Chairman's statement

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

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

Financial performance

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

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

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

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

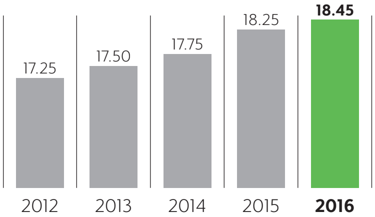
Work winning

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

Dividends

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

Dividend (pence)



Five-year compound annual growth rate

1.7%

Strategy

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

Brexit

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

Our principal risks
See pages 32 to 37

Our people

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

Board changes

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

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

Outlook

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

Philip Green
Chairman
1 March 2017

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