

LAZARD

Rt Hon Frank Field MP
Chair, Work and Pensions Committee
House of Commons
London
SW1A 0AA

Rachel Reeves MP
Chair, Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

*To be sent by email to Katy Stout, Second Clerk, Work and Pensions Committee-
stoutk@parliament.uk*

Confidential

20th February 2018

Dear Mr Field and Mrs Reeves,

I refer to your letter dated 13th February 2018.

I set out below on behalf of Lazard & Co., Limited ("Lazard" or "we") our response to the matters referenced in your letter (following the same numbering used in your letter):

1. Lazard signed a formal engagement letter with Carillion plc ("Carillion" or the "Company") on 5th September 2017. Under this letter we agreed to provide financial advisory services, to the extent requested by Carillion, to assist it in connection with (a) its financial analysis of potential capital raising strategies; (b) its financial analysis of potential recapitalisation strategies including any restructuring of Carillion's debt securities; (c) any sale of all or a substantial part of Carillion's UK healthcare facilities management business; (d) any other disposal that Carillion decided to pursue; and (e) any sale of all or a substantial part of the share capital of the Company. Lazard's engagement commenced during June 2017, when we were asked to provide advice given the financial difficulties that it was becoming apparent were faced by the Company.

Subsequently, the Company engaged us on 19th September 2017 to provide, in addition, sponsor services for the purposes of the UK Listing Rules in connection with the proposed sale of the Company's UK healthcare facilities management business and the potential sale of all or a substantial part of the Company's Canadian business.

2. Please see the response set out above.

3. Lazard received £2.75 million in fees from Carillion in relation to our engagement. These fees comprised eight instalments of a monthly retainer fee of £250,000 payable from 1st June 2017, a fee of £250,000 payable on announcement of the sale of Carillion's healthcare facilities management business and a separate fee of £500,000 in relation to the provision of sponsor services to the Company. Our engagement letter provided for 'success or transaction' fees that would only be payable on the completion of any capital raising, restructuring or stabilisation of the Company such that credit lines remained available to the Company, as well as on the completion of the sale of Carillion's healthcare facilities management business. Our fees were structured to include a significant proportion of fees that only became payable on the successful completion of a transaction or event, thereby aligning our reward to successful outcomes for the Company; these fees did not become payable.

We have not entered into any other engagement letters with, and we have not received any other fees from, Carillion in the last 3 years.

4. We worked closely with the Company's Board of directors and senior management, the Company's legal advisers Slaughter and May, the Company's joint financial advisers and corporate brokers HSBC and the Company's restructuring advisers EY during the period of our engagement referred to above. Lazard's team included four Managing Directors and nine other bankers.

The proposed sale of the company's UK healthcare facilities management business was the only asset sale process in relation to which the Company asked us to act as lead financial adviser. We secured a purchaser, Serco plc ("Serco"), which agreed to acquire a large part of this business for cash consideration of £47.7 million. The signing of Heads of Terms for this disposal was announced on 24th October 2017 and the signing of a definitive Business Purchase Agreement was announced on 13th December 2017. Because of the very substantial fall in the Company's market capitalisation resulting from Carillion's trading update on 10th July 2017 and half yearly results announcement on 29th September 2017, this disposal became classified as a Class 1 transaction for purposes of the UK Listing Rules. This meant that the sale necessitated the Company's shareholders' approval prior to completion; this was not obtained prior to the Company being placed into liquidation. It was announced on 14th February 2018 that Serco is acquiring the same business from the Official Receiver for cash consideration of £29.7 million.

Given the Company's serious financial difficulties and indebtedness, we explored options to seek to recapitalise and restructure the Company in a manner that might be capable of securing the support, not only of the Company's creditors, but also of HM Government as the Company's largest customer and counterparty to some of the Company's loss making contracts. Based on our experience of complex restructurings, it was likely that the only way that a solution could be found for Carillion's financial difficulties was if each of the major stakeholders in the Company was prepared to make significant concessions and to provide funding support. Ultimately it was not possible to achieve this, but we assisted the Company to make progress towards achieving this objective. This included (a) securing in October 2017 an emergency, largely unsecured £140 million facility from the Company's five core UK banks creditors; (b) obtaining agreement from the Company's creditors to defer the test date for the Company's financial covenants from 31 December 2017 to 30 April 2018 to provide sufficient time for a potential recapitalisation and restructuring to be effected; (c) identifying potential new money investors who were undertaking due diligence in relation to the Company's business plan although the Company was aware that such

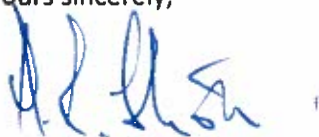
potential new money investors were unlikely to fund losses on key contracts; (d) receiving indications that the Company's pension trustees would support the Company and (e) working with the legal and financial advisers to various financial stakeholder groups, and receiving indications from key lenders that they would support the Company through the full equitisation of their claims against the Company; and (f) working on the implementation options for the Company's financial planning, and undertaking detailed planning alongside the Company's legal advisers and the advisers to other financial stakeholder groups.

The ability to seek a successful outcome to this situation hinged on (a) the Company's management being able to develop and present a credible business plan to both existing stakeholders (including lenders, key customers and pension trustees) and parties willing to support the Company with new money, and for this business plan to go through an Independent Business Review; (b) the Company developing a credible restructuring and implementation plan which would gain the support of key stakeholder groups; and (c) creating a stable platform with sufficient liquidity to provide time for the above to happen. Ultimately whilst significant progress was made on the above, the Company had insufficient liquidity to buy the time necessary to conclude discussions on these matters. Whilst further short term financial support was requested from key lenders and HM Government in its capacity as a major customer, the Company's Board of directors was unable to secure the requisite support leading to the Company being placed into liquidation on Monday 15th January 2018.

5. As far as we are aware, the specific advice that we were requested to provide to Carillion pursuant to our engagement letter dated 5th September 2017 was listened to by Carillion's Board of directors but we were not requested to be present for the duration of all of those Board meetings that we attended during our engagement. Inevitably our role and advice evolved over time as the Company produced more detailed financial information and the magnitude of the issues facing the Company became increasingly apparent.

We hope that this information is helpful in the context of the Work and Pensions and Business, Energy and Industrial Strategy Committees' deliberations.

Yours sincerely,



Nicholas Shott
Vice Chairman
For and on behalf of Lazard & Co., Limited