carillion

Making tomorrow a better place

News

Annual results for the year ended 31 December 2014
Earnings in line with expectations

	2014	2013	Change
Revenue	£4.1bn	£4.1bn	-
Underlying profit from operations(1)	£216.9m	£214.3m	+1%
Underlying operating margin(1)	5.6%	5.6%	-
Underlying profit before taxation(1)	£172.9m	£174.7m	-1%
Underlying earnings per share(1)	33.7p	34.7p	-3%
Profit before taxation	£142.6m	£110.6m	+29%
Basic earnings per share	28.0p	23.3p	+20%
Proposed full-year dividend per share	17.75p	17.50p	+1%
Net borrowing	£177.3m	£215.2m	+18%
Underlying profit from operations cash conversion(1)	119%	75%	n/a

- **Financial performance reflects selective approach to choosing contracts in challenging markets**
  - Revenue similar to that in 2013, notwithstanding foreign exchange headwinds
  - Underlying profit from operations(1) increased slightly after improved margin performances in support services and Middle East construction services, with overall Group margin maintained at 5.6%
  - Underlying profit before taxation(1) and underlying earnings per share(1) marginally reduced, reflecting the planned reduction in the sale of equity investments in Public Private Partnership projects
  - Reported profit before taxation and basic earnings per share both increased substantially, due to lower non-recurring operating items

- **Net borrowing reduced in line with expectations**
  - Net borrowing reduced to £177.3 million (2013: £215.2 million), despite investing £38.5 million in business acquisitions
  - Strong cash performance with underlying cash flow from operations(1) representing 119% of underlying profit from operations(1) (2013: 75%)
  - £1.3 billion of committed funding and a strong balance sheet to support strategy for growth over the medium term

- **Strong work-winning performance**
  - £5.1 billion of new orders and probable orders in the year (2013: £4.9 billion)
  - High-quality order book plus probable orders totalling £18.6 billion (2013: £18.0 billion)
  - Record revenue visibility(2) of 85% for 2015 (2013: 81% for 2014)
  - Framework contracts worth up to £2.0 billion, which are not included in the order book or probable orders
  - Pipeline of contract opportunities increased to £39.2 billion (2013: £37.5 billion)

- **Proposed full-year dividend increased by 1% to 17.75p (2013: 17.50p)**

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(2) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

Carillion Chairman, Philip Green, commented

"In 2014, our markets remained challenging and we continued to be very selective in choosing the contracts for which we bid in order to maintain margin discipline, which continues to be a key element of our strategy. Looking forward, we expect the steady improvement in our markets that began in 2014 to continue in 2015, subject to a sustained macro-economic recovery. We have also continued to strengthen the Group's position in growth markets, notably in support services through a further bolt-on acquisition in Canada. Therefore, with strong cash flow, a high-quality order book, record revenue visibility and a growing pipeline of contract opportunities, we continue to believe the Group is well-positioned to make progress over the medium term."

There will be a presentation for analysts and investors today at 9.00am. A telephone dial in facility +44 (0)1296 480 100 – Access Code: 284405# will be available for analysts and investors who are unable to attend the presentation. The presentation can be viewed on Carillion's website at www.carillionplc.com/investors/investors_presentations.asp. A replay facility is also available following the call on +44 (0)207 136 9233 – Access Code: 61737143.

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4 March 2015

Notes to Editors:

Carillion is a leading integrated support services company with a substantial portfolio of Public Private Partnership projects and extensive construction capabilities. The Group had annual revenue in 2014 of some £4.1 billion, employs around 42,000 people and operates across the UK, in the Middle East and Canada.

The Group has four business segments:

Support services – this includes facilities management, facilities services, energy services, utility services, road maintenance, rail services and consultancy businesses in the UK, Canada and the Middle East.

Public Private Partnership (PPP) projects - this includes investing activities in PPP projects for Government buildings and infrastructure, mainly in the Defence, Health, Education, Transport and Secure accommodation sectors.

Middle East construction services - this includes building and civil engineering activities in the Middle East.

Construction services (excluding the Middle East) - this includes building, civil engineering and developments activities in the UK and construction activities in Canada.

This and other Carillion news releases can be found at www.carillionplc.com

Cautionary statement

This announcement may contain indications of likely future developments and other forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. These and other factors could adversely affect the Group's results, strategy and prospects. Forward-looking statements involve risks, uncertainties and assumptions. They relate to events and/or depend on circumstances in the future which could cause actual results and outcomes to differ materially from those currently anticipated. No obligation is assumed to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Key financial figures

		2014	2013	Change
Income statement				
Total revenue	£bn	**4.1**	4.1	-
Underlying profit from operations(1)	£m	**216.9**	214.3	+1%
Total Group underlying operating margin(2)	Percentage	**5.6**	5.6	n/a
Support services underlying operating margin(2)	Percentage	**5.8**	5.1	n/a
Public Private Partnership projects underlying operating margin(2)	Percentage	**21.2**	24.7	n/a
Middle East construction services underlying operating margin(2)	Percentage	**5.0**	4.0	n/a
Construction services (excluding the Middle East) underlying operating margin(2)	Percentage	**3.8**	4.2	n/a
Underlying profit before taxation(3)	£m	**172.9**	174.7	-1%
Profit before taxation	£m	**142.6**	110.6	+29%
Underlying earnings per share(4)	Pence	**33.7**	34.7	-3%
Basic earnings per share	Pence	**28.0**	23.3	+20%
Dividends				
Proposed full-year dividend per share	Pence	**17.75**	17.50	+1%
Underlying proposed dividend cover(4)	Times	**1.9**	2.0	n/a
Basic proposed dividend cover	Times	**1.6**	1.3	n/a
Cash flow statement				
Underlying cash flow from operations(5)	£m	**258.6**	160.9	+61%
Underlying profit from operations cash conversion	Percentage	**119.2**	75.1	n/a
Deficit pension contributions	£m	**(46.0)**	(39.2)	-17%
Balance sheet				
Net borrowing	£m	**(177.3)**	(215.2)	+18%
Committed borrowing facilities maturing in 2017 and 2018	£m	**850.0**	835.0	+2%
Private placement borrowings maturing between 2017 and 2024 (£135 million and US$280 million)	£m	**(314.5)**	(303.7)	-4%
Convertible bonds maturing by 2019	£m	**(170.0)**	-	n/a
Net retirement benefit liability (net of taxation)	£m	**(406.2)**	(295.1)	-38%
Net assets	£m	**894.5**	983.6	-9%

(1) After Joint Ventures net financial expense of £6.4 million (2013: £10.1 million) and Joint Ventures taxation charge of £2.7 million (2013: £4.4 million) and before intangible amortisation, non-recurring operating items and non-operating items (see note 3 to the financial information on page 28).

(2) Before Joint Ventures net financial expense and taxation charge, intangible amortisation and non-recurring operating items (see note 3 to the financial information on page 28).

(3) After Joint Ventures taxation charge of £2.7 million (2013: £4.4 million) and before intangible amortisation, non-recurring operating items, non-operating items and fair value movements in derivative financial instruments (see notes 3 and 4 to the financial information on page 28).

(4) Before intangible amortisation, non-recurring operating items, non-operating items and fair value movements in derivative financial instruments (see notes 3 and 4 to the financial information on page 28).

(5) Before pension deficit recovery payments and rationalisation costs and after proceeds on the disposal of Public Private Partnership equity investments and dividends received from Joint Ventures.

Summary results

Total revenue remained unchanged at £4.1 billion, after foreign exchange headwinds amounting to approximately £95 million, with revenue growth in Middle East construction services and in UK construction services, offset by a reduction in revenue in Public Private Partnership projects due to our policy of recycling equity investments in mature projects. Revenue in support services marginally increased, albeit that this represents underlying growth of some six per cent, as explained in more detail on page six.

By maintaining our selective approach to the contracts for which we bid, notably by focusing on larger, complex contracts and long-term customers, where we can use the breadth and scale of our skills and resources to differentiate our offering, we have maintained our underlying operating margin[(1)] at 5.6 per cent (2013: 5.6 per cent). We achieved this despite the fact that most of the work we delivered in 2014 was won during the economic downturn and that our markets in 2014 continued to be challenging. At business segment level, underlying operating margins increased in support services and in Middle East construction services, while the margin in construction services (excluding the Middle East) continued to trend down towards a more normal level, in line with our longstanding guidance.

Underlying profit from operations[(1)] increased by one per cent to £216.9 million (2013: £214.3 million), supported by the improved margin performances in support services and Middle East construction services, together with a reduction in the net financial expense and taxation charge relating to Joint Ventures. At business segment level, increased contributions to operating profit from support services and from Middle East construction services, were offset by reduced contributions from Public Private Partnership projects, due to our policy of recycling equity investments in mature projects, and from construction services (excluding the Middle East) as the operating margin continued to trend back towards a more normal level.

Underlying profit before taxation[(1)] reduced by one per cent to £172.9 million (2013: £174.7 million), which reflected the planned reduction in the sale of equity investments in Public Private Partnership projects together with an increase in the Group's underlying net financial expense[(2)] to £44.0 million (2013: £39.6 million), due mainly to an increase in the non-cash interest charge relating to pensions and to a reduction in interest income from subordinated loans to Public Private Partnership projects. After an underlying taxation charge[(3)] of £21.0 million (2013: £19.4 million), underlying earnings per share[(1)] were 33.7 pence (2013: 34.7 pence). Reported profit before taxation increased by 29 per cent to £142.6 million (2013: £110.6 million) and basic earnings per share increased by 20 per cent to 28.0 pence (2013: 23.3 pence), as there were no non-recurring operating charges in 2014 (2013: £44.2 million).

Cash flow was strong with underlying cash flow from operations[(1)] representing 119 per cent of underlying profit from operations[(1)]. Net borrowing therefore continued to reduce and at 31 December 2014 it was £177.3 million (2013: £215.2 million), which was better than our expectations given the £38.5 million impact

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(2) Before fair value movements in derivative financial instruments (see note 4 to the financial information on page 28).
(3) Before intangible amortisation, non-recurring operating items, non-operating items and fair value movements in derivative financial instruments (see notes 3 and 4 to the financial information on page 28).

on net borrowing of two bolt-on acquisitions in Canada to enhance our support services offering in key growth markets. This £38.5 million comprised £8.6 million for the final instalment of the consideration for the acquisition of a 49 per cent interest in the Bouchier Group and £29.9 million in respect of acquiring a 60 per cent interest in the Rokstad Power Corporation. In December 2014, the Group issued a convertible bond, which raised an additional £170 million of funding. This, together with existing bank facilities and private placement funding, increased the Group's total available funding to approximately £1.3 billion, which supports our strategy for growth.

Work winning in 2014 was strong, with new orders plus probable orders worth £5.1 billion, which was well in excess of the Group's revenue for 2014 and increased the total value of orders and probable orders to £18.6 billion at 31 December 2014 (2013: £18.0 billion). Revenue visibility(1) also increased to a record level and at the year end was 85 per cent of anticipated revenue in 2015 (2013: 81 per cent for 2014). Furthermore, at 31 December 2014, the value of our pipeline of contract opportunities had also increased to £39.2 billion (2013: £37.5 billion).

The Board is recommending a final dividend of 12.15 pence per share (2013: 12.00 pence per share), making the total dividend for 2014 17.75 pence, an increase of one per cent on the 17.50 pence paid in respect of 2013.

Financial reporting segments and analysis

Operating profit by financial reporting segment

	2014 £m	2013 £m	Change from 2013 %
Support services	**135.9**	118.0	+15
Public Private Partnership projects	**34.5**	58.4	-41
Middle East construction services	**25.1**	19.2	+31
Construction services (excluding the Middle East)	**41.5**	44.4	-7
	237.0	240.0	-1
Group eliminations and unallocated items	**(11.0)**	(11.2)	+2
Profit from operations before Joint Ventures net financial expense and taxation	**226.0**	228.8	-1
Share of Joint Ventures net financial expense	**(6.4)**	(10.1)	+37
Share of Joint Ventures taxation	**(2.7)**	(4.4)	+39
Underlying profit from operations(2)	**216.9**	214.3	+1
Intangible amortisation	**(16.8)**	(19.2)	+13
Non-recurring operating items	**-**	(44.2)	+100
Reported profit from operations	**200.1**	150.9	+33

(1) Based on expected revenue and secure and probable orders which exclude variable work, frameworks and re-bids.
(2) The underlying results stated above are based on the definitions included in the key financial figures on page 3.

Support services

	2014 £m	2013 £m	Change from 2013 %
Revenue			
- Group	**2,099.7**	2,029.4	
- Share of Joint Ventures	**224.2**	271.5	
	2,323.9	2,300.9	+1
Underlying operating profit(1)			
- Group	**113.5**	92.8	
- Share of Joint Ventures	**22.4**	25.2	
	135.9	118.0	+15

(1) Before intangible amortisation and non-recurring operating items.

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 reported revenue increased by one per cent, this nevertheless represented underlying growth of around six per cent, because we replaced the £70 million or so of revenue that was lost in the first quarter of 2013 due to a number of energy services contracts coming to an end and not being replaced as a result of changes in Government policy and there was a £39 million headwind due to adverse movements in US and Canadian Dollar exchange rates. The increase in operating margin to 5.8 per cent (2013: 5.1 per cent) reflects the benefit of maintaining a selective approach to the contracts for which we bid and cost savings, notably those we achieved from restructuring in 2013.

Work winning in support services was particularly strong in 2014 with new orders and probable orders worth £2.9 billion (2013: £1.9 billion). This included a number of major successes for public sector customers in the UK, notably winning all five of the Next Generation Estates Contracts for which we bid, to provide hard facilities management services for the Defence Infrastructure Organisation, that are worth up to £2.5 billion over ten years. We also won a £200 million, five-year contract (extendable to seven years) to provide a total facilities management service to some 50 per cent of the public sector prisons operated by the Ministry of Justice in the UK, and a £200 million, five-year contract to provide facilities management services to the Nottingham University Hospitals NHS Trust. In addition, we won contracts to provide a range of support services for private sector customers, including the Royal Bank of Scotland, Arqiva, Heathrow Airport Limited and Canadian Natural Resources Limited that together are worth over £400 million over five years. We were also selected for a number of framework contracts by Network Rail that we estimate to be worth up to £500 million to Carillion, which has not been included in our order book or probable orders, in line with our order book policy.

In December 2014, we acquired a 60 per cent interest in the Rokstad Power Corporation (Rokstad), which is based in British Columbia, Canada. Rokstad is one of Canada's leading providers of transmission and distribution power line services, including specialist live-line operations. The total cash consideration for this acquisition of up to £31 million will be paid in annual instalments over the period to July 2017 and we have consolidated Rokstad's net borrowing of £19 million at the end of 2014. We will acquire the remaining 40 per cent interest in Rokstad after five years at a multiple of 4.5 times Rokstad's 2019 earnings before interest, tax, depreciation and amortisation, capped at a maximum additional consideration of £42 million. This acquisition will significantly enhance our skills and prospects for growth in servicing the rapidly expanding electric power transmission and distribution market in Canada.

At 31 December 2014, the value of our support services order book plus probable orders increased to £14.1 billion (2013: £13.6 billion). We also continue to have good revenue visibility of 80 per cent[(1)] for 2015 (2013: 78 per cent for 2014). Our pipeline of contract opportunities has increased at the year end to £11.1 billion (2013: £10.4 billion), notwithstanding our success in converting pipeline opportunities to contracts or probable contracts. Consequently, our pipeline remains strong, which together with our substantial order book means we are well placed to deliver revenue growth in support services in 2015.

(1) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

Public Private Partnership projects

	2014 £m	2013 £m	Change from 2013 %
Revenue			
- Group	**1.5**	2.3	
- Share of Joint Ventures	**161.0**	234.6	
	162.5	236.9	-31
Underlying operating profit[(2)]			
- Group	**24.1**	46.0	
- Share of Joint Ventures	**10.4**	12.4	
	34.5	58.4	-41

(2) Before intangible amortisation and non-recurring operating items.

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 three core capabilities of project finance, construction and support services, 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 2014, we sold equity investments in four projects for cash proceeds of approximately £37 million, which represented an average discount rate of some seven per cent and generated a pre-tax profit of £13.9 million.

In 2014, our portfolio of investments in PPP projects continued to perform in line with expectations and our objective of achieving an overall post-tax internal rate of return of 15 per cent. Revenue in 2014 reduced due to the effects of selling seven equity investments in 2013, as previously reported, and of selling further investments in 2014, as noted above. Operating profit reduced in line with expectations, primarily because we sold less equity in mature projects in 2014 than in 2013.

At 31 December 2014, we had 17 PPP projects in which we had invested £42 million of equity and into which we are committed to make further planned investments of £112 million. The Directors' valuation of our portfolio of equity investments at 31 December 2014, using a nine per cent discount rate, was £48 million (2013: £68 million), which reduced due to the effect of selling investments during the year.

During 2014, a Carillion Joint Venture achieved financial close on the Aberdeen Western Peripheral Route in which we expect to invest some £20 million of equity and a Carillion Joint Venture was also selected as the preferred bidder for the Midlands Priority Schools Programme, in which we expect to invest up to £5 million of equity. At 31 December 2014, the value of our order book plus probable orders was some £1.2 billion (2013: £1.2 billion), with the revenues associated with new financially closed and preferred bidder projects offsetting equity sold in mature projects during 2014.

The outlook for adding more investments to our portfolio remains positive as we continue to have a good pipeline of contract opportunities. In the UK, Carillion is shortlisted for the Midlands Metropolitan Hospital in which we could invest up to £40 million of equity. In Turkey, we continue to be shortlisted for a hospital project in which we could invest up to £35 million of equity. In Canada, we are shortlisted for three projects – MacKenzie Vaughan Hospital, North Battlefield Hospital and Stanton Territorial Hospital - in which we could invest over £17 million of equity. In the Republic of Ireland, we are shortlisted for two projects – one for schools and one for courts - in which we could invest up to £13 million of equity. Beyond this we expect further opportunities to come to market in 2015, notably in Canada in the healthcare sector.

Middle East construction services

	2014 £m	2013 £m	Change from 2013 %
Revenue			
- Group	**323.4**	250.3	
- Share of Joint Ventures	**177.3**	233.2	
	500.7	483.5	+4
Underlying operating profit(1)			
- Group	**24.3**	15.4	
- Share of Joint Ventures	**0.8**	3.8	
	25.1	19.2	+31

(1) Before intangible amortisation and non-recurring operating items.

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

The four per cent increase in revenue reflected our strong work-winning performance over the past 18 months and was achieved notwithstanding a £25 million headwind due to adverse movements in US Dollar exchange rates. The improvement in operating profit reflected the increase in revenue and an increase in operating margin to 5.0 per cent (2013: 4.0 per cent), as we have continued to see improvements in trading conditions in some Middle East markets. Trading conditions in the UAE, where our main Joint Venture business operates, have remained very competitive, although we have begun to see some signs that our markets are improving, notably in Dubai, where we are seeing a significant number of new contract opportunities coming to market.

In 2014, we continued to win substantial new contracts. For example, in Dubai, Al Futtaim Carillion (AFC) won contracts for two luxury hotels – the W Hotel and Phase IV of the Madinat Jumeirah Resort project that involves the construction of a luxury 435-room hotel – which together are worth some £300 million - and a £75 million contract for Phase 1 of the Dubai World Trade Centre development. In the Kingdom of Saudi Arabia Carillion won a £70 million contract to build the Aldara Hospital and Medical Centre in Riyadh. AFC also converted preferred bidder positions into signed contracts for the £150 million Phase 2 Avenue City Walk development in Dubai and the £110 million Hard Rock Hotel in Abu Dhabi.

The value of our order book plus probable orders for Middle East construction services remained at £0.9 billion at the year end (2013: £0.9 billion) giving revenue visibility for 2015 of 85 per cent(1) (2013: 85 per cent for 2014). Our pipeline of contract opportunities increased to £15.4 billion at the year end (2013: £13.1 billion), as significant new contracts are expected to come to market, notably in Oman, Dubai and Qatar. There have been no immediate signs of a reduction in contract opportunities as a result of the worldwide drop in oil prices, therefore given the strength of our order book and pipeline, we believe we have the opportunity to grow revenue again in 2015 and to deliver growth over the medium term, with margins moving up towards our medium-term target of six per cent.

(1) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

Construction services (excluding the Middle East)

	2014 £m	2013 £m	Change from 2013 %
Revenue			
- Group	**1,069.3**	1,050.6	
- Share of Joint Ventures	**15.5**	9.0	
	1,084.8	1,059.6	+2
Underlying operating profit(2)			
- Group	**40.9**	44.8	
- Share of Joint Ventures	**0.6**	(0.4)	
	41.5	44.4	-7

(2) Before intangible amortisation and non-recurring operating items.

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.

As previously reported, the planned rescaling of our UK construction business, which we achieved by being very selective in terms of the contracts for which we bid, was completed by the end of 2013, having aligned our UK business to the size of its target markets. In 2013 and 2014, we won considerable new work in the UK, consistent with our selective approach of focusing on large, higher added-value contracts that can be delivered only by contractors with the necessary scale and capabilities. We have also focused on contracts for customers with whom we have, or can build, strong long-term relationships, especially customers for whom we provide integrated solutions.

Consequently, UK construction revenue increased in 2014 to £0.9 billion (2013: £0.8 billion). However, this increase was partially offset by a reduction in revenue in Canada to leave overall revenue in this business two per cent higher than the level achieved in 2013. The reduction in Canada was due partly to a movement in the exchange rate that reduced revenue by some £23 million on a like-for-like basis, coupled with the effect of tightening our selective approach in order to focus increasingly on construction work secured through winning Public Private Partnership projects, as these projects also offer valuable equity investments and long-term support services contracts.

When we announced the planned rescaling of our UK construction business in 2010, we explained that the operating margin would initially increase, due to the temporary benefits of rescaling, before trending back over the medium term to a normal level. This trend continued in 2014, with the margin reducing to 3.8 per cent (2013: 4.2 per cent) and with a consequent reduction in operating profit. Going forward we continue to expect the temporary factors that have contributed to higher margins in this segment, namely lower bid costs, the action we took to reduce overheads and favourable outturns on contracts being completed, to decline. However, we also continue to expect our normal margin to settle at a level above the industry average at between 2.5 per cent and 3.0 per cent, depending on market conditions, by around 2016.

In 2014, we won a number of significant new contracts and framework contracts. These included construction contracts for two new Public Private Partnership projects – the Aberdeen Western Peripheral Route and the Midlands Priority Schools Programme – which have a total construction value of approximately £315 million. In addition, we achieved financial close on the Sunderland Regeneration Programme, potentially worth up to £800 million to Carillion over 20 years. We also won a £90 million contract for HUB to deliver the Hoola residential development in London and a £75 million contract for Liverpool Football Club to extend the main stand at its Anfield Stadium. We were selected as the preferred bidder by Argent for contracts at King's Cross in London and Paradise Circus in Birmingham, worth £215 million, and by Helical Bar to build the £93 million Barts Square Phase 1 development in London. In addition, Carillion was one of five contractors selected by the Highways Agency to deliver contracts worth between £100 million and £450 million that form part of the Agency's £5 billion Collaborative Delivery Framework and a Carillion Joint Venture was selected as one of five contractors for the Midlands Highways Alliance framework. We estimate that these frameworks could generate up to £550 million of revenue for Carillion over five years and this has not been included in our order book or in probable orders, in line with our order book policy.

The value of orders plus probable orders at 31 December 2014 increased to £2.4 billion (2013: £2.3 billion), giving revenue visibility for 2015 of 92 per cent(1) (2013: 80 per cent for 2014). Our pipeline of contract opportunities at the year end was worth £10.2 billion (2013: £11.0 billion), which remains healthy and offers the prospect of overall revenue growth in this segment in 2015.

(1) Based on expected revenue and secure and probable orders, which exclude variable work, framework and re-bids.

Group income statement, cash flow and balance sheet items

Intangible amortisation

Intangible amortisation of £16.8 million (2013: £19.2 million) related to the amortisation of intangible assets, largely arising from the acquisitions of John Laing Integrated Services Limited in 2013, Eaga plc in 2011, Alfred McAlpine plc in 2008 and Mowlem plc in 2006.

Non-operating items

The non-operating charge of £9.9 million (2013: £0.7 million) related to costs associated with the aborted merger discussion with Balfour Beatty plc and the acquisition of a 60 per cent interest in the Rokstad Power Corporation.

Underlying net financial expense

The Group's underlying net financial expense(1) of £44.0 million (2013: £39.6 million) comprised the following items: a net expense of £28.4 million (2013: £26.9 million) in respect of borrowings and other liabilities, a net interest charge in respect of defined benefit pension schemes of £15.8 million (2013: £15.1 million) and interest received in respect of loans to Public Private Partnership Joint Venture projects of £0.2 million (2013: £2.4 million).

Fair value movements in derivative financial instruments

A charge of £3.6 million (2013: £nil) was recognised in relation to the movement in the fair value of derivative financial instruments reflecting the changes in the fair value of the option component associated with the Group's £170 million of convertible bonds issued in December 2014.

Taxation

The overall Group taxation charge for the year amounted to £15.1 million (2013: £4.3 million) and comprised a Group underlying taxation charge(2) of £21.0 million (2013: £19.4 million), offset by a Group taxation credit of £3.4 million (2013: £5.9 million) in relation to the amortisation of intangible assets arising from business combinations, a Group taxation credit of £1.8 million (2013: £9.2 million) in relation to non-operating items and a Group taxation credit of £0.7 million (2013: £nil) in relation to the movement in fair value of derivative financial instruments.

The underlying Group taxation charge(2) of £21.0 million (2013: £19.4 million), when combined with a taxation charge on Joint Ventures of £2.7 million (2013: £4.4 million), represented an underlying effective tax rate(2) of 13.5 per cent (2013: 13.3 per cent). This is below the UK standard rate of corporation tax of 21.5 per cent for 2014, because our profits in the Middle East and from the disposal of equity investments in Public Private Partnership projects are subject to zero or low rates of tax and we can utilise tax losses in the UK that were largely inherited with the acquisitions of Mowlem plc, Alfred McAlpine plc and Eaga plc. At 31 December 2014, the Group had £247 million of corporate tax losses (2013: £275 million) that are available to reduce future tax payments.

(1) Before fair value movements in derivative financial instruments (see note 4 to the financial information on page 28).
(2) Before intangible amortisation, non-recurring operating items, non-operating items and fair value movements in derivative financial instruments (see notes 3 and 4 to the financial information on page 28).

Underlying earnings per share

Underlying earnings per share[(1)] reduced by three per cent to 33.7 pence (2013: 34.7 pence). The weighted average number of shares in issue in 2014 was 430.2 million (2013: 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[(1)], subject to the investment needs of the business. The Board has recommended a final dividend of 12.15 pence per share for 2014, making the proposed full-year dividend 17.75 pence per share (2013: 17.50 pence per share), an increase of one per cent on the total paid in respect of 2013. The Board's decision to recommend an increase in the dividend, despite the reduction in underlying earnings per share[(1)], reflects its confidence in the Group's resilience and ability to achieve its medium-term growth targets. Dividend cover, based on the proposed full-year dividend of 17.75 pence per share and underlying earnings per share[(1)], is 1.9 times (2013: 2.0 times).

Cash flow

Summary of the Group's cash flow

	2014 £m	2013 £m
Underlying Group operating profit	**191.8**	187.8
Depreciation and other non-cash items	**26.6**	21.3
Working capital	**31.1**	(66.4)
Dividends received from Joint Ventures	**9.1**	18.2
Underlying cash inflow from operations	**258.6**	160.9
Deficit pension contributions	**(46.0)**	(39.2)
Rationalisation costs	**(11.5)**	(22.0)
Interest, tax and dividends	**(107.7)**	(90.9)
Net capital expenditure	**(22.4)**	(27.2)
Acquisitions and disposals	**(34.5)**	(28.6)
Other	**1.4**	(12.4)
Change in net borrowing	**37.9**	(59.4)
Net borrowing at 1 January	**(215.2)**	(155.8)
Net borrowing at 31 December	**(177.3)**	(215.2)

As anticipated, following the completion of the rescaling of UK construction, the Group's cash flow has returned to a more normal profile, with an inflow of working capital and full-year underlying cash flow from operations[(1)] representing 119 per cent of full-year underlying profit from operations[(1)] (2013: 75 per cent).

Deficit recovery payments to the Group's pension funds of £46.0 million were in line with expectations and the agreement reached in 2014 with the Trustee of the Group's main defined benefit schemes for the three-year period to 2016. The £11.5 million of rationalisation costs primarily relate to the restructuring of Carillion Energy Services announced in 2013. Interest, tax and dividend payments of £107.7 million included increases in taxation and dividends payable. Net capital expenditure of £22.4 million mainly related to

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.

investments in upgrading the Group's IT systems. The £34.5 million payment in respect of acquisitions and disposals comprised net equity reductions in Joint Ventures of £5.2 million, the net cost of acquiring the Rokstad Power Corporation of £29.9 million, transaction costs associated with merger and acquisition activity of £1.2 million and an £8.6 million payment in respect of the final instalment for the acquisition of a 49 per cent interest in the Bouchier Group, which we completed in December 2012.

The above items, together with other changes of £1.4 million, resulted in a reduction in net borrowing to £177.3 million at 31 December 2014 (2013: £215.2 million).

Balance sheet

Summary of the Group's balance sheet

	2014 £m	2013 £m
Property, plant and equipment	**140.9**	128.2
Intangible assets	**1,610.8**	1,552.8
Investments	**139.9**	159.3
	1,891.6	1,840.3
Inventories, receivables and payables	**(351.6)**	(327.6)
Net retirement benefit liability (net of tax)	**(406.2)**	(295.1)
Other	**(62.0)**	(18.8)
Net operating assets	**1,071.8**	1,198.8
Net borrowing	**(177.3)**	(215.2)
Net assets	**894.5**	983.6
Average net borrowing	**(450.7)**	(490.6)

There are five notable movements in the summary balance sheet above. First, the increase in intangible assets, which reflects the acquisition of the Rokstad Power Corporation. Second, the movement in investments, which reflects the sale of equity investments in Public Private Partnership projects. Third, the movement in inventories, receivables and payables, which reflects the change in working capital described in the commentary on the summary cash flow statement on page 12. Fourth, the increase in the Group's net retirement benefit liability, which is due to the positive effect of improved investment returns being more than offset by an increase in liabilities arising from a reduction in the discount rate. Fifth, the reduction in average net borrowing, which is largely due to the improved working capital performance described above.

Acquisition of Rokstad Power Corporation

In December 2014, the Group acquired 60 per cent of the issued share capital of Rokstad Power Corporation (Rokstad). Rokstad, which is based in British Columbia, Canada, provides a full range of transmission and distribution power-line services that will significantly enhance the Group's skills and prospects for growth in the rapidly expanding electric power transmission and distribution market. The gross consideration of around £31 million will depend upon the financial performance of Rokstad and will be paid in instalments over the period to July 2017, with £11 million paid in 2014 and £7.5 million in 2015. Payments in

2016 and 2017 will depend on the financial performance of Rokstad and will be capped at a combined total of £12 million. We will also acquire the remaining 40 per cent interest in Rokstad after five years at a multiple of 4.5 times Rokstad's 2019 earnings before interest, taxation, depreciation and amortisation, capped at a maximum additional consideration of £42 million.

Committed bank facilities, private placements and convertible bonds

The Group's total available funding of £1.3 billion comprises committed bank facilities of £850 million, of which £785 million matures in 2018, private placement funding of £314.5 million, expiring between 2017 and 2024, and £170 million of convertible bonds maturing by 2019.

In the first half of 2014, the Group increased its borrowing capacity with the addition of two separate £15 million bi-lateral facilities with Barclays and the National Bank of Abu Dhabi, respectively. In December 2014, the Group issued £170 million of senior unsecured convertible bonds, which provide long-term finance and further diversified the Group's borrowing sources. The bonds, which were issued at par, carry a coupon of 2.50% per annum payable semi-annually in equal instalments in arrears. Subject to certain conditions, the bonds will be convertible into fully paid ordinary shares. The initial conversion price has been set at £3.9856, which represents a premium of 25% above the volume weighted average price (VWAP) of the Company's ordinary shares on the London Stock Exchange between the launch and pricing of the bonds. The ordinary shares underlying the bonds represent approximately 9.9% of the Company's issued share capital immediately prior to the offering based on the initial conversion price. Upon conversion of the bonds, the Company may elect to settle its obligations by way of delivering ordinary shares, the payment of a cash alternative amount (calculated by reference to the VWAP of an ordinary share over a specified period) or a combination of the two. Unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed at par on or around 19 December 2019.

Funding and liquidity

In addition to Carillion plc's principal funding arrangements described above, money market and short-term overdraft facilities are available to Carillion plc and certain subsidiaries. Operating and finance leases are also used 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 provide adequate headroom over and above the requirements of the Group's business plan. At 31 December 2014, the Group had undrawn committed facilities amounting to £722.0 million (2013: £550.5 million).

Foreign exchange

The Group's policy is to hedge 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, the Group's 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 are set out in the table below.

	Average		Year End	
£sterling	**2014**	2013	**2014**	2013
Middle East (US dollar)	**1.65**	1.57	**1.56**	1.66
Oman (rial)	**0.63**	0.60	**0.60**	0.64
UAE (dirham)	**6.05**	5.77	**5.73**	6.08
Canada (dollar)	**1.82**	1.62	**1.81**	1.76

The value of sterling strengthened during 2014 relative to the US dollar and Canadian dollar, which adversely impacted reported revenues in Canada and the Middle East. The reduction in revenues in 2014 compared to 2013 at constant exchange rates amounted to £67 million in Canada and £28 million in the Middle East.

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, will be described in detail in our Annual Report and Accounts, which will be published in March 2015. 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 and uncertainties are as follows: continuing to win and retain contracts in our existing markets and target markets on satisfactory terms, if customer requirements change, competition increases or demand reduces due to the impact of a low oil price or more general adverse economic conditions; delivering contracts successfully, on time and to budget; managing our pension schemes to ensure that scheme liabilities remain within a range appropriate to our capital base; developing and attracting excellent people to create a vibrant, diverse and flexible workforce; maintaining high standards in respect of ethics and compliance, cyber security and health and safety; managing the effects of potential changes in UK Government policies and priorities that may arise following the General Election in 2015.

Outlook and prospects

Although overall market conditions have remained challenging, we expect the steady improvement in our markets that began in 2014 to continue in 2015, subject to a sustained macro-economic recovery. We have also continued to strengthen the Group's position in growth markets, notably in support services through a further bolt-on acquisition in Canada. Therefore, with strong cash flow, a high-quality order book, record revenue visibility and a growing pipeline of contract opportunities, we continue to believe the Group is well positioned to make progress over the medium term.

Consolidated income statement for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Total revenue		**4,071.9**	4,080.9
Less: Share of joint ventures' revenue		**(578.0)**	(748.3)
Group revenue	2	**3,493.9**	3,332.6
Cost of sales		**(3,166.4)**	(2,984.6)
Gross profit		**327.5**	348.0
Administrative expenses		**(166.4)**	(268.2)
Profit on disposal of Public Private Partnership equity investments		**13.9**	44.6
Group operating profit		**175.0**	124.4
Analysed between:			
Group operating profit before intangible amortisation and non-recurring operating items		**191.8**	187.8
Intangible amortisation[1]		**(16.8)**	(19.2)
Non-recurring operating items[2]	3	**-**	(44.2)
Share of results of joint ventures	2	**25.1**	26.5
Analysed between:			
Operating profit		**34.2**	41.0
Net financial expense		**(6.4)**	(10.1)
Taxation		**(2.7)**	(4.4)
Profit from operations		**200.1**	150.9
Analysed between:			
Profit from operations before intangible amortisation and non-recurring operating items		**216.9**	214.3
Intangible amortisation[1]		**(16.8)**	(19.2)
Non-recurring operating items[2]	3	**-**	(44.2)
Non-operating items	3	**(9.9)**	(0.7)
Net financial expense	4	**(47.6)**	(39.6)
Analysed between:			
Financial income		**2.3**	7.7
Financial expense		**(46.3)**	(47.3)
Fair value movements in derivative financial instruments		**(3.6)**	-
Profit before taxation		**142.6**	110.6
Analysed between:			
Profit before taxation, intangible amortisation, non-recurring operating items, non-operating items and fair value movements in derivative financial instruments		**172.9**	174.7
Intangible amortisation[1]		**(16.8)**	(19.2)
Non-recurring operating items[2]	3	**-**	(44.2)
Non-operating items	3	**(9.9)**	(0.7)
Fair value movements in derivative financial instruments	4	**(3.6)**	-
Taxation	5	**(15.1)**	(4.3)
Profit for the year		**127.5**	106.3
Profit attributable to:			
Equity holders of the parent		**120.7**	100.2
Non-controlling interests		**6.8**	6.1
Profit for the year		**127.5**	106.3
Earnings per share	6		
Basic		**28.0p**	23.3p
Diluted		**25.4p**	23.2p

(1) Arising from business combinations.
(2) This includes integration and rationalisation costs and Eaga Partnership Trusts related charges (see note 3).

Consolidated statement of comprehensive income for the year ended 31 December 2014

	2014		2013	
	£m	£m	£m	£m
Profit for the year		**127.5**		106.3
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of net defined benefit liability	**(171.6)**		(42.4)	
Taxation relating to items that will not be reclassified	**34.4**		(1.3)	
	(137.2)		(43.7)	
Items that may be reclassified subsequently to profit or loss:				
Gain on hedge of net investment in foreign operations	**0.1**		3.3	
Currency translation differences on foreign operations	**2.6**		(15.5)	
Movement in fair value of cash flow hedging derivatives	**8.2**		(6.1)	
Reclassification of effective portion of cash flow hedging derivatives to profit	**(10.8)**		3.1	
Increase in fair value of available-for-sale assets	**0.1**		-	
Reclassification of fair value movements on disposal of available-for-sale assets	**-**		(15.6)	
Taxation relating to items that may be reclassified	**(1.6)**		1.9	
Share of recycled cash flow hedges within joint ventures (net of taxation)	**1.5**		18.3	
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	**(2.9)**		(2.1)	
	(2.8)		(12.7)	
Other comprehensive expense for the year		**(140.0)**		(56.4)
Total comprehensive (expense)/ income for the year		**(12.5)**		49.9
Attributable to:				
Equity holders of the parent		**(18.9)**		44.2
Non-controlling interests		**6.4**		5.7
		(12.5)		49.9

Consolidated statement of changes in equity for the year ended 31 December 2014

	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 2014	**215.1**	**21.2**	**(36.4)**	**(5.6)**	**0.2**	**414.6**	**358.1**	**967.2**	**16.4**	**983.6**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	120.7	120.7	6.8	127.5
Other comprehensive income										
Net gain on hedge of net investment in foreign operations	-	-	0.1	-	-	-	-	0.1	-	0.1
Currency translation differences on foreign operations	-	-	3.0	-	-	-	-	3.0	(0.4)	2.6
Movement in fair value of cash flow hedging derivatives	-	-	-	8.2	-	-	-	8.2	-	8.2
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(10.8)	-	-	-	(10.8)	-	(10.8)
Increase in fair value of available-for-sale assets	-	-	-	-	0.1	-	-	0.1	-	0.1
Remeasurement of net defined benefit liability	-	-	-	-	-	-	(171.6)	(171.6)	-	(171.6)
Taxation	-	-	-	(1.6)	-	-	34.4	32.8	-	32.8
Share of recycled cash flow hedges within joint ventures (net of taxation)	-	-	-	1.5	-	-	-	1.5	-	1.5
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	-	-	-	(2.9)	-	-	-	(2.9)	-	(2.9)
Transfer between reserves	-	-	-	-	-	(13.7)	13.7	-	-	-
Total comprehensive income/(expense)	-	-	3.1	(5.6)	0.1	(13.7)	(2.8)	(18.9)	6.4	(12.5)
Transactions with owners										
Contributions by and distributions to owners										
Acquisition of own shares	-	-	-	-	-	-	(0.5)	(0.5)	-	(0.5)
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(3.1)	(3.1)
Non-controlling interests arising from business combinations	-	-	-	-	-	-	-	-	3.2	3.2
Equity-settled transactions (net of taxation)	-	-	-	-	-	-	0.5	0.5	-	0.5
Dividends paid	-	-	-	-	-	-	(75.7)	(75.7)	(1.0)	(76.7)
Transfer between reserves	-	-	-	-	-	-	0.1	0.1	(0.1)	-
Total transactions with owners	-	-	-	-	-	-	(75.6)	(75.6)	(1.0)	(76.6)
At 31 December 2014	**215.1**	**21.2**	**(33.3)**	**(11.2)**	**0.3**	**400.9**	**279.7**	**872.7**	**21.8**	**894.5**

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 joint ventures (net of taxation)	-	-	-	18.3	-	-	-	18.3	-	18.3
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	-	-	-	(2.1)	-	-	-	(2.1)	-	(2.1)
Transfer between reserves	-	-	-	-	-	(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

Consolidated balance sheet as at 31 December 2014

	Note	2014 £m	2013 £m
Non-current assets			
Property, plant and equipment		**140.9**	128.2
Intangible assets		**1,610.8**	1,552.8
Retirement benefit assets		**6.1**	3.8
Investments in joint ventures		**130.6**	152.0
Other investments		**9.3**	7.3
Deferred tax assets		**142.6**	112.6
Total non-current assets		**2,040.3**	1,956.7
Current assets			
Inventories		**50.1**	48.6
Trade and other receivables		**1,325.4**	1,212.3
Cash and cash equivalents	9	**472.0**	413.7
Derivative financial instruments		**-**	2.2
Current asset investments		**1.9**	2.4
Income tax receivable		**0.7**	4.0
Total current assets		**1,850.1**	1,683.2
Total assets		**3,890.4**	3,639.9
Current liabilities			
Borrowing		**(35.3)**	(22.5)
Derivative financial instruments		**(22.6)**	(13.2)
Trade and other payables		**(1,727.1)**	(1,588.5)
Provisions		**(8.6)**	(32.7)
Income tax payable		**(8.3)**	(4.7)
Total current liabilities		**(1,801.9)**	(1,661.6)
Non-current liabilities			
Borrowing		**(614.0)**	(606.4)
Other payables		**(48.7)**	-
Retirement benefit liabilities		**(515.8)**	(373.9)
Deferred tax liabilities		**(11.3)**	(10.2)
Provisions		**(4.2)**	(4.2)
Total non-current liabilities		**(1,194.0)**	(994.7)
Total liabilities		**(2,995.9)**	(2,656.3)
Net assets	2	**894.5**	983.6
Equity			
Share capital	12	**215.1**	215.1
Share premium		**21.2**	21.2
Translation reserve		**(33.3)**	(36.4)
Hedging reserve		**(11.2)**	(5.6)
Fair value reserve		**0.3**	0.2
Merger reserve		**400.9**	414.6
Retained earnings		**279.7**	358.1
Equity attributable to shareholders of the parent		**872.7**	967.2
Non-controlling interests		**21.8**	16.4
Total equity		**894.5**	983.6

Consolidated cash flow statement for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Group operating profit		**175.0**	124.4
Depreciation and amortisation		**44.8**	44.3
Loss on disposal of property, plant and equipment		**0.3**	2.3
Profit on disposal of Public Private Partnership equity investments		**(13.9)**	(44.6)
Other non-cash movements		**(1.7)**	(6.1)
Non-recurring operating items		**-**	44.2
Operating profit before changes in working capital		**204.5**	164.5
Increase in inventories		**(1.4)**	(1.1)
Increase in trade and other receivables		**(40.1)**	(123.8)
Increase/(decrease) in trade and other payables		**50.5**	(40.6)
Cash generated from/(used) in operations before pension deficit recovery payments and rationalisation costs		**213.5**	(1.0)
Deficit recovery payments to pension schemes		**(46.0)**	(39.2)
Rationalisation costs		**(11.5)**	(22.0)
Cash generated from/(used) in operations		**156.0**	(62.2)
Financial income received		**2.9**	11.1
Financial expense paid		**(29.6)**	(30.9)
Acquisition-related costs		**(1.2)**	(1.0)
Taxation (payments)/ receipts		**(4.3)**	4.6
Net cash flows from operating activities		**123.8**	(78.4)
Cash flows from investing activities			
Disposal of property, plant and equipment		**6.4**	0.9
Disposal of joint ventures and other investments	11	**36.0**	143.7
Dividends received from joint ventures		**9.1**	18.2
Loan advance repayments received from joint ventures		**15.9**	2.9
Disposal and closure of businesses		**-**	(0.3)
Decrease in current asset investments		**0.5**	0.1
Acquisition of subsidiaries, net of cash and cash equivalents acquired		**(26.3)**	(20.3)
Acquisition of non-controlling interests		**(3.1)**	-
Acquisition of intangible assets		**(3.0)**	(6.5)
Acquisition of property, plant and equipment		**(25.8)**	(21.6)
Acquisition of equity in and loan advances to joint ventures		**(7.7)**	(6.1)
Acquisition of other non-current asset investments		**(1.2)**	(3.8)
Net cash flows from investing activities		**0.8**	107.2
Cash flows from financing activities			
Draw down/(repayment) of bank and other loans		**14.7**	(171.0)
Repayment of finance lease liabilities		**(9.2)**	(16.7)
Acquisition of own shares		**(0.5)**	(2.2)
Payment to employees in settlement of share options		**-**	(0.3)
Dividends paid to equity holders of the parent		**(75.7)**	(74.6)
Dividends paid to non-controlling interests		**(1.0)**	(1.1)
Net cash flows from financing activities		**(71.7)**	(265.9)
Increase/(decrease) in net cash and cash equivalents		**52.9**	(237.1)
Net cash and cash equivalents at 1 January		**410.4**	652.2
Effect of exchange rate fluctuations on net cash and cash equivalents		**2.5**	(4.7)
Net cash and cash equivalents at 31 December	9	**465.8**	410.4

Notes to the condensed financial statements

1 Significant accounting policies

Basis of preparation
Carillion plc (the 'Company') is a company domiciled and incorporated in the United Kingdom (UK). The condensed consolidated financial statements of the Company for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in joint ventures.

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 following principal standards and interpretations have been adopted in 2014 as they are mandatory for the year ended 31 December 2014:

- International Financial Reporting Standard (IFRS) 10 'Consolidated financial statements'
- International Financial Reporting Standard (IFRS) 11 'Joint arrangements'
- International Financial Reporting Standard (IFRS) 12 'Disclosure of interests in other entities'.

The adoption of the above standards has had no impact on profit, earnings per share or net assets.

The following standards and interpretations, which are not yet effective and not yet endorsed by the EU and have not been early adopted by the Group, will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers' (effective 1 January 2017)
- International Financial Reporting Standard (IFRS) 9 'Financial instruments' (effective 1 January 2018)

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

The financial information set out herein (which was approved by the Board on 4 March 2015) does not constitute the Company's statutory accounts for the years ended 31 December 2014 and 2013 but is derived from the 2014 statutory accounts.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of IFRS, this announcement itself does not contain sufficient information to comply with IFRS. The Company will make available the full financial statements that comply with IFRS by 31 March 2015.

The statutory accounts for the year ended 31 December 2013 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The statutory accounts for the year ended 31 December 2014 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their report was unqualified, did not include references to any matter which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The Group's business activities, together with the factors likely to affect its future development, performance and position are described in the management review on pages 4 to 15. The Group has considerable financial resources, including a £850.0 million of committed bank facilities expiring in 2017 and 2018, £314.5 million of private placement notes expiring between 2017 and 2024 and £170 million of convertible bonds maturing by 2019. The Group has 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. The Directors confirm that, after making enquiries, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year ended 31 December 2014.

Accounting estimates and judgements
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.

Notes to the condensed financial statements (continued)

1 Significant accounting policies (continued)

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.

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 the assumptions used are included in note 8.

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.

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.

Notes to the condensed financial statements (continued)

2 Segmental reporting (continued)

Segmental revenue and profit

	2014 Revenue £m	2014 Operating profit before intangible amortisation and non-recurring operating items £m	2013 Revenue £m	2013 Operating profit before intangible amortisation and non-recurring operating items £m
Support services				
Group	**2,099.7**	**113.5**	2,029.4	92.8
Share of joint ventures	**224.2**	**22.4**	271.5	25.2
	2,323.9	**135.9**	2,300.9	118.0
Inter-segment	**88.2**	**-**	85.0	-
Total	**2,412.1**	**135.9**	2,385.9	118.0
Public Private Partnership projects				
Group	**1.5**	**24.1**	2.3	46.0
Share of joint ventures	**161.0**	**10.4**	234.6	12.4
	162.5	**34.5**	236.9	58.4
Inter-segment	**-**	**-**	-	-
Total	**162.5**	**34.5**	236.9	58.4
Middle East construction services				
Group	**323.4**	**24.3**	250.3	15.4
Share of joint ventures	**177.3**	**0.8**	233.2	3.8
	500.7	**25.1**	483.5	19.2
Inter-segment	**-**	**-**	-	-
Total	**500.7**	**25.1**	483.5	19.2
Construction services (excluding the Middle East)				
Group	**1,069.3**	**40.9**	1,050.6	44.8
Share of joint ventures	**15.5**	**0.6**	9.0	(0.4)
	1,084.8	**41.5**	1,059.6	44.4
Inter-segment	**14.5**	**-**	2.1	-
Total	**1,099.3**	**41.5**	1,061.7	44.4
Group eliminations and unallocated items	**(102.7)**	**(11.0)**	(87.1)	(11.2)
Consolidated				
Group	**3,493.9**	**191.8**	3,332.6	187.8
Share of joint ventures	**578.0**	**34.2**	748.3	41.0
Total	**4,071.9**	**226.0**	4,080.9	228.8

Notes to the condensed financial statements (continued)

2 Segmental reporting (continued)

Reconciliation of operating segment results to reported results

	2014 £m	2013 £m
Group and share of joint ventures' operating profit before intangible amortisation and non-recurring operating items	**226.0**	228.8
Net financial expense		
– Group	**(44.0)**	(39.6)
– Share of joint ventures	**(6.4)**	(10.1)
Share of joint ventures' taxation	**(2.7)**	(4.4)
Underlying profit before taxation	**172.9**	174.7
Intangible amortisation arising from business combinations	**(16.8)**	(19.2)
Non-recurring operating items	**-**	(44.2)
Non-operating items	**(9.9)**	(0.7)
Fair value movements in derivative financial instruments	**(3.6)**	-
Profit before taxation	**142.6**	110.6
Taxation	**(15.1)**	(4.3)
Profit for the year	**127.5**	106.3

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

	2014		2013	
	Intangible amortisation £m	**Non-recurring operating items £m**	Intangible amortisation £m	Non-recurring operating Items £m
Support services	**(15.0)**	**-**	(17.1)	(44.2)
Construction services (excluding the Middle East)	**(1.8)**	**-**	(2.1)	-
Total	**(16.8)**	**-**	(19.2)	(44.2)

Depreciation, amortisation and capital expenditure arise in the following segments:

	2014		2013	
	Depreciation and amortisation £m	**Capital expenditure £m**	Depreciation and amortisation £m	Capital expenditure £m
Support services	**(24.8)**	**(13.1)**	(27.7)	(28.2)
Middle East construction services	**(1.8)**	**(2.2)**	(2.0)	(1.3)
Construction services (excluding the Middle East)	**(2.7)**	**(0.7)**	(2.7)	(1.4)
Unallocated Group items	**(15.5)**	**(28.8)**	(11.9)	(12.9)
Total	**(44.8)**	**(44.8)**	(44.3)	(43.8)

Notes to the condensed financial statements (continued)

2 Segmental reporting (continued)

Segmental net assets

	2014 Operating assets £m	2014 Operating liabilities £m	2014 Net operating assets/ (liabilities) £m	2013 Operating assets £m	2013 Operating liabilities £m	2013 Net operating assets/ (liabilities) £m
Support services						
Intangible assets [1]	**1,328.3**	**-**	**1,328.3**	1,270.7	-	1,270.7
Operating assets	**689.1**	**-**	**689.1**	642.6	-	642.6
Investments	**13.3**	**-**	**13.3**	11.8	-	11.8
Total operating assets	**2,030.7**	**-**	**2,030.7**	1,925.1	-	1,925.1
Total operating liabilities	**-**	**(631.3)**	**(631.3)**	-	(651.7)	(651.7)
Net operating assets/(liabilities)	**2,030.7**	**(631.3)**	**1,399.4**	1,925.1	(651.7)	1,273.4
Public Private Partnership projects						
Operating assets	**2.4**	**-**	**2.4**	2.6	-	2.6
Investments	**20.5**	**-**	**20.5**	36.0	-	36.0
Total operating assets	**22.9**	**-**	**22.9**	38.6	-	38.6
Total operating liabilities	**-**	**(1.6)**	**(1.6)**	-	(12.8)	(12.8)
Net operating assets/(liabilities)	**22.9**	**(1.6)**	**21.3**	38.6	(12.8)	25.8
Middle East construction services						
Operating assets	**321.9**	**-**	**321.9**	275.8	-	275.8
Investments	**82.0**	**-**	**82.0**	76.2	-	76.2
Total operating assets	**403.9**	**-**	**403.9**	352.0	-	352.0
Total operating liabilities	**-**	**(287.1)**	**(287.1)**	-	(256.8)	(256.8)
Net operating assets/(liabilities)	**403.9**	**(287.1)**	**116.8**	352.0	(256.8)	95.2
Construction services (excluding the Middle East)						
Intangible assets [1]	**255.8**	**-**	**255.8**	258.4	-	258.4
Operating assets	**427.3**	**-**	**427.3**	406.8	-	406.8
Investments	**24.1**	**-**	**24.1**	35.3	-	35.3
Total operating assets	**707.2**	**-**	**707.2**	700.5	-	700.5
Total operating liabilities	**-**	**(626.9)**	**(626.9)**	-	(652.8)	(652.8)
Net operating assets/(liabilities)	**707.2**	**(626.9)**	**80.3**	700.5	(652.8)	47.7
Consolidated before Group items						
Intangible assets [1]	**1,584.1**	**-**	**1,584.1**	1,529.1	-	1,529.1
Operating assets	**1,440.7**	**-**	**1,440.7**	1,327.8	-	1,327.8
Investments	**139.9**	**-**	**139.9**	159.3	-	159.3
Total operating assets	**3,164.7**	**-**	**3,164.7**	3,016.2	-	3,016.2
Total operating liabilities	**-**	**(1,546.9)**	**(1,546.9)**	-	(1,574.1)	(1,574.1)
Net operating assets/(liabilities) before Group items	**3,164.7**	**(1,546.9)**	**1,617.8**	3,016.2	(1,574.1)	1,442.1
Group items						
Deferred tax assets/(liabilities)	**142.6**	**(11.3)**	**131.3**	112.6	(10.2)	102.4
Net cash/(borrowing)	**472.0**	**(649.3)**	**(177.3)**	413.7	(628.9)	(215.2)
Retirement benefits (gross of taxation)	**6.1**	**(515.8)**	**(509.7)**	3.8	(373.9)	(370.1)
Income tax	**0.7**	**(8.3)**	**(7.6)**	4.0	(4.7)	(0.7)
Other	**104.3**	**(264.3)**	**(160.0)**	89.6	(64.5)	25.1
Net assets/(liabilities)	**3,890.4**	**(2,995.9)**	**894.5**	3,639.9	(2,656.3)	983.6

(1) Arising from business combinations.

Notes to the condensed financial statements (continued)

2 Segmental reporting (continued)

Geographic information – by origin

	2014 £m	2013 £m
United Kingdom		
Total revenue from external customers	**2,941.1**	2,844.9
Less: share of joint ventures' revenue	**(308.9)**	(376.7)
Group revenue from external customers	**2,632.2**	2,468.2
Non-current assets	**1,590.6**	1,586.0
Middle East and North Africa		
Total revenue from external customers	**575.5**	531.6
Less: share of joint ventures' revenue	**(196.4)**	(250.9)
Group revenue from external customers	**379.1**	280.7
Non-current assets	**86.5**	80.5
Canada		
Total revenue from external customers	**542.6**	671.1
Less: share of joint ventures' revenue	**(72.7)**	(120.7)
Group revenue from external customers	**469.9**	550.4
Non-current assets	**205.2**	166.5
Rest of the World		
Total revenue from external customers	**12.7**	33.3
Less: share of joint ventures' revenue	**-**	-
Group revenue from external customers	**12.7**	33.3
Non-current assets	**-**	-
Consolidated		
Total revenue from external customers	**4,071.9**	4,080.9
Less: share of joint ventures' revenue	**(578.0)**	(748.3)
Group revenue from external customers	**3,493.9**	3,332.6
Non-current assets		
Total of geographic analysis above	**1,882.3**	1,833.0
Retirement benefit assets	**6.1**	3.8
Other investments	**9.3**	7.3
Deferred tax assets	**142.6**	112.6
Total non-current assets	**2,040.3**	1,956.7

Notes to the condensed financial statements (continued)

2 Segmental reporting (continued)

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

	2014 £m	2013 £m
Support services	**826.3**	842.5
Public Private Partnership projects	**89.8**	121.3
Construction services (excluding the Middle East)	**646.9**	706.4
	1,563.0	1,670.2

3 Non-recurring operating and non-operating items

Non-recurring operating items

There were no non-recurring operating items in 2014. In 2013 non-recurring operating items of £44.2 million primarily included costs associated with the rationalisation of the energy services business of £42.9 million, Eaga Partnership Trusts related charges of £1.1 million and the costs of integrating John Laing Integrated Services (JLIS) of £0.5 million. An income tax credit of £9.2 million relating to these costs was included within taxation in the income statement.

Non-operating items

Non-operating items of £9.9 million relate to adviser costs incurred in relation to the aborted merger discussion with Balfour Beatty plc and the acquisition of the Rokstad Power Corporation. An income tax credit of £1.8 million relating to these costs is included within taxation in the income statement. Non-operating costs in 2013 of £0.7 million related to adviser costs incurred on the acquisition of JLIS, on which there was no associated income tax.

4 Financial income and expense

	2014 £m	2013 £m
Financial income		
Bank interest receivable	**0.9**	0.6
Other interest receivable	**1.4**	7.1
	2.3	7.7
Financial expense		
Interest payable on bank loans and overdrafts	**(11.4)**	(9.5)
Other interest payable and similar charges	**(19.1)**	(22.7)
Net interest expense on defined benefit pension obligations	**(15.8)**	(15.1)
Underlying financial expense	**(46.3)**	(47.3)
Fair value movements in the derivative component of convertible bonds	**(3.6)**	-
Total financial expense	**(49.9)**	(47.3)
Net financial expense	**(47.6)**	(39.6)

Other interest payable and similar charges include Private Placement financing interest of £14.3 million (2013: £14.3 million), finance lease charges of £1.1 million (2013: £1.2 million) and the discount unwind associated with onerous lease provisions of £0.7 million (2013: £1.4 million). No borrowing costs have been capitalised in either of the above years.

In relation to the fair value movements in the derivative component of convertible bonds, a deferred tax credit of £0.7 million is included within taxation in the income statement.

5 Income tax

The Group's income tax expense (including the Group's share of joint ventures income tax) for the year ended 31 December 2014 is calculated based on an effective underlying income tax rate of 13.5% (2013: 13.3%). This effective rate differs to the UK standard corporation tax rate of 21.5% (2013: 23.25%) primarily due to items such as the effect of tax rates in foreign jurisdictions, certain exemptions available relating to capital items and the recognition of deferred tax on trading losses.

6 Earnings per share

(a) *Basic earnings per share*

The calculation of earnings per share for the year ended 31 December 2014 is based on the profit attributable to equity holders of the parent of £120.7 million (2013: £100.2 million) and a weighted average number of ordinary shares in issue of 430.2 million (2013: 430.1 million), calculated as follows:

In millions of shares	2014	2013
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	**(0.1)**	(0.2)
Weighted average number of ordinary shares at 31 December	**430.2**	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, non-operating items and fair value movements in derivative financial instruments.

	2014		2013	
	Profit before tax £m	**Tax £m**	Profit before tax £m	Tax £m
Profit before taxation				
Profit before taxation as reported in the income statement	**142.6**	**15.1**	110.6	4.3
Amortisation of intangible assets arising from business combinations	**16.8**	**3.4**	19.2	5.9
Non-recurring operating items	**-**	**-**	44.2	9.2
Non-operating items	**9.9**	**1.8**	0.7	-
Fair value movements in derivative financial instruments	**3.6**	**0.7**	-	-
Underlying profit before taxation	**172.9**	**21.0**	174.7	19.4
Underlying taxation	**(21.0)**		(19.4)	
Underlying profit attributable to non-controlling interests	**(6.8)**		(6.1)	
Underlying profit attributable to shareholders	**145.1**		149.2	

	2014 Pence per share	2013 Pence per share
Earnings per share		
Basic earnings per share as reported in the income statement	**28.0**	23.3
Amortisation of intangible assets arising from business combinations	**3.1**	3.1
Non-recurring operating items	**-**	8.1
Non-operating items	**1.9**	0.2
Fair value movements in derivative financial instruments	**0.7**	-
Underlying basic earnings per share	**33.7**	34.7
Underlying diluted earnings per share (post-tax basis)	**30.6**	34.5

(c) *Diluted earnings per share*

The calculation of diluted earnings per share is based on profit as shown in note 6 (a) and (b) and a weighted average number of ordinary shares outstanding calculated as follows:

In millions of shares	2014	2013
Weighted average number of ordinary shares (see note 6(a) above)	**430.2**	430.1
Effect of potential number of shares that could be issued on conversion of convertible bonds	**42.7**	-
Effect of share options in issue	**1.9**	1.8
Weighted average number of ordinary shares (diluted) at 31 December	**474.8**	431.9

Notes to the condensed financial statements (continued)

7 Dividends

The following dividends were paid by the Company:

	2014 £m	2014 Pence per share	2013 £m	2013 Pence per share
Previous year final dividend	**51.6**	**12.00**	51.0	11.85
Current year interim dividend	**24.1**	**5.60**	23.6	5.50
Total	**75.7**	**17.60**	74.6	17.35

The following dividends were proposed by the Company:

	2014 £m	2014 Pence per share	2013 £m	2013 Pence per share
Interim	**24.1**	**5.60**	23.6	5.50
Final	**52.3**	**12.15**	51.6	12.00
Total	**76.4**	**17.75**	75.2	17.50

The final dividend for 2014 of 12.15 pence per share was approved by the Board on 4 March 2015 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 12 June 2015 to shareholders on the register on 15 May 2015.

8 Pension commitments

The following expense was recognised in the income statement in respect of pension commitments:

	2014 £m	2013 £m
Charge to operating profit		
Current service cost relating to defined benefit schemes	**(5.9)**	(6.0)
Administrative expenses relating to defined benefit schemes	**(5.1)**	(5.2)
Defined contribution schemes	**(18.7)**	(23.2)
Total	**(29.7)**	(34.4)
Financial Expense		
Net interest expense on defined benefit obligation	**(15.8)**	(15.1)

The valuation of the Group's main defined benefit pension schemes were reviewed by the schemes' actuary at 31 December 2014.

A summary of defined benefit obligations and scheme assets is given below:

	2014 £m	2013 £m
Present value of defined benefit obligation	**(2,818.8)**	(2,498.9)
Fair value of scheme assets	**2,320.4**	2,136.2
Minimum funding requirement	**(11.3)**	(7.4)
Net pension liability	**(509.7)**	(370.1)
Related deferred tax asset	**103.5**	75.0
Net pension liability after tax	**(406.2)**	(295.1)

Notes to the condensed financial statements (continued)

8 Pension commitments (continued)

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

	2014 %	2013 %
Rate of increase in salaries	**3.55**	3.90
Rate of increase in pensions	**2.95**	3.30
Inflation rate - Retail Price Index	**3.05**	3.40
Inflation rate - Consumer Price Index	**2.00**	2.35
Discount rate	**3.70**	4.60

9 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise:

	2014 £m	2013 £m
Cash and cash equivalents	**472.0**	413.7
Bank overdrafts	**(6.2)**	(3.3)
Net cash and cash equivalents	**465.8**	410.4
Bank loans	**(145.8)**	(292.3)
Finance lease obligations	**(26.1)**	(29.5)
Other loans	**(471.2)**	(303.8)
Net borrowing	**(177.3)**	(215.2)

Reconciliation of net cash flow to movement in net borrowing:

	2014 £m	2013 £m
Increase/(decrease) in net cash and cash equivalents	**52.9**	(237.1)
Net cash and cash equivalents in subsidiaries acquired	**6.6**	(4.1)
(Draw down) /repayment of bank and other loans	**(14.7)**	171.0
Payment of finance lease liabilities	**9.2**	16.7
Change in net borrowing resulting from cash flows	**54.0**	(53.5)
Net (borrowing)/cash in subsidiaries acquired	**(17.5)**	4.1
Derivative financial instrument component of convertible bond at date of issue	**13.4**	-
Finance lease additions	**(4.6)**	(14.0)
Currency translation differences	**(7.4)**	4.0
Change in net borrowing	**37.9**	(59.4)
Net borrowing at 1 January	**(215.2)**	(155.8)
Net borrowing at 31 December	**(177.3)**	(215.2)

10 Related party transactions

The Group has made sales to the Group's joint ventures, which are in the normal course of business and on commercial terms, amounting to £277.0 million in the year ended 31 December 2014 (2013: £486.2 million). Amounts receivable from joint ventures amounted to £128.7 million (2013: £108.8 million) and amounts payable to joint ventures amounted to £37.2 million (2013: £48.8 million).

Notes to the condensed financial statements (continued)

11 Acquisitions and disposals

Acquisitions

On 24 December 2014, the Group completed the acquisition of a 60 per cent equity shareholding in Rokstad Power Corporation (Rokstad). Rokstad is a Canadian powerlines and transmission business operating primarily in British Columbia and Alberta and provides the Group with access to markets with strong growth opportunities and where the Group can utilise its expertise. The total cash consideration for this acquisition of around £31 million is dependent on the financial performance of Rokstad. The consideration is payable in instalments over the period to July 2017, with £11.1 million paid on completion, which is included in the cash flow statement within acquisition of subsidiaries, net of cash and cash equivalents acquired. Approximately £7.5 million is expected to be paid in 2015. The remaining instalments to be paid in 2016 and 2017, which are dependent on financial performance, will be capped at a combined total of £12 million. Under the acquisition agreement, Carillion has also committed to acquire the remaining 40 per cent interest in Rokstad after five years at a multiple of 4.5 times Rokstad's 2019 earnings before interest, tax, depreciation and amortisation, capped at a maximum additional consideration of £42 million. The fair value of the deferred and contingent consideration payable, including the amount to acquire the remaining 40 per cent, is included within liabilities in the balance sheet and is derived from inputs that are not observable in the market. Consequently, the fair value has been determined using the maximum contractual cash flows that could be paid under the terms of the sale and purchase agreement using a risk adjusted discount rate of 3.4%.

Due to the proximity of the acquisition of Rokstad to the year end, a provisional assessment has been made of the fair value of the net liabilities acquired of £2.8 million. This is after a fair value adjustment to goodwill on the Rokstad acquisition balance sheet of £5.7 million, which under International Financial Reporting Standards is reclassified at the same value as goodwill on Carillion's balance sheet, and provisional fair value adjustments totalling £5.1 million. On the basis of this assessment the provisional goodwill arising on the acquisition amounts to £70.1 million. These provisional assessments are expected to become final in the first half of 2015 following the finalisation of the completion accounts process.

On 1 July 2014, following a change to the shareholder agreement, the Group obtained control of CarillionAmey (Housing Prime) Limited, an entity that was previously subject to joint control. The principal change made to the shareholder agreement was the ability of the Group to appoint the Chairman of the board with a casting vote on key operational decisions. As a result, the Group has control over the entity and has therefore accounted for this change as a deemed step acquisition. No consideration has been paid and there has been no change to the Group's 67 per cent equity interest in the entity. The acquisition date fair value of the Group's equity interest already held in CarillionAmey (Housing Prime) Limited amounted to £8.4 million. No gain or loss was recognised as a result of remeasuring to fair value the equity interest already held. An intangible asset of £2.4 million, representing customer contracts, has been recognised on this deemed acquisition. No goodwill has been recognised. Non-controlling interests at the acquisition date amounted to £3.2 million representing the proportionate interest in the net assets of the company at the acquisition date.

The above acquisitions are individually immaterial and therefore the disclosures below are prepared on an aggregated basis:

	Provisional recognised values £m
Property, plant and equipment	7.2
Intangible assets	2.5
Deferred tax assets	1.2
Trade and other receivables	78.6
Net cash and cash equivalents	(6.6)
Borrowing	(10.9)
Trade and other payables	(61.8)
Income tax	(0.9)
Deferred tax liabilities	(0.5)
Net identifiable assets and liabilities	8.8
Goodwill recognised on acquisition	70.1
Total consideration	**78.9**

Based on a provisional assessment of the recognised values of assets and liabilities, goodwill arising on the acquisition of Rokstad amounted to £70.1 million. The goodwill recognised represents the benefits of cost savings expected to arise from the elimination of duplication, the potential for cross-selling opportunities within the enlarged Group and access to markets that have significant growth prospects.

Notes to the condensed financial statements (continued)

11 Acquisitions and disposals (continued)

The fair value of the consideration for the above acquisitions is analysed below:

	£m
Cash paid	11.1
Deferred consideration	7.5
Contingent consideration	48.7
Deemed consideration for previously held interest	8.4
Non-controlling interest acquired	3.2
Total fair value of consideration	**78.9**

Cash flows associated with the acquisition of subsidiaries included in the cash flow statement are analysed below:

	2014 £m	2013 £m
Cash paid	**(11.1)**	-
Net cash and cash equivalents acquired	**(6.6)**	-
Payments in respect of acquisitions in prior years	**(8.6)**	(20.3)
Net cash outflow on acquisition of subsidiaries	**(26.3)**	(20.3)

In respect of acquired receivables, the gross contractual amounts receivable are £82.2 million.

Total acquisition costs incurred in relation to contracts and due diligence procedures for merger and acquisition activities in the year of £9.9 million have been included in non-operating items in the income statement (see note 3).

Acquisitions in the year have not had a material impact on revenue or profit of the Group since the date of acquisition. If the acquisitions had occurred on 1 January 2014, total revenue would have been £4,207.0 million and profit before tax would have been £146.3 million for the year ended 31 December 2014.

During 2013, the Group paid the second instalment relating to the acquisition of the Bouchier Group, which completed in 2012, amounting to £6.9 million. In January 2014, the Group paid the final instalment amounting to £8.6 million. The total consideration paid in respect of this acquisition was £20.4 million compared to the provisional estimate made in 2012 of £23.8 million.

Disposals

In 2014, the Group disposed of equity interests in four Public Private Partnership projects. The disposals generated a cash consideration of £37.0 million, which together with disposal costs paid of £1.0 million, is included in the cash flow statement within disposal of joint venture and other investments, and an operating profit of £13.9 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.

12 Share capital

The issued and fully paid share capital at 31 December 2014 was 430.3 million shares (2013: 430.3 million).

In December 2014, the Group issued £170 million of unsecured convertible bonds. The bonds mature by December 2019, and upon conversion, Carillion may elect to settle its obligations by way of delivery of ordinary shares, payment of a cash alternative or a combination of the two. The initial conversion price has been set at 398.56 pence and upon conversion could lead to the issue of up to 42.7 million new shares, representing 9.9 per cent of the current issued share capital.

13 Guarantees and contingent liabilities

The Group has entered into guarantees in respect of letters of credit issued by banks in relation to deferred equity payments, interest payments in joint ventures and performance contracts in Public Private Partnership joint ventures. These guarantees in total amount to £154.9 million (2013: £140.0 million). There has been no material change to the contingent liabilities of the Group in the year ended 31 December 2014.

14 Company information

This preliminary announcement was approved by the Board of Directors on 4 March 2015. The 2014 Annual Report will be posted to all shareholders by 31 March 2015 and both this statement and the 2014 Annual Report will be available on the internet at www.carillionplc.com or on request from the Company Secretary, Carillion plc, Carillion House, 84 Salop Street, Wolverhampton, WV3 0SR.

Forward-looking statements
This report may contain certain statements about the future outlook for Carillion plc. Although the Directors believe their expectations are based on reasonable assumptions, any statements about future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

Governing law
This report of Carillion plc for the year ended 31 December 2014 has been drawn up and presented for the purposes of complying with English law. Any liability arising out of or in connection with the report for the year ended 31 December 2014 will be determined in accordance with English law.

Directors' responsibilities
This preliminary announcement complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Services Authority. The preliminary announcement is the responsibility of, and has been approved by, the Directors of Carillion plc.

The responsibility statement below has been prepared in connection with the Company's full Annual Report for the year ended 31 December 2014. Certain parts thereof are not included in this announcement.

The Directors of Carillion plc confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards and contained in the 2014 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 the 2014 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 they face;
- the 2014 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Richard Adam FCA
Group Finance Director
4 March 2015