Carillion plc

MINUTES OF A MEETING OF
THE BOARD OF DIRECTORS

Held by telephone meeting on
Monday 15 May 2017 at 7.45 am

Present:  
Mr. P.N. Green  Chairman
Mr. K.R. Cochrane
Mr. A.J.H. Dougal
Mrs. A.J. Horner
Mr. R.J. Howson
Mr. Z.I. Khan

In attendance:  
Mr. R.F. Tapp  Secretary
Mr. D. Arch  Stifel
Mr. A. Green
Mr. F.R. Herzberg
Mr. D. Holmes
Mr. P. Moorhouse  Morgan Stanley
Mrs. E. Mercer
Mr. T. Perry  Morgan Stanley
Mr. C.W.Y. Underhill  Slaughter and May

Minute No:  
2136 Minutes

The Minutes of the meeting held on 9 May were approved.

Matters arising: Following discussions subsequent to the meeting of 9 May, it has been agreed that the independent accounting review of the 2016 year-end position in relation to the contracts envisaged as part of the four-stage review will not now be required. The plan will proceed on the basis of a three-stage review comprising the internal review, the KPMG review and the sub-committee of the Board chaired by Andrew Dougal.

2137 Accounting Review

The Minutes of the meeting of the Accounting Review Sub-Committee held on 11 May had been circulated and were noted.

At the Chairman’s request, Mr Howson noted the Working Group led by Mr Herzberg and comprising Mr Green, Mr Holmes and Mrs Mercer had spent time with the teams on Liverpool, Battersea and Aspire. Mr Green had also visited Aberdeen for his fortnightly
review and had also discussed the negative accrual. Whilst in Aberdeen he had seen the draft presentation to Scottish Ministers, which Mr Howson and Mr Khan would review further in the coming week.

The Chairman noted that the culmination of the review team's work had been Mr Herzberg's paper, which had been circulated, and he invited Mr Herzberg to take the Board through the paper.

**Mr Herzberg's paper**

Mr Herzberg noted that he had been asked to inquire into the circumstances surrounding the creation of a series of "negative accruals" i.e. journals to reduce the amount of cost that had been accrued on certain contracts. Since that time he had been working with the Working Group and they had interviewed individual staff on Liverpool, Battersea, Aberdeen and Army 2020 (also known as Aspire). All interviewees were site based and did not report directly to any of the interview team. None of the interviewees reported directly or indirectly to Mr Herzberg himself.

It was apparent from the interviews that there are potential claims against customers and suppliers which have been included in recovery plans and which therefore could, and probably should, have been included in the financial statements as at 31 December 2016 to replace the "negative accruals". As with all uncertified claims, the amounts claimed are management estimates.

All the potential claims were contemplated either at or before the year-end. Some of the claims were at the top end of recovery expectations but there are other claims, not currently included in the recovery plans, that may be included, if necessary. The Working Group would document the basis for all claims, the proportions being recognised and the confidence being attached to claims before presenting the material to KPMG. It would also highlight, in the case of Aberdeen, any adjustments made at Carillion level rather than at joint venture level.

Based on the information presented during the interviews, the Working Group found the recovery plans to be credible.

The recovery plans are intended to cover the position created not just by the "negative accruals" but also by any additional costs identified by the working committee which are needed to give the traded outcome.

A broad overview of the nature of the 31 December 2016 position and claims in relation to Liverpool, Battersea and Aberdeen (the projects with the most significant "negative accruals") was as follows:

- Liverpool required £49m to be found (£47m of which were negative accruals), the majority of which related to claims against subcontractors.
• Battersea had £44m to be found (£24m of which were negative accruals), about half of which related to a claim against the customer and about half of which related to claims against subcontractors.

• Aberdeen had £77m to be found (£18m of which were negative accruals), the vast majority of which related to a claim against the customer and much of the rest of which relates to insurance claims. (Mr Herzberg noted that all figures in the foregoing are Carillion’s one third share)

The trading position on these live projects changes from month to month: in the next stage the Working Group would also consider whether the traded position as at 31 December 2016 remained reasonable in the light of recent trading.

The next step would be to present the recovery plans (one for each project) to KPMG for its review on 16 and 17 May 2017. In summary, Mr Herzberg reiterated that the Working Group found the recovery plans to be credible based on the information presented during the interviews.

The work of the Accounting Review Sub-Committee

Mr Dougal summarised the work of the Accounting Review Subcommittee which comprised Mr Cochrane and himself. They had met in person on the preceding Thursday and had been able to discuss the position with each member of the Working Group. Mrs Mercer’s comments had been particularly helpful. Mr Herzberg had summarised the position well.

Mr Dougal noted that he had a short conversation with KPMG timetabled for Tuesday, when they were starting work on the papers, to garner their initial thoughts. He had also asked to see the broad content of the papers to be put to KPMG.

A further meeting of the Sub-Committee was planned for 3pm on Thursday 18 May, which KPMG would also attend.

Mr Cochrane noted that he had nothing to add to Mr Dougal’s comments. He and Mr Herzberg had summarised the position well and it would be a key area for discussion with KPMG. It was important to ensure there was an appropriate degree of confidence around the claims to ensure that they were credible, with a realistic chance of recovery and not simply an assumption that they would all fall in our favour.

Mr Howson noted that the Working Group was focused on the year-end position. During the coming week, as part of the PRM sequence he and Mr Khan would explore the early flash of the RF2 position looking at work won, work to win, and the first flash of the business plan prior to reviewing the position in detail next week before presenting the full position to the June board.
Next steps

The Chairman noted that a further Board call would be arranged for Tuesday or Wednesday of the following week. Mr Meehan be asked to attend and report verbally, as would Mr Herzberg.

He asked that a draft agenda for the strategy session and dinner at the Board session on 7 June be prepared for his approval, including coverage of the profit and loss account, balance sheet, "self-help" and the issues arising out of the accounting review.

The Chairman noted that advisers were on the call and asked if they or colleagues had any further matters to discuss.

Mrs Horner summarised the position for her understanding, which the Chairman confirmed was correct, noting also that it would be necessary to consider further how the issue had arisen and the role of KPMG in due course.

Mr Dougal noted that at the sub-committee Mrs Mercer had described the position as one of "sloppy accounting." It would, of course, be essential not to repeat the situation and the company doubtless had in hand arrangements to ensure that was the case. The Chairman noted that the agenda for 7 June should address that position explicitly.

Mr Dougal noted also that it was necessary to understand the KPMG position further. The understanding had been that KPMG had a good approach to the audit of contract judgements but clearly in this instance it did not pick up this "sloppy accounting" and it would be necessary to understand what KPMG would itself do differently in future.

Mrs Horner suggested that a formal exit interview be undertaken with Mr Haywood, if that were not already the case.

The Chairman summarised the next steps further, and thanked colleagues and advisers.

CHAIRMAN