

Chief Executive's strategic overview

Our consistent and successful strategy, underpinned by our integrated business model and centralised operating platform, has enabled us to return to strong revenue growth in 2015.



Richard Howson
Group Chief Executive

Our strategy

Our strategy is to achieve sustainable profitable growth by:

- investing in our people and capabilities
- building long-term, trusted partnerships
- transferring knowledge and skills to new and existing markets so we can expand our support services and infrastructure activities and
- providing a selective, high-quality construction capability.

Our strategy supports and develops the key inputs to our integrated business model, which is a major, market-leading strength for all our businesses.

Our integrated business model

Our business model, which is described in detail on pages 16 and 17, enables us to take an integrated approach to everything we do by using all the resources and skills we have across the Group to:

- select the contracts for which we bid
- develop contract bids that offer innovative, value-for-money and sustainable solutions for our customers
- monitor and manage the performance of the contracts we win throughout their life and
- deliver contracts safely and successfully to create value for all our stakeholders as well as value we can reinvest in our business.

Our centralised operating platform, sector-leading capability to deliver sustainable solutions safely and strong risk management are especially important elements of our business model, which not only gives us a competitive advantage in winning new work, but also provides the information and visibility needed to manage our business successfully.

On pages 22 to 25 you will find a number of case studies that illustrate the strengths of our business model in action.

Our Values

Having a culture throughout our business in which behaving in accordance with our Values is natural and instinctive is essential to the success of our business model. This is why we have consistently invested in the development of our people to encourage and reward behaviours that reflect our Values in everything we do, whether we are working with colleagues, customers, suppliers or partners.

We care.

We respect each other and we do things safely and sustainably. It is 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.

2015 key performance indicators (KPIs)

To support our strategy for growth, the Board set the following KPIs for 2015.

1. To develop and attract excellent people to create a vibrant, diverse and flexible workforce;
2. To be a recognised leader in Health & Safety and Sustainability;
3. To improve customer satisfaction;
4. To reduce costs and improve efficiency to support margins; and
5. To deliver cash-backed profit.

How we performed against each of these KPIs is reported on pages 9 and 10.

Key performance indicator**1. To develop and attract excellent people to create a vibrant, diverse and flexible workforce.****68%**

Employee engagement score

Investing in our people and capabilities remains our top priority, because, among all the things we do as a business, developing and attracting excellent people to create a vibrant, diverse and flexible workforce has the greatest impact on our success.

In 2015, we continued our drive towards greater diversity in our business and at 31 December 2015 the Group had a total of 45,992 employees (31 December 2014: 42,367) of whom some 16,991 (31 December 2014: 16,947) were female and 28,931 were male (31 December 2014: 25,420). At 31 December 2015, the Group had 1,779 senior managers (31 December 2014: 1,675) of which 316 were female (31 December 2014: 287) and 1,463 were male (31 December 2014: 1,388). Of the 98 most senior managers in the Group, which comprises the Chief Executive's Leadership Team and their direct reports, 16 were female (31 December 2014: 18). The Carillion plc Board comprises five male and two female Directors. In 2015, Carillion was also ranked among the Times' list of Top 50 Employers for Women.

We also continue to believe that engaging with our employees to give them the opportunity to contribute to our performance is fundamental to the success of our business. To do this we use a wide range of engagement tools, some of which have remained the same in 2015 and some we have developed and refreshed. Direct employee engagement remains a key form of engagement, which I lead, through personal visits to our contracts, monthly newsletters to all employees, and regular conference calls with up to 2,500 employees in leadership roles to review the performance of our business. We also continue to engage through structured People Forums across our businesses, through regular monthly team talks and through our employee survey, which was refreshed and re-branded as 'Your Say' in 2015. Our 2015 Your Say survey had the highest participation of any employee survey we have carried out since we started such surveys in 2002, with 26,145 people (66 per cent) (2014: 36 per cent) of our people responding. Importantly, the 2015 survey revealed that the employee engagement score, namely the degree to which our people feel engaged, increased to 68 per cent (2014: 63 per cent). Following the 2015 survey, we will continue to focus on the visibility of our business leaders, employee recognition and clearer communication of business direction to everyone.

The increased emphasis we placed on the development of our leadership capabilities in 2014, through delivering a range of development opportunities and programmes across the Group, continued in 2015 and this will also continue into 2016. These include our successful Leadership and Futures Programmes, backed by our job-family career framework, which encourages people to improve their skills and competencies and develop their careers within Carillion. We also promote an environment in which people feel welcome, included and able to contribute to what we do and how we do it, whoever they are. Our flexible working arrangements, underpinned by family-friendly policies, are a key differentiator for us, helping us to be an employer of choice. This is attractive to our people, particularly to women as evidenced by the fact that the numbers of women returning to work following maternity leave have increased substantially over the past three years. In addition, we believe that giving our people the opportunity to engage in voluntary work within the communities in which we operate, to support charities and other good causes, helps to make Carillion an attractive employer as well as enabling us to deliver more sustainable solutions for our customers. All our people have the opportunity to do voluntary work for up to six days a year on full pay and we continue to promote and facilitate take up of this across the Group.

Key performance indicator**2. To be a recognised leader in Health & Safety and in Sustainability.****Health & Safety****22%**

Reduction in Lost Time Incident Frequency Rate to 0.188

Our objective of reducing accidents to zero remains central to our Health & Safety agenda. If an accident does occur, we ensure that we learn from it and apply what we learn to reduce the risk of reoccurrence as part of our journey towards zero accidents. At the same time, we continue to invest in a wide range of programmes to engage, educate and train our people, backed by strong leadership, which comes from our Board. We believe leadership also needs to be visible, which is why we have Directors' safety tours of our work sites, as well as Safety Action Groups and safety audits. Our hazard reporting programme, 'Don't Walk By', which empowers everyone in Carillion to identify and report for immediate action anything they believe to be unsafe, continues to be highly effective. In 2015, some 2.1 million Don't Walk By reports were raised by our employees and our sub-contractors.

Our main Key Performance Indicator is the Lost Time Incident Frequency Rate (LTIFR), which is an internationally recognised measure of safety performance. In 2015, our LTIFR per 200,000 hours worked was 0.188, which represented a 22 per cent reduction on 2014, when our LTIFR was 0.241 per 200,000 hours worked, itself a 17 per cent reduction on our LTIFR in 2013 of 0.293. There were no fatal accidents on our worksites in 2015 and no prosecutions by the relevant UK enforcement authorities in 2015.

During 2015, we launched a new road safety charter and programme called 'One Road to Safety'. Through this programme we have committed to reducing instances of road traffic offences and road traffic accidents by providing information to our employees on safe driving behaviours. The programme has three pillars based on people, vehicles and behaviour and when fully implemented it will:

- provide driver training to all commercial, company car and trade-out (those who choose to take a car allowance instead of a company car) drivers
- educate drivers on our standards
- ensure all our drivers who drive on company business have a Carillion Permit to Drive
- ensure our drivers are fit to drive
- ensure drivers do not exceed the legal limits placed on drivers' hours
- have defined standards on journey times, speeding, seat belt use, mobile phone use, drug and alcohol use
- educate drivers on the use and regular monitoring of telematics in commercial vehicles
- report our progress through a suite of driving KPIs
- ensure all vehicles used by Carillion have a high safety specification
- ensure our vehicles are fit for the trade they are being used for and
- ensure all vehicles supplied by Carillion are maintained in a roadworthy condition.

During 2015, we also continued to develop our health strategy called 'Health Like Safety', which recognises that health issues are just as important as safety issues and must be managed with the same rigour as safety issues, using the same tried and tested techniques. In addition to ensuring that health risks are controlled on site, we also made a commitment in our strategy to provide defibrillators at as many workplaces as possible. This decision almost certainly resulted in two lives being saved on our Battersea Power Station project where, in separate incidents, workers had serious heart attacks and the defibrillators were used by our own first-aiders to revive them before paramedics took over.

Once again we took part in the Global Corporate Challenge, an initiative to encourage teams of our employees to increase physical activity by competing against other teams around the world to see who can walk the most steps. In Carillion, 307 teams comprising 2,149 people took part, with each person averaging 13,509 steps every day. Participants reported major health benefits, with an average weight loss of 4.1kg per person and substantial improvements in health and lifestyle scores. 59 per cent of participants also reported an increase in either productivity or concentration as a result.

Chief Executive's strategic overview

continued

Sustainability

£33.8m

Contribution to profit in 2015

Sustainability remains a core strategic commitment, as it has done since Carillion was launched as an independent company and listed on the London Stock Exchange in 1999. We believe that being a recognised leader in sustainability through striving to embed sustainability into everything we do, differentiates us from our competitors. It helps us to build trusted relationships and makes us a more efficient and successful business and thereby more attractive to all our stakeholders. We calculate that our sustainability strategy contributed around £33.8 million of profit to the Group in 2015.

Our 2020 Sustainability Strategy aims to achieve six Positive Outcomes, namely, building a successful business, leading the way in our sector, cutting carbon, protecting the environment, supporting sustainable communities and providing better prospects for our people. To monitor and measure our performance and progress we have independently-verified Key Performance Indicators for each of our Positive Outcomes, supported by a balanced set of objectives across economic, environmental and social responsibility. An overview of how we are becoming a more sustainable business is set out on pages 18 to 21 of this strategic overview. In addition, we publish an extensive annual sustainability report in April of each year.

We use external benchmarking to assess our performance and leadership in sustainability and to learn from others. Our leadership was again exemplified in 2015 with Carillion retaining PwC's Building Public Trust Award for Sustainability Reporting for an unprecedented third consecutive year. We were also one of only two UK Industrial Sector companies that were awarded a Climate A-grade within the CDP (formerly the Carbon Disclosure Project) index for cutting carbon - achieving a score of 98A for disclosure and performance in tackling climate change. We also continue to benchmark our performance through initiatives such as Business in the Community's (BITC's) Corporate Responsibility Index, where we maintained our position among the most responsible companies, by securing a 4-Star (97 per cent) rating. We also secured a place in the Times' list of Top 50 Employers for Women and a Diversity Champion Award, through our investments in diversity and inclusion. Carillion has also been re-accredited as a member of the FTSE4Good Index, which measures the performance of companies that meet globally recognised standards of corporate responsibility.

We also continue to invest extensively in external partnerships with organisations such as BITC, and I chair its Community Impact Leadership team. After eight years of supporting disadvantaged groups under the national Ready for Work scheme, we provided our 1,000th work placement during 2015 and helped our 400th person to secure employment. This, together with our schools engagement programmes and industry-leading apprenticeship programme, exemplifies the investment we are making to create a skilled workforce of the future, which is essential to building a sustainable and profitable business.

Key performance indicator

3. To improve customer satisfaction.

+36

Net Promoter Score

Providing a great customer experience lies at the heart of our business and underpins the strong relationships we have developed with customers across all our markets.

We use the global standard 'Net Promoter Score' (NPS) to measure customer satisfaction, which tells us what our customers think about our service and enables us to benchmark our performance against other organisations. NPS ranges from -100 to +100 and in 2015 we achieved an NPS of +36 (2014: +37). This was a very good score, especially as we successfully mobilised an unprecedented volume of new contracts in 2015, given that all new contracts take time to reach full efficiency. We therefore believe our NPS score indicates that we are a leader in customer service in the sectors in which we operate. Furthermore, with the introduction of a new assurance mechanism and enhanced customer feedback arrangements, supported by our refreshed governance model, we believe we are on track to achieve our future targets of +42 in 2016 and +44 in 2017.

Key performance indicator

4. To reduce costs and improve efficiency to support margins.

5.3%

Group underlying operation margin⁽¹⁾

We continually run programmes in all our business units and across all our supply chain activities and central functions to reduce costs and improve efficiency, which reflects our relentless focus on cost management and efficiency. These programmes play a fundamental role in enabling us to offer customers high-quality services that are also competitive. The success of these programmes continues to be demonstrated by our ability to win contracts consistent with our selective approach, despite the fact that trading conditions in several of our markets remain challenging.

Although the Group's underlying operating margin⁽¹⁾ reduced in 2015 to 5.3 per cent (2014: 5.6 per cent), this represented a good performance, given current market conditions, with the reduction due to two main factors: the operating margin in Construction services (excluding the Middle East) is trending back to a more normal level in line with our long-standing guidance, as the temporary benefits from rescaling our UK construction activities have now largely ended; and the operating margin in Middle East construction services also reduced as expected and as indicated at the half year. Importantly, we maintained the operating margin in support services at 5.8 per cent, despite higher than normal contract mobilisation costs following an especially successful work-winning performance in 2014.

Key performance indicator

5. To deliver cash-backed profit.

104%

Profit to cash conversion

Strong cash management continues to be central to our strategy and business model and delivering profit that is fully cash-backed remains a key measure of our performance. Since rescaling our UK construction business, a programme we announced in 2010 and completed in 2013, in order to ensure this business remained aligned to the size of its markets, we have returned to a more normal cash flow profile in line with our expectations. Consequently, in 2015 we have again delivered a strong operating cash flow performance with underlying cash flow from operations⁽¹⁾ representing 104 per cent of underlying profit from operations⁽¹⁾ (2014: 119 per cent).

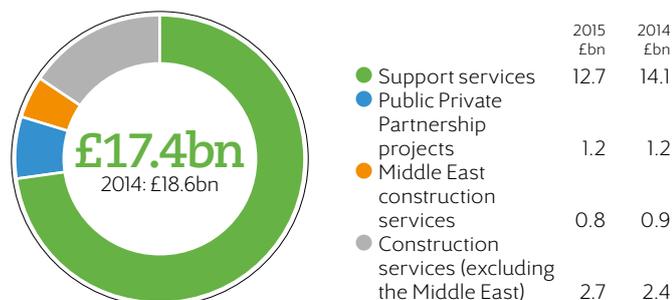
⁽¹⁾ The underlying results are based on the definitions set out in the key financial highlights on page 1.

Work-winning

In 2015, we won new orders and probable orders worth £3.7 billion (2014: £5.1 billion), while maintaining our selective approach to choosing the contracts for which we bid in order to support margins and achieve the cash flows we expect from contracts. This represented a good performance, given that the UK General Election in May was accompanied by the usual hiatus in major public sector contract awards, and we had fewer bids reaching contract award stage in the first half of 2015, compared with the corresponding period in 2014. Consequently, the total value of new orders and probable orders won in the first half of the year reduced to £1.0 billion (2014: £3.2 billion), however the pace of work-winning picked up in the second half of the year during which we won some £2.7 billion of new orders and probable orders (2014: £1.9 billion).

At 31 December 2015, we had total orders plus probable orders worth £17.4 billion (2014: £18.6 billion), which in absolute terms remained very strong in relation to the Group's annual revenue. Consequently, revenue visibility⁽¹⁾ for 2016 also remained strong at 84 per cent (2014: 85 per cent), which, with the exception of 2014, is as high as it has ever been at a year end.

Order book plus probable orders



Revenue visibility⁽¹⁾

84%

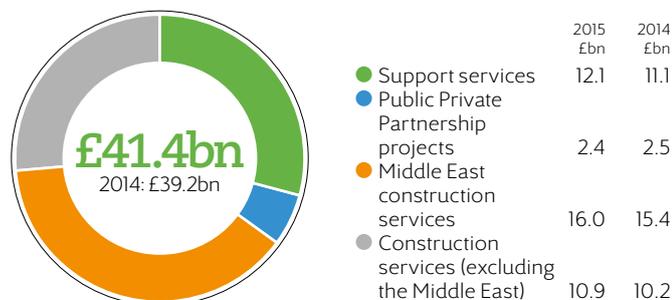
2014: 85%

Potential value of framework agreements won

£2bn+

2014: £2bn

Pipeline of contract opportunities



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

Over recent years there has been a growing trend among some of our customers towards awarding more framework contracts. In 2015, we were awarded several multi-year frameworks with a potential revenue value of over £2.0 billion, which was an exceptionally strong performance. Although we do not include the value of frameworks within our order book or probable orders, we expect them to generate substantial revenue in addition to that from orders and probable orders, which also supports our expectation that we will make further progress in 2016.

Furthermore, we saw the value of our pipeline of contract opportunities increase to over £41 billion, which includes only specific contracts that have passed our initial selectivity criteria and which we are either already bidding or which we expect to come to market.

Prospects

Looking forward, we expect to continue benefiting from our successful strategy and integrated business model. Although trading conditions remain challenging in several of our markets, we continue to see signs of some improvement, especially in the UK, and we have a strong order book plus probable orders worth £17.4 billion. This also continues to give us good revenue visibility, which was 84 per cent for 2016 at 31 December 2015.

In addition, we have our strong pipeline of contract opportunities worth over £41 billion, which is spread across all our geographies and most of our market sectors, on which further details can be found in Market overview on pages 12 to 15.

As always, there are a number of risks and uncertainties that may affect our ability to take advantage of these opportunities. Details of our principal risks and uncertainties are set out on pages 28 to 31, together with a description of the Group's rigorous risk management processes and the specific measures we are taking in order to manage and mitigate our principal risks. The prolonged low oil price clearly has the potential to adversely affect some of our customers' investment programmes, notably in the Middle East. Although Middle East construction generates only around 10 per cent of our operating profit, to help mitigate the potential impact of the low price, we will continue to work with customers on opportunities to utilise UK Export Finance and Public Private Partnership projects. It is also worth noting that in respect of the forthcoming referendum on the UK's membership of the European Union, Carillion has no operations on mainland Europe as we have pursued our consistent strategy of focusing on the UK, Canada and the Middle East and North Africa. Therefore, although we draw upon the European labour markets and we source some materials from Europe, we do not regard the decision on the UK's membership of the European Union to be one of our top ten principal risks.

Given the strength of the Group's order book, our pipeline of contract opportunities and operating cash flow, which enables us to continue investing to support our strategy for growth, we believe the overall outlook remains positive and that the Group continues to be well positioned to make further progress in 2016.

Key performance indicators for 2016

In order to support our strategy and targets for growth, the Board will continue to monitor the business metrics set out on pages 4 to 5 and report on the following key performance indicators for 2016, as these continue to be relevant to the Group's development and success.

1. To develop and attract excellent people to create a vibrant, diverse and flexible workforce;
2. To be a recognised leader in Health & Safety and Sustainability;
3. To improve customer satisfaction;
4. To reduce costs and improve efficiency to support margins; and
5. To deliver cash-backed profit.

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Group Chief Executive
3 March 2016