



# Making tomorrow a better place

Annual Report and Accounts 2016



# Who we are

Carillion is one of the UK's leading integrated support services companies, with a substantial portfolio of Public Private Partnership projects, extensive construction capabilities and a sector-leading ability to deliver sustainable solutions.

## Our vision

Our vision is to be the trusted partner for providing services, delivering infrastructure and creating places that bring lasting benefits to our customers and the communities in which we live and work.

## Our Values

- We care
- We achieve together
- We improve
- We deliver

Our Values shape the way we do business, how we work with each other, our customers, our suppliers, our partners and all those with whom we interact when delivering our services.

## What we do

We have three core capabilities – support services, project finance and construction services – and we use these individually or in combinations to design and deliver sustainable services to meet the specific needs of our customers.

**Support services** – this includes the provision of maintenance, facilities management and energy services for major buildings and large property estates, for both public and private sector customers, infrastructure services for roads, railways and utility networks, notably telecommunications and power transmission and distribution, and remote site accommodation services.

**Project finance** – this includes arranging the funding for Public Private Partnership projects, to deliver public sector buildings and infrastructure, in which we invest equity and for which we win construction and long-term support services contracts.

**Construction services** – this includes the delivery of a wide range of buildings and infrastructure, focused on large contracts for long-term public and private sector customers for whom quality and reliability are paramount.

## Strategic report

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For more information visit:  
[carillionplc.com](http://carillionplc.com)





# 2016 At a glance

## Performance in line with expectations

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

## High-quality order book and strong pipeline of contract opportunities

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

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

## Begin reducing average net borrowing over the medium term

(1) Throughout the Annual Report, the Directors believe it is appropriate to present the results of the Group using Alternative Performance Measures (APMs). APMs are presented in order to supplement reported results by providing further clarity on the Group's underlying performance and to present additional information that reflects how the Directors monitor and measure the progress of the Group. Definitions of each of the APMs included in the Annual Report and how they reconcile to reported measures can be found on pages 140 to 143.

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

Total revenue<sup>(1)</sup>  
+14%

**£5.2bn**

2015: £4.6bn

Underlying profit before  
taxation<sup>(1)</sup>  
+1%

**£178.0m**

2015: £176.5m

Underlying earnings  
per share<sup>(1)</sup>  
+1%

**35.3p**

2015: 35.0p

Proposed full-year  
dividend per share  
+1%

**18.45p**

2015: 18.25p

Order book

**£16.0bn**

2015: £17.4bn

Group revenue  
+11%

**£4.4bn**

2015: £4.0bn

Profit before  
taxation  
-5%

**£146.7m**

2015: £155.1m

Basic earnings  
per share  
-6%

**28.9p**

2015: 30.9p

Net borrowing<sup>(1)</sup>  
+29%

**£218.9m**





2015: £169.8m

Pipeline

**£41.6bn**

2015: £41.4bn

### Social media

-  LinkedIn - [linkedin.com/company/carillion](https://www.linkedin.com/company/carillion)
-  Twitter - [@carillionplc](https://twitter.com/carillionplc)
-  Facebook - [facebook.com/carillionupdates](https://www.facebook.com/carillionupdates)
-  YouTube - [youtube.com/user/carillionplclatest](https://www.youtube.com/user/carillionplclatest)

### Front Cover

A Carillion joint venture, The Hospital Company (Sandwell) Limited, is delivering the Midland Metropolitan Hospital Public Private Partnership project for the Sandwell and West Birmingham Hospitals NHS Trust. This state-of-the-art hospital, which will have around 683 beds and 13 operating theatre suites, has been designed to the best international standards that will make it highly patient focused and support the efficient delivery of high-quality clinical services, as well as achieving the highest standards of sustainability. Carillion will invest £13 million of equity in the project, as well as building the hospital at a capital cost of £297 million and providing hard facilities management and maintenance services worth approximately £140 million over the 30-year life of the concession contract.

# What we do

We report our results in four business segments



Performance and financial review  
See pages 39 to 42



## Support services

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.

Total revenue  
+7%

**£2,712.7m**

2015: £2,534.2m

Underlying operating profit<sup>(1)</sup>  
+25%

**£182.7m**

2015: £146.6m

Order book plus probable orders  
-4%

**£12.2bn**

2015: £12.7bn

Pipeline of contract opportunities  
-8%

**£11.1bn**

2015: £12.1bn



## Public Private Partnership projects

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

Total revenue  
+62%

**£313.0m**

2015: £192.8m

Underlying operating profit<sup>(1)</sup>  
-43%

**£28.3m**

2015: £49.3m

Order book plus probable orders  
-33%

**£0.8bn**

2015: £1.2bn

Pipeline of contract opportunities  
+25%

**£3.0bn**

2015: £2.4bn



## 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.

**Total revenue**  
+11%

**£668.3m**

2015: £601.6m

**Underlying operating profit<sup>(1)</sup>**  
-36%

**£16.1m**

2015: £25.3m

**Order book plus probable orders**  
-38%

**£0.5bn**

2015: £0.8bn

**Pipeline of contract opportunities**  
-6%

**£15.0bn**

2015: £16.0bn



## Construction services (excluding the Middle East)

In this segment we report the results of our UK building, civil engineering and developments businesses, together with our construction activities in Canada.

**Total revenue**  
+21%

**£1,520.2m**

2015: £1,258.3m

**Underlying operating profit<sup>(1)</sup>**  
+9%

**£41.3m**

2015: £37.8m

**Order book plus probable orders**  
-7%

**£2.5bn**

2015: £2.7bn

**Pipeline of contract opportunities**  
+15 %

**£12.5bn**

2015: £10.9bn

(1) Definitions of each of the APMs included in the Annual Report and how they reconcile to reported measures can be found on pages 140 to 143.

# Where we operate

## United Kingdom<sup>(2)</sup>

Total revenue +14%

**£3,831.1m**

2015: £3,356.7m

Percentage of total  
Group revenue:

**74%**

2015: 73%

## Canada<sup>(1)</sup>

Total revenue +16%

**£596.4m**

2015: £513.2m

Percentage of total  
Group revenue

**11%**

2015: 11%

## Middle East and North Africa

Total revenue +10%

**£786.7m**

2015: £717.0m

Percentage of total  
Group revenue

**15%**

2015: 16%

(1) Includes £5.6 million (2015: £9.8 million) of revenue generated in the Caribbean.

(2) Includes £46.8 million (2015: £22.0 million) of revenue generated outside the UK, Middle East, North Africa and Canada.

# Why invest in Carillion

## Strong order book and substantial frameworks and pipeline of contract opportunities

We have a high-quality order book (including probable orders) worth £16.0 billion, framework contracts that are expected to generate up to £1.5 billion of revenue and a substantial pipeline of specific contract opportunities potentially worth £41.6 billion. In 2016, we won £4.8 billion of new orders and probable orders in our chosen markets, despite tougher conditions in some of our markets, demonstrating our skills in winning work, consistent with our rigorous approach to selecting the contracts for which we bid.

Importantly, many of these contract wins were successful re-bids, contract extensions or repeat business with long-term customers, demonstrating the strength of our customer relationships. In 2016, 89 per cent by value of new orders and probable orders won in Support services was for existing customers and in Construction services 70 per cent was for existing customers.



**Order book and pipeline**  
See page 20

## Leadership positions in good markets

We have established strong positions in a number of markets where we can use our core skills in providing support services, project finance and construction for infrastructure and buildings, across our three geographies – the UK, Canada and the Middle East. In the UK, we have a high-quality, competitive offering for a range of infrastructure services, notably in the rail, roads, digital communications and power transmission and distribution sectors, which feature major areas of investment in the Government's National Infrastructure Delivery Plan.

Canada has major investment programmes in markets where we have strong positions, such as power transmission and distribution. We are also strong in our facilities management markets in each of the three geographies, where we differentiate our offering by using the breadth and scale of our resources.



**Our markets**  
See page 20

## Broad capability and trusted partner

Using our three core skills, we offer a broad range of services, which we can combine and tailor to the specific needs of our customers. This means we can respond to changing customer demands and market trends.

The breadth and depth of our expertise and our commitment to high standards provides customers with confidence and, in turn, leads to long-term customer and supplier relationships and the high proportion of our work coming from contract extensions, retentions and repeat business, referred to above. This supports our objectives for maintaining the leadership positions we have in good markets.



**Net Promoter Score**  
See key performance indicators on page 19

## A track record of performance

We have implemented a consistent and successful strategy of focusing selectively on winning contracts where we can achieve our objectives for revenue, margins and earnings. We also have a strong track record in reducing our cost base and improving efficiency through a number of ongoing programmes.

This strategic focus and our ability to reduce costs and improve efficiency has enabled Carillion to deliver strong margins and maintain earnings, despite challenging conditions in some of our markets, and to continue our policy of increasing the dividend broadly in line with earnings growth, subject to the development needs of the business.



**Five-year review**  
See page 150

## Integrated and sustainable business

Supporting our performance is an integrated business model and centralised operating platform, which are key differentiators that support our objectives of delivering services safely, sustainably and to best-in-class standards. The Health and Safety of all our employees and everyone affected by our operations remains paramount. Similarly, we embed sustainability into everything we do in order to create positive outcomes for all our stakeholders.

We have a strong and experienced leadership team that leads by example and provides clear direction for the business. Our values-based culture and rigorous approach to maintaining high-standards of corporate governance is a major part of our robust risk management process, which in turn supports our objectives for delivering high-quality, value for money services, while also achieving our targets for revenue, profit and cash flow.



**Health and Safety Lost Time Incident Frequency Rate**  
See key performance indicators on page 19

**Sustainability savings**  
See key performance indicators on page 19



# Chairman's statement

In 2016, Carillion's performance was led by revenue growth and an increased margin in support services.



**In 2016, we made good progress in a number of our markets, while managing and mitigating the effects of more difficult trading conditions in others. Importantly, the Board maintained its focus on overseeing and developing the Group's strong governance and management framework, on scrutinising the Group's performance, on assessing the Group's risk management and control processes and on constructively challenging the Executive Directors. In the Group's 2015 Annual Report, the Board set three priorities for 2016, namely to oversee the development of the Group's strategy for growth, to develop the Board's effectiveness and to manage Board membership succession, alongside the development of the Group's senior management team. We report in detail on the progress we have made with these priorities in subsequent sections of this report, but I have summarised here our main achievements in 2016, including key aspects of the Group's performance.**

## Financial performance

Having returned to revenue growth in 2015 for the first time in five years, during which our focus was on managing the impacts of the global recession, the Group has once again delivered strong revenue growth, with total revenue of some £5.2 billion, a 14 per cent increase on 2015. This was primarily driven by organic growth in all of our four business segments – Support Services, Public Private Partnership projects, Middle East construction services and Construction services (excluding the Middle East).

The Group's underlying operating margin reduced from 5.3 per cent in 2015 to 4.9 per cent, due primarily to the expected reductions in profit from the sale of equity investments in Public Private Partnership projects and from Middle East construction services. However, these reductions were more than offset by increases in profit from Support services and Construction services (excluding the Middle East). Consequently, total underlying profit from operations increased slightly by one per cent to £235.9 million, with underlying profit before taxation and underlying earnings per share also increasing by one per cent to £178.0 million and 35.3 pence, respectively.

Cash flow from operations represented 117 per cent of profit from operations. Net borrowing at 31 December 2016 increased to £218.9 million (2015: £169.8 million), which was due to the adverse impact of foreign exchange movements that followed the EU Referendum in June. Average net borrowing increased to £586.5 million (2015: £538.9 million), but again largely due to the effect of foreign exchange movements. It is important to note that around half the impact on net borrowing of foreign exchange movements is non-cash, because it relates to our US Private Placement loans for which interest charges and repayments at maturity are hedged. Going forward, the Board will focus on steadily reducing the Group's net borrowing over the medium term, while continuing to invest to support the development of our business.

The Group continues to have substantial liquidity with some £1.5 billion of available funding, including £112 million of five-year funding raised from the German Schuldschein market. The latter was secured in January 2017 to replace the £116 million of existing funding that is due to mature in 2017 and 2018. The vast majority of the Group's £1.5 billion of funding matures in November 2020 and beyond.



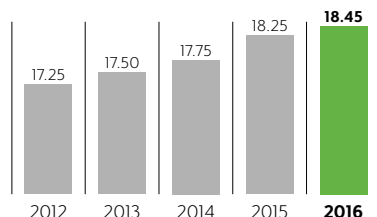
## Work winning

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

## Dividends

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

### Dividend (pence)



### Five-year compound annual growth rate

1.7%

## Strategy

In order to continue adapting to trends in our geographies and key markets and to position the Group to take advantage of new and growing opportunities, we have refined our strategy and introduced a number of specific objectives, linked to Key Performance Indicators. This is explained in more detail pages 10 and 11. We have a good platform from which to develop the Group going forward and we will focus on growing the strong positions we have in a number of our key markets while continuing to reduce our exposure to markets where trading conditions are more challenging.

## Brexit

Although the result of the EU Referendum, which will see the UK leave the European Union, has so far not had any significant impact on Carillion, Brexit may in due course present a number of challenges for our industry and for Carillion, although their extent is likely to remain unclear for some time. However, prior to the Referendum, Carillion conducted an extensive review to identify the potential impacts of Brexit and to develop an action plan that would enable us to monitor potential risks and put us in the best possible position to manage them.



**Our principal risks**  
See pages 32 to 37

## Our people

The success of any business depends primarily on the quality of its people and Carillion has an outstanding workforce that is both highly skilled and committed to behaving in accordance with our values. On behalf of the Board, I should like to thank everyone in Carillion for the dedication and professionalism they demonstrate in delivering excellent services for our customers.

## Board changes

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

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

## Outlook

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

**Philip Green**  
Chairman  
1 March 2017

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

# Chief Executive's strategic overview

Building trusted relationships with customers and using all our resources and skills in an integrated way helps us to win high-quality contracts and deliver services safely, sustainably and to best-in-class standards.



## In this section of the report, we explain:

- **the outlook for the Group** (page 9)
- **our strategy** (pages 10 and 11)
- **the objectives that support our strategy** (pages 10 and 11)
- **our strategy in action** (pages 12 to 17)
- **the key performance indicators that measure our performance against our objectives** (pages 18 and 19)
- **our markets** (pages 20 to 23)
- **our integrated business model and how it works** (pages 24 and 25)
- **the importance of being a leader in Health and Safety and Sustainability and of having strong risk management processes** (pages 26 to 37)
- **our financial performance in 2016** (pages 38 to 47)

## Strategy

As one of the UK's leading support services companies with a substantial portfolio of Public Private Partnership projects, extensive construction capabilities and a sector-leading ability to deliver sustainable solutions, Carillion offers a wide range of services across markets in the UK, Canada and the Middle East.

This wide range of expertise enables the Group to provide bespoke, integrated solutions for buildings and infrastructure, from project finance through design and construction to life-time asset management, together with business support services that add value for our customers and the communities in which we operate.

In several key markets the Group performed well, notably in a number of our support services sectors in each of our geographies, while trading conditions in construction markets in the Middle East and in Canada, continue to be challenging.

In order to continue building a business that delivers sustainable, profitable growth, we have refined our strategy to focus on

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

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

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

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

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

## Winning high-quality contracts in our chosen markets

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

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

Executing contracts well is essential if we are to achieve our targets for sustainable revenue and profit growth, strong operating cash flow and high levels of customer satisfaction and thereby create value for all our stakeholders. To do this, our overriding priority is to remain a leader in Health and Safety to ensure that all our people can work safely and without the risk of ill health caused by work. It is with deep regret that we report one fatal accident in January 2016, when an employee was fatally injured in a fall when working on one of our projects in Dubai. Our thoughts are with the relatives, friends and colleagues who were affected by this tragic accident and like all such accidents it was rigorously investigated and the lessons learnt were immediately implemented. Our main Health and Safety KPI is Lost Time Incident Frequency Rate (LTIFR), which is an internationally recognised measure of safety performance. In 2016, our LTIFR was 0.192 Lost Time Incidents per 200,000 hours worked, which continues to be a world class performance in our industry sectors. Until 2016, we have seen a continuing and significant trend with our LTIFR falling from 0.293 in 2013 to 0.241 in 2014 and 0.188 in 2015. It is therefore disappointing that it has risen very slightly in 2016, but our focus on safety is relentless and we shall redouble our efforts to return to an improving trend in 2017.

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

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

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

## Developing and attracting excellent people and capabilities

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

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

## Priorities for 2017

Our priorities for 2017 are to accelerate the rebalancing of our business into markets and sectors where we can win high-quality contracts and achieve our objectives for margins and cash flows, to manage the positions we have in challenging markets and to begin reducing full-year average net borrowing.

To accelerate the rebalancing of our business, we will become even more selective when choosing the contracts for which we bid and continue adapting to trends in our geographies and markets in order to focus on new and growing opportunities, such as those we expect in our infrastructure markets in the UK and Canada. To reduce full-year average net borrowing we will maintain strong cash generation, with an increased focus on managing working capital, and review the allocation of capital and other resources across the Group, which will also support the rebalancing of the business.

As always, there are risks and uncertainties, details of which are set out on pages 32 to 37, that may affect our ability to deliver these priorities. However, we have a strong and committed management team whose personal objectives and performance related remuneration have been specifically set to support the delivery of the Group's priorities for 2017.



**Richard Howson**  
Group Chief Executive  
1 March 2017

# Our strategy

We will deliver sustainable, profitable growth by:

- Winning high-quality contracts in our chosen markets
- Delivering contracts safely, sustainably and to best-in-class standards
- Developing and attracting excellent people and capabilities



Winning high-quality contracts in our chosen markets

## Strategic objectives

**Rigorous contract selectivity and risk management**

**Focused on growing support services in all our geographies**

- Infrastructure services – UK Government's commitment to long-term investment
- Facilities management and maintenance for property estates – customers need efficiency and cost savings

**Maintaining a strong construction capability**

- UK focused on infrastructure and buildings
- Especially selective in Canada and Middle East, focused on PPP and UK Export Finance

**Continuing to extend integrated services offering utilising synergies/skills between support services and construction**

**Identifying adjacent areas of opportunity – skills and geographies**

**Pursuing investment-led opportunities with good equity returns, plus construction and support services contracts**

**Continue reviewing our markets to anticipate change and adapt**

## KPIs

- Work won and secured and probable orders
- Book to Bill ratio



Key performance indicators  
See pages 18 and 19





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

## Strategic objectives

**Remain a recognised leader in Health and Safety and Sustainability**

**Improve customer engagement and satisfaction**

**Continue building trusted long-term partnerships with customers and suppliers**

**Deliver profitable growth, fully cash-backed in target growth markets**

**Continue developing technology to enhance services and increase efficiency**

## KPIs

- Net Promoter Score
- Total revenue growth
- Underlying operating margin
- Cash conversion
- Net Debt to EBITDA
- Lost time incident frequency rate
- Contribution to profit from sustainability
- Underlying earnings per share
- Reduction in our carbon footprint



Key performance indicators  
See pages 18 and 19



Developing and attracting excellent people and capabilities

## Strategic objectives

**Continue investing in our people and capabilities**

- Leadership and development programmes at all levels
- Graduate programmes
- Largest trainer/employer of apprentices in our UK sectors
- Leader in supporting homeless, ex-offenders and ex-military people into work

**Continue developing flexible working and family friendly policies**

**Increasing relevant volunteering on paid days' leave**

**Enhancing strong governance and values-based culture**

## KPIs

- Employee engagement score
- Gender balance
- Percentage of employee volunteering



Key performance indicators  
See pages 18 and 19

Strategy in action

# Trusted partner of choice



## Delivering sustainable services for Nationwide



Working together  
for **eight years**

**We have been working in partnership with Nationwide Building Society for eight years, providing facilities management services for Nationwide's property estate.**

In 2016, the contract for these services was re-bid and Carillion was awarded a new seven-year contract, which is expected to generate approximately £350 million of revenue. The contract, which began on 1 October 2016, also includes a provision for its potential extension by a further three years to a total of 10 years.

Under this new contract, Carillion is providing a wide range of hard and soft facilities management and workplace services for Nationwide's Headquarters in Swindon, its 15 corporate offices, critical data centres and 700 retail branches throughout the UK.

These services, which are specifically aligned to Nationwide's sustainability strategy, include energy management, risk assurance, asset maintenance, capital works, front-of-house, security, grounds maintenance, mailroom management, porterage and cleaning.

Carillion's success in re-winning this contract reflects our expertise in whole-life property management and services, our sector-leading ability to provide sustainable solutions, our focus on delivering a first-class customer experience and our ability to develop operational and technological enhancements that continually raise service standards and set new benchmarks for quality and reliability, all backed by a dedicated helpdesk located in our award winning Customer Experience Centre.

# Working in partnership with Openreach



Working together for **eight years**

**Our joint venture framework agreement with Openreach has been extended with a potential value to Carillion of up to £900 million.**

Carillion telent, a 60:40 Joint Venture, has been Openreach's main delivery partner for maintaining and extending the telephone and data network, together with providing asset assurance services, notably poling and related activities, for the past eight years to support Openreach in delivering high-quality services for its customers.

Early in 2017, we built on the strength of this partnership when Carillion telent signed a three-year extension (extendable to five years), to its framework agreement with Openreach under which Carillion telent will continue to deliver maintenance and network extension services for Openreach in the North East, South West and London & North Home Counties of England and in the Midlands and Wales. The extension also includes the delivery of asset assurance works, notably poling and related activities, in England and Wales.

The new framework is expected to generate up to £900 million of revenue over three years (Carillion's share over £500 million) and potentially up to £1.5 billion over five years (Carillion's share up to £900 million), as the agreement provides for a further two-year extension, subject to performance.

Many of the supply chain partners Carillion telent engage with in the delivery of this contract are both local to their work areas and Small to Medium-sized Enterprises taking their workforces from the local community. The use of Carillion's sector leading supply chain finance offering, our Early Payment Facility, allows our supply chain partners access to their payments ahead of their contractual terms, reducing their need for working capital and helping them grow and sustain local communities.







# Supporting the Army Basing Programme



Working together  
for 10 years

**In 2016, we built on the strong and successful relationship we have established with the UK Ministry of Defence, when Carillion/KBR (50:50) joint ventures were awarded contracts to support the Army Basing Programme under which UK troops are returning from Germany by 2019. These latest contracts for the Ministry of Defence involve the provision of design, construction and facilities management services across the Salisbury Plain Training Area and at Aldershot, together worth over £1.1 billion.**

The design and construction contract, which will deliver 130 new buildings, together with extensions and alterations to existing buildings and associated infrastructure, has an estimated value of £680 million of which Carillion's share will be £340 million over the period 2016 to 2020. Facilities management and maintenance services for these new assets and for the increased population across the Salisbury Plain Training Area and Aldershot are being provided under a variation to the existing Project Allenby Connaught contract and is expected to generate a further £430 million of support services revenue over the remaining life of this contract, of which Carillion's share will be approximately £215 million.

In 2006, a 50:50 joint venture between Carillion and KBR, Aspire Defence Limited, was awarded a 35-year concession contract for Project Allenby Connaught, the largest infrastructure Public Private Partnership project ever let by the UK Ministry of Defence, worth approximately £8 billion at 2006 prices. Since 2006, Carillion/KBR joint ventures have delivered approximately 550 new and refurbished buildings to date, on time, safely and to budget, enhancing soldiers' living and working accommodation at Tidworth, Perham Down, Bulford, Larkhill, Warminster and Aldershot, as well as successfully delivering hard and soft facilities management and maintenance services for these assets under a 35-year contract that ends in 2041.



# Improving the UK's infrastructure for Network Rail



Working together  
for 17 years

**Carillion is one of the leading suppliers of rail infrastructure services in the UK. With rail revenue in excess of £350 million, we are the only supplier to have consistently featured in Network Rail's top two suppliers over the last few years and we expect to maintain our position as a lead supplier to Network Rail when it publishes supplier data for 2016.**

We work in partnership with Network Rail under framework agreements. Carillion currently has frameworks under which we deliver a wide range of infrastructure services in England, Scotland and Wales, including track renewal, electrification, multi-disciplinary engineering and remodelling works to accommodate increased traffic and to upgrade stations and the construction of new railway routes.

The success of our long-term partnership with Network Rail is based on our knowledge and expertise, the quality and reliability of the services we deliver and, importantly, our sector-leading focus on Health and Safety, which is of paramount importance in everything we do, particularly our operations on the rail network.

We also support Network Rail directly in their key sustainability ambitions, managing Embodied Carbon, improving biodiversity, developing the Supply Chain Sustainability School, and supporting the development of the future workforce through technical apprenticeship programmes.



# Supporting Petroleum Development Oman



Working together  
for **three years**

Our market leading business in Oman, Carillion Alawi, has been working in partnership with Petroleum Development Oman (PDO) to provide integrated facilities management services for 12 locations across Oman since 2013. PDO, which is owned by the Government of Oman (60 per cent), Royal Dutch Shell (34 per cent), Total (4 per cent) and Partex (2 per cent), is the foremost exploration and production company in Oman and accounts for more than 70 per cent of Oman's crude oil production and nearly all of its natural gas supply.

In 2016, Carillion Alawi signed a 4.5-year extension to its contract for PDO under which it will continue providing integrated facilities management services that are expected to generate some £240 million of revenue for Carillion over the contract period. The services being delivered include engineering maintenance, projects, catering and environmental services, notably cleaning, housekeeping, pest control, landscaping and laundry services across the PDO estate, which includes PDO's main coastal estate, and covers an area of approximately 100,000 square kilometres.

Our success in securing this contract extension reflects our focus on delivering safe, sustainable and cost effective services. It is also testimony to the strong partnership we have developed with PDO, based on our commitment to supporting PDO through the efficient management and operation of its critical infrastructure. We do this by using our sector leading ability to provide facilities management services to the oil and gas sector in the Middle East, including operating in the challenging desert environment where the vast majority of PDO's assets are located.







# Working with Manitoba Hydro to deliver renewable energy



Working together  
for **two years**

**In December 2014, Carillion acquired Rokstad Power Corporation (Rokstad) in Canada that provides infrastructure services to the power transmission and distribution sector. In line with our strategy of expanding our infrastructure services activities in Canada, this acquisition has significantly enhanced our capabilities and prospects in a growing market, where it is estimated that around £37 billion of investment will be made in power transmission and distribution infrastructure over the next 15 years.**

Rokstad has won a number of significant contracts since its acquisition, including a £120 million contract for Manitoba Hydro in December 2016 to deliver the next phase of its Bipole III high-voltage transmission line project. Work began in late 2016 and is scheduled for completion in 2018.

This contract involves clearing rights of way, installing access roads, building foundations and anchors, assembling towers and stringing cables for three packages of the Bipole III project, which includes 1,384 kilometres of transmission lines and two converter stations, starting at Keewatinohk in Northern Manitoba and ending at Sandy Bay Ojibway First Nation in Southern Manitoba. When the whole Bipole III project is completed it will deliver renewable energy to Southern Manitoba and to the United States.

# Our key performance indicators for 2016

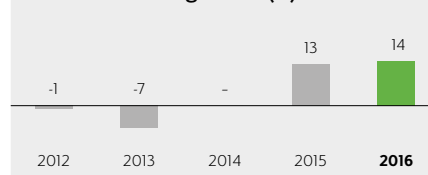
We monitor a broad range of financial and non-financial performance indicators to assess our performance. The data provided in this section sets out the key metrics we believe will assist our stakeholders in assessing our performance during 2016.

The financial and non-financial KPIs are closely linked to our strategy outlined below and in further detail on pages 10 and 11.

Carillion's strategy is to deliver sustainable profitable growth by

1. Winning high-quality contracts in our chosen markets.
2. Delivering contracts safely, sustainably and to best-in-class standards.
3. Developing and attracting excellent people and capabilities.

## 1. Total revenue growth (%)



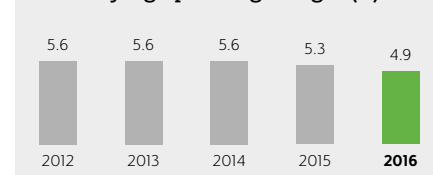
**Definition:** Percentage change in annual revenue (including share of Joint Venture's revenue).

**Comment:** Total revenue increased by 14 per cent with all four segments contributing to this improvement.

**Target:** Continue to grow our revenue.

**Link to strategy:** 2

## 2. Underlying operating margin (%)



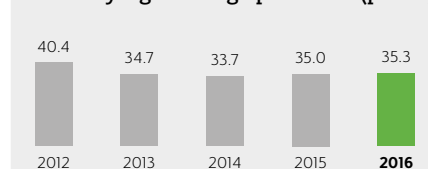
**Definition:** Underlying operating profit (including share of Joint Ventures) as a percentage of total revenue.

**Comment:** Margin has reduced slightly in 2016 due to lower PPP sales and reductions in the Middle East.

**Target:** Improve operating margin through increased efficiencies.

**Link to strategy:** 2

## 3. Underlying earnings per share (pence)



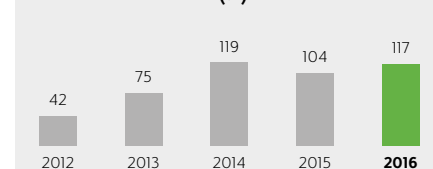
**Definition:** Underlying profit attributable to shareholders divided by the weighted average number of shares.

**Comment:** Underlying earnings per share (EPS) increased by one per cent in 2016.

**Target:** Grow EPS consistently across the medium to long term.

**Link to strategy:** 2

## 4. Cash conversion (%)



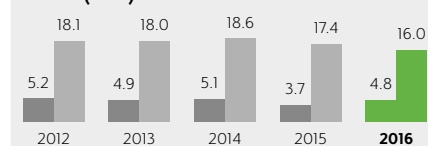
**Definition:** Underlying cash inflow from operations divided by underlying profit from operations.

**Comment:** Our cash conversion improved to 117 per cent in 2016.

**Target:** Ensure our underlying profit from operations is consistently cash backed.

**Link to strategy:** 2

## 5. Work won and secured and probable orders (£bn)



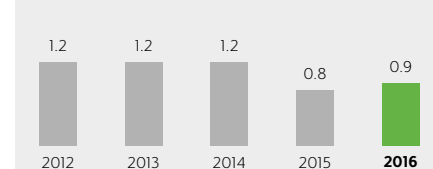
**Definition:** Work won in the year represents secured and probable orders in the year. Secured and probable orders represents cumulative amount of work won but not yet executed.

**Comment:** In 2016, we added £4.8 billion of new and probable orders to the overall value of secured and probable orders, which decreased to £16.0 billion.

**Target:** Grow the value of our secured and probable orders backlog.

**Link to strategy:** 1

## 6. Book to Bill ratio



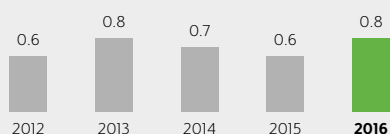
**Definition:** Amount of work won during the year as a proportion of the work executed and booked as revenue.

**Comment:** Book to bill ratio has improved by 0.1 to 0.9 compared to 2015.

**Target:** Aim to achieve a book to bill ratio greater than one.

**Link to strategy:** 1



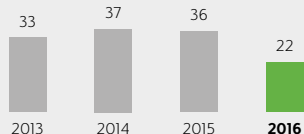
**7. Net Debt to EBITDA**

**Definition:** Net debt at the year-end divided by Earnings before Interest, Tax, Depreciation and Amortisation.

**Comment:** Our net debt to EBITDA ratio for 2016 was 0.8 (2015: 0.6).

**Target:** Continue to focus on cash generation in order to minimise our net debt to EBITDA ratio.

**Link to strategy:** 2

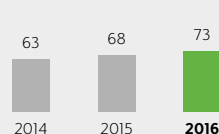
**8. Net promoter score**

**Definition:** An international standard for measuring customer satisfaction. NPS can range from +100 to -100.

**Comment:** Our net promoter score for 2016 was +22 (2015: +36). Our 2016 score reflected the challenges of mobilising new contracts.

**Target:** Aim to achieve continuous improvement in our net promoter score and meet our long-term goal of +45 by 2019.

**Link to strategy:** 2

**9. Employee engagement score (%)**

**Definition:** The percentage of our employees who responded that they felt engaged with our businesses in our employee engagement survey.

**Comment:** Our engagement score increased to 73.

**Target:** Aim for continuous improvement in employee engagement across the Group.

**Link to strategy:** 3

**10. Lost time incident frequency rate (LTIFR)**

**0.192**

2015: 0.188

**Definition:** Lost time incidents per 200,000 hours worked for both employees and subcontractors combined.

**Comment:** Following a strong performance in 2014 and 2015, our LTIFR worsened slightly in 2016.

**Target:** Our lost time incident frequency rate target for 2017 is 0.160 or below.

**Link to strategy:** 2

**11. Gender balance**

**38%**

2015: 37%

**Definition:** The percentage of females to males employed at Carillion.

**Comment:** Our female to male ratio improved in 2016 to 38% (2015: 37%).

**Target:** Continue to drive greater diversity in our business.

**Link to strategy:** 3

**12. Contribution to profit from sustainability**

**£36.1m**

2015: £33.8m

**Definition:** Cost savings and revenue improvements generated by initiatives related to our sustainability strategy.

**Comment:** Contribution to profit from sustainability increased to £36.1 million (2015: £33.8 million).

**Target:** Increase the level of contribution sustainability makes to our business through our ongoing focus on resource efficiency.

**Link to strategy:** 2

**13. Percentage of employees volunteering**

**30%**

2015: 18%

**Definition:** The percentage of our employees involved in community and charitable volunteering activities.

**Comment:** The percentage of our employees engaged in volunteering activities in 2016 improved significantly to 30% (2015: 18%).

**Target:** Continue to encourage our employees to volunteer in activities which engage our communities, aiming for 50% by 2020.

**Link to strategy:** 3

**14. Reduction in our carbon footprint**

**34%**

2015: 31%

**Definition:** Our carbon footprint includes direct and indirect emissions from our operations.

**Comment:** The 34% reduction in our carbon footprint (against a 2011 normalised baseline) showed continued improvement compared to 2015.

**Target:** Continue to seek the most effective ways to cut carbon, targeting a 41% reduction by 2020.

**Link to strategy:** 2



Alternative performance measures  
See pages 140 to 143

# Our markets

**Our business continues to benefit from strong positions in our chosen markets, and we believe that the long-term fundamentals for these markets remain sound.**

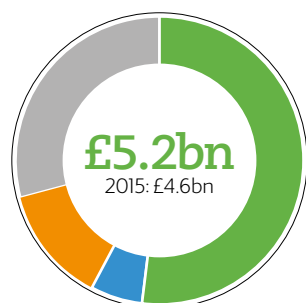
This section of our Annual Report aims to provide a broad overview of the key markets and the main activity drivers in relation to our operating units.

The focus of our operating activities continues to be targeted on our long-established markets of the UK, Middle East and North Africa and Canada.

Within these markets our operations benefit from the following

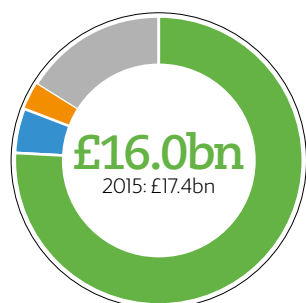
- our ability to provide integrated solutions to address the needs of our customers
- exposure to a broad mix of blue-chip and Government-backed customers
- our expertise across a wide range of sectors and ability to raise finance to support these solutions
- a solid order book of secured and probable orders with quality customers, as well as substantial framework contracts and a strong pipeline of future opportunities.

**Total revenue**



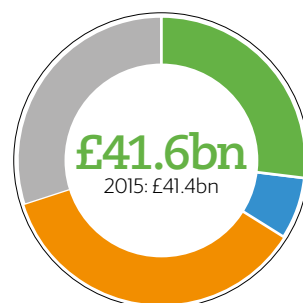
Support services	52%
Public Private Partnership projects	6%
Middle East construction services	13%
Construction services (excluding the Middle East)	29%

**Order book**



Support services	76%
Public Private Partnership projects	5%
Middle East construction services	3%
Construction services (excluding the Middle East)	16%

**Pipeline**



Support services	27%
Public Private Partnership projects	7%
Middle East construction services	36%
Construction services (excluding the Middle East)	30%

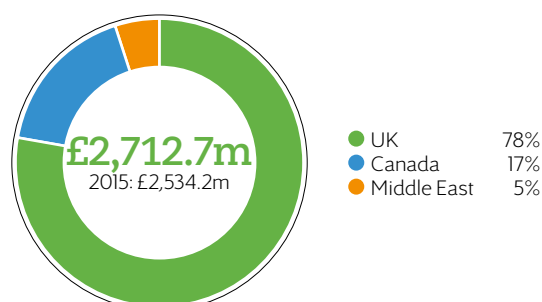


## Support services

**We have a leading international support services business with a broad range of skills and capabilities. We maintain and operate buildings and infrastructure, notably for central government departments, local authorities, operators of utilities and transport networks and for blue-chip companies in the private sector. We also provide support services as part of the integrated solutions we deliver for our PPP projects.**

The chart below sets out 2016 Support services revenue by geography:

**Support services total revenue by geography**



We operate one of the largest and most diverse support services businesses in the UK. We serve the infrastructure and facilities management markets with a significant proportion of our revenue and order book being generated from public sector bodies. In Canada, our support services activities are focused on customers in the oil and gas and power transmission and distribution sectors and on providing facilities management and remote site accommodation services to a wide range of public and private sector customers. In the Middle East, we provide services to oil and gas sector customers as well as facilities management and maintenance services for property estates and infrastructure.

Notwithstanding the current global economic uncertainties, the near-term outlook for our key markets remains fairly stable. Although the longer-term impacts of Brexit for our UK business are unclear, we have yet to see any significant impact from the UK's vote to leave the European Union. Gross domestic product (GDP) for the UK is forecast to grow by 2.0 per cent in 2017 and GDP for Canada and the Gulf Cooperation Council region, our other key markets, is expected to grow by 2.1 per cent and 3.1 per cent, respectively.

The UK infrastructure market is expected to offer significant opportunities for growth for our UK infrastructure services business over the medium to long term. Fundamentals underpinning this future growth include the following factors

- £23 billion of investment targeted at some of our key sectors announced by the UK Government as part of its National Productivity Investment Fund in October 2016
- investment in the renewal and upgrade of highways is expected to increase from £2.9 billion to £4.1 billion per annum by 2020 under the 'Roads Investment Strategy'
- UK Government's intention to raise infrastructure expenditure over the long term to 1.1 per cent of GDP
- significant planned investment for the UK's rail network (see inset)
- UK National Infrastructure Plan anticipates investment of £483 billion across a variety of sectors over the next few years (see inset)
- forecast growth in the population is expected to lead to significant further investment in social infrastructure, e.g. housing, health and education.

The UK property and facilities management market is estimated to be worth £45 billion per annum and is generally considered to be a relatively mature market. Nonetheless we believe that this market will also continue to offer opportunities for future growth due to

- increased outsourcing driven by the public sector's austerity measures as organisations move to a commissioning rather than delivery role, leading to a wider range of opportunities for growth and diversification of our services
- increased need for Local Authorities and Government departments to make cost savings that could lead to increased outsourcing of more services to the private sector
- increased demand from both the public and private sectors for innovative solutions, value added and multi-service contracts.

## UK Rail Network

As a leading provider of railway construction and infrastructure services, Carillion is well placed to benefit from major planned and potential investment in the UK's rail network.

- Network Rail will invest £25 billion in maintaining and upgrading the UK's existing railway infrastructure during the current 'Control Period', which runs from April 2014 to March 2019
- High Speed 2 Phase One – London to the West Midlands – is currently estimated to require approximately £20 billion of investment in new infrastructure, with construction expected to start in 2017 and completion expected by the end of 2026
- Crossrail 2, a new rail link that would run broadly North-South across London and connect locations within London with a number of locations to the North and South of London, will potentially involve a multi-billion pound investment in new infrastructure.

## UK National Infrastructure Plan

Carillion has the expertise and experience in market sectors expected to benefit from the UK Government's National Infrastructure Delivery Plan 2016–2021.

- £483 billion of planned investment in infrastructure
- £300 billion of investment in the period 2016/17 to 2020/21, of which £100 billion will be financed by the UK Government and £200 billion will be financed by the private sector
- £260 billion of investment between 2016/17 and 2020/21 in sectors where Carillion has strong market positions, including
  - £117.4 billion in energy
  - £88.4 billion in transport
  - £48.6 billion in social infrastructure e.g. schools, hospitals, prisons
  - £6.0 billion in communications

## Our markets continued

### Canada Support Services

In Canada, we expect the following factors to underpin the future prospects for our support services activities:

- our property and facilities management activities are expected to benefit from increased public sector focus on cost reduction, an increase in the range of services outsourced by the public and private sectors and facilities management services opportunities associated with the growing PPP market
- our accommodation services business is expected to benefit from the continued investment in the development of remote assets and infrastructure in Canada and demand to support workers engaged on existing operations undertaken by oil and mining companies
- our infrastructure services operations are expected to benefit from Canada's £37 billion programme to upgrade its transmission and distribution networks, the opportunity to expand our highways maintenance activities into new provinces or territories and our ability to help reduce costs for operators in the natural resources sectors through provision of integrated solutions.

We have also seen growing support for the creation of a Canada Infrastructure Bank to help co-ordinate and fund projects across the country. Although we currently have only limited operations in the United States (US), if the proposed commitment to increase investment in infrastructure in the US goes ahead, this will potentially create further opportunities for our businesses in North America.

### Middle East Support Services

Our support services operations in the Middle East support the operation and maintenance of essential industrial assets, infrastructure and property and the demand for these has been fairly resilient against the background of a low oil price environment. This has been helped by increased investment in infrastructure in Qatar ahead of the World Cup in 2022 and in Dubai as a result of Expo 2020. We expect the following factors to underpin the future prospects for our support services business in the Middle East region:

- our property and facilities management activities are expected to benefit from increased market penetration outside the United Arab Emirates (UAE) and the growth in number, size and complexity of buildings as the Gulf countries continue to invest in diversification of their economies away from oil and the need for national governments to invest in economic and social infrastructure to meet the growing demands of their changing demographics
- our infrastructure services operations are expected to benefit from growing opportunities arising from the adoption of planned highways maintenance regimes across the Gulf, increased investment in rail across the region and the scope to develop our oil and gas services aimed at the operations and maintenance end of this market.

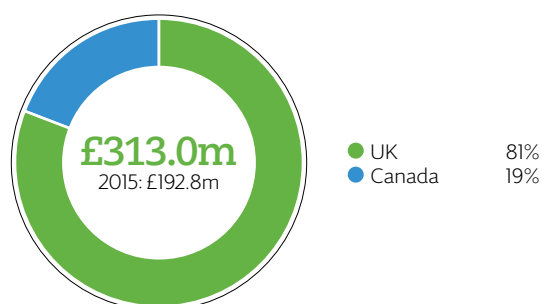


### Public Private Partnership (PPP) projects

**Having financially closed 66 PPP projects, we are one of the world's leading companies in delivering these projects, for which we use our sector-leading expertise in arranging project finance, combined with our construction and support services capabilities, to deliver a wide range of asset-based services for public sector customers.**

The chart below sets out 2016 PPP revenue by geography:

PPP total revenue by geography



In the UK, the PPP market continues to offer a more limited flow of new project opportunities, which is expected to remain at a similar level to recent years. Future projects are expected to be focused in the health, transport and education sectors, where we have a strong track record, and the capital value of these projects is estimated to be worth in the region of £6 billion over the next five years.

Canada continues to have a major PPP investment programme, which has a capital value estimated to be worth around C\$60 billion over the next 10 to 15 years. Our target markets, which are estimated to be worth around C\$20 billion over this period, are in Ontario and British Columbia as well as target projects in other provinces where a growing pipeline of opportunities is starting to emerge. However, the competitive landscape remains challenging in Canada and we therefore continue to apply a very selective approach to the contracts for which we bid to ensure we achieve our target returns on investment.

We have yet to secure our first PPP project in the Middle East and North Africa, although interest in alternative forms of project finance continues to increase, including opportunities to use private finance models to deliver building and infrastructure projects, as the prolonged low oil price affects the ability of some Gulf states to achieve their ambitions for investing in social infrastructure. We also continue to use our expertise in project finance and our ability to leverage UK Export Finance as a source of funding to differentiate our Design, Build, Finance and Operate offering for Middle East public sector customers.



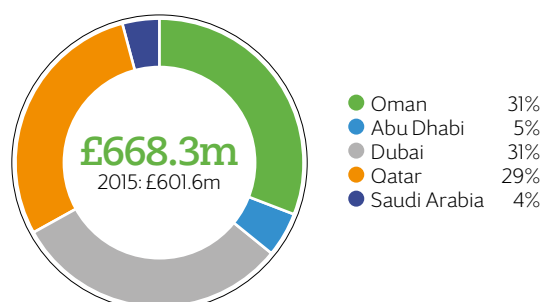


## Middle East construction services

**We offer a sector-leading construction capability in our chosen markets in the Middle East. We deploy this capability selectively on large, higher value-added contracts for customers with whom we have, or can build, long-term relationships.**

The chart below sets out 2016 Middle East construction services revenue by geography:

**Middle East construction services total revenue by geography**



Our Middle East construction activities serve both the building and the infrastructure markets. Construction activity across a number of Middle East territories has remained relatively stable over recent years as various countries continue with their efforts to diversify their economies away from a heavy reliance on the oil market. Although we continue to expect good volume growth in the UAE driven by Expo 2020 in Dubai, the wider outlook for volumes and margins across the region is expected to remain challenging, due to the ongoing impact of the low oil price. Over the longer term, factors expected to underpin future volumes for our Middle East construction services business include the following:

- our Middle East building activities are expected to benefit from increased demand for hotel and leisure facilities, driven by the growth in tourism and the increased investment in social infrastructure to support population and economic growth. In addition we expect volumes in the UAE and Qatar to be supported by Expo 2020 and the 2022 World Cup
- our Middle East infrastructure business is expected to benefit from increased investment in road and rail infrastructure and the need for further investment in airport facilities to support the expected growth in tourism
- focusing on winning contracts with the support of UK Export Finance is an important element of our strategy to mitigate the impact of the prolonged low oil price on the pace of customer investment plans. In its 2016 Autumn Statement, the UK Government also increased the support it provides through UK Export Finance, from which we can benefit.

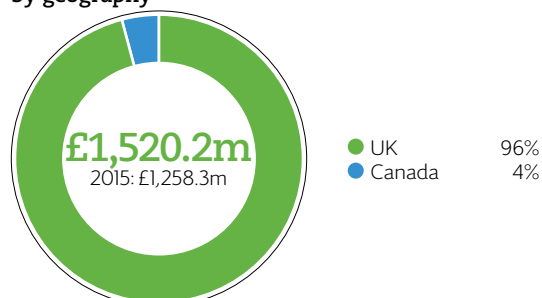


## Construction services (excluding the Middle East)

**We offer a sector-leading construction capability in the UK focused selectively on large, higher value-added contracts for customers with whom we have, or can build, long-term relationships. In addition, we use this capability to provide integrated solutions for our PPP projects. In Canada, we are focused solely on construction for our PPP projects.**

The chart below sets out 2016 Construction services (excluding the Middle East) revenue by geography:

**Construction services (excluding the Middle East) total revenue by geography**



Our UK and Canada construction activities serve both the building and the infrastructure markets.

The UK construction purchasing managers index remained above the neutral 50.0 threshold throughout 2016, except for July, August and September and continues to do so for the first two months of 2017, where it has been 54.2. The Construction Products Association is forecasting that output will grow by 0.8 per cent in 2017, with the infrastructure sector expected to rise by 7.0 per cent in 2017 and 10.7 per cent in 2018 and is expected to be the key driver of construction activity over the next 2 years, offsetting falls in other key private sectors, such as the commercial sector, which is forecast to decline 3.0 per cent in 2017. In Canada, the market remains very competitive and consequently we continue to focus on securing construction work by winning PPP projects in Joint Ventures.

Factors expected to underpin future volumes for our Construction services (excluding the Middle East) activities include the following:

- our UK building activities are expected to benefit from demand for new high specification buildings in commercial markets, institutional investment in new property developments and selective public sector investment in our target market sectors e.g. £23 billion of planned investment in school buildings over the next five years
- continued investment as a result of the UK Government creating regional economic engines for growth such as the Northern Powerhouse and Midlands Engine
- our UK infrastructure activities are also expected to benefit from the planned investment of £61 billion in road and rail under the National Infrastructure Plan. In addition we expect further opportunities to arise from High Speed Rail 2, Crossrail 2 and the expected investment of £110 billion by the electricity supply industry over the next 10 years.

# Our business model

## What we do

### Support services

- Infrastructure
- Property facilities management
- UK, Canada, Middle East



## Resources

### Financial strength



For more information  
See pages 38 to 47

### Excellent people



For more information  
See pages 26 to 29

### First class expertise



For more information  
See page 9

### Leadership in Health and Safety



For more information  
See pages 26 to 29

### Leadership in sustainability



For more information  
See pages 26 to 29

## How we add value



### Support Services

### Project Finance

### Construction

## How we do it

### Centralised operating platform

**This enables us to implement our policies and processes consistently across the Group, to manage our back-office functions efficiently, to deliver cost management and efficiency programmes effectively and provide senior management with visibility and control to support the successful delivery of individual contracts and the Group's key objectives. This platform is also readily scalable, which means it can accommodate the new contracts we win and the businesses we acquire.**

### Living our Values

A culture in which our employees instinctively live our Values in everything they do is fundamental to the success of our integrated business model and centralised operating platform and to achieving high standards of service delivery and corporate governance.

### High standards of corporate governance

This is a cornerstone of our business, with rigorous policies, procedures and mandatory training that are designed to create a responsible business culture, which defines the way we do business and enables us to achieve high-standards of customer service, risk management and accountability.

### Strong risk management

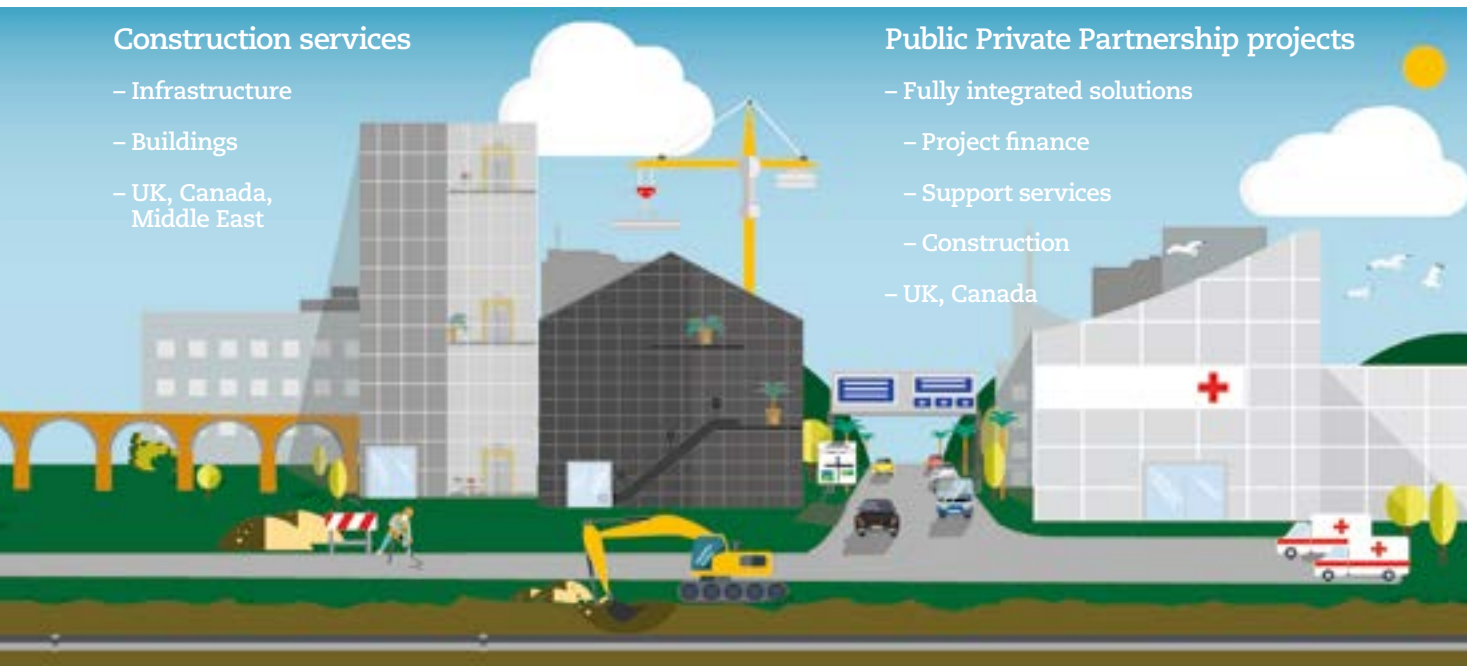
Rigorous risk management processes that identify, manage and mitigate risk are fundamental to the success of our centralised operating model.

## Construction services

- Infrastructure
- Buildings
- UK, Canada, Middle East

## Public Private Partnership projects

- Fully integrated solutions
- Project finance
- Support services
- Construction
- UK, Canada



### Embedding sustainability into everything we do

By embedding sustainability into everything we do, in order to lead our sector as the benchmark for delivering economic, social and environmental responsibility, we seek to drive customer demand for sustainable solutions and be their trusted provider of choice.

### Building long-term partnerships with customers, partners and suppliers

With contracts that last for up to 30 years or more, creating trusted, long-term partnerships with customers, whose satisfaction we monitor and measure using Net Promoter Score, together with strong relationships with partners and suppliers, is essential to the success of our business.

### First-class supply chain management

We have a sector-leading supply chain management system, based on category management, which involves teams of supply chain professionals who specialise in buying individual goods and services, to meet the Group's needs world-wide, from suppliers who are carefully selected and vetted against a wide range of performance criteria. This enables us to build strong, trusted relationships with fewer high-quality suppliers, to whom we can offer greater volumes and long-term visibility, and from whom we obtain competitive prices.

## Key outputs

**A sustainable business that creates value for all our stakeholders. We reinvest some of that value to continue growing our business.**

### Financial strength

Delivering profitable growth with cash-backed profit in order to provide attractive returns for our shareholders and continue investing in our business to support our strategy for growth, while maintaining a robust capital structure and the confidence of the debt and equity markets.

### Excellent people

Developing and attracting excellent people to create a vibrant, diverse and flexible workforce, committed to delivering profitable, sustainable, high-quality, value-for-money services for our customers.

Developing and attracting high-quality partners and suppliers with whom we form long-term partnerships to support service delivery.

### First-class expertise

Developing the knowledge and skills we have across our business through investing in training and by transferring knowledge and expertise between and across all our businesses to enhance our ability to design and deliver bespoke solutions for customers.

### Leadership in Health and Safety

Enhancing our credentials as a recognised leader in Health and Safety, which is our priority and important to our customers, helping us to win more work and deliver it safely.

### Leadership in sustainability

Building an increasingly sustainable and successful business, further enhancing our credentials as a trusted and leading responsible company, by achieving our sustainability targets, engaging our people and supporting our customers' sustainability ambitions.

# Continuing to embed sustainability

Sustainability is a core strategic business model capability (pages 24 and 25), making Carillion a better company to work for, to do business with and to invest in. Verified through independent external assessment, Carillion's commitment to create a better business, better communities and a better environment has made it an established, differentiated sustainability leader across all its geographies and sectors.



Read more in our Sustainability Report 2016:  
[www.carillionplc.com/sustainability2016](http://www.carillionplc.com/sustainability2016) (published in April 2017)

## Competitive business capability

**Carillion's sustainable, responsible business practices create competitive business capabilities and manage our key risks.**

Our Sustainability 2020 Strategy delivers six Positive Outcomes, measured through independently-verified key performance indicators of economic, environmental and social stakeholder value. The operational examples in this report of how we are creating a better business, better communities and a better environment show how we build trust, govern ethically, create lasting positive community legacies and build strong customer and supplier partnerships.

Sustainable, responsible business drives our corporate governance policies and processes, as well as underpinning external and internal engagement with our diverse range of stakeholders. Strong community partnerships and inspirational commitments from our people govern our decision-making and values, create significant reputational advantage and lead to long-term, profitable growth.

“Safety and investing in our people will always take precedence, but sustainable operations are business-critical for long-term, profitable growth. Creating and supporting an innovative, efficient built environment is a key competitive differentiator, demonstrating that we are a trusted partner capable of delivering our customers' needs and ambitions.”

**Richard Howson, Chief Executive, Carillion**

## Contributing to the global agenda

In 2015, the United Nations' (UN's) 194 member countries adopted a unified future development programme – the 2030 Sustainable Development Goals (SDGs) – and Carillion is uniquely positioned to help drive this common global agenda. Our stakeholders unanimously (98%) agreed in last year's materiality assessment that Carillion must align its sustainability objectives with the SDGs. Our leadership was key to presenting our sustainability business case at the UN's Geneva Headquarters in October 2016. We showed the UN's Conference on Trade and Development how we were publishing business-critical performance measures beyond financial metrics to support the SDGs and International Standards for Accounting Reporting.

“Ambitious plans like the UN's Sustainable Development Goals can be achieved only by working in close partnerships – in fact, the 17th goal of that overarching programme.”

**Ceri Powell, Chairman, Sustainability Committee, Carillion**



Read more about our United Nations presentation at:  
<https://carillionplc-uploads-shared.s3-eu-west-1.amazonaws.com/wp-content/uploads/2016/10/1101EF-unctad-case-study---isargeneva-october-2016-original.pdf>

## Our sustainability strategy and 2016 highlights

**Our Sustainability 2020 programme is a fundamental part of Carillion's corporate strategy and seeks to build a Better Business, create a Better Environment and support Better Communities – encapsulating our mission to 'Make Tomorrow a Better Place'.**

Our six Positive Outcomes explain the value we create through these 'Three Betters' and Bureau Veritas independently verifies our achievements.

### Better business



Building a successful business



Leading the way with our customers and suppliers

### Better communities



Better prospects for our people



Supporting sustainable communities

### Better environment



Enabling low carbon economies



Protecting the environment

Highlights from 2016's sustainability achievements include

- Climate Change leader for a third successive year (Carbon Disclosure Project)
- Re-accredited as a FTSE4Good company
- UN Global Compact Signatory
- Corporate Social Responsibility (CSR) winner at Arabia CSR Awards
- Dubai Chamber CSR Label for a third successive year
- Highly Commended in PwC's Building Public Trust Awards for Sustainability Reporting
- The Times Top 50 Employer for Women
- Family Support Award (Working Mums' and Dads' networks) – Top UK Employer Awards



**1,100th**  
Achieved our 1,100th Ready  
for Work placement and 500th  
job outcome

**57%**  
reduction in All Accident  
Frequency Rate (AAFR)  
(2015: 51%)

**£36.1 million**  
net profit contribution from  
sustainable behaviours and  
actions (2015: £33.8m)

**£1.7 million**  
donated to charities and  
community causes (cash and  
in kind) (2015: £1.9m)

**55%**  
external spend (£952m) with  
local suppliers (2015: 58%)

**37%**  
reduction in UK operational  
water use since 2012  
(2015: 24%)

**34%**  
reduction in our carbon  
footprint since 2011 (2015: 31%)

**94%**  
of waste diverted from landfill  
(2015: 94%)

**30%**  
of employees volunteered in  
communities (2015: 18%)

## Governance

Sustainability is a crucial Board-level commitment, and Ceri Powell, a former member of the UN Sustainable Energy for All Advisory Board, chairs our Board Sustainability Committee (read more on page 60). Each Carillion contract and project team delivers sustainability plans and the Chief Sustainability Officer (CSO) briefs the Board and the Executive Leadership Team monthly on targets and achievements. Our external advisers, Dame Julia Cleverdon DCVO, CBE (BITC Vice President) and Julie Hirigoyen (UK Green Building Council Chief Executive), provide independent advice and challenge.



Read more about governance through our Board Sustainability Committee on page 60

## Better business

**Sustainability makes us a better business and supports sustainable, profitable growth by reducing risk and engaging our people.**

Carillion is the only infrastructure services contractor to publish a verified contribution to operating profit from sustainable behaviours and activities, achieved through initiatives such as innovation, waste reduction, process improvement and minimising travel. We are the first company in our sector to achieve the Investing in Integrity charter mark across our international operations, we remain accredited in the FTSE4Good Index and committed to the UN Global Compact's Universal Principles for Human Rights in 2016.

## Customer service and innovation

Our sustainability strategy drives our service delivery and supports our customers' sustainability ambitions. We aim for Gold standard compliance with the Considerate Constructor scheme on every contract, with our audited projects in the top 10 per cent of all UK contracts and an industry-leading score of 40.3 points in 2016 (industry average 35.6).

Using new water-saving technology, enhanced maintenance procedures and usage monitoring, we helped Centrica to achieve a 10 per cent reduction in water consumption, making them one of only 24 companies on the Carbon Disclosure Project (CDP's) Water Management A-List. In Canada, our team helped the Royal Ottawa Healthcare Group to achieve 'Silver' standard and a Top 5 place on the Ontario Hospital Association's 'Green Hospital Scorecard'. We are also using technology and innovation to support sustainable, dynamic customer service, such as drones to help design and deliver construction projects, and smart building technology to monitor lighting, heating and waste management. Other trials now include our pilot Internet of Things (IOT), a project for Remote Legionella Monitoring, 3D spare part printing and our new Manchester Energy Operations Centre that reports on over 50,000 data and control points in real time.

## Safe work – with better health and wellbeing

Safety is our absolute priority and the Occupational Health and Safety Standard (OHSAS 18001) has been embedded across all our operations, together with campaigns for zero accidents or ill-health (Target Zero). We achieved a 15 per cent reduction in falls from height – one of our highest risk categories – and our proactive 'Health Like Safety' programmes included greater support to remove the stigma around mental health. Our snow-plough driving simulators in Canada and our Middle East Permit to Drive programme also helped us to achieve 70 per cent fewer road traffic collisions.



## Skills development and an inclusive, welcome workplace

Our programmes for diversity and inclusion improve employee engagement and retention, avoid discrimination and allow access to a wider talent pool. Our 'unconscious bias' training tackles diversity in recruitment, and our award-winning 'affinity networks' (all started by our employees) have generated new thinking, including the launch of 'Connect' – our Lesbian, Gay, Bisexual and Transgender network. We tackle industry-wide challenges of lower numbers of qualified and experienced female recruits through structured messaging, apprenticeships, our Gender Pathways programme and specific initiatives such as our corporate leadership of YourLife – promoting STEM (Science, Technology, Engineering and Mathematics) studies. Currently, 18 per cent of our leadership population are female (29 per cent on the Board), having made 50 female leadership appointments during 2016 and our female graduate numbers increased from 12 per cent to 36 per cent. Al Futtaim Carillion, our UAE joint venture business, was awarded 4 stars in the Taqdeer awards for labour relations. In Canada, we remain a Canadian Council for Aboriginal Business Bronze-certified company and include mandatory awareness sessions for our employees.

Developing our own people as our future talent is at the heart of making us a Better Business and we will extend our leadership development programmes further in 2017. Programmes like Emerging Leaders in Building, the Futures Network and Leadership Pathways help us find current and future leaders from among our people.

**"Increasing diversity and inclusion is one of our industry's key challenges, but we've made excellent progress through our people – unlocking potential, making people feel welcome and creating a workplace culture that allows everyone to give of their best. It's simply the right thing to do."**

**Janet Dawson, Group HR Director**

# Continuing to embed sustainability continued

## Working with our supply chain partners

Despite the challenges of rising material and labour costs and of operating in competitive market sectors, ethical and sustainable procurement underpins the way we deliver our contracts and projects. We remain wholly committed to generating regional economic growth and development, with 55 per cent (2015: 58 per cent) of our external expenditure with local suppliers and Small or Medium-sized Enterprises (SMEs). We provide prompt and fair supplier payments through our Early Payment Facility, which 85 per cent of our suppliers would recommend to others. We continue to help fund and share best practice with the industry's Supply Chain Sustainability School, with over 1,000 of our suppliers as members. Having achieved the Sustainable Procurement Taskforce Flexible Framework Level 5, we are now assessing the adoption of the new ISO 20400 Sustainable Procurement Standard from 2017.

Modern slavery was a key stakeholder concern last year, reflecting an increasing focus on this issue after the introduction of the UK Modern Slavery Act. Our annual Slavery and Human Trafficking Statement, available through our corporate website, explains how we seek to ensure that our businesses and our supply chain partners comply with the Act. Our Modern Slavery Action Group develops integrated policy guidance, and we have also asked suppliers to commit to our ethical sourcing and labour standards charters.

## Better environment

**We tackle climate change, conserve resources and protect the environment.**

All of our contracts are certified to ISO 14001 Environmental Management Standards, delivered through pollution prevention, biodiversity development and waste and water reduction plans. We have also achieved internationally-recognised environmental standards across more than 200 infrastructure projects, such as the Building Research Establishment Environmental Assessment Method (BREEAM) and the Leadership in Energy and Environmental Design (LEED) Gold standards. Our Building Information Modelling (BIM) capabilities continue to meet government mandates and deliver environmentally-sound assets with optimal resource efficiency during construction and throughout their operational lifecycle.

## Acting on climate change

We reduced our carbon footprint by 34 per cent in 2016, continuing to be a Climate Change Leader in the Carbon Disclosure Project's (CDP) Global Index for a third successive year. Accredited under the Certified Emissions Measurement and Reduction Scheme (CEMARS) for a sixth successive year, the CEMARS governing body used Carillion as a 2016 best-practice case study for emissions reduction. We were the sole contractor sponsoring UK Green Building Council's (UKGBC) 2015 and 2016 Embodied Carbon cross-industry collaboration projects, and we also supported the Green Construction Board's PAS 2080 Carbon Standard (published in October 2016) for road and rail infrastructure low-carbon delivery. Focused on developing energy from renewable sources, we also worked with clients on projects that included photovoltaic panels on seven schools, a biomass boiler for a city council and the initial engineering phase for a combined wind turbine, battery storage and electric vehicle charging system.

Emissions from	2016 (CO <sub>2</sub> e tonnes)	2015 (CO <sub>2</sub> e tonnes)
Combustion of fuel and operation of facilities (Scope 1)	145,037	130,417
Electricity, heat, steam and cooling purchased for own use (Scope 2)	19,252	19,875
Transport, paper and others including electricity, gas (WTT) and electricity (WTT) (Scope 3)	16,594	15,936
Chosen intensity metric: Emissions (tonnes) per million (£) of revenue	34.7	36.2

## Conserving resources

Innovations across our contracts drive responsible consumption, cut waste to an irreducible minimum and optimise our use of recycled materials. A key challenge in diverting waste from landfill includes limitations in local recycling infrastructure, particularly in the Middle East, but we remain committed to achieving an effective 'zero waste to landfill' across our operations.

We maximise recycled content through our 'whole lifecycle approach' for five key materials in the UK and four in the Middle East, while Canada is also reviewing the replacement of palm oil in its food services contracts. We conserve water as a prime Middle East resource, with innovations like water recycling for dust suppression, waterless urinals and group water dispensers to eliminate individual water bottles.

## £32,000

Scrap metal recycling in Oman is saving Carillion Alawi £32,000 a month

## Protecting the environment

We have extended our 'Don't Walk By' safety focus to cover wider issues such as fuel spillages, waste and generator usage, driving environmental accountability on all our projects. Working extensively with UK Wildlife Trusts, we were also the UK Freshwater Habitats Trust's first corporate partner - protecting pond, lake and watercourse biodiversity. Our Morpeth Bypass road project team won the Construction Industry Research and Information Association (CIRIA) 2016 Big Biodiversity Challenge, using the work site as a classroom, with 230 hours of volunteer time. We also partnered with Natural England to introduce new night-working methodology to protect badgers and great-crested newts. The Al Leeming to Barton project team won the 2016 Green Apple Award for Environmental Best Practice and Green World Ambassador status. In Canada, our remote site accommodation business (Outland) has planted over 1.5 billion trees since 1985, including nearly 60 million last year alone.

## Better communities

**Carillion is a community company, engaging young people, community groups, charities and disadvantaged people to improve social mobility and to create lasting positive legacies.**

Our people construct, serve and support tens of thousands of buildings and infrastructure assets, used by millions of people, making our community engagement a fundamental business capability. Our independent research in 2015 showed unanimous agreement (75%) that positive community engagement made businesses more successful, with 91 per cent seeing benefits for volunteers on both sides of these partnerships. Our Chief Executive, Richard Howson, has chaired Business in the Community's (BITC) national Community Leadership Team since 2013, and our bespoke Community Needs Plans make deep, long-term commitments to the specific needs and priorities of local communities.



## Supporting young people

Engineering skills shortages pose a key risk to the future sustainability of our industry talent pipeline, so we proactively invest in school careers education and on-the-job career support for young people. Our strategic partnerships with the Institution of Civil Engineers Knowledge Hub and YourLife stimulate interest in our industry and its key skills. We are also committed to the National Literacy Pledge, and our employee volunteering reached over 49,000 students in 2016. Approaching graduate recruitment differently in 2016, we focused on behaviours instead of experience or qualifications, resulting in 70 applicants with the highest degree of gender and ethnic diversity to date.

We remain the sector leader in apprenticeships, with over 1,700 placements in 2016 – across a range of skill sets, including commercial, civil engineering and supply chain. We continue to work with the UK Government and other businesses on apprenticeship frameworks and standards, and we now have a cohort of 15 apprentices on a four-year course with Carillion Asset Maintenance (fabric, electrical engineering and plumbing) to invest further in the resilience and readiness of our mobile engineering business.

“Degree apprenticeships are ideal for people who perhaps didn’t go to university because that wasn’t right for them at the time, or who want another way into a strong professional role (without the student debt).”

Joe Guy, Head of Learning and Talent, Carillion



## Creating employment

We remove barriers to employment for potentially disadvantaged people, because this introduces talent into our business that might otherwise be overlooked. Our support for BITC’s Ready for Work programme entered its ninth year, with 120 work placements for ex-offenders, people at risk of homelessness and ex-military service personnel. Converting work placements into permanent employment is key, and 58 per cent of those completing their placements secured jobs in 2016, well above the national average and a key contribution to the milestone of providing over 500 jobs to date through Ready for Work. Working directly with institutions like prisons is also essential – having already employed two serving prisoners in 2015, Carillion Rail Resourcing ran a Careers Fair at HMP Springhill in 2016, and has now launched a pilot scheme to offer 10 offenders a route to employment in 2017. On the M6 Smart Motorways Programme, our Carillion Kier Joint Venture team have also been working closely with HAWK and Stoke Heath prison on a day-release programme.

## Nationwide Resettlement Award

for helping former military people into work

## Our future sustainability

**As we move towards 2020, amongst historic change and highly dynamic environments, we reviewed our future strategy and consulted with our key stakeholders.**

Our 2016 Materiality Review featured online surveys and extended client interviews with 1,100 external and internal stakeholders, including employees, customers, charities, sustainability organisations, regulators and investors. Feedback on 43 key sustainability issues and the UN Sustainable Development Goals showed that the issues mattering most to them included recruitment and retention, health, wellbeing and safety, customer satisfaction, eliminating bribery and corruption, investing in worker welfare, reducing waste and preventing pollution. There was universal agreement on the impact of Carillion’s ‘Three Betters’ approach and the need to align with the UN Sustainable Development Goals.

As many of our Sustainability 2020 targets have been, or are close to being, achieved, we will refocus our strategy to ensure we continue to meet fresh priorities in human rights, ethical sourcing, environmental protection and climate change. There is a significant opportunity to address new challenges, review fresh targets and to maintain the progress made in the past 17 years with sustainability.

## A better future and the Sustainable Development Goals

As we look to the future of responsible business, we will aim to demonstrate strong contributions to at least nine of the UN’s 17 Goals, making a clear case for customers, investors, governments and the public to expressly demand that more companies prove how they are making sustainability critical to their reporting cycles and to the future of their business.

We will focus on investing further in careers education and sustainable communities to drive regional economic growth. We will target even more responsible consumption of materials, setting a Science-Based carbon target and investing in net positive biodiversity improvement programmes. We will further develop our Health, Safety and Wellbeing programmes, improving diversity and continuing to lead the way in our industry as we create and maintain international infrastructure.



Read more about the United Nations 17 Sustainable Development Goals at: <https://sustainabledevelopment.un.org/?menu=1300>





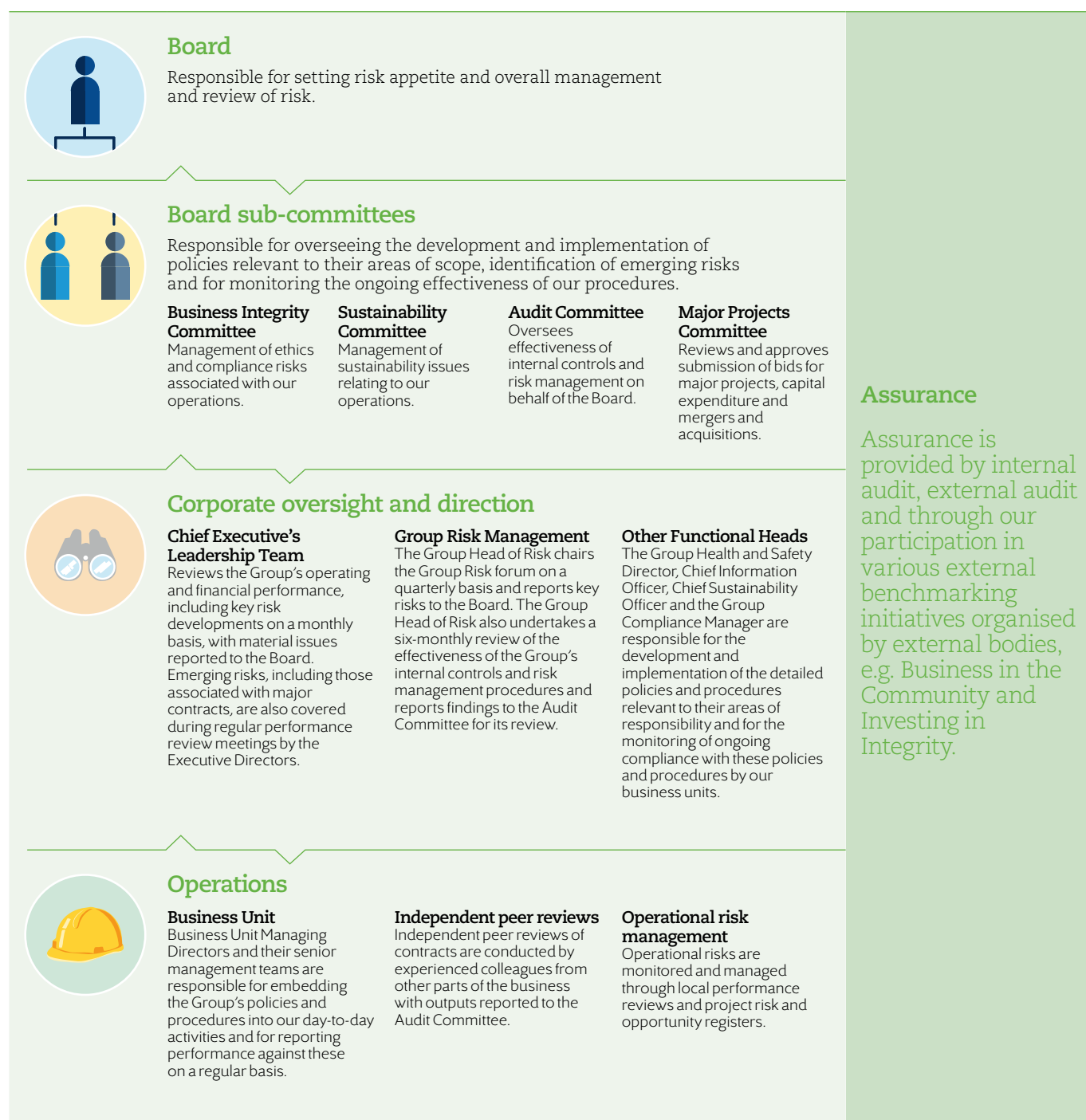
# Operational risk management

Rigorous risk management is critical to the attainment of our strategic objectives and it continues to remain a key part of our business model.

## Our risk management framework

**The Group's policy is to ensure that all risks are identified, evaluated and an appropriate response determined prior to any commitment being made to any other party.** This policy is supported by clear guidance on process and procedures, risks that are unacceptable to the Group and practical guidance for the management of risk at all levels throughout the business. The diagram below sets out an overview of our risk management framework.

The Board continues to be responsible for determining the Group's risk appetite in pursuit of its strategic objectives and for maintaining a robust system of risk management (including regular reviews of principal risks) to mitigate any potential impacts associated with these risks.



## Our risk management process

The Group has a long-established process and methodology for the identification, quantification, monitoring and management of the principal risks associated with its operations. The Group Head of Risk is responsible for advising on strategic risk issues and for the maintenance of a consistent approach to risk management across the Group. Each of our business units has appointed a Business Group Risk Manager who is a member of the Group Risk Forum, which meets on a quarterly basis and is chaired by the Group Head of Risk. Business Unit Managing Directors are responsible for the day-to-day management of risks relating to their businesses and for the regular reporting of these to the Group Head of Risk.

In order to ensure that risk management is addressed at the front end of our operations, individual projects are required to appoint Project Risk Managers who are responsible for escalating risk issues to Business Unit Risk Managers. The Group Head of Risk identifies the Group's principal risks based on the output from strategic risk lists submitted by the business units. These risks are then reviewed by the key functional heads and by the risk forum as a further check prior to their submission to the Board for approval. The Group's assessment of principal risks is taken into account in the development of internal audit plans and as part of its evaluation of any new strategic initiatives.

The potential impact arising from each risk is assessed by taking into account the potential cost and the likelihood associated with the crystallisation of each risk. Assessment of cost takes into account both the potential financial and reputational costs. Business Units are required to assess the gross impact associated with each risk and then identify potential mitigation measures, which are taken into account before arriving at a net impact assessment. Both the gross and the net impact assessment relating to each risk is reported to the Group Head of Risk. Assessments of the impact and likelihood for each risk are categorised into high, medium and low based on standard definitions, which are applied across the Group.

During 2016 the Audit Committee reviewed and reported to the Board on the effectiveness of the Group's internal control and risk management systems in February and August. In addition, the Group's principal risks were reviewed by the Board in March and August. These reviews included an assessment of the Group's overall appetite for risk relative to its current assessment of the likelihood and impacts associated with its principal risks. Changes to the Group's principal risks during 2016 include the addition of the potential impact of Brexit and the removal of the potential impact of low oil prices on future demand for our services.

The Board also monitors the level of risk taken on individual major projects using a model known as the Risk Management Matrix. Following their reviews, the Board and the Audit Committee concluded that the level of risk associated with the Group's principal risks is currently consistent with the Group's overall appetite in relation to these risks. The 'heat map' on page 32 sets out the positioning of our principal risks by impact and likelihood both before any mitigation measures are taken into account and after the impacts of mitigation measures are taken into account.

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

## Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a longer period than the 12 months required under provision C.1.3 of the Code in relation to the adoption of the going concern basis. The Board conducted this review for a period of three years, which was selected for the following reasons:

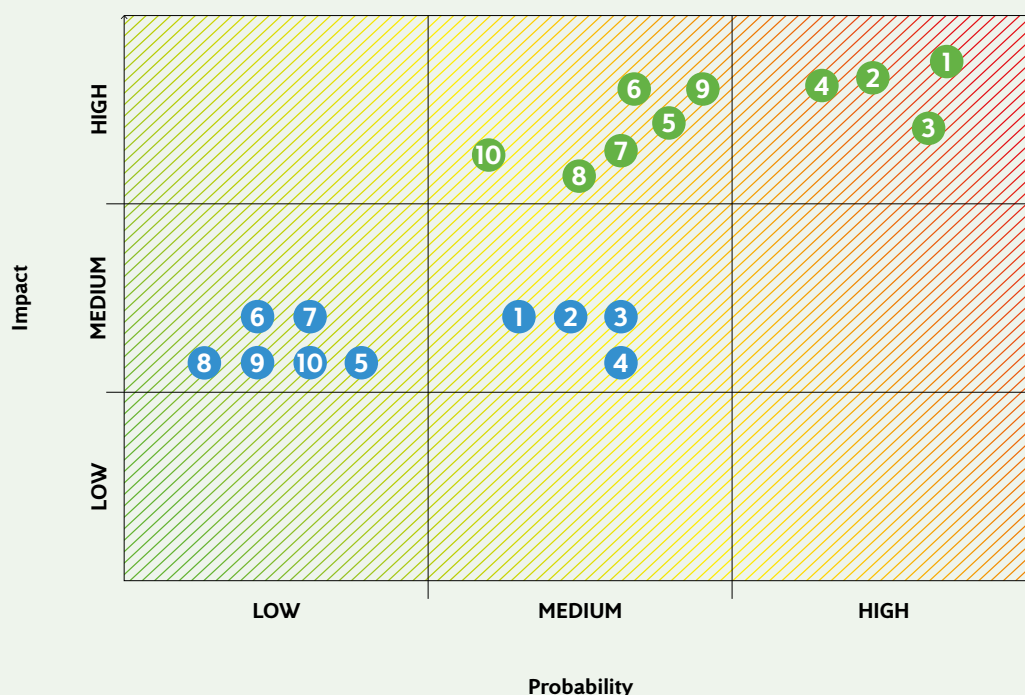
- The Group's strategic business plan covers a three-year period.
- The construction programmes associated with a majority of the Group's more significant projects often do not exceed a period of more than three years.
- Given its business model and the nature of its markets, the degree of confidence that can be placed on the Group's future revenues diminishes significantly for periods beyond the next three years.

The three-year business plan includes information in relation to the Group's revenues, profits, cash flows, dividends, net debt, and other key financial and non-financial metrics. The business plan includes a level of cover to provide against trading risks and the resulting metrics are subject to sensitivity analysis to illustrate the impact of future deviations in the Group's liquidity position. The Board has tested the outputs from this plan against the potential impacts from the Group's key strategic risks both individually and in unison.

On the basis of both reasonably probable and more extreme downside scenarios, the Directors believe that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

# Our principal risks

Group's principal risks are analysed on a gross and net risk basis



● Gross basis

● Net basis

1. Work-winning
2. Contract management
3. Pension liabilities
4. Brexit
5. People

6. New markets and services
7. Ethics and compliance
8. Systems and cyber security
9. Health and safety
10. Human Rights

**The occurrence of the above risks could have a significant impact on the Group's financial position and the simultaneous occurrence of multiple risks could compound the overall financial impact.** It should also be noted that the Group is exposed to a much broader universe of potential risks which could impact its future financial performance. As part of its review the Board and Audit Committee consider other risks, which have a potentially significant impact on performance, but are not considered to be among the Group's principal risks due to their remoteness.



For more on our principal risks  
See pages 33 to 37



1. Work-winning			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Failure to win and retain contracts on satisfactory terms and conditions in our existing and new target markets and geographies, due to changes in customer requirements, increase in competition or reduction in overall demand due to macro-economic factors e.g. impact of low oil prices or availability of finance.</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Excellent people</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Winning high-quality contracts</li> </ul>	<ul style="list-style-type: none"> <li>Total revenue growth</li> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Book to Bill ratio</li> <li>Net debt to EBITDA</li> </ul>	<ul style="list-style-type: none"> <li>Regular analysis of our markets to ensure we understand the opportunities they offer</li> <li>Ongoing adoption of our rigorous and well-defined selectivity criteria that are designed to ensure that we take on contracts only where we understand and can manage the risks involved</li> <li>Listening to our customers to ensure we understand their needs and that we meet or exceed them</li> <li>Continually seeking to differentiate our offering through service quality, value for money and innovation</li> <li>Annual efficiency and cost reduction programmes to help us remain competitive</li> <li>Continued reinforcement of our strong Values-based culture to support our objective of being viewed as a trusted partner by our customers</li> </ul>	<p> <b>Increasing</b></p> <p>The Group secured £4.8 billion of new secured orders and probable orders during 2016. Future uncertainty relating to Brexit and the impact of low oil prices on some of our Middle East businesses could impact future volumes.</p>	
2. Contract management			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Ineffective operational, commercial and financial management of contracts.</b></p> <p><b>Link to business model output</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Leadership in Health and Safety</li> <li>First-class expertise</li> <li>Leadership in sustainability</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Winning high-quality contracts</li> <li>Delivering contracts safely, sustainably and to best-in-class standards</li> </ul>	<ul style="list-style-type: none"> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Net debt to EBITDA</li> <li>Net promoter score</li> <li>Lost Time Incident Frequency Rate</li> </ul>	<ul style="list-style-type: none"> <li>Adoption of rigorous policies and processes for mobilisation, monitoring and management of contract performance</li> <li>Regular performance reviews undertaken at a number of levels within the business</li> <li>Independent peer reviews of contracts conducted by business units and contract health checks undertaken by internal audit</li> <li>Deployment of high-quality people in the delivery of our projects</li> </ul>	<p> <b>Unchanged</b></p> <p>During 2016, the Group has maintained its comprehensive approach to contract management and there has been no change in the nature of contracts being delivered by the Group.</p>	

## Our principal risks continued

3. Pension liabilities			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Management of our pension schemes to ensure that scheme liabilities are within a range appropriate to our capital base.</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Excellent people</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Developing and attracting excellent people and capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Underlying earnings per share</li> <li>Net debt to EBITDA</li> </ul>	<ul style="list-style-type: none"> <li>The Group's main defined benefit pension schemes have been closed to new members and to future accrual for current members</li> <li>A single Trustee has been created for the Group's main defined benefit schemes to facilitate a consistent approach to investment strategy and risk management</li> <li>The Group's main pension schemes have entered into a longevity swap which hedges the financial risks of future increases in the longevity of 9,000 pensioners in these schemes</li> <li>Regular review of our pensions management and investment policies to ensure that employee and company contributions, together with scheme benefits, remain appropriate</li> <li>Rigorous assessment of pensions implications relating to new contract bids and all business acquisitions and disposals to ensure they are manageable</li> </ul>	<p> <b>Increasing</b></p> <p>The group's net pension deficit has increased during the year primarily due to a reduction in the AA bond yield following the referendum vote to leave the European Union.</p> <p>We continue to closely monitor the position of our pension schemes on a regular basis.</p>	
4. Brexit			Net impact: Medium	Probability: Medium
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Impacts arising from a potential lack of access to the pool of European labour and financing provided by the European Investment Bank as a result of the UK leaving the European Union.</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Excellent people</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Developing and attracting excellent people and capabilities</li> <li>Winning high-quality contracts</li> </ul>	<ul style="list-style-type: none"> <li>Total revenue growth</li> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Book to Bill ratio</li> <li>Net debt to EBITDA</li> </ul>	<ul style="list-style-type: none"> <li>Brexit steering group formed to monitor and manage impacts arising from the UK's exit from the EU</li> <li>Aim to ensure that our existing non-British European staff and operatives are able to obtain British residency or indefinite leave to remain in the UK</li> <li>Continue to work with the Confederation of British Industry in its efforts to ensure that the needs of UK businesses are appropriately considered as part of the Brexit negotiations</li> <li>Continue to work towards highlighting the importance of the UK Government retaining its 16 per cent shareholding in the European Investment Bank which is an important source of financing for PPP projects</li> <li>Monitor and develop existing contacts with local communities to identify and recruit local employees who could potentially assist in filling any skills gap accentuated by any restrictions to the pool of European labour and continue to focus on our apprenticeship programme</li> </ul>	<p> <b>Increasing</b></p> <p>Brexit has created more uncertainty for the UK economy as a whole, and although we have not seen any significant direct impact so far, we continue to monitor developments and develop our mitigation plan for the various potential scenarios.</p>	

5. People			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<b>Ability to attract, develop and retain excellent people to support existing business requirements and our future growth plans.</b>  <b>Link to business model outputs</b> <ul style="list-style-type: none"> <li>Excellent people</li> <li>First-class expertise</li> </ul> <b>Link to strategy</b> <ul style="list-style-type: none"> <li>Developing and attracting excellent people and capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Net debt to EBITDA</li> <li>Employee engagement score</li> </ul>	<ul style="list-style-type: none"> <li>Continue to focus on leadership, people development and employee engagement programmes that encourage and support all of our people to achieve their full potential</li> <li>Graduate recruitment, structured development and succession programmes to address our requirement for talented people</li> <li>Geographical and sector mobility promoted amongst the existing work force</li> <li>Regular review of employee remuneration in the context of market practices</li> <li>Maintain strong recruitment processes across the UK labour market</li> </ul>	<b>= Unchanged</b>  Competition for people in our markets has remained broadly unchanged in 2016. However, depending on the future labour market arrangements the UK agrees with the European Union, this risk could increase significantly in future years.	
6. New markets and services			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<b>Effective management of risks associated with operating in overseas markets, potential entry into new territories and new services through our recent bolt-on acquisitions in Canada.</b>  <b>Link to business model outputs</b> <ul style="list-style-type: none"> <li>Financial strength</li> </ul> <b>Link to strategy</b> <ul style="list-style-type: none"> <li>Winning high-quality contracts</li> </ul>	<ul style="list-style-type: none"> <li>Total revenue growth</li> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Book to Bill ratio</li> <li>Net debt to EBITDA</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of our activities into new territories and pursuit of any merger and acquisition activity continues to be closely managed by the Major Projects Committee</li> <li>Rigorous due diligence procedures in place to address financial, operational, legal and compliance/ethical risks associated with our entry into new services or markets</li> <li>Expansion into new markets and services usually restricted to adjacencies and existing areas of expertise</li> </ul>	<b>= Unchanged</b>  Our recent bolt-on acquisitions are continuing to perform in line with our expectations.  We continue to explore a number of opportunities to extend the scope of our PPP activities into additional overseas territories.	



## Our principal risks continued

7. Ethics and compliance			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Maintenance of high standards of ethics and compliance in respect of managing contracts and meeting regulatory requirements.</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Excellent people</li> <li>Leadership in sustainability</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Developing and attracting excellent people and capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Total revenue growth</li> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Net debt to EBITDA</li> <li>Employee engagement score</li> </ul>	<ul style="list-style-type: none"> <li>Clear policies and procedures in respect of ethics, integrity, regulatory requirements and contract management</li> <li>Mandatory training programmes in place to ensure that our people understand these requirements and our policies</li> <li>Policies and practices benchmarked through our work with the Institute of Business Ethics; the Group holds the Investing in Integrity Charter Mark which was obtained in 2014</li> <li>Anonymous whistleblowing arrangements publicised and promoted amongst employees</li> <li>Group Compliance Office established and overseen by the Business Integrity Committee</li> </ul>	<p><b>Unchanged</b></p> <p>During 2016, we continued to reinforce the importance the Group places on its adoption of the highest standards of ethics and compliance through our ongoing training and awareness programmes.</p>	
8. Systems and cyber security			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Information security breach leading to a lack of availability of systems and or loss of confidential data belonging to the Group or its customers.</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Excellent people</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Delivering contracts safely, sustainably and to best-in-class standards</li> </ul>	<ul style="list-style-type: none"> <li>Total revenue growth</li> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Net debt to EBITDA</li> <li>Net promoter score</li> <li>Employee engagement score</li> </ul>	<ul style="list-style-type: none"> <li>The Group's policies and procedures are overseen by a dedicated information security manager</li> <li>International standards applied in the management of information security, with ISO 27001 achieved during 2015</li> <li>Deployment of encryption software on laptops and removable devices, prioritising staff working on sensitive contracts</li> <li>Software and hardware reviewed continuously with upgrades applied where appropriate</li> <li>Arrangements independently reviewed by internal and external audit</li> </ul>	<p><b>Increasing</b></p> <p>This risk has continued to increase as the level and sophistication of cyber security threats continues to rise. In response, we continue to review and improve our systems to ensure that our arrangements are in line with industry standards and emerging best practice.</p>	

9. Health and safety			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Ineffective management of health and safety issues leads to serious injury to or death of an employee and or damage to client property.</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>Leadership in Health and Safety</li> <li>Financial strength</li> <li>Leadership in sustainability</li> <li>Excellent people</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Delivering contracts safely, sustainably and to best-in-class standards</li> </ul>	<ul style="list-style-type: none"> <li>Total revenue growth</li> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Net debt to EBITDA</li> <li>Net promoter score</li> <li>Employee engagement score</li> <li>Lost Time Incident Frequency Rate</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing focus on Board-led commitment to achieve zero accidents</li> <li>Directors and senior managers lead by example and are trained to NEBOSH standards</li> <li>Visible management commitment with Directors' Safety Tours, Safety Audits and Safety Action Groups</li> <li>Safety management systems conform to OHSAS 18001</li> <li>Extensive mandatory employee training programmes</li> <li>Employee engagement through 'Don't Walk By' programme, which enables everyone in the business to report for immediate action anything they believe to be unsafe</li> <li>Adoption of rigorous risk assessment and management processes supported by robust business continuity plans</li> </ul>	<p><b>= Unchanged</b></p> <p>There has been no change in the nature of the Group's activities during 2016 and we remain focused on delivering continuous improvement in our performance to achieve our objective of leading our sector in Health and Safety and Sustainability.</p>	
10. Human rights			Net impact: Medium	Probability: Low
Risk description	Potential impacts on key performance indicators	Mitigation	Trend in 2016	
<p><b>Ineffective management practices leading to human rights violations by the Group, its suppliers or partners.</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Excellent people</li> <li>Leadership in sustainability</li> </ul> <p><b>Link to strategy</b></p> <ul style="list-style-type: none"> <li>Delivering contracts safely, sustainably and to best-in-class standards</li> </ul>	<ul style="list-style-type: none"> <li>Total revenue growth</li> <li>Underlying operating margin</li> <li>Underlying earnings per share</li> <li>Cash conversion</li> <li>Work won and secured and probable orders</li> <li>Net debt to EBITDA</li> <li>Net promoter score</li> <li>Employee engagement score</li> </ul>	<ul style="list-style-type: none"> <li>Group and local human resources teams are responsible for ensuring our policies and practices are effective, in line with local markets, and compliant with national and international legislation</li> <li>Group compliance office responsible for ongoing risk assessment and development of plans to address any emerging issues</li> <li>Dedicated steering group focused on addressing any issues which may arise from the recent introduction of the Modern Slavery Act 2015</li> <li>Due diligence undertaken on supply chain and other partners prior to commencement of any business activity with the Group</li> </ul>	<p><b>= Unchanged</b></p> <p>During 2016 we have continued to provide ongoing training and awareness programmes aimed at ensuring full compliance on the Modern Slavery Act 2015.</p>	

# Performance and financial review

The Group delivered revenue growth and improved underlying profit from operations coupled with good cash flow conversion.

## Summary financial performance

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

Carillion is one of the UK's leading support services companies with a substantial portfolio of Public Private Partnership projects, extensive construction capabilities and a sector-leading ability to deliver sustainable solutions. This wide range of expertise enables the Group to provide bespoke, integrated solutions for buildings and infrastructure, from project finance through design and construction to life-time asset management, together with business support services that add value for our customers and the communities in which we operate. The Group has operations in the UK, Canada and the Middle East and North Africa as set out on page 4. Taking into account market conditions in our key geographies, overall, the Group performed well in 2016, led by an improved performance in support services, which accounted for over two thirds of the Group's total underlying operating profit.

## Revenue

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

## Underlying operating profit

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

## Support Services

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

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

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

Revenue in support services grew by seven per cent to a record £2,712.7 million, driven primarily by organic growth as a result of a strong work winning performance over the last 18 months. Underlying operating profit increased by 25 per cent to £182.7 million, as we benefited from full-year contributions from new contracts mobilised in 2015, new contracts secured in 2016 and the substantial investment we have made in our IT systems to help drive the efficiency and quality of service delivery.

In 2016, we signed an agreement enabling our partner, to whom we have outsourced certain back-office activities, to use elements of our existing IT platform in certain territories where Carillion does not operate. This generated some £20 million of profit in 2016 and accounted for 70 of the 90 basis points improvement in our underlying operating margin to 6.7 per cent (2015: 5.8 per cent). Underlying operating profit in this segment contributed a little over two-thirds of the Group's total underlying operating profit and our objective is to continue increasing the contribution from support services, in line with our strategy.

To support this objective, we have also extended the duration and scope of the arrangements we have with our back-office services partner and this includes the development of a new and upgraded technology platform to support our facilities management activities.

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

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



In 2016, Centrica plc selected Carillion as its partner to deliver a wide range of facilities management and project services for an initial period of five years, which can be extended to seven years. The contract has an estimated value of £90 million over five years and extends a partnership that began in 2005.

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

We believe that the medium term outlook for infrastructure services was enhanced by the UK Government's 2016 Autumn Statement in which it increased its commitment to investing in economic infrastructure, particularly in sectors where Carillion is a market leader, notably services for highways, digital infrastructure and railways. Our review of the markets for our supports services businesses is set out on pages 21 and 22. At 31 December 2016, we had orders and probable orders in support services worth £12.2 billion (2015: £12.7 billion), excluding the £1.5 billion of revenue from frameworks mentioned below, and giving revenue visibility<sup>(1)</sup> of 71 per cent for 2017 (2015: 82 per cent for 2016). In addition, we had a pipeline of specific new contract opportunities worth £11.1 billion at 31 December 2016 (2015: £12.1 billion) which includes significant opportunities linked to public sector outsourcing and infrastructure services in each of our three geographies.

It is also important to note that there is an increasing trend among some customers to engage suppliers on framework contracts, but we do not include the total value of these frameworks in our order book or in probable orders. We have several major framework agreements, notably for Network Rail, Highways England and Scape, for whom we are the sole provider of facilities management services for Local Authorities and with the UK Central Government under its Facilities Management Contracting Model. At the year end, we had good visibility of at least some £1.5 billion of revenue from these frameworks over the next five years, in addition to the revenue we have already included in secure and probable orders.

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

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



# Performance and financial review continued

## Public Private Partnership projects

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

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

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

Our portfolio of investments in these projects continues to perform well and in line with our expectations. As announced previously, we expected overall profit in this segment to reduce in 2016, because profit from the sale of equity investments would be lower than in 2015.

Equity sales generated £12.7 million of profit in 2016, compared with £37.7 million in 2015 and this accounted for the reduction in total underlying operating profit to £28.3 million (2015: £49.3 million). The cash proceeds from equity sales were £48.2 million in 2016, which represented a discount rate of just under seven per cent.

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

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

A Carillion Canada Joint Venture is delivering the Stanton Territorial Hospital Renewal Project, a Public Private Partnership project in Yellowknife, for the Government of the Northwest Territories. Carillion will invest £4.9 million of equity in this new £155 million, state-of-the-art hospital, which is being built by our Joint Venture Partners, and for which Carillion Canada will provide facilities management services, worth some £97 million under a 30-year contract, after the new hospital opens in 2018.



## Middle East construction services

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

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

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

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

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

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

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

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



Carillion's Joint Venture business in the United Arab Emirates, Al Futtaim Carillion, has won a £60 million contract with the support of UK Export Finance for Bee'ah, the Middle East's leading environmental management company, to build its new headquarters in Sharjah. This iconic building will utilise recycled materials and 100 per cent of its power will come from renewable energy sources.

# Performance and financial review continued

## Construction services (excluding the Middle East)

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

In this segment we report the results of our UK building, civil engineering and developments businesses, together with those of our construction activities in Canada.

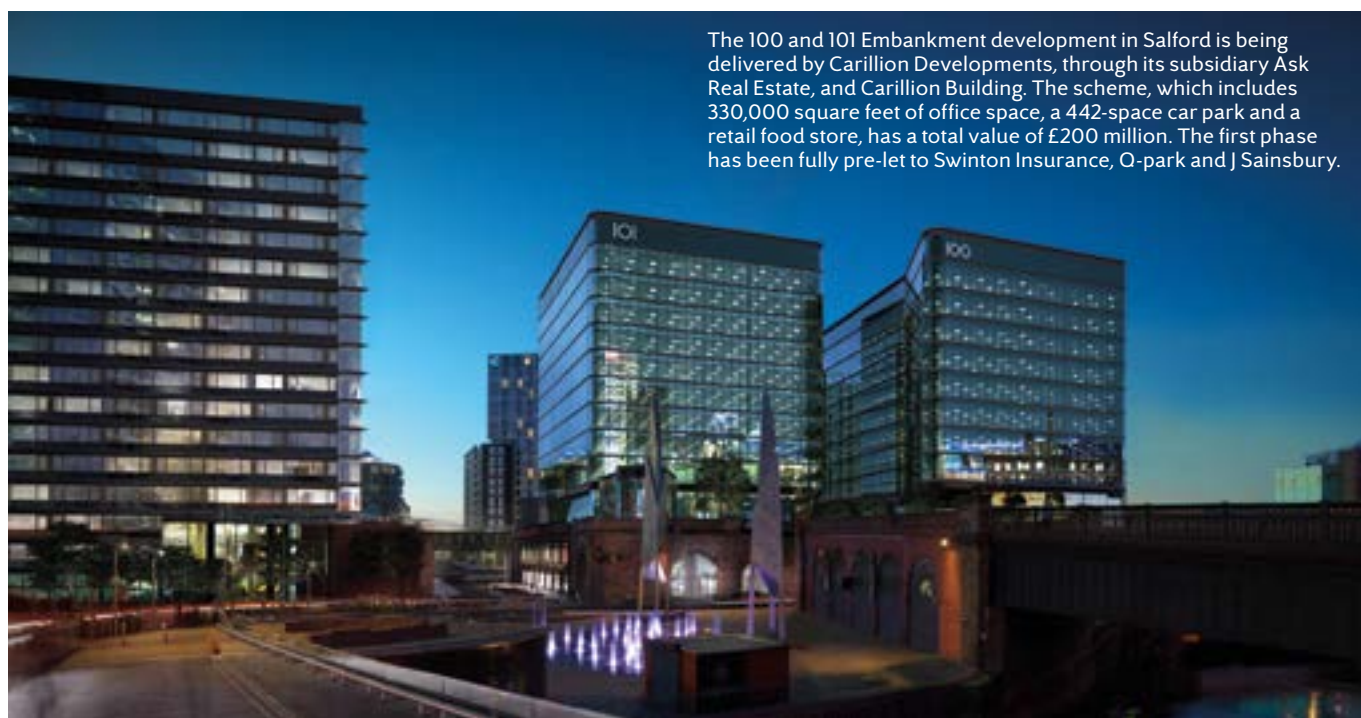
Revenue grew strongly by 21 per cent to £1,520.2 million (2015: £1,258.3 million), driven by growth in the UK where revenue increased to around £1.5 billion (2015: £1.2 billion), reflecting a number of high-quality contract wins for both infrastructure and building over the last 18 months. In Canada,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

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

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

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

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



The 100 and 101 Embankment development in Salford is being delivered by Carillion Developments, through its subsidiary Ask Real Estate, and Carillion Building. The scheme, which includes 330,000 square feet of office space, a 442-space car park and a retail food store, has a total value of £200 million. The first phase has been fully pre-let to Swinton Insurance, O-park and J Sainsbury.



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

### Underlying Group net financial expense

The underlying Group net financial expense<sup>(1)</sup> of £57.9 million (2015: £57.9 million) comprised interest costs of £43.5 million (2015: £40.5 million) in respect of borrowing and other liabilities, a non-cash expense in respect of defined benefit pension schemes of £14.7 million (2015: £18.0 million) and interest receivable in respect of loans to PPP Joint Venture projects of £0.3 million (2015: £0.6 million). The increase in interest costs in respect of borrowing and other liabilities primarily reflected the impact of the higher average net debt position in 2016.

### Intangible amortisation arising from business combinations

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

### Non-recurring operating items

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

### Non-operating items

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

### Fair value movement in derivative financial instruments

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

### Changes in contingent consideration relating to acquisitions

A non-recurring credit of £15.6 million (2015: Nil) arose from a reduction in the contingent consideration payable in respect of the acquisitions of the Rokstad Corporation in 2014 and the Outland Group in 2015. This reduction arose following the finalisation of the actual earnings before interest, taxation, depreciation and amortisation (EBITDA) of these businesses for 2015 and 2016. The actual EBITDA performance for both businesses was lower than the stretching targets agreed with the management teams of these businesses at the point of acquisition and consequently the related proportion of the contingent consideration was reduced accordingly. Nevertheless, these businesses have performed well and having secured significant new contracts in 2016 as noted on page 39, we continue to believe that in the medium to long term they will meet or exceed the expectations we had at the time of acquisition.

## Taxation

The underlying Group taxation charge of £21.0 million (2015: £19.5 million), when combined with the Group's share of the taxation charge in Joint Ventures of £4.8 million (2015: £2.9 million), represented an underlying effective tax rate<sup>(1)</sup> of 14.1 per cent (2015: 12.5 per cent).

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

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

### Earnings per share

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

### Dividend policy

The Group has a progressive dividend policy, which aims to increase the dividend each year broadly in line with the growth in underlying earnings per share. The Board has adopted this policy in order to align shareholder returns with the underlying performance of the business. The Board has increased the dividend in each of the 16 years since the formation of the Company in 1999.

In determining the level of dividend in any year, the Board also considers a number of other factors that influence the proposed dividend, which include but are not limited to

- the level of available distributable reserves in the Parent Company
- future cash commitments and investment needs to sustain the long-term growth prospects of the business and
- the level of dividend cover.

Carillion plc, the Parent Company of the Group, is a non-trading investment holding company which derives its distributable reserves from dividends paid by subsidiary companies. The Board reviews the level of distributable reserves in the Parent Company bi-annually, aligned with the proposed interim and final dividend payment dates, and aims to maintain distributable reserves that provide adequate cover for dividend payments. The distributable reserves of the Parent Company approximate to the balance on the profit and loss account reserve, which at 31 December 2016 amounted to £238.2 million (2015: £296.6 million) as disclosed in the Company balance sheet on page 134.

(1) Alternative Performance Measures are defined on pages 140 to 143.



# Performance and financial review continued

The Group is well positioned to continue funding the dividend, which continues to be well covered by cash generated by the business. Furthermore, with around £1.5 billion of funding available to the Group, following the addition of £112 million of funding secured from the Schulschein market in January 2017, we continue to be well positioned to support our strategy. Further details of the Group's funding position can be found on page 46 and details of its continuing viability on page 31 and going concern on page 47.

The ability of the Board to maintain future dividend policy will be influenced by a number of the principal risks identified on pages 32 to 37 that could adversely impact the performance of the Group. The risks that have a medium or high probability of having an adverse impact on the dividend policy include work-winning, contract management, pension liabilities, new markets and services and Brexit, although we believe we have the ability to mitigate those risks as outlined on pages 32 to 37.

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

## Cash flow

### Summary of the Group's cash flow

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

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

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

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

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

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

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

## Balance sheet

### Summary of the Group's balance sheet

	2016 £m	2015 <sup>(i)</sup> £m
Property, plant and equipment	144.1	140.5
Intangible assets	1,669.3	1,634.2
Investments	180.3	165.2
	1,993.7	1,939.9
Inventories, receivables and payables	(347.3)	(379.2)
Net retirement benefit liability (net of taxation)	(663.2)	(317.6)
Other	(34.4)	(56.7)
<b>Net operating assets</b>	<b>948.8</b>	<b>1,186.4</b>
Net borrowing	(218.9)	(169.8)
<b>Net assets</b>	<b>729.9</b>	<b>1,016.6</b>

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

Property, plant and equipment of £144.1 million (2015: £140.5 million<sup>(i)</sup>) increased, with the impact of depreciation more than offset by increases from foreign exchange rate movements and capital expenditure. Intangible assets increased to £1,669.3 million (2015: £1,634.2 million<sup>(i)</sup>), primarily reflecting the impact of foreign exchange rate movements on goodwill and customer contracts and lists relating to acquisitions. Investments increased to £180.3 million (2015: £165.2 million<sup>(i)</sup>), with the impact of foreign exchange rate movements more than offsetting the sale of equity investments in Public Private Partnership projects during 2016. The movement in inventories, receivables and payables to £347.3 million (2015: £379.2 million<sup>(i)</sup>) was due largely to the working capital movement noted in the cash flow statement on page 44. The Group's net retirement benefit liability increased to £663.2 million (2015: £317.6 million) reflecting a reduction in bond yields and the discount rate used to calculate the scheme liabilities. The consequential increase in scheme liabilities more than offset an improvement in investment returns generated on the scheme assets in 2016.

### Retirement benefits

Detailed information on the Group's pension arrangements can be found in note 30 on pages 128 to 131 of the consolidated financial statements. The Group operates pension arrangements for the benefit of eligible employees and has a number of defined benefit schemes and other post-retirement benefit arrangements, which have a total pension obligation on an International Accounting Standard (IAS) 19 basis of £3,377.5 million (2015: £2,695.9 million) (the 'liabilities'). Total pension assets relating to these liabilities are £2,572.7 million (2015: £2,302.4 million), which results in an IAS 19 deficit of £804.8 million (2015: £393.5 million) before deferred taxation and £663.2 million (2015: £317.6 million) after deferred taxation.

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

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

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

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

The Board devotes significant time and resources to managing the Group's pension schemes and their inherent risks, through the following committees

- a Board sub-committee chaired by the Group Chief Executive, which is specifically tasked with monitoring and managing defined benefit pension arrangements and
- an Executive Committee, which reports to the Board Committee, and comprises the Group Finance Director, Group Financial Controller and Group Head of Reward.

The Executive Committee meets monthly to consider pension issues and to oversee the implementation of the Group's policies in respect of defined benefit pension arrangements.

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

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

In line with these policies, the majority of the Group's principal schemes are closed to new entrants and members no longer accrue benefits for future service.

In addition, in 2013 we took a significant step towards reducing the risks and potential liabilities in respect of the Group's main defined benefit pension schemes when the Trustees of those schemes agreed to enter into a longevity swap, which hedges the financial risks of future increases in longevity. The swap covers 9,000 pensioners or some 40 per cent of the total liabilities in respect of these defined benefit schemes.

In 2014, we reached agreement with the Trustees in respect of valuations and revised funding arrangements for the Group's principal defined benefit schemes. It has been agreed that, if required, deficit recovery payments can continue until 2029 in respect of these schemes. Total deficit recovery payments for all of the Group's defined benefit schemes are expected to remain at around £50 million in 2017. Each scheme has its own specific funding arrangement and these funding arrangements will be reviewed following subsequent valuations. The next actuarial valuation of the Group's main defined benefit schemes is at 31 December 2016 and is currently in progress.

# Performance and financial review continued

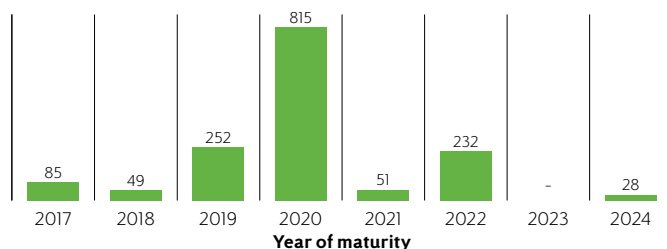
## Share price

Carillion's share price was 235.9 pence at the close of business on 31 December 2016, a reduction of 22 per cent on the closing price on 31 December 2015 of 302.9 pence. Carillion delivered a total shareholder return in 2016 of negative 17 per cent, compared with the return for the FTSE 350 of five per cent.

## Committed bank facilities, private placements and convertible bonds

The Group has a strong funding position to support its objectives over the medium term, with £1.4 billion of funding available at 31 December 2016, predominantly in the form of committed bank facilities totalling £870 million, private placement borrowing of £361 million and £170 million of convertible bonds. In addition, in January 2017, we secured further financing of £112 million from the Schuldschein market in Germany, which is repayable over five years, taking total available funding to some £1.5 billion. The graph below sets out the maturity profile of the £1.4 billion of funding the Group had at 31 December 2016, together with the additional financing of £112 million secured in January 2017, which leaves the Group very well placed to deal with facilities and borrowings maturing in 2017 and 2018. The Group therefore continues to have substantial funding to support our strategy over the medium term, while at the same time reducing average net borrowing.

**Borrowing facilities maturity profile (£m)**



## Funding and liquidity

In addition to Carillion plc's principal borrowing facilities, private placement funding and convertible bonds described above, money market and short-term overdraft facilities are available to Carillion plc and certain subsidiaries. Operating and finance leases are also employed to fund longer-term assets. The quantum of committed borrowing facilities available to the Group is regularly reviewed by the Board and is designed to provide adequate headroom over and above the requirements of the Group's business plan. At 31 December 2016, the Group had undrawn committed facilities amounting to £731.6 million (2015: £761.2 million).

## Operational and financial risk management

Carillion has rigorous policies and processes in place to identify, mitigate and manage strategic risks and those specific to individual businesses and contracts, including economic, social, environmental and ethical risks. The Group's risk management policies and processes, together with the principal operational and financial risks and the measures being taken to mitigate and manage them, are described in detail on pages 32 to 37. The Board regularly reviews the risks facing the Group to ensure they are up to date and the appropriate measures are in place to mitigate and manage them. In summary, these risks include continuing to win work in our existing and new target markets and geographies, delivering major contracts successfully, managing our pension schemes effectively, managing the impact of Brexit, attracting, developing and retaining excellent people, managing the risks associated with operating in overseas markets, maintaining the highest standard of ethics, managing information security including cyber security, Health and Safety and other statutory requirements and the potential impact arising from a failure to manage human rights issues.

## Treasury policy and financial risk management

The Group has a centralised Treasury function whose primary role is to manage funding, liquidity and financial risks. In addition, Treasury sources and administers contract bond and guarantee facilities for the Group. Treasury is not a profit centre and does not enter into speculative transactions. The Board sets policies within which Treasury operates that ensure the most effective financing of the Group's operations and limit exposure to financial risk. The areas of significant financial risk facing the Group relate to funding and liquidity, counterparty risk, country risk, foreign exchange and interest rates.

## Counterparty risk

The Group undertakes significant financial transactions only with counterparties that have strong credit ratings. Credit exposures to counterparties are monitored regularly so that exposure to any one counterparty is managed against Board approved limits, or approved directly by the Board.

## Country risk

The Group has overseas activities in Canada and the Middle East, where our operations are based in Abu Dhabi, Dubai, Oman, Qatar and Saudi Arabia (where our activities accounted for less than 0.5 per cent of the Group's total revenue in 2016).

Through our strategy of creating a well-balanced and geographically diversified business, we seek to minimise the political and socio-economic risks to our business. We also seek to mitigate the risks attendant on our overseas activities by ensuring that we operate only where we can apply high standards of corporate governance and corporate social responsibility and by regularly repatriating profits and cash to the UK.

The risk of political instability in Canada is judged to be minimal, as Canada has a stable parliamentary democracy. In the Middle East, we have deliberately based our activities in countries with a history of social stability and we have been unaffected by the unrest seen on occasions during the last few years in the Middle East. While the potential for political unrest and conflict in the Middle East and North Africa to recur or to spread to countries so far unaffected remains a possibility, we believe our policy of focusing on countries with a history of stability, together with our rigorous corporate governance and financial management policies and processes, provides adequate mitigation against these risks. Furthermore, our strategy in the Middle East and North Africa of focusing on a small number of financially robust customers has enabled our businesses in the region to maintain satisfactory operating cash flows and remain financially independent.

## Foreign exchange

The Group hedges all significant currency transaction exposures using foreign exchange risk management techniques. In order to protect the Group's balance sheet from the impact of exchange rate volatility, our policy is to hedge foreign currency net assets using matching currency loans and forward foreign currency contracts, equivalent to at least 60 per cent of the net asset value, where these assets exceed the equivalent of £10 million. Profits arising within overseas subsidiaries are not hedged unless it is planned to make a distribution. Such distributions are then treated as currency transactions and hedged accordingly. The Group's US dollar denominated private placement financing is hedged using cross-currency derivatives, which effectively fix the interest cost and capital repayments at the exchange rates prevailing at the time the financing was secured in 2013.

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

£sterling	Average		Year end	
	2016	2015	2016	2015
Middle East (US dollar)	<b>1.36</b>	1.53	<b>1.24</b>	1.47
Oman (rial)	<b>0.52</b>	0.59	<b>0.48</b>	0.57
UAE (dirham)	<b>4.98</b>	5.61	<b>4.54</b>	5.41
Canada (dollar)	<b>1.80</b>	1.96	<b>1.66</b>	2.05

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

## Interest rates

The Group's £790 million five-year syndicated borrowing facility and £80 million bilateral borrowing facilities are at floating rates of interest linked to the London Interbank Offered Rate and the Canadian Dollar Offered Rate. The Group's £360.8 million of private placement funding is at various fixed interest rates as disclosed in note 19 on page 116. The Group's £170 million of convertible bonds are at a fixed rate of interest of 2.5 per cent.

The Group has entered into cross-currency swaps to fix or hedge interest rate risk. In addition to the Group's private placement funding, certain longer-term assets have been acquired using finance leases at fixed interest rates.

Carillion has invested equity in a number of Joint Venture Special Purpose Companies (SPC) to deliver Public Private Partnership projects. SPCs obtain funding for these projects in the form of long-term bank loans or corporate bonds without recourse to the Joint Venture partners and secured on the assets of the SPC. A number of SPCs have entered into interest rate derivatives as a means of hedging interest rate risk. These derivatives are interest rate swaps that effectively fix the rate of interest payable.

## Credit risk

An analysis of the Group's credit risk is provided in note 26 on page 123.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, financial performance, financial position, its cash flows, liquidity position and borrowing facilities are described on pages 38 to 46, entitled 'Performance and financial review'. In addition, note 26 on pages 120 to 125 of the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit and liquidity risk.

The Group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

In assessing the Company's ability to continue as a going concern, the Board reviews forecasts of the Group's borrowing requirements compared to available bank facilities. The forecasts are prepared and reviewed in the context of the latest Board approved Budgets and Business plans that project forward for three years and are adjusted where appropriate to reflect known variations. The Board applies sensitivity analysis to these forecasts to assess the impact of potential risks and opportunities in order to provide additional comfort on the level of headroom against available bank facilities. The Board's review also includes a forecast of the covenants associated with the Group's bank facilities and private placement funding in order to provide comfort that funding covenants will continue to be met.

The Directors confirm that, after due consideration, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and that there are no material uncertainties in relation to going concern of which they are aware. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Strategic report approved by order of the Board on 1 March 2017.



**Zafar Khan**  
Group Finance Director



# Governance

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# Chairman's introduction to Corporate Governance

Dear Shareholder,

Your Board remains strongly committed to ensuring that Carillion maintains and continuously improves the structures and processes required to underpin the effective delivery of its growth strategy. We believe that good governance is an essential part of the way we undertake our business on a day-to-day basis, while maintaining effective risk management, control and accountability.

I am pleased to report that our commitment to business integrity, safety, strong governance and sustainability remains a key strength of our business. In this section of the Annual Report we provide details of our governance policies and practices, highlights of our governance activities and the status of our compliance with the principles of the UK Corporate Governance Code (September 2014).

Your Company continues to be led by a strong and balanced Board, which is well qualified to challenge, motivate and support the business. Biographical details of all of the Directors are provided on pages 50 and 51. The Board as a whole is responsible for the Group's overall strategy and has in place clearly defined structures for the allocation of responsibilities relating to the various elements of the Group's strategy. Please see pages 10 and 11 for details of the Group's strategy and page 52 for an overview of the governance and management structure for the Group.

The Nominations Committee continues to review the composition of the Board to ensure that we have the right balance of skills, experience, diversity and independence in place to support the future development of the Group. During 2016, the Committee led the process which resulted in the appointment of Zafar Khan as Group Finance Director in succession to Richard Adam who retired on 31 December 2016. Following our announcement that Ceri Powell will step down from the Board on 31 March 2017 due to international relocation to take up an appointment as Managing Director of Brunei Shell Petroleum, the Nominations Committee has commenced its search to secure a new Non-Executive Director to join the Board. The 2016 report of the Nominations Committee is set out on page 58.

Recognising the importance of right behaviours to long-term performance and our reputation, the Board remains committed to maintaining high standards of ethics and business integrity throughout the Group. The 2016 report of the Business Integrity Committee is set out on page 59. The Group also continues to put sustainability at the heart of all operational activity. During 2016, we were delighted that our external reporting on sustainability was once again recognised when we were highly commended in the 2016 PwC Building Public Trust Award for the FTSE 250 Sustainability Reporting category for the fourth year in succession. The Sustainability Committee's report on its work during 2016 is set out on page 60.

The annual review of Board effectiveness is an important process for helping to identify key areas for future improvement or focus. The 2016 review was led by myself and facilitated by Linstock Limited, an independent corporate advisory firm. The results from our 2016 evaluation are detailed on page 56, but the following areas were, inter alia, identified as being key future priorities for the Board:

- Support the transition to the new Group Finance Director
- Support the Executive Directors with their delivery against key operational and strategic targets
- Continue to oversee the development of the Group's strategy for future growth
- Maintain ongoing focus on Board succession and development of the senior management team.

More details of our compliance with the leadership and effectiveness provisions of the Code can be found on pages 53 to 57.

The Board understands the importance of presenting a fair, balanced and understandable assessment of the Company's position and prospects and of the importance of effective reporting, risk management and internal control procedures. Further details on the Group's reporting, internal control and risk management processes are provided in the Audit Committee report on pages 61 to 64.

We also remain committed to regular and active dialogue with our shareholders. Keith Cochrane and I continue to make ourselves available to facilitate such dialogue and in addition we also consult with our shareholders on any significant changes to remuneration for the Executive Directors and other matters of a strategic nature. Our 2016 Remuneration report is set out on pages 65 to 81 and further details on our 2016 interaction with our shareholders are set out on page 57.

## Compliance with the 2014 Code

During the year ended 31 December 2016, as detailed in our Corporate Governance report on page 57 and in the Remuneration report on page 65, the Company complied fully with the requirements of the UK Corporate Governance Code (September 2014). Full details of this Code can be obtained from the Financial Reporting Council's website at [www.frc.org.uk](http://www.frc.org.uk).



**Philip Green**  
Chairman  
1 March 2017

# Board of Directors

Your Company continues to be led by a strong and balanced Board, which is well qualified to challenge, motivate and support the business.



## Philip Green, CBE

### Chairman

Age 63

**Date appointed to Board:**  
1 June 2011

**Tenure on Board:**  
5 years 9 months

### Committee memberships:

- Chairman of Nominations Committee
- Chairman of Business Integrity Committee
- Sustainability Committee

**Independent:** Yes

### Relevant skills and experience:

- Significant level of listed company board experience gained in executive and non-executive roles
- Chief Executive Officer experience gained with large and complex UK and international businesses
- Operational leadership experience from a variety of business sectors
- Strong track record in corporate responsibility
- Experienced in M&A and strategy development

### External appointments:

- Non-Executive Chairman, BakerCorp Inc (USA)
- Non-Executive Chairman, Corsair Infrastructure Management (USA)
- Chairman, Sentebale, a charity focused on Lesotho established by Prince Harry
- Founder of the charity Hope Through Action
- Advisor to the Prime Minister on Corporate Responsibility

### Past roles:

- Chief Executive of United Utilities Group PLC
- Chief Executive of Royal P&O Nedlloyd
- Director and Chief Operating Officer, Reuters Group PLC
- Chief Operating Officer, DHL Europe and Africa



## Richard Howson

### Group Chief Executive

Age 48

**Date appointed to Board:**  
10 December 2009

**Tenure on Board:**  
7 years 3 months

### Committee memberships:

- Nominations Committee
- Sustainability Committee

**Independent:** No

### Relevant skills and experience:

- Fellow of the Institution of Civil Engineers
- 22 years of service with Carillion in a variety of roles
- Operational leadership experience gained through previous role of Chief Operating Officer
- Detailed knowledge of key business units gained through previous roles
- Significant experience in operational delivery, management of commercial positions and performance improvement
- Strong track record on Health and Safety and sustainability

### External appointments:

- Chairman of BITC's Community Leadership Team
- Chairman of the CBI's Construction Council
- Non-Executive Director of John Wood Group PLC

### Past roles:

- Chief Operating Officer, Carillion plc
- Executive Director responsible for UK Construction and Middle East and North Africa, Carillion plc
- Managing Director, Middle East and North Africa, Carillion plc



## Zafar Khan

### Group Finance Director

Age 48

**Date appointed to Board:**  
1 January 2017

**Tenure on Board:**  
2 months

### Committee memberships:

None

**Independent:** No

### Relevant skills and experience:

- A Fellow of the Institute of Chartered Accountants in England and Wales
- Six years of experience with Carillion encompassing senior corporate and international roles
- Significant experience of working in senior roles with public companies
- Well versed in financing and capital structures
- Significant experience of M&A activity with Carillion and in prior roles
- Strong track record in cost control, cash flow and pension scheme risk management

### External appointments:

None

### Past roles:

- Group Financial Controller, Carillion plc
- Finance Director, Middle East and North Africa, Carillion plc
- Chief Financial Officer, Associated British Ports Holdings Limited
- Senior Financial roles with BBA Group plc and Flag Telecom Holdings Limited



## Keith Cochrane CBE

### Senior Independent

### Non-Executive Director

Age 52

**Date appointed to Board:**  
2 July 2015

**Tenure on Board:**  
1 year 8 months

### Committee memberships:

- Audit Committee
- Remuneration Committee
- Nominations Committee
- Business Integrity Committee
- Sustainability Committee

**Independent:** Yes

### Relevant skills and experience:

- Chartered Accountant and Member of the Institute of Chartered Accountants of Scotland
- Chief Executive Officer of major listed companies
- Board level strategic leadership of complex domestic and multi-national businesses
- Significant regulatory and Government affairs experience in the UK and internationally
- Experienced in corporate finance, managing large procurement contracts and risk mitigation

### External appointments:

- UK Government Lead Non-Executive Director for the Scotland Office and Office of the Advocate General

### Past roles:

- Chief Executive of The Weir Group PLC
- Chief Executive, Stagecoach Group PLC
- Finance Director, Stagecoach Group PLC
- Director of Group Finance, ScottishPower PLC



### Andrew Dougal

#### Non-Executive Director

Age 65

**Date appointed to Board:**  
3 October 2011

**Tenure on Board:**  
5 years 5 months

#### Committee memberships:

- Chairman of Audit Committee
- Remuneration Committee
- Nominations Committee
- Business Integrity Committee
- Sustainability Committee

**Independent:** Yes

#### Relevant skills and experience:

- Chief Executive Officer and Finance Director experience with FTSE 100 international business
- Extensive experience of M&A and strategic initiatives
- Experienced non-executive director, has chaired two FTSE 350 audit committees in addition to Carillion
- Has detailed knowledge of best practice in risk management and internal control

#### External appointments:

- Non-Executive Director and Audit Committee Chair of Victrex plc
- Member of the Council of The Institute of Chartered Accountants of Scotland

#### Past roles:

- Chief Executive, Hanson plc (international building materials company)
- Group Finance Director, Hanson plc (Anglo-American diversified industrial company)
- Non-Executive Director and Audit Committee Chair, Creston plc
- Non-Executive Director and Audit Committee member, Premier Farnell Plc
- Non-Executive Director and Chairman of Audit Committees, Taylor Wimpey plc and Taylor Woodrow plc
- Non-Executive Director and Audit Committee member, BPB Plc



### Alison Horner

#### Non-Executive Director

Age 50

**Date appointed to Board:**  
1 December 2013

**Tenure on Board:**  
3 years 3 months

#### Committee memberships:

- Audit Committee
- Chairman of Remuneration Committee
- Nominations Committee
- Business Integrity Committee
- Sustainability Committee

**Independent:** Yes

#### Relevant skills and experience:

- Operational leadership experience
- Significant experience in managing human resources, currently manages international workforce of 470,000 employees
- Detailed knowledge in design and implementation of employee and executive remuneration
- Experienced in managing provision of pension arrangements to employees and risk associated with pension schemes
- Strong track record of building capability and driving Group-wide development and change programmes

#### External appointments:

- Chief People Officer and member of Executive Committee, Tesco Plc
- Trustee, Tesco Pension Scheme

#### Past roles:

- Operations Director, Tesco
- Non-Executive Director, Tesco Bank



### Ceri Powell<sup>1</sup>

#### Non-Executive Director

Age 53

**Date appointed to Board:**  
2 April 2014

**Tenure on Board:**  
2 years 11 months

#### Committee memberships:

- Audit Committee
- Remuneration Committee
- Nominations Committee
- Business Integrity Committee
- Chairman of Sustainability Committee

**Independent:** Yes

#### Relevant skills and experience:

- International operational leadership experience
- Strong track record in business and market development focused on emerging markets
- Significant experience in development and implementation of strategic initiatives
- Well-developed skills in delivery of large capital projects and management of risks associated with these
- Detailed knowledge of key issues and best practice in sustainability

#### External appointments:

- Executive Vice President for Global Exploration, Royal Dutch Shell
- Vice President of the Energy Institute UK

#### Past roles:

- Vice President Strategy, Royal Dutch Shell
- Regional Vice President Exploration, Middle East, Caspian and South Asia, Royal Dutch Shell

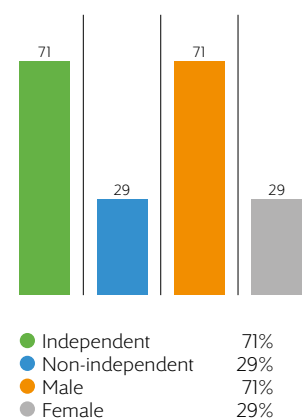
(1) Ceri Powell has advised the Board that owing to an international relocation with Royal Dutch Shell to take up the position of Managing Director of Brunei Shell Petroleum, she will, with regret, stand down from the Carillion Board on 31 March 2017.

### Board diversity

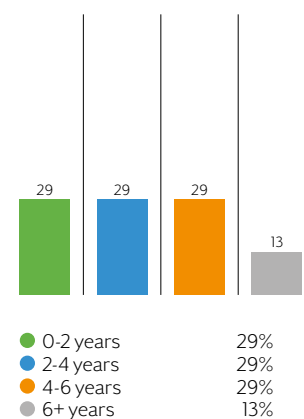
The Board continues to ensure it has the right balance of skills, knowledge and experience, independence and diversity to lead the business.

The composition and tenure of our Board members is summarised below.

### Board composition



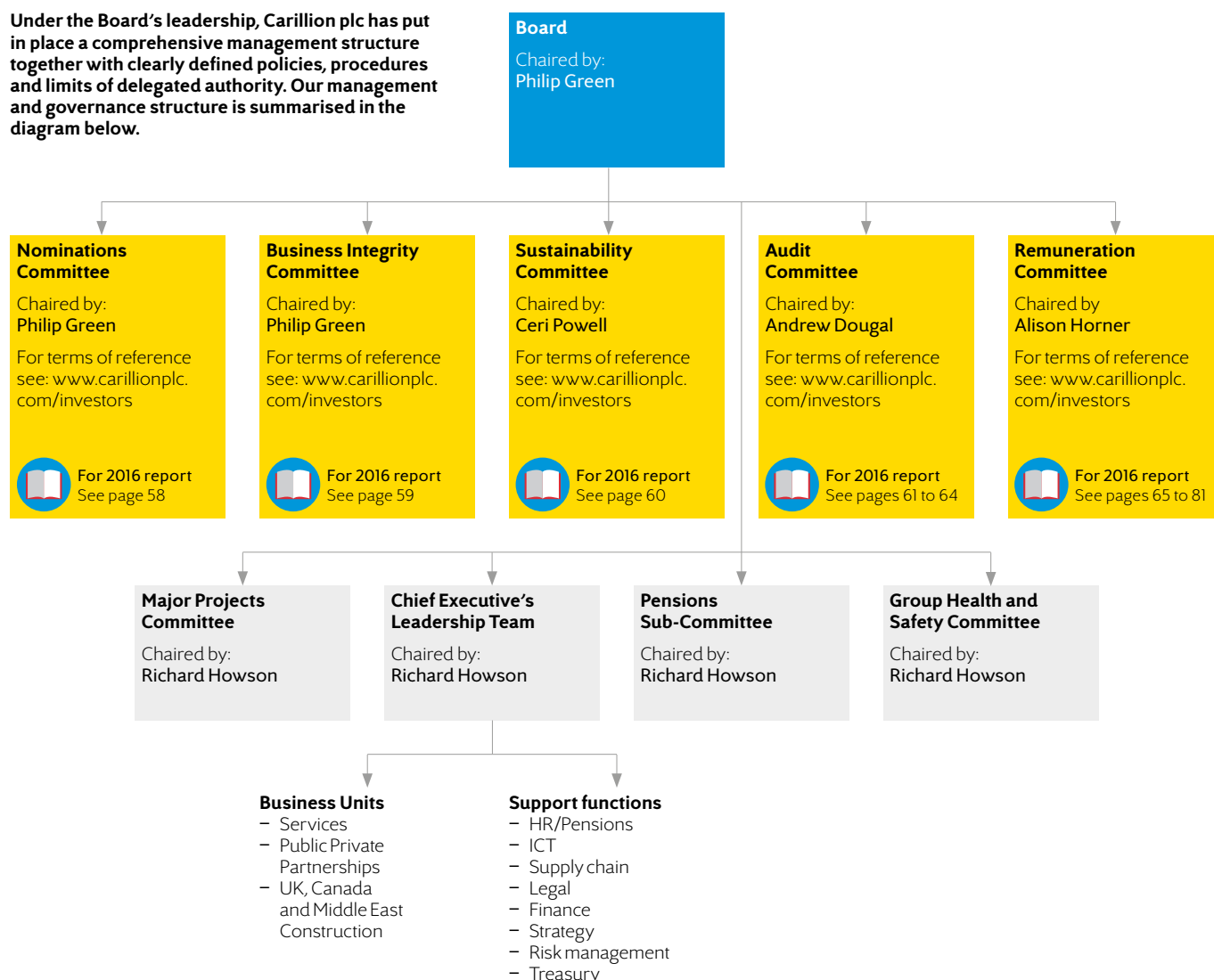
### Board tenure





# Carillion plc's Governance and management structure

Under the Board's leadership, Carillion plc has put in place a comprehensive management structure together with clearly defined policies, procedures and limits of delegated authority. Our management and governance structure is summarised in the diagram below.



However, the Board recognises that on their own policies and procedures are not enough and, in order to achieve consistently high standards of governance and service excellence, we have to ensure that our values are at the heart of everything we do. Our values are helping to shape the culture, character and beliefs of our business. For more information on our values visit [www.carillionplc.com/about-us](http://www.carillionplc.com/about-us).

More than any policy document our values define the way we behave, with each other, with our customers and partners, and how we approach our challenges and opportunities on a daily basis.

## Our vision

To be the trusted partner for providing services, delivering infrastructure and creating places that bring lasting benefits to our customers and the communities in which we live and work.

## Our values

### We care.

We respect each other and we do things safely and sustainably. It's good for our people, our business and our local communities.

### We achieve together.

We value the contribution of each individual and we work together to build strong, open and trusting partnerships.

### We improve.

We listen, learn and adapt our ideas and experience into better solutions and services for our customers.

### We deliver.

We set ourselves stretching goals, taking pride in doing a great job and helping our customers and partners to succeed.



# Corporate Governance report

## Leadership

### The Board

The Board as a whole continues to take ownership of effective leadership and the long-term success of the Company. The management and governance framework, which the Board has implemented to support the Company's long-term growth objectives, is set out on page 52. The diverse range of skills and leadership experience offered by the Non-Executive Directors means that they are well qualified to scrutinise performance, assess the Group's risk management and control processes, provide constructive challenge and to support the Executive Directors. Biographical details for each of the Directors together with their Board responsibilities are set out on pages 50 and 51.

The Board has 10 scheduled meetings during the year; additional meetings are arranged if required. The Board committee meetings are scheduled around the regular Board meetings.

In order to facilitate increased understanding of our overseas businesses amongst Board members and to provide local employees and management with access to the Board, a Board meeting is held each year at an overseas operation.

### Decision making

Directors are required to attend each Board meeting and meetings of any Committee of which they are a member. In addition, other members of the senior management team and the Group's advisers may, by invitation, attend meetings to address specific agenda items. There is a formal schedule of matters reserved for the Board, which is reviewed regularly to ensure that it remains current. Matters reserved for the Board include the items summarised in the table below:

Governance	Strategy and direction	Risk management, accountability and control
<ul style="list-style-type: none"> <li>Review of governance arrangements</li> <li>Appointments to and removals from the Board</li> <li>Terms of reference for and membership of Board committees</li> </ul>	<ul style="list-style-type: none"> <li>Approval of strategy and annual budgets</li> <li>Authorisation of acquisition and disposal activity</li> <li>Affirmation of risk management strategies and risk appetite</li> </ul>	<ul style="list-style-type: none"> <li>Approval of financial statements, other updates to the market and recommendations on dividends</li> <li>Approval of authority levels, financial and treasury policies</li> <li>Review of internal control and risk management</li> <li>Approval of Health and Safety policies</li> </ul>

In addition, The Chief Executive's Leadership Team (CELT) meets on a monthly basis. The CELT, led by Richard Howson, is responsible for strategy development, operational and financial management and the executive management of the Group's businesses. In addition to Mr Howson, the CELT comprises the Group Finance Director, the Managing Directors of selected Business Units, the Group Development and Strategy Director, the Group HR Director and the Company Secretary and Director of Legal Services.

The Executive Directors and the Carillion subsidiary companies operate within clearly defined limits of authority delegated by the Board and any matters outside these limits are referred to the Board for consideration.

Arrangements in relation to Directors' indemnification and the management of conflicts are provided in the Directors' report on page 83.

## Division of responsibilities

A clear division of responsibilities is important for the effective working of the Board and to ensure that no one individual has unfettered power of decision. The Chairman and Group Chief Executive work together to provide effective and complementary stewardship. The roles of the Chairman, Group Chief Executive and Senior Independent Non-Executive Director are clearly defined as summarised below.

### Chairman

- Responsible for the composition and capability of the Board
- Responsible for the effective leadership and governance of the Board
- Ensures Board and Committee meetings are used effectively by focusing on key areas and promoting a culture of openness and healthy debate
- Maintains regular contact with the Group Chief Executive providing advice, counsel and support to the Group Chief Executive as and when appropriate
- Works with the Group Chief Executive and Company Secretary to establish the Board's 12-month rolling agenda
- Leads assessment of the effectiveness of the Board and each Director.

### Group Chief Executive

- Responsible for providing effective leadership to the Company
- Identification and analysis of strategic options for growth in shareholder value
- Implementation of operating plans and budgets required to deliver the agreed strategy
- Works closely with the Group Finance Director to ensure that the Group has in place an appropriate capital structure and risk management and internal control processes
- Works closely with the Group Finance Director to ensure that the Group maintains effective relationships and communications with investors
- Responsible for delivery of ongoing operational performance against targets and continuous improvement in performance on safety and sustainability.

### Senior Independent Non-Executive Director

- Available as the alternative point of contact for shareholders where communication through the Executive Directors or the Chairman may not be appropriate
- Acts as a sounding board for the Chairman and alternate Board contact for other Directors where appropriate
- Would chair Board meetings in the absence of the Chairman
- Leads the annual assessment of the effectiveness of the Chairman.

The Company Secretary acts as the Secretary to the Board and each of its Committees. The Chairman maintains contact with the Senior Independent Non-Executive Director and the Company Secretary in relation to Board and governance matters. In addition, the Chairman holds meetings with the Non-Executive Directors without the Executive Directors present. The Senior Independent Non-Executive Director also holds meetings with the Non-Executive Directors without the Chairman present at least once a year.

# Corporate Governance report continued

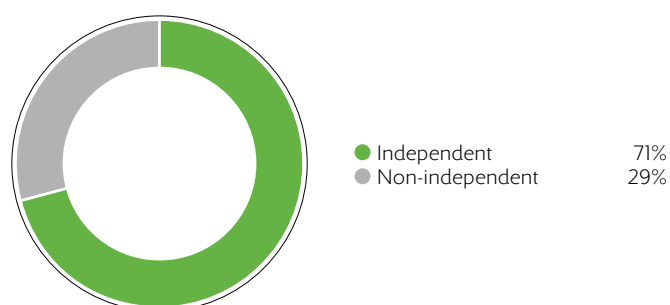
## Effectiveness

### Board composition

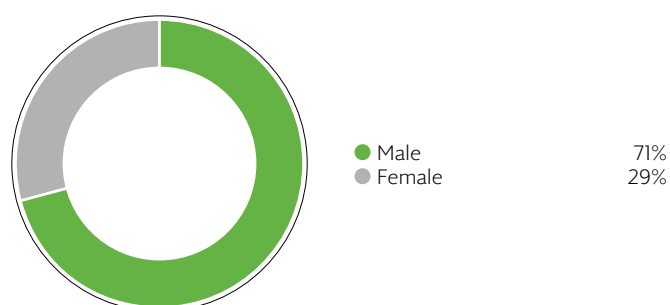
The Board and its Committees continue to benefit from an appropriate balance of expertise, experience, independence and knowledge of the Company and its business sectors. At 31 December 2016, the Board comprised two Executive and five Non-Executive Directors.

The Board confirms that the Chairman and each of the Non-Executive Directors are considered to be independent of management under the guidelines set out in the UK Corporate Governance Code.

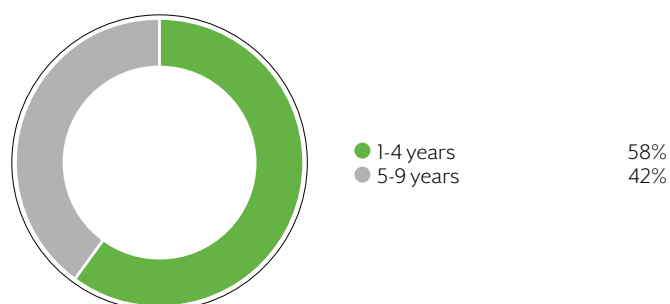
#### 71 per cent of Directors are independent



#### 29 per cent of Directors are female



#### 58 per cent of Non-Executive Directors have been in role for less than four years



Appointments to the Board are managed by the Nominations Committee (see page 58 for the Nominations Committee's 2016 report). In line with our succession plans, Richard Adam who completed nine years as a Director in April 2016, retired from the Board on 31 December 2016 and was succeeded by Zafar Khan who was appointed Group Finance Director on 1 January 2017.

Ceri Powell has advised the Board that owing to international relocation to take up an appointment as Managing Director of Brunei Shell Petroleum, she will with regret stand down from the Board on 31 March 2017. Changes to the Board since 1 January 2016 are summarised in the table below:

Director	Position	Date of appointment	Date of resignation
Richard Adam	Executive Director	2 April 2007	31 Dec 2016
Zafar Khan	Executive Director	1 Jan 2017	N/A

### Commitment

All Directors are made aware at the time of appointment of the time commitment required to discharge their Board and Committee responsibilities effectively. There is a formal job specification in place for the Chairman. The terms and conditions of appointment for the Executive and Non-Executive Directors will be available at the 2017 AGM and can, at other times, be inspected at the Company's registered office, Carillion House, 84 Salop Street, Wolverhampton, WV3 0SR.

Recognising that external appointments can broaden experience and knowledge and so be of benefit to the Company, Executive Directors are permitted, at the discretion of the Board, to accept a limited number of such appointments and retain the fees received for such appointments. In addition to his role as Group Chief Executive, Richard Howson is a Non-Executive Director of John Wood Group PLC. Zafar Khan does not hold any external appointments.

The Board is aware of current external commitments for all of the Non-Executive Directors who are also required to discuss any additions to these with the Chairman prior to their acceptance of any further external appointments. Changes to the external commitments of the Non-Executive Directors during 2016 are summarised in the table below:

Director	2016 changes to external commitments
Keith Cochrane	Retired as a Director of the Weir Group plc on 30 September 2016
Philip Green	Stood down as Chairman Designate of Williams & Glyn Bank Limited

All Directors were able to allocate sufficient time to their Board responsibilities during 2016 and this is expected to be the case in 2017.

### Board meeting attendance

The number of scheduled Board meetings attended by each Director together with the number of Board meetings that they were eligible to attend during 2016 and 2015 is summarised in the table below:

Member	2016			2015		
	Attendance	Eligibility	Percentage	Attendance	Eligibility	Percentage
Richard Adam	10	10	100	10	10	100
Keith Cochrane*	10	10	100	5	5	100
Andrew Dougal	10	10	100	10	10	100
Philip Green	10	10	100	10	10	100
Alison Horner	10	10	100	10	10	100
Richard Howson	10	10	100	10	10	100
Ceri Powell	10	10	100	10	10	100

\* Keith Cochrane was appointed to the Board on 2 July 2015.

This year's overseas meeting was held in the Middle East and provided Board members with an opportunity to visit some of our businesses and contracts in the United Arab Emirates and in Oman and learn more about our strategy for the Middle East and North Africa from the local leadership team.



Key areas of activity considered at Board meetings during 2016 are summarised in the table below:

Area of activity	Frequency	Agenda item
<b>Review of financial and operational performance</b>	1	Group Chief Executive's report on safety and operational performance, work winning, human resources and market development
	1	Group Finance Director's report on financial performance, liquidity, investor relations, share price performance and supply chain
	1	Reports from the Major Projects Committee
	1	Reports on sustainability practice and performance
	2	Review and approval of latest forecasts and budgets
<b>Leadership, governance and strategy</b>	2	Review and approval of the Group's three-year business plan
	2	Presentations on Group and business unit strategy
	2	Review and approval of acquisition and disposal activity
	2	Review of delegated authorities
	2	Review of policies such as sustainability, ethics and business integrity
	2	Appointment of new Director and succession planning
	2	Consideration of reports from the Board Committees
	2	Evaluation of the Board and its Committees
	2	Review of any conflicts of interest
	1	Review of Directors' share dealings
<b>Accountability, control and risk management</b>	2	Review of 2016 half year report and 2015 Annual Report and Accounts. Approval of final dividend for 2015 and half year dividend for 2016
	2	Review of trading updates issued to the market
	2	Consideration of reports from the Chairman of the Audit Committee on internal control and risk management
	2	Consideration of risk management procedures and key risks and uncertainties facing the Group
	2	Consideration of matters relating to the AGM
<b>Relations with shareholders</b>	2	Consideration of feedback from investors received following release of our results or during routine meetings with Board members

1 Standing agenda item for all Board meetings.

2 Item tabled on a periodic basis or as and when necessary.

## Board Committees

To ensure compliance with regulatory requirements, the Board delegates certain matters to its Committees, which are required to consider these in accordance with their terms of reference. Occasionally, where it may be more expedient to do so, the Board may delegate certain of its powers to a sub-committee on an ad-hoc basis. The terms of reference for each Board Committee are available on the Group's website ([www.carillionplc.com/investors](http://www.carillionplc.com/investors)) and summarised in the following table.

Committee	Summary of terms of reference	Minimum number of meetings	Committee report for 2016
<b>Nominations</b> Chaired by: Philip Green	<ul style="list-style-type: none"> <li>Makes recommendations on appointments to the Board and its Committees</li> <li>Reviews the Group's succession arrangements and overall Board composition to ensure the balance of skills and experience remains appropriate</li> </ul>	1	See page 58
<b>Business Integrity</b> Chaired by: Philip Green	<ul style="list-style-type: none"> <li>Reviews and oversees the development and implementation of the Group's Ethics and Business Integrity Policy</li> <li>Monitors the Group's compliance with relevant legislation such as the Bribery Act 2010 and the Competition Act</li> <li>Monitors the Group's communication and training programmes on ethics and business integrity</li> </ul>	2	See page 59
<b>Sustainability</b> Chaired by: Ceri Powell	<ul style="list-style-type: none"> <li>Reviews and approves policies, targets and performance in relation to key sustainability initiatives</li> <li>Reviews and approves the annual Sustainability Report prior to publication</li> <li>Monitors legislation and/or regulations that might affect the Group or its stakeholders and other matters which could impact corporate reputation and the management of any such matters</li> <li>Engages with internal and external stakeholders on key sustainability themes</li> </ul>	4	See page 60
<b>Audit</b> Chaired by: Andrew Dougal	<ul style="list-style-type: none"> <li>Reviews and reports to the Board on the Group's financial reporting to investors, internal controls and risk management processes</li> <li>Makes recommendations to the Board on the appointment or reappointment of the external auditor and monitors the effectiveness and independence of the external auditor</li> <li>Directs and reviews the work undertaken by the external and internal audit functions</li> </ul>	3	See pages 61 to 64
<b>Remuneration</b> Chaired by: Alison Horner	<ul style="list-style-type: none"> <li>Reviews and advises the Board on remuneration arrangements for the Chairman, the Executive Directors and their direct reports</li> </ul>	3	See pages 65 to 81



# Corporate Governance report continued

## Induction and development

Directors are provided with a comprehensive information pack on joining the Company and are advised of their legal and other duties and obligations as a director of a listed company. In addition, all new Directors receive induction training on their appointment covering such matters as the operation and activities of the Group, the role of the Board and the Company's corporate governance procedures. Directors are also briefed by the Company's external advisers, where appropriate, on changes to legislation, regulation or market practice as well as receiving briefings from business units throughout the year.

As part of his induction, Zafar Khan received or undertook the following activities:

- A briefing on the responsibilities of a director of a public listed company
- Briefings from senior management and operational leads
- Briefings from external advisers such as the corporate brokers
- Site visits to major projects.

The Directors are also encouraged to update their skills and knowledge regularly, including in relation to environmental, sustainability and governance matters, and a procedure has been established whereby the Company Secretary is notified by Directors of their requirements in this respect. In pursuit of best practice, the Board receives presentations on governance and regulatory matters. The potential requirement for any specific training in the light of new statutory or governance regulations is kept under regular review.

## Information and support

The Board is provided with regular and timely information on the financial performance of businesses within the Group, and of the Group as a whole, together with reports on trading matters, markets, Health and Safety, sustainability and other relevant issues.

The Company Secretary is the Secretary to the Board and its Committees. Prior to each Board or Committee meeting, the Company Secretary ensures that the relevant papers are made available to all Directors five working days in advance of the meeting. Since 2010, the Board has used a secure electronic portal to receive Board papers. The portal provides information in a timely and secure manner, enabling the Directors to receive Board papers quickly and to access them via tablet devices, wherever they may be.

All Directors have access to the Company Secretary, who is responsible to the Board for ensuring that agreed procedures and applicable rules and regulations are observed. The Board approves the appointment and removal of the Company Secretary.

Any Director may, in furtherance of his duties, take independent professional advice when necessary, at the expense of the Company.

## Board and Committee performance evaluation

The Board undertakes a formal review of its effectiveness and that of its Committees on an annual basis. The 2016 performance evaluation was conducted by Linstock Limited, an independent corporate advisory firm, which the Board has used for a number of years to undertake the annual evaluation.

## Progress against key priorities identified during the 2015 review

Priority	Update
Oversee development of Group's strategy for growth	The Board continued to oversee the Group's operational and strategic development during 2016, please see pages 8 and 9 for the Group Chief Executive's strategic overview for 2016 and pages 38 to 47 for the Group Finance Director's Performance and operational review.
Develop the Board's effectiveness and manage membership succession successfully	The 2016 evaluation confirmed that the Board remained highly effective with its performance having further improved during the year. The retirement of Richard Adam, the long-standing Group Finance Director was also successfully managed in 2016.
Support the development of the senior management team	Succession and development of the executive team continued to be a key area of focus for the Board during 2016 and remains one of its ongoing priorities for the future.

For the 2016 evaluation, Lintstock initially engaged with the Chairman and the Company Secretary to set the context for the evaluation and subsequently reviewed and reported on the performance of the Carillion Board and Committees during the year. Customised assessments, based on anonymous responses to an online survey, were undertaken for the Board as a whole and each of its Committees. Topics addressed included Board composition, effectiveness of Board and Committee meetings, Committee structure and performance, strategy, succession, performance monitoring, leadership and culture, remuneration, relations with shareholders and accountability.

The performance of the Chairman and each Director was also reviewed as part of this evaluation process with the anonymity of respondents ensuring an open and frank exchange of views. The Senior Independent Non-Executive Director led the evaluation of the Chairman's effectiveness. At the December 2016 Board meeting, the Directors reviewed the results of the evaluation, which confirmed that the Board, each of its Committees and the Directors continue to be highly effective. The evaluation confirmed that the key priorities identified as part of the 2015 evaluation, including those in relation to succession management, development/delivery of strategy and supporting the development of the senior management team, had been effectively managed during 2016. Some of the key strengths highlighted by the 2016 evaluation included Board composition and expertise, relationship between the Board and executive directors, strategic oversight provided by the Board, the Board's approach to risk management and internal control and its processes for managing succession planning and human resource management. The evaluation also confirmed that the Board's performance and effectiveness had further improved during 2016.

The key priorities for the Board in 2017 were identified as follows:

- Support the transition to the new Group Finance Director
- Support the Executive Directors with their delivery against key operational and strategic targets
- Continue to oversee the development of the Group's strategy for future growth
- Maintain ongoing focus on Board succession and development of the senior management team.

The Board intends to continue to comply with the UK Corporate Governance Code guidance that the evaluation should be externally facilitated at least every three years.

## Re-election of Directors

In accordance with the UK Corporate Governance Code, all of the Directors will submit themselves for election or re-election at the Annual General Meeting to be held on 3 May 2017. All of the Directors proposed for election or re-election have been subject to formal performance evaluation and continue to be effective members of the Board. The Chairman has confirmed that each of the Directors remains committed to the role and to the time required for Board and, where applicable, Committee meetings and any other duties required of them.

## Accountability

The Board remains committed to ensuring that its communications with shareholders continue to present a fair, balanced and understandable assessment of the Company and its prospects. Both the Audit Committee and the Board received drafts of the Annual Report and Accounts to facilitate review and to provide an opportunity for challenge and discussion.

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. Principal risks and uncertainties associated with the Group's business are summarised on pages 32 to 37 of the Strategic report. The Board has an Audit Committee which monitors and reports on the Group's risk management systems. The Audit Committee also considers how the Board should apply corporate reporting and internal control principles and is responsible for maintaining an appropriate relationship with the Company's auditor, KPMG LLP. The 2016 report of the Audit Committee is set out on pages 61 to 64.

## Remuneration

Details relating to the Company's policy on remuneration together with the level and components of remuneration available to the Company's Directors are provided in the Remuneration Committee's report on pages 65 to 81.

## Dialogue with shareholders

The Board is committed to ensuring that we continue to engage effectively with our shareholders to facilitate a mutual understanding of objectives. Our Group Corporate Affairs Director, who reports to the Group Finance Director, is responsible for managing our investor relations programme. The Executive Directors and the Group Corporate Affairs Director meet regularly with representatives of major shareholders in order to foster the mutual understanding of objectives.

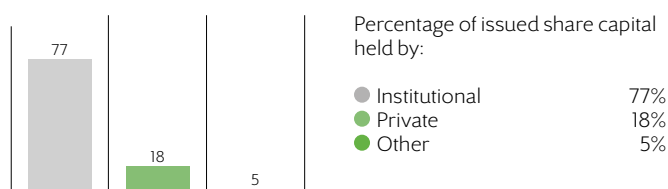
Where appropriate, meetings and requests for information are also facilitated with other shareholders and prospective shareholders. Appropriate governance around disclosure of information is maintained throughout our interaction with shareholders. The details of these meetings are reported to the Board and, in addition, the Board also receives formal investor feedback provided through the Group's corporate brokers following the release of our half year and full-year results. The Chairman and Senior Independent Non-Executive Director are available for meetings with representatives of major shareholders as required.

During 2016, we maintained an extensive investor relations programme. Our half year and full-year results announcements, which involved a presentation to analysts, investors and banks, were given by our two Executive Directors. We issued trading updates in July and December, which were followed on the day of the announcements by conference calls for analysts and investors, hosted by our two Executive Directors. In May we released on the Regulatory News Service, an AGM statement on trading. We also continued to offer meetings to institutional investors, both shareholders and non-shareholders, and we continued to hold meetings or conference calls with all institutions that requested them. In 2016, we met or held conference calls with over 130 institutions, around 50 per cent of which were attended by at least one Executive Director.

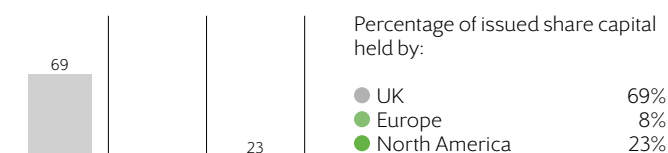
## Constructive use of the Annual General Meeting (AGM)

The Board uses the AGM to communicate with investors and encourages their participation. Shareholders are invited to attend the AGM each year and to ask questions. The Chairmen of the Audit, Business Integrity, Nominations, Remuneration and Sustainability Committees are present at that meeting to answer questions on the work of the Committees.

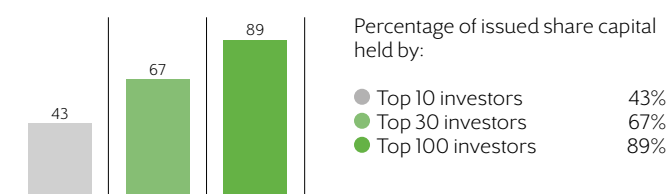
### Investors by type



### Investors by geography



### Investor concentration



During the year under review, the AGM was held in May 2016 with each member of the Board in attendance to answer questions. Notice of the AGM and related papers were sent out more than 20 working days before the meeting. Separate resolutions were tabled on all substantively separate issues. The Group's 2015 Remuneration Report was approved by 80.6 per cent of the votes cast and its 2015 Annual Report and Accounts were approved by 99.8 per cent of the votes cast.

The Company complies fully with the provisions of the UK Corporate Governance Code (September 2014) in respect of the notice, content of agenda and conduct of its Annual General Meetings. The Chairmen of all the Board Committees will be present at the Annual General Meeting on 3 May 2017 to respond to shareholders' questions.

**Philip Green**  
Chairman  
1 March 2017

# Report of the Nominations Committee

## Dear Shareholder,

I am pleased to present the 2016 report of the Nominations Committee.

Succession management remains one of the Committee's key priorities. During 2016 the Committee successfully managed the process which culminated in Zafar Khan's appointment as our new Group Finance Director, following Richard Adam's retirement on 31 December 2016.

This report provides a summary of the Committee's work during 2016.

## Membership and attendance at meetings held during the year ended 31 December 2016

Member	Appointed	Meeting attendance 2016		Meeting attendance 2015	
		Attended	Eligible to attend	Attended	Eligible to attend
Philip Green	01.06.11	4	4	2	2
Keith Cochrane	02.07.15	4	4	0	0
Andrew Dougal	03.10.11	4	4	2	2
Alison Horner	01.12.13	4	4	2	2
Richard Howson	10.12.09	4	4	2	2
Ceri Powell	02.04.14	4	4	2	2

The Committee reviews the structure, size, composition, balance of skills, knowledge and experience of the Board and makes recommendations to the Board with regard to any changes that are deemed desirable. The Committee also reviews succession planning to ensure that processes and plans are in place with regard to both Board and senior appointments. The Committee continues to be chaired by myself and its membership includes the independent Non-Executive Directors plus the Group Chief Executive. The Group Human Resources Director attends certain meetings of the Committee by invitation. The Committee's terms of reference are available at [www.carillionplc.com](http://www.carillionplc.com) or on request from the Company Secretary.

The appointment of a Director is a matter for resolution by the Board as a whole, taking advice from the Nominations Committee.

## Implementation of Board succession

I was very pleased with the transition we achieved in relation to the appointment of Zafar Khan as Group Finance Director in succession to Richard Adam. Having served on the Board since 2007, Richard Adam retired as a Director on 31 December 2016. In anticipation of this, the Committee led the process that resulted in the appointment of Zafar Khan to the Board. Zafar's appointment was announced in August 2016 in order to ensure a sufficient period of handover and transition prior to Richard's departure on 31 December 2016.

In January 2017, the Group announced that Ceri Powell will stand down from the Board on 31 March 2017 due to international relocation to take up an appointment as Managing Director of Brunei Shell Petroleum. Following this the Committee has commenced its search to secure a new Non-Executive Director to join the Board.

## Appointment of Group Finance Director

In order to facilitate the search relating to the appointment of Zafar Khan, the Nominations Committee used the services of executive recruitment consultants, Egon Zehnder. Egon Zehnder has no connections to the Company other than the provision of services in relation to searches for new Directors. Egon Zehnder has adopted the 'Voluntary Code of Conduct' for Executive Search Firms which, inter alia, is designed to improve gender balance on Boards.

The Nominations Committee prepared a summary of the key skills, experience and expertise it required from the new Group Finance Director. The Committee's criteria for selection of the successor to Richard Adam included: relevant skills and experience, an ability to continue the development of the finance function and an ability to support the development of the Group's strategy for growth, including the management of working capital and the Group's focus on reducing net borrowing. Details of potential internal and external candidates were provided by Egon Zehnder and initially reviewed by a sub-committee of the Nominations Committee. Meetings with the selected candidates were then held with the Directors. Having undertaken a detailed and thorough process, the Committee agreed that Zafar Khan was the most appropriate successor to Richard Adam and recommended his appointment to the Board.

Non-Executive Directors are appointed for specified terms and subject to annual re-election. Written terms and conditions in relation to the appointment of all Non-Executive Directors will be available at the 2017 AGM and can be inspected at the Company's registered office, Carillion House, 84 Salop Street, Wolverhampton, WV3 0SR. Fees payable to Non-Executive Directors are discussed in the Remuneration report on pages 65 to 81.

## Board diversity

The Nominations Committee is responsible for reviewing the composition of the Board to ensure that it continues to represent the right balance of skills, knowledge and experience, independence and diversity to support the future delivery of the Group's strategy. The Committee recognises the importance of gender diversity throughout the Group.

Currently, two of the seven Board members are female. While the Committee will continue to follow a policy of ensuring that the best people are appointed for the relevant roles, the benefits of greater diversity are recognised and will continue to be taken into account when considering any particular appointment.

## Annual evaluation

As part of the overall Board evaluation process, the Committee reviewed its performance for 2016 and this confirmed that it continues to be highly effective. Future priorities highlighted by this evaluation included a continued focus on Board composition and executive succession within the Group.

I will be available to answer any questions about the work of the Committee at the AGM on 3 May 2017.



**Philip Green**  
Chairman  
1 March 2017

# Report of the Business Integrity Committee

## Dear Shareholder,

I am pleased to present the Business Integrity Committee's report for the year ended 31 December 2016.

High standards of ethics and business integrity are essential to achieving consistently high standards of corporate governance and service excellence. The Board has therefore implemented a formal ethics and business integrity policy to ensure that the Group conducts its business to the highest ethical standards.

Our ethics and business integrity policy sets out the Group's approach to a number of compliance or ethical issues and the standards and behaviours that all Carillion employees are expected to meet wherever in the world we operate. This policy provides guidance in relation to areas such as bribery, fraud and corruption, gifts and hospitality, insider trading, conflicts of interest, ethical procurement, competition law, money laundering, human rights and compliance with general laws and regulations. For further details on the Group's Business Integrity Policy see [www.carillionplc.com](http://www.carillionplc.com).

The implementation of our ethics and business integrity policy is overseen by the Business Integrity Committee, and its effectiveness is reviewed annually by the Board.

## Membership and attendance at meetings held during the year ended 31 December 2016

Member	Appointed	Meeting attendance 2016		Meeting attendance 2015	
		Attended	Eligible to attend	Attended	Eligible to attend
Philip Green	01.06.11	5	5	4	4
Keith Cochrane	02.07.15	5	5	3	3
Andrew Dougal	03.10.11	5	5	4	4
Alison Horner	01.12.13	5	5	4	4
Ceri Powell	02.04.14	5	5	4	4

There were no changes to the Committee's composition during 2016. The Group Chief Executive and the Group Compliance Manager are invited to attend the Committee's meetings. The main activities undertaken by the Committee during 2016 are summarised below.

## Our commitment to ethics and compliance

Following the introduction of the Bribery Act 2010, we established an Ethics and Compliance Office in 2010. This Office reviews and monitors compliance and aims to ensure that the Group's policies and procedures aimed at maintaining high ethical standards remain effective. In 2014, our formal policies and procedures in relation to ethics and integrity were externally benchmarked by the Institute of Business Ethics (IBE) as part of our successful application to obtain the Investing in Integrity Charter Mark. This award covers all of our businesses globally and we remain one of the largest businesses to have been awarded the Charter Mark which remains valid until 2019. During 2016, we continued to collate best practice on ethics and compliance through our ongoing engagement with the IBE and other external companies and organisations. We also continued to undertake regular risk assessments in light of external compliance failures, which we highlighted to colleagues across the Group to ensure that any risks relevant to our business are appropriately managed and any lessons learnt addressed. The Ethics and Compliance Office reports to the Business Integrity Committee on key global compliance risks and functional activity. We also commenced a review of our existing policies and procedures to ensure that these remain in line with best practice.

## Our values

To create a culture in which high standards of ethics and integrity are natural and instinctive, we promote, encourage and reward behaviours that reflect our core values. We aim to ensure that our values, which are described on page 52, are at the heart of everything we do so that they define how we behave towards our colleagues, our customers, our partners and our suppliers, and how we approach every challenge and opportunity.

## Modern Slavery Act 2015

During 2016, we made good progress with the review of our policies and procedures to ensure compliance with the Modern Slavery Act 2015 which came into force in October 2015. Under this legislation, the Group will be required to publish its first statement on its compliance with the requirements of the Modern Slavery Act 2015 for the financial year ending 31 December 2016 by 30 June 2017. The Modern Slavery Steering Group (MSSG), which the Committee established to ensure full compliance with the requirements of the Modern Slavery Act 2015, includes multi-disciplinary and senior representation from each of our five business units.

The main areas of focus for the MSSG in 2016 included: the development of a comprehensive communication plan, incorporation of modern slavery awareness into our whistleblowing processes, engagement on this topic with our supply chain management teams and the provision of formal training on issues covered by the Modern Slavery Act 2015. In order to improve our focus on this topic we also engaged with the Anti-slavery Commissioner during 2016. Consequently, we believe that the Group is well placed to ensure full compliance with the requirements of the Modern Slavery Act 2015.

## Training and awareness

The Ethics and Compliance Office continued to oversee the delivery of the Group's regular compliance training programme during 2016. The Group provides employees with face-to-face and online training, dependent upon role and grade, to ensure that employees are aware of any new developments in Group policy and changes to laws and regulations. This programme includes training in competition law, ethics, integrity and bribery and corruption. During 2016, some 3,932 employees (including employees who joined the Group as part of our acquisition of the Outland Group in 2015) received face-to-face or online compliance training. Ongoing refresher training is mandatory for all senior employees who are also required to complete an online assessment at least once every three years.

## Key priorities for 2017

In 2017, the Committee will continue to monitor the delivery of training under the Group's ongoing programme and ensure that its content remains relevant and up to date. The Committee will also continue to monitor external legal and regulatory developments and ensure these are implemented across the Group on a timely basis.

## Annual evaluation

As part of the overall Board evaluation process, the Committee reviewed its performance for 2016 which confirmed that it continues to be highly effective. I will be available to answer any questions about the work of the Committee at the AGM on 3 May 2017.



**Philip Green**  
Chairman  
1 March 2017



# Report of the Sustainability Committee

## Dear Shareholder,

I am pleased to present the Sustainability Committee's report for the year ended 31 December 2016.

Sustainability is a core strategic commitment embedded within our operational delivery, employee values and reputational management – underpinned by our published 2020 Sustainability Strategy, public disclosures and independently-verified Key Performance Indicators.

Our Sustainability 2020 Strategy consists of six Positive Outcomes which target a balanced set of strategic objectives across economic, environmental and social responsibility and include building a successful business, leading the way in our sector, enabling low-carbon economies, protecting the environment, supporting sustainable communities and providing better prospects for our people.

The Board Sustainability Committee was established as a principle in 2014 and commenced its work in 2015, aiming to oversee the development and implementation of the Group's sustainability strategy, values and policies, by engaging with key internal and external stakeholders on prime sustainability themes. The Board receives monthly reports on progress, priorities, targets and challenges on topical sustainability issues, with the Sustainability Committee focusing on the Group's wider strategy, its relevance to sector contexts, and legislation or regulations that might affect the Group or our stakeholders. The Committee also approves external sustainability advisor appointments and reviews the Group's Annual Sustainability Report prior to its publication, including the annual management report of the Group's sustainability auditors.

## Membership and attendance at meetings held during the year ended 31 December 2016

Member	Appointed	Meeting attendance 2016		Meeting attendance 2015	
		Attended	Eligible to attend	Attended	Eligible to attend
Ceri Powell	02.04.14	3	3	4	4
Keith Cochrane	02.07.15	3	3	3	3
Andrew Dougal	03.10.11	3	3	4	4
Philip Green	01.06.11	3	3	4	4
Alison Horner	01.12.13	3	3	3	4
Richard Howson	10.12.09	3	3	4	4

The Chief Sustainability Officer also attends the Committee's meetings. The Committee's terms of reference are available at [www.carillionplc.com](http://www.carillionplc.com) or on request from the Company Secretary. The Committee's main areas of focus during 2016 are summarised below.

## Community engagement, climate change, carbon reduction and environmental protection

The Committee's review of our strategic approaches included an assessment of our prime focus on community engagement around our projects and contracts, supported by significant employee volunteering, taking detailed input from Dame Julia Cleverdon – the Group's long-standing external adviser on community issues and our sustainability strategy. Further analysis was conducted into the extensive relationship networks and positive impacts that arose as a result, together with the business benefits of this investment and scope for strengthening our relationships with key stakeholders.

The Committee also reviewed key carbon reduction themes and activities across the built environment, taking detailed input from Julie Hirigoyen – Chief Executive Officer of the UK Green Building Council and the Group's external adviser on environmental issues. In light of an increased focus on climate change and associated issues, following the Paris 2015 agreements, the Committee reviewed our scope to address emerging areas such as the establishment of science-based targets, tracking Scope 3 carbon emissions and tackling embodied carbon.

For both areas of review, it was recognised that these and other strategic sustainability investments were well managed under the Group's robust existing processes, but would also be extensively revisited under the forthcoming review of future sustainability strategy. In addition, our best-in-class sustainability reporting to Global Reporting Initiative G4 standards, were recognised as a key strength.

## External reporting

The Sustainability Committee reviewed the Chief Sustainability Officer's presentation to the United Nations in Geneva in October 2016, having been invited to showcase our commercial case for sustainability investment, the evidence of its achievements and its potential contribution to the UN's 2030 Sustainable Development Goals. The presentation was very well received, it showed how sustainability was absolutely integrated into core strategy, business operations and corporate reporting, producing demonstrable and audited financial outcomes. The Committee also keep under review our sector leading reporting on sustainability with headline performance indicators which remained key to client delivery, internal engagement and wider stakeholder confidence in sustainable responsible business.

We were also delighted to have been highly commended in the 2016 Building Public Trust Award for the FTSE 250 Sustainability Reporting category.

See also pages 26 to 29 Continuing to embed sustainability.

## Sustainability strategy refresh and stakeholder materiality survey

The Committee reviewed and approved the outcome from an extensive review of future focus areas for sustainability investment across the Group. This had been conducted throughout the second half of 2016, seeking inputs from clients, external partner organisations, specialist advisers, charities and our employees. The proposed strategy is based on structured programmes which aim to achieve a better business, better communities and a better environment, building on the Sustainability 2020 Strategy's achievements to date and aligning to the UN's Sustainable Development Goals where appropriate. New areas to be incorporated will address dynamic developments in areas such as ethical sourcing, climate change and human rights to demonstrate the client alignment, competitive advantage and internal engagement generated by the Group's sustainability investments and achievements.

## Sustainability Moments

The Committee reviewed Sustainability Moments during 2016, which offered an opportunity to focus on examples of our employees' most inspiring sustainability behaviour and values. Specific initiatives included a work placement in Canada for a graduate from the First Nations Natural Resources Youth Employment (Ranger) Programme and the employment of a person with special needs through a focused internship programme for young people with disabilities. The Committee also reviewed the positive and diverse impacts which continue to be achieved through our Employee Nomination Fund, supporting 160 charities and community organisations through two annual funding rounds across our international business regions.

## Committee annual evaluation

The Committee reviewed its performance for 2016, as part of the overall Board evaluation process, confirming that it had continued to provide an excellent forum that stimulated good debate and focus around our sustainability strategy and delivery. Future priorities highlighted by the evaluation included continued focus on our communication with stakeholders, particularly in light of its post-2020 sustainability strategy, and for Non-Executive Directors to review examples of sustainability in action during their contract visits. In addition during 2017, the Committee plans to assess the process, output, reporting and quality from the Group's Sustainability Auditors. It will continue to focus on responsible reporting and development of the sustainability strategy, further integrating it with the Group's wider corporate strategy.



**Ceri Powell**  
Chairman  
1 March 2017

# Report of the Audit Committee

## Dear Shareholder,

I am pleased to present the report of the Audit Committee for the financial year ended 31 December 2016. During 2016, the Committee has continued to review and report to the Board on the Group's financial reporting, internal control and risk management processes and the performance, independence and effectiveness of the auditor, KPMG LLP. This report describes the Committee's major areas of focus since my last report in March 2016.

There were no changes to the composition of the Committee in 2016. The Committee continued to comprise of the four Non-Executive Directors as set out below. The diverse set of skills and the depth of experience contributed by Committee members is detailed on pages 50 and 51. The Board considers that more than one Committee member possesses recent and relevant financial experience, all Committee members are independent and the Committee as a whole has competence relevant to the key segments of the Group's business activities.

The assurance framework required by the Audit Committee is provided by complementary contributions from management reports, internal and external audit reports and from risk management reports.

I continue to hold regular meetings with both the Company's external and internal auditors, the Group Finance Director and the Group Head of Risk, in which key issues relevant to the Committee's work are discussed. In addition, I and my colleagues on the Committee visit contract operations in both the support services and construction areas of the business in order to maintain a more detailed understanding of the Group's businesses, which together with the reports we receive, facilitate the ongoing effective operation of the Committee.

In order to ensure ongoing compliance with regulatory developments, the Committee's terms of reference are reviewed annually. The requirements introduced under The UK Corporate Governance Code (April 2016), which became effective for accounting periods beginning after 17 June 2016 were incorporated into the Committee's terms of reference in 2016. As a part of this review, the Committee incorporated the requirements of its new policy on auditor independence and the Code's requirement for the Committee as a whole to possess competence relevant to the sectors in which the Company operates into the Committee's formal terms of reference.

The Committee's terms of reference can be viewed at [www.carillionplc.com](http://www.carillionplc.com) or a copy obtained on request from the Company Secretary.

## Membership and attendance at meetings held during the year ended 31 December 2016

Member	Appointed	Meeting attendance 2016		Meeting attendance 2015	
		Attended	Eligible to attend	Attended	Eligible to attend
Andrew Dougal (Chairman)	03.10.11	4	4	3	3
Keith Cochrane	02.07.15	4	4	2	2
Alison Horner	01.12.13	4	4	3	3
Ceri Powell	02.04.14	4	4	3	3

To ensure compliance with the requirements of the UK Corporate Governance Code, Committee membership is limited to Independent Non-Executive Directors of the Company. We also have in attendance at meetings, by invitation of the Committee, the Chairman, Executive Directors, the Group Financial Controller, representatives of both the external auditors (KPMG LLP) and the internal auditors (Deloitte LLP) and the Group Head of Risk. The Committee also meets privately with both the external and internal auditors.

The Committee is authorised by the Board to seek any information necessary to fulfil its duties, call any member of staff to be questioned at a meeting of the Committee, as and when required, and obtain independent legal, accounting or other professional advice, at the Company's expense, which might be necessary for the fulfilment of its duties.

## Main activities of the Audit Committee in relation to the year ended 31 December 2016

As summarised above, the Committee met on four occasions in 2016. The table below summarises the agenda items covered at the Committee's meetings held during 2016.

	Feb	Jun	Aug	Dec
<b>Financial reporting and significant financial judgements</b>				
Full-year results and associated announcements	•			
Half-year results and associated announcements			•	
Going concern report	•		•	
<b>External audit</b>				
Review and consideration of the Audit Memorandum	•		•	
Board representation letter	•		•	
Evaluation of auditor and recommendation on reappointment to the Board	•			
Fees for non-statutory audit activities	•			
Audit Strategy for 2016		•		•
Committee meeting with auditor	•	•	•	•
<b>Internal audit</b>				
Audit and Peer Review reports	•		•	•
Evaluation of audit function				•
Internal Audit and Peer Review plans				•
Committee meeting with internal audit	•		•	•
<b>Other</b>				
Review of report on risk management and internal controls	•		•	
Review of whistleblowing and fraud reports	•		•	•
Annual review of terms of reference				•
Annual evaluation of the Committee				•
Compliance with the UK Corporate Governance Code and the Financial Conduct Authority's Listing Rules and Disclosure and Transparency Rules	•		•	
Review of correspondence with Financial Reporting Council (FRC) and or Review of FRC's Audit Quality Inspection Report			•	•

In addition to the above, at its meeting in February 2017, the Committee reviewed the Group's financial statements and other relevant disclosures relating to this 2016 Annual Report and Accounts.

## Financial reporting and significant judgements

The Committee is responsible for reviewing whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements in the preparation of the financial statements. As part of its review the Committee considers the clarity and completeness of disclosures in the financial statements to assess whether these have been set appropriately in the context. The Committee also keeps under review the impact of any actual or expected changes to accounting standards applicable to the Group and provides general oversight in relation to the financial policies of the Group.

In addition, during 2016 the Committee considered the points raised by the Financial Reporting Council (FRC) in relation to the Group's 2015 Annual Report and Accounts and it reviewed the management's responses to these points. The correspondence with the FRC in relation to the Group's Annual Report and Accounts closed satisfactorily with no changes to reported results. As a result of this correspondence the Group has extended certain disclosures in this Annual Report and Accounts.

# Report of the Audit Committee continued

## Summary of 2016 results

The Group reported revenue of £5,214.2 million (2015: £4,586.9 million) and an underlying profit before tax of £178.0 million (2015: £176.5 million) for the year ended 31 December 2016. In August 2016, the Committee reviewed the Group's half-year results and discussed these with the external auditor prior to their release. In February 2017, the Committee reviewed the Group's 2016 Annual Report and Accounts to ensure compliance with statutory and other regulatory requirements and discussed significant financial reporting issues or areas of judgement with the external auditor. In respect of the financial statements for the year ended 31 December 2016, the significant issues reviewed and how these issues were addressed are summarised below:

## Revenue and margin recognition

Given the nature of the Group's activities, revenue and margin recognition continues to be a key area of judgement for management. Note 31 on page 132 of the financial statements describes the estimation techniques used by management to determine the amount of revenue and costs to be recognised in relation to construction and services contracts. A significant proportion of the Committee's time is spent reviewing contract judgements given the Group's extensive portfolio of contracts.

The Committee reviewed, through discussions with management and the external auditor, the positions and judgements taken by management on a number of material contracts across the Group, including the impact on working capital performance.

The Committee also reviewed the basis of the judgement adopted by management (as detailed in note 31 on page 132) in relation to £20 million of licencing income recognised during 2016.

On the basis of these discussions, the Committee concluded that the positions and judgements taken in relation to the contracts reviewed and the licence income recognised were reasonable. The Committee has also continued to monitor the overall management of cash flows and working capital, in particular receivables and payables, as these are key areas of importance in relation to the Group's financial performance.

## Valuation of goodwill

At 31 December 2016, the Group had £1,571.0 million (2015: £1,544.3 million<sup>(1)</sup>) of goodwill, being the largest single item included in its balance sheet. Note 11 on page 110 of the financial statements describes the estimation techniques used by management to assess whether there has been an impairment to the carrying value of goodwill and other intangible assets. The Committee considered and critically reviewed the assumptions used in management's impairment calculations and considered the views of the external auditor on this issue. This included a review of the sensitivity analysis undertaken by management and the external auditor. On the basis of this review, the Committee agreed with management that no impairment to goodwill was necessary.

## Adoption of the going concern basis

Prior to the publication of both the half and the full-year results for the Group, the Committee undertook a detailed assessment of the appropriateness of the adoption by the Group of the going concern basis in the preparation of its financial statements. Information considered to support the ongoing adoption of the going concern basis and the Committee's conclusion supporting this is set out in the Performance and financial review on page 47.

## Viability statement

Prior to the publication of the full-year results for 2016, the Committee undertook a detailed assessment of the viability statement and recommended to the Board that the Directors can believe that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. Please refer to page 31 for the statement and supporting details.

## Fair, balanced and understandable

At its February 2017 meeting the Committee reviewed the Group's Annual Report and Accounts and recommended them to the Board as representing a fair, balanced and understandable assessment of the Group's position.

## External audit

The Committee is responsible for reviewing the scope and results of the Group's external audit process and its effectiveness. During 2016, the Committee continued to monitor the independence and objectivity of the external auditor to ensure that the services provided continued to represent a healthy balance between objectivity and value for money. In addition, in the interests of efficiency and effectiveness, the Committee also ensured that activities undertaken by the internal and external audit functions complemented each other.

## External audit process

During 2016, KPMG LLP (KPMG) acted as the Company's auditor and provided certain non-audit services to the Group.

Peter Meehan is the Group Audit Partner. Mr Meehan and members of his team attended each of the Committee's meetings during 2016. As Chairman of the Committee, I also maintain contact with the Group Audit Partner.

The scope of the Group's 2016 audit was discussed and approved by the Committee in June 2016 and an update against this plan was considered and approved by the Committee in December 2016. Proposed audit fees for 2016 were also reviewed by the Committee prior to their recommendation to the Board for approval. KPMG are expected to report to the Committee on any material issues identified in relation to the Group's reported performance or any significant breakdown in controls identified during the audit process. The 2016 audit plan was completed in line with the scope agreed by the Committee with no significant issues being highlighted for the Committee's attention.

## External auditor effectiveness

In February 2017, the Committee undertook its annual review of the external auditor's effectiveness. This review was based on feedback received from the Committee members, the Executive Directors and Business Unit Finance Directors. This review confirmed that KPMG continued to provide a high quality and a very effective service in its role as external auditor to the Group with an overall approval rating of 4.7 out of 5.0. The Group's finance function also obtains feedback from the operating units and holds a two-way feedback session, which is designed to highlight the key strengths of the current process and potential areas for future improvement. This session confirmed that the audit continues to be undertaken in an efficient manner. In addition, the Committee received and discussed with the Group Audit Partner, the Financial Reporting Council's annual Audit Quality Inspection report, published in May 2016, on KPMG LLP and KPMG Audit plc.

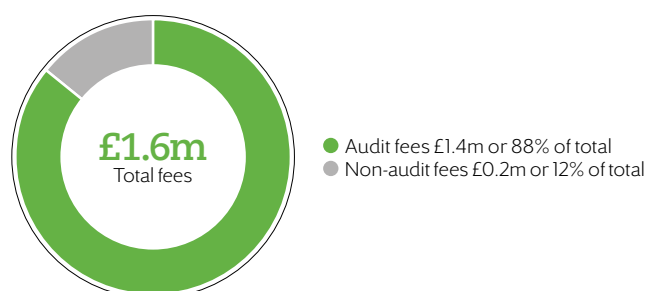
## Auditor independence and non-audit services

During 2016, KPMG continued to provide certain non-audit services to the Group. The Committee maintains under review the level and scope of non-audit work awarded to KPMG to ensure that any services provided are within the constraints of the Audit Practices Board's Ethical Standards on Auditing and that the level of fees attached to these services are not sufficiently material such that it could be perceived to impact the auditor's independence and objectivity.

Non-audit engagements awarded to KPMG continued to be subject to strict controls agreed by the Audit Committee. In summary, the Group Finance Director is required to give prior approval of non-audit work to be carried out by KPMG and its associates in excess of a predetermined threshold. In addition, any such work incurring fees in excess of £250,000 is discussed with me prior to its commencement. These measures are designed to ensure that other potential providers of the services required have been adequately considered. Non-audit services provided during 2016 related to tax advisory and other assurance services. Details of audit and non-audit fees paid to KPMG can be found in note 3 on page 104.

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

### Non-audit fees 2016



### Non-audit fees 2015



In December 2016, the Committee introduced a new policy on auditor independence and non-audit services. The new policy aims to ensure that our approach in 2017 remains in compliance with the Financial Reporting Council's revised Ethical Standard for Auditors, which is designed to implement the new EU Audit regulation restrictions on provision of non-audit services to public interest entities. The new arrangements are applicable to the Group from 1 January 2017 and our new policy can be viewed at [www.carillionplc.com](http://www.carillionplc.com) or a copy obtained on request from the Company Secretary.

KPMG also has in place strict requirements on rotation, with the lead audit partner required to rotate off the account after five years and other senior team members required to rotate after 10 years on the audit. In addition, KPMG also provides the Committee with information on the safeguards it has in place to maintain its independence and objectivity in relation to the provision of non-audit services to the Group.

Furthermore, at each of its meetings, the Committee holds discussions with the auditor, without management being present. Based on these safeguards the Committee remains confident of the independence and objectivity of KPMG in their reporting on the audit of the Group.

### Auditor reappointment

Having considered the results of the 2016 external audit, feedback received from the evaluation process, the Financial Reporting Council's Annual Audit Quality Inspection Report into KPMG and the balance between audit and non-audit services provided by KPMG, the Committee concluded that KPMG continued to act as an independent, robust and cost effective auditor to the Group. KPMG has indicated its willingness to continue in office and a resolution to reappoint KPMG as auditor will be proposed at the 2017 Annual General Meeting (AGM).

### External audit tendering

KPMG was appointed as the Company's auditor at its inception in 1999. The Committee has continued to monitor the independence and objectivity of the auditor and the effectiveness of the audit process through a range of measures discussed on pages 62 and 63.

The Committee has also kept under review the regulatory position in relation to the tendering of the external audit and rotation of the audit firm during 2016, considering both the UK Statutory Auditors and Third Country Auditors Regulations 2016 amending the Companies Act 2006 ('BIS Regulations') and the audit tendering requirements of the UK Competition and Markets Authority (CMA) Order, both of which are applicable to the Company.

The transitional provisions of the BIS Regulations mandate that the Company cannot renew or enter into an audit engagement with its existing auditors in relation to the financial year beginning 1 January 2024. The transition provisions of the CMA Order prohibit the appointment of the Company's existing auditors, unless a competitive tender process has taken place, in relation to the same financial year.

The Audit Committee understands the value associated with a formal tender process and is committed to ensuring compliance with the above statutory and regulatory requirements. In view of the changes in the regulatory position during the year as noted above, and the change in Group Finance Director with effect from 1 January 2017, the Committee now believes that it would be more appropriate to keep under review on an annual basis the exact timing of a future audit tender. The Committee will comply with the timings noted above and ensure that the Company does not renew or enter into an audit engagement with KPMG in relation to the financial year beginning 1 January 2024.

### Internal audit

The Group's internal audit function is currently outsourced to Deloitte LLP. The Committee is responsible for reviewing the role and effectiveness of the internal audit function by monitoring the results of its work and the responses of management to its recommendations. In the interests of increased efficiency and effectiveness, the Committee also ensures that the work undertaken by the internal audit function complements the scope agreed for the external audit.

The Committee reviewed and approved the 2016 internal audit plan at its meeting in December 2015 and continued to monitor progress against this plan during the year. Results and management actions arising from the reviews undertaken in 2016 were discussed in detail at each of the Committee's meetings. In June 2016, the Committee also invited one of the Business Unit Finance Directors to attend the Committee meeting and report back on some internal audit findings raised during one of the reviews. The Head of Internal Audit attended all of the Committee's meetings during 2016 and held discussions with the Committee in the absence of Executive management. In December 2016, the Committee undertook an evaluation of the effectiveness of the internal audit function with reference to robustness of audits, quality of delivery and quality of people and service. Based on an approval score of 4.7 out of 5.0, the Committee is satisfied with the effectiveness of the internal audit function.

### Risk management and internal control

The Board is ultimately responsible for the Group's system of internal control. This responsibility includes clearly determining the control environment and reviewing annually the effectiveness of the internal control system. The Board is also responsible for (i) determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives and, in this regard, the Board maintains risk management and internal control systems and (ii) determining that the Group's systems for risk management and internal control are appropriate and operating effectively. As part of its terms of reference, the Committee is responsible for reviewing the Company's internal control and risk management systems on behalf of the Board. Key risks and uncertainties together with the associated mitigating controls relating to the Group's business are summarised on pages 32 to 37 of the Strategic report.



# Report of the Audit Committee continued

## Risk management

Management is responsible for the identification and evaluation of significant risks applicable to its areas of business together with the design, operation and monitoring of suitable internal controls. The Group Head of Risk, Robin Herzberg, is responsible for co-ordinating the reporting of strategic risk issues across the Group, and for the oversight of risk management and training.

Risk management is embedded into the Group's operational activities with risk registers maintained for each project, business unit and the Group as a whole. Internal and external risks arising from a variety of sources, including control breakdowns, disruption to information systems, competition, corporate social responsibility, natural catastrophes and regulatory requirements are monitored on a continuous basis. Each business unit has a formal risk co-ordinator, each of whom participates in a quarterly risk forum chaired by the Group Head of Risk. Based on the output generated at these forums, the Group Head of Risk prepares a summary of the principal risks and associated mitigations, which is submitted to the Board on a six-monthly basis. The Group's risk management procedures are reviewed by its Internal Audit function on a periodic basis.

To mitigate further the risks associated with significant new projects, the Group Head of Risk is also responsible for carrying out an independent appraisal of all projects before submission to the Major Projects Committee (see page 52). This appraisal ensures that the differentiating factors of the Group's offer have been properly identified, thus maximising the opportunities available; it also involves ensuring that all inherent and residual risks associated with the project have been properly identified and considered.

## Internal control and assurance processes

In order to protect the Company's assets, the interests of its stakeholders and provide mitigation against the risks and uncertainties relating to its business, the Company maintains a comprehensive set of policies, procedures and controls, including financial, operational and compliance controls. This section of the report summarises the key elements of the Group's internal control framework, although it should be noted that the controls summarised below are designed to manage rather than eliminate risk and as such they provide reasonable but not absolute assurance against any material misstatement or loss.

The Group's financial and operating activities are conducted in compliance with the procedures, policies and limits set by the Board. Management has also implemented procedures to ensure timely and accurate reporting of business performance by business units. Regular performance review meetings are held in which senior managers report to the Executive Directors on business performance against targets, risk and internal control matters. The results of these meetings are presented to the Board.

The Major Projects Committee, a committee of the Board, acts as the sanctioning body for major commitments and transactions including capital expenditure, major contracts and company and business acquisitions and disposals. This Committee has delegated authority up to specified levels of risk as determined by a risk assessment matrix, beyond which Board approval is required.

Practical guidance for all staff is maintained in Group policy and procedure documents regarding the authorisation levels for commitments, contract selectivity and bidding, the provision of guarantees and management accounting as well as for reporting and resolving suspected fraudulent activities.

Employees are encouraged to raise genuine concerns about malpractice at the earliest possible stage and a confidential Whistleblowing hotline provided by an independent third party is available. A monthly report on issues raised on the Whistleblowing hotline and subsequent investigations is compiled by the Whistleblowing and Fraud Committee and presented to the Audit Committee. The Board has a policy to prosecute individuals found to have defrauded the Company or its subsidiaries. To minimise the occurrence of fraud, learning points for management are identified and action plans implemented.

The Executive Directors report to the Board on material changes in the business and the external environment that affect significant risks. The Group Finance Director provides the Board with regular financial information, which includes key performance indicators and a summary of risk. These key performance indicators are listed in the Strategic report on pages 18 and 19. Where areas for improvement are identified, the Board considers the recommendations made by both the Executive Directors and the Committee.

Internal audit carries out audits to assess the adequacy and effectiveness of internal controls over the key risks faced by the business and reports its findings to management, the Executive Directors and the Committee. Recommendations to improve the system of control made by internal audit are followed up on a regular basis.

Management has also implemented a system of 'peer reviews', under which the performance of individual contracts is reviewed by experienced teams from other projects across the business. Summaries of the peer review reports were provided to, and reviewed by, the Committee. The Committee is satisfied that the peer review process continues to work well and represents a very useful additional source of assurance for the management and the Board.

The Group has also implemented a process of Control Risk Self-Assessment where Directors and senior managers are required to detail and certify controls in operation to ensure the control environment in their business areas is appropriate. They also confirm annually, in writing, that risk management processes and appropriate controls are in place and are operating effectively.

## Annual evaluation of Committee performance

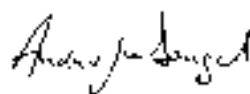
As part of the overall Board evaluation process the Committee reviewed its performance for 2016. This evaluation considered areas such as the Committee's processes and support, its time management and composition, its effectiveness in reviewing the work undertaken by internal and external audit and its effectiveness in reviewing internal control systems, the quality of reporting and management of risk, and confirmed that the Committee continues to be highly effective in undertaking its responsibilities. Future priorities highlighted by this evaluation include:

- Continue to closely monitor the impact of future accounting standards on the Group's financial statements
- Support the transition to the new Group Finance Director
- Continue to focus on monitoring key judgements and internal control and risk management processes.

## Review of risk management and internal controls

During the year, the Audit Committee monitored and reviewed the effectiveness of the Group's internal control systems, including its risk management procedures noted and discussed in this report, and reported thereon to the Board. Based on the Committee's report, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks (both financial and non-financial and including Corporate Social Responsibility risks) faced by the Group (including joint ventures and overseas businesses). The process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts and has been regularly reviewed by the Committee.

I will be available to answer any questions about the work of the Committee at the AGM on 3 May 2017.



**Andrew Dougal**  
Chairman of the Audit Committee  
1 March 2017

# Remuneration report

## Remuneration Committee Chairman's letter

### Dear Shareholder,

On behalf of the Board, I am pleased to present our Directors' Remuneration report for 2016 which sets out the amounts earned in respect of the year ended 31 December 2016 under the Remuneration Policy for the Directors of Carillion that was approved by shareholders at the Company's 2014 Annual General Meeting (AGM).

This report complies with the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), the 2014 UK Corporate Governance Code ('the Code') and the Financial Conduct Authority Listing Rules. This report is presented in two sections: the Annual Report on Remuneration and the Directors' Remuneration Policy. The Annual Report on Remuneration provides details of the amounts earned in respect of the year ended 31 December 2016 and how the Directors' Remuneration Policy will operate for the year commencing 1 January 2017. This is subject to an advisory vote at the 2017 AGM. The second section sets out the Company's Directors' Remuneration Policy which, subject to shareholder approval at the 2017 AGM, shall take binding effect from the end of that meeting.

## 2016 incentive out-turns

Throughout the year, the Remuneration Committee continued to apply the Remuneration Policy prudently, with a clear alignment to the interests of shareholders.

To encourage behaviours that facilitate profitable growth and the future development of the business, 50 per cent of the 2016 annual bonus opportunity was based on financial performance (30 per cent on Earnings Per Share ('EPS') and 20 per cent on cash conversion), 25 per cent was based on corporate strategic targets and 25 per cent was based on individual objectives. 75 per cent of the bonus is now based on quantitative measures reflecting a change adopted in direct response to shareholder feedback. Based on performance across this scorecard of metrics, and in line with overall performance as detailed in the Strategic report on pages 38 to 47, the bonuses earned for 2016 are 37.13 per cent of salary for the Group Chief Executive and 30.42 per cent of salary for the Group Finance Director out of a maximum of 100 per cent.

The Committee has also provided enhanced disclosure for the targets and pay-outs under the 2016 bonus on page 68 in response to comments from investors earlier this year.

Awards granted to Executive Directors under the Company's LEAP in 2014 were based on growth in EPS, average annual cash flow conversion rate and strategic performance targets. No amounts vested under the LEAP in respect of the EPS targets, however 33.33 per cent vested as a result of the strong cash conversion performance and 27.22 per cent in respect of performance against the strategic metrics. Therefore 60.55 per cent of the opportunity vests.

## Proposed changes in remuneration for 2017

With effect from 1 January 2017 the Group Chief Executive's base salary will remain unchanged at £660,000. The remuneration for our new Group Finance Director, Zafar Khan, is in line with the 2017 Policy and the details are set out on page 74. His salary on appointment on 1 January 2017 is £425,000. This is lower than the salary of his predecessor.

The fees paid to the Chairman and the Non-Executive Directors were reviewed in February 2017 and remained unchanged.

The LEAP structure for 2017 is unchanged. Two-thirds of the LEAP award will continue to be subject to EPS and cash flow conversion performance targets, as set out on page 70, and one-third is subject to strategic performance metrics that are aligned to our long-term strategy. For 2017, the strategic targets will be based on delivering measurable cost-savings and efficiencies through our sustainability agenda and strategic growth measured through the achievement of new, profitable secured and probable orders.

## Remuneration Policy 2017

We are seeking approval for a new remuneration policy at the AGM in May and details of the new policy are set out on pages 74 to 78. The Committee considers that the Company's current remuneration framework continues to effectively support the delivery of our business strategy and the creation of shareholder value. Consequently, we have decided to make minor changes only to the remuneration policy to take account of developments in best practice and to ensure that the policy continues to provide sufficient flexibility to support succession planning and potential changes to business needs over the next three years. In summary, the minor changes proposed to our new binding remuneration policy to be approved by shareholders at the 2017 AGM are set out below. We believe that the combination of the shareholding guidelines, the two-year holding period on LEAP and bonus deferral for three years into shares clearly aligns interests with our shareholders. Further detail is provided in our policy on page 74.

**Minimum shareholding guidelines:** In line with best practice, the minimum shareholding guidelines are included in the 2017 Policy (rather than only being included in the Annual Report on Remuneration) and reflect our current target of 100 per cent of salary.

**Holding period:** A two year holding period was introduced into LEAP for awards made in 2015 and beyond and this has been formally included as part of the 2017 Policy.

**Pension:** This has been greatly simplified and the value of the pension provision reduced for new Executive Directors appointed after 5 April 2016 so that the maximum pension allowance or cash equivalent that can be made is 25 per cent of salary in line with the arrangements for other senior UK employees as set out on page 71. The new policy applies to our new Group Finance Director, Zafar Khan.

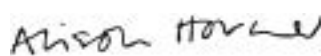
**Annual bonus:** The maximum annual bonus that can be earned has been maintained at 100 per cent of salary and we have emphasised that 75 per cent of the bonus will be determined based on the achievement of financial and quantitative measures.

## Arrangements for the retiring Group Finance Director

Richard Adam retired from the Board on 31 December 2016 and his remuneration has been determined in line with the 2014 Policy and the relevant plan rules. His outstanding LEAP awards will vest based on actual performance achieved, pro-rated for time served, on the normal vesting dates. Shares held under the deferred bonus plan were released following the announcement of the 2016 results on 1 March 2017. The bonus earned for 2016 was paid in cash with no requirement to defer into shares.

## Shareholder feedback

We are grateful to those shareholders who provided us with feedback after the 2016 AGM and to those who responded to our consultation on the proposed policy changes for 2017. We have taken this feedback on board in our enhanced bonus plan disclosures and in the final 2017 Policy for which we seek your approval at the AGM. We remain committed to a responsible approach in respect of executive pay. The Remuneration Committee will continue to engage with and seek to incorporate the views of shareholders in any future major changes to the Directors' Remuneration Policy.



**Alison Horner**  
Chairman of the Remuneration Committee  
1 March 2017

# Remuneration report continued

## Annual Report on Remuneration

### Remuneration philosophy and linking executive remuneration with strategy

Carillion's Remuneration Policy is to provide the Executive Directors with appropriate incentives to encourage enhanced performance in a manner consistent with the Group's strategy and to reward them in a fair and responsible manner for their individual contributions to the success of the Group.

The remuneration package has been based on the following key principles:

Key focus	Remuneration Policy and link to strategy
<b>To invest in our people and capabilities</b>	Our Remuneration Policy is designed to reward all employees fairly according to their role, experience and performance and with due regard to actual and expected market conditions and the financial performance of the Group.
<b>Alignment with interests of shareholders</b>	A substantial proportion of the package for the Executive Directors is paid in the Company's shares to ensure that the interests of Executives are aligned with shareholders. This is further supported by shareholding guidelines. To create alignment with shareholders by ensuring that a meaningful portion of each Executive Director's personal wealth is linked to share price performance, each Executive Director is required to hold the net number of shares acquired through the LEAP and the deferred bonus plan until the value of their total shareholding is equal to their annual salary.
<b>Pay for performance and delivery of our business vision</b>	Our strategic focus is to deliver sustainable, profitable growth.  A substantial proportion of Executive Director remuneration is variable and linked to the Group's performance, in particular, to the delivery of our business vision and our strategy (see the Strategic report on pages 8 to 11) and to the performance of the individual.  To encourage behaviours which facilitate profitable growth and the future development of the business, our short-term performance is assessed against both earnings per share and cash performance and the delivery of specific individual strategic, financial and non-financial objectives.  Our long-term performance is measured by assessing the growth in earnings per share, cash flow conversion and key strategic objectives. Together, these metrics are a key measure of success in delivering shareholder value.
<b>Be a recognised leader in Health and Safety and sustainability</b>	To ensure that remuneration arrangements support our sustainability agenda, the quality of the Group's performance in terms of business results and leadership is considered, including achieving high standards in respect of Carillion's Health and Safety, environmental and social performance targets.  This is further supported by the inclusion of strategic objectives in the LEAP since 2014, which include specific and quantifiable sustainability metrics.

### Single figure of remuneration for each Director

The remuneration of the Directors of Carillion plc for the year ended 31 December 2016 and the previous year is set out in the tables below.

The information in the tables below has been audited.

Director	Salary/fees <sup>(a)</sup>	Benefits <sup>(b)</sup>	Bonus <sup>(c)</sup>	Long-term incentives <sup>(d)</sup>	Pension <sup>(e)</sup>	Total remuneration
<b>Year ended 31 December 2016, £'000</b>						
<b>Executive</b>						
Richard Howson	660	28	245	346	231	1,510
Richard Adam	460	19	140	278	163	1,060
<b>Total for Executive Directors</b>	<b>1,120</b>	<b>47</b>	<b>385</b>	<b>624</b>	<b>394</b>	<b>2,570</b>
<b>Non-Executive</b>						
Philip Green	215	–	–	–	–	215
Andrew Dougal	61	–	–	–	–	61
Alison Horner	61	–	–	–	–	61
Ceri Powell	61	–	–	–	–	61
Keith Cochrane	61	–	–	–	–	61
<b>Total for Non-Executive Directors</b>	<b>459</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>459</b>
<b>Total</b>	<b>1,579</b>	<b>47</b>	<b>385</b>	<b>624</b>	<b>394</b>	<b>3,029</b>

Director	Salary/fees	Benefits <sup>(b)</sup>	Bonus <sup>(c)</sup>	Long-term incentives <sup>(d)</sup>	Pension <sup>(e)</sup>	Total remuneration
<b>Year ended 31 December 2015, £'000</b>						
<b>Executive</b>						
Richard Howson	610	20	293	146	214	1,283
Richard Adam	457	20	215	117	162	971
<b>Total for Executive Directors</b>	<b>1,067</b>	<b>40</b>	<b>508</b>	<b>263</b>	<b>376</b>	<b>2,254</b>
<b>Non-Executive</b>						
Philip Green	193	–	–	–	–	193
Andrew Dougal	60	–	–	–	–	60
Steve Mogford	60	–	–	–	–	60
Alison Horner	60	–	–	–	–	60
Ceri Powell	60	–	–	–	–	60
Keith Cochrane	28	–	–	–	–	28
<b>Total for Non-Executive Directors</b>	<b>461</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>461</b>
<b>Total</b>	<b>1,528</b>	<b>40</b>	<b>508</b>	<b>263</b>	<b>376</b>	<b>2,715</b>

The information in the single-figure table on page 66 is derived from the table below.

**The information in the table below has been audited.**

<b>(a) Salary and fees</b>	Payments for Richard Adam exclude payment in lieu of notice for the period 1 January 2017 to 24 February 2017 of £135,939.
<b>(b) Benefits</b>	This is the taxable value of benefits received in the year. This includes a car/car allowance, fuel benefit and private medical care.
<b>(c) Bonus</b>	Bonus is the cash value of the bonus earned in respect of the year including, where relevant, the value of deferred shares, which must be held for a minimum three-year period. A description of performance against objectives, which applied for the financial year, is provided on page 68.
<b>(d) Long-term incentives</b>	Long-term incentives represent the value of performance-related incentives vesting in respect of the performance period ended 31 December 2016. The LEAP award granted to Executive Directors in 2014 was based on growth in earnings per share, average annual cash flow conversion and strategic performance metrics as discussed on page 69.
<b>(e) Pension</b>	The pension figure represents the cash value of pension contributions received by the Executive Directors. This includes the Company's contributions to the defined contribution pension plan and any salary supplement in lieu of a Company pension contribution and the allowance paid for salary in excess of the internal cap on pensionable salary.

## Individual elements of remuneration

### 2016 Base salary

Base salaries for individual Directors are reviewed annually by the Remuneration Committee and are set with reference to individual performance, experience and responsibilities within the Group as well as with reference to similar roles in comparable companies.

In line with best practice and the Directors' Remuneration Policy, increases in salary for Executive Directors will not normally exceed the range of increases awarded to other employees in the Group with the exception of the specific circumstances listed in the binding policy.

In recognition of this policy and as explained in detail in the 2014 and 2015 Remuneration reports, the Remuneration Committee implemented a phased increase to Richard Howson's base salary in January 2015 and January 2016 to reflect his contribution to the business and his experience in his current role. The second of these increases was contingent on a continued improvement in both corporate and personal performance.

Richard Adam's salary did not change in 2016, having been increased by two per cent effective from 1 April 2015.

### 2017 Base salary

Following review in February 2017, Richard Howson's salary will not change in 2017. The salary for our new Group Finance Director, Zafar Khan, who was appointed from 1 January 2017, is £425,000.

The base salaries for 2016 and 2017 are as set out below:

	2016 base salary	2017 base salary	Increase
Richard Adam	£460,000	n/a	n/a
Zafar Khan	n/a	£425,000	n/a
Richard Howson	£660,000	£660,000	0%

Richard Adam retained fees paid in 2016 of £55,000 each relating to his roles as a Non-Executive Director of Countryside Properties Plc and Countrywide PLC. Richard Howson retained the fee of £35,374 paid in 2016 relating to his role as a Non-Executive Director of Wood Group plc.

### 2016 Fees

The Remuneration Policy for Non-Executive Directors, other than the Chairman, is determined by the Board. Fees reflect the responsibilities and duties placed upon Non-Executive Directors, whilst also having regard to market practice. The Non-Executive Directors do not participate in any of the Group's share incentive plans, nor do they receive any benefits or pension contributions.

### 2017 Fees

Fees for the Non-Executive Directors were reviewed in February 2017 and remain unchanged for 2017 as shown below.

Non-Executive Director fees	2016	2017
Chairman's fee	£215,000	£215,000
Basic fee	£51,000	£51,000
Additional fee for:		
– Chairmanship of the Remuneration Committee	£10,500	£10,500
– Chairmanship of the Audit Committee	£10,500	£10,500
– Chairmanship of the Sustainability Committee	£10,500	£10,500
– Senior Independent Non-Executive Director	£10,500	£10,500

The Chairman does not receive any additional fee for committee memberships.



# Remuneration report continued

## 2016 Annual bonus

To encourage behaviours that facilitate profitable growth and the future development of the business, for 2016 the annual bonus was based on the performance targets shown below. Other than for cash conversion, there is no threshold performance for each of the metrics. Target performance required is as disclosed in the table, below which no amount can be earned for that element. Cash conversion has a threshold performance of 96 per cent but in order for any amount to be earned in relation to cash, the target EPS of 36.1 pence must be achieved. Thus, despite a strong cash performance no bonus amount was earned for cash conversion.

The information in the tables below has been audited.

### Richard Howson

Measure	Target	Stretch	Achievement	% awarded
<b>EPS</b> (30%)	36.1p	39.7p	35.3p	0%
<b>Cash conversion</b> (20%)	100%	106%	117%	0%
<b>Safety</b> High Risk Accident Frequency Rate (6.25%)	0.043	0.039	0.035	6.25%
<b>Customer</b> Net Promoter Score (6.25%)	+38	+42	+22	0%
<b>Growth</b> Services (6.25%)	Deliver two new services markets in 2016 in the UK, Canada or MENA.	Two new markets delivered and additional opportunities identified.	Facilities management soft services in Canada.	3.125%
<b>Growth</b> Transmission and Distribution (6.25%)	Secure (i.e. be confirmed as a preferred bidder as a minimum) in one new country or region.	Secure new work in two or more countries or regions.	New contracts won in Newfoundland and Manitoba.	6.25%
<b>Leadership</b> (8.33%)	Define, develop and demonstrate progress in year against plan for senior leadership succession.	Changes made to strengthen leadership team.	Zafar Khan appointed as Group Finance Director from January 2017. Changes made to country managing directors and revision of leadership team undertaken for deployment in January 2017.	7.5%
<b>People</b> (8.33%)	Tangible movement towards an improvement in 2017 on the 2015 Your Say people survey results.	Improvement in engagement score and participation levels.	2015 Group engagement score 68%, May Survey 57% and November Survey 74%. 2015 response rate 66%, May 2016 62%, November response rate 83%.	8.3%
<b>Technology</b> Define, develop and demonstrate the use of future technologies in our business which will add value into the long-term future of Carillion. (8.34%)	Three significant new interventions delivered in year.	Six significant interventions in year.	Procurement of new digital facilities management operations system; automation of tap temperatures; Hollow lens trial; MMH, wearable technology; in vehicle monitoring in Ontario; menu master software in Health; Oracle cloud in HR.	5.7%
<b>Total</b>				37.125%

### Richard Adam

Measure	Target	Stretch	Achievement	% awarded
<b>EPS</b> (30%)	36.1p	39.7p	35.3p	0%
<b>Cash conversion</b> (20%)	100%	106%	117%	0%
<b>Net debt</b> (6.25%)	£175m	£160m	£219m	0%
<b>Pre-tax profit</b> (6.25%)	£181m	£185m	£178m	0%
<b>Cost reduction</b> Targeting gross reduction against budget of £120m (6.25%)	£120m	£130m	£130m	6.25%
<b>Investor relations</b> Aim to at least maintain the P/E ratio of the Group from the year end 2015 rating (6.25%)	9.5	10.0	8.5	0%
<b>Leadership</b> (8.33%)	Define, develop and demonstrate progress in year against plan for senior leadership succession.	Changes made to strengthen leadership team and secure succession for Group Finance Director role.	Zafar Khan appointed as Group Finance Director from January 2017. Senior financial leadership team refreshed and strengthened.	7.5%
<b>Business process outsourcing</b> (8.33%)	Secure the successful operation of the existing outsourcing arrangements for IT and Finance in their second year of operation.	Substantial improvement in the service levels to users and reduction in issues logged.	Extension of the Wipro service scope and contract period. Substantial reduction in issues logged and improvement in user feedback.	8.33%
<b>Risk management</b> (8.34%)	Identify and take necessary action in respect of enhancing key project cyber security across the Carillion Group.	Appointment of a Security Information Officer and independent verification of the Group's cyber security arrangements.	Security Information Officer appointed and in post in year. An update on cyber security presented to the Board. Independent review of arrangements by Deloitte rated the arrangements as 'Satisfactory'.	8.34%
<b>Total</b>				30.42%

Annual bonus payments to Executive Directors also have the following additional restrictions applied:

- 50 per cent of any bonus earned is deferred into shares in the Company for a period of three years under the deferred bonus plan.
- Dividend equivalents will be earned on deferred shares during the deferral period.
- A clawback provision is operated that gives the Remuneration Committee the right to recover all elements of bonus.
- A malus provision is operated that gives the Remuneration Committee the right to reduce any deferred bonus awards which have not yet vested in relation to circumstances of corporate failure, which may have occurred at any time before malus is operated.
- Each Executive Director is required to hold the net number of shares acquired through the deferred bonus plan and LEAP until the value of their total shareholding is equal to their annual salary.

For 2016, the values of each Executive Directors' annual bonus paid in cash and deferred into shares were as follows:

	Cash payment £	Deferred into shares £	Total annual bonus shown in column (c) of single figure remuneration table on page 66 in respect of 2016 £
Richard Howson	122,612	122,612	245,224
Richard Adam	139,932	–	139,932

### Summary of 2017 bonus operation

The bonus will operate unchanged for 2017 based on a balanced scorecard of EPS, cash, corporate strategic KPIs (75 per cent) and individual objectives (25 per cent). The maximum annual bonus opportunity remains at 100 per cent of base salary. The Remuneration Committee considers that the actual annual bonus targets are commercially sensitive as they provide our competitors with insight into our business plans, expectations and our strategic actions and should therefore remain confidential to the Company. However, the Remuneration Committee will continue to disclose how bonuses paid relate to performance against targets on a retrospective basis. The performance measures for the 2017 bonus will be as follows:

	Weighting
EPS	30%
Cash conversion	20%
Corporate quantitative KPIs (to include net debt, safety, customers and people)	25%
Individual objectives	25%

### Value earned from long-term incentive awards

#### The Leadership Equity Award Plan (LEAP)

For the LEAP awards granted to Executive Directors in 2014, 50 per cent of salary was based on growth in earnings per share, 50 per cent of salary was based on average annual cash flow conversion and 50 per cent of salary was based on strategic performance targets as shown below.

The information in the table below has been audited.

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

No amounts vested under the LEAP in respect of the EPS target.

The average annual cash flow conversion is calculated as the underlying cash flow from operations divided by the underlying profit from operations as reported in the Annual Report and Accounts. Annual cash flow conversion over the three-year performance period is averaged to provide a focus on the sustainable delivery of cash-backed profits.

Strategic performance metrics are aligned to the Company's sustainability agenda and drive shareholder value. The following three metrics applied equally:

- Delivery of sustainability through measurable cost-saving and efficiencies that will provide contributions to the Company's profit of £25 million, £30 million and £32 million in 2014, 2015 and 2016. Performance over the period was £97.1 million and exceeded the maximum; and
- Delivery of employee engagement in sustainability measured through a target of 25 per cent of Carillion's employees undertaking community work in Company time by the end of 2016. Performance over the period was 30 per cent and exceeded the maximum; and
- Strategic growth measured through the achievement of secured and probable, profitable new orders over the performance period with a book-to-bill ratio of more than one. This is measured on a sliding scale between 80 per cent and 120 per cent of target and an average of 98 per cent was achieved resulting in the payment of five per cent of the opportunity.

# Remuneration report continued

The tables below set out the performance achieved and the value of awards in relation to the 2014 LEAP:

**The information in the tables below has been audited.**

	Performance achieved in three-year performance period to 31 December 2016	% of 2014 award due to vest in April 2017
EPS growth (%)	1.7	Nil% of opportunity
Annual average cash flow conversion (%)	113.7	33.33% of opportunity
<b>Strategic metrics</b>		
Contribution to profit from sustainability (£m)	97.1	11.11% of opportunity
Employee engagement through volunteering (%)	30	11.11% of opportunity
Strategic growth (ratio)	0.98	5.0% of opportunity
<b>Total vesting</b>		60.55% of opportunity

	Shares granted	Vesting	Shares vesting	Value per share*	LEAP value
Richard Howson	231,023	60.55%	139,897	£2.47	£345,881
Richard Adam	185,644	60.55%	112,417	£2.47	£277,939

\* Value per share is the three month average share price to 31 December 2016.

## Long-term incentives awarded during the financial year

The table below outlines awards made under the LEAP to Executive Directors in 2016.

**The information in the table below has been audited.**

			Award basis	Number of shares	Face value of the award*	Vesting at threshold	Performance period
7 April 2016	Richard Adam	150% of base salary		240,418	£689,759	25% of base salary	1 January 2016 to 31 December 2018
7 April 2016	Richard Howson	150% of base salary		319,024	£915,280	25% of base salary	1 January 2016 to 31 December 2018

\* The face value is based on the issue price of 286.9 pence at the date of grant of 7 April 2016.

The performance conditions for these LEAP awards are as follows:

Two-thirds of the 2016 LEAP award (equating to 100 per cent of salary) is subject to EPS and cash flow conversion targets, as set out in the table below:

**The information in the table below has been audited.**

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

One-third of the 2016 LEAP award (equating to 50 per cent of salary) is subject to strategic performance metrics that are aligned to the Company's sustainability agenda and drive shareholder value. For 2016, this is based on two quantifiable and stretching strategic measures that apply equally:

- delivery of sustainability through measurable cost-savings and efficiencies that will provide contributions to the Company's profit of £108 million over the performance period; and
- strategic growth measured through the achievement of secured and probable, profitable new orders over the performance period with a book-to-bill ratio of between 80 per cent and 120 per cent.

Vesting under each strategic element will be based on an audited assessment of performance that will be provided to the Remuneration Committee.

In addition, the Remuneration Committee must be satisfied that the vesting reflects the underlying performance of Carillion and retains the flexibility to adjust the vesting amount to ensure it remains appropriate. It is often not possible to assess this formulaically and any adjustment will depend on the nature, timing and materiality of any contributory factors.

In order to maintain transparency, the Remuneration Committee will disclose how the Company has performed against each of the strategic metrics at the end of the performance period and will disclose any adjustments made to ensure that vesting appropriately reflects the underlying performance of the business.

Executive Directors are required to retain their vested shares for a further two-year period after the end of the three-year performance period.

## Long-term incentive awards for 2017

No changes are proposed to the maximum LEAP opportunity for 2017 and this will therefore remain at 150 per cent of salary and the proportion of the award vesting for threshold performance remains at 25 per cent of salary.

Two-thirds of the LEAP award (up to 100 per cent of salary) will continue to be subject to EPS and cash flow conversion performance targets, as set out above, and one-third (up to 50 per cent of salary) will be based on two quantifiable and stretching strategic measures that will apply equally:

- delivery of sustainability through measurable cost-saving and efficiencies that will provide contributions to the Company's profit of £114 million over the performance period; and
- strategic growth measured through the achievement of secured and probable, profitable new orders over the performance period with a book-to-bill ratio of between 80 per cent and 120 per cent.

## Total pension entitlements (including defined benefit schemes)

The information in this section has been audited.

Pensionable salary is limited by an internal cap. The Carillion cap commenced at the level of £110,000 for the tax year 2006-07 and rose in line with the published increases in HMRC's Life Time Allowance to the current level of £132,700 which has applied since 2010-11. Future increases are at the discretion of the Remuneration Committee. Salary supplements are paid in respect of salary over the internal cap.

Richard Howson receives pension contributions and supplements of 40 per cent of salary up to a cap of £132,700 and 33.6 per cent of salary above this cap. Zafar Khan, appointed under the new Policy, receives pension contributions and supplements of 20 per cent up to the cap and 25 per cent of salary above this. Executive Directors who participate in the Company's defined contribution plan are required to pay 10 per cent of the earnings cap.

Death-in-service benefits are provided as part of membership of the defined contribution plan.

## Remuneration arrangements for Richard Adam, retiring Group Finance Director

Richard Adam retired from the Board on 31 December 2016 after nine years with Carillion. In line with his contractual provisions and current policy he received salary, pension supplement and car allowance for his notice period. His outstanding LEAP awards, from 2014 to 2016 inclusive, will vest depending on the achievement of the relevant performance conditions, on the normal vesting dates. Each award will be pro-rated based on the time served during the relevant performance period. His outstanding deferred bonus shares held in relation to the annual bonus for each year from 2013 to 2015 were released at the time of departure, in accordance with the retirement provisions of the plan rules. The annual bonus in respect of 2016 was paid fully in cash with no deferral into shares, as shown in the single figure of remuneration on page 66.

## Remuneration arrangements for Zafar Khan, incoming Group Finance Director

Zafar Khan was promoted to the role of Group Finance Director with effect from 1 January 2017. His remuneration for 2017 is in line with the policy, as follows:

- base salary of £425,000
- annual bonus opportunity of up to 100 per cent of salary
- LEAP award of 150 per cent of salary
- continued participation in the Company defined contribution pension plan with employer contributions of 20 per cent of salary up to the Carillion cap (£132,700) and a cash supplement of 25 per cent in respect of salary above the cap
- life assurance, a company car allowance of £14,500 and family private medical insurance.

## Payments to past Directors

The information in this section has been audited.

There were no payments made to past Directors during the year in respect of services provided to the Company as a Director.

## Payments for loss of office

The information in this section has been audited.

There were no payments for loss of office during the year.

## Shareholding guidelines and total shareholdings of Directors

To provide alignment with shareholders' interests and to promote share ownership, each Executive Director is required to hold the net number of shares acquired through the LEAP and, with effect from 1 January 2014, the deferred bonus plan, until the value of their total shareholding is equal to their annual salary. The extent to which each Executive Director has met the shareholding guideline is shown in the table below.

The information in the table below has been audited.

					Unvested		Total as at 31 December 2016
Shareholding guidelines	Current shareholdings (% of salary)	Type	Owned outright	Subject to performance conditions	Not subject to performance conditions		
<b>Executive Directors</b>							
Richard Howson	100 per cent of salary	137,487	Shares	137,487	N/A	N/A	137,487
		46% <sup>(1)</sup>	LEAP award	N/A	828,345	48,028	876,373
			DBP shares	N/A	N/A	115,279	115,279
Zafar Khan	100 per cent of salary	1,368	Shares	1,368	N/A	N/A	1,368
		1% <sup>(1)</sup>	LEAP award	N/A	99,900	N/A	99,900
			DBP shares	N/A	N/A	17,744	17,744
Richard Adam	100 per cent of salary	122,014	Shares	122,014	N/A	N/A	122,014
		63% <sup>(2)</sup>	LEAP award	N/A	635,788	38,594	674,382
			DBP shares	N/A	N/A	93,472	93,472
<b>Non-Executive Directors</b>							
Philip Green	N/A	N/A	Shares	10,000	N/A	N/A	10,000
Keith Cochrane	N/A	N/A	Shares	Nil	N/A	N/A	Nil
Andrew Dougal	N/A	N/A	Shares	5,000	N/A	N/A	5,000
Alison Horner	N/A	N/A	Shares	3,000	N/A	N/A	3,000
Ceri Powell	N/A	N/A	Shares	Nil	N/A	N/A	Nil

(1) The current shareholdings as a percentage of salary are calculated using the closing Carillion plc share price on 28 February 2017 of 219.0 pence and 2016 base salaries as set out on page 67.

(2) The current shareholding as a percentage of salary is calculated using the closing Carillion plc share price on 31 December 2016 of 236.1 pence, being Richard Adam's last day of employment, and 2016 base salary as set out on page 67.



# Remuneration report continued

## Outstanding Directors' share awards

The share awards held by Executive Directors of the Company under LEAP as at 31 December 2016 are shown below.

The information in the table below has been audited.

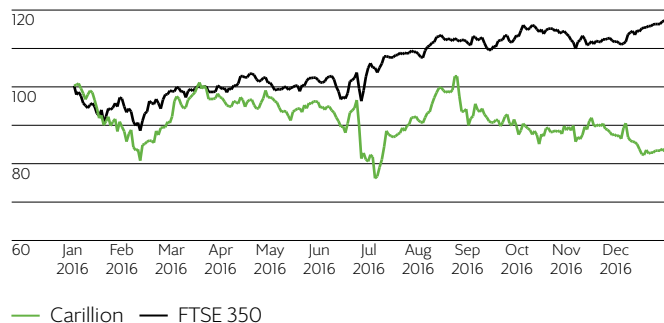
	As at 1 January 2016 Number	LEAP awards granted during the year Number	Awards vesting during the year Number	Awards/options lapsing during the year Number	As at 31 December 2016 Number	Date of award	Mid-market share price on date of award Pence
<b>Richard Howson</b>							
LEAP 2013 (maximum)	304,238	–	–	256,210	48,028	04.04.13	270.1
LEAP 2014 (maximum)	231,023	–	–	–	231,023	07.05.14	363.6
LEAP 2015 (maximum)	278,298	–	–	–	278,298	09.04.15	329.0
LEAP 2016 (maximum)	–	319,024	–	–	319,024	07.04.16	287.0
<b>Zafar Khan<sup>(1)</sup></b>							
LEAP 2015 (maximum)	14,970	–	–	–	14,970	09.04.15	329.0
LEAP 2016 (maximum)	–	84,930	–	–	84,930	07.04.16	287.0
<b>Richard Adam</b>							
LEAP 2013 (maximum)	244,477	–	–	205,883	38,594	04.04.13	270.1
LEAP 2014 (maximum)	185,644	–	–	–	185,644	07.05.14	363.6
LEAP 2015 (maximum)	209,726	–	–	–	209,726	09.04.15	329.0
LEAP 2016 (maximum)	–	240,418	–	–	240,418	07.04.16	287.0

(1) At date of appointment on 1 January 2017.

## Performance graph and table

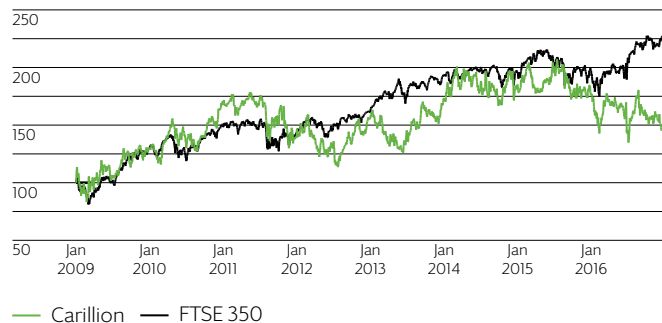
The following graph shows the Total Shareholder Return (TSR) of Carillion plc compared with the TSR of the FTSE 350 Index. The FTSE 350 was chosen as the comparator group in order to illustrate the Company's TSR performance against a broad equity market index of the UK's leading companies. TSR is not used as a performance measure for any benefits provided to Executive Directors.

**TSR performance 1 January 2016 to 31 December 2016  
(rebased to 100)**



Source: Datastream

**TSR performance 1 January 2009 to 31 December 2016  
(rebased to 100)**



Source: Datastream

## Table of historic Chief Executive remuneration data

Year	Chief Executive	Chief Executive single figure of remuneration (£'000)	Annual bonus payout against maximum opportunity (%)	LEAP vesting rates against maximum opportunity (%)
2016	Richard Howson	1,510	37%	60.55%
2015	Richard Howson	1,283	48%	16%
2014	Richard Howson	1,024	44%	Nil
2013	Richard Howson	1,034	36%	Nil
2012	Richard Howson	791	Nil	Nil
2011	John McDonough	1,719	100%	21%
2010	John McDonough	1,512	24%	53%
2009	John McDonough	1,666	54%	85%

## Percentage change in remuneration of Director undertaking the role of Chief Executive

The table below sets out in relation to salary, taxable benefits and annual bonus the increase in pay for Richard Howson compared to all UK employees between 2015 and 2016. The latter population provides a comparison that is based on a consistent set of employees and is a fair representation of our worldwide employee base who are eligible to earn an annual bonus and receive benefits that are broadly consistent with those provided to the Chief Executive.

	Chief Executive percentage change	UK employees percentage change
Salary and fees	+8%	+2%
Taxable benefits	+40%	Nil
Bonus	-16%	-9%

## Relative importance of spend on pay

The following table sets out the percentage change in dividends and expenditure on pay for the whole of Carillion.

	2015 £m	2016 £m	Change
Dividends	78.5*	79.3**	1%
Overall expenditure on pay	922.7	934.8	1%

\* Dividends payable in respect of the year ended 31 December 2015.

\*\* Dividends payable in respect of the year ended 31 December 2016.

## Remuneration Committee meetings, members and advisers

The Remuneration Committee is responsible for:

- setting the framework and policy for remuneration of the Executive Directors;
- determining the remuneration packages for the Executive Directors and the Chairman;
- monitoring the level and structure of remuneration for senior management and approving bonus payments; and
- noting any major changes in employee benefit structures throughout the Group and ensuring that Executive Director remuneration practice is consistent with any such changes.

The Remuneration Committee consists exclusively of independent Non-Executive Directors Alison Horner, Ceri Powell, Andrew Dougal and Keith Cochrane. Its terms of reference can be found on the Company's website, [www.carillionplc.com](http://www.carillionplc.com). The Remuneration Committee determines the policy for remuneration of key members of the senior management team. Details of the Committee's meetings and attendance by Committee members during 2016 are set out in the table below.

Member	Appointed	Meeting attendance 2016		Meeting attendance 2015	
		Attended	Eligible to attend	Attended	Eligible to attend
Alison Horner	01.12.13	3	3	5	5
Keith Cochrane	02.07.15	3	3	4	4
Andrew Dougal	03.10.11	3	3	5	5
Ceri Powell	02.04.14	3	3	5	5

The Remuneration Committee is assisted in its work by Janet Dawson, Group HR Director, Philip Green, Chairman, and Richard Howson, Group Chief Executive. The Group Chief Executive is consulted on the remuneration of those who report directly to him and also of other senior executives. No Executive Director or employee is present or takes part in discussions in respect of matters relating directly to their own remuneration.

Additionally, the Remuneration Committee uses Deloitte LLP to provide salary survey and benchmarking information and external and internal contextual information and analysis as required. The Remuneration Committee took into account the Remuneration Consultants Group's Code of Conduct when reviewing the ongoing appointment of Deloitte as adviser to the Remuneration Committee. Deloitte's fees for providing such advice are charged on a time basis and amounted to £25,320 for the year ended 31 December 2016 (2015: £44,950). The Remuneration Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender. The Remuneration Committee undertook such an assessment during the year and remains satisfied with Deloitte's appointment as advisers to the Remuneration Committee. Deloitte, which was appointed by the Remuneration Committee in 2005, also provides certain specialist consultancy services and internal audit services, but otherwise has no other connections with the Group. The Remuneration Committee is satisfied that the remuneration advice provided by Deloitte is objective and independent.

The Remuneration Committee adopts the principles of good governance as set out in the 2014 UK Corporate Governance Code and complies with the Listing Rules of the Financial Conduct Authority and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). It met three times during the year.

## Statement of voting

Resolution text	Votes for	% for	Votes against	% against	Votes discretionary	% discretionary	Total votes cast	Votes withheld* (abstentions)
Approval of Remuneration report at 2016 Annual General Meeting	134,109,624	81%	32,099,583	19%	229,398	0.1	166,438,605	81,629,718
Approval of Remuneration policy at 2014 Annual General Meeting	227,921,273	96%	9,197,020	4%	322,064	0.1	237,440,357	18,893,637

\* A vote withheld is not a vote in law and, as such, is not counted in the calculation of the proportion of votes 'For' and 'Against'.

# Remuneration report continued

## Directors' Remuneration Policy

The Directors' Remuneration Policy was first approved at the Company's 2014 Annual General Meeting and took effect from the date of that meeting. The new policy set out below will, subject to shareholder approval, apply from the end of the 2017 AGM.

No significant changes have been made to the policy approved at the 2014 AGM. However, certain minor amendments have been made to take account of developments since the 2014 AGM and to ensure the policy is appropriate for the Company going forwards. In summary the changes made to the proposed policy as compared to the policy approved at the 2014 AGM are as follows:

**Minimum shareholding guidelines:** In line with best practice, the minimum shareholding guidelines are included in the Policy and reflect our current target of 100 per cent of salary.

**Holding period:** A two-year holding period was introduced into LEAP for awards made in 2015 and beyond and this has been formally included as part of the 2017 Policy.

**Pension:** Has been simplified and the value of the pension provision reduced for new Executive Directors appointed after 5 April 2016 so that the maximum pension allowance or cash equivalent that can be made is 25 per cent of salary.

**Annual bonus:** The maximum annual bonus that can be earned has been maintained at 100 per cent of salary but have emphasised that 75 per cent of the bonus will be determined based on the achievement of financial and quantitative measures.

**Non-Executive Directors:** We have not changed our approach to Non-Executive Directors' fees. However, to reflect current practice, we have included an express reference to our ability to provide benefits such as secretarial support and the reimbursement of travel expenses.

Element	Purpose and link to strategy	Operation
<b>Base salary</b>	<p>Core element of fixed remuneration that provides the basis to recruit and retain the talent necessary to deliver the business strategy.</p> <p>Reflects individual skills, experience and the scope of the Executive's responsibility.</p> <p>Takes into account an individual's performance.</p>	<p>Usually reviewed annually (but may be reviewed more frequently) with any changes typically effective from 1 April. The decision is influenced by a range of factors including, but not limited to:</p> <ul style="list-style-type: none"> <li>– role, experience and performance;</li> <li>– average change in broader workforce salary;</li> <li>– total organisational salary budgets; and</li> <li>– Group performance and prevailing market conditions.</li> </ul> <p>External benchmark data against companies of a similar size and complexity are also considered.</p>
<b>Benefits</b>	To provide market-competitive benefits.	<p>Base salary is supplemented with a range of benefits based on the role and individual's circumstances.</p> <p>These benefits include, but are not limited to, company car or car allowance, fuel benefit, healthcare arrangements and the all employee SAYE plan.</p> <p>Other benefits may be provided based on individual circumstances, such as, but not limited to: housing or relocation allowances, travel allowance or other expatriate benefits.</p>
<b>Retirement benefits</b>	To provide market-competitive retirement benefits at a level needed to attract and retain the talent necessary to deliver the business strategy.	<p>The Company may make payments into an appropriate pension arrangement (up to the limit of pensionable pay) and/or pay a salary supplement. For salary in excess of pensionable pay, an allowance (set as a percentage of excess pensionable pay) may be paid.</p> <p>In appropriate circumstances (such as where pension contributions would exceed HMRC limits for tax free pension accrual) an allowance may be paid in place of contributions to a pension arrangement.</p> <p>In circumstances where there are historical contractual commitments, benefits in part may be provided through membership of the defined benefit pension schemes operated by the Group but now closed. Deferred benefits from these schemes are based on pensionable salary and service at the date of closure.</p> <p>Death-in-service benefits are provided as part of membership of the defined contribution plans based on contractual entitlement and on a life-cover-only basis of membership if applicable.</p> <p>Bonus and other benefits received by Executive Directors do not count towards pensionable pay.</p>

Opportunity	Performance metrics
<p>To avoid setting expectations of Executive Directors and other employees, no maximum base salary has been set under the Remuneration Policy.</p> <p>Increases in salary will not normally exceed the range of increases awarded to other employees in the Group. However, larger increases may be awarded in certain circumstances including, but not limited to:</p> <ul style="list-style-type: none"> <li>– increases in scope or responsibility; or</li> <li>– an individual's development or performance in role (including in the case of a new appointment where base salary is initially set below a market rate, that it may be increased to a market rate over such time as the Remuneration Committee considers appropriate); or</li> <li>– a new Executive Director being moved to market positioning over time; or</li> <li>– where an Executive Director has fallen below market positioning; or</li> <li>– other exceptional circumstances.</li> </ul> <p>Such increases may be implemented over such time period as the Remuneration Committee deems appropriate.</p>	<p>Although performance conditions do not apply, the Executive Director's individual performance and the scope of the role are taken into account when determining the level of any salary increase.</p>
<p>Whilst the Remuneration Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Remuneration Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.</p>	N/A
<p>Pensionable pay is limited by an internal cap of £132,700 which has applied since 2010-11. Future increases are at the discretion of the Remuneration Committee.</p> <p>Executive Directors receive a contribution of up to 40 per cent of base salary up to the internal cap and 33.6 per cent of base salary above the internal cap.</p> <p>For any Executive Director appointed after 5 April 2016 the maximum contribution will be 20 per cent of base salary up to the internal cap and 25 per cent of base salary above the internal cap in line with other senior employees.</p>	N/A



## Remuneration report continued

Element	Purpose and link to strategy	Operation
<b>Annual performance bonus and deferred bonus plan</b>	<p>Drive and reward the achievement of annual financial and/or strategic business targets and/or delivery of personal objectives relevant to Carillion's long-term strategic objectives.</p> <p>Provide alignment with shareholders' interests.</p> <p>Compulsory deferral of a proportion of bonus earned, paid in the Company's shares, supports the creation of long-term sustainable value, promotes share ownership and also provides a retention element.</p>	<p>Awards based on annual performance against key financial and/or strategic targets and/or the delivery of personal objectives.</p> <p>Payments are determined by the Remuneration Committee after the year end, based on performance against targets set annually.</p> <p>The Remuneration Committee may adjust the bonus pay-out either up or down should the formulaic outcome be considered not to reflect underlying business performance. The circumstances where such a change might be made are set out under the explanation of chosen targets and how performance is measured below.</p> <p>At least 50 per cent of any bonus earned is paid in cash and 50 per cent is awarded in shares, which vest after three years (subject to a de-minimis threshold of £10,000).</p> <p>Deferred share awards may be released early on a change of control (or other relevant event) or in 'good leaver' circumstances (as shown on page 80).</p> <p>Bonuses are subject to the 'malus' and 'clawback' provisions referred to on page 78.</p> <p>The Remuneration Committee may increase the number of shares subject to a deferred share award to reflect dividends that would have been paid over the period from the grant of the award until release on shares that vest, or make a cash payment equal to the value of those additional shares ('Dividend Equivalents').</p>
<b>Long Term Incentive – Carillion plc Leadership Equity Award Plan (LEAP)</b>	<p>Drive and reward the achievement of longer-term objectives aligned closely to shareholders' interests.</p> <p>Retain and incentivise key executives over a longer-term measurement period to promote the long term success of the Company.</p> <p>Provide alignment with shareholders' interests.</p> <p>Supports retention and promotes share ownership.</p>	<p>Annual awards of conditional shares, forfeitable shares or nil cost options (or similar cash equivalent) under the LEAP can be made with vesting dependent on the achievement of performance conditions, normally over a three-year performance period.</p> <p>Awards, to the extent they vest, are released to participants following the end of an additional two year holding period beginning at the end of the performance period.</p> <p>LEAP awards are subject to the 'malus' and 'clawback' provisions referred to on page 78.</p> <p>Awards under the LEAP may vest early on a change of control (or other relevant event) subject to satisfaction of the performance conditions and pro-rating for time.</p> <p>As described on page 80, LEAP awards may also vest early in 'good leaver' circumstances.</p> <p>The Remuneration Committee may make a dividend equivalent payment ('Dividend Equivalents') to reflect dividends that would have been paid over the period to vesting and/or over the holding period on shares that vest. This payment may be in the form of additional shares or a cash payment equal to the value of those additional shares.</p>

Opportunity	Performance metrics
Up to 100 per cent of base salary.	<p>Performance measures and targets are set annually reflecting the Group's strategy and are aligned with key financial, strategic and/or individual objectives.</p> <p>Targets, whilst stretching, do not encourage inappropriate business risks to be taken.</p> <p>At least 75 per cent of the bonus is assessed against key financial performance metrics of the business and the balance may be based on other quantitative measures and individual performance.</p> <p><b>Financial metrics</b></p> <p>There is no minimum payment at threshold performance, up to 50 per cent of the maximum potential for this element of the bonus will vest for on-target performance and all of the maximum potential will vest for maximum performance.</p> <p><b>Non-financial or individual metrics</b></p> <p>Vesting of the non-financial or individual metrics will apply on an appropriate sliding scale based on the Remuneration Committee's assessment of the extent to which a non-financial or individual performance metric has been met.</p>
<p>Under the LEAP rules the overall maximum opportunity is 200 per cent of salary in respect of a financial year.</p> <p>Normal maximum award: 150 per cent of salary.</p>	<p>Awards will vest subject to the achievement of performance assessed over more than one financial year, normally three years against key metrics aligned to the business strategy.</p> <p>Targets, whilst stretching, do not encourage inappropriate business risks to be taken.</p> <p>Performance measures for the LEAP will be a combination of financial measures, and/or strategic performance metrics, which may include (but are not limited to):</p> <ul style="list-style-type: none"> <li>– earnings per share;</li> <li>– cash flow conversion; and</li> <li>– key strategic objectives.</li> </ul> <p>Weightings will be as follows:</p> <ul style="list-style-type: none"> <li>– at least two-thirds will be based on financial metrics; and</li> <li>– no more than one-third will be based on strategic performance metrics.</li> </ul> <p><b>Financial metrics</b></p> <p>For the achievement of the threshold level of performance (the minimum level of performance for vesting to occur) up to one-sixth of maximum opportunity will vest under each performance measure.</p> <p>For the achievement of the target level of performance up to 50 per cent of the maximum opportunity will vest under each performance measure.</p> <p>For the achievement of the maximum level of performance (the highest level of performance that results in any vesting) 100 per cent of the maximum opportunity will vest.</p> <p>Straight-line vesting will usually apply between these levels of performance.</p> <p><b>Strategic metrics</b></p> <p>Vesting under the strategic element will apply on an appropriate sliding scale based on the Remuneration Committee's assessment of the extent to which the strategic measure has been met.</p> <p>The Remuneration Committee must be satisfied that vesting reflects the underlying performance of the Company and retains the flexibility to adjust the vesting amount to ensure it remains appropriate to the business performance delivered.</p>

# Remuneration report continued

## Malus and clawback

Bonus and LEAP awards are subject to 'malus' and 'clawback' provisions.

- Deferred bonus awards and LEAP awards are subject to a 'malus' provision in accordance with which they may, before vesting, be reduced or cancelled or have their vesting date deferred
- The cash element of the annual bonus and the LEAP awards are subject to a 'clawback' provision for two years following payment or vesting respectively.

'Malus' or 'clawback' may be applied if: (1) the results for the year in respect of which the award was made (or, in the case of a LEAP award, for a year in the performance period) have been misstated, resulting in a restatement of the Company's accounts (other than where the restatement is due to a change in accounting standards, policies or practices adopted by the Company); or (2) the participant is guilty of gross misconduct.

## Shareholding guidelines

To provide alignment with shareholders' interests and to promote share ownership, each Executive Director is required to hold the net number of shares acquired through LEAP and the Deferred Bonus Plan until the value of their total shareholding is equal to their annual salary.

## Remuneration Policy for the Chairman and Non-Executive Directors

Element	Approach of the Company
<b>Chairman fees</b>	<p>The remuneration of the Chairman of the Board is set by the Remuneration Committee. Fees are set at a level that reflects the skills, knowledge and experience of the individual, whilst taking into account appropriate market data.</p> <p>The fee is set as a fixed annual fee and may be paid wholly or partly in cash or Company shares.</p>
<b>Non-Executive Director fees</b>	<p>The Board as a whole is responsible for deciding Non-Executive Directors' fees. Fees are set taking into account several factors including the size and complexity of the business, fees paid to Non-Executive Directors of UK-listed companies of a similar size and complexity and the expected time commitment and contribution for the role.</p> <p>Fees are structured as a basic fee with additional fees payable for chairmanship or membership of a Committee or other additional responsibilities such as holding the office of Senior Independent Non-Executive Director.</p> <p>The fee is set as a fixed annual fee and may be paid wholly or partly in cash or Company shares.</p> <p>Overall fees paid to Directors will remain within the limit set out in the Company's Articles of Association from time to time.</p>
<b>Other remuneration elements</b>	<p>The Chairman and Non-Executive Directors do not participate in the Company's annual bonus, long-term incentive or pension arrangements. They may be entitled to benefits such as the use of secretarial support, the reimbursement of travel expenses or other benefits that may be considered appropriate.</p>

## Explanation of chosen performance measures and how targets are set

The annual bonus is assessed against targets determined by the Remuneration Committee, which will typically include both financial measures and strategic and/or personal objectives. This incentivises executives to focus on delivering the key financial goals of the Company as well as specific strategic objectives for each Director that are aligned to delivering the overall business strategy and to encourage behaviours that facilitate profitable growth and the future development of the business.

Long-term performance measures are chosen by the Remuneration Committee to provide a robust and transparent basis on which to measure Carillion's performance over the longer term and to provide alignment with Carillion's business strategy. They are selected to be aligned with the interests of shareholders and drive business performance and link to the Group's strategy, whilst not encouraging excessive risk taking.

The Remuneration Committee considers carefully the target ranges to be attached to bonus and long-term incentive awards, taking into account a number of factors, which could include future growth expectations, the market environment and the requirement to set stretching but achievable targets.

The Committee retains the ability to adjust or set different performance measures if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions), which cause the Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards may be adjusted in the event of a variation of capital in accordance with the scheme rules.

## Pay policy for other employees

The Remuneration Policy applied to the Chief Executive's Leadership Team and the most senior executives in the Group is similar to the policy for the Executive Directors in that a significant element of remuneration is dependent on Company and individual performance. The key principles of the remuneration philosophy are applied consistently across the Group below this level, taking account of seniority and local market practice.

## Remuneration Policy for new appointments

In the cases of hiring/appointing a new Executive Director, the Remuneration Committee will typically align the remuneration package with the approved Remuneration Policy. However, the Remuneration Committee retains the discretion to make payments or awards which are outside the Policy to facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy, subject to the principles and limits set out on page 79. The individual will move over time onto a remuneration package that is consistent with the approved Policy.

The Remuneration Committee will not use its discretion to make payments or awards outside the Policy to offer a non-performance related incentive payment (for example a 'guaranteed sign-on bonus').

In determining appropriate remuneration, the Remuneration Committee will take into consideration all relevant factors (including the quantum and nature of remuneration) to ensure that arrangements are in the best interests of both Carillion and its shareholders. This may, for example, include (but is not limited to) the following circumstances:

- an interim appointment is made to fill an Executive Director role on a short-term basis;
- exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis;
- an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance; subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
- the Executive received benefits at his previous employer that the Committee considers it appropriate to recognise.

The Committee may also alter the performance measures, performance period and vesting period of the annual bonus or long-term incentive (or the holding period applicable to any long term incentive), subject to the rules of the scheme, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained.

The Remuneration Committee may make an award in respect of hiring to 'buy-out' remuneration arrangements forfeited on leaving a previous employer. In doing so the Remuneration Committee will take account of relevant factors regarding the forfeited arrangements, which may include any performance conditions attached to awards forfeited (and the likelihood of meeting those conditions), the time over which they would have vested and the form of the awards (e.g. cash or shares). It will generally seek to structure buy-out awards on a comparable basis to remuneration arrangements forfeited. These payments or awards are excluded from the maximum level of variable remuneration referred to below. However, the Remuneration Committee's intention is that the value awarded would be no higher than the expected value of the forfeited arrangements. Where considered appropriate, buy-out awards will be subject to forfeiture or clawback on early departure.

Where necessary, the Company will pay appropriate relocation, travel and subsistence costs. The Remuneration Committee will seek to ensure that no more is paid than is necessary.

The maximum level of variable remuneration (excluding buy-out awards) which may be awarded to a new Executive Director is 300 per cent of base salary. Subject to this overall maximum, variable remuneration incentive awards may be granted within the first 12 months of appointment above the normal maximum annual award opportunities. The Remuneration Committee will ensure that such awards are linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the limits referred to above, in order to facilitate the awards mentioned above, the Committee may adopt a new arrangement in accordance with the provisions of the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of a Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly-appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

### Service contracts

The Board's policy for current and new Executive Directors is that service contracts are on a one-year rolling basis and have a notice period that should not exceed one year.

	Date of contract	Date of appointment	Notice from the Company	Notice from the Director
Richard Howson	8 Dec 2009	8 Dec 2009	12 months	6 months
Zafar Khan	1 Jan 2017	1 Jan 2017	12 months	6 months

Non-Executive Directors are not employed under contracts of service, but are generally appointed for fixed terms of three years renewable for further terms of one to three years, if both parties agree.

	Date of appointment	Unexpired term of contract at 31 December 2016
Philip Green	1 June 2011	4 months
Andrew Dougal	3 Oct 2011	9 months
Alison Horner	1 Dec 2013	35 months
Keith Cochrane	2 July 2015	18 months
Ceri Powell	2 April 2014	3 months

All Directors offer themselves for annual re-election at each AGM in accordance with the UK Corporate Governance Code. Service contracts for the Executive Directors and letters of appointment for the Non-Executive Directors are available for inspection at the registered office address of the Company.

Ceri Powell has advised the Board that owing to an international relocation with Royal Dutch Shell, she will, with regret, stand down from the Carillion Board on 31 March 2017.



# Remuneration report continued

## Payments for loss of office

The policy set out below provides the framework for contracts for Executive Directors:

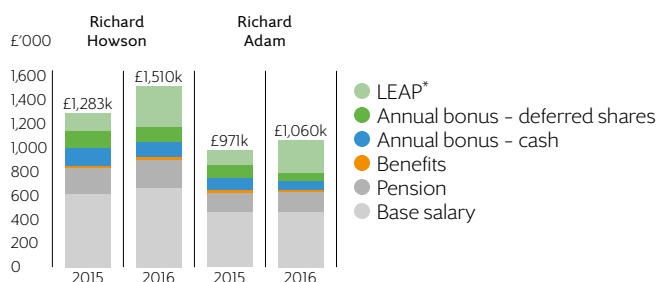
Element	Policy
<b>Notice period on termination by employing company</b>	12 months.
<b>Termination payment</b>	<p>Severance payments in relation to the service contract are limited to no more than one year's salary plus benefits in kind (including company car or car allowance and private health insurance) and pension contributions (which may include salary supplements).</p> <p>Benefits provided in connection with termination of employment may also include, but are not limited to, outplacement and legal fees.</p>
<b>Vesting of incentives for leavers</b>	<p><b>Bonus</b> The Remuneration Committee has the discretion to determine appropriate bonus amounts taking into consideration the circumstances in which an Executive Director leaves. Typically for 'good leavers', bonus amounts will be pro-rated for time in service to termination and will be, subject to performance, paid at the usual time.</p> <p>Any bonus earned for the year of cessation and/or prior year may be paid wholly in cash at the election of the Remuneration Committee.</p> <p><b>LEAP and DBP awards</b> The vesting of share-based awards is governed by the rules of the relevant incentive plan.</p> <p>Under the LEAP, the provisions for 'good leavers' provide that awards will vest at the end of the normal vesting period to the extent that performance conditions have been satisfied and will be pro-rated for time.</p> <p>Under the deferred bonus plan, the provisions for 'good leavers' provide that deferred share awards will be released in full at the normal release date. However, the Remuneration Committee retains discretion to release awards earlier in appropriate circumstances.</p> <p>'Good leavers' include leavers due to death, illness, injury, disability, redundancy, or any other reason as determined by the Remuneration Committee. In circumstances other than good leavers, awards will lapse.</p> <p><b>SAYE options</b> SAYE options may vest early on a cessation of employment in accordance with the applicable tax legislation.</p> <p><b>Buy-out awards</b> Where a buy-out award is made, the leaver provisions would be determined at the time of the award.</p>

The service agreements for the Executive Directors provide for pay in lieu of notice to be made on termination of employment following a substantial sale of the business (as defined within the individual contracts) provided that the Executive Director has not been offered employment with the acquiring company on no less favourable terms than their current service contract, or having been offered such employment, they confirm in writing within 12 weeks following the sale that they believe the terms offered are less favourable. Payments will be made on a monthly basis and mitigated by any remuneration from alternative employment gained during the notice period.

Under the terms of their engagement, the notice period to be given by the Non-Executive Directors to the Company is at least one month. Discretion is retained to terminate with or without due notice or paying any payment in lieu of notice dependent on what is considered to be in the best interests of the Company in the particular circumstances. The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

## Actual remuneration for 2015 and 2016

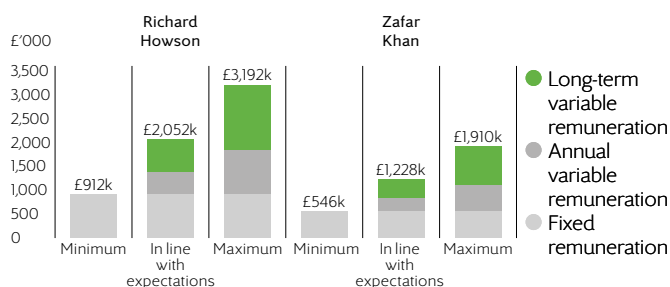
The graph below shows the actual remuneration received by Executive Directors in 2015 and 2016:



\* Value of LEAP is based on three-month average share price to 31 December 2015 and 2016.

## Illustration of Remuneration Policy for 2017

This chart provides an illustration of the range of remuneration that may be received by Executive Directors in 2017 based on the assumptions noted below.



Assumptions	
<b>Minimum performance</b>	Fixed elements of remuneration only – base salary, benefits and pension only.
<b>Performance in line with expectations</b>	Total fixed pay as above, plus: Assumes 50 per cent of maximum pay-out under the annual bonus (ie 50 per cent of salary) Assumes 50 per cent of maximum pay-out under the LEAP (ie 75 per cent of salary).
<b>Maximum performance</b>	Total fixed pay as above, plus: Assumes maximum pay-out under the annual bonus (ie 100 per cent of salary) Assumes maximum pay-out under the LEAP (ie 150 per cent of salary).

- (1) As required by the regulations, the scenarios do not include any share price growth assumptions or take into account any dividends that may be paid.
- (2) In the case of Richard Howson, base salary and the value of pension reflects the latest known information (i.e. the salary effective from 1 January 2017) and benefits have been assumed to be equivalent to those included in the single-figure of remuneration table on page 66. Zafar Khan's 2017 salary and an estimate of his benefits have been used.

### Wider workforce remuneration

When determining the remuneration arrangements for Executive Directors, the Remuneration Committee takes into consideration, as a matter of course, the pay and conditions of employees throughout the Group. In particular, the Remuneration Committee is kept informed of:

- salary increase for the general employee population;
- overall spend on annual bonus; and
- participation levels in the annual bonus and share plans.

Although no consultation with employees takes place in relation to determining the remuneration policy for Directors, the Group has various ways of engaging with employees collectively, as teams, and on a one-to-one basis. A number of methods are common across the Group (People Forums, Leadership conference calls, Team Talks, Performance Development Reviews, Job Chats, Your Say and Chief Executive's Leadership Team Lunches) and a number are business or area specific (newsletters, consultation groups and socials). The Board receives updates and feedback on employee engagement.

### Existing contractual arrangements

The Remuneration Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy, where the terms of the payment were agreed:

- (i) before 27 June 2012 or
- (ii) after the previously agreed Directors' Remuneration Policy came into effect at the 2014 Annual General Meeting but before the Policy set out above came into effect at the 2017 Annual General Meeting, and where the terms of the payment are in line with that previous policy; or
- (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company.

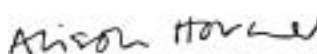
For these purposes 'payments' include the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. For the avoidance of doubt, the Remuneration Committee's discretion includes discretion to determine, in accordance with the rules of any previous incentive plan, the extent to which awards under that plan may vest in the event of a change of control or in a 'good leaver' circumstance.

### Shareholder engagement

The Remuneration Committee engages in regular dialogue with shareholders to discuss and take feedback on its remuneration policy and governance matters. In particular, the Remuneration Committee discusses any significant changes to the policy or the measures used to assess performance.

Although no significant changes were proposed in the policy to be approved at the 2017 Annual General Meeting compared to the policy approved at the 2014 Annual General Meeting, in the interests of ensuring ongoing and transparent dialogue with shareholders, the Remuneration Committee informed shareholders in advance of the overall approach to the new policy.

The Remuneration Committee will continue to actively engage with and seek to incorporate the views of its shareholders on any major changes to the Executive Director Remuneration Policy.



**Alison Horner**  
Chairman of the Remuneration Committee  
1 March 2017

# Report of the Directors

## Background

The Directors of the Company are required to produce a Directors' report on an annual basis under the Companies Act. The Directors are also required under the Companies Act to publish a Strategic report for the Group and the Company. The Directors' Strategic report must (i) contain a fair review of the Company's business and a description of the principal risks and uncertainties facing the business and (ii) be a balanced and comprehensive analysis of the development and performance of the Company's business during the financial year and the position of the Company's business at the end of that year, consistent with the size and complexity of its business.

This section of the Annual Report sets out the information required to be disclosed by the Company and the Group in the Directors' report. Certain matters that would otherwise be disclosed in this Directors' report have been reported elsewhere in this Annual Report and consequently this Directors' report should be read in conjunction with the Strategic report on pages 1 to 47 (which includes our 2016 Sustainability review on pages 26 to 29) and the Corporate Governance report for 2016 on pages 53 to 57, which are incorporated by reference into this Directors' report.

The Strategic report and this Directors' report together with other sections of this Annual Report incorporated by reference, when taken as a whole, form the Management report as required for the purposes of Disclosure and Transparency Rule 4.1.5R. The Management report for 2016 has been prepared and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with this report shall be subject to the limitations and restrictions provided under such law.

## Overview of the information required

A summary of the information required to be disclosed in the Directors' report together with the relevant report and page reference is set out in the table below:

Disclosure	Reported in	Page reference
Acquisitions and disposals	Directors' report	82
Amendment of Articles of Association	Directors' report	84
Annual General Meeting	Directors' report	84
Appointment of Directors	Directors' report	82
Disclosure of information to auditors	Directors' report	84
Authority to allot shares	Directors' report	83
Change of control	Directors' report	84
Community and charitable giving	Strategic report	27
Conflicts of interest	Directors' report	83
Directors	Corporate Governance report	50, 51
Directors' indemnity	Directors' report	83
Directors' responsibilities	Responsibility statement	85
Employee involvement	Strategic report	27
Employees with disabilities	Strategic report	29
Going concern	Performance and financial review	47
Greenhouse gas emissions	Strategic report	28
Political donations	Directors' report	84
Post balance sheet events	Directors' report	82
Purchase of own shares	Directors' report	83
Powers of the Directors	Directors' report	83
Restrictions on transfer of shares	Directors' report	84
Results and dividends	Directors' report	82
Rights and obligations attaching to shares	Directors' report	83
Risk management	Strategic report	30
Share capital	Directors' report	83
Substantial share interests	Directors' report	84
Voting and restrictions on voting	Directors' report	83

## Results and dividends

The consolidated income statement is set out on page 90. Profit before tax was £146.7 million (2015: £155.1 million).

A 2016 interim dividend of 5.8 pence per ordinary share (2015: 5.7 pence) was paid in November 2016. It is proposed to pay a final dividend of 12.65 pence per ordinary share (2015: 12.55 pence) on 9 June 2017 to shareholders on the register at the close of business on 12 May 2017. The payment of these 2016 interim and final dividends amounts to £79.3 million (2015: £78.5 million).

A dividend reinvestment plan (DRIP) will also be offered allowing shareholders a convenient means of reinvesting their dividends in the Company by buying further shares. If required, a DRIP application form is available from the share registrar, Equiniti (see page 149 for contact details).

The Company may by ordinary resolution from time to time declare dividends in accordance with the rights of the members, but no dividend shall exceed the amount recommended by the Board.

Carillion has a progressive dividend policy that aims to increase its dividend broadly in line with the growth in underlying earnings per share, subject to the investment needs of the business. Further details in relation to our dividend policy are provided on page 43.

## Acquisitions and disposals

In 2016, we sold equity investments in three projects for cash proceeds of approximately £48 million, which represented an average discount rate of some seven per cent and generated a pre-tax profit of £12.7 million.

## Post balance sheet events

There have been no material events since the balance sheet date of 31 December 2016 and the date of this report.

## Appointment of Directors

There are currently seven Directors on the Board of Carillion plc. Unless otherwise determined by ordinary resolution of the Company, the Directors shall not be less than four nor more than 16 in number.

Shareholders may by ordinary resolution elect any person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing Board. The Company may also by special resolution remove any Director before the expiration of his or her period of office and may by ordinary resolution appoint another person who is willing to act to be a Director in his or her place.

The Board may appoint any person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed shall retire at the next Annual General Meeting and shall then be eligible for reappointment.

In accordance with the requirements of the UK Corporate Governance Code, all Directors will offer themselves for re-election at the Annual General Meeting on 3 May 2017.

The Company's Articles of Association do not have a shareholding qualification for Directors. However, the Company's Remuneration Policy requires, to provide alignment with shareholders' interests and to promote ownership, that each of the Executive Directors hold the net number of shares acquired through the Leadership Equity Award Plan and the Deferred Bonus Plan until the value of their total shareholding is equal to annual salary.

## Directors

Details of the Directors of the Company are set out on pages 50 and 51 and changes in the membership of the Board are summarised on page 54 of the Corporate Governance report. Details of Directors' remuneration are provided in the Remuneration report on pages 65 to 81. The interests of the Directors and their families in the share capital of the Company are shown on page 71 of the Remuneration report which also includes information on the Company's contracts of service with its Directors on page 79.

## Powers of the Directors

Subject to the Company's Articles and any directions given by the Company in general meeting by special resolution, the business of the Company is managed by the Board which may exercise all the powers of the Company, whether relating to the management of the business of the Company or not.

## Directors' responsibilities

The Directors' responsibilities for the financial statements included within this Annual Report and the Directors' confirmations required under the FCA Disclosure and Transparency Rules are set out on page 85.

## Conflicts of interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company. The Board has in place procedures to deal with Directors' conflicts of interest arising under Section 175 of Companies Act 2006 and these procedures are considered to be effective.

## Directors' indemnity

Under the Company's Articles of Association, to the extent permitted by the Companies Acts, the Company indemnifies any Director, Secretary or other officer of the Company against any liability and may purchase and maintain insurance against any such liability. The Board understands that the provision of such indemnification is in keeping with current market practice and believes that it is in the best interests of the Group to provide such indemnities in order to attract and retain high-calibre Directors and officers. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2016.

## Share capital

The Company has only one class of share with one vote for every share. As at 1 March 2017, the issued share capital of the Company comprised of £215,127,314 divided into 430,254,629 ordinary shares of 50 pence each. The ISIN number of the shares is GB0007365546.

On 12 December 2014, Carillion Finance (Jersey) Limited, a wholly-owned subsidiary of the Company incorporated in Jersey, issued £170 million of convertible bonds, which are guaranteed by the Company. The bonds are a senior and unsecured obligation of Carillion Finance (Jersey) Limited and the Company and are subject to a negative pledge. These bonds carry a coupon of 2.50 per cent per annum payable semi-annually and based on the conversion price of £3.9856 will convert into 42,653,553 ordinary shares of the Company. Upon conversion of the bonds, the Company may elect to settle its obligations by way of delivery of ordinary shares, payment of a cash alternative amount or a combination of the two. Unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed at par on or around 19 December 2019.

Further details of shares issued during the year and outstanding options are given in notes 22 and 24 on pages 117 and 118 to the consolidated financial statements which form part of this report. Details of the share incentives in place are provided on pages 65 to 81 of the Remuneration report.

## Rights and obligations attaching to shares

The Company's shares when issued are credited as fully paid and free from all liens, equities, charges, encumbrances and rights. All shares benefit from the same rights in relation to voting, dividends and any return of capital and are subject to the same restrictions as set out in the Company's Articles. Except in relation to dividends which have been declared and rights in relation to the liquidation of the Company, the shareholders have no rights to share in the profits of the Company. The Company's shares are not redeemable, however, the Company may repurchase any of the shares on or off market, subject to compliance with the Companies Act and requirements of the Listings Rules. No shareholder holds any shares that carry any special rights in relation to the control of the Company.

## Authority to allot shares

As at 31 December 2016, the Company had the following authority to allot shares and to grant rights to subscribe for or convert any security into shares in the Company:

- (a) up to a nominal amount of £71,709,104 (such amount to be reduced by the nominal amount allotted or granted under paragraph (b) below in excess of an equivalent sum); and
- (b) comprising equity securities up to a nominal amount of £143,418,209 (such amount to be reduced by any allotments or grants made under paragraph (a) above) in connection with an offer by way of a rights issue.

## Purchase of own shares

As at 31 December 2016, the Company had authority from shareholders for the purchase of 43,025,462 of its own shares. Such authority will also be sought from shareholders at the Company's Annual General Meeting on 3 May 2017. To date, this authority has never been used.

## Voting and restrictions on voting

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote and, on a poll, every holder of ordinary shares present in person or by proxy and entitled to vote, shall have one vote for every ordinary share held.

The notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be put to the Annual General Meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced and published on the Company's website after the meeting.

No member shall, unless the Board otherwise decides, be entitled in respect of any share held by him or her to attend or vote (either personally or by proxy) at any general meeting of the Company or upon a poll or to exercise any other right conferred by membership in relation to general meetings or polls unless all calls or other sums presently payable by him or her in respect of that share have been paid.

The Company is not aware of any agreement between the holders of its shares which may result in restrictions on voting rights.



# Report of the Directors continued

## Restrictions on transfer of shares

There are no restrictions on the transfer of ordinary shares in the Company other than in relation to certain restrictions that are imposed from time to time by laws and regulations (for example insider trading laws). In addition, pursuant to the Listing Rules of the Financial Conduct Authority, Directors and certain officers and employees of the Group require the approval of the Company to deal in ordinary shares of the Company.

The Company is not aware of any agreements between shareholders that restrict the transfer of its shares.

## Substantial share interests

As at 1 March 2017, the Company had received formal notification of the following holdings in its shares under the Disclosure and Transparency Rules of the Financial Conduct Authority. It should be noted that these holdings may have changed since the Company was notified, however, notification of any change is not required until the next notifiable threshold is crossed.

	Number of shares	% of issued share capital held
BlackRock, Inc.	37,940,532	8.81%
Deutsche Bank AG	25,031,528	5.82%
UBS Investment Bank and UBS Group AG	21,844,095	5.08%
Kiltearn Partners LLP	21,542,444	5.01%
Brewin Dolphin Limited	21,501,891	5.00%
Letko, Brosseau & Associates Inc.	21,367,553	4.97%
Standard Life Investments (Holdings) Limited	21,331,243	4.96%

## Change of control

A number of agreements take effect, alter or terminate upon a change of control of the Company following a takeover bid, such as loan agreements and share incentive plans.

Carillion's main credit facilities, including the £790 million Syndicated Multicurrency Revolving Credit Facility, contain a provision such that in the event of a change of control any lender may, within a 30-day consultation period and if it so requires, notify the Company that it wishes to cancel its commitment. Any such cancellation of commitment and the repayment of any outstanding borrowings will occur on the date falling three days after the expiry of the consultation period.

Following the occurrence of a change of control, the Company must make an offer to the holders of its private placement notes to prepay the amounts outstanding together with accrued interest. The holders of the Group's £170 million of convertible bonds have the right to require the Group to redeem each bond at its principal amount, together with accrued and unpaid interest.

## Political donations

The Company and its subsidiaries made no political donations during the period under review (2015: Nil).

## Amendment of Articles of Association

The Articles of Association may be amended by special resolution of the shareholders.

## Disclosure of information to auditors

The Directors of Carillion plc confirm that at the date of this Report of the Directors and as far as they are individually aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to ascertain any relevant audit information and to establish that the Company's auditors are aware of this information.

## Annual General Meeting

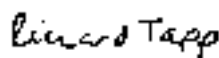
The Annual General Meeting will be held at 12 noon on 3 May 2017 at Austin Court, 80 Cambridge Street, Birmingham B1 2NP. The notice of the Annual General Meeting accompanies this Annual Report and Accounts.

Included in the AGM business is the proposal to renew the authority for the Company to purchase its own shares. As at 31 December 2016, the Company had authority from shareholders for the purchase of 43,025,462 of its own shares.

## Global Greenhouse Gas (GHG) emissions data

The disclosures in respect of CO<sub>2</sub> emissions, as required to be reported under the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013), can be found in the Sustainability section of the Strategic report on page 28.

Approved by order of the Board.



**Richard Tapp**  
Secretary

1 March 2017

# Statement of Directors' responsibilities in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report, the Strategic report, the Directors' report, the Directors' Remuneration Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements in accordance with the UK Financial Reporting Standard 101, Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' Remuneration report and Corporate Governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility statement of the Directors in respect of the Annual Report and financial statements

Each of the Directors of Carillion plc, whose names and functions are set out on pages 50 and 51, confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards and contained in this 2016 Annual Report and Accounts, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report and the Directors' report, included in this 2016 Annual Report and Accounts, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the 2016 Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's financial position, performance, business model and strategy.

Approved by order of the Board



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

# Independent auditor's report to the members of Carillion plc only

## Opinions and conclusions arising from our audit

### 1. Our opinion on the financial statements is unmodified

We have audited the Group financial statements of Carillion plc for the year ended 31 December 2016 which comprise the Group consolidated income statement, the Group consolidated and Parent Company balance sheets, the Group consolidated statement of comprehensive income, the Group consolidated and Parent Company statement of changes in equity, the Group consolidated cash flow statement and the related notes. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### 2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

#### Recognition of contract revenue, margin, and related receivables and liabilities; Risk vs 2015:

Refer to page 62 (Report of the Audit Committee), page 97 (note 1. Significant accounting policies – Revenue recognition) and page 132 (note 31. Accounting estimates and judgements – Revenue recognition).

The risk – The Group recognises revenue based on the stage of completion of construction contracts by reference to the proportion of costs incurred to the balance sheet date compared with the estimated final costs of the contract at completion and therefore relies on estimates in relation to the final out-turn of costs on each contract. Changes to these estimates could give rise to material variances in the amount of revenue and margin recognised. Contingencies may also be included in these estimates of cost to take account of specific risks, or claims against the Group, arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and adjusted where appropriate. Finally, variations and claims are recognised on a contract-by-contract basis, both on service and construction contracts, where the Group believes the rights and obligations exist given the progress of negotiations. There is therefore a high degree of judgement in: assessing the level of the cost contingencies to recognise; appropriately recognising variations and claims; and estimating the revenue recognised by the Group based on the projected final out-turn on contracts.

Our response – We evaluated the controls designed and implemented by the Group to monitor amounts owed on service and construction contracts, and in particular, the claims and variation elements across the Group. We attended a sample of, and inspected minutes from all, the Major Projects Committee meetings, which form a key part of the Group's risk process to fully challenge, at an executive level, both new tenders and contract bids and ongoing performance on existing contracts. We then selected a sample of contracts using a variety of quantitative and qualitative factors in order to assess and challenge the most significant and more complex contract positions. In this area our procedures, which varied by contract, included:

- considering the financial performance of the selected contracts against budget and historical trends to assess the historical accuracy of judgement in the recognition of claims and variations as well as the final out-turn on contracts;
- inspecting the contracts for key clauses, identifying relevant contractual mechanisms such as 'pain/gain' shares, liquidated damages and success fees and considered their impact on the completeness and existence of the amounts recognised in the financial statements;
- completing a number of site visits across the UK, Middle East and Canada, meeting local management, physically inspecting the stage of completion of individual projects and identifying areas of complexity through observation and discussion with site personnel;
- on the basis of detailed position papers obtained from the Group and conversations with senior operational, commercial and financial management, challenging the Group's estimates and judgements in respect of forecast construction contract out-turn, quantum and allocation of contingencies, settlements and the recoverability of contract balances with reference to our own assessments based on historical outcomes, third party evidence and industry norms;
- assessing the profile of aged work in progress on service contracts and challenging aged amounts for recoverability with a focus on claims and variations recognised on individual contracts;
- agreeing the above to correspondence and meeting minutes with customers around variations and claims, corroborating with assessments of these positions from the Group's legal or technical experts, if applicable; and
- we also considered the adequacy of the Group's disclosures in respect of these estimates and judgements.

#### Other revenue judgements (revenue £20.0 million (2015: Nil)) (New risk)

Refer to page 100 (note 2 Segments) and page 132 (note 31 accounting judgements and estimates).

The risk – The licensing agreement secured in 2016 was entered into at or around the same time and with the same counterparty to a series of contracts that extended the scope of the services provided by the Group's back-office outsourcing provider as described in the Strategic report on page 39. The income earned from this transaction was recognised immediately in revenue. The Group's rationale for these judgements is set out in the accounting estimates and judgements note 31. The risk is that:

- 1) the agreements are not independent, and that therefore the income should be spread over the term of the outsourcing contract;
- 2) there are ongoing obligations under the licencing agreement which indicate the income should be spread over some other period; and, or
- 3) the income earned should be recognised as other income, rather than revenue.

Our response – We first considered whether the licensing agreement could be deemed independent from extension to the scope of services provided by the Group's outsourcing provider by examining the terms of the respective contracts and meeting with the Group's legal advisors. Further, we sought to understand the cost of each of the respective elements and consider the fair value of each element, which included meeting with both the Group's third party expert and legal advisors to understand their valuation and benchmarking process for the outsourcing arrangements, the expert's historical experience and challenging the assumptions used.

We secondly considered whether there were any other ongoing obligations arising from the licence agreement which may indicate the income should be deferred. We assessed the nature and scope of the assets under licence, and examined the contractual agreements for ongoing arrangements or obligations.

We thirdly considered whether the licence income met the Group's accounting policy requirements to be deemed revenue (see accounting policies note 1) by comparing to similar historical transactions and the requirements of the accounting standards.

We finally considered the adequacy of the Group's disclosure of these transactions, both in the front end and the notes to these financial statements.

### Carrying value of goodwill (£1,571.0 million (2015: £1,544.3 million)) Risk vs 2015: =

Refer to page 62 (Report of the Audit Committee), page 96 (note 1. Significant accounting policies – Goodwill and other intangible assets) and pages 109 and 110 (note 11. Intangible assets).

The risk – The Group's balance sheet includes goodwill, principally arising from historical acquisitions in the UK. The risk is that the goodwill allocated to cash generating units ('CGU') is not recoverable and should be impaired. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgemental areas for our audit.

The Group annually carries out an impairment assessment of goodwill using a value-in-use model which is based on the net present value of the forecast earnings of the cash-generating unit ('value-in-use'). This is calculated using certain assumptions around discount rates, growth rates and cash flow forecasts.

Given the relative size of the goodwill in the Group balance sheet, particularly in the UK Services CGU, relatively small changes in these assumptions could give rise to material changes in the assessment of the carrying value of goodwill.

Our response – Our procedures included critically assessing the key assumptions applied by the Group in determining the recoverable amounts of each CGU. In particular, we:

- considered the consistency and appropriateness of the allocation of businesses and related goodwill balances into CGUs;
- considered the underlying assumptions in determining the cash flows and growth assumptions applied with reference to historical forecasting accuracy and wider macro environment conditions;
- challenged the assumptions used in the calculation of the discount rates used by the Group, including comparisons with external data sources;
- performed our own sensitivity analysis, including a reasonably possible reduction in assumed growth rates and cash flows to identify areas to focus our procedures on and, sensitised the total discounted cash flows of the Group against the notional enterprise value of the group; and
- also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions appropriately reflected the risks inherent in the valuation of goodwill.

### 3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £8.0 million (2015: £8.0 million), determined with reference to a benchmark of Group profit before tax, normalised to exclude the £1.1 million of acquisition costs set out in note 4 which equates to £147.8 million representing 5.4 per cent (2015: 5.1 per cent).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.4 million (2015: £0.4 million) in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 10 (2015: 10) reporting components, we subjected five (2015: five) to audits for Group reporting purposes and three (2015: three) to specified risk-focused audit procedures (scoping unchanged from 2015). The latter were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

The components, subjected to audits for Group reporting purposes accounted for 87 per cent of Group revenue (2015: 92 per cent), 89 per cent of Group profit before tax (2015: 80 per cent) and 80 per cent of Group total assets (2015: 80 per cent). The components subjected to specified risk-focused audit procedures accounted for eight per cent (2015: three per cent) of Group revenue, 11 per cent of Group profit before tax (2015: 13 per cent) and 14 per cent of Group total net assets (2015: 15 per cent).

For the remaining components, we performed analysis at a Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the component materialities, which ranged from £6.0 million to £6.5 million (2015: £6.0 million to £6.5 million), having regard to the mix of size and risk profile of the Group across the components. The work on three of the five (2015: three of the eight) components was performed by component auditors and the rest by the Group audit team.

The Group audit team visited three (2015: five) component locations in the United Kingdom, Canada and the United Arab Emirates (2015: in the United Kingdom, Canada, the United Arab Emirates, Qatar and Oman). Video and telephone conference meetings were also held with these component auditors and the majority of the others that were not physically visited. At these visits and meetings, the findings reported to the Group audit team were discussed in more detail, and any further work required by the Group audit team was then performed by the component auditor.

### 4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

# Independent auditor's report to the members of Carillion plc only continued

## 5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' viability statement on page 31, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 2019; or
- the disclosures in note 1. Significant accounting policies – basis of preparation of the financial statements concerning the use of the going concern basis of accounting.

## 6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the Report of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

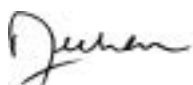
Under the Listing Rules we are required to review:

- the Directors' statements, in relation to going concern (page 47) and longer-term viability (page 31); and
- the part of the Corporate Governance statement on pages 53 to 57 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

## Scope and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 85, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate). This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at [www.kpmg.com/uk/auditscopeukco2014a](http://www.kpmg.com/uk/auditscopeukco2014a), which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



**Peter Meehan (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

1 March 2017



# Financial statements

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# Consolidated income statement

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Total revenue		5,214.2	4,586.9
Less: share of joint ventures' revenue		(819.3)	(636.2)
<b>Group revenue</b>	2	<b>4,394.9</b>	3,950.7
Cost of sales		(4,044.2)	(3,609.8)
<b>Gross profit</b>		<b>350.7</b>	340.9
Administrative expenses		(217.8)	(195.2)
Profit on disposal of Public Private Partnership equity investments		12.7	37.7
<b>Group operating profit</b>	3	<b>145.6</b>	183.4
Analysed between:			
Group operating profit before intangible amortisation and non-recurring operating items		199.6	208.4
Intangible amortisation <sup>(1)</sup>		(13.8)	(20.0)
Non-recurring operating items	4	(40.2)	(5.0)
<b>Share of results of joint ventures</b>	2	<b>36.3</b>	26.0
Analysed between:			
Operating profit		54.3	36.0
Net financial expense		(13.2)	(7.1)
Taxation		(4.8)	(2.9)
<b>Profit from operations</b>		<b>181.9</b>	209.4
Analysed between:			
Profit from operations before intangible amortisation and non-recurring operating items		235.9	234.4
Intangible amortisation <sup>(1)</sup>		(13.8)	(20.0)
Non-recurring operating items	4	(40.2)	(5.0)
Non-operating items	4	(1.1)	(2.5)
Net financial expense	5	(34.1)	(51.8)
Analysed between:			
Financial income		2.5	2.4
Financial expense		(60.4)	(60.3)
Fair value movements in derivative financial instruments		8.2	6.1
Changes in contingent consideration relating to acquisitions		15.6	-
<b>Profit before taxation</b>		<b>146.7</b>	155.1
Analysed between:			
Profit before taxation, intangible amortisation, non-recurring operating items, non-operating items, fair value movements in derivative financial instruments and changes in contingent consideration relating to acquisitions		178.0	176.5
Intangible amortisation <sup>(1)</sup>		(13.8)	(20.0)
Non-recurring operating items	4	(40.2)	(5.0)
Non-operating items	4	(1.1)	(2.5)
Fair value movements in derivative financial instruments	5	8.2	6.1
Changes in contingent consideration relating to acquisitions	5	15.6	-
Taxation	7	(17.2)	(15.7)
<b>Profit for the year</b>		<b>129.5</b>	139.4
<b>Profit attributable to:</b>			
Equity holders of the parent		124.2	132.8
Non-controlling interests		5.3	6.6
<b>Profit for the year</b>		<b>129.5</b>	139.4
<b>Earnings per share</b>	8		
Basic		28.9p	30.9p
Diluted		25.9p	28.2p

(1) Arising from business combinations.

# Consolidated statement of comprehensive income

For the year ended 31 December 2016

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

# Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interests £m	Total equity £m
At 1 January 2016	215.1	21.2	(38.9)	(8.2)	0.3	393.7	410.3	993.5	23.1	1,016.6
<b>Comprehensive income</b>										
Profit for the year	-	-	-	-	-	-	124.2	124.2	5.3	129.5
<b>Other comprehensive income</b>										
Loss on hedge of net investment in foreign operations	-	-	(19.1)	-	-	-	-	(19.1)	-	(19.1)
Currency translation differences on foreign operations	-	-	53.3	-	-	-	-	53.3	4.2	57.5
Movement in fair value of cash flow hedging derivatives	-	-	-	35.1	-	-	-	35.1	-	35.1
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(35.3)	-	-	-	(35.3)	-	(35.3)
Increase in fair value of available-for-sale assets	-	-	-	-	0.2	-	-	0.2	-	0.2
Remeasurement of net defined benefit liabilities	-	-	-	-	-	-	(439.7)	(439.7)	-	(439.7)
Taxation	-	-	3.8	(7.0)	-	-	71.1	67.9	-	67.9
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	-	-	-	(1.1)	-	-	-	(1.1)	-	(1.1)
Transfer between reserves (see note 23)	-	-	-	-	-	(4.7)	4.7	-	-	-
<b>Total comprehensive income/(expense)</b>	-	-	38.0	(8.3)	0.2	(4.7)	(239.7)	(214.5)	9.5	(205.0)
<b>Transactions with owners</b>										
<b>Contributions by and distributions to owners</b>										
Acquisition of own shares	-	-	-	-	-	-	(1.0)	(1.0)	-	(1.0)
Equity-settled transactions (net of taxation)	-	-	-	-	-	-	2.0	2.0	-	2.0
Dividends paid	-	-	-	-	-	-	(78.9)	(78.9)	(3.8)	(82.7)
<b>Total transactions with owners</b>	-	-	-	-	-	-	(77.9)	(77.9)	(3.8)	(81.7)
<b>At 31 December 2016</b>	215.1	21.2	(0.9)	(16.5)	0.5	389.0	92.7	701.1	28.8	729.9
At 1 January 2015	215.1	21.2	(33.3)	(11.2)	0.3	400.9	279.7	872.7	21.8	894.5
<b>Comprehensive income</b>										
Profit for the year	-	-	-	-	-	-	132.8	132.8	6.6	139.4
<b>Other comprehensive income</b>										
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 (see note 23)	-	-	-	-	-	(7.2)	7.2	-	-	-
<b>Total comprehensive (expense)/income</b>	-	-	(5.6)	3.0	-	(7.2)	206.8	197.0	4.5	201.5
<b>Transactions with owners</b>										
<b>Contributions by and distributions to owners</b>										
Acquisition of own shares	-	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Equity-settled transactions (net of taxation)	-	-	-	-	-	-	1.0	1.0	-	1.0
Dividends paid	-	-	-	-	-	-	(76.8)	(76.8)	(3.2)	(80.0)
<b>Total transactions with owners</b>	-	-	-	-	-	-	(76.2)	(76.2)	(3.2)	(79.4)
<b>At 31 December 2015<sup>(1)</sup></b>	215.1	21.2	(38.9)	(8.2)	0.3	393.7	410.3	993.5	23.1	1,016.6

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

# Consolidated balance sheet

As at 31 December 2016

	Note	2016 £m	2015 <sup>(1)</sup> £m
<b>Non-current assets</b>			
Property, plant and equipment	10	144.1	140.5
Intangible assets	11	1,669.3	1,634.2
Retirement benefit assets	30	5.8	12.7
Investments in joint ventures	12	174.9	160.5
Other investments	13	5.4	4.7
Deferred tax assets	14	163.8	103.8
<b>Total non-current assets</b>		<b>2,163.3</b>	2,056.4
<b>Current assets</b>			
Inventories	15	78.8	64.3
Trade and other receivables	17	1,664.0	1,270.8
Cash and cash equivalents	18	469.8	462.2
Derivative financial instruments	26	46.4	14.6
Income tax receivable		10.8	1.2
<b>Total current assets</b>		<b>2,269.8</b>	1,813.1
<b>Total assets</b>		<b>4,433.1</b>	3,869.5
<b>Current liabilities</b>			
Borrowing	19	(96.7)	(33.5)
Derivative financial instruments	26	(10.6)	(11.6)
Trade and other payables	20	(2,090.1)	(1,714.3)
Provisions	21	(7.8)	(5.0)
Income tax payable		(12.2)	(7.2)
<b>Total current liabilities</b>		<b>(2,217.4)</b>	(1,771.6)
<b>Non-current liabilities</b>			
Borrowing	19	(592.0)	(598.5)
Other payables	20	(67.3)	(64.0)
Retirement benefit liabilities	30	(810.6)	(406.2)
Deferred tax liabilities	14	(15.4)	(10.5)
Provisions	21	(0.5)	(2.1)
<b>Total non-current liabilities</b>		<b>(1,485.8)</b>	(1,081.3)
<b>Total liabilities</b>		<b>(3,703.2)</b>	(2,852.9)
<b>Net assets</b>	2	<b>729.9</b>	1,016.6
<b>Equity</b>			
Share capital	22	215.1	215.1
Share premium	23	21.2	21.2
Translation reserve	23	(0.9)	(38.9)
Hedging reserve	23	(16.5)	(8.2)
Fair value reserve	23	0.5	0.3
Merger reserve	23	389.0	393.7
Retained earnings	23	92.7	410.3
<b>Equity attributable to shareholders of the parent</b>		<b>701.1</b>	993.5
<b>Non-controlling interests</b>		<b>28.8</b>	23.1
<b>Total equity</b>		<b>729.9</b>	1,016.6

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

The financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:



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



# Consolidated cash flow statement

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
<b>Cash flows from operating activities</b>			
Group operating profit		145.6	183.4
Depreciation and amortisation		45.0	45.4
Profit on disposal of property, plant and equipment and intangible assets		(6.4)	(14.4)
Profit on disposal of Public Private Partnership equity investments		(12.7)	(37.7)
Other non-cash movements		1.9	(0.3)
Non-recurring operating items		40.2	5.0
<b>Operating profit before changes in working capital</b>		213.6	181.4
Increase in inventories		(6.3)	(14.3)
(Increase)/decrease in trade and other receivables		(290.6)	48.0
Increase/(decrease) in trade and other payables		301.5	(41.1)
<b>Cash generated from operations before cash flows on forward foreign currency contracts, pension deficit recovery payments and non-recurring operating items</b>		218.2	174.0
Cash flows on forward foreign currency contracts		(34.6)	-
Deficit recovery payments to pension schemes		(46.6)	(47.4)
Non-recurring operating items		(21.5)	(6.3)
<b>Cash generated from operations</b>		115.5	120.3
Financial income received		2.5	2.4
Financial expense paid		(39.6)	(35.3)
Acquisition-related costs		(0.9)	(6.6)
Taxation payments		(4.2)	(7.5)
<b>Net cash flows from operating activities</b>		73.3	73.3
<b>Cash flows from investing activities</b>			
Disposal of property, plant and equipment and intangible assets		13.8	17.6
Disposal of joint ventures and other investments	29	47.1	54.1
Dividends received from joint ventures		11.8	16.8
Loan advance repayments received from joint ventures		2.1	7.2
Acquisition of subsidiaries, net of cash and cash equivalents acquired	29	(32.5)	(10.6)
Acquisition of property, plant and equipment and intangible assets		(37.3)	(30.4)
Acquisition of equity in and loan advances to joint ventures		(4.8)	(28.3)
Acquisition of other non-current asset investments		-	(0.4)
<b>Net cash flows from investing activities</b>		0.2	26.0
<b>Cash flows from financing activities</b>			
Draw down/(repayment) of bank and other loans		6.7	(19.0)
Repayment of finance lease liabilities		(7.4)	(6.0)
Acquisition of own shares		(1.0)	(0.4)
Dividends paid to equity holders of the parent		(78.9)	(76.8)
Dividends paid to non-controlling interests		(3.8)	(3.2)
<b>Net cash flows from financing activities</b>		(84.4)	(105.4)
<b>Decrease in net cash and cash equivalents</b>		(10.9)	(6.1)
Net cash and cash equivalents at 1 January		455.8	465.8
Effect of exchange rate fluctuations on net cash and cash equivalents		22.8	(3.9)
<b>Net cash and cash equivalents at 31 December</b>	18	467.7	455.8

# Notes to the consolidated financial statements

## 1. Significant accounting policies

Carillion plc (the 'Company') is a company domiciled and incorporated in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in joint arrangements.

The consolidated financial statements were authorised for issuance on 1 March 2017.

### Statement of compliance

The Group's financial statements have been approved by the Directors and prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU). The Company has elected to prepare its financial statements in accordance with Financial Reporting Standard (FRS) 101 issued in the UK. These are presented on pages 134 to 139.

### Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The financial statements are prepared on a going concern basis based on the assessment made by the Directors as described in the Performance and financial review on page 47.

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, pension scheme assets and liabilities, and financial instruments classified as available-for-sale.

There were no significant new financial reporting standards that require adoption in 2016. The following standards and interpretations have not been early adopted by the Group and will be adopted in future accounting periods:

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

IFRS 15, which is effective for accounting periods beginning on or after 1 January 2018, prescribes the accounting treatment and disclosure requirements associated with revenue from contracts with customers. The Group is performing a detailed assessment of the impact of IFRS 15, with the assessment expected to be completed in the first half of 2017. The Group will be examining the potential impact on the timing of revenue recognition in relation to construction contracts. It is difficult at this stage to determine with any certainty the impact on revenue and profit from adopting this standard but further clarification will be provided in the second half of 2017 as it becomes available.

IFRS 9, which is effective for accounting periods beginning on or after 1 January 2018, establishes revised categories and measurement requirements in relation to financial assets together with changes to accounting for hedging transactions. The adoption of this standard in 2018 is not expected to have a material impact on the Group.

IFRS 16, which is effective for accounting periods beginning on or after 1 January 2019, requires the recognition of a right of use asset and a corresponding lease liability on the balance sheet. In the income statement, the existing operating lease charge recognised within operating profit will be replaced by a depreciation charge in respect of the right of use asset and an interest cost in relation to the lease liability will be recognised within financial expenses. Management will perform a detailed impact assessment and develop a transition plan during 2017.

## Basis of consolidation

### (a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 31 December 2016. Control exists when the Group has power over an entity, is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The financial statements for the material subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the Company.

The purchase method is used to account for the acquisition of subsidiaries.

### (b) Joint arrangements

The Group undertakes a number of business activities through joint arrangements. Joint arrangements exist when two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's joint arrangements are of two types:

#### Joint operations

Joint operations are joint arrangements in which the parties with joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The activities of a joint operation are primarily designed to provide an output to the parties to the arrangement indicating that:

- the parties have the rights to substantially all the economic benefits of the assets of the arrangement; and
- all liabilities are satisfied by the joint participants through their purchases of that output. This indicates that, in substance, the joint participants have an obligation for the liabilities of the arrangement.

The financial statements of the Group includes its share of the assets in joint operations, together with its share of the liabilities, revenues and expenses arising jointly or otherwise from those operations and its revenue derived from the sale of its share of the output from the joint operation. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Group's interest in the joint operation.

#### Joint ventures

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. A separate vehicle, not the parties, will have the rights to the assets and obligations for the liabilities relating to the arrangement. Typically, more than an insignificant share of the output from the joint venture is sold to third parties, which indicates that the joint venture is not dependent on the parties to the arrangement for funding and that the parties to the arrangement have no obligation for the liabilities of the arrangement.

Joint ventures are accounted for using the equity method. Under the equity method the joint venture is recorded initially at its cost to the Group, including the value of any goodwill on acquisition. In subsequent periods, the carrying amount of the joint venture is adjusted to reflect the Group's share of its post-acquisition profit or loss and other comprehensive income. After application of the equity method, including recognising the Group's share of the joint ventures' results, the value of the investment will be assessed for impairment if there is objective evidence that an impairment of the investment may have occurred. Where the Group's investment in a joint venture is nil after having applied equity accounting principles (and the Group has no legal or constructive obligation to make further payments, nor has made payments on behalf of the joint venture), dividends received from the joint venture will be recognised in the Group's result as a share of results of joint ventures.

# Notes to the consolidated financial statements continued

## 1. Significant accounting policies (continued)

### (c) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

### Goodwill and other intangible assets

In respect of acquisitions made prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice. Goodwill arising on acquisitions that have occurred since 1 January 2004 represents the difference between the fair value of the cost of acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired entity. Attributable costs associated with acquisitions are included within non-operating items in the income statement in the period incurred.

Positive goodwill is recognised as an asset in the consolidated balance sheet and is subject to an annual impairment review. Goodwill arising on the acquisition of subsidiaries is recognised separately as an intangible asset in the consolidated balance sheet. Goodwill arising on the acquisition of joint ventures is included within the carrying value of the investment. Negative goodwill is recognised in the income statement immediately.

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on the useful economic lives of the assets concerned, which are assessed annually, and are principally as follows:

### Computer software and licences

- straight-line over three to ten years.

### Customer contracts and lists

- Mowlem – consumption of economic benefits over 35 years
- Alfred McAlpine – consumption of economic benefits over 12 years
- John Laing Integrated Services – consumption of economic benefits over 25 years
- Rokstad Power Corporation – consumption of economic benefits over seven years
- Outland Group – consumption of economic benefits over nine years.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets subject to depreciation and amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement based on the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, estimated future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### Other non-current asset investments

Other non-current asset investments are classified as available-for-sale financial assets and are recognised at fair value. Changes in fair value in the year are recognised directly in the statement of comprehensive income in the fair value reserve. Dividend income from investments is recognised in the income statement when the right to receive payment is established.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the degree of completion of each contract, as measured by the proportion of total costs at the balance sheet date to the estimated total cost of the contract.

Insurance claims, incentive payments, and variations arising from construction contracts are included in revenue where it is probable that they will be recovered and are capable of being reliably measured.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable.

The principal estimation technique used by the Group in attributing profit on contracts to a particular period is the preparation of forecasts on a contract by contract basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn of each contract. Consistent contract review procedures are in place in respect of contract forecasting.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. Contract costs are recognised as expenses in the period in which they are incurred.

Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is shown as amounts owed by customers on construction contracts within trade and other receivables. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is shown as amounts owed to customers on construction contracts within trade and other payables.

### Pre-contract costs

Pre-contract costs are expensed as incurred until the Group is appointed preferred bidder or formal notification of the intention to appoint is received. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is probable, pre-contract costs incurred post the appointment as preferred bidder are included in amounts owed by customers on construction contracts.

## 1. Significant accounting policies (continued)

Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in amounts owed by customers on construction contracts. Any excess recoveries are carried forward as deferred income and released to profit over the period of the contract.

### Mobilisation costs

Mobilisation costs are non-recurring set up costs incurred to facilitate performance obligations under customer contracts. Mobilisation costs are expensed as incurred unless: (a) they are capital in nature, in which case they are capitalised in accordance with the relevant accounting standard; or (b) there is a contractual entitlement to recover such costs from the customer in the event of early termination, in which case the costs are capitalised and amortised to the income statement over the contract period. Costs are only capitalised under (b) if the contract is expected to be profitable going forward and the costs capitalised relate to future services under the contract.

### Revenue recognition

Revenue represents the fair value of consideration receivable, excluding sales-related taxation, for services supplied to external customers. It also includes the Group's proportion of work carried out under joint operations during the year. Revenue from the Group's principal business streams is recognised on the following basis:

- Revenue from service contracts is recognised by reference to services performed to date as a percentage of total services to be performed. In the event that the services are delivered evenly across the contract period, the revenue is recognised on a straight-line basis over the period the services are delivered
- Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see page 96)
- Revenue from the delivery of carbon-saving measures to utility companies and other related activities is recognised at the date of sale, except if services are to be provided over future periods, where the income is deferred and recognised over the relevant service period
- Revenue from the installation of energy-efficiency measures such as central heating and other renewable technologies is recognised by reference to the number of energy efficiency measures installed
- Revenue from the sale of a licence is recognised immediately where an agreement is, in substance, an outright sale. For an outright sale to have occurred, the Group must have signed a non-cancellable contract, have provided the licensee with the rights to freely exploit its contractual rights, have no significant ongoing delivery obligations to perform and have received a fee which is not expected to be subject to a material adjustment based on future activity. Where there is an element of contingent revenue to such an agreement, an assessment of the estimated fair value of this future revenue is considered. If this fair value is minimal then the risks and rewards of the agreement are considered to have been transferred in full and therefore the determinable sale income is recognised as revenue immediately, with any contingent revenue recognised as it is earned. Should the contingent revenue be assessed as significant, the sale income is recognised as revenue over a period consistent with the life of the technology or other appropriate measure.

## Underlying performance measures

The Group presents underlying performance measures in order to provide greater transparency of the fundamental financial performance of the Group. Consequently, underlying performance measures exclude items that management view as not being part of usual operating activities. Items that are excluded from underlying performance measures are intangible amortisation 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. Non-recurring operating items typically include the impairment of investments and costs associated with business restructuring and integration, together with Eaga Partnership Trust related charges. Non-operating items typically include costs associated with the acquisition and disposal of businesses. Fair value movements in derivative financial instruments relate to the option component of convertible bonds and are excluded from underlying performance measures as they are movements derived from market factors largely outside of the operational control of the Group. Changes in contingent consideration relating to acquisitions occur from remeasurement adjustments associated with contingent consideration payable on acquisitions that completed in prior years and are excluded in order that current year performance is not distorted. Definitions of underlying performance measures and how they reconcile to reported measures can be found on pages 140 to 143.

### Property, plant and equipment

Depreciation of property, plant and equipment is based on historical cost less the estimated residual value, and the estimated economic life of the assets concerned. Freehold land is not depreciated. Property, plant and equipment is depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold buildings	40-50 years
Leasehold improvements	Period of lease
Plant, machinery and vehicles	Three-10 years

Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the assets.

### Leasing

Operating lease rental charges are charged to the income statement on a straight-line basis over the life of each lease.

Assets held under finance leases are included in property, plant and equipment and intangible assets at the lower of fair value at the date of acquisition or present value of the minimum lease payments. The capital element of outstanding finance leases is included in financial liabilities. The finance cost element of rentals is charged to the income statement at a constant periodic rate of charge on the outstanding obligations.

### Inventories

Inventories comprise raw materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their location and condition at the balance sheet date.

Provision is made for obsolete, slow moving or defective items where appropriate.

# Notes to the consolidated financial statements continued

## 1. Significant accounting policies (continued)

### Current asset investments

Current asset investments include cash balances held on deposit for periods greater than three months and certain restricted cash balances.

These balances are excluded from cash and cash equivalents in the Group's balance sheet and cash flow statement.

### Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Foreign currencies

In individual entities, transactions denominated in foreign currencies are translated into the appropriate functional currency and recorded using the exchange rate prevailing at the date of the transaction.

On consolidation, the balance sheets of overseas entities are translated into sterling at the rates of exchange ruling at the balance sheet date. Income statements and cash flows of overseas entities are translated into sterling at rates approximating to the foreign exchange rates at the date of the transaction. Gains or losses arising from the consolidation of overseas entities are recognised in the translation reserve.

Net investment hedging of overseas operations is achieved through borrowings and forward contracts denominated in the relevant foreign currencies. Gains and losses arising from the effective portion of hedges are recognised in equity and ineffective portions are recognised immediately in the income statement.

### Employee benefits

#### (a) Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

For defined benefit pension schemes, the cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the income statement reflects certain costs associated with the administration of the Group's defined benefit schemes together with the current service cost of such obligations, and where applicable, past service costs, and is included within administrative expenses.

The net interest expense in the income statement is calculated by applying a discount rate to the net defined benefit obligation at the start of the year.

The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of scheme liabilities over the fair value of scheme assets. When the calculation results in an asset to the Group, the amount recognised is limited where the Group does not have an unconditional right to the refund of any surplus which may exist. Where it has been determined that the Group has a conditional right to a refund of surplus assets if a scheme is run off until the last member dies, the amount of any surplus is restricted consistent with the terms of the plan.

Experience differences arising from remeasurements in the year are recognised in the statement of comprehensive income.

The Group's contributions to the scheme are paid in accordance with the scheme rules and the recommendations of the actuary.

#### (b) Other post-retirement benefit obligations

Certain Group companies provide post-retirement healthcare benefits to their employees. The expected costs of providing these benefits are accrued over the period of employment and are calculated by independent actuaries based on the present value of the expected liability.

#### (c) Share-based payments

Members of the Group's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP) and UK employees are able to participate in the Sharesave scheme. Under the terms of the Group's bonus arrangements, Executive Directors and certain senior employees receive a proportion of their bonus in shares, which are deferred for a period of up to three years.

The fair value of the LEAP, Sharesave and deferred bonus arrangements at the date of grant are estimated using the Black-Scholes pricing model. The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest and taking into account service and non-market conditions.

The Group also operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The fair value of the free shares are recognised as an expense in the income statement over the vesting period of the shares.

### Borrowing costs

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are expensed to the income statement as incurred.

Borrowing costs incurred by entities relating to the construction of assets in Public Private Partnership projects are capitalised until the relevant assets are brought into operational use.

Borrowing costs are charged to the income statement using the effective interest method.

### Share capital

The ordinary share capital of the Company is recorded at the proceeds received, net of directly attributable incremental issue costs.

Consideration paid for shares in the Company held by the Employee Share Ownership Plan (ESOP) Trust are deducted from the retained earnings reserve. Where such shares subsequently vest in the employees under the terms of the Group's share option schemes or are sold, any consideration received is included in the retained earnings reserve.



## 1. Significant accounting policies (continued)

### Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation.

Provisions for restructuring are recognised when the Group has an approved restructuring plan that has either commenced or been announced publicly. Future operating costs are not provided for.

### Financial instruments

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

#### (a) Other non-current investments

Other non-current investments relate to unquoted equity interests that are not designated on initial recognition as at fair value through the income statement. Instead, they are recognised at fair value with movements in fair value recognised in the fair value reserve.

#### (b) Trade receivables

Trade receivables are initially recognised at fair value and then are stated at amortised cost.

#### (c) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less.

Bank overdrafts are also included as they are an integral part of the Group's cash management.

#### (d) Current asset investments

Current asset investments are carried in the balance sheet at amortised cost.

#### (e) Trade payables

Trade payables are initially recognised at fair value and then are stated at amortised cost.

#### (f) Bank and other borrowings

Interest-bearing bank loans and overdrafts and other loans are recognised initially at amortised cost less attributable transaction costs. All borrowings are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the income statement over the period to redemption.

#### (g) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value is dependent on whether the derivative is designated as a hedging instrument.

A number of the Group's PPP joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. The effective part of the change in fair value of these derivatives is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date.

The Group also enters into forward contracts in order to provide an economic hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, movements in fair value are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

In accordance with IAS 32 'Financial Instruments: Presentation', the Group's convertible bonds with a cash settlement option are assessed as a hybrid financial instrument, comprising an embedded derivative component (representing the option) and a debt component. At inception, the fair value of the embedded derivative component is determined using a Black-Scholes or a similar bespoke model. The fair value attributed to the debt component is the difference between the proceeds of the issue and the fair value attributed to the embedded derivative component.

Subsequently, the fair value of the embedded derivative is remeasured each year, with the movement recognised within the net financial expense in the income statement as a non-underlying item. In relation to the debt component, interest is charged to the income statement based on applying a market interest rate at the date of issue for a similar bond without the conversion option and is included in financial expenses in the income statement. The difference between the interest charge above and the coupon interest paid is added to the carrying amount of the debt component.

#### (h) Deferred and contingent consideration

Deferred consideration arises when settlement of all or any part of the cost of a business combination is deferred to a future period. Contingent consideration arises when all or any part of the cost of a business combination is dependent upon the occurrence of future events or performance.

Deferred and contingent consideration is stated at fair value at the date of acquisition, which is determined by discounting management's assessment of the amount due to its present value at that date and subsequently remeasured at fair value at each reporting date.

Interest in relation to deferred and contingent consideration is imputed on the fair value of consideration and included in the income statement within financial expenses. Any subsequent changes to deferred and contingent consideration within the remeasurement period are reflected within the goodwill calculation. Any changes to deferred and contingent consideration outside of the remeasurement period are recognised as a non-underlying item in the income statement within financial expenses.

Where consideration is contingent on the continued employment of the former owners of an acquired business, the amount relating to post-acquisition service is recognised as an expense in the income statement.

### Net borrowing

Net borrowing comprises cash and cash equivalents together with bank overdrafts and loans, finance leases and other loans.

# Notes to the consolidated financial statements continued

## 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.

### Segmental revenue and profit

#### 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.

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

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

## 2. Segmental reporting (continued)

Reconciliation of operating segment results to reported results

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

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

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

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

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

# Notes to the consolidated financial statements continued

## 2. Segmental reporting (continued)

### Segmental net assets

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

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

(2) Arising from business combinations.

## 2. Segmental reporting (continued)

### Geographic information – by origin

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

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

	2016 £m	2015 £m
Support services	861.3	911.1
Public Private Partnership projects	174.5	153.4
Construction services (excluding the Middle East)	683.2	689.2
	<b>1,719.0</b>	<b>1,753.7</b>

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



# Notes to the consolidated financial statements continued

## 3. Group operating profit

	2016 £m	2015 £m
Group operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	25.0	22.4
Amortisation of intangible assets	20.0	23.0
Impairment of other investments	–	5.0
Impairment of trade receivables	1.7	0.1
Profit on disposal of property, plant and equipment and intangible assets	(6.4)	(14.4)
Operating lease charges	57.5	48.5
Foreign exchange (gains)/losses	(7.4)	0.8
Loss/(gain) on derivative financial assets and liabilities held for trading	8.1	(2.3)
Auditor's remuneration:		
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	0.3	0.3
– the audit of the Company's subsidiaries	0.9	0.8
– the audit of the Group's pension schemes	0.1	0.1
– the Group's share of the audit of joint ventures	0.1	0.2
<b>Total audit fees</b>	<b>1.4</b>	<b>1.4</b>
– taxation services	0.2	0.3
– other assurance services	–	0.1
<b>Total non-audit fees</b>	<b>0.2</b>	<b>0.4</b>
	<b>1.6</b>	<b>1.8</b>

## 4. Non-recurring operating items and non-operating items

### Non-recurring operating items

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

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

### Non-operating items

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

## 5. Financial income and expense

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

## 5. Financial income and expense (continued)

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

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

In relation to the fair value movements in the derivative component of convertible bonds, a deferred tax charge of £1.6 million (2015: £1.2 million) is included within taxation in the income statement.

## 6. Payroll costs and employee numbers

	2016 £m	2015 £m
Wages and salaries	825.1	824.4
Social security costs	76.5	66.2
Pension costs	31.2	31.0
Equity-settled transactions	2.0	1.1
	<b>934.8</b>	<b>922.7</b>

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 30 and includes a charge of £25.0 million (2015: £21.1 million) in respect of defined contribution schemes.

Detailed information concerning Directors' remuneration, including their pension benefits and long-term incentive arrangements, is set out in the Remuneration Report on pages 65 to 81.

The average number of employees during each year, including Directors, was:

	2016 Number	2015 Number
Support services	20,684	20,446
Public Private Partnership projects	31	27
Middle East construction services	7,945	8,649
Construction services (excluding the Middle East)	2,604	2,570
Corporate centre	364	363
	<b>31,628</b>	<b>32,055</b>
UK	19,256	19,486
Overseas	12,372	12,569
	<b>31,628</b>	<b>32,055</b>

In addition to the above there are 11,429 staff (2015: 11,277) employed within the Group's joint ventures located in the Middle East.

## 7. Income tax

### Recognised in the income statement

	2016 £m	2015 £m
<b>Current tax expense/(credit)</b>		
Current year		
– UK	1.1	0.6
– Overseas	8.3	7.5
Adjustments for prior years		
– UK	(0.7)	(1.8)
– Overseas	(0.5)	(0.2)
<b>Total current tax</b>	<b>8.2</b>	<b>6.1</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	9.0	8.3
Change of rate	–	1.0
Adjustments for prior years	–	0.3
<b>Total deferred tax</b>	<b>9.0</b>	<b>9.6</b>
<b>Total income tax expense in the income statement</b>	<b>17.2</b>	<b>15.7</b>

# Notes to the consolidated financial statements continued

## 7. Income tax (continued)

### Reconciliation of effective tax rate

	2016 £m	2015 £m
<b>Profit before tax</b>	<b>146.7</b>	155.1
Tax of joint ventures	4.8	2.9
	<b>151.5</b>	158.0
<b>Income tax at UK standard corporation tax rate of 20% (2015: 20.25%)</b>	<b>30.3</b>	32.0
Permanent differences	2.6	0.1
Untaxed profits	(1.1)	(2.3)
Capital items not taxable/not deductible	0.3	(8.8)
Effect of utilisation of brought-forward tax losses	(4.3)	(0.3)
Effect of tax rates in foreign jurisdictions	(0.8)	(1.0)
Change in rate	–	1.0
Over provided in prior years	(2.0)	(2.7)
Deferred taxation relating to prior year losses	(3.0)	0.6
<b>Total tax (including tax of joint ventures)</b>	<b>22.0</b>	18.6
Tax of joint ventures	(4.8)	(2.9)
<b>Group income tax expense</b>	<b>17.2</b>	15.7

Effect of utilisation of brought-forward tax losses of £4.3 million in 2016 includes a £4.0 million credit relating to the utilisation of historic capital losses. Over provided in prior years of £2.0 million in 2016 includes a £0.8 million credit (2015: £1.0 million credit) arising from a review of the nature of the tax position in certain joint venture entities.

### Tax (asset)/liability recognised either in the statement of changes in other comprehensive income or directly in equity

	2016 £m	2015 £m
Deferred tax on remeasurement of net defined benefit liabilities	(71.1)	21.7
Deferred tax on cash flow hedging derivatives	7.0	3.2
Current tax on foreign exchange translation adjustments	(3.8)	1.6
Tax recognised in statement of comprehensive income	(67.9)	26.5
Tax recognised directly in equity:		
– Deferred tax on equity-settled transactions	–	0.1
<b>Total tax recognised in equity</b>	<b>(67.9)</b>	26.6

Deferred tax on remeasurement of net defined benefit liabilities of £71.1 million in 2016 includes a credit of £12.3 million (2015: £3.9 million charge) in respect of the change in tax rate to 17 per cent, which was substantively enacted on 5 September 2016.

## 8. Earnings per share

### (a) Basic earnings per share

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

In millions of shares	2016	2015
Issued ordinary shares at 1 January	430.3	430.3
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust (see note 23)	(0.1)	(0.1)
<b>Weighted average number of ordinary shares at 31 December</b>	<b>430.2</b>	430.2

## 8. Earnings per share (continued)

### (b) Underlying performance

A reconciliation of profit before taxation and basic earnings per share, as reported in the income statement, to underlying profit before taxation and earnings per share is set out below. The adjustments made in arriving at the underlying performance measures are made to illustrate the impact of the amortisation of intangible assets arising from business combinations, non-recurring operating items, non-operating items, fair value movements in derivative financial instruments and changes in contingent consideration relating to acquisitions.

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

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

### (c) Diluted earnings per share

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

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

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

## 9. Dividends

The following dividends were paid by the Company:

	2016		2015	
	£m	Pence per share	£m	Pence per share
Previous year final dividend	54.0	12.55	52.3	12.15
Current year interim dividend	24.9	5.80	24.5	5.70
<b>Total</b>	<b>78.9</b>	<b>18.35</b>	76.8	17.85

The following dividends were proposed by the Company:

	2016		2015	
	£m	Pence per share	£m	Pence per share
Interim	24.9	5.80	24.5	5.70
Final	54.4	12.65	54.0	12.55
<b>Total</b>	<b>79.3</b>	<b>18.45</b>	78.5	18.25

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

# Notes to the consolidated financial statements continued

## 10. Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
<b>Cost</b>			
At 1 January 2016	28.3	150.0	178.3
Additions	2.1	18.1	20.2
Disposals	(0.3)	(22.4)	(22.7)
Effect of movements in foreign exchange rates	7.4	24.8	32.2
<b>At 31 December 2016</b>	<b>37.5</b>	<b>170.5</b>	<b>208.0</b>
<b>Depreciation and impairment losses</b>			
At 1 January 2016	2.4	35.4	37.8
Depreciation charge for the year	1.5	23.5	25.0
Disposals	–	(16.4)	(16.4)
Effect of movements in foreign exchange rates	2.8	14.7	17.5
<b>At 31 December 2016</b>	<b>6.7</b>	<b>57.2</b>	<b>63.9</b>
<b>Net book value</b>			
At 1 January 2016	25.9	114.6	140.5
<b>At 31 December 2016</b>	<b>30.8</b>	<b>113.3</b>	<b>144.1</b>

Included in the net book value of plant, equipment and vehicles is £20.3 million (2015: £17.2 million) in respect of assets held under finance leases and hire purchase contracts. The leased equipment is secured against lease obligations as disclosed in note 19.

	Land and buildings £m	Plant, equipment and vehicles <sup>(1)</sup> £m	Total <sup>(1)</sup> £m
<b>Cost</b>			
At 1 January 2015	39.0	136.0	175.0
Acquisition of Outland Group (see note 29)	0.2	2.3	2.5
Additions	1.9	27.8	29.7
Disposals	(9.5)	(5.3)	(14.8)
Effect of movements in foreign exchange rates	(3.3)	(10.8)	(14.1)
<b>At 31 December 2015</b>	<b>28.3</b>	<b>150.0</b>	<b>178.3</b>
<b>Depreciation and impairment losses</b>			
At 1 January 2015	9.3	23.8	33.1
Depreciation charge for the year	2.0	20.4	22.4
Disposals	(7.9)	(3.7)	(11.6)
Effect of movements in foreign exchange rates	(1.0)	(5.1)	(6.1)
<b>At 31 December 2015</b>	<b>2.4</b>	<b>35.4</b>	<b>37.8</b>
<b>Net book value</b>			
At 1 January 2015	29.7	112.2	141.9
<b>At 31 December 2015</b>	<b>25.9</b>	<b>114.6</b>	<b>140.5</b>

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



## 11. Intangible assets

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
<b>Cost</b>					
At 1 January 2016	1,544.3	320.1	1,864.4	50.1	1,914.5
Additions	–	–	–	27.5	27.5
Disposals	–	–	–	(6.8)	(6.8)
Effect of movements in foreign exchange rates	26.7	5.3	32.0	1.2	33.2
<b>At 31 December 2016</b>	<b>1,571.0</b>	<b>325.4</b>	<b>1,896.4</b>	<b>72.0</b>	<b>1,968.4</b>
<b>Amortisation and impairment losses</b>					
At 1 January 2016	–	254.7	254.7	25.6	280.3
Amortisation for the year	–	13.8	13.8	6.2	20.0
Disposals	–	–	–	(5.4)	(5.4)
Effect of movements in foreign exchange rates	–	3.3	3.3	0.9	4.2
<b>At 31 December 2016</b>	<b>–</b>	<b>271.8</b>	<b>271.8</b>	<b>27.3</b>	<b>299.1</b>
<b>Net book value</b>					
At 1 January 2016	1,544.3	65.4	1,609.7	24.5	1,634.2
<b>At 31 December 2016</b>	<b>1,571.0</b>	<b>53.6</b>	<b>1,624.6</b>	<b>44.7</b>	<b>1,669.3</b>

Included in the net book value of computer software and licences is £2.9 million (2015: £5.4 million) in respect of assets held under finance leases. The leased assets are secured against lease obligations as disclosed in note 19.

	Goodwill <sup>(1)</sup> £m	Customer contracts and lists £m	Total arising from business combinations <sup>(1)</sup> £m	Computer software and licences £m	Total <sup>(1)</sup> £m
<b>Cost</b>					
At 1 January 2015	1,510.9	312.0	1,822.9	49.6	1,872.5
Acquisitions (see note 29)	43.4	9.8	53.2	–	53.2
Additions	–	–	–	1.2	1.2
Effect of movements in foreign exchange rates	(10.0)	(1.7)	(11.7)	(0.7)	(12.4)
<b>At 31 December 2015</b>	<b>1,544.3</b>	<b>320.1</b>	<b>1,864.4</b>	<b>50.1</b>	<b>1,914.5</b>
<b>Amortisation and impairment losses</b>					
At 1 January 2015	–	235.5	235.5	22.9	258.4
Amortisation for the year	–	20.0	20.0	3.0	23.0
Effect of movements in foreign exchange rates	–	(0.8)	(0.8)	(0.3)	(1.1)
<b>At 31 December 2015</b>	<b>–</b>	<b>254.7</b>	<b>254.7</b>	<b>25.6</b>	<b>280.3</b>
<b>Net book value</b>					
At 1 January 2015	1,510.9	76.5	1,587.4	26.7	1,614.1
<b>At 31 December 2015</b>	<b>1,544.3</b>	<b>65.4</b>	<b>1,609.7</b>	<b>24.5</b>	<b>1,634.2</b>

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

# Notes to the consolidated financial statements continued

## 11. Intangible assets (continued)

### Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill:

	2016 £m	2015 <sup>(1)</sup> £m
<b>Construction services (excluding the Middle East) segment</b>		
UK construction	239.1	239.1
Canada construction	10.7	8.7
	<b>249.8</b>	<b>247.8</b>
<b>Support services segment</b>		
UK services	1,191.2	1,191.2
Canada services	130.0	105.3
	<b>1,321.2</b>	<b>1,296.5</b>
<b>Total goodwill</b>	<b>1,571.0</b>	<b>1,544.3</b>

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

Each year, and whenever events or a change in the economic environment indicates a risk of impairment, the Group reviews the value of goodwill balances allocated to its cash-generating units (CGU). In the absence of any identified impairment risks, tests are performed based on internal valuations of each CGU.

Management consider Support services, Public Private Partnership projects, Middle East construction services and Construction services (excluding the Middle East) as distinct reporting segments. Goodwill has been allocated to the applicable CGUs within the Construction services (excluding the Middle East) and Support services reporting segments detailed above. CGUs have been identified within the reporting segments as those businesses that generate cash inflows largely independently of other businesses within the Group, and which are subject to independent management.

Following its acquisition in 2015, Ask Real Estate Limited, a business based in the UK, has been integrated into the Group's Construction services reporting segment and consequently the goodwill recognised on this acquisition of £6.1 million has been allocated to the UK construction CGU.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The value-in-use in 2016 was determined on a similar basis to 2015. The key assumptions for the value-in-use calculations are those regarding discount rates, growth rates and expected changes to revenue and direct costs during the period. These assumptions were reviewed in 2016 in the light of the continuing challenging economic environment. The adverse impact of macro-economic factors on the financial stability of our customers, partners and suppliers continues to be mitigated by applying rigorous selectivity criteria in relation to their financial stability, the security of project funding and contractual terms and conditions.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Whilst the Group has four CGUs, the risks and rewards associated with Construction services (excluding the Middle East) are consistent, and therefore one discount rate has been applied to each CGU. Similarly the risks and rewards encountered in the Support services CGUs are consistent and therefore one discount rate has been applied to each CGU. In determining the pre-tax discount rate management has derived a Weighted Average Cost of Capital (WACC) using the capital asset pricing model to determine the cost of equity and then weighting the overall cost of capital for the Group by equity and debt. The rates used to discount the forecast cash flows for the CGUs were updated in 2016 to reflect current market conditions and resulted in the discount rate for the Construction services (excluding the Middle East) segment remaining unchanged at 9.7 per cent (2015: 9.7 per cent) and for the Support services segment remaining unchanged at 8.6 per cent (2015: 8.6 per cent).

The cash flows used to determine the value-in-use calculations are from the latest three-year forecasts approved by management, which are based upon secured and probable orders and the Group's overall strategic direction. The cash flows are extrapolated from year four, with a terminal value using a growth rate of 2.5 per cent. This growth rate does not exceed the long-term industry average and reflects the synergies from acquisitions.

Management has undertaken sensitivity analysis on a number of key assumptions in the value-in-use calculations. Sensitivity analysis on the discount rate shows that the discount rate would have to increase to a minimum of 21.3 per cent for Construction services (excluding the Middle East) and to a minimum of 19.0 per cent for Support services before an impairment was triggered in any CGU. On the basis of the sensitivity analysis undertaken in relation to cash flows, management concluded that there is a more than adequate amount of headroom in the value-in-use calculations before an impairment would be triggered. Management has also concluded that there was no reasonably possible change in any of the key assumptions used in testing goodwill for impairment that would have caused an impairment to be recognised. Overall, as at 31 December 2016, based on internal valuations, management has concluded that the recoverable value of the Group's CGUs exceeded their carrying amount.

In addition, following the reduction in contingent consideration payable on the acquisition of Rokstad and Outland arising from lower expectations for EBITDA performance in the short-term (see note 29) together with the impact of the prolonged low oil price on the performance of Bouchier, management undertook a detailed review of the recoverability of the goodwill arising from these acquisitions, which form part of the Canada services CGU. The review included sensitivity analysis involving reductions to expected future cash flows of 25 per cent and an increase in the discount rate of 50 per cent. On the basis of the detailed review undertaken, management concluded that there was no impairment to the carrying amount of goodwill within the Canada services CGU.

### Amortisation charge

The amortisation profile relating to intangible assets arising from business combinations is shown below:

Acquisition	Original cost £m	Amortisation period	Amortisation profile
Mowlem	119.0	2006-2041	84 per cent complete by 2019
Alfred McAlpine	125.4	2008-2019	100 per cent complete in 2019
John Laing Integrated Services	27.2	2013-2041	60 per cent complete by 2019
Rokstad Power Corporation	11.5	2015-2021	92 per cent complete by 2019
Outland	9.8	2015-2023	93 per cent complete by 2019

## 12. Investments in joint ventures

	Total £m
<b>Cost</b>	
At 1 January 2016	82.5
Loan advances	4.8
Disposals	(25.2)
Loan repayments	(2.5)
Effect of movements in foreign exchange rates	4.3
<b>At 31 December 2016</b>	<b>63.9</b>
<b>Share of post-acquisition results</b>	
At 1 January 2016	78.0
Share of results for the year after taxation	36.3
Share of change in fair value of cash flow hedges (net of taxation)	(1.1)
Disposals	(10.1)
Distributions received	(11.8)
Effect of movements in foreign exchange rates	19.7
<b>At 31 December 2016</b>	<b>111.0</b>
<b>Net book value</b>	
At 1 January 2016	160.5
<b>At 31 December 2016</b>	<b>174.9</b>

During the year, the Group disposed of equity investments in joint ventures engaged in Public Private Partnership (PPP) activities as disclosed in note 29.

	Total <sup>(1)</sup> £m
<b>Cost</b>	
At 1 January 2015	70.9
Acquisition of Ask Real Estate Limited (see note 29)	4.9
Equity investments and loan advances	28.3
Disposals	(10.8)
Loan repayments	(7.2)
Effect of movements in foreign exchange rates	(3.6)
<b>At 31 December 2015</b>	<b>82.5</b>
<b>Share of post-acquisition results</b>	
At 1 January 2015	59.7
Share of results for the year after taxation	26.0
Disposals	5.4
Distributions received	(16.8)
Effect of movements in foreign exchange rates	3.7
<b>At 31 December 2015</b>	<b>78.0</b>
<b>Net book value</b>	
At 1 January 2015	130.6
<b>At 31 December 2015</b>	<b>160.5</b>

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

During 2015, the Group disposed of equity investments in joint ventures engaged in PPP activities as disclosed in note 29.

# Notes to the consolidated financial statements continued

## 12. Investments in joint ventures (continued)

	2016			2015		
	PPP projects £m	Other £m	Total £m	PPP projects £m	Other <sup>(1)</sup> £m	Total <sup>(1)</sup> £m
Non-current assets	368.2	101.3	469.5	380.9	71.3	452.2
Cash	95.1	10.0	105.1	86.6	14.5	101.1
Other current assets	46.6	460.8	507.4	33.8	311.0	344.8
<b>Share of gross assets</b>	<b>509.9</b>	<b>572.1</b>	<b>1,082.0</b>	501.3	396.8	898.1
Current borrowing	(4.9)	(44.6)	(49.5)	(2.9)	(22.9)	(25.8)
Current liabilities	(23.5)	(353.7)	(377.2)	(33.5)	(208.6)	(242.1)
Non-current borrowing	(426.1)	(0.2)	(426.3)	(413.6)	(28.6)	(442.2)
Non-current liabilities	(42.4)	–	(42.4)	(30.3)	(9.6)	(39.9)
Provisions	(10.6)	–	(10.6)	(9.5)	(2.6)	(12.1)
<b>Share of gross liabilities</b>	<b>(507.5)</b>	<b>(398.5)</b>	<b>(906.0)</b>	(489.8)	(272.3)	(762.1)
<b>Share of net assets excluding derivatives</b>	<b>2.4</b>	<b>173.6</b>	<b>176.0</b>	11.5	124.5	136.0
Financial instrument derivatives	(1.1)	–	(1.1)	–	–	–
<b>Share of net assets</b>	<b>1.3</b>	<b>173.6</b>	<b>174.9</b>	11.5	124.5	136.0
Loan advances	–	–	–	24.5	–	24.5
<b>Total investment in jointly controlled entities</b>	<b>1.3</b>	<b>173.6</b>	<b>174.9</b>	36.0	124.5	160.5

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

There are no material joint ventures included in the above that require separate disclosure.

The Group's share of total comprehensive income in relation to joint ventures in 2016 of £35.2 million (2015: £26.0 million) comprises the Group's share of results for the year after taxation of £36.3 million (2015: £26.0 million) and the Group's share of other comprehensive expense of £1.1 million (2015: Nil).

Financial instrument derivatives within PPP projects relate to interest rate swaps entered into by the joint ventures concerned as a means of hedging interest rate risk and are stated net of deferred tax. In accordance with International Accounting Standard 39 'Financial instruments: Recognition and measurement', these derivatives are accounted for as cash flow hedges with the effective portion of movements in fair value each year recognised in the hedging reserve and recycled on disposal.

## 13. Other investments

	£m
<b>Fair value</b>	
At 1 January 2016	9.7
Fair value of equity interests retained on partial disposals	0.5
Increase in fair value	0.2
<b>At 31 December 2016</b>	<b>10.4</b>
<b>Impairment losses</b>	
<b>At 1 January and 31 December 2016</b>	<b>5.0</b>
<b>Net book value</b>	
At 1 January 2016	4.7
<b>At 31 December 2016</b>	<b>5.4</b>

The fair value of equity interests retained on partial disposals of £0.5 million arises on the partial disposal of an equity interest in a Public Private Partnership project, which was previously accounted for as an investment in joint ventures.

### 13. Other investments (continued)

	£m
<b>Fair value</b>	
At 1 January 2015	23.1
Additions	0.4
Disposals	(13.8)
<b>At 31 December 2015</b>	<b>9.7</b>
<b>Impairment losses</b>	
At 1 January 2015	13.8
Impairment charge for the year	5.0
Released following disposal	(13.8)
<b>At 31 December 2015</b>	<b>5.0</b>
<b>Net book value</b>	
At 1 January 2015	9.3
<b>At 31 December 2015</b>	<b>4.7</b>

Additions in 2015 of £0.4 million relate to cash paid in the first half of the year in respect of a further stakeholder loan to the Green Deal Finance Company Limited. The impairment charge for the year of £5.0 million relates to the impairment of the stakeholder loan funding provided to the Green Deal Finance Company Limited, following the decision by the UK Government in the second half of the year to withdraw its financial support to the Green Deal Finance Company Limited in the wake of the continuing low take-up under the Government's Green Deal initiative.

### 14. Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to temporary differences relating to the following:

	<b>Assets</b>		<b>Liabilities</b>		<b>Net</b>	
	<b>2016 £m</b>	<b>2015 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>
Property, plant and equipment	3.6	7.4	–	–	3.6	7.4
Intangible assets	–	–	(8.0)	(10.9)	(8.0)	(10.9)
Liability for National Insurance on future Eaga Partnership Trust's distributions	0.8	0.8	–	–	0.8	0.8
Employee benefits	141.6	75.9	–	–	141.6	75.9
Working capital	–	–	(17.1)	(10.1)	(17.1)	(10.1)
Equity-settled transactions	0.3	0.3	–	–	0.3	0.3
Tax value of carry forward losses recognised	27.2	29.9	–	–	27.2	29.9
Tax assets/(liabilities)	173.5	114.3	(25.1)	(21.0)	148.4	93.3
Set off of tax	(9.7)	(10.5)	9.7	10.5	–	–
<b>Net deferred tax assets/(liabilities)</b>	<b>163.8</b>	<b>103.8</b>	<b>(15.4)</b>	<b>(10.5)</b>	<b>148.4</b>	<b>93.3</b>

#### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	<b>2016 £m</b>	<b>2015 £m</b>
Tax losses	15.8	19.4

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these losses due to the lack of certainty concerning the quantum and timing of future years' taxable profits of the companies concerned.



# Notes to the consolidated financial statements continued

## 14. Deferred tax assets and liabilities (continued)

Movements in temporary differences during the year are as follows:

	Balance 1 January 2016 £m	Recognised in income £m	Recognised in equity £m	Balance 31 December 2016 £m
Property, plant and equipment	7.4	(3.8)	–	3.6
Intangible assets	(10.9)	2.9	–	(8.0)
Liability for National Insurance on future Eaga Partnership Trust's distributions	0.8	–	–	0.8
Employee benefits	75.9	(5.4)	71.1	141.6
Working capital	(10.1)	–	(7.0)	(17.1)
Equity-settled transactions	0.3	–	–	0.3
Tax value of carry forward losses recognised	29.9	(2.7)	–	27.2
	93.3	(9.0)	64.1	148.4

	Balance 1 January 2015 £m	Acquisitions £m	Recognised in income £m	Recognised in equity £m	Balance 31 December 2015 £m
Property, plant and equipment	8.5	0.2	(1.3)	–	7.4
Intangible assets	(13.3)	(2.6)	5.0	–	(10.9)
Liability for National Insurance on future Eaga Partnership Trust's distributions	0.8	–	–	–	0.8
Employee benefits	103.5	–	(5.9)	(21.7)	75.9
Working capital	(6.2)	0.5	(1.2)	(3.2)	(10.1)
Equity-settled transactions	–	–	0.4	(0.1)	0.3
Tax value of carry forward losses recognised	36.5	–	(6.6)	–	29.9
	129.8	(1.9)	(9.6)	(25.0)	93.3

## 15. Inventories

	2016 £m	2015 £m
Raw materials and consumables	40.2	36.9
Work in progress	38.6	27.4
	78.8	64.3

Development work in progress of £22.1 million (2015: £22.0 million) is expected to be recovered after more than 12 months.

## 16. Construction contracts

Contracts in progress at the balance sheet date:

	2016 £m	2015 £m
Due from customers for contract work	614.5	386.8
Due to customers for contract work	(57.4)	(62.8)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £6,116.2 million (2015: £5,881.6 million).

The amount of construction contract revenue recognised in revenue in the year amounted to £1,939.2 million (2015: £1,607.0 million).

## 17. Trade and other receivables

	2016 £m	2015 <sup>(i)</sup> £m
Trade receivables	229.5	253.1
Amounts owed by customers on construction contracts	614.5	386.8
Other receivables and prepayments	749.5	550.1
Amounts owed by joint ventures	59.9	59.6
Amounts owed under jointly controlled operations	10.6	21.2
	1,664.0	1,270.8

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

At 31 December 2016, retentions of £141.7 million (2015: £135.9 million) relating to construction contracts and other amounts recoverable after more than one year of £105.5 million (2015: £93.2 million) are included above as they are recoverable within the normal operating cycle of the Group.

## 18. Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise:

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

Reconciliation of net cash flow to movement in net borrowing:

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

## 19. Borrowing

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26.

	2016 £m	2015 £m
<b>Current liabilities</b>		
Bank overdrafts	2.1	6.4
Bank loans	65.2	16.7
Finance lease obligations	7.2	6.3
Other loans	22.2	4.1
	<b>96.7</b>	33.5
<b>Non-current liabilities</b>		
Bank loans	80.7	102.1
Finance lease obligations	8.4	11.5
Other loans	502.9	484.9
	<b>592.0</b>	598.5
<b>Total borrowing</b>	<b>688.7</b>	632.0

# Notes to the consolidated financial statements continued

## 19. Borrowing (continued)

In 2016, non-current other loans of £502.9 million and current other loans of £22.2 million include private placement financing at fixed rates of interest of £360.8 million and the debt component of convertible bonds amounting to £162.2 million. The contractual terms of private placement financing are disclosed below:

Currency	Currency amount	Sterling amount £m	Interest rate %	Maturity date
US\$	25.0	20.1	3.85	November 2017
£ sterling	49.0	49.0	4.38	September 2018
£ sterling	17.5	17.5	3.62	August 2019
US\$	80.0	64.6	4.29	November 2019
£ sterling	51.0	51.0	5.10	September 2021
£ sterling	17.5	17.5	4.19	August 2022
US\$	140.0	112.9	4.86	November 2022
US\$	35.0	28.2	5.01	November 2024
		360.8		

In relation to the US dollar denominated private placement financing, the Group has entered into cross-currency derivative instruments that correspond to the profile of the principal and interest repayments.

In December 2014, the Group issued £170 million of unsecured convertible bonds maturing by December 2019 with a coupon of 2.5 per cent payable semi-annually in arrears. The initial conversion price has been set at 398.56 pence and upon conversion Carillion may elect to settle its obligations by way of delivery of ordinary shares, payment of a cash alternative amount or a combination of the two. At inception, the proceeds from the convertible bond comprised a derivative liability component of £13.4 million and a debt component of £156.6 million. The derivative liability component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company or to settle in cash and is calculated using a Black-Scholes or similar bespoke model. The fair value of the debt component is calculated as the difference between the proceeds from the issue and the fair value of the embedded derivative component. The debt component at 31 December 2016 amounted to £162.2 million and included £5.6 million of interest accretion.

Bank loans and overdrafts are largely unsecured and bear interest at floating rates linked to the London Interbank Offered Rate, the Canadian Dollar Offered Rate or the Emirates Interbank Offered Rate. The Group's main revolving bank loan facility of £790 million matures in November 2020. Within current and non-current bank loans of £145.9 million (2015: £118.8 million) are loans amounting to £3.7 million (2015: £9.3 million) which are secured on the assets to which they relate. Finance lease obligations are secured on the assets to which they relate.

### Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2016 £m	Interest 2016 £m	Principal 2016 £m	Minimum lease payments 2015 £m	Interest 2015 £m	Principal 2015 £m
Less than one year	7.6	(0.4)	7.2	7.0	(0.7)	6.3
Between one and five years	8.8	(0.4)	8.4	12.2	(0.7)	11.5
	16.4	(0.8)	15.6	19.2	(1.4)	17.8

Under the terms of the lease agreements, no contingent rents are payable.

## 20. Trade and other payables

	2016 £m	2015 <sup>(1)</sup> £m
<b>Current liabilities</b>		
Trade payables	749.2	591.4
Amounts owed to customers on construction contracts	57.4	62.8
Other tax and social security costs	44.2	67.4
Amounts owed to joint ventures	112.4	87.0
Amounts owed to jointly controlled operations	21.8	9.0
Other creditors	760.5	561.7
Accruals and deferred income	340.9	304.0
Deferred consideration payable <sup>(2)</sup>	3.7	31.0
	2,090.1	1,714.3

Within trade and other payables are £40.7 million (2015: £32.7 million) of liabilities due in more than one year but which are payable within the normal operating cycle of the Group. All other trade and other payables are due within one year.

	2016 £m	2015 <sup>(1)</sup> £m
<b>Non-current liabilities</b>		
Contingent consideration payable	67.3	64.0

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

(2) Deferred consideration payable within current liabilities is recognised at its undiscounted fair value.

Deferred and contingent consideration payable within current and non-current liabilities relates to the acquisition of Rokstad Power Corporation, Outland Group and Ask Real Estate Limited as disclosed in note 29. The expected maturity profile of this liability is disclosed in note 26.

## 21. Provisions

	Rationalisation £m	Onerous leases £m	EPT NI £m	Total £m
At 1 January 2016	–	3.1	4.0	7.1
Provision created	3.2	–	–	3.2
Discount unwind	–	0.2	–	0.2
Provisions utilised	–	(2.2)	–	(2.2)
<b>At 31 December 2016</b>	<b>3.2</b>	<b>1.1</b>	<b>4.0</b>	<b>8.3</b>
Disclosed within:				
Current liabilities	3.2	0.6	4.0	7.8
Non-current liabilities	–	0.5	–	0.5
	3.2	1.1	4.0	8.3

The rationalisation provision relates to a cost reduction programme initiated in 2016 which will deliver future cost efficiencies. The onerous lease provision relates to a number of onerous leases from acquisitions, disposals and restructuring programmes undertaken by the Group. The provision is expected to be fully utilised over the next two years. The Eaga Partnership Trust (EPT) NI provision at 1 January 2016 relates to the provision which was recognised on the acquisition of Carillion Energy Services (CES) in 2011 in connection with future distributions to employees from the EPT which crystallises a National Insurance cost to the Group.

	Rationalisation £m	Onerous leases £m	EPT NI £m	Onerous contracts £m	Total £m
At 1 January 2015	1.2	6.3	4.0	1.3	12.8
Discount unwind	–	0.6	–	–	0.6
Provisions utilised	(1.2)	(3.8)	–	(1.3)	(6.3)
<b>At 31 December 2015</b>	<b>–</b>	<b>3.1</b>	<b>4.0</b>	<b>–</b>	<b>7.1</b>
Disclosed within:					
Current liabilities	–	1.0	4.0	–	5.0
Non-current liabilities	–	2.1	–	–	2.1
	–	3.1	4.0	–	7.1

## 22. Share capital

	2016		2015	
	Number million	£m	Number million	£m
<b>Issued and fully paid</b>				
At 1 January and 31 December	430.3	215.1	430.3	215.1

The Company has one class of ordinary share which carries no right to fixed income.

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

## 23. Reserves

### Share premium reserve

The share premium reserve contains the premium in excess of par value arising on the issue of share capital, net of issue expenses.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Group's net investment in foreign operations. The translation reserve also includes any related current taxation.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, together with any related deferred taxation.

### Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised, together with any related deferred taxation.

# Notes to the consolidated financial statements continued

## 23. Reserves (continued)

### Merger reserve

The merger reserve initially arose on the demerger from Tarmac plc on 29 July 1999. The reserve increased on the acquisition of Mowlem on 23 February 2006, Alfred McAlpine on 12 February 2008 and Carillion Energy Services on 21 April 2011, whereby the consideration included the issue of Carillion plc shares. The premium on the shares issued in relation to these acquisitions has been credited to the merger reserve rather than the share premium account in accordance with the Companies Act 2006. The £4.7 million (2015: £7.2 million) transfer to the retained earnings reserve during the year represents the amounts realised following the amortisation of intangible assets recognised on the Mowlem and Alfred McAlpine acquisitions.

### Retained earnings

Retained earnings include the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movement in the reserve for own shares included within retained earnings are as follows:

	2016 £m	2015 £m
At 1 January	-	-
Acquisition of own shares	(1.0)	(0.4)
Share options exercised (transfer to retained earnings)	1.0	0.4
<b>At 31 December</b>	<b>-</b>	<b>-</b>

At 31 December 2016, the ESOP held 18,538 (2015: 6,578) of the Company's shares which had a market value of £43,713 (2015: £19,925). During the year the Company acquired 338,617 of its own shares for £1.0 million to meet the plan's commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

The Company has also established a Qualifying Employee Share Ownership Trust (QUEST). At 31 December 2016 the total number of shares held by the QUEST amounted to 84,593 (2015: 84,593) which had a market value of £0.2 million (2015: £0.3 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

The retained earnings reserve includes the credit transferred from the merger reserve of £4.7 million (2015: £7.2 million) noted above.

## 24. Share-based payments

The Group has established a share option programme that entitles Executive Directors and senior employees to shares in the Company. Full details of the Group's share option schemes can be found in the Remuneration report on pages 65 to 81. In addition, under the terms of the Group's bonus arrangements, Executive Directors and senior employees receive a proportion of their annual bonus in shares, which vest three years after the award in respect of Executive Directors and a year after the award in respect of senior employees.

The terms and conditions of option schemes within the scope of IFRS 2 are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Exercise price
LEAP option grant on 4 April 2013	134,494	Three years of service, increase in EPS of a minimum of 6% and operating cash conversion of a minimum of 95% over a rolling period.	3 years	Nil
LEAP option grant on 7 May 2014	900,449	Three years of service, increase in EPS of a minimum of 6%, operating cash conversion of a minimum of 95% over a rolling period, delivery of sustainability targets providing contributions of £25 million in 2014, £30 million in 2015, £32 million in 2016, 25% of employees undertaking community work by the end of 2016 and a book-to-bill ratio of between 80 per cent and 120 per cent.	3 years	Nil
LEAP option grant on 9 April 2015	1,190,812	Three years of service, increase in EPS of a minimum of 6%, operating cash conversion of a minimum of 95% over a rolling period, delivery of sustainability targets contributing £96 million and a book-to-bill ratio of between 80 per cent and 120 per cent.	3 years	Nil
LEAP option grant on 7 April 2016	1,329,451	Three years of service, increase in EPS of a minimum of 6%, operating cash conversion of a minimum of 95% over a rolling period, delivery of sustainability targets contributing £114 million and a book-to-bill ratio of between 80 per cent and 120 per cent.	3 years	Nil
Deferred bonus scheme	509,007	Three years of service for Executive Directors and one year of service for senior employees	1-3 years	Nil
<b>Total share options</b>	<b>4,064,213</b>			



## 24. Share-based payments (continued)

The number and weighted average exercise prices of all of the Group's share options is as follows:

	Number of options 2016	Number of options 2015
At 1 January	3,430,655	2,986,247
Lapsed during the year	(798,495)	(937,208)
Forfeited during the year	(266,529)	(44,748)
Exercised during the year	(204,123)	(121,804)
Granted during the year	1,902,705	1,548,168
<b>At 31 December</b>	<b>4,064,213</b>	<b>3,430,655</b>
<b>Exercisable at the end of the year</b>	<b>134,494</b>	<b>-</b>

The weighted average exercise price and the weighted average share price during the year was Nil and 267.4 pence respectively. The fair value of services received in return for share options granted is measured using a Black-Scholes model and the following assumptions:

	2016 LEAP	2015 LEAP
<b>Fair value of share options and assumptions</b>		
Fair value at grant date	241.8p	283.0p
Share price at grant date	286.9p	329.4p
Exercise price	Nil	Nil
Expected volatility	10.72%	11.20%
Option life	3 years	3 years
Expected dividend yield	5.70%	5.10%
Risk-free interest rate (based on UK Government bonds)	0.46%	2.54%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

## Employee expenses

	2016 £m	2015 £m
Equity-settled share options and deferred bonus shares granted in:		
2013	-	0.3
2014	0.9	0.4
2015	0.6	0.4
2016	0.5	-
<b>Total expense recognised as employee costs</b>	<b>2.0</b>	<b>1.1</b>

The expected life of the options is taken to be the full vesting period, as historical exercise patterns have shown this to be appropriate. The estimate of the number of shares that will eventually vest ignores the possibility that market conditions will or will not be achieved given that these market conditions are already included in the fair value of the options.

## 25. Guarantees and contingent liabilities

	2016 £m	2015 £m
Guarantees in respect of borrowing in Construction services (excluding the Middle East) joint ventures	3.2	3.5
Guarantees in relation to deferred equity payments in PPP special purpose entities	63.4	61.6
Guarantees in respect of letters of credit issued by banks in relation to performance on contracts for PPP customers	36.9	47.3

Guarantees and counter indemnities have, in the normal course of business, been given to financial institutions in respect of the provision of performance and other contract-related bonds and to certain defined benefit pension schemes in respect of deficit recovery payments. The Group treats guarantees and counter indemnities of this nature as contingent liabilities until such time as it becomes probable that the Group will be required to make a payment under the terms of the arrangement.

Claims under contracts and other agreements, including joint arrangements, are outstanding in the normal course of business.

The Group, in the normal course of its activities, is the subject of certain legal proceedings. The resolution of these proceedings is regarded as unlikely to succeed or to have a material effect on the Group's financial position.

There are no liabilities of joint ventures for which the Group is contingently liable other than those disclosed above.

# Notes to the consolidated financial statements continued

## 26. Financial instruments

### Categories of financial instruments

31 December 2016	Loans and receivables £m	Financial liabilities at fair value through profit or loss £m	Financial liabilities at amortised cost £m	Available for sale £m	Derivatives at fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
<b>Financial assets</b>							
Non-current asset investments	-	-	-	5.4	-	-	5.4
Cash and cash equivalents	469.8	-	-	-	-	-	469.8
Trade receivables	229.5	-	-	-	-	-	229.5
Derivative financial instruments	-	-	-	-	-	46.4	46.4
<b>Total</b>	<b>699.3</b>	<b>-</b>	<b>-</b>	<b>5.4</b>	<b>-</b>	<b>46.4</b>	<b>751.1</b>
<b>Financial liabilities</b>							
Bank overdrafts	-	-	(2.1)	-	-	-	(2.1)
Bank loans	-	-	(145.9)	-	-	-	(145.9)
Finance lease obligations	-	-	(15.6)	-	-	-	(15.6)
Other loans	-	-	(525.1)	-	-	-	(525.1)
Trade payables	-	-	(749.2)	-	-	-	(749.2)
Deferred and contingent consideration	-	(71.0)	-	-	-	-	(71.0)
Derivative financial instruments	-	-	-	-	(9.1)	(1.5)	(10.6)
<b>Total</b>	<b>-</b>	<b>(71.0)</b>	<b>(1,437.9)</b>	<b>-</b>	<b>(9.1)</b>	<b>(1.5)</b>	<b>(1,519.5)</b>

31 December 2015	Loans and receivables <sup>(1)</sup> £m	Financial liabilities at fair value through profit or loss <sup>(1)</sup> £m	Financial liabilities at amortised cost £m	Available for sale £m	Derivatives at fair value through profit or loss £m	Derivatives used for hedging £m	Total <sup>(1)</sup> £m
<b>Financial assets</b>							
Non-current asset investments	-	-	-	4.7	-	-	4.7
Cash and cash equivalents	462.2	-	-	-	-	-	462.2
Trade receivables	253.1	-	-	-	-	-	253.1
Derivative financial instruments	-	-	-	-	1.7	12.9	14.6
<b>Total</b>	<b>715.3</b>	<b>-</b>	<b>-</b>	<b>4.7</b>	<b>1.7</b>	<b>12.9</b>	<b>734.6</b>
<b>Financial liabilities</b>							
Bank overdrafts	-	-	(6.4)	-	-	-	(6.4)
Bank loans	-	-	(118.8)	-	-	-	(118.8)
Finance lease obligations	-	-	(17.8)	-	-	-	(17.8)
Other loans	-	-	(489.0)	-	-	-	(489.0)
Trade payables	-	-	(591.4)	-	-	-	(591.4)
Deferred and contingent consideration	-	(95.0)	-	-	-	-	(95.0)
Derivative financial instruments	-	-	-	-	(10.9)	(0.7)	(11.6)
<b>Total</b>	<b>-</b>	<b>(95.0)</b>	<b>(1,223.4)</b>	<b>-</b>	<b>(10.9)</b>	<b>(0.7)</b>	<b>(1,330.0)</b>

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

## 26. Financial instruments (continued)

### Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to foreign exchange risk, interest rate risk, liquidity risk and credit risk. The overall aim of the Group's financial risk management policy is to minimise potential adverse effects on financial performance and net assets. There has been no change to the Group's exposure to financial risk or the manner in which these risks are managed and measured.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board of Directors. Treasury is not a profit centre and does not enter into speculative transactions.

### Foreign currency risk

The Group has operations in overseas regions, primarily the Middle East and Canada. In order to protect the Group's balance sheet from the impact of foreign exchange rate volatility, the Group's policy is that foreign currency denominated net assets that exceed £10 million equivalent are hedged, as a minimum, to at least 60 per cent of the net asset value. Net investment hedging of overseas operations is achieved through borrowing and forward contracts denominated in the relevant foreign currencies, or where this is not practicable, in a currency which the relevant currency closely follows.

The Group has US\$280 million of private placement finance at fixed interest rates from a number of United States of America based investors in order to provide greater flexibility in relation to the maturity profile of Group borrowing. The Group has entered into a number of financial derivative contracts to hedge the exposure to foreign exchange rate volatility in relation to the associated capital and interest payments.

Group policy is to recognise gains and losses from the effective portions of hedges in equity and to recognise ineffective portions immediately in the income statement.

Profits arising within overseas operations are not hedged unless a distribution is planned. Such distributions are then treated as currency transactions and hedged accordingly.

The Group has relatively small and infrequent transactional foreign currency exposures. Any individual exposures that are significant are hedged using forward contracts or other appropriate risk management techniques.

Further details concerning the risks associated with the overseas regions in which the Group operates can be found in the Performance and financial review on page 46.

### Foreign currency exposure

The carrying amount of the Group's borrowing denominated in foreign currency is as follows:

	2016 £m	2015 £m
United States of America dollar	(246.0)	(207.6)
Canadian dollar	(97.0)	(65.3)
United Arab Emirates dirham	(9.9)	(8.3)
Other	(0.4)	(2.5)
	(353.3)	(283.7)

Of the total foreign currency borrowing of £353.3 million (2015: £283.7 million), the amount of borrowing used for hedging overseas currency net asset amounts to £89.4 million (2015: £73.4 million). The foreign exchange loss of £16.0 million (2015: £4.9 million gain) on translation of the borrowing into sterling has been recognised in the translation reserve as these hedging loans are effective hedges. Exposure to United States of America dollar denominated private placement borrowing included above amounting to £225.8 million (2015: £190.5 million) is hedged by cross-currency derivative instruments as disclosed on page 124.

The Group does not have a significant amount of foreign currency exposure in respect of financial assets.

Each movement of five per cent in exchange rates against sterling would have changed reported profit before tax and equity as follows:

	Five per cent increase		Five per cent decrease	
	Profit £m	Equity £m	Profit £m	Equity £m
United States of America dollar	-	(1.0)	-	1.1
Canadian dollar	(0.4)	(11.0)	0.4	11.7
Euro	-	1.1	-	(1.2)
United Arab Emirates dirham	(0.5)	(5.3)	0.5	5.6
Oman rials	0.2	(3.0)	(0.2)	3.2
Other	0.1	(1.3)	(0.1)	1.4

# Notes to the consolidated financial statements continued

## 26. Financial instruments (continued)

### Interest rate risk

The Group's interest bearing debt is predominantly drawn from committed bank facilities to fund acquisitions and ongoing working capital requirements. Foreign currency denominated borrowings have been drawn under the facilities to hedge net assets of overseas operations. Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate, the Canadian Dollar Offered Rate or the Emirates Interbank Offered Rate. In addition, the Group has secured fixed interest rate finance of £360.8 million from private placements and £170 million from the issue of convertible bonds as disclosed in note 19. The principal purpose of raising this finance at fixed interest rates is to ensure that a proportion of the Group's borrowing is not subject to floating rates of interest which may increase. The fixed rate interest swap, which swapped the floating rate to a fixed rate on £38 million of the Group's principal bank facilities matured in 2016 and has not been replaced. In addition, a number of Group's Public Private Partnership joint ventures have entered into interest rate swaps as discussed under derivative financial instruments on page 124.

A one percentage point rise in interest rates in respect of United States of America dollar denominated borrowings would increase the annual net interest charge by approximately £0.2 million, in respect of Canadian dollar denominated borrowings an increase of £0.5 million, in respect of sterling denominated borrowings an increase of £3.4 million and in respect of United Arab Emirates Dirham denominated borrowings an increase of £0.1 million.

### Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of a syndicated loan facility and bilateral facilities supplemented by private placement financing, convertible bonds and short-term overdraft facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels. The average net borrowing during 2016 was £586.5 million (2015: £538.9 million).

### Maturity of financial liabilities

The remaining contractual maturity profile of the Group's liabilities, which includes estimated future interest payments, is as follows:

	Trade payables £m	Deferred and contingent consideration £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
<b>31 December 2016</b>							
Less than one year	(749.2)	(3.7)	(2.1)	(67.8)	(42.3)	(7.6)	(872.7)
Between one and two years	-	(10.5)	-	(2.4)	(68.5)	(4.8)	(86.2)
Between two and three years	-	(10.5)	-	(3.0)	(269.3)	(3.7)	(286.5)
Between three and four years	-	(53.2)	-	(81.4)	(10.2)	(0.2)	(145.0)
Between four and five years	-	-	-	-	(60.6)	(0.1)	(60.7)
More than five years	-	-	-	-	(168.2)	-	(168.2)
	(749.2)	(77.9)	(2.1)	(154.6)	(619.1)	(16.4)	(1,619.3)
<b>31 December 2015</b>							
Less than one year	(591.4)	(31.0)	(6.4)	(19.4)	(23.2)	(7.0)	(678.4)
Between one and two years	-	(2.5)	-	(38.9)	(36.1)	(5.9)	(83.4)
Between two and three years	-	(15.1)	-	(2.1)	(67.0)	(3.4)	(87.6)
Between three and four years	-	(15.1)	-	(1.9)	(257.9)	(0.7)	(275.6)
Between four and five years	-	(38.2)	-	(66.8)	(9.6)	(2.2)	(116.8)
More than five years	-	-	-	-	(204.2)	-	(204.2)
	(591.4)	(101.9)	(6.4)	(129.1)	(598.0)	(19.2)	(1,446.0)

The remaining contractual maturity profile of the Group's derivative financial liabilities is shown below. The Group's derivative financial liabilities relate to cross-currency derivatives to hedge principal and interest repayments associated with US dollar private placement financing.

The maturity profile is based on the undiscounted gross payable and receivable amounts under the contracts.

	2016			2015		
	Payable £m	Receivable £m	Net receivable £m	Payable £m	Receivable £m	Net receivable £m
Less than one year	(23.9)	30.6	6.7	(8.3)	8.8	0.5
Between one and two years	(7.7)	9.7	2.0	(23.9)	25.8	1.9
Between two and three years	(57.7)	74.2	16.5	(7.7)	8.2	0.5
Between three and four years	(5.5)	6.9	1.4	(57.7)	62.6	4.9
Between four and five years	(5.5)	6.9	1.4	(5.5)	5.8	0.3
More than five years	(117.1)	150.9	33.8	(122.6)	133.1	10.5
	(217.4)	279.2	61.8	(225.7)	244.3	18.6

## 26. Financial instruments (continued)

### Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met:

	2016 £m	2015 £m
Expiring within one year	5.2	7.2
Expiring between two and five years	726.4	754.0
	731.6	761.2

### Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and foreign currency hedging contracts. Policies and procedures exist to ensure that customers have an appropriate credit history. Short-term bank deposits and foreign currency hedging transactions are executed only with highly credit-rated, authorised counterparties based on ratings issued by the major rating agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are approved at main Board level or within predetermined limits. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

The maximum exposure to credit risk for trade receivables at 31 December by geographic region was:

	2016 £m	2015 <sup>(1)</sup> £m
United Kingdom	85.5	127.2
Middle East	78.7	77.3
Canada	65.2	48.4
Rest of the World	0.1	0.2
	229.5	253.1

The maximum exposure to credit risk for trade receivables at 31 December by segment was:

	2016 £m	2015 <sup>(1)</sup> £m
Support services	120.3	140.8
Public Private Partnership projects	0.1	0.5
Middle East construction services	76.9	76.2
Construction services (excluding the Middle East)	32.2	35.6
	229.5	253.1

The Group's most significant debtor, Pretium Exploration Inc, accounts for £8.8 million of the trade receivables carrying amount at 31 December 2016 (2015: Network Rail: £5.6 million).

Trade receivables included in the balance sheet are net of an impairment provision which has been estimated by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date. Receivables are written off against the impairment provision when management considers that the debt is no longer recoverable. The ageing of trade receivables is as follows:

	2016		2015	
	Net trade receivables <sup>(2)</sup> £m	Impairment £m	Net trade receivables <sup>(1) (2)</sup> £m	Impairment £m
Not past due	134.8	–	178.2	–
Past due less than three months	40.0	0.3	49.5	0.3
Past due between three and six months	28.0	0.6	11.7	1.5
Past due between six and 12 months	21.9	1.5	8.7	0.5
Past due more than 12 months	4.8	4.7	5.0	4.9
	229.5	7.1	253.1	7.2

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

(2) Net of impairment provision.

The movement in the impairment provision is as follows:

	2016 £m	2015 £m
At 1 January	7.2	6.8
Provision acquired	–	1.3
Provision created	1.7	0.1
Provision utilised	(2.1)	(1.0)
Effects of movements in foreign exchange rates	0.3	–
<b>At 31 December</b>	<b>7.1</b>	<b>7.2</b>

Whilst uncertainty surrounding counterparty risk has increased due to the prevailing economic climate, on balance the Group believes that debtors will meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are past due and unprovided as at 31 December 2016.

Overall, the Group considers that it is not exposed to a significant amount of credit risk.



# Notes to the consolidated financial statements continued

## 26. Financial instruments (continued)

### Derivative financial instruments

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts – at fair value through the income statement	–	(6.4)	1.7	–
Derivative component of convertible bond – at fair value through the income statement	–	(2.7)	–	(10.9)
Forward foreign currency contracts – net investment hedging instruments	–	(1.5)	1.6	–
Forward foreign currency contracts – cash flow hedging instruments	0.3	–	–	–
Fixed rate interest derivatives – cash flow hedging instruments	–	–	–	(0.7)
Cross-currency derivatives – cash flow hedging instruments	46.1	–	11.3	–
	46.4	(10.6)	14.6	(11.6)

A £8.1 million loss (2015: £2.3 million gain) has been recognised in administrative expenses in the income statement in respect of the movement in the fair value of forward foreign currency contracts at fair value through the income statement and a £8.2 million gain (2015: £6.1 million gain) has been recognised in financial expenses in the income statement in respect of the movement in the fair value of the derivative component of the convertible bond. A £35.1 million gain (2015: £15.6 million gain) has been recognised in the hedging reserve in relation to the forward foreign currency contracts, fixed rate interest derivatives and cross-currency derivatives which are effective cash flow hedges, with £35.3 million recycled to administration expenses in the income statement to offset the foreign exchange loss on translation of the US dollar denominated private placement loans. A £3.1 million loss (2015: £1.6 million gain) has been recognised in the translation reserve in relation to the movement in forward foreign currency contracts utilised as net investment hedges of the net assets of overseas operations.

In addition to the above, a number of the Group's Public Private Partnership (PPP) joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest bearing debts and the associated interest rate derivatives within these PPP joint ventures are without recourse to the Group. The life of these hedge arrangements track PPP contract terms and hedge future movements across a range up until March 2047. The fair value of these derivatives is based on quoted prices in active markets, with the movement in fair value each year recognised in the share of change in fair value of effective cash flow hedges within joint ventures in the statement of comprehensive income. At 31 December 2016 the Group's share of the total net fair value liability of interest rate derivatives in PPP joint ventures amounted to £7.9 million (2015: £0.7 million) of which £1.1 million (2015: Nil) has been recognised in the hedging reserve in 2016.

### 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 respect of acquisitions as disclosed in note 29.

### Level 3

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 which 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 maximum 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 financial instruments derived using a level 3 valuation method is shown below:

	Contingent consideration £m	Non-current asset investments £m
At 1 January 2016 <sup>(i)</sup>	(64.0)	4.7
Remeasurements recognised in financial expense	15.6	–
Fair value of equity interests retained on partial disposal of investment in joint ventures	–	0.5
Discount unwind recognised in financial expense	(2.6)	–
Exchange rate movements recognised in the translation reserve	(12.7)	–
Increase in fair value recognised in the statement of comprehensive income	–	0.2
Transfer from current liabilities	(3.7)	–
<b>At 31 December 2016</b>	<b>(67.4)</b>	<b>5.4</b>

(i) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions 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 £1.7 million.

### Level 2

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 or the hedging reserve as appropriate. There are no material differences between the fair value and the carrying value of the Group's other financial assets and financial liabilities.

## 26. Financial instruments (continued)

### Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and for other stakeholders and to maintain an optimal debt and equity structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Where the Group makes significant acquisitions, these are financed with a combination of debt and equity in order to maintain a balanced capital structure. In order to have greater flexibility over the maturity profile of debt, the Group has secured £360.8 million of private placement financing with maturity dates between 2017 and 2024 and £170 million of convertible bonds that mature in 2019. The Group has a policy of progressively increasing dividends paid to shareholders broadly in line with underlying earnings per share growth, after taking account of the investment needs of the business. No changes were made to the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

	2016 £m	2015 <sup>(1)</sup> £m
Total borrowing	686.6	625.6
Less: net cash and cash equivalents (note 18)	(467.7)	(455.8)
<b>Net borrowing</b>	<b>218.9</b>	169.8
Total equity	729.9	1,016.6
<b>Total capital</b>	<b>948.8</b>	1,186.4

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

## 27. Financial and capital commitments

	2016 £m	2015 £m
Commitments for equity and subordinated debt investments in PPP special purpose entities	63.4	61.6

Non-cancellable operating lease rentals are payable as follows:

	2016		2015	
	Property £m	Other £m	Property £m	Other £m
Within one year	12.5	36.1	11.3	31.1
Between one and five years	23.7	45.1	21.8	43.0
Over five years	21.8	–	18.4	–
	58.0	81.2	51.5	74.1

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of four years. None of the leases include contingent rentals.

## 28. Related parties

The Group has related party relationships with its key management personnel and joint ventures.

### Transactions with key management personnel

The Group's key management personnel are the Executive and Non-Executive Directors as identified in the Remuneration report on page 66.

In addition to their salaries, the Group also provides non-cash benefits to Executive Directors, and contributes to a post-employment defined benefit plan or a defined contribution plan on their behalf. Executive Directors also participate in the Group's share option programme. A summary of the value of transactions with key management personnel is shown below:

	2016 £m	2015 £m
Short-term employee benefits	3.0	2.7
Post-employment benefits	0.1	0.1
Share-based payments	0.8	0.5
	3.9	3.3

The number of key management personnel included in the above analysis is seven (2015: eight).

# Notes to the consolidated financial statements continued

## 28. Related parties (continued)

### Transactions with joint ventures

The table below summarises the principal receivable and payable balances, together with sales to the Group's joint ventures, which are in the normal course of business and on commercial terms:

	2016			2015		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
<b>PPP joint ventures</b>						
Aberdeen Roads Holdings Limited	2.4	-	-	0.8	0.4	-
Access Prairies Partnership (Canada)	0.2	-	(2.8)	-	-	-
Boreal Health Partnership (Canada)	0.2	-	-	-	-	-
CSS (FSCC) Partnership (Canada)	0.2	-	-	0.2	0.1	-
Hospital Infrastructure Partners (NOH) Partnership (Canada)	0.1	-	-	0.1	3.1	-
Inspiredspaces Bundle 5 (Ireland) Ltd (Republic of Ireland)	28.0	-	-	-	-	-
Inspiredspaces Durham Ltd	-	-	-	2.5	-	-
Inspiredspaces Nottingham (Projectco2) Ltd	-	-	-	0.6	-	-
Inspiredspaces Rochdale Ltd	-	-	-	1.9	-	-
Inspiredspaces STAG Ltd	-	-	-	3.9	-	-
Inspiredspaces Tameside Ltd	-	-	-	9.1	-	-
Inspiredspaces Wolverhampton (Projectco2) Ltd	-	-	-	15.1	-	(0.3)
Inspiredspaces Wolverhampton Ltd	-	-	-	-	0.3	-
PBSP Midlands Limited	75.2	3.2	-	18.5	2.0	-
The Healthcare Infrastructure Company of Canada (ROH) Inc. (Canada)	-	-	-	-	0.8	-
The Hospital Company (Liverpool) Ltd	108.6	23.4	-	84.8	10.0	-
The Hospital Company (Sandwell) Ltd	91.0	-	(17.5)	16.3	-	(13.3)
Other	0.1	-	-	2.6	0.5	(0.1)
	<b>306.0</b>	<b>26.6</b>	<b>(20.3)</b>	<b>156.4</b>	<b>17.2</b>	<b>(13.7)</b>
<b>Other joint ventures</b>						
Al Futtaim Carillion LLC (UAE)	1.8	-	(70.8)	2.4	0.1	(56.5)
Aspire Defence Services Limited	-	-	(3.8)	-	-	(15.1)
Carillion-Breathe Ltd	1.2	1.0	-	12.9	3.3	-
Carillion Eltel JV Ltd	-	1.0	-	-	0.2	-
Airport City (Asset Manager) Limited	-	3.3	-	-	-	-
Carillion Richardson Partnership	-	15.4	-	-	26.7	-
Carillion Richardson Thanet Phase 2 Ltd	-	-	(0.2)	-	-	(1.6)
Carillion Richardson Worcester Ltd	-	0.5	-	0.1	0.5	-
CarillionAmey Ltd	7.0	-	(16.8)	9.4	2.9	-
European Property Investors Special Opportunities 3 LP	-	6.1	-	-	-	-
Lodge Park Commercial Developments Limited	-	3.0	-	-	3.0	-
Siglion LLP	-	-	(0.5)	-	3.4	-
Vanmed Construction Company (Canada)	-	0.6	-	-	-	-
Others	0.7	2.4	-	-	2.3	(0.1)
	<b>316.7</b>	<b>59.9</b>	<b>(112.4)</b>	<b>181.2</b>	<b>59.6</b>	<b>(87.0)</b>

## 29. Acquisitions and disposals

### Acquisitions in 2016 and 2017

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

Total acquisition costs incurred in relation to contracts and due diligence procedures for merger and acquisition activities in the year of £1.1 million (2015: £2.5 million) have been included in non-operating items in the income statement (see note 4).

### Acquisitions in 2015 and 2014

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

The fair value of the deferred and contingent consideration is included within liabilities in the balance sheet and is derived from inputs that are not observable in the market. Consequently, the fair value has been determined using an estimate of the contractual cash flows that could be paid under the terms of the sale and purchase agreement using a risk adjusted discount rate of 3.4 per cent.

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

Under the terms of the Sale and Purchase Agreement relating to Outland, contingent consideration is payable based on a multiple of Outland's average earnings before interest, taxation, depreciation and amortisation (EBITDA) for the three financial years 2015 to 2017. During the measurement period in the first half of 2016, Outland's actual EBITDA performance for 2015 was finalised, leading to a reduction in the fair value of the contingent consideration payable of £5.4 million, as disclosed in the table below. In the second half of 2016, which is outside of the measurement period, the Group undertook a review of Outland's expected EBITDA performance for 2016 and 2017, leading to a reduction in the fair value of contingent consideration payable of £8.4 million, which has been recognised as a credit within net financial expense in the income statement. Following this change to the fair value of contingent consideration, the Group now expects to make contingent consideration payments totalling around £19.9 million (at 31 December 2016 exchange rates) in equal instalments in 2018 and 2019. In 2016, the Group paid the second and third instalment of deferred consideration relating to the acquisition of Outland amounting to £26.7 million.

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

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

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

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

# Notes to the consolidated financial statements continued

## 29. Acquisitions and disposals (continued)

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

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

	2016 £m	2015 £m
Cash paid for acquisitions in the year	–	(10.7)
Net cash and cash equivalents acquired	–	6.2
Payments in respect of acquisitions in prior years (see above and page 127)	(32.5)	(6.1)
<b>Net cash outflow on acquisition of subsidiaries, net of cash and cash equivalents acquired</b>	<b>(32.5)</b>	<b>(10.6)</b>

In 2016, the Group disposed of its interest in three Public Private Partnership projects. The disposals generated cash consideration of £48.2 million, which after deducting disposal costs paid of £1.1 million, is included in the cash flow statement within disposal of joint venture and other investments. The profit recognised on the disposals in the income statement of £12.7 million is after the deduction of accrued costs of £0.2 million and the carrying amount of joint ventures disposed totalling £35.3 million as disclosed in note 12.

### Disposals in 2015

In 2015, the Group disposed of its interest in three Public Private Partnership projects. The disposals generated cash consideration of £54.4 million, which after deducting disposal costs paid of £0.3 million, is included in the cash flow statement within disposal of joint venture and other investments. Additional consent costs paid of £10.1 million relating to the disposals have been included within '(decrease)/increase in trade and other payables' of £41.1 million within the operating cash flow section of the cash flow statement and legal costs of £0.9 million have been accrued for. The profit recognised on the disposals in the income statement of £37.7 million is after the deduction of the accrued costs above and the carrying amount of joint ventures disposed totalling £5.4 million as disclosed in note 12.

## 30. Retirement benefit obligations

The Carillion Group operates 14 defined benefit pension schemes for eligible employees, of which 13 are in the UK and one is in Canada. In addition, the Group provides other post-retirement benefits under four separate arrangements in Canada.

In line with IAS 19 the Company has considered whether it is appropriate to provide disaggregated disclosures for the 14 defined benefit pension schemes. Five plans relate to UK-based final salary schemes which are all closed to future accrual, share broadly common membership demographics and are operated under a single trust arrangement. Therefore the Company has taken the view that these five schemes should be considered together as one. As these five plans account for 83.2% (£669.8 million) of the total deficit across all schemes as at 31 December 2016, the Company has not disaggregated the remaining plans individually and has instead provided disaggregated data in the form of closed, open and unfunded schemes.

The Group's defined benefit schemes are administered by Trustee Boards which largely comprise independent trustees together with Company and employee representatives. The assets of the schemes are held separately from the Company's assets and are managed by the Trustee Boards. Pension scheme valuations are carried out by independent actuaries to determine pension costs for pension funding every three years and bi-annually to calculate the IAS 19 deficit included in the financial statements. Eight of the 14 defined benefit schemes within the Group are closed to future accrual, with payments into these schemes made in line with deficit recovery plans, which have been agreed with pension scheme trustees.

The different scheme characteristics can be summarised below:

	2016			2015		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
Schemes closed to future accrual	1,926.8	(2,615.0)	(688.2)	1,747.9	(2,076.0)	(328.1)
Open schemes	645.9	(750.8)	(104.9)	554.5	(610.2)	(55.7)
Unfunded schemes <sup>(1)</sup>	–	(11.7)	(11.7)	–	(9.7)	(9.7)
<b>Total</b>	<b>2,572.7</b>	<b>(3,377.5)</b>	<b>(804.8)</b>	<b>2,302.4</b>	<b>(2,695.9)</b>	<b>(393.5)</b>

(1) Unfunded schemes relate to other post-retirement benefits under four separate arrangements in Canada.

The Group also operates defined contribution schemes for all qualifying employees. The total cost charged to the income statement of £25.0 million (2015: £21.1 million) represents contributions payable to the schemes by the Group at rates specified by the scheme rules.



## 30. Retirement benefit obligations (continued)

### IAS 19 disclosures

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

	2016		2015	
	UK	Canada	UK	Canada
Rate of increase in salaries	3.20%	N/A	3.55%	N/A
Rate of increase in pensions	3.10%	2.00%	3.00%	2.00%
Inflation rate – (Retail Price Index)	3.20%	2.00%	3.05%	2.00%
Inflation rate – (Consumer Price Index)	2.15%	N/A	2.00%	N/A
Discount rate	2.70%	3.75%	3.95%	3.75%

The valuation of defined benefit pension scheme liabilities is most sensitive to changes in the discount, inflation and mortality rates. A 0.1 per cent reduction in the discount rate would increase scheme liabilities by approximately £60 million, whilst a 0.1 per cent increase in the inflation rate would increase scheme liabilities by approximately £50 million. An increase of one year in the mortality rate would increase scheme liabilities by approximately £105 million, although this has been mitigated in part through the purchase of a longevity swap.

The overall weighted average duration of scheme liabilities as at 31 December 2016 is approximately 18 years. Over the next five years benefits of £580 million are expected to be paid and benefits of £674 million are expected to be paid over the subsequent five-year period.

The market values of the schemes' assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised. The present values of the schemes' liabilities are calculated by reference to the investment return on Grade AA corporate bonds. The assumptions used do not necessarily represent the investment return that may be achieved.

The average life expectancies at 65 for males aged 45-65 for all schemes are shown below:

	Life expectancies (years)
Retired member (currently 65 years)	22.2
Non-retired member (currently 45 years)	23.8

### Expense recognised in the income statement

	2016 £m	2015 £m
<b>Charge to operating profit</b>		
Current and past service cost relating to defined benefit schemes	(1.6)	(7.0)
Administrative expenses relating to defined benefit schemes	(4.6)	(4.3)
Gain on settlement of the Alfred McAlpine (Ireland) Pension Plan	–	1.4
Defined contribution schemes	(25.0)	(21.1)
<b>Total</b>	<b>(31.2)</b>	<b>(31.0)</b>
<b>Financial expense</b>		
Net interest expense on minimum funding requirement	(0.6)	(0.4)
Net interest expense on defined benefit obligation	(14.1)	(17.6)
<b>Net interest expense recognised as a financial expense</b>	<b>(14.7)</b>	<b>(18.0)</b>

Amounts recognised in the statement of comprehensive income are as follows:

	2016 £m	2015 £m
The return on scheme assets, excluding amounts included in net interest expense	235.5	(43.0)
Actuarial gains arising from changes in demographic assumptions	40.7	23.7
Actuarial (losses)/gains arising from changes in financial assumptions	(724.8)	112.4
Actuarial gains/(losses) arising from experience adjustments	8.0	(0.1)
Movement in minimum funding requirement	0.9	(4.5)
<b>Remeasurement of the net defined benefit liability</b>	<b>(439.7)</b>	<b>88.5</b>

# Notes to the consolidated financial statements continued

## 30. Retirement benefit obligations (continued)

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

	2016 £m	2015 £m
Present value of defined benefit obligation	(3,361.6)	(2,679.7)
Fair value of scheme assets	2,572.7	2,302.4
Minimum funding requirement	(15.9)	(16.2)
<b>Net pension liability</b>	<b>(804.8)</b>	<b>(393.5)</b>
Schemes in surplus (within non-current assets)	5.8	12.7
Schemes in deficit (within non-current liabilities)	(810.6)	(406.2)
	(804.8)	(393.5)
Related deferred taxation asset	141.6	75.9
<b>Net pension liability after taxation</b>	<b>(663.2)</b>	<b>(317.6)</b>

## Reconciliation of net defined benefit obligation

	2016 £m	2015 £m
Defined benefit obligation at 1 January	(393.5)	(509.7)
Settlement of the Alfred McAlpine (Ireland) Pension Plan	–	1.4
Defined benefit costs included in the income statement	(20.9)	(29.3)
Remeasurements included in other comprehensive income	(439.7)	88.5
Contributions from the employer	51.6	54.3
Effect of movements in exchange rates	(2.3)	1.3
<b>Defined benefit obligation at 31 December</b>	<b>(804.8)</b>	<b>(393.5)</b>

	2016 £m	2015 £m
<b>Changes in defined benefit obligation</b>		
Obligation at 1 January	(2,679.7)	(2,818.8)
Settlement of the Alfred McAlpine (Ireland) Pension Plan	–	5.2
Current and past service cost	(1.6)	(7.0)
Interest cost	(103.8)	(102.1)
Contributions from scheme members	(0.5)	(0.5)
Increase due to effect of TUPE transfer	–	(1.5)
Remeasurements:		
Actuarial gains arising from changes in demographic assumptions	40.7	23.7
Actuarial (losses)/gains arising from changes in financial assumptions	(724.8)	112.4
Actuarial gains/(losses) arising from experience adjustments	8.0	(0.1)
Benefits paid	105.6	105.8
Effect of movements in foreign exchange rates	(5.5)	3.2
<b>Obligation at 31 December</b>	<b>(3,361.6)</b>	<b>(2,679.7)</b>

The defined benefit obligation analysed by participant status is shown below:

	2016		2015	
	Number of members	Defined benefit obligation £m	Number of members	Defined benefit obligation £m
Active	609	(178.8)	787	(160.4)
Deferred	15,542	(1,753.6)	15,140	(1,286.1)
Pensioners	12,410	(1,429.2)	12,223	(1,233.2)
	<b>28,561</b>	<b>(3,361.6)</b>	<b>28,150</b>	<b>(2,679.7)</b>

### 30. Retirement benefit obligations (continued)

	2016 £m	2015 £m
<b>Changes in the fair value of scheme assets</b>		
Fair value at 1 January	2,302.4	2,320.4
Settlement of the Alfred McAlpine (Ireland) Pension Plan	–	(3.8)
Interest income	89.7	84.5
Remeasurements gains/(losses):		
Return/(loss) on scheme assets (excluding amounts included in net interest expense)	235.5	(43.0)
Administrative expenses paid from plan assets	(4.6)	(4.3)
Contributions from the employer	51.6	54.3
Contributions from scheme members	0.5	0.5
Increase due to effect of TUPE transfer	–	1.5
Benefits paid	(105.6)	(105.8)
Effect of movements in foreign exchange rates	3.2	(1.9)
<b>Fair value at 31 December</b>	<b>2,572.7</b>	<b>2,302.4</b>

The major categories and fair values of scheme assets as at 31 December 2016 are as follows:

	2016 £m	2015 £m
Equities	1,125.3	1,026.7
Corporate bonds	592.3	544.1
Government bonds	689.0	547.9
Real estate	145.2	136.9
Cash and cash equivalents	41.4	37.6
Other	(20.5)	9.2
Market value of scheme assets	2,572.7	2,302.4
Present value of funded scheme obligation	(3,349.9)	(2,670.0)
Present value of unfunded scheme obligation	(11.7)	(9.7)
Minimum funding requirement	(15.9)	(16.2)
Total deficit	(804.8)	(393.5)
Related deferred tax asset	141.6	75.9
<b>Net pension liability</b>	<b>(663.2)</b>	<b>(317.6)</b>

The actual return on plan assets (net of administration costs) was £320.6 million (2015: £37.2 million).

The triennial actuarial valuations as at 31 December 2013 for five of the Group's schemes were concluded with the trustees in 2014 and a revised deficit recovery plan agreed. It has been agreed that, if required, deficit recovery payments can continue until 2029 in respect of these schemes. This included the three largest schemes in the Group, namely the Carillion Staff, Mowlem Staff and Alfred McAlpine Staff schemes. The total assets at the date of the actuarial valuation for all five schemes amounted to £1.8 billion, which represented a funding level of 76 per cent. The next actuarial valuation for these schemes as at 31 December 2016 is currently underway. The Group expects to make payments totalling £50.2 million to defined benefit schemes during the next financial year.

During 2013, a longevity swap was entered into by five of the Group's defined benefit schemes which insures the Group against the financial risk of pensioners in payment living longer than currently expected. The swap covers around 9,000 pensioners and around 40 per cent of the total liabilities in respect of the Group's defined benefit schemes. The swap has been recognised as part of scheme assets in accordance with the amendment to IAS 19 'Retirement benefits' within other assets. At 31 December 2016, the fair value of the longevity swap calculated in accordance with IFRS 13 'Fair value measurement' was a £26.9 million liability (2015: £1.4 million liability), with the movement in fair value recognised in the consolidated statement of comprehensive income.

# Notes to the consolidated financial statements continued

## 31. Accounting estimates and judgements

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### Revenue recognition

In determining the revenue and costs to be recognised each year for work done on construction contracts, estimates are made in relation to the final out-turn on each contract. On major construction contracts, it is assessed, based on past experience, that their outcome cannot be estimated reliably during the early stages of the contract, but that costs incurred will be recoverable. Once the outcome can be estimated reliably, estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. Management continually reviews the estimated final out-turn on contracts and makes adjustments where necessary. Based on the above, management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment.

The amounts recognised based on the estimates and judgements noted above are included within Amounts owed by customers on construction contracts (£614.5 million) disclosed within note 17 Trade and other receivables and represents management's best estimate of the outcome for the Group's portfolio of contracts and is subject to estimation as discussed above.

In respect of revenue derived from licensing, the income earned from such transactions is included in revenue (as disclosed in note 2), as the exploitation of the Group's intellectual property is regarded by management as being part of its ordinary activities, having completed a similar licensing agreement in 2013. The licensing agreement secured in 2016 was entered into at or around the same time and with the same counterparty to a series of contracts that extended the scope of the services provided by the Group's back-office outsourcing provider as described in the Strategic report on page 39. Management considered whether the transactions should be grouped together for the purposes of determining whether the revenue should be recognised immediately under the licensing agreement or recognised over the term of the outsourcing contract. Management concluded that the transactions should be recognised independently and in their own right. This judgement was made after undertaking a benchmarking review that indicated that the contracts relating to the extension in scope of the outsourced back-office services were at fair market value and were therefore not linked to the licensing agreement. Consequently, as there were also no continuing support obligations required to be provided by the Group under the licensing agreement, the licensing revenue has been recognised immediately.

### Goodwill

In determining the goodwill arising from business acquisitions, judgement is required in relation to the final out-turn on contracts, discount rates and expected future cash flows and their probability.

In determining whether goodwill is impaired in subsequent years, judgement is required in relation to the estimation of the value-in-use of the cash generating units that contain goodwill. The estimation of the value-in-use requires assessments to be made of an appropriate risk-adjusted discount rate and the future cash flows expected to be generated by each cash generating unit. Changes to the assumptions used in the value-in-use estimation could give rise to material changes to the carrying value of goodwill. Note 11 on page 110 provides details of the key assumptions used and the sensitivity analysis undertaken on those assumptions.

### Retirement benefits

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions, which are largely dependent on factors outside the control of the Group, have been made in relation to:

- Expected return on plan assets
- Inflation rate
- Mortality
- Discount rate
- Salary and pension increases.

Details of the assumptions used, together with sensitivity analysis on the discount rate, inflation rate and mortality are included in note 30.

### Deferred tax

In determining the quantum of deferred tax assets to be recognised, judgement is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity at each year end in assessing the recoverability of assets recognised.

### 32. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of the Group's principal activities that are not required to be included on the Group balance sheet. The principal off-balance sheet arrangements that the Group are party to are as follows:

- Operating leases (see note 27)
- Pledged assets securing finance lease liabilities (see note 19)
- Contingent liabilities in respect of guarantees for deferred equity payments and performance contracts in PPP special purpose entities (see note 25)
- Capital commitments for capital expenditure and equity and subordinated debt in PPP special purpose entities (see note 27)
- Outsourcing contracts
- Performance and advance payment bonds on construction contracts.

In keeping with normal market practice, performance and advance payment bonds are generally issued to clients in relation to construction contracts. They provide our clients with protection against the Group's failure to perform and expire based on contractually agreed conditions. These arrangements are considered to be a part of ordinary trading activities and are not expected to have a material impact on the financial position of the Group.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office functions to a third party provider. These arrangements are on commercial terms and any penalty or termination clauses associated with these arrangements would not have a material impact on the financial position of the Group.

### 33. Subsidiaries and joint ventures

A list of investments in subsidiaries and joint ventures, including the name, country of incorporation, registered office address and proportion of ownership interest is given on pages 144 to 147. The voting rights held by the Group equal the Group's percentage shareholding in each entity.

The Group has a 49 per cent equity shareholding in the Bouchier Group, a company that operates in Canada. This subsidiary is consolidated in the Group financial statements on the basis of contractual arrangements which give the Group powers as a shareholder to exert control over the board, together with the option to acquire the remaining 51 per cent of the equity by 2022.

The table below shows selected financial data in respect of the Bouchier Group in which there are non-controlling interests that are material to the Group.

	2016 £m	2015 £m
<b>Summary comprehensive income information</b>		
Revenue	77.0	69.3
Profit for the financial year	7.4	9.3
<b>Other financial information</b>		
Profit for the financial year allocated to non-controlling interests	3.5	4.7
Other comprehensive income/(expense)	4.2	(2.1)
Dividends paid to non-controlling interests	(2.8)	(2.5)
<b>Summary financial position information</b>		
Non-current assets	14.6	13.6
Current assets	40.7	28.3
<b>Total assets</b>	55.3	41.9
Non-current liabilities	(1.4)	(2.5)
Current liabilities	(10.0)	(5.6)
<b>Net assets</b>	43.9	33.8
Equity shareholders' funds	21.8	16.6
Non-controlling interests	22.1	17.2
<b>Total equity</b>	43.9	33.8
<b>Summary cash flow information</b>		
Net cash flows from operating activities	16.2	9.2
Net cash flows from investing activities	(1.2)	(0.2)
Net cash flows from financing activities	(7.9)	(7.6)
<b>Increase in cash and cash equivalents</b>	7.1	1.4

The Group has a 49 per cent equity shareholding in Carillion Alawi LLC, a company that operates in Oman. This subsidiary is fully consolidated in the Group financial statements without any allocation to non-controlling interests on the basis of contractual arrangements that do not entitle other investors to any interest in the profit or net assets of the entity.

The Group holds a 50.1 per cent equity shareholding in CarillionAmey Limited. This entity is equity accounted as a joint venture in the Group financial statements on the basis of contractual arrangements that specify that key operating decisions are made jointly, with no shareholder having overall control.



# Company balance sheet

As at 31 December 2016

	Note	2016 £m	2015 £m
<b>Fixed assets</b>			
Investments in subsidiary undertakings and joint ventures	3	2,026.8	2,025.9
<b>Current assets</b>			
Debtors	4	1,162.6	918.9
Cash at bank and in hand		15.0	11.1
		1,177.6	930.0
<b>Creditors: amounts falling due within one year</b>	5		
Borrowing		(82.6)	(8.4)
Other creditors		(1,604.9)	(1,366.9)
		(1,687.5)	(1,375.3)
<b>Net current liabilities</b>		(509.9)	(445.3)
<b>Total assets less current liabilities</b>		1,516.9	1,580.6
<b>Creditors: amounts falling due after more than one year</b>			
Borrowing	6	(420.0)	(426.0)
<b>Net assets</b>		1,096.9	1,154.6
<b>Financed by:</b>			
<b>Capital and reserves</b>			
Issued share capital	7	215.1	215.1
Share premium	8	21.2	21.2
Merger reserve	8	618.7	618.7
Hedging reserve	8	(7.0)	(6.8)
Other reserve	8	10.7	9.8
Profit and loss account	8	238.2	296.6
<b>Equity shareholders' funds</b>		1,096.9	1,154.6

The financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by :



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

# Company statement of changes in equity

For the year ended 31 December 2016

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Other reserve £m	Profit and loss account £m	Total equity £m
At 1 January 2016	215.1	21.2	618.7	(6.8)	9.8	296.6	1,154.6
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	20.4	20.4
<b>Other comprehensive income</b>							
Movement in fair value of cash flow hedging derivatives	-	-	-	35.1	-	-	35.1
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(35.3)	-	-	(35.3)
<b>Total comprehensive (expense)/income</b>	-	-	-	(0.2)	-	20.4	20.2
<b>Transactions with owners</b>							
<b>Contributions by and distributions to owners</b>							
Acquisition of own shares	-	-	-	-	-	(1.0)	(1.0)
Equity-settled transactions (net of taxation)	-	-	-	-	0.9	1.1	2.0
Dividends paid	-	-	-	-	-	(78.9)	(78.9)
<b>Total transactions with owners</b>	-	-	-	-	0.9	(78.8)	(77.9)
<b>At 31 December 2016</b>	<b>215.1</b>	<b>21.2</b>	<b>618.7</b>	<b>(7.0)</b>	<b>10.7</b>	<b>238.2</b>	<b>1,096.9</b>
At 1 January 2015	215.1	21.2	618.7	(10.6)	9.3	333.5	1,187.2
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	39.7	39.7
<b>Other comprehensive income</b>							
Movement in fair value of cash flow hedging derivatives	-	-	-	14.8	-	-	14.8
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(11.0)	-	-	(11.0)
<b>Total comprehensive income</b>	-	-	-	3.8	-	39.7	43.5
<b>Transactions with owners</b>							
<b>Contributions by and distributions to owners</b>							
Acquisition of own shares	-	-	-	-	-	(0.4)	(0.4)
Equity-settled transactions (net of taxation)	-	-	-	-	0.5	0.6	1.1
Dividends paid	-	-	-	-	-	(76.8)	(76.8)
<b>Total transactions with owners</b>	-	-	-	-	0.5	(76.6)	(76.1)
<b>At 31 December 2015</b>	<b>215.1</b>	<b>21.2</b>	<b>618.7</b>	<b>(6.8)</b>	<b>9.8</b>	<b>296.6</b>	<b>1,154.6</b>

# Notes to the Company financial statements

## 1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006.

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

### Taxation

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost, less provision for any impairment.

### Own shares

Consideration paid for shares in the Company held by the Employee Share Ownership Plan (ESOP) Trust are deducted from the profit and loss account reserve. Where such shares subsequently vest in the employees under the terms of the Company's share option schemes or are sold, any consideration received is included in the profit and loss account reserve.

### Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into sterling using exchange rates as at the balance sheet date.

### Financial instruments

The Company's principal financial assets and liabilities are cash at bank and in hand and borrowings. Cash at bank and in hand is carried in the balance sheet at amortised cost. Borrowings are recognised initially at fair value less attributable transaction costs and subsequently at amortised cost. In addition, the Company enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied. Where hedge accounting is not applied, movements in fair value during the year are recognised in the profit and loss account. Fair values are based on quoted market prices at the balance sheet date. The Company has taken the exemption within FRS 101 'Financial Instruments: Disclosure' and does not present all of the required disclosures as they are included in the consolidated financial statements of which the Company is the parent.

### Share-based payments

Members of the Group's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP) and UK employees are able to participate in the Sharesave scheme.

Under the terms of the Group's bonus arrangements, Executive Directors and certain senior employees receive a proportion of their bonus in shares, which are deferred for a period of up to three years. The fair value of the LEAP, Sharesave and deferred bonus arrangements at the date of grant are estimated using the Black-Scholes pricing model.

The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest and taking into account service and non-market conditions.

The Group also operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The fair value of the free shares are recognised as an expense in the income statement over the vesting period of the shares.

### Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance arrangements and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable by the Company are charged to the income statement as they fall due.

## 2. Profit for the year and dividends

As permitted by the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Carillion plc reported a profit for the financial year ended 31 December 2016 of £20.4 million (2015: £39.7 million).

Fees payable to KPMG LLP and its associates for non-audit services to the Company are not required to be disclosed in the individual accounts of Carillion plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

A final dividend, declared in the previous year, of 12.55 pence (2015: 12.15 pence) per share was paid during the year, amounting to £54.0 million (2015: £52.3 million).

An interim dividend of 5.8 pence (2015: 5.7 pence) per share was paid during the year, amounting to £24.9 million (2015: £24.5 million).

A final dividend of 12.65 pence (2015: 12.55 pence) per share, amounting to £54.4 million (2015: £54.0 million), was approved by the Board on 1 March 2017 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 9 June 2017 to shareholders on the register on 12 May 2017.

### 3. Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
<b>Cost</b>			
At 1 January 2016	2,036.3	0.2	2,036.5
Share options granted to employees	0.9	–	0.9
<b>At 31 December 2016</b>	<b>2,037.2</b>	<b>0.2</b>	<b>2,037.4</b>
<b>Impairment losses</b>			
At 1 January 2016 and at 31 December 2016	10.6	–	10.6
<b>Net book value</b>			
<b>At 31 December 2016</b>	<b>2,026.6</b>	<b>0.2</b>	<b>2,026.8</b>
At 31 December 2015	2,025.7	0.2	2,025.9

The subsidiary undertakings and joint ventures of the Company are shown on pages 144 to 147.

### 4. Debtors

	2016 £m	2015 £m
<b>Amounts falling due within one year</b>		
Amounts owed by Group undertakings	1,089.5	884.6
Other debtors and prepayments	1.5	0.5
Amounts owed by joint ventures	4.6	4.6
Derivative financial instruments	46.4	14.6
Income tax	20.6	14.6
	<b>1,162.6</b>	<b>918.9</b>

### 5. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Bank overdrafts	2.5	0.1
Bank loans	80.1	8.3
Borrowing	82.6	8.4
Amounts owed to Group undertakings	1,580.0	1,348.9
Amounts owed to joint arrangements	10.0	11.2
Derivative financial instruments	7.9	0.7
Accruals and deferred income	7.0	6.1
	<b>1,687.5</b>	<b>1,375.3</b>

All bank overdrafts and loans are unsecured.

### 6. Creditors: amounts falling due after more than one year

	2016 £m	2015 £m
Bank loans	79.4	100.5
Other loans	340.6	325.5
	<b>420.0</b>	<b>426.0</b>

All bank and other loans are unsecured.

### 7. Share capital

#### Issued and fully paid

	2016		2015	
	Number million	£m	Number million	£m
At 1 January and 31 December	430.3	215.1	430.3	215.1

# Notes to the Company financial statements continued

## 8. Reserves

### Share premium reserve

The share premium reserve contains the premium in excess of par value arising on the issue of share capital, net of issue expenses.

### Merger reserve

The merger reserve initially arose on the demerger from Tarmac plc on 29 July 1999. The reserve increased on the acquisition of Mowlem on 23 February 2006, Alfred McAlpine on 12 February 2008 and Carillion Energy Services on 21 April 2011, whereby the consideration included the issue of Carillion plc shares. The premium on the shares issued in relation to these acquisitions has been credited to the merger reserve rather than the share premium account in accordance with the Companies Act 2006.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, together with any related deferred taxation.

### Other reserve

The other reserve includes the cost of shares provided to employees of the Company's subsidiaries, calculated in accordance with International Financial Reporting Standard 2 'Share-based payments'.

### Profit and loss account

The profit and loss account reserve includes the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movements in the reserve for own shares included within retained earnings are as follows:

	2016 £m	2015 £m
At 1 January	–	–
Acquisition of own shares	(1.0)	(0.4)
Share options exercised (transfer to retained earnings)	1.0	0.4
<b>At 31 December</b>	<b>–</b>	<b>–</b>

At 31 December 2016, the ESOP held 18,538 (2015: 6,578) of the Company's shares which had a market value of £43,713 (2015: £19,925). During the year the Company acquired 338,617 of its own shares for £1.0 million to meet the plan's commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

The Company has also established a Qualifying Employee Share Ownership Trust (QUEST). At 31 December 2016 the total number of shares held by the QUEST amounted to 84,593 (2015: 84,593) which had a market value of £0.2 million (2015: £0.3 million).

The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

## 9. Other guarantees and contingent liabilities

	2016 £m	2015 £m
Guarantees in respect of borrowings of subsidiaries	207.4	194.5
Guarantees in respect of interest payments in Construction services (excluding the Middle East) joint ventures	3.2	3.5
Guarantees in respect of deferred equity payments in PPP special purpose entities	63.4	61.6
Guarantees in respect of letters of credit issued by banks in relation to performance contracts for PPP customers	36.9	47.3

The Company has issued performance guarantees in respect of its subsidiaries, joint ventures and joint arrangements in the normal course of business. The Company has guaranteed the obligations in relation to £170 million of convertible bonds issued by Carillion Finance (Jersey) Limited, a wholly owned subsidiary.

Guarantees and counter indemnities have, in the normal course of business, been given to financial institutions in respect of the provisions of performance and other contract-related bonds and to certain defined benefit pensions in respect of deficit recovery payments. The Company considers such guarantees and counter indemnities to be insurance arrangements and accounts for them as such. The Company treats guarantees and counter indemnities of this nature as contingent liabilities until such time as it becomes probable that the Company will be required to make a payment under the terms of the arrangement.

## 10. Pension arrangements

The Company bears the cost of pension arrangements for the Executive Directors and certain head office functions, which are defined contribution in nature.

Details of the Group's pension schemes are disclosed in note 30 to the consolidated financial statements.

## 11. Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to shares in the Company. Details of the Group's share option programme are disclosed in note 24 to the consolidated financial statements and in the Remuneration report on pages 65 to 81.



## 12. Financial instruments

Details of the Company's principal financial instruments are discussed under accounting policies. The numerical financial instrument disclosures are set out below:

### Derivative financial instruments

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts – at fair value through profit and loss	–	(7.9)	3.3	–
Forward foreign currency contracts – cash flow hedging instruments	0.3	–	–	–
Fixed-rate interest derivatives – cash flow hedging instruments	–	–	–	(0.7)
Cross-currency derivatives – cash flow hedging instruments	46.1	–	11.3	–
Foreign currency exposure	46.4	(7.9)	14.6	(0.7)

The cross-currency derivatives hedge the exposure to foreign exchange rate volatility in relation to the capital and interest payments on United States of America dollar denominated private placement financing. The fixed interest rate derivatives hedge the exposure to interest rate movements on borrowings with floating rates of interest. The forward foreign currency contracts classified as cash flow hedging instruments hedge the exposure to foreign exchange rate volatility in relation to future transactional foreign currency payments.

The carrying amount of the Company's borrowing denominated in foreign currency is as follows:

	2016 £m	2015 £m
United States of America dollars	(246.0)	(207.6)
Canadian dollars	(59.4)	(48.0)
United Arab Emirates dirhams	(9.9)	(8.3)
Other	(0.4)	(0.1)
	(315.7)	(264.0)

Of the total foreign currency borrowing of £315.7 million (2015: £264.0 million) the amount of borrowing used for hedging currency net asset of overseas operations of the Group amounts to £89.4 million (2015: £73.4 million). The foreign exchange loss of £16.0 million (2015: £4.9 million gain) on translation of the borrowing into sterling has been recognised in the profit and loss account of the Company.

### Maturity of financial liabilities

The maturity profile of the Company's non-current borrowing, which includes estimated future interest payments, is as follows:

	Bank overdrafts £m	Bank loans £m	Other loans £m	Total £m
<b>31 December 2016</b>				
Between one and two years	–	(2.1)	(64.2)	(66.3)
Between two and three years	–	(2.1)	(95.2)	(97.3)
Between three and four years	–	(81.4)	(10.2)	(91.6)
Between four and five years	–	–	(60.6)	(60.6)
More than five years	–	–	(168.2)	(168.2)
More than one year	–	(85.6)	(398.4)	(484.0)
Less than one year	(2.5)	(62.4)	(36.6)	(101.5)
	(2.5)	(148.0)	(435.0)	(585.5)
<b>31 December 2015</b>				
Between one and two years	–	(37.5)	(31.9)	(69.4)
Between two and three years	–	(1.9)	(62.7)	(64.6)
Between three and four years	–	(1.9)	(83.8)	(85.7)
Between four and five years	–	(66.8)	(9.6)	(76.4)
More than five years	–	–	(204.2)	(204.2)
More than one year	–	(108.1)	(392.2)	(500.3)
Less than one year	(0.1)	(10.9)	(14.9)	(25.9)
	(0.1)	(119.0)	(407.1)	(526.2)

### Borrowing facilities

The Company had the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met:

	2016 £m	2015 £m
Expiring within one year	5.2	7.2
Expiring between two and five years	726.4	754.0
	731.6	761.2

# Alternative performance measures

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

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

The alternative performance measures presented aim to supplement the reported results presented in accordance with International Financial Reporting Standards (IFRS) by providing further clarity on the performance of the Group.

The following section provides an indication of the purpose and definition of each of the alternative performance measures presented in the Annual Report and Accounts, together with an appropriate cross reference to where the financial information can be found within the IFRS financial statements.

## Income statement

### A. Total revenue

The total revenue figure of £5,214.2 million (as shown in the income statement on page 90) includes Group revenue of £4,394.9 million together with the Group's share of revenue from Joint Ventures of £819.3 million. The Group includes Joint Venture revenue in its headline revenue figure to reflect the fact that a significant proportion of the Group's operational delivery activities are undertaken through Joint Ventures.

### B. Organic growth

Organic growth is the growth achieved compared to the previous year, excluding the impact of foreign exchange rate movements (as disclosed on page 47) and incremental contributions from businesses acquired in either the current or prior year. The impact of foreign exchange rate movements is calculated by translating current year revenue using the average exchange rates applicable for the previous year.

### C. Underlying profit from operations

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

	2016 £m	2015 £m
Reported profit from operations (income statement on page 90)	181.9	209.4
Add back: Intangible amortisation arising from business combinations (note 11 on page 109)	13.8	20.0
Non-recurring operating items (note 4 on page 104)	40.2	5.0
Underlying profit from operations	235.9	234.4

### D. Underlying operating profit and margin

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

	2016 £m	2015 £m
Reported Group operating profit (income statement on page 90)	145.6	183.4
Add back: Intangible amortisation arising from business combinations (note 11 on page 109)	13.8	20.0
Non-recurring operating items (note 4 on page 104)	40.2	5.0
Include: Joint Venture operating profit (note 2 on page 100)	54.3	36.0
Underlying operating profit	253.9	244.4

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

	2016	2015
Underlying operating profit (see above) (£m)	253.9	244.4
Total revenue (income statement on page 90) (£m)	5,214.2	4,586.9
Underlying operating margin (%)	4.9	5.3

## E. Underlying net financial expense

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

	2016 £m	2015 £m
Reported net financial expense (income statement on page 90)	<b>(34.1)</b>	(51.8)
Deduct: Fair value movements in derivative financial instruments (note 5 on page 104)	<b>(8.2)</b>	(6.1)
Changes in contingent consideration relating to acquisitions (note 5 on page 104)	<b>(15.6)</b>	-
Underlying net financial expense	<b>(57.9)</b>	(57.9)

## F. Underlying profit before taxation

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

	2016 £m	2015 £m
Reported profit before taxation (income statement on page 90)	<b>146.7</b>	155.1
Add back: Intangible amortisation arising from business combinations (note 11 on page 109)	<b>13.8</b>	20.0
Non-recurring operating items (note 4 on page 104)	<b>40.2</b>	5.0
Non-operating items (note 4 on page 104)	<b>1.1</b>	2.5
Deduct: Fair value movements in derivative financial instruments (note 5 on page 104)	<b>(8.2)</b>	(6.1)
Changes in contingent consideration relating to acquisitions (note 5 on page 104)	<b>(15.6)</b>	-
Underlying profit before taxation	<b>178.0</b>	176.5

## G. Underlying earnings per share

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

	2016 £m	2015 £m
Reported profit attributable to equity holders of the parent (income statement on page 90)	<b>124.2</b>	132.8
Add back: Intangible amortisation arising from business combinations (net of taxation) (note 8 on page 107)	<b>10.8</b>	15.0
Non-recurring operating items (net of taxation) (note 8 on page 107)	<b>37.8</b>	5.0
Non-operating items (net of taxation) (note 8 on page 107)	<b>1.1</b>	2.5
Deduct: Fair value movements in derivative financial instruments (net of taxation) (note 8 on page 107)	<b>(6.6)</b>	(4.9)
Changes in contingent consideration relating to acquisitions (net of taxation) (note 8 on page 107)	<b>(15.6)</b>	-
Underlying profit attributable to equity holders of the parent	<b>151.7</b>	150.4

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

	2016	2015
Underlying profit attributable to equity holders of the parent (see above) (£m)	<b>151.7</b>	150.4
Weighted average number of shares in issue (note 8 on page 106) (m)	<b>430.2</b>	430.2
Underlying earnings per share (pence)	<b>35.3</b>	35.0

## Alternative performance measures continued

### H. Underlying effective tax rate

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

	2016	2015
Group underlying taxation charge (note 8 on page 107) (£m)	21.0	19.5
Share of Joint Ventures taxation charge (income statement on page 90) (£m)	4.8	2.9
Total underlying taxation charge (£m)	25.8	22.4
Underlying profit before taxation (section F above) (£m)	178.0	176.5
Add back: Share of Joint Venture taxation (income statement on page 90) (£m)	4.8	2.9
Underlying profit excluding all taxation (£m)	182.8	179.4
Underlying effective tax rate (%)	14.1	12.5

### I. Dividend cover

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

	2016	2015
Underlying earnings per share (section G above) (pence)	35.3	35.0
Proposed dividend per share (note 9 on page 107) (pence)	18.45	18.25
Dividend cover (times)	1.9	1.9

## Cash flow statement

### J. Underlying operating cash flow conversion

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

	2016	2015
Cash generated from operations (cash flow statement on page 94) (£m)	115.5	120.3
Add back: Deficit recovery payments to pension schemes (£m)	46.6	47.4
Non-recurring operating items (£m)	21.5	6.3
Cash flows on forward foreign currency contracts (£m)	34.6	-
Include: Dividends received from Joint Ventures (£m)	11.8	16.8
Disposal of Joint Ventures and other investments (£m)	47.1	54.1
Underlying cash generated from operations (£m)	277.1	244.9
Underlying profit from operations (section C above) (£m)	235.9	234.4
Underlying cash conversion (%)	117	104

### K. Net borrowing and average net borrowing

The Directors view net borrowing rather than cash and cash equivalents as the most appropriate measure of liquidity for the Group as this measure includes all sources of financing used to fund the Group's operations. Note 18 on page 115 shows the sources of financing that are included in net borrowing in addition to cash and cash equivalents.

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

## L. Summary cash flow statement

For internal management purposes, the Directors utilise a summarised cash flow statement for monitoring the generation and utilisation of cash in the business. The summary cash flow groups items from the IFRS cash flow statement on page 94 into broader operational categories as shown below:

	2016 £m	2015 £m
<b>Depreciation and other non-cash items</b>		
Depreciation and amortisation	45.0	45.4
Less: Amortisation of intangible assets arising from business combinations	(13.8)	(20.0)
Profit on disposal of property, plant and equipment and intangible assets	(6.4)	(14.4)
Other non-cash movements	1.9	(0.3)
Depreciation and other non-cash items per summary cash flow statement	26.7	10.7
<b>Working capital</b>		
Profit on disposal of Public Private Partnership equity investments	(12.7)	(37.7)
Increase in inventories	(6.3)	(14.3)
(Increase)/decrease in trade and other receivables	(290.6)	48.0
Increase/(decrease) in trade and other payables	301.5	(41.1)
Disposal of Joint Ventures and other investments	47.1	54.1
Working capital per summary cash flow statement	39.0	9.0
<b>Interest and taxation</b>		
Financial income received	2.5	2.4
Financial expense paid	(39.6)	(35.3)
Taxation payments	(4.2)	(7.5)
Interest and taxation per summary cash flow statement	(41.3)	(40.4)
<b>Net capital expenditure</b>		
Disposal of property, plant and equipment and intangible assets	13.8	17.6
Acquisition of property, plant and equipment and intangible assets	(37.3)	(30.4)
Net capital expenditure per summary cash flow statement	(23.5)	(12.8)
<b>Other</b>		
Acquisition of own shares	(1.0)	(0.4)
Interest accretion in respect of convertible bonds (note 18 on page 115)	(2.8)	(2.8)
Finance lease additions (note 18 on page 115)	(2.5)	-
Other per summary cash flow statement	(6.3)	(3.2)
<b>Foreign exchange movements</b>		
Cash flows on forward foreign currency contracts	(34.6)	-
Currency translation differences on net borrowing (note 18 on page 115)	(33.6)	(7.7)
Foreign exchange rate movements per summary cash flow statement	(68.2)	(7.7)
<b>Acquisitions and disposals</b>		
Acquisition costs	(0.9)	(6.6)
Loan advance repayments received from Joint Ventures	2.1	7.2
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(32.5)	(10.6)
Acquisition of equity and loan advances to Joint Ventures	(4.8)	(28.3)
Acquisition of other non-current asset investments	-	(0.4)
Deduct: Net cash and cash equivalents acquired (note 18 on page 115)	-	(6.2)
Add: Net cash in subsidiaries acquired (note 18 on page 115)	-	5.3
Acquisitions and disposals per summary cash flow statement	(36.1)	(39.6)
<b>Dividends</b>		
Dividends paid to equity holders of the parent	(78.9)	(76.8)
Dividends paid to non-controlling interests	(3.8)	(3.2)
Dividends per summary cash flow statement	(82.7)	(80.0)



# Subsidiaries and joint ventures

Company number	Company name	Key	Proportion of ownership interest
<b>England</b>			
02063449	1st Insulation Partners Limited	A	100%
04364773	ACM Health Solutions Limited	A	33.333%
02191494	AFR Limited	A	100%
1505628	Alfred McAlpine Asset Management Services Limited	A	100%
1449086	Alfred McAlpine International Limited	A	100%
1528870	Alfred McAlpine Pension Trustees Limited	A	100%
1808326	AM Nominees Limited	A	100%
9693421	ARE Hamilton Limited	A	100%
07807709	Arlington Real Estate (Durham City) Limited	A	100%
OC392861	Ask Carillion Developments LLP	A	67%
10027959	Ask Central Limited	A	67%
08084031	Ask Real Estate Ltd	A	67%
09008001	Ask Real Estate (Investments) Ltd	A	67%
08987222	Ask Real Estate (Embankment) Ltd	A	67%
06404740	Ask (Exchange East) Developments Ltd	A	67%
06404751	Ask (Exchange East) Ltd	A	67%
4556471	Aspire Defence Services Limited	A	50%
2990586	Avery Hill Developments Holdings Limited	A	100%
2987829	Avery Hill Developments Limited	A	100%
2811168	Barclay Mowlem (Asia) Limited	A	100%
06137874	Brooklands Court (Kettering) Management Ltd	A	50%
2404092	Building Environmental Hygiene Limited	A	100%
1367044	Carillion (AM) Limited*	A	100%
5428762	CarillionAmey Limited	A	50%
5428732	CarillionAmey (Housing Prime) Limited	A	66.7%
05704083	Carillion (Aspire Construction) Holdings Limited	A	100%
05704108	Carillion (Aspire Construction) Holdings No.2 Limited	A	100%
05704135	Carillion (Aspire Construction) Limited	A	100%
05704064	Carillion (Aspire Services) Holdings Limited	A	100%
05704172	Carillion (Aspire Services) Holdings No.2 Limited	A	100%
05704254	Carillion (Aspire Services) Limited	A	100%
09323071	Carillion Academies Trust	A	33.333%
10556292	Carillion Advice Services Limited	A	100%
1685693	Carillion AM Developments Limited	A	100%
885404	Carillion AM Government Limited	A	100%
3902700	Carillion Aquamen Management Services Limited	A	100%
1122808	Carillion Asset Management Limited	A	100%
8404799	Carillion-Breathe Limited	A	50%
247624	Carillion Capital Projects Limited	A	100%
156617	Carillion Construction (Contracts) Limited	A	100%
2556935	Carillion Construction (Nominees) Limited	A	100%
883233	Carillion Construction (West Indies) Limited	A	100%
594581	Carillion Construction Limited*	A	100%
1270381	Carillion Construction Overseas Limited	A	100%
3783015	Carillion CR Limited	A	100%
3256112	Carillion (Denmark) Limited	A	100%
9203709	Carillion Developments Limited	A	100%
7966837	Carillion Eltel JV Limited	A	50%
3858865	Carillion Energy Services Limited*	A	100%
537677	Carillion Fleet Management Limited*	A	100%
3105686	Carillion GB Limited	A	100%
04996458	Carillion Heating Services Limited	A	100%
159414	Carillion Hi-Tech Limited	A	100%
3783019	Carillion Holdings Limited*	A	100%
01686252	Carillion Home Services Limited	A	100%
7211684	Carillion-Igloo Limited	A	50%
LP015092	Carillion-Igloo Limited Partnership	A	50%
8137485	Carillion-Igloo Nominees Limited	A	100%
349002	Carillion Insurance Advisers Limited*	A	100%
3679838	Carillion Integrated Services Limited	A	100%
77628	Carillion JIM Limited*	A	100%
3198709	Carillion LGS Limited*	A	100%
03130297	Carillion Managed Services Limited	A	100%
1469541	Carillion (Maple Oak) Limited	A	100%
398443	Carillion MENA Limited	A	100%
3787277	Carillion Nominees Limited*	A	100%
8884783	Carillion Powerlines Limited	A	50%
813991	Carillion Private Finance (Education) 2012 Limited	A	100%
9684392	Carillion Private Finance (Education) 2015 Limited	A	100%

Company number	Company name	Key	Proportion of ownership interest
9961994	Carillion Private Finance (Education) 2016 Limited	A	100%
8684413	Carillion Private Finance (Health) 2013 Limited	A	100%
9822736	Carillion Private Finance (Health) 2015 Limited	A	100%
5753809	Carillion Private Finance (Secure) Limited	A	100%
5753751	Carillion Private Finance (Transport) Limited	A	100%
2997859	Carillion Private Finance Limited*	A	100%
2916489	Carillion Professional Services Limited*	A	100%
1417540	Carillion Project Investments Limited	A	100%
961738	Carillion Project Services Holdings Limited	A	100%
4322876	Carillion Property Services Limited	A	100%
3783014	Carillion Quest Trustee Limited	A	100%
2630590	Carillion Regeneration Limited*	A	100%
10546542	Carillion Resourcing Ltd	A	100%
303453	Carillion Regional Construction Limited*	A	100%
5308544	Carillion Richardson Anchorwood Limited	A	50%
05504709	Carillion Richardson Cwmbran Limited	A	50%
N/A	Carillion Richardson Partnership	A	50%
4435931	Carillion Richardson Thanet Phase 2 Limited	A	50%
5173289	Carillion Richardson Worcester Limited	A	50%
2684154	Carillion Services 2006 Limited	A	100%
3011791	Carillion Services Limited*	A	100%
551186	Carillion (Singapore) Limited	A	100%
8684467	Carillion Solar 1 Limited	A	100%
2574792	Carillion Specialist Services Limited	A	100%
881324	Carillion Support Services & Investments Limited	A	100%
2294384	Carillion Swindon Limited*	A	100%
1180475	Carillion Technical Services (Installation) Limited	A	100%
00728599	Carillion Utility Services Limited	A	100%
01521006	Carillion Utility Services Group Limited	A	100%
02355338	Carillion Utility Services S.E. Limited	A	100%
6190456	Carillion Wyse Holdings Limited	A	100%
2995364	Centrac Limited	A	100%
2489314	Churchward Plc	A	99.5%
5325813	Clinicenta Limited*	A	100%
6820088	Clinicenta (Hertfordshire) Limited	A	100%
6607841	Cultural Community Solutions Limited	A	100%
566465	Dudley Bower Group Plc	A	100%
4448876	Eaga Energy Solutions Limited	A	100%
05754891	Eaga Heating Limited	A	100%
02969358	Eaga Services Limited	A	100%
1141203	Eastbourne Harbour Company Limited	A	100%
02023634	E.J. Horrocks Limited	A	100%
1294261	Ernest Ireland Construction Limited	A	100%
2840336	Everprime Limited	A	100%
3523664	Formsole Limited	A	50%
02836739	George Howe Limited	A	100%
3126198	G T Railway Maintenance Holdings Limited*	A	100%
2995513	G T Railway Maintenance Limited	A	100%
369692	Hall & Tawse Northern Limited	A	100%
8018007	Infrasig Limited	A	75%
1752119	Inspiredspaces Limited	A	100%
6844186	Inspiredspaces Durham (PSP1) Limited	A	100%
6844166	Inspiredspaces Durham Limited	A	80%
8121567	Inspiredspaces Nottingham (Holdings 2) Limited	A	8%
8121731	Inspiredspaces Nottingham (ProjectCo 2) Limited	A	8%
6506298	Inspiredspaces Nottingham (PSP1) Limited	A	100%
8121929	Inspiredspaces Nottingham (PSP3) Limited	A	100%
6506329	Inspiredspaces Nottingham Limited	A	80%
7017267	Inspiredspaces Rochdale Limited	A	80%
7017410	Inspiredspaces Rochdale (ProjectCo 1) Limited	A	8%
811390	Inspiredspaces Rochdale (ProjectCo 2) Limited	A	8%
7017618	Inspiredspaces Rochdale (Holdings 1) Limited	A	8%
8114138	Inspiredspaces Rochdale (Holdings 2) Limited	A	8%
7017305	Inspiredspaces Rochdale (PSP1) Limited	A	100%
7017401	Inspiredspaces Rochdale (PSP 2) Limited	A	100%
8114163	Inspiredspaces Rochdale (PSP 3) Limited	A	100%
6436121	Inspiredspaces STaG (PSP 1) Limited	A	54.5%
6436101	Inspiredspaces STaG Limited	A	43.6%
6569859	Inspiredspaces Tameside (PSP 1) Limited	A	100%
6569837	Inspiredspaces Tameside (PSP 2) Limited	A	100%

Company number	Company name	Key	Proportion of ownership interest
6569789	Inspiredspaces Tameside Limited	A	80%
7155049	Inspiredspaces Wolverhampton (PSP 1) Limited	A	100%
08649446	Inspiredspaces Wolverhampton (PSP 3) Limited	A	100%
7154960	Inspiredspaces Wolverhampton Limited	A	80%
404120	J.F. Miller Properties Limited	A	100%
1947809	John Mowlem Construction Plc	A	100%
199835	Johnston Construction Limited	A	100%
5769391	Lodge Park Commercial Developments Limited	A	50%
9147119	Maling Street Management Company Ltd	A	100%
1401298	Marchwiel Investments Limited	A	100%
662675	Marchwiel Properties Limited	A	100%
00326348	McAlpine Infrastructure Services Limited	A	100%
OC40231	MGH Card LLP	A	33.333%
9799665	MGH Partner Company Limited	A	33.333%
3392601	Mowlem Environmental Sciences Group Limited	A	100%
05543634	New World Barnsley Limited	A	50%
05477550	New World Crewe Limited	A	50%
05186128	New World Haydock Limited	A	50%
05380578	New World Leisure Limited	A	50%
05848066	New World (NEC) Limited	A	50%
6440415	Oaklands Office Park (Management) Limited	A	100%
737307	Planned Maintenance Engineering Limited*	A	100%
5175471	Plot B5 SAI Management Company Limited	A	100%
3902730	PME Partnerships Limited	A	100%
531085	PME Technical Services Limited	A	100%
2508579	Postworth Limited*	A	100%
09598377	PSBP Midlands Limited	A	42.5%
09598495	PSBP Midlands (DebtCo) Limited	A	42.5%
09598536	PSBP Midlands (Holdings) Limited	A	42.5%
416147	Raine Limited	A	100%
01052014	R G Francis Limited	A	100%
3917644	Road Management Services (A13) plc	A	25%
3917652	Road Management Services (A13) Holdings Limited	A	25%
OC307955	SA 1 Developments LLP	A	100%
2646690	Schal International Management Limited*	A	100%
680231	Sovereign Consultancy Services Limited	A	100%
2217605	Sovereign Harbour Limited	A	100%
4135060	Sovereign Harbour Waterfront Holdings Limited	A	100%
4979205	Sovereign Harbour Waterfront Limited	A	100%
3232308	Sovereign Hospital Services Limited	A	100%
309997	Stephenson Maintenance Limited	A	100%
1122105	Stiell Facilities Limited	A	100%
2519780	TBV Power Limited	A	50%
10551384	The Acorns Residents Management Company Limited	A	100%
OC402027	The Carillion Arlington Richardson Developments Partnership LLP	A	33.333%
775010	The Carillion Construction Company (East Africa) Limited	A	100%
8747138	The Hospital Company (Liverpool) Limited	A	50%
8751752	The Hospital Company (Liverpool) Holdings Limited	A	50%
9822818	The Hospital Company (Sandwell) Limited	A	50%
9822833	The Hospital Company (Sandwell) Holdings Limited	A	50%
6910378	The Management Company (Castlegate Phase 2) Limited	A	50%
2574820	TPS Consult Limited	A	100%
1577583	W A Investments Limited	A	100%
2112970	Wakeremote Limited*	A	100%
1123611	Walter Lawrence Developments Limited	A	75%
1273373	Walter Lawrence Homes Chilterns Limited	A	100%
2062284	Walter Lawrence Housing Investments Limited	A	100%
5052745	Ward Street Developments Limited	A	50%
05769525	WarmSure Limited	A	100%
3485972	Wyseproperty	A	50%
08723467	Airport City (Asset Manager) Limited	B	20%
08723477	Airport City (General Partner) Limited	B	20%
LP016256	Airport City Limited Partnership	B	20%
OC394683	Siglion LLP	C	50%
09164628	Siglion Nominee Limited	C	50%
OC394705	Siglion Developments LLP	C	50%
OC394707	Siglion Investments LLP	C	50%
LP015253	European Property Investors Special Opportunities 3LP	D	22%

Company number	Company name	Key	Proportion of ownership interest
<b>Scotland</b>			
SC292392	AMBS 1 Limited	E	100%
SC203910	Carillion (AMBS) Holdings Limited	E	100%
SC20258	Carillion (AMBS) Limited	E	100%
SCI02827	Carillion Energy Services Scotland Limited	E	100%
SCI4842	Glasgow Stockholders Trust Public Limited Company	E	100%
SC23190	Mowlem Scotland Limited	E	100%
SC83991	Stiell Inframan Limited	E	100%
SC489526	Aberdeen Roads Holdings Limited	F	33.3%
<b>Australia</b>			
ACN119335787	Carillion Australia Pty Limited	G	100%
<b>Canada</b>			
250852415	Boreal Health Partnership	H	50%
2177453	Carillion Canada Holdings Inc.	H	100%
1556261	Carillion Canada Inc.	H	100%
2242343	Ontario Inc.	H	100%
2056087	Ontario Inc.	H	100%
2054599	Ontario Inc.	H	33.333%
2051697	Ontario Inc.	H	100%
2093729	Ontario Inc.	H	100%
171304496	C (Adams Park) Limited Partnership	H	100%
2157138	C (Adams Park) General Partners Inc.	H	100%
2157135	Democrat Adams Park Limited	H	50%
2114735	C (Angus) General Partner Inc.	H	100%
161064001	C (Angus) Limited Partnership	H	100%
2114737	C (Aurora) General Partner Inc.	H	100%
161063987	C (Aurora) Limited Partnership	H	100%
2149952	C (Port Dover) General Partner Inc.	H	100%
171054851	C (Port Dover) Limited Partnership Inc.	H	100%
2149573	Democrat Port Dover Ltd.	H	50%
2114740	C (King) Holdings Inc.	H	100%
2114731	CR General Partner Inc.	H	50%
161064019	CR (King North) Limited Partnership	H	50%
161063995	CR (King Dufferin) Limited Partnership	H	50%
161064035	CR (King Rocks) Limited Partnership	H	50%
161063979	CR (King Green) Limited Partnership	H	50%
161133913	CR (Valley King) Limited Partnership	H	50%
170741847	CR (Brooklin Southeast) Limited Partnership	H	50%
170741854	CR (Brooklin Northeast) Limited Partnership	H	50%
171237191	CR (Cookstown) Limited Partnership	H	50%
2154285	Cookstown Developments CR Inc.	H	50%
180891160	CR (Cooksglen) Limited Partnership	H	50%
1545130	Maplewood Properties Inc. (Riverfield)	H	100%
1341952	TWD Roads Management Inc.	H	100%
2173490	Carillion Build Finance Inc.	H	50%
2128496	Vanbrook Construction Corporation	H	50%
2124545	Vanmed Construction Corporation	H	50%
2289895	Carillion EllisDon Services (NOH) Inc.	H	70%
2127430	Carillion EllisDon Services (Sault) Inc./Services Carillion EllisDon (Sault) Inc.	H	70%
2193927	Carillion Services (Sault) Inc.	H	100%
2423833	Carillion Investments (Canada) Inc.	H	100%
2226634	Carillion Services (CAMH) Inc.	H	100%
2243591	Carillion Services (Defence Solutions) Inc.	H	100%
2244063	Carillion Services (FSCC) Inc.	H	100%
1569186	Carillion Services (ROH) Inc.	H	70%
1566026	Carillion Services (WOHC) Inc.	H	70%
2143429	Hospital Infrastructure Partners Inc./Partenaires D'Infrastructures Hospitalieres Inc.	H	100%
2199031	Carillion IT Services Inc.	H	100%
2136079	Ontario Inc.	H	100%
2136080	Ontario Inc.	H	100%
2529541	Carillion Services Inc.	H	100%
2468522	Carillion Canada (WOHC) Investments Inc.	H	100%
2468523	Carillion Canada (WOHC) Inc.	H	100%
1780791	Carillion Construction Inc.	H	100%
1231335	Carillion Pacific Construction Inc.	H	100%
2447586	Ontario Inc.	H	100%

## Subsidiaries and joint ventures continued

Company number	Company name	Key	Proportion of ownership interest
2286419	Carillion HIP (NOH) Holdings Inc.	H	100%
5969566	Carillion (CAMH) Holdings Inc.	H	100%
2244062	Carillion (FSCC) Holdings Inc.	H	100%
1618408	Carillion Ottawa Holdings Inc.	H	100%
2031472	The Healthcare Infrastructure Company of Canada (ROH) Inc.	H	50%
2480723	Carillion BHP (STH) Holdings Inc.	H	100%
2480722	Carillion BHP (STH) GP Holdings Inc.	H	100%
2477375	Carillion APP Holdings Inc.	H	100%
2022794	Carillion Canada Finance Corp*	H	100%
101286808	Access Prairies Partnership	I	50%
101286801	Carillion APP GP Holdings Inc.	I	100%
150191179	MacIntyre Creek Developments Limited Partnership	J	50%
2045734	Senator Homes Discovery (II) Inc.	K	30%
2060257	Brookvalley Developments (Aurora) Ltd.	L	20%
2114308	King North Developments CR Inc.	L	50%
2114305	King Dufferin Developments CR Inc.	L	50%
2114302	King Rocks Developments CR Inc.	L	50%
2114306	King Green Developments CR Inc.	L	50%
1710357	Valley King Developments Ltd.	L	50%
2136287	Brooklin Southeast Developments CR Inc.	L	50%
2136289	Brooklin Northeast Developments CR Inc.	L	50%
2180957	Cooksglen Developments CR Inc.	L	50%
6986006	Carillion General Partner (B.C.) Inc.	M	100%
6986014	CCI (B.C.) Limited Partnership	M	100%
7028271	RPC Limited Partnership	M	60%
101270283	Rokstad Power GP Inc.	N	60%
0891115	B.C. Ltd.	N	60%
BC0971978	Golden Ears Painting and Sandblasting Ltd.	N	60%
BC0999148	Plowe Power Systems Ltd.	N	60%
207776550	Bouchier Contracting Ltd.	O	49%
2014143404	Bouchier Management Services Ltd.	O	49%
2014808733	Bouchier Site Services Ltd.	P	49%
LP14941629	Bouchier Management Services LP	P	49%
LP14941595	Bouchier Site Services LP	P	49%
7174226	AP Services General Partner Inc.	O	80%
7174234	AP Services Limited Partnership	O	80%
6295941	Carillion HIP (NOH) LP Inc.	O	100%
BC0491313	491313 B.C. Ltd.	R	100%
BC0444551	Outland Camps Inc.	S	100%
1165249393	9198-4468 Quebec Inc.	T	49%
C5165	Tangmaarvik Inland Camp Services Inc.	U	49%
2012019341	Outland Resources Inc.	V	100%
209162692	Bearhills Fire Inc.	V	100%
5969540	Carillion LP Holdings (I) Inc.	W	100%
6083669	Carillion (FSCC) LP Holdings Inc.	W	100%
5530245	Carillion (Sault) Holdings Inc.	W	100%
6130381	EAGA Canada Inc.	X	100%
BC0821731	EAGA Canada Services Inc.	X	100%
6131701	Homeworks Services Inc.	X	75%
BC0233802	Integrated Energy Systems Ltd.	X	100%
<b>Channel Islands</b>			
117045	Carillion Finance (Jersey) Ltd*	Y	100%
1771	Carillion (Jersey) Ltd	Z	100%
24845	Carillion Insurance Company Ltd	AA	100%
39351	John Mowlem (Guernsey) Ltd	BB	100%
42304	WPL Estates Ltd	CC	50%
<b>China</b>			
44030/ 503224571	Yu Lan Limited	DD	100%

Company number	Company name	Key	Proportion of ownership interest
<b>France</b>			
B384804571	Carillion France SA*	EE	100%
<b>Germany</b>			
B/37133	TCon Bauten GmbH	FF	100%
<b>Hungary</b>			
0109674549	TBV Power Hungary Ltd	GG	50%
<b>Ireland</b>			
425449	Alfred McAlpine Irish Pension Trustees Ltd	HH	100%
290713	Carillion Irishenco Ltd	HH	100%
578490	Inspiredspaces Bundle 5 (Ireland) Holdings Ltd	HH	50%
578491	Inspiredspaces Bundle 5 (Ireland) Ltd	HH	50%
111382	PJ Walls (Civil) Ltd	II	50%
429873	Vanbots Celtic Limited	JJ	100%
<b>Isle of Man</b>			
014576	Alfred McAlpine Construction Isle of Man Ltd	KK	100%
<b>Malaysia</b>			
303524-H	TBV Power Malaysia Sdn Bhd	LL	50%
<b>Northern Ireland</b>			
N1040904	Eaga NI Ltd	MM	100%
N1016109	Heat Energy and Associated Technology Ltd	MM	100%
<b>Netherlands</b>			
1502877	Carillion Investments BV*	NN	100%
24296440	Mowlem Aquamen BV	OO	100%
24296427	Mowlem Holdings BV	OO	100%
<b>Trinidad and Tobago</b>			
C3241(c)	Carillion (Caribbean) Limited	PP	100%
<b>Middle East and North Africa</b>			
62491	Al Futtaim Carillion LLC	OO	49%
1076072	Al Futtaim Carillion (Abu Dhabi) LLC	RR	49%
30797	Al Futtaim Carillion Contracting S.A.E.	SS	49%
59850	Emrill Services LLC*	TT	33.333%
43790	Carillion (Qatar) LLC	UU	49%
101031785	Carillion (Saudi Arabia) LLC	VV	100%
1083481	Carillion Alawi LLC	WW	49%
<b>United States</b>			
130311824- 5290930	Carillion USA Inc	XX	100%
130333715- 5305877	Rokstad Power Inc.	YY	60%

\*Shares of those undertakings marked with an asterisk are directly owned by Carillion plc.

**Key Registered office**

A	Carillion House, 84 Salop Street, Wolverhampton, WV3 0SR, United Kingdom
B	6th Floor, Olympic House, Manchester Airport, Manchester M90 1QX, United Kingdom
C	Unit 1b, Echo 24 Building, West Wear Street, Sunderland SR1 1XD, United Kingdom
D	Berkley Square House, 8th Floor, Berkley Square, London, W1J 6BE
E	Fenick House, 1 Lister Way, Hamilton International Technology Park, Blantyre, G72 0FT, United Kingdom
F	Dean House, 24 Ravelston Terrace, Edinburgh, EH4 3TP, United Kingdom
G	13 Le Vesinet Drive, Hunters Hill, New South Wales, 2110, Australia
H	7077 Keele Street, Vaughan, Ontario L4K 0B6, Canada
I	1500, 1881 Scarthy, Regina, SK S4P 4K9, Canada
J	3290 Line Five R.R. #1, Bradford, ON L3C 2AZ, Canada
K	250 Lesmill Road, Toronto, ON M3B 2T5, Canada
L	137 Bowes Road, Concord, Ontario, L4K 1H3, Canada
M	900-400 St. Mary Avenue, Winnipeg, MB R3C 4K5, Canada
N	2600-595 Burrard Street, Vancouver, BC V7X 1L3 00-595 Burrard Street, Vancouver, BC V7X 1L3, Canada
O	707 - 7th Avenue SW, Calgary, AB T2P 3H6, Canada
P	P.O. Box 6607, Fort McMurray, Alberta, T9H 5N4, Canada
Q	900-400 St. Mary Avenue, Winnipeg, Manitoba, R3C 4K5, Canada
R	50 Acadia Avenue, Markham, Ontario, L3R 0B3, Canada
S	2600-595 Burrard Street, Vancouver, British Columbia, V7X 1L3, Canada
T	200 6E Ouest, Amos, Quebec, J9T 2T5, Canada
U	House 2436, P.O. Box 1734, Iqaluit, Nunavut, X0A 0H0, Canada
V	855 2 Street SW, Suite 3500, Calgary, Alberta, T2P 4J8, Canada
W	900-400 St. Mary Avenue, Winnipeg, Manitoba, R3C 4K5, Canada
X	2600-595 Burrard Street, Vancouver, BC V7X 1L3, Canada
Y	47 Esplanade, St Helier, JE1 0BD, Jersey
Z	Bedell Trust Company Limited, PO Box 75, 26 New Street, St Helier, JE4 8PP, Jersey
AA	Fourth Floor, The Albany South Esplanade, St Peter Port, GY1 4NF, Guernsey
BB	PO Box 25, Regency Court, Gategny Esplanade, St Peter Port, GY1 3AP, Guernsey
CC	East Wing, Trafalgar Court, Admiral Park, St Peter Port, GY1 3EL, Guernsey
DD	Room 2001, East Block, Costal City, 3rd Haide Road, Nanshan District, Shenzhen, China
EE	Zone Industrielle, le're Avenue, 06510, Carros Le Broc
FF	Pankgrafenstr. 3, 13125 Berlin, Germany
GG	1139 Budapest, Vaci ut 99, Hungary
HH	1 Stokes Place, KPMG, St. Stephen's Green, Dublin 2, Ireland
II	City Junction Business Park, Northern Cross, Malahide Road, Dublin 17, Ireland
JJ	6th Floor, South Bank House, Barrow Street, Dublin 4, Ireland
KK	6th Floor, Victory House, Prospect Hill, Douglas, Isle of Man, IM1 1EO
LL	16 Lorong Batu, Nilam, 14B, Bandar Bukit, Tinggi, 41200 Klang, Selangor, Malaysia
MM	Fuel House, 27-29 Sydenham Road, Belfast, BT3 9DH, Northern Ireland
NN	Luchthavenweg 38, 5657EB Eindhoven, The Netherlands
OO	Herikerbergweg 238, 1101CM Amsterdam, The Netherlands
PP	LP#8 Brickfield Road, Waterloo, Trinidad and Tobago
QQ	PO Box 1811, Dubai, United Arab Emirates
RR	PO Box 107099 Abu Dhabi, Mazyad Complex Building 1, 11th Floor, Mohammad Bin Zayed City, Mussaffah, Abu Dhabi, United Arab Emirates
SS	Building 67, Teseen Road, Zonel, 5th Settlement, New Cairo, Cairo, Egypt
TT	PO Box 38083, Dubai, United Arab Emirates
UU	3rd floor, Jafco Building, PO Box 30024, Al Khail Street, Al Muntaza, Doha, State of Qatar
VV	2nd Floor, Almas Plaza, Prince Mohammed bin Abdul Aziz Road (Tahlia St), PO Box 8633, Riyadh 12223, Kingdom of Saudi Arabia
WW	PO Box 1436, Postal Code 112, Ruwi, Sultanate of Oman
XX	515 East Las Olas Boulevard Suite 1200, FT. Lauderdale, Florida 33301
YY	1111 Filkens Road, Newark, New York 14513

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# Shareholder information

## Dividends

Dividends are normally paid twice a year. The proposed final dividend in respect of the year to 31 December 2016 will be payable on 9 June 2017 to those shareholders on the register on 12 May 2017.

A dividend reinvestment plan (DRIP) will also be offered.

For those shareholders who prefer not to participate in the DRIP, arrangements can be made to pay your dividends automatically into your bank or building society account. This service has a number of benefits:

- it eliminates the chances of your dividend cheque being lost in the postal system
- the dividend payment is received more quickly as the cash is paid directly into your account on the payment date without the need to wait for the cheque to clear; and
- you will help Carillion in reducing its environmental footprint and improve its efficiency by reducing printing and cheque clearing costs.

If you wish to register for this service please call Equiniti on the number detailed below to request a dividend mandate form.

## Results

Half year to 30 June 2017: announced August 2017.

Full year to 31 December 2017: announced March 2018.

## Shareholder enquiries

Equiniti maintain the share register of the Company. If you have any queries concerning your shareholding, or if any of your details change, please contact Equiniti:

Equiniti  
Aspect House  
Lancing  
West Sussex  
BN99 6DA

Telephone 0371 384 2522

Textphone for shareholders with hearing difficulties 0371 384 2255

Non-UK callers should dial +44(0) 121 415 7047.

Lines are open 8.30am to 5.30pm, Monday to Friday (excluding UK public holidays).

## Share dealing service

Carillion offers its UK shareholders, Shareview Dealing, a telephone and internet share dealing service operated by Equiniti. For telephone purchases and sales call 0345 603 7037 between 8.30am and 4.30pm, Monday to Friday, or log on to [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). For the sale of shares, you will need your shareholder reference number as shown on your share certificate.

## Multiple accounts on the shareholder register

If you have received two or more sets of the documents concerning the Annual General Meeting this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way. If you think this might be the case and would like to combine your accounts, please contact Equiniti.

## Shareview (electronic communications)

[www.shareview.co.uk](http://www.shareview.co.uk) is a service offered by Equiniti that enables you to check your holdings in many UK companies and helps you to organise your investments electronically. You can also notify Equiniti of a change of address or a change to dividend mandate instructions. You can register for this portfolio service which is easy to use, secure and free as long as you have access to the internet by logging on to [www.shareview.co.uk](http://www.shareview.co.uk) and following a simple registration process.

## Electronic proxy appointments

For the AGM to be held on 3 May 2017, you may, if you wish, register the appointment of a proxy electronically by logging on to the website [www.sharevote.co.uk](http://www.sharevote.co.uk).

You will need your voting reference numbers (the three numbers shown on your form of proxy). Alternatively, if you have registered for a Shareview portfolio, log on to your portfolio at [www.shareview.co.uk](http://www.shareview.co.uk) and click on the link 'vote' under your Carillion plc details, then follow the on-screen directions.

Please note that any electronic communication that is found to contain a computer virus will not be accepted.

## ShareGift

Small parcels of shares, which may be uneconomic to sell on their own, can be donated to ShareGift – the share donation charity (Registered Charity number 1052686). ShareGift transfers these holdings into their name, aggregates them, and uses the proceeds to support a wide range of UK registered charities based on donor suggestion. They can also accept larger donations of shares.

If you would like further details about ShareGift, please visit [www.sharegift.org](http://www.sharegift.org), email [help@sharegift.org](mailto:help@sharegift.org) or telephone them on 020 7930 3737.

## Warning to shareholders – boiler room scam

Carillion is aware that shareholders have received unsolicited telephone calls from fraudulent organisations offering to buy Carillion plc shares at a substantial premium to the prevailing market price. These operations are commonly known as 'boiler room scams' and the 'brokers' who call shareholders can be extremely persuasive and persistent.

Boiler room scams usually come out of the blue, with most fraudsters cold-calling investors after taking their details from publicly available shareholder lists, but the high-pressure sales tactics can also come by other means such as email or post. The scam is designed to sound attractive, but typically at some point in the process the perpetrator usually asks for money in advance of concluding the main transaction, for example by way of a pre-payment or vendor bond. The transaction is never concluded, and the shareholder loses the money.

If you receive an unsolicited investment approach you should:

- confirm the correct names of the person calling and the organisation they represent;

- check that they are an authorised firm with the Financial Conduct Authority (FCA) by calling 0800 111 6768 or by visiting [www.fca.org.uk/register](http://www.fca.org.uk/register) and contact the firm using the details on the register;
- report the matter to the FCA by calling 0800 111 6768 or by visiting [www.fca.org.uk/consumers](http://www.fca.org.uk/consumers);
- if the calls persist, hang up.

Please be aware that fraudsters will often use the name of a legitimate organisation or organisations, sometimes in combination with others so that the organisation may sound familiar to you. They may have also created a scam website, so simply checking that an organisation appears to have a presence on the web is not a guarantee that you are dealing with a legitimate organisation.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. If you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040.



# Five-year review

Group income statement		2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
<b>Total revenue</b>		<b>5,214.2</b>	4,586.9	4,071.9	4,080.9	4,402.8
<b>Analysed between:</b>						
Support services		<b>2,712.7</b>	2,534.2	2,323.9	2,300.9	2,359.7
Public Private Partnership projects		<b>313.0</b>	192.8	162.5	236.9	287.7
Middle East construction services		<b>668.3</b>	601.6	500.7	483.5	473.6
Construction services (excluding the Middle East)		<b>1,520.2</b>	1,258.3	1,084.8	1,059.6	1,281.8
<b>Underlying Group and joint ventures' operating profit before intangible amortisation arising from business combinations, non-recurring operating items and joint ventures' net financial expense and taxation</b>		<b>253.9</b>	244.4	226.0	228.8	245.6
<b>Analysed between:</b>						
Support services		<b>182.7</b>	146.6	135.9	118.0	120.9
Public Private Partnership projects		<b>28.3</b>	49.3	34.5	58.4	33.8
Middle East construction services		<b>16.1</b>	25.3	25.1	19.2	29.0
Construction services (excluding the Middle East)		<b>41.3</b>	37.8	41.5	44.4	72.4
Group eliminations and unallocated items		<b>(14.5)</b>	(14.6)	(11.0)	(11.2)	(10.5)
Share of joint ventures' net financial expense		<b>(13.2)</b>	(7.1)	(6.4)	(10.1)	(16.0)
Share of joint ventures' taxation		<b>(4.8)</b>	(2.9)	(2.7)	(4.4)	(1.7)
<b>Underlying profit from operations before intangible amortisation arising from business combinations and non-recurring operating items</b>		<b>235.9</b>	234.4	216.9	214.3	227.9
Underlying Group net financial expense		<b>(57.9)</b>	(57.9)	(44.0)	(39.6)	(27.9)
<b>Underlying profit before tax</b>		<b>178.0</b>	176.5	172.9	174.7	200.0
Intangible amortisation arising from business combinations		<b>(13.8)</b>	(20.0)	(16.8)	(19.2)	(31.4)
Non-recurring operating items		<b>(40.2)</b>	(5.0)	-	(44.2)	(2.6)
Non-operating items		<b>(1.1)</b>	(2.5)	(9.9)	(0.7)	(1.2)
Fair value movements in derivative financial instruments		<b>8.2</b>	6.1	(3.6)	-	-
Changes in contingent consideration relating to acquisitions		<b>15.6</b>	-	-	-	-
<b>Profit before taxation</b>		<b>146.7</b>	155.1	142.6	110.6	164.8
Taxation		<b>(17.2)</b>	(15.7)	(15.1)	(4.3)	(9.9)
<b>Profit for the year</b>		<b>129.5</b>	139.4	127.5	106.3	154.9
<b>Group financial statistics</b>						
<b>Underlying operating profit margin</b>						
Support services	Percentage	<b>6.7</b>	5.8	5.8	5.1	5.1
Middle East construction services	Percentage	<b>2.4</b>	4.2	5.0	4.0	6.1
Construction services (excluding the Middle East)	Percentage	<b>2.7</b>	3.0	3.8	4.2	5.6
<b>Underlying operating profit margin</b>						
Total Group before share of joint ventures' net financial expense and taxation	Percentage	<b>4.9</b>	5.3	5.6	5.6	5.6
<b>Underlying profit from operations margin</b>						
Total Group	Percentage	<b>4.5</b>	5.1	5.3	5.3	5.2

		2016 £m	2015 <sup>(1)</sup> £m	2014 £m	2013 £m	2012 £m
<b>Group balance sheet</b>						
Property, plant and equipment		144.1	140.5	142.2	128.2	125.8
Intangible assets		1,669.3	1,634.2	1,613.8	1,552.8	1,536.6
Investments		180.3	165.2	139.9	159.3	237.9
		1,993.7	1,939.9	1,895.9	1,840.3	1,900.3
Inventories, receivables and payables		(347.3)	(379.2)	(353.9)	(327.6)	(456.7)
Net retirement benefit liability (net of deferred taxation)		(663.2)	(317.6)	(406.2)	(295.1)	(269.9)
Other net liabilities		(34.4)	(56.7)	(64.0)	(18.8)	(7.2)
Net operating assets		948.8	1,186.4	1,071.8	1,198.8	1,166.5
Net borrowing		(218.9)	(169.8)	(177.3)	(215.2)	(155.8)
<b>Net assets</b>		<b>729.9</b>	<b>1,016.6</b>	<b>894.5</b>	<b>983.6</b>	<b>1,010.7</b>
<b>Group cash flow statement</b>						
Underlying Group operating profit		199.6	208.4	191.8	187.8	193.6
Depreciation and other non-cash items		26.7	10.7	26.6	21.3	26.9
Working capital		39.0	9.0	31.1	(66.4)	(136.2)
Dividends received from joint ventures		11.8	16.8	9.1	18.2	13.6
<b>Underlying cash flow from operations</b>		<b>277.1</b>	<b>244.9</b>	<b>258.6</b>	<b>160.9</b>	<b>97.9</b>
Pension deficit contributions		(46.6)	(47.4)	(46.0)	(39.2)	(30.2)
Non-recurring operating items		(21.5)	(6.3)	(11.5)	(22.0)	(28.6)
Interest and taxation		(41.3)	(40.4)	(31.0)	(15.2)	(8.6)
Net capital expenditure		(23.5)	(12.8)	(22.4)	(27.2)	(15.6)
Other		(6.3)	(3.2)	8.8	(16.4)	(11.0)
		137.9	134.8	156.5	40.9	3.9
Foreign exchange movements		(68.2)	(7.7)	(7.4)	4.0	2.2
Acquisitions and disposals		(36.1)	(39.6)	(34.5)	(28.6)	(32.6)
Dividends		(82.7)	(80.0)	(76.7)	(75.7)	(78.6)
Change in net borrowing		(49.1)	7.5	37.9	(59.4)	(105.1)
Net borrowing at 1 January		(169.8)	(177.3)	(215.2)	(155.8)	(50.7)
<b>Net borrowing at 31 December</b>		<b>(218.9)</b>	<b>(169.8)</b>	<b>(177.3)</b>	<b>(215.2)</b>	<b>(155.8)</b>
<b>Group financial statistics</b>						
<b>Earnings per share</b>						
Underlying earnings per share	Pence	35.3	35.0	33.7	34.7	40.4
Basic earnings per share	Pence	28.9	30.9	28.0	23.3	34.6
<b>Dividends</b>						
Proposed full-year dividend per share	Pence	18.45	18.25	17.75	17.50	17.25
Underlying proposed dividend cover	Times	1.9	1.9	1.9	2.0	2.3
Basic proposed dividend cover	Times	1.6	1.7	1.6	1.3	2.0

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

# Board of Directors and Advisers

## Non-Executive Directors

Philip Green (Chairman)<sup>(3)(4)(5)</sup>  
Keith Cochrane (Senior Independent Non-Executive Director)<sup>(1)(2)(3)(4)(5)</sup>  
Andrew Dougal<sup>(1)(2)(3)(4)(5)</sup>  
Alison Horner<sup>(1)(2)(3)(4)(5)</sup>  
Ceri Powell<sup>(1)(2)(3)(4)(5)</sup>

## Executive Directors

Richard Howson (Group Chief Executive)<sup>(3)(5)</sup>  
Zafar Khan (Group Finance Director)

### Notes

- (1) Member of the Audit Committee
- (2) Member of the Remuneration Committee
- (3) Member of the Nominations Committee
- (4) Member of the Business Integrity Committee
- (5) Member of the Sustainability Committee

## Secretary and Registered Office

Richard Tapp  
Carillion House  
84 Salop Street  
Wolverhampton  
WV3 0SR  
United Kingdom  
T +44 (0) 1902 422 431  
www.carillionplc.com

## Auditor

KPMG LLP  
One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

## Banker

National Westminster Bank plc  
16 South Parade  
Nottingham  
NG1 2JX

## Joint Brokers

Morgan Stanley  
25 Cabot Square  
Canary Wharf  
London  
E14 4QA

Stifel Nicolaus Europe Ltd  
150 Cheapside  
London  
EC2V 6ET

## Financial Adviser

Lazard  
50 Stratton Street  
London  
W1J 8LL

## Legal Adviser

Slaughter and May  
One Bunhill Row  
London  
EC1Y 8YY

## Share Registrar

Equiniti  
Aspect House  
Lancing  
West Sussex  
BN99 6DA

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**Carillion plc**

84 Salop Street  
Wolverhampton  
WV3 0SR  
United Kingdom

Registered Number 3782379

T +44 (0)1902 422 431  
[www.carillionplc.com](http://www.carillionplc.com)