Carillion plc

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STRICTLY PRIVATE AND CONFIDENTIAL
BY EMAIL

13 January 2018

John Manzoni
Permanent Secretary for the Cabinet Office
Cabinet Office
70 Whitehall
London
SW1A 2AS

Dear John

This letter follows on from the constructive discussions that the senior leadership and advisers of Carillion have had with you and your team over recent months, for which we are grateful.

I am writing to you now because it is increasingly clear that Carillion is facing a decision point. As confidence in the Group has been shaken by media reports and the withdrawal of previously committed support from key banks, this decision point has come upon us quicker than we had expected. There are two options facing the Group:

- the provision of short term funding from HM Government and certain key banks to enable Carillion to bridge through to a restructuring; or

- an insolvency.

I would like to deal with these two points in turn.

Bridging to a restructuring

We have engaged extensively with you and your team over recent weeks in relation to our request for short term funding support, and have promptly answered every question that has been raised in relation to it. If there is any remaining uncertainty, please let me know as soon as possible and I will ask our advisers to meet with yours to clarify the position. There are three key points I would like to emphasise about our request. The first is that the requested support would be put in place alongside support from commercial banks. The second key point to note is that the Group is simply asking for temporary support – not a permanent subsidy. The support would be cancelled and repaid in full upon completion of the restructuring, and HM Government would in the interim receive a commercial rate of interest taking into account the circumstances of Carillion. The last key point is that we are increasingly confident that it will be possible to achieve a restructuring. There has been tremendous progress over the last few weeks with key stakeholders, and we have every reason to expect that it will be possible to agree the commercial terms of a deal before the end of January.

Aspects of the longer term restructuring will likely involve adjustments to certain of Carillion's contracts (in particular Midland Metropolitan Hospital, Aberdeen Western Peripheral Route and the Her Majesty's Prison and Probation Service (HMPPS) contracts). However, what we are aiming to achieve here is not to put back risk to the public sector, which would be clearly inappropriate. Rather, our goal is to enter into a commercially sensible arrangement which adjusts and creates greater certainty around future cash flows.

Accordingly, if Carillion successfully restructures itself, it will be at extremely modest cost to HM Government. It will not be a bail-out, and there can be no basis for saying that Carillion – or its shareholders or management - is being rewarded for failure or for past mistakes. The previous senior management team have all exited the business. Our shareholders have already suffered significant losses as our market capitalisation has collapsed, and those shareholders will then be diluted yet further upon completion of a debt for equity swap. In addition, very significant losses will be imposed on our creditors, and potentially on members of Carillion's pension schemes, whose benefits may well be impaired. The key beneficiaries of a restructuring will be our employees, our supply chain, and our customers who will continue to receive uninterrupted support.

Insolvency

The alternative scenario is insolvency. The Board of Directors continually keep under review, with the benefit of advice from Slaughter and May and Lazard, whether it is appropriate to continue trading. To date, the Board has been able to conclude that, for so long as key stakeholders (including HM Government) continue to engage meaningfully in relation to the provision of short term funding and a longer term restructuring, it is appropriate to continue. However, if support from any source is withdrawn, then that analysis will likely change, and the Board may well conclude that there is no longer a reasonable prospect of avoiding insolvent liquidation. Once that point is reached, the Board will then look to place Carillion plc (and, in turn, key operating subsidiaries) into an insolvency process.

Given the complexity of the Group and the lack of funding, there has been no reasonable ability for Carillion on its own to do meaningful contingency planning to limit the impact of failure. The conclusion our advisers have reached, which have been shared with your advisers, is that if the Group ceases to trade its only option would be to enter into liquidation. It is for this reason that we have provided extensive information to your advisers over recent weeks for the purposes of assisting them, in collaboration with EY, with developing a contingency plan for an insolvency, as it is clear that the only meaningful contingency planning that can be done in respect of an insolvency is in cooperation with HM Government.

However, although we are aware that contingency plans are being developed by your advisers, we are not aware that there is any actual contingency plan, and certainly not one that has been tested with advisers or management in terms of its operational viability. The strong advice we have received from senior insolvency practitioners at EY is that no contingency plan fit for purpose in fact exists, or could have been created in the time available. Based on conversations Carillion's advisers have had with you directly, we understood that the

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contingency planning work being done between our respective advisers would need to be brought together and joined up before any plan could be implemented. We are therefore deeply concerned that, if HM Government determines in the near term not to support Carillion, that will lead very rapidly into what is likely be a very disorderly and value destructive insolvency process, with no real ability to manage the widespread loss of employment, operational continuity, the impact on our customers and suppliers, or (in the extreme) the physical safety of Carillion employees and the members of the public they serve. Any attempt to manage this process will come with enormous cost to HM Government, far exceeding the costs of continued funding for the business.

It is for these reasons that I would insist that, if HM Government does decide not to provide support, Keith Cochrane and I have the opportunity to discuss this with you in person at your earliest convenience. In the meantime, we will of course not take any precipitate action, and will aim to consult with you if the Board does decide to cease trading. However, you will equally appreciate that in the circumstances we have a very limited runway before the Group ceases to have the funding required to continue to operate, and we therefore cannot wait indefinitely.

Yours sincerely

Philip Green
Chairman of Carillion plc

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