# Carillion LGS Limited

Annual report and financial statements

Registered number 3198709

For the year ended 31 December 2016

## Contents

## Strategic Report

The directors present their annual report together with the audited financial statements for the year ended 31 December 2016.

**Principal activities**
Carillion LGS Limited is principally engaged in the business of roads and ground maintenance. The majority of work is carried out for the Highways Agency and Local Authorities.

**Business review**
As shown in the company's profit and loss account on page 7, turnover has increased to £16,466,000 (2015: £15,507,000) in 2016 due to increased project works The profit on ordinary activities before taxation was £978,000 (2015 £1,587,000)

The directors monitor the performance of the company through the use of Key Performance Indicators which are related to Financial Performance, Health & Safety and Client KPI's. The company is committed to providing a safe environment for its employees. The company monitors performance using the Lost Time Incident Frequency Rate (LTIFR), which is an internationally recognised measure of safety performance. The company's performance against this measure was satisfactory.

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements.

**Principal risks**
The principal risks facing the business, and the controls in place to mitigate these, are as follows:

• Securing new contracts in a competitive market place
• Attracting and retaining skilled people for delivery and work winning – in order to attract, develop and retain excellent people, and become an employer of choice, Carillion plc has a wide range of policies and programmes in place.

• Health and Safety performance – the company has a clear aim to reduce accidents to zero by taking a zero tolerance approach to Health and Safety risks at work. Each contract has its own Target Zero Improvement Plan. All employees have at least one Health and Safety objective and all managers and supervisors are required to undertake periodic Safety Tours In addition, Safety Action Groups (SAG's) meet on a regular basis at both contract and company level to identify and resolve Health and Safety related issues.
• The impact of reduced UK Goverment's Public sector spending. The market for roads and ground maintenance however remains strong and the business is focused on both securing new contracts and retaining ongoing business.

Approved by the Board on 27 October 2017 and signed on its behalf by:

LJ Mills
Director

84 Salop Street
Wolverhampton
WV3 0SR

## Directors' Report

**Directors**
The directors serving during the year and subsequently were:

RJ Adam (Resigned 31 October 2016)
Z Khan (Appointed 31 October 2016, Resigned 11 September 2017)
JC Platt (Resigned 8 March 2017)
LJ Mills (Appointed 19 October 2017)
RJ Howson
C Macpherson (Resigned 14 October 2016)
E Mercer (Appointed 19 October 2017)
A Hayward (Resigned 6 January 2017)

**Dividends**
During the year there was no dividend paid (2015: £7,000,000).

**Political donations**
During the year there were no political donations made (2015 £nil).

**Employees**
The majority of employees are based at site on contracts. Communication and consultation within the working teams takes place, as appropriate, as part of the normal pattern of everyday operations Employees receive regular publications, such as "Spectrum", which provides information on activities throughout the Carillion Group and is published several times a year.

The establishment and maintenance of safe working practices at all work places are of greatest importance to the company and special training in health and safety is provided for all employees. The company is an active and enthusiastic supporter of training schemes of all types and is providing valuable training and experience to a large number of younger people, as well as increasing its own training commitment to full time employees.

**Equal opportunities**
The company is an equal opportunities employer. It is the policy of the company to give the fullest consideration to the employment needs of all prospective and existing employees. Carillion continually strives to eliminate all bias and unlawful discrimination in relation to job applicants, employees, business partners and members of the public. Full consideration is given to suitable applications for employment from disabled persons where they have the necessary abilities and skills for the position and wherever possible to re-train employees who become disabled, so that they can continue in their employment in another position.

Special attention is given to interviewing, selection, recruitment and training to ensure that there is effective implementation of company policy. Promotion is based upon ability, merit and performance taking into account the future needs of the company. Where necessary, training is carried out to assist employees to develop their full potential. All aspects of employment are regularly reviewed by management to ensure this policy is achieved.

**Disclosure of information to the auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

**Auditor**
Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board on 27 October 2017 and signed on its behalf by:

LJ Mills
Director

84 Salop Street
Wolverhampton
WV3 0SR

## Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

**Independent auditor's report to the members of Carillion LGS Limited**

We have audited the financial statements of Carillion LGS Limited for the year ended 31 December 2016 set out on pages 7 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Peter Meehan**
**(Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants

27 October 2017

## Profit and loss account

*for the year ended 31 December 2016*

| | Note | 2016 £000 | 2015 £000 |
|---|---|---|---|
| **Turnover** | | 16,466 | 15,507 |
| Cost of sales | | (15,185) | (13,758) |
| **Gross profit** | | 1,281 | 1,749 |
| Administrative expenses | | (394) | (452) |
| **Operating profit** | | 887 | 1,297 |
| Interest receivable and similar income | 5 | 1,940 | 2,063 |
| Interest payable and similar charges | 6 | (1,849) | (1,773) |
| **Profit on ordinary activities before taxation** | 2 | 978 | 1,587 |
| Taxation on ordinary activities | 7 | 106 | (187) |
| **Profit for the financial year** | | 1,084 | 1,400 |

All activities relate to continuing operations.

There is no difference between the results as disclosed in the profit and loss account and the result on an unmodified historical cost basis in either the current or preceding financial year.

There were no recognised gains or losses in either the current or preceding financial year other than the profit or loss for those years.

The notes on pages 10 to 16 form part of the financial statements.

## Balance sheet
*at 31 December 2016*

| | Note | £000 | 2016 £000 | £000 | 2015 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible assets | *9* | | - | | 74 |
| **Current assets** | | | | | |
| Stocks | *10* | 394 | | - | |
| Debtors | *11* | 60,577 | | 59,951 | |
| Cash at bank and in hand | | 1,117 | | 2,144 | |
| | | 62,088 | | 62,095 | |
| Creditors: amounts falling due within one year | *12* | (58,776) | | (59,941) | |
| **Net current assets** | | | 3,312 | | 2,154 |
| **Net assets** | | | 3,312 | | 2,228 |
| **Capital and reserves** | | | | | |
| Called up share capital | *14* | | 2,000 | | 2,000 |
| Profit and loss account | | | 1,312 | | 228 |
| **Equity shareholder's funds** | | | 3,312 | | 2,228 |

These financial statements were approved by the Board of Directors on 27 October 2017 and were signed on its behalf by :

**LJ Mills**
Director

Company registered number 3198709

**Statement of changes in equity**
*for the year ended 31 December 2016*

| | Called up share capital £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|
| **Balance at 1 January 2015** | **2,000** | **5,828** | **7,828** |
| Profit for the year | - | 1,400 | 1,400 |
| Dividends paid | | (7,000) | (7,000) |
| **Balance at 31 December 2015** | **2,000** | **228** | **2,228** |
| **Profit for the year** | **-** | **1,084** | **1,084** |
| **Balance at 31 December 2016** | **2,000** | **1,312** | **3,312** |

**Carillion LGS Limited**
**Notes**
*(forming part of the financial statements)*

**1. Principal accounting policies**
The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial information.

**Basis of preparation**
Carillion LGS Limited (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Carillion PLC includes the Company in its consolidated financial statements. The consolidated financial statements of Carillion PLC are prepared in accordance with Internation Financial Reporting Standards and are available to the public and may be obtained from 84 Salop Street, Wolverhampton, WV3 0SR.

In these financial statements, the company has applied the exemptions under FRS101 in respect of the following disclosures:
- a cash flow statement and related notes;
- comparative period reconciliations for share capital and tangible fixed assets;
- disclosures in respect of transactions with wholly owned subsidiaries;
- disclosures in respect of capital management;
- the effect of new but not yet effective IFRSs;
- an additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy;
- disclosures in respect of compensation of key management personnel; and
- disclosures of transactions with a management entity that provides key management personnel services to the company.

As the consolidated financial statements of Carillion plc include the equivalent disclosures, the company has also taken the exemptions under FRS101 available in respect of the following disclosures:
- certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS7 Financial Instrument disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

No judgements have been made by the directors, in the application of these accounting policies that have significant effect on the financial statements and there are no estimates with a significant risk of material adjustment in the next year.

**Going concern**
The company's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Strategic Report.

The company participates in the Carillion plc group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The directors, having assessed the responses of the directors of the company's ultimate parent Carillion plc to their enquiries have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Carillion group to continue as a going concern or its ability to continue with the current banking arrangements. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result in the basis of preparation being inappropriate.

**Tangible fixed assets**
Depreciation is based on historical cost or revaluation, less the estimated residual values, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

| | |
|---|---|
| Plant, machinery, vehicles and computer equipment | 3-10 years |

**Stocks**
Stocks and work in progress are valued at the lower of cost and net realisable value.

Notes *(continued)*

**Turnover**

Turnover represents the net amount receivable, excluding value added tax, for goods and services supplied to all customers including fellow subsidiary undertakings. In respect of long term contracting activities, turnover is recognised by reference to services performed to date as a percentage of total services to be performed. It also includes the company's proportion of work carried out by joint arrangements during the year.

**Leased assets**

Rental charges under operating leases are charged to the profit and loss account on a straight line basis over the life of each lease.

**Taxation**

Income tax comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**Pensions**

Pension costs are recognised in the financial statements in accordance with the requirements of IAS19 "Employee benefits". Carillion plc, the company's ultimate parent undertaking, administers and takes advice on the group's pension schemes. Regular pension costs in respect of the group's defined benefit pension schemes are established in accordance with the recommendations of independent actuaries and are charged to the profit and loss account based on the current service cost to the group.
In respect of the schemes where the assets and liabilities relating to the company cannot be readily ascertained on a reasonable and consistent basis as the schemes are for the benefit of the Carillion Group as a whole, consequently, the company accounts for the scheme as if they were defined contribution schemes. Contributions in respect of defined contribution schemes are charged to the profit and loss account as incurred.

**Long-term contracts**

The principal estimation technique used by the Group in attributing profit on long-term contracts to a particular period is the preparation of forecasts on a contract by contract basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn of each contract. Consistent contract review procedures are in place in respect of contract forecasting.
When it is probable that total contract costs will exceed total contract turnover the expected loss is recognised immediately. Contract costs are recognised as expenses in the period in which they are incurred.
Where costs incurred plus recognised profits less recognised losses exceed progress billings, the balance is shown as amounts recoverable on contracts within debtors. Where progress billings exceed costs incurred plus recognised profits less recognised losses, the balance is shown as payments received on account within creditors.

Notes *(continued)*

**2. Profit on ordinary activities before taxation**

| Profit on ordinary activities before taxation is stated after charging/(crediting) | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Depreciation of tangible fixed assets: | | |
| -Owned | - | 7 |
| Operating lease rentals: | | |
| -Land and buildings | 15 | 15 |
| Profit on disposal of fixed assets | - | (39) |
| Auditor's remuneration - audit of these financial statements | 9 | 9 |

Fees paid to the company's auditor, KPMG LLP and its associates, for services other than the statutory audit of the company are not disclosed in these financial statements since the consolidated financial statements of the company's parent, Carillion plc, are required to disclose non-audit fees on a consolidated basis.

**3. Staff numbers and costs**

The average number of persons employed by the company during the year was 56 (2015: 56).

| The aggregate payroll costs of these persons were as follows: | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Wages and salaries | 3,063 | 2,713 |
| Social security costs | 311 | 281 |
| Other pension costs | 217 | 187 |
| | 3,591 | 3,181 |

**4. Directors' remuneration**

The directors performed no material qualifying services for the company in respect of the current period and therefore received no emoluments.

**5. Interest receivable and similar income**

| | 2016<br>£000 | 2015<br>£000 |
|---|---|---|
| Interest receivable from group undertakings | 1,940 | 2,056 |
| Bank interest receivable | - | 7 |
| | 1,940 | 2,063 |

Notes *(continued)*

**6. Interest payable and similar charges**

| | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| Interest payable to group undertakings | 1,849 | 1,773 |
| | 1,849 | 1,773 |

**7. Taxation on ordinary activities**

***(a) Analysis of taxation (credit)/charge in the year***

| | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| **UK corporation tax** | | |
| Current tax | 187 | 307 |
| Adjustment in respect of prior periods | (307) | (152) |
| **Total current taxation** | (120) | 155 |
| **Deferred taxation** | | |
| Accelerated capital allowances | 15 | 35 |
| Adjustment in respect of prior periods | (1) | (3) |
| **Total deferred taxation** | 14 | 32 |
| **Total taxation on profit on ordinary activities** | (106) | 187 |

**(b) Reconciliation of total tax (credit)/charge**

The tax (credit)/charge for the year is higher (2015: lower) than the standard rate of 20% (2015: 20.25%). The difference is explained below:

| | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| **Total tax reconciliation** | | |
| Profit on ordinary activities before taxation | 978 | 1,587 |
| Taxation on ordinary activities at 20% (2015: 20.25%) | 196 | 321 |
| Effects of: | | |
| Permanent differences | 6 | 21 |
| Adjustment in respect of previous periods | (308) | (155) |
| **Total tax (credit)/charge** | (106) | 187 |

**(c) Factors that may affect future tax charges**

The UK corporation tax rate reduced from 21% to 20% with effect from 1 April 2015. Further reductions to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and 6 September 2016 respectively. This will reduce the company's future tax charge accordingly.

The deferred tax asset at 31 December 2016 has been calculated based on these rates.

**8. Equity dividends**

| | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| No ordinary interim dividend paid (2015: £3.50) | - | 7,000 |

Notes *(continued)*

**9. Tangible fixed assets**

| | Plant, machinery, vehicles and computer equipment £000 |
|---|---|
| **Cost** | |
| At beginning of year | 635 |
| Disposals | (101) |
| **At end of year** | **534** |
| | |
| **Depreciation** | |
| At beginning of year | 561 |
| Disposals | (27) |
| **At end of year** | **534** |
| | |
| **Net book value** | |
| **At 31 December 2016** | - |
| At 1 January 2016 | 74 |

| **10. Stocks** | 2016 £000 | 2015 £000 |
|---|---|---|
| Raw materials and consumables | 394 | - |

**11. Debtors**

| | 2016 £000 | 2015 £000 |
|---|---|---|
| Trade debtors | 2,367 | 3,149 |
| Amounts owed by group undertakings | 57,986 | 56,656 |
| Prepayments and accrued income | 2 | 31 |
| Corporation tax | 121 | - |
| Deferred tax asset (note 13) | 101 | 115 |
| | 60,577 | 59,951 |

Amounts owed by group undertakings attractinterest at a rate which reflects the cost of borrowing to the Group.

**Notes** *(continued)*

**12. Creditors: amounts falling due within one year**

| | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| Payments on account | 202 | 1,812 |
| Trade creditors | 372 | 519 |
| Amounts owed to group undertakings | 55,303 | 54,257 |
| Corporation tax | - | 307 |
| Other tax and social security costs | 32 | 44 |
| Other creditors | 33 | 19 |
| Accruals and deferred income | 2,834 | 2,983 |
| | 58,776 | 59,941 |

Amounts owed to group undertakings bear interest at a rate which reflects the cost of borrowing to the Group.

| **13. Deferred taxation** | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| At the beginning of the year | 115 | 147 |
| Transfer to profit and loss account | (14) | (32) |
| At the end of the year | 101 | 115 |

The elements of deferred taxation are as follows:

| | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| Accelerated capital allowances | 101 | 115 |
| | 101 | 115 |

The deferred tax asset is disclosed in debtors (note 11).

| **14. Called up share capital** | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| Authorised, allotted, called up and fully paid: | | |
| 2,000,000 ordinary shares of £1 each | 2,000 | 2,000 |

Notes *(continued)*

**15. Pensions**

The company's employees are members of a larger pension scheme, the Carillion Staff Pension Scheme, providing benefits based on final pensionable pay. The principal employer of this scheme is a fellow subsidiary of the Carillion Plc Group, with the scheme accounted for in these financial statements as if it is a defined contribution scheme.

The contributions to the defined benefit schemes made by the company represent the regular cost of providing the benefits without any recognition of fund surpluses or deficits which are dealt with by Carillion plc. The pension cost for the year was £217,000 (2015: £64,000). The Carillion Staff Scheme was closed to new entrants on 1 April 2003 and existing members no longer accrue benefits for future service with effect from 5 April 2009.

The company also participates in the Carillion Pension Plan, a defined contribution scheme, which commenced on 1 April 2003. The pension cost charge for the period represents contributions payable by the company to the scheme. The pension charge of the defined contribution scheme was £217,000 (2015: £123,000).

**16. Commitments under operating leases**

Commitments under non-cancellable operating leases are as follows:

| | 2016 | 2015 |
|---|---|---|
| | £000 | £000 |
| | Land & Buildings | Land & Buildings |
| Operating leases which expire: | | |
| Within one year | - | 15 |
| In the second to fifth year inclusive | - | 7 |
| | - | 22 |

**17. Controlling and parent companies**

The company's controlling company is Carillion plc, its ultimate parent company, which is incorporated in Great Britain and registered in England and Wales.

Copies of the group financial statements of Carillion plc are available from 84 Salop Street, Wolverhampton, WV3 0SR.