

██████████
BlackRock
12 Throgmorton Avenue
London EC2N 2DL

12 December 2016

Dear ██████████

STRICTLY PRIVATE AND CONFIDENTIAL
CARILLION PLC - EXECUTIVE DIRECTORS' REMUNERATION ARRANGEMENTS

I am writing to you in my capacity as Remuneration Committee Chairman of Carillion PLC ("Carillion" or the "Company"). The Company's current remuneration policy was approved at its 2014 Annual General Meeting, and is due to expire in 2017 at the end of its normal three year cycle. Accordingly, the Company will be seeking shareholder approval at its 2017 AGM for a new Policy.

The Committee considers that the Company's current remuneration framework continues to effectively support the delivery of our business strategy and the creation of shareholder value. Consequently, the Committee has decided to make minor changes only to the remuneration policy to take account of developments in best practice and to ensure that the policy continues to provide sufficient flexibility to support succession planning and potential changes to business needs over the next three years.

However, I also recognise that the voting outcome for our advisory vote on the Annual Report on Remuneration highlighted concerns over the structure and disclosure of our annual bonus. With this in mind, the bonus objectives were reviewed and changes made for Financial Year 2016 so that the balance of the arrangement is now 75% quantitative measures (30% EPS, 20% Cash, 25% other corporate KPIs) and 25% based on personal objectives. We have also improved disclosure in the 2016 Annual Report on Remuneration. We propose to include the required target and stretch performance for all elements. In addition we will be providing a detailed description (or hard numbers where applicable) of actual performance delivered which supports the Committee's final assessment in determining the bonus awarded across each element. I would be happy to discuss this particular area with you further if you have any concerns or comments.

With regards to the annual bonus, you will be aware that our newly appointed Group Finance Director, Zafar Khan, will take up his role on 1 January 2017. Zafar will be undertaking a review of our internal financial management processes during 2017 and the Committee will therefore be working with him to understand whether any changes he then implements should feed through into the financial measures we use in the annual bonus. To the extent that there are recommendations for change we will share our proposals with you in advance.

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With regards to the proposed new Policy, we have completed the Blackrock proforma which is attached to this letter. In summary, the minor changes proposed to our new binding remuneration policy to be approved by shareholders at the 2017 AGM are as follows:

Minimum shareholding guidelines: In line with best practice, the minimum shareholding guidelines will be included in our new binding remuneration policy to be approved by shareholders at the 2017 AGM (rather than only being included in the Annual Report on Remuneration). There is no proposed change to our current practice- the current guidelines of 100% of salary will be maintained. We believe that the combination of these shareholding guidelines, holding period on LEAP awards and deferral into shares align interests with shareholders.

Holding period: A holding period was introduced into LEAP (Carillion's long term incentive plan) for awards made in 2015 and beyond and will be formally included as part of the 2017 Policy. A holding period of two years applies to all share awards which vest under LEAP.

Pension: This has been greatly simplified and the value of the pension provision reduced, so that for new Executive Directors (and this includes our new CFO Mr Khan), the maximum pension allowance or cash equivalent that can be made is 25% of salary. We are maintaining the current provision for Mr Howson.

Annual bonus opportunity: The Committee has decided to introduce an overall maximum annual bonus opportunity limit of 150% of salary in the new Policy. However, it does not have any current intention to increase the actual bonus opportunity which will remain at 100% of salary for 2017 annual bonus.

This increase to the limit is intended to ensure that there is flexibility in the remuneration policy over the next three years to continue to provide competitive remuneration packages in order to attract and retain Executive Directors of the calibre required, taking into account the size and complexity of the business and potential changes to business needs over the next three years.

The Remuneration Committee remains committed to a responsible approach to executive pay and continues to take a principled and prudent approach to setting reward levels. If the bonus is to be increased we will notify our major shareholders.

Furthermore, the Committee believes that variable pay should only be earned for achievement against stretching targets and will continue to ensure that targets provide an appropriate balance between motivating and rewarding Executives to deliver stretching but sustainable performance in line with the business strategy, without encouraging excessive risk taking.

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If you have any comments regarding the proposed changes outlined above please contact [REDACTED] at [REDACTED] or myself [REDACTED] and I would be happy to speak with you directly.

Yours sincerely



Alison Horner
Remuneration Committee Chairman

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Appendix: Shareholder Consultation on Remuneration template information for BlackRock

| Issuer | Name | Telephone | Email |
|-----------------------------------|--------------|------------|---------------------------------|
| Remuneration Committee Chairman: | [REDACTED] | [REDACTED] | [REDACTED] |
| Company Secretary: | Richard Tapp | [REDACTED] | Richard.R.Tapp@carillionplc.com |
| Remuneration Consultant (if any): | Deloitte LLP | | |
| Consultant name: | [REDACTED] | [REDACTED] | [REDACTED] |

| Remuneration Element | Current Structure | Proposed Changes | Rationale |
|----------------------|---|--|--|
| Base Salary | CEO salary of £660,000 in FY16 CFO salary of £460,000 in FY16 | Salary increase in line with wider workforce New CFO salary has been set at £425,000 | |
| Variable Pay | | | |
| Annual Incentive | 100% of salary Up to 50% of maximum award granted. At least 50% of any bonus earned is deferred into shares for three years (subject to a de minimis limit of £10,000). Malus and clawback provisions apply | 150% of salary although no intention to increase in practice and the current practice of 100% of salary to be maintained in 2017 No other changes to structure proposed | This increase to the limit is intended to ensure that there is flexibility in the remuneration policy over the next three years to continue to provide competitive remuneration packages taking into account the size and complexity of the business and potential changes to business needs over the life of the policy |
| Long-term Incentive | 150% of salary usual award 200% of salary overall maximum Two year holding period applies For the financial element of the LEAP 16.7% of maximum award granted vests at threshold performance. For the strategic element, a sliding scale from 0%-100%. Malus and clawback provisions in place | No change other than inclusion of the two year holding period introduced in 2015 now formally part of the Policy | No business need to amend the current structure but the inclusion of the holding period in the policy reflects best practice |
| Other | No reference to HMRC all employee "Save as You Earn" Scheme because the Company has not operated this plan for some time | SAYE included in benefits | For completeness although no intention to operate an SAYE currently |

Performance Hurdles:

Hurdles for the annual bonus for FY16 will be disclosed in full in the 2016 Remuneration Report
Hurdles for LEAP 2016 were as follows:

| | Vesting (% of maximum for Executive Directors) | 50% of salary based on EPS growth | 50% of salary based on annual average cash flow conversion |
|-----------|--|-----------------------------------|--|
| Threshold | 17% | 6% pa | 95% |
| Target | 50% | 9% pa | 100% |
| Maximum | 100% | 12% pa | 110% |

Strategic measures:

- delivery of sustainability through measurable cost-savings and efficiencies that will provide contributions to the Company's profit of £108 million over the performance period; 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 one.

2017 LEAP hurdles have yet to be confirmed but we anticipate will be unchanged from 2016 other than the "contribution to profit number" in the strategic measure above. This will be disclosed in the 2016 Annual Report on Remuneration

Consultation:

Please provide available dates and times for a conference call to discuss these proposals

██████████ can liaise with Carillion and Blackrock to agree a suitable time for a call in the New Year if required and preferably before the end of January at the latest.

| Remuneration Element | Current Structure | Proposed Changes | Rationale |
|-----------------------------|--|---|---|
| Pension Contribution | 40% of salary up to an internal salary cap and 33.6% above the cap | Maximum pension allowance (or cash in lieu) of 25% of salary for new executive directors appointed after 5 April 2016 | This has been greatly simplified and the value of the pension provision reduced, so that for new Executive Directors (and this includes our new CFO Mr Khan), the maximum pension allowance or cash equivalent that can be made is 25% of salary. We are maintaining the current provision for Mr Howson. |
| Shareholding Guidelines | 100% of salary for all Executive Directors included in the Annual Report on Remuneration but not in the Policy | In line with best practice, a formal minimum shareholding guideline based on the current practice will be included in our 2017 remuneration policy. | Inclusion in the policy is in line with best practice |

Performance Metrics:

Metrics for the annual bonus and LEAP (the Carillion long term incentive plan) are as follows:

| | Metrics | Rationale |
|---------------------|---|---|
| Annual bonus | <p>30% EPS 20% Cash 25% Corporate KPIs 25% Personal</p> <p>The 25% Corporate KPIs have been introduced in 2016 in place of the previous individual stretch measures. These are quantitative measures linked to the Group's articulated KPIs</p> | <p>75% of the bonus consists of quantitative measures which are all KPIs of the business – profit and cash being the primary financial measures with wider measures such as Health & Safety, Customer and Growth included within the Corporate KPIs</p> <p>The Personal measures are linked to more qualitative performance expectations including for example people development, succession planning and execution of strategy. The Committee considers that this provides a balance across the key areas of focus for the Executives over the financial year with a direct link to the Strategy of the business across all areas</p> |
| LEAP | <p>Two-thirds of the LEAP award (equating to 100% of salary) is subject to EPS and cash flow conversion targets, One-third of the 2016 LEAP award is subject to two quantifiable and stretching strategic measures that apply equally:</p> | <p>EPS and cash flow conversion are the primary financial measures for to strategic performance metrics that are aligned to the Company's sustainability agenda and drive</p> |