

Chief Executive's strategic overview

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



In this section of the report, we explain:

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

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

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

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

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

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

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

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

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

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

Winning high-quality contracts in our chosen markets

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

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

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

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

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

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

Developing and attracting excellent people and capabilities

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

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

Priorities for 2017

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

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

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



Richard Howson
Group Chief Executive
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