October 2010

Mowlem Staff Pension and Life Assurance Scheme
Actuarial valuation as at:
31 December 2008

MERCER

Summary

An actuarial valuation of the Mowlem Staff Pension and Life Assurance Scheme has been carried out as at 31 December 2008.

The Scheme closed to future accrual with effect from 5 April 2009. For service prior to this date, members received a deferred pension reflecting their defined benefit rights under the Scheme, calculated as though they had left service on that date. The valuation results, albeit as at 31 December 2008, allow for the closure.

The key conclusions from the valuation are:

- The Scheme had assets of £381.7m at 31 December 2008.
- The calculation of the past service liabilities set out below allow for the Scheme benefit changes effective from 5 April 2009.
- The Scheme showed a deficit of £142.8m at the valuation date based on the assumptions made for calculating its technical provisions. This measure compares the Scheme’s assets with the value of the past service benefits at 31 December 2008. It represents a funding level of 73% relative to the Scheme’s funding target.
- As future service ceased from 5 April 2009, an Employer future service cost has not been calculated and employees no longer pay contributions from this date.
- If the Scheme had been discontinued at the valuation date, there would have been insufficient Scheme assets to buy out all the benefits with an insurance company. The estimated wind-up funding level at the valuation date was 47%.
The Employer and the Trustee have agreed that the Employer will contribute at the following rates towards the funding shortfall:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>£5.86m</td>
</tr>
<tr>
<td>2010 to 2021</td>
<td>£10.1m p.a.</td>
</tr>
<tr>
<td>2022</td>
<td>£14.9m</td>
</tr>
<tr>
<td>2023</td>
<td>£16.1m</td>
</tr>
<tr>
<td>2024</td>
<td>£16.25m</td>
</tr>
</tbody>
</table>

In addition the Employer has agreed to meet the levy paid by the Trustee to the Pension Protection Fund and with effect from 2013 the investment expenses, either directly or maybe via funding reserves.

An allowance has been made for the remaining expenses of running the Scheme until the next actuarial valuation via a £3.0m reserve included in the Scheme's technical provisions. This reserve will be reviewed at subsequent actuarial valuations.

If the assumptions made for assessing the recovery plan are borne out in practice, these contributions will eliminate the shortfall of £142.8m against the technical provisions by the end of 2024 and will improve the wind-up funding position of the Scheme.

These contributions are set out in the schedule of contributions and recovery plan enclosed as appendices.

Signature

Scheme Actuary

ES Topper

Date of signing

29 October 2010

Qualification

Fellow of the Institute and Faculty of Actuaries
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This report is addressed to the Trustee and has been prepared in accordance with the version of the Board for Actuarial Standards' Guidance Note 9: Funding Defined Benefits – Presentation of Actuarial Advice current at the date this report is signed. "Technical Actuarial Standard R: Reporting Actuarial Information" and "Technical Actuarial Standard D: Data" issued by the Board for Actuarial Standards also apply to this report and the report complies with its requirements, where relevant.

The calculations in the report use methods and assumptions appropriate for reviewing the financial position of the Scheme and determining the appropriate contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor does Mercer accept liability to the Trustee if the advice is used for any purpose other than that stated (for example for company accounting or corporate mergers/acquisitions).

The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to any participating employer and, if the Trustee and Mercer consent, it may be disclosed to other third parties.

Mercer
Introduction

1.1 This report sets out the results of the actuarial valuation of the Mowlem Staff Pension and Life Assurance Scheme ("the Scheme") as at 31 December 2008. It relates to the Defined Benefit section of the Scheme; the assets and liabilities of the Defined Contribution section have been excluded.

Purpose of the valuation

1.2 The primary aims of the valuation are to review the financial position of the Scheme and to determine appropriate Employer contributions to the Scheme for the future. In particular, the valuation aims to:

- Assess the Scheme's funding position relative to the statutory funding objective.
- Assess whether the Scheme would have sufficient resources were it to discontinue.
- Determine the appropriate future level of Employer contributions, taking the above into account.

1.3 Under the provisions of the Trust Deed and Rules, the contribution rate is set by the Employer after considering actuarial advice and having regard to the assets and liabilities of the Defined Benefit section of the Scheme. In accordance with the Code of Practice on funding defined benefits issued by the Pensions Regulator, and after discussion with the Employer, the Trustee has consented to the future contributions schedule proposed by the Employer.

1.4 The valuation has been carried out on the instruction of the Trustee and in accordance with Rule 35 of the Trust Deed and Rules and Section 224 of the Pensions Act 2004.

1.5 The previous actuarial valuation of the Scheme was carried out as at 31 December 2006 by myself.
Funding objective

1.6 The Pensions Act 2004 and the Scheme Funding Regulations issued in 2005 require schemes to adopt the statutory funding objective – to have sufficient and appropriate assets to cover their "technical provisions". The technical provisions are an estimate of the assets needed to make provision for benefits already accrued under a scheme.

1.7 The Trustee has decided on a funding objective and agreed it with the Employer. This is set out in the statement of funding principles, enclosed as Appendix D.

1.8 In summary, the agreed funding objective is to reach (by December 2024) and then maintain, assets equal to the technical provisions, assessed on an ongoing basis.

1.9 The funding objective values the liabilities of the Scheme by reference to the return on a portfolio of government bonds ("gilts") of appropriate duration plus an additional out-performance assumption reflecting the expected return on the assets over the lifetime of the Scheme grossed up to take account of investment expenses being met separately from 2013 onwards.

1.10 The funding objective uses an assumption for future life expectancy which has been improved since the previous valuation to reflect the results of the mortality analysis undertaken in October 2008.

1.11 Under legislation, the assumptions underlying the technical provisions are set by the Trustee with the agreement of the Employer. The assumptions include margins for prudence that the Trustee considers appropriate given the Employer's willingness and ability to support the Scheme (the "employer covenant"). I have provided advice to the Trustee on margins for prudence.

Employer and Trustee negotiations

1.12 This valuation was not completed within fifteen months of the effective date as required by legislation. After extensive discussions between the Employer and Trustee a technical provisions basis and contributions were agreed upon which defers several issues to be reviewed at the next actuarial valuation.

1.13 The recovery plan, the schedule of contributions and a summary of the valuation will be submitted to the Pensions Regulator. This submission will not occur within the fifteen month period from the effective date of the valuation as required by legislation, due to the extended Employer and Trustee discussions regarding the basis to be used for the technical provisions and the level of contribution input from the Employer. The Pensions Regulator was notified of this delay in advance of the 31 March 2010 deadline and was provided with regular updates from both parties up to the point agreement was reached.

1.14 In particular, it was agreed to defer: an adjustment to the discount rate to allow for likely potential future de-risking of investments; a further strengthening of the mortality assumption to include long cohort projections and/or a floor to future improvements; an allowance for the improvement to the Scheme's commutation terms post the valuation effective date; and the preliminary results of an analysis.
of data from the administrator which indicates, albeit only covering a short period, that members are currently taking only approximately one half of the maximum cash allowance compared with the full allowance assumed for this valuation. The potential financial impact of these issues are illustrated in more detail in Section 7.
Funding results – technical provisions

2.1 The market value of the Scheme’s assets at the valuation date is compared with the Scheme’s technical provisions below. The funding position at the previous valuation is shown for comparison.

2.2 The shortfall against the technical provisions at the valuation date was £142.8m. This represents a funding level of 73% relative to the technical provisions.

2.3 The benefits valued for the technical provisions are those in respect of pensionable service completed up to 31 December 2008, but allowance has been made for future accrual and for salary increases for active members up to 5 April 2009 only, with deferred revaluation thereafter.
2.4 As the previous valuation allowed for future salary increases up to normal retirement date, the cessation of salary linkage on active members' benefits has served to release reserves of some £22m on the Trustee's technical provisions basis.

2.5 The technical provisions are not the same as the cost of securing the benefits on a wind-up. The wind-up position is described in Section 5.

**Analysis of change in funding position**

2.6 The key factors influencing the change in the deficit since the previous valuation are shown below:

<table>
<thead>
<tr>
<th>Analysis of movement in deficit</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deficit at 31 December 2006</td>
<td>(32.6)</td>
</tr>
<tr>
<td>Interest on deficit</td>
<td>(3.3)</td>
</tr>
<tr>
<td>Lower than expected investment returns</td>
<td>(130.7)</td>
</tr>
<tr>
<td>Change in financial assumptions</td>
<td>18.5</td>
</tr>
<tr>
<td>Higher than expected salary increases</td>
<td>(2.6)</td>
</tr>
<tr>
<td>Higher than expected pension increases</td>
<td>(5.4)</td>
</tr>
<tr>
<td>Employer contributions in excess of cost of benefit accrual</td>
<td>16.7</td>
</tr>
<tr>
<td>Impact of benefit change from 5 April 2009</td>
<td>22.4</td>
</tr>
<tr>
<td>Section 75 debt paid</td>
<td>5.7</td>
</tr>
<tr>
<td>Impact of improved life expectancy</td>
<td>(29.0)</td>
</tr>
<tr>
<td>Miscellaneous/membership movements</td>
<td>0.5</td>
</tr>
<tr>
<td>Three year allowance for capitalisation of future expenses</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Deficit at 31 December 2008 against technical provisions</td>
<td>(142.8)</td>
</tr>
</tbody>
</table>

2.7 The above analysis highlights a number of material developments affecting the Scheme since the previous valuation:

- the Scheme closure with effect from 5 April 2009;
- the Employer contributions in excess of the cost of benefits accruing;
- the change to the mortality assumption.
2.8 It also highlights the key differences between what was assumed at the previous valuation and experience since then:

- Investment performance has been significantly lower than assumed.
- Salary and pension increases have been higher than assumed.

2.9

2.10
Funding results – contribution requirements

3.1 The contributions payable by the Employer are set out in the recovery plan (Appendix F) and the schedule of contributions (Appendix E).

3.2 The Scheme ceased future accrual with effect from 5 April 2009 and it is therefore no longer relevant to calculate a normal contribution. The contributions are therefore to address the shortfall against the technical provisions.

3.3 At the previous valuation, an allowance for expenses was included in the normal contribution rate. With the cessation of future accrual, an allowance for expenses has been capitalised and included as a reserve held in the technical provisions for the period until 2013 and has been assumed to be met by the Employer (in a manner to be considered as part of the 2011 valuation) together with investment management expenses thereafter.

3.4 PPF levies, which are assumed to be met directly by the Employer, are payable in addition.

Contributions to address shortfall

3.5 The recovery plan and the schedule of contributions set out the overall contribution rates to meet the shortfall against the Scheme’s technical provisions over the recovery period ending in December 2024, agreed between the Trustee and Employer. Details on the timing and frequency of contributions are given, together with the date on which the revised contributions commence.

3.6 In the absence of detailed analysis of the likely future cashflows from the fund, the calculation of this recovery period makes no explicit allowance for them. As the Scheme is maturing and is now closed to future accrual, the Scheme is cashflow negative and allowing for this would reduce the level of assets and hence asset performance over the recovery period.
3.7 The contributions agreed for the period to the next formal actuarial valuation include the following amounts towards the shortfall against the Scheme’s technical provisions:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>£5.86m</td>
</tr>
<tr>
<td>2010</td>
<td>£10.1m</td>
</tr>
<tr>
<td>2011</td>
<td>£10.1m</td>
</tr>
</tbody>
</table>

3.8 Over the longer term (i.e. beyond the next formal actuarial valuation) and on the assumptions set out in the statement of funding principles, the contributions required to meet the Scheme’s funding objective are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 to 2021</td>
<td>£10.1m p.a.</td>
</tr>
<tr>
<td>2022</td>
<td>£14.9m</td>
</tr>
<tr>
<td>2023</td>
<td>£16.1m</td>
</tr>
<tr>
<td>2024</td>
<td>£16.25m</td>
</tr>
</tbody>
</table>

Limitations on advice

3.9 I have drawn the Trustee’s attention to the issues it should consider when setting the recovery plan and contribution rate under paragraphs 75, 79 and 102 of the Pensions Regulator’s Code of Practice No. 3 (Funding defined benefits). Having informed the Trustee in advance, I have not provided advice on the following matters:

- The Employer’s business plans and the likely effect any potential recovery plan would have on the future viability of the Employer.

- The ability of the trustee to pursue an employer to make good a deficiency in the event of a scheme wind-up. If the trustee might have difficulty pursuing an employer to recover a debt (for example, if the employer or its parent is based overseas), it should usually seek a shorter recovery period.

- The Employer's expenditure commitments. For example, some “back-end loading” might be acceptable when the Employer’s payments towards redeeming a commercial mortgage are due to end in the near future or a vital one-off investment in new equipment is being made in the next year.

- Reports of industry regulators (in the case of certain regulated industries).
• The value of any contingent security provided by the Employer bearing in mind both the term and enforceability. A longer recovery period or one structured with a degree of back-end loading may be appropriate where security has been provided in the event of insolvency.

• Whether there are any impending member movements which would have a potentially significant effect on funding, such as major retirements or bulk transfers (in or out).

• The anticipated level of the risk-based element of the Pension Protection Fund levy, year on year, over the course of the recovery period and how this is met by the Employer.
Method and assumptions

Funding method

4.1 At the previous valuation the funding method used was the attained age method, under which salary increases were assumed for each member and projected until the member was assumed to leave active service. This method is no longer applicable as the Scheme closed to future accrual with effect from 5 April 2009 and all active members became deferred from this date.

4.2 The funding method adopted, therefore, is known as the Defined Accrued Benefits method, under which benefit payments for accrued service are estimated for each member at the date when the member is assumed to die or retire. This is described in the enclosed statement of funding principles.

Assumptions

4.3 The financial and demographic assumptions used to assess the technical provisions and the recovery plan are set out in the statement of funding principles (Appendix D).

4.4 The table below sets out a summary of the market yields at the valuation date, together with the yields at the date of the previous valuation:

<table>
<thead>
<tr>
<th></th>
<th>31 December 2008</th>
<th>31 December 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-dated gilt yield</td>
<td>3.75%</td>
<td>4.17%</td>
</tr>
<tr>
<td>Long-dated index-linked gilt yield</td>
<td>0.75%</td>
<td>1.12%</td>
</tr>
<tr>
<td>Market expectation for inflation (long-term)</td>
<td>2.98%</td>
<td>3.02%</td>
</tr>
</tbody>
</table>
4.5 The assumptions to which the valuation results are particularly sensitive are shown below. A number of changes have been made to the assumptions used, compared with the previous valuation and these are highlighted below.

<table>
<thead>
<tr>
<th></th>
<th>2008 Technical provisions</th>
<th>2006 Technical provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment return</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-retirement</td>
<td>5.25% p.a.</td>
<td>5.2% p.a.</td>
</tr>
<tr>
<td>Post-retirement</td>
<td>5.25% p.a.</td>
<td>5.2% p.a.</td>
</tr>
<tr>
<td>Price inflation (RPI)</td>
<td>2.8% p.a.*</td>
<td>3.0% p.a.</td>
</tr>
<tr>
<td>Salary increases</td>
<td>N/A</td>
<td>4.5% p.a. plus promotional</td>
</tr>
<tr>
<td>Pension increases in payment (5% LPI)</td>
<td>2.8% p.a.</td>
<td>3.0% p.a.</td>
</tr>
<tr>
<td>Mortality base table</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- non-pensioners</td>
<td>PA92 (YOB) +2 years</td>
<td>PA92 (YOB=1965) +2 years</td>
</tr>
<tr>
<td>- pensioners</td>
<td>PA92 (YOB) +2 years</td>
<td>PA92 (YOB=1935) +2 years</td>
</tr>
<tr>
<td>Mortality – future improvements</td>
<td>Medium cohort projections</td>
<td>Medium cohort projections</td>
</tr>
</tbody>
</table>

* Allowing for an inflation risk premium of 0.2% in 2008.

4.6 The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the technical provisions with the exception that, during the period of the recovery plan, the investment return on the Scheme's existing assets and future contributions is assumed to be 5.8% per annum.
4.7 As an illustration of the mortality rates assumed, the further life expectancies at 65 for males currently aged 45 and 65 are shown below:

<table>
<thead>
<tr>
<th></th>
<th>PA92(YOB) MC</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-retired member (age 45 currently)</td>
<td></td>
<td>23.1 years</td>
</tr>
<tr>
<td>Retired member (age 65 currently)</td>
<td></td>
<td>22.0 years</td>
</tr>
</tbody>
</table>

4.8 A mortality analysis of the Carillion Group was undertaken and the results for each scheme were presented at the Trustee Forum on 28 October 2008. After discussions, the Trustee decided to adopt the baseline assumption recommended by the analysis which removed the age rating from the mortality assumption. In addition, allowance continues to be made for life expectancy improvements by using medium cohort projections. Overall, this represents a strengthening of the mortality assumption compared with the previous valuation.

4.9 The basis of valuing the assets (market value) is consistent with that of valuing the liabilities.
Wind-up funding results

5.1 The wind-up funding level of the Scheme at the valuation date has been estimated as 47%. This has deteriorated from 57% since the previous valuation, mainly due to a fall in the value of the Scheme's assets.

5.2 Had the statutory funding objective been exactly met on the valuation date (i.e. assets equal to technical provisions), the wind-up funding level would have been 64%.

5.3 As the Scheme is less than 100% funded on the wind-up basis at 31 December 2008, not all members could have received their full benefits from the assets had the Scheme wound up on that date.

5.4 If the Scheme had been wound up on the valuation date, the priority order currently applicable would have had the following approximate impact on the different categories of benefit.
5.5 There is now a liability on employers on wind-up of a scheme based on the cost of meeting benefits in full. The estimated shortfall at the valuation date amounted to £434.4 million.

5.6 The above measures look at the Scheme’s funding on the assumption that it had been discontinued on the valuation date and the benefits bought out with an insurance company.

5.7 In doing this, it is assumed that no further benefits accrue, no further contributions are paid and active members are entitled to benefits on the basis they had left service on the valuation date. There is no allowance for any discretionary benefits being paid in the future.

5.8 Given the Trustee's current investment policy, the wind-up position on a given date may be significantly different from the position estimated at the valuation date.

5.9 The funding level is only an estimate since it is not based on an actual quotation. The true position could only be established by completing a buy-out.

5.10 The assessments above have been carried out using experience of recent buy-out quotations and understanding of the factors affecting this market. A detailed analysis of the reserves that would need to be held has not been carried out. Consideration has been given to the market terms for the financial instruments in which providers would be expected to invest and an approximate allowance has been made for the reserves a provider would maintain to cover the risks involved and the statutory reserving requirements. These results are, therefore, only a guide to the wind-up position and should not be taken as a quotation. Market changes, both in interest rates and in supply and demand for buy-out business, mean that if a buy-out ultimately proceeds, actual quotations may differ. The assumptions used are as follows:

<table>
<thead>
<tr>
<th>Benefit category</th>
<th>Coverage of benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits up to level covered by PPF</td>
<td>63%</td>
</tr>
</tbody>
</table>

 Mercer
**Financial**

<table>
<thead>
<tr>
<th>Pensioners</th>
</tr>
</thead>
</table>
| Investment return | 4.0% p.a.  
| Pension increases (LPI 5%) | 3.0% p.a.  
| Non-pensioners |  
| Investment return pre-retirement | 3.9% p.a.  
| Increases pre-retirement | 3.1% p.a.  
| Investment return post-retirement | 4.0% p.a.  
| Increases post-retirement (LPI 5%) | 3.3% p.a.  

**Demographic**

<table>
<thead>
<tr>
<th>Retirement</th>
<th>Normal retirement age</th>
</tr>
</thead>
</table>
| Mortality – base table | PA92 (YOB)  
| Mortality – future improvements |  
| Males | Medium cohort projections with 1.5% p.a. minimum improvement per annum starting from 2007  
| Females | Medium cohort projections with 1% p.a. minimum improvement per annum starting from 2007  
| Commutation | None  
| Proportion married (M/F) | 84% / 75%  
| Spouse’s age | Wives three years younger than husbands. Husbands 2 years older than wives.  

5.11 Allowance has been made for expenses as 2% of the liability value.

5.12 If the assumptions used for the recovery plan are borne out over the next three years, the agreed contributions are paid and there are no changes to the wind-up assumptions, the wind-up funding level at the next formal actuarial valuation (as at 31 December 2011) is estimated to be 52%. It is expected that the proportion of benefits in each priority class will have changed to the figures shown below.

<table>
<thead>
<tr>
<th>Benefit category</th>
<th>Coverage of benefits</th>
</tr>
</thead>
</table>
| Benefits up to level covered by PPF | 70%  

Mercer
Pension Protection Fund (PPF)

6.1 If the Scheme winds up when the Employer is insolvent, it may be eligible for the PPF. The Scheme’s assets and liabilities would only transfer to the PPF if the assets were insufficient to buy out the benefits provided by the PPF.

6.2 The benefits that the PPF could provide would be broadly 100% of pension for members over pension age and 90% of a capped amount of pension for members under pension age. Under the current PPF provisions:

- Pensions in payment will be increased annually, at the lower of 2.5% and the change in the retail prices index (RPI)*, in respect of service after 5 April 1997 only. Pensions accrued before April 1997 are not increased.

- All deferred pensions will be revalued over the period to retirement in line with the increase in the RPI over the same period, or 5% per annum if less.

- Spouses’ pensions will be 50% of members’ PPF benefits.

- The pensions of members aged less than their scheme’s normal pension age when the scheme enters the PPF will be capped. The cap depends on the member’s age and will increase in line with earnings. For example, in 2009/10 the cap is £31,936 at age 65 so that the maximum amount of compensation for members retiring at age 65 will be 90% of this, i.e. £28,742.

6.3 Based on the PPF benefits, and the financial and demographic assumptions prescribed by the PPF, the Scheme is estimated to be 62% funded at the valuation date.

6.4 In this case, had an insolvency event occurred (and no Employer debt payment been recovered), it is likely that the PPF would have been required to assume responsibility for the Scheme.

* this may alter to CPI following the Government’s recent announcements.
Variability and risks

7.1 The Employer contributions set out in the recovery plan and schedule of contributions are based on the valuation results set out in Sections 2 and 3 of this report. These in turn depend on the financial and demographic assumptions set out in the statement of funding principles.

7.2 It is likely, especially in the short term, that these assumptions will not be borne out in practice. It is therefore important to consider the potential impact on the funding position and the Employer contribution rate of actual experience differing from what has been assumed.

Sensitivity to key assumptions

7.3 Investment return, inflation and life expectancy assumptions impact significantly on the funding position.

7.4 The following table illustrates the broad sensitivity to variations in these key assumptions over the long term. The starting point is the technical provisions of £524.5m shown in Section 2.1. Each row of the table considers one change in isolation, with all other assumptions being unaltered. An equivalent change in the assumption in the opposite direction would decrease the liability value by a similar amount.

<table>
<thead>
<tr>
<th>Change in assumption</th>
<th>Increase in technical provisions at 31 December 2008 £ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-retirement investment return</td>
<td></td>
</tr>
<tr>
<td>reduced by 0.25% p.a.</td>
<td>11</td>
</tr>
<tr>
<td>Post-retirement investment return</td>
<td></td>
</tr>
<tr>
<td>reduced by 0.25% p.a.</td>
<td>12</td>
</tr>
<tr>
<td>Life expectancy increased by one year</td>
<td>17</td>
</tr>
</tbody>
</table>

Mercer
Value at risk

7.5 If the valuation assumptions are borne out in practice and the Employer paid £5.86m in respect of the recovery plan, the deficit one year after the valuation date is expected to reduce to £142.1m. However, if experience differs from that assumed, the position could be very different.

7.6 One way of understanding the risk associated with a pension scheme is to consider a “value at risk” (VaR) analysis. This measures the financial impact of a possible adverse change in various risk factors (such as interest rates) and is a way of measuring different risks so that they can be compared and prioritised, allowing the Trustee to focus on the most relevant.

7.7 An indicative total value at risk for the Scheme could be estimated, for example, by looking at how much the deficit could increase given a 1 in 20 chance. Any analysis would be considered as no more than a range-finding exercise to give the Trustee an indication of the order of magnitude of Scheme’s risk.

7.8 The technical provisions are derived from the yield on gilts with a percentage addition. The assets are invested in a range of asset classes. The current investment strategy involves holding approximately 50% of the assets in equities (and equity-like investments) and 50% in bond (and bond-like investments). The bonds and gilts held have a shorter duration than the liabilities.

7.9 Given the above investment strategy, this means that the assumption is that the yield on the equities (and equity-like investments) held will exceed that on gilts by approximately 2.0% per annum or less allowing for expected out-performance by corporate bonds. Allowing for expected equity out-performance over gilts of 3.5% per annum and a certain volatility in this return, the probability of the return on equities (and equity-like investments) exceeding that on gilts by 2.0% per annum or more over ten years is approximately 60%.

7.10 Two scenarios have been considered to illustrate the risk from the investment mismatch:

- An immediate fall in UK and overseas equity markets and property of 20%, with no change in the yields on fixed interest and index-linked gilts and bonds.

- Immediate fall in yields on fixed interest and index-linked gilts and bonds of 1% per annum at all durations, with no change in the prices of UK and overseas equities and property.
7.11 The table below shows the effect on the technical provisions based on the current investment strategy:

<table>
<thead>
<tr>
<th>Increase in deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity fall 20%</td>
</tr>
<tr>
<td>Yield fall 1% p.a.</td>
</tr>
</tbody>
</table>

Equivalent changes in the opposite direction would decrease the deficit by similar amounts.

7.12 The discussion above focuses on financial risks. In reality the total value at risk is a combination from different risk factors, including:

- **Equity risk.** This obviously affects the value of the assets, and will be a significant component for a scheme with a high allocation of equities.

- **Interest rate and inflation risk.** Interest rates affect both the actual value of the bond assets and the value of the technical provisions. For schemes with a lower proportion of equities, this risk is likely to dominate.

- **Longevity risk.** This will affect the value of the technical provisions and can arise because either or both of the starting point (the base table) or the future improvements are "incorrect". This is likely to be a more significant proportion of the total risk for less mature schemes and those with low investment risk.

7.13 A more detailed analysis could be carried out to show how the indicative value at risk is split between these three main risk factors.

**Risks contained in the agreed funding strategy**

7.14 It was agreed to value the technical provisions using a discount rate of 5.25% p.a. which has been calculated gross of investment expenses, subject to the Employer covering these costs at the next valuation. This is a change in approach compared with the previous valuation, which used a net discount rate to value the technical provisions. The comparable net discount rate at this valuation is 4.75% p.a. and thus there has been an addition of 0.5% p.a. to the discount rate, which has served to reduce the technical provisions by £45m at this valuation. This reduction in liability is in effect a capitalised estimate of the expected future investment expenses assumed to be at the rate of £1.9m per annum.

7.15 The above technical provisions of £524.5m at 31 December 2008 has been calculated using an underlying discount rate of 4.75% p.a. (before grossing up for investment expenses) which has been derived from a long-dated gilt yield of 3.75% plus 1.0% allowance for investment out-performance. The allowance for out-performance has been based on the Scheme’s current investment strategy. It is likely that over time investment strategy will be altered to have a greater
weighting in gilts and bonds. If the allowance was reduced to reflect this expectation to 0.3% above gilts, say, the discount rate would be 4.05% p.a. and the value of liabilities would increase by £116m to £640.5m.

7.16 The mortality assumption adopted for this valuation is based on medium-cohort projections with no underpin for the rate of future improvements. If the technical provisions were calculated with a floor of 1.5% per annum for males and 1.0% per annum for females, the above liability of £524.5m would increase by circa £19.5m to £544m. Alternatively, if long-cohort projections were introduced with no underpin, the above liability of £524.5m would increase by circa £26m to £550.5m.

7.17 The technical provisions currently assume that all members take the maximum cash allowance at retirement. This has been the assumption used at previous valuations. However, the more recent retirement data supplied thus far by the administrator shows on average members take only about half the maximum allowance available. This analysis of data is based on a relatively short period of time and the data has still to be confirmed in some cases. However, if the commutation assumption was revised in line with the preliminary results of this analysis, the above technical provisions of £524.5m would increase by circa £17m to £541.5m.

7.18 The current commutation factor of 12.6:1 at age 65 will be reviewed by the Trustee before the next valuation and if terms are improved, this will affect the value of the Scheme's liabilities. There are various options open to the Trustee, but for illustration purposes, if the commutation factor was improved to 14:1 at age 65, say, this would increase the above technical provisions of £541.5m by a further £6m to £547.5m.

Risks that the statutory funding objective will not be met

7.19 The Trustee’s policy for meeting the Scheme’s statutory funding objective carries a number of risks outside the Trustee’s control. The following paragraphs comment on some potentially material risks.

7.20 If the Employer becomes unable to pay contributions or to make good deficits in the future, the Scheme’s assets will be lower than expected and the funding level will be worse than expected. If the reason for the Employer not paying the agreed contributions is one of financial difficulties, the Trustee’s focus would switch to the results on the wind-up basis, as set out in Section 5.

7.21 If the future investment return on assets falls short of the rates assumed in the calculation of the technical provisions and the recovery plan, the funding position of the Scheme will be worse than expected. It is likely that an increase in future Employer contributions will be required.

7.22 If gilt yields change such that the liability values increase by more (or decrease by less) than the assets, the funding position against the technical provisions and on the wind-up basis will be worse than expected. An increase in Employer contributions will be expected as a result. A quantitative illustration of such a change was shown by the sensitivity analysis in Section 7.11.
7.23 If improvements in mortality are faster than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding position against the technical provisions and on the wind-up basis will be worse than expected and an increase in Employer contributions will be expected as a result. A quantitative illustration of such a change was shown by the sensitivity analysis in Section 7.4.

7.24 If members make decisions around their options which increase the Scheme’s liabilities, the wind-up funding position and the progress towards the statutory funding objective would be worse than expected. As a result, future Employer contributions may need to be increased. An example would be if members do not commute the maximum possible pension for cash, as is being assumed.
Assets and financial transactions

A.1 The market value of the Defined Benefit section of the Scheme’s assets (excluding additional voluntary contributions (AVCs) which are separately invested) was £381.7m on the valuation date.

A.2 The distribution of the assets by asset class is shown below:

- UK equities: 33.8%
- Overseas equities: 21.0%
- UK fixed interest: 21.5%
- Equity-like alternatives: 9.2%
- Other UK bonds: 6.4%
- Property: 1.0%
- Cash: 7.0%

A.3 During the inter-valuation period, the investment return was approximately -14.8%.

A.4 The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Scheme.
A.5 Following the previous valuation, it was agreed that the Employer would pay contributions at the following rates:

- **period up to 31 December 2007:** 15.3% of Pensionable Salaries plus £11.4m per annum
- **period thereafter:** 20.3% of Pensionable Salaries plus £4.8m per annum

Members' contributions and AVCs were payable in addition. The audited accounts confirm that contributions have been paid at least at these rates.

Indeed, the Company paid a Section 75 debt payment of £5.748m during 2007 and agreed to increase deficit contributions to £5.86m per annum with effect from May 2009.

A.6 The Trustee held a group life insurance policy with Canada Life which insured the lump sum benefit payable on death-in-service up to 5 April 2009.

A.7 More detailed asset information is shown below:

<table>
<thead>
<tr>
<th>Market value at valuation date</th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds:</td>
<td></td>
</tr>
<tr>
<td>Fixed interest gilts</td>
<td>26,530</td>
</tr>
<tr>
<td>Fixed interest corporate bonds</td>
<td>129,975</td>
</tr>
<tr>
<td>Ground lease property</td>
<td>24,277</td>
</tr>
<tr>
<td>Equities:</td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>80,389</td>
</tr>
<tr>
<td>Global</td>
<td>82,108</td>
</tr>
<tr>
<td>Alternatives</td>
<td>35,349</td>
</tr>
<tr>
<td>Cash deposits:</td>
<td>2,398</td>
</tr>
<tr>
<td>Net current assets:</td>
<td>673</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>381,699</strong></td>
</tr>
</tbody>
</table>
Appendix B

Benefits

B.1 The benefits valued are as set out in the definitive Trust Deed and Rules dated 6 April 2006 plus supplemental deeds.

B.2 No allowance has been made for discretionary benefits.

B.3 The benefits that will emerge from AVCs paid by members have been excluded, as have the corresponding assets, since the value of these liabilities is exactly matched by these assets.

B.4 UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgement) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. There is no consensus or legislative guidance as to what adjustments have to be made to scheme benefits to correct these inequalities for ongoing schemes which are not in the PPF. The valuation makes no allowance for removal of these inequalities. It is consequently possible that additional funding will be required for equalisation once the law has been clarified. It is recommended that the Trustee seeks further professional advice if they are concerned about this issue.
### Membership data

C.1 The defined benefit membership data is summarised below, with figures at the previous valuation shown for comparison.

<table>
<thead>
<tr>
<th>Active members (treated as deferred members at the valuation date)</th>
<th>Valuation date</th>
<th>Previous valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>745</td>
<td>1,318</td>
</tr>
<tr>
<td>Total Pensionable Salaries (£000s p.a.)</td>
<td>-</td>
<td>50,050</td>
</tr>
<tr>
<td>Average Pensionable Salaries (£ p.a.)</td>
<td>-</td>
<td>37,974</td>
</tr>
<tr>
<td>Average past service (years)</td>
<td>-</td>
<td>10.8</td>
</tr>
<tr>
<td>Total deferred pensions* (£000s p.a)</td>
<td>7,555</td>
<td>-</td>
</tr>
<tr>
<td>Average deferred pension (£ p.a.)</td>
<td>10,141</td>
<td>-</td>
</tr>
<tr>
<td>Average age (weighted)</td>
<td>50.6</td>
<td>46.9</td>
</tr>
</tbody>
</table>

*Includes service to 5 April 2009.

<table>
<thead>
<tr>
<th>Deferred pensioners</th>
<th>Valuation date</th>
<th>Previous valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>4,106</td>
<td>3,997</td>
</tr>
<tr>
<td>Total deferred pensions (£000s p.a. revalued to valuation date)</td>
<td>17,754</td>
<td>14,251</td>
</tr>
<tr>
<td>Average deferred pension (£ p.a.)</td>
<td>4,324</td>
<td>3,565</td>
</tr>
<tr>
<td>Average age (weighted)</td>
<td>50.6</td>
<td>47.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pensioners</th>
<th>Valuation date</th>
<th>Previous valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>1,906</td>
<td>1,652</td>
</tr>
<tr>
<td>Total pensions payable (£000s p.a.)</td>
<td>13,115</td>
<td>11,112</td>
</tr>
<tr>
<td>Average pension (£ p.a.)</td>
<td>6,881</td>
<td>6,726</td>
</tr>
<tr>
<td>Average age (weighted)</td>
<td>70.6</td>
<td>72.1</td>
</tr>
</tbody>
</table>
C.2 For those members who were active throughout the inter-valuation period, the average Pensionable Salary increase for Scheme members at 1 January 2008 was 6.8%. Explicit salary information was not provided at 1 January 2009, as deferred pension data was provided instead.

C.3 Pensions in payment in excess of Guaranteed Minimum Pensions (GMPs) were increased as guaranteed under the Scheme as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 June 2008</td>
<td>3.8%</td>
</tr>
<tr>
<td>1 June 2007</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

C.4 Data in relation to members of the Scheme was provided by the Trustee, via the Scheme’s administrator and its accuracy has been relied on. Whilst reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data which is incomplete or inaccurate.
Appendix D

Statement of funding principles

This statement of funding principles sets out the policies of the Trustee of the Mowlem Staff Pension and Life Assurance Scheme ("the Trustee") for securing that the statutory funding objective is met.

It has been prepared by the Trustee to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of Edwin Topper, the actuary to the Scheme. It will be taken into account in the actuarial valuation as at the effective date of 31 December 2008.

This statement of funding principles has been agreed by the Employer, Carillion JM Limited.

The statutory funding objective

The statutory funding objective is that the Scheme has sufficient and appropriate assets to pay its benefits as they fall due (the technical provisions).

Calculation of the technical provisions

The principal method and assumptions to be used in the calculation of the technical provisions are set out later on in this Statement.

The general principles adopted by the Trustee are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid and to reflect the commitments which will arise from members' accrued pension rights. The basis will include appropriate margins to allow for the possibility of events turning out worse than expected and will only be adopted after considering how it compares with the assumptions used to assess the Scheme's solvency position.

In particular, a prudent margin will be included in the discount rate, and demographic assumptions will be based on prudent principles. Other assumptions will be based on best estimates of future experience, within the constraint of the basis being prudent overall. However, the Trustee does not intend for the method and assumptions to remove completely the risk that the technical provisions could be insufficient to provide benefits in the future.
Policy on discretionary increases and funding strategy

No allowance has been included in the assumptions for paying discretionary benefits or making increases to benefits that are not guaranteed under the Scheme rules. The Trustee will generally not provide discretionary benefits unless the Employer agrees to finance them or there is no shortfall against the technical provisions.

Rectifying a failure to meet the statutory funding objective and ongoing liabilities

If the assets of the Scheme are less than the technical provisions at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the Employer to meet the shortfall. The Trustee and the Employer have agreed that any such funding shortfalls should be eliminated over time periods taking into account what the Employer can reasonably afford.

Additional contributions will be expressed as level monetary amounts.

In determining the actual recovery period at any particular valuation, the Trustee will take into account the following factors:

- the size of the funding shortfall;
- the business plans of the Employer;
- the Trustee’s assessment of the financial covenant of the Employer (and in making this assessment the Trustee will make use of appropriate credit assessment providers);
- any contingent security offered by the Employer.

Based on these principles and assuming the assumptions are borne out in practice, the technical provisions shortfall calculated at the 31 December 2008 valuation will be met over the period to 31 December 2024.

Calculating the normal cost of the Scheme

As the Scheme ceased future accrual with effect from 5 April 2009 there is no future normal cost to the Scheme.

Arrangements for other parties to make payments to the Scheme

In some circumstances, someone other than the Employer or a Scheme member may contribute to the Scheme.

Policy on reduction of cash equivalent transfer values (CETVs)

The Trustee will ask the actuary to advise them at each valuation the extent to which assets are sufficient to provide CETVs for all non-pensioners without adversely affecting the security of the benefits of other members and beneficiaries. Where coverage (as calculated on the CETV set of assumptions) is less than 90% of benefits in excess of the first priority slice (broadly those benefits which would be provided were the Scheme to be admitted to the Pension Protection Fund), the Trustee will consider reducing CETVs as permitted under legislation, after obtaining actuarial advice.
If at any other time, after obtaining advice from the actuary, the Trustee is of the opinion that the payment of CETVs at a previously agreed level may adversely affect the security of the benefits of other members and beneficiaries, the Trustee will commission a report from the actuary and will use the above criterion to decide whether, and to what extent, CETVs should be reduced.

A report was commissioned by the Trustee in August 2009 and a decision was taken on 29 September 2009 to reduce transfer values to 100% of the transfer value of the non-money purchase benefits covered by the Pension Protection Fund (PPF) plus 41% of the transfer value of the non-money purchase benefits not covered by the PPF.

**Payments to the Employer**

If the Scheme is not being wound-up and the assets of the Scheme exceed the actuary's estimate of the cost of buying out the benefits of all beneficiaries from an insurance company, including the expenses involved in buying out, benefits may be enhanced but the Employer may not receive a refund of the excess.

**Frequency of valuations and circumstances for extra valuations**

An actuarial valuation is being carried out as at 31 December 2008 and subsequent valuations will in normal circumstances be carried out at least every three years thereafter. An actuarial report on developments affecting the Scheme's technical provisions and funding level since the previous valuation will be obtained as at 31 December each other year.

The Trustee may call for a full actuarial valuation instead of an actuarial report when, after considering the actuary's advice, it is of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions. However, the Trustee will consult the Employer before doing so.

Commissioning a valuation will not be necessary if agreement can be reached with the Employer to revise the schedule of contributions and/or recovery plan in a way satisfactory to the Trustee on the advice of the actuary.

This statement of funding principles, dated 29 October 2010 has been agreed by Carillion JM Limited and the Trustee of the Mowlem Staff Pension and Life Assurance Scheme:

Signed on behalf of Carillion JM Limited ...

Name J. K. O'Connor

Position Head of Pensions

Date 29.10.10

---

Mercer
This statement of funding principles, dated 29 October 2010 has been agreed by Carillion JM Limited and the Trustee of the Mowlem Staff Pension and Life Assurance Scheme:

Signed on behalf of the Trustee of the Mowlem Staff Pension and Life Assurance Scheme

Name

Position

Date

This statement of funding principles, dated 29 October 2010 has been agreed by the Trustee of the Mowlem Staff Pension and Life Assurance Scheme after obtaining actuarial advice from the Scheme Actuary:

Signed

Name

Position

Date
Method and assumptions used in calculating the technical provisions

Method
The actuarial method to be used in the calculation of the technical provisions is the Defined Accrued Benefits method, under which benefit payments for accrued service are estimated for each member at the date when the member is assumed to die or retire.

Financial assumptions

Investment return pre-retirement (discount rate)
The redemption yield on UK Government conventional gilt stocks adjusted to reflect the appropriate duration of the liabilities, plus 1.5% p.a. The addition to the yield reflects the prudent allowance the Trustee has agreed for the additional investment returns in excess of gilt yields based on maintenance of the current asset mix and thus ignoring any potential future changes to the portfolio. The rate is a grossed up rate which assumes the investment management expenses are met separately by the Employer.

Investment return post-retirement (discount rate)
The redemption yield on UK Government conventional gilt stocks adjusted to reflect the appropriate duration of the liabilities, plus 1.5% p.a. The addition to the yield reflects the prudent allowance the Trustee has agreed for the additional investment returns in excess of gilt yields based on maintenance of the current asset mix and thus ignoring any potential future changes to the portfolio. The rate is a grossed up rate which assumes the investment management expenses are met separately by the Employer.

Inflation
The inflation assumption will be taken to be the investment market's expectation for inflation as indicated by the difference between yields on conventional and index-linked UK Government bonds (gilts) adjusted to reflect an appropriate duration of the liabilities, but reduced by an inflation risk premium (0.2% p.a. at this valuation).

Pension increases
The Scheme guarantees to increase that part of the pension earned before 5 April 2006 in excess of the Guaranteed Minimum Pension (GMP) in payment in line with inflation, subject to a maximum yearly increase of 5% (LPI increases). For the purpose of this valuation, I have assumed that these increases would be granted in line with price inflation.

Pensions earned after 5 April 2006 are assumed to increase at 2.0% per annum in payment, representing increases in line with price inflation, subject to a maximum of 2.5% per annum.

Other pension increases have been assumed where appropriate and statutory increases are provided on GMPs.
Demographic assumptions

Mortality
The mortality assumptions will be based on information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the Scheme. The mortality tables used are PA92 Year of Birth with medium cohort improvements. An illustration of the male life expectancies derived from these tables is set out below:

<table>
<thead>
<tr>
<th>Life expectancy from 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensioner (age 65 currently)</td>
</tr>
<tr>
<td>Non-pensioner (age 45 currently)</td>
</tr>
</tbody>
</table>

Early retirement
No allowance has been made for early retirement and all members are assumed to retire at their normal pension age.

Commutation
It will be assumed that all members take the maximum cash allowed at retirement.

Proportion married and age difference
It will be assumed that in 84% of deaths of male members and in 75% of deaths of female members a dependant’s pension will be payable and that dependants are of the opposite sex to the members, with wives being three years younger, on average, than members and husbands being two years older.

Expenses
The Trustee will meet the running expenses of the Scheme until 2013. With the Employer’s agreement, an allowance of £3.0m in respect of a capitalised estimate of three years’ future expenses has been made in the valuation of the technical provisions.

PPF levies are payable by the Employer in addition to the contributions set out in the Recovery Plan.

Investment expenses will be met by the Trustee, until 2013.
Summary of key assumptions used for calculating technical provisions as at 31 December 2008

<table>
<thead>
<tr>
<th>Principal actuarial assumptions for valuation as at 31 December 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment return pre-retirement</td>
</tr>
<tr>
<td>Investment return post-retirement</td>
</tr>
<tr>
<td>RPI price inflation</td>
</tr>
<tr>
<td>Pension increases in payment (5% LPI)</td>
</tr>
<tr>
<td>Non-retired members' mortality</td>
</tr>
<tr>
<td>Retired members' mortality</td>
</tr>
</tbody>
</table>

Method and assumptions used in calculating the cost of future accrual

As the Scheme closed to future accrual with effect from 5 April 2009, the calculation of the cost of future accrual is no longer applicable.

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan will be calculated using the same assumptions as those used to calculate the technical provisions, with the exception of the following during the period of the recovery plan:

Investment return on existing assets and future contributions

The redemption yield on UK Government conventional gilt stocks, plus 2.05% p.a., reflecting the current underlying investment strategy of the Scheme and, in particular, the assets of the Scheme that underlie the non-pensioner liabilities.
Schedule of Contributions, incorporating actuarial certificate

Status of this document
This schedule has been prepared by the Trustee of the Mowlem Staff Pension and Life Assurance Scheme to satisfy the requirements of section 227 of the Pensions Act 2004, after obtaining the advice of Edwin Topper, the actuary to the Scheme appointed by the Trustee.

This document is the first schedule of contributions put in place for the Scheme following the 31 December 2008 valuation. It supersedes all earlier versions.

After discussions, a pattern of contributions was agreed by the Trustee and the Employer, Carillion JM Limited, on 29 October 2010.

The Trustee and the Employer have signed this schedule to indicate that it represents an accurate record of the agreed pattern of contributions. The schedule is effective from the date it is certified by the Scheme Actuary.

Contributions to be paid to the Scheme from 31 December 2008 to 31 December 2024

Members' contributions
No contributions are payable by members after 5 April 2009.

Employer's contributions in respect of future accrual of benefits
No future accrual contributions are payable by the Employer after 5 April 2009.
Employer's contributions in respect of the shortfall in funding as per the recovery plan of 29 October 2010

The Employer shall pay shortfall correction additional contributions of £5.86m in 2009, £10.1m per annum from 1 January 2010 to 31 December 2021, £14.9m in 2022, £16.1m in 2023 and £16.25m in 2024 with contributions being paid on a monthly basis.

Employer's contributions in respect of benefit augmentations

In addition the Employer shall pay the cost, as determined by the Scheme Actuary, of any benefit augmentations requested by the Employer and approved by the Trustee.

Employer's contributions in respect of administration and other costs

The Employer shall reimburse the Trustee for the cost of meeting levies payable to the Pension Protection Fund. Until 2013 other expenses will be paid directly from the Scheme. The Employer will also meet the general running costs of the Scheme from 2013 onwards and will also cover the investment management costs either directly, or by explicit funding reserves, from 2013. The precise methodology will be considered at the next valuation.

Other Employer contributions

The Employer may pay additional contributions on a regular or one off basis if it chooses.

Dates of review of this schedule

This schedule of contributions will be reviewed by the Trustee and the Employer no later than 15 months after the effective date of each actuarial valuation, due at least every three years.

This schedule of contributions has been agreed by the Employer, Carillion JM Limited, and the Trustee of the Mowlem Staff Pension and Life Assurance Scheme on 29 October 2010.

Signed on behalf of Carillion JM Limited

Name

Position

Date of signing 29 October 2010

Signed on behalf of the Trustee of the Mowlem Staff Pension and Life Assurance Scheme

Name

Position

Date of signing 29 October 2010
Certification of schedule of contributions

Name of Scheme: Mowlem Staff Pension and Life Assurance Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2008 to be met by the end of the period specified in the recovery plan dated 29 October 2010.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 29 October 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme’s liabilities by the purchase of annuities, if the Scheme were to be wound-up.

Signature

ES Topper

Date of signing

29 October 2010

Name of Employer

Mercer Limited

Address

Clarence House, Clarence Street
Manchester
M2 4DW

Qualification

Fellow of the Institute and Faculty of Actuaries
Recovery Plan

This Recovery Plan has been prepared by the Trustee of the Mowlem Staff Pension and Life Assurance Scheme ("the Trustee") on 29 October 2010 to satisfy the requirements of section 226 of the Pensions Act 2004, after obtaining the advice of Edwin Topper, the Actuary to the Scheme. It is part of the Trustee's plan for meeting the statutory funding objective (defined in section 222 of the Pensions Act 2004), which is that the Scheme must have sufficient and appropriate assets to cover its technical provisions.

This Recovery Plan has been drawn up by the Trustee and the Employer.

The Recovery Plan follows the actuarial valuation of the Scheme as at 31 December 2008, which revealed a shortfall in the assets, when measured against the Scheme's technical provisions, of £142.8m. It will be reviewed, and may be revised, following the Trustee's next valuation under section 224 of the Pensions Act 2004, or earlier if the Trustee and Carillion JM Limited agree.

Steps to be taken to ensure that the statutory funding objective is met

To correct the shortfall, the Employer, Carillion JM Limited, will pay contributions of £5.86m in 2009, £10.1m p.a. from 2010 to 2021 inclusive, £14.9m in 2022, £16.1m in 2023 and £16.25m in 2024.

The above annual amounts will be paid in monthly instalments. PPF levies incurred by the Scheme will be met by the Employer in addition to the amounts above and essentially all expenses with effect from 2013.

Period in which the statutory funding objective should be met

The shortfall is expected to be eliminated by 31 December 2024. This is 18 years from the effective date of the valuation or, equivalently, 14 years 2 months from the date of signing this valuation report and schedule of contributions. This expectation is based on the following:

- the technical provisions will be calculated according to the method and assumptions set out in the statement of funding principles dated 29 October 2010;
the return on existing assets and the return on new contributions during the period will be 5.8% per annum;

- the current investment allocation is held indefinitely and contributions are invested in line with this allocation;

- no allowance for benefit cashflows during the period;

- assumed investment expenses of £1.9m p.a. to be met by the fund until 2012 and to be met separately from 2013 onwards.

Progress towards the statutory funding objective being met

It is expected that 50% of the above additional contributions will be paid in 9 years 1 month, which is by 1 February 2018.

Signed on behalf of Carillion JM Limited ...........................................
Name ...........................................
Position ...........................................
Date ...........................................

Signed on behalf of the Trustee of the Mowlem Staff Pension and Life Assurance Scheme ............................................
Name ...........................................
Position ...........................................
Date ...........................................

This Recovery Plan, dated 29 October 2010 has been agreed by the Trustee of the Mowlem Staff Pension and Life Assurance Scheme after obtaining actuarial advice from the Scheme Actuary:

Signed ...........................................
Name ...........................................
Position Actuary to the Mowlem Staff Pension and Life Assurance Scheme
Date ...........................................
Certificate of technical provisions

Name of Plan: Mowlem Staff Pension and Life Assurance Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 December 2008 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 29 October 2010.

Signature: [Signature]

Name: E S Topper

Date of signing: 29 October 2010

Address: Mercer Limited
Clarence House
Clarence Street
Manchester
M2 4DW

Qualification: Fellow of the Institute and Faculty of Actuaries