

## Carillion plc

### MINUTES OF A MEETING OF THE BOARD OF DIRECTORS

Held at 25 Maddox Street, London, W1

On

Tuesday 28 February 2017 at 8.00 am

Present:	Mr. P.N. Green	Chairman
	Mr. K.R. Cochrane	
	Mr. A.J.H. Dougal	
	Mrs. A.J. Horner	
	Mr. R.J. Howson	
	Dr. C.M. Powell	
	Mr. Z.I. Khan	
In attendance:	Mr. R.F. Tapp	Secretary
	Mr. A.R. Green	
	Mr. N.P. Taylor	(in part)
	Mr. I. Llorden	(in part)
	Dr. J. Denning	(in part)
	Ms. K. McAvoy	Investor Relations Designate (in part)
	Mrs. J. Dawson	(in part)

**Minute No:** **ACTION**

**2081 Minutes**

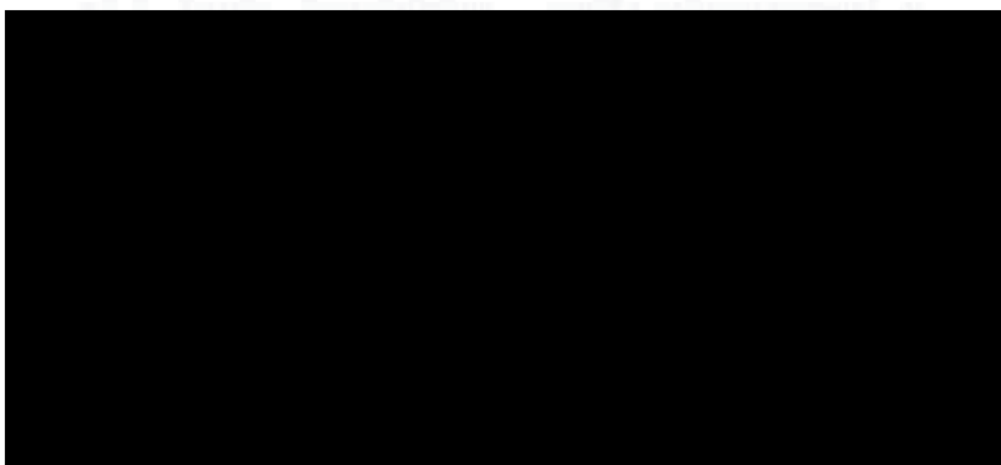
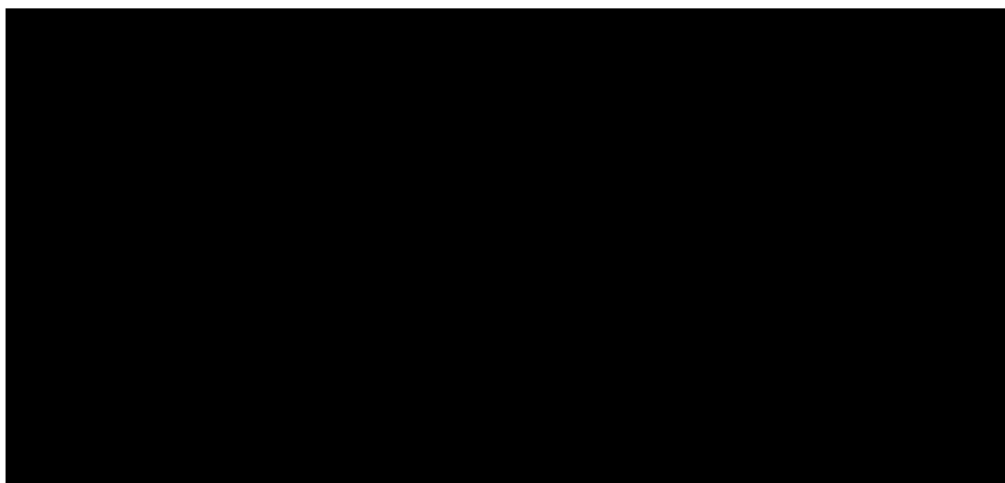
The minutes of the meetings of 23 and 26 January and 10 February 2017 were approved.

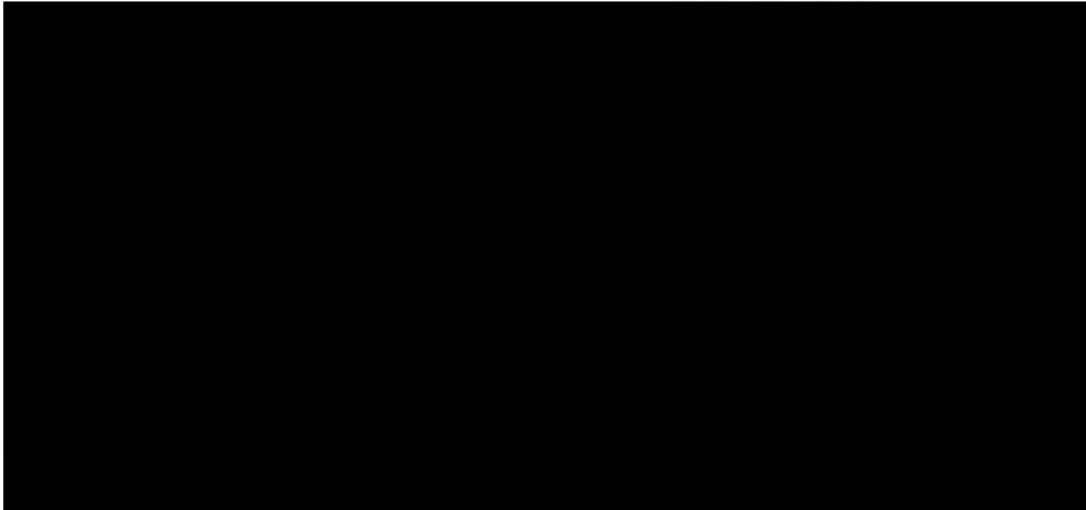
#### **Matters arising – 26 January:**

- a. **Worker Representation.** It was noted that the matter was the subject of an item for discussion on the Agenda, and would be covered later in the meeting.
- b. **Finance Director's Report – underlying pbt analysis.** A draft outline debt reduction plan and analysis would be tabled later in the meeting, in preparation for a detailed presentation of the final plan at the April board.
- c. **Budget.** Mr Khan confirmed that the bridge would be shown in RF1, which will be tabled at the April board.
- d. **Health and Safety.** Mr Howson confirmed that Mr Rowley had reviewed the position and on further analysis it did not appear to be the case that there was an actual deterioration in the last week of each month: rather, the reporting was skewed by the initial reporting of preliminary numbers for the month which were then finalized after the month-end.

- e. **Fold-out sustainability sheet.** The position was noted.
- f. **Pensions.** The position was noted.
- g. **Preliminary view on final dividend.** The matter would be discussed later in the meeting.
- h. **First impressions.** The position was noted.
- i. **Lessons learned.** The arrangements suggested by Dr Powell would be used in due course within the business and scenario planning had already been utilised in relation to Mshereib.
- j. **Project Freedom.** The transaction was unlikely to proceed having regard to the improved financial performance of the target business.
- k. **Timing of interim results.** The interim results sequence would be amended from 2018 onwards.
- l. **Board review 2016.** The matter was included later in the Agenda.

2082 Health and Safety





**2083 Sustainability**

Mr Adam Green spoke to the Sustainability Board Report, which had been circulated. He noted that the BASB target had been exceeded by some £2m, and that the 2017 target was still being struck. The annual sustainability report was currently in final preparation.

The Chairman noted that the sustainability report contained in the Annual Report had not been submitted to the Sustainability Committee nor approved by its Chairman, and that position needed to be rectified for 2018.

ZK/ARG

Mr Green noted the Commonwealth Study Day scheduled at Kings Cross for 10 May, and thanked Mr Cochrane for his involvement in arranging the day. Volunteering was ahead of target overall, but slightly behind in relation to schools. Dr Powell noted that she was impressed that the carbon footprint goals had been exceed. Mr Adam Green noted that there was greater interest in carbon than had been the case in recent years where it had rather fallen off the sustainability agenda following the global financial crisis.

**2084 Presentation: Information and Cyber Security Strategy Update**

Mr Llorden joined the meeting. He took the Board through the paper which had been circulated and which dealt with progress on delivering the Information Security Strategy, 2017 plan, security incidents and threats, governance and sensitivity assessments across the businesses.

In discussion, he described the Cyber Essentials and Cyber Essentials Plus accreditations, noting that the group had obtained the former and was working toward the latter, which was a substantially higher standard. Mr Howson reminded the Board that the balance of risk and cost in cyber was one which had to be considered, and Mr Llorden's presentation took the Board through the issues involved.

Mr Llorden noted the developments in 2016, including the mandatory cyber security e-pod module, and that work was in hand in relation to protective monitoring for 2017, which he described further in response to questions from the Board. He noted also the statistics concerning the number and severity of cyber-attacks launched on the group in the preceding year and the issues involved around them in the group. He described the group's performance against benchmarks, including that of investment in IT spend, and the risk analyses which were presented in his paper.

The Chairman asked that Mr Taylor should revert to the Board with his view on whether the level of residual risk left on major contracts was appropriate, and whether more could or should be done to reduce it further. **NPT**

The Board's thanks were recorded to Mr Llorden.

#### **2085 Presentation: Your Say Mini Survey Results**

Mrs Dawson joined the meeting. She took the Board through her paper which had been circulated, noting both the overall improvement in the response and the scores, and the individual analysis regarding specific businesses.

It was noted that the MENA scores were very high, which was due to individuals being given time to complete the returns as part of an extended break – essential as the workers did not have access to company on-line resources. Overall part-time workers and female staff appeared more positive than full-time workers and male workers. Canadian scores were flat or deteriorating; UK scores were broadly flat. Compass was not covered by the survey as it had joined the Canadian business after the survey had been commenced.

Clearly the engagement scores represented a very good outcome, but work remained to be done ahead of the next survey in May, particularly in the light of the constraints which would be presented by the very limited pay review, voluntary redundancy programme, restructuring etc., and given the constant pressure on resource and performance which inevitably impacted on results. This was reflected in the fact that the lowest score overall in the results was to the question on well-being.

In response to questions, Mrs Dawson noted the position on action planning, management engagement, the inclusion of joint venture and supplier performance and a number of other issues. Dr Powell

noted that she felt the PDO survey would include Carillion staff and would be available from PDO on request.

The Chairman thanked Mrs Dawson for her presentation

**2086 Presentation: Investor Relations Communications Update**

Dr Denning joined the meeting. He introduced Ms. McAvoy, who would be the Head of Investor Relations designate.

Dr Denning spoke to his paper which had been circulated, noting the objectives and performance of the Investor Relations function, the challenges involved, the key issues around debt, shorting, pension deficit and their impact on the business, and the relative position of key analysts. He also presented an analysis of the group's position against the models used by key analysts representing the bear and best cases, which were noted and discussed.

In response to the Chairman, Mr Howson noted that a review of brokers would be carried out during the year.

RJH

Mr Dougal and the Chairman noted that it was critical that the Board should have a broader view of the register and the areas to improve. It was agreed that this would be arranged.

RJH/ZK

After further discussion, the position was noted. Mr Denning and Ms. McAvoy left the meeting.

**2087 Finance Director's Report**





2088

### **Top Ten Risks**

Mr Khan reported on the top ten risks.

In discussion, it was noted that the issues of debt and working capital were covered in the first two risks, both in respect of new and existing contracts.

The risks were noted and endorsed by the Board, together with the steps for their mitigation as noted in the paper.

## **2089 2016 Annual Report and Preliminary Announcement**

### **a. Committee Reports**

The Audit Committee and other primary Committees of the Board had met on 23 February. After adjournment, updated reports of the Committees were considered by the Chairman of each Committee and approved for inclusion in the Annual Report and Accounts.

### **b. Report and Accounts**

The draft 2016 Annual Report and Accounts were tabled for consideration.

It was noted that the draft which had been tabled did not incorporate required changes, but after adjournment, further drafts of the relevant sections were tabled and approved and after discussion the Accounts for the year ending 31 December 2016 were noted, including the Report of the Directors, the Corporate Governance Report and the Report of the Remuneration Committee, together with the revised Directors' Remuneration Policy which would be proposed to the Shareholders at the Annual General Meeting.

### **c. Preliminary Announcement**

The draft Preliminary Announcement was noted. After adjournment, a revised Announcement was tabled and was approved subject to the amendment of detail.

### **d. Going Concern and Viability Statements**

The Going Concern and Viability Statements were accordingly approved.

### **e. Non-consolidated Profit and Loss Account**

It was confirmed that the holding company had sufficient reserves for a payment of a dividend. The non-consolidated profit and loss account was accordingly approved.

### **f. Notice of Annual General Meeting**

The Notice of AGM was approved, subject to the amendment of detail.

### **g. Letter of Representation**

The Letter of Representation to the Auditors was approved.

### **h. Decisions**

The following decisions were then taken:

- The Chairman's Statement, Directors' Report, Corporate Governance Report, other associated reports and Annual Accounts for the year ended 31 December 2016 were approved on the terms submitted to the Board subject to the approval of the Committee to be appointed for the purpose;
- The Notice of Annual General Meeting was approved;
- The letter of representation to KPMG LLP was subject to the approval of the Committee to be appointed for the purpose;
- Payment of Final Dividend: After discussion, it was agreed that a dividend in the amount of 18.45p per share for the full year was recommended (12.65p for the 2016 Final Dividend), and it was agreed in principle that the level was acceptable but was a matter for the approval of the Committee to be appointed for the purpose;
- Appointment of Auditors: it was recommended that KPMG LLP be re-appointed as Auditors;
- The Chief Executive and Group Finance Director be authorised to sign the Group and Company Balance Sheets;
- The Secretary be authorised to sign the Directors' Report and the Notice of Annual General Meeting; and
- A Committee of the Board be constituted in accordance with Article 109 of the Articles of Association, comprising the Chairman, the Chief Executive and the Finance Director (a quorum being any two of the foregoing) to approve the Report and Accounts, the letter of representation, to determine the final

dividend and to approve the Preliminary Announcement.

**2090 Pensions Update**

Mr Khan spoke to his paper, which had been circulated.

It was agreed that the proposal contained in his paper to increase the payments under review by 2% was approved.

Mr Khan left the meeting.

**2091 Operations Reports: Carillion Construction Services**

Mr Adam Green spoke to the report which had been circulated. He covered the safety performance of the business in the period.

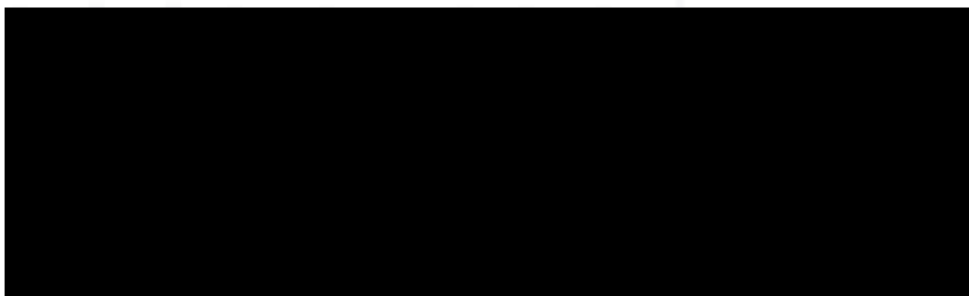
He reported in detail on a number of key projects, including Liverpool, MMH, Battersea, Aberdeen and Carilliontelent. In response to the Chairman, he noted his level of confidence in the 2017 budget for his business, describing also the position in relation to Project Phil where he felt that it was possible that some £5m of the projected £20m receipt was at risk.

**2092 Operations reports: Carillion Services**

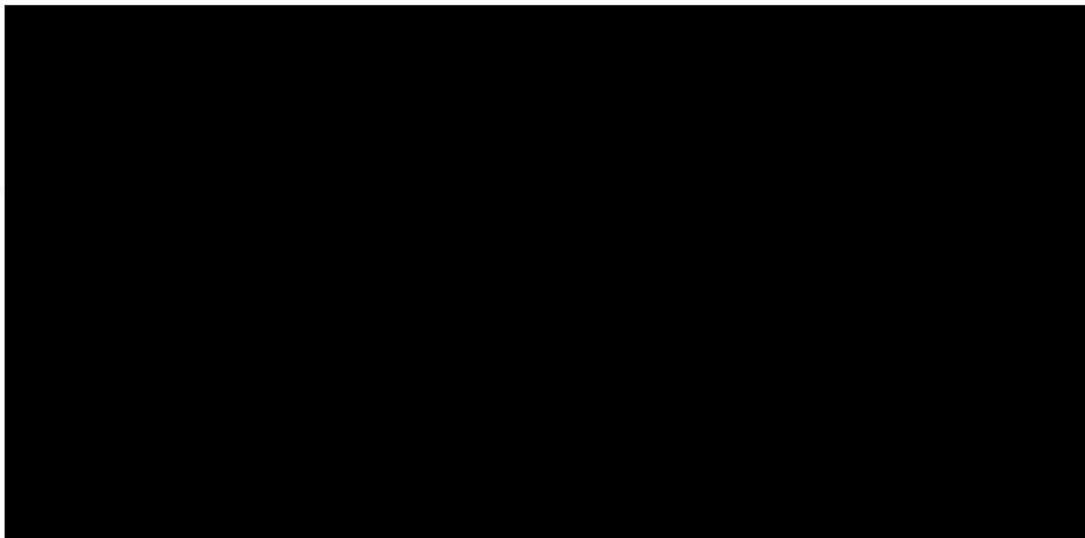
Mr Taylor joined the meeting having given evidence to the Justice Select Committee earlier in the morning. He noted the position on the NGEN, RBS, NOMS and Nottingham University Hospital contracts, and confirmed that the Hestia South East contract had been secured in recent days. He noted also the circumstances of an incident in the previous week's high winds on a Centrica building which had resulted in a handrail collapse.

Responding to the Chairman, he too noted his level of confidence in the 2017 budget for his business, noting that of the £86.4m profit budgeted, some £24m related to one-offs. He noted that they had been phased at £2m per month across the year, which was clearly wrong, and that had led to the shortfall against budget in January and the need to cover from central contingency which Mr Khan had described earlier.

**2093 Chief Executive's Report**







**2094 Acquisitions and Disposals Update**

The paper had been distributed and was noted.

**2095 Governance**

**(a) 2016 Board Evaluation**

A paper had been circulated noting the work in progress to address the issues identified in the 2016 Board evaluation exercise. The position was noted.

**(b) Employee Representation on the Board**

The proposals detailed in Mrs Dawson's paper which had been circulated were approved. It was agreed that the proposal would be worked up in more detail and brought back to the Board in due course.

RJH

**2096 2016 Annual Report and Preliminary Announcement – adjournment**

Mr Khan returned to the meeting.

Mr Cochrane noted that a critical obligation of the Board was to sign off on the Preliminary Announcement. He had previously suggested that the annual RF1 reforecast should come to the February meeting of the Board, so that prior to approving the Preliminary Announcement, the Board is better sighted on the performance of the business to date. Mr Khan noted that that might be a challenge given the proximity of the year-end but it was agreed that Mr Khan should review the position and revert to the Board.

RJH/ZK

He noted that the RF1 submissions received amounted to £185m pbt as against the budget of £190m, which was still above the consensus for 2017; after discussion it was noted that this was dependent on a particular treatment of Canadian legacy issues which would otherwise reduce the submissions to between £170m and £175m. The Chairman noted that the consensus for 2017 stood at between £164m and £192m. It was agreed that in the light of the fact that the submissions stood within that range it remained reasonable for the Board to have approved the Preliminary Announcement on that basis.

**2097 Board: Dr Ceri Powell**

The Chairman noted that that this was Dr Powell's last meeting before taking up her appointment as Managing Director of Brunei Shell Petroleum in the coming month. On behalf of the Board he thanked Dr Powell for her excellent work as a director and in chairing the Sustainability Committee, and wished her every success in the future. The Board endorsed the Chairman's comments and good wishes.

**2098 Next Meeting**

The next meeting would take place on Thursday 6 April 2017 at Lowry House, Mauldeth Road, Manchester.

**2099 Chairman and Non-Executives' Review**

The executives left the meeting and the Chairman and non-executive directors held a short review meeting.

  
CHAIRMAN