25 March 2010
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Dear Sirs

Carillion Staff Pension Scheme

I am the chair of trustees of Carillion Pensions Ltd (the "Trustee"), the trustee of the Carillion Staff Pension Scheme (the "Scheme").

The Scheme is one of a number of defined benefit occupational pension schemes operated by the Carillion group of companies (the "Group Schemes").

1. Failure to agree on funding documents within deadline

The purpose of this letter is to report, under section 229(5) of the Pensions Act 2004, a failure to agree on various matters relating to the scheme specific funding requirements of the Pensions Act 2004 within the required deadline.

The effective date for the actuarial valuation for the Scheme is 31 December 2008. This means that by 31 March 2010 agreement should be reached with the employer on the following matters:

(a) the methods and assumptions to be used in calculating the Scheme’s technical provisions;
(b) the statement of funding principles;
(c) the recovery plan; and
(d) the schedule of contributions

As at the date of this letter no agreement has been reached with the employer on any of those issues.

2. Other Carillion schemes

The following five Group Schemes: Carillion B Pension Scheme; Mowlem Staff Pension and Life Assurance Scheme; Mowlem (1993) Pension Scheme; The Alfred McAlpine Pension Plan; Planned Maintenance Engineering Ltd Staff Pension and Assurance Scheme have actuarial valuations due within the same timescale as the Scheme – namely an effective date of 31 December 2008 with all matters to be agreed with the employer by 31 March 2010.
We understand that no agreement has been reached with the employer in relation to the other five Group Schemes and that the chair of trustees of each of those schemes is submitting a report to you in a similar form to this letter.

3. **Joint discussions with Carillion plc**

At the start of the valuation process, the trustee board of each Group Scheme agreed to discuss funding matters collectively with Carillion plc (acting on behalf of all Group Scheme employers), to the extent that their circumstances were similar:

- From Carillion plc's viewpoint this was so that it could manage the valuation process efficiently rather than engage in individual discussions with each Group Scheme.

- From the Trustee's viewpoint this was seen as a way to obtaining an overall view of what the Carillion group could and was willing to contribute to the Scheme.

The aim was not to replace the individual agreement needed for each Group Scheme by a global agreement but rather to streamline and speed up the process.

Carillion plc invited the chair of trustees of each of the six Group Schemes to form a joint trustee forum (referred to in this letter the "Trustee Forum") as the conduit for the funding discussions. At all times, the matters discussed between Carillion plc and the Trustee Forum have been reported back to the Trustee.

It was hoped by this time we would be at the stage where the funding documents for the Scheme would have been agreed but this has not happened.

We are preparing a pack of documents with the dates of all meetings and relevant minutes - please let me know if it would be helpful to send this to you.

4. **Areas to be agreed**

The principal areas where the Trustee and the employer have failed to reach agreement are as follows:

(a) **Assumptions for calculating technical provisions**

- The Trustee has been asked to agree less prudent assumptions and methods to calculate the technical provisions than were agreed under the previous Scheme valuation. Carillion plc has put forward this request on the basis that the Carillion group is in a stronger financial position than in 2005 and is better placed to support the Scheme (as well as the other Group Schemes) in the long term.

- Specifically, Carillion plc has proposed that a discount rate of 5.25% should be used for each of the six Group Schemes. For this Scheme the Trustee, however, believes that a prudent discount rate should be no higher than 4.5%.

(b) **Recovery Plan and Schedule of Contributions**
• Carillion plc has put forward a maximum level of annual cash contributions which it has said it is willing and able to make across all six Group Schemes. It has stated that its annual cash payments across all Group Schemes cannot exceed £23 million.

• In the light of the covenant report commissioned by the six schemes the Trustee Forum believes that a payment of £35m per annum would be affordable as a minimum.

• In other words, there is a difference of opinion over what the Carillion group can afford to pay. In view of the recent bullish results announcement by the Company, the strong cash flow and the 12% increase in shareholder dividends there appears to be a reluctance to recognise the position of the six Group schemes.

• Until the overall annual contribution to the six Group Schemes can be ascertained the Trustee believes it will be very difficult to move the funding discussion forward (even though each Group Scheme must agree its own funding arrangements with the relevant employer).

• Carillion plc has proposed that the past service deficit in the Group Schemes should be met over 15 years. The Trustee notes that this exceeds the 10 year maximum which the Regulator suggests is appropriate but also acknowledges that longer recovery plans can be appropriate in certain circumstances. However it seems to the Trustee that the length of the recovery plan cannot be agreed until the Group Schemes have agreed with Carillion plc what the Carillion group is able to pay and the technical provisions are agreed.

5. Current position

The last meeting of the Trustee Forum with Carillion plc took place on 16 March 2010. Unfortunately no progress was made. Carillion plc stated that no more that £25m each year was available towards funding the six Group Schemes. In the opinion of the Trustee Forum this is not acceptable and is far less than what the Trustee Forum thinks would be a reasonable overall annual contribution.

The Trustee Forum will be sending a response to Carillion plc following that meeting. The Company has proposed a further meeting in May.

6. Next Steps

We will continue to do our utmost to bring discussions with the Company to a conclusion and in the meantime would welcome any assistance you can give.

If there is any further information you require please do not hesitate to contact Tina Rushworth, Secretary to the Carillion Staff Pension Scheme, 9th Floor, 24 Birch Street, Wolverhampton, WV1 4HY.

Yours faithfully

F R Herzberg