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CARILLION PLC: FAKE IT 'TIL YOU BREAK IT

PATRÍCIA MARIA MARTINS SANTOS

26161

Work Project carried out under the supervision of:

Professor Paulo Soares de Pinho

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Abstract

The case “Carillion PLC: Fake It ‘Til You Break It” explores the recent collapse of Carillion, the second largest constructor in the United Kingdom, marking the largest trading liquidation known to date in the country. By exposing the company’s history from its start to its demise, the case looks into the specificities of operating the construction industry, as well as Carillion’s M&A activity, international expansion, bidding approach and financial policy. Emphasis is further given to the Corporate Governance issues that guided the company’s downfall. The supporting teaching note guides the analysis of the case, touching on several aspects related to Corporate Finance and Corporate Governance including: (i) the risk of overvaluation of companies and synergies in the context of M&A; (ii) pros and cons of debt issuance and the effects of operating under high leverage; and (iii) effectiveness of Corporate Governance entities, namely the Board of Directors, External Advisor and Investors.

Keywords: Construction, Acquisitions, Debt, Corporate Governance

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Paulo Soares de Pinho

Patrícia Maria Santos

Carillion PLC: Fake It 'Til You Break It

“Carillion’s rise and spectacular fall was a story of recklessness, hubris and greed”

House of Commons - Government report on Carillionⁱ

On January 15, 2018, a typical rainy Monday in the U.K., Emma Mercer, Carillion’s Finance Director since September 2017, sat at her office in the company’s headquarters in Wolverhampton, West Midlands. Looking out the window, she noticed the busyness of cafés, the frantic walks of those trying to get to work, and the hectic buzzing of cars. Outside, business unravelled as usual, yet oblivious to the bankruptcy of Carillion, marking the largest trading liquidation known to date in the history of the U.K.^{iv}.

The London Stock Exchange would make the announcement at the opening of business operations, and whilst she counted down the minutes until 8a.m., Emma Mercer thought back of the past year. She had returned to the U.K. in April 2017 after spending three years on the Canadian side of the business, only to find the company she had devoted her career to at the start of its demise. At the time, she had questioned Richard Howson, Carillion’s CEO, and Zafar Khan, the Finance Director, on the company’s accounting practices, which had become rather aggressive during her time abroad, but her concerns had been dismissed^{lvii}. Perhaps if she had remained in the U.K., the situation would have been different. But it was too late to dwell on past decisions. The clock struck 8a.m. and her phone immediately lit. The Financial Times read:

Carillion collapses into liquidation

“Carillion has filled for compulsory liquidation after talks with lenders failed over the weekend.”

Financial Times, January 15 2018^{lvi}

The Building Block

“Carillion was no ordinary company, and no ordinary collapse”

House of Commons – Government report on Carillionⁱ

Carillion PLC was created in July 1999, following a spin-off from Tarmac, the British construction and aggregates group. The new company focused on construction and facilities management, whilst Tarmac retained the heavy materials portion of the businessⁱⁱ. At the time of the spin-off, Carillion counted on 14,000 employees, annual revenues of £1.8bn, no debt, and a market capitalization of £200 millionⁱⁱ.

Carillion's establishment coincided with a difficult period for the U.K. construction industry. The early 1990s recession had led to over-capacity in the sector and motivated firms to adopt a “bid low, claim high”^v strategy. Typically, construction projects are granted through a bidding process - companies start by submitting a proposal to undertake a certain job for a particular price (i.e. tender), and the project is then awarded to the company proposing to complete the job for the lowest price (i.e. lowest bid). Given the excess supply of the time, companies would thus subject themselves to bids below production costs in order to get the job, transferring the risks to subcontractors and hoping to recoup any possible profit during the duration of the project^{vi}. Under these circumstances, the UK government began promoting a high number of Private Finance Initiative (PFI)¹ projects^{vi}, engaging companies in strategic alliances, and re-focusing their businesses to long-term growth.

Finding it hard to grow organically, Carillion expanded through acquisitionsⁱ. In 2006, it purchased Mowlem^{vii} for a total of £350 million, with estimated cost savings of £15 million p.a. starting in 2007 and, in 2008, it acquired Alfred McAlpine for £572 million (savings were estimated at £30 million p.a. by the end of 2009^{viii}). In 2011, it closed the acquisition of Eaga PLC, a heating and renewable energy provider, for around £300m (Exhibits 1A and 1B). With the latter, Carillion hoped to be capable to expand on to the carbon emissions market^{ix}. However, and despite confidence on the deals completed, analysts did not always share the company's view. In particular, the McAlpine deal was followed by a wave of diverging views. Whilst some analysts pointed to the high strategic fit and possibility for improving margins,

¹ PFI deals are contracts between the public sector and private companies to deliver a specific asset. The private company raises funding to build the asset and, once this one is finished, taxpayers make annual payments to the private company over the duration of the contract (typically 25 to 30 years). In the U.K., these have been particularly used to build public infrastructures (i.e. schools, hospitals, roads)^{lxi}.

others questioned whether Carillion was being too careless in closing negotiations after a short six weeks of due diligence^{viii}.

Mowlem, Alfred McAlpine and Eaga were all purchased for an amount superior to the fair value of their tangible net assetsⁱ. This difference is defined as “goodwill”, and it represents the intangible assets of the purchased company^{xiv}. In Carillion’s case, the company recognised amounts of goodwill higher than the purchasing price for all three acquisitions, as the fair value of the tangible net assets was, in all cases, negative. In particular, intangible assets increased £431m with the Mowlem deal, £634m with McAlpine² and £329m for Eaga (please refer to exhibits 2A, 2B and 2C). Because it is considered to have an indefinite useful life, goodwill is not amortised, and companies must value it on a yearly basis, determining if an impairment charge is required. Despite the later success, or not, of the acquisitions made, Carillion’s goodwill was never impaired. In specific, Eaga presented losses of £113 million on the first year following the acquisition, as well as for the five consecutive yearsⁱ.

International expansion was also a key aspect of Carillion’s strategy, and the company sought growth in Canada, the Caribbean and Middle Eastⁱ. Once again, M&A activity played a crucial role. In 2012, Carillion purchased a 49% stake in the Bouchier Group, a Canadian provider of road maintenance and infrastructure services, for £24 million^x, and one year later it acquired John Laing’s facilities management and support services unit, John Laing Integrated Services^{xi}. Other international projects include a £395m contract for the Msheireb Downtown Doha project^{xii}, which marked the company’s disastrous expansion into Qatar. Despite representing only one out of 13 contracts Carillion bid for in the country^{xiv}, the Msheireb contract was particularly challenging for Carillion. The company did not only encounter negotiation issuesⁱ; ^{xiii}, but it failed to properly plan and manage the project, which was expected to be completed by 2014 but remained unfinished at the time of Carillion’s collapse.

The emphasis given to growth proved successful, and by 2014, Carillion was the second largest construction company in the U.K. by turnover and the largest one by profit (Exhibit 3)ⁱⁱⁱ. However, it was that same year that Carillion saw its dream of becoming the largest U.K. construction company wrecked, when its apparent unending series of acquisitions found in Balfour Beatty, the U.K.’s leading construction company and Carillion’s biggest rival, a stumbling block. After three offers rejected on the basis of lower expected synergies than those suggested, Carillion effectively gave up on negotiations. At the time, Beatty’s management

² Restated amount. At the time of the acquisition, the value recorded was £615 million.

pointed that “*cost savings driven by shrinking the business should not be confused with synergies*”^{xx} and, despite controversy, time would tell Balfour Beatty might as well have been right in doubting Carillion’s cost savings’ judgement.

Growth was largely funded through debt (Exhibits 4A and 4B). In 2006, Mowlem PLC was purchased in a stock and cash combination, and total debt jumped from £90m to £253m. In 2008, it increased again to £484m following the purchase of Alfred McAlpine, whose form of payment was also mixed. By 2012, and sustaining the 100% cash Eaga deal, debt amounted to £813m. This funding was, in its majority, provided by the state-owned Royal Bank of Scotland (RBS), as well as HSBC, Santander UK, Lloyds, and Barclays^{lviii}.

Whilst Carillion’s management continued highlighting its focus on a balanced capital structure, shareholders worried over the company’s inability to decrease debt on a sustained basis. Back in 2013, investors had already started betting against Carillion’s shares^{xvi} and when, in 2015, UBS reiterated its “Sell” rating^{xxi} on Carillion, claiming the company’s debt was higher than publicly stated, discontent became even larger^{xxii}. In particular, and following several meetings with Carillion’s management over concerns of corporate governance, strategic direction, and financial management, Standard Life Investments, an active management company and one of Carillion’s major shareholders, begun divesting its 10.8% share in the company^{xvii}.

Amounting to the increasing debt were high pension funds’ deficits. Initially, Carillion was responsible for two main defined benefits pension schemes - one available to regular employees and the other restricted to executive directors and senior employeesⁱ. In 2009 these were closed to additional employees, but the company retained obligations accumulated until the dateⁱ. However, the worrying deficit situation did not arise from Carillion’s own pension schemes, but rather from its acquisitions’ policy. With deals as that of Mowlem and Alfred McAlpine, Carillion acquired their respective pension deficits. By 2016, the company had collected involvement in 14 different pension schemes, and faced a deficit of £804.8 million^{lxxvi, pp.128}.

Finally, Carillion’s working capital management was sustained on mistreatment of its suppliers. Despite signing the Government’s voluntary Prompt Payment Code^{xxiii}, which states companies should pay at least 95% of their invoices within 60 days, the firm was famous for its late payments, making suppliers wait as long as 120 days. The firm was also accustomed to objecting invoices on technical grounds, thus extending payment schedules even further.

Moreover, its Early Payment Facility (EPF³), operated by Santander UK, forced suppliers to take discounted payments in case they wished to be paid on time, at the same time as it helped conceal issues in working capital management¹.

Caving In

“The mystery is not that it collapsed, but that it lasted so long”

House of Commons – Government report on Carillion¹

Carillion’s collapse was sudden and unexpected. The immaculate image of a profitable business hid large debt, high pension funds’ deficits and a questionable suppliers’ conduct. The 2016 Statement of Accounts details revenues of £4.4 billion and an operating profit of £145.6m^{lxxvi,pp.90} (Exhibits 5A and 5C). Operating margins rounded the 5% and were described as *“attractive relative to peers”*^{xxv} and total assets surpassed the £4 billion (Exhibit 5B). There were over 40,000 employees. However, on the 10th of July 2017, the company issued a profit warning, announcing a total write-off of £845m, including £375m for UK contracts and £470m related to projects in the Middle East and Canada^{xxvi}. It further stated first half profits would be lower than expected, and that debt had increased. CEO Richard Howson stepped down, being immediately replaced by interim CEO Keith Cochrane^{xxvi}. The share price fell 39%^{xxvii} (Exhibit 6). Remaining dividends for the year were cancelled and the company would now initiate a restructuring of its business, increasing selectivity for new contracts and aiming to leave non-core markets^{xxvii}.

Carillion dug its own grave. From July onwards, the history of the UK giant becomes an avalanche of poor events. By the 12th of July, share value had fallen 70%ⁱ. On the 14th, EY was nominated to support Carillion’s strategic shift and HSBC was appointed as a new financial advisor, substituting Morgan Stanley, and increasing speculation on a possible rights’ issue^{i;xxviii}. But it was too late to counterbalance debt by rising equity.

Nonetheless, up until the last week of August forecasts seemed rather bright, and the board was assured the group was unlikely to require further lending^{xxix}. Yet, in classic Carillion style, it was not long until the situation changed proportions. On the 3rd of September, the board was called for an extraordinary meeting where Zafar Khan, Carillion’s Finance Director, admitted

³ An EPF, also known as reverse factoring or supply-chain financing, is a financing solution under which a bank, working as an intermediary, agrees to pay a certain company’s invoices at an accelerated rate, in exchange for a discount.

new funding was necessary^{xxix}. Short after, on the 11th of September, he was dismissed and immediately substituted by Emma Mercer^{xxx}.

The second profit warning came by the end of September, when Carillion announced a £200m additional write-off and £140m extra debt^{xxxi}, committed by the company's five major lenders – RBS, HSBC, Santander, Lloyds and Barclays. Full year performance was now estimated to be lower than market expectations and total revenue was set at £4.6bn, lower than the previously stated £4.8bn-£5bn. On the same day, shares plunged an extra 20%^{xxxi}.

The third and final profit warning was released on the 17th of November. With it, Carillion strived for an extension on the testing of its financial covenants, stating it expected breaches by the end of the year and it would need additional capital. Carillion's financing arrangements included covenants determining leverage, in the form of net debt over EBITDA, must not surpass the 3.5x, whilst interest coverage must be more than 3.5x. The announcement further added the company anticipated profits to be materially lower than expected^{xxxii}. The share price fell 34%^{xxxiii}.

In a never-ending series of misfortunes, the first week of December was marked by material changes to cash-flow forecasts, significantly reducing short-term revenues' expectationsⁱ. By the second week, Kiltearn partners, an asset management company and one of Carillion's major shareholders, had halved its stake in the firm^{xxxiv}. Long negotiations with possible lenders failed at giving the company the capital it needed to continue operating and, on the 31st of December, Carillion filled for Government supportⁱ. Short after, the Financial Conduct Authority (FCA) announced the beginning of an investigation into the company's announcements between December 2016 and July 2017^{xxxv}, pointing to the possibility of misstatements.

By the 13th of January 2018, and after meeting with the Government to discuss the need for funding, Carillion made a final request for £160m, admitting the alternative scenario was insolvency^{xxxvi}. However, the new year did not arrive with new opportunities, and after a long weekend of negotiations, the Cabinet Office and Carillion's creditors concluded they would not be willing to provide additional support to Carillionⁱ. With only £29 million in cash, the company admitted its insolvency. On the morning of the 15th of January, Carillion filled for compulsory liquidation and released a statement to the London Stock Exchange, immediately ceasing the trading of its shares^{xxxvii}.

“This is a very sad day for Carillion, for our colleagues, suppliers and customers that we have been proud to serve over many years. (...) In recent days however we have been unable

to secure the funding to support our business plan and it is therefore with the deepest regret that we have arrived at this decision. (...)”

Philip Green, Chairman of Carillion from 2014 to 2018 ^{xxxvii}

At the time of insolvency, the business counted on 43,000 employees worldwide, 30,000 small suppliers, and 450 contracts with the UK Government^{xxxviii}. RBS, HSBC, Barclays, Santander UK, and Lloyds were owed over £900 million in bank loans, as well as £750 million from a fully drawn revolving credit facility^{lviii}.

The Bedrock's Failure

“Carillion’s board are both responsible and culpable for the company’s failure”

House of Commons – Government report on Carillionⁱ

Board of Directors

Often compared to the heart of a company, the board of directors has a crucial role in ensuring the healthy functioning of a company. Indeed, its responsibilities amount to monitoring executives and the company performance, as well as to advise management on the strategic direction of the business^{lxxvii}.

Perhaps in a premise of what was to come, Carillion had a bumpy start. During the shareholder meeting assembled to consider Tarmac’s spin-off, discussions intensified over alleged breaching of conventional corporate governance practices^{xxxix}. In particular, the desire to give a dual-role to Sir Neville Sims, that would take the positions of both Chairman and Executive Director of the yet to be created Carillion, and the potential for unlimited executive bonus packages in the new company did not please shareholders. Notwithstanding, and despite the 47% investor abstention, the spin-off followed through^{xl}. By 2001, Simms was replaced by John McDonough as the Group’s CEO and the board of directors had a total of 11 members, of which 5 were non-executive.

John McDonough was at the helm during the acquisitions of Mowlem, Alfred McAlpine and Eaga, as well as during the company’s development in international markets. At the time, Chris Girling was the Finance Director and Philip Rogerson held the Chairman position, after replacing Neville Simms in 2005. Chris Girling retired in 2007, leaving Richard Adam as the new Finance Director. Following McDonough’s retirement in 2011, Richard Howson, previously Carillion’s Operations’ Executive, took over as CEO. Philip Green, who had joined the board as a non-executive director back in 2011, was nominated Chairman in 2014, thus substituting Philip Rogerson.

Prior to the July 2017 profit warning, Carillion's board perfectly illustrated the ideals of Corporate Governance theory (Exhibits 7A, 7B and 7C). It counted on seven members – Philip Green, Chairman; Richard Howson, CEO; Zafar Khan, who succeeded Richard Adam as Finance Director in the beginning of 2017; and independent directors Keith Cochrane, Andrew Dougal, Alison Horner and Ceri Powell. In full compliance with the UK Corporate Governance Code (2014), it appropriately balanced different expertise, tenure, and experience. At the same time, it counted on an extensive management structure, composed of five leading committees – Nominations Committee, Business Integrity Committee, Sustainability Committee, Audit Committee and Remuneration Committee (Exhibits 8A, 8B and 8C) – and four minor teams, led by the Group's CEO and focused on aspects as major projects, leadership, health and safety, and pension schemes. Each unit operated under defined policies and procedures, was led by board members and supervised by the Chairman. In 2016, the board met ten times and attendance was exemplary.

Non-Executive Directors (NEDs)

In accordance with the UK Corporate Governance Code, NEDs have the responsibility of scrutinising and monitoring management's performance, constructively challenging their executive counterparts and ensuring the daily operations of the company aim to meet its long-term objectivesⁱ. But, when it came to Carillion, asking questions was the simple path to individual peace of mind. Challenging the management team was carried as a "ticking the box of good Corporate Governance" approach and it failed to confront executives on fundamental issues until it was too late to back out.

To start with, the company's growing debt seemed of little importance to the board until it reached unsustainable proportions. Whilst described by Keith Cochrane, Senior Independent NED and later interim CEO, as of "*lesser concerns*" in 2015^{xlii}, it is rather astonishing how it jumped, shortly after, from £632m to £961m. Not even shareholders' concerns spiked the board's attention. After raising worries over the rising risk profile of Carillion, Standard Life Investment recalls the company's response, including that of the Chairman Philip Green, as of a clear disposition to maintain the current strategy, which was not only accumulating debt to make acquisitions but also failing to convert profitability into cash-flow^{xxv}.

Problems were not, however, restricted to debt. Cash collection was an ongoing debate during meetings and the board admitted the difficulty of operating certain markets and generating cash-flows in major contracts^{xxv}. Even after Carillion's collapse, the picture portrayed was always of

an aware board, that asked questions and challenged key issues. In the eyes of the board, had not it been for deterioration in a few contracts and Carillion would continue thriving^{xxv}. However, and once again proving the board's issue acknowledgement was limited, the 2017 Audit Committee papers detail that problems were anything but confined to three or four contracts, with at least 18 contracts presenting losses for the period of March to June 2017ⁱ.

In addition, it is rather naïve to assume the board was oblivious to management's optimistic forecasts and aggressive accounting, which sustained the company's flawless market image. Board minutes from June 2017 highlight concerns over the dangers of inadvertently "*maintaining the traded margin*", at the same time as they show Andrew Dougal's worries over severe problems with one major contractⁱ. That same contract proved to be the Royal Liverpool Hospital, for which, back in November 2016, management had decided to override an internal peer review assessment that detailed it was making lossesⁱ.

Whilst financial stability was treated as a minor concern, dividend payment did not get easily discarded. Carillion had a progressive dividend policy whose goal was to balance dividend payments with business performance. By 2016, the company had consistently increased dividends since its formation, but reality was that the pace at which dividends grew bore little relation to profits nor did it account for available cash from operations (Exhibit 9). In fact, the last dividend, totalling £55 million, was paid in June 2017, shortly before the first profit warning. It was the Board's responsibility to approve dividends and ensure these do not limit the company's future commitments, investment needs, or ability to sustain long-term growth. But in January 2017 upon the possibility of withholding dividends, figures from this same board, as Keith Cochrane and Andrew Dougal, opposed, preferring to pay higher dividends than available cash, as opposed to sending a negative message to the marketⁱ.

Combined with dividend policy, executive remuneration was considered crucial. More often than not, discussions around it would monopolise board meetings. The company's remuneration policy was to pay the industry median^{xliii} and when in 2015 an analysis conducted by Deloitte showed Carillion paid below it, the Remuneration Committee decided to increase the basic salary of CEO Richard Howson, Chairman Philip Green, and other senior executivesⁱ. However, this "paying mid-table" approach presents two issues – first, it is not linked to performance. Indeed, whilst share price was declining - 20% in 2015 and 22% in 2016 -, Richard Howson saw his basic salary increasing £50,000 both in 2015 and 2016, and Philip Green benefitted from a salary increase of 11% in 2016^{lxxvi} (Exhibits 10A and 10B). In addition, and despite

failing to meet his financial targets, Howson was awarded a £245,000 bonus in 2016^{lxxvi,pp. 68-69}. Secondly, by raising salaries to meet the median level, companies increase the median itself, which combined with full detachment from financial performance simply meant Carillion had the room to design executive packaging as it pleasedⁱ.

Excessive remuneration did not, however, go unnoticed to shareholders. In the AGM of 2017 20% of shareholders voted against the remuneration report, even after Carillion had discarded its plans to raise the maximum executive bonuses to 150% of salary following shareholders' protestsⁱ. The board was, however, indifferent to such discontent. Not only were there no efforts to review remuneration policies, but minutes from a meeting held the day before the first profit warning detail the Remuneration Committee had agreed to increase management's pay by as much as 30%, at the same time as it had decided on a £750,000 salary to be paid to the interim CEO Keith Cochrane, a value much higher than that paid to Richard Howsonⁱ.

Executive Directors (EDs)

Richard Adam was appointed Finance director in 2007, position he held until leaving the company in December 2016^{xlii}. Responsible for the company's finances for over a decade, he was behind the aggressive accounting Carillion pursued.

Accounting for construction services is rather complicated. Starting with revenues, as these must be recognized as construction work progresses, and independently from cash collection, companies must find in themselves a way to assess how far on their projects are. Generally, companies follow the percentage of completion method. Thus, if a certain job is considered to be 50% completed, the company will recognize that same proportion of revenues and costs. In Carillion's case, completion was estimated by applying the percentage of costs already incurred in proportion to total estimated costs^{lxxvi,pp.86}. Revenue was then recognized as that same percentage in proportion to the initially agreed contract price, fact that laid great pressure on stated margins. Despite the fact stated margins were both reviewed in internal meetings and compared with peersⁱ, a Deloitte examination carried after the first profit warning found peers recommended a lower margin for many cases, and that for over half of those the difference exceeded the £5 millionⁱ. Furthermore, Carillion recognized large sums of "traded not certified" revenue that had not yet been signed off by clients and was, therefore, of uncertain materialization. In December 2016, the value recognized was of £294 million, 10% of the total contract revenue recognizedⁱ.

Carillion's accounting for its early payment facility (EPF) was also dubious, and both Moody's and S&P pointed it concealed the company's true level of debtⁱ. Although the appropriateness, or not, of such accounting was never commented by the Financial Reporting Council, it is clear it ultimately benefited Carillion. First, drawing on the EPF was reported as "other creditors", and it was excluded from total debt and covenant tests. Moody's claims the misclassification totaled much as £498 million^{lxiii} that should have been treated as debt (Exhibit 11). Further, the EPF helped the company meet its 100% cash conversion target, by allowing drawings on the facility to be recognized as cash inflows from operations, rather than financingⁱ. A Moody's analysis found that reclassifying EPF inflows from operating to financing resulted in a 7% cash conversion rate for the period 2013-2016, far from the picture Carillion was depictingⁱ.

Whilst these aggressive accounting practices might have been oblivious to some, they were certainly not to Richard Adam. In fact, it took the ex-Finance Director a short three months to sell his existing shares, for £534,000, after leaving the company in January 2017. In May 2017 he sold an additional £242,000, handed as part of a bonus scheme^{lxiii}.

Richard Howson was appointed CEO in December 2011, having been with the company since its beginning and a part of its board since 2009. Although not on the board during the Mowlem and Alpine acquisitions, Richard Howson was a board member by the time of the Eaga purchase, as well as the CEO accompanying majority of the company's development in the Middle East. He was also top management during the company's continuous dividend increases, which, for the particular cases of 2012 and 2013, were paid on debt^{xlii}.

Moreover, as Carillion's CEO, Richard Howson oversaw the Chief Executive Leadership Team (CELT), which was responsible for strategy development, operational and financial management, and executive management of the company's businesses^{lxvii}. The 2016 Chief Executive's strategic overview reads:

"We will deliver sustainable, profitable growth by: - winning high-quality contracts in our chosen markets; - delivering contracts safely, sustainably and to best-in-class standards; - developing and attracting excellent people and capabilities"

Carillion PLC, Annual Report and Accounts 2016^{lxvii,pp.10}

Such fact did not, however, prevent the CEO from distancing himself from Carillion's rising issues. Even after the collapse, Richard Howson openly neglects responsibility over the matter, depositing it on "long term and from a long time ago" contracts^{xlii}. In the same line, and despite admitting a large portion of his time was spent trying to collect cash in Qatar, Howson stressed

he had no responsibility over the Msheireb contract^{xlii}, as he no longer held responsibility over the Middle East business by then. He held, nonetheless, responsibility over managing the company and its risks and was aware the company continued bidding in Qatar.

Zafar Khan stepped in as Finance director in January 2017, having previously been the Group's Financial Controller. Thus, and despite the short period during which he was Carillion's Finance Director, he ought to know the accounting practices the company was involved in. In September 2017, short before the company's collapse, Emma Mercer took over the position. Mercer was the first Finance director to raise concerns over Carillion's accounting policiesⁱ.

A Weak External Layer

“Carillion was not just a failure of a company; it was a failure of a system of corporate accountability (...).”

House of Commons – Government report on Carillionⁱ

External Auditor - KPMG

As Carillion's external auditor, KPMG was tasked with the responsibility of obtaining reasonable assurance on the appropriateness of the company's financial statements – i.e. assuring these are free from material misstatements^{xliii}. KPMG carried out this role for 19 years, without ever finding reason to provide a modified opinion on Carillion's accounts. Carillion's financial statements and disclosure of principal risks were continuously assessed as not only complying with the required principles, but also truly and fairly representing the state of the company. When questioned on the sudden provision Carillion made in July 2017, the position KPMG took was in hand with that of many directors – the business' downfall followed unexpected developments, all taking place after the publication of the 2016 accountsⁱ.

Despite stating previous audits had been comprehensiveⁱ, it is rather surprising it took until May 2017 for the auditing company to note Carillion's aggressive policing, which was only identified during a “deep dive” management review of key contractsⁱ. However, KPMG's questionable auditing is not exclusive to revenue recognition nor to Carillion. The Financial Reporting Council's 2016-2017 audit quality review of KPGM not only notes the need for the company to re-assess and increase testing on revenue auditing, but it concludes on a lack of challenge to management's assumptions on impairment of goodwill^{xliv}. Carillion's acquisitions over the years meant it accumulated high amounts of goodwill - in 2016 the amount recorded on the balance sheet was of £1.6 billion. These values were never impaired on the company's accounts. Although it could mean management remained confident on the materialization of

synergies, it is rather surprising such assumption was never put into question, especially when deals as the Eaga one were recording a lossⁱ. Moreover, it was later noted the value of acquisitions was in 80% derived from perpetuity assumptions. This aspect was never noted on Carillion's financial accounts, neither by the company nor by KPMGⁱ. Nonetheless, the task carried out granted KPMG yearly auditing fees of £1.4 million, as well as £200,000 or more for the non-auditing tasks performed (Exhibit 12).

Advisors

Carillion's board was advised by a wide number of firms, some of which highly accounted in the industry, as the Big Four, Lazard, Slaughter & May, and Morgan Stanleyⁱ. Among these, Deloitte was the appointed internal auditor, thus tasked with the role of providing independent assurance on the efficacy and functioning of governance, risk management and internal control processes^{xlv}. Deloitte performed this role since 2010.

Despite the obvious governance and risk management issues Carillion presented, inside controls were deemed effective up until the end of 2016^{xlvi} and, in over 300 recommendations made between 2012 and 2016, only 15 were considered of high priorityⁱ. The government inquiries conducted after the bankruptcy further note Deloitte had no knowledge of major issues of the business, as the contract disputes in Qatar^{xlvi}.

Deloitte's involvement with Carillion extended to other areas and the company advised the remuneration committee, was responsible for the Due Diligence process on the Eaga acquisition and was later responsible for developing a transformation program for this same dealⁱ.

As for the remaining advisors, Carillion's directors were quick to sought second opinions when the one provided contradicted their ownⁱ. This is the case of Morgan Stanley that was dismissed from its financial advisor position in July 2017 after refusing to underwrite Carillion's proposal to raise equityⁱ.

Investors

Although responsibility over the long-term success of a company relies primarily with the Board, shareholders also play a relevant role by engaging with management and holding it accountable for the fulfillment of its duties^{li}. Indeed, investors are assumed to have a self-interest on the return of the capital they invest and are thus expected to seek information that allows them to determine which companies present the best prospects. Once capital is invested,

it is presumable shareholders have a self-interest in monitoring the company's performance at multiple levels, including corporate governance, to ensure capital is correctly used^{lii}.

By the beginning of 2017, Carillion's largest shareholder was BlackRock, with approximately 9% of issued share capital, followed by other investment management companies, as Schroders (7.8%), Franklin Resources (6.5%), Brewin Dolphin Holdings (5.8%), Kiltarn Partners (5%) and Letko, Brosseau & Associates (5%) (Exhibit 13A). Investment advisors held nearly 90% of Carillion's shares.

Despite apparent similarities, their independent strategies meant each company differed in the way by which engaged with Carillion's board and management. Both Schroders and Franklin Resources found in divesting the solution to their concerns over Carillion's situation and by the second quarter of 2017 both companies held an insignificant position in Carillion (Exhibit 13B).

In BlackRock's case, the position it held was through passive funds, thus meaning it divested its position as Carillion's share price fell and the company was removed from certain indexes^{xxv, Q1008}. In fact, Amra Balic, managing director of BlackRock, noted BlackRock never held an active position in the company and pointed to "*real questions*" over Carillion's debt, contracts, and acquisitions, as well as to its overly optimistic management^{xxv, Q1008}. It still, however, discussed with management, namely over executive remuneration for the year 2017.

As long-term investors, Brewin Dolphin focused its engagement with Carillion on matters of maintenance of financial flexibility, in opposition to maximization of short-term profits^{lv}. It held routine meetings with management, the last one taking place in March 2017, where possibilities of financial improvement and reviews of operational aspects were covered. However, short after the July profit warning it changed its assessment on Carillion and begun divesting. By the end of 2017 it held only 1% of the issued share capital^{lv}. As for Kiltarn Partners, its long-term investment decisions were largely based on the audited financials. Therefore, the company often engaged with Carillion – on the 2017 Annual General Meeting it voted all its shares against excessive executive remuneration, and it met with Keith Cochrane short after the July profit warning to discuss funding needs. Despite efforts, Kiltarn Partners concluded Carillion's recovery was unlikely and that financial statements were no longer reliable. After one last meeting in October 2017, the company fully divested its position^{liii}.

Finally, Letko, Brosseau & Associates ("LBA") invests in companies it believes to have long-term potential and was a shareholder of Carillion since April 2012. During June 2017, LBA asked for a meeting with management, but despite the multiple requests this one never followed

through. On the day of the July profit warning, it held an urgent call with Carillion's senior management, after which it decided to retain its position in the company, believing there was a fair likelihood of the company remaining in operations. LBA further admitted being prepared, at the time, to inject more capital in Carillion. Another call and email exchanges occurred following the September profit warning. However, in November 2017 and right after the third profit warning, LBA determined Carillion's survival was unlikely and divested its position^{liv}.

The Ruins

"Carillion's private failure is a public problem"

Financial Times, January 15, 2018^{lxiv}

At the time of its collapse, Carillion counted on 19,000 U.K. employees and 43,000 worldwideⁱ. Many more worked along its extensive supply-chain. By May 2018, over 2,000 people had already been dismissedⁱ. It owed the 27,000 members of its defined benefit pension schemes a total of £2.6 billion, of which only a small portion will be paid by the Pension Protection Fund, and it was a major supplier of the U.K. Governmentⁱ. Carillion counted on 450 construction and service projects for the public sector, which ranged from road building to providing school meals. By May 2018, the maintenance of essential services already amounted to tax contributions of £150 millionⁱ.

Carillion's liquidation had effects much beyond the company's boundaries. The £2 billion it owed to its over 30,000 small suppliers left the lucky ones struggling and pressured to lay off staff^{xlvi}, whilst it ultimately led others to their own demise. The first causality took place only two months after Carillion's bankruptcy, when the engineering company Vaughan Engineering filed for administration in March 2018. The subcontractor was owed £650,000 for already completed projects for Carillion and it had been contracted for £1.1 million further work within the first three months of 2018^{xlvi}. But Vaughan Engineering were not the only ones shaken up by Carillion's downfall. Over 700 U.K. building companies filed for insolvency in the first quarter of 2018, a 20% rise compared to the same period on the previous year^{xlvi}.

Finally, and as the company's largest lenders, U.K. high street banks were highly exposed to Carillion's collapse. By the end of the first quarter of 2018, total hit was estimated to surpass the £1 billion, with Santander alone declaring bad loans of £203 million related to Carillion^{lix}. The bank further admitted Carillion's downfall had contributed to a 21% profit fall within the same period^{lix}. The impact on Lloyds was also visible, with the bank declaring impairment charges of £270 million and a 5% fall in profit^{lix}.

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Exhibit 1A: Carillion PLC Acquisition Policy – Precedent Transactions⁴

Announcement Date	Target	Acquirer	Transaction Value (in \$m)	TV/ EBITDA	TV/Sales
07/12/2005	Mowlem PLC	Carillion PLC	594,45	22,66	0,16
16/10/2007	Alfred McAlpine PLC	Carillion PLC	1 110,70	17,07	0,48
11/02/2011	Eaga PLC	Carillion PLC	409,60	4,76	0,34
16/07/2007	Ben Bailey PLC	Gladedale Holdings Ltd	327,77	9,72	1,32
19/03/2004	Peterhouse Group PLC	Babcock International Group PLC	261,21	6,09	0,29
10/12/2007	Inspace PLC	Willmott Dixon Ltd	336,56	16,73	1,03
09/09/2008	Taylor Woodrow Ltd	Vinci PLC	130,25	6,01	0,12
14/07/2014	Agility Projects AS	Woodford Group PLC	163,14	29,58	0,91

Source: Thomson Reuters Eikon

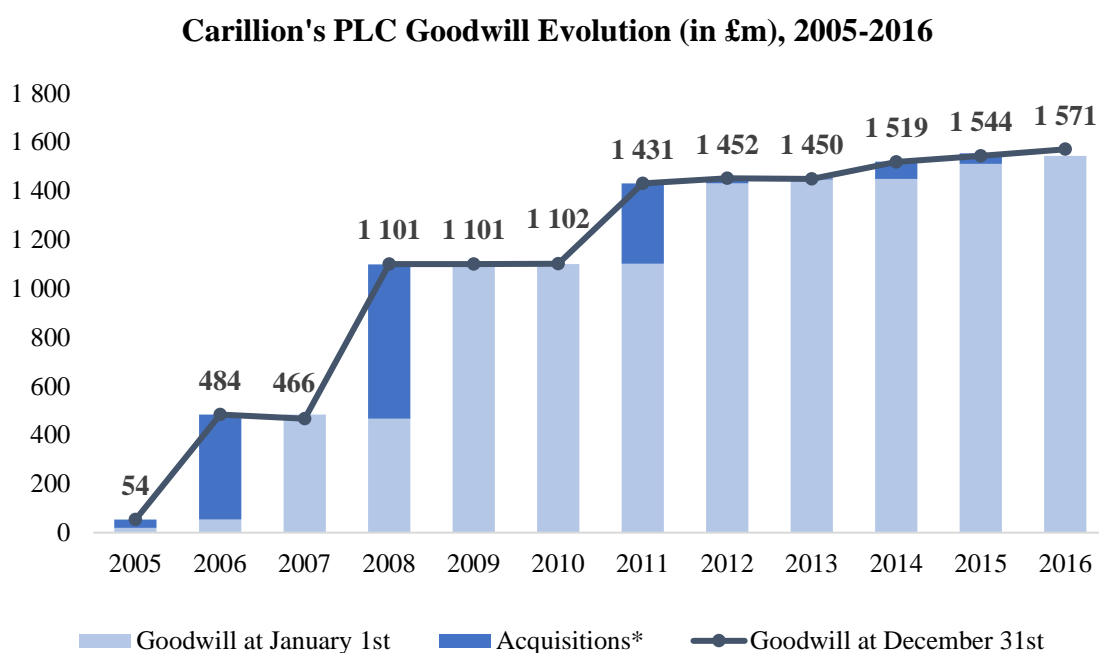
Exhibit 1B: Carillion PLC Acquisition Policy – Trading Comparables

\$m	Mowlem PLC	Alfred McAlpine PLC	Eaga PLC	Ben Bailey PLC	Peterhouse Group PLC	Inspace PLC
Stock Market Data						
EV at Announcement Date	594,552	1110,668	409,60	327,773	261,226	367,799
Share Price at Announcement Date	3,609	10,93	1,93	4,738	4,069	2,261
Financial Data						
Net Sales (LTM)	3976,872	2199,787	1 107,60	239,789	870,424	342,839
EBITDA (LTM)	28,491	62,28	78,15	32,437	41,584	21,038
Net Income (LTM)	-23,101	33,686	42,65	15,321	-18,66	12,852
EPS	-0,166	0,329	0,171	1,281	-0,395	0,1769

Source: Thomson Reuters Eikon

⁴ TV to EBITDA and TV to Sales were extracted from Thomson Reuters Eikon and are calculated as Rank Value to LTM Ebitda and LTM Sales. Rank Value is the deal value excluding liabilities assumed divided by the percentage of the company acquired or sought in the deal plus Value of Liabilities assumed

Exhibit 2A: Carillion's Goodwill Evolution, 2005-2016



Source: Carillion plc Annual Report and Accounts 2005-2016^{lxv-lxxvi}

Exhibit 2B: Acquisitions of Goodwill Information, 2005-2016

Year	Description
2005	Acquisition of Planned Maintenance Group Ltd (PMG). Increase in Goodwill of £34.5 million.
2006	Acquisition of Mowlem plc. Increase in Goodwill of £430.8 million.
2008	Acquisition of Alfred McAlpine. Goodwill recognition of £633.5 million ⁵ .
2011	Acquisition of Eaga (renamed to Carillion Energy Services). Goodwill increase totalling £329.1 million.
2012	Acquisition of the Bouchier Group. Increase in Goodwill of £20.8 million
2013	Acquisition of John Laing Integrated Services (JLIS). Goodwill recognition of £4.3 million.
2014	Acquisition of 60% equity of Rokstad Power Corporation (Rokstad). Goodwill recognition of £70.1 million.
2015	Acquisition of the Outland Group (Outland). Increase in Goodwill of £43.4 million.

Source: Carillion plc Annual Report and Accounts 2005-2016^{lxv-lxxvi}

⁵ Restated amount. At the time of the acquisition, Goodwill recorded was of £615 million.

Exhibit 2C: Details on the recognition of Goodwill for the Mowlem plc, Alfred McAlpine and Eaga acquisitions

Mowlem plc Goodwill recognition, as of 2006

Acquiree's net assets at the acquisition date

	Carrying amounts £m	Fair value adjustments £m	Accounting policy adjustments £m	Recognised values £m
Property, plant and equipment	25.9	0.7	–	26.6
Intangible assets	–	119.0	–	119.0
Investments in jointly controlled entities	20.5	95.7	(8.8)	107.4
Other investments	15.0	(5.0)	–	10.0
Deferred tax assets	30.9	6.4	6.3	43.6
Inventories	17.9	(0.7)	–	17.2
Trade and other receivables	461.1	(26.4)	–	434.7
Assets held for sale	76.3	56.9	–	133.2
Cash and cash equivalents	11.6	(8.1)	–	3.5
Borrowings	(126.4)	0.4	–	(126.0)
Trade and other payables	(560.2)	15.8	2.9	(541.5)
Income tax	(4.2)	6.3	–	2.1
Retirement benefit liabilities	(95.5)	–	(21.0)	(116.5)
Deferred tax liabilities	–	(35.7)	–	(35.7)
Liabilities held for sale	(125.9)	(30.5)	–	(156.4)
Provisions	(1.7)	–	–	(1.7)
Net identifiable assets and liabilities	(254.7)	194.8	(20.6)	(80.5)
Goodwill recognised on acquisition				430.8
Consideration				350.3

Source: Carillion PLC Annual Report and Accounts, 2006^{lxvi}

Alfred McAlpine Goodwill recognition, as of 2008

Acquiree's net assets at the acquisition date

	Carrying amounts £m	Fair value adjustments £m	Accounting policy adjustments £m	Acquired intangible assets £m	Recognised values £m
Property, plant and equipment	26.4	(0.7)	–	–	25.7
Intangible assets	184.5	(184.5)	–	125.4	125.4
Investments in jointly controlled entities	13.4	0.9	–	–	14.3
Deferred tax assets	57.3	0.9	–	–	58.2
Inventories	11.2	–	–	–	11.2
Trade and other receivables	202.8	–	(15.5)	–	187.3
Assets held for sale	16.7	2.3	–	–	19.0
Cash and cash equivalents	46.8	–	–	–	46.8
Borrowing	(143.2)	–	–	–	(143.2)
Trade and other payables	(292.2)	0.3	–	–	(291.9)
Income tax	(1.4)	–	–	–	(1.4)
Retirement benefit liabilities	(58.7)	(3.2)	–	–	(61.9)
Deferred tax liabilities	(2.9)	2.9	–	(35.1)	(35.1)
Provisions	(4.5)	–	–	–	(4.5)
Net identifiable assets and liabilities	56.2	(181.1)	(15.5)	90.3	(50.1)
Goodwill recognised on acquisition					615.0
Total consideration (including attributable costs)					564.9

Source: Carillion PLC Annual Report and Accounts, 2008^{lxviii}

Eaga Goodwill recognition, as of 2011

Acquiree's net assets/(liabilities) at the acquisition date

	Carrying amounts £m	Fair value adjustments – goodwill £m	Fair value adjustments – other £m	Accounting policy adjustments £m	Acquired intangible assets £m	Recognised values £m
Property, plant and equipment	12.5	–	–	–	–	12.5
Intangible assets	61.1	(61.1)	–	–	29.4	29.4
Non-current asset investments	1.0	–	–	–	–	1.0
Deferred tax assets	20.9	–	4.8	1.7	–	27.4
Inventories	54.0	–	–	–	–	54.0
Trade and other receivables	103.7	–	–	(6.6)	–	97.1
Income tax	3.2	–	–	–	–	3.2
Derivative assets	1.7	–	–	–	–	1.7
Current asset investments	8.0	–	–	–	–	8.0
Net cash and cash equivalents	(1.5)	–	–	–	–	(1.5)
Borrowing	(60.0)	–	–	–	–	(60.0)
Trade and other payables	(156.1)	–	–	–	–	(156.1)
Retirement benefit liabilities	(0.8)	–	–	–	–	(0.8)
Deferred tax liabilities	–	–	–	–	(7.6)	(7.6)
Provisions	(20.0)	–	(19.0)	–	–	(39.0)
Net identifiable assets and liabilities	27.7	(61.1)	(14.2)	(4.9)	21.8	(30.7)
Goodwill recognised on acquisition						329.1
Total consideration						298.4

Source: Carillion PLC Annual Report and Accounts, 2011^{lxxi}

Exhibit 3: Excerpt of the Top 100 Construction Companies in the UK (2014)

Rank by turnover	Rank by profit	Company	2013 Rank by turnover	2013 Rank by profit	Latest turnover (£m)	2013 turnover (£m)	Latest pre-tax profit (£m)	2013 Pre-tax profit (£m)	Latest margin (%)	Previous margin (%)
■1	▼8	Balfour Beatty	1	4	10,118	9,966	32	75	0.3	0.8
■2	▼1	Carillion	2	2	4,081	4,403	110.6	164.8	2.7	3.7
■3	▼6	Kier Group (Inc. May Gurney)	3	3	2,669	2,765	47.2	82.3	1.8	3
■4	▼4	Interserve	4	1	2,582	2,370	68.1	179.8	2.6	7.6
▲5	▼19	Morgan Sindall	7	10	2,095	2,047	13.9	34.2	0.7	1.7
▼6	▲2	Amey UK/Enterprise	5	6	1,762	2,271	78.7	45.4	4.5	2
▲7	▼15	Laing O'Rourke	8	12	1,640	1,622	21.5	27.4	1.3	1.7
▼8	▼14	BAM Construction/Nuttall	7	10	1,596	1,647	21.6	32	1.4	1.9
■9	▲3	Galliford Try	9	5	1,467	1,504	74.1	63.1	5.1	4.2
■10	▲5	Keller	10	7	1,438	1,318	52	43.5	3.6	3.3
■11	▲52	ISG	11	56	1,284	1,281	2.5	3	0.2	0.2
▲12	▼32	Vinci UK	13	25	1,255	1,107	7.1	15.3	0.6	1.4
▲13	▲7	Skanska	14	8	1,121	1,092	44.2	43.4	3.9	4
▲14	▲9	Mace	17	18	1,108	951	28.3	22.8	2.6	2.4
▲15	▼34	Willmott Dixon	16	30	1,023	1,034	6.9	8.9	0.7	0.9

Legend: ▲ Up from 2013

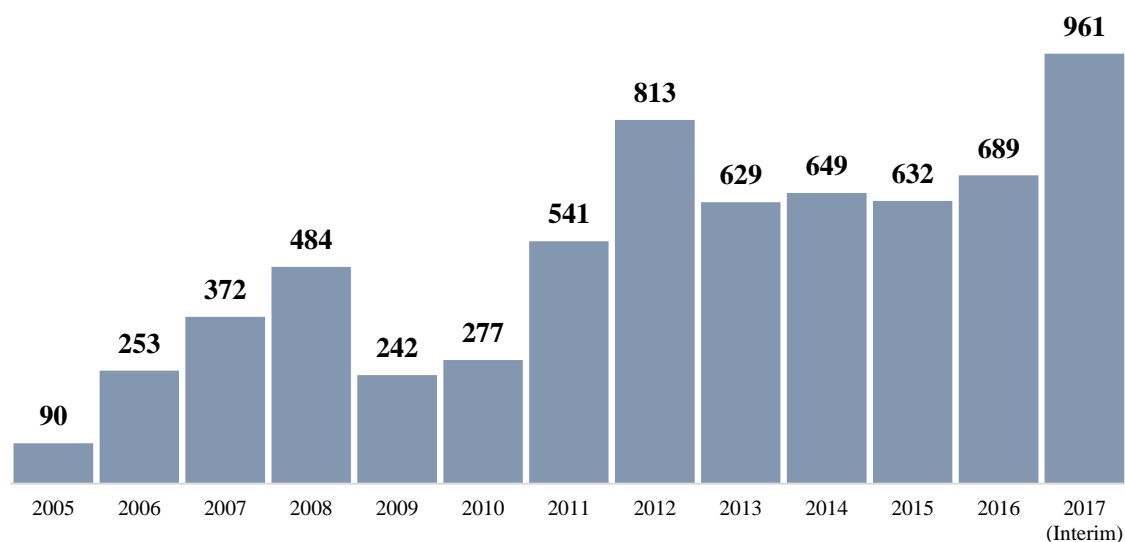
▼ Down from 2013

■ No change from 2013

Source: "Top 100 Construction Companies 2014", The Construction Indexⁱⁱⁱ

Exhibit 4A: Carillion's Debt Evolution, 2005-2017 (Interim)

Carillion PLC Total Debt (in £m), 2005-2017



Source: Carillion plc Annual Report and Accounts 2006-2017 (Interim)^{lxxv-lxxvi}

Exhibit 4B: Carillion's leverage evolution in comparison with peers in the UK Construction Sector, 2013-2016

	December 2013		December 2014		December 2015		December 2016	
	D/E	Net Debt / EBITDA	D/E	Net Debt / EBITDA	D/E	Net Debt / EBITDA	D/E	Net Debt / EBITDA
Balfour Beatty	0,989	-32,308	0,778	-0,886	1,046	-1,217	1,088	6,000
Kier Group	0,671	-0,900	1,040	2,468	0,744	1,899	0,572	5,100
Interserve	0,317	0,381	0,795	2,392	0,827	2,405	1,309	-11,642
Morgan Sindall	0,111	-2,772	0,134	-1,883	0,246	4,467	0,076	-4,424
Laing O'Rourke	0,459	-4,249	0,312	-4,292	0,324	-19,598	0,850	-0,921
Galliford Try	0,144	0,186	0,272	0,047	0,320	0,135	1,014	0,065
Keller	0,529	1,402	0,542	1,200	0,737	1,567	0,908	2,058
Carillion PLC	0,639	1,271	0,726	0,809	0,621	0,740	0,944	1,195

Source: Bloomberg Terminals; Carillion plc Annual Report and Accounts 2013-2016^{lxxii-lxxv}

Exhibit 5A: Carillion plc Historical Consolidated Income Statement, 2013- 2017 (Interim), in £ Millions

	2013	2014	2015	2016	30/06/2017
Total Revenue	4 080,9	4 071,9	4 586,9	5 214,2	2 246,9
Less: share of joint ventures' revenue	(748,3)	(578,0)	(636,2)	(819,3)	(394,3)
Group revenue	3 332,6	3 493,9	3 950,7	4 394,9	1 852,6
Cost of Sales	(2 984,6)	(3 166,4)	(3 609,8)	(4 044,2)	(2 566,0)
Gross profit/ (loss)	348,0	327,5	340,9	350,7	(713,4)
Administrative Expenses	(268,2)	(166,4)	(195,2)	(217,8)	(250,3)
Profit/ (loss) on disposal of Public Private Partnership equity investments	44,6	13,9	37,7	12,7	0,8
Group Operating Profit	124,4	175,0	183,4	145,6	(962,9)
Analysed between:					
Underlying Group operating profit/ (loss)	187,8	191,8	208,4	199,6	70,1
Intangible amortisation*	(19,2)	(16,8)	(20,0)	(13,8)	(7,4)
Non-recurring operating items	(44,2)	-	(5,0)	(40,2)	(1 025,6)
Share of results of joint ventures	26,5	25,1	26,0	36,3	(151,7)
Analysed between:					
Operating profit/ (loss)	41,0	34,2	36,0	54,3	18,0
Net financial expense	(10,1)	(6,4)	(7,1)	(13,2)	(4,6)
Non-recurring operating items	-	-	-	-	(163,9)
Taxation	(4,4)	(2,7)	(2,9)	(4,8)	(1,2)
Profit/ (loss) from Operations	150,9	200,1	209,4	181,9	(1 114,6)
Analysed between:					
Underlying profit/ (loss) from operations	214,3	216,9	234,4	235,9	82,3
Intangible amortisation*	(19,2)	(16,8)	(20,0)	(13,8)	(7,4)
Non-recurring operating items	(44,2)	-	(5,0)	(40,2)	(1 189,5)
Non-operating items	(0,7)	(9,9)	(2,5)	(1,1)	(8,4)
Net financial (expense)/ income	(39,6)	(47,6)	(51,8)	(34,1)	(30,0)
Analysed between:					
Financial income	7,7	2,3	2,4	2,5	2,2
Financial expense	(47,3)	(46,3)	(60,3)	(60,4)	(34,2)
Fair value movements in derivative financial instruments	-	(3,6)	6,1	8,2	-
Changes in contingent consideration relating to acquisitions	-	-	-	15,6	2,0
Profit/ (loss) before taxation	110,6	142,6	155,1	146,7	(1 153,3)
Analysed between:					
Underlying profit before taxation	174,7	172,9	176,5	178,0	50,3
Intangible amortisation*	(19,2)	(16,8)	(20,0)	(13,8)	(7,4)
Non-recurring operating items	(44,2)	-	(5,0)	(40,2)	(1 189,5)
Non-operating items	(0,7)	(9,9)	(2,5)	(1,1)	(8,7)
Fair value movements in derivative financial instruments	-	(3,6)	6,1	8,2	-
Changes in contingent consideration relating to acquisitions	-	-	-	15,6	2,0
Taxation	(4,3)	(15,1)	(15,7)	(17,2)	32,1
Profit/ (loss) for the period	106,3	127,5	139,4	129,5	(1 121,2)
Profit/ (loss) attributable to:					
Equity holders of the parent	100,2	120,7	132,8	124,2	(1 123,6)
Non-controlling interests	6,1	6,8	6,6	5,3	2,4
Profit/ (loss) for the period	106,3	127,5	139,4	129,5	(1 121,2)
Earnings per share	23,3p	28,0p	30,9p	28,9p	(261,2)p
Basic	23,2p	25,4p	28,2p	25,9p	(261,2)p
Diluted					

*Arising from business combinations

Source: Carillion plc Annual Report and Accounts 2013-2017 (Interim)^{lxxii-lxxvi}

Exhibit 5B: Carillion plc Historical Consolidated Balance Sheet, 2013- 2017 (Interim), in £
Millions

	2013	2014	2015	2016	30/06/2017
Non-current Assets					
Property, Plant & Equipment	128,2	140,9	140,5	144,1	138,2
Intangible assets	1 552,8	1 610,8	1 634,2	1 669,3	1 551,2
Retirement benefit assets	3,8	6,1	12,7	5,8	10,1
Investments in joint ventures	152,0	130,6	160,5	174,9	99,5
Other investments	7,3	9,3	4,7	5,4	3,9
Deferred tax assets	112,6	142,6	103,8	163,8	184,3
Total non-current Assets	1 956,7	2 040,3	2 056,4	2 163,3	1 987,2
Current Assets					
Inventories	48,6	50,1	64,3	78,8	57,3
Trade and other receivables	1 212,3	1 325,4	1 270,8	1 664,0	1 185,3
Cash and cash equivalents	413,7	472,0	462,2	469,8	390,4
Derivative financial instruments	2,2	-	14,6	46,4	40,7
Current asset investments	2,4	1,9	-	-	-
Income tax receivable	4,0	0,7	1,2	10,8	7,6
Assets classified as held for sale	-	-	-	-	0,9
Total current assets	1 683,2	1 850,1	1 813,1	2 269,8	1 682,2
Total assets	3 639,9	3 890,4	3 869,5	4 433,1	3 669,4
Current liabilities					
Borrowing	(22,5)	(35,3)	(33,5)	(96,7)	(36,9)
Derivative financial instruments	(13,2)	(22,6)	(11,6)	(10,6)	(1,7)
Trade and other payables	(1 588,5)	(1 727,1)	(1 714,3)	(2 090,1)	(1 999,8)
Provisions	(32,7)	(8,6)	(5,0)	(7,8)	(221,2)
Income tax payable	(4,7)	(8,3)	(7,2)	(12,2)	(4,8)
Total current liabilities	(1 661,6)	(1 801,9)	(1 771,6)	(2 217,4)	(2 264,4)
Non-current liabilities					
Borrowing	(606,4)	(614,0)	(598,5)	(592,0)	(924,3)
Other payables	-	(48,7)	(64,0)	(67,3)	(75,4)
Retirement benefit liabilities	(373,9)	(515,8)	(406,2)	(810,6)	(721,5)
Deferred tax liabilities	(10,2)	(11,3)	(10,5)	(15,4)	(18,7)
Provisions	(4,2)	(4,2)	(2,1)	(0,5)	(70,3)
Total non-current liabilities	(994,7)	(1 194,0)	(1 081,3)	(1 485,8)	(1 810,2)
Total liabilities	(2 656,3)	(2 995,9)	(2 852,9)	(3 703,2)	(4 074,6)
Net Assets	983,6	894,5	1 016,6	729,9	(405,2)
Equity					
Share capital	215,1	215,1	215,1	215,1	215,1
Share premium	21,2	21,2	21,2	21,2	21,2
Translation reserve	(36,4)	(33,3)	(38,9)	(0,9)	(27,1)
Hedging reserve	(5,6)	(11,2)	(8,2)	(16,5)	(17,2)
Fair value reserve	0,2	0,3	0,3	0,5	0,2
Merger reserve	414,6	400,9	393,7	389,0	391,4
Retained earnings	358,1	279,7	410,3	92,7	(1 019,1)
(Deficit)/ Equity attributable to shareholders of the parent	967,2	872,7	993,5	701,1	(435,5)
Non-controlling interests	16,4	21,8	23,1	28,8	30,3
Total (Deficit)/ Equity	983,6	894,5	1 016,6	729,9	(405,2)

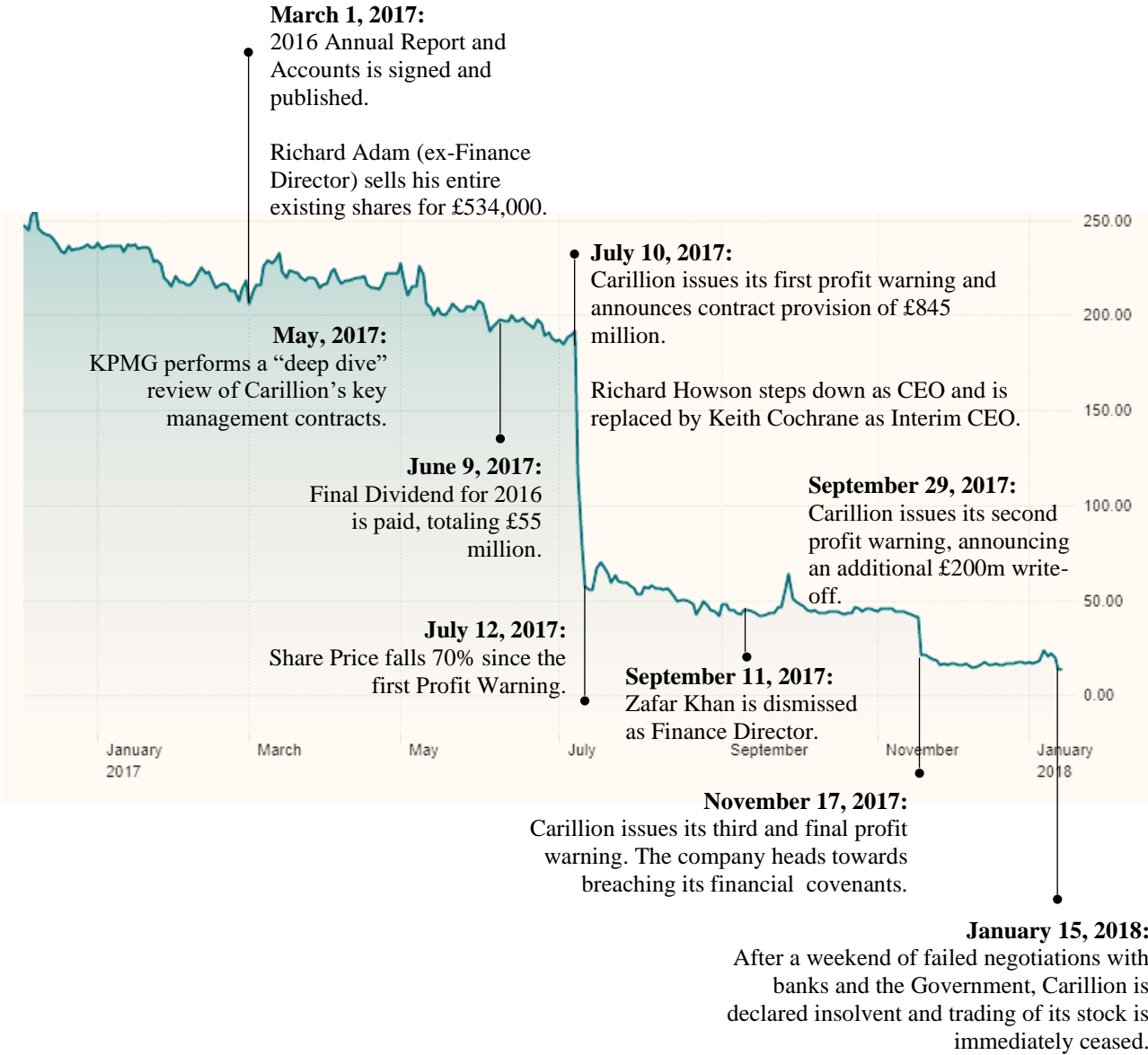
Source: Carillion plc Annual Report and Accounts 2013-2017 (Interim)^{lxxii-lxxvi}

Exhibit 5C: Carillion plc Historical Consolidated Cash Flow Statement, 2013- 2017 (Interim),
in £ Millions

	2013	2014	2015	2016	30/06/2017
Cash flows from Operating activities					
Group operating profit	124,4	175,0	183,4	145,6	(962,9)
Depreciation and amortization	44,3	44,8	45,4	45,0	26,0
Profit on disposal of property, plant and equipment and intangible assets	2,3	0,3	(14,4)	(6,4)	0,2
Profit on disposal of Public Private Partnerships equity investments	(44,6)	(13,9)	(37,7)	(12,7)	(0,4)
Other non-cash movements	(6,1)	(1,7)	(0,3)	1,9	1,9
Non-recurring operating items	44,2	-	5	40,2	1025,6
Operating profit before changes in working capital	164,5	204,5	181,4	213,6	90,4
Increase in inventories	(1,1)	(1,4)	(14,3)	(6,3)	8,3
(Increase)/ Decrease in trade and other receivables	(123,8)	(40,1)	48,0	(290,6)	(513,7)
Increase/ (Decrease) in trade and other payables	-40,6	50,5	(41,1)	301,5	182,0
Cash from operations before cash flows on forward foreign currency contracts, pension deficit recovery payments and non-recurring operating items	(1,0)	213,5	174,0	218,2	(233,0)
Cash flows on forward foreign currency contracts	-	-	-	(34,6)	(6,3)
Deficit recovery payments to pension schemes	(39,2)	(46,0)	(47,4)	(46,6)	(21,0)
Rationalisation costs	(22,0)	(11,5)	-	-	-
Non-recurring operating items	-	-	(6,3)	(21,5)	(9,8)
Cash generated from operations	(62,2)	156,0	120,3	115,5	(270,1)
Financial income received	11,1	2,9	2,4	2,5	1,9
Financial expense paid	(30,9)	(29,6)	(35,3)	(39,6)	(20,2)
Acquisition-related costs	(1,0)	(1,2)	(6,6)	(0,9)	(1,1)
Taxation payments	4,6	(4,3)	(7,5)	(4,2)	(0,5)
Net cash flows from Operating activities	(78,4)	123,8	73,3	73,3	(290,0)
Cash flows from Investing activities					
Disposal of property, plant and equipment and intangible assets	0,9	6,4	17,6	13,8	0,4
Disposal of joint ventures and other investments	143,7	36,0	54,1	47,1	1,4
Dividends received from joint ventures	18,2	9,1	16,8	11,8	4,6
Loan advance repayments received from joint ventures	2,9	15,9	7,2	2,1	0,7
Disposal and closure of business	(0,3)	-	-	-	-
Decrease in current asset investments	0,1	0,5	-	-	-
Disposal of subsidiaries, net of cash and cash equivalents disposed	-	-	-	-	24,5
Acquisition of subsidiaries, net of cash and cash equivalents acquired	(20,3)	(26,3)	(10,6)	(32,5)	(11,1)
Acquisition of non-controlling interests	-	(3,1)	-	-	-
Acquisition of property, plant and equipment and intangible assets	(28,1)	(28,8)	(30,4)	(37,3)	(19,4)
Acquisition of equity in and loan advances to joint ventures	(6,1)	(7,7)	(28,3)	(4,8)	(16,0)
Acquisition of other non-current asset investments	(3,8)	(1,2)	(0,4)	-	-
Net cash flows from Investing activities	107,2	0,8	26,0	0,2	(14,9)
Cash flows from Financing activities					
Draw down/ (Repayment) of bank and other loans	(171,0)	14,7	(19,0)	6,7	289,7
Repayment of finance lease liabilities	(16,7)	(9,2)	(6,0)	(7,4)	(4,9)
Acquisition of own shares	(2,2)	(0,5)	(0,4)	(1,0)	(1,1)
Payment to employees in settlement of share options	(0,3)	-	-	-	0
Dividends paid to equity holders of the parent	(74,6)	-75,7	(76,8)	(78,9)	(54,4)
Dividends paid to non-controlling interests	(1,1)	(1,0)	(3,2)	(3,8)	(0,6)
Net cash flows from Financing activities	(265,9)	(71,7)	(105,4)	(84,4)	228,7
Decrease in net cash and cash equivalents	(237,1)	52,9	(6,1)	(10,9)	(76,2)
Net cash and cash equivalents at 1 January	652,2	410,4	465,8	455,8	467,7
Effect of exchange rate fluctuations on net cash and cash equivalents	(4,7)	2,5	(3,9)	22,8	(2,8)
Net cash and cash equivalents at 31 December	410,4	465,8	455,8	467,7	388,7

Source: Carillion plc Annual Report and Accounts 2013-2017 (Interim)^{lxxii-lxxvi}

Exhibit 6: Carillion plc Share Price Evolution and Timeline of Events, Dec. 2016 – Jan. 2018



Sources: Carillion PLC (CLLN: LSE) in Financial Times Equities' Markets Data; Government Report on Carillion, May 2018ⁱ

Exhibit 7A: Carillion's Board of Directors - Composition and Experience as of 2017

Board Member	Position	Tenure, as of March 2017	Past Roles	External Appointments
Philip Green, CBE (63 years old)	Chairman of the Board, Independent	5 years and 9 months	<ul style="list-style-type: none"> ✓ Chief Executive of United Airlines Group, PLC ✓ Chief Executive of Royal P&O Nedlloyd ✓ Director and COO of Reuters Group, PLC ✓ COO DHL, Europe and Africa 	<ul style="list-style-type: none"> ✓ Non-Executive Chairman, BakerCorp Inc. (USA) ✓ Non-Executive Chairman, Corsair Infrastructure Management (USA) ✓ Chairman, Sentebale ✓ Founder of the charity Hope Through Action ✓ Advisor to the Prime-Minister on Corporate Responsibility
Richard Howson (48 years old)	Group Chief Executive	7 years and 3 months	<ul style="list-style-type: none"> ✓ COO, Carillion PLC ✓ Executive Director responsible for UK Construction and Middle East and North Africa, Carillion PLC ✓ Managing Director, Middle East and North Africa, Carillion PLC 	<ul style="list-style-type: none"> ✓ Chairman of BITC's Community Leadership Team ✓ Chairman of the CBI's Constructive Council ✓ Non-Executive Director, John Wood Group PLC
Zafar Khan (48 years old)	Group Finance Director	2 months	<ul style="list-style-type: none"> ✓ Group Finance Controller, Carillion PLC ✓ Finance Director, Middle East and North Africa, Carillion PLC ✓ Chief Financial Officer, Associated British Ports Holdings Ltd. ✓ Senior Financial Roles with BBA Group and Flag Telecom Holdings Ltd. 	N/A
Keith Cochrane, CBE (52 years old)	Senior Independent Non-Executive Director	1 year and 8 months	<ul style="list-style-type: none"> ✓ Chief Executive of The Weir Group PLC ✓ Chief Executive, Stagecoach Group PLC 	<ul style="list-style-type: none"> ✓ UK Government Lead Non-Executive Director for the Scotland Office

Carillion PLC: Fake It 'Til You Break It

			<ul style="list-style-type: none"> ✓ Finance Director, Stagecoach Group PLC ✓ Director of Group Finance, ScottishPower PLC 	and Office of the Advocate General
Andrew Dougal (65 years old)	Non-Executive Director (Independent)	5 years and 5 months	<ul style="list-style-type: none"> ✓ Chief Executive, Hanson PLC (International Building Materials Co.) ✓ Group Finance Director, Hanson PLC (Diversified Industrial Co.) ✓ Non-Executive Director and Audit Committee Chair, Creston PLC ✓ Non-Executive Director and Audit Committee Member, Premier Farnell PLC ✓ Non-Executive Director and Chairman of Audit Committees, Taylor Wimpey PLC and Taylor Woodrow PLC ✓ Non-Executive Director and Audit Committee Member, BPB PLC 	<ul style="list-style-type: none"> ✓ Non-Executive Director and Audit Committee Chair, Victrex PLC ✓ Member of the Council of the Institute of Chartered Accountants of Scotland
Alison Horner (50 years old)	Non-Executive Director (Independent)	3 years and 3 months	<ul style="list-style-type: none"> ✓ Operations Director, Tesco ✓ Non-Executive Director, Tesco Bank 	<ul style="list-style-type: none"> ✓ Chief People Officer and member of Executive Committee, Tesco PLC ✓ Trustee, Tesco Pension Scheme
Ceri Powell (53 years old)	Non-Executive Director (Independent)	2 years and 11 months	<ul style="list-style-type: none"> ✓ Vice President Strategy, Royal Dutch Shell ✓ Regional Vice President Exploration, Middle East, Caspian and South Asia, Royal Dutch Shell 	<ul style="list-style-type: none"> ✓ Executive Vice President for Global Exploration, Royal Dutch Shell ✓ Vice President of the Energy Institute UK

Source: Carillion plc Annual Report and Accounts 2016^{lxxvi,pp.50-51}

Exhibit 7B: Carillion’s Board Responsibilities

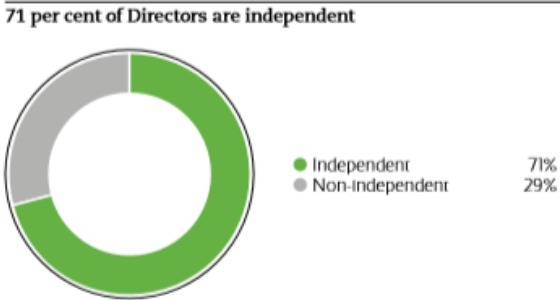
Decision making

Directors are required to attend each Board meeting and meetings of any Committee of which they are a member. In addition, other members of the senior management team and the Group’s advisers may, by invitation, attend meetings to address specific agenda items. There is a formal schedule of matters reserved for the Board, which is reviewed regularly to ensure that it remains current. Matters reserved for the Board include the items summarised in the table below:

Governance	Strategy and direction	Risk management, accountability and control
<ul style="list-style-type: none"> – Review of governance arrangements – Appointments to and removals from the Board – Terms of reference for and membership of Board committees 	<ul style="list-style-type: none"> – Approval of strategy and annual budgets – Authorisation of acquisition and disposal activity – Affirmation of risk management strategies and risk appetite 	<ul style="list-style-type: none"> – Approval of financial statements, other updates to the market and recommendations on dividends – Approval of authority levels, financial and treasury policies – Review of internal control and risk management – Approval of Health and Safety policies

Source: Carillion plc Annual Report and Accounts 2016^{lxxvi}, pp.53

Exhibit 7C: Carillion’s Board Effectiveness Assessment

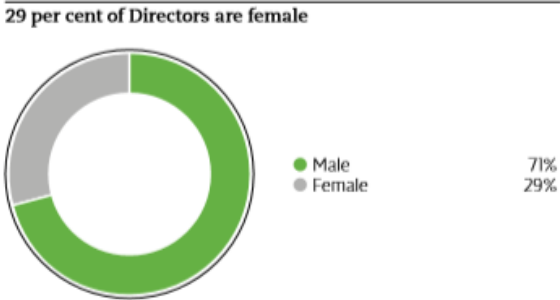


Board meeting attendance

The number of scheduled Board meetings attended by each Director together with the number of Board meetings that they were eligible to attend during 2016 and 2015 is summarised in the table below:

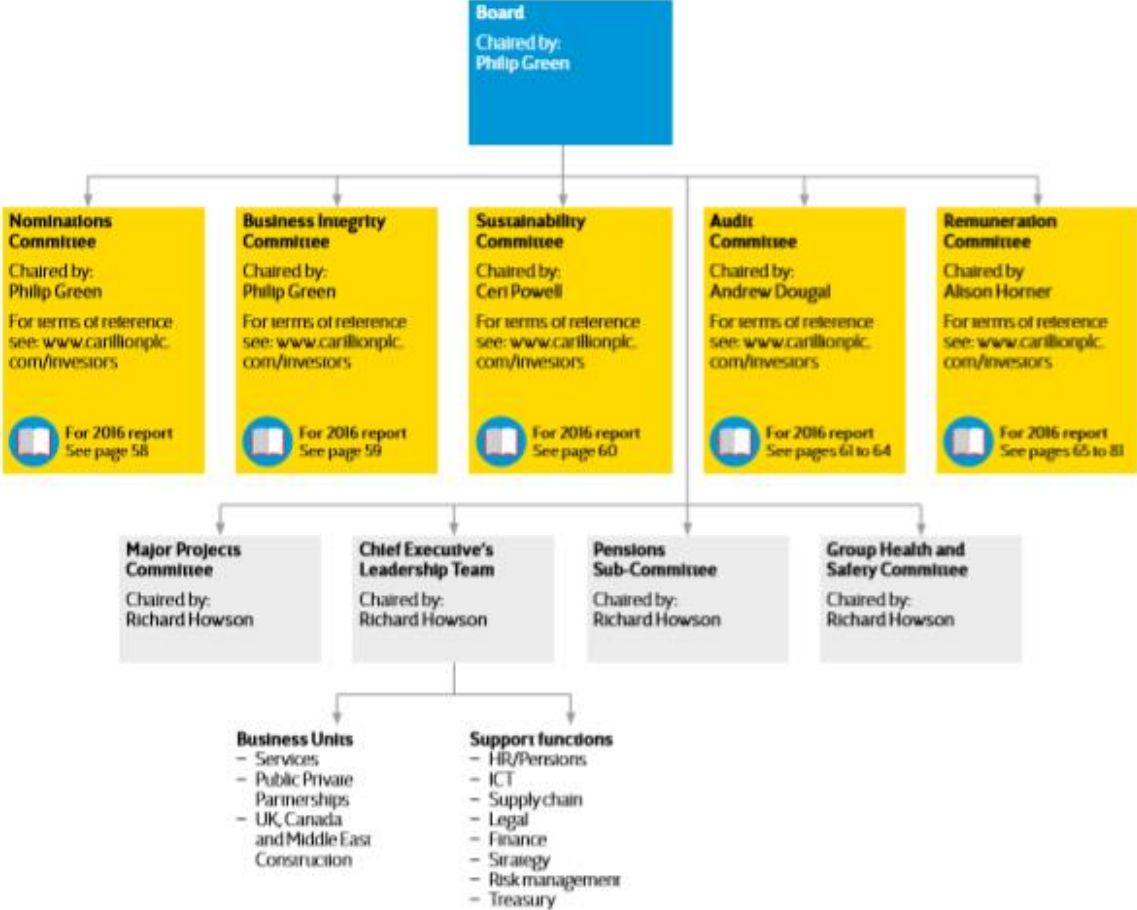
Member	2016			2015		
	Attendance	Eligibility	Percentage	Attendance	Eligibility	Percentage
Richard Adam	10	10	100	10	10	100
Keith Cochrane*	10	10	100	5	5	100
Andrew Dougal	10	10	100	10	10	100
Philip Green	10	10	100	10	10	100
Alison Horner	10	10	100	10	10	100
Richard Howson	10	10	100	10	10	100
Ceri Powell	10	10	100	10	10	100

* Keith Cochrane was appointed to the Board on 2 July 2015.



Source: Carillion plc Annual Report and Accounts 2016^{lxxvi}, pp.54

Exhibit 8A: Carillion plc’s Governance and Management Structure, as of 2017



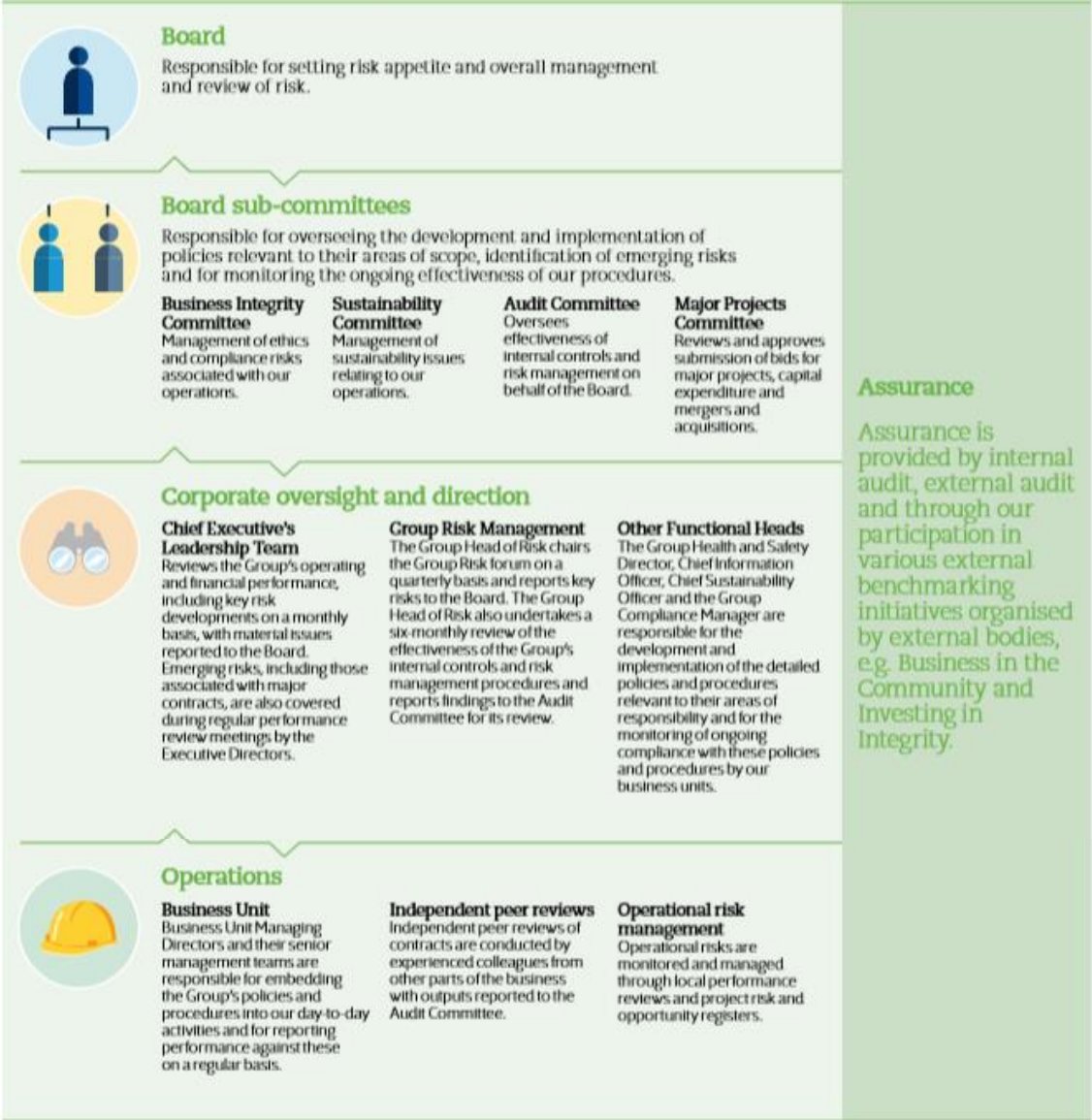
Source: Carillion plc Annual Reports and Accounts 2016^{lxxvi}, pp. 52

Exhibit 8B: Description of Carillion's Committees

Committee	Summary of terms of reference	Minimum number of meetings
Nominations Chaired by: Philip Green	<ul style="list-style-type: none"> - Makes recommendations on appointments to the Board and its Committees - Reviews the Group's succession arrangements and overall Board composition to ensure the balance of skills and experience remains appropriate 	1
Business Integrity Chaired by: Philip Green	<ul style="list-style-type: none"> - Reviews and oversees the development and implementation of the Group's Ethics and Business Integrity Policy - Monitors the Group's compliance with relevant legislation such as the Bribery Act 2010 and the Competition Act - Monitors the Group's communication and training programmes on ethics and business integrity 	2
Sustainability Chaired by: Ceri Powell	<ul style="list-style-type: none"> - Reviews and approves policies, targets and performance in relation to key sustainability initiatives - Reviews and approves the annual Sustainability Report prior to publication - Monitors legislation and/or regulations that might affect the Group or its stakeholders and other matters which could impact corporate reputation and the management of any such matters - Engages with internal and external stakeholders on key sustainability themes 	4
Audit Chaired by: Andrew Dougal	<ul style="list-style-type: none"> - Reviews and reports to the Board on the Group's financial reporting to investors, internal controls and risk management processes - Makes recommendations to the Board on the appointment or reappointment of the external auditor and monitors the effectiveness and independence of the external auditor - Directs and reviews the work undertaken by the external and internal audit functions 	3
Remuneration Chaired by: Alison Horner	<ul style="list-style-type: none"> - Reviews and advises the Board on remuneration arrangements for the Chairman, the Executive Directors and their direct reports 	3

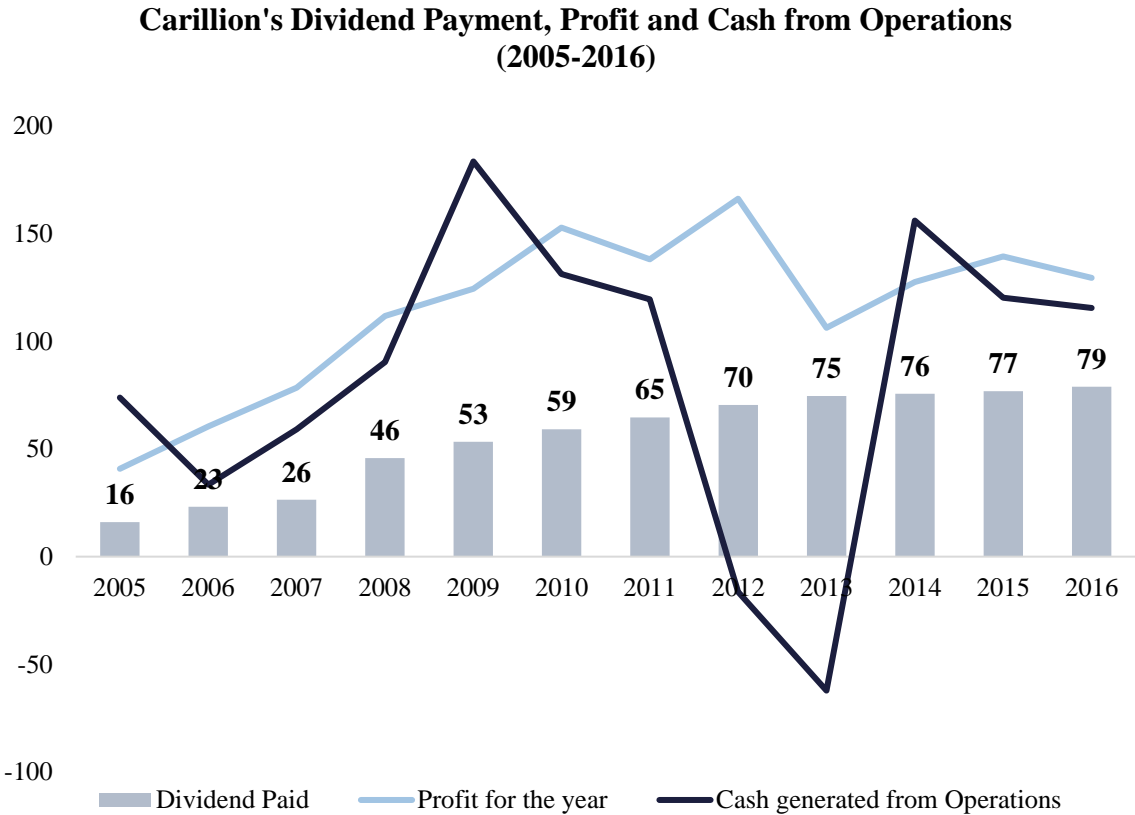
Source: Carillion plc Annual Report and Accounts 2016^{lxxvi, pp.55}

Exhibit 8C: Carillion plc’s Risk Management Framework



Source: Carillion plc Annual Report and Accounts 2016^{lxxvi}, pp. 30

Exhibit 9: Carillion’s Dividend Payment Policy



Source: Carillion plc Annual Report and Accounts 2005-2016^{lxv-lxxvi}

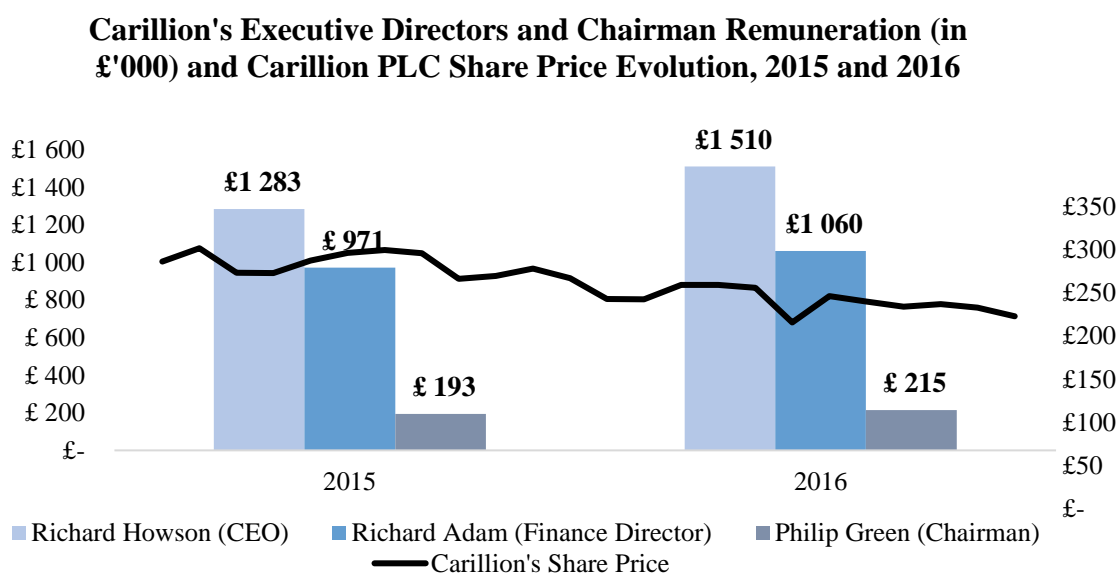
Exhibit 10A: Carillion's Board of Directors Remuneration, 2015 and 2016

Values in '000£	2015					
	Salary/Fees	Benefits	Bonus	LT Incentives	Pension	Total Remuneration
Executive Directors						
Richard Howson (CEO)	£ 610	£ 20	£ 293	£ 146	£ 214	1 283
Richard Adam (Finance Director)	£ 457	£ 20	£ 215	£ 117	£ 162	971
Non-Executive Directors						
Philip Green (Chairman)	193	-	-	-	-	193
Andrew Dougal	60	-	-	-	-	60
Alison Horner	60	-	-	-	-	60
Ceri Powell	60	-	-	-	-	60
Keith Cochrane	28	-	-	-	-	28

Values in '000£	2016					
	Salary/Fees	Benefits	Bonus	LT Incentives	Pension	Total Remuneration
Executive Directors						
Richard Howson (CEO)	£ 660	£ 28	£ 245	£ 346	£ 231	1 510
Richard Adam (Finance Director)	£ 460	£ 19	£ 140	£ 278	£ 163	1 060
Non-Executive Directors						
Philip Green (Chairman)	£ 215	-	-	-	-	215
Andrew Dougal	£ 61	-	-	-	-	61
Alison Horner	£ 61	-	-	-	-	61
Ceri Powell	£ 61	-	-	-	-	61
Keith Cochrane	£ 61	-	-	-	-	61

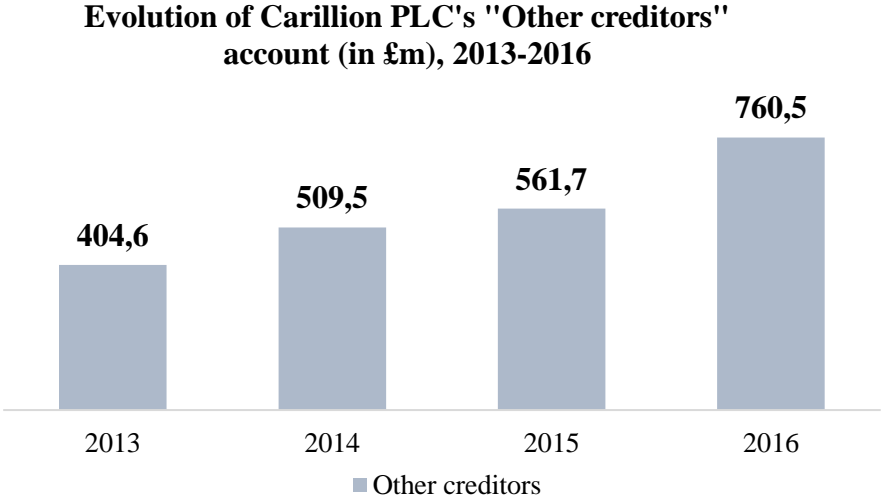
Source: Carillion plc Annual Report and Accounts 2016^{lxxvi}

Exhibit 10B: Carillion's Executive Directors and Chairman's Remuneration Evolution and Share Price Evolution, 2015 and 2016



Source: Carillion plc Annual Report and Accounts 2016^{lxxvi}; Bloomberg Terminals

Exhibit 11: Evolution of Carillion PLC's "Other creditors" account, 2013-2016⁶

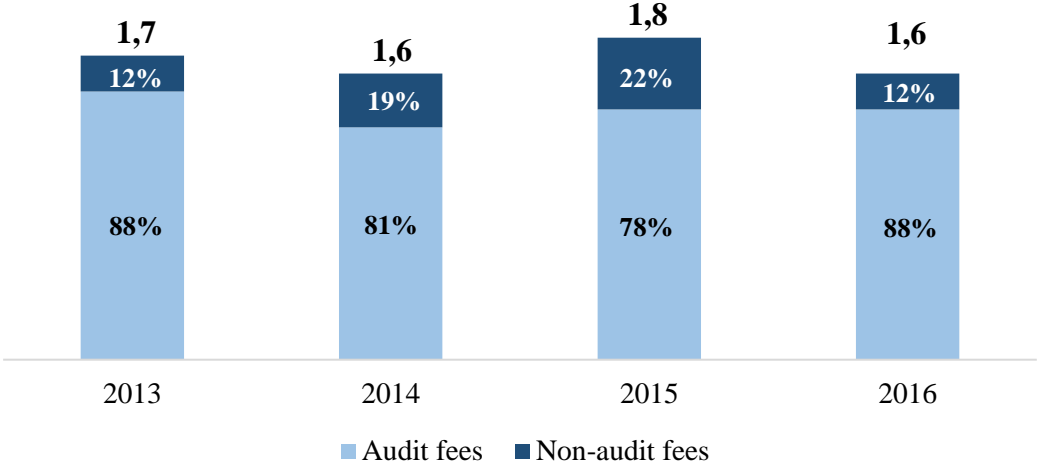


Source: Carillion plc Annual Report and Accounts 2013-2016^{lxxii-lxxv}

⁶ Carillion introduced its Early Payment Facility (EPF) in the beginning of 2013. Drawing on the EPF was included in "Other Creditors", a sub-account of the Balance Sheet item "Trade and Other Payables".

Exhibit 12: Breakdown of the Fees paid by Carillion plc to KPMG (External Auditor), for both Auditing and Non-Auditing services, 2013-2016.

KPMG Auditing and Non-Auditing Fees, 2013-2016 (in £m)



Source: Carillion plc Annual Report and Accounts 2013-2016^{lxxii-lxxv}

Exhibit 13A: Carillion's Top Shareholders as of December 2016

Company	% Share Issued Capital as of December 2016
BlackRock Inc.	8,68%
Schroders PLC	7,80%
Franklin Resources Inc.	6,49%
Brewin Dolphin Holdings	5,82%
Kiltearn Partners LLP	5,01%
Letko Brosseau and Associates	4,97%

Source: Bloomberg Terminals

Exhibit 13B: Carillion's Shareholder Evolution, Q4 2016 – Q4 2017

Company	Holdings				
	2016 Q4, % Issued Share	Q1 2017, % Issued Share	Q2 2017, % Issued Share	Q3 2017, % Issued Share	Q4 2017, % Issued Share
Franklin Resources Inc.	6,49%	8,33%	1,77%	1,13%	1,13%
BlackRock Inc.	8,68%	7,38%	6,78%	1,21%	2,14%
Brewin Dolphin Holdings	5,82%	5,49%	4,99%	1,28%	1,09%
Kiltearn Partners LLP	5,01%	5,01%	5,01%	10,00%	4,94%
Letko Brosseau and Associates	4,97%	4,97%	6,11%	6,11%	2,77%
Dimensional Fund Advisors	4,05%	4,36%	4,36%	2,36%	4,51%
Harsgreaves Lansdown Asset Management Ltd.	3,27%	3,82%	4,87%	9,59%	13,02%
Interactive Investor Trading Ltd.	3,05%	3,46%	4,26%	6,91%	8,27%
Deutsche Bank AG	3,07%	3,32%	1,71%	3,85%	3,38%
Rathbone Brothers PLC	3,05%	3,06%	1,89%	0,45%	0,27%
Schroders PLC	7,80%	2,83%	3,22%	0,41%	0,00%
Legal & General Group PLC	2,59%	2,72%	2,63%	2,26%	2,40%
The Vanguard Group Inc.	2,43%	2,56%	2,82%	2,98%	2,63%
Barclays PLC	2,23%	2,43%	2,87%	5,17%	6,43%
Norges Bank	2,23%	2,23%	2,23%	2,23%	0,00%
Standard Life Aberdeen PLC	2,67%	1,65%	5,85%	5,50%	5,73%
Halifax Share Dealing Ltd.	1,24%	1,53%	2,05%	3,85%	5,51%
HSBC Holdings PLC	1,24%	1,46%	1,75%	2,16%	2,44%
State Street Corp	0,95%	1,41%	2,01%	2,23%	2,07%
Marlborough Fund Managers Ltd.	2,36%	1,34%	0,00%	0,00%	0,00%

Source: Bloomberg Terminals