PRIVATE AND CONFIDENTIAL
13 January 2018

Carillion plc

Summary of short term funding proposal, and status update

Set out below is (i) a status update regarding progress since yesterday's meetings, and (ii) a high level overview of Carillion's short term funding proposal, setting out the breakdown in exposure between HMG and the banks, and explaining the mechanism by which such funding would be made available (i.e. by means of a guarantee by HMG of funding to be provided by the banks). There is a clear milestone and decision point towards the end of January that allows progress towards the longer term restructuring to be assessed before additional exposure is taken on. This paper supplements the original funding proposal submitted on 11 January, and in addition responds to certain additional questions raised by HMG.

1 - STATUS UPDATE

Since the meeting yesterday (12 Jan) between, among others, HMG, the Company, the CoCom banks and various advisers:

- the funding proposal set out below has been discussed in further detail with the CoCom banks and their various advisers, and FTI has confirmed by email that the CoCom banks have all confirmed their support for these measures (the wording of FTI's confirmation is included in a schedule to this paper)

- further discussions have been had with the sureties. Given their very high level of exposure to losses upon the failure of Carillion, they are in the final stages of approving the provision of short term liquidity support in the form of a £10m advance payment bond. The liquidity created by this bond would enable the Group to collateralise the exposure of RBS and Santander under certain of their ancillary facilities

- the Company continues to hold discussions with potential new money providers in relation to longer-term funding to be injected as part of the restructuring, with additional discussions scheduled for tomorrow. The Company believes (and is seeking confirmation from FTI that it agrees with its analysis) that the quantum of the new money ask will be less than £300m for longer-term funding, which is an amount the Company is confident can be raised, and that indications of support to that effect can be secured in the short term. This significantly improves the prospects of successfully completing the restructuring of the Group, which would result in a significantly improved outcome for all stakeholders when compared to the alternative of an insolvency.

2 – SUMMARY OF SHORT TERM FUNDING PROPOSAL

The proposal set out below provides for £220m of interim cash funding to the Group to end April. It assumes that this cash is provided by the Banks (in part under existing facilities the Banks have provided), with the benefit of a guarantee from HMG in respect of a portion of that exposure. However, if HMG would prefer to cash fund any element, then the proposal could be readily adjusted to allow for that. It is essential to understand that, on closing of the restructuring, the HMG guarantee would be completely released (or, if support is provided by cash funding, that funding would be repaid).

Step 1:

- Week commencing 15/1 (funds need to be in by 16/1)
    - Banks - £10m
    - Government - £10m

- Week commencing 22/1:
    - Banks - £10m
    - Government - £10m

The above to be provided by utilizing the current undrawn element of the existing £100m unsecured facility (Banks to fund, Government to guarantee £20m)

Step 2:

- Government provide a guarantee against the EPF exposure from Monday 15/1 through to the end of January – guarantee exposure capped at £[60-70m]

Step 3:

- Progress assessed on two milestones:
    - New Money Term Sheet finalised – by Friday 19/1
    - Launch Restructuring proposal including new money term sheet to wider creditor groups for credit approval – by Friday 26/1
- Decision to continue support, or not, based on progress

Step 4: (End January)

- Additional funding of £110m required. EPF payment made to banks of circa £100m. Guarantee of EPF provided in step 2 falls away

Funding to be provided by upsizing the existing £100m unsecured facility. Assumed that HMG would provide Banks with guarantee of that additional funding

Step 5: Implementation of Restructuring proposals (February to April)

- Banks fund additional £40m under unsecured facility
- Banks continue to provide EPF and other ancillary facilities (not guaranteed)
- Government funds a further £30m (through same mechanism as in step 4)

At this stage, if commercial agreement reached around term sheet, then this funding requirement may be capable of being provided by New Money providers in which case Government and Bank exposure would reduce. This could also potentially include part of the £110m payment at the end of January if progress was rapid

Total Exposure:

	To Jan Milestones	To Early Feb	To end April
Banks	**£20m**	**£40m**	**£60m**
Government	**£80-90m**	**£130m**	**£160m**

The above proposal assumes that the CoCom banks continue to provide ancillary facilities (such as overdraft facilities, invoice discounting facilities and BACS facilities) to the Company on current terms. Three of the CoCom banks have confirmed this. RBS and Santander require additional protection in order to continue to make their ancillary facilities available to the Company, which will be provided through the liquidity created by the advance payment bond that will (subject to final approvals) be supplied by the sureties

3 - ADDITIONAL QUERIES

- **HMRC –** the TTP request submitted to HMRC has a £16.2m benefit at the end of January, a £41.2m benefit at the end of February, a £53.4m benefit at the end of March, and a £62.7m benefit at the end April. If HMRC do not agree to this request, then through to when the January milestones are tested there will be no increase in HMG's exposure under the proposal set out above. If the Company successfully launches a restructuring term sheet in line with the milestone, then we think that HMRC should accept a revised TTP proposal on the basis that there will then be a clear route through to a restructuring and a sustainable platform that can pay down the deferred taxes. In terms of current status, we understand that the TTP request has been submitted to the Commissioners, and a response is expected early next week. HMG would be best placed to talk with the relevant Commissioners now in order to assess their views on the proposal.

- **Key contracts to find a longer term solution for –** the only contracts that the Company needs to address in order to attract longer term funding are MMH, Aberdeen and NOMS. The quantification of that request is included on page 7 of the paper dated 12 January (Request for support detail). It's important to note that in respect of MMH and Aberdeen the request does not involve any element of risk transfer as between the Company and HMG; the proposal is instead either for an advance cash payment (in the case of Aberdeen) or for cash in exchange for commercial consideration (including transfer of the Aecom claim and equity in the restructured group). NOMS does involve an element of risk transfer; however, as that transaction has been suggested by MOJ we understand that it is, in the circumstances, acceptable to HMG. Whilst the Company does not expect HMG necessarily to be able to come to a concluded view in relation to these contracts in the very short term, the Company would be keen to understand from HMG that they consider that there is scope to come to a suitable agreement

- **Capping EPF exposure** – HMG exposure in respect of its guarantee of the EPF can be achieved by (i) placing a financial cap on the guarantee (which, as suggested above, would be £[60-70m]), (ii) the Company regulating its use, and (iii) the banks limiting increases in exposure. The combination of these measures means that HMG's exposure will not exceed the agreed amount.

- **Use of EPF** – approximately 44% of the companies that use the EPF could be classified as "large", while 24% could be classified as "blue chip". The banks operating the EPF facilities accepted each of these companies onto the EPF, and their inclusion in the facilities is long standing and the facility has never been intended to differentiate between small and large companies. Given the feedback that has been received, the Company does intend to remove these blue chip companies from the EPF in due course; however, doing so in the near term would have an immediate and adverse impact on working capital, and as such it would only be possible to do that at an appropriate point following completion of the restructuring

- **FTI Independent Business Review Report** – FTI have confirmed that they will provide their draft report to the Company during the course of this afternoon (13 Jan), and the Company will then immediately review it for factual accuracy.

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Schedule

Confirmation from FTI of CoCom banks' support for short term funding proposal

Dear Alan

Thank you for sharing this updated proposal.

As outlined in the meeting yesterday, the Banks are (subject to credit approvals and documentation) prepared to make £20m of short term funding and the Early Payment Facilities available to the Group early next week on the basis set out in your attached Funding Proposal. Assuming that demonstrable progress is made by the end of next week in advancing the terms of a restructuring which delivers both a resolution to the pension issues and mitigations to the funding of the Group's material problem contracts (as outlined in the Group's recent request), the Banks would also be prepared for the 2nd £20m drawing of new money to be made available (on the same conditions) in the week commencing 22 January.

We would hope and expect that by the end of January, all material stakeholders are able to agree and document not only the terms of a holistic restructuring of the Group, but also the basis upon which future funding would be provided thereafter. The Banks will consider any further commitment to fund the business beyond end January at that time, and in the context of the position then reached.

As previously highlighted, the Banks require that exposures under other bilateral debt facilities (including but not limited to Credit Card Facilities, Invoice Financing Facilities and Bilateral Overdraft Facilities) cannot increase during this period (although they may continue to revolve and be utilised if paid down below existing exposures) and would seek to co-operate with both the Group and the Government in ensuring that increased liabilities arising under the Early Payment Facilities are carefully managed and subject to an agreed limit.

FTI, Clifford Chance and the Banks remain available to advance this proposal further over the weekend, subject of course to the Government's parallel support for the proposal.

Best regards

Simon