Private & Confidential

Rt Hon Frank Field MP and Rachel Reeves MP

The Chairs

Work and Pensions Committee

Business, Energy and Industrial Strategy Committee

20 February 2018

Dear Mr Field and Ms Reeves

Carillion – Joint Select Committee Hearing Evidence

I write in response to your letter to me dated 13 February 2018 in which you ask some additional questions.

(1) You told us that the Board had been surprised by deteriorating cash flow data presented to it by Zafar Khan in September 2017 (Q433-438). Could you please elaborate? In particular, were the figures presented by Mr Khan simply very bad or had he also revised previous estimates downwards?

In my evidence, I was referring to a series of Board meetings which occurred during the week of 28 August 2017. In preparing this letter I have gone back and re-reviewed the minutes of those meetings and I attach copies.

I can see from the minutes that there was a Board meeting on Wednesday 30 August (during this time we were having weekly Board meetings, usually on a Wednesday). The minutes note that Zafar told the Board that on liquidity there was a reasonable margin to the forecast submitted to the banks (which meant that it was unlikely the group would need further lending facilities). It therefore came as a surprise when, at some point during the next couple of days I was asked by Keith Cochrane to convene a Board Meeting, at short notice, to discuss a deterioration in forecast liquidity since Wednesday. That meeting took place on Sunday 3 September; Zafar and EY took the Board through the revised position, noting that there was likely to be a further deterioration of liquidity until November.

When in my evidence before the Committee I referred to the Board being surprised by the deteriorating cash flow, I was recalling these meetings, where between Wednesday and Sunday the information the Board was receiving on the liquidity position had materially changed. It is always a matter of concern for me as a non-executive director when the information being presented by management changes significantly over a short period of time. In this case the revised numbers (provided within less than a week) were worse and they changed the Board's understanding of what was needed for the business, in particular the need to explore potential new financing facilities. These new finance facilities were in fact secured later in September.

The next week Keith told me he had lost confidence in Zafar. I do not believe it was solely because of these meetings. Rather it was a combination of factors, including a belief that Zafar was not close enough to the underlying business unit numbers, but also the fact that he did not consider Zafar the right person to participate in the negotiations with the banks. Keith proposed Emma Mercer, who was very close to the construction business, to be the new CFO to work alongside EY who would assist with cash management and the raising of new financing.

(2) You referred to a "lessons learned session" in mid-2017 (Q458). Could you please provide any papers you have from that meeting and give details of those lessons?

The "lessons learned session" that I was referring to was part of a strategy meeting that the Board held on 7 June 2017. I had asked for this because of the position the company found itself in in May in respect of challenging contracts.

I enclose copies of the relevant papers management prepared for that strategy meeting and the minutes of the meeting. The session I was referring to was the Lessons Learned from Broader Contract Performance / Risk Review, which appears at pages 69 to 71 of the enclosed document.[1]

I felt that it was necessary for management to take a step back and share with the Board issues identified in the business and where it could improve. It was a robust review that actively sought to identify challenging issues, and actions came out of that meeting which were implemented over the following months.

(3) You told us that you did not get "all of the decisions right" (Q469). What would you regard as the Board's three most regrettable decisions during your tenure?

To reiterate what I said to the Committee, yes in hindsight there are some decisions the Board did not get right when I was Chairman. These were judgment calls taken with the best intentions, but looking back do not now feel like the right decisions.

First, I regret that the Board did not reduce net debt sooner (for example, through an equity fundraising one to three years earlier). We of course explored the possibility of raising equity around June 2017, but were unfortunately unable to get that away. I believe that had we done that one to three years earlier we would have had more success in raising equity, and therefore lowering our debt. This would have strengthened our balance sheet to better withstand the problems we faced from the middle of 2017.

Second, I regret that the decision was taken to pay the dividend in March 2017. At the time we believed that the dividend was affordable and that the budget which forecasted reduction in net debt was achievable. Had we known the extent of the deterioration in the financial position of the company that ensued later in 2017, we would not have agreed to any dividend.

Third, I regret that we did not take the decision to make a change in management sooner (by a few months, not years). While Richard Howson and Zafar Khan had many strengths, they were ultimately not the right people to deal with the challenges that emerged in 2017.

There were also other decisions which were taken before my time as Chairman or by management (rather than the Board), which again in retrospect should not have been taken. For example the Eaga acquisition in early 2011 was, in hindsight, a mistake and added materially to our debt position. I also believe that looking back we should have accelerated our withdrawal from some of the markets in the Middle East and Canada; indeed we pulled out of some of these markets in 2017. It is also clear that we should not have bid for the four major contracts in the way that we did, which caused the company so much difficulty in 2017.

I understand that, looking back, it can seem that some decisions were clearly wrong given how events have unfolded. All businesses have to make judgments as to unknown future positions. As a Board, we made our judgments with independent inputs, not to shirk responsibility but to test and support those judgments. Ultimately, the way things will unfold is only obvious with hindsight.

(4) You told us that you take "full responsibility" but "not necessarily culpability" for the collapse of the company (Q470). Who do you regard as culpable?

I accept responsibility because I led the body with ultimate responsibility for the company's performance. The company has failed with serious consequences. I have identified some decisions which I would have decided differently and I do feel responsible given the role I had as Chairman. I do not believe that it is for me to say who is "culpable" for the company going into liquidation. There are other investigations on foot, and it will be for them to determine any ultimate liability. I will of course fully co-operate in those investigations.

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1 I note that the pagination of the "Summary" document appear to indicate that pages 4 and 18 of an original document were extracted and included in the papers provided to the Board. Just to confirm, the attached is the format in which the document was provided to me in my Board papers. I do not recall seeing the fuller document (if there is one) from which these pages were extracted.

(5) In Q510 you referred to "some examples" where the company should have spent longer negotiating contracts. What please were those examples? Why do you think Carillion tended to devote insufficient time to such negotiations?

In my answer to the Committee I was referring to the "Major Project Lessons Learned" document which I describe at my answer to question (2) above. One of the issues we identified was that, in some cases, the company had been too fast in entering into construction contracts. Some of the examples of that can be seen in Appendix 1 to the document. For example, the review identified a particular contract where the contract prevented resolution of disputes until the works were complete and it also allowed the customer to progress the work without adequately addressing the changes and delays. Generally, management considered that there may have been some contracts which were entered into where the contracts may have been improved by further negotiation or time.

Some of the documents that I have enclosed with this letter contain information which is confidential to the company and third parties and potentially commercially sensitive. I have provided these documents to the lawyers of the Official Receiver. I enclose a copy of the letter I have received in response and would draw the Committee's attention to the penultimate paragraph of that letter.

Please do let me know if I can do anything to further assist the Committee in its investigation.

Yours sincerely

Philip Green

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