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23 February 2012

The Directors,
Carillion (DB) Trustee Limited
Carillion Public Sector Trustees Limited

The Trustees of the Mowlem 1993 Pension Scheme

c/o Birch Street,
Wolverhampton,
WV1 4HY

Dear Sirs,

Further to our Paper to the Trustee Boards dated [?] February 2012, we are writing to set out our advice to the Trustees based upon the outcome of our assessment of the Carillion covenant in respect of recovery plan negotiations and improving the structure of covenant support.

Our report highlights the strong affordability of pension deficit contributions under the current recovery plans. However, contributions can increase significantly (to above £64 million per annum payable to all schemes) while maintaining an acceptable metric of 2 times free cash flow cover and resulting in estimated recovery plans of between 6 to 10 years across a range of forecasts. Carillion can, therefore, afford materially higher deficit contributions and, given the concerns about future growth and volatility risk, we recommend that the Trustees look to not only increase the quantum payable but also to structure higher payments in the early years where there is greater visibility over earnings.

Carillion has historically prioritised other demands on capital ahead of deficit reduction in order to grow earnings and support the share price. We recommend the establishment of a proportionate link between increasing profitability and the progressive dividend policy, and enhanced deficit repair, structured around a benchmark by which the investment community assesses Carillion. The Trustees may

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wish to consider a "reverse ratchet" to protect the pension scheme interests where profitability stagnates or falls – looking to increased deficit contributions in this scenario.

While there is a low risk of default at present, the amount of Section 75 debt at risk on insolvency is very high. TPR would expect the Trustees to proactively address this issue, potentially through additional security or the creation of "triggers" which improve recovery if the risk of default increases. We recommend that the Trustees request a negative pledge undertaking from the Company to ensure that no security can be granted without notification. In addition, the Trustees might consider establishing a protocol to provide early warning of any breach of banking covenants which may result in the imposition of upstream guarantees to Carillion plc and appropriate mitigation should that occur.

The level of funding and investment risk of the schemes needs to reflect the employer covenant; in our view, affordability metrics may not justify the equity exposure and lack of derisking at the current time. If the employer is keen to continue with the current level of risk exposure, TPR might expect the Trustees to secure additional funding commitments in the event that investment performance is below an agreed benchmark or liabilities increase more than expected. In addition, the Trustees may wish to consider requesting a formal support structure in respect of the investment policy whereby the employer might underwrite underperformance against an agreed target and share the benefits of over performance. Public examples of such structures include the BT scheme. Similar structures could be considered in respect of both the longevity and inflation risk in advance of formal derisking strategies by the Company.

Our report identified a number of areas where the structure of covenant support might be improved. In particular, we recommend that the Carillion plc guarantees are renegotiated to remove the long term credit risk from the schemes and align them with revised recovery plans. We would also advise consideration of the "PPF" guarantees to ensure they provide incremental security over and above the participating employer group and to share in the benefits of the PPF levy reduction. We recommend that the Trustees ensure that the employer covenant is backed by formal support of key trading entities to all the schemes going forward.

We would also recommend that the Trustees consider a closer integration of the schemes to align ongoing interests and reduce potential conflicts of interest. Such integration and the establishment of a common investment platform would potentially generate cost savings which could be applied to deficit reduction. The Trustees and the Company may wish to consider commissioning a detailed feasibility study to progress this.

Our report identified a number of key risk areas and performance indicators which we recommend that the Trustees actively monitor via the establishment of a formal information protocol with the Company and ongoing bi-annual covenant monitoring.

We would suggest that this replaces the Quarterly Covenant Assessment Update currently provided by the Company. The areas to be covered would include:

- key financial performance indicators, as set out in our report;
- the progress of key contract tenders (including the renewal of large support service contracts);
- the progress of key restructurings, re-organisations and material inter company movements and dividends;
- material debt raising or refinancing or any changes to the Group's security structure;
- the growth of the Canadian asset base and any subsequent changes to the security position of the Group's main lenders;
- the level of assets subject to surety bonds issued in Canada;
- any changes to the Group legal structure;
- any changes to the wider pension scheme support or guarantee structure;
- any changes to key management.

We hope the advice above is helpful in considering the employer covenant in the context of the latest valuations of the schemes and recovery plan negotiations. Please do not hesitate to contact us, if you require clarification or additional information. If you require assistance in formulating detailed proposals and approaching the Company or in establishing the appropriate monitoring framework, we would be delighted to assist you.

Kindest regards

Deborah Gudgeon
Director