

# Our markets

**Our business continues to benefit from strong positions in our chosen markets, and we believe that the long-term fundamentals for these markets remain sound.**

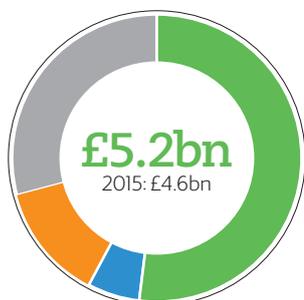
This section of our Annual Report aims to provide a broad overview of the key markets and the main activity drivers in relation to our operating units.

The focus of our operating activities continues to be targeted on our long-established markets of the UK, Middle East and North Africa and Canada.

Within these markets our operations benefit from the following

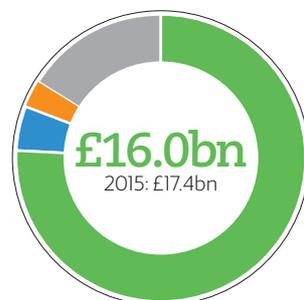
- our ability to provide integrated solutions to address the needs of our customers
- exposure to a broad mix of blue-chip and Government-backed customers
- our expertise across a wide range of sectors and ability to raise finance to support these solutions
- a solid order book of secured and probable orders with quality customers, as well as substantial framework contracts and a strong pipeline of future opportunities.

Total revenue



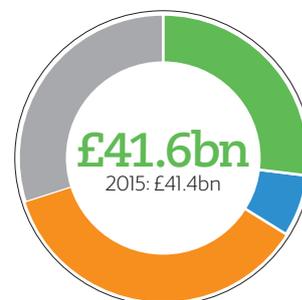
● Support services	52%
● Public Private	
● Partnership projects	6%
● Middle East construction services	13%
● Construction services (excluding the Middle East)	29%

Order book



● Support services	76%
● Public Private	
● Partnership projects	5%
● Middle East construction services	3%
● Construction services (excluding the Middle East)	16%

Pipeline



● Support services	27%
● Public Private	
● Partnership projects	7%
● Middle East construction services	36%
● Construction services (excluding the Middle East)	30%

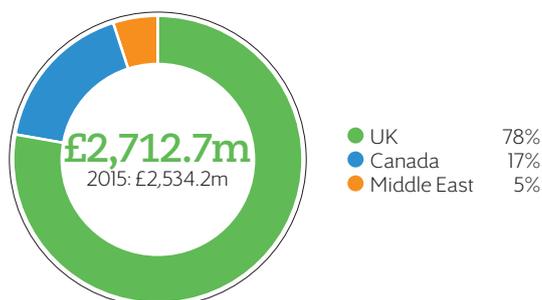


## Support services

**We have a leading international support services business with a broad range of skills and capabilities. We maintain and operate buildings and infrastructure, notably for central government departments, local authorities, operators of utilities and transport networks and for blue-chip companies in the private sector. We also provide support services as part of the integrated solutions we deliver for our PPP projects.**

The chart below sets out 2016 Support services revenue by geography:

### Support services total revenue by geography



We operate one of the largest and most diverse support services businesses in the UK. We serve the infrastructure and facilities management markets with a significant proportion of our revenue and order book being generated from public sector bodies. In Canada, our support services activities are focused on customers in the oil and gas and power transmission and distribution sectors and on providing facilities management and remote site accommodation services to a wide range of public and private sector customers. In the Middle East, we provide services to oil and gas sector customers as well as facilities management and maintenance services for property estates and infrastructure.

Notwithstanding the current global economic uncertainties, the near-term outlook for our key markets remains fairly stable. Although the longer-term impacts of Brexit for our UK business are unclear, we have yet to see any significant impact from the UK's vote to leave the European Union. Gross domestic product (GDP) for the UK is forecast to grow by 2.0 per cent in 2017 and GDP for Canada and the Gulf Cooperation Council region, our other key markets, is expected to grow by 2.1 per cent and 3.1 per cent, respectively.

The UK infrastructure market is expected to offer significant opportunities for growth for our UK infrastructure services business over the medium to long term. Fundamentals underpinning this future growth include the following factors

- £23 billion of investment targeted at some of our key sectors announced by the UK Government as part of its National Productivity Investment Fund in October 2016
- investment in the renewal and upgrade of highways is expected to increase from £2.9 billion to £4.1 billion per annum by 2020 under the 'Roads Investment Strategy'
- UK Government's intention to raise infrastructure expenditure over the long term to 1.1 per cent of GDP
- significant planned investment for the UK's rail network (see inset)
- UK National Infrastructure Plan anticipates investment of £483 billion across a variety of sectors over the next few years (see inset)
- forecast growth in the population is expected to lead to significant further investment in social infrastructure, e.g. housing, health and education.

The UK property and facilities management market is estimated to be worth £45 billion per annum and is generally considered to be a relatively mature market. Nonetheless we believe that this market will also continue to offer opportunities for future growth due to

- increased outsourcing driven by the public sector's austerity measures as organisations move to a commissioning rather than delivery role, leading to a wider range of opportunities for growth and diversification of our services
- increased need for Local Authorities and Government departments to make cost savings that could lead to increased outsourcing of more services to the private sector
- increased demand from both the public and private sectors for innovative solutions, value added and multi-service contracts.

## UK Rail Network

As a leading provider of railway construction and infrastructure services, Carillion is well placed to benefit from major planned and potential investment in the UK's rail network.

- Network Rail will invest £25 billion in maintaining and upgrading the UK's existing railway infrastructure during the current 'Control Period', which runs from April 2014 to March 2019
- High Speed 2 Phase One - London to the West Midlands - is currently estimated to require approximately £20 billion of investment in new infrastructure, with construction expected to start in 2017 and completion expected by the end of 2026
- Crossrail 2, a new rail link that would run broadly North-South across London and connect locations within London with a number of locations to the North and South of London, will potentially involve a multi-billion pound investment in new infrastructure.

## UK National Infrastructure Plan

Carillion has the expertise and experience in market sectors expected to benefit from the UK Government's National Infrastructure Delivery Plan 2016-2021.

- £483 billion of planned investment in infrastructure
- £300 billion of investment in the period 2016/17 to 2020/21, of which £100 billion will be financed by the UK Government and £200 billion will be financed by the private sector
- £260 billion of investment between 2016/17 and 2020/21 in sectors where Carillion has strong market positions, including
  - £117.4 billion in energy
  - £88.4 billion in transport
  - £48.6 billion in social infrastructure e.g. schools, hospitals, prisons
  - £6.0 billion in communications

# Our markets continued

## Canada Support Services

In Canada, we expect the following factors to underpin the future prospects for our support services activities:

- our property and facilities management activities are expected to benefit from increased public sector focus on cost reduction, an increase in the range of services outsourced by the public and private sectors and facilities management services opportunities associated with the growing PPP market
- our accommodation services business is expected to benefit from the continued investment in the development of remote assets and infrastructure in Canada and demand to support workers engaged on existing operations undertaken by oil and mining companies
- our infrastructure services operations are expected to benefit from Canada's £37 billion programme to upgrade its transmission and distribution networks, the opportunity to expand our highways maintenance activities into new provinces or territories and our ability to help reduce costs for operators in the natural resources sectors through provision of integrated solutions.

We have also seen growing support for the creation of a Canada Infrastructure Bank to help co-ordinate and fund projects across the country. Although we currently have only limited operations in the United States (US), if the proposed commitment to increase investment in infrastructure in the US goes ahead, this will potentially create further opportunities for our businesses in North America.

## Middle East Support Services

Our support services operations in the Middle East support the operation and maintenance of essential industrial assets, infrastructure and property and the demand for these has been fairly resilient against the background of a low oil price environment. This has been helped by increased investment in infrastructure in Qatar ahead of the World Cup in 2022 and in Dubai as a result of Expo 2020. We expect the following factors to underpin the future prospects for our support services business in the Middle East region:

- our property and facilities management activities are expected to benefit from increased market penetration outside the United Arab Emirates (UAE) and the growth in number, size and complexity of buildings as the Gulf countries continue to invest in diversification of their economies away from oil and the need for national governments to invest in economic and social infrastructure to meet the growing demands of their changing demographics
- our infrastructure services operations are expected to benefit from growing opportunities arising from the adoption of planned highways maintenance regimes across the Gulf, increased investment in rail across the region and the scope to develop our oil and gas services aimed at the operations and maintenance end of this market.

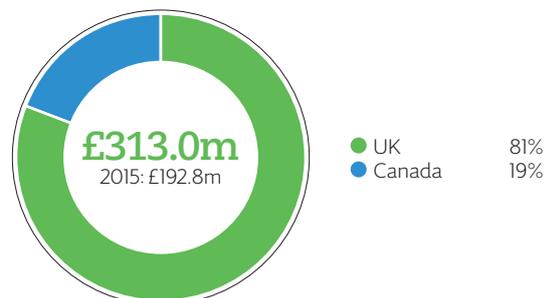


## Public Private Partnership (PPP) projects

**Having financially closed 66 PPP projects, we are one of the world's leading companies in delivering these projects, for which we use our sector-leading expertise in arranging project finance, combined with our construction and support services capabilities, to deliver a wide range of asset-based services for public sector customers.**

The chart below sets out 2016 PPP revenue by geography:

PPP total revenue by geography



In the UK, the PPP market continues to offer a more limited flow of new project opportunities, which is expected to remain at a similar level to recent years. Future projects are expected to be focused in the health, transport and education sectors, where we have a strong track record, and the capital value of these projects is estimated to be worth in the region of £6 billion over the next five years.

Canada continues to have a major PPP investment programme, which has a capital value estimated to be worth around C\$60 billion over the next 10 to 15 years. Our target markets, which are estimated to be worth around C\$20 billion over this period, are in Ontario and British Columbia as well as target projects in other provinces where a growing pipeline of opportunities is starting to emerge. However, the competitive landscape remains challenging in Canada and we therefore continue to apply a very selective approach to the contracts for which we bid to ensure we achieve our target returns on investment.

We have yet to secure our first PPP project in the Middle East and North Africa, although interest in alternative forms of project finance continues to increase, including opportunities to use private finance models to deliver building and infrastructure projects, as the prolonged low oil price affects the ability of some Gulf states to achieve their ambitions for investing in social infrastructure. We also continue to use our expertise in project finance and our ability to leverage UK Export Finance as a source of funding to differentiate our Design, Build, Finance and Operate offering for Middle East public sector customers.



### Middle East construction services

**We offer a sector-leading construction capability in our chosen markets in the Middle East. We deploy this capability selectively on large, higher value-added contracts for customers with whom we have, or can build, long-term relationships.**

The chart below sets out 2016 Middle East construction services revenue by geography:

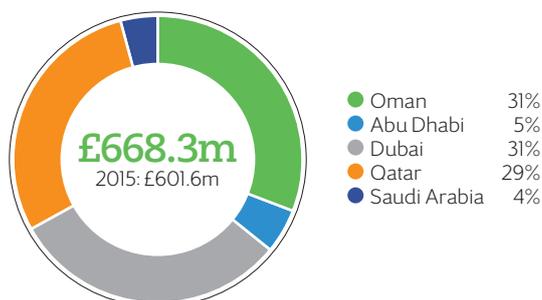


### Construction services (excluding the Middle East)

**We offer a sector-leading construction capability in the UK focused selectively on large, higher value-added contracts for customers with whom we have, or can build, long-term relationships. In addition, we use this capability to provide integrated solutions for our PPP projects. In Canada, we are focused solely on construction for our PPP projects.**

The chart below sets out 2016 Construction services (excluding the Middle East) revenue by geography:

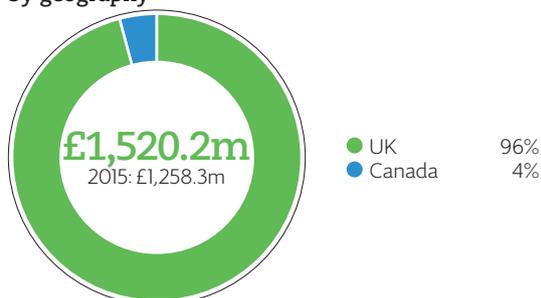
Middle East construction services total revenue by geography



Our Middle East construction activities serve both the building and the infrastructure markets. Construction activity across a number of Middle East territories has remained relatively stable over recent years as various countries continue with their efforts to diversify their economies away from a heavy reliance on the oil market. Although we continue to expect good volume growth in the UAE driven by Expo 2020 in Dubai, the wider outlook for volumes and margins across the region is expected to remain challenging, due to the ongoing impact of the low oil price. Over the longer term, factors expected to underpin future volumes for our Middle East construction services business include the following:

- our Middle East building activities are expected to benefit from increased demand for hotel and leisure facilities, driven by the growth in tourism and the increased investment in social infrastructure to support population and economic growth. In addition we expect volumes in the UAE and Qatar to be supported by Expo 2020 and the 2022 World Cup
- our Middle East infrastructure business is expected to benefit from increased investment in road and rail infrastructure and the need for further investment in airport facilities to support the expected growth in tourism
- focusing on winning contracts with the support of UK Export Finance is an important element of our strategy to mitigate the impact of the prolonged low oil price on the pace of customer investment plans. In its 2016 Autumn Statement, the UK Government also increased the support it provides through UK Export Finance, from which we can benefit.

Construction services (excluding the Middle East) total revenue by geography



Our UK and Canada construction activities serve both the building and the infrastructure markets.

The UK construction purchasing managers index remained above the neutral 50.0 threshold throughout 2016, except for July, August and September and continues to do so for the first two months of 2017, where it has been 54.2. The Construction Products Association is forecasting that output will grow by 0.8 per cent in 2017, with the infrastructure sector expected to rise by 7.0 per cent in 2017 and 10.7 per cent in 2018 and is expected to be the key driver of construction activity over the next 2 years, offsetting falls in other key private sectors, such as the commercial sector, which is forecast to decline 3.0 per cent in 2017. In Canada, the market remains very competitive and consequently we continue to focus on securing construction work by winning PPP projects in Joint Ventures.

Factors expected to underpin future volumes for our Construction services (excluding the Middle East) activities include the following:

- our UK building activities are expected to benefit from demand for new high specification buildings in commercial markets, institutional investment in new property developments and selective public sector investment in our target market sectors e.g. £23 billion of planned investment in school buildings over the next five years
- continued investment as a result of the UK Government creating regional economic engines for growth such as the Northern Powerhouse and Midlands Engine
- our UK infrastructure activities are also expected to benefit from the planned investment of £61 billion in road and rail under the National Infrastructure Plan. In addition we expect further opportunities to arise from High Speed Rail 2, Crossrail 2 and the expected investment of £110 billion by the electricity supply industry over the next 10 years.