

# Financial statements

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# Consolidated income statement

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Total revenue		5,214.2	4,586.9
Less: share of joint ventures' revenue		(819.3)	(636.2)
<b>Group revenue</b>	2	<b>4,394.9</b>	3,950.7
Cost of sales		(4,044.2)	(3,609.8)
<b>Gross profit</b>		<b>350.7</b>	340.9
Administrative expenses		(217.8)	(195.2)
Profit on disposal of Public Private Partnership equity investments		12.7	37.7
<b>Group operating profit</b>	3	<b>145.6</b>	183.4
Analysed between:			
Group operating profit before intangible amortisation and non-recurring operating items		199.6	208.4
Intangible amortisation <sup>(1)</sup>		(13.8)	(20.0)
Non-recurring operating items	4	(40.2)	(5.0)
<b>Share of results of joint ventures</b>	2	<b>36.3</b>	26.0
Analysed between:			
Operating profit		54.3	36.0
Net financial expense		(13.2)	(7.1)
Taxation		(4.8)	(2.9)
<b>Profit from operations</b>		<b>181.9</b>	209.4
Analysed between:			
Profit from operations before intangible amortisation and non-recurring operating items		235.9	234.4
Intangible amortisation <sup>(1)</sup>		(13.8)	(20.0)
Non-recurring operating items	4	(40.2)	(5.0)
Non-operating items	4	(1.1)	(2.5)
Net financial expense	5	(34.1)	(51.8)
Analysed between:			
Financial income		2.5	2.4
Financial expense		(60.4)	(60.3)
Fair value movements in derivative financial instruments		8.2	6.1
Changes in contingent consideration relating to acquisitions		15.6	-
<b>Profit before taxation</b>		<b>146.7</b>	155.1
Analysed between:			
Profit before taxation, intangible amortisation, non-recurring operating items, non-operating items, fair value movements in derivative financial instruments and changes in contingent consideration relating to acquisitions		178.0	176.5
Intangible amortisation <sup>(1)</sup>		(13.8)	(20.0)
Non-recurring operating items	4	(40.2)	(5.0)
Non-operating items	4	(1.1)	(2.5)
Fair value movements in derivative financial instruments	5	8.2	6.1
Changes in contingent consideration relating to acquisitions	5	15.6	-
Taxation	7	(17.2)	(15.7)
<b>Profit for the year</b>		<b>129.5</b>	139.4
<b>Profit attributable to:</b>			
Equity holders of the parent		124.2	132.8
Non-controlling interests		5.3	6.6
<b>Profit for the year</b>		<b>129.5</b>	139.4
<b>Earnings per share</b>	8		
Basic		28.9p	30.9p
Diluted		25.9p	28.2p

(1) Arising from business combinations.

# Consolidated statement of comprehensive income

For the year ended 31 December 2016

	2016		2015	
	£m	£m	£m	£m
<b>Profit for the year</b>		<b>129.5</b>		139.4
<b>Items that will not be reclassified subsequently to profit or loss:</b>				
Remeasurement of net defined benefit liabilities	<b>(439.7)</b>		88.5	
Taxation relating to items that will not be reclassified	<b>71.1</b>		(21.7)	
	<b>(368.6)</b>		66.8	
<b>Items that may be reclassified subsequently to profit or loss:</b>				
(Loss)/gain on hedge of net investment in foreign operations	<b>(19.1)</b>		9.2	
Currency translation differences on foreign operations	<b>57.5</b>		(15.3)	
Movement in fair value of cash flow hedging derivatives	<b>35.1</b>		15.6	
Reclassification of effective portion of cash flow hedging derivatives to profit	<b>(35.3)</b>		(13.0)	
Increase in fair value of available-for-sale assets	<b>0.2</b>		-	
Taxation relating to items that may be reclassified	<b>(3.2)</b>		(4.8)	
Share of recycled cash flow hedges within joint ventures (net of taxation)	<b>-</b>		3.6	
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	<b>(1.1)</b>		-	
	<b>34.1</b>		(4.7)	
<b>Other comprehensive (expense)/income for the year</b>		<b>(334.5)</b>		62.1
<b>Total comprehensive (expense)/income for the year</b>		<b>(205.0)</b>		201.5
<b>Attributable to:</b>				
Equity holders of the parent		<b>(214.5)</b>		197.0
Non-controlling interests		<b>9.5</b>		4.5
		<b>(205.0)</b>		201.5

# Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital £m	Share premium £m	Translation reserve £m	Hedging reserve £m	Fair value reserve £m	Merger reserve £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interests £m	Total equity £m
At 1 January 2016	215.1	21.2	(38.9)	(8.2)	0.3	393.7	410.3	993.5	23.1	1,016.6
<b>Comprehensive income</b>										
Profit for the year	-	-	-	-	-	-	124.2	124.2	5.3	129.5
<b>Other comprehensive income</b>										
Loss on hedge of net investment in foreign operations	-	-	(19.1)	-	-	-	-	(19.1)	-	(19.1)
Currency translation differences on foreign operations	-	-	53.3	-	-	-	-	53.3	4.2	57.5
Movement in fair value of cash flow hedging derivatives	-	-	-	35.1	-	-	-	35.1	-	35.1
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(35.3)	-	-	-	(35.3)	-	(35.3)
Increase in fair value of available-for-sale assets	-	-	-	-	0.2	-	-	0.2	-	0.2
Remeasurement of net defined benefit liabilities	-	-	-	-	-	-	(439.7)	(439.7)	-	(439.7)
Taxation	-	-	3.8	(7.0)	-	-	71.1	67.9	-	67.9
Share of change in fair value of effective cash flow hedges within joint ventures (net of taxation)	-	-	-	(1.1)	-	-	-	(1.1)	-	(1.1)
Transfer between reserves (see note 23)	-	-	-	-	-	(4.7)	4.7	-	-	-
<b>Total comprehensive income/(expense)</b>	-	-	38.0	(8.3)	0.2	(4.7)	(239.7)	(214.5)	9.5	(205.0)
<b>Transactions with owners</b>										
<b>Contributions by and distributions to owners</b>										
Acquisition of own shares	-	-	-	-	-	-	(1.0)	(1.0)	-	(1.0)
Equity-settled transactions (net of taxation)	-	-	-	-	-	-	2.0	2.0	-	2.0
Dividends paid	-	-	-	-	-	-	(78.9)	(78.9)	(3.8)	(82.7)
<b>Total transactions with owners</b>	-	-	-	-	-	-	(77.9)	(77.9)	(3.8)	(81.7)
<b>At 31 December 2016</b>	215.1	21.2	(0.9)	(16.5)	0.5	389.0	92.7	701.1	28.8	729.9
At 1 January 2015	215.1	21.2	(33.3)	(11.2)	0.3	400.9	279.7	872.7	21.8	894.5
<b>Comprehensive income</b>										
Profit for the year	-	-	-	-	-	-	132.8	132.8	6.6	139.4
<b>Other comprehensive income</b>										
Gain on hedge of net investment in foreign operations	-	-	9.2	-	-	-	-	9.2	-	9.2
Currency translation differences on foreign operations	-	-	(13.2)	-	-	-	-	(13.2)	(2.1)	(15.3)
Movement in fair value of cash flow hedging derivatives	-	-	-	15.6	-	-	-	15.6	-	15.6
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(13.0)	-	-	-	(13.0)	-	(13.0)
Remeasurement of net defined benefit liabilities	-	-	-	-	-	-	88.5	88.5	-	88.5
Taxation	-	-	(1.6)	(3.2)	-	-	(21.7)	(26.5)	-	(26.5)
Share of recycled cash flow hedges within joint ventures (net of taxation)	-	-	-	3.6	-	-	-	3.6	-	3.6
Transfer between reserves (see note 23)	-	-	-	-	-	(7.2)	7.2	-	-	-
<b>Total comprehensive (expense)/income</b>	-	-	(5.6)	3.0	-	(7.2)	206.8	197.0	4.5	201.5
<b>Transactions with owners</b>										
<b>Contributions by and distributions to owners</b>										
Acquisition of own shares	-	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Equity-settled transactions (net of taxation)	-	-	-	-	-	-	1.0	1.0	-	1.0
Dividends paid	-	-	-	-	-	-	(76.8)	(76.8)	(3.2)	(80.0)
<b>Total transactions with owners</b>	-	-	-	-	-	-	(76.2)	(76.2)	(3.2)	(79.4)
<b>At 31 December 2015<sup>(1)</sup></b>	215.1	21.2	(38.9)	(8.2)	0.3	393.7	410.3	993.5	23.1	1,016.6

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

# Consolidated balance sheet

As at 31 December 2016

	Note	2016 £m	2015 <sup>(1)</sup> £m
<b>Non-current assets</b>			
Property, plant and equipment	10	144.1	140.5
Intangible assets	11	1,669.3	1,634.2
Retirement benefit assets	30	5.8	12.7
Investments in joint ventures	12	174.9	160.5
Other investments	13	5.4	4.7
Deferred tax assets	14	163.8	103.8
<b>Total non-current assets</b>		<b>2,163.3</b>	2,056.4
<b>Current assets</b>			
Inventories	15	78.8	64.3
Trade and other receivables	17	1,664.0	1,270.8
Cash and cash equivalents	18	469.8	462.2
Derivative financial instruments	26	46.4	14.6
Income tax receivable		10.8	1.2
<b>Total current assets</b>		<b>2,269.8</b>	1,813.1
<b>Total assets</b>		<b>4,433.1</b>	3,869.5
<b>Current liabilities</b>			
Borrowing	19	(96.7)	(33.5)
Derivative financial instruments	26	(10.6)	(11.6)
Trade and other payables	20	(2,090.1)	(1,714.3)
Provisions	21	(7.8)	(5.0)
Income tax payable		(12.2)	(7.2)
<b>Total current liabilities</b>		<b>(2,217.4)</b>	(1,771.6)
<b>Non-current liabilities</b>			
Borrowing	19	(592.0)	(598.5)
Other payables	20	(67.3)	(64.0)
Retirement benefit liabilities	30	(810.6)	(406.2)
Deferred tax liabilities	14	(15.4)	(10.5)
Provisions	21	(0.5)	(2.1)
<b>Total non-current liabilities</b>		<b>(1,485.8)</b>	(1,081.3)
<b>Total liabilities</b>		<b>(3,703.2)</b>	(2,852.9)
<b>Net assets</b>	2	<b>729.9</b>	1,016.6
<b>Equity</b>			
Share capital	22	215.1	215.1
Share premium	23	21.2	21.2
Translation reserve	23	(0.9)	(38.9)
Hedging reserve	23	(16.5)	(8.2)
Fair value reserve	23	0.5	0.3
Merger reserve	23	389.0	393.7
Retained earnings	23	92.7	410.3
<b>Equity attributable to shareholders of the parent</b>		<b>701.1</b>	993.5
<b>Non-controlling interests</b>		<b>28.8</b>	23.1
<b>Total equity</b>		<b>729.9</b>	1,016.6

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

The financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by:



**Zafar Khan**  
Group Finance Director  
1 March 2017

# Consolidated cash flow statement

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
<b>Cash flows from operating activities</b>			
Group operating profit		145.6	183.4
Depreciation and amortisation		45.0	45.4
Profit on disposal of property, plant and equipment and intangible assets		(6.4)	(14.4)
Profit on disposal of Public Private Partnership equity investments		(12.7)	(37.7)
Other non-cash movements		1.9	(0.3)
Non-recurring operating items		40.2	5.0
<b>Operating profit before changes in working capital</b>		<b>213.6</b>	181.4
Increase in inventories		(6.3)	(14.3)
(Increase)/decrease in trade and other receivables		(290.6)	48.0
Increase/(decrease) in trade and other payables		301.5	(41.1)
<b>Cash generated from operations before cash flows on forward foreign currency contracts, pension deficit recovery payments and non-recurring operating items</b>		<b>218.2</b>	174.0
Cash flows on forward foreign currency contracts		(34.6)	-
Deficit recovery payments to pension schemes		(46.6)	(47.4)
Non-recurring operating items		(21.5)	(6.3)
<b>Cash generated from operations</b>		<b>115.5</b>	120.3
Financial income received		2.5	2.4
Financial expense paid		(39.6)	(35.3)
Acquisition-related costs		(0.9)	(6.6)
Taxation payments		(4.2)	(7.5)
<b>Net cash flows from operating activities</b>		<b>73.3</b>	73.3
<b>Cash flows from investing activities</b>			
Disposal of property, plant and equipment and intangible assets		13.8	17.6
Disposal of joint ventures and other investments	29	47.1	54.1
Dividends received from joint ventures		11.8	16.8
Loan advance repayments received from joint ventures		2.1	7.2
Acquisition of subsidiaries, net of cash and cash equivalents acquired	29	(32.5)	(10.6)
Acquisition of property, plant and equipment and intangible assets		(37.3)	(30.4)
Acquisition of equity in and loan advances to joint ventures		(4.8)	(28.3)
Acquisition of other non-current asset investments		-	(0.4)
<b>Net cash flows from investing activities</b>		<b>0.2</b>	26.0
<b>Cash flows from financing activities</b>			
Draw down/(repayment) of bank and other loans		6.7	(19.0)
Repayment of finance lease liabilities		(7.4)	(6.0)
Acquisition of own shares		(1.0)	(0.4)
Dividends paid to equity holders of the parent		(78.9)	(76.8)
Dividends paid to non-controlling interests		(3.8)	(3.2)
<b>Net cash flows from financing activities</b>		<b>(84.4)</b>	(105.4)
<b>Decrease in net cash and cash equivalents</b>		<b>(10.9)</b>	(6.1)
Net cash and cash equivalents at 1 January		455.8	465.8
Effect of exchange rate fluctuations on net cash and cash equivalents		22.8	(3.9)
<b>Net cash and cash equivalents at 31 December</b>	18	<b>467.7</b>	455.8

# Notes to the consolidated financial statements

## 1. Significant accounting policies

Carillion plc (the 'Company') is a company domiciled and incorporated in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the 'Group') and the Group's interest in joint arrangements.

The consolidated financial statements were authorised for issuance on 1 March 2017.

### Statement of compliance

The Group's financial statements have been approved by the Directors and prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU). The Company has elected to prepare its financial statements in accordance with Financial Reporting Standard (FRS) 101 issued in the UK. These are presented on pages 134 to 139.

### Basis of preparation

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The financial statements are prepared on a going concern basis based on the assessment made by the Directors as described in the Performance and financial review on page 47.

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, pension scheme assets and liabilities, and financial instruments classified as available-for-sale.

There were no significant new financial reporting standards that require adoption in 2016. The following standards and interpretations have not been early adopted by the Group and will be adopted in future accounting periods:

- International Financial Reporting Standard (IFRS) 15 'Revenue from contracts with customers' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 9 'Financial instruments' (effective 1 January 2018)
- International Financial Reporting Standard (IFRS) 16 'Leases' (effective 1 January 2019).

IFRS 15, which is effective for accounting periods beginning on or after 1 January 2018, prescribes the accounting treatment and disclosure requirements associated with revenue from contracts with customers. The Group is performing a detailed assessment of the impact of IFRS 15, with the assessment expected to be completed in the first half of 2017. The Group will be examining the potential impact on the timing of revenue recognition in relation to construction contracts. It is difficult at this stage to determine with any certainty the impact on revenue and profit from adopting this standard but further clarification will be provided in the second half of 2017 as it becomes available.

IFRS 9, which is effective for accounting periods beginning on or after 1 January 2018, establishes revised categories and measurement requirements in relation to financial assets together with changes to accounting for hedging transactions. The adoption of this standard in 2018 is not expected to have a material impact on the Group.

IFRS 16, which is effective for accounting periods beginning on or after 1 January 2019, requires the recognition of a right of use asset and a corresponding lease liability on the balance sheet. In the income statement, the existing operating lease charge recognised within operating profit will be replaced by a depreciation charge in respect of the right of use asset and an interest cost in relation to the lease liability will be recognised within financial expenses. Management will perform a detailed impact assessment and develop a transition plan during 2017.

## Basis of consolidation

### (a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 31 December 2016. Control exists when the Group has power over an entity, is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases. The financial statements for the material subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the Company.

The purchase method is used to account for the acquisition of subsidiaries.

### (b) Joint arrangements

The Group undertakes a number of business activities through joint arrangements. Joint arrangements exist when two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's joint arrangements are of two types:

#### Joint operations

Joint operations are joint arrangements in which the parties with joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The activities of a joint operation are primarily designed to provide an output to the parties to the arrangement indicating that:

- the parties have the rights to substantially all the economic benefits of the assets of the arrangement; and
- all liabilities are satisfied by the joint participants through their purchases of that output. This indicates that, in substance, the joint participants have an obligation for the liabilities of the arrangement.

The financial statements of the Group includes its share of the assets in joint operations, together with its share of the liabilities, revenues and expenses arising jointly or otherwise from those operations and its revenue derived from the sale of its share of the output from the joint operation. All such amounts are measured in accordance with the terms of each arrangement, which are usually in proportion to the Group's interest in the joint operation.

#### Joint ventures

Joint ventures are joint arrangements in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. A separate vehicle, not the parties, will have the rights to the assets and obligations for the liabilities relating to the arrangement. Typically, more than an insignificant share of the output from the joint venture is sold to third parties, which indicates that the joint venture is not dependent on the parties to the arrangement for funding and that the parties to the arrangement have no obligation for the liabilities of the arrangement.

Joint ventures are accounted for using the equity method. Under the equity method the joint venture is recorded initially at its cost to the Group, including the value of any goodwill on acquisition. In subsequent periods, the carrying amount of the joint venture is adjusted to reflect the Group's share of its post-acquisition profit or loss and other comprehensive income. After application of the equity method, including recognising the Group's share of the joint ventures' results, the value of the investment will be assessed for impairment if there is objective evidence that an impairment of the investment may have occurred. Where the Group's investment in a joint venture is nil after having applied equity accounting principles (and the Group has no legal or constructive obligation to make further payments, nor has made payments on behalf of the joint venture), dividends received from the joint venture will be recognised in the Group's result as a share of results of joint ventures.

# Notes to the consolidated financial statements continued

## 1. Significant accounting policies (continued)

### (c) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

### Goodwill and other intangible assets

In respect of acquisitions made prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice. Goodwill arising on acquisitions that have occurred since 1 January 2004 represents the difference between the fair value of the cost of acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired entity. Attributable costs associated with acquisitions are included within non-operating items in the income statement in the period incurred.

Positive goodwill is recognised as an asset in the consolidated balance sheet and is subject to an annual impairment review. Goodwill arising on the acquisition of subsidiaries is recognised separately as an intangible asset in the consolidated balance sheet. Goodwill arising on the acquisition of joint ventures is included within the carrying value of the investment. Negative goodwill is recognised in the income statement immediately.

Other intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is based on the useful economic lives of the assets concerned, which are assessed annually, and are principally as follows:

### Computer software and licences

- straight-line over three to ten years.

### Customer contracts and lists

- Mowlem – consumption of economic benefits over 35 years
- Alfred McAlpine – consumption of economic benefits over 12 years
- John Laing Integrated Services – consumption of economic benefits over 25 years
- Rokstad Power Corporation – consumption of economic benefits over seven years
- Outland Group – consumption of economic benefits over nine years.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

### Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment at each balance sheet date. Assets subject to depreciation and amortisation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement based on the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

In assessing value in use, estimated future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### Other non-current asset investments

Other non-current asset investments are classified as available-for-sale financial assets and are recognised at fair value. Changes in fair value in the year are recognised directly in the statement of comprehensive income in the fair value reserve. Dividend income from investments is recognised in the income statement when the right to receive payment is established.

### Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the degree of completion of each contract, as measured by the proportion of total costs at the balance sheet date to the estimated total cost of the contract.

Insurance claims, incentive payments, and variations arising from construction contracts are included in revenue where it is probable that they will be recovered and are capable of being reliably measured.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable.

The principal estimation technique used by the Group in attributing profit on contracts to a particular period is the preparation of forecasts on a contract by contract basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn of each contract. Consistent contract review procedures are in place in respect of contract forecasting.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. Contract costs are recognised as expenses in the period in which they are incurred.

Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is shown as amounts owed by customers on construction contracts within trade and other receivables. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is shown as amounts owed to customers on construction contracts within trade and other payables.

### Pre-contract costs

Pre-contract costs are expensed as incurred until the Group is appointed preferred bidder or formal notification of the intention to appoint is received. Provided the contract is expected to generate sufficient net cash inflows to enable recovery and the award of the contract is probable, pre-contract costs incurred post the appointment as preferred bidder are included in amounts owed by customers on construction contracts.



## 1. Significant accounting policies (continued)

Where pre-contract bid costs are reimbursed at financial close, the proceeds are initially applied against the asset included in amounts owed by customers on construction contracts. Any excess recoveries are carried forward as deferred income and released to profit over the period of the contract.

### Mobilisation costs

Mobilisation costs are non-recurring set up costs incurred to facilitate performance obligations under customer contracts. Mobilisation costs are expensed as incurred unless: (a) they are capital in nature, in which case they are capitalised in accordance with the relevant accounting standard; or (b) there is a contractual entitlement to recover such costs from the customer in the event of early termination, in which case the costs are capitalised and amortised to the income statement over the contract period. Costs are only capitalised under (b) if the contract is expected to be profitable going forward and the costs capitalised relate to future services under the contract.

### Revenue recognition

Revenue represents the fair value of consideration receivable, excluding sales-related taxation, for services supplied to external customers. It also includes the Group's proportion of work carried out under joint operations during the year. Revenue from the Group's principal business streams is recognised on the following basis:

- Revenue from service contracts is recognised by reference to services performed to date as a percentage of total services to be performed. In the event that the services are delivered evenly across the contract period, the revenue is recognised on a straight-line basis over the period the services are delivered
- Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts (see page 96)
- Revenue from the delivery of carbon-saving measures to utility companies and other related activities is recognised at the date of sale, except if services are to be provided over future periods, where the income is deferred and recognised over the relevant service period
- Revenue from the installation of energy-efficiency measures such as central heating and other renewable technologies is recognised by reference to the number of energy efficiency measures installed
- Revenue from the sale of a licence is recognised immediately where an agreement is, in substance, an outright sale. For an outright sale to have occurred, the Group must have signed a non-cancellable contract, have provided the licensee with the rights to freely exploit its contractual rights, have no significant ongoing delivery obligations to perform and have received a fee which is not expected to be subject to a material adjustment based on future activity. Where there is an element of contingent revenue to such an agreement, an assessment of the estimated fair value of this future revenue is considered. If this fair value is minimal then the risks and rewards of the agreement are considered to have been transferred in full and therefore the determinable sale income is recognised as revenue immediately, with any contingent revenue recognised as it is earned. Should the contingent revenue be assessed as significant, the sale income is recognised as revenue over a period consistent with the life of the technology or other appropriate measure.

## Underlying performance measures

The Group presents underlying performance measures in order to provide greater transparency of the fundamental financial performance of the Group. Consequently, underlying performance measures exclude items that management view as not being part of usual operating activities. Items that are excluded from underlying performance measures are intangible amortisation arising from business combinations, non-recurring operating items, non-operating items, fair value movements in derivative financial instruments and changes in contingent consideration relating to acquisitions. Non-recurring operating items typically include the impairment of investments and costs associated with business restructuring and integration, together with Eaga Partnership Trust related charges. Non-operating items typically include costs associated with the acquisition and disposal of businesses. Fair value movements in derivative financial instruments relate to the option component of convertible bonds and are excluded from underlying performance measures as they are movements derived from market factors largely outside of the operational control of the Group. Changes in contingent consideration relating to acquisitions occur from remeasurement adjustments associated with contingent consideration payable on acquisitions that completed in prior years and are excluded in order that current year performance is not distorted. Definitions of underlying performance measures and how they reconcile to reported measures can be found on pages 140 to 143.

## Property, plant and equipment

Depreciation of property, plant and equipment is based on historical cost less the estimated residual value, and the estimated economic life of the assets concerned. Freehold land is not depreciated. Property, plant and equipment is depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold buildings	40-50 years
Leasehold improvements	Period of lease
Plant, machinery and vehicles	Three-10 years

Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the assets.

## Leasing

Operating lease rental charges are charged to the income statement on a straight-line basis over the life of each lease.

Assets held under finance leases are included in property, plant and equipment and intangible assets at the lower of fair value at the date of acquisition or present value of the minimum lease payments. The capital element of outstanding finance leases is included in financial liabilities. The finance cost element of rentals is charged to the income statement at a constant periodic rate of charge on the outstanding obligations.

## Inventories

Inventories comprise raw materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their location and condition at the balance sheet date.

Provision is made for obsolete, slow moving or defective items where appropriate.

# Notes to the consolidated financial statements continued

## 1. Significant accounting policies (continued)

### Current asset investments

Current asset investments include cash balances held on deposit for periods greater than three months and certain restricted cash balances.

These balances are excluded from cash and cash equivalents in the Group's balance sheet and cash flow statement.

### Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Foreign currencies

In individual entities, transactions denominated in foreign currencies are translated into the appropriate functional currency and recorded using the exchange rate prevailing at the date of the transaction.

On consolidation, the balance sheets of overseas entities are translated into sterling at the rates of exchange ruling at the balance sheet date. Income statements and cash flows of overseas entities are translated into sterling at rates approximating to the foreign exchange rates at the date of the transaction. Gains or losses arising from the consolidation of overseas entities are recognised in the translation reserve.

Net investment hedging of overseas operations is achieved through borrowings and forward contracts denominated in the relevant foreign currencies. Gains and losses arising from the effective portion of hedges are recognised in equity and ineffective portions are recognised immediately in the income statement.

### Employee benefits

#### (a) Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

For defined benefit pension schemes, the cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the income statement reflects certain costs associated with the administration of the Group's defined benefit schemes together with the current service cost of such obligations, and where applicable, past service costs, and is included within administrative expenses.

The net interest expense in the income statement is calculated by applying a discount rate to the net defined benefit obligation at the start of the year.

The retirement benefit obligation recognised in the balance sheet represents the excess of the present value of scheme liabilities over the fair value of scheme assets. When the calculation results in an asset to the Group, the amount recognised is limited where the Group does not have an unconditional right to the refund of any surplus which may exist. Where it has been determined that the Group has a conditional right to a refund of surplus assets if a scheme is run off until the last member dies, the amount of any surplus is restricted consistent with the terms of the plan.

Experience differences arising from remeasurements in the year are recognised in the statement of comprehensive income.

The Group's contributions to the scheme are paid in accordance with the scheme rules and the recommendations of the actuary.

#### (b) Other post-retirement benefit obligations

Certain Group companies provide post-retirement healthcare benefits to their employees. The expected costs of providing these benefits are accrued over the period of employment and are calculated by independent actuaries based on the present value of the expected liability.

#### (c) Share-based payments

Members of the Group's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP) and UK employees are able to participate in the Sharesave scheme. Under the terms of the Group's bonus arrangements, Executive Directors and certain senior employees receive a proportion of their bonus in shares, which are deferred for a period of up to three years.

The fair value of the LEAP, Sharesave and deferred bonus arrangements at the date of grant are estimated using the Black-Scholes pricing model. The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest and taking into account service and non-market conditions.

The Group also operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The fair value of the free shares are recognised as an expense in the income statement over the vesting period of the shares.

### Borrowing costs

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are expensed to the income statement as incurred.

Borrowing costs incurred by entities relating to the construction of assets in Public Private Partnership projects are capitalised until the relevant assets are brought into operational use.

Borrowing costs are charged to the income statement using the effective interest method.

### Share capital

The ordinary share capital of the Company is recorded at the proceeds received, net of directly attributable incremental issue costs.

Consideration paid for shares in the Company held by the Employee Share Ownership Plan (ESOP) Trust are deducted from the retained earnings reserve. Where such shares subsequently vest in the employees under the terms of the Group's share option schemes or are sold, any consideration received is included in the retained earnings reserve.

## 1. Significant accounting policies (continued)

### Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation.

Provisions for restructuring are recognised when the Group has an approved restructuring plan that has either commenced or been announced publicly. Future operating costs are not provided for.

### Financial instruments

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

#### (a) Other non-current investments

Other non-current investments relate to unquoted equity interests that are not designated on initial recognition as at fair value through the income statement. Instead, they are recognised at fair value with movements in fair value recognised in the fair value reserve.

#### (b) Trade receivables

Trade receivables are initially recognised at fair value and then are stated at amortised cost.

#### (c) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at amortised cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less.

Bank overdrafts are also included as they are an integral part of the Group's cash management.

#### (d) Current asset investments

Current asset investments are carried in the balance sheet at amortised cost.

#### (e) Trade payables

Trade payables are initially recognised at fair value and then are stated at amortised cost.

#### (f) Bank and other borrowings

Interest-bearing bank loans and overdrafts and other loans are recognised initially at amortised cost less attributable transaction costs. All borrowings are subsequently stated at amortised cost with the difference between initial net proceeds and redemption value recognised in the income statement over the period to redemption.

#### (g) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value is dependent on whether the derivative is designated as a hedging instrument.

A number of the Group's PPP joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. The effective part of the change in fair value of these derivatives is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date.

The Group also enters into forward contracts in order to provide an economic hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, movements in fair value are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

In accordance with IAS 32 'Financial Instruments: Presentation', the Group's convertible bonds with a cash settlement option are assessed as a hybrid financial instrument, comprising an embedded derivative component (representing the option) and a debt component. At inception, the fair value of the embedded derivative component is determined using a Black-Scholes or a similar bespoke model. The fair value attributed to the debt component is the difference between the proceeds of the issue and the fair value attributed to the embedded derivative component.

Subsequently, the fair value of the embedded derivative is remeasured each year, with the movement recognised within the net financial expense in the income statement as a non-underlying item. In relation to the debt component, interest is charged to the income statement based on applying a market interest rate at the date of issue for a similar bond without the conversion option and is included in financial expenses in the income statement. The difference between the interest charge above and the coupon interest paid is added to the carrying amount of the debt component.

#### (h) Deferred and contingent consideration

Deferred consideration arises when settlement of all or any part of the cost of a business combination is deferred to a future period. Contingent consideration arises when all or any part of the cost of a business combination is dependent upon the occurrence of future events or performance.

Deferred and contingent consideration is stated at fair value at the date of acquisition, which is determined by discounting management's assessment of the amount due to its present value at that date and subsequently remeasured at fair value at each reporting date.

Interest in relation to deferred and contingent consideration is imputed on the fair value of consideration and included in the income statement within financial expenses. Any subsequent changes to deferred and contingent consideration within the remeasurement period are reflected within the goodwill calculation. Any changes to deferred and contingent consideration outside of the remeasurement period are recognised as a non-underlying item in the income statement within financial expenses.

Where consideration is contingent on the continued employment of the former owners of an acquired business, the amount relating to post-acquisition service is recognised as an expense in the income statement.

#### Net borrowing

Net borrowing comprises cash and cash equivalents together with bank overdrafts and loans, finance leases and other loans.

# Notes to the consolidated financial statements continued

## 2. Segmental reporting

Segment information is presented in respect of the Group's strategic operating segments. The operating segment reporting format reflects the differing economic characteristics, with relevance to return on assets, levels of capital investment, operating cash flows and nature of the services provided by the Group and is the basis on which strategic operating decisions are made by the Group Chief Executive, who is the Group's chief operating decision maker.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, except finance items and income tax.

### Operating segments

The Group is comprised of the following main operating segments:

#### Support services

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

### Segmental revenue and profit

#### Public Private Partnership projects

In this segment we report the equity returns on our investing activities in Public Private Partnership projects for Government buildings and infrastructure, mainly in the defence, health, education, transport and secure accommodation sectors.

#### Middle East construction services

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

#### Construction services (excluding the Middle East)

In this segment we report the results of our UK building, civil engineering and developments businesses and our construction activities in Canada.

	2016		2015	
	Revenue £m	Operating profit before intangible amortisation and non-recurring operating items £m	Revenue £m	Operating profit before intangible amortisation and non-recurring operating items £m
<b>Support services<sup>(1)</sup></b>				
Group	2,454.0	159.5	2,342.4	127.3
Share of joint ventures	258.7	23.2	191.8	19.3
	<b>2,712.7</b>	<b>182.7</b>	2,534.2	146.6
Inter-segment	63.4	-	87.0	-
<b>Total</b>	<b>2,776.1</b>	<b>182.7</b>	2,621.2	146.6
<b>Public Private Partnership projects</b>				
Group	1.7	14.2	1.3	39.4
Share of joint ventures	311.3	14.1	191.5	9.9
	<b>313.0</b>	<b>28.3</b>	192.8	49.3
Inter-segment	-	-	-	-
<b>Total</b>	<b>313.0</b>	<b>28.3</b>	192.8	49.3
<b>Middle East construction services</b>				
Group	427.9	8.1	358.9	20.6
Share of joint ventures	240.4	8.0	242.7	4.7
	<b>668.3</b>	<b>16.1</b>	601.6	25.3
Inter-segment	-	-	-	-
<b>Total</b>	<b>668.3</b>	<b>16.1</b>	601.6	25.3
<b>Construction services (excluding the Middle East)</b>				
Group	1,511.3	32.3	1,248.1	35.7
Share of joint ventures	8.9	9.0	10.2	2.1
	<b>1,520.2</b>	<b>41.3</b>	1,258.3	37.8
Inter-segment	40.3	-	24.7	-
<b>Total</b>	<b>1,560.5</b>	<b>41.3</b>	1,283.0	37.8
<b>Group eliminations and unallocated items</b>	<b>(103.7)</b>	<b>(14.5)</b>	(111.7)	(14.6)
<b>Consolidated</b>				
Group	4,394.9	199.6	3,950.7	208.4
Share of joint ventures	819.3	54.3	636.2	36.0
<b>Total</b>	<b>5,214.2</b>	<b>253.9</b>	4,586.9	244.4

(1) Includes £20.0 million of revenue from licensing (2015: Nil).

## 2. Segmental reporting (continued)

Reconciliation of operating segment results to reported results

	2016 £m	2015 £m
<b>Group and share of joint ventures' operating profit before intangible amortisation and non-recurring operating items</b>	<b>253.9</b>	244.4
Underlying net financial expense		
- Group	(57.9)	(57.9)
- Share of joint ventures	(13.2)	(7.1)
Share of joint ventures' taxation	(4.8)	(2.9)
<b>Underlying profit before taxation</b>	<b>178.0</b>	176.5
Intangible amortisation arising from business combinations	(13.8)	(20.0)
Non-recurring operating items	(40.2)	(5.0)
Non-operating items	(1.1)	(2.5)
Fair value movements in derivative financial instruments	8.2	6.1
Changes in contingent consideration relating to acquisitions	15.6	-
<b>Profit before taxation</b>	<b>146.7</b>	155.1
Taxation	(17.2)	(15.7)
<b>Profit for the year</b>	<b>129.5</b>	139.4

Intangible amortisation arising from business combinations and non-recurring operating items arise in the following segments:

	2016		2015	
	Intangible amortisation £m	Non-recurring operating items £m	Intangible amortisation £m	Non-recurring operating items £m
Support services	(13.8)	(16.4)	(18.2)	-
Public Private Partnership projects	-	-	-	(5.0)
Construction services (excluding the Middle East)	-	(23.8)	(1.8)	-
<b>Total</b>	<b>(13.8)</b>	<b>(40.2)</b>	<b>(20.0)</b>	<b>(5.0)</b>

Depreciation, amortisation and capital expenditure arise in the following segments:

	2016		2015	
	Depreciation and amortisation £m	Capital expenditure £m	Depreciation and amortisation £m	Capital expenditure £m
Support services	(30.0)	(31.9)	(26.3)	(13.6)
Middle East construction services	(1.3)	(0.9)	(1.4)	(1.3)
Construction services (excluding the Middle East)	(0.7)	(3.3)	(2.8)	(0.9)
Unallocated Group items	(13.0)	(11.6)	(14.9)	(15.1)
<b>Total</b>	<b>(45.0)</b>	<b>(47.7)</b>	<b>(45.4)</b>	<b>(30.9)</b>

# Notes to the consolidated financial statements continued

## 2. Segmental reporting (continued)

### Segmental net assets

	2016			2015 <sup>(1)</sup>		
	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m	Operating assets £m	Operating liabilities £m	Net operating assets/ (liabilities) £m
<b>Support services</b>						
Intangible assets <sup>(2)</sup>	1,375.0	-	1,375.0	1,361.9	-	1,361.9
Operating assets	842.4	-	842.4	672.5	-	672.5
Investments	32.2	-	32.2	23.5	-	23.5
Total operating assets	2,249.6	-	2,249.6	2,057.9	-	2,057.9
Total operating liabilities	-	(562.4)	(562.4)	-	(482.8)	(482.8)
<b>Net operating assets/(liabilities)</b>	<b>2,249.6</b>	<b>(562.4)</b>	<b>1,687.2</b>	2,057.9	(482.8)	1,575.1
<b>Public Private Partnership projects</b>						
Operating assets	0.6	-	0.6	1.0	-	1.0
Investments	6.7	-	6.7	35.3	-	35.3
Total operating assets	7.3	-	7.3	36.3	-	36.3
Total operating liabilities	-	(2.3)	(2.3)	-	(1.9)	(1.9)
<b>Net operating assets/(liabilities)</b>	<b>7.3</b>	<b>(2.3)</b>	<b>5.0</b>	36.3	(1.9)	34.4
<b>Middle East construction services</b>						
Operating assets	468.8	-	468.8	290.6	-	290.6
Investments	111.4	-	111.4	86.4	-	86.4
Total operating assets	580.2	-	580.2	377.0	-	377.0
Total operating liabilities	-	(374.3)	(374.3)	-	(223.7)	(223.7)
<b>Net operating assets/(liabilities)</b>	<b>580.2</b>	<b>(374.3)</b>	<b>205.9</b>	377.0	(223.7)	153.3
<b>Construction services (excluding the Middle East)</b>						
Intangible assets <sup>(2)</sup>	249.6	-	249.6	247.8	-	247.8
Operating assets	524.2	-	524.2	390.8	-	390.8
Investments	30.0	-	30.0	20.0	-	20.0
Total operating assets	803.8	-	803.8	658.6	-	658.6
Total operating liabilities	-	(613.9)	(613.9)	-	(643.8)	(643.8)
<b>Net operating assets/(liabilities)</b>	<b>803.8</b>	<b>(613.9)</b>	<b>189.9</b>	658.6	(643.8)	14.8
<b>Consolidated before Group items</b>						
Intangible assets <sup>(2)</sup>	1,624.6	-	1,624.6	1,609.7	-	1,609.7
Operating assets	1,836.0	-	1,836.0	1,354.9	-	1,354.9
Investments	180.3	-	180.3	165.2	-	165.2
Total operating assets	3,640.9	-	3,640.9	3,129.8	-	3,129.8
Total operating liabilities	-	(1,552.9)	(1,552.9)	-	(1,352.2)	(1,352.2)
<b>Net operating assets/(liabilities) before Group items</b>	<b>3,640.9</b>	<b>(1,552.9)</b>	<b>2,088.0</b>	3,129.8	(1,352.2)	1,777.6
<b>Group items</b>						
Deferred tax assets/(liabilities)	163.8	(15.4)	148.4	103.8	(10.5)	93.3
Net cash/(borrowing)	469.8	(688.7)	(218.9)	462.2	(632.0)	(169.8)
Retirement benefits (gross of taxation)	5.8	(810.6)	(804.8)	12.7	(406.2)	(393.5)
Income tax	10.8	(12.2)	(1.4)	1.2	(7.2)	(6.0)
Other	142.0	(623.4)	(481.4)	159.8	(444.8)	(285.0)
<b>Net assets/(liabilities)</b>	<b>4,433.1</b>	<b>(3,703.2)</b>	<b>729.9</b>	3,869.5	(2,852.9)	1,016.6

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

(2) Arising from business combinations.

## 2. Segmental reporting (continued)

### Geographic information – by origin

	2016 £m	2015 <sup>(1)</sup> £m
<b>United Kingdom</b>		
Total revenue from external customers	3,784.3	3,334.7
Less: share of joint ventures' revenue	(490.1)	(330.9)
<b>Group revenue from external customers</b>	<b>3,294.2</b>	<b>3,003.8</b>
<b>Non-current assets</b>	<b>1,610.7</b>	1,619.6
<b>Middle East and North Africa</b>		
Total revenue from external customers	786.7	717.0
Less: share of joint ventures' revenue	(269.4)	(265.9)
<b>Group revenue from external customers</b>	<b>517.3</b>	451.1
<b>Non-current assets</b>	<b>121.3</b>	95.7
<b>Canada</b>		
Total revenue from external customers	596.4	513.2
Less: share of joint ventures' revenue	(59.8)	(39.4)
<b>Group revenue from external customers</b>	<b>536.6</b>	473.8
<b>Non-current assets</b>	<b>256.3</b>	219.9
<b>Rest of the World</b>		
Total revenue from external customers	46.8	22.0
Less: share of joint ventures' revenue	-	-
<b>Group revenue from external customers</b>	<b>46.8</b>	22.0
<b>Non-current assets</b>	<b>-</b>	-
<b>Consolidated</b>		
Total revenue from external customers	5,214.2	4,586.9
Less: share of joint ventures' revenue	(819.3)	(636.2)
<b>Group revenue from external customers</b>	<b>4,394.9</b>	<b>3,950.7</b>
<b>Non-current assets</b>		
Total of geographic analysis above	1,988.3	1,935.2
Retirement benefit assets	5.8	12.7
Other investments	5.4	4.7
Deferred tax assets	163.8	103.8
<b>Total non-current assets</b>	<b>2,163.3</b>	<b>2,056.4</b>

Revenue from the Group's major customer, the UK Government, is shown below:

	2016 £m	2015 £m
Support services	861.3	911.1
Public Private Partnership projects	174.5	153.4
Construction services (excluding the Middle East)	683.2	689.2
	<b>1,719.0</b>	<b>1,753.7</b>

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.



# Notes to the consolidated financial statements continued

## 3. Group operating profit

	2016 £m	2015 £m
Group operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	25.0	22.4
Amortisation of intangible assets	20.0	23.0
Impairment of other investments	–	5.0
Impairment of trade receivables	1.7	0.1
Profit on disposal of property, plant and equipment and intangible assets	(6.4)	(14.4)
Operating lease charges	57.5	48.5
Foreign exchange (gains)/losses	(7.4)	0.8
Loss/(gain) on derivative financial assets and liabilities held for trading	8.1	(2.3)
Auditor's remuneration:		
Fees payable to the Company's auditor for:		
– the audit of the Company's annual accounts	0.3	0.3
– the audit of the Company's subsidiaries	0.9	0.8
– the audit of the Group's pension schemes	0.1	0.1
– the Group's share of the audit of joint ventures	0.1	0.2
<b>Total audit fees</b>	<b>1.4</b>	1.4
– taxation services	0.2	0.3
– other assurance services	–	0.1
<b>Total non-audit fees</b>	<b>0.2</b>	0.4
	<b>1.6</b>	1.8

## 4. Non-recurring operating items and non-operating items

### Non-recurring operating items

The non-recurring operating charge of £40.2 million in 2016 includes £17.8 million of redundancy and restructuring costs relating to the Group's cost reduction programme, £11.9 million arising from the decision to close our operations in the Caribbean, which we have concluded are no longer commercially viable and £10.5 million representing the Group's share of the compensation and associated costs under The Construction Workers Compensation Scheme that was set up by eight UK companies for workers who have been impacted by the use of a database vetting system operated by The Consulting Association. An income tax credit of £2.4 million relating to these costs is included within taxation in the income statement.

In 2015, the non-recurring operating charge of £5.0 million related to the impairment of the Group's stakeholder loan to the Green Deal Finance Company Limited, following the decision taken by the UK Government to withdraw from providing further financial support. There is no income tax associated with this non-recurring operating charge.

### Non-operating items

The non-operating charge in 2016 of £1.1 million (2015: £2.5 million) relates to adviser costs incurred in relation to corporate transactions in the year. There is no income tax associated with non-operating items in 2016 and 2015.

## 5. Financial income and expense

	2016 £m	2015 £m
<b>Financial income</b>		
Bank interest receivable	0.8	0.8
Other interest receivable	1.7	1.6
<b>Total financial income</b>	<b>2.5</b>	2.4
<b>Financial expense</b>		
Interest payable on bank loans and overdrafts	(17.5)	(14.1)
Other interest payable and similar charges	(28.2)	(28.2)
Net interest expense on defined benefit pension obligations	(14.7)	(18.0)
<b>Total financial expense</b>	<b>(60.4)</b>	(60.3)
<b>Underlying net financial expense</b>	<b>(57.9)</b>	(57.9)
<b>Other items</b>		
Fair value movements in the derivative component of convertible bonds	8.2	6.1
Changes in contingent consideration relating to acquisitions	15.6	–
<b>Net financial expense</b>	<b>(34.1)</b>	(51.8)



## 5. Financial income and expense (continued)

Other interest payable and similar charges include Private Placement financing interest of £14.3 million (2015: £14.3 million), finance lease charges of £0.8 million (2015: £1.0 million), convertible bond coupon payments and interest accretion of £7.1 million (2015: £7.1 million) and the discount unwind associated with onerous lease provisions of £0.2 million (2015: £0.6 million) and contingent consideration relating to acquisitions of £2.6 million (2015: £2.0 million). No borrowing costs have been capitalised in either of the above years.

Net financial expense includes a credit of £8.2 million (2015: £6.1 million) arising from the fair value movements in the derivative component of convertible bonds and a credit of £15.6 million (2015: Nil) arising from the remeasurement of contingent consideration in respect of business acquisitions in prior years.

In relation to the fair value movements in the derivative component of convertible bonds, a deferred tax charge of £1.6 million (2015: £1.2 million) is included within taxation in the income statement.

## 6. Payroll costs and employee numbers

	2016 £m	2015 £m
Wages and salaries	825.1	824.4
Social security costs	76.5	66.2
Pension costs	31.2	31.0
Equity-settled transactions	2.0	1.1
	<b>934.8</b>	922.7

Pension costs represent amounts in respect of the Group's UK and overseas schemes as described in note 30 and includes a charge of £25.0 million (2015: £21.1 million) in respect of defined contribution schemes.

Detailed information concerning Directors' remuneration, including their pension benefits and long-term incentive arrangements, is set out in the Remuneration Report on pages 65 to 81.

The average number of employees during each year, including Directors, was:

	2016 Number	2015 Number
Support services	20,684	20,446
Public Private Partnership projects	31	27
Middle East construction services	7,945	8,649
Construction services (excluding the Middle East)	2,604	2,570
Corporate centre	364	363
	<b>31,628</b>	32,055
UK	19,256	19,486
Overseas	12,372	12,569
	<b>31,628</b>	32,055

In addition to the above there are 11,429 staff (2015: 11,277) employed within the Group's joint ventures located in the Middle East.

## 7. Income tax

### Recognised in the income statement

	2016 £m	2015 £m
<b>Current tax expense/(credit)</b>		
Current year		
- UK	1.1	0.6
- Overseas	8.3	7.5
Adjustments for prior years		
- UK	(0.7)	(1.8)
- Overseas	(0.5)	(0.2)
<b>Total current tax</b>	<b>8.2</b>	6.1
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	9.0	8.3
Change of rate	-	1.0
Adjustments for prior years	-	0.3
<b>Total deferred tax</b>	<b>9.0</b>	9.6
<b>Total income tax expense in the income statement</b>	<b>17.2</b>	15.7

# Notes to the consolidated financial statements continued

## 7. Income tax (continued)

### Reconciliation of effective tax rate

	2016 £m	2015 £m
<b>Profit before tax</b>	<b>146.7</b>	155.1
Tax of joint ventures	<b>4.8</b>	2.9
	<b>151.5</b>	158.0
<b>Income tax at UK standard corporation tax rate of 20% (2015: 20.25%)</b>	<b>30.3</b>	32.0
Permanent differences	<b>2.6</b>	0.1
Untaxed profits	<b>(1.1)</b>	(2.3)
Capital items not taxable/not deductible	<b>0.3</b>	(8.8)
Effect of utilisation of brought-forward tax losses	<b>(4.3)</b>	(0.3)
Effect of tax rates in foreign jurisdictions	<b>(0.8)</b>	(1.0)
Change in rate	<b>-</b>	1.0
Over provided in prior years	<b>(2.0)</b>	(2.7)
Deferred taxation relating to prior year losses	<b>(3.0)</b>	0.6
<b>Total tax (including tax of joint ventures)</b>	<b>22.0</b>	18.6
Tax of joint ventures	<b>(4.8)</b>	(2.9)
<b>Group income tax expense</b>	<b>17.2</b>	15.7

Effect of utilisation of brought-forward tax losses of £4.3 million in 2016 includes a £4.0 million credit relating to the utilisation of historic capital losses. Over provided in prior years of £2.0 million in 2016 includes a £0.8 million credit (2015: £1.0 million credit) arising from a review of the nature of the tax position in certain joint venture entities.

### Tax (asset)/liability recognised either in the statement of changes in other comprehensive income or directly in equity

	2016 £m	2015 £m
Deferred tax on remeasurement of net defined benefit liabilities	<b>(71.1)</b>	21.7
Deferred tax on cash flow hedging derivatives	<b>7.0</b>	3.2
Current tax on foreign exchange translation adjustments	<b>(3.8)</b>	1.6
Tax recognised in statement of comprehensive income	<b>(67.9)</b>	26.5
Tax recognised directly in equity:		
- Deferred tax on equity-settled transactions	<b>-</b>	0.1
<b>Total tax recognised in equity</b>	<b>(67.9)</b>	26.6

Deferred tax on remeasurement of net defined benefit liabilities of £71.1 million in 2016 includes a credit of £12.3 million (2015: £3.9 million charge) in respect of the change in tax rate to 17 per cent, which was substantively enacted on 5 September 2016.

## 8. Earnings per share

### (a) Basic earnings per share

The calculation of earnings per share for the year ended 31 December 2016 is based on the profit attributable to equity holders of the parent of £124.2 million (2015: £132.8 million) and a weighted average number of ordinary shares in issue of 430.2 million (2015: 430.2 million), calculated as follows:

In millions of shares	2016	2015
Issued ordinary shares at 1 January	<b>430.3</b>	430.3
Effect of own shares held by Employee Share Ownership Plan and Qualifying Employee Share Ownership Trust (see note 23)	<b>(0.1)</b>	(0.1)
<b>Weighted average number of ordinary shares at 31 December</b>	<b>430.2</b>	430.2

## 8. Earnings per share (continued)

### (b) Underlying performance

A reconciliation of profit before taxation and basic earnings per share, as reported in the income statement, to underlying profit before taxation and earnings per share is set out below. The adjustments made in arriving at the underlying performance measures are made to illustrate the impact of the amortisation of intangible assets arising from business combinations, non-recurring operating items, non-operating items, fair value movements in derivative financial instruments and changes in contingent consideration relating to acquisitions.

	2016		2015	
	Profit before taxation £m	Taxation £m	Profit before taxation £m	Taxation £m
<b>Profit before taxation</b>				
Profit before taxation as reported in the income statement	146.7	17.2	155.1	15.7
Amortisation of intangible assets arising from business combinations	13.8	3.0	20.0	5.0
Non-recurring operating items	40.2	2.4	5.0	-
Non-operating items	1.1	-	2.5	-
Fair value movements in derivative financial instruments	(8.2)	(1.6)	(6.1)	(1.2)
Changes in contingent consideration relating to acquisitions	(15.6)	-	-	-
<b>Underlying profit before taxation</b>	<b>178.0</b>	<b>21.0</b>	176.5	19.5
Underlying taxation	(21.0)		(19.5)	
Underlying profit attributable to non-controlling interests	(5.3)		(6.6)	
<b>Underlying profit attributable to shareholders</b>	<b>151.7</b>		150.4	

	2016	2015
	Pence per share	Pence per share
<b>Earnings per share</b>		
Basic earnings per share as reported in the income statement	28.9	30.9
Amortisation of intangible assets arising from business combinations	2.6	3.5
Non-recurring operating items	8.9	1.2
Non-operating items	-	0.6
Fair value movements in derivative financial instruments	(1.5)	(1.2)
Changes in contingent consideration relating to acquisitions	(3.6)	-
<b>Underlying basic earnings per share</b>	<b>35.3</b>	35.0
<b>Underlying diluted earnings per share (post-tax basis)</b>	<b>31.7</b>	31.9

### (c) Diluted earnings per share

For the purpose of calculating diluted earnings per share of 25.9 pence (2015: 28.2 pence), profit attributable to shareholders was reduced by £1.0 million (2015: increased by £1.3 million) reflecting the after tax impact on profit of the Group's convertible bonds.

The weighted average number of ordinary shares used in the diluted earnings per share calculation is shown below:

In millions of shares	2016	2015
Weighted average number of ordinary shares	430.2	430.2
Effect of potential number of shares that could be issued on conversion of convertible bonds	42.7	42.7
Effect of share options in issue	2.5	2.2
<b>Weighted average number of ordinary shares (diluted) at 31 December</b>	<b>475.4</b>	475.1

## 9. Dividends

The following dividends were paid by the Company:

	2016		2015	
	£m	Pence per share	£m	Pence per share
Previous year final dividend	54.0	12.55	52.3	12.15
Current year interim dividend	24.9	5.80	24.5	5.70
<b>Total</b>	<b>78.9</b>	<b>18.35</b>	76.8	17.85

The following dividends were proposed by the Company:

	2016		2015	
	£m	Pence per share	£m	Pence per share
Interim	24.9	5.80	24.5	5.70
Final	54.4	12.65	54.0	12.55
<b>Total</b>	<b>79.3</b>	<b>18.45</b>	78.5	18.25

The final dividend for 2016 of 12.65 pence per share was approved by the Board on 1 March 2017 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 9 June 2017 to shareholders on the register on 12 May 2017.

# Notes to the consolidated financial statements continued

## 10. Property, plant and equipment

	Land and buildings £m	Plant, equipment and vehicles £m	Total £m
<b>Cost</b>			
At 1 January 2016	28.3	150.0	178.3
Additions	2.1	18.1	20.2
Disposals	(0.3)	(22.4)	(22.7)
Effect of movements in foreign exchange rates	7.4	24.8	32.2
<b>At 31 December 2016</b>	<b>37.5</b>	<b>170.5</b>	<b>208.0</b>
<b>Depreciation and impairment losses</b>			
At 1 January 2016	2.4	35.4	37.8
Depreciation charge for the year	1.5	23.5	25.0
Disposals	-	(16.4)	(16.4)
Effect of movements in foreign exchange rates	2.8	14.7	17.5
<b>At 31 December 2016</b>	<b>6.7</b>	<b>57.2</b>	<b>63.9</b>
<b>Net book value</b>			
At 1 January 2016	25.9	114.6	140.5
<b>At 31 December 2016</b>	<b>30.8</b>	<b>113.3</b>	<b>144.1</b>

Included in the net book value of plant, equipment and vehicles is £20.3 million (2015: £17.2 million) in respect of assets held under finance leases and hire purchase contracts. The leased equipment is secured against lease obligations as disclosed in note 19.

	Land and buildings £m	Plant, equipment and vehicles <sup>(1)</sup> £m	Total <sup>(1)</sup> £m
<b>Cost</b>			
At 1 January 2015	39.0	136.0	175.0
Acquisition of Outland Group (see note 29)	0.2	2.3	2.5
Additions	1.9	27.8	29.7
Disposals	(9.5)	(5.3)	(14.8)
Effect of movements in foreign exchange rates	(3.3)	(10.8)	(14.1)
<b>At 31 December 2015</b>	<b>28.3</b>	<b>150.0</b>	<b>178.3</b>
<b>Depreciation and impairment losses</b>			
At 1 January 2015	9.3	23.8	33.1
Depreciation charge for the year	2.0	20.4	22.4
Disposals	(7.9)	(3.7)	(11.6)
Effect of movements in foreign exchange rates	(1.0)	(5.1)	(6.1)
<b>At 31 December 2015</b>	<b>2.4</b>	<b>35.4</b>	<b>37.8</b>
<b>Net book value</b>			
At 1 January 2015	29.7	112.2	141.9
<b>At 31 December 2015</b>	<b>25.9</b>	<b>114.6</b>	<b>140.5</b>

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

## 11. Intangible assets

	Goodwill £m	Customer contracts and lists £m	Total arising from business combinations £m	Computer software and licences £m	Total £m
<b>Cost</b>					
At 1 January 2016	1,544.3	320.1	1,864.4	50.1	1,914.5
Additions	-	-	-	27.5	27.5
Disposals	-	-	-	(6.8)	(6.8)
Effect of movements in foreign exchange rates	26.7	5.3	32.0	1.2	33.2
<b>At 31 December 2016</b>	<b>1,571.0</b>	<b>325.4</b>	<b>1,896.4</b>	<b>72.0</b>	<b>1,968.4</b>
<b>Amortisation and impairment losses</b>					
At 1 January 2016	-	254.7	254.7	25.6	280.3
Amortisation for the year	-	13.8	13.8	6.2	20.0
Disposals	-	-	-	(5.4)	(5.4)
Effect of movements in foreign exchange rates	-	3.3	3.3	0.9	4.2
<b>At 31 December 2016</b>	<b>-</b>	<b>271.8</b>	<b>271.8</b>	<b>27.3</b>	<b>299.1</b>
<b>Net book value</b>					
At 1 January 2016	1,544.3	65.4	1,609.7	24.5	1,634.2
<b>At 31 December 2016</b>	<b>1,571.0</b>	<b>53.6</b>	<b>1,624.6</b>	<b>44.7</b>	<b>1,669.3</b>

Included in the net book value of computer software and licences is £2.9 million (2015: £5.4 million) in respect of assets held under finance leases. The leased assets are secured against lease obligations as disclosed in note 19.

	Goodwill <sup>(1)</sup> £m	Customer contracts and lists £m	Total arising from business combinations <sup>(1)</sup> £m	Computer software and licences £m	Total <sup>(1)</sup> £m
<b>Cost</b>					
At 1 January 2015	1,510.9	312.0	1,822.9	49.6	1,872.5
Acquisitions (see note 29)	43.4	9.8	53.2	-	53.2
Additions	-	-	-	1.2	1.2
Effect of movements in foreign exchange rates	(10.0)	(1.7)	(11.7)	(0.7)	(12.4)
<b>At 31 December 2015</b>	<b>1,544.3</b>	<b>320.1</b>	<b>1,864.4</b>	<b>50.1</b>	<b>1,914.5</b>
<b>Amortisation and impairment losses</b>					
At 1 January 2015	-	235.5	235.5	22.9	258.4
Amortisation for the year	-	20.0	20.0	3.0	23.0
Effect of movements in foreign exchange rates	-	(0.8)	(0.8)	(0.3)	(1.1)
<b>At 31 December 2015</b>	<b>-</b>	<b>254.7</b>	<b>254.7</b>	<b>25.6</b>	<b>280.3</b>
<b>Net book value</b>					
At 1 January 2015	1,510.9	76.5	1,587.4	26.7	1,614.1
<b>At 31 December 2015</b>	<b>1,544.3</b>	<b>65.4</b>	<b>1,609.7</b>	<b>24.5</b>	<b>1,634.2</b>

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

# Notes to the consolidated financial statements continued

## 11. Intangible assets (continued)

### Impairment tests for cash-generating units containing goodwill

The following units have significant amounts of goodwill:

	2016 £m	2015 <sup>(i)</sup> £m
<b>Construction services (excluding the Middle East) segment</b>		
UK construction	239.1	239.1
Canada construction	10.7	8.7
	<b>249.8</b>	<b>247.8</b>
<b>Support services segment</b>		
UK services	1,191.2	1,191.2
Canada services	130.0	105.3
	<b>1,321.2</b>	<b>1,296.5</b>
<b>Total goodwill</b>	<b>1,571.0</b>	<b>1,544.3</b>

(i) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

Each year, and whenever events or a change in the economic environment indicates a risk of impairment, the Group reviews the value of goodwill balances allocated to its cash-generating units (CGU). In the absence of any identified impairment risks, tests are performed based on internal valuations of each CGU.

Management consider Support services, Public Private Partnership projects, Middle East construction services and Construction services (excluding the Middle East) as distinct reporting segments. Goodwill has been allocated to the applicable CGUs within the Construction services (excluding the Middle East) and Support services reporting segments detailed above. CGUs have been identified within the reporting segments as those businesses that generate cash inflows largely independently of other businesses within the Group, and which are subject to independent management.

Following its acquisition in 2015, Ask Real Estate Limited, a business based in the UK, has been integrated into the Group's Construction services reporting segment and consequently the goodwill recognised on this acquisition of £6.1 million has been allocated to the UK construction CGU.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The value-in-use in 2016 was determined on a similar basis to 2015. The key assumptions for the value-in-use calculations are those regarding discount rates, growth rates and expected changes to revenue and direct costs during the period. These assumptions were reviewed in 2016 in the light of the continuing challenging economic environment. The adverse impact of macro-economic factors on the financial stability of our customers, partners and suppliers continues to be mitigated by applying rigorous selectivity criteria in relation to their financial stability, the security of project funding and contractual terms and conditions.

Discount rates have been estimated based on pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Whilst the Group has four CGUs, the risks and rewards associated with Construction services (excluding the Middle East) are consistent, and therefore one discount rate has been applied to each CGU. Similarly the risks and rewards encountered in the Support services CGUs are consistent and therefore one discount rate has been applied to each CGU. In determining the pre-tax discount rate management has derived a Weighted Average Cost of Capital (WACC) using the capital asset pricing model to determine the cost of equity and then weighting the overall cost of capital for the Group by equity and debt. The rates used to discount the forecast cash flows for the CGUs were updated in 2016 to reflect current market conditions and resulted in the discount rate for the Construction services (excluding the Middle East) segment remaining unchanged at 9.7 per cent (2015: 9.7 per cent) and for the Support services segment remaining unchanged at 8.6 per cent (2015: 8.6 per cent).

The cash flows used to determine the value-in-use calculations are from the latest three-year forecasts approved by management, which are based upon secured and probable orders and the Group's overall strategic direction. The cash flows are extrapolated from year four, with a terminal value using a growth rate of 2.5 per cent. This growth rate does not exceed the long-term industry average and reflects the synergies from acquisitions.

Management has undertaken sensitivity analysis on a number of key assumptions in the value-in-use calculations. Sensitivity analysis on the discount rate shows that the discount rate would have to increase to a minimum of 21.3 per cent for Construction services (excluding the Middle East) and to a minimum of 19.0 per cent for Support services before an impairment was triggered in any CGU. On the basis of the sensitivity analysis undertaken in relation to cash flows, management concluded that there is a more than adequate amount of headroom in the value-in-use calculations before an impairment would be triggered. Management has also concluded that there was no reasonably possible change in any of the key assumptions used in testing goodwill for impairment that would have caused an impairment to be recognised. Overall, as at 31 December 2016, based on internal valuations, management has concluded that the recoverable value of the Group's CGUs exceeded their carrying amount.

In addition, following the reduction in contingent consideration payable on the acquisition of Rokstad and Outland arising from lower expectations for EBITDA performance in the short-term (see note 29) together with the impact of the prolonged low oil price on the performance of Bouchier, management undertook a detailed review of the recoverability of the goodwill arising from these acquisitions, which form part of the Canada services CGU. The review included sensitivity analysis involving reductions to expected future cash flows of 25 per cent and an increase in the discount rate of 50 per cent. On the basis of the detailed review undertaken, management concluded that there was no impairment to the carrying amount of goodwill within the Canada services CGU.

### Amortisation charge

The amortisation profile relating to intangible assets arising from business combinations is shown below:

Acquisition	Original cost £m	Amortisation period	Amortisation profile
Mowlem	119.0	2006-2041	84 per cent complete by 2019
Alfred McAlpine	125.4	2008-2019	100 per cent complete in 2019
John Laing Integrated Services	27.2	2013-2041	60 per cent complete by 2019
Rokstad Power Corporation	11.5	2015-2021	92 per cent complete by 2019
Outland	9.8	2015-2023	93 per cent complete by 2019

## 12. Investments in joint ventures

	Total £m
<b>Cost</b>	
At 1 January 2016	82.5
Loan advances	4.8
Disposals	(25.2)
Loan repayments	(2.5)
Effect of movements in foreign exchange rates	4.3
<b>At 31 December 2016</b>	<b>63.9</b>
<b>Share of post-acquisition results</b>	
At 1 January 2016	78.0
Share of results for the year after taxation	36.3
Share of change in fair value of cash flow hedges (net of taxation)	(1.1)
Disposals	(10.1)
Distributions received	(11.8)
Effect of movements in foreign exchange rates	19.7
<b>At 31 December 2016</b>	<b>111.0</b>
<b>Net book value</b>	
At 1 January 2016	160.5
<b>At 31 December 2016</b>	<b>174.9</b>

During the year, the Group disposed of equity investments in joint ventures engaged in Public Private Partnership (PPP) activities as disclosed in note 29.

	Total <sup>(1)</sup> £m
<b>Cost</b>	
At 1 January 2015	70.9
Acquisition of Ask Real Estate Limited (see note 29)	4.9
Equity investments and loan advances	28.3
Disposals	(10.8)
Loan repayments	(7.2)
Effect of movements in foreign exchange rates	(3.6)
<b>At 31 December 2015</b>	<b>82.5</b>
<b>Share of post-acquisition results</b>	
At 1 January 2015	59.7
Share of results for the year after taxation	26.0
Disposals	5.4
Distributions received	(16.8)
Effect of movements in foreign exchange rates	3.7
<b>At 31 December 2015</b>	<b>78.0</b>
<b>Net book value</b>	
At 1 January 2015	130.6
<b>At 31 December 2015</b>	<b>160.5</b>

Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

During 2015, the Group disposed of equity investments in joint ventures engaged in PPP activities as disclosed in note 29.

# Notes to the consolidated financial statements continued

## 12. Investments in joint ventures (continued)

	2016			2015		
	PPP projects £m	Other £m	Total £m	PPP projects £m	Other <sup>(i)</sup> £m	Total <sup>(i)</sup> £m
Non-current assets	368.2	101.3	469.5	380.9	71.3	452.2
Cash	95.1	10.0	105.1	86.6	14.5	101.1
Other current assets	46.6	460.8	507.4	33.8	311.0	344.8
<b>Share of gross assets</b>	<b>509.9</b>	<b>572.1</b>	<b>1,082.0</b>	501.3	396.8	898.1
Current borrowing	(4.9)	(44.6)	(49.5)	(2.9)	(22.9)	(25.8)
Current liabilities	(23.5)	(353.7)	(377.2)	(33.5)	(208.6)	(242.1)
Non-current borrowing	(426.1)	(0.2)	(426.3)	(413.6)	(28.6)	(442.2)
Non-current liabilities	(42.4)	-	(42.4)	(30.3)	(9.6)	(39.9)
Provisions	(10.6)	-	(10.6)	(9.5)	(2.6)	(12.1)
<b>Share of gross liabilities</b>	<b>(507.5)</b>	<b>(398.5)</b>	<b>(906.0)</b>	(489.8)	(272.3)	(762.1)
<b>Share of net assets excluding derivatives</b>	<b>2.4</b>	<b>173.6</b>	<b>176.0</b>	11.5	124.5	136.0
Financial instrument derivatives	(1.1)	-	(1.1)	-	-	-
<b>Share of net assets</b>	<b>1.3</b>	<b>173.6</b>	<b>174.9</b>	11.5	124.5	136.0
Loan advances	-	-	-	24.5	-	24.5
<b>Total investment in jointly controlled entities</b>	<b>1.3</b>	<b>173.6</b>	<b>174.9</b>	36.0	124.5	160.5

(i) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

There are no material joint ventures included in the above that require separate disclosure.

The Group's share of total comprehensive income in relation to joint ventures in 2016 of £35.2 million (2015: £26.0 million) comprises the Group's share of results for the year after taxation of £36.3 million (2015: £26.0 million) and the Group's share of other comprehensive expense of £1.1 million (2015: Nil).

Financial instrument derivatives within PPP projects relate to interest rate swaps entered into by the joint ventures concerned as a means of hedging interest rate risk and are stated net of deferred tax. In accordance with International Accounting Standard 39 'Financial instruments: Recognition and measurement', these derivatives are accounted for as cash flow hedges with the effective portion of movements in fair value each year recognised in the hedging reserve and recycled on disposal.

## 13. Other investments

	£m
<b>Fair value</b>	
At 1 January 2016	9.7
Fair value of equity interests retained on partial disposals	0.5
Increase in fair value	0.2
<b>At 31 December 2016</b>	<b>10.4</b>
<b>Impairment losses</b>	
<b>At 1 January and 31 December 2016</b>	<b>5.0</b>
<b>Net book value</b>	
At 1 January 2016	4.7
<b>At 31 December 2016</b>	<b>5.4</b>

The fair value of equity interests retained on partial disposals of £0.5 million arises on the partial disposal of an equity interest in a Public Private Partnership project, which was previously accounted for as an investment in joint ventures.



### 13. Other investments (continued)

	£m
<b>Fair value</b>	
At 1 January 2015	23.1
Additions	0.4
Disposals	(13.8)
<b>At 31 December 2015</b>	<b>9.7</b>
<b>Impairment losses</b>	
At 1 January 2015	13.8
Impairment charge for the year	5.0
Released following disposal	(13.8)
<b>At 31 December 2015</b>	<b>5.0</b>
<b>Net book value</b>	
At 1 January 2015	9.3
<b>At 31 December 2015</b>	<b>4.7</b>

Additions in 2015 of £0.4 million relate to cash paid in the first half of the year in respect of a further stakeholder loan to the Green Deal Finance Company Limited. The impairment charge for the year of £5.0 million relates to the impairment of the stakeholder loan funding provided to the Green Deal Finance Company Limited, following the decision by the UK Government in the second half of the year to withdraw its financial support to the Green Deal Finance Company Limited in the wake of the continuing low take-up under the Government's Green Deal initiative.

### 14. Deferred tax assets and liabilities

#### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to temporary differences relating to the following:

	Assets		Liabilities		Net	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Property, plant and equipment	3.6	7.4	-	-	3.6	7.4
Intangible assets	-	-	(8.0)	(10.9)	(8.0)	(10.9)
Liability for National Insurance on future Eaga Partnership Trust's distributions	0.8	0.8	-	-	0.8	0.8
Employee benefits	141.6	75.9	-	-	141.6	75.9
Working capital	-	-	(17.1)	(10.1)	(17.1)	(10.1)
Equity-settled transactions	0.3	0.3	-	-	0.3	0.3
Tax value of carry forward losses recognised	27.2	29.9	-	-	27.2	29.9
Tax assets/(liabilities)	173.5	114.3	(25.1)	(21.0)	148.4	93.3
Set off of tax	(9.7)	(10.5)	9.7	10.5	-	-
<b>Net deferred tax assets/(liabilities)</b>	<b>163.8</b>	<b>103.8</b>	<b>(15.4)</b>	<b>(10.5)</b>	<b>148.4</b>	<b>93.3</b>

#### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2016 £m	2015 £m
Tax losses	15.8	19.4

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these losses due to the lack of certainty concerning the quantum and timing of future years' taxable profits of the companies concerned.

# Notes to the consolidated financial statements continued

## 14. Deferred tax assets and liabilities (continued)

Movements in temporary differences during the year are as follows:

	Balance 1 January 2016 £m	Recognised in income £m	Recognised in equity £m	Balance 31 December 2016 £m
Property, plant and equipment	7.4	(3.8)	-	3.6
Intangible assets	(10.9)	2.9	-	(8.0)
Liability for National Insurance on future Eaga Partnership Trust's distributions	0.8	-	-	0.8
Employee benefits	75.9	(5.4)	71.1	141.6
Working capital	(10.1)	-	(7.0)	(17.1)
Equity-settled transactions	0.3	-	-	0.3
Tax value of carry forward losses recognised	29.9	(2.7)	-	27.2
	<b>93.3</b>	<b>(9.0)</b>	<b>64.1</b>	<b>148.4</b>

	Balance 1 January 2015 £m	Acquisitions £m	Recognised in income £m	Recognised in equity £m	Balance 31 December 2015 £m
Property, plant and equipment	8.5	0.2	(1.3)	-	7.4
Intangible assets	(13.3)	(2.6)	5.0	-	(10.9)
Liability for National Insurance on future Eaga Partnership Trust's distributions	0.8	-	-	-	0.8
Employee benefits	103.5	-	(5.9)	(21.7)	75.9
Working capital	(6.2)	0.5	(1.2)	(3.2)	(10.1)
Equity-settled transactions	-	-	0.4	(0.1)	0.3
Tax value of carry forward losses recognised	36.5	-	(6.6)	-	29.9
	<b>129.8</b>	<b>(1.9)</b>	<b>(9.6)</b>	<b>(25.0)</b>	<b>93.3</b>

## 15. Inventories

	2016 £m	2015 £m
Raw materials and consumables	40.2	36.9
Work in progress	38.6	27.4
	<b>78.8</b>	<b>64.3</b>

Development work in progress of £22.1 million (2015: £22.0 million) is expected to be recovered after more than 12 months.

## 16. Construction contracts

Contracts in progress at the balance sheet date:

	2016 £m	2015 £m
Due from customers for contract work	614.5	386.8
Due to customers for contract work	(57.4)	(62.8)

The aggregate amount of costs incurred plus recognised profits (less recognised losses) for all contracts in progress at the balance sheet date was £6,116.2 million (2015: £5,881.6 million).

The amount of construction contract revenue recognised in revenue in the year amounted to £1,939.2 million (2015: £1,607.0 million).

## 17. Trade and other receivables

	2016 £m	2015 <sup>(i)</sup> £m
Trade receivables	229.5	253.1
Amounts owed by customers on construction contracts	614.5	386.8
Other receivables and prepayments	749.5	550.1
Amounts owed by joint ventures	59.9	59.6
Amounts owed under jointly controlled operations	10.6	21.2
	<b>1,664.0</b>	<b>1,270.8</b>

(i) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

At 31 December 2016, retentions of £141.7 million (2015: £135.9 million) relating to construction contracts and other amounts recoverable after more than one year of £105.5 million (2015: £93.2 million) are included above as they are recoverable within the normal operating cycle of the Group.

## 18. Cash and cash equivalents and net borrowing

Cash and cash equivalents and net borrowing comprise:

	2016 £m	2015 £m
Cash and cash equivalents	469.8	462.2
Bank overdrafts	(2.1)	(6.4)
<b>Net cash and cash equivalents</b>	<b>467.7</b>	455.8
Bank loans	(145.9)	(118.8)
Finance lease obligations	(15.6)	(17.8)
Other loans	(525.1)	(489.0)
<b>Net borrowing</b>	<b>(218.9)</b>	(169.8)

Reconciliation of net cash flow to movement in net borrowing:

	2016 £m	2015 £m
Decrease in net cash and cash equivalents	(10.9)	(6.1)
Net cash and cash equivalents in subsidiaries acquired	-	(6.2)
(Draw down)/repayment of bank and other loans	(6.7)	19.0
Repayment of finance lease liabilities	7.4	6.0
<b>Change in net borrowing resulting from cash flows</b>	<b>(10.2)</b>	12.7
Net cash in subsidiaries acquired	-	5.3
Interest accretion in respect of convertible bonds	(2.8)	(2.8)
Finance lease additions	(2.5)	-
Currency translation differences	(33.6)	(7.7)
<b>Change in net borrowing</b>	<b>(49.1)</b>	7.5
Net borrowing at 1 January	(169.8)	(177.3)
<b>Net borrowing at 31 December</b>	<b>(218.9)</b>	(169.8)

## 19. Borrowing

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 26.

	2016 £m	2015 £m
<b>Current liabilities</b>		
Bank overdrafts	2.1	6.4
Bank loans	65.2	16.7
Finance lease obligations	7.2	6.3
Other loans	22.2	4.1
	<b>96.7</b>	33.5
<b>Non-current liabilities</b>		
Bank loans	80.7	102.1
Finance lease obligations	8.4	11.5
Other loans	502.9	484.9
	<b>592.0</b>	598.5
<b>Total borrowing</b>	<b>688.7</b>	632.0

# Notes to the consolidated financial statements continued

## 19. Borrowing (continued)

In 2016, non-current other loans of £502.9 million and current other loans of £22.2 million include private placement financing at fixed rates of interest of £360.8 million and the debt component of convertible bonds amounting to £162.2 million. The contractual terms of private placement financing are disclosed below:

Currency	Currency amount	Sterling amount £m	Interest rate %	Maturity date
US\$	25.0	20.1	3.85	November 2017
£ sterling	49.0	49.0	4.38	September 2018
£ sterling	17.5	17.5	3.62	August 2019
US\$	80.0	64.6	4.29	November 2019
£ sterling	51.0	51.0	5.10	September 2021
£ sterling	17.5	17.5	4.19	August 2022
US\$	140.0	112.9	4.86	November 2022
US\$	35.0	28.2	5.01	November 2024
		360.8		

In relation to the US dollar denominated private placement financing, the Group has entered into cross-currency derivative instruments that correspond to the profile of the principal and interest repayments.

In December 2014, the Group issued £170 million of unsecured convertible bonds maturing by December 2019 with a coupon of 2.5 per cent payable semi-annually in arrears. The initial conversion price has been set at 398.56 pence and upon conversion Carillion may elect to settle its obligations by way of delivery of ordinary shares, payment of a cash alternative amount or a combination of the two. At inception, the proceeds from the convertible bond comprised a derivative liability component of £13.4 million and a debt component of £156.6 million. The derivative liability component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company or to settle in cash and is calculated using a Black-Scholes or similar bespoke model. The fair value of the debt component is calculated as the difference between the proceeds from the issue and the fair value of the embedded derivative component. The debt component at 31 December 2016 amounted to £162.2 million and included £5.6 million of interest accretion.

Bank loans and overdrafts are largely unsecured and bear interest at floating rates linked to the London Interbank Offered Rate, the Canadian Dollar Offered Rate or the Emirates Interbank Offered Rate. The Group's main revolving bank loan facility of £790 million matures in November 2020. Within current and non-current bank loans of £145.9 million (2015: £118.8 million) are loans amounting to £3.7 million (2015: £9.3 million) which are secured on the assets to which they relate. Finance lease obligations are secured on the assets to which they relate.

### Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum lease payments 2016 £m	Interest 2016 £m	Principal 2016 £m	Minimum lease payments 2015 £m	Interest 2015 £m	Principal 2015 £m
Less than one year	7.6	(0.4)	7.2	7.0	(0.7)	6.3
Between one and five years	8.8	(0.4)	8.4	12.2	(0.7)	11.5
	16.4	(0.8)	15.6	19.2	(1.4)	17.8

Under the terms of the lease agreements, no contingent rents are payable.

## 20. Trade and other payables

	2016 £m	2015 <sup>(1)</sup> £m
<b>Current liabilities</b>		
Trade payables	749.2	591.4
Amounts owed to customers on construction contracts	57.4	62.8
Other tax and social security costs	44.2	67.4
Amounts owed to joint ventures	112.4	87.0
Amounts owed to jointly controlled operations	21.8	9.0
Other creditors	760.5	561.7
Accruals and deferred income	340.9	304.0
Deferred consideration payable <sup>(2)</sup>	3.7	31.0
	2,090.1	1,714.3

Within trade and other payables are £40.7 million (2015: £32.7 million) of liabilities due in more than one year but which are payable within the normal operating cycle of the Group. All other trade and other payables are due within one year.

	2016 £m	2015 <sup>(1)</sup> £m
<b>Non-current liabilities</b>		
Contingent consideration payable	67.3	64.0

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

(2) Deferred consideration payable within current liabilities is recognised at its undiscounted fair value.

Deferred and contingent consideration payable within current and non-current liabilities relates to the acquisition of Rokstad Power Corporation, Outland Group and Ask Real Estate Limited as disclosed in note 29. The expected maturity profile of this liability is disclosed in note 26.

## 21. Provisions

	Rationalisation £m	Onerous leases £m	EPT NI £m	Total £m
At 1 January 2016	–	3.1	4.0	7.1
Provision created	3.2	–	–	3.2
Discount unwind	–	0.2	–	0.2
Provisions utilised	–	(2.2)	–	(2.2)
<b>At 31 December 2016</b>	<b>3.2</b>	<b>1.1</b>	<b>4.0</b>	<b>8.3</b>
Disclosed within:				
Current liabilities	3.2	0.6	4.0	7.8
Non-current liabilities	–	0.5	–	0.5
	<b>3.2</b>	<b>1.1</b>	<b>4.0</b>	<b>8.3</b>

The rationalisation provision relates to a cost reduction programme initiated in 2016 which will deliver future cost efficiencies. The onerous lease provision relates to a number of onerous leases from acquisitions, disposals and restructuring programmes undertaken by the Group. The provision is expected to be fully utilised over the next two years. The Eaga Partnership Trust (EPT) NI provision at 1 January 2016 relates to the provision which was recognised on the acquisition of Carillion Energy Services (CES) in 2011 in connection with future distributions to employees from the EPT which crystallises a National Insurance cost to the Group.

	Rationalisation £m	Onerous leases £m	EPT NI £m	Onerous contracts £m	Total £m
At 1 January 2015	1.2	6.3	4.0	1.3	12.8
Discount unwind	–	0.6	–	–	0.6
Provisions utilised	(1.2)	(3.8)	–	(1.3)	(6.3)
<b>At 31 December 2015</b>	<b>–</b>	<b>3.1</b>	<b>4.0</b>	<b>–</b>	<b>7.1</b>
Disclosed within:					
Current liabilities	–	1.0	4.0	–	5.0
Non-current liabilities	–	2.1	–	–	2.1
	<b>–</b>	<b>3.1</b>	<b>4.0</b>	<b>–</b>	<b>7.1</b>

## 22. Share capital

	2016		2015	
	Number million	£m	Number million	£m
<b>Issued and fully paid</b>				
At 1 January and 31 December	<b>430.3</b>	<b>215.1</b>	430.3	215.1

The Company has one class of ordinary share which carries no right to fixed income.

In December 2014, the Group issued £170 million of unsecured convertible bonds. The bonds mature by December 2019 and upon conversion, Carillion may elect to settle its obligations by way of delivery of ordinary shares, payment of a cash alternative or a combination of the two. The initial conversion price has been set at 398.56 pence and upon conversion could lead to the issue of up to 42.7 million new shares, representing 9.9 per cent of the current issued share capital.

## 23. Reserves

### Share premium reserve

The share premium reserve contains the premium in excess of par value arising on the issue of share capital, net of issue expenses.

### Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Group's net investment in foreign operations. The translation reserve also includes any related current taxation.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, together with any related deferred taxation.

### Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised, together with any related deferred taxation.

# Notes to the consolidated financial statements continued

## 23. Reserves (continued)

### Merger reserve

The merger reserve initially arose on the demerger from Tarmac plc on 29 July 1999. The reserve increased on the acquisition of Mowlem on 23 February 2006, Alfred McAlpine on 12 February 2008 and Carillion Energy Services on 21 April 2011, whereby the consideration included the issue of Carillion plc shares. The premium on the shares issued in relation to these acquisitions has been credited to the merger reserve rather than the share premium account in accordance with the Companies Act 2006. The £4.7 million (2015: £7.2 million) transfer to the retained earnings reserve during the year represents the amounts realised following the amortisation of intangible assets recognised on the Mowlem and Alfred McAlpine acquisitions.

### Retained earnings

Retained earnings include the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movement in the reserve for own shares included within retained earnings are as follows:

	2016 £m	2015 £m
At 1 January	-	-
Acquisition of own shares	(1.0)	(0.4)
Share options exercised (transfer to retained earnings)	1.0	0.4
<b>At 31 December</b>	<b>-</b>	<b>-</b>

At 31 December 2016, the ESOP held 18,538 (2015: 6,578) of the Company's shares which had a market value of £43,713 (2015: £19,925). During the year the Company acquired 338,617 of its own shares for £1.0 million to meet the plan's commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

The Company has also established a Qualifying Employee Share Ownership Trust (QUEST). At 31 December 2016 the total number of shares held by the QUEST amounted to 84,593 (2015: 84,593) which had a market value of £0.2 million (2015: £0.3 million). The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

The retained earnings reserve includes the credit transferred from the merger reserve of £4.7 million (2015: £7.2 million) noted above.

## 24. Share-based payments

The Group has established a share option programme that entitles Executive Directors and senior employees to shares in the Company. Full details of the Group's share option schemes can be found in the Remuneration report on pages 65 to 81. In addition, under the terms of the Group's bonus arrangements, Executive Directors and senior employees receive a proportion of their annual bonus in shares, which vest three years after the award in respect of Executive Directors and a year after the award in respect of senior employees.

The terms and conditions of option schemes within the scope of IFRS 2 are as follows, whereby all options are settled by physical delivery of shares:

Grant date	Number of instruments	Vesting conditions	Contractual life of options	Exercise price
LEAP option grant on 4 April 2013	134,494	Three years of service, increase in EPS of a minimum of 6% and operating cash conversion of a minimum of 95% over a rolling period.	3 years	Nil
LEAP option grant on 7 May 2014	900,449	Three years of service, increase in EPS of a minimum of 6%, operating cash conversion of a minimum of 95% over a rolling period, delivery of sustainability targets providing contributions of £25 million in 2014, £30 million in 2015, £32 million in 2016, 25% of employees undertaking community work by the end of 2016 and a book-to-bill ratio of between 80 per cent and 120 per cent.	3 years	Nil
LEAP option grant on 9 April 2015	1,190,812	Three years of service, increase in EPS of a minimum of 6%, operating cash conversion of a minimum of 95% over a rolling period, delivery of sustainability targets contributing £96 million and a book-to-bill ratio of between 80 per cent and 120 per cent.	3 years	Nil
LEAP option grant on 7 April 2016	1,329,451	Three years of service, increase in EPS of a minimum of 6%, operating cash conversion of a minimum of 95% over a rolling period, delivery of sustainability targets contributing £114 million and a book-to-bill ratio of between 80 per cent and 120 per cent.	3 years	Nil
Deferred bonus scheme	509,007	Three years of service for Executive Directors and one year of service for senior employees	1-3 years	Nil
<b>Total share options</b>	<b>4,064,213</b>			

## 24. Share-based payments (continued)

The number and weighted average exercise prices of all of the Group's share options is as follows:

	Number of options 2016	Number of options 2015
At 1 January	3,430,655	2,986,247
Lapsed during the year	(798,495)	(937,208)
Forfeited during the year	(266,529)	(44,748)
Exercised during the year	(204,123)	(121,804)
Granted during the year	1,902,705	1,548,168
<b>At 31 December</b>	<b>4,064,213</b>	<b>3,430,655</b>
<b>Exercisable at the end of the year</b>	<b>134,494</b>	-

The weighted average exercise price and the weighted average share price during the year was Nil and 267.4 pence respectively. The fair value of services received in return for share options granted is measured using a Black-Scholes model and the following assumptions:

	2016 LEAP	2015 LEAP
<b>Fair value of share options and assumptions</b>		
Fair value at grant date	241.8p	283.0p
Share price at grant date	286.9p	329.4p
Exercise price	Nil	Nil
Expected volatility	10.72%	11.20%
Option life	3 years	3 years
Expected dividend yield	5.70%	5.10%
Risk-free interest rate (based on UK Government bonds)	0.46%	2.54%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

## Employee expenses

	2016 £m	2015 £m
Equity-settled share options and deferred bonus shares granted in:		
2013	-	0.3
2014	0.9	0.4
2015	0.6	0.4
2016	0.5	-
<b>Total expense recognised as employee costs</b>	<b>2.0</b>	<b>1.1</b>

The expected life of the options is taken to be the full vesting period, as historical exercise patterns have shown this to be appropriate. The estimate of the number of shares that will eventually vest ignores the possibility that market conditions will or will not be achieved given that these market conditions are already included in the fair value of the options.

## 25. Guarantees and contingent liabilities

	2016 £m	2015 £m
Guarantees in respect of borrowing in Construction services (excluding the Middle East) joint ventures	3.2	3.5
Guarantees in relation to deferred equity payments in PPP special purpose entities	63.4	61.6
Guarantees in respect of letters of credit issued by banks in relation to performance on contracts for PPP customers	36.9	47.3

Guarantees and counter indemnities have, in the normal course of business, been given to financial institutions in respect of the provision of performance and other contract-related bonds and to certain defined benefit pension schemes in respect of deficit recovery payments. The Group treats guarantees and counter indemnities of this nature as contingent liabilities until such time as it becomes probable that the Group will be required to make a payment under the terms of the arrangement.

Claims under contracts and other agreements, including joint arrangements, are outstanding in the normal course of business.

The Group, in the normal course of its activities, is the subject of certain legal proceedings. The resolution of these proceedings is regarded as unlikely to succeed or to have a material effect on the Group's financial position.

There are no liabilities of joint ventures for which the Group is contingently liable other than those disclosed above.

# Notes to the consolidated financial statements continued

## 26. Financial instruments

### Categories of financial instruments

31 December 2016	Loans and receivables £m	Financial liabilities at fair value through profit or loss £m	Financial liabilities at amortised cost £m	Available for sale £m	Derivatives at fair value through profit or loss £m	Derivatives used for hedging £m	Total £m
<b>Financial assets</b>							
Non-current asset investments	-	-	-	5.4	-	-	5.4
Cash and cash equivalents	469.8	-	-	-	-	-	469.8
Trade receivables	229.5	-	-	-	-	-	229.5
Derivative financial instruments	-	-	-	-	-	46.4	46.4
<b>Total</b>	<b>699.3</b>	<b>-</b>	<b>-</b>	<b>5.4</b>	<b>-</b>	<b>46.4</b>	<b>751.1</b>
<b>Financial liabilities</b>							
Bank overdrafts	-	-	(2.1)	-	-	-	(2.1)
Bank loans	-	-	(145.9)	-	-	-	(145.9)
Finance lease obligations	-	-	(15.6)	-	-	-	(15.6)
Other loans	-	-	(525.1)	-	-	-	(525.1)
Trade payables	-	-	(749.2)	-	-	-	(749.2)
Deferred and contingent consideration	-	(71.0)	-	-	-	-	(71.0)
Derivative financial instruments	-	-	-	-	(9.1)	(1.5)	(10.6)
<b>Total</b>	<b>-</b>	<b>(71.0)</b>	<b>(1,437.9)</b>	<b>-</b>	<b>(9.1)</b>	<b>(1.5)</b>	<b>(1,519.5)</b>

31 December 2015	Loans and receivables <sup>(1)</sup> £m	Financial liabilities at fair value through profit or loss <sup>(1)</sup> £m	Financial liabilities at amortised cost £m	Available for sale £m	Derivatives at fair value through profit or loss £m	Derivatives used for hedging £m	Total <sup>(1)</sup> £m
<b>Financial assets</b>							
Non-current asset investments	-	-	-	4.7	-	-	4.7
Cash and cash equivalents	462.2	-	-	-	-	-	462.2
Trade receivables	253.1	-	-	-	-	-	253.1
Derivative financial instruments	-	-	-	-	1.7	12.9	14.6
<b>Total</b>	<b>715.3</b>	<b>-</b>	<b>-</b>	<b>4.7</b>	<b>1.7</b>	<b>12.9</b>	<b>734.6</b>
<b>Financial liabilities</b>							
Bank overdrafts	-	-	(6.4)	-	-	-	(6.4)
Bank loans	-	-	(118.8)	-	-	-	(118.8)
Finance lease obligations	-	-	(17.8)	-	-	-	(17.8)
Other loans	-	-	(489.0)	-	-	-	(489.0)
Trade payables	-	-	(591.4)	-	-	-	(591.4)
Deferred and contingent consideration	-	(95.0)	-	-	-	-	(95.0)
Derivative financial instruments	-	-	-	-	(10.9)	(0.7)	(11.6)
<b>Total</b>	<b>-</b>	<b>(95.0)</b>	<b>(1,223.4)</b>	<b>-</b>	<b>(10.9)</b>	<b>(0.7)</b>	<b>(1,330.0)</b>

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.



## 26. Financial instruments (continued)

### Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to foreign exchange risk, interest rate risk, liquidity risk and credit risk. The overall aim of the Group's financial risk management policy is to minimise potential adverse effects on financial performance and net assets. There has been no change to the Group's exposure to financial risk or the manner in which these risks are managed and measured.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board of Directors. Treasury is not a profit centre and does not enter into speculative transactions.

### Foreign currency risk

The Group has operations in overseas regions, primarily the Middle East and Canada. In order to protect the Group's balance sheet from the impact of foreign exchange rate volatility, the Group's policy is that foreign currency denominated net assets that exceed £10 million equivalent are hedged, as a minimum, to at least 60 per cent of the net asset value. Net investment hedging of overseas operations is achieved through borrowing and forward contracts denominated in the relevant foreign currencies, or where this is not practicable, in a currency which the relevant currency closely follows.

The Group has US\$280 million of private placement finance at fixed interest rates from a number of United States of America based investors in order to provide greater flexibility in relation to the maturity profile of Group borrowing. The Group has entered into a number of financial derivative contracts to hedge the exposure to foreign exchange rate volatility in relation to the associated capital and interest payments.

Group policy is to recognise gains and losses from the effective portions of hedges in equity and to recognise ineffective portions immediately in the income statement.

Profits arising within overseas operations are not hedged unless a distribution is planned. Such distributions are then treated as currency transactions and hedged accordingly.

The Group has relatively small and infrequent transactional foreign currency exposures. Any individual exposures that are significant are hedged using forward contracts or other appropriate risk management techniques.

Further details concerning the risks associated with the overseas regions in which the Group operates can be found in the Performance and financial review on page 46.

### Foreign currency exposure

The carrying amount of the Group's borrowing denominated in foreign currency is as follows:

	2016 £m	2015 £m
United States of America dollar	<b>(246.0)</b>	(207.6)
Canadian dollar	<b>(97.0)</b>	(65.3)
United Arab Emirates dirham	<b>(9.9)</b>	(8.3)
Other	<b>(0.4)</b>	(2.5)
	<b>(353.3)</b>	(283.7)

Of the total foreign currency borrowing of £353.3 million (2015: £283.7 million), the amount of borrowing used for hedging overseas currency net asset amounts to £89.4 million (2015: £73.4 million). The foreign exchange loss of £16.0 million (2015: £4.9 million gain) on translation of the borrowing into sterling has been recognised in the translation reserve as these hedging loans are effective hedges. Exposure to United States of America dollar denominated private placement borrowing included above amounting to £225.8 million (2015: £190.5 million) is hedged by cross-currency derivative instruments as disclosed on page 124.

The Group does not have a significant amount of foreign currency exposure in respect of financial assets.

Each movement of five per cent in exchange rates against sterling would have changed reported profit before tax and equity as follows:

	Five per cent increase		Five per cent decrease	
	Profit £m	Equity £m	Profit £m	Equity £m
United States of America dollar	-	(1.0)	-	1.1
Canadian dollar	(0.4)	(11.0)	0.4	11.7
Euro	-	1.1	-	(1.2)
United Arab Emirates dirham	(0.5)	(5.3)	0.5	5.6
Oman rials	0.2	(3.0)	(0.2)	3.2
Other	0.1	(1.3)	(0.1)	1.4

# Notes to the consolidated financial statements continued

## 26. Financial instruments (continued)

### Interest rate risk

The Group's interest bearing debt is predominantly drawn from committed bank facilities to fund acquisitions and ongoing working capital requirements. Foreign currency denominated borrowings have been drawn under the facilities to hedge net assets of overseas operations. Such borrowing is subject to floating rates of interest linked to London Interbank Offered Rate, the Canadian Dollar Offered Rate or the Emirates Interbank Offered Rate. In addition, the Group has secured fixed interest rate finance of £360.8 million from private placements and £170 million from the issue of convertible bonds as disclosed in note 19. The principal purpose of raising this finance at fixed interest rates is to ensure that a proportion of the Group's borrowing is not subject to floating rates of interest which may increase. The fixed rate interest swap, which swapped the floating rate to a fixed rate on £38 million of the Group's principal bank facilities matured in 2016 and has not been replaced. In addition, a number of Group's Public Private Partnership joint ventures have entered into interest rate swaps as discussed under derivative financial instruments on page 124.

A one percentage point rise in interest rates in respect of United States of America dollar denominated borrowings would increase the annual net interest charge by approximately £0.2 million, in respect of Canadian dollar denominated borrowings an increase of £0.5 million, in respect of sterling denominated borrowings an increase of £3.4 million and in respect of United Arab Emirates Dirham denominated borrowings an increase of £0.1 million.

### Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a group of core relationship banks in the form of a syndicated loan facility and bilateral facilities supplemented by private placement financing, convertible bonds and short-term overdraft facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels. The average net borrowing during 2016 was £586.5 million (2015: £538.9 million).

### Maturity of financial liabilities

The remaining contractual maturity profile of the Group's liabilities, which includes estimated future interest payments, is as follows:

	Trade payables £m	Deferred and contingent consideration £m	Bank overdrafts £m	Bank loans £m	Other loans £m	Finance leases £m	Total £m
<b>31 December 2016</b>							
Less than one year	(749.2)	(3.7)	(2.1)	(67.8)	(42.3)	(7.6)	(872.7)
Between one and two years	-	(10.5)	-	(2.4)	(68.5)	(4.8)	(86.2)
Between two and three years	-	(10.5)	-	(3.0)	(269.3)	(3.7)	(286.5)
Between three and four years	-	(53.2)	-	(81.4)	(10.2)	(0.2)	(145.0)
Between four and five years	-	-	-	-	(60.6)	(0.1)	(60.7)
More than five years	-	-	-	-	(168.2)	-	(168.2)
	(749.2)	(77.9)	(2.1)	(154.6)	(619.1)	(16.4)	(1,619.3)
<b>31 December 2015</b>							
Less than one year	(591.4)	(31.0)	(6.4)	(19.4)	(23.2)	(7.0)	(678.4)
Between one and two years	-	(2.5)	-	(38.9)	(36.1)	(5.9)	(83.4)
Between two and three years	-	(15.1)	-	(2.1)	(67.0)	(3.4)	(87.6)
Between three and four years	-	(15.1)	-	(1.9)	(257.9)	(0.7)	(275.6)
Between four and five years	-	(38.2)	-	(66.8)	(9.6)	(2.2)	(116.8)
More than five years	-	-	-	-	(204.2)	-	(204.2)
	(591.4)	(101.9)	(6.4)	(129.1)	(598.0)	(19.2)	(1,446.0)

The remaining contractual maturity profile of the Group's derivative financial liabilities is shown below. The Group's derivative financial liabilities relate to cross-currency derivatives to hedge principal and interest repayments associated with US dollar private placement financing.

The maturity profile is based on the undiscounted gross payable and receivable amounts under the contracts.

	2016			2015		
	Payable £m	Receivable £m	Net receivable £m	Payable £m	Receivable £m	Net receivable £m
Less than one year	(23.9)	30.6	6.7	(8.3)	8.8	0.5
Between one and two years	(7.7)	9.7	2.0	(23.9)	25.8	1.9
Between two and three years	(57.7)	74.2	16.5	(7.7)	8.2	0.5
Between three and four years	(5.5)	6.9	1.4	(57.7)	62.6	4.9
Between four and five years	(5.5)	6.9	1.4	(5.5)	5.8	0.3
More than five years	(117.1)	150.9	33.8	(122.6)	133.1	10.5
	(217.4)	279.2	61.8	(225.7)	244.3	18.6

## 26. Financial instruments (continued)

### Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met:

	2016 £m	2015 £m
Expiring within one year	5.2	7.2
Expiring between two and five years	726.4	754.0
	<b>731.6</b>	761.2

### Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and foreign currency hedging contracts. Policies and procedures exist to ensure that customers have an appropriate credit history. Short-term bank deposits and foreign currency hedging transactions are executed only with highly credit-rated, authorised counterparties based on ratings issued by the major rating agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are approved at main Board level or within predetermined limits. The maximum exposure to credit risk is represented by the carrying value of each financial asset.

The maximum exposure to credit risk for trade receivables at 31 December by geographic region was:

	2016 £m	2015 <sup>(1)</sup> £m
United Kingdom	85.5	127.2
Middle East	78.7	77.3
Canada	65.2	48.4
Rest of the World	0.1	0.2
	<b>229.5</b>	253.1

The maximum exposure to credit risk for trade receivables at 31 December by segment was:

	2016 £m	2015 <sup>(1)</sup> £m
Support services	120.3	140.8
Public Private Partnership projects	0.1	0.5
Middle East construction services	76.9	76.2
Construction services (excluding the Middle East)	32.2	35.6
	<b>229.5</b>	253.1

The Group's most significant debtor, Pretium Exploration Inc, accounts for £8.8 million of the trade receivables carrying amount at 31 December 2016 (2015: Network Rail: £5.6 million).

Trade receivables included in the balance sheet are net of an impairment provision which has been estimated by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date. Receivables are written off against the impairment provision when management considers that the debt is no longer recoverable. The ageing of trade receivables is as follows:

	2016		2015	
	Net trade receivables <sup>(2)</sup> £m	Impairment £m	Net trade receivables <sup>(1)(2)</sup> £m	Impairment £m
Not past due	134.8	-	178.2	-
Past due less than three months	40.0	0.3	49.5	0.3
Past due between three and six months	28.0	0.6	11.7	1.5
Past due between six and 12 months	21.9	1.5	8.7	0.5
Past due more than 12 months	4.8	4.7	5.0	4.9
	<b>229.5</b>	<b>7.1</b>	253.1	7.2

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

(2) Net of impairment provision.

The movement in the impairment provision is as follows:

	2016 £m	2015 £m
At 1 January	7.2	6.8
Provision acquired	-	1.3
Provision created	1.7	0.1
Provision utilised	(2.1)	(1.0)
Effects of movements in foreign exchange rates	0.3	-
<b>At 31 December</b>	<b>7.1</b>	7.2

Whilst uncertainty surrounding counterparty risk has increased due to the prevailing economic climate, on balance the Group believes that debtors will meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are past due and unprovided as at 31 December 2016.

Overall, the Group considers that it is not exposed to a significant amount of credit risk.

# Notes to the consolidated financial statements continued

## 26. Financial instruments (continued)

### Derivative financial instruments

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts - at fair value through the income statement	-	(6.4)	1.7	-
Derivative component of convertible bond - at fair value through the income statement	-	(2.7)	-	(10.9)
Forward foreign currency contracts - net investment hedging instruments	-	(1.5)	1.6	-
Forward foreign currency contracts - cash flow hedging instruments	0.3	-	-	-
Fixed rate interest derivatives - cash flow hedging instruments	-	-	-	(0.7)
Cross-currency derivatives - cash flow hedging instruments	46.1	-	11.3	-
	<b>46.4</b>	<b>(10.6)</b>	14.6	(11.6)

A £8.1 million loss (2015: £2.3 million gain) has been recognised in administrative expenses in the income statement in respect of the movement in the fair value of forward foreign currency contracts at fair value through the income statement and a £8.2 million gain (2015: £6.1 million gain) has been recognised in financial expenses in the income statement in respect of the movement in the fair value of the derivative component of the convertible bond. A £35.1 million gain (2015: £15.6 million gain) has been recognised in the hedging reserve in relation to the forward foreign currency contracts, fixed rate interest derivatives and cross-currency derivatives which are effective cash flow hedges, with £35.3 million recycled to administration expenses in the income statement to offset the foreign exchange loss on translation of the US dollar denominated private placement loans. A £3.1 million loss (2015: £1.6 million gain) has been recognised in the translation reserve in relation to the movement in forward foreign currency contracts utilised as net investment hedges of the net assets of overseas operations.

In addition to the above, a number of the Group's Public Private Partnership (PPP) joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest bearing debts and the associated interest rate derivatives within these PPP joint ventures are without recourse to the Group. The life of these hedge arrangements track PPP contract terms and hedge future movements across a range up until March 2047. The fair value of these derivatives is based on quoted prices in active markets, with the movement in fair value each year recognised in the share of change in fair value of effective cash flow hedges within joint ventures in the statement of comprehensive income. At 31 December 2016 the Group's share of the total net fair value liability of interest rate derivatives in PPP joint ventures amounted to £7.9 million (2015: £0.7 million) of which £1.1 million (2015: Nil) has been recognised in the hedging reserve in 2016.

### Fair values

Financial instruments carried at fair value in the balance sheet are non-quoted equity shareholdings within non-current asset investments, derivative financial instruments and contingent consideration payable in respect of acquisitions as disclosed in note 29.

### Level 3

The fair value of non-current asset investments and contingent consideration payable is determined based on a level 3 valuation method, using valuation techniques that include inputs which are not based on market data. The fair value of non-current asset investments is calculated by discounting expected future cash flows using asset specific discount rates, with the movement in fair value each year recognised in the fair value movement on available-for-sale assets in the statement of comprehensive income. The fair value of contingent consideration payable is calculated by discounting the maximum contractual cash flows that could be paid under the terms of the sale and purchase agreement using a risk adjusted discount rate.

The movement in the fair value of financial instruments derived using a level 3 valuation method is shown below:

	Contingent consideration £m	Non-current asset investments £m
At 1 January 2016 <sup>(i)</sup>	(64.0)	4.7
Remeasurements recognised in financial expense	15.6	-
Fair value of equity interests retained on partial disposal of investment in joint ventures	-	0.5
Discount unwind recognised in financial expense	(2.6)	-
Exchange rate movements recognised in the translation reserve	(12.7)	-
Increase in fair value recognised in the statement of comprehensive income	-	0.2
Transfer from current liabilities	(3.7)	-
<b>At 31 December 2016</b>	<b>(67.4)</b>	<b>5.4</b>

(i) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

The fair value of non-current asset investments is most sensitive to movements in the discount rate used. A one percentage point increase in the discount rate would reduce the fair value by £0.4 million. In respect of contingent consideration, a one percentage point increase in the discount rate would reduce the fair value of the liability by £1.7 million.

### Level 2

The fair value of derivative financial instruments is based on a level 2 valuation method, using inputs from quoted prices in active markets, with the movement in fair value each year recognised in administrative expenses in the income statement or the hedging reserve as appropriate. There are no material differences between the fair value and the carrying value of the Group's other financial assets and financial liabilities.

## 26. Financial instruments (continued)

### Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and for other stakeholders and to maintain an optimal debt and equity structure.

In order to maintain or adjust the capital structure, the Group may adjust the amount of the dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Where the Group makes significant acquisitions, these are financed with a combination of debt and equity in order to maintain a balanced capital structure. In order to have greater flexibility over the maturity profile of debt, the Group has secured £360.8 million of private placement financing with maturity dates between 2017 and 2024 and £170 million of convertible bonds that mature in 2019. The Group has a policy of progressively increasing dividends paid to shareholders broadly in line with underlying earnings per share growth, after taking account of the investment needs of the business. No changes were made to the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015.

	2016 £m	2015 <sup>(1)</sup> £m
Total borrowing	686.6	625.6
Less: net cash and cash equivalents (note 18)	(467.7)	(455.8)
<b>Net borrowing</b>	<b>218.9</b>	169.8
Total equity	729.9	1,016.6
<b>Total capital</b>	<b>948.8</b>	1,186.4

(1) Restated for the retrospective adjustment to provisional amounts recognised on acquisitions in 2015.

## 27. Financial and capital commitments

	2016 £m	2015 £m
Commitments for equity and subordinated debt investments in PPP special purpose entities	63.4	61.6

Non-cancellable operating lease rentals are payable as follows:

	2016		2015	
	Property £m	Other £m	Property £m	Other £m
Within one year	12.5	36.1	11.3	31.1
Between one and five years	23.7	45.1	21.8	43.0
Over five years	21.8	–	18.4	–
	<b>58.0</b>	<b>81.2</b>	51.5	74.1

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of four years. None of the leases include contingent rentals.

## 28. Related parties

The Group has related party relationships with its key management personnel and joint ventures.

### Transactions with key management personnel

The Group's key management personnel are the Executive and Non-Executive Directors as identified in the Remuneration report on page 66.

In addition to their salaries, the Group also provides non-cash benefits to Executive Directors, and contributes to a post-employment defined benefit plan or a defined contribution plan on their behalf. Executive Directors also participate in the Group's share option programme. A summary of the value of transactions with key management personnel is shown below:

	2016 £m	2015 £m
Short-term employee benefits	3.0	2.7
Post-employment benefits	0.1	0.1
Share-based payments	0.8	0.5
	<b>3.9</b>	3.3

The number of key management personnel included in the above analysis is seven (2015: eight).

# Notes to the consolidated financial statements continued

## 28. Related parties (continued)

### Transactions with joint ventures

The table below summarises the principal receivable and payable balances, together with sales to the Group's joint ventures, which are in the normal course of business and on commercial terms:

	2016			2015		
	Sales £m	Receivables £m	Payables £m	Sales £m	Receivables £m	Payables £m
<b>PPP joint ventures</b>						
Aberdeen Roads Holdings Limited	2.4	-	-	0.8	0.4	-
Access Prairies Partnership (Canada)	0.2	-	(2.8)	-	-	-
Boreal Health Partnership (Canada)	0.2	-	-	-	-	-
CSS (FSCC) Partnership (Canada)	0.2	-	-	0.2	0.1	-
Hospital Infrastructure Partners (NOH) Partnership (Canada)	0.1	-	-	0.1	3.1	-
Inspiredspaces Bundle 5 (Ireland) Ltd (Republic of Ireland)	28.0	-	-	-	-	-
Inspiredspaces Durham Ltd	-	-	-	2.5	-	-
Inspiredspaces Nottingham (Projectco2) Ltd	-	-	-	0.6	-	-
Inspiredspaces Rochdale Ltd	-	-	-	1.9	-	-
Inspiredspaces STAG Ltd	-	-	-	3.9	-	-
Inspiredspaces Tameside Ltd	-	-	-	9.1	-	-
Inspiredspaces Wolverhampton (Projectco2) Ltd	-	-	-	15.1	-	(0.3)
Inspiredspaces Wolverhampton Ltd	-	-	-	-	0.3	-
PBSP Midlands Limited	75.2	3.2	-	18.5	2.0	-
The Healthcare Infrastructure Company of Canada (ROH) Inc. (Canada)	-	-	-	-	0.8	-
The Hospital Company (Liverpool) Ltd	108.6	23.4	-	84.8	10.0	-
The Hospital Company (Sandwell) Ltd	91.0	-	(17.5)	16.3	-	(13.3)
Other	0.1	-	-	2.6	0.5	(0.1)
	<b>306.0</b>	<b>26.6</b>	<b>(20.3)</b>	156.4	17.2	(13.7)
<b>Other joint ventures</b>						
Al Futtaim Carillion LLC (UAE)	1.8	-	(70.8)	2.4	0.1	(56.5)
Aspire Defence Services Limited	-	-	(3.8)	-	-	(15.1)
Carillion-Breathe Ltd	1.2	1.0	-	12.9	3.3	-
Carillion Eltel JV Ltd	-	1.0	-	-	0.2	-
Airport City (Asset Manager) Limited	-	3.3	-	-	-	-
Carillion Richardson Partnership	-	15.4	-	-	26.7	-
Carillion Richardson Thanet Phase 2 Ltd	-	-	(0.2)	-	-	(1.6)
Carillion Richardson Worcester Ltd	-	0.5	-	0.1	0.5	-
CarillionAmey Ltd	7.0	-	(16.8)	9.4	2.9	-
European Property Investors Special Opportunities 3 LP	-	6.1	-	-	-	-
Lodge Park Commercial Developments Limited	-	3.0	-	-	3.0	-
Siglion LLP	-	-	(0.5)	-	3.4	-
Vanmed Construction Company (Canada)	-	0.6	-	-	-	-
Others	0.7	2.4	-	-	2.3	(0.1)
	<b>316.7</b>	<b>59.9</b>	<b>(112.4)</b>	181.2	59.6	(87.0)

## 29. Acquisitions and disposals

### Acquisitions in 2016 and 2017

There were no acquisitions in 2016. However, on 1 January 2017, the Group acquired the entire share capital of a Canadian facilities management services business from a subsidiary of Compass Group Canada Limited. The total cash consideration, which is capped at approximately £24 million, is payable in instalments and is subject to adjustment based on the financial performance of the business. For its 2015 financial year, the business had annual revenue of £70 million and the business combination accounting and post-acquisition results of the business will be incorporated within the Group's 2017 financial statements. The acquisition of the business does not have a material impact on the balance sheet of the Group and therefore the disclosures required by International Financial Reporting Standard 3 'Business combinations' have not been presented.

Total acquisition costs incurred in relation to contracts and due diligence procedures for merger and acquisition activities in the year of £1.1 million (2015: £2.5 million) have been included in non-operating items in the income statement (see note 4).

### Acquisitions in 2015 and 2014

On 28 May 2015, the Group acquired the entire share capital of the Outland Group (Outland). Outland provides a complete range of remote site services across a number of growth sectors in Canada, including mining, utilities, forestry, gas and oil. The total cash consideration, which is capped at approximately £63 million, is dependent on the financial performance of Outland between 2015 and 2017. The first instalment of the consideration of £10.7 million was included in the cash flow statement for 2015 within acquisition of subsidiaries, net of cash and cash equivalents acquired.

The fair value of the deferred and contingent consideration is included within liabilities in the balance sheet and is derived from inputs that are not observable in the market. Consequently, the fair value has been determined using an estimate of the contractual cash flows that could be paid under the terms of the sale and purchase agreement using a risk adjusted discount rate of 3.4 per cent.

In the first six months of 2016, the provisional assessment of the fair value of the net assets acquired and the contingent consideration payable relating to the acquisition of Outland became final following finalisation of the completion accounts process. As a result, the provisional amounts were amended giving rise to revised goodwill on the acquisition of £37.3 million, with prior year comparatives restated as noted below.

Under the terms of the Sale and Purchase Agreement relating to Outland, contingent consideration is payable based on a multiple of Outland's average earnings before interest, taxation, depreciation and amortisation (EBITDA) for the three financial years 2015 to 2017. During the measurement period in the first half of 2016, Outland's actual EBITDA performance for 2015 was finalised, leading to a reduction in the fair value of the contingent consideration payable of £5.4 million, as disclosed in the table below. In the second half of 2016, which is outside of the measurement period, the Group undertook a review of Outland's expected EBITDA performance for 2016 and 2017, leading to a reduction in the fair value of contingent consideration payable of £8.4 million, which has been recognised as a credit within net financial expense in the income statement. Following this change to the fair value of contingent consideration, the Group now expects to make contingent consideration payments totalling around £19.9 million (at 31 December 2016 exchange rates) in equal instalments in 2018 and 2019. In 2016, the Group paid the second and third instalment of deferred consideration relating to the acquisition of Outland amounting to £26.7 million.

On 24 December 2015, the Group acquired a 67 per cent controlling interest in Ask Real Estate Limited (AREL), a property development company based in the United Kingdom. The cash consideration of £4.0 million was paid in January 2016. Under the terms of the shareholder's agreement, Carillion has undertaken to acquire the remaining 33 per cent shareholding after a minimum period of five years from the date of the acquisition. The fair value of the commitment to purchase the remaining 33 per cent shareholding of £5.4 million has been included in the fair value of the consideration relating to the acquisition, with non-controlling interests derecognised. Following other measurement period adjustments, revised goodwill arising on the acquisition amounted to £6.1 million.

As the adjustments to the provisional amounts recognised in 2015 relating to the acquisition of Outland and AREL are within the measurement period, prior year comparatives for the year ended 31 December 2015 have been restated as indicated below:

	Outland £m	AREL £m	Total £m
Provisional goodwill	43.1	-	43.1
Amendments to property, plant and equipment	(0.3)	-	(0.3)
Amendments to investments in joint ventures	-	0.9	0.9
Amendments to trade and other receivables	0.3	-	0.3
Amendments to trade and other payables	-	0.5	0.5
Amendments to contingent consideration	(5.4)	5.4	-
Exchange rate movements	(0.4)	-	(0.4)
Amendments to non-controlling interests	-	(0.7)	(0.7)
Revised goodwill	37.3	6.1	43.4

The above acquisitions do not have a material impact on the balance sheet of the Group and therefore the full disclosures required by International Financial Reporting Standard 3 'Business combinations' have not been presented.

# Notes to the consolidated financial statements continued

## 29. Acquisitions and disposals (continued)

In the first six months of 2016, the Group reviewed its obligations in respect of contingent consideration payable arising on the acquisition of the Rokstad Corporation (Rokstad) in December 2014. Under the terms of the Sale and Purchase Agreement relating to Rokstad, contingent consideration is payable based on a multiple of Rokstad's EBITDA for 2015 and 2016. During this period, Rokstad's actual EBITDA performance for 2015 was finalised and a revised estimate was made of the expected EBITDA outturn for 2016, leading to a reduction in the fair value of contingent consideration payable of £7.2 million. This change in the fair value of contingent consideration has been recognised as a credit within net financial expense in the income statement. As a result of this reduction, the Group now expects to make consideration payments totalling around £3.7 million (at 31 December 2016 exchange rates) in 2017. In 2016, the Group paid £1.8 million to the previous owners of Rokstad under the terms of the Sale and Purchase Agreement. The estimate of Rokstad's EBITDA for 2019, upon which the consideration for the acquisition of the remaining 40 per cent of the issued share capital is based, remains unchanged.

Cash flows associated with the acquisition of subsidiaries included in the cash flow statement are analysed below:

	2016 £m	2015 £m
Cash paid for acquisitions in the year	-	(10.7)
Net cash and cash equivalents acquired	-	6.2
Payments in respect of acquisitions in prior years (see above and page 127)	<b>(32.5)</b>	(6.1)
<b>Net cash outflow on acquisition of subsidiaries, net of cash and cash equivalents acquired</b>	<b>(32.5)</b>	(10.6)

In 2016, the Group disposed of its interest in three Public Private Partnership projects. The disposals generated cash consideration of £48.2 million, which after deducting disposal costs paid of £1.1 million, is included in the cash flow statement within disposal of joint venture and other investments. The profit recognised on the disposals in the income statement of £12.7 million is after the deduction of accrued costs of £0.2 million and the carrying amount of joint ventures disposed totalling £35.3 million as disclosed in note 12.

### Disposals in 2015

In 2015, the Group disposed of its interest in three Public Private Partnership projects. The disposals generated cash consideration of £54.4 million, which after deducting disposal costs paid of £0.3 million, is included in the cash flow statement within disposal of joint venture and other investments. Additional consent costs paid of £10.1 million relating to the disposals have been included within '(decrease)/increase in trade and other payables' of £41.1 million within the operating cash flow section of the cash flow statement and legal costs of £0.9 million have been accrued for. The profit recognised on the disposals in the income statement of £37.7 million is after the deduction of the accrued costs above and the carrying amount of joint ventures disposed totalling £5.4 million as disclosed in note 12.

## 30. Retirement benefit obligations

The Carillion Group operates 14 defined benefit pension schemes for eligible employees, of which 13 are in the UK and one is in Canada. In addition, the Group provides other post-retirement benefits under four separate arrangements in Canada.

In line with IAS 19 the Company has considered whether it is appropriate to provide disaggregated disclosures for the 14 defined benefit pension schemes. Five plans relate to UK-based final salary schemes which are all closed to future accrual, share broadly common membership demographics and are operated under a single trust arrangement. Therefore the Company has taken the view that these five schemes should be considered together as one. As these five plans account for 83.2% (£669.8 million) of the total deficit across all schemes as at 31 December 2016, the Company has not disaggregated the remaining plans individually and has instead provided disaggregated data in the form of closed, open and unfunded schemes.

The Group's defined benefit schemes are administered by Trustee Boards which largely comprise independent trustees together with Company and employee representatives. The assets of the schemes are held separately from the Company's assets and are managed by the Trustee Boards. Pension scheme valuations are carried out by independent actuaries to determine pension costs for pension funding every three years and bi-annually to calculate the IAS 19 deficit included in the financial statements. Eight of the 14 defined benefit schemes within the Group are closed to future accrual, with payments into these schemes made in line with deficit recovery plans, which have been agreed with pension scheme trustees.

The different scheme characteristics can be summarised below:

	2016			2015		
	Assets £m	Obligations £m	Total £m	Assets £m	Obligations £m	Total £m
Schemes closed to future accrual	1,926.8	(2,615.0)	(688.2)	1,747.9	(2,076.0)	(328.1)
Open schemes	645.9	(750.8)	(104.9)	554.5	(610.2)	(55.7)
Unfunded schemes <sup>(1)</sup>	-	(11.7)	(11.7)	-	(9.7)	(9.7)
<b>Total</b>	<b>2,572.7</b>	<b>(3,377.5)</b>	<b>(804.8)</b>	2,302.4	(2,695.9)	(393.5)

(1) Unfunded schemes relate to other post-retirement benefits under four separate arrangements in Canada.

The Group also operates defined contribution schemes for all qualifying employees. The total cost charged to the income statement of £25.0 million (2015: £21.1 million) represents contributions payable to the schemes by the Group at rates specified by the scheme rules.



## 30. Retirement benefit obligations (continued)

### IAS 19 disclosures

The weighted average of the principal assumptions used by the independent qualified actuaries in providing the IAS 19 position were:

	2016		2015	
	UK	Canada	UK	Canada
Rate of increase in salaries	3.20%	N/A	3.55%	N/A
Rate of increase in pensions	3.10%	2.00%	3.00%	2.00%
Inflation rate - (Retail Price Index)	3.20%	2.00%	3.05%	2.00%
Inflation rate - (Consumer Price Index)	2.15%	N/A	2.00%	N/A
Discount rate	2.70%	3.75%	3.95%	3.75%

The valuation of defined benefit pension scheme liabilities is most sensitive to changes in the discount, inflation and mortality rates. A 0.1 per cent reduction in the discount rate would increase scheme liabilities by approximately £60 million, whilst a 0.1 per cent increase in the inflation rate would increase scheme liabilities by approximately £50 million. An increase of one year in the mortality rate would increase scheme liabilities by approximately £105 million, although this has been mitigated in part through the purchase of a longevity swap.

The overall weighted average duration of scheme liabilities as at 31 December 2016 is approximately 18 years. Over the next five years benefits of £580 million are expected to be paid and benefits of £674 million are expected to be paid over the subsequent five-year period.

The market values of the schemes' assets, which are not intended to be realised in the short term, may be subject to significant change before they are realised. The present values of the schemes' liabilities are calculated by reference to the investment return on Grade AA corporate bonds. The assumptions used do not necessarily represent the investment return that may be achieved.

The average life expectancies at 65 for males aged 45-65 for all schemes are shown below:

	Life expectancies (years)
Retired member (currently 65 years)	22.2
Non-retired member (currently 45 years)	23.8

### Expense recognised in the income statement

	2016 £m	2015 £m
<b>Charge to operating profit</b>		
Current and past service cost relating to defined benefit schemes	(1.6)	(7.0)
Administrative expenses relating to defined benefit schemes	(4.6)	(4.3)
Gain on settlement of the Alfred McAlpine (Ireland) Pension Plan	-	1.4
Defined contribution schemes	(25.0)	(21.1)
<b>Total</b>	<b>(31.2)</b>	<b>(31.0)</b>
<b>Financial expense</b>		
Net interest expense on minimum funding requirement	(0.6)	(0.4)
Net interest expense on defined benefit obligation	(14.1)	(17.6)
<b>Net interest expense recognised as a financial expense</b>	<b>(14.7)</b>	<b>(18.0)</b>

Amounts recognised in the statement of comprehensive income are as follows:

	2016 £m	2015 £m
The return on scheme assets, excluding amounts included in net interest expense	235.5	(43.0)
Actuarial gains arising from changes in demographic assumptions	40.7	23.7
Actuarial (losses)/gains arising from changes in financial assumptions	(724.8)	112.4
Actuarial gains/(losses) arising from experience adjustments	8.0	(0.1)
Movement in minimum funding requirement	0.9	(4.5)
<b>Remeasurement of the net defined benefit liability</b>	<b>(439.7)</b>	<b>88.5</b>

# Notes to the consolidated financial statements continued

## 30. Retirement benefit obligations (continued)

The amount included in the balance sheet in respect of defined benefit schemes is as follows:

	2016 £m	2015 £m
Present value of defined benefit obligation	<b>(3,361.6)</b>	(2,679.7)
Fair value of scheme assets	<b>2,572.7</b>	2,302.4
Minimum funding requirement	<b>(15.9)</b>	(16.2)
<b>Net pension liability</b>	<b>(804.8)</b>	(393.5)
Schemes in surplus (within non-current assets)	<b>5.8</b>	12.7
Schemes in deficit (within non-current liabilities)	<b>(810.6)</b>	(406.2)
	<b>(804.8)</b>	(393.5)
Related deferred taxation asset	<b>141.6</b>	75.9
<b>Net pension liability after taxation</b>	<b>(663.2)</b>	(317.6)

### Reconciliation of net defined benefit obligation

	2016 £m	2015 £m
Defined benefit obligation at 1 January	<b>(393.5)</b>	(509.7)
Settlement of the Alfred McAlpine (Ireland) Pension Plan	-	1.4
Defined benefit costs included in the income statement	<b>(20.9)</b>	(29.3)
Remeasurements included in other comprehensive income	<b>(439.7)</b>	88.5
Contributions from the employer	<b>51.6</b>	54.3
Effect of movements in exchange rates	<b>(2.3)</b>	1.3
<b>Defined benefit obligation at 31 December</b>	<b>(804.8)</b>	(393.5)

	2016 £m	2015 £m
<b>Changes in defined benefit obligation</b>		
Obligation at 1 January	<b>(2,679.7)</b>	(2,818.8)
Settlement of the Alfred McAlpine (Ireland) Pension Plan	-	5.2
Current and past service cost	<b>(1.6)</b>	(7.0)
Interest cost	<b>(103.8)</b>	(102.1)
Contributions from scheme members	<b>(0.5)</b>	(0.5)
Increase due to effect of TUPE transfer	-	(1.5)
Remeasurements:		
Actuarial gains arising from changes in demographic assumptions	<b>40.7</b>	23.7
Actuarial (losses)/gains arising from changes in financial assumptions	<b>(724.8)</b>	112.4
Actuarial gains/(losses) arising from experience adjustments	<b>8.0</b>	(0.1)
Benefits paid	<b>105.6</b>	105.8
Effect of movements in foreign exchange rates	<b>(5.5)</b>	3.2
<b>Obligation at 31 December</b>	<b>(3,361.6)</b>	(2,679.7)

The defined benefit obligation analysed by participant status is shown below:

	2016		2015	
	Number of members	Defined benefit obligation £m	Number of members	Defined benefit obligation £m
Active	<b>609</b>	<b>(178.8)</b>	787	(160.4)
Deferred	<b>15,542</b>	<b>(1,753.6)</b>	15,140	(1,286.1)
Pensioners	<b>12,410</b>	<b>(1,429.2)</b>	12,223	(1,233.2)
	<b>28,561</b>	<b>(3,361.6)</b>	28,150	(2,679.7)

### 30. Retirement benefit obligations (continued)

	2016 £m	2015 £m
<b>Changes in the fair value of scheme assets</b>		
Fair value at 1 January	2,302.4	2,320.4
Settlement of the Alfred McAlpine (Ireland) Pension Plan	-	(3.8)
Interest income	89.7	84.5
Remeasurements gains/(losses):		
Return/(loss) on scheme assets (excluding amounts included in net interest expense)	235.5	(43.0)
Administrative expenses paid from plan assets	(4.6)	(4.3)
Contributions from the employer	51.6	54.3
Contributions from scheme members	0.5	0.5
Increase due to effect of TUPE transfer	-	1.5
Benefits paid	(105.6)	(105.8)
Effect of movements in foreign exchange rates	3.2	(1.9)
<b>Fair value at 31 December</b>	<b>2,572.7</b>	<b>2,302.4</b>

The major categories and fair values of scheme assets as at 31 December 2016 are as follows:

	2016 £m	2015 £m
Equities	1,125.3	1,026.7
Corporate bonds	592.3	544.1
Government bonds	689.0	547.9
Real estate	145.2	136.9
Cash and cash equivalents	41.4	37.6
Other	(20.5)	9.2
Market value of scheme assets	2,572.7	2,302.4
Present value of funded scheme obligation	(3,349.9)	(2,670.0)
Present value of unfunded scheme obligation	(11.7)	(9.7)
Minimum funding requirement	(15.9)	(16.2)
Total deficit	(804.8)	(393.5)
Related deferred tax asset	141.6	75.9
<b>Net pension liability</b>	<b>(663.2)</b>	<b>(317.6)</b>

The actual return on plan assets (net of administration costs) was £320.6 million (2015: £37.2 million).

The triennial actuarial valuations as at 31 December 2013 for five of the Group's schemes were concluded with the trustees in 2014 and a revised deficit recovery plan agreed. It has been agreed that, if required, deficit recovery payments can continue until 2029 in respect of these schemes. This included the three largest schemes in the Group, namely the Carillion Staff, Mowlem Staff and Alfred McAlpine Staff schemes. The total assets at the date of the actuarial valuation for all five schemes amounted to £1.8 billion, which represented a funding level of 76 per cent. The next actuarial valuation for these schemes as at 31 December 2016 is currently underway. The Group expects to make payments totalling £50.2 million to defined benefit schemes during the next financial year.

During 2013, a longevity swap was entered into by five of the Group's defined benefit schemes which insures the Group against the financial risk of pensioners in payment living longer than currently expected. The swap covers around 9,000 pensioners and around 40 per cent of the total liabilities in respect of the Group's defined benefit schemes. The swap has been recognised as part of scheme assets in accordance with the amendment to IAS 19 'Retirement benefits' within other assets. At 31 December 2016, the fair value of the longevity swap calculated in accordance with IFRS 13 'Fair value measurement' was a £26.9 million liability (2015: £1.4 million liability), with the movement in fair value recognised in the consolidated statement of comprehensive income.

# Notes to the consolidated financial statements continued

## 31. Accounting estimates and judgements

Management has discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### Revenue recognition

In determining the revenue and costs to be recognised each year for work done on construction contracts, estimates are made in relation to the final out-turn on each contract. On major construction contracts, it is assessed, based on past experience, that their outcome cannot be estimated reliably during the early stages of the contract, but that costs incurred will be recoverable. Once the outcome can be estimated reliably, estimates of the final out-turn on each contract may include cost contingencies to take account of the specific risks within each contract that have been identified during the early stages of the contract. The cost contingencies are reviewed on a regular basis throughout the contract life and are adjusted where appropriate. However, the nature of the risks on contracts are such that they often cannot be resolved until the end of the project and therefore may not reverse until the end of the project. Management continually reviews the estimated final out-turn on contracts and makes adjustments where necessary. Based on the above, management believes it is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from these assumptions could require a material adjustment.

The amounts recognised based on the estimates and judgements noted above are included within Amounts owed by customers on construction contracts (£614.5 million) disclosed within note 17 Trade and other receivables and represents management's best estimate of the outcome for the Group's portfolio of contracts and is subject to estimation as discussed above.

In respect of revenue derived from licensing, the income earned from such transactions is included in revenue (as disclosed in note 2), as the exploitation of the Group's intellectual property is regarded by management as being part of its ordinary activities, having completed a similar licensing agreement in 2013. The licensing agreement secured in 2016 was entered into at or around the same time and with the same counterparty to a series of contracts that extended the scope of the services provided by the Group's back-office outsourcing provider as described in the Strategic report on page 39. Management considered whether the transactions should be grouped together for the purposes of determining whether the revenue should be recognised immediately under the licensing agreement or recognised over the term of the outsourcing contract. Management concluded that the transactions should be recognised independently and in their own right. This judgement was made after undertaking a benchmarking review that indicated that the contracts relating to the extension in scope of the outsourced back-office services were at fair market value and were therefore not linked to the licensing agreement. Consequently, as there were also no continuing support obligations required to be provided by the Group under the licensing agreement, the licensing revenue has been recognised immediately.

### Goodwill

In determining the goodwill arising from business acquisitions, judgement is required in relation to the final out-turn on contracts, discount rates and expected future cash flows and their probability.

In determining whether goodwill is impaired in subsequent years, judgement is required in relation to the estimation of the value-in-use of the cash generating units that contain goodwill. The estimation of the value-in-use requires assessments to be made of an appropriate risk-adjusted discount rate and the future cash flows expected to be generated by each cash generating unit. Changes to the assumptions used in the value-in-use estimation could give rise to material changes to the carrying value of goodwill. Note 11 on page 110 provides details of the key assumptions used and the sensitivity analysis undertaken on those assumptions.

### Retirement benefits

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions, which are largely dependent on factors outside the control of the Group, have been made in relation to:

- Expected return on plan assets
- Inflation rate
- Mortality
- Discount rate
- Salary and pension increases.

Details of the assumptions used, together with sensitivity analysis on the discount rate, inflation rate and mortality are included in note 30.

### Deferred tax

In determining the quantum of deferred tax assets to be recognised, judgement is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned. Management use forecasts of future taxable profits and make assumptions on growth rates for each entity at each year end in assessing the recoverability of assets recognised.

## 32. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of the Group's principal activities that are not required to be included on the Group balance sheet. The principal off-balance sheet arrangements that the Group are party to are as follows:

- Operating leases (see note 27)
- Pledged assets securing finance lease liabilities (see note 19)
- Contingent liabilities in respect of guarantees for deferred equity payments and performance contracts in PPP special purpose entities (see note 25)
- Capital commitments for capital expenditure and equity and subordinated debt in PPP special purpose entities (see note 27)
- Outsourcing contracts
- Performance and advance payment bonds on construction contracts.

In keeping with normal market practice, performance and advance payment bonds are generally issued to clients in relation to construction contracts. They provide our clients with protection against the Group's failure to perform and expire based on contractually agreed conditions. These arrangements are considered to be a part of ordinary trading activities and are not expected to have a material impact on the financial position of the Group.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office functions to a third party provider. These arrangements are on commercial terms and any penalty or termination clauses associated with these arrangements would not have a material impact on the financial position of the Group.

## 33. Subsidiaries and joint ventures

A list of investments in subsidiaries and joint ventures, including the name, country of incorporation, registered office address and proportion of ownership interest is given on pages 144 to 147. The voting rights held by the Group equal the Group's percentage shareholding in each entity.

The Group has a 49 per cent equity shareholding in the Bouchier Group, a company that operates in Canada. This subsidiary is consolidated in the Group financial statements on the basis of contractual arrangements which give the Group powers as a shareholder to exert control over the board, together with the option to acquire the remaining 51 per cent of the equity by 2022.

The table below shows selected financial data in respect of the Bouchier Group in which there are non-controlling interests that are material to the Group.

	2016 £m	2015 £m
<b>Summary comprehensive income information</b>		
Revenue	77.0	69.3
Profit for the financial year	7.4	9.3
<b>Other financial information</b>		
Profit for the financial year allocated to non-controlling interests	3.5	4.7
Other comprehensive income/(expense)	4.2	(2.1)
Dividends paid to non-controlling interests	(2.8)	(2.5)
<b>Summary financial position information</b>		
Non-current assets	14.6	13.6
Current assets	40.7	28.3
<b>Total assets</b>	<b>55.3</b>	41.9
Non-current liabilities	(1.4)	(2.5)
Current liabilities	(10.0)	(5.6)
<b>Net assets</b>	<b>43.9</b>	33.8
Equity shareholders' funds	21.8	16.6
Non-controlling interests	22.1	17.2
<b>Total equity</b>	<b>43.9</b>	33.8
<b>Summary cash flow information</b>		
Net cash flows from operating activities	16.2	9.2
Net cash flows from investing activities	(1.2)	(0.2)
Net cash flows from financing activities	(7.9)	(7.6)
<b>Increase in cash and cash equivalents</b>	<b>7.1</b>	1.4

The Group has a 49 per cent equity shareholding in Carillion Alawi LLC, a company that operates in Oman. This subsidiary is fully consolidated in the Group financial statements without any allocation to non-controlling interests on the basis of contractual arrangements that do not entitle other investors to any interest in the profit or net assets of the entity.

The Group holds a 50.1 per cent equity shareholding in CarillionAmey Limited. This entity is equity accounted as a joint venture in the Group financial statements on the basis of contractual arrangements that specify that key operating decisions are made jointly, with no shareholder having overall control.

# Company balance sheet

As at 31 December 2016

	Note	2016 £m	2015 £m
<b>Fixed assets</b>			
Investments in subsidiary undertakings and joint ventures	3	<b>2,026.8</b>	2,025.9
<b>Current assets</b>			
Debtors	4	<b>1,162.6</b>	918.9
Cash at bank and in hand		<b>15.0</b>	11.1
		<b>1,177.6</b>	930.0
<b>Creditors: amounts falling due within one year</b>	5		
Borrowing		<b>(82.6)</b>	(8.4)
Other creditors		<b>(1,604.9)</b>	(1,366.9)
		<b>(1,687.5)</b>	(1,375.3)
<b>Net current liabilities</b>		<b>(509.9)</b>	(445.3)
<b>Total assets less current liabilities</b>		<b>1,516.9</b>	1,580.6
<b>Creditors: amounts falling due after more than one year</b>			
Borrowing	6	<b>(420.0)</b>	(426.0)
<b>Net assets</b>		<b>1,096.9</b>	1,154.6
<b>Financed by:</b>			
<b>Capital and reserves</b>			
Issued share capital	7	<b>215.1</b>	215.1
Share premium	8	<b>21.2</b>	21.2
Merger reserve	8	<b>618.7</b>	618.7
Hedging reserve	8	<b>(7.0)</b>	(6.8)
Other reserve	8	<b>10.7</b>	9.8
Profit and loss account	8	<b>238.2</b>	296.6
<b>Equity shareholders' funds</b>		<b>1,096.9</b>	1,154.6

The financial statements were approved by the Board of Directors on 1 March 2017 and were signed on its behalf by :



**Zafar Khan**  
Group Finance Director  
1 March 2017

# Company statement of changes in equity

For the year ended 31 December 2016

	Share capital £m	Share premium £m	Merger reserve £m	Hedging reserve £m	Other reserve £m	Profit and loss account £m	Total equity £m
At 1 January 2016	215.1	21.2	618.7	(6.8)	9.8	296.6	1,154.6
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	20.4	20.4
<b>Other comprehensive income</b>							
Movement in fair value of cash flow hedging derivatives	-	-	-	35.1	-	-	35.1
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(35.3)	-	-	(35.3)
<b>Total comprehensive (expense)/income</b>	-	-	-	(0.2)	-	20.4	20.2
<b>Transactions with owners</b>							
<b>Contributions by and distributions to owners</b>							
Acquisition of own shares	-	-	-	-	-	(1.0)	(1.0)
Equity-settled transactions (net of taxation)	-	-	-	-	0.9	1.1	2.0
Dividends paid	-	-	-	-	-	(78.9)	(78.9)
<b>Total transactions with owners</b>	-	-	-	-	0.9	(78.8)	(77.9)
<b>At 31 December 2016</b>	<b>215.1</b>	<b>21.2</b>	<b>618.7</b>	<b>(7.0)</b>	<b>10.7</b>	<b>238.2</b>	<b>1,096.9</b>
At 1 January 2015	215.1	21.2	618.7	(10.6)	9.3	333.5	1,187.2
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	39.7	39.7
<b>Other comprehensive income</b>							
Movement in fair value of cash flow hedging derivatives	-	-	-	14.8	-	-	14.8
Reclassification of effective portion of cash flow hedging derivatives to profit	-	-	-	(11.0)	-	-	(11.0)
<b>Total comprehensive income</b>	-	-	-	3.8	-	39.7	43.5
<b>Transactions with owners</b>							
<b>Contributions by and distributions to owners</b>							
Acquisition of own shares	-	-	-	-	-	(0.4)	(0.4)
Equity-settled transactions (net of taxation)	-	-	-	-	0.5	0.6	1.1
Dividends paid	-	-	-	-	-	(76.8)	(76.8)
<b>Total transactions with owners</b>	-	-	-	-	0.5	(76.6)	(76.1)
<b>At 31 December 2015</b>	<b>215.1</b>	<b>21.2</b>	<b>618.7</b>	<b>(6.8)</b>	<b>9.8</b>	<b>296.6</b>	<b>1,154.6</b>

# Notes to the Company financial statements

## 1. Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006.

The financial statements are presented in pounds sterling. They are prepared on the historical cost basis, except for financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

### Taxation

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost, less provision for any impairment.

### Own shares

Consideration paid for shares in the Company held by the Employee Share Ownership Plan (ESOP) Trust are deducted from the profit and loss account reserve. Where such shares subsequently vest in the employees under the terms of the Company's share option schemes or are sold, any consideration received is included in the profit and loss account reserve.

### Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into sterling using exchange rates as at the balance sheet date.

### Financial instruments

The Company's principal financial assets and liabilities are cash at bank and in hand and borrowings. Cash at bank and in hand is carried in the balance sheet at amortised cost. Borrowings are recognised initially at fair value less attributable transaction costs and subsequently at amortised cost. In addition, the Company enters into forward contracts in order to hedge against small and infrequent transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied. Where hedge accounting is not applied, movements in fair value during the year are recognised in the profit and loss account. Fair values are based on quoted market prices at the balance sheet date. The Company has taken the exemption within FRS 101 'Financial Instruments: Disclosure' and does not present all of the required disclosures as they are included in the consolidated financial statements of which the Company is the parent.

### Share-based payments

Members of the Group's senior management team are entitled to participate in the Leadership Equity Award Plan (LEAP) and UK employees are able to participate in the Sharesave scheme.

Under the terms of the Group's bonus arrangements, Executive Directors and certain senior employees receive a proportion of their bonus in shares, which are deferred for a period of up to three years. The fair value of the LEAP, Sharesave and deferred bonus arrangements at the date of grant are estimated using the Black-Scholes pricing model.

The fair value determined at grant date is expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest and taking into account service and non-market conditions.

The Group also operates a Share Incentive Plan (SIP) under which qualifying Carillion Energy Services partners may receive free shares. The fair value of the free shares are recognised as an expense in the income statement over the vesting period of the shares.

### Financial guarantee contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of subsidiary companies, the Company considers these to be insurance arrangements and treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

### Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable by the Company are charged to the income statement as they fall due.

## 2. Profit for the year and dividends

As permitted by the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. Carillion plc reported a profit for the financial year ended 31 December 2016 of £20.4 million (2015: £39.7 million).

Fees payable to KPMG LLP and its associates for non-audit services to the Company are not required to be disclosed in the individual accounts of Carillion plc because the Company's consolidated accounts are required to disclose such fees on a consolidated basis.

A final dividend, declared in the previous year, of 12.55 pence (2015: 12.15 pence) per share was paid during the year, amounting to £54.0 million (2015: £52.3 million).

An interim dividend of 5.8 pence (2015: 5.7 pence) per share was paid during the year, amounting to £24.9 million (2015: £24.5 million).

A final dividend of 12.65 pence (2015: 12.55 pence) per share, amounting to £54.4 million (2015: £54.0 million), was approved by the Board on 1 March 2017 and, subject to approval by shareholders at the Annual General Meeting, will be paid on 9 June 2017 to shareholders on the register on 12 May 2017.



### 3. Investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
<b>Cost</b>			
At 1 January 2016	2,036.3	0.2	2,036.5
Share options granted to employees	0.9	-	0.9
<b>At 31 December 2016</b>	<b>2,037.2</b>	<b>0.2</b>	<b>2,037.4</b>
<b>Impairment losses</b>			
At 1 January 2016 and at 31 December 2016	10.6	-	10.6
<b>Net book value</b>			
<b>At 31 December 2016</b>	<b>2,026.6</b>	<b>0.2</b>	<b>2,026.8</b>
At 31 December 2015	2,025.7	0.2	2,025.9

The subsidiary undertakings and joint ventures of the Company are shown on pages 144 to 147.

### 4. Debtors

	2016 £m	2015 £m
<b>Amounts falling due within one year</b>		
Amounts owed by Group undertakings	1,089.5	884.6
Other debtors and prepayments	1.5	0.5
Amounts owed by joint ventures	4.6	4.6
Derivative financial instruments	46.4	14.6
Income tax	20.6	14.6
	<b>1,162.6</b>	<b>918.9</b>

### 5. Creditors: amounts falling due within one year

	2016 £m	2015 £m
Bank overdrafts	2.5	0.1
Bank loans	80.1	8.3
Borrowing	82.6	8.4
Amounts owed to Group undertakings	1,580.0	1,348.9
Amounts owed to joint arrangements	10.0	11.2
Derivative financial instruments	7.9	0.7
Accruals and deferred income	7.0	6.1
	<b>1,687.5</b>	<b>1,375.3</b>

All bank overdrafts and loans are unsecured.

### 6. Creditors: amounts falling due after more than one year

	2016 £m	2015 £m
Bank loans	79.4	100.5
Other loans	340.6	325.5
	<b>420.0</b>	<b>426.0</b>

All bank and other loans are unsecured.

### 7. Share capital

#### Issued and fully paid

	2016		2015	
	Number million	£m	Number million	£m
At 1 January and 31 December	430.3	215.1	430.3	215.1

# Notes to the Company financial statements continued

## 8. Reserves

### Share premium reserve

The share premium reserve contains the premium in excess of par value arising on the issue of share capital, net of issue expenses.

### Merger reserve

The merger reserve initially arose on the demerger from Tarmac plc on 29 July 1999. The reserve increased on the acquisition of Mowlem on 23 February 2006, Alfred McAlpine on 12 February 2008 and Carillion Energy Services on 21 April 2011, whereby the consideration included the issue of Carillion plc shares. The premium on the shares issued in relation to these acquisitions has been credited to the merger reserve rather than the share premium account in accordance with the Companies Act 2006.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred, together with any related deferred taxation.

### Other reserve

The other reserve includes the cost of shares provided to employees of the Company's subsidiaries, calculated in accordance with International Financial Reporting Standard 2 'Share-based payments'.

### Profit and loss account

The profit and loss account reserve includes the reserve for the Company's own shares which comprises of the cost of the Company's shares held by the Carillion Employee Share Ownership Plan (ESOP). The shares held by the ESOP may subsequently be awarded to employees under the Group's share incentive schemes. The movements in the reserve for own shares included within retained earnings are as follows:

	2016 £m	2015 £m
At 1 January	-	-
Acquisition of own shares	(1.0)	(0.4)
Share options exercised (transfer to retained earnings)	1.0	0.4
<b>At 31 December</b>	<b>-</b>	<b>-</b>

At 31 December 2016, the ESOP held 18,538 (2015: 6,578) of the Company's shares which had a market value of £43,713 (2015: £19,925). During the year the Company acquired 338,617 of its own shares for £1.0 million to meet the plan's commitments. The ESOP has elected to waive all dividends except for a total payment of 1 pence at the time each dividend is paid.

The Company has also established a Qualifying Employee Share Ownership Trust (QUEST). At 31 December 2016 the total number of shares held by the QUEST amounted to 84,593 (2015: 84,593) which had a market value of £0.2 million (2015: £0.3 million).

The QUEST has elected to waive all dividends in excess of 0.01 pence per share.

## 9. Other guarantees and contingent liabilities

	2016 £m	2015 £m
Guarantees in respect of borrowings of subsidiaries	207.4	194.5
Guarantees in respect of interest payments in Construction services (excluding the Middle East) joint ventures	3.2	3.5
Guarantees in respect of deferred equity payments in PPP special purpose entities	63.4	61.6
Guarantees in respect of letters of credit issued by banks in relation to performance contracts for PPP customers	36.9	47.3

The Company has issued performance guarantees in respect of its subsidiaries, joint ventures and joint arrangements in the normal course of business. The Company has guaranteed the obligations in relation to £170 million of convertible bonds issued by Carillion Finance (Jersey) Limited, a wholly owned subsidiary.

Guarantees and counter indemnities have, in the normal course of business, been given to financial institutions in respect of the provisions of performance and other contract-related bonds and to certain defined benefit pensions in respect of deficit recovery payments. The Company considers such guarantees and counter indemnities to be insurance arrangements and accounts for them as such. The Company treats guarantees and counter indemnities of this nature as contingent liabilities until such time as it becomes probable that the Company will be required to make a payment under the terms of the arrangement.

## 10. Pension arrangements

The Company bears the cost of pension arrangements for the Executive Directors and certain head office functions, which are defined contribution in nature.

Details of the Group's pension schemes are disclosed in note 30 to the consolidated financial statements.

## 11. Share-based payments

The Group has established a share option programme that entitles key management personnel and senior employees to shares in the Company. Details of the Group's share option programme are disclosed in note 24 to the consolidated financial statements and in the Remuneration report on pages 65 to 81.

## 12. Financial instruments

Details of the Company's principal financial instruments are discussed under accounting policies. The numerical financial instrument disclosures are set out below:

### Derivative financial instruments

	2016		2015	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Forward foreign currency contracts - at fair value through profit and loss	-	(7.9)	3.3	-
Forward foreign currency contracts - cash flow hedging instruments	0.3	-	-	-
Fixed-rate interest derivatives - cash flow hedging instruments	-	-	-	(0.7)
Cross-currency derivatives - cash flow hedging instruments	46.1	-	11.3	-
Foreign currency exposure	46.4	(7.9)	14.6	(0.7)

The cross-currency derivatives hedge the exposure to foreign exchange rate volatility in relation to the capital and interest payments on United States of America dollar denominated private placement financing. The fixed interest rate derivatives hedge the exposure to interest rate movements on borrowings with floating rates of interest. The forward foreign currency contracts classified as cash flow hedging instruments hedge the exposure to foreign exchange rate volatility in relation to future transactional foreign currency payments.

The carrying amount of the Company's borrowing denominated in foreign currency is as follows:

	2016 £m	2015 £m
United States of America dollars	(246.0)	(207.6)
Canadian dollars	(59.4)	(48.0)
United Arab Emirates dirhams	(9.9)	(8.3)
Other	(0.4)	(0.1)
	(315.7)	(264.0)

Of the total foreign currency borrowing of £315.7 million (2015: £264.0 million) the amount of borrowing used for hedging currency net asset of overseas operations of the Group amounts to £89.4 million (2015: £73.4 million). The foreign exchange loss of £16.0 million (2015: £4.9 million gain) on translation of the borrowing into sterling has been recognised in the profit and loss account of the Company.

### Maturity of financial liabilities

The maturity profile of the Company's non-current borrowing, which includes estimated future interest payments, is as follows:

	Bank overdrafts £m	Bank loans £m	Other loans £m	Total £m
<b>31 December 2016</b>				
Between one and two years	-	(2.1)	(64.2)	(66.3)
Between two and three years	-	(2.1)	(95.2)	(97.3)
Between three and four years	-	(81.4)	(10.2)	(91.6)
Between four and five years	-	-	(60.6)	(60.6)
More than five years	-	-	(168.2)	(168.2)
More than one year	-	(85.6)	(398.4)	(484.0)
Less than one year	(2.5)	(62.4)	(36.6)	(101.5)
	(2.5)	(148.0)	(435.0)	(585.5)

	Bank overdrafts £m	Bank loans £m	Other loans £m	Total £m
<b>31 December 2015</b>				
Between one and two years	-	(37.5)	(31.9)	(69.4)
Between two and three years	-	(1.9)	(62.7)	(64.6)
Between three and four years	-	(1.9)	(83.8)	(85.7)
Between four and five years	-	(66.8)	(9.6)	(76.4)
More than five years	-	-	(204.2)	(204.2)
More than one year	-	(108.1)	(392.2)	(500.3)
Less than one year	(0.1)	(10.9)	(14.9)	(25.9)
	(0.1)	(119.0)	(407.1)	(526.2)

### Borrowing facilities

The Company had the following undrawn committed borrowing facilities available at the year end in respect of which all conditions precedent had been met:

	2016 £m	2015 £m
Expiring within one year	5.2	7.2
Expiring between two and five years	726.4	754.0
	731.6	761.2