carillion

Making tomorrow a better place

# News

**1 March 2017**

## Results for the year ended 31 December 2016
## Performance in line with expectations

| | 2016 | 2015 | Change |
|---|---|---|---|
| Total revenue[(1)] | £5,214.2m | £4,586.9m | +14% |
| Group revenue | £4,394.9m | £3,950.7m | +11% |
| Underlying profit before taxation[(1)] | £178.0m | £176.5m | +1% |
| Underlying earnings per share[(1)] | 35.3p | 35.0p | +1% |
| Profit before taxation | £146.7m | £155.1m | -5% |
| Basic earnings per share | 28.9p | 30.9p | -6% |
| Proposed full-year dividend per share | 18.45p | 18.25p | +1% |
| Underlying profit from operations cash conversion[(1)] | 117% | 104% | n/a |

- **Financial performance in line with expectations**
  - Total revenue growth of 14 per cent, primarily organic[(1)]
  - Performance led by growth in support services
  - Support services contributed over two thirds of total operating profit and more than offset expected reductions in profit from Public Private Partnership projects and Middle East construction services
  - Underlying operating margin[(1)] lower as expected at 4.9 per cent (2015: 5.3 per cent)
  - Underlying profit from operations[(1)] fully cash-backed – cash conversion[(1)] 117 per cent
  - Net borrowing of £218.9 million at 31 December 2016 (2015: £169.8 million) and average net borrowing[(1)] for 2016 of £586.5 million (2015: £538.9 million), with the increases mainly reflecting adverse movements in foreign exchange rates

- **High-quality order book and strong pipeline of contract opportunities**
  - £4.8 billion of new orders and probable orders in 2016 (2015: £3.7 billion)
  - High-quality order book plus probable orders worth £16.0 billion at 31 December 2016 (2015: £17.4 billion)
  - Revenue visibility[(2)] for 2017 of 74 per cent (2015: 84 per cent for 2016)
  - Expect over £1.5 billion of revenue from framework agreements not yet included in orders, probable orders or revenue visibility
  - Substantial pipeline of contract opportunities worth £41.6 billion (2015: £41.4 billion)

- **Proposed full-year dividend increased by one per cent to 18.45p (2015: 18.25p)**

- **Begin reducing average net borrowing over medium term**

**Carillion Chairman, Philip Green, commented:**

"In 2016, Carillion's performance was led by revenue growth and an increased margin in support services, together with good cash flow. Given the size and quality of our order book and pipeline of contract opportunities, our customer-focused culture and integrated business model, we have a good platform from which to develop the business in 2017. We will accelerate the rebalancing of our business into markets and sectors where we can win high-quality contracts and achieve our targets for margin and cash flows, while actively managing the positions we have in challenging markets. We will also begin reducing average net borrowing by stepping up our ongoing cost reduction programmes and our focus on managing working capital."

(1) Alternative Performance Measures are defined in note 15 on pages 40 to 45.
(2) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.

There will be a presentation for analysts and investors today at 09.00am with a telephone facility available tel: primary number **+44 (0) 844 800 3850** – Access Code: **256001.** A replay facility is also available for 30 days, the telephone number is **+44 (0) 207 136 9233** – Access Code: **65326681.**

If dialling in from overseas, please review the link attached for your dial in telephone number **http://www.conferencingsupport.com/globalaccess/?bid=00&itfn=1&ddi=1&ref**. Carillion's Analyst Presentation will be available for analysts and investors who are unable to attend the presentation. The presentation can be viewed on Carillion's website at http://www.carillionplc.com/investors/reports-presentations.aspx

**For further information contact:**

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**1 March 2017**

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**Notes to Editors:**
Carillion is a leading integrated support services company with a substantial portfolio of Public Private Partnership projects, extensive construction capabilities and a sector leading ability to deliver sustainable solutions. The Group had annual revenue in 2016 of some £5.2 billion, employs around 48,500 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, utilities services, road maintenance, rail services, remote site accommodation services and consultancy services 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 in the UK and Canada.

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

| | | **2016** | 2015 | Change |
|---|---|---|---|---|
| **Income statement** | | | | |
| Total revenue | £m | **5,214.2** | 4,586.9 | +14% |
| Underlying operating profit(1) | £m | **253.9** | 244.4 | +4% |
| Underlying profit from operations | £m | **235.9** | 234.4 | +1% |
| Total Group underlying operating margin | Percentage | **4.9** | 5.3 | n/a |
| Support services underlying operating margin | Percentage | **6.7** | 5.8 | n/a |
| Middle East construction services underlying operating margin | Percentage | **2.4** | 4.2 | n/a |
| Construction services (excluding the Middle East) underlying operating margin | Percentage | **2.7** | 3.0 | n/a |
| Underlying profit before taxation | £m | **178.0** | 176.5 | +1% |
| Profit before taxation | £m | **146.7** | 155.1 | -5% |
| Underlying earnings per share | Pence | **35.3** | 35.0 | +1% |
| Basic earnings per share | Pence | **28.9** | 30.9 | -6% |
| Diluted earnings per share | Pence | **25.9** | 28.2 | -8% |
| **Dividends** | | | | |
| Proposed full-year dividend per share | Pence | **18.45** | 18.25 | +1% |
| Underlying proposed dividend cover(1) | Times | **1.9** | 1.9 | n/a |
| Basic proposed dividend cover | Times | **1.6** | 1.7 | n/a |
| **Cash flow statement** | | | | |
| Underlying cash flow from operations(1) | £m | **277.1** | 244.9 | +13% |
| Underlying profit from operations cash conversion | Percentage | **117** | 104 | n/a |
| Pension deficit contributions | £m | **(46.6)** | (47.4) | +2% |
| **Balance sheet** | | | | |
| Net borrowing | £m | **(218.9)** | (169.8) | -29% |
| Committed borrowing facilities maturing between 2017 and 2020 | £m | **870.0** | 870.0 | - |
| Private placement borrowings maturing between 2017 and 2024 (£135 million and US$ 280 million) | £m | **(360.8)** | (325.5) | -11% |
| Convertible bonds maturing by 2019 | £m | **(170.0)** | (170.0) | - |
| Net retirement benefit liability (net of taxation) | £m | **(663.2)** | (317.6) | -109% |
| Net assets | £m | **729.9** | 1,016.6 | -28% |

(1) Alternative Performance Measures are defined in note 15 on pages 40 to 45.

**Strategy**

As one of the UK's leading support services companies with a substantial portfolio of Public Private Partnership projects, extensive construction capabilities and a sector-leading ability to deliver sustainable solutions, Carillion offers a wide range of services across markets in the UK, Canada and the Middle East. This wide range of expertise enables the Group to provide bespoke, integrated solutions for buildings and infrastructure, from project finance through design and construction to life-time asset management, together with business support services that add value for our customers and the communities in which we operate.

In several key markets the Group performed well, notably in a number of our support services sectors in each of our geographies, while trading conditions in construction markets in the Middle East and in Canada, continue to be challenging. In order to continue building a business that delivers sustainable, profitable growth, we have refined our strategy to focus on:

- winning high-quality contracts in our chosen markets
- delivering contracts safely, sustainably and to best-in-class standards
- developing and attracting excellent people and capabilities.

Supporting each of these elements of our strategy, we have objectives linked to key performance indicators (KPI), which when taken together, measure our progress towards, and future prospects for, delivering sustainable, good quality earnings.

Delivery of our services and strategic objectives continues to be driven by our customer-focused culture, integrated business model and centralised operating platform, which enable us to combine all our skills and resources so that we can compete successfully to win and deliver high-quality contracts. This is supported by accelerating our ongoing cost reduction and efficiency programmes, in which the development and application of technology is playing an increasing role in service delivery.

Importantly, our strategy and business model enable us to adapt continually to changes and trends in market conditions and we will tighten our selective approach to accelerate the rebalancing of our business into markets and sectors offering good quality earnings. For example, on 7 December 2016 we announced that we were closing our construction operations in the Caribbean, because this market no longer offers opportunities that meet our selectivity criteria. For the past few years we have also gradually withdrawn from the general construction market in Canada to focus solely on construction work required to deliver our Public Private Partnership projects and in the Middle East we are focused primarily on winning contracts with the support of UK Export Finance, which helps to support margins, prompt payment times and good cash flow.

The Group's current net borrowing remains well within the £1.5 billion of funding available to the Group. However, as previously announced, the Board intends to focus on reducing average net borrowing over the medium term, which includes reviewing the allocation of capital and resources across the Group, supported by tightening our selective approach to focus on markets and contracts offering good quality earnings and cash flow.

**Winning high-quality contracts in our chosen markets**

By winning high-quality contracts in our chosen sectors we continue to change our business mix and improve the risk profile of our contract portfolio. The overall direction of the Group remains unchanged, as we continue to grow our support services activities – both infrastructure services and property facilities management services – alongside a strong and selective construction business. Exploiting the synergies between our support services and construction skills and also using these skills together with our expertise in project finance to win and deliver Public Private Partnership projects remains an important part of our strategy.

The intake of new orders and probable orders in 2016 amounted to £4.8 billion (2015: £3.7 billion), which was an encouraging performance, given that the pace of contract awards in the UK slowed after the EU Referendum and that the prolonged low oil price continues to affect the pace of customers investment programmes in the Middle East. The total value of the Group's order book plus probable orders at 31 December 2016 was £16.0 billion (2015: £17.4 billion), after attrition and removal from the order book some £0.2 billion due to the sale of investments in Public Private Partnership projects. Revenue visibility(1) for 2017 at 31 December 2016 was 74 per cent (2015: 84 per cent). However, there is an increasing trend among some of our customers to engage suppliers on framework contracts and we do not include the total potential value of these frameworks in our order book and probable orders. Currently, we have good visibility of some £1.5 billion of revenue from framework contracts over the next five years, in addition to the revenue we have included within orders and probable orders. If we include expected revenue from frameworks and variable works, revenue visibility for 2017 would increase to 81 per cent. The value of the Group's pipeline of contract opportunities at 31 December 2016 remained strong at £41.6 billion (2015: £41.4 billion).

**Delivering contracts safely, sustainably and to best-in-class standards**

Executing contracts well is essential if we are to achieve our targets for sustainable revenue and profit growth, strong operating cash flow and high levels of customer satisfaction and thereby create value for all our stakeholders. To do this, our overriding priority is to remain a leader in Health and Safety to ensure that all our people can work safely and without the risk of ill health caused by work. It is with deep regret that we report one fatal accident in January 2016, when an employee was fatally injured in a fall when working on one of our projects in Dubai. Our thoughts are with the relatives, friends and colleagues who were affected by this tragic accident and like all such accidents it was rigorously investigated and lessons learnt immediately implemented. Our main Health and Safety KPI is Lost Time Incident Frequency Rate (LTIFR), which is an internationally recognised measure of safety performance. In 2016, our LTIFR was 0.192 Lost Time Incidents per 200,000 hours worked, which continues to be world class performance in our industry sectors. Until 2016, we have seen a continuing and significant trend with our LTIFR falling from 0.293 in 2013 to 0.241 in 2014 and 0.188 in 2015. It is therefore disappointing that it has risen very slightly

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

in 2016, but our focus on safety is relentless and we shall redouble our efforts to return to an improving trend in 2017.

Our sector leadership in sustainability also remains fundamental and an integral part of the Group's strategy and gives us a competitive advantage when bidding for and delivering contracts. This contributes significantly to our profit and is an important KPI, because it creates lasting benefits and value for all our stakeholders. We estimate that the contribution from sustainability to the Group's total profit in 2016 was £36.1 million (2015: £33.8 million), which is already close to our target of £40 million by 2020.

Technology is also playing an increasingly important role in improving the quality of the services we deliver and in enabling us to reduce costs. We have invested significantly over several years in the development of IT systems to support service delivery and in 2016 we embarked on the development of a new technology platform to support our facilities management business, in conjunction with our partner to whom we have outsourced some of our back-office facilities. At the same time we are also continuing to develop a wide range of technological solutions that enable us to collect and process the data we need to identify and schedule maintenance and support services tasks.

In 2016 the Institute of Customer Service (ICS) accredited our Customer Experience Centre with 'ServiceMark', one of the most prestigious and demanding global standards for customer service excellence. We also continue to use the global standard 'Net Promoter Score' (NPS) to measure what our customers think about our service. 2016 proved to be a year of uncertainty and change for our markets and customers and this combined with the challenges of mobilising large new contracts caused a temporary reduction in our NPS to +22 (2015: +36), although this is still upper quartile for our industry. The new contracts mobilised are now performing well and we are confident that our NPS will increase in 2017, supported by introducing new and innovative systems for customer assurance and feedback, and for tracking the experience of the end-users of our services. Overall we continue to expect to achieve our long-term goal of +45 by 2019.

**Developing and attracting excellent people and capabilities**

Succeeding with the first two elements of our strategy obviously depends primarily on having committed people with excellent capabilities. Being an employer that attracts and retains excellent people requires continued investment through a number of programmes, including our Leadership Programme, Futures Programme, which identifies the talent we need for the future, our Job Family Career Framework, which enables our people to develop and broaden their skills, and our flexible working and family friendly policies. Creating a diverse and flexible workforce, based on strong employee engagement, is also critical to our success. In 2016, we continued our journey towards greater diversity by increasing the proportion of female employees in the Group to 37.8 per cent (2015: 36.9 per cent) and the proportion of females in senior leadership roles was unchanged at 18 per cent. We have also launched our Diversity Strategy which sets out our corporate goals and introduces the concept of a Diversity Council in the UK that will represent all strands of diversity.

Engaging with our people to enable them to contribute to the way we work together with each other, and with our partners and suppliers in order to deliver the best possible service for our customers, remains central to the success of our business. This is based on direct employee engagement, led by our Chief Executive and his leadership team through personal visits to our operations, monthly newsletters to all employees, regular conference calls with up to 2,500 of our people in leadership roles, People Forums, monthly team talks and our Group-wide employee survey 'Your Say'. In 2016, we held two mini surveys of our people to test progress on our action plans and these revealed that in November 2016 our employee engagement score had increased to 73 per cent (2015: 68 per cent). To enhance our engagement approach we are establishing in 2017 a Group-wide people forum with representatives from the people forums in each business to provide a vehicle for direct engagement with the Board.

**Board changes**

Richard Adam, who joined the Board as Group Finance Director in April 2007, retired on 31 December 2016. Richard made a major contribution to Carillion's development and success through his outstanding financial leadership and he retired with the Board's grateful thanks and best wishes for the future. Richard has been succeeded as Group Finance Director by Zafar Khan, who was appointed following a rigorous selection process involving external and internal candidates. Before his appointment, Zafar was Carillion's Group Financial Controller and prior to that he was Finance Director of Al Futtaim Carillion, our joint venture business in the United Arab Emirates.

On 19 January 2017 we announced that Ceri Powell will stand down from the Board on 31 March 2017 due to international relocation to take up an appointment as Managing Director of Brunei Shell Petroleum. Since joining the Board in April 2014 as a Non-Executive Director, Ceri has made a significant contribution to Carillion, particularly as chairman of the Board Sustainability Committee, through her wise counsel and commitment to the Company's development and success. Ceri will stand down with the Board's grateful thanks and best wishes for her future role.

**Summary financial performance**

Taking into account market conditions in our key geographies, overall, the Group performed well in 2016, led by an improved performance in support services, which accounted for over two thirds of the Group's total underlying operating profit.

Total revenue increased by 14 per cent to £5,214.2 million (2015: £4,586.9 million), which was primarily organic growth, with increased contributions from each of our four business segments. The contribution to total revenue from Joint Ventures increased by 29 per cent to £819.3 million (2015: £636.2 million), reflecting growth in Public Private Partnership projects and support services contracts in the defence sector.

Underlying operating profit increased by four per cent to £253.9 million (2015: £244.4 million) and included operating profit from Joint Ventures of £54.3 million (2015: £36.0 million). The Group's total underlying operating margin reduced to 4.9 per cent (2015: 5.3 per cent), primarily because the increase in our support services margin was more than offset by the expected reductions in margin for Public Private Partnership projects and Middle East construction services.

Underlying profit before taxation increased by one per cent to £178.0 million (2015: £176.5 million), after increases in joint ventures' net financial expense to £13.2 million (2015: £7.1 million) and joint ventures' taxation to £4.8 million (2015: £2.9 million), with the Group's underlying net financial expense[(1)] unchanged at £57.9 million. After an underlying Group taxation charge[(2)] of £21.0 million (2015: £19.5 million) and non-controlling interests of £5.3 million (2015: £6.6 million), underlying earnings per share increased by one per cent to 35.3 pence (2015: 35.0 pence). The Group's underlying taxation charge [(2)] of £21.0 million (2015: £19.5 million), when combined with a joint ventures taxation charge of £4.8 million (2015: £2.9 million), represented an underlying effective tax rate[(1)] of 14.1 per cent (2015: 12.5 per cent). The underlying taxation rate remains below the UK standard corporation tax rate, because profits from our businesses in the Middle East are subject to zero or low tax rates, we have exemptions in respect of certain capital items, and because we continue to utilise brought forward tax losses that are largely related to historic business acquisitions.

Reported profit before tax was £146.7 million (2015: £155.1 million), after intangible amortisation, non-recurring operating items, non-operating items, changes in the contingent consideration relating to acquisitions and fair value movements in derivative financial instruments, together amounting to a net charge of £31.3 million (2015: £21.4 million). Profit after tax was £129.5 million (2015: £139.4 million), following a Group taxation charge of £17.2 million (2015: £15.7 million). After non-controlling interests of £5.3 million (2015: £6.6 million), profit attributable to shareholders was £124.2 million (2015: £132.8 million) and reported earnings per share were 28.9 pence (2015: 30.9 pence).

Underlying cash flow from operations was £277.1 million (2015: £244.9 million) and represented 117 per cent of underlying profit from operations. Net borrowing at 31 December 2016 increased by £49.1 million to £218.9 million (2015: £169.8 million), mainly due to a £68.2 million adverse impact from the movement in foreign currency exchange rates. Around half of this exchange rate effect related to our US private placement borrowing and this is a non-cash impact, because this borrowing is hedged, both in terms of interest payments and the cost of repayment at maturity. Average net borrowing increased to a £586.5 million (2015: £538.9 million), again largely as a result of a £26 million adverse movement in foreign currency exchange rates.

**Dividends**

The Board has proposed a final dividend for 2016 of 12.65 pence per share (2015: 12.55 pence), making the total dividend 18.45 pence for 2016 (2015: 18.25 pence), an increase of one per cent on the total dividend paid for 2015. Full-year dividend cover remains unchanged at 1.9 times of underlying earnings per share. Carillion continues to have a progressive dividend policy, which aims to increase the full-year dividend broadly in line with growth in underlying earnings per share.

(1) Alternative Performance Measures are defined in note 15 on pages 40 to 45.
(2) Before intangible amortisation, non-recurring operating items, non-operating items, fair value movements in derivative financial instruments and changes in the contingent consideration relating to acquisitions (see notes 3 and 4 to the financial information on page 34).

## Financial reporting segments and analysis

### Summary

| | 2016 £m | 2015 £m | Change from 2015 % |
|---|---|---|---|
| **Total revenue** | | | |
| Support services | **2,712.7** | 2,534.2 | +7 |
| Public Private Partnership projects | **313.0** | 192.8 | +62 |
| Middle East construction services | **668.3** | 601.6 | +11 |
| Construction services (excluding the Middle East) | **1,520.2** | 1,258.3 | +21 |
| | **5,214.2** | 4,586.9 | +14 |
| **Underlying operating profit** | | | |
| Support services | **182.7** | 146.6 | +25 |
| Public Private Partnership projects | **28.3** | 49.3 | -43 |
| Middle East construction services | **16.1** | 25.3 | -36 |
| Construction services (excluding the Middle East) | **41.3** | 37.8 | +9 |
| | **268.4** | 259.0 | +4 |
| Group eliminations and unallocated items | **(14.5)** | (14.6) | –1 |
| **Underlying profit from operations before Joint Ventures net financial expense and taxation** | **253.9** | 244.4 | +4 |
| Share of Joint Ventures net financial expense | **(13.2)** | (7.1) | -86 |
| Share of Joint Ventures taxation | **(4.8)** | (2.9) | -66 |
| **Underlying profit from operations** | **235.9** | 234.4 | +1 |
| Underlying Group net financial expense | **(57.9)** | (57.9) | - |
| **Underlying profit before taxation** | **178.0** | 176.5 | +1 |
| Intangible amortisation arising from business combinations | **(13.8)** | (20.0) | +31 |
| Non-recurring operating items | **(40.2)** | (5.0) | -704 |
| Non-operating items | **(1.1)** | (2.5) | +56 |
| Fair value movements in derivative financial instruments | **8.2** | 6.1 | +34 |
| Changes in contingent consideration relating to acquisitions | **15.6** | - | +100 |
| **Reported profit before taxation** | **146.7** | 155.1 | -5 |

### Support services

| | 2016 £m | 2015 £m | Change from 2015 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **2,454.0** | 2,342.4 | |
| - Share of Joint Ventures | **258.7** | 191.8 | |
| | **2,712.7** | 2,534.2 | +7 |
| **Underlying operating profit** | | | |
| - Group | **159.5** | 127.3 | |
| - Share of Joint Ventures | **23.2** | 19.3 | |
| | **182.7** | 146.6 | +25 |

In this segment we report the results of our facilities management, facilities services, energy services, rail services, road maintenance services, utilities services, remote site accommodation services and consultancy businesses in the UK, Canada and the Middle East.

Our performance in this segment continues to reflect our strategy of growing organically through building long-term trusted partnerships, transferring knowledge and skills to new and existing markets and by making bolt-on acquisitions, while maintaining our selective approach to contracts and investing in new technology and systems to improve efficiency.

Revenue in support services grew by seven per cent to a record £2,712.7 million, driven primarily by organic growth as a result of a strong work winning performance over the last 18 months. Underlying operating profit increased by 25 per cent to £182.7 million, as we benefited from full-year contributions from new contracts mobilised in 2015, new contracts secured in 2016 and the substantial investment we have made in our IT systems to help drive the efficiency and quality of service delivery. In 2016, we signed an agreement enabling our partner, to whom we have outsourced certain back-office activities, to use elements of our existing IT platform in certain territories where Carillion does not operate. This generated some £20 million of profit in 2016 and accounted for 70 of the 90 basis points improvement in our underlying operating margin to 6.7 per cent (2015: 5.8 per cent). Underlying operating profit in this segment contributed a little over two-thirds of the Group's total underlying operating profit and our objective is to continue increasing the contribution from support services, in line with our strategy. To support this objective, we have also extended the duration and scope of the arrangements we have with our back-office services partner and this includes the development of a new and upgraded technology platform to support our facilities management activities.

In 2016, we won a number of large, high-quality contracts for blue-chip customers, with total new and probable orders won during the year amounting to £3.0 billion and ahead of the £1.2 billion won in 2015. It was particularly pleasing to have secured a number of contracts for long-term customers following re-bids, including a seven-year contract with Nationwide worth around £350 million, a £240 million four and a half year extension to our contract with Petroleum Development Oman and a five-year extension to our contract with Centrica worth £90 million, the latter extending an existing 10-year partnership. In addition, early in 2017 we were particularly pleased to secure an extension to our framework contract with Openreach for the maintenance and continued upgrading of the UK's broadband network, worth up to £500 million over three years and potentially up to £900 million if Openreach exercises an option to extend the framework for a further two years. These successes demonstrate the value of building trusted partnerships where we can add value and drive efficiencies for the benefit of both our customers and Carillion.

Other notable successes in the UK included two contracts for the Northern Ireland Housing Executive, worth up to £366 million, to provide maintenance services for 22,000 houses over 10 years, a £64 million contract to provide facilities management services at London Overground stations for Arriva Trains and a £42 million contract for the Cabinet Office.

We have also won several substantial new orders in Canada, where we have continued to demonstrate the success of our strategy of growing organically and through bolt-on acquisitions that have taken us into new markets offering better margins. In 2016, there were significant new contracts in the power transmission and distribution sector for Rokstad worth up to £200 million, notably a £120 million contract for Manitoba Hydro and a £62 million contract for Emera on the Maritime Link Project. Outland, who we acquired in 2015, won contracts worth around £35 million for remote site accommodation services customers. The Bouchier Group also had a successful year, winning new contracts in the oil sector worth around £115 million, notably a three-year £63 million contract for Suncor Energy and a £26 million contract for Canadian Natural Resources Limited. In January 2017, we further enhanced our support services offering in Canada through the acquisition of some of The Compass Group's hard and soft facilities management business.

We believe that the medium term outlook for infrastructure services was enhanced by the UK Government's 2016 Autumn Statement in which it increased its commitment to investing in economic infrastructure, particularly in sectors where Carillion is a market leader, notably services for highways, digital infrastructure and railways. At 31 December 2016, we had orders and probable orders in support services worth £12.2 billion (2015: £12.7 billion), excluding the £1.5 billion of revenue from frameworks mentioned below, and giving revenue visibility(1) of 71 per cent for 2017 (2015: 82 per cent for 2016). In addition, we had a pipeline of specific new contract opportunities worth £11.1 billion at 31 December 2016 (2015: £12.1 billion) which includes significant opportunities linked to public sector outsourcing and infrastructure services in each of our three geographies. It is also important to note that there is an increasing trend among some customers to engage suppliers on framework contracts, but we do not include the total value of these frameworks in our order book or in probable orders. We have several major framework agreements, notably for Network Rail, Highways England and Scape, for whom we are the sole provider of facilities management services for Local Authorities and with the UK Central Government under its Facilities Management Contracting Model. At the year end, we had good visibility of at least some £1.5 billion of revenue from these frameworks over the next five years, in addition to the revenue we have already included in secure and probable orders.

Given the quality of our order book, the positions we have on key framework agreements and the size of our pipeline of contract opportunities, coupled with our cost reduction plans and a modest contribution from the facilities management business we acquired in January 2017, we believe the outlook for increasing the contributions to revenue and profit from support services remains positive.

**Public Private Partnership (PPP) projects**

| | **2016 £m** | 2015 £m | Change from 2015 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **1.7** | 1.3 | |
| - Share of Joint Ventures | **311.3** | 191.5 | |
| | **313.0** | 192.8 | +62 |
| **Underlying operating profit** | | | |
| - Group | **14.2** | 39.4 | |
| - Share of Joint Ventures | **14.1** | 9.9 | |
| | **28.3** | 49.3 | -43 |

In this segment we report the financial returns generated by the investments we make in PPP projects in the UK and Canada, including those from the sale of equity investments in these projects.

The substantial increase in revenue to £313.0 million (2015: £192.8 million), reflected progress with the construction phases of current projects, including the Midland Metropolitan Hospital, Aberdeen Western Peripheral Route and Midlands Priority Schools Building Programme, which more than offset the impact on revenue resulting from the disposal of equity investments during 2015 and in the first half of 2016.

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

Our portfolio of investments in these projects continues to perform well and in line with our expectations. As announced previously, we expected overall profit in this segment to reduce in 2016, because profit from the sale of equity investments would be lower than in 2015. Equity sales generated £12.7 million of profit in 2016, compared with £37.7 million in 2015 and this accounted for the reduction in total underlying operating profit to £28.3 million (2015: £49.3 million). The cash proceeds from equity sales were £48.2 million in 2016, which represented a discount rate of just under seven per cent.

In July 2016, we achieved financial close on the Irish Schools Bundle 5 project in the Republic of Ireland, in which we will invest £4.5 million of equity and which will generate construction and support services revenue for the Group of around £190 million over the 27-year concession term. At 31 December 2016, we had a portfolio of 16 financially closed projects in which we had invested £11.8 million of equity and in which we are committed to make further investments of £67.7 million. The Directors' valuation of our portfolio at the end of the year was £31.3 million, using a nine per cent discount rate. At a seven per cent discount rate, which is close to the average discount rate we achieve when selling equity investments, the value of our portfolio is £50.2 million.

The value of our order book plus probable orders at 31 December 2016 reduced to £0.8 billion (2015: £1.2 billion), largely due to removing £0.2 billion from the order book as a result of selling equity investments during 2016. Although the overall number of PPP opportunities coming to market is lower than in previous years, our pipeline of new contract opportunities increased to £3.0 billion at 31 December 2016 (2015: £2.4 billion). This includes opportunities in the UK and Canada, notably in the health and transport sectors, and a potential opportunity in the Middle East, having signed a Memorandum of Understanding with the Oman Investment Fund during 2016 to develop a major healthcare project. This would be our first PPP project in the Gulf where the demand for alternative sources of project finance is increasing as a result of the prolonged low oil price and the need for Governments in the region to deliver their substantial investment programmes. In the UK, the Government indicated in its 2016 Autumn Statement that it intends to speed up the delivery of its national infrastructure programme and that this would include increasing the use of PF2, its current private finance model. As a global leader in delivering PPP projects, having financially closed 66 such projects since the inception of this form of procurement, we believe we continue to be well placed to win further projects. However, in 2017 we again expect to sell fewer equity investments and profit in this segment is therefore expected to be lower than in 2016.

**Middle East construction services**

| | **2016 £m** | 2015 £m | Change from 2015 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **427.9** | 358.9 | |
| - Share of Joint Ventures | **240.4** | 242.7 | |
| | **668.3** | 601.6 | +11 |
| **Underlying operating profit** | | | |
| - Group | **8.1** | 20.6 | |
| - Share of Joint Ventures | **8.0** | 4.7 | |
| | **16.1** | 25.3 | -36 |

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

Although revenue increased to £668.3 million (2015: £601.6 million), this included a £77.8 million benefit from a favourable movement in the US Dollar/Sterling exchange rate, as we continued to be very selective when choosing the contracts for which we bid, in order to focus on projects for trusted partners and also on projects where we can use our market leading position in working with UK Export Finance (UKEF) to secure project finance for customers.

The reduction in underlying operating profit to £16.1 million (2015: £25.3 million) primarily reflected the fact that the contribution to profit in 2015 of £14 million from reorganising our staff accommodation facilities in Oman was not repeated in 2016. However, excluding the 2015 benefit from the reorganisation of our staff accommodation, our underlying operating margin improved from 1.9 per cent in 2015 to 2.4 per cent in 2016. Nevertheless, market conditions in Middle East construction services remain competitive, but we continue to have a good pipeline of projects seeking UKEF support and given this pipeline of opportunities, our ambition is to deliver a further modest improvement in the operating margin.

The value of orders and probable orders at 31 December 2016 reduced to £0.5 billion (2015: £0.8 billion), with revenue visibility(1) for 2017 reducing to 64 per cent (2015: 80 per cent for 2016). This reflected the continuing slow pace of contract awards due to the prolonged low oil price, combined with the effects of our strategy of being very selective in terms of the contracts for which we bid and our focus on large contracts, the timing of which can cause significant movements in the order book.

Although the pace of contract awards continues to be slow, our pipeline of contract opportunities remains strong and stood at £15.0 billion at 31 December 2016 (2015: £16.0 billion). This includes a number of significant opportunities in relation to Expo 2020 in Dubai and also reflects the fact that Governments across the wider Gulf region continue to have major programmes to improve social infrastructure. Encouragingly, since the year end our 50:50 joint venture business in the UAE, Al Futtaim Carillion (AFC), has been awarded a £160 million contract by the Dubai World Trade Centre to deliver Phase 1A6 of the One Central development – the third major contract to have been awarded to AFC for this major development.

Going forward, excluding the Expo 2020 related activity in Dubai, and if the oil price remains low, we expect the pace of new contract awards across the Gulf to remain slow. However, using our 50 years of experience in the Gulf, coupled with our strategy of targeting contracts with the support of UKEF, our ambition is to make modest progress in 2017. Furthermore, over the medium term we believe we can also use our leadership position in Public Private Partnership projects to win good contracts, notably the major healthcare project in Oman, mentioned earlier.

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

**Construction services** (excluding the Middle East)

| | **2016 £m** | 2015 £m | Change from 2015 % |
|---|---|---|---|
| **Revenue** | | | |
| - Group | **1,511.3** | 1,248.1 | |
| - Share of Joint Ventures | **8.9** | 10.2 | |
| | **1,520.2** | 1,258.3 | +21 |
| **Underlying operating profit** | | | |
| - Group | **32.3** | 35.7 | |
| - Share of Joint Ventures | **9.0** | 2.1 | |
| | **41.3** | 37.8 | +9 |

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.

Revenue grew strongly by 21 per cent to £1,520.2 million (2015: £1,258.3 million), driven by growth in the UK where revenue increased to around £1.5 billion (2015: £1.2 billion), reflecting a number of high-quality contract wins for both infrastructure and building over the last 18 months. In Canada, we are now focusing only on construction for Public Private Partnership projects and revenue therefore reduced to £67 million in 2016 (2015: £107 million).

Underlying operating profit increased to £41.3 million (2015: £37.8 million) with an operating margin of 2.7 per cent (2015: 3.0 per cent), which remains within our target range of 2.5 per cent to 3.0 per cent. This reflects our strategy of bidding only for contracts that meet our strict selectivity criteria, which focuses rigorously on identifying and managing risks in order to deliver our target margins and cash flows. In 2016, the contribution to profit from our developments business, which has historically been modest, increased to £14.2 million (2015: £8.1 million) following the acquisition of Ask Real Estate Limited in December 2015.

The value of new orders and probable orders won in 2016 was some £1.2 billion (2015: £1.6 billion), which partly reflected the slower pace of contract awards following the EU Referendum and the fact that our order book can move up or down significantly as a result of our strategy of focusing on winning large contracts. Nevertheless, we won a number of substantial new contracts across the commercial, retail and residential sectors, primarily for customers with whom we have built strong long-term relationships. These included contracts to build the new skills centre for Lambeth College in London, the Manchester Central development, Gateshead Quays, Milburngate in Durham and the Embankment West development in Salford that together are worth around £750 million. In addition, during 2016, a Carillion Joint Venture, in which we have a 50 per cent interest, signed a £1.1 billion contract with the UK Ministry of Defence, for which we have a number of long-term contracts, to deliver construction and support services for the Army Basing Programme, a contract that was in probable orders at the end of 2015. We also secured a £53 million contract to construct the Lincoln Bypass. The total value of orders plus probable orders in this segment at 31 December 2016 remained broadly stable at £2.5 billion (2015: £2.7 billion) and provides revenue visibility(1) for 2017 of 80 per cent (2015: 94 per cent for 2016).

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

Our pipeline of contract opportunities remained strong at £12.5 billion at 31 December 2016 (2015: £10.9 billion). This includes a number of significant opportunities in the UK infrastructure market, notably roads, where we are a partner of Highways England for its £5 billion Collaborative Delivery Framework, and in the rail sector where we are bidding for sections of the High Speed 2 project with our Joint Venture partners. However, we will continue to take a very selective approach to bidding for contracts, particularly in the high-rise, multi-occupancy residential sector, where we have a substantial number of opportunities. We do this by focusing on contracts for customers with whom we have built long-term relationships and where there is certainty of funding. We were also encouraged by the UK Government's Autumn Statement in which commitments were made to increase investment in infrastructure from which we would expect to benefit, given we are a market leader in several of the sectors where greater investment has been promised. In Canada, we will continue to be very selective and focus only on winning construction work in Joint Ventures for PPP projects. Overall, in 2017 our ambition is to maintain revenue and profit broadly at their current levels and over the medium term to grow this segment of our business, in view of planned major investment in UK infrastructure and the positive outlook for our developments business.

**Group income statement, cash flow and balance sheet items**

**Underlying Group net financial expense**

The underlying Group net financial expense of £57.9 million (2015: £57.9 million) comprised interest costs of £43.5 million (2015: £40.5 million) in respect of borrowing and other liabilities, a non-cash expense in respect of defined benefit pension schemes of £14.7 million (2015: £18.0 million) and interest receivable in respect of loans to PPP Joint Venture projects of £0.3 million (2015: £0.6 million). The increase in interest costs in respect of borrowing and other liabilities primarily reflected the impact of the higher average net debt position in 2016.

**Intangible amortisation arising from business combinations**

Intangible amortisation of £13.8 million (2015: £20.0 million) related to the amortisation of intangible assets arising from the acquisitions of the Outland Group in 2015, Rokstad Corporation in 2014, John Laing Integrated Services Limited in 2013, Alfred McAlpine plc in 2008 and Mowlem plc in 2006. The amortisation charge associated with the existing intangibles acquired through business combinations is expected to continue to decrease during the coming years.

**Non-recurring operating items**

Non-recurring operating expense totalled £40.2 million (2015: £5.0 million) and included £17.8 million of redundancy and restructuring costs relating to the Group's cost reduction programme, a charge of £10.5 million, which represented the Group's share of the compensation and associated costs under The Construction Workers Compensation Scheme that was set up by eight UK companies for workers who have been impacted by the use of the database vetting system operated by The Consulting Association, and a charge of £11.9 million arising from the decision to close our operations in the Caribbean, which we have concluded are no longer commercially viable.

**Non-operating items**

The non-operating charge of £1.1 million (2015: £2.5 million) relates to adviser costs incurred in relation to the acquisition of the trade and assets of a hard and soft facilities management business in Canada that completed in January 2017.

**Fair value movement in derivative financial instruments**

A non-cash gain of £8.2 million (2015: £6.1 million) was recognised in relation to the movement in fair value of the derivative financial instrument associated with the Group's £170 million of convertible bonds issued in December 2014. The fair value of this derivative financial instrument is driven by movements in the Group's share price.

**Changes in contingent consideration relating to acquisitions**

A non-recurring credit of £15.6 million (2015: Nil) arose from a reduction in the contingent consideration payable in respect of the acquisitions of the Rokstad Corporation in 2014 and the Outland Group in 2015. This reduction arose following the finalisation of the actual earnings before interest, taxation, depreciation and amortisation (EBITDA) of these businesses for 2015 and 2016. The actual EBITDA performance for both businesses was lower than the stretching targets agreed with the management teams of these businesses at the point of acquisition and consequently the related proportion of the contingent consideration was reduced accordingly. Nevertheless, these businesses have performed well and having secured significant new contracts in 2016 as noted on page 10, we continue to believe that in the medium to long term they will meet or exceed the expectations we had at the time of acquisition.

**Taxation**

The underlying Group taxation charge of £21.0 million (2015: £19.5 million), when combined with the Group's share of the taxation charge in Joint Ventures of £4.8 million (2015: £2.9 million), represented an underlying effective tax rate of 14.1 per cent (2015: 12.5 per cent). This underlying rate was marginally higher than in 2015 due largely to a reduction in the contribution to profit from the sale of investments in Public Private Partnership projects that attract capital taxation exemptions. The Group's underlying effective rate of tax differs from the UK standard rate of corporation tax of 20.0 per cent (2015: 20.25 per cent), because tax rates in some of the countries in which we operate are lower than in the UK, exemptions are available in respect of certain capital items and we have recognised deferred tax on carried forward trading losses. We expect our future underlying effective rate of tax to continue benefiting from these factors, with the scale of the benefit in any given year dependent on the profitability of the Group's various businesses in which these factors can be utilised. At 31 December 2016, the Group had £186 million of corporate tax losses (2015: £216 million) that are available to reduce future tax payments.

We adopt a responsible approach to the management of our tax affairs and ensure that we pay taxes in the countries in which profits are generated, in accordance with the requirements of local tax legislation. In 2016, Carillion businesses in the UK contributed £297 million of tax revenues to the UK Exchequer, comprising £1 million of corporation tax and £296 million of other taxes including Value Added Tax, Pay As You Earn and fuel excise duty.

**Earnings per share**

Underlying earnings per share increased in line with underlying profit before tax by one per cent to 35.3 pence (2015: 35.0 pence) based on a weighted average number of shares in issue of 430.2 million (2015: 430.2 million). Basic earnings per share of 28.9 pence (2015: 30.9 pence) reduced compared to 2015 largely reflecting the increase in non-recurring operating items. Diluted earnings per share, including the effect of the Group's convertible bonds, also reduced in the year to 25.9 pence (2015: 28.2 pence) for the same reason.

**Dividend**

For 2016, the Board has recommended a final dividend of 12.65 pence per share, making the proposed full-year dividend 18.45 pence per share (2015: 18.25 pence per share). The one per cent increase in the proposed full-year dividend is in line with the one per cent increase in underlying earnings per share, with underlying dividend cover maintained at 1.9 times (2015: 1.9 times). The final dividend of 12.65 pence per share will be paid on 9 June 2017 to shareholders on the register on 12 May 2017, subject to approval by shareholders at the Annual General Meeting to be held on 3 May 2017.

**Cash flow**

| | **2016 £m** | 2015 £m |
|---|---|---|
| Underlying Group operating profit | **199.6** | 208.4 |
| Depreciation and other non-cash items | **26.7** | 10.7 |
| Working capital(1) | **39.0** | 9.0 |
| Dividends received from Joint Ventures | **11.8** | 16.8 |
| **Underlying cash flow from operations** | **277.1** | 244.9 |
| Pension deficit contributions | **(46.6)** | (47.4) |
| Non-recurring operating items | **(21.5)** | (6.3) |
| Interest and taxation | **(41.3)** | (40.4) |
| Net capital expenditure | **(23.5)** | (12.8) |
| Other | **(6.3)** | (3.2) |
| | **137.9** | 134.8 |
| Foreign exchange movements | **(68.2)** | (7.7) |
| Acquisitions and disposals | **(36.1)** | (39.6) |
| Dividends | **(82.7)** | (80.0) |
| **Change in net borrowing** | **(49.1)** | 7.5 |
| **Net borrowing at 1 January** | **(169.8)** | (177.3) |
| **Net borrowing at 31 December** | **(218.9)** | (169.8) |
| **Average net borrowing** | **(586.5)** | (538.9) |

The management of working capital continued to be a key focus for the Group in 2016. During the year, receivables and payables increased due to the impact of foreign exchange rates on the retranslation of overseas balances and to the 14 per cent growth we achieved in revenue. Overall working capital movements in the year contributed positively to our cash flow, which, coupled with the £34.4 million (2015: £16.4 million) of receipts from PPP equity sales (the excess of proceeds over profit), resulted in a working capital inflow of £39.0 million (2015: £9.0 million). The Group's working capital performance during the second half of 2016 improved and this more than reversed the significant cash outflow experienced during the first half of 2016. Going forward we intend to continue our strong focus on working capital management

(1) Including £34.4 million (2015: £16.4 million) from the sale of Public Private Partnership equity investments (excess of proceeds over profit).

as part of our plans for reducing net borrowing.

Dividends received from Joint Ventures decreased to £11.8 million (2015: £16.8 million). Underlying cash flow from operations was £277.1 million (2015: £244.9 million) and represented 117 per cent (2015: 104 per cent) of underlying profit from operations.

Deficit recovery payments to the Group's pension funds of £46.6 million (2015: £47.4 million) reflected the current agreement with the Trustees of the Group's main defined benefit schemes and these payments are expected to remain at a similar level in 2017, pending agreement of the triennial valuation due at 31 December 2016. Non-recurring operating items of £21.5 million (2015: £6.3 million) included outflows of £6.2 million in relation to The Construction Workers Compensation Scheme, £9.7 million in respect of redundancy and other costs associated with the cost reduction programme and £3.3 million in relation to the closure of the Caribbean operations. Interest and taxation payments of £41.3 million (2015: £40.4 million) included an increase in net interest related to the Group's borrowings. Net capital expenditure of £23.5 million (2015: £12.8 million) was higher than 2015, because net capital expenditure in 2015 benefited from proceeds of £15.2 million from re-organising our staff accommodation facilities in Oman. Although capital expenditure on upgrading the Group's back-office IT systems reduced in 2016, as we completed our current upgrade programme, we continued to invest in new technology and service delivery equipment on new contracts in our support services business. The above items, together with other payments amounting to £6.3 million (2015: £3.2 million), resulted in the Group generating £137.9 million of cash (2015: £134.8 million), before foreign exchange movements, acquisitions and disposals and dividend payments.

Net borrowing was adversely impacted by foreign exchange rate movements amounting to £68.2 million (2015: £7.7 million), with around half of these relating to the Group's US dollar denominated private placement funding following the weakening of sterling after the UK referendum decision to leave the European Union in June 2016. Payments in respect of acquisitions and disposals of £36.1 million (2015: £39.6 million) included payments made in relation to the acquisitions of Rokstad and Outland in Canada and of Ask Real Estate Limited in the UK totalling £33.4 million. Dividend payments of £82.7 million (2015: £80.0 million) included dividends paid to non-controlling interests in Canada of £3.8 million (2015: £3.2 million).

Net borrowing increased by £49.1 million to £218.9 million at 31 December 2016 (2015: £169.8 million), with the underlying reduction of £19.1 million more than offset by the adverse impact due to foreign exchange rate movements of £68.2 million. Average net borrowing increased to £586.5 million (2015: £538.9 million), again largely as a result of the adverse impact of movements in exchange rates of around £26 million. Delivering strong cash flow remains a key objective and our ambition over the medium term is to reduce net borrowing, while continuing to invest to support the Group's development.

**Balance Sheet**

| | **2016 £m** | 2015[1] £m |
|---|---|---|
| Property, plant and equipment | **144.1** | 140.5 |
| Intangible assets | **1,669.3** | 1,634.3 |
| Investments | **180.3** | 165.2 |
| | **1,993.7** | 1,940.0 |
| Inventories, receivables and payables | **(347.3)** | (384.7) |
| Net retirement benefit liability (net of tax) | **(663.2)** | (317.6) |
| Other | **(34.4)** | (51.3) |
| **Net operating assets** | **948.8** | 1,186.4 |
| Net borrowing | **(218.9)** | (169.8) |
| **Net assets** | **729.9** | 1,016.6 |

Property, plant and equipment of £144.1 million (2015: £140.5 million[1]) increased, with the impact of depreciation more than offset by increases from foreign exchange rate movements and capital expenditure. Intangible assets increased to £1,669.3 million (2015: £1,634.3 million[1]), primarily reflecting the impact of foreign exchange rate movements on goodwill and customer contracts and lists relating to acquisitions. Investments increased to £180.3 million (2015: £165.2 million[1]) with the impact of foreign exchange rate movements more than offsetting the sale of equity investments in Public Private Partnership projects during 2016. The movement in inventories, receivables and payables to £347.3 million (2015: £384.7 million[1]) was due largely to the working capital movement noted in the cash flow statement above. The Group's net retirement benefit liability increased to £663.2 million (2015: £317.6 million) reflecting a reduction in bond yields and the discount rate used to calculate the scheme liabilities. The consequential increase in scheme liabilities more than offset an improvement in investment returns generated on the scheme assets in 2016.

**Retirement benefits**

The Group operates pension arrangements for the benefit of eligible employees and has a number of defined benefit schemes and other post-retirement benefit arrangements, which have a total pension obligation on an International Accounting Standard (IAS) 19 basis of £3,377.5 million (2015: £2,695.9 million) (the 'liabilities'). Total pension assets relating to these liabilities are £2,572.7 million (2015: £2,302.4 million), which results in an IAS 19 deficit of £804.8 million (2015: £393.5 million) before deferred tax and £663.2 million (2015: £317.6 million) after deferred tax.

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

The key assumptions used in arriving at the IAS 19 deficit position are summarised below

| | 2016 % | 2015 % |
|---|---|---|
| Discount rate | 2.70 | 3.95 |
| Inflation | | |
| Retail Price Index (RPI) | 3.20 | 3.05 |
| Consumer Price Index (CPI) | 2.15 | 2.00 |
| Salary increase | 3.20 | 3.55 |
| Average allocation of assets | | |
| Equities/property | 49 | 50 |
| Gilts | 27 | 24 |
| Corporate bonds | 23 | 24 |
| Cash | 1 | 2 |

The discount rate of 2.70 per cent is based on AA bond yields appropriate to the liability duration. The RPI inflation rate of 3.20 per cent is based on the duration-derived market-implied RPI. The pension liabilities of the Group are subject to fluctuations arising from changes in the key assumptions above that are determined by general market conditions, which are outside the control of the Group. In particular, a 0.1 per cent increase in the discount rate would reduce the overall pre-tax deficit by around £60 million, whilst a 0.1 per cent increase in the inflation rate would increase the overall pre-tax deficit by around £50 million.

The Group's ongoing total pensions charge against operating profit in 2016 of £31.2 million (2015: £31.0 million), includes £25.0 million (2015: £21.1 million) in relation to defined contribution schemes and £6.2 million (2015: £9.9 million) in relation to defined benefit schemes.

The Group operates the following policies in respect of defined benefit pension arrangements:

- defined benefit pensions are not offered to employees except where required under legislation or to meet the requirements of work-winning
- where defined benefit pensions need to be offered to meet legislative or work-winning requirements, business protocols are in place to manage the risk involved and to ensure that the risk and costs are fully factored into pricing and
- investment risks are monitored and gradually reduced commensurate with a balanced approach to risk and cost.

In line with these policies, the majority of the Group's principal schemes are closed to new entrants and members no longer accrue benefits for future service. Total deficit recovery payments for all of the Group's defined benefit schemes are expected to remain at around £50 million in 2017. The next actuarial valuation of the Group's main defined benefit schemes is at 31 December 2016 and is currently in progress.

**Committed bank facilities, private placements and convertible bonds**

The Group has a strong funding position to support its objectives over the medium term, with £1.4 billion of funding available at 31 December 2016, predominantly in the form of committed bank facilities totalling £870 million, private placement borrowing of £361 million and £170 million of convertible bonds. In addition, in January 2017, we secured further financing of £112 million from the Schuldschein market in Germany, which is repayable over five years, taking total available funding to some £1.5 billion.

**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 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, these risks include continuing to win work in our existing and new target markets and geographies, delivering major contracts successfully, managing our pension schemes effectively, managing the impact of Brexit, attracting, developing and retaining excellent people, managing the risks associated with operating in overseas markets, maintaining the highest standard of ethics, managing information security including cyber security, Health & Safety and other statutory requirements and the potential impact arising from a failure to manage human rights issues.

**Foreign exchange**

The average and year-end exchange rates used to translate the Group's overseas operations are shown in the table below.

| | **Average** | | **Year End** | |
|---|---|---|---|---|
| **£ Sterling** | **2016** | 2015 | **2016** | 2015 |
| Middle East (US Dollar) | **1.36** | 1.53 | **1.24** | 1.47 |
| Oman (Rial) | **0.52** | 0.59 | **0.48** | 0.57 |
| UAE (Dirham) | **4.98** | 5.61 | **4.54** | 5.41 |
| Canada (Dollar) | **1.80** | 1.96 | **1.66** | 2.05 |

The value of sterling weakened during 2016 relative to the Canadian dollar and Middle East currencies that are linked to the US dollar. This increased the revenue and underlying operating profit we have reported for our activities in Canada by £48.7 million and £1.8 million, respectively and in the Middle East by £91.2 million and £2.2 million respectively, compared with 2015. The reduction in the value of sterling also significantly impacted the value of the Group's assets and liabilities reported in the balance sheet.

**Outlook**

Given the size and quality of the Group's order book and pipeline of contract opportunities, we have a good platform from which to develop the business in 2017. To support this, we will accelerate the rebalancing of our business into markets and sectors where we can win high-quality contracts and achieve our targets for margin and cash flows, while actively managing the positions we have in challenging markets. We will also begin reducing average net borrowing by stepping up our ongoing cost reduction programmes and our focus on managing working capital.

## Consolidated income statement
### For the year ended 31 December 2016

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| Total revenue | | **5,214.2** | 4,586.9 |
| Less: share of joint ventures' revenue | | **(819.3)** | (636.2) |
| **Group revenue** | 2 | **4,394.9** | 3,950.7 |
| Cost of sales | | **(4,044.2)** | (3,609.8) |
| **Gross profit** | | **350.7** | 340.9 |
| Administrative expenses | | **(217.8)** | (195.2) |
| Profit on disposal of Public Private Partnership equity investments | | **12.7** | 37.7 |
| **Group operating profit** | | **145.6** | 183.4 |
| Analysed between: | | | |
| Group operating profit before intangible amortisation and non-recurring operating items | | **199.6** | 208.4 |
| Intangible amortisation(1) | | **(13.8)** | (20.0) |
| Non-recurring operating items | 3 | **(40.2)** | (5.0) |
| **Share of results of joint ventures** | 2 | **36.3** | 26.0 |
| Analysed between: | | | |
| Operating profit | | **54.3** | 36.0 |
| Net financial expense | | **(13.2)** | (7.1) |
| Taxation | | **(4.8)** | (2.9) |
| **Profit from operations** | | **181.9** | 209.4 |
| Analysed between: | | | |
| Profit from operations before intangible amortisation and non-recurring operating items | | **235.9** | 234.4 |
| Intangible amortisation(1) | | **(13.8)** | (20.0) |
| Non-recurring operating items | 3 | **(40.2)** | (5.0) |
| Non-operating items | 3 | **(1.1)** | (2.5) |
| Net financial expense | 4 | **(34.1)** | (51.8) |
| Analysed between: | | | |
| Financial income | | **2.5** | 2.4 |
| Financial expense | | **(60.4)** | (60.3) |
| Fair value movements in derivative financial instruments | | **8.2** | 6.1 |
| Changes in contingent consideration relating to acquisitions | | **15.6** | - |
| **Profit before taxation** | | **146.7** | 155.1 |
| Analysed between: | | | |
| Profit before taxation, intangible amortisation, non-recurring operating items, non-operating items, fair value movements in derivative financial instruments and changes in contingent consideration relating to acquisitions | | **178.0** | 176.5 |
| Intangible amortisation(1) | | **(13.8)** | (20.0) |
| Non-recurring operating items | 3 | **(40.2)** | (5.0) |
| Non-operating items | 3 | **(1.1)** | (2.5) |
| Fair value movements in derivative financial instruments | 4 | **8.2** | 6.1 |
| Changes in contingent consideration relating to acquisitions | 4 | **15.6** | - |
| Taxation | 5 | **(17.2)** | (15.7) |
| **Profit for the year** | | **129.5** | 139.4 |
| **Profit attributable to**: | | | |
| Equity holders of the parent | | **124.2** | 132.8 |
| Non-controlling interests | | **5.3** | 6.6 |
| **Profit for the year** | | **129.5** | 139.4 |
| **Earnings per share** | 6 | | |
| Basic | | **28.9p** | 30.9p |
| Diluted | | **25.9p** | 28.2p |

(1) Arising from business combinations.

## Consolidated statement of comprehensive income
### For the year ended 31 December 2016

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Profit for the year** | | **129.5** | | 139.4 |
| **Items that will not be reclassified subsequently to profit or loss:** | | | | |
| Remeasurement of net defined benefit liabilities | **(439.7)** | | 88.5 | |
| Taxation relating to items that will not be reclassified | **71.1** | | (21.7) | |
| | **(368.6)** | | 66.8 | |
| **Items that may be reclassified subsequently to profit or loss:** | | | | |
| (Loss)/gain on hedge of net investment in foreign operations | **(19.1)** | | 9.2 | |
| Currency translation differences on foreign operations | **57.5** | | (15.3) | |
| Movement in fair value of cash flow hedging derivatives | **35.1** | | 15.6 | |
| Reclassification of effective portion of cash flow hedging derivatives to profit | **(35.3)** | | (13.0) | |
| Increase in fair value of available-for-sale assets | **0.2** | | - | |
| Taxation relating to items that may be reclassified | **(3.2)** | | (4.8) | |
| Share of recycled cash flow hedges within joint ventures (net of taxation) | **-** | | 3.6 | |
| Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation) | **(1.1)** | | - | |
| | **34.1** | | (4.7) | |
| **Other comprehensive (expense)/income for the year** | | **(334.5)** | | 62.1 |
| **Total comprehensive (expense)/income for the year** | | **(205.0)** | | 201.5 |
| **Attributable to:** | | | | |
| Equity holders of the parent | | **(214.5)** | | 197.0 |
| Non-controlling interests | | **9.5** | | 4.5 |
| | | **(205.0)** | | 201.5 |

## Consolidated statement of changes in equity
### For the year ended 31 December 2016

| | 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 2016** | 215.1 | 21.2 | (38.9) | (8.2) | 0.3 | 393.7 | 410.3 | 993.5 | 23.1 | 1,016.6 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 124.2 | 124.2 | 5.3 | 129.5 |
| **Other comprehensive income** | | | | | | | | | | |
| Loss on hedge of net investment in foreign operations | - | - | (19.1) | - | - | - | - | (19.1) | - | (19.1) |
| Currency translation differences on foreign operations | - | - | 53.3 | - | - | - | - | 53.3 | 4.2 | 57.5 |
| Movement in fair value of cash flow hedging derivatives | - | - | - | 35.1 | - | - | - | 35.1 | - | 35.1 |
| Reclassification of effective portion of cash flow hedging derivatives to profit | - | - | - | (35.3) | - | - | - | (35.3) | - | (35.3) |
| Increase in fair value of available-for-sale assets | - | - | - | - | 0.2 | - | - | 0.2 | - | 0.2 |
| Remeasurement of net defined benefit liabilities | - | - | - | - | - | - | (439.7) | (439.7) | - | (439.7) |
| Taxation | - | - | 3.8 | (7.0) | - | - | 71.1 | 67.9 | - | 67.9 |
| Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation) | - | - | - | (1.1) | - | - | - | (1.1) | - | (1.1) |
| Transfer between reserves | - | - | - | - | - | (4.7) | 4.7 | - | - | - |
| **Total comprehensive income/(expense)** | - | - | 38.0 | (8.3) | 0.2 | (4.7) | (239.7) | (214.5) | 9.5 | (205.0) |
| **Transactions with owners** | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | |
| Acquisition of own shares | - | - | - | - | - | - | (1.0) | (1.0) | - | (1.0) |
| Equity-settled transactions (net of taxation) | - | - | - | - | - | - | 2.0 | 2.0 | - | 2.0 |
| Dividends paid | - | - | - | - | - | - | (78.9) | (78.9) | (3.8) | (82.7) |
| **Total transactions with owners** | - | - | - | - | - | - | (77.9) | (77.9) | (3.8) | (81.7) |
| **At 31 December 2016** | 215.1 | 21.2 | (0.9) | (16.5) | 0.5 | 389.0 | 92.7 | 701.1 | 28.8 | 729.9 |

## Consolidated statement of changes in equity
### For the year ended 31 December 2015

| | 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(1) £m | Total equity(1) £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2015** | 215.1 | 21.2 | (33.3) | (11.2) | 0.3 | 400.9 | 279.7 | 872.7 | 21.8 | 894.5 |
| **Comprehensive income** | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 132.8 | 132.8 | 6.6 | 139.4 |
| **Other comprehensive income** | | | | | | | | | | |
| Gain on hedge of net investment in foreign operations | - | - | 9.2 | - | - | - | - | 9.2 | - | 9.2 |
| Currency translation differences on foreign operations | - | - | (13.2) | - | - | - | - | (13.2) | (2.1) | (15.3) |
| Movement in fair value of cash flow hedging derivatives | - | - | - | 15.6 | - | - | - | 15.6 | - | 15.6 |
| Reclassification of effective portion of cash flow hedging derivatives to profit | - | - | - | (13.0) | - | - | - | (13.0) | - | (13.0) |
| Remeasurement of net defined benefit liabilities | - | - | - | - | - | - | 88.5 | 88.5 | - | 88.5 |
| Taxation | - | - | (1.6) | (3.2) | - | - | (21.7) | (26.5) | - | (26.5) |
| Share of recycled cash flow hedges within joint ventures (net of taxation) | - | - | - | 3.6 | - | - | - | 3.6 | - | 3.6 |
| Transfer between reserves | - | - | - | - | - | (7.2) | 7.2 | - | - | - |
| **Total comprehensive (expense)/income** | - | - | (5.6) | 3.0 | - | (7.2) | 206.8 | 197.0 | 4.5 | 201.5 |
| **Transactions with owners** | | | | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | | | | |
| Acquisition of own shares | - | - | - | - | - | - | (0.4) | (0.4) | - | (0.4) |
| Equity-settled transactions (net of taxation) | - | - | - | - | - | - | 1.0 | 1.0 | - | 1.0 |
| Dividends paid | - | - | - | - | - | - | (76.8) | (76.8) | (3.2) | (80.0) |
| **Total transactions with owners** | - | - | - | - | - | - | (76.2) | (76.2) | (3.2) | (79.4) |
| **At 31 December 2015** | 215.1 | 21.2 | (38.9) | (8.2) | 0.3 | 393.7 | 410.3 | 993.5 | 23.1 | 1,016.6 |

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

## Consolidated balance sheet
### As at 31 December 2016

| | Note | 2016 £m | 2015[1] £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **144.1** | 140.5 |
| Intangible assets | | **1,669.3** | 1,634.2 |
| Retirement benefit assets | | **5.8** | 12.7 |
| Investments in joint ventures | | **174.9** | 160.5 |
| Other investments | | **5.4** | 4.7 |
| Deferred tax assets | | **163.8** | 103.8 |
| **Total non-current assets** | | **2,163.3** | 2,056.4 |
| **Current assets** | | | |
| Inventories | | **78.8** | 64.3 |
| Trade and other receivables | | **1,664.0** | 1,270.8 |
| Cash and cash equivalents | 9 | **469.8** | 462.2 |
| Derivative financial instruments | | **46.4** | 14.6 |
| Income tax receivable | | **10.8** | 1.2 |
| **Total current assets** | | **2,269.8** | 1,813.1 |
| **Total assets** | | **4,433.1** | 3,869.5 |
| **Current liabilities** | | | |
| Borrowing | | **(96.7)** | (33.5) |
| Derivative financial instruments | | **(10.6)** | (11.6) |
| Trade and other payables | | **(2,090.1)** | (1,714.3) |
| Provisions | | **(7.8)** | (5.0) |
| Income tax payable | | **(12.2)** | (7.2) |
| **Total current liabilities** | | **(2,217.4)** | (1,771.6) |
| **Non-current liabilities** | | | |
| Borrowing | | **(592.0)** | (598.5) |
| Other payables | | **(67.3)** | (64.0) |
| Retirement benefit liabilities | | **(810.6)** | (406.2) |
| Deferred tax liabilities | | **(15.4)** | (10.5) |
| Provisions | | **(0.5)** | (2.1) |
| **Total non-current liabilities** | | **(1,485.8)** | (1,081.3) |
| **Total liabilities** | | **(3,703.2)** | (2,852.9) |
| **Net assets** | 2 | **729.9** | 1,016.6 |
| **Equity** | | | |
| Share capital | 12 | **215.1** | 215.1 |
| Share premium | | **21.2** | 21.2 |
| Translation reserve | | **(0.9)** | (38.9) |
| Hedging reserve | | **(16.5)** | (8.2) |
| Fair value reserve | | **0.5** | 0.3 |
| Merger reserve | | **389.0** | 393.7 |
| Retained earnings | | **92.7** | 410.3 |
| **Equity attributable to shareholders of the parent** | | **701.1** | 993.5 |
| **Non-controlling interests** | | **28.8** | 23.1 |
| **Total equity** | | **729.9** | 1,016.6 |

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

## Consolidated cash flow statement

**For the year ended 31 December 2016**

| | Note | 2016 £m | 2015 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Group operating profit | | **145.6** | 183.4 |
| Depreciation and amortisation | | **45.0** | 45.4 |
| Profit on disposal of property, plant and equipment and intangible assets | | **(6.4)** | (14.4) |
| Profit on disposal of Public Private Partnership equity investments | | **(12.7)** | (37.7) |
| Other non-cash movements | | **1.9** | (0.3) |
| Non-recurring operating items | | **40.2** | 5.0 |
| **Operating profit before changes in working capital** | | **213.6** | 181.4 |
| Increase in inventories | | **(6.3)** | (14.3) |
| (Increase)/decrease in trade and other receivables | | **(290.6)** | 48.0 |
| Increase/(decrease) in trade and other payables | | **301.5** | (41.1) |
| **Cash generated from operations before cash flows on forward foreign currency contracts, pension deficit recovery payments and non-recurring operating items** | | **218.2** | 174.0 |
| Cash flows on forward foreign currency contracts | | **(34.6)** | - |
| Deficit recovery payments to pension schemes | | **(46.6)** | (47.4) |
| Non-recurring operating items | | **(21.5)** | (6.3) |
| **Cash generated from operations** | | **115.5** | 120.3 |
| Financial income received | | **2.5** | 2.4 |
| Financial expense paid | | **(39.6)** | (35.3) |
| Acquisition-related costs | | **(0.9)** | (6.6) |
| Taxation payments | | **(4.2)** | (7.5) |
| **Net cash flows from operating activities** | | **73.3** | 73.3 |
| **Cash flows from investing activities** | | | |
| Disposal of property, plant and equipment and intangible assets | | **13.8** | 17.6 |
| Disposal of joint ventures and other investments | 11 | **47.1** | 54.1 |
| Dividends received from joint ventures | | **11.8** | 16.8 |
| Loan advance repayments received from joint ventures | | **2.1** | 7.2 |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | | **(32.5)** | (10.6) |
| Acquisition of property, plant and equipment and intangible assets | | **(37.3)** | (30.4) |
| Acquisition of equity in and loan advances to joint ventures | | **(4.8)** | (28.3) |
| Acquisition of other non-current asset investments | | **-** | (0.4) |
| **Net cash flows from investing activities** | | **0.2** | 26.0 |
| **Cash flows from financing activities** | | | |
| Draw down/(repayment) of bank and other loans | | **6.7** | (19.0) |
| Repayment of finance lease liabilities | | **(7.4)** | (6.0) |
| Acquisition of own shares | | **(1.0)** | (0.4) |
| Dividends paid to equity holders of the parent | | **(78.9)** | (76.8) |
| Dividends paid to non-controlling interests | | **(3.8)** | (3.2) |
| **Net cash flows from financing activities** | | **(84.4)** | (105.4) |
| **Decrease in net cash and cash equivalents** | | **(10.9)** | (6.1) |
| Net cash and cash equivalents at 1 January | | **455.8** | 465.8 |
| Effect of exchange rate fluctuations on net cash and cash equivalents | | **22.8** | (3.9) |
| **Net cash and cash equivalents at 31 December** | 9 | **467.7** | 455.8 |

## 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 2016 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in joint arrangements.

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).

There were no significant new financial reporting standards that required adoption in 2016.

The following standards and interpretations have not been early adopted by the Group and will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 9 'Financial instruments' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 16 'Leases' (effective 1 January 2019)

The financial information set out herein (which was approved by the Board on 1 March 2017) does not constitute the Company's statutory accounts for the years ended 31 December 2016 and 2015 but is derived from the 2016 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 2017.

The statutory accounts for the year ended 31 December 2015 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 2016 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 21. The Group has considerable financial resources, including £870.0 million of committed bank facilities, the majority of which expire in 2020, £360.8 million of private placement notes expiring between 2017 and 2024 and £170.0 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. 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 2016.

### 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 the 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, estimates of the 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. Based on the above, management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment.

In respect of revenue derived from licensing, the income earned from such transactions is included in revenue (as disclosed in note 2), as the exploitation of the Group's intellectual property is regarded by management as being part of its ordinary activities, having completed a similar licensing agreement in 2013. The licensing agreement secured in 2016 was entered into, at or around the same time and with the same counterparty to a series of contracts that extended the scope of the services provided by the Group's back-office outsourcing provider as described on page 10. Management considered whether the transactions should be grouped together for the purposes of determining whether the revenue should be recognised immediately under the licensing agreement or recognised over the term of the outsourcing contract. Management concluded that the transactions should be recognised independently and in their own right. This judgement was made after undertaking a benchmarking review that indicated that the contracts relating to the extension in scope of the outsourced back-office services were at fair market value and

**Notes to the condensed financial statements continued**

**1 Significant accounting policies (continued)**

were therefore not linked to the licensing agreement. Consequently, as there were also no continuing support obligations required to be provided by the Group under the licensing agreement, the licensing revenue has been recognised immediately.

Goodwill
In determining the goodwill arising from business acquisitions, judgement is required in relation to the final out-turn on contracts, discount rates and expected future cash flows and their probability. In determining whether goodwill is impaired in subsequent years, judgement is required in relation to the estimation of the value-in-use of the cash generating units that contain goodwill. The estimation of the value-in-use requires assessments to be made of an appropriate risk-adjusted discount rate and the future cash flows expected to be generated by each cash generating unit. Changes to the assumptions used in the value-in-use estimation could give rise to material changes to the carrying value of goodwill.

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, with relevance to return on assets, levels of capital investment, operating cash flows 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, remote site accommodation 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

| | 2016 Revenue £m | 2016 Operating profit before intangible amortisation and non-recurring operating items £m | 2015 Revenue £m | 2015 Operating profit before intangible amortisation and non-recurring operating items £m |
|---|---|---|---|---|
| **Support services(1)** | | | | |
| Group | **2,454.0** | **159.5** | 2,342.4 | 127.3 |
| Share of joint ventures | **258.7** | **23.2** | 191.8 | 19.3 |
| | **2,712.7** | **182.7** | 2,534.2 | 146.6 |
| Inter-segment | **63.4** | **-** | 87.0 | - |
| **Total** | **2,776.1** | **182.7** | 2,621.2 | 146.6 |
| **Public Private Partnership projects** | | | | |
| Group | **1.7** | **14.2** | 1.3 | 39.4 |
| Share of joint ventures | **311.3** | **14.1** | 191.5 | 9.9 |
| | **313.0** | **28.3** | 192.8 | 49.3 |
| Inter-segment | **-** | **-** | - | - |
| **Total** | **313.0** | **28.3** | 192.8 | 49.3 |
| **Middle East construction services** | | | | |
| Group | **427.9** | **8.1** | 358.9 | 20.6 |
| Share of joint ventures | **240.4** | **8.0** | 242.7 | 4.7 |
| | **668.3** | **16.1** | 601.6 | 25.3 |
| Inter-segment | **-** | **-** | - | - |
| **Total** | **668.3** | **16.1** | 601.6 | 25.3 |
| **Construction services (excluding the Middle East)** | | | | |
| Group | **1,511.3** | **32.3** | 1,248.1 | 35.7 |
| Share of joint ventures | **8.9** | **9.0** | 10.2 | 2.1 |
| | **1,520.2** | **41.3** | 1,258.3 | 37.8 |
| Inter-segment | **40.3** | - | 24.7 | - |
| **Total** | **1,560.5** | **41.3** | 1,283.0 | 37.8 |
| **Group eliminations and unallocated items** | **(103.7)** | **(14.5)** | (111.7) | (14.6) |
| **Consolidated** | | | | |
| Group | **4,394.9** | **199.6** | 3,950.7 | 208.4 |
| Share of joint ventures | **819.3** | **54.3** | 636.2 | 36.0 |
| **Total** | **5,214.2** | **253.9** | 4,586.9 | 244.4 |

(1) Includes £20.0 million of revenue from licensing (2015: Nil).

**Notes to the condensed financial statements continued**

## 2 Segmental reporting (continued)

### Reconciliation of operating segment results to reported results

| | 2016 £m | 2015 £m |
|---|---|---|
| **Group and share of joint ventures' operating profit before intangible amortisation and non-recurring operating items** | **253.9** | 244.4 |
| Underlying net financial expense | | |
| – Group | **(57.9)** | (57.9) |
| – Share of joint ventures | **(13.2)** | (7.1) |
| Share of joint ventures' taxation | **(4.8)** | (2.9) |
| **Underlying profit before taxation** | **178.0** | 176.5 |
| Intangible amortisation arising from business combinations | **(13.8)** | (20.0) |
| Non-recurring operating items | **(40.2)** | (5.0) |
| Non-operating items | **(1.1)** | (2.5) |
| Fair value movements in derivative financial instruments | **8.2** | 6.1 |
| Changes in contingent consideration relating to acquisitions | **15.6** | - |
| **Profit before taxation** | **146.7** | 155.1 |
| Taxation | **(17.2)** | (15.7) |
| **Profit for the year** | **129.5** | 139.4 |

Intangible amortisation arising from business combinations and non-recurring operating items arise in the following segments:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Intangible amortisation £m | Non-recurring operating items £m | Intangible amortisation £m | Non-recurring operating items £m |
| Support services | **(13.8)** | **(16.4)** | (18.2) | - |
| Public Private Partnership projects | **-** | **-** | - | (5.0) |
| Construction services (excluding the Middle East) | **-** | **(23.8)** | (1.8) | - |
| **Total** | **(13.8)** | **(40.2)** | (20.0) | (5.0) |

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Depreciation and amortisation £m | Capital expenditure £m | Depreciation and amortisation £m | Capital expenditure £m |
| Support services | **(30.0)** | **(31.9)** | (26.3) | (13.6) |
| Middle East construction services | **(1.3)** | **(0.9)** | (1.4) | (1.3) |
| Construction services (excluding the Middle East) | **(0.7)** | **(3.3)** | (2.8) | (0.9) |
| Unallocated Group items | **(13.0)** | **(11.6)** | (14.9) | (15.1) |
| **Total** | **(45.0)** | **(47.7)** | (45.4) | (30.9) |

**Notes to the condensed financial statements continued**

## 2 Segmental reporting (continued)

### Segmental net assets

| | 2016 Operating assets £m | 2016 Operating liabilities £m | 2016 Net operating assets/(liabilities) £m | 2015[1] Operating assets £m | 2015[1] Operating liabilities £m | 2015[1] Net operating assets/(liabilities) £m |
|---|---|---|---|---|---|---|
| **Support services** | | | | | | |
| Intangible assets [2] | **1,375.0** | **-** | **1,375.0** | 1,361.9 | - | 1,361.9 |
| Operating assets | **842.4** | **-** | **842.4** | 672.5 | - | 672.5 |
| Investments | **32.2** | **-** | **32.2** | 23.5 | - | 23.5 |
| Total operating assets | **2,249.6** | **-** | **2,249.6** | 2,057.9 | - | 2,057.9 |
| Total operating liabilities | **-** | **(562.4)** | **(562.4)** | - | (482.8) | (482.8) |
| **Net operating assets/(liabilities)** | **2,249.6** | **(562.4)** | **1,687.2** | 2,057.9 | (482.8) | 1,575.1 |
| **Public Private Partnership projects** | | | | | | |
| Operating assets | **0.6** | **-** | **0.6** | 1.0 | - | 1.0 |
| Investments | **6.7** | **-** | **6.7** | 35.3 | - | 35.3 |
| Total operating assets | **7.3** | **-** | **7.3** | 36.3 | - | 36.3 |
| Total operating liabilities | **-** | **(2.3)** | **(2.3)** | - | (1.9) | (1.9) |
| **Net operating assets/(liabilities)** | **7.3** | **(2.3)** | **5.0** | 36.3 | (1.9) | 34.4 |
| **Middle East construction services** | | | | | | |
| Operating assets | **468.8** | **-** | **468.8** | 290.6 | - | 290.6 |
| Investments | **111.4** | **-** | **111.4** | 86.4 | - | 86.4 |
| Total operating assets | **580.2** | **-** | **580.2** | 377.0 | - | 377.0 |
| Total operating liabilities | **-** | **(374.3)** | **(374.3)** | - | (223.7) | (223.7) |
| **Net operating assets/(liabilities)** | **580.2** | **(374.3)** | **205.9** | 377.0 | (223.7) | 153.3 |
| **Construction services (excluding the Middle East)** | | | | | | |
| Intangible assets [2] | **249.6** | **-** | **249.6** | 247.8 | - | 247.8 |
| Operating assets | **524.2** | **-** | **524.2** | 390.8 | - | 390.8 |
| Investments | **30.0** | **-** | **30.0** | 20.0 | - | 20.0 |
| Total operating assets | **803.8** | **-** | **803.8** | 658.6 | - | 658.6 |
| Total operating liabilities | **-** | **(613.9)** | **(613.9)** | - | (643.8) | (643.8) |
| **Net operating assets/(liabilities)** | **803.8** | **(613.9)** | **189.9** | 658.6 | (643.8) | 14.8 |
| **Consolidated before Group items** | | | | | | |
| Intangible assets [2] | **1,624.6** | **-** | **1,624.6** | 1,609.7 | - | 1,609.7 |
| Operating assets | **1,836.0** | **-** | **1,836.0** | 1,354.9 | - | 1,354.9 |
| Investments | **180.3** | **-** | **180.3** | 165.2 | - | 165.2 |
| Total operating assets | **3,640.9** | **-** | **3,640.9** | 3,129.8 | - | 3,129.8 |
| Total operating liabilities | **-** | **(1,552.9)** | **(1,552.9)** | - | (1,352.2) | (1,352.2) |
| **Net operating assets/(liabilities) before Group items** | **3,640.9** | **(1,552.9)** | **2,088.0** | 3,129.8 | (1,352.2) | 1,777.6 |
| **Group items** | | | | | | |
| Deferred tax assets/(liabilities) | **163.8** | **(15.4)** | **148.4** | 103.8 | (10.5) | 93.3 |
| Net cash/(borrowing) | **469.8** | **(688.7)** | **(218.9)** | 462.2 | (632.0) | (169.8) |
| Retirement benefits (gross of taxation) | **5.8** | **(810.6)** | **(804.8)** | 12.7 | (406.2) | (393.5) |
| Income tax | **10.8** | **(12.2)** | **(1.4)** | 1.2 | (7.2) | (6.0) |
| Other | **142.0** | **(623.4)** | **(481.4)** | 159.8 | (444.8) | (285.0) |
| **Net assets/(liabilities)** | **4,433.1** | **(3,703.2)** | **729.9** | 3,869.5 | (2,852.9) | 1,016.6 |

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.
(2) Arising from business combinations.

## 2 Segmental reporting (continued)

### Geographic information – by origin

| | 2016 £m | 2015 [1] £m |
|---|---|---|
| **United Kingdom** | | |
| Total revenue from external customers | **3,784.3** | 3,334.7 |
| Less: share of joint ventures' revenue | **(490.1)** | (330.9) |
| **Group revenue from external customers** | **3,294.2** | 3,003.8 |
| **Non-current assets** | **1,610.7** | 1,619.6 |
| **Middle East and North Africa** | | |
| Total revenue from external customers | **786.7** | 717.0 |
| Less: share of joint ventures' revenue | **(269.4)** | (265.9) |
| **Group revenue from external customers** | **517.3** | 451.1 |
| **Non-current assets** | **121.3** | 95.7 |
| **Canada** | | |
| Total revenue from external customers | **596.4** | 513.2 |
| Less: share of joint ventures' revenue | **(59.8)** | (39.4) |
| **Group revenue from external customers** | **536.6** | 473.8 |
| **Non-current assets** | **256.3** | 219.9 |
| **Rest of the World** | | |
| Total revenue from external customers | **46.8** | 22.0 |
| Less: share of joint ventures' revenue | **-** | - |
| **Group revenue from external customers** | **46.8** | 22.0 |
| **Non-current assets** | **-** | - |
| **Consolidated** | | |
| Total revenue from external customers | **5,214.2** | 4,586.9 |
| Less: share of joint ventures' revenue | **(819.3)** | (636.2) |
| **Group revenue from external customers** | **4,394.9** | 3,950.7 |
| **Non-current assets** | | |
| Total of geographic analysis above | **1,988.3** | 1,935.2 |
| Retirement benefit assets | **5.8** | 12.7 |
| Other investments | **5.4** | 4.7 |
| Deferred tax assets | **163.8** | 103.8 |
| **Total non-current assets** | **2,163.3** | 2,056.4 |

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

## 2 Segmental reporting (continued)

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

| | **2016 £m** | 2015 £m |
|---|---|---|
| Support services | **861.3** | 911.1 |
| Public Private Partnership projects | **174.5** | 153.4 |
| Construction services (excluding the Middle East) | **683.2** | 689.2 |
| | **1,719.0** | 1,753.7 |

## 3 Non-recurring operating items and non-operating items

### Non-recurring operating items

The non-recurring operating charge of £40.2 million in 2016 includes £17.8 million of redundancy and restructuring costs relating to the Group's cost reduction programme, £11.9 million arising from the decision to close our operations in the Caribbean, which we have concluded are no longer commercially viable and £10.5 million representing the Group's share of the compensation and associated costs under The Construction Workers Compensation Scheme that was set up by eight UK companies for workers who have been impacted by the use of a database vetting system operated by The Consulting Association. An income tax credit of £2.4 million relating to these costs is included within taxation in the income statement.

In 2015, the non-recurring operating charge of £5.0 million related to the impairment of the Group's stakeholder loan to the Green Deal Finance Company Limited, following the decision taken by the UK Government to withdraw from providing further financial support. There is no income tax associated with this non-recurring operating charge.

### Non-operating items

The non-operating charge in 2016 of £1.1 million (2015: £2.5 million) relates to adviser costs incurred in relation to corporate transactions in the year. There is no income tax associated with non-operating items in 2016 and 2015.

## 4 Financial income and expense

| | **2016 £m** | 2015 £m |
|---|---|---|
| **Financial income** | | |
| Bank interest receivable | **0.8** | 0.8 |
| Other interest receivable | **1.7** | 1.6 |
| **Total financial income** | **2.5** | 2.4 |
| **Financial expense** | | |
| Interest payable on bank loans and overdrafts | **(17.5)** | (14.1) |
| Other interest payable and similar charges | **(28.2)** | (28.2) |
| Net interest expense on defined benefit pension obligations | **(14.7)** | (18.0) |
| **Total financial expense** | **(60.4)** | (60.3) |
| **Underlying net financial expense** | **(57.9)** | (57.9) |
| **Other items** | | |
| Fair value movements in the derivative component of convertible bonds | **8.2** | 6.1 |
| Changes in contingent consideration relating to acquisitions | **15.6** | - |
| **Net financial expense** | **(34.1)** | (51.8) |

Other interest payable and similar charges include Private Placement financing interest of £14.3 million (2015: £14.3 million), finance lease charges of £0.8 million (2015: £1.0 million), convertible bond coupon payments and interest accretion of £7.1 million (2015: £7.1 million) and the discount unwind associated with onerous lease provisions of £0.2 million (2015: £0.6 million) and contingent consideration relating to acquisitions of £2.6 million (2015: £2.0 million). No borrowing costs have been capitalised in either of the above years.

Net financial expense includes a credit of £8.2 million (2015: £6.1 million) arising from the fair value movements in the derivative component of the convertible bonds and a credit of £15.6 million (2015: Nil) arising from the remeasurement of contingent consideration in respect of business acquisitions in prior years.

### 4 Financial income and expense (continued)

In relation to the fair value movements in the derivative component of convertible bonds, a deferred tax charge of £1.6 million (2015: £1.2 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 2016 is calculated based on the estimated average annual effective underlying income tax rate of 14.1 per cent (2015: 12.5 per cent). Carillion pays tax on profits in the countries in which profits are generated. The Group's effective rate of tax differs from the standard UK corporation tax rate of 20.0 per cent (2015: 20.25 per cent), because tax rates in some of the countries in which we operate are lower than in the UK, exemptions are available in respect of certain capital items and we have recognised deferred tax on carried forward trading losses.

### 6 Earnings per share

**(a) *Basic earnings per share***

The calculation of earnings per share for the year ended 31 December 2016 is based on the profit attributable to equity holders of the parent of £124.2 million (2015: £132.8 million) and a weighted average number of ordinary shares in issue of 430.2 million (2015: 430.2 million), calculated as follows:

| **In millions of shares** | **2016** | 2015 |
|---|---|---|
| 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)** | (0.1) |
| **Weighted average number of ordinary shares at 31 December** | **430.2** | 430.2 |

**(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, fair value movements in derivative financial instruments and changes in contingent consideration relating to acquisitions.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Profit before taxation £m** | **Taxation £m** | Profit before taxation £m | Taxation £m |
| **Profit before taxation** | | | | |
| Profit before taxation as reported in the income statement | **146.7** | **17.2** | 155.1 | 15.7 |
| Amortisation of intangible assets arising from business combinations | **13.8** | **3.0** | 20.0 | 5.0 |
| Non-recurring operating items | **40.2** | **2.4** | 5.0 | - |
| Non-operating items | **1.1** | **-** | 2.5 | - |
| Fair value movements in derivative financial instruments | **(8.2)** | **(1.6)** | (6.1) | (1.2) |
| Changes in contingent consideration relating to acquisitions | **(15.6)** | **-** | - | - |
| **Underlying profit before taxation** | **178.0** | **21.0** | 176.5 | 19.5 |
| Underlying taxation | **(21.0)** | | (19.5) | |
| Underlying profit attributable to non-controlling interests | **(5.3)** | | (6.6) | |
| **Underlying profit attributable to shareholders** | **151.7** | | 150.4 | |

## 6 Earnings per share (continued)

| | 2016 Pence per share | 2015 Pence per share |
|---|---|---|
| **Earnings per share** | | |
| Basic earnings per share as reported in the income statement | **28.9** | 30.9 |
| Amortisation of intangible assets arising from business combinations | **2.6** | 3.5 |
| Non-recurring operating items | **8.9** | 1.2 |
| Non-operating items | **-** | 0.6 |
| Fair value movements in derivative financial instruments | **(1.5)** | (1.2) |
| Changes in contingent consideration relating to acquisitions | **(3.6)** | - |
| **Underlying basic earnings per share** | **35.3** | 35.0 |
| **Underlying diluted earnings per share (post-tax basis)** | **31.7** | 31.9 |

**(c)** ***Diluted earnings per share***
For the purpose of calculating diluted earnings per share of 25.9 pence (2015: 28.2 pence), profit attributable to shareholders was reduced by £1.0 million (2015: increased by £1.3 million) reflecting the after taxation impact on profit of the Group's convertible bonds.

The weighted average number of ordinary shares used in the diluted earnings per share calculation is shown below:

| **In millions of shares** | 2016 | 2015 |
|---|---|---|
| Weighted average number of ordinary shares | **430.2** | 430.2 |
| Effect of potential number of shares that could be issued on conversion of convertible bonds | **42.7** | 42.7 |
| Effect of share options in issue | **2.5** | 2.2 |
| **Weighted average number of ordinary shares (diluted) at 31 December** | **475.4** | 475.1 |

## 7 Dividends

The following dividends were paid by the Company:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | £m | Pence per share | £m | Pence per share |
| Previous year final dividend | **54.0** | **12.55** | 52.3 | 12.15 |
| Current year interim dividend | **24.9** | **5.80** | 24.5 | 5.70 |
| **Total** | **78.9** | **18.35** | 76.8 | 17.85 |

The following dividends were proposed by the Company:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | £m | Pence per share | £m | Pence per share |
| Interim | **24.9** | **5.80** | 24.5 | 5.70 |
| Final | **54.4** | **12.65** | 54.0 | 12.55 |
| **Total** | **79.3** | **18.45** | 78.5 | 18.25 |

The final dividend for 2016 of 12.65 pence per share was approved by the Board on 1 March 2017 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 9 June 2017 to shareholders on the register on 12 May 2017.

## 8 Pension commitments

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

| | 2016 £m | 2015 £m |
|---|---|---|
| **Charge to operating profit** | | |
| Current and past service cost relating to defined benefit schemes | **(1.6)** | (7.0) |
| Administrative expenses relating to defined benefit schemes | **(4.6)** | (4.3) |
| Gain on settlement of the Alfred McAlpine (Ireland) Pension Plan | **-** | 1.4 |
| **Total** | **(6.2)** | (9.9) |
| **Net interest expense recognised as a financial expense** | **(14.7)** | (18.0) |

The valuation of the Group's main defined benefit pension schemes were reviewed by an independent qualified actuary at 31 December 2016.

The amount included in the balance sheet in respect of defined benefit schemes is as follows:

| | 2016 £m | 2015 £m |
|---|---|---|
| Present value of defined benefit obligation | **(3,361.6)** | (2,679.7) |
| Fair value of scheme assets | **2,572.7** | 2,302.4 |
| Minimum funding requirement | **(15.9)** | (16.2) |
| **Net pension liability** | **(804.8)** | (393.5) |
| Related deferred taxation asset | **141.6** | 75.9 |
| **Net pension liability after taxation** | **(663.2)** | (317.6) |

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

| | 2016 % | 2015 % |
|---|---|---|
| Rate of increase in salaries | **3.20** | 3.55 |
| Rate of increase in pensions | **3.10** | 3.00 |
| Inflation rate - Retail Price Index | **3.20** | 3.05 |
| Inflation rate - Consumer Price Index | **2.15** | 2.00 |
| Discount rate | **2.70** | 3.95 |

## 9 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise:

| | 2016 £m | 2015 £m |
|---|---|---|
| Cash and cash equivalents | **469.8** | 462.2 |
| Bank overdrafts | **(2.1)** | (6.4) |
| **Net cash and cash equivalents** | **467.7** | 455.8 |
| Bank loans | **(145.9)** | (118.8) |
| Finance lease obligations | **(15.6)** | (17.8) |
| Other loans | **(525.1)** | (489.0) |
| **Net borrowing** | **(218.9)** | (169.8) |

**9 Cash and cash equivalents and net borrowing (continued)**

Reconciliation of net cash flow to movement in net borrowing:

| | 2016 £m | 2015 £m |
|---|---|---|
| Decrease in net cash and cash equivalents | **(10.9)** | (6.1) |
| Net cash and cash equivalents in subsidiaries acquired | **-** | (6.2) |
| (Draw down)/repayment of bank and other loans | **(6.7)** | 19.0 |
| Repayment of finance lease liabilities | **7.4** | 6.0 |
| **Change in net borrowing resulting from cash flows** | **(10.2)** | 12.7 |
| Net cash in subsidiaries acquired | **-** | 5.3 |
| Interest accretion in respect of convertible bonds | **(2.8)** | (2.8) |
| Finance lease additions | **(2.5)** | - |
| Currency translation differences | **(33.6)** | (7.7) |
| **Change in net borrowing** | **(49.1)** | 7.5 |
| Net borrowing at 1 January | **(169.8)** | (177.3) |
| **Net borrowing at 31 December** | **(218.9)** | (169.8) |

**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 £316.7 million in the year ended 31 December 2016 (2015: £181.2 million). Amounts receivable from joint ventures amounted to £59.9 million (2015: £59.6 million) and amounts payable to joint ventures amounted to £112.4 million (2015: £87.0 million).

**11 Acquisitions and disposals**

**Acquisitions in 2016 and 2017**

There were no acquisitions in 2016. However, on 1 January 2017, the Group acquired the entire share capital of a Canadian facilities management services business from a subsidiary of Compass Group Canada Limited. The total cash consideration, which is capped at approximately £24 million, is payable in instalments and is subject to adjustment based on the financial performance of the business. For its 2015 financial year, the business had annual revenue of £70 million and the business combination accounting and post-acquisition results of the business will be incorporated within the Group's 2017 financial statements. The acquisition of the business does not have a material impact on the balance sheet of the Group and therefore the disclosures required by International Financial Reporting Standard 3 "Business Combinations" have not been presented.

Total acquisition costs incurred in relation to contracts and due diligence procedures for merger and acquisition activities in the year of £1.1 million (2015: £2.5 million) have been included in non-operating items in the income statement (see note 3).

**Acquisitions in 2015 and 2014**

On 28 May 2015, the Group acquired the entire share capital of the Outland Group (Outland). Outland provides a complete range of remote site services across a number of growth sectors in Canada, including mining, utilities, forestry, gas and oil. The total cash consideration, which is capped at approximately £63 million, is dependent on the financial performance of Outland between 2015 and 2017. The first instalment of the consideration of £10.7 million was included in the cash flow statement for 2015 within acquisition of subsidiaries, net of cash and cash equivalents acquired.

The fair value of the deferred and contingent consideration 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 an estimate of the 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 per cent.

In the first six months of 2016, the provisional assessment of the fair value of the net assets acquired and the contingent consideration payable relating to the acquisition of Outland became final following finalisation of the completion accounts process. As a result, the provisional amounts were amended giving rise to revised goodwill on the acquisition of £37.3 million, with prior year comparatives restated as noted on page 39.

Under the terms of the Sale and Purchase Agreement relating to Outland, contingent consideration is payable based on a multiple of Outland's average earnings before interest, taxation, depreciation and amortisation (EBITDA) for the three financial years 2015 to 2017. During the measurement period in the first half of 2016, Outland's actual EBITDA performance for 2015 was finalised, leading to a reduction in the fair value of the contingent consideration payable of £5.4 million, as disclosed in the table on page 39. In the second half of 2016, which is outside of the measurement period, the Group undertook a review of

## 11 Acquisitions and disposals (continued)

Outland's expected EBITDA performance for 2016 and 2017, leading to a reduction in the fair value of contingent consideration payable of £8.4 million, which has been recognised as a credit within net financial expense in the income statement. Following this change to the fair value of contingent consideration, the Group now expects to make contingent consideration payments totalling around £19.9 million (at 31 December 2016 exchange rates) in equal instalments in 2018 and 2019. In 2016, the Group paid the second and third instalment of deferred consideration relating to the acquisition of Outland amounting to £26.7 million.

On 24 December 2015, the Group acquired a 67 per cent controlling interest in Ask Real Estate Limited (AREL), a property development company based in the United Kingdom. The cash consideration of £4.0 million was paid in January 2016. Under the terms of the shareholder's agreement, Carillion has undertaken to acquire the remaining 33 per cent shareholding after a minimum period of five years from the date of the acquisition. The fair value of the commitment to purchase the remaining 33 per cent shareholding of £5.4 million has been included in the fair value of the consideration relating to the acquisition, with non-controlling interests derecognised. Following other measurement period adjustments, revised goodwill arising on the acquisition amounted to £6.1 million.

As the adjustments to the provisional amounts recognised in 2015 relating to the acquisition of Outland and AREL are within the measurement period, prior year comparatives for the year ended 31 December 2015 have been restated as indicated below:

| | Outland £m | AREL £m | Total £m |
|---|---|---|---|
| Provisional goodwill | 43.1 | - | 43.1 |
| Amendments to property, plant and equipment | (0.3) | - | (0.3) |
| Amendments to investments in joint ventures | - | 0.9 | 0.9 |
| Amendments to trade and other receivables | 0.3 | - | 0.3 |
| Amendments to trade and other payables | - | 0.5 | 0.5 |
| Amendments to contingent consideration | (5.4) | 5.4 | - |
| Exchange rate movements | (0.4) | - | (0.4) |
| Amendments to non-controlling interests | - | (0.7) | (0.7) |
| **Revised goodwill** | **37.3** | **6.1** | **43.4** |

The above acquisitions do not have a material impact on the balance sheet of the Group and therefore the full disclosures required by International Financial Reporting Standard 3 'Business combinations' have not been presented.

In the first six months of 2016, the Group reviewed its obligations in respect of contingent consideration payable arising on the acquisition of the Rokstad Corporation (Rokstad) in December 2014. Under the terms of the Sale and Purchase Agreement relating to Rokstad, contingent consideration is payable based on a multiple of Rokstad's EBITDA for 2015 and 2016. During this period, Rokstad's actual EBITDA performance for 2015 was finalised and a revised estimate was made of the expected EBITDA outturn for 2016, leading to a reduction in the fair value of contingent consideration payable of £7.2 million. This change in the fair value of contingent consideration has been recognised as a credit within net financial expense in the income statement. As a result of this reduction, the Group now expects to make consideration payments totalling around £3.7 million (at 31 December 2016 exchange rates) in 2017. In 2016, the Group paid £1.8 million to the previous owners of Rokstad under the terms of the Sale and Purchase Agreement. The estimate of Rokstad's EBITDA for 2019, upon which the consideration for the acquisition of the remaining 40 per cent of the issued share capital is based, remains unchanged.

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

| | **2016 £m** | 2015 £m |
|---|---|---|
| Cash paid for acquisitions in the year | **-** | (10.7) |
| Net cash and cash equivalents acquired | **-** | 6.2 |
| Payments in respect of acquisitions in prior years | **(32.5)** | (6.1) |
| **Net cash outflow on acquisition of subsidiaries, net of cash and cash eqivalents acquired** | **(32.5)** | (10.6) |

In 2016, the Group disposed of its interest in three Public Private Partnership projects. The disposals generated cash consideration of £48.2 million, which after deducting disposal costs paid of £1.1 million, is included in the cash flow statement within disposal of joint venture and other investments. The profit recognised on the disposals in the income statement of £12.7 million is after the deduction of accrued costs of £0.2 million and the carrying amount of joint ventures disposed totalling £35.3 million.

## 11 Acquisitions and disposals (continued)

### Disposals in 2015

In 2015, the Group disposed of its interest in three Public Private Partnership projects. The disposals generated cash consideration of £54.4 million, which after deducting disposal costs paid of £0.3 million, is included in the cash flow statement within disposal of joint venture and other investments. Additional consent costs paid of £10.1 million relating to the disposals have been included within '(decrease)/increase in trade and other payables' of £41.1 million within the operating cash flow section of the cash flow statement and legal costs of £0.9 million have been accrued for. The profit recognised on the disposals in the income statement of £37.7 million is after the deduction of the accrued costs above and the carrying amount of joint ventures disposed totalling £5.4 million.

## 12 Share capital

The issued and fully paid share capital at 31 December 2016 was 430.3 million shares (2015: 430.3 million).

## 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 £103.5 million (2015: £112.4 million), with the reduction compared to 2015 reflecting the disposal of PPP equity investments in 2016. There has been no material change to the contingent liabilities of the Group in the year ended 31 December 2016.

## 14 Company information.

This preliminary announcement was approved by the Board of Directors on 1 March 2017. The 2016 Annual Report will be posted to shareholders by 31 March 2017 and both this statement and the 2016 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.

## 15 Alternative performance measures

The Directors believe it is appropriate to present the results of the Group using alternative performance measures in order to:

- Provide decision useful information to users about the Group's underlying performance, as reported performance can be distorted by non-recurring items or can be influenced by market factors that are outside of the control of the Group.
- Present information in a way that reflects how the Directors monitor and measure the performance of the Group

The alternative performance measures presented aim to supplement the reported results presented in accordance with International Financial Reporting Standards (IFRS) by providing further clarity on the performance of the Group. The following section provides an indication of the purpose and definition of each of the alternative performance measures presented in the 2016 Annual Report and Accounts, together with an appropriate cross reference to where the financial information can be found within the IFRS financial statements.

### Income statement

A. Total revenue

The total revenue figure of £5,214.2 million (as shown in the income statement on page 22) includes Group revenue of £4,394.9 million together with the Group's share of revenue from Joint Ventures of £819.3 million. The Group includes Joint Venture revenue in its headline revenue figure to reflect the fact that a significant proportion of the Group's operational delivery activities are undertaken through Joint Ventures.

B. Organic growth

Organic growth is the growth achieved compared to the previous year, excluding the impact of foreign exchange rate movements and incremental contributions from businesses acquired in either the current or prior year. The impact of foreign exchange rate movements is calculated by translating current year revenue using the average exchange rates applicable for the previous year.

## 15 Alternative performance measures (continued)

C. Underlying profit from operations

This is a measure that reflects the underlying profit generated from the operational activities of both Group and Joint Venture undertakings and is calculated as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Reported profit from operations (income statement on page 22) | **181.9** | 209.4 |
| Add back: Intangible amortisation arising from business combinations (income statement on page 22) | **13.8** | 20.0 |
| Non-recurring operating items (note 3 on page 34) | **40.2** | 5.0 |
| Underlying profit from operations | **235.9** | 234.4 |

D. Underlying operating profit and margin

Underlying operating profit and margin is a measure of the underlying operating profit that is generated from the revenue of Group and Joint Venture undertakings combined. It excludes the Group's share of the net financial expense and taxation of Joint Ventures in order to give a purer measure of operating performance than underlying profit from operations noted in section C above and is calculated as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Reported Group operating profit (income statement on page 22) | **145.6** | 183.4 |
| Add back: Intangible amortisation arising from business combinations (income statement on page 22) | **13.8** | 20.0 |
| Non-recurring operating items (note 3 on page 34) | **40.2** | 5.0 |
| Include: Joint Venture operating profit (note 2 on page 30) | **54.3** | 36.0 |
| Underlying operating profit | **253.9** | 244.4 |

Underlying operating margin is calculated by dividing the underlying operating profit noted above by total revenue as defined in section A as shown below:

| | **2016** | 2015 |
|---|---|---|
| Underlying operating profit (see above) (£m) | **253.9** | 244.4 |
| Total revenue (income statement on page 22) (£m) | **5,214.2** | 4,586.9 |
| Underlying operating margin (%) | **4.9** | 5.3 |

E. Underlying net financial expense

Underlying net financial expense is a measure of the net cost of financing the Group's operations excluding items reported in net financial expense that are unrelated to financing or are influenced by market factors outside the control of the Group and is calculated as follows:

| | **2016 £m** | 2015 £m |
|---|---|---|
| Reported net financial expense (income statement on page 22) | **(34.1)** | (51.8) |
| Deduct: Fair value movements in derivative financial instruments (note 4 on page 34) | **(8.2)** | (6.1) |
| Changes in contingent consideration relating to acquisitions (note 4 on page 34) | **(15.6)** | - |
| Underlying net financial expense | **(57.9)** | (57.9) |

## 15 Alternative performance measures (continued)

F. Underlying profit before taxation

Underlying profit before taxation is a measure of the underlying profit generated by all of the Group's activities before a charge for taxation is made and is calculated as follows:

| | | **2016 £m** | 2015 £m |
|---|---|---|---|
| Reported profit before taxation (income statement on page 22) | | **146.7** | 155.1 |
| Add back: | Intangible amortisation arising from business combinations (income statement on page 22) | **13.8** | 20.0 |
| | Non-recurring operating items (note 3 on page 34) | **40.2** | 5.0 |
| | Non-operating items (note 3 on page 34) | **1.1** | 2.5 |
| Deduct: | Fair value movements in derivative financial instruments (note 4 on page 34) | **(8.2)** | (6.1) |
| | Changes in contingent consideration relating to acquisitions (note 4 on page 34) | **(15.6)** | - |
| Underlying profit before taxation | | **178.0** | 176.5 |

G. Underlying earnings per share

Underlying earnings per share measures the underlying profit attributable to each Carillion plc share held. Underlying profit attributable to shareholders is calculated as follows:

| | | **2016 £m** | 2015 £m |
|---|---|---|---|
| Reported profit attributable to equity holders of the parent (income statement on page 22) | | **124.2** | 132.8 |
| Add back: | Intangible amortisation arising from business combinations (net of taxation) (note 6 on page 35) | **10.8** | 15.0 |
| | Non-recurring operating items (net of taxation) (note 6 on page 35) | **37.8** | 5.0 |
| | Non-operating items (net of taxation) (note 6 on page 35) | **1.1** | 2.5 |
| Deduct: | Fair value movements in derivative financial instruments (net of taxation) (note 6 on page 35) | **(6.6)** | (4.9) |
| | Changes in contingent consideration relating to acqusitions (net of taxation) (note 6 on page 35) | **(15.6)** | - |
| Underlying profit attributable to equity holders of the parent | | **151.7** | 150.4 |

Underlying earnings per share is then calculated by dividing underlying profit attributable to equity holders of the parent shown above by the weighted average number of shares in issue as shown below:

| | **2016** | 2015 |
|---|---|---|
| Underlying profit attributable to equity holders of the parent (£m) | **151.7** | 150.4 |
| Weighted average number of shares in issue (note 6 on page 35) (m) | **430.2** | 430.2 |
| Underlying earnings per share (pence) | **35.3** | 35.0 |

**15 Alternative performance measures (continued)**

H. Underlying effective tax rate

Underlying effective tax rate is presented in order to illustrate the underlying tax rate applicable to the underlying profit before taxation of Group and Joint Venture undertakings and is calculated by dividing the underlying taxation charge for Group and Joint Venture undertakings of £25.8 million (2015: £22.4 million) by underlying profit before taxation (excluding share of Joint Venture taxation) of £182.8 million (2015: £179.4 million) as shown below:

| | **2016** | 2015 |
|---|---|---|
| Group underlying taxation charge (note 6 on page 35) (£m) | **21.0** | 19.5 |
| Share of Joint Ventures taxation charge (income statement on page 22) (£m) | **4.8** | 2.9 |
| Total underlying taxation charge (£m) | **25.8** | 22.4 |
| Underlying profit before taxation (section F above) (£m) | **178.0** | 176.5 |
| Add back: Share of Joint Venture taxation (income statement on page 22) (£m) | **4.8** | 2.9 |
| Underlying profit excluding all taxation (£m) | **182.8** | 179.4 |
| Underlying effective tax rate (%) | **14.1** | 12.5 |

I. Dividend cover

Dividend cover measures the number of times that the proposed dividend for the year is covered by underlying earnings per share. It is calculated by dividing the proposed dividend per share by underlying earnings per share as shown below:

| | **2016** | 2015 |
|---|---|---|
| Underlying earnings per share (section G above) (pence) | **35.3** | 35.0 |
| Proposed dividend per share (note 7 on page 36) (pence) | **18.45** | 18.25 |
| Dividend cover (times) | **1.9** | 1.9 |

**Cash flow statement**

J. Underlying operating cash flow conversion

Underlying operating cash flow conversion measures the proportion of underlying profit from operations that is converted into cash to service the Group's ongoing activities, excluding the impact on operations from significant movements in foreign exchange rates. It is calculated by dividing underlying cash generated from operations by underlying profit from operations as shown below:

| | | **2016** | 2015 |
|---|---|---|---|
| Cash generated from operations (cash flow statement on page 27) (£m) | | **115.5** | 120.3 |
| Add back: | Deficit recovery payments to pension schemes (£m) | **46.6** | 47.4 |
| | Non-recurring operating items (£m) | **21.5** | 6.3 |
| | Cash flows on forward foreign currency contracts (£m) | **34.6** | - |
| Include: | Dividends received from Joint Ventures (£m) | **11.8** | 16.8 |
| | Disposal of Joint Ventures and other investments (£m) | **47.1** | 54.1 |
| **Underlying cash generated from operations (£m)** | | **277.1** | 244.9 |
| **Underlying profit from operations (section C above) (£m)** | | **235.9** | 234.4 |
| Underlying cash conversion (%) | | **117** | 104 |

K. Net borrowing and average net borrowing

The Directors view net borrowing rather than cash and cash equivalents as the most appropriate measure of liquidity for the Group as this measure includes all sources of financing used to fund the Group's operations. Note 9 on page 37 shows the sources of financing that are included in net borrowing in addition to cash and cash equivalents.

Average net borrowing is calculated as the average of the net borrowing at the end of the previous financial year and each of the month end net borrowing figures as reported to the Board in the current financial year.

## 15 Alternative performance measures (continued)

L. Summary cash flow statement

For internal management purposes, The Directors utilise a summarised cash flow statement for monitoring the generation and utilisation of cash in the business. The summary cash flow groups items from the IFRS cash flow statement on page 27 into broader operational categories as shown below:

| Depreciation and other non-cash items | **2016 £m** | 2015 £m |
|---|---|---|
| Depreciation and amortisation | **45.0** | 45.4 |
| Less: Amortisation of intangible assets arising from business combinations | **(13.8)** | (20.0) |
| Profit on disposal of property, plant and equipment and intangible assets | **(6.4)** | (14.4) |
| Other non-cash movements | **1.9** | (0.3) |
| Depreciation and other non-cash items per summary cash flow statement | **26.7** | 10.7 |

| Working capital | **2016 £m** | 2015 £m |
|---|---|---|
| Profit on disposal of Public Private Partnership equity investments | **(12.7)** | (37.7) |
| Increase in inventories | **(6.3)** | (14.3) |
| (Increase)/decrease in trade and other receivables | **(290.6)** | 48.0 |
| Increase/(decrease) in trade and other payables | **301.5** | (41.1) |
| Disposal of Joint Ventures and other investments | **47.1** | 54.1 |
| Working capital per summary cash flow statement | **39.0** | 9.0 |

| Interest and taxation | **2016 £m** | 2015 £m |
|---|---|---|
| Financial income received | **2.5** | 2.4 |
| Financial expense paid | **(39.6)** | (35.3) |
| Taxation payments | **(4.2)** | (7.5) |
| Interest and taxation per summary cash flow statement | **(41.3)** | (40.4) |

| Net capital expenditure | **2016 £m** | 2015 £m |
|---|---|---|
| Disposal of property, plant and equipment and intangible assets | **13.8** | 17.6 |
| Acquisition of property, plant and equipment and intangible assets | **(37.3)** | (30.4) |
| Net capital expenditure per summary cash flow statement | **(23.5)** | (12.8) |

| Other | **2016 £m** | 2015 £m |
|---|---|---|
| Acquisition of own shares | **(1.0)** | (0.4) |
| Interest accretion in respect of convertible bonds (note 9 on page 37) | **(2.8)** | (2.8) |
| Finance lease additions (note 9 on page 37) | **(2.5)** | - |
| Other per summary cash flow statement | **(6.3)** | (3.2) |

| Foreign exchange movements | **2016 £m** | 2015 £m |
|---|---|---|
| Cash flows on forward foreign currency contracts | **(34.6)** | - |
| Currency translation differences on net debt (note 9 on page 37) | **(33.6)** | (7.7) |
| Foreign exchange rate movements per summary cash flow statement | **(68.2)** | (7.7) |

## 15 Alternative performance measures (continued)

| Acquisitions and disposals | **2016 £m** | 2015 £m |
|---|---|---|
| Acquisition costs | **(0.9)** | (6.6) |
| Loan advance repayments received from Joint Ventures | **2.1** | 7.2 |
| Acquisition of subsidiaries, net of cash and cash equivalents acquired | **(32.5)** | (10.6) |
| Acquisition of equity and loan advances to Joint Ventures | **(4.8)** | (28.3) |
| Acquisition of other non-current asset investments | **-** | (0.4) |
| Deduct: Net cash and cash equivalents acquired (note 9 on page 37) | **-** | (6.2) |
| Add: Net cash in subsidiaries acquired (note 9 on page 37) | **-** | 5.3 |
| Acquisitions and disposals per summary cash flow statement | **(36.1)** | (39.6) |

| Dividends | **2016 £m** | 2015 £m |
|---|---|---|
| Dividends paid to equity holders of the parent | **(78.9)** | (76.8) |
| Dividends paid to non-controlling interests | **(3.8)** | (3.2) |
| Dividends per summary cash flow statement | **(82.7)** | (80.0) |

**Directors' responsibilities**

This preliminary announcement complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct 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 2016. 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 2016 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 2016 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 2016 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's financial position, performance, business model and strategy.

**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 2016 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 2016 will be determined in accordance with English law.

On behalf of the Board

**Zafar Khan**
Group Finance Director
1 March 2017