

Carillion plc

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS

Held at 25 Maddox Street, London, W1S 2QN
on
Tuesday 3 March 2015 at 10.00 am

Present: Mr. P.N. Green Chairman
Mr. R.J. Adam
Mr. A. Dougal
Mr. R.J. Howson
Mr. S. Mogford
Dr. C. Powell
Mrs. A. Horner

In attendance: Mr. R.F. Tapp Secretary
Mr. A. Green
Mr. D. Picton Part only
Mr. N. Taylor Part only

Minute
No:

ACTION

1729 Minutes

The minutes of the meetings of 29 January were approved, together with the minutes of the Committee meeting of 30 January.

Matters arising – 29 January:

- a. **Health and Safety.** A schedule of fatalities in the business during the past five years was circulated. The names of those who had died in the past year would be mentioned at the senior management conference. The Board confirmed its absolute focus on the safety of the Group's operations, and Mr Howson reiterated that it was his priority that no fatalities should occur as a result of our work.
- b. **Oil price.** A paper on the impact of changes to the oil price was included in the Board pack.
- c. **Historical Performance.** Mr Adam confirmed that a note of the historical performance of the business would be tabled at the January meeting each year.
- d. **Board visit to Canada.** Travel arrangements were in hand.

Sustainability

Health and Safety

The monthly health and safety report was noted. Mr Howson noted that there were more HRIs in January than in the same period in 2014, and that the position was being monitored closely to ensure that no trend was emerging.

Hours worked in the month were up by 10%, reflecting the increased revenue against budget experienced in January for the first time since the effect of the financial crisis had been noted.

Responding to Mrs Horner, Mr Howson noted that the increase in working hours reflected a combination of some people working for longer, and of more staff. Both factors were measured, and arrangements were in hand to ensure that excessive hours were not worked.

Some 200 teams were being fielded from the business for this year's Global Corporate Challenge health improvement initiative.

Mr Dougal asked if mobilisations were correlated with safety statistics. Mr Howson noted that they were, and whilst there was no material correlation we were very mindful of the possibility and kept a particularly careful watch on safety during mobilisation periods.

Sustainability

Mr Picton spoke to the Sustainability Board Report, which had been circulated. He confirmed that the annual sustainability report had been finalised and the Bureau Veritas verification had been concluded. Highlights appeared in the Annual Report and Accounts.

He noted the key points from his report, including the Group's sponsorship of the National CSR Awards, the stakeholder review, the BITC Leadership Summit at which Mr Howson had spoken and the PwC PLC Awards. It was understood that the group would appear in the Times Top 50 employers for women when published in April.

He reported also on the progress of the Supply Chain Sustainability School, and noted that Building a Successful Business initiatives had delivered some £27.2m during the year, and were on target to deliver some £40m per annum by the end of the decade.

Mr Howson noted the progress of other organisations in the sector, comparing Network Rail's recent indication that it wished to improve its gender diversity in order to impact health and safety, whilst Mr Mogford noted a recent Balfour Beatty initiative.

1731 Presentation: 2020 Sustainability Strategy

Mr Picton then spoke to his detailed report which had been circulated.

He covered the prospective launch of the Group Sustainability Report at Kings Cross in June, carbon reporting, the possible impact of electric vehicles, delivery across the six outcomes, the communications programme, and the position in relation to sustainable communities and people. He noted that the group had recently carried out its one thousandth work placement and four hundredth work outcome.

Mr Howson noted that the partnership with Argent continued to respond well in sustainability terms, and that Argent had recently secured a major project at Brent Cross, in respect of which the group was well-placed to win future work.

He noted that the sustainability agenda had moved forward significantly under Mr Picton's leadership and would continue to be refined in the coming year.

Mr Picton left the meeting.

1732 Carillion Services

Mr Taylor spoke to his presentation which had been circulated.

Responding to the Chairman, he noted that his primary messages would relate to the creation of a clear vision in relation to the business, a refocusing of the level of ambition required, and the ability to win and deliver work.

He noted the strategic review which had occurred in the light of changes in the market, changes in personnel and the restructuring of the business following the energy services position. The business was focused on striving to be the best in the market consistently and confidently, focused on relationship which were trusted and of long-standing, and

being customer led as opposed to being either low-cost or a volume supplier. The job was to design a flexible solution which met the needs of customers.

Responding to the Chairman, the changes in the senior team were noted, and Mr Adam described the market and business changes impacting the Services operation in recent years. The level of work winning in 2014 had been exceptional, and whilst it was unlikely to be sustained at that level, earnings growth would be delivered in solid single figures.

The business would continue to deliver excellence in its core FM markets and push its adjacencies. The Defence Services Group bid had proved that the group could be competitive in such markets and there were significant opportunities in the defence market in prospect.

Dr Powell noted the forthcoming General Election, and Mr Taylor responded that the defence market was expected to be robust in the light of any change in government, as was business process outsourcing. Mr Howson noted that experience showed that Labour administrations had outsourced slightly more than Conservative ones to date, whilst Mr Taylor noted that the focus of local government remained very much on the need to secure local jobs.

There remained a focus on profitable growth, and a continual focus on the control of cost, with the attitude of mind being important in both fields. Mobilising contracts well and effectively was a constant and something which the business kept to the forefront of the mind in the light of the significant contract wins in the year.

In reply to the Chairman, Mr Taylor noted the net promoter score target of 40+ by the year end, compared to the current 34, and that whilst the Great Debate had yielded disappointing scores, there were action plans in place to improve matters across the business.

The current customer base and the integrated service offering was discussed, together with the mix of private and public sector work and the need for a new technology platform and the process in hand to identify the right solution for the business for the future. Finally, in reply to Mr Dougal, Mr Taylor noted the way in which the business worked with the MPC on new and diverse projects, and the exchange of know-how across the group.

The Chairman thanked Mr Taylor for his presentation. Mr Taylor left the meeting.

Mr Howson presented his report which had been circulated. He noted the position in relation to the group's safety performance, which had been dealt with in the Health and Safety Report, Project Cedar, and the forthcoming management conference.

He touched on the opportunities arising from the oil price fall, which were covered in the paper, in the Board pack, and on the process of recruitment of a Managing Director for Al Futtain Carillion.

He reported on the position under the MoJ Prison, Msheireb, Al Jalila and NGEN Prime contracts, as well as on TTC Vaughan, Alberta Highways and the integration of the Rokstad business.

Responding to a question from the Chairman, he noted the group's earnings performance over the preceding five-year period, noting the impact of the recession, the eaga acquisition, margin pressure and other factors. Mr Adam noted also that save and except for Capita, virtually all competitors in both the construction and support services sectors had experienced major issues leading to profit warnings in the period, whereas Carillion had not. That meant that those competitors may be perceived as having greater growth in earnings, arising from the fact that they started from a rebased and lower level as a consequence.

Acquisition strategy

A discussion followed of the growth prospects of the various elements of the business, the nature of the activity of competitors, the structure of the support services market, of the balance between construction and support services, and the nature and scale of bolt on or transformational acquisitions which may be appropriate. The effectiveness of bolt on acquisitions and the impact of new markets and geographies was also discussed.

It was agreed that the earnings capabilities of our Group would be compared against market expectations and the Group's own aspirations, so as to identify whether there existed a gap which might be filled by acquisitions

It was agreed that the Board would look again at the issue at the next meeting.

RJH

1734

Construction Services Operational Report

Mr Green spoke to the report which had been circulated. He reported in detail on work winning in the rail, roads and building businesses, and on the progress of the major projects at Royal Liverpool University Hospital, at Battersea, and with BT Openreach.

In reply to Dr Powell, he noted that there was transferable knowhow between Rokstad and the UK power business, and vice versa, and that process was already in hand. Mr Howson noted the work which had been done on the power transmission market which had led to the acquisition.

The report was noted and the Chairman thanked Mr Green for his update.

1735 Finance Director's Report

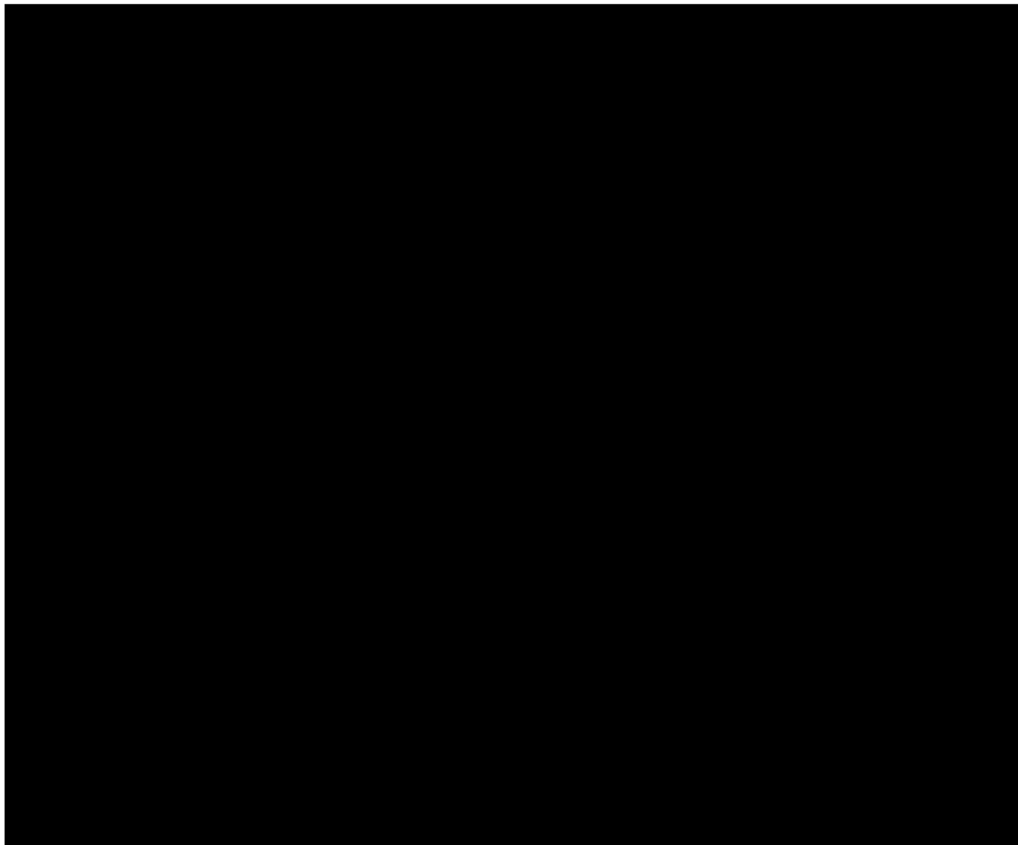
Mr Adam spoke to his report which had been circulated. He noted the group's performance in January, and the position relating to debt, the pension scheme deficit and the foreign exchange impact.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



1737 2014 Annual Report and Accounts and Preliminary Announcement

a. Committee Reports

The Business Integrity Committee and other primary Committees of the Board had met on 26 February. The proceedings of those Committees were all noted.

In particular, it was noted that the Audit Committee had undertaken a full review of the Auditor's Discussion Memorandum and the Internal Audit Report and had commended the Annual Report and Accounts to the Board.

b. Report and Accounts

The draft 2014 Annual Report and Accounts were tabled for consideration. After discussion, the Accounts for the year ending 31 December 2014 were noted, including the Report of the Directors, the Corporate Governance Report and the Report of the Remuneration Committee, including the Directors' Remuneration Policy which had been approved by shareholders at the 2014 Annual General Meeting.

c. Preliminary Announcement

The draft Preliminary Announcement was approved.

d. Going Concern Statement

The Going Concern Statement was approved.

e. Non-consolidated Profit and Loss Account

It was confirmed that the holding company had sufficient reserves for the 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.

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 ending 31 December 2014 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 17.75p per share for the full year was recommended (12.15p for the 2014 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.

1738 Top Ten Risks

Mr Adam reported on the Top Ten Risks. He noted that they were unchanged save for the new risk relating to the outcome of the UK General Election. That did not imply that issues were anticipated, merely that the position should be kept under close review.



It was noted that it was possible for two or more of the risks to apply at the same time, and to create a greater level of risk than the sum of their parts. The Chairman indicated that he felt that there could be a risk of complacency which should be included and Mr Howson agreed to reflect this concern in one of the top ten risks.

RJH

It was noted that the impact of the risks inherent in the nature of the group's business had been considered by the Remuneration Committee in its meeting held during the previous week, with regard to the operation of the clawback provisions regarding contingent remuneration which were now required by the UK Corporate Governance Code

In particular, the difficulty of exercising retrospective judgement on views taken on contracts in good faith and approved by both the Auditor and the Board as a result of hindsight was noted as a particular concern. It was noted that the Remuneration Committee had expressed an intention not to apply hindsight in respect of contract judgements in terms of the operation of the clawback provisions which had been noted in the Minute of that meeting.

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

1739 Pensions Update

Mr Adam spoke to his paper which had been circulated.

It was agreed that the proposal contained in his paper to increase the payments under review in accordance with RPI was approved.

1740 Oil Price

Mr Adam spoke to his paper on the impact of the oil price fall on Carillion, which was noted.

1741 Project Cherry 10

Mr Adam spoke to his paper, which had been circulated, which proposed the disposal of another nine PFI investments.

After discussion, the disposals were approved in principle.

1742 Acquisitions and Disposals

The paper had been circulated and was noted.

Mr Howson updated the Board on projects Guardian, EISL and Cedar. He noted that discussions in relation to Cedar were progressing and that the Board would be kept apprised of developments and asked to consider a formal proposal in due course.

1743 Review

The coverage of issues was felt to be satisfactory.

1744 Next Meeting

The next meeting would take place at 8.00 am on Thursday 2 April 2015 at 25 Maddox Street, London.

1745 Chairman and Non-Executives' Review

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



CHAIRMAN