carillion

Making tomorrow a better place

News

24 August 2016

Half-year financial report for the six months ended 30 June 2016

Performance in line with expectations led by strong growth in support services

	Six months ended 30 June 2016	Six months ended 30 June 2015	Change
Revenue	£2,487.1m	£2,258.6m	+10%
Underlying profit from operations(1)	£112.7m	£112.5m	-
Underlying operating margin(1)	4.9%	5.1%	n/a
Underlying profit before taxation(1)	£84.5m	£84.5m	-
Underlying earnings per share(1)	16.0p	15.9p	+1%
Profit before taxation	£83.9m	£67.5m	+24%
Basic earnings per share	15.8p	12.7p	+24%
Interim dividend per share	5.8p	5.7p	+2%

- **First-half financial performance in line with expectations**
  - Strong organic revenue growth
  - Performance led by revenue and margin growth in support services, which accounted for some 60 per cent of total underlying operating profit
  - Average net borrowing similar to the 2015 full-year average of £538.9 million and in line with expectations
  - Balance sheet remains robust with over £1.4 billion of committed funding available to the Group

- **Strong work winning, order book and pipeline of contract opportunities**
  - £2.5 billion(2) of new first-half orders plus probable orders (2015: £1.0 billion)
  - Revenue visibility(3) for 2016 of 98% at 30 June 2016 (2015: 96%)
  - Total orders plus probable orders of £17.4 billion at 30 June 2016 (31 December 2015: £17.4 billion)
  - Pipeline of contract opportunities worth £41.5 billion (31 December 2015: £41.4 billion)

- **Interim dividend increased by 2% to 5.8p (2015: 5.7p)**

- **On track to make further progress in 2016 with no changes to our full-year expectations**

Carillion Chairman, Philip Green, commented:

"I am pleased to report that the Group's first-half results are in line with our expectations, led by a strong performance in our support services business, which accounted for nearly two thirds of the Group's underlying operating profit. New order intake in the first half of the year has been strong and continues to reflect the success of our strategy and strength of our business model. Overall, we remain on track to make further progress in 2016".

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(2) Net of £0.2 billion of orders removed as a result of selling Public Private Partnership equity investments.
(3) 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 dial in facility available tel: primary number **+44 (0)844 800 3850** – Access Code: **562 264.** A replay facility is also available for 30 days, the telephone number is **+44 (0)800 032 9687** – Access Code: **38316656** – or overseas **+44 (0)207 136 9233** – Access Code: 38316656. 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.

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulation that came into effect on 3 July 2016.

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24 August 2016

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 2015 of some £4.6 billion, employs around 46,000 people and operates across the UK, in the Middle East and Canada.

The Group has four business segments:

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

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

Photographs:
High resolution photographs are available free of charge to the media at www.newscast.co.uk telephone + 44 (0) 208 886 5895.

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	**2,487.1**	2,258.6	+10%
Underlying operating profit(1)	£m	**121.3**	115.3	+5%
Underlying profit from operations(2)	£m	**112.7**	112.5	-
Total Group underlying operating margin(3)	Percentage	**4.9**	5.1	n/a
Support services underlying operating margin(3)	Percentage	**5.7**	4.7	n/a
Middle East construction services underlying operating margin(3)	Percentage	**3.7**	5.8	n/a
Construction services (excluding the Middle East) underlying operating margin(3)	Percentage	**3.0**	3.2	n/a
Underlying profit before taxation(4)	£m	**84.5**	84.5	-
Profit before taxation	£m	**83.9**	67.5	+24%
Underlying earnings per share(5)	Pence	**16.0**	15.9	+1%
Basic earnings per share	Pence	**15.8**	12.7	+24%
Diluted earnings per share	Pence	**13.2**	12.7	+4%
Dividends				
Proposed interim dividend per share	Pence	**5.8**	5.7	+2%
Underlying proposed dividend cover(5)	Times	**2.8**	2.8	n/a
Basic proposed dividend cover	Times	**2.7**	2.2	n/a
Cash flow statement				
Cash generated from operations(6)	£m	**43.6**	113.1	-61%
Underlying profit from operations cash conversion	Percentage	**38.7**	101.0	n/a
Deficit pension contributions	£m	**(22.3)**	(22.2)	-
Balance sheet				
Net borrowing	£m	**(290.6)**	(199.6)	-46%
Committed borrowing facilities maturing in 2017 and 2020	£m	**870.0**	850.0	+2%
Private placement borrowing maturing between 2017 and 2024 (£135 million and US$ 280 million)	£m	**(344.0)**	(313.3)	-10%
Convertible bonds maturing by 2019	£m	**(170.0)**	(170.0)	-
Net retirement benefit liability (net of taxation)	£m	**(401.7)**	(355.9)	-13%
Net assets	£m	**970.5**	934.4	+4%

(1) Before intangible amortisation of £6.8 million (2015: £8.2 million) and non-recurring operating items of £10.5 million (2015: Nil). (See note 3 to the financial information on page 27).

(2) After Joint Ventures net financial expense of £6.9 million (2015: £1.3 million) and Joint Ventures taxation charge of £1.7 million (2015: £1.5 million) and before intangible amortisation and non-recurring operating items.

(3) Before Joint Ventures net financial expense and taxation charge, intangible amortisation and non-recurring operating items.

(4) After Joint Ventures taxation charge and before intangible amortisation, non-recurring operating items, non-operating items of Nil (2015: £1.5 million), a credit relating to fair value movements in derivative financial instruments of £9.9 million (2015: charge of £7.3 million) and a credit arising from changes in the contingent consideration relating to acquisitions of £6.8 million (2015: Nil) (see notes 3 and 4 to the financial information on page 27).

(5) 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.

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

Summary results

Overall, we continue to benefit from having rescaled and repositioned our businesses during the economic downturn to take advantage of markets that are now offering opportunities for growth.

Financial performance

As expected, our first-half performance was led by revenue and margin growth in support services and we expect this to continue in the second half of the year. Total first-half revenue increased by 10 per cent to some £2.5 billion (2015: £2.3 billion). The first-half operating margin reduced to 4.9 per cent (2015: 5.1 per cent), because, as previously announced, the quantum of profit from equity sales in Public Private Partnership projects was lower than in the first half of 2015 and the benefit to profit from the reorganisation of our labour facilities in Oman in the first half of 2015 was not repeated. However, strong revenue growth more than offset the reduction in underlying operating margin and underlying operating profit(1) increased to £121.3 million (2015: £115.3 million), driven by a 30 per cent increase in the contribution from support services, which now accounts for some 60 per cent of the Group's underlying operating profit, as we continue to grow our support services business in line with our strategy.

Underlying profit from operations(1) was broadly unchanged at £112.7 million (2015: £112.5 million), as was underlying profit before taxation(1) of £84.5 million (2015: £84.5 million), after an increase in joint ventures net financial expense to £6.9 million (2015: £1.3 million), a small increase in the Group's underlying net financial expense to £28.2 million (2015: £28.0 million) and a joint ventures taxation charge of £1.7 million (2015: £1.5 million). The Group's underlying net financial expense of £28.2 million excludes a £9.9 million positive movement in the fair value of the derivative instrument related to the convertible bonds issued by the Group in December 2014 and a £6.8 million positive movement to changes in contingent consideration relating to acquisitions. After an underlying Group taxation charge of £11.6 million (2015: £11.6 million) and non-controlling interests of £3.9 million (2015: £4.5 million), underlying earnings per share marginally improved to 16.0 pence (2015: 15.9 pence).

The Group's underlying taxation charge(2) of £11.6 million, when combined with a joint ventures taxation charge of £1.7 million, represented an underlying effective tax rate(2) of 15.4 per cent (2015: 15.4 per cent). This 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 business acquisitions.

Reported profit before tax increased by 24 per cent to £83.9 million (2015: £67.5 million), after intangible amortisation, non-recurring 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 £0.6 million (2015: £17.0 million). Following a Group taxation charge of £12.2 million (2015: £8.3 million), profit after tax increased by 21 per cent to £71.7 million (2015: £59.2 million). After non-controlling interests of £3.9 million (2015: £4.5 million), reported earnings per share increased by 24 per cent to 15.8 pence (2015: 12.7 pence).

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(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 27).

Average net borrowing in the first half of £541.4 million was similar to the full-year average in 2015 of £538.9 million and in line with our expectations. Net borrowing at 30 June 2016 was £290.6 million (30 June 2015: £199.6 million; 31 December 2015: £169.8 million). An increase in net borrowing at the half year was expected, due to the impact of paying the final 2015 dividend of £54.0 million in June 2016. But the increase was slightly higher than expected, due to the phasing of a number of cash flow items, from which we will benefit in the second half, and to a £19.4 million adverse movement in the US dollar exchange rate following the EU Referendum on 23 June 2016, because the majority of our private placement borrowing is denominated in US dollars. However, the effect of movements in the US dollar exchange rate on our private placement borrowing is non cash, because this borrowing is hedged, both in terms of interest costs and the cost of repayment at maturity. Apart from the potential impact of the US dollar exchange rate on our private placement borrowing, we expect net borrowing at the year end to reduce. Cash conversion was also affected by the phasing of cash flow items across the period end, with first-half cash flow from operations representing 39 per cent of underlying profit from operations (2015: 101 per cent). However, we expect to return to a more normal cash flow profile in the second half and we continue to target cash-backed profit in the full year.

Work winning

New order intake in the first half was strong, with new orders and probable orders worth some £2.5 billion(1) (2015: £1.0 billion). Consequently, the total value of the Group's order book plus probable orders remained stable at £17.4 billion at 30 June 2016 (31 December 2015: £17.4 billion), despite removing some £0.2 billion from the order book due to the sale of investments in Public Private Partnership projects. Full-year revenue visibility(2) at 30 June 2016 increased to 98 per cent (2015: 96 per cent), up from 84 per cent at the end of 2015. Furthermore, despite converting £2.5 billion of pipeline opportunities into orders and probable orders, the total value of the Group's pipeline of contract opportunities increased slightly at the half year to £41.5 billion (31 December 2015: £41.4 billion).

Dividends

In view of the Group's first-half performance and our expectations for the full year, the Board has increased the interim dividend by two per cent to 5.8 pence per share (2015: 5.7 pence), which is covered 2.8 times by underlying earnings per share(3) (2015: 2.8 times). 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, subject to the investment needs of the business.

(1) Net of £0.2 billion of orders removed as a result of selling Public Private Partnership equity investments.
(2) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.
(3) The underlying results stated above are based on the definitions included in the key financial figures on page 3.

Business segments

Revenue and operating profit by business segment

	2016 £m	2015 £m	Change from 2015 %
Revenue			
Support services	**1,336.0**	1,238.5	+8
Public Private Partnership projects	**143.8**	82.5	+74
Middle East construction services	**320.3**	326.5	-2
Construction services (excluding the Middle East)	**687.0**	611.1	+12
	2,487.1	2,258.6	+10
Underlying operating profit(1)			
Support services	**75.9**	58.3	+30
Public Private Partnership projects	**19.7**	26.4	-25
Middle East construction services	**11.7**	18.9	-38
Construction services (excluding the Middle East)	**20.7**	19.3	+7
	128.0	122.9	+4
Group eliminations and unallocated items	**(6.7)**	(7.6)	-12
Underlying profit from operations before Joint Ventures net financial expense and taxation	**121.3**	115.3	+5
Share of Joint Ventures net financial expense	**(6.9)**	(1.3)	-431
Share of Joint Ventures taxation	**(1.7)**	(1.5)	-13
Underlying profit from operations(1)	**112.7**	112.5	-
Underlying Group net financial expense	**(28.2)**	(28.0)	-
Underlying profit before taxation(1)	**84.5**	84.5	-

Support services

	2016 £m	2015 £m	Change from 2015 %
Revenue			
- Group	**1,203.1**	1,158.6	
- Share of Joint Ventures	**132.9**	79.9	
	1,336.0	1,238.5	+8
Underlying operating profit(2)			
- Group	**65.6**	48.8	
- Share of Joint Ventures	**10.3**	9.5	
	75.9	58.3	+30

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.

The eight per cent increase in support services revenue was primarily due to organic growth. As expected, the operating margin also increased significantly, from 4.7 per cent to 5.7 per cent, because in 2016 we were no longer incurring higher-than-normal mobilisation costs that reduced the margin in 2015, following a particularly strong work winning performance. With both strong revenue and margin growth, underlying operating profit increased by 30 per cent to £75.9 million and now accounts for some 60 per cent of the Group's total underlying operating profit.

(1) The underlying results stated above are based on the definitions included in the key financial figures on page 3.
(2) Before intangible amortisation and non-recurring operating items.

Work winning in support services also remained strong, with total new orders and probable orders won in the first half worth £1.6 billion, a substantial increase on the value of work won in the corresponding period in 2015 (2015: £0.6 billion) as this was affected by the usual slowdown in contract awards by UK Government customers that accompanies a General Election. At 30 June 2016, the total value of orders and probable orders in this segment increased to £13.0 billion (31 December 2015: £12.7 billion) with revenue visibility(1) of 97 per cent for the full year. Given that we do not include revenues from variable work or framework contracts, which typically make significant contributions to this segment, in the value of our order book or probable orders, we remain in a good position to achieve our full-year revenue ambition.

Notable first-half contract wins included a £240 million, 4.5 year extension to Carillion Alawi's contract with Petroleum Development Oman (PDO), under which we provide a wide range of support services across PDO's 100,000 square kilometre estate and two contracts for the Northern Ireland Housing Executive to provide maintenance services to 22,000 houses, worth up to £366 million over 10 years.

Despite having converted £1.6 billion of contract opportunities into orders or probable orders during the first half, we continue to have a substantial pipeline of opportunities worth £12.1 billion at 30 June 2016 (31 December 2015: £12.1 billion), notably for infrastructure services and facilities management for both public and private sector customers seeking to improve standards and reduce costs. Overall, we believe the outlook for our support services segment continues to be positive and we remain on track to achieve our full-year ambitions for both revenue and margin growth.

Public Private Partnership (PPP) projects

	2016 £m	2015 £m	Change from 2015 %
Revenue			
- Group	**0.7**	0.6	
- Share of Joint Ventures	**143.1**	81.9	
	143.8	82.5	+74
Underlying operating profit(2)			
- Group	**12.3**	22.6	
- Share of Joint Ventures	**7.4**	3.8	
	19.7	26.4	-25

In this segment we report the equity returns on our investments in the PPP projects we have in the UK and in Canada.

Revenue increased strongly, despite selling further equity investments in the first half, as a result of our strong work winning performance in 2015, during which we achieved financial close on four new projects – in the UK, the Midland Metropolitan Hospital and the Midlands Priority Schools Programme and in Canada the North Battleford and Stanton Territorial hospitals – in which we expect to invest over £26 million of equity and from which we expect to generate around £550 million of revenue in this segment over the life of the concession contracts, plus some £790 million of construction and support services revenue.

(1) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.
(2) Before intangible amortisation and non-recurring operating items.

Our portfolio of investments in PPP projects continues to perform well and in the first half of 2016 we sold equity investments in three projects, generating net proceeds of £48.2 million, which represented an average discount rate of just under seven per cent and a net profit of £12.7 million (2015: £24.0 million).

At 30 June 2016, we had a portfolio of 15 financially closed projects in which we had invested approximately £11.8 million of equity and into which we are committed to invest a further £61.7 million of equity once construction is completed. At 30 June 2016, the Directors' valuation of the investments in our portfolio of financially closed projects was some £27 million, based on discounting the cash flows from these investments at nine per cent and £44 million based on a seven per cent discount rate.

The value of our order book plus probable orders in this segment at 30 June 2016 was some £0.9 billion (31 December 2015: £1.2 billion), after removing approximately £0.2 billion from the order book due to selling three equity investments in the first half. Since the half year, a Carillion Joint Venture has achieved financial close on the Irish Schools Bundle 5 project, in which we will invest £4.5 million of equity. Carillion will also carry out the construction and deliver support services over the 27-year concession period, which, together with our equity investment, are expected to generate around £190 million of revenue for the Group.

Overall, we remain on course to achieve our full-year ambitions for revenue and profit from this segment of our business, where we expect a lower contribution from equity sales compared to 2015.

Middle East construction services

	2016 **£m**	2015 £m	Change from 2015 %
Revenue			
- Group	**200.1**	194.4	
- Share of Joint Ventures	**120.2**	132.1	
	320.3	326.5	-2
Underlying operating profit(1)			
- Group	**4.5**	16.1	
- Share of Joint Ventures	**7.2**	2.8	
	11.7	18.9	-38

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

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

Revenue was a little lower than in 2015, in line with previous guidance, as we continue to be extremely selective in choosing the contracts for which we bid, which continues to be a key element of our disciplined strategy in a climate where the continuing low oil price is affecting the pace of investment plans in some Gulf countries. The first-half underlying operating profit reduced by £7.2 million to £11.7 million, with the operating margin reducing to 3.7 per cent (2015: 5.8 per cent), which was also expected, because as previously announced the contribution to profit in the first half of 2015 from the reorganisation of our labour facilities in Oman was not repeated in 2016.

The total value of orders and probable orders at 30 June reduced to £0.6 billion (31 December 2015: £0.8 billion), but revenue visibility(1) for the full year remains strong at 96 per cent. Given we focus on large, high quality projects, the timing of bidding and winning such projects can have significant short-term impacts on the size of our order book, so we do not believe that the movement we saw in our order book at the half year is particularly significant. Importantly, we continue to have a good pipeline of contract opportunities worth £16.0 billion at the half year (31 December 2015: £16.0 billion), which includes a number of projects for which we remain well placed to secure the support of UK Export Finance (UKEF) in the second half of 2016.

Focusing on winning contracts with the support of UKEF is an important element of our strategy to mitigate the impact of the prolonged low oil price on the pace of customer investment plans. As the market leader in working with UKEF to finance construction projects in the Gulf, we continue to be in a strong position to take advantage of the substantial increase in demand from customers for this form of project finance. Therefore, we continue to target full-year revenue and operating profit in line with our ambitions.

Construction services (excluding the Middle East)

	2016 £m	2015 £m	Change from 2015 %
Revenue			
- Group	**682.7**	607.7	
- Share of Joint Ventures	**4.3**	3.4	
	687.0	611.1	+12
Underlying operating profit(2)			
- Group	**15.2**	18.5	
- Share of Joint Ventures	**5.5**	0.8	
	20.7	19.3	+7

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.

First-half revenue increased as growth in UK construction revenue more than offset a further modest decline in revenue in Canada, where we continue to implement our previously announced strategy of tightening our selective approach by focusing on construction work for Public Private Partnership projects. Underlying operating profit increased, although the underlying operating margin reduced slightly to 3.0 per cent (2015: 3.2 per cent). However, this is consistent with our long-standing guidance that the margin in this segment would trend back towards a more normal level of between 2.5 per cent and 3.0 per cent as the temporary benefits to margins due to rescaling of our UK construction business, namely lower bid costs, the actions we took to reduce overheads and favourable outturns on contracts being completed, have now ended. Therefore, a margin of 3.0 per cent is a very satisfactory result at the top end of our target range and equal to the full-year margin we achieved in 2015.

(1) Based on expected revenue and secure and probable orders, which exclude variable work, frameworks and re-bids.
(2) Before intangible amortisation and non-recurring operating items.

The value of new orders and probable orders won in the first half was approximately £0.7 billion (2015: £0.2 billion) and consequently the total value of orders plus probable orders in this segment at 30 June 2016 remained broadly stable at £2.9 billion (31 December 2015: £2.7 billion). At 30 June 2016, revenue visibility(1) for the full year was 100 per cent.

Our pipeline of contract opportunities at 30 June 2016 also remained strong at £11.1 billion (31 December 2015: £10.9 billion), notwithstanding the tightening of our selective approach to construction contracts in Canada.

Given the strength and quality of our order book and pipeline, we continue to expect to achieve our full-year ambitions for revenue and underlying operating margin. We expect full-year revenue in 2016 to be at least similar to that in 2015, notwithstanding a further modest reduction in the contribution from Canada. As regards the full-year operating margin, our ambition is to maintain this at or near the top end of our target range of 2.5 per cent to 3.0 per cent and therefore above the industry average.

Non-underlying items

Net non-underlying items amounted to a charge of £0.6 million (2015: charge of £17.0 million) and comprised the following: an intangible amortisation charge of £6.8 million (2015: £8.2 million), relating to the amortisation of intangible assets arising from business acquisitions; a non-recurring operating charge of £10.5 million (2015: Nil), which represents the compensation and associated costs that we expect to pay under The Construction Workers Compensation Scheme set up by eight UK companies for workers who have been impacted by use of the database vetting system operated by The Consulting Association; a credit of £9.9 million (2015: charge of £7.3 million) arising from fair value movements in derivative financial instruments relating to the convertible bonds issued by the Group in December 2014, and a non-recurring credit of £6.8 million (2015: Nil) arising from a reduction in the contingent consideration in respect of previous business acquisitions. There were no non-operating costs in 2016 (2015: £1.5 million).

Pensions

The Group's first-half pensions charge against operating profit in respect of defined benefit schemes was £4.6 million (2015: £5.3 million). The non-cash interest charge relating to pensions reduced to £7.4 million (2015: £9.0 million), which reflected a reduction in the Group's pre-tax retirement benefit liability from £509.7 million at 31 December 2014 to £393.5 million at 31 December 2015. At 30 June 2016, the Group's pre-tax retirement benefit liability increased to £497.3 million, with the post-tax liability increasing to £401.7 million (31 December 2015: £317.6 million), primarily due to a reduction in the AA bond yield following the referendum vote to leave the European Union, as this is used as the discount rate in the calculation of scheme liabilities.

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

Cash flow

	2016 £m	2015 £m
Underlying Group operating profit	**90.9**	98.4
Depreciation and other non-cash items	**17.5**	(0.1)
Working capital(1)	**(70.5)**	6.1
Dividends received from Joint Ventures	**5.7**	8.7
Underlying cash flow from operations	**43.6**	113.1
Deficit pension contributions	**(22.3)**	(22.2)
Non-recurring operating items	**(5.9)**	(2.2)
Interest and tax	**(24.2)**	(22.7)
Net capital expenditure	**(14.8)**	(1.1)
Other	**(4.5)**	(1.8)
	(28.1)	63.1
Foreign exchange movements	**(19.4)**	2.3
Acquisitions and disposals	**(18.1)**	(34.9)
Dividends	**(55.2)**	(52.8)
Change in net borrowing	**(120.8)**	(22.3)
Net borrowing at 1 January	**(169.8)**	(177.3)
Net borrowing at 30 June	**(290.6)**	(199.6)

(1) Including £35.4 million (2015: £14.1 million) from the sale of Public Private Partnership equity investments (excess of proceeds over profit).

First-half underlying cash flow from operations of £43.6 million (2015: £113.1 million) represented an underlying profit from operations cash conversion of 39 per cent (2015: 101 per cent). This reflected the phasing of cash flow items across the period end from which we will benefit from in the second half. Consequently, we expect cash flow in the second half to return to a more normal profile and our target of delivering cash-backed profit in the full year remains unchanged.

Net capital expenditure increased to £14.8 million, because in 2015 the investments we made in up-grading our back-office IT platform and in new service delivery equipment in our support services business, were partially offset by proceeds of £15.2 million from re-organising our staff accommodation facilities in the Middle East. Acquisitions and disposals of £18.1 million predominantly comprised business acquisition payments of £19.6 million (2015: £18.0 million).

Net borrowing increased at the half year, due to the effect of paying in June the final dividend of £54.0 million in respect of the prior year. However, the increase at 30 June 2016 also reflected the phasing of cash flow items, referred to above, and the impact of £19.4 million of foreign exchange movements.

Balance Sheet

	30 June 2016 £m	31 December 2015[1] £m
Property, plant and equipment	**148.9**	140.5
Intangible assets	**1,646.6**	1,628.1
Investments	**160.5**	166.1
	1,956.0	1,934.7
Inventories, receivables and payables	**(231.8)**	(378.7)
Net retirement benefit liability (net of tax)	**(401.7)**	(317.6)
Other	**(61.4)**	(51.3)
Net operating assets	**1,261.1**	1,187.1
Net borrowing	**(290.6)**	(169.8)
Net assets	**970.5**	1,017.3
Average net borrowing	**(541.4)**	(538.9)

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Outland Group in 2015.

The movement in inventories, receivables and payables was primarily due to the working capital outflow noted above. The Group's net retirement benefit liability increased by £84.1 million to £(401.7) million primarily following a reduction in the AA bond rate.

Average net borrowing remained essentially unchanged compared with the full-year 2015 average of £538.9 million and we expect the full-year average for 2016 to remain at a broadly similar level.

Committed bank facilities, private placements and convertible bonds

To support our strategy for growth the Group has some £1.4 billion of available funding, comprising committed bank facilities totalling £870 million, private placement borrowings of £344 million and £170 million of convertible bonds maturing in 2019. Of the £1.4 billion, only £133 million matures before the end of 2018, which puts the Group in a strong position to continue focusing on delivering its corporate objectives.

Foreign exchange

	Average		**Period End**	
£ Sterling	**2016**	2015	**2016**	2015
Middle East (US Dollar)	**1.43**	1.53	**1.34**	1.57
Oman (Rial)	**0.55**	0.59	**0.51**	0.61
UAE (Dirham)	**5.24**	5.63	**4.91**	5.78
Canada (Dollar)	**1.90**	1.89	**1.74**	1.96

The average value of sterling marginally strengthened relative to the Canadian dollar and adversely affected the revenues we have reported for our activities in Canada by around £1 million. Against the US Dollar, the average value of sterling weakened during the first half leading to a favourable impact on Middle East revenues of around £26 million. The more pronounced weakening against the US Dollar following the Referendum vote in June 2016 for the UK to leave the European Union had an adverse impact on net borrowing at 30 June 2016, because the majority of our private placement loans are denominated in US Dollars. However this increase is a non-cash impact, because this borrowing is hedged, both in terms of interest costs and the cost of repayment at maturity.

Operational and financial risk management

Carillion has rigorous policies and processes in place to identify, mitigate and manage strategic risks and those specific to individual businesses and contracts, including economic, social, environmental and ethical risks. The Group's risk management policies and processes, together with the Group's principal operational and financial risks and the measures being taken to mitigate and manage these risks, are described on pages 26 to 31 of our 2015 Annual Report and Accounts, published in March 2016, and these are largely unchanged. The principal operational risks summarised on pages 28 to 31 of that report include continuing to win work in existing and new target markets, consistent with our strategy for growth, managing major contracts successfully, managing our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base, developing and attracting excellent people to create a vibrant, diverse and flexible workforce, maintaining high standards of ethics and compliance in respect of managing contracts and meeting Regulatory requirements and maintaining high standards of Health & Safety and security, including cyber security.

Although the principal risks described in our 2015 Annual Report Accounts took cognisance of some of the potential impacts that could arise from a vote in favour of leaving the European Union in the June 2016 Referendum, Brexit has obviously created more uncertainty for the UK economy as a whole and therefore for businesses generally, including Carillion. While it is too early to predict the extent to which the business will be impacted by this, we have no significant operations in Mainland Europe and prior to the Referendum we undertook extensive research to assess the possible impacts on our business and we have put in place robust plans to manage them.

The Group's principal financial risks, notably funding, liquidity, currency and counterparty risks, and how these are managed are summarised on pages 39 and 40 of our 2015 Annual Report and Accounts.

Board changes

Richard Adam, Carillion's Group Finance Director, has decided to retire from the Board and from Carillion on 31 December 2016, as he approaches his 60th birthday. Since taking up the role of Group Finance Director in April 2007, he has made a major contribution to Carillion's development and success through his outstanding financial leadership. Following a rigorous selection process, involving internal and external candidates, Zafar Khan has been appointed to succeed Richard Adam. Zafar has held the role of Group Financial Controller at Carillion since 2013, having previously been Finance Director of our Al Futtaim Carillion joint venture in the UAE after joining the Group in 2011. Before joining Carillion, Zafar was Chief Financial Officer at Associated British Ports Holdings. Zafar has already made a significant contribution to the success of the Group and his appointment continues our excellent track record of developing our own people and allows for a seamless transition following Richard Adam's retirement. Richard Adam leaves with the Board's grateful thanks for his outstanding financial leadership and the contribution he has made to the Group since his appointment as Group Finance Director in April 2007.

Outlook and prospects

We expect the Group's performance to continue to be led by revenue and margin growth in support services in line with our strategy for growing this segment of our business, with Public Private Partnership projects, Middle East construction services and construction services also performing in line with our expectations. With a strong order book, revenue visibility of 98 per cent and a substantial pipeline of contract opportunities, we remain on track to make further progress in 2016.

Unaudited condensed consolidated income statement
for the six months ended 30 June 2016

	Note	2016 £m	2015 £m	Year ended 31 December 2015 £m
Total revenue		**2,487.1**	2,258.6	4,586.9
Less: Share of Joint Ventures' revenue		**(400.5)**	(297.3)	(636.2)
Group revenue	2	**2,086.6**	1,961.3	3,950.7
Cost of sales		**(1,917.4)**	(1,809.2)	(3,609.8)
Gross profit		**169.2**	152.1	340.9
Administrative expenses		**(108.3)**	(85.9)	(195.2)
Profit on disposal of Public Private Partnership equity investments		**12.7**	24.0	37.7
Group operating profit		**73.6**	90.2	183.4
Analysed between:				
Group operating profit before intangible amortisation and non-recurring operating items		**90.9**	98.4	208.4
Intangible amortisation(1)		**(6.8)**	(8.2)	(20.0)
Non-recurring operating items	3	**(10.5)**	-	(5.0)
Share of results of Joint Ventures	2	**21.8**	14.1	26.0
Analysed between:				
Operating profit		**30.4**	16.9	36.0
Net financial expense		**(6.9)**	(1.3)	(7.1)
Taxation		**(1.7)**	(1.5)	(2.9)
Profit from operations		**95.4**	104.3	209.4
Analysed between:				
Profit from operations before intangible amortisation and non-recurring operating items		**112.7**	112.5	234.4
Intangible amortisation(1)		**(6.8)**	(8.2)	(20.0)
Non-recurring operating items	3	**(10.5)**	-	(5.0)
Non-operating items	3	**-**	(1.5)	(2.5)
Net financial expense	4	**(11.5)**	(35.3)	(51.8)
Analysed between:				
Financial income		**1.1**	0.7	2.4
Financial expense		**(29.3)**	(28.7)	(60.3)
Fair value movements in derivative financial instruments		**9.9**	(7.3)	6.1
Changes in contingent consideration relating to acquisitions		**6.8**	-	-
Profit before taxation		**83.9**	67.5	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		**84.5**	84.5	176.5
Intangible amortisation(1)		**(6.8)**	(8.2)	(20.0)
Non-recurring operating items	3	**(10.5)**	-	(5.0)
Non-operating items	3	**-**	(1.5)	(2.5)
Fair value movements in derivative financial instruments		**9.9**	(7.3)	6.1
Changes in contingent consideration relating to acquisitions		**6.8**	-	-
Taxation	5	**(12.2)**	(8.3)	(15.7)
Profit for the period		**71.7**	59.2	139.4
Profit attributable to:				
Equity holders of the parent		**67.8**	54.7	132.8
Non-controlling interests		**3.9**	4.5	6.6
Profit for the period		**71.7**	59.2	139.4
Earnings per share	6			
Basic		**15.8p**	12.7p	30.9p
Diluted		**13.2p**	12.7p	28.2p

(1) Arising from business combinations.

Unaudited condensed consolidated statement of comprehensive income
for the six months ended 30 June 2016

		2016		2015		Year ended 31 December 2015
	£m	£m	£m	£m	£m	£m
Profit for the period		**71.7**		59.2		139.4
Items that will not be reclassified subsequently to profit or loss:						
Remeasurement of net defined benefit liabilities	**(114.7)**		50.9		88.5	
Taxation relating to items that will not be reclassified	**21.8**		(10.2)		(21.7)	
	(92.9)		40.7		66.8	
Items that may be reclassified subsequently to profit or loss:						
(Loss)/gain on hedge of net investment in foreign operations	**(24.9)**		3.8		9.2	
Currency translation differences on foreign operations	**46.6**		(16.4)		(15.3)	
Movement in fair value of cash flow hedging derivatives	**25.7**		1.6		15.6	
Reclassification of effective portion of cash flow hedging derivatives to profit	**(18.5)**		1.1		(13.0)	
Increase in fair value of available-for-sale assets	**-**		0.4		-	
Reclassification of currency translation differences on disposal of joint ventures to profit	**1.1**		-		-	
Taxation relating to items that may be reclassified	**0.1**		(1.1)		(4.8)	
Share of recycled cash flow hedges within joint ventures (net of taxation)	**-**		3.6		3.6	
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	**-**		(0.2)		-	
	30.1		(7.2)		(4.7)	
Other comprehensive (expense)/income for the period		**(62.8)**		33.5		62.1
Total comprehensive income for the period		**8.9**		92.7		201.5
Attributable to:						
Equity holders of the parent		**1.5**		89.6		197.0
Non-controlling interests		**7.4**		3.1		4.5
		8.9		92.7		201.5

Unaudited condensed consolidated statement of changes in equity
for the six months ended 30 June 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**	**23.8**	**1,017.3**
Comprehensive income										
Profit for the period	-	-	-	-	-	-	67.8	67.8	3.9	71.7
Other comprehensive income										
Loss on hedge of net investment in foreign operations	-	-	(24.9)	-	-	-	-	(24.9)	-	(24.9)
Currency translation differences on foreign operations	-	-	43.1	-	-	-	-	43.1	3.5	46.6
Movement in fair value of cash flow hedging derivatives	-	-	-	25.7	-	-	-	25.7	-	25.7
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(18.5)	-	-	-	(18.5)	-	(18.5)
Reclassification of currency translation differences on disposal of joint ventures to profit	-	-	1.1	-	-	-	-	1.1	-	1.1
Remeasurement of net defined benefit liabilities	-	-	-	-	-	-	(114.7)	(114.7)	-	(114.7)
Taxation	-	-	5.0	(4.9)	-	-	21.8	21.9	-	21.9
Transfer between reserves	-	-	-	-	-	(2.3)	2.3	-	-	-
Total comprehensive income/(expense)	-	-	24.3	2.3	-	(2.3)	(22.8)	1.5	7.4	8.9
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)	-	-	-	-	-	-	0.5	0.5	-	0.5
Dividends paid	-	-	-	-	-	-	(54.0)	(54.0)	(1.2)	(55.2)
Total transactions with owners	-	-	-	-	-	-	(54.5)	(54.5)	(1.2)	(55.7)
At 30 June 2016	**215.1**	**21.2**	**(14.6)**	**(5.9)**	**0.3**	**391.4**	**333.0**	**940.5**	**30.0**	**970.5**

Unaudited condensed consolidated statement of changes in equity
for the six months ended 30 June 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 £m	Total equity £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 period	-	-	-	-	-	-	54.7	54.7	4.5	59.2
Other comprehensive income										
Gain on hedge of net investment in foreign operations	-	-	3.8	-	-	-	-	3.8	-	3.8
Currency translation differences on foreign operations	-	-	(15.0)	-	-	-	-	(15.0)	(1.4)	(16.4)
Movement in fair value of cash flow hedging derivatives	-	-	-	1.6	-	-	-	1.6	-	1.6
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	1.1	-	-	-	1.1	-	1.1
Increase in fair value of available for sale assets	-	-	-	-	0.4	-	-	0.4	-	0.4
Remeasurement of net defined benefit liabilities	-	-	-	-	-	-	50.9	50.9	-	50.9
Taxation	-	-	(0.8)	(0.3)	-	-	(10.2)	(11.3)	-	(11.3)
Share of recycled cash flow hedges within joint ventures (net of taxation)	-	-	-	3.6	-	-	-	3.6	-	3.6
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	-	-	-	(0.2)	-	-	-	(0.2)	-	(0.2)
Transfer between reserves	-	-	-	-	-	(3.6)	3.6	-	-	-
Total comprehensive (expense)/income	-	-	(12.0)	5.8	0.4	(3.6)	99.0	89.6	3.1	92.7
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)	-	-	-	-	-	-	0.4	0.4	-	0.4
Dividends paid	-	-	-	-	-	-	(52.3)	(52.3)	(0.5)	(52.8)
Total transactions with owners	-	-	-	-	-	-	(52.3)	(52.3)	(0.5)	(52.8)
At 30 June 2015	215.1	21.2	(45.3)	(5.4)	0.7	397.3	326.4	910.0	24.4	934.4

Unaudited condensed 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 £m	Total equity £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)
Non-controlling interests arising from business combinations	-	-	-	-	-	-	-	-	0.7	0.7
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)	(2.5)	(78.7)
At 31 December 2015	215.1	21.2	(38.9)	(8.2)	0.3	393.7	410.3	993.5	23.8	1,017.3

Unaudited condensed consolidated balance sheet
as at 30 June

	Note	2016 £m	2015[1] £m	At 31 December 2015[1] £m
Non-current assets				
Property, plant and equipment		**148.9**	132.5	140.5
Intangible assets		**1,646.6**	1,640.3	1,628.1
Retirement benefit assets		**12.3**	9.7	12.7
Investments in joint ventures		**155.3**	143.8	161.4
Other investments		**5.2**	12.9	4.7
Deferred tax assets		**120.5**	130.0	103.8
Total non-current assets		**2,088.8**	2,069.2	2,051.2
Current assets				
Inventories		**76.0**	53.6	64.3
Trade and other receivables		**1,438.7**	1,478.0	1,270.8
Cash and cash equivalents	9	**375.7**	421.7	462.2
Derivative financial instruments		**34.5**	6.1	14.6
Income tax receivable		**1.8**	1.6	1.2
Total current assets		**1,926.7**	1,961.0	1,813.1
Total assets		**4,015.5**	4,030.2	3,864.3
Current liabilities				
Borrowing		**(35.9)**	(26.3)	(33.5)
Derivative financial instruments		**(26.2)**	(27.7)	(11.6)
Trade and other payables		**(1,746.5)**	(1,883.6)	(1,713.8)
Provisions		**(5.9)**	(9.1)	(5.0)
Income tax payable		**(8.8)**	(2.8)	(7.2)
Total current liabilities		**(1,823.3)**	(1,949.5)	(1,771.1)
Non-current liabilities				
Borrowing		**(630.4)**	(595.0)	(598.5)
Other payables		**(69.5)**	(78.4)	(58.6)
Retirement benefit liabilities		**(509.6)**	(456.0)	(406.2)
Deferred tax liabilities		**(11.5)**	(15.2)	(10.5)
Provisions		**(0.7)**	(1.7)	(2.1)
Total non-current liabilities		**(1,221.7)**	(1,146.3)	(1,075.9)
Total liabilities		**(3,045.0)**	(3,095.8)	(2,847.0)
Net assets	2	**970.5**	934.4	1,017.3
Equity				
Share capital	13	**215.1**	215.1	215.1
Share premium		**21.2**	21.2	21.2
Translation reserve		**(14.6)**	(45.3)	(38.9)
Hedging reserve		**(5.9)**	(5.4)	(8.2)
Fair value reserve		**0.3**	0.7	0.3
Merger reserve		**391.4**	397.3	393.7
Retained earnings		**333.0**	326.4	410.3
Equity attributable to shareholders of the parent		**940.5**	910.0	993.5
Non-controlling interests		**30.0**	24.4	23.8
Total equity		**970.5**	934.4	1,017.3

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Outland Group in 2015.

Unaudited condensed consolidated cash flow statement
for the six months ended 30 June

	Note	**2016** **£m**	2015 £m	Year ended 31 December 2015 £m
Cash flows from operating activities				
Group operating profit		**73.6**	90.2	183.4
Depreciation and amortisation		**19.8**	22.1	45.4
Loss/(profit) on disposal of property, plant and equipment		**1.3**	(13.9)	(14.4)
Profit on disposal of Public Private Partnership equity investments		**(12.7)**	(24.0)	(37.7)
Other non-cash movements		**3.2**	(0.1)	(0.3)
Non-recurring operating items		**10.5**	-	5.0
Operating profit before changes in working capital		**95.7**	74.3	181.4
Increase in inventories		**(8.2)**	(4.0)	(14.3)
(Increase)/decrease in trade and other receivables		**(97.6)**	(157.9)	48.0
(Decrease)/increase in trade and other payables		**(0.1)**	153.9	(41.1)
Cash (used by)/generated from operations before pension deficit recovery payments and rationalisation costs		**(10.2)**	66.3	174.0
Deficit recovery payments to pension schemes		**(22.3)**	(22.2)	(47.4)
Non-recurring operating items		**(5.9)**	(2.2)	(6.3)
Cash (used by)/generated from operations		**(38.4)**	41.9	120.3
Financial income received		**1.1**	0.7	2.4
Financial expense paid		**(20.0)**	(17.0)	(35.3)
Acquisition costs		**(0.6)**	(6.9)	(6.6)
Taxation payments		**(5.3)**	(6.4)	(7.5)
Net cash flows from operating activities		**(63.2)**	12.3	73.3
Cash flows from investing activities				
Disposal of property, plant and equipment		**2.4**	16.7	17.6
Disposal of joint ventures and other investments	11	**48.1**	38.1	54.1
Dividends received from joint ventures		**5.7**	8.7	16.8
Loan advance repayments received from joint ventures		**1.5**	0.9	7.2
Acquisition of subsidiaries, net of cash and cash equivalents acquired	11	**(19.0)**	(9.5)	(10.6)
Acquisition of intangible assets		**(3.5)**	(0.3)	(1.2)
Acquisition of property, plant and equipment		**(13.7)**	(17.5)	(29.2)
Acquisition of equity in and loan advances to joint ventures		**-**	(17.4)	(28.3)
Acquisition of other non-current asset investments		**-**	(0.4)	(0.4)
Net cash flows from investing activities		**21.5**	19.3	26.0
Cash flows from financing activities				
Repayment of bank and other loans		**(5.6)**	(15.7)	(19.0)
Repayment of finance lease liabilities		**(5.5)**	(4.3)	(6.0)
Acquisition of own shares		**(1.0)**	(0.4)	(0.4)
Dividends paid to equity holders of the parent		**(54.0)**	(52.3)	(76.8)
Dividends paid to non-controlling interests		**(1.2)**	(0.5)	(3.2)
Net cash flows from financing activities		**(67.3)**	(73.2)	(105.4)
Decrease in net cash and cash equivalents		**(109.0)**	(41.6)	(6.1)
Net cash and cash equivalents at 1 January	.	**455.8**	465.8	465.8
Effect of exchange rate fluctuations on net cash and cash equivalents		**12.6**	(5.9)	(3.9)
Net cash and cash equivalents at period end	9	**359.4**	418.3	455.8

Notes to the unaudited condensed interim financial statements continued

1 Significant accounting policies

Basis of preparation

Carillion plc (the 'Company') is a company domiciled in the United Kingdom (UK). The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2016 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in joint ventures.

The condensed consolidated interim financial statements for the six months ended 30 June 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

This interim financial information has also been prepared applying the accounting policies and presentation which were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2015, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

There are no significant new financial reporting standards that require adoption in 2016.

The comparative financial information for the year ended 31 December 2015 does not constitute the Company's statutory accounts for the purposes of section 434 of the Companies Act 2006 for that financial year. 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 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 interim management review on pages 4 to 14. The Group has considerable financial resources, including £870 million of committed bank facilities expiring in 2017 and 2020, £344 million of private placement notes expiring between 2017 and 2024 and £170 million of convertible bonds maturing by 2019. The Group has long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks summarised on page 13. 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 condensed interim financial statements.

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 unaudited condensed interim financial statements continued

2 Segmental reporting (continued)

Segmental revenue and profit

	2016		2015		Year ended 31 December 2015	
	Revenue £m	**Operating profit before intangible amortisation and non-recurring operating items £m**	Revenue £m	Operating profit before intangible amortisation and non-recurring operating items £m	Revenue £m	Operating profit before intangible amortisation and non-recurring operating items £m
Support services						
Group	**1,203.1**	**65.6**	1,158.6	48.8	2,342.4	127.3
Share of joint ventures	**132.9**	**10.3**	79.9	9.5	191.8	19.3
	1,336.0	**75.9**	1,238.5	58.3	2,534.2	146.6
Inter-segment	**32.4**	**-**	40.9	-	87.0	-
Total	**1,368.4**	**75.9**	1,279.4	58.3	2,621.2	146.6
Public Private Partnership projects						
Group	**0.7**	**12.3**	0.6	22.6	1.3	39.4
Share of joint ventures	**143.1**	**7.4**	81.9	3.8	191.5	9.9
	143.8	**19.7**	82.5	26.4	192.8	49.3
Inter-segment	**-**	**-**	-	-	-	-
Total	**143.8**	**19.7**	82.5	26.4	192.8	49.3
Middle East construction services						
Group	**200.1**	**4.5**	194.4	16.1	358.9	20.6
Share of joint ventures	**120.2**	**7.2**	132.1	2.8	242.7	4.7
	320.3	**11.7**	326.5	18.9	601.6	25.3
Inter-segment	**-**	**-**	-	-	-	-
Total	**320.3**	**11.7**	326.5	18.9	601.6	25.3
Construction services (excluding the Middle East)						
Group	**682.7**	**15.2**	607.7	18.5	1,248.1	35.7
Share of joint ventures	**4.3**	**5.5**	3.4	0.8	10.2	2.1
	687.0	**20.7**	611.1	19.3	1,258.3	37.8
Inter-segment	**25.6**	**-**	12.9	-	24.7	-
Total	**712.6**	**20.7**	624.0	19.3	1,283.0	37.8
Group eliminations and unallocated items	**(58.0)**	**(6.7)**	(53.8)	(7.6)	(111.7)	(14.6)
Consolidated						
Group	**2,086.6**	**90.9**	1,961.3	98.4	3,950.7	208.4
Share of joint ventures	**400.5**	**30.4**	297.3	16.9	636.2	36.0
Total	**2,487.1**	**121.3**	2,258.6	115.3	4,586.9	244.4

Notes to the unaudited condensed interim financial statements continued

2 Segmental reporting (continued)

Reconciliation of operating segment results to reported results

	2016 £m	2015 £m	Year ended 31 December 2015 £m
Group and share of joint ventures' operating profit before intangible amortisation and non-recurring operating items	**121.3**	115.3	244.4
Underlying net financial expense			
– Group	**(28.2)**	(28.0)	(57.9)
– Share of joint ventures	**(6.9)**	(1.3)	(7.1)
Share of joint ventures' taxation	**(1.7)**	(1.5)	(2.9)
Underlying profit before taxation	**84.5**	84.5	176.5
Intangible amortisation arising from business combinations	**(6.8)**	(8.2)	(20.0)
Non-recurring operating items	**(10.5)**	-	(5.0)
Non-operating items	**-**	(1.5)	(2.5)
Fair value movements in derivative financial instruments	**9.9**	(7.3)	6.1
Changes in contingent consideration relating to acquisitions	**6.8**	-	-
Profit before taxation	**83.9**	67.5	155.1
Taxation	**(12.2)**	(8.3)	(15.7)
Profit for the period	**71.7**	59.2	139.4

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

	2016		2015		Year ended 31 December 2015	
	Intangible amortisation £m	**Non-recurring operating items £m**	Intangible amortisation £m	Non-recurring operating items £m	Intangible amortisation £m	Non-recurring operating items £m
Support services	**(6.3)**	**-**	(7.2)	-	(18.2)	-
Construction services (excluding the Middle East)	**(0.5)**	**(10.5)**	(1.0)	-	(1.8)	-
Public Private Partnership projects	**-**	**-**	-	-	-	(5.0)
Total	**(6.8)**	**(10.5)**	(8.2)	-	(20.0)	(5.0)

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

	2016		2015		Year ended 31 December 2015	
	Depreciation and amortisation £m	**Capital expenditure**	Depreciation and amortisation £m	Capital expenditure £m	Depreciation and amortisation £m	Capital expenditure £m
Support services	**(12.7)**	**(11.1)**	(12.7)	(3.8)	(26.3)	(13.6)
Middle East construction services	**(0.1)**	**(0.7)**	(0.9)	(0.7)	(1.4)	(1.3)
Construction services (excluding the Middle East)	**(0.9)**	**(0.9)**	(1.5)	(0.3)	(2.8)	(0.9)
Unallocated Group items	**(6.1)**	**(4.3)**	(7.0)	(5.2)	(14.9)	(15.1)
Total	**(19.8)**	**(17.0)**	(22.1)	(10.0)	(45.4)	(30.9)

Notes to the unaudited condensed interim financial statements continued

2 Segmental reporting (continued)

Segmental net assets

	2016			2015(1)			Year ended 31 December 2015(1)		
	Operating assets £m	**Operating liabilities £m**	**Net operating assets/ (liabilities) £m**	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m
Support services									
Intangible assets(2)	**1,375.7**	**-**	**1,375.7**	1,374.3	-	1,374.3	1,361.9	-	1,361.9
Operating assets	**741.9**	**-**	**741.9**	670.7	-	670.7	672.5	-	672.5
Investments	**27.7**	**-**	**27.7**	15.1	-	15.1	23.5	-	23.5
Total operating assets	**2,145.3**	**-**	**2,145.3**	2,060.1	-	2,060.1	2,057.9	-	2,057.9
Total operating liabilities	**-**	**(460.1)**	**(460.1)**	-	(631.4)	(631.4)	-	(482.8)	(482.8)
Net operating assets/(liabilities)	**2,145.3**	**(460.1)**	**1,685.2**	2,060.1	(631.4)	1,428.7	2,057.9	(482.8)	1,575.1
Public Private Partnership projects									
Operating assets	**4.3**	**-**	**4.3**	5.5	-	5.5	1.0	-	1.0
Investments	**4.4**	**-**	**4.4**	37.2	-	37.2	35.3	-	35.3
Total operating assets	**8.7**	**-**	**8.7**	42.7	-	42.7	36.3	-	36.3
Total operating liabilities	**-**	**(3.0)**	**(3.0)**	-	(4.3)	(4.3)	-	(1.9)	(1.9)
Net operating assets/(liabilities)	**8.7**	**(3.0)**	**5.7**	42.7	(4.3)	38.4	36.3	(1.9)	34.4
Middle East construction services									
Operating assets	**373.8**	**-**	**373.8**	383.3	-	383.3	290.6	-	290.6
Investments	**103.4**	**-**	**103.4**	84.4	-	84.4	86.4	-	86.4
Total operating assets	**477.2**	**-**	**477.2**	467.7	-	467.7	377.0	-	377.0
Total operating liabilities	**-**	**(307.1)**	**(307.1)**	-	(372.6)	(372.6)	-	(223.7)	(223.7)
Net operating assets/(liabilities)	**477.2**	**(307.1)**	**170.1**	467.7	(372.6)	95.1	377.0	(223.7)	153.3
Construction services (excluding the Middle East)									
Intangible assets(2)	**243.2**	**-**	**243.2**	240.8	-	240.8	241.7	-	241.7
Operating assets	**429.7**	**-**	**429.7**	446.8	-	446.8	390.8	-	390.8
Investments	**25.1**	**-**	**25.1**	20.0	-	20.0	20.9	-	20.9
Total operating assets	**698.0**	**-**	**698.0**	707.6	-	707.6	653.4	-	653.4
Total operating liabilities	**-**	**(562.3)**	**(562.3)**	-	(595.5)	(595.5)	-	(637.9)	(637.9)
Net operating assets/(liabilities)	**698.0**	**(562.3)**	**135.7**	707.6	(595.5)	112.1	653.4	(637.9)	15.5
Consolidated before Group items									
Intangible assets(2)	**1,618.9**	**-**	**1,618.9**	1,615.1	-	1,615.1	1,603.6	-	1,603.6
Operating assets	**1,549.7**	**-**	**1,549.7**	1,506.3	-	1,506.3	1,354.9	-	1,354.9
Investments	**160.6**	**-**	**160.6**	156.7	-	156.7	166.1	-	166.1
Total operating assets	**3,329.2**	**-**	**3,329.2**	3,278.1	-	3,278.1	3,124.6	-	3,124.6
Total operating liabilities	**-**	**(1,332.5)**	**(1,332.5)**	-	(1,603.8)	(1,603.8)	-	(1,346.3)	(1,346.3)
Net operating assets/(liabilities) before Group items	**3,329.2**	**(1,332.5)**	**1,996.7**	3,278.1	(1,603.8)	1,674.3	3,124.6	(1,346.3)	1,778.3
Group items									
Deferred tax assets/(liabilities)	**120.5**	**(11.5)**	**109.0**	130.0	(15.2)	114.8	103.8	(10.5)	93.3
Net cash/(borrowing)	**375.7**	**(666.3)**	**(290.6)**	421.7	(621.3)	(199.6)	462.2	(632.0)	(169.8)
Retirement benefits (gross of taxation)	**12.3**	**(509.6)**	**(497.3)**	9.7	(456.0)	(446.3)	12.7	(406.2)	(393.5)
Income tax	**1.8**	**(8.8)**	**(7.0)**	1.6	(2.8)	(1.2)	1.2	(7.2)	(6.0)
Other	**176.0**	**(516.3)**	**(340.3)**	189.1	(396.7)	(207.6)	159.8	(444.8)	(285.0)
Net assets/(liabilities)	**4,015.5**	**(3,045.0)**	**970.5**	4,030.2	(3,095.8)	934.4	3,864.3	(2,847.0)	1,017.3

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

2 Segmental reporting (continued)

Geographic information – by origin

	2016 £m	2015[(1)] £m	Year ended 31 December 2015[(1)] £m
United Kingdom			
Total revenue from external customers	**1,833.7**	1,587.7	3,334.7
Less: share of joint ventures' revenue	**(245.0)**	(140.3)	(330.9)
Group revenue from external customers	**1,588.7**	1,447.4	3,003.8
Non-current assets	**1,579.4**	1,593.6	1,614.4
Middle East and North Africa			
Total revenue from external customers	**381.0**	378.0	717.0
Less: share of joint ventures' revenue	**(133.6)**	(143.3)	(265.9)
Group revenue from external customers	**247.4**	234.7	451.1
Non-current assets	**113.1**	87.7	95.7
Canada			
Total revenue from external customers	**261.6**	281.3	513.2
Less: share of joint ventures' revenue	**(21.9)**	(13.7)	(39.4)
Group revenue from external customers	**239.7**	267.6	473.8
Non-current assets	**258.3**	235.3	219.9
Rest of the World			
Total revenue from external customers	**10.8**	11.6	22.0
Less: share of joint ventures' revenue	**-**	-	-
Group revenue from external customers	**10.8**	11.6	22.0
Non-current assets	**-**	-	-
Consolidated			
Total revenue from external customers	**2,487.1**	2,258.6	4,586.9
Less: share of joint ventures' revenue	**(400.5)**	(297.3)	(636.2)
Group revenue from external customers	**2,086.6**	1,961.3	3,950.7
Non-current assets			
Total of geographic analysis above	**1,950.8**	1,916.6	1,930.0
Retirement benefit assets	**12.3**	9.7	12.7
Other investments	**5.2**	12.9	4.7
Deferred tax assets	**120.5**	130.0	103.8
Total non-current assets	**2,088.8**	2,069.2	2,051.2

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Outland Group in 2015.

2 Segmental reporting (continued)

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

	2016 £m	2015 £m	Year ended 31 December 2015 £m
Support services	**549.6**	425.6	911.1
Public Private Partnership projects	**121.9**	70.6	153.4
Construction services (excluding the Middle East)	**337.5**	325.4	689.2
	1,009.0	821.6	1,753.7

3 Non-recurring operating items and non-operating items

Non-recurring operating items

The non-recurring operating charge of £10.5 million in 2016 represents the amount expected to be paid, together with associated costs, under The Construction Workers Compensation Scheme set up by eight UK companies to compensate workers who have been impacted by use of the database vetting system operated by The Consulting Association. The non-recurring operating charge of £5.0 million in the year ended 31 December 2015 relates 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 these items in either 2016 or 2015.

Non-operating items

Non-operating items of £1.5 million for the six months ended 30 June 2015 and £2.5 million for the year ended 31 December 2015 relate to costs incurred in respect of corporate transactions. An income tax credit relating to these costs for the six months ended 30 June 2015 amounting to £0.2 million is included within taxation in the income statement.

4 Financial income and expense

	2016 £m	2015 £m	Year ended 31 December 2015 £m
Financial income			
Bank interest receivable	**0.4**	0.2	0.8
Other interest receivable	**0.7**	0.5	1.6
Total financial income	**1.1**	0.7	2.4
Financial expense			
Interest payable on bank loans and overdrafts	**(7.6)**	(6.4)	(14.1)
Other interest payable and similar charges	**(14.3)**	(13.3)	(28.2)
Net interest expense on defined benefit pension obligations	**(7.4)**	(9.0)	(18.0)
Underlying financial expense	**(29.3)**	(28.7)	(60.3)
Fair value movements in the derivative component of convertible bonds	**9.9**	(7.3)	6.1
Changes in contingent consideration relating to acquisitions	**6.8**	-	-
Total financial expense	**(12.6)**	(36.0)	(54.2)
Net financial expense	**(11.5)**	(35.3)	(51.8)

Other interest payable and similar charges include private placement financing interest of £7.2 million (six months ended 30 June 2015: £7.2 million; year ended 31 December 2015: £14.3 million), finance lease charges of £0.4 million (six months ended 30 June 2015: £0.5 million; year ended 31 December 2015: £1.0 million), convertible bond coupon payments and interest accretion of £3.5 million (six months ended 30 June 2015: £3.5 million; year ended 31 December 2015: £7.1 million) and the discount unwind associated with contingent consideration on business acquisitions and on onerous lease provisions of £1.5 million (six months ended 30 June 2015 : £1.1 million; year ended 31 December 2015 : £2.6 million).

Total financial expense includes a credit of £9.9 million (six months ended 30 June 2015: charge of £7.3 million; year ended 31 December 2015: credit of £6.1 million) arising from fair value movements in the derivative component of convertible bonds and a credit of £6.8 million (2015: Nil) arising from a reduction in the contingent consideration in respect of previous business acquisitions.

In relation to the fair value movements in the derivative component of convertible bonds, a deferred tax charge of £2.0 million (30 June 2015: credit of £1.5 million; year ended 31 December 2015: charge of £1.2 million) is included within taxation in the income statement.

No borrowing costs have been capitalised in any of the above periods.

5 Income tax

The Group's income tax expense (including the Group's share of joint ventures' income tax) for the six months ended 30 June 2016 is calculated based on the estimated average annual effective underlying income tax rate of 15.4 per cent (six months ended 30 June 2015: 15.4 per cent; 31 December 2015: 12.5 per cent). This effective rate differs to the UK standard corporation tax rate of 20 per cent (six months ended 30 June 2015: 20 per cent; 31 December 2015: 20.5 per cent) primarily due to items such as the effect of tax rates in foreign jurisdictions, certain exemptions available relating to capital items and the recognition of deferred tax on trading losses.

6 Earnings per share

(a) *Basic*

The calculation of earnings per share for the six months ended 30 June 2016 is based on the profit attributable to equity holders of the parent of £67.8 million (six months ended 30 June 2015: £54.7 million; year ended 31 December 2015: £132.8 million) and a weighted average number of ordinary shares in issue of 430.2 million (six months ended 30 June 2015: 430.2 million; year ended 31 December 2015: 430.2 million), calculated as follows:

In millions of shares	2016	2015	Year ended 31 December 2015
Issued ordinary shares at beginning of period	**430.3**	430.3	430.3
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust	**(0.1)**	(0.1)	(0.1)
Weighted average number of ordinary shares	**430.2**	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		Year ended 31 December 2015	
	Profit before tax £m	**Tax £m**	Profit before tax £m	Tax £m	Profit before tax £m	Tax £m
Profit before taxation						
Profit before taxation as reported in the income statement	**83.9**	**12.2**	67.5	8.3	155.1	15.7
Amortisation of intangible assets arising from business combinations	**6.8**	**1.4**	8.2	1.6	20.0	5.0
Non-recurring operating items	**10.5**	**-**	-	-	5.0	-
Non-operating items	**-**	**-**	1.5	0.2	2.5	-
Fair value movements in derivative financial instruments	**(9.9)**	**(2.0)**	7.3	1.5	(6.1)	(1.2)
Changes in contingent consideration relating to acquisitions	**(6.8)**	**-**	-	-	-	-
Underlying profit before taxation	**84.5**	**11.6**	84.5	11.6	176.5	19.5
Underlying taxation	**(11.6)**		(11.6)		(19.5)	
Underlying profit attributable to non-controlling interests	**(3.9)**		(4.5)		(6.6)	
Underlying profit attributable to shareholders	**69.0**		68.4		150.4	

6 Earnings per share (continued)

	2016 Pence per share	2015 Pence per share	Year ended 31 December 2015 Pence per share
Earnings per share			
Basic earnings per share as reported in the income statement	**15.8**	12.7	30.9
Amortisation of intangible assets arising from business combinations	**1.2**	1.5	3.5
Non-recurring operating items	**2.4**	-	1.2
Non-operating items	**-**	0.3	0.6
Fair value movements in derivative financial instruments	**(1.8)**	1.4	(1.2)
Changes in contingent consideration relation to acquisitions	**(1.6)**	-	-
Underlying basic earnings per share	**16.0**	15.9	35.0
Underlying diluted earnings per share (post-tax basis)	**13.4**	15.8	31.9

(c) *Diluted earnings per share*
For the purpose of calculating diluted earnings per share of 13.2 pence (six months ended 30 June 2015: 12.7 pence; year ended 31 December 2015: 28.2 pence), profit attributable to shareholders was reduced by £5.0 million (six months ended 30 June 2015: Nil; year ended 31 December 2015: £1.3 million increase) 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	Year ended 31 December 2015
Weighted average number of ordinary shares (see note 6(a) above)	**430.2**	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	**2.4**	1.6	2.2
Weighted average number of ordinary shares (diluted)	**475.3**	431.8	475.1

7 Dividends

The following dividends were paid by the Company:

	2016		2015		Year ended 31 December 2015	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
Previous period final dividend	**54.0**	**12.55**	52.3	12.15	52.3	12.15
Current period interim dividend	**-**	**-**	-	-	24.5	5.70
Total	**54.0**	**12.55**	52.3	12.15	76.8	17.85

The following dividends were proposed by the Company:

	2016		2015		Year ended 31 December 2015	
	£m	**Pence per share**	£m	Pence per share	£m	Pence per share
Interim	**25.0**	**5.8**	24.5	5.7	24.5	5.70
Final	**-**	**-**	-	-	54.0	12.55
Total	**25.0**	**5.8**	24.5	5.7	78.5	18.25

The interim dividend for 2016 of 5.8 pence per share was approved by the Board on 24 August 2016 and will be paid on 2 November 2016 to shareholders on the register on 2 September 2016.

8 Pension commitments

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

	2016 £m	2015 £m	Year ended 31 December 2015 £m
Charge to operating profit			
Current and past service cost relating to defined benefit schemes	**(2.6)**	(3.1)	(7.0)
Administrative expenses relating to defined benefit schemes	**(2.0)**	(2.2)	(4.3)
Gain on settlement of the Alfred McAlpine (Ireland) Pension Scheme	**-**	-	1.4
Total	**(4.6)**	(5.3)	(9.9)
Net interest expense on defined benefit obligation	**(7.4)**	(9.0)	(18.0)

The valuation of the Group's main defined benefit pension schemes were reviewed by independent qualified actuaries at 30 June 2016.

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

	2016 £m	2015 £m	Year ended 31 December 2015 £m
Present value of defined benefit obligation	**(3,005.3)**	(2,769.8)	(2,679.7)
Fair value of scheme assets	**2,515.6**	2,336.6	2,302.4
Minimum funding requirement	**(7.6)**	(13.1)	(16.2)
Net pension liability	**(497.3)**	(446.3)	(393.5)
Related deferred tax asset	**95.6**	90.4	75.9
Net pension liability after tax	**(401.7)**	(355.9)	(317.6)

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

	30 June 2016 %	31 December 2015 %
Rate of increase in salaries	**3.25**	3.55
Rate of increase in pensions	**2.75**	3.00
Inflation rate - Retail Price Index	**2.75**	3.05
Inflation rate - Consumer Price Index	**1.70**	2.00
Discount rate	**3.05**	3.95

9 Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise:

	2016 £m	2015 £m	Year ended 31 December 2015 £m
Cash and cash equivalents	**375.7**	421.7	462.2
Bank overdrafts	**(16.3)**	(3.4)	(6.4)
Net cash and cash equivalents	**359.4**	418.3	455.8
Bank loans	**(122.7)**	(126.2)	(118.8)
Finance lease obligations	**(16.8)**	(20.3)	(17.8)
Other loans	**(510.5)**	(471.4)	(489.0)
Net borrowing	**(290.6)**	(199.6)	(169.8)

9 Cash and cash equivalents and net borrowing (continued)

Reconciliation of cash flow to movement in net borrowing:

	2016 £m	2015 £m	Year ended 31 December 2015 £m
Decrease in net cash and cash equivalents	**(109.0)**	(41.6)	(6.1)
Net cash and cash equivalents in subsidiaries acquired	**-**	(3.8)	(6.2)
Repayment of bank and other loans	**5.6**	15.7	19.0
Repayment of finance lease liabilities	**5.5**	4.3	6.0
Change in net borrowing resulting from cash flows	**(97.9)**	(25.4)	12.7
Net cash in subsidiaries acquired	**-**	2.2	5.3
Interest accretion on convertible bonds	**(1.4)**	(1.4)	(2.8)
Finance lease additions	**(2.1)**	-	-
Currency translation differences	**(19.4)**	2.3	(7.7)
Change in net borrowing	**(120.8)**	(22.3)	7.5
Net borrowing at 1 January	**(169.8)**	(177.3)	(177.3)
Net borrowing at period end	**(290.6)**	(199.6)	(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 £159.9 million in the six months ended 30 June 2016 (six months ended 30 June 2015: £105.4 million; year ended 31 December 2015: £181.2 million). Amounts receivable from joint ventures amounted to £56.8 million (31 December 2015: £59.6 million) and amounts payable to joint ventures amounted to £74.3 million (31 December 2015: £87.0 million).

11 Acquisitions and disposals

In the six months ended 30 June 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 earnings before interest, taxation, depreciation and amortisation (EBITDA) for 2015 and 2016. During the 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 £6.8 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 £5.5 million (at 30 June 2016 exchange rates) in 2016 and 2017. The medium term prospects for Rokstad remain strong and therefore 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.

In the six months ended 30 June 2016, the provisional assessment of the fair value of the net assets acquired and the contingent consideration payable relating to the acquisition of the Outland Group (Outland) in May 2015 became final following finalisation of the completion accounts process. As the adjustments to the provisional amounts recognised in 2015 are within the measurement period, prior period comparatives for the six months ended 30 June 2015 and the year ended 31 December 2015 have been restated as indicated below:

	At 30 June 2015 £m	**At 31 December 2015 £m**
Provisional goodwill as reported	51.8	43.1
Amendments to property, plant and equipment	(0.3)	(0.3)
Amendments to trade and other receivables	0.3	0.3
Amendments to contingent consideration	(5.4)	(5.4)
Exchange rate movements	-	(0.4)
Revised goodwill	46.4	37.3

Under the terms of the Sale and Purchase Agreement relating to Outland, contingent consideration is payable based on a multiple of Outland's average EBITDA for the three financial years 2015 to 2017. During the period, Outland's actual EBITDA performance for 2015 was finalised and Outland management's original assumptions for forecast performance for 2016 and 2017 was reviewed, leading to a reduction in the fair value of the contingent consideration payable, as disclosed in the table above. Following this change to the fair value of contingent consideration, the Group now expects to make contingent consideration payments totalling around £20.0 million (at 30 June 2016 exchange rates) in 2018 and 2019. In the six months ended 30 June 2016, the Group paid the second instalment of deferred consideration relating to the acquisition of Outland amounting to £15.0 million, with the third instalment of approximately £10.5 million due in the second half of 2016.

11 Acquisitions and disposals (continued)

In the six months ended 30 June 2016, the Group paid the cash consideration of £4.0 million relating to the acquisition of Ask Real Estate Limited, which completed on 24 December 2015.

In June 2016, the Group disposed of its interest in three Public Private Partnership projects. The disposals generated cash consideration of £48.2 million, which together with disposal costs paid of £0.1 million, is included in the cash flow statement within disposal of joint venture and other investments.

12 Financial instruments

Fair values

Financial instruments carried at fair value in the balance sheet are non-quoted equity shareholdings within non-current asset investments, derivative financial instruments and contingent consideration payable in relation to acquisitions. The fair value of non-current asset investments and contingent consideration payable is determined based on a level 3 valuation method, using valuation techniques that include inputs that are not based on market data. The fair value of non-current asset investments is calculated by discounting expected future cash flows using asset specific discount rates, with the movement in fair value each year recognised in the fair value movement on available for sale assets in the statement of comprehensive income. The fair value of contingent consideration payable is calculated by discounting the estimated contractual cash flows that could be paid under the terms of the sale and purchase agreement using a risk adjusted discount rate.

The movement in the fair value of contingent consideration and non-current asset investments derived using a level 3 valuation method is show below:

	Contingent consideration £m	Non-current asset investments £m
At 1 January 2016	(58.6)(1)	4.7
Fair value of equity interests retained on partial disposals	-	0.5
Discount unwind recognised in financial expense	(1.3)	-
Transfer to current liabilities	0.3	-
Exchange rate movements recognised in the translation reserve	(9.9)	-
At 30 June 2016	(69.5)	5.2

(1) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Outland Group in 2015.

The fair value of non-current asset investments is most sensitive to movements in the discount rate used. A one percentage point increase in the discount rate would reduce the fair value by £0.4 million. In respect of contingent consideration, a one percentage point increase in the discount rate would reduce the fair value of the liability by £2.0 million.

The fair value of derivative financial instruments is based on a level 2 valuation method, using inputs from quoted prices in active markets, with the movement in fair value each year recognised in administrative expenses in the income statement.

The fair value of other financial assets and financial liabilities are a reasonable approximation of their carrying values and have therefore not been disclosed.

Financial risk management

The Group's financial risk management objectives and policies at 30 June 2016 have not materially altered and are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2015.

13 Share capital

The issued and fully paid share capital at 30 June 2016 was 430.3 million shares (30 June 2015: 430.3 million; 31 December 2015: 430.3 million).

14 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2015, except in relation to key assumptions used to determine defined benefit pension obligations as disclosed in note 8.

15 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 £103.1 million (31 December 2015: £112.4 million), with the reduction from 2015 reflecting the disposal of PPP equity investments in the first half of 2016. There has been no material change to the contingent liabilities of the Group in the six months ended 30 June 2016.

16 Company information

This half-yearly financial report was approved by the Board of Directors on 24 August 2016 and is 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.

Directors' responsibilities

This half-yearly financial report complies with the Disclosure and Transparency Rules (DTR) of the United Kingdom's Financial Conduct Authority in respect of the requirements to produce a half-yearly financial report. The half-yearly financial report is the responsibility of, and has been approved by, the Directors of Carillion plc.

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

- the condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union
- the half-yearly financial report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months of 2016 and description of principal risks and uncertainties for the remaining six months)
- the half-yearly financial report includes a fair review of the information required by DTR 4.2.8R (disclosure of any material related party transactions during the first six months of 2016 that have materially affected the financial position or performance of the Group and any changes in the related party transactions described in the 2015 Annual Report that could do so).

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 six months ended 30 June 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 six months ended 30 June 2016 will be determined in accordance with English law.

On behalf of the Board

Richard Adam FCA
Group Finance Director
24 August 2016

Independent review report to Carillion plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016, which comprises the unaudited condensed consolidated income statement, the unaudited condensed consolidated statement of comprehensive income, the unaudited condensed consolidated statement of changes in equity, the unaudited condensed consolidated balance sheet, the unaudited condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA'). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union (EU). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34: 'Interim Financial Reporting' as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410: 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Peter Meehan
For and on behalf of KPMG LLP
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

24 August 2016