

# Our principal risks

1. Work-winning			Net impact: Medium	Probability: Medium
Risk description	Potential impact on business metrics	Mitigation	Trend in 2015	
<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>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Work won and book to bill ratio</li> <li>- Revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</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 £3.7 billion new secured orders and probable orders during 2015 with a significantly improved performance during the second half, following a weaker first-half performance, which was impacted by the UK General Election. Looking ahead, although we have yet to see any major adverse impacts, a prolonged period of low oil price coupled with economic uncertainty, could adversely impact our performance.</p>	
2. Contract management			Net impact: Medium	Probability: Medium
Risk description	Potential impact on business metrics	Mitigation	Trend in 2015	
<p><b>Managing contracts to ensure that they are delivered on time, to budget and to the required standards</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>- Financial strength</li> <li>- Leadership in Health &amp; Safety</li> <li>- First-class expertise</li> <li>- Leadership in sustainability</li> </ul> <p>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</li> <li>- Net promoter score</li> <li>- High Risk Accident Frequency Rate</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>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>	
3. Pension liabilities			Net impact: Medium	Probability: Medium
Risk description	Potential impact on business metrics	Mitigation	Trend in 2015	
<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>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Delivery of earnings and dividend growth</li> <li>- Net debt</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 accruals 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 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>Decreased</b></p> <p>Although no new initiatives were implemented during 2015, the Group's overall pension deficit reduced during the year as a result of the contributions made under the current deficit recovery plan and the positive impact due to the increase in bond yields.</p>	

## 4. People

Net impact: **Medium**      Probability: **Low**

Risk description	Potential impact on business metrics	Mitigation	Trend in 2015
<p><b>Ability to attract, develop and retain excellent people to support existing business requirements and our future growth plans</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>- Excellent people</li> <li>- First-class expertise</li> </ul> <p>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Employee engagement and volunteering</li> <li>- Work won and revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</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>- Maintaining strong recruitment processes across the UK labour market, because access to European labour markets may be affected if the UK votes to withdraw from the European Union in the forthcoming referendum.</li> </ul>	<p><b>Unchanged</b></p> <p>We have continued to see increased competition for people in some of our markets, however, given our ability to reallocate resources between business units and source additional resources from new markets we believe the overall risk remains unchanged on the prior year.</p>

## 5. New markets and services

Net impact: **Medium**      Probability: **Medium**

Risk description	Potential impact on business metrics	Mitigation	Trend in 2015
<p><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></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>- Financial strength</li> </ul> <p>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Work won and revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</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>	<p><b>Unchanged</b></p> <p>Following the acquisition of the Rokstad Corporation in December 2014, we acquired the Outland Group in May 2015. The Outland Group is engaged in the provision of remote site accommodation services in Canada. Both of these acquisitions are performing in line with expectations. We also continue to explore a number of opportunities to extend the scope of our PPP activities into additional overseas territories.</p>



Carillion is making good progress delivering Phase 1 of the redevelopment of Battersea Power Station, a mixed-use development situated adjacent to the former Grade II\* listed Power Station and comprising over 860 apartments together with retail facilities, theatre space and business studios.

# Our principal risks

continued

## 6. Ethics and compliance

Net impact: **Medium** Probability: **Low**

Risk description	Potential impact on business metrics	Mitigation	Trend in 2015
<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>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Work won and revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</li> <li>- Employee engagement and volunteering</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 2015, 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>

## 7. Systems and cyber security

Net impact: **Medium** Probability: **Low**

Risk description	Potential impact on business metrics	Mitigation	Trend in 2015
<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>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Work won and revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</li> <li>- Employee engagement and volunteering</li> <li>- Net promoter 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, 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>Increased</b></p> <p>This risk has continued to increase as the level and sophistication of cyber security threats continues to increase. 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>

## 8. Health and safety

Net impact: **Medium** Probability: **Low**

Risk description	Potential impact on business metrics	Mitigation	Trend in 2015
<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 &amp; Safety</li> <li>- Financial strength</li> <li>- Leadership in sustainability</li> <li>- Excellent people</li> </ul> <p>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- High Risk Accident Frequency Rate</li> <li>- Lost Time Incident Frequency Rate</li> <li>- Work won and revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</li> <li>- Employee engagement and volunteering</li> <li>- Net promoter score</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 and we remain focused on delivering continuous improvement in our performance to achieve our objective of leading our sector in Health &amp; Safety and Sustainability.</p>

## 9. Low oil prices

Net impact: **Medium**  
Probability: **Low**

Risk description	Potential impact on business metrics	Mitigation	Trend in 2015
<p><b>Impact of low oil prices on future demand for our services</b></p> <p><b>Link to business model outputs</b></p> <ul style="list-style-type: none"> <li>- Financial strength</li> </ul> <p>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Work won and revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion (including the collection of receivables) and net debt</li> </ul>	<ul style="list-style-type: none"> <li>- Maintain close and regular contact with customers significantly impacted by low oil prices and ensure that we understand the impact on their plans</li> <li>- Continue to promote alternative financing solutions (public private partnerships and UK export finance) across our markets most affected by low oil prices</li> <li>- Ensure our oil and gas activities continue to be targeted at operational projects and not new investment activity</li> <li>- Continue to ensure that our cost base remains competitive and our services are targeted across a broad range of sectors</li> </ul>	<p><b>+ New risk</b></p> <p>Although we have yet to see any significant impact on demand as a result of the recent reductions in oil prices a prolonged period of low oil prices coupled with economic uncertainty could adversely impact the future demand for our services.</p>

## 10. Human rights

Net impact: **Medium**  
Probability: **Low**

Risk description	Potential impact on business metrics	Mitigation	Trend in 2015
<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>See 'our business model' on pages 16 and 17 for more detail.</p>	<ul style="list-style-type: none"> <li>- Work won and revenue growth</li> <li>- Delivery of earnings and dividend growth</li> <li>- Attainment of margin targets</li> <li>- Cash conversion and net debt</li> <li>- Employee engagement and employee volunteering</li> <li>- Net promoter 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 established to address any issues which may arise from the recent introduction of the Modern Slavery Act.</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>+ New risk</b></p> <p>New principal risk identified following the introduction of the new Modern Slavery Act during 2015.</p>



In July 2015, Highways England awarded a package of works worth around £475 million to a Carillion joint venture to convert sections of the M6, M20 and M23 into Smart Motorways to reduce congestion and improve journey times and safety.