Performance and financial review

In 2015, the Group delivered strong revenue growth with profit and earnings in line with expectations.

Richard Adam
Group Finance Director

Summary financial performance

	2015 £m	2014 £m	Change from 2014 %
Revenue			
Support services	**2,534.2**	2,323.9	+9
Public Private Partnership projects	**192.8**	162.5	+19
Middle East construction services	**601.6**	500.7	+20
Construction services (excluding the Middle East)	**1,258.3**	1,084.8	+16
	4,586.9	4,071.9	+13
Underlying operating profit[1]			
Support services	**146.6**	135.9	+8
Public Private Partnership projects	**49.3**	34.5	+43
Middle East construction services	**25.3**	25.1	+1
Construction services (excluding the Middle East)	**37.8**	41.5	-9
	259.0	237.0	+9
Group eliminations and unallocated items	**(14.6)**	(11.0)	-33
Underlying profit from operations before Joint Ventures net financial expense and taxation	**244.4**	226.0	+8
Share of Joint Ventures net financial expense	**(7.1)**	(6.4)	-11
Share of Joint Ventures taxation	**(2.9)**	(2.7)	-7
Underlying profit from operations[1]	**234.4**	216.9	+8
Underlying Group net financial expense	**(57.9)**	(44.0)	-32
Underlying profit before taxation[1]	**176.5**	172.9	+2
Intangible amortisation arising from business combinations	**(20.0)**	(16.8)	-19
Non-recurring operating items	**(5.0)**	–	-100
Non-operating items	**(2.5)**	(9.9)	+75
Fair value movement in derivative financial instruments	**6.1**	(3.6)	+69
Reported profit before taxation	**155.1**	142.6	+9

Group overview

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. Having this wide range of skills and resources enables the Group to deliver fully integrated solutions for buildings and infrastructure, from project finance through design and construction to lifetime 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 the inside front cover.

Overall, the Group and its four business segments performed in line with expectations in 2015.

Revenue

Total revenue in 2015 increased by 13 per cent to £4,586.9 million (2014: £4,071.9 million), largely driven by organic growth of 10 per cent in construction services (excluding the Middle East), support services and Middle East construction services, together with contributions from the support services businesses we have acquired in Canada. Total revenue included a contribution from Joint Ventures of £636.2 million (2014: £578.0 million), an increase of 10 per cent, which was largely due to growth in our Middle East Joint Venture business, Al Futtaim Carillion.

Underlying operating profit

Underlying operating profit[1] increased by eight per cent to £244.4 million (2014: £226.0 million), including operating profit from Joint Ventures of £36.0 million (2014: £34.2 million). The Group's total underlying operating margin[1] reduced to 5.3 per cent (2014: 5.6 per cent). We expected the margin to be lower in 2015, because the margin in construction services (excluding the Middle East) has reduced to a more normal level, in line with our long-standing guidance, as the temporary benefits of rescaling our UK construction activities have largely ended, and because the margin in Middle East construction services also reduced, in line with our previously announced expectations. Further details on the operating performance of each of our four business segments is given on the following pages.

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

Support services

	2015 £m	2014 £m	Change from 2014 %
Revenue			
- Group	**2,342.4**	2,099.7	
- Share of Joint Ventures	**191.8**	224.2	
	2,534.2	2,323.9	+9
Underlying operating profit[1]			
- Group	**127.3**	113.5	
- Share of Joint Ventures	**19.3**	22.4	
	146.6	135.9	+8

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

Our performance in support services reflects the success of our strategy of growing organically and through bolt-on acquisitions in markets offering good margins, while maintaining our selective approach to contracts and rigorous cost reduction programmes.

Revenue in support services increased by nine per cent to a record level of £2,534.2 million (2014: £2,323.9 million). This was driven by organic growth, following our exceptionally strong work-winning performance in 2014, together with contributions from the Rokstad Corporation and the Outland Group in Canada, which were acquired in December 2014 and May 2015, respectively, and which are performing well.

We acquired the entire share capital of the Outland Group, a leading provider of remote site accommodation and services in Canada, for a cash consideration of up to £63 million, depending on future financial performance. This was another important step in extending our support services activities in Canada into markets offering opportunities for growth, including mining, utilities, forestry, defence, oil and gas. This acquisition also complements our existing support services activities in Canada, including Rokstad, a leading provider of services in the overhead power transmission and distribution sector and Bouchier, which provides services to customers in the oil sector.

Underlying operating profit also increased by eight per cent to £146.6 million (2014: £135.9 million), with the underlying operating margin maintained at 5.8 per cent (2014: 5.8 per cent), despite higher than normal contract mobilisation costs. This demonstrates the benefits of our business model and centralised operating platform, which plays a key role in enabling us to mobilise major new contracts efficiently. This is also encouraging because with mobilisation costs now running at a more normal level, we have the potential to improve our support services margin in 2016.

As expected, the value of new orders and probable orders won in 2015 of £1.2 billion (2014: £2.9 billion) was lower than the exceptional level achieved in 2014, due to the usual hiatus in major public sector contract awards caused by a UK General Election and the fact that we had fewer bids reaching contract award in 2015 than in 2014. Nevertheless, we secured a number of new high-quality orders and probable orders during the year, together with framework contracts that have a total potential revenue value of over £2.0 billion, which is not included in orders or probable orders.

Notable successes in 2015 included contracts and preferred bidder positions in the UK for Arriva Trains, Openreach and Highways England, and in Canada for Shell, Canadian Natural Resources Limited and the Department of National Defence, together with several support services contracts secured by winning Public Private Partnership (PPP) projects. The latter included the Midland Metropolitan Hospital and the Midlands Priority Schools Programme in the UK, North Battleford Hospital and Stanton Territorial Hospital in Canada and Bundle Five of Ireland's PPP Schools Programme. In terms of framework contracts, we secured a leading position on the UK Government's Facilities Management Agreement, the position of sole provider of facilities management services to the Scape Group, a public sector owned built environment specialist, and a number of agreements to provide infrastructure services for Network Rail.

At 31 December 2015, we had orders and probable orders worth £12.7 billion (2014: £14.1 billion), which as noted above excludes frameworks worth over £2.0 billion. At 31 December 2015, revenue visibility[2] for 2016 based only on orders and probable orders remained strong at 82 per cent (2014: 80 per cent for 2015). Furthermore, the value of our pipeline of specific new contract opportunities increased to £12.1 billion at 31 December 2015 (2014: £11.1 billion) and this includes significant opportunities arising from further public sector outsourcing in the UK and also for infrastructure services in all our geographies, but notably in the UK and Canada. Consequently, we believe we are well placed to make further good progress in support services in 2016.

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

A Carillion joint venture provides hard facilities management services for over 70,000 buildings for the UK Defence Infrastructure Organisation that commenced in late 2014 and early 2015.

Performance and financial review
continued

Public Private Partnership projects

	2015 £m	2014 £m	Change from 2014 %
Revenue			
- Group	**1.3**	1.5	
- Share of Joint Ventures	**191.5**	161.0	
	192.8	162.5	+19
Underlying operating profit[1]			
- Group	**39.4**	24.1	
- Share of Joint Ventures	**9.9**	10.4	
	49.3	34.5	+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.

Our portfolio of investments in financially closed projects continues to perform well. Revenue increased by 19 per cent to £192.8 million (2014: £162.5 million), largely reflecting the construction progress on new projects won in 2014 and 2015.

Operating profit increased to £49.3 million (2014: £34.5 million), as profit from the sale of equity investments more than offset the returns no longer received from equity sold in 2014 and in the first half of 2015. During 2015, we sold equity investments in three projects for cash proceeds of £54.4 million, which represented an average discount rate of some seven per cent, and generated a net profit of £37.7 million (2014: £13.9 million). Of this £37.7 million, £24.0 million was in the first half of the year and this contributed to the Group's total operating profit being less second-half weighted than in previous years. However, in 2016 we expect a lower contribution to operating profit from equity sales, due to the timing of projects reaching maturity. This is also expected to contribute to the Group's total operating profit reverting to a greater second-half weighting in 2016.

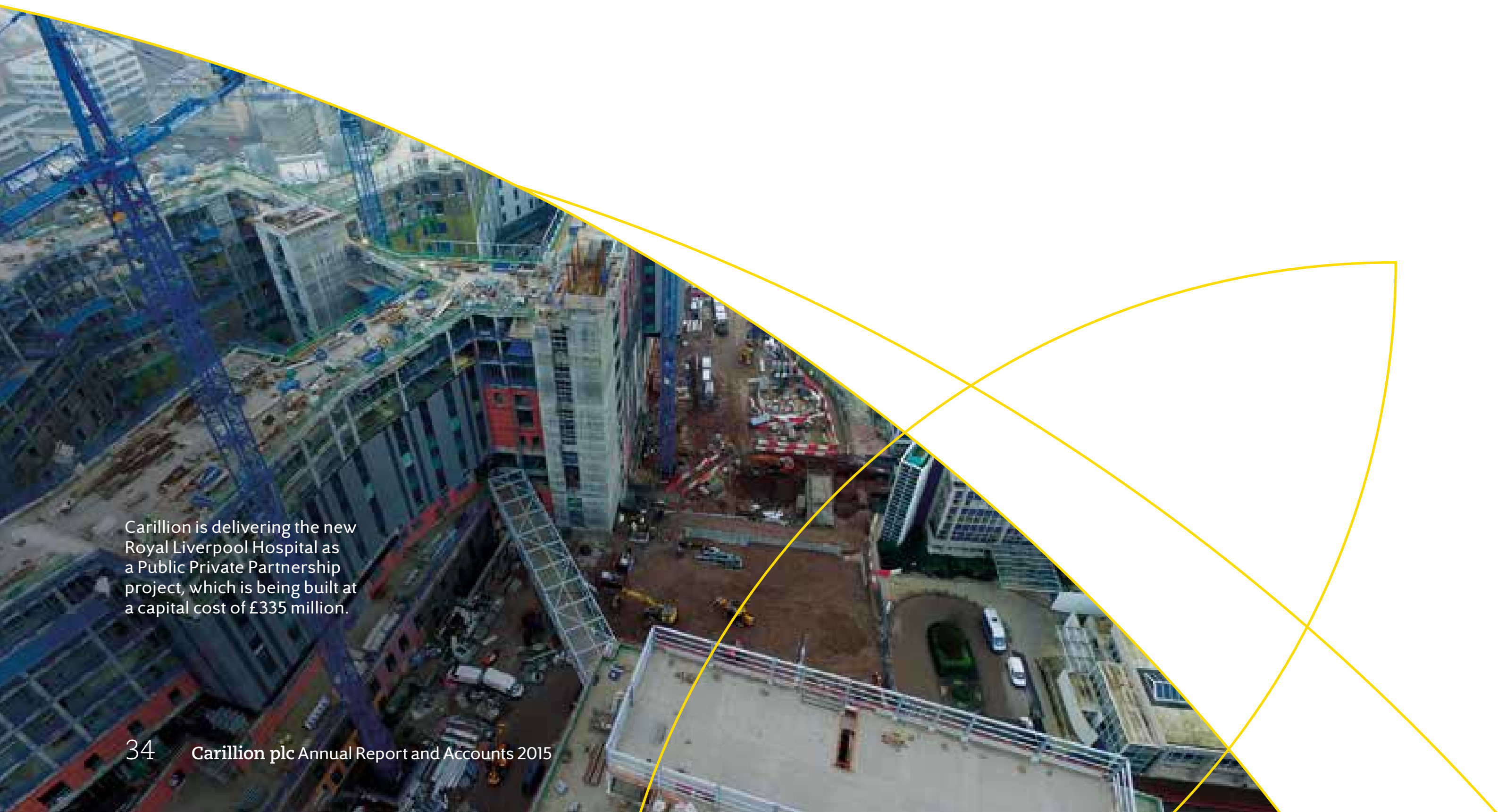
2015 was a successful year in terms of winning new orders, as we achieved financial close on four projects. These included the Midlands Priority Schools Programme, for which a Carillion Joint Venture was appointed preferred bidder in December 2014, and three projects for which Carillion Joint Ventures were appointed preferred bidder and achieved financial close during the year, namely the Midland Metropolitan Hospital in the UK and the North Battleford Hospital and Stanton Territorial Hospital, both of which are in Canada. Carillion expects to invest over £26 million of equity in these four projects, from which we expect to generate around £550 million of revenue in this segment over the life of the concession contracts and around £790 million of construction and support services revenues. In addition, in December 2015, a Carillion Joint Venture was selected as the preferred bidder for Bundle Five of Ireland's PPP Schools Programme in which we expect to invest equity and from which we expect to generate support services and construction revenue.

At 31 December 2015, we had a portfolio of 17 financially closed PPP projects in which we had invested £48.3 million of equity and in which we are committed to make further planned investments of £61.7 million. The Directors' valuation of these investments, using a nine per cent discount rate, was broadly unchanged at £46 million (2014: £48 million), with the effect of selling investments in mature projects during the year, offset by investments in new projects.

The value of our order book plus probable orders at 31 December 2015 was maintained at £1.2 billion (2014: £1.2 billion), despite removing £0.3 billion due to selling equity investments, and this reflected our strong work-winning performance during the year.

Furthermore, we believe the outlook in this segment remains positive. At the year-end our pipeline of contract opportunities of £2.4 billion (2014: £2.5 billion) included opportunities across all our geographies. In Canada, we continue to have a number of opportunities in the healthcare sector, where we have a strong track record, and also for infrastructure projects, notably in the highways and power transmission sectors. In the UK, we expect more projects to be procured using the Government's PF2 procurement model, particularly in the healthcare and infrastructure sectors. In the Middle East, we continue to work with customers on opportunities for using private finance, notably in the healthcare sector in Oman, as customers seek to mitigate the potential impact of a prolonged low oil price on their major investment programmes.

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



Carillion is delivering the new Royal Liverpool Hospital as a Public Private Partnership project, which is being built at a capital cost of £335 million.

Middle East construction services

	2015 £m	2014 £m	Change from 2014 %
Revenue			
- Group	**358.9**	323.4	
- Share of Joint Ventures	**242.7**	177.3	
	601.6	500.7	+20
Underlying operating profit[(1)]			
- Group	**20.6**	24.3	
- Share of Joint Ventures	**4.7**	0.8	
	25.3	25.1	+1

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

As expected, we delivered strong organic growth, with revenue up 20 per cent to £601.6 million (2014: £500.7 million), as we made good progress on new and existing contracts. Given our strategy is to focus on large, high-quality projects, for customers for whom quality and reliability are paramount, the phasing of contracts can result in significant movements in Middle East construction revenue between accounting periods.

Underlying operating profit increased to £25.3 million (2014: £25.1 million), with the growth in revenue broadly offset by a reduction in operating margin to 4.2 per cent (2014: 5.0 per cent). As previously guided, our operating margin in 2015 reduced, despite the benefit to profit generated from reorganising our staff accommodation facilities in Oman, because our markets in the region continue to be highly competitive. Although we expect our margin to be lower in 2016, because this benefit to profit will not be repeated, our objective is to mitigate the impact of this and the potential effect of the low oil price on customer investment by targeting projects where we can use our market-leading positions in the UK Export Finance and Public Private Partnership projects.

In 2015, we won a number of new orders and probable orders with a combined value of £0.5 billion, to leave the total value of orders and probable orders at 31 December 2015 at £0.8 billion (2014: £0.9 billion). Revenue visibility[(2)] for 2016 also remained strong at 80 per cent (2014: 85 per cent for 2015). Notable successes in 2015 included a contract to build Phase 1A5 of the Dubai Trade Centre District (DTCD), which followed our success in winning the contract for Phase 1 of the DTCD project, and becoming the preferred bidder for an office development for Bee'ah, a waste management company in the UAE. In Oman, Carillion Alawi won a major contract for BP to build accommodation and other facilities at BP's Khazzan Gas Project.

Looking forward, our pipeline of contract opportunities increased during 2015 to £16.0 billion (2014: £15.4 billion) as planned investment in construction across our Middle East markets remains high. In Dubai, we continue to see growing investment in the commercial, hotel and leisure markets in support of Dubai's role as host to Expo 2020. In Oman and Qatar we also have significant pipelines, including a growing number of opportunities in the healthcare sector. At the same time, we recognise that the prolonged low oil price has the potential to adversely affect these investment programmes. To help mitigate this we continue to work with customers on opportunities to utilise UK Export Finance, for which we are the sector-leader in the Gulf and in which customer interest is growing significantly. There is also growing interest in private finance and since the year end we have signed a Memorandum of Understanding with the Oman Investment Fund, a sovereign wealth fund of the Sultanate of Oman, to develop opportunities for Public Private Partnership projects in the healthcare sector, using our experience as a global market leader in this form of project finance.

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

The Sultan Qaboos Mosque at Nizwa, Oman, was built by Carillion Alawi for the Royal Court Affairs and completed in 2015. With four Minarets, each nearly 250 feet high, vaulted ceilings and high-quality finishes throughout, this project is an excellent example of how Carillion Alawi has earned its reputation for outstanding quality and reliability.

Performance and financial review
continued

Construction services (excluding the Middle East)

	2015 £m	2014 £m	Change from 2014 %
Revenue			
– Group	**1,248.1**	1,069.3	
– Share of Joint Ventures	**10.2**	15.5	
	1,258.3	1,084.8	+16
Underlying operating profit(1)			
– Group	**35.7**	40.9	
– Share of Joint Ventures	**2.1**	0.6	
	37.8	41.5	-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.

As expected, we delivered strong organic growth with revenue increasing by 16 per cent to £1,258.3 million (2014: £1,084.8 million). This reflected our strong work-winning performance, particularly in 2014 when we secured a number of substantial high-quality contracts in the UK, consistent with our selective approach of focusing on large contracts for long-term customers. Consequently, UK construction revenue increased to some £1.1 billion (2014: £0.9 billion), which more than offset the planned reduction in construction revenue in Canada, where we continue to move away from traditional construction to focus on construction work secured through winning Public Private Partnership (PPP) contracts.

Operating profit reduced to £37.8 million (2014: £41.5 million), which reflected the reduction in operating margin to 3.0 per cent (2014: 3.8 per cent). This result is in line with our long-standing guidance, namely that the margin in this segment would trend back towards a more normal level of between 2.5 per cent and 3.0 per cent, now that the temporary benefits to profit from rescaling our UK construction activities have largely ended. Furthermore, we believe our selective approach to choosing the contracts for which we bid, together with our ongoing cost reduction programmes and efficient operating model, will not only enable us to maintain the margin within this range, but at a level above the industry average.

The value of new orders and probable orders secured in 2015 of some £1.6 billion, resulted in an increase in the total value of orders plus probable orders at 31 December 2015 to £2.7 billion (2014: £2.4 billion). Revenue visibility[2] for 2016 also remained at a very healthy level of 94 per cent (2014: 92 per cent for 2015). Significant successes in 2015 included securing construction work for the PPP projects that we won during the year (as reported on page 34), a project for Highways England under its Collaborative Delivery Framework to upgrade the A14 in Cambridgeshire, further contracts for developments managed by Argent at Kings Cross in London and at Paradise Circus in Birmingham, a programme to build new schools for Peterborough City Council and securing a preferred partner position on a major project for the Ministry of Defence.

Our pipeline of contract opportunities at 31 December 2015 remained strong at £10.9 billion (2014: £10.2 billion). In Canada, we continue to focus on winning construction work for PPP projects, for which we have a good pipeline of contract opportunities. In the UK, we also have a good pipeline of contract opportunities in both the infrastructure and building sectors, consistent with our selective approach. These include further contract opportunities for Highways England under its Collaborative Delivery Framework for which Carillion is one of five contractors appointed to undertake projects worth between £100 million and £450 million, and the High Speed 2 rail project, on which construction is scheduled to start in 2017, offers major opportunities over the medium term. Our UK building business also has a healthy pipeline, notably in the high-rise residential and defence sectors, and the recently announced plans to build nine major new prisons in the UK offers the prospect of adding further substantial projects to our pipeline.

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

One St Peter's Square, Manchester, showcases Carillion's construction capability in the commercial building sector. This £62 million project, which has created one of Manchester's most prestigious addresses, was built for Argent with whom we have created a long-term, trusted partnership.

Group income statement, cash flow and balance sheet items

Underlying Group net financial expense

The underlying Group net financial expense[1] of £57.9 million (2014: £44.0 million) comprised a net expense of £40.5 million (2014: £28.4 million) in respect of borrowing and other liabilities, a net interest expense in respect of defined benefit pension schemes of £18.0 million (2014: £15.8 million) and interest receivable in respect of loans to PPP Joint Venture projects of £0.6 million (2014: £0.2 million). The increase in the underlying Group net financial expense primarily reflected the cash and non-cash elements of the interest charge relating to the £170 million of convertible bonds issued in December 2014, together with the non-cash interest charges relating to defined benefit pension schemes and those arising from unwinding the discount on the deferred consideration payments in respect of the acquisitions of the Rokstad Corporation and the Outland Group.

Intangible amortisation arising from business combinations

Intangible amortisation of £20.0 million (2014: £16.8 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.

Non-recurring operating items

The non-recurring operating expense of £5.0 million (2014: Nil) relates to a provision against the non-recovery of funds provided to the Green Deal Finance Company, following the decision by the UK Government to withdraw its financial support to the Green Deal Finance Company in view of the continuing low take-up of energy efficiency improvements to properties available under the Government's Green Deal initiative.

Non-operating items

The non-operating charge of £2.5 million (2014: £9.9 million) relates to costs incurred in respect of corporate transactions during the year.

Fair value movement in derivative financial instruments

A non-cash gain of £6.1 million (2014: £3.6 million charge) was recognised in relation to the movement in fair value of the derivative financial instrument associated with the Group's £170 million convertible bonds issued in December 2014. The fair value of this derivative financial instrument is primarily a function of the movement in the Group's share price.

Taxation

The Group taxation charge of £15.7 million (2014: £15.1 million) comprised a Group underlying taxation charge[2] of £19.5 million (2014: £21.0 million) and a charge in relation to the movement in the fair value of derivative financial instruments of £1.2 million (2014: credit of £0.7 million), partly offset by a Group taxation credit of £5.0 million (2014: £3.4 million) in relation to the amortisation of intangible assets arising from business combinations.

The underlying Group taxation charge of £19.5 million (2014: £21.0 million), when combined with the Group's share of the taxation charge in Joint Ventures of £2.9 million (2014: £2.7 million), represented an underlying effective tax rate[2] of 12.5 per cent (2014: 13.5 per cent). Carillion pays tax on profits in the countries in which profits are generated. The Group's effective rate of tax differs from the UK standard rate of corporation tax of 20.25 per cent (2014: 21.5 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. These factors will continue to have an impact on future underlying effective tax rates, although the quantum of the impact in any given year is difficult to predict as the mix of profits generated can vary from year to year. At 31 December 2015, the Group had £216 million of corporate tax losses (2014: £247 million) that are available to reduce future tax payments.

Earnings per share

Underlying earnings per share[3] increased by four per cent to 35.0 pence (2014: 33.7 pence) based on a weighted average number of shares in issue of 430.2 million (2014: 430.2 million). Basic earnings per share of 30.9 pence (2014: 28.0 pence) represented growth of 10 per cent, largely reflecting a reduction in charges relating to non-underlying items compared to 2014. Diluted earnings per share, including the effect of the Group's convertible bonds, increased by 11 per cent to 28.2 pence (2014: 25.4 pence).

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 baseline policy in order to align shareholder returns with the underlying growth achieved in the profitability of the business. This policy has seen the Group deliver 15 years of successive dividend growth since the formation of the Company in 1999.

In determining the level of dividend in any year in accordance with the policy, 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, to align 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 2015 amounted to £296.6 million (as disclosed in the Company balance sheet on page 123).

The Group is well positioned to continue to fund its dividend which continues to be well covered by cash generated by the business. Furthermore, with around £1.4 billion of funding available to support our strategy and objectives, of which only £131 million matures before the end of 2018, the Group is also well positioned to support its strategy for growth. Further details on the Group's funding position can be found on page 39 and details on its continuing viability and going concern can be found on pages 27 and 40.

The ability of the Board to maintain future dividend policy will be influenced by a number of the principal risks identified on pages 28 to 31 that could adversely impact the performance of the Group. The risks that could specifically have an adverse impact on the dividend policy include work-winning, contract management, pension liabilities, new markets and services and low oil prices, although we believe we have the ability to mitigate those risks as outlined on pages 28 to 31.

For 2015, the Board has recommended a final dividend of 12.55 pence per share, making the proposed full-year dividend 18.25 pence per share (2014: 17.75 pence per share). The three per cent increase in the 2015 proposed full-year dividend is broadly in line with the four per cent increase in underlying earnings per share[3], with underlying dividend cover[3] maintained at 1.9 times (2014: 1.9 times). The final dividend of 12.55 pence per share will be paid on 10 June 2016 to shareholders on the register on 13 May 2016, subject to approval by shareholders at the Annual General Meeting to be held on 4 May 2016.

(1) Before fair value movements in derivative financial instruments (see note 5 on page 93).
(2) Excluding the tax impacts relating to intangible amortisation, non-recurring operating items, non-operating items and fair value movements in derivative financial instruments (see notes 4 and 5 on page 93).
(3) The underlying results are based on the definitions set out in the key financial highlights on page 1.

Performance and financial review
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Cash flow
Summary of the Group's cash flow

	2015 £m	2014 £m
Underlying Group operating profit	**208.4**	191.8
Depreciation and other non-cash items	**10.7**	26.6
Working capital[(1)]	**9.0**	31.1
Dividends received from Joint Ventures	**16.8**	9.1
Underlying cash flow from operations	**244.9**	258.6
Pension deficit contributions	**(47.4)**	(46.0)
Rationalisation costs	**(6.3)**	(11.5)
Interest and taxation	**(40.4)**	(31.0)
Net capital expenditure	**(12.8)**	(22.4)
Other	**(10.9)**	1.4
	127.1	149.1
Acquisitions and disposals	**(39.6)**	(34.5)
Dividends	**(80.0)**	(76.7)
Reduction in net borrowing	**7.5**	37.9
Net borrowing at 1 January	**(177.3)**	(215.2)
Net borrowing at 31 December	**(169.8)**	(177.3)

Operating cash generation remained strong as we maintain focus on converting working capital into cash, with underlying cash flow from operations of £244.9 million (2014: £258.6 million) representing 104 per cent (2014: 119 per cent) of underlying profit from operations. This includes an increase in the dividends received from Joint Ventures to £16.8 million (2014: £9.1 million), reflecting higher distributions from our Defence Joint Ventures. This represents another good performance, with net working capital days reducing in line with our expectations.

Deficit recovery payments to the Group's pension funds of £47.4 million (2014: £46.0 million) reflect the agreement reached with the Trustees of the Group's main defined benefit schemes in 2014. Interest and taxation payments of £40.4 million (2014: £31.0 million) included increases in taxation payments in our overseas businesses that cannot be sheltered by UK tax losses, together with the coupon payable on the Group's convertible bonds issued in December 2014. Net capital expenditure of £12.8 million (2014: £22.4 million) primarily includes the continued investment in upgrading the Group's back-office IT systems and service delivery equipment on new contracts mobilised in our support services business, partially offset by proceeds of £15.7 million from reorganising our staff accommodation facilities in Oman. These items, together with other changes amounting to £10.9 million, resulted in the Group generating £127.1 million of cash (2014: £149.1 million) before acquisitions and disposals and dividend payments. Payments in respect of acquisitions and disposals amounted to £39.6 million (2014: £34.5 million) and comprised net equity investments in Public Private Partnership (PPP) Joint Ventures of £21.5 million and acquisition related payments of £18.1 million. Dividend payments of £80.0 million (2014: £76.7 million) were more than one times covered on a cash basis.

Overall total net borrowing reduced by £7.5 million, leaving the Group with total net borrowing of £169.8 million at 31 December 2015 (2014: £177.3 million).

The management of working capital continued to be a key focus for the Group. Having successfully managed the inevitable impacts on working capital of the planned rescaling of our UK construction business, which we announced in 2010, and of the recession more generally, we are now beginning to see improving trends, as illustrated in the table below.

	2015	2014	Trend
Total revenue (£bn)	**4.6**	4.1	Growing
Working capital cash movement (£m)	**9.0**	31.1	Neutral
Net borrowing (£m)	**(169.8)**	(177.3)	Reducing
Debtor days outstanding (days)[(3)]	**51**	61	Reducing
Creditor days outstanding (days)[(4)]	**67**	76	Reducing

(1) Including net proceeds from the sale of Public Private Partnership (PPP) investments.
(2) Restated for the retrospective adjustment to provisional amounts recognised on the acquisition of the Rokstad Corporation in 2014.
(3) Debtor days are based on trade receivables plus construction contract receivables divided by Group revenue, adjusted for VAT and acquisitions.
(4) Creditor days are based on trade payables, adjusted for VAT, divided by cost of sales plus administrative expenses, adjusted for non-trade creditor related expenses such as payroll costs and depreciation and the effects of acquisitions during the year.

Having completed the rescaling of UK construction in 2013, revenue is now growing again. Following a substantial and inevitable cash outflow due to rescaling UK construction over the period 2010 to 2013, working capital cash flows were broadly neutral in 2014 and 2015 and we expect this to continue in 2016. For the same reason, net debt is also now improving as are the trends in debtor days and creditor days, following a period in which both debtor and creditor days increased due to rescaling of UK construction and pressures created throughout the supply chain from customers downwards, as a result of the recession.

Balance sheet
Summary of the Group's balance sheet

	2015 £m	2014[(2)] £m
Property, plant and equipment	**140.8**	141.9
Intangible assets	**1,633.9**	1,614.1
Investments	**166.1**	139.9
	1,940.8	1,895.9
Inventories, receivables and payables	**(379.0)**	(355.3)
Net retirement benefit liability (net of taxation)	**(317.6)**	(406.2)
Other	**(57.1)**	(62.6)
Net operating assets	**1,187.1**	1,071.8
Net borrowing	**(169.8)**	(177.3)
Net assets	**1,017.3**	894.5
Average net borrowing	**(538.9)**	(450.7)

Property, plant and equipment of £140.8 million (2014: £141.9 million[(2)]) is broadly unchanged as depreciation and the foreign exchange rate movements associated with the weakening of the Canadian dollar are offset by capital expenditure. Intangible assets increased to £1,633.9 million (2014: £1,614.1 million[(2)]) primarily reflecting the provisional goodwill arising on the acquisition of the Outland Group. Investments have increased to £166.1 million (2014: £139.9 million), reflecting substantial equity investments in PPP projects during 2015. The Group's net retirement benefit liability reduced to £317.6 million (2014: £406.2 million) which was primarily due to a reduction in liabilities arising from an increase in bond yields and consequently the discount rate. As expected, average net borrowing increased and this reflected the first-half weighting of non-operating cash payments, including those relating to acquisitions and investments and the cash impact of contract mobilisations in 2015.

Retirement benefits
Detailed information on the Group's pension arrangements can be found in note 31 on pages 115 to 118 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 £2,695.9 million (the 'liabilities'). Total pension assets relating to these liabilities are £2,302.4 million, which results in an IAS 19 deficit of £393.5 million (2014: £509.7 million) before deferred tax and £317.6 million (2014: £406.2 million) after deferred tax.

The key assumptions used in the IAS 19 revised 'Employee benefits' deficit position are summarised below.

	2015 %	2014 %
Discount rate	**3.95**	3.70
Inflation		
RPI	**3.05**	3.05
CPI	**2.00**	2.00
Salary increase	**3.55**	3.55
Average allocation of assets		
Equities/property	**50**	50
Gilts	**24**	22
Corporate bonds	**24**	26
Cash	**2**	2

The discount rate of 3.95 per cent is based on AA bond yields appropriate to the liability duration.

The RPI inflation rate of 3.05 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 £45 million, whilst a 0.1 per cent increase in the inflation rate would increase the overall pre-tax deficit by around £25 million.

The Group's ongoing total pensions charge against profit in 2015, including defined contribution schemes, amounted to £31.0 million (2014: £29.7 million).

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.

Furthermore, in 2013 we took a further 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 with a combined longevity liability of around £1 billion, 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 2027 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 2016. 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 due as at 31 December 2016.

Acquisition of the Outland Group

In May 2015, the Group acquired the entire issued share capital of the Outland Group for a gross consideration of up to £63 million, depending upon the financial performance of the Outland Group. The consideration is payable in instalments, with £10.7 million paid in 2015 and approximately £25 million payable in 2016. The remainder of the consideration, which is subject to earnings before interest, taxation, depreciation and amortisation performance for 2017 and 2018, will be payable in 2018 and 2019. Provisional goodwill arising on the acquisition amounted to £43.1 million. The Outland Group, which provides a complete range of remote services across a number of growth sectors in Canada, including mining, utilities, forestry, defence, oil and gas, enhances the Group's skill base and provides opportunities in new markets that have the potential for growth. The Outland Group also complements our existing support services businesses in Canada, particularly the Rokstad Corporation, our transmission and distribution business, and Bouchier, which provides services to customers in the oil sector.

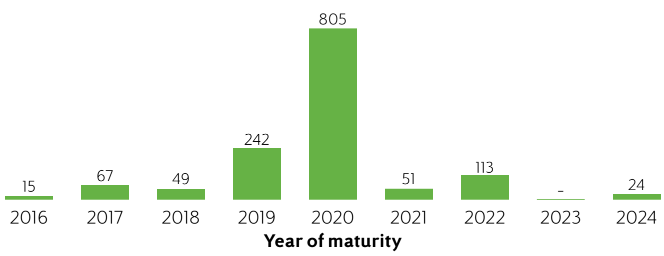
Share price

Carillion's share price was 302.90 pence at the close of business on 31 December 2015, a reduction of 10 per cent on the closing price on 31 December 2014 of 335.8 pence. Carillion delivered total shareholder return in 2015 of negative 4.9 per cent, compared with the return for the FTSE 350 of 0.7 per cent.

Committed bank facilities, private placements and convertible bonds

The Group has a very strong funding position to support our objectives over the medium term, with £1.4 billion of funding available predominantly in the form of committed bank facilities totalling £870 million, private placement borrowing of £326 million and £170 million of convertible bonds. In December 2015, we extended the maturity of our main £790 million revolving bank facility from March 2018 to November 2020 on more advantageous terms, reflecting the strength of our position and reputation in the bank debt markets. The graph below shows the maturity profile of the Group's £1.4 billion of funding. We now only have £131 million of funding that matures before the end of 2018, which places us in a very strong position and will enable us to focus on the delivery of our corporate targets and objectives.

UK 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 2015, the Group had undrawn committed facilities amounting to £761.2 million (2014: £722.0 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 28 and 31. 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, attracting, developing and retaining excellent people, managing the risks associated with operating in overseas markets, maintaining the highest standard of ethics, successfully managing information security including cyber security, Health & Safety and other statutory requirements, managing the impact of low oil prices and the potential impact arising from a failure to effectively 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.

Performance and financial review

continued

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, Egypt (in which we have one project that is now complete and accounted for less than 0.1 per cent of the Group's total revenue in 2015) and Saudi Arabia (in which we have two projects that accounted for less than 0.2 per cent of the Group's total revenue in 2015).

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 elsewhere 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.

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

	Average		Year end	
£sterling	**2015**	2014	**2015**	2014
Middle East (US dollar)	**1.53**	1.65	**1.47**	1.56
Oman (rial)	**0.59**	0.63	**0.57**	0.60
UAE (dirham)	**5.61**	6.05	**5.41**	5.73
Canada (dollar)	**1.96**	1.82	**2.05**	1.81

The value of sterling strengthened during 2015 relative to the Canadian dollar and adversely affected the revenue we have reported for our activities in Canada by £35.0 million. Against the US dollar, sterling has weakened, which has led to a favourable impact on Middle East revenues of £48.8 million.

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, the Canadian Dollar Offered Rate or the Emirates Interbank Offered Rate. The Group's £325.5 million of private placement funding is at various fixed interest rates as disclosed in note 20 on page 104. 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 and a fixed and floating swap 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 27 on pages 108 to 112.

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 32 to 40, entitled 'Performance and financial review'. In addition, note 27 on pages 109 to 112 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 forseeable 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 3 March 2016.

Richard Adam FCA
Group Finance Director