-**	**5 7**	**13 9**	**19 6**
Between two and three years	**-**	**5 7**	**13 9**	**19 6**
Between three and four years	**-**	**5 7**	**28 4**	**34 1**
Between four and five years	**-**	**277 4**	**11 7**	**289 1**
More than five years	**-**	**-**	**324 7**	**324 7**
More than one year	**-**	**294 5**	**392 6**	**687 1**
Less than one year	**3 9**	**13 1**	**13 9**	**30 9**
	3 9	**307 6**	**406 5**	**718 0**

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

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

	2013 £m	2012 £m
Expiring within one year	**7 5**	7 4
Expiring between two and five years	**543 0**	281 2
	550 5	288 6

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 2013 will be payable on 13 June 2014 to those shareholders on the register on 16 May 2014

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 2014 announced August 2014
Full year to 31 December 2014 announced March 2015

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

Equiniti
Aspect House
Lancing
West Sussex
BN99 6DA

Telephone 0871 384 2522*
Textphone for shareholders with hearing difficulties 0871 384 2255
Non-UK callers should dial +44(0) 121 415 7047

Lines are open 8 30am to 5 30pm, Monday to Friday

* Calls to this number cost eight pence per minute plus network extras

Share dealing service
Carillion offers its UK shareholders, Shareview Dealing, a telephone and internet share dealing service operated by Equiniti For telephone purchases and sales call 0845 603 7037 between 8 30am and 4 30pm, Monday to Friday, or log on to www shareview co uk/dealing For the sale of shares, you will need your shareholder reference number as shown on your share certificate

Multiple accounts on the shareholder register
If you have received two or more sets of the documents concerning the Annual General Meeting this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way For security reasons Equiniti will not amalgamate the accounts without your written consent so if you would like any multiple accounts combined into one account, please write to Equiniti at the address given on page 121

Shareview (electronic communications)
www shareview co uk is a service offered by Equiniti that enables you to check your holdings in many UK companies and helps you to organise your investments electronically You can also notify Equiniti of a change of address or a change to dividend mandate instructions You can register for this portfolio service which is easy to use secure and free as long as you have access to the internet by logging on to www shareview co uk and following a simple registration process

Electronic proxy appointments
For the AGM to be held on 7 May 2014, you may, if you wish, register the appointment of a proxy electronically by logging on to the website www sharevote co uk

You will need your voting reference numbers (the three 8-digit numbers shown on your form of proxy) Alternatively, if you have registered for a Shareview portfolio log on to your portfolio at www shareview co uk and click on the link 'vote' under your Carillion plc details then follow the on screen directions

Please note that any electronic communication that is found to contain a computer virus will not be accepted

ShareGift
ShareGift is a charity share donation scheme for shareholders administered by the Orr Mackintosh Foundation It is especially for those who may wish to dispose of a small parcel of shares whose value makes it uneconomic to sell on a commission basis Further information can be obtained at www sharegift org or from Equiniti

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

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 Conduct Authority (FCA) by calling 0845 606 1234 or by visiting www fca org uk/register and contact the firm using the details on the register,
- report the matter to the FCA by calling 0845 606 1234 or by visiting www fca org uk/consumers,
- 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 If you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040

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]
Alison Horner[1 2 3 4]
Steve Mogford[1 2 3 4]
Vanda Murray[1 2 3 4]

Executive Directors
Richard Howson (Group Chief Executive)[3]
Richard Adam (Group Finance Director)

(1) Member of the Audit Committee
(2) Member of the Remuneration Committee
(3) Member of the Nominations Committee
(4) Member of the Business Integrity Committee

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Joint Brokers
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Oriel Securities
150 Cheapside
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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

Five-year review

Group income statement	2013 £m	2012[1] £m	2011[1] £m	2010[1] £m	2009[1] £m
Total revenue	**4,080 9**	4,402 8	5 051 2	5 139 0	5 629 3
Analysed between					
Support services	**2,300 9**	2 359 7	2 345 2	2 108 6	2 389 5
Public Private Partnership projects	**236 9**	2877	309 8	311 9	418 4
Middle East construction services	**483 5**	473 6	548 9	493 0	553 6
Construction services (excluding the Middle East)	**1,059 6**	1,281 8	1,847 3	2,225 5	2,267 8
Underlying Group and jointly controlled entities' operating profit before intangible amortisation, impairment of goodwill and other investments, non-recurring operating items and jointly controlled entities' net financial expense and taxation	**228 8**	245 6	245 4	226 2	207 9
Analysed between					
Support services	**118 0**	120 9	119 0	108 7	116 1
Public Private Partnership projects	**58 4**	33 8	31 4	40 2	26 8
Middle East construction services	**19 2**	29 0	49 1	47 5	47 0
Construction services (excluding the Middle East)	**44 4**	72 4	57 9	41 2	30 9
Group eliminations and unallocated items	**(11 2)**	(10 5)	(12 0)	(11 4)	(12 9)
Share of jointly controlled entities' net financial expense	**(10 1)**	(16 0)	(18 8)	(13 9)	(21 8)
Share of jointly controlled entities' taxation	**(4 4)**	(1 7)	(3 5)	(4 7)	(3 9)
Underlying operating profit before intangible amortisation, impairment of goodwill and other investments, and non-recurring operating items	**214 3**	227 9	223 1	207 6	182 2
Group net financial expense	**(39 6)**	(27 9)	(18 6)	(20 2)	(18 0)
Underlying profit before tax	**174 7**	200 0	204 5	187 4	164 2
Intangible amortisation arising from business combinations	**(19 2)**	(31 4)	(31 0)	(27 6)	(30 8)
Non-recurring operating items	**(44 2)**	(2 6)	(42 8)	(9 4)	(15 2)
Non-operating items	**(0 7)**	(1 2)	(6 9)	-	10 3
Profit before taxation	**110 6**	164 8	123 8	150 4	128 5
Taxation	**(4 3)**	(9 9)	-	(10 6)	(9 4)
Profit for the year	**106 3**	154 9	123 8	139 8	119 1

Group financial statistics		2013	2012	2011	2010	2009
Underlying operating profit margin						
Support services	Percentage	**5 1**	5 1	5 1	5 2	4 9
Middle East construction services	Percentage	**4 0**	6 1	8 9	9 6	8 5
Construction services (excluding the Middle East)	Percentage	**4 2**	5 6	3 1	1 9	1 4
Underlying operating profit margin						
Total Group before share of jointly controlled entities' net financial expense and taxation	Percentage	**5 6**	5 6	4 9	4 4	3 7
Underlying profit from operations margin						
Total Group	Percentage	**5 3**	5 2	4 4	4 0	3 2

Group balance sheet	2013 £m	2012[1][2] £m	2011[1] £m	2010[1] £m	2009[1] £m
Property, plant and equipment	**128 2**	125 8	134 2	157 2	168 2
Intangible assets	**1,552 8**	1,536 6	1547 6	1,221 2	1,241 3
Investments	**159 3**	237 9	210 9	176 7	172 0
	1,840 3	1,900 3	1,892 7	1,555 1	1,581 5
Inventories, receivables and payables	**(327 6)**	(456 7)	(607 4)	(613 8)	(608 0)
Net retirement benefit liability (net of deferred tax)	**(295 1)**	(269 9)	(229 3)	(182 1)	(211 1)
Other net liabilities	**(18 8)**	(7 2)	(22 8)	(14 2)	(15 2)
Net operating assets	**1,198 8**	1,166 5	1,033 2	745 0	747 2
Net (borrowing)/cash	**(215 2)**	(155 8)	(50 7)	120 2	24 9
Net assets	**983 6**	1,010 7	982 5	865 2	772 1

Group cash flow statement					
Underlying Group operating profit	**187 8**	193 6	174 4	161 1	123 0
Depreciation and other non-cash items	**21 3**	26 9	36 4	36 1	42 8
Working capital	**(66 4)**	(136 2)	5 1	16 2	164 2
Dividends received from joint ventures	**18 2**	13 6	39 6	48 1	38 6
Underlying cash flow from operations	**160.9**	97 9	255 5	261 5	368 6
Deficit pension contributions	**(39 2)**	(30 2)	(36 2)	(35 2)	(29 0)
Rationalisation costs	**(22 0)**	(28 6)	(34 4)	(15 6)	(17 1)
Interest tax and dividends	**(90 9)**	(87 2)	(77 1)	(65 9)	(63 2)
Net capital income/(expenditure)	**(27 2)**	(15 6)	4 6	(15 3)	(47 3)
Acquisitions and disposals	**(28 6)**	(32 6)	(276 6)	(28 6)	42 3
Other	**(12 4)**	(8 8)	(6 7)	(5 6)	(2 7)
Change in net liquidity	**(59 4)**	(105 1)	(170 9)	95 3	251 6
Net cash/(borrowing) at 1 January	**(155 8)**	(50 7)	120 2	24 9	(226 7)
Net cash/(borrowing) at 31 December	**(215 2)**	(155 8)	(50 7)	120 2	24 9

Group financial statistics

Earnings per share						
Underlying earnings per share	Pence	**34 7**	40 4	42 3	40 4	35 0
Basic earnings per share	Pence	**23 3**	34 6	28 6	33 6	29 2

Dividends						
Proposed full year dividend per share	Pence	**17 50**	17 25	16 90	15 50	14 60
Underlying proposed dividend cover	Times	**2 0**	2 3	2 5	2 6	2 4
Basic proposed dividend cover	Times	**1 3**	2 0	1 7	2 2	2 0

(1) Prior years income statement and cash flow statement information has been restated on adoption of the amendment to IAS 19 on 1 January 2013
(2) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Bouchier Group in 2012

Prior to the restatement on adoption of the amendment to IAS 19, previously reported underlying profit before taxation and underlying earnings per share were as follows

		2012	2011	2010	2009
Underlying profit before taxation	£m	214 7	212 0	188 1	175 5
Underlying earning per share	Pence	43 0	43 0	39 4	37 3

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