KIER GROUP PLC
ANNUAL REPORT
AND ACCOUNTS
2019

A STRATEGY FOR THE FUTURE

Kier is a leading UK construction and infrastructure services company.

We provide specialist design and build capabilities. The knowledge, skills and intellectual capital of our people ensure we are able to project manage and integrate all aspects of a project.

Halfmerke Primary School in East Kilbride

Financial highlights

Total Group revenue[1]
£4.5bn
2018: £4.5bn

Total Group revenue – excluding joint ventures[1]
£4.1bn
2018: £4.2bn

(Loss)/profit from operations[1]
£(216.7)m
2018: £134.4m

Profit from operations – before exceptional items[1,2]
£124.1m
2018: £187.0m

Earnings/(losses) per share[1,3]
(158.5)p
2018: 89.3p

Earnings/per share – before exceptional items[1,2,3]
58.2p
2018: 136.8p

Order book[4]
£9.4bn
2018: £9.8bn

Net debt – 30 June 2019[5]
£(167.2)m
2018: £(185.7)m

Net debt – average[5]
£(422)m
2018: £(375)m

1 See consolidated income statement on page 112. Exceptional items includes amortisation of acquired intangible assets.
2 Prior year re-presented to reflect the change in the Group's Alternative Performance Measure, see note 5 to the consolidated financial statements.
3 Prior year restated as a result of the rights issue, see note 11 to the consolidated financial statements.
4 See Financial KPIs on page 18. Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSA Limited (Kier's Australian Highways business).
5 See note 20 to the consolidated financial statements.

Contents

Go online to find out more at www.kier.co.uk
Our corporate website has key information covering our capabilities, markets, corporate responsibility and investor relations.

Who we are

At Kier we deliver economic and social infrastructure which is vital to the growth of the UK.

CONSTRUCTION

The UK's leading regional builder, Kier works on projects of all sizes, complexities and sectors spanning the UK

REGIONAL BUILDING

A UK leading regional builder with key positions in education, health and numerous public sector frameworks

MAJOR PROJECTS – BUILDING

The business focuses on key sectors such as commercial, custodial, defence and science

INTERNATIONAL

Undertaking water, power and transport and engineering projects as well as the construction of public buildings in the Middle East

HOUSING MAINTENANCE

Providing social housing home repair services to over 200,000 homes a year

INFRASTRUCTURE SERVICES

With a growing footprint in infrastructure services, we provide both capital projects as well as maintenance of infrastructure assets

HIGHWAYS

The UK's leading highways service provider with clients including Highways England as well as local authorities

UTILITIES

Providing services to the water, gas, power, telecoms and rail sectors through long-term alliance and framework contracts

MAJOR PROJECTS – INFRASTRUCTURE

Delivering civil engineering projects

On 17 June 2019, the Group announced it will simplify its portfolio by selling or substantially exiting the following activities. This process is ongoing.

Kier Living

A mixed tenure housebuilder working in joint venture and partnerships with Government, local councils and housing associations

Property

Providing a range of property solutions including regeneration projects for local authorities and property development schemes

Facilities Management

Offering a range of hard and soft facilities management services to over 400 buildings across the UK, primarily in the public sector

Environmental Services

Providing refuse collection services to one million UK homes

What we deliver

The Group is transitioning the reporting of its activities.

For FY2019, the Group reported by three market segments: Buildings, Infrastructure Services and Developments & Housing. Following the conclusions of the strategic review, the Group is focused on four core businesses; Regional Building, Highways, Utilities and Infrastructure under two market segments: Construction and Infrastructure Services, as shown below. For further information see page 41.

CONSTRUCTION

- No 1 regional builder
- >70% of awards on frameworks
- <£10m average project size

Revenue
£1.86bn

Operating profit
£67.2m

Revenue by business

Revenue by sector

DELIVERED IN 2019

- 200-250+ construction projects
- 199 education projects
- 69 health projects
- 200,000 social housing repairs

INFRASTRUCTURE SERVICES

- No 1 highways maintenance provider
- Long-term alliances
- Delivery of both capital and maintenance projects

Revenue
£1.67bn

Operating profit
£56.4m

Revenue by business

Revenue by sector

DELIVERED IN 2019

- 31,000km of roads maintained
- 225km of smart motorways developed
- 20.5m properties provided with water and power
- 440,000+ broadband connections

A year of challenge

Introduction

This has been a challenging year for Kier. As a Board, we take our responsibilities to all our stakeholders very seriously, and I want to express my personal regret that we have disappointed this year. During the year we had to revise our forecasts. We have now moved decisively to address the issues which caused us to do so and are in a good position to start the financial year.

As announced on 19 September, having overseen the appointment of a new management team, I have announced my intention to retire as Chairman and will step down from the Board once a successor has been appointed.

Business review

The Group's revenue was £4.5bn (2018: £4.5bn) and operating profit[1] decreased by 34% to £124m (2018: £187m). The Group's order book[2] at 30 June 2019 was £9.4bn (2018: £9.8bn). Net debt at 30 June 2019 was £167m (2018: £186m) and average month-end net debt was £422m (2018: £375m).

In June 2019, we announced the results of a strategic review, which identified the need to further simplify the Group, increase the focus on cash generation and reduce net debt. We are making good progress against our strategic priorities. In part, as a result of this, the Group has reported £341m of exceptional charges, including in respect of the costs of preparing to exit or sell businesses, restructuring costs and significant contract losses. The exceptional items led us to reporting a loss before tax of £245m. The net cash outflow associated with these charges in FY2019 was £34m, with an aggregate cash outflow of £32m forecast in future years.

As a result, our focus going forward is on simplifying our business, improving cash generation, and reducing debt through divestments and cost reduction.

We announced the planned sale of Kier Living, our housing development business, and the downsizing of our Property business, as well as the sale of our Facilities Management (FM) business and closure of our loss-making Environmental Services business. We also completed the disposal of Kier Highways Services Australia in the year. We anticipate that these actions will strengthen our balance sheet and reduce both our working capital volatility and cost base.

Rights issue

During 2018, the banking sector indicated its intention to reduce its exposure to the construction and related sectors. In addition, the focus on service providers' balance sheets and the pressure to improve the Group's supply chain payment terms increased. As a result, the Group undertook a rights issue in December 2018, which raised net proceeds of £250m, a significant proportion of which was used to accelerate payments to the supply chain; as a result, the Group reported average payment days to its supply chain partners of 41 for H2 FY2019 (H1 FY2019: 57 days).

Future Proofing Kier programme

In 2018, we launched the Future Proofing Kier programme with the aim of reducing costs, simplifying the Group and creating operational efficiencies. Approximately 650 people left the Group in FY2019, the costs for which are included in the exceptional charges taken in the year, with c.550 expected to leave in FY2020. The Group expects to deliver annual cost savings of c.£55m from FY2021. During FY2020, building on this, we will roll-out a culture of Performance Excellence across the Group, which will deliver further efficiencies.

1 Operating profit before exceptional items and amortisation of acquired intangible assets.

2 Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSA Limited (Kier's Australian Highways business).

Management changes

In response to these challenges, the Board decided that a fresh strategic approach was needed. Haydn Mursell stepped down as Chief Executive in January 2019. We are very pleased that Andrew Davies joined in April 2019 as Chief Executive. Andrew was previously Chief Executive Officer of Wates Group Limited, the construction, developments and property services group. Prior to leading Wates, Andrew spent over 28 years with BAE Systems plc, undertaking a range of senior operational and corporate roles, including Group Strategy Director and, latterly, Managing Director of the Maritime Division. He is also a non-executive director of Chemring Group PLC.

Upon joining, Andrew conducted an in-depth strategic review of the Group which identified that we need to simplify our portfolio of businesses, improve cash generation and strengthen our balance sheet. Andrew has begun a swift reorganisation of the Group's businesses, management structure and financial framework, and we are confident that his actions will begin to address our challenges.

In June, we announced that Bev Dew would be stepping down as Group Finance Director by 30 September 2019, following the announcement of our full-year results. We are pleased that Simon Kesterton was appointed Chief Financial Officer Designate in August 2019; Simon will assume the role of Chief Financial Officer when Bev steps down. Simon brings a strong track record in implementing programmes focused on financial management, divestitures and operating performance as Group Finance Director at RPC Group plc. Prior to this, he was Chief Financial Officer, Europe and Chief Strategic Officer at IAC Group, an international supplier of automotive components and systems. He has also held a variety of finance roles at Collins & Aikman and British Federal.

The Board is confident that Andrew and Simon will lead a refreshed management team to deliver enhanced value for all our stakeholders going forward.

Dividend

With our focus on improving balance sheet strength and reducing overall debt levels, the Company has suspended the dividend for FY2019 and FY2020. This will allow the Group to build up its working capital and reduce debt, fundamentally strengthening the business. The Board will keep under review the reintroduction of the dividend.

Safety, health and environment

Our work is often undertaken in hazardous environments, and the safety of our people, our supply chain and our customers is of paramount importance to everyone at Kier, especially the executive management team and the Board.

We are ever mindful that there is always more work we can do to promote a safe working environment for our employees, suppliers and customers. Please see the Safety, Health and Environment Committee report on pages 73 and 74 for more details.

Prompt payment code

Many of our suppliers are long-term partners of Kier and we value their contribution. With an increased focus on payment terms, we were pleased to report in our latest Government submission, a marked improvement in our payment data, with the Group's aggregate average payment days improving from 57 days to 41 days, and a significant improvement in paying suppliers within 60 days. We are committed to further improvements in our payment practices and are working with both customers and suppliers.

People

The success of the Group depends on our people. The skills and commitment of our employees and supply chain are fundamental to our business. We are grateful for the hard work and dedication of our employees and the supply chain in a very challenging year for both them and the Group.

Outlook

Our operating businesses proved their resilience in a difficult year for Kier.

We have a new strategic focus under Andrew Davies, Chief Executive, who is leading a fresh management team to deliver the strategic plan to grow our core businesses of Regional Building, Infrastructure, Utilities and Highways. Together, these businesses are expected to deliver long-term, sustainable revenues and margins with a renewed focus on their inherently cash-generative characteristics. We will embed a culture of Performance Excellence with particular focus on cash generation to reduce average month-end net debt and simplify the Group by selling or substantially reducing our activities in selected businesses, including Kier Living, Property, Facilities Management and Environmental Services.

At the close of the next financial year, we expect to have fundamentally restructured the Group with a much-reduced cost base and a simplified portfolio of businesses that can leverage their operational synergies.

Philip Cox CBE
CHAIRMAN

26 September 2019

Chief Executive's review

A focus on the future

Introduction

It was a genuine privilege to join Kier as Chief Executive in April 2019. I know Kier well as a highly respected competitor, with market leading positions, long-term client relationships and excellent customer service. The Company's reputation for trust, collaboration and reliability is well established.

Business overview

This has, however, been a difficult year for Kier.

In June 2019, we announced the results of our strategic review, which concluded that the Group's portfolio of businesses was too diverse. It also needed to increase its focus on cash generation and balance sheet resilience. The allocation of corporate resources did not support growth initiatives effectively, and accountability had become blurred through the organisational structure.

The Group urgently needs to simplify its businesses, improve its capital allocation and reduce its leverage. We are therefore undertaking actions to simplify the Group and address these issues. We are making good progress against these strategic actions, but this has led to our reporting a material number of exceptional charges for the year. The exceptional items led to us reporting a disappointing loss before tax of £245m. The exceptional charges include:

- Costs relating to the preparation for exit or sale of businesses necessitated by the Group's revision to strategy;
- Restructuring costs reflecting the simplification and smaller scale of the Group;
- Material contract losses principally on the Broadmoor Hospital contract;
- Revision to acquisition and integration provisions following the purchase of the McNicholas business in 2017; and
- Other costs including pensions adjustments.

During FY2019, Regional Building performed well, winning new projects totalling c.£1.9bn. Highways experienced overall volume pressures and a change in the mix of work from maintenance to lower margin capital expenditure projects. Utilities also experienced volume pressures, principally as a result of delays in broadband installations in the telecommunications sector. A reduction in housing completions in Kier Living and delays to several transactions in Property affected the results of Developments & Housing.

Attractive markets with strong fundamentals

We operate in business to business (B2B) markets where our capabilities and intellectual property in project management, design, innovation and delivery are highly valued by our customers. Over 70% of our work is based on complex procurement processes and long-term spending frameworks for Government, regulated industries and blue-chip private sector customers. Our well-established positions on these frameworks provide a stable flow of low-risk projects over a long period of five or more years, which underpins the visibility of our businesses.

Kier is a key strategic supplier to Government and has long been the UK's leading regional builder of medium-scale projects in education, health and community facilities.

Britain's growing population and ageing infrastructure underpin the strong fundamentals in the Group. We continue to win significant projects, with a Buildings order book of £4.1bn, comprised of approximately 250 projects with an average project size of around £8m. The nature of these projects means that they carry less risk than large civil engineering projects and has allowed this business to deliver stable and attractive margins.

In Infrastructure Services, our Highways business is the leading contractor to Highways England, maintaining 31,000km of roads last year. The increasing traffic on the UK's roads, the new Road Infrastructure Strategy 2 (RIS2) and new technologies all continue to make this an attractive sector for long-term growth.

In Utilities, water, electricity and telecoms are fundamental services upon which the UK population relies. Last year, our Utilities business maintained over 475,000km of water mains, supporting 17m properties.

Our work for power distributors helps to keep the lights on for over 37% of the UK population. The UK's investment in broadband roll-out is proceeding slowly, but we are well-placed to benefit from any acceleration of the broadband programme. Our Infrastructure Services business has an order book of £5.1bn.

Strategic focus

In April 2019, we began a strategic review of the Group, which concluded that the Group needed to further simplify its structure, better allocate its capital resources, identify additional steps to improve cash generation and reduce net debt.

Kier has a number of high-quality, market leading businesses, in particular Regional Building, Highways, Utilities and Infrastructure, which support the sustainability of our business model. These businesses operate under long-term frameworks which require strong client relationships and sector expertise. Once appointed to a framework, we have the opportunity to tender for a range of projects over a number of years, which provides good visibility of future work, reduces risk and leverages our key operational strengths. These businesses, which are inherently cash generative, will be the future core of the Group.

Our Housing Maintenance business complements our Regional Building business. Housing Maintenance will continue to seek opportunities for planned maintenance work, including fire safety risk assessment work, under frameworks for housing associations and local authorities. The International business, which principally operates in Dubai, continues to tender selectively for new work.

We also concluded that several of our businesses were not compatible with the Group's working capital objectives:

- Residential: Kier Living is a strong business but has limited operational synergies with other parts of the Group and would require significant ongoing funding to deliver future growth. In June 2019, we announced that we would be selling this business; the sale process is progressing well;
- Property: similarly, the investment requirements of the Property business are not considered to be compatible with the Group's capital requirements. As a result, we expect to have reduced the capital invested in the business to £100m by 30 June 2020 (2019: £184m). We are also exploring options to accelerate the release of capital from the business; and
- Environmental Services and Facilities Management: these businesses also have limited operational synergies with the Group's core businesses and the Group will seek to exit them in due course.

Following the strategic review, we have focused the Group on two key market positions: Construction and Infrastructure Services, as set out on page 3, with a focus on our market-leading businesses: Regional Building, Highways, Utilities and Infrastructure. These are inherently cash-generative businesses, based around long-term frameworks for Government, regulated entities and blue-chip customers, which ensure a stable foundation to our operating framework.

STRATEGIC ACTION

SIMPLIFY AND FOCUS

CONSTRUCTION

The Construction business covers Regional Building, Major Projects – Building, Housing Maintenance and International.

These businesses operate in large and sustainable markets and are principally focused on B2B, Government, regulated and blue-chip clients. A large proportion of contracts are either framework led or contracts with balanced risk profiles. These positions build on the Group's established presence where our capabilities, knowledge and intellectual capital of our people and resources are valued.

- **Regional Building** – a broad sector spread, undertaking 200-250 projects per annum, with an average contract value of around £8m. More than 70% of work comes from national and local frameworks with the remainder from key client accounts.
- **Major Projects – Building** – covers mechanical and electrical, design and delivery capabilities. Key sectors include commercial, custodial, defence and science.
- **Housing Maintenance** – providing a range of services to principally social housing residents, covering home repairs and fire safety risk assessments.
- **International** – focused on small-scale civil engineering infrastructure projects, principally in Dubai.

INFRASTRUCTURE SERVICES

The Group's presence is focused on capital and maintenance projects covering Highways, Utilities and Major Projects – Infrastructure.

- **Highways** – as a key supplier to Highways England and local authority markets, this position provides a solid base on which to develop further opportunities coming to market.
- **Utilities** – with a presence across the water, gas, power, telecoms and rail sectors and over 3,500 trained employees in a sector with a skills shortage, the Group is well positioned. Specifically, the telecoms sector is set to receive future Government investment as fibre optic broadband is rolled out.
- **Major Projects – Infrastructure** – has an established track record of delivering a small number of complex projects in joint ventures.

STRATEGIC ACTION
IMPROVED CASH GENERATION

A review of the Group's capital resources is focused on improving cash flow, reducing leverage and strengthening the balance sheet. Actions taken to date include:

- Disciplined cash management at both contract and delivery stages with a focus on entering contracts with acceptable cash profiles.
- Enhanced management focus on cash, with weekly cash calls with operating businesses.
- The start of the sale process for Kier Living and reviewing options for Kier Property, reducing the Group's need to invest in capital-intensive businesses.
- Exit of the Facilities Management (FM) and Environmental Services businesses thereby reducing losses and moving away from B2C sectors which require significant resources.
- The suspension of dividend payments for FY2019 and FY2020.

STRATEGIC ACTION
STRENGTHENED BALANCE SHEET

The actions taken to improve our cash generation will help to restore strength to the balance sheet. Specifically:

- The sale of Kier Living and the review of Kier Property will deliver reduced associated borrowing, eliminate significant ongoing investment and provide additional proceeds which will be used to reduce the Group's net debt.
- Likewise, the exit from the FM and Environmental Services businesses will improve the strength of the balance sheet by reducing working capital.
- By delivering cash-backed profits, the balance sheet will be strengthened by reducing its leverage, creating improved options for the business.

Organisation structure

Aligned to the new strategy, a new Executive Committee has been created with a streamlined management structure and clear accountability. We have also made several new appointments in key functional areas such as Commercial, Finance, HR, IT and Transformation.

This will improve accountability, leverage synergies across our businesses and clarify reporting lines to drive the businesses forward. The Executive Committee will be the forum in which the senior line and functional leaders come together to communicate, review and agree on issues and actions of Group-wide significance. In addition, this team will drive the roll-out and implementation of Performance Excellence and take responsibility for Group-wide initiatives. This new streamlined structure will enable us to respond more quickly to customers and create a more agile organisational structure.

Future Proofing Kier programme (FPK)

Last year the FPK programme was launched with the objective of making the Group leaner and more focused on client delivery. As part of the strategic review, we concluded that the pace of delivery had to be accelerated. As part of FPK, approximately 650 people have left the business, primarily in central functions, with a further 550 expected to leave in this financial year. The benefits from FPK will provide net annual sustainable cost savings of approximately £55m from FY2021 onwards.

Performance Excellence

FPK provides a good foundation on which to build an efficient, sustainable cost base for the Group. However, there is much more that we can do. We will instil a culture of Performance Excellence across the Group which will address improvements in how we manage our people, processes, projects and costs. Performance Excellence will create a clear system of accountability, with measurable goals, standardised procedures and a focus on quality, delivery and innovation, which will be implemented, day-in, day-out across the Group.

We need to get back to basics: delivering quality work consistently by leveraging our expertise and experience in our chosen sectors. Over 92% of our customers report that they are satisfied with our work, an increase over 2018.

The Group is a key provider to the public sector.

We need to focus on that customer experience by empowering our people, giving them proper support and appropriate management systems. Performance Excellence depends on understanding our customers' needs, designing innovative solutions and bringing together the people and resources to ensure quality delivery, as well as discipline in contract management, tendering processes and cash management. This will help us drive value through our order book and our businesses.

Safety, health and environment

The safety and wellbeing of our employees and our suppliers is of paramount importance to us. The Group's overall safety performance has improved year-on-year, continuing the trend of the last few years, although the rate of improvement has slowed recently. One of my first actions as Chief Executive was to declare a Safety Stand Down Day – a compulsory review by all businesses of our safety requirements. It is essential that safety, health and wellbeing remain at the forefront of our business. This year we launched a new campaign to raise awareness of the five safety, health and environmental basics: induction for all; risk assessments; competence and training; point of work risk assessment and safe systems of work.

Our work by its nature has an impact on our local environment, and we seek to minimise that impact. We have put in place a number of measures across our businesses to improve our environmental performance, from improving the fuel efficiency of our fleet to collaborating with suppliers on reducing energy consumption. We continue to monitor and improve in this area and are reviewing our overall strategy to ensure we drive continuous improvement in our environmental performance and carbon footprint.

Our people

The success of the Group depends on our people. The skills and commitment of our 19,000 employees and community of 25,000 suppliers are fundamental to our business and, given the last year, it is important we work with them on delivering our new agenda. Employee as well as broader stakeholder communication has been my personal priority since joining the Group. We want to be an employer of choice, attracting and retaining the best talent in our industry. Our employee engagement rate this year was 55% and we aim to improve that through training opportunities. The award-winning Kier initiative, Shaping Your World, promotes careers in the built environment. Kier is a member of the 5% Club, with over 7% of our employees working as apprentices, graduates, sponsored students or in further education. We continue to sponsor several programmes to train the next generation and fill the significant skills gap in our industry.

Communities

We are proud of our role in building essential infrastructure that benefits so many people in the UK. Our projects deliver significant social, economic and environmental impact as a result of the way we do business. In 2018, Kier was the first construction company in the UK to achieve the Social Value Quality Mark for businesses that are committed to achieving positive social impact through their work.

As a regionally focused business, we seek to contribute to local communities through local employment, procurement and business spend.

PERFORMANCE EXCELLENCE

Across our operations, a consistent quality of delivery is crucial. Our customers trust us to deliver a wide range of projects, many of them transformational and with significant delivery challenges. During FY2020 a new, clear operational framework will be rolled out across the business under Performance Excellence.

Performance Excellence is a way of working that will help run our business effectively. It is an enduring process and a continuous cycle of improvement, not a one-off programme. From contract delivery to project management, from financial reporting to cash collection, from leadership to people performance, Performance Excellence will establish the policies, process and behaviours needed to be efficient, effective and productive.

Our culture of Performance Excellence has four key pillars.

People – focusing on talent management, culture and the development of our people. Our teams bring our projects to life. Our clients have always known Kier people as energetic, knowledgeable experts who can problem solve. We need to make sure all our people have the requisite training, skills and behaviours to do their job.

Process – establishing an operational framework, an assurance process and consistent reporting. Our processes will help our people deliver our projects. We are refreshing our operations framework so that our processes are stringently clear to undertake.

Project Execution – covering each stage of the contracting process, from tendering to completion of a project. With over 1,200 projects across Kier, our projects are our lifeblood, so we need to be disciplined in our planning and execution of these projects. From risk and contract management to day-to-day compliance and safety onsite, we must be efficient, precise and rigorous in how we manage and deliver our projects.

Cash Management – introducing disciplines to manage cash more rigorously across the Group. We are inherently a cash business. We need cash to pay our employees and suppliers, buy goods and materials for our projects, and, in turn, reduce our net debt and strengthen our balance sheet. We need to consistently manage cash well.

These four pillars will underpin our culture of Performance Excellence.

Andrew Davies talking to Kier apprentices during a site tour.

"Performance Excellence: a clear system of accountability, with measurable goals, standardised procedures and a focus on quality, delivery and innovation."

Engagement with stakeholders

We are delivering a fundamental transformation of Kier, to create a Group that will deliver long-term, sustainable profits and cash flows. We are restructuring the Group to focus on core activities and are reducing our cost base. As we do this, we will work to right-size our capital structure, to the benefit of all our stakeholders.

We are also renewing our focus on delivering for our customers and our suppliers. Our clients rely on Kier to deliver and maintain their most critical infrastructure. We will continue to work closely with them to ensure we are delivering the levels of service they expect. At the same time, we will actively work with our supplier base to deliver quality projects safely and will continue to improve our payment terms.

The future

This year has been one of significant challenge for Kier. In my first months, I visited many of our key locations, meeting with clients, leadership teams and many of the dedicated people who work on our sites. I was struck by their professionalism, passion and commitment to delivering quality work for our customers. Kier has a long and successful track record in delivering high-quality projects to our customers through innovation, experience and expertise. Our close relationships with customers and suppliers make Kier a trusted partner. We operate in attractive sectors with favourable drivers, as well as enjoying strong barriers to entry through our positioning on tendering frameworks and complex bidding processes that require scale and expertise.

This year, my focus will be on simplifying the Group, improving cash flow generation and reducing net debt, while improving the Group's disciplined approach to risk management. This will provide us with a platform for sustainable growth and profit for all our stakeholders.

Outlook

In Buildings, the broader macro-environment, including Brexit, is expected to create market uncertainty which may, in turn, lead to delays in decision-making by clients. Therefore the business does not expect revenue to increase in FY2020. The International business will continue to tender selectively for new work. The Group will continue to prepare to exit the Facilities Management business.

In Infrastructure Services, the change in the mix of highways work from maintenance to lower margin capital expenditure projects and uncertainty over volumes are expected to continue in FY2020. In addition, the six-month extension on Highways England Areas 6 and 8 concludes in October 2019 and the works on the M6 J13 – 15, M23 and M20 projects will each complete in FY2020. In Utilities, new regulatory periods are creating opportunities in the water, power and gas sectors. In the telecommunications sector, although significant sums are expected to be spent on the construction and installation of ultrafast broadband across the UK over the forthcoming years, the timing of contract awards for this work remains uncertain. Although there is uncertainty in relation to the HS2 project, work on the project continues. A postponement or cancellation of the project is not expected to have a material impact on the Group's financial performance.

The sale of Kier Living is progressing well. The Property business will re-focus principally on mixed-use urban regeneration schemes, operating within a reduced level of investment. The Group is exploring options to accelerate the release of capital from our Property business.

The Housing Maintenance business, which is complementary to the Regional Building business, will focus in particular on fire safety risk assessment services. The Group will continue to take steps to close the Environmental Services business during FY2020.

Kier experienced a difficult year, resulting in a disappointing financial performance. However, we are building firm foundations for the future: we have a new management team in place, we have defined our strategic priorities and we are taking decisive actions to deliver them. We have a strong order book, reflecting the strength of the underlying business, the quality of our people and the Group's capabilities.

The sale of Kier Living is progressing well and we are exploring options to accelerate the release of capital from our Property business. The re-shaping of the Group is designed to reduce its overall indebtedness during FY2020 and to restore Kier to robust financial health.

Andrew Davies
CHIEF EXECUTIVE

26 September 2019

The strategy to deliver

Our purpose is to deliver economic and social infrastructure which is vital to the growth of the UK.

GROUP STRATEGY

- Focus on Government, regulated and blue-chip client base
- Operate in business to business (B2B) markets
- Contracting through long-term frameworks
- Embed a culture of Performance Excellence

STRATEGIC ACTIONS

SIMPLIFY AND FOCUS

- Planned exit from Kier Living, FM and Environmental Services businesses
- Clarity of focus – long-term contracts including positions on frameworks and delivering for Government, regulated and blue-chip clients
- New organisation structure implemented

IMPROVED CASH GENERATION

- Streamlining of business focus
- Proceeds from sale or exit of businesses
- Future Proofing Kier programme streamlining processes to deliver greater operational efficiencies

STRENGTHENED BALANCE SHEET

- Proceeds from the sale of Kier Living and other disposals
- Reduced capital investment in Property business
- Suspension of dividend payments for FY2019 and FY2020

PERFORMANCE EXCELLENCE

- Launching a new operational framework to support delivery of Performance Excellence focused on governance, ownership and accountability of core processes
- The four Performance Excellence pillars are: People, Process, Project Execution and Cash Management

STRATEGIC OUTCOMES

- A portfolio of complementary businesses: Regional Building, Highways, Utilities, Infrastructure
- Create a cash-generative business able to leverage synergies across core activities
- Deliver long-term sustainable growth, supported by a robust capital structure
- Create a Group fully valued by the market and delivering attractive shareholder returns

A FOUNDATION OF REFRESHED VALUES

Our approach

The Group is undertaking a number of strategic actions which provide the foundation for the Kier business model.

Our strengths

Skills, experience and knowledge of our people
We deliver some of the UK's most challenging maintenance and capital projects. Our teams and supply chain have proven experience and capabilities to win and deliver projects safely and profitably

Scale and coverage
Our strength lies in our regional network with over 60 offices across the UK

Strong partnerships
Our proven ability to work collaboratively with clients and suppliers is fundamental to our success, whether winning work through frameworks or delivering the best results to balance time, cost and quality objectives

Group strategy

GOVERNMENT, REGULATED AND BLUE-CHIP CLIENT BASE
Equipped with capabilities and processes to integrate client requirements

OPERATE IN B2B MARKETS
Knowledge and expertise valued

CONTRACTING THROUGH LONG-TERM FRAMEWORKS
Providing steady cash flow

Our business focus

- Large and sustainable markets
- Sensible cost base and Group synergies
- Profitable and cash generative
- Robust capital structure
- Kier intellectual property value-add
- Leading market positions
- Attractive shareholder returns

Performance Excellence

New operational framework focused on governance, ownership and accountability

Resetting the guiding principles and incorporating four pillars:

CONSTRUCTION

REGIONAL BUILDING
A UK leading regional builder with key positions in education, health and numerous public sector frameworks

MAJOR PROJECTS – BUILDING
This business focuses on key sectors such as commercial, custodial, defence and science

INTERNATIONAL
Undertaking water, power and transport and engineering projects as well as the construction of public buildings in the Middle East

HOUSING MAINTENANCE
Providing social housing home repair services to over 200,000 homes a year

INFRASTRUCTURE SERVICES

HIGHWAYS
The UK's leading highways service provider with clients including Highways England as well as local authorities

UTILITIES
Providing services to the water, gas, power, telecoms and rail sectors through long-term alliance and framework contracts

MAJOR PROJECTS – INFRASTRUCTURE
Delivering civil engineering projects

PEOPLE | **PROCESS** | **PROJECT EXECUTION** | **CASH MANAGEMENT**

The value we create

Investors
Deliver shareholder value and sustainable growth

Clients
Delivering for clients and their customers
92% customer satisfaction rate

Employees
Engaged and talented employees who we invest in
55% engagement rate
>4 days training per employee

Environment
Reducing the emission of greenhouse gases and cutting fossil fuel use
25.3 tCO2e reduction in emissions from fossil fuel derived energy to operate per £ revenue

Supply chain
Being a trusted, reliable partner
55% of spend with small and medium-sized enterprises (SMEs) exceeding the Government's target of 33%

Communities
Contributing to communities and wider society
£310m of social value generated during 2019

Long-term, strong markets

CONSTRUCTION

Our construction activities cover four Group businesses: Regional Building, Major Projects – Building, Housing Maintenance and International.

UK construction is a large market totalling £65bn including infrastructure, of which the Regional Building business operates in a market totalling £45bn. The scale of the market demonstrates the growth potential.

Austerity, and more recently Brexit, have resulted in slower levels of investment in construction (excluding private house building) over the last two years, albeit our Regional Building business has delivered 10% growth in that period. With a c.5% market share and a focus on sector and key account management, there are opportunities for growth even in a relatively flat overall construction market.

The Construction business has a strong public sector client bias supported by its regional and sector focus. The core sectors of education, health, aviation, defence and industrials deliver c.80% of Kier Construction revenue with education and health having the largest shares, 6% and 3% respectively. In other sectors, Kier holds market shares of below 1%, thereby providing opportunity.

The Group continues to diversify into new sectors with a growing presence in the custodial, heritage and leisure markets.

Across the public and private sectors, over 70% of income in the year was repeat business, being sourced through long-term frameworks which remain the preferred route for public procurement. With Kier being a market leader on both the number of public sector framework agreements and contract awards, there is access to a pipeline of work valued at £15bn per annum across national and regional frameworks. The Group operates with a dedicated framework bidding team ensuring framework opportunities are actively pursued.

Over 80% of Kier Regional Building contracts were secured under negotiated or two stage procurement processes. These factors, alongside the fact that our average contract size is around £8m and that no single sub-sector represents over 17% of turnover, ensure that our delivery and commercial risks are well spread.

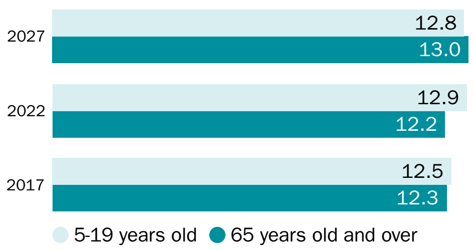
Whilst our average contract size is relatively low, the business continues to have the proven ability to deliver major building projects, typically through joint ventures.

Education

Our largest overall sector is education where total spending is estimated by AMA Research, the UK building market research provider, to represent 17% of total UK construction spending.

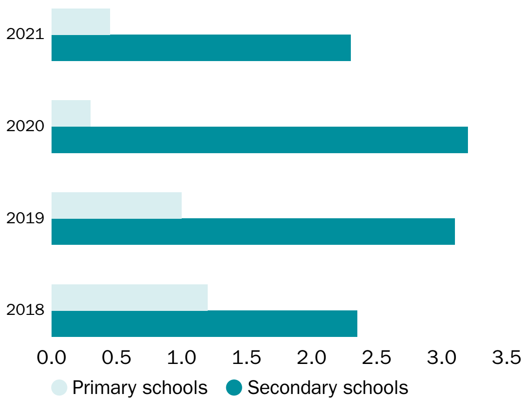
Against a backdrop of population growth, we retain our leading position in the education sector and are a leading player on the Education and Skills Funding Agency framework. The number of secondary school aged children in England is projected to rise by over 13% over the next five years. Some councils have sought to accommodate the initial rise in pupil numbers through the expansion of existing schools. However, new schools will be required especially in high growth areas such as London and other major metropolitan areas. We have a broadening sub-sector mix in

UK population projections (million)



Source: ONS

Projected growth in pupils in primary and secondary schools (%)



Source: Department of Education

the education sector covering funded schools, schools procured by local authorities through frameworks and the universities and college sectors.

Universities development plans and rising secondary school pupil numbers promise to drive investment in expanded and new higher education and secondary school facilities. Investment in higher education facilities will continue as the competition to attract domestic and overseas students continues.

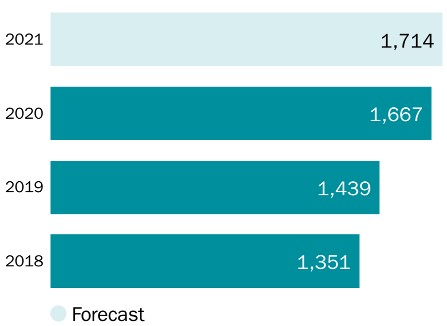
Health

The Group continues to be the number one builder of health facilities in the UK. It is expected this sector will remain central to public sector spending for many years and forecasts and drivers for future demand remain robust.

The medium-term outlook for health spending is positive. AMA Research highlights that the Government pipeline includes £4.9bn of healthcare capital projects between 2018/19 and 2020/22, with mid-term prospects enhanced by the urgent need for investment across the NHS estate in England to ensure the healthcare infrastructure is fit to deliver new models of integrated care. With a £6bn maintenance backlog, Kier is well placed to deliver on the range of projects that are likely to arise from this demand.

Medium to longer term, the key driver of the need for investment in the health sector is the ageing UK population. Government estimates a growth in the retirement age population particularly the older retired segment, over the next 20 years. Given the level of demand this creates for the NHS, it will also drive the need for further improvements in facilities and increased investment.

Health sector growth (£m)



Source: ONS

Other sectors

The business continues to develop its presence in a number of other sectors including aviation, defence and justice. These are all sectors that continue to receive Government support.

Private sector

Whilst the public sector is vital to our Construction business, representing 75% of turnover in the year, we continue to ensure we retain a sensible exposure to the private sector, offering a means of balancing demand and risk as well as of sharing best practice.

Our private sector work, largely focused around commercial and industrial logistics projects, is heavily focused upon a small number of blue-chip key accounts.

Other

We retain a good Housing Maintenance business which is well positioned to help public and private sector social housing providers. The business, post Grenfell, has developed fire risk safety assessment services principally for the public sector. However, with further building regulation updates expected this year, additional opportunities are likely to develop.

After operating in a range of overseas markets, the international business is principally focused in Dubai with a refocus on smaller-scale civil engineering infrastructure works where there is a steady stream of opportunities. Demand remains stable in these markets.

INFRASTRUCTURE SERVICES

The UK market in which our activities are principally conducted is a large market totalling £33bn.

Highways

Kier is the UK's number one highways maintenance provider. Its biggest client is Highways England, with Kier providing maintenance and capital projects across a range of contracts including smart motorway projects.

In October 2018, Highways England announced its anticipated spending for its second Roads Investment Strategy (RIS2), covering the years from 2020 to 2025. With proposed overall spending of £25.3bn, a 60% increase on RIS1. Whilst there is a short hiatus during the transition from RIS1, RIS2 provides opportunity in this market moving forward.

Kier has typically undertaken a greater proportion of maintenance projects for Highways England. There is increasing recognition from clients and Government that road maintenance is key to the future integrity of the network and that funding for maintenance should not be to the detriment of capital funding.

The delivery of major schemes for Highways England will be managed through the new Regional Delivery Partnership over the short to medium-term, for which Kier is a provider. This will cover most schemes, with a number of projects to be procured over the medium-term through local authorities on the Major Road Network and also through Regional Transport Bodies for growth schemes.

Beyond Highways England, all core clients are in the public sector, with a significant exposure to the local authority market, supporting contracted authorities to maintain their local road network. Kier works with a range of authorities such as Suffolk and Surrey. Despite a lack of local authority funds to maintain current assets, a wide variety of delivery and procurement solutions are under discussion with clients.

It is anticipated that the devolution of funding and decision-making, both locally and regionally, and the establishment of Regional Transport Bodies, Mayoral Authorities and increased collaboration between authorities, will see changes to the delivery and procurement landscape over the next 5 to 10 years. This is expected to see greater local accountability for local and regional road networks.

Highways contracts are long-term contracts which, by their nature, are like frameworks, thereby offering significant pipeline visibility.

In December 2018, the Scottish Government laid out its road spending priorities in its 2019/20 Budget, identifying a need for change, highlighted by Audit Scotland's June 2018 report. This concluded that a new model for highways maintenance needs to be investigated. This provides Kier with an opportunity in Scotland where the Highways business currently has no footprint.

Utilities

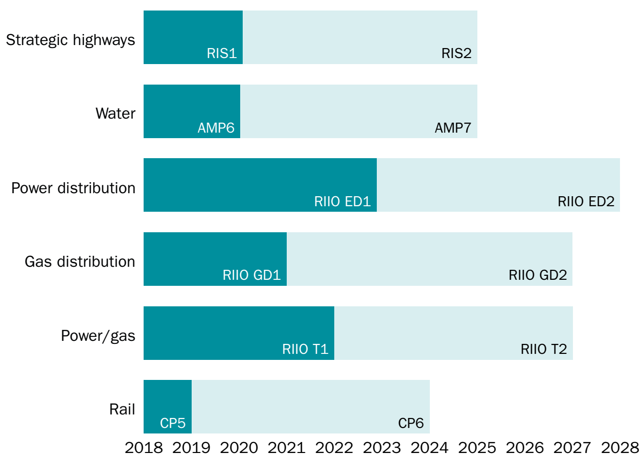
Kier is a utility infrastructure services provider across the water, energy, telecoms and rail sectors with a market share of between 3–10% across the sub sectors and significant scope to develop further.

We work with regulated clients, with regulators requiring the improvement of customer satisfaction, a reduction of costs and improved environmental impact. This, combined with working with emerging technologies, will drive the need for continued investment in these sectors.

Across the following sub-sectors, we have strong forward visibility of income given over 90% of our work is in long-term alliances and frameworks. We are also able to deliver balanced returns given 85% of current revenue is invested in contracts which are of a collaborative form, with a sharing of risk and reward.

The Internet of Things (IoT) will play a fundamental role in utilities. The increasing convergence in our sectors driven by the creation of IoT infrastructure presents opportunities for significant future growth. Such developments include the introduction of smart asset management; decarbonisation; renewables and energy storage; micro grids; electric vehicle charging; and the connected places, homes and offices to create a smarter, connected UK.

Utility regulatory periods

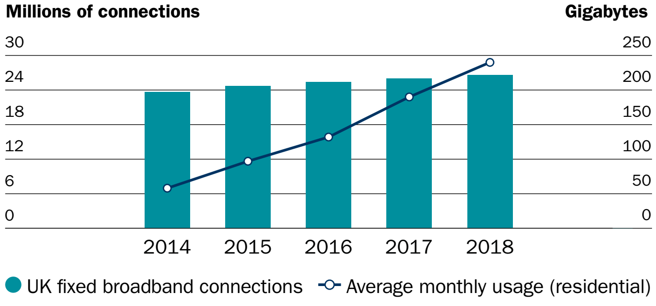


Water
The Asset Management Plan (AMP7) cycle (from 2020 to 2025) presents a significant opportunity for Kier given its experience in this sector. With a drive to reduce leakage from both a sustainability and efficiency perspective, and a requirement to cap and reduce the return on capital employed whilst passing benefits on to the customer. We are working closely with a range of clients to help them plan and deliver their upcoming spending.

Energy
The energy sector is anticipated to see c£16bn of spend in the current regulatory cycle which runs from 2013 to 2023. In addition, climate change challenges will drive investments. Reprocurement for new RIIO-ED2 infrastructure services frameworks will commence in 2021 for contract commencement in April 2023. These will present growth opportunities for additional revenues. Two major investments on the horizon are the move to distributed generation and equipping the country to cope with the switch from internal combustion to electric vehicles. Both will drive significant infrastructure spending. In gas, where we are less prominent, trials are currently planned for domestic hydrogen production, storage and distribution, which will present new opportunities.

Telecoms
The telecoms market totals c.£40bn with major changes underway including the replacement of copper with fibre (with some 90% of the UK still relying on copper to some extent for their broadband), and the introduction of 5G, a technology that relies on super-local relaying of data. These represent new opportunities on top of our core business of maintaining network availability and connecting domestic customers.

Broadband potential



Rail
Kier has operated in the rail sector for many years and, whilst currently a small player, there are a number of investments coming on stream from the latest periodic review, Control Period 6, running from 2019 to 2024 and which has a £42bn committed spend. The sector has a strong focus on the safety of delivery, an area where the Group has a solid track record.

Major Projects – Infrastructure
Our Major Projects – Infrastructure business focuses on the delivery of major infrastructure projects, typically requiring strong civil engineering capabilities. Kier has a track record across a range of projects, often in joint ventures, such as in the nuclear sector (Hinkley Point C), the rail sector (Crossrail and Luton DART), the water sector (Deephams) and the road sector (A13).

The National Infrastructure and Construction Pipeline, excluding investment in highways and buildings, is estimated at around £600bn between now and 2028. A core element of the infrastructure pipeline and a potential backbone for the business in future years is the construction of the High Speed 2 (HS2) rail link, where Kier, in joint venture, is responsible for the delivery of civil engineering works across an 80km section of HS2 between the Chiltern Tunnel and Long Itchington Wood.

Given the scale of individual projects that the business undertakes, clear bidding and delivery risk management disciplines are employed to ensure an appropriate risk and reward, predominantly focused around cost-plus opportunities.

Key performance indicators

Financial

Key performance indicator	Our performance	Comment
Total Group revenue – before exceptional items[1] (bn) Revenue for the Group from continuing operations including joint ventures excluding exceptional items	19: 4.5 18: 4.5 **£4.5bn**	Group revenue was resilient with over £1.1bn of new awards in the second half of the year
Profit from operations – before exceptional items[1, 2] (m) Operating profit for the year before exceptional items	19: 124.1 18: 187 **£124.1m**	Group profit before exceptional items was materially lower reflecting volume and operational issues
Earnings per share – before exceptional items[1, 2, 3] (p) Earnings per share for the year generated from operations before exceptional items	19: 58.2 18: 136.8 **58.2p**	Group earnings per share before exceptional items was materially lower reflecting volume and operational issues affecting profit
Order book[4] (bn) Secured and probable future contract revenue not currently recognised in the financial statements	19: 9.4 18: 9.8 **£9.4bn**	A solid order book reflecting business disposals and contract exits. £1.5bn relates to the HS2 project which is under review
Net debt – average[5] (m) Average monthly net debt for the year	19: (422) 18: (375) **£(422)m**	Average net debt was higher reflecting net debt being at its highest between September and November 2018, but reducing following the rights issue in December 2018
Cash – free cash flow[5] Alternative cash flow measure to evaluate what is available for distribution	19: 137.3 18: 72.9 **£137.3m**	Free cash flow was materially higher reflecting the proceeds of the rights issue received in December 2018

Changes to KPIs in 2019

A key part of how we operate is measuring performance. For the last five years, we have measured our performance using a larger set of KPIs which were linked to the Vision 2020 strategy.

Following the strategic review conclusions, we have reviewed our KPIs to ensure there is greater clarity of the metrics and that they reflect the focus and structure of the business moving forward. These measures cover both financial and non-financial metrics.

Financial metrics

This year we have introduced a number of new financial metrics:

- Profit before exceptional items and amortisation rather than underlying profit
- Order book – a measure giving visibility of contract awards
- Average net debt – with one of the strategic priorities focused on reducing net debt, this metric tracks progress
- Free cash flow – a key metric moving forward reflecting greater cash generation.

Non-financial metrics

We have combined our employee retention and engagement commentary into one employee engagement metric and, following changes to the BITC CR index, we have moved to a metric relating to the Group's social impact, a key measure for our Government and public sector clients. New metrics are:

- Payment performance – with a growing focus on payment practices by Government, this is one of the key data points reported every six months by the Group
- % in energy reduction/tonnes of carbon dioxide – with increased concern about climate change and the FRC's focus on this metric, this has been added.

All these metrics underpin the rolling out and embedding of the Kier Group strategy and Performance Excellence.

Non-financial

Key performance indicator	Our performance	Comment
Safety – Group accident incidence rate (AIR) Achieve year-on-year improvement in the Group AIR. Remain below the Health and Safety Executive benchmark for the UK	19: 104 18: 96 **104**	After three years of improvement there was a slight increase in the AIR on a like-for-like basis as the rate of improvement slowed. However, the figure remains well below the Health and Safety Executive benchmark
Customer experience Deliver a high level of customer satisfaction which is key to supporting sustainable long-term growth across our markets and client base	19: 92 18: 90 **92%**	A high level of customer satisfaction continues to be delivered, improving to 92%. The Kier Net Promoter Score, which is based on a client satisfaction score, remains strong at +48 (2018: +49). The number of client surveys completed across the Group totalled 420
Employee engagement Achieve a continuous improvement in employee engagement survey score	19: 55 18: 60 **55%**	A 5% decline in engagement compared to 2018 in light of the significant change undertaken in the business. This is based on a survey with a 75% participation rate
Payment performance Maintain a good relationship with our supply chain partners	19: 41 18: 57 **41 days**	As reported in the Government Duty to Report on Payment Practices and Reporting portal, the average number of days to pay suppliers has improved for Kier Group with an action plan in place to achieve further improvements
Social impact Improve the outcome and community value delivered from projects	19: 310 18: 157 **£310m**	Kier has invested in training and awareness for our teams on how we improve our recording of social impact data. This has contributed to a significant increase in the positive social impact delivered and value reported
Environmental responsibility Reduce our consumption of energy and greenhouse gas emissions per £ revenue	18: 25.3 tCO_2e 17: 28.2 tCO_2e **25.3 tCO_2e**	Kier has delivered steady and consistent reduction in the amount of fossil fuel-derived energy it requires to operate per £ revenue. Our programme is helping to reduce our contribution to climate change, whilst improving our cost of doing business

[1] See consolidated income statement on page 112. Exceptional items includes amortisation of acquired tangible assets.
[2] Prior year re-presented to reflect the change in the Group's Alternative Performance Measure, see note 5 to the consolidated financial statements.
[3] Prior year restated as a result of the rights issue, see note 11 to the consolidated financial statements.
[4] Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSA Limited (Kier's Australian Highways business).
[5] See note 20 to the consolidated financial statements.

Positive footprints

Our sustainability activities and non-financial KPIs support our new strategy. We continue to contribute to the communities who work alongside us while respecting the environment in which we operate.

We continue to take responsibility to be good neighbours, contributing to the communities who work alongside us, while respecting the environment by reducing our use of resources and waste. All these activities support our strategy and values.

Resources

To build trust within our markets, we continue to place people at the heart of our operations. This has been particularly important this year following the level of change undertaken in the business. Day-in, day-out we rely on having a healthy, safe and skilled workforce made up of our employees and our supply chain partners. We rely on this extended team to operate our business in a responsible and ethical way, for example minimising the impact of our operations on the environment. We provide our teams with robust management systems, processes, policies and training. In the coming year, a culture of Performance Excellence will be rolled out, providing an enhanced operational framework, ensuring greater consistency of approach and clear ownership and accountability for core processes across the Group.

SEE PAGES 21 TO 24

MORE DETAILS CAN BE FOUND IN OUR STRATEGY FOR SUSTAINABLE BUSINESS, *RESPONSIBLE BUSINESS, POSITIVE OUTCOMES*, IN OUR SOCIAL IMPACT REPORT (SUMMER 2019), *POSITIVE FOOTPRINTS*, AND IN OUR *CORPORATE RESPONSIBILITY UPDATE*, ALL OF WHICH ARE AVAILABLE AT WWW.KIER.CO.UK.

Relationships

Only by building positive relationships can we deliver some of the largest and most celebrated projects, as well as hundreds of smaller, but equally important, local projects each year.

Key relationships are with clients and customers, our supply chain and joint venture partners, investors, and the communities where we work. We are a strategic supplier to Government.

SEE PAGES 25 AND 26

Responsibility

In each community where we operate, we leave what we call positive footprints, by operating in a way which adds both financial and non-financial value to the local economy. This section of the report focuses on the responsible approach we take on areas of non-financial performance. This activity creates far-reaching benefits. It has an impact on the way we run our business and on our performance, revenue and profit.

We have set ourselves a target to deliver social value equivalent to 10% of Group revenue, a goal we are on track to achieve. Our social value recorded in the year totalled £310m (2018: £157m). This includes measurement of environmental matters and is consistent with Government requirements and recognised methodologies. We also provide support to a range of organisations including charities who help the most vulnerable in society such as the homeless, long-term unemployed or ex-offenders looking for a route back into work.

Kier is a constituent company of the FTSE4Good index series, which is designed to identify companies that demonstrate strong environmental, social and governance practices measured against globally recognised standards.

SEE PAGES 26 TO 28

Resources

Our people

People are at the heart of our business. We rely on the talents, skills and commitment of more than 19,000 people employed across the breadth of our operations and the 25,000 people employed by subcontractors who go to work for Kier each day. Our supply chain is an extension of our own people, sharing our ways of working, aligning with our values and working to our standards, particularly in the areas of safety, client engagement and quality. We aim to be a trusted and reliable partner to the supply chain.

Our regional network is at the heart of our operation, with a focus on local relationships delivering local projects, backed up by the power of a national organisation with consistent approaches and processes. Our investment in new systems enables us to capture knowledge from across our business, particularly in key areas such as compliance, safety and training. We then share this learning and best practice across the business, which helps deliver a consistent quality of service on projects. This enables us to grow our intellectual property, i.e. our people's expertise and processes, and leverage the experience and capabilities of our teams.

Health and wellbeing

Nothing is more important to Kier than the mental and physical health and wellbeing of our people. We are rolling out a fully integrated safety-first culture across our business.

We are also tracking the maturity of safety behaviours across our Company. A key element of our drive is strong, visible leadership, where Directors and senior managers set the example of being vigilant and regularly visiting our sites. We have increased the number of visits these colleagues make to our contracts, projects and depots on the frontline to 5,962 (2018: 5,882).

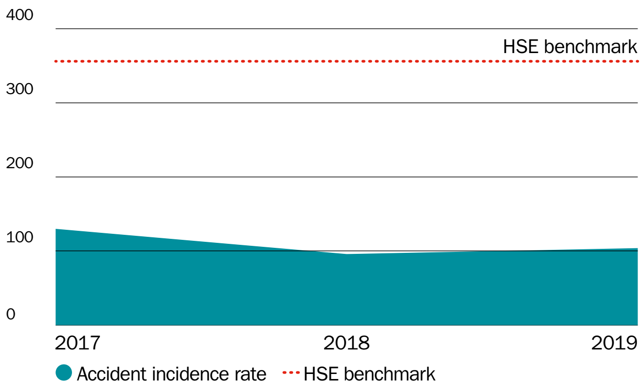
There is far less avoidance of safety, health and environment (SHE), and a definitive shift towards more human focused and integrated ways of working.

Keeping people out of harm's way is more than just following processes or launching one-off campaigns. This year our main focus has been a campaign to raise awareness of the five SHE basics. Wherever our employees work and whatever they do, we provide them with the time, training and tools to concentrate on these.

1	2	3	4	5
Induction for every worker	Risk assessment for every task	Safe system of work for every medium and high risk task	Point of work risk assessment – the last chance to re-assess	Training and competence – our licence to operate

On a like-for-like basis, the year-end Group AIR in 2019 was 104, 8% higher than 2018. While this is disappointing, the trend in the average AIR is still reducing. AIR is a measure of accidents leading to more than seven days absence from work. See the Safety, Health and Environment Committee report on pages 73 and 74 for further information on this and key incidents.

Accident incidence rate



We provided 5,203 days of core SHE training to accredited industry standards to our teams. This is over and above the SHE training days delivered at a task and occupational level, for example through toolbox talks.

We are acutely aware of the national rising suicide figures among men, including those working in the construction sector, which has a suicide rate higher than the national average. We take the mental health of our employees seriously and this is reflected in our participation in a number of industry-wide campaigns to help raise awareness of this important issue. We have trained over 550 mental health first aiders, and have introduced a dedicated trauma counselling service, available when incidents occur, and rapid referral to mental health support services.

Attracting and retaining the best people

We want to continue to be an employer of choice, attracting and retaining the brightest and the best talent as our business adapts to a new strategic direction.

A crucial part of this is behaving fairly and treating everyone equally because we believe that a diverse workforce makes us stronger and better equipped to meet the challenges of the future.

Striving for gender equality on pay is one element of behaving fairly as a business. The figures in our latest gender pay report showed our median gender pay gap reduced in the 12 months to April 2018. While these figures are encouraging, we continue to work on initiatives to encourage women of all levels to consider a role in Kier.

WWW.KIER.CO.UK/HOW/EQUALITY-DIVERSITY-INCLUSION/

Kier gender pay gap (median)

The figure above shows the median pay gap between males and females at Kier.

Diversity

Gender makes up just one part of diversity. We are committed to creating a business which better represents society as a whole, and want to attract more people from ethnically diverse backgrounds at different levels of our organisation. We are also working to tackle wider issues of inclusion.

For the past two years, this focus has been through the Kier Balanced Business Network (BBN), made up of colleagues from all levels across all parts of the business with a passion for improving diversity and inclusion. Recent activity has focused on a campaign called 'Bring your whole self to work', which encourages people to be proud of who they are at work, without having to change aspects of themselves or their beliefs.

Mobilised by the BBN, we have reviewed and are rolling out our family-friendly and agile working policies to ensure all employees have the opportunity to request flexibility to balance family life and career progression in a way that works for them.

We have also enhanced maternity pay, offering full pay for the first 20 weeks, and have launched Parental Transition seminars for employees seeking to start or extend their families. During the year we worked with the charity Stonewall to review a number of our policies ensuring we approach our people policies from a gender neutral perspective. We continue to incorporate their valuable feedback across our wider suite of people-related policies.

In January 2019, we published our research report 'Attracting, retaining and developing a diverse workforce' and we hosted a panel discussion on this same topic. The event was attended by people from inside and outside our industry. This report can be viewed at www.kier.co.uk/how/equality-diversity-inclusion/.

Accelerating leadership for women

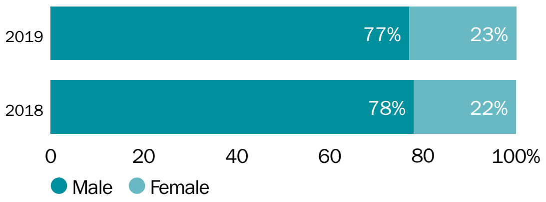
Part of our people strategy is to accelerate the progression of female talent. We have delivered a career development programme with WISE (Women into Science and Engineering) and Skills4UK which has enabled more than 100 women from across the Group to develop the skills they require to progress in their leadership journey.

Equal opportunities

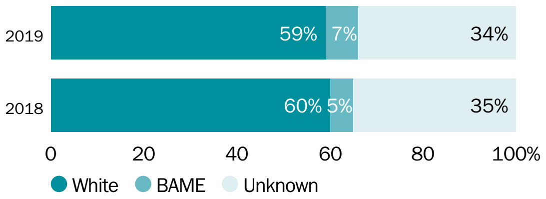
In our sector, employing people with disabilities has been viewed as difficult owing to the nature of our work, or else has relied on changes to physical infrastructure or working practices. We are shifting this perception and our Highways business became the first in our sector to be recognised as a Disability Confident Leader in the scheme run by the Department of Work and Pensions.

We are an equal opportunities employer and encourage, whenever practical, the recruitment, training, career development and promotion of colleagues with additional physical or mental needs, including instances of disability occurring during employment.

Gender diversity



Ethnic diversity



Gender diversity by grade

	Male 2019	Female 2019
Board	7	2
Senior managers	273	35
Other	12,156	3,637

* Excluding international employees.

Retention

The retention rate for UK employees is 86% (2018: 89% on a like-for-like basis), reflecting the Future Proofing Kier programme headcount reduction that has taken place this year.

Apprenticeships and graduates

An important part of attracting and retaining the best people is focusing on the training and development required by the next generation to help fill the significant skills gap across our industry. Unlike the trend across the country, the number of apprentices and graduates at Kier has increased to 830 (25.4% female).

Kier is a member of the 5% Club – currently more than 7% of our workforce are apprentices, graduates, sponsored students or in further education.

7%

of Kier employees are apprentices, graduates, sponsored students or in further education

To enhance our Graduate Development Programme, we will be placing our 2019 graduate intake onto a degree apprenticeship in management, accredited by the ILM, the UK's leading provider of professional qualifications. This will provide them with the opportunity to gain a professional qualification, leading to accreditation to the relevant professional body, as well as a further degree level qualification, and will open the programme to a wider set of applicants.

This move helps us to use the Apprenticeship Levy in a way which lets students gain the highest possible qualifications, as well as meeting our client requirements.

We have also exercised our right to transfer part of our Apprenticeship Levy surplus to other organisations. By transferring some of our levy to supply chain partners, we enable them to create more apprenticeships, which is mutually beneficial.

Three Kier projects – HS2, Luton Dart and Wellingborough Prison – were this year selected by the Government to receive funding as Construction Skills Hubs. This programme is designed to increase the number of people trained in construction, to help tackle the skills shortage in the sector and help to build the homes and infrastructure needed across the country.

The award-winning Kier initiative, Shaping Your World, promotes careers in the built environment to the next generation of young people and is now in its third year. Over 500 Kier ambassadors have carried out 390 engagement events, including visits to schools, and nearly 38,000 young people have benefitted from the campaign, which is designed to overcome industry preconceptions.

This campaign has been rolled out to include our supply chain partners.

Responsible business

We want to ensure all our employees understand what standards and behaviours are expected from them, as well as what they should expect from Kier as their employer. This includes helping them to understand the legal and ethical policies and processes which drive our operations.

To support this, we provide training to all employees on:

- The Kier Code of Conduct – over the last two years over 80% of online employees have undertaken this training.
- Bribery and corruption – over the last three years over 12,500 online employees have undertaken this training.

In both instances, appropriate training has been provided to offline employees.

An area of particular focus has been embedding new ways of working to support the changes arising from the General Data Protection Regulation (GDPR) and Data Protection Act 2018. This included an audit of all related activity within the business to ensure compliance with new regulations, which confirmed our processes were fit for purpose and identified a few areas of continuous improvement for the control framework.

The issue of modern slavery continues to be a concern within our industry and is the principal direct source of the risk of failing to uphold fundamental human rights.

We are taking an industry-leading role on this important topic and have been working with the Gangmaster and Labour Abuse Authority (GLAA) to develop greater understanding of the risks posed. We became one of the first signatories to the GLAA Construction Protocol and hosted a number of events to raise awareness with our clients and supply chain.

A secondary concern is the upholding of standards through our own business and our supply chain. In addition to our policy on modern slavery, Kier produces an annual statement which addresses the main risks and issues for our business and the activity being taken to address these.

We continue to raise awareness of the Kier whistle-blowing process including the confidential and independent helpline provided for Kier employees and supply chain partners. During the year, there were 96 issues raised, an increase of 15. This could be partly due to an increased confidence to raise issues on behaviours at work and greater awareness of the issues of modern slavery. All issues were investigated internally with a third resulting in action being taken. No material issues were identified relating to human rights, including modern slavery and human trafficking, or anti-bribery and anti-corruption.

Supply chain data

77%
of our supply chain consists of SMEs

£3.6bn
annual spend with the supply chain

55%
of our supply chain spend is with SMEs

79%
of our invoices are paid within 60 days, an improvement on 65%

Relationships

Long-term relationships

Our business has established market-leading positions through the development of long-term client relationships which deliver excellent client service. These client relationships are underpinned by a systematic programme of engagement. Only through this ongoing collaboration can we continue to evolve as a business, improve our ways of working and continue to meet or exceed the expectations of our clients.

When we developed our strategy for a sustainable business, Responsible Business, Positive Outcomes, we did so in consultation with stakeholders, including clients and shareholders. We have retested the non-financial performance indicators that we identified and find that they continue to be robust. This is an ongoing process, where Kier engages with a range of stakeholders, including Business in the Community and Social Value Business, who provide advice on, and critique, our evolving approach to sustainable business.

Our employees

Our people matter to our business. Our culture is focused on the way they work together and the interface they provide with our clients, as well as with many other stakeholders. To support this, the Group provides information to employees and encourages two-way engagement. We do this through newsletters, webinars, the Group intranet, social media and formal and informal face-to-face meetings.

In 2018, we held the third annual Kier Group employee awards. Nominations for awards were up by 40% on the previous year and the standard of entries was high. We also embarked on a series of employee roadshows, which were attended by 3,306 employees across 22 sessions, in 17 locations over a nine-day period. Attendance at these events increased by 18% on the previous year.

Three quarters of Kier employees participated in the employee engagement survey and 55% (2018: 60%) of respondents reported that they are positively engaged with Kier, despite the significant change that has taken place across the Group.

The Board recognises the important role that it plays in overseeing the Group's culture and, during the year, how it engages with its workforce. The Board has agreed that three Non-Executive Directors are to be appointed as a 'designated Non-Executive Director' to facilitate regular engagement with the workforce. Further information on stakeholder engagement can be found on pages 76 and 77 of the Corporate Governance Statement.

Clients

Our customers want to ensure that we are providing a safe, sustainable working environment and infrastructure for the future.

More than 70% of our business is repeat business which is testimony to the relationships that we have with our clients.

With over 70% of our client base from the public sector, we are aware of their emphasis on key topics such as payment practices, social value and modern methods of construction. As a strategic supplier to Government, we regularly engage with the Cabinet Office as well as a range of Government departments who procure our services.

We have adopted a key account management approach to clients, including our blue-chip clients, ensuring they are aware of the latest developments within the Company. We regularly engage customers in customer satisfaction surveys and formal and informal sessions around key industry topics. This year, our customer satisfaction rate was 92% (2018: 90%).

As an innovative supplier, we maximise opportunities in the pre-construction phases of development to engage with our customers to understand where we can utilise modern methods of construction (MMC.) The Kier 'Choice Factory' brochure provides a snap-shot of how we use MMC and the advances we have delivered in off-site construction. We look to use the benefits of MMC wherever possible, recognising the safety, sustainability and cost benefits that can be obtained in the build and full lifecycle of the assets.

We continue to build on the work we are doing with the Construction Innovation Hub, the Catapults, key construction bodies such as i3P, and academia to deliver innovative solutions to support the needs of our customers and their consumers. The Catapult centres are a network of world-leading design and innovation hubs that are helping to transform the UK's capability for innovation in specific areas and to drive future economic growth.

Supply chain partners

Through our work with the supply chain, which includes many locally based small and medium-sized businesses (SMEs), we contribute to the economic and social life of the communities in which we operate.

The breadth of capabilities in our supply chain are integral to the success of our business. They enable us to operate at scale and with agility, providing specialist skills, capacity and materials. We engage with subcontractor and supplier teams we can confidently rely on across operations. Many of our most fruitful relationships are with SMEs who combine excellent knowledge with a willingness to go that extra mile for our clients. SMEs make up 77% of our supply chain and account for 55% of supply chain spend, significantly above the Government's 2022 target of 33%.

This year we have reviewed the pre-qualification of subcontractors, enabling them to align to a common set of standards used by three of the UK's largest accreditation companies. This helps reduce bureaucracy for organisations wishing to join our supply chain, provided they hold a recognised accreditation.

Over the last year, we have been working with Build UK, in collaboration with other main contractors, to develop a standard contractor pre-qualification. The Common Assessment Standard (CAS) allows subcontractors who obtain CAS to work with any main contractor. We are the first main contractor to accept the CAS, leading the way for greater efficiency and reducing cost for the supply chain.

We have put a clear supply chain journey in place, which sets out a path for supply chain partners seeking approval and acceptance as a preferred or strategic partner. Supply chain partners are now able to access the same training resources on topics such as health and safety, anti-bribery and anti-corruption and modern slavery.

Since 2016, we have been working with our supply chain to raise awareness of the issues of modern slavery so that together we can help identify and protect vulnerable workers.

Kier is a strategic supplier to Government. With an increasing emphasis on payment practices through the BEIS Duty to Report on Payment Practices and Reporting (PPR), we continue to make progress on improving our payment performance. We submit data to the Government website on a six-monthly basis. Data for the six months to 30 June 2019 reported Group average payment days to its supply chain partners at 41, a significant reduction from 57 days for the first half of the year. There is a growing focus on the percentage of invoices paid within 60 days, and this is a metric where we have also improved, moving as a Group from 65% to 79%. We have developed an action plan for further improvement. A summary is available on our website www.kier.co.uk/supply-chain/payment-reporting.

Investors

After a challenging year for all our shareholders, the Chief Executive's review on pages 6 to 10 and Financial review on pages 41 to 47 cover our strategic priorities moving forward.

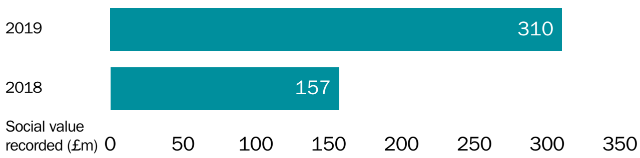
PAYMENT PRACTICES DATA CAN BE ACCESSED VIA THE GOVERNMENT WEBSITE: HTTPS://CHECK-PAYMENT-PRACTICES.SERVICE.GOV.UK/SEARCH

Responsibility

Communities

Across the entire Kier business, our projects deliver significant positive social, economic and environmental impact as a result of the way we do business.

Social value tracker (£m)



Economic

We choose to operate our business in a way which adds both financial and non-financial value in the communities where we work. For example, we buy most goods and services locally, often from trusted SME supply chain partners. We aim to create jobs and opportunities locally, particularly for SMEs, thereby giving local economies a boost.

In 2018, Kier was the first construction company in the UK to achieve the Social Value Quality Mark – a stamp of approval for businesses that are committed to achieving positive social impact through their work. Awarded by independent social value specialist Social Value Business, the mark recognises those organisations that strive to create social value and impact. We have calculated, based on more detailed examination of specific projects and using government statistics and assumptions, that for every £1 Kier spends, up to £2.65 is generated for the local community, because of the regional focus of our business. This calculation considers not just the money Kier spends on wages, supplies and labour but also the effect of this spending on the local economy.

Social Value Q Quality Mark Level 1

1st UK construction company

to be accredited by Social Value Business

The Kier Foundation

The Kier Foundation is an independent registered charity for which employees raised £278,563 in the period. The Group supports The Kier Foundation by settling its employee costs and providing an operational budget which facilitates the activities and outcomes of the charity. The Kier Foundation manages the relationship with a chosen corporate charity partner on behalf of Kier. A new partner is chosen every two years, initially via an employee ballot with the final decision by a panel of Kier employees. In the first year of support for the current partner, British Heart Foundation (BHF), a total of £200,000 for research into cardiac arrests was donated from The Kier Foundation. This is the first time BHF has used corporate funding for a specific piece of research. In addition, 2,892 Kier employees have been trained in cardiopulmonary resuscitation or CPR, providing them with a life-long skill which could save a life.

Individual Kier businesses can apply for business match funding of up to £5,000 from The Kier Foundation to undertake projects in the communities where they operate. The number and quality of applications has increased, resulting in £27,478 donated to seven projects across the UK, from Scotland to Cornwall.

Plans have been put in place to work with a social cause, End Youth Homelessness, for a four-year period starting in September 2019, including an initial commitment of £50,000 from The Kier Foundation this year.

Employees are encouraged to fundraise for good causes. The Foundation provides match funding up to £200 twice a year for their charitable efforts. There were 506 successful applications in the year, leading to £110,100 donated to 148 different charities.

The Kier Foundation raises money primarily through the efforts and commitment of employees, including a lottery called the Kier Winners Club. Employees can choose to pay £1 per week to participate. Last year this generated £193,390, split evenly between employees winning the lottery, and good causes supported by The Kier Foundation.

Employees can also give to registered charities via a payroll giving scheme, and are able to contribute their time and enthusiasm to support good causes through our approach to releasing them in work hours to undertake 'volunteering' activity. In many cases the provision of pro bono skills and expertise can be more valuable than simply donating cash.

Environment

Our work can impact the environment, both during construction and afterwards. We are reducing the negative impact Kier has on the environment in a number of ways.

One significant element of our approach is to take a more unified view of our environmental strategy, realising that good performance in one area, such as reducing the consumption of construction materials, can have wider benefits such as reducing greenhouse gas emissions associated with the life-cycle of a project. Kier is currently reviewing its overall environmental strategy, with energy and construction material waste being of particular interest owing to the financial benefits this also creates.

Carbon

In 2018, we launched our new energy efficiency strategy – 30 by 30. This committed us to reducing energy consumption by 30%/£ revenue by 2030.

We have delivered 83% of the planned programme of 30 by 30 for the year including:

- Installing 3,000 telematic units in our fleet of light commercial vehicles with data being used to drive fuel efficiency;
- Delivering several energy-efficient LED retrofit projects across our estate;
- Upgrading accommodation on our temporary sites so that cabins are better insulated and have more energy efficient lighting; and
- Working with supply chain partners to drive the use of the correct sized generators, which reduces energy consumption.

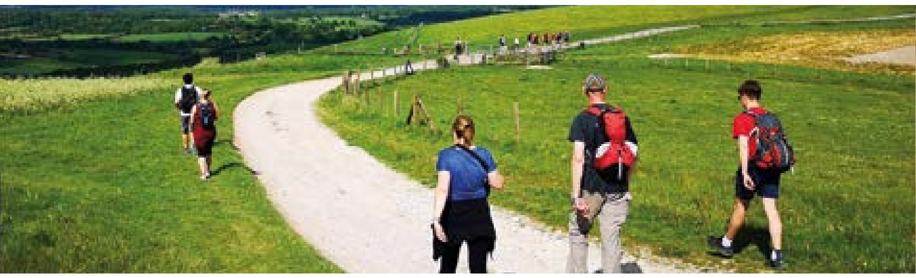
As a result of our 30 by 30 programme, we have achieved a carbon reduction target of 10% per annum using 2018 as a baseline.

However, greater focus on the urgent action required to halt climate change is causing us to rethink some of our goals. In parallel with this, changes to our business strategy and structure may also require us to refocus activities.

We will be publishing our revised environmental strategy in 2020, detailing how we plan to improve our energy efficiency, reduce greenhouse gas emissions and reduce costs to the business over the longer term.

Savings achieved from 30 by 30

- Fleet performance – 7%
- LED projects – 7%
- Site accommodation improvements – 18%
- Energy procurement – 22%
- Site generators – 46%



Emission type (by calendar year):	CO_2e tonnes 2016	CO_2e tonnes 2017	CO_2e tonnes 2018
Scope 1: operation of facilities	0	0	0
Scope 1: combustion	108,831	101,781	96,733
Total Scope 1 emissions	108,831	101,781	96,733
Scope 2: purchased energy	14,467	10,277	10,017
Scope 2 total emissions	14,467	10,277	10,017
Total Scope 1 and 2 emissions	123,298	112,058	106,750
Greenhouse gas emissions – intensity ratio	31.4 t/£m	28.2 t/£m	25.3 t/£m

	Revenue	Revenue	Revenue
Revenue (£m) – calendar year	3,928	3,915	4,222

CO_2e = carbon dioxide equivalent

Our reporting of greenhouse gas emissions is for the calendar year 2018. Our dataset covers 93% (2017: 88%) of the Kier Group operations by revenue. Our reporting methodology detailing inclusion/exclusion of joint operations and joint ventures is provided in our reporting methodology available at www.kier.co.uk/corporateresponsibility/downloads.aspx. Scope 1 fugitive emissions are not included. Reporting follows the requirements of the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 and uses conversion factors published by DEFRA.

Waste

Our focus in this area has been to reduce the amount of construction material waste produced per £100k revenue, measured by volume, achieving 6.32m³. This is a slight increase from the previous year. Our future strategy is now under review as we need to continue to reduce the waste of construction materials. This revised approach will reflect the end of life re-use of materials and the part that modern methods of construction can play in delivering more efficient projects.

Non-hazardous construction material waste

Our waste reporting comes from a sample representing 45% (2018: 41%) of the Kier Group operations by revenue. Our reporting methodology detailing inclusion/exclusion is provided in our reporting methodology available at www.kier.co.uk/corporateresponsibility/downloads.aspx

Environmental incidents

We capture and monitor data and record both the type and impact of environmental incidents, so we can learn from both successes and failures. We record this as our all environment incidence rate (AEIR). This shows an increase in each of the last two years, from 119, to 148 and 149 this year. This is disappointing as we have missed our target for a 20% year-on-year reduction. Our increased focus on training and raising awareness has led to many more minor events being reported, and this in turn has helped to reduce the risk of more significant events.

This year, we faced one prosecution for damage to tree roots under the Tree Preservation Order (Town and Country Planning Act) which resulted in a £1,000 fine.

Biodiversity

We, along with many industry peers, sponsor the annual CIRIA BIG Biodiversity Challenge and in the past have won a number of awards. This year, 10 projects submitted 14 entries across six categories, providing us with the chance to showcase best practice across the Kier business. We were pleased to win the Pollinator Award for our work to enhance the flower richness of the roadside verges of the A38 in Devon. This project was delivered in partnership with our client, Highways England and partner, ATM.

Water

We are aiming to reduce water consumption by 10% by 2020, and, to help with this, are introducing more robust water monitoring and extending efficiency to our international operations. From 2016 – 2017, we achieved a 6.5% reduction, but consumption has increased slightly this year by 0.7% to 457,157m³.

Improvements are currently being made to the way figures are collated so we can more accurately report on this area of our work.

FOR MORE DETAILS OF OUR ACTIVITY TO MINIMISE OUR IMPACT ON THE ENVIRONMENT, VISIT THE KIER WEBSITE WWW.KIER.CO.UK

Non-financial information statement

The table below summarises how we comply with non-financial performance reporting requirements. Further details are available in the Corporate Responsibility Update 2019, which can be found on the Kier website. All Kier Group policies are also available on the Kier website: https://www.kier.co.uk/investors/corporate-governance/group-policies/.

Reporting parameter	Companies Act requirement	Kier governance	Kier policy / standards	For additonal information
Anti-corruption and anti-bribery	Yes	Risk Management and Audit Committee	Anti-bribery policy	See pages 64 to 72 CR Update 2019
Value creation model	Yes	Board	N/A	See pages 12 and 13
Employees	Yes	Board	Business ethics policy Code of Conduct Employee privacy policy Equality and diversity Safety and health policy statement Whistle-blowing policy and procedure	CR Update 2019
Environmental matters	Yes	Safety, Health and Environment Committee	Environmental policy statement	CR Update 2019
Human rights	Yes	Board/Corporate Responsibility Leadership Group	Business ethics policy Code of Conduct Employee privacy policy Anti-slavery and human trafficking policy Responsible procurement policy	CR Update 2019
Non-financial performance indicators	Yes	Risk Management and Audit Committee/Board/ Corporate Responsibility Leadership Group	All policies in the framework apply	See pages 18 and 19 CR Update 2019
Principal risks and uncertainties	Yes	Board/Risk Management and Audit Committee	All policies in the framework apply	See pages 30 to 37, 64 to 72
Social matters	Yes	Board/Corporate Responsibility Leadership Group	Social Impact Strategy The Kier Foundation articles of inclusion	See pages 21 to 26 CR Update 2019

Our risk profile

The management of risk is fundamental to the effective running of the business.

Our risk management framework

Board
Overall responsibility for risk management across the Group. Assesses the principal risks facing the Group and its appetite with respect to those risks

Risk Management and Audit Committee (RMAC)
Responsibility for overseeing the management of the Group's systems of risk management and internal control

Group Risk Committee
Acts as the link between the business and the Board / the RMAC with respect to risk management

Business management
Oversees the management of risk within the business

Group Risk function
Provides an independent assessment of risk management within the business

Group Tender Risk Committee
Reviews risks arising during tenders for new opportunities and projects

Investment Committee
Reviews risks relating to the Group's investment decisions

Delegated Authorities
Sets out delegated authorities within the Group

Other Group-wide committees
Review risks associated with specialist areas (for example, IT and SHE)

Introduction

The Group recognises that a robust approach to the management of risk is fundamental to the Group's operations. During 2019, the Group has continued to develop its systems of risk management and internal control – for example, a revised contract risk assessment governance framework was introduced, a new Group Commercial Director was appointed and the Group Risk Committee was established to provide senior management oversight of risk within the Group.

Oversight

The Board has overall responsibility for the way in which the Group manages risk. The Board determines its appetite with respect to the Group's principal risks (which are summarised on pages 32 to 37 (inclusive), and, via the RMAC, assesses the effectiveness of the systems of risk management and internal control which are designed to mitigate the impact of those risks on the Group's operations. Please see 'Accountability' on pages 62 and 63 and the Risk Management and Audit Committee report on pages 64 to 72 (inclusive) for further information.

Risk management process

The Group's Risk and Internal Audit teams work with a network of risk champions, who act as the sponsors for risk management within their respective parts of the business.

Risk appetite

During the year, the Board assessed its risk appetite against a scale of 'risk averse', 'risk balanced' and 'risk tolerant', so as to inform the development of a range of risk parameters within which the business is authorised to operate. Please see 'Assessment of principal risks and risk appetite' on page 62 for further details.

Principal areas of focus

In the 2018 Annual Report, we highlighted certain elements of the Group's risk management framework to be developed during the 2019 financial year. A summary of the progress made is as follows:

Area of focus	Examples of progress made in 2019
Continuing to review the Group's risk culture	› Initial assessment of the Group's risk culture undertaken
Sharing best practice risk management across the Group	› Risk-based 'lessons learned' programme accelerated for priority projects
Increasing the use of IT in the management of risk	› Increased use of survey tools to facilitate data gathering for risk management purposes
Continuing to assess the risk profile of the Group's portfolio of contracts	› Further embedding of pipeline, contract portfolio and individual contract risk management processes

Principal areas of focus – 2020

The Group keeps its systems of risk management and internal control under review. In the 2020 financial year, the Group's principal areas of focus, with respect to such systems, are expected to include:

- Continuing to review the Group's risk maturity and culture;
- Developing risk management processes through the Group Risk Committee; and
- Continuing to identify ways of integrating risk management practices within the operating model.

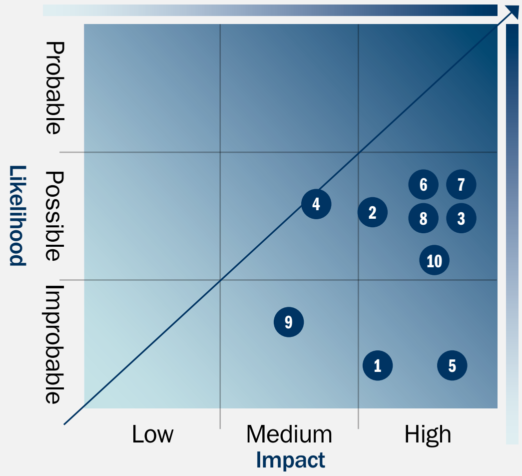
Principal risks and uncertainties

Introduction

During the year, the Board identified the principal risks and uncertainties facing the Group and assessed its appetite with respect to such risks. Understanding the Group's risk profile, and how the Group manages risk, is central to the Board's decision-making process. The following section contains information about the potential impact of the principal risks identified by the Board, the plans to mitigate them and the threats created by them.

Our principal risks

1. Safety, health and sustainability
2. Regulation
3. Funding
4. Market and sector performance
5. Operating model
6. Contract management
7. Pre-contract governance
8. People
9. Supply chain
10. Strategy execution



Principal risk	Potential impact
1 Safety, health and sustainability **Principal risk: failure to maintain a safe and sustainable environment and prevent a major incident** The Group's operations are inherently complex and potentially hazardous and require the continuous management of safety, health and sustainability issues.	› An increase in safety or environmental incidents on site; › The failure to meet clients' expectations, adversely affecting the ability to bid for and win new work; and › Financial penalties arising from fines, legal action and project delays.
2 Regulation **Principal risk: failure to manage increased scrutiny and oversight and/or comply with new regulations** The sectors in which the Group operates are subject to increasing scrutiny from stakeholders, oversight from regulators and requirements introduced by new legislation or regulation.	› Penalties for failing to adhere to legislation or regulation; › Increased operating costs of compliance; and › The loss of business and resultant reputational damage.

Key changes to the principal risks and uncertainties

The principal risks and uncertainties listed in the 2018 Annual Report have been reviewed to assess their continued relevance in 2019. Two of the 2018 principal risks are no longer considered to be 'principal' risks and two principal risks have been introduced.

The new principal risks are:

Risk	Reason for change
Supply chain	The Group's relationships with its supply chain are of fundamental importance to its ability to deliver projects
Strategy execution	The delivery of the plans announced on 17 June 2019 is of fundamental importance

The risks which are no longer considered to be 'principal risks' are:

Risk	Reason for change
Innovation	The risks associated with failure to innovate are now managed at a business level
Cyber-security	The Group is not believed to be unduly exposed to this risk

The Board's assessment of risk

The Board's assessment of the principal risks and uncertainties facing the Group; their potential impact; the mitigating actions proposed in respect of such risks, their change in risk profile during the year (in terms of either impact or likelihood); and an indication of the Board's risk appetite with respect to each such risk are summarised below. The risks are not listed in any order of priority. Not all the potential impacts of the risks or mitigating actions are listed.

Impact	Likelihood	Risk appetite
Low – the exposure is well understood, with a relatively low cost of mitigation	**Improbable** – the risk is not foreseen as likely to occur or may occur in exceptional circumstances	T **Tolerant** – the Company has a greater risk appetite where there is a clear opportunity for a greater than normal reward
Medium – risk may be tolerated provided that the benefits are considered to outweigh the costs	**Possible** – a relatively infrequent occurrence for the Group	B **Balanced** – the Company has some appetite for risk and balances its mitigation efforts with its view of the potential rewards of an opportunity
High – risk threatens the viability of the Group or there is a reasonable likelihood of danger to people or material reputational damage	**Probable** – a relatively frequent occurrence for the Group	A **Averse** – the Company has a very low appetite for risk that is likely to have adverse consequences and aims to eliminate, or substantially reduce, such risks

Mitigating actions	Impact	Likelihood	Change in impact/ likelihood	Board risk appetite
› Continuation of the Group's SHE behavioural change programme; › Continued focus on the five basics of SHE risk management; and › Setting a tone from the top through activities such as senior management visible leadership tours.	High	Improbable	Decrease in likelihood; no change in impact	A
› Regular engagement with Government and Government agencies with respect to the Group's performance; › Monitoring of, and planning for, the impact of new legislation and regulations; and › Collaborative engagement with external stakeholders.	High	Possible	No material change in impact or likelihood.	A

Principal risks and uncertainties / continued

Principal risk	Potential impact
3 Funding **Principal risk: failure to maintain adequate funding or liquidity** The Group requires access to funding and associated facilities (for example, bonding lines) to be able to operate and conduct its business effectively.	› The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees); › Conducting existing business becomes increasingly challenging; and › The loss of future business.
4 Market and sector performance **Principal risk: a general market or sector downturn affects the Group's performance** The Group's performance is affected by macroeconomic factors which affect UK business in general and/or the markets in which the Group operates.	› A failure of one or more of the Group's businesses; › Increased competition for new work; and › A decrease in stakeholder confidence in the Group.
5 Operating model **Principal risk: the FPK programme does not result in an efficient operating model** The Group's future performance is in part dependent on the FPK programme delivering significant cost savings and an efficient operating model.	› The Group does not meet its profit targets; › The Group is unable to tender effectively for new business; and › Decisions are not made efficiently and/or effectively.
6 Contract management **Principal risk: ineffective contract management leads to losses** Effective contract management is central to the Group's business model. The Group has a number of large and complex contracts in progress at any one time. Failure to manage the risks associated with these contracts could materially and adversely affect the Group's financial performance.	› A failure to meet the Group's financial targets; › The Group incurring losses on individual contracts; and › The Group failing to win new work.

Mitigating actions	Impact	Likelihood	Change in impact/ likelihood	Board risk appetite
› Effective cash forecasting and working capital management; › Collaborative engagement with banks, lenders and sureties; and › Dispose of non-core businesses to reduce net debt.			No material change in likelihood[1]; increase in impact.	A
› Evaluate markets, including the impact of macroeconomic factors and the associated market risk of specific events (for example, Brexit); › Review the Group's pipeline of future work to identify market trends and plan accordingly; and › Maintain a broad sector focus to mitigate against the decline of a particular sector.			No material change in impact or likelihood.	B
› Close project management of the FPK programme; › Effectively communicate the benefits of the FPK programme to maintain its momentum; and › Challenge the business to implement material, sustainable change.			Increase in impact; minor decrease in likelihood.	T
› Identify early warnings of under-performing contracts; › Adhere to the Group's contract risk governance framework; and › Timely and accurate reporting of contract performance.			No material change in impact; increase in likelihood[2].	A

1 The Board, however, notes that, over the past year, there has been a change in the sentiment of lenders and other credit institutions towards the construction, infrastructure and support services sectors following a number of high-profile corporate failures in recent years. Lender or credit institution sentiment may affect the Group's access to funding.

2 During the year, the Group reported significant contract losses as exceptional items in the financial statements. The Group has taken a number of steps which are designed to reduce the likelihood of the risk occurring, including enhancing its contract risk governance framework, revising its commercial standards and appointing a new Group Commercial Director.

Principal risks and uncertainties / continued

Principal risk	Potential impact
7 Pre-contract governance **Principal risk: inadequate pre-contract governance fails to identify contract risk** Effective pre-contract governance is essential in ensuring that the Group understands the risks associated with its projects and puts in place appropriate mitigation plans.	› Poorly performing contracts, leading to the Group incurring losses; › The failure to meet a client's expectations on cost and quality; and › Claims and litigation against the Group.
8 People **Principal risk: failure to retain key employees and identify future leaders** The Group's employees are critical to its performance. The Group understands the need to identify, retain and motivate people with the right skills, experience and behaviours and to identify tomorrow's leaders.	› A loss of experience in the Group and client relationships; › A lack of operational leadership, potentially leading to poor project performance; and › An erosion of the Group's employer brand.
9 Supply chain **Principal risk: maintain effective working relationships with the supply chain** The Group relies on its supply chain to deliver its projects. Maintaining close and effective working relationships with members of the supply chain is therefore a priority for the Group.	› Unavailability of appropriate resources, impacting on project delivery and cost; › Use of suppliers from outside the preferred supplier list increases cost and decreases quality; and › Poor relationships lead to lack of confidence in the Group and adverse publicity.
10 Strategy execution **Principal risk: failure to execute strategy** The Company recognises the importance of delivering the plans identified in its announcement of 17 June 2019.	› An adverse impact on the Group's net debt and liquidity; › Without the delivery of the plans, the Group remains a complex investment proposition; and › Failure to meet market and investors' expectations may lead to a decline in investor confidence.

Brexit

The UK is currently expected to leave the EU on 31 October 2019, although the timing remains uncertain. Management established a 'Brexit taskforce' which has considered the potential effects of Brexit on the Group. The Group has identified potential risks relating to, for example, the supply chain, the workforce and the supply and cost of materials.

The Group has set up contingency plans in respect of potential risks which have been identified, is monitoring developments and will keep these plans under review. We are working closely with our supply chain at a project level to assess their approach to Brexit and have undertaken scenario planning sessions to develop plans to ensure continuity with respect to potentially critical points of supply. In addition, the Group is working with its employees from EU members states who are looking to continue to live and work in the UK post-Brexit.

Mitigating actions	Impact	Likelihood	Change in impact/ likelihood	Board risk appetite
› Careful selection of tender opportunities; › Adhere to the Group's contract risk governance framework; and › Continued focus on supply chain procurement.			Increase in likelihood; no change in impact.	A
› Focus on skills development and retention plans for the talent pipeline; › Create an effective, inclusive work environment through our Performance Excellence culture; and › Clear and effective communication with the workforce.			Minor increase in likelihood; increase in impact.	T
› Develop long-term relationships with critical subcontractors; › Continue to reduce subcontractor payment terms; and › Review the supply chain to ensure alternative delivery mechanisms are available and appropriate contingencies are in place.			New principal risk.	A
› Focus from all stakeholders on driving forward the disposal programme; › Effective engagement with key external parties including credit institutions; and › Communication of progress of implementation of the plans.			New principal risk.	A

Reviewing the year

For FY2019, the Group reported by three market segments: Buildings, Infrastructure Services and Developments & Housing. Following the conclusions of the strategic review, the Group is focused on four core businesses: Regional Building, Highways, Utilities and Infrastructure under two market segments: Construction and Infrastructure Services as shown below. For further information see page 41.

Buildings

The Buildings business performed well, with revenue increasing 6% to £1,883m (2018: £1,778m). Profit before exceptionals[1] increased by 13% to £62m (2018: £55m), with operating margins increasing to 3.3% (2018: 3.1%). The order book at 30 June 2019 was £4.1bn and was 91% secured and probable for FY2020. Approximately 65% of Buildings' work is on long-term frameworks.

Regional Building

Regional Building maintained its market leading position with over £1.4bn of contract awards in FY2019 (2018: £1.6bn). The business covers all regions of the UK, delivering essential buildings such as schools, hospitals, office buildings and amenities centres for local authorities, councils and the private sector.

During FY2019, the business re-secured positions on some of the largest UK public sector construction frameworks, including the £5bn Southern Construction Framework, the South East and Mid Wales Collaborative Construction Framework, the North Wales Construction Framework, the Suffolk County Council Framework, the London Construction Programme and the Hampshire Intermediate Construction Framework. In addition, Kier continues to be the delivery partner on the second generation of the Scape Minor Works Framework and, in July 2019, completed its 1,000th project under the framework. The Group has recently been awarded a place on the North West Construction Hub's Medium Value Framework, complementing the place awarded in January 2019 on the North West Construction Hub's High Value framework.

Major Projects – Buildings

Major Projects – Buildings completed a number of projects during the year and construction work began for Argent on a flagship new corporate headquarters at King's Cross, London, at RAF Lakenheath and on the £250m Wellingborough prison. The business continues to focus principally on the defence, science, commercial, custodial and aviation sectors.

Discussions are continuing with the client on the Broadmoor Hospital redevelopment project about the Group's entitlement to the additional costs associated with the project. In light of the uncertainty of the recovery of these costs, an exceptional charge of £43.5m relating to the project has been included in the financial statements.

International

The International business principally operates in Dubai. The business traded in line with expectations, stabilising its performance following the introduction of more rigorous bidding disciplines.

Facilities Management

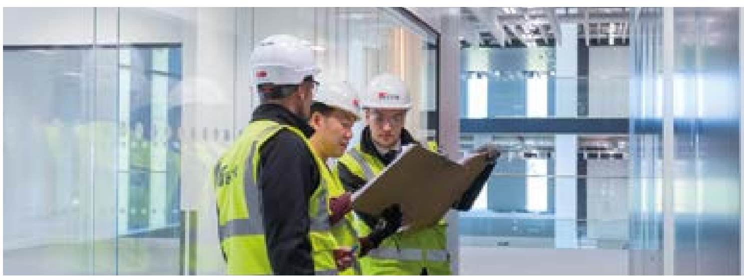
Facilities Management traded below expectations and therefore has been focusing on reducing its overheads and managing and exiting a number of under-performing contracts. As announced in June 2019, the Group will seek to exit this business in due course. As a result, the Group has included an exceptional charge of £23.1m in the financial statements.

Buildings outlook

The broader macro-environment, including Brexit, is expected to create market uncertainty which may, in turn, lead to delays in decision-making by clients and therefore the business does not expect its revenue to increase in FY2020.

The International business will continue to tender selectively for new work. The Group will continue to prepare to exit the Facilities Management business.

[1] Operating profit before exceptional items and amortisation of acquired intangible assets.



Infrastructure Services

Revenue in Infrastructure Services decreased by 4% to £1,671m (2018: £1,733m). Profit before exceptionals[1] decreased by 41% to £56m (2018: £95m) and operating margins decreased to 3.4% (2018: 5.5%). This reflected:

- the re-presentation of the FY2018 results to reflect a £27m exceptional charge relating to the Mersey Gateway project, which is substantially higher than the £6m exceptional charge relating to this project in FY2019;
- £9.5m profit from the Group's share in KHSA Limited (the Australian Highways business) in FY2018 as compared to £5.9m in FY2019, reflecting its disposal in the year;
- the re-presentation of Mining, which contributed a £4.4m loss in FY2019 (2018: nil); and
- reduced profitability in Infrastructure and from the Group's fleet operations of c.£20m compared to FY2018, driven by contract provisions in Infrastructure and reduced income from the fleet operations.

As announced in June 2019, profitability in Highways and Utilities was adversely affected by lower than anticipated volumes.

As at 30 June 2019, the order book on a like-for-like basis was £5.1bn (2018: £5.5bn), adjusting for the disposal of the Group's share in KHSA Limited to Downer Group in December 2018. The order book is 92% secured and probable for 2020, with 80% of work on long-term frameworks. The order books for Highways and Utilities are 100% and 80% secured and probable, respectively, for FY2020. The order book includes £1.5bn for HS2.

Highways

Highways reported lower overall volumes in FY2019 and a change in the mix of work from maintenance to lower margin capital expenditure projects.

Despite lower maintenance volumes, Highways maintained its position as a sector leader, working with Highways England and a number of district and county councils. Over the year, the Highways business was granted two three-year extensions to 2021 and 2022, respectively, on Highways England Areas 3 and 9 and a six-month extension on Areas 6 and 8, which concludes in October 2019.

Work on the Smart Motorways programme continued, with the completion of works on the M6 J16 – 19 alongside ongoing works on the M6 J13 – 15, M23 and M20 projects, each of which will complete in FY2020.

The business has continued to work on local authority contracts, including for Transport for London, Shropshire, Suffolk, Surrey and Northamptonshire. In November 2018, we were appointed as one of the three providers to deliver schemes on the North of England £2bn Regional Delivery Partnership framework and have begun work on two schemes in Blackpool and Liverpool with a combined value of c.£230m.

Utilities

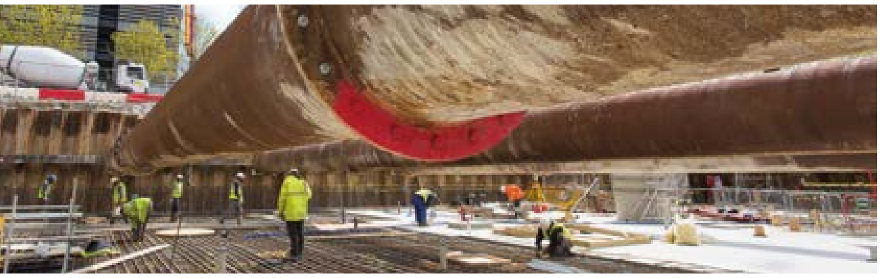
The Utilities business, which focuses on the water, telecommunication and energy sectors, experienced lower trading volumes in FY2019, principally as a result of delays in broadband installations in the telecommunications business.

In the water sector, transition to the 2020-2025 AMP7 regulatory period is underway and we are engaging with both new and existing clients on their requirements through their bid processes. Our strong position in the water sector resulted in a new five-year award from Severn Trent, covering civil and structural engineering.

The Group has identified several opportunities in the telecommunications market for super-fast broadband and 5G construction, although delays have been experienced in beginning work on new projects. New alternative fibre providers are entering the market and they are expected to provide opportunities for the business in the future. A £17.5m exceptional charge has been taken in relation to a provision against WIP acquired with McNicholas net of a £4m reduction in deferred consideration.

In the power sector, the Group continued to provide services to UK Power Networks as part of the ED1SON Alliance and was appointed to areas within the East and West Midlands frameworks and re-appointed to the Western Power Distribution South West framework.

[1] Operating profit before exceptional items and amortisation of acquired intangible assets.



Infrastructure

In the energy sector, work completed on the earthworks contract at Hinkley Point C and new work totalling £43m was awarded from the three-year £100m civils framework on which a place was awarded during FY2019.

In transport, the Luton DART mass passenger transit project is progressing well. Work on HS2 is in the early stage of on-site investigations. The regional civils business continues to make good progress with key nationwide clients, including National Grid, Canal and River Trust and the Environment Agency. During FY2019, we were awarded a position on the four-year Environment Agency Collaborative Delivery framework in the North-West of England and commenced work on the A13 £70m road-widening contract.

In July 2019, we undertook emergency works on the Whaley Bridge dam.

Infrastructure Services outlook

In Highways, the change in the mix of work from maintenance to lower margin capital expenditure projects and uncertainty over volumes are expected to continue in FY2020. In addition, the six-month extension on Highways England Areas 6 and 8 concludes in October 2019 and the works on the M6 J13 – 15, M23 and M20 projects will each complete in FY2020.

In Utilities, new regulatory periods are creating opportunities in the water, power and gas sectors. In the telecommunications sector, although significant sums are expected to be spent on the construction and installation of ultrafast broadband across the UK over the forthcoming years, the timing of contract awards for this work remains uncertain.

In Infrastructure, although there is uncertainty in relation to the HS2 project, work on the project continues. A postponement or cancellation of the project is not expected to have a material impact on the Group's financial performance.

Developments & Housing

Revenues in Developments & Housing decreased by 6% to £940m (2018: £1,002m), with profit before exceptionals[1] of £56m (2018: £72m). As a result of the decisions to sell Residential and to seek to exit Environmental Services, the Group has included exceptional charges totalling £103.8m in the financial statements.

Residential

Completed sales transactions decreased by 6% in FY2019 to 1,926 (2018: 2,042). The average selling price per property increased to £194,000 (2018: 183,000). Return on capital employed (ROCE) decreased to 14% (2018: 15%). Net asset value, excluding debt, decreased by 4% to £173.5m (2018: £180.0m). The landbank at 30 June 2019 comprised 3,938 plots (2018: 3,897).

In June 2019, the Group announced that it intended to sell Residential (branded Kier Living). The Kier Living sale excludes certain land which was valued on the Group's balance sheet at c.£60m. The Group has no immediate intention to develop this land and, therefore, the Group has recorded an impairment charge of £50m in the financial statements.

The Residential business operates a number of joint ventures (JVs), including with Homes England. It is expected that any sale of the business will also include Kier's interests in these JVs, together with its share of the JVs' debt.

Property

Profit before exceptionals decreased to £29.7m (2018: £34.0m), reflecting the reduced capital invested in this business. The level of capital allocated to the Property business is expected to have been reduced to £100m by 30 June 2020 (2019: £184m).

As part of the Arena Central development in Birmingham, the pre-let and forward funded 3 Arena Central is proceeding well. The first phase of private residential and affordable housing in the Watford Health Campus completed in September 2019.

Housing Maintenance

Housing Maintenance provides planned maintenance, capital works, fire safety risk assessments and repairs services for housing associations, local authorities and private rented sector clients. In April 2019, a new five-year £8.6m contract was awarded by Muir Housing Association to deliver a comprehensive repairs service. Whilst certain local authorities have taken maintenance in-house, which affected the business' volumes in FY2019, there has been an increased demand for fire safety risk assessment work. We were awarded a place on the four-year £50m Hyde Fire Safety framework, a three-year £8m contract with Gentoo and a £5.7m contract by the London Borough of Hammersmith & Fulham, in each case to deliver fire safety repairs.

Environmental Services

In June 2019, we announced that we would seek to exit this business in due course. We agreed an early termination of the Cheshire West and Chester (CWaC) contract, with phased settlement payments over 2020 to 2026. Plans are on course to close the remainder of the business during FY2020 and, therefore, the Group has taken an exceptional charge of £26.8m.

Developments & Housing outlook

The sale of Kier Living is progressing well. The Property business will re-focus principally on mixed-use urban regeneration schemes, operating within a reduced level of investment. The Group is exploring options to accelerate the release of capital from our Property business.

The Housing Maintenance business, which is complementary to the Regional Building business, will focus in particular on fire risk safety assessment services. The Group will continue to take steps to close the Environmental Services business during FY2020.

[1] Operating profit before exceptional items and amortisation of acquired intangible assets.

Joel Brook/Arup

Strengthening our balance sheet

Strengthening the Group's balance sheet

During 2018, the banking sector indicated its intention to reduce its exposure to construction and related sectors. In addition, the focus on service providers' balance sheets increased and there was an increasing pressure to improve the speed of the Group's supply chain payment terms. As a result, the Group undertook a rights issue in December 2018, which raised net proceeds of £250m. The Group reported average payment days to its supply chain partners of 41 for the second half of FY2019, a significant reduction from 57 days for the first half of the year.

Alternative performance measures

The Group changed the presentation of its financial statements for FY2019 to profit before exceptional items. In prior years, the Group has reported underlying profit. The principal reason for the change is to improve the transparency and clarity of the Group's financial performance.

The Group reports average month-end net debt as a key performance measure, using a 13-month, period-end basis, beginning with June at the end of the immediately preceding financial year, with each quarter in the financial year being divided into three period ends of 4, 4 and 5 weeks. This is not a statutory requirement.

Segmental reporting update

For FY2019, the Group reported by reference to three market segments: Buildings, Infrastructure Services (including Highways and Utilities) and Developments & Housing. For FY2018, the Group reported by reference to four operating divisions: Property, Residential, Construction and Services.

Following the announcement of the conclusions of the strategic review in June 2019, the Group will be focusing on four core businesses: Regional Building, Highways, Utilities and Infrastructure. For FY2020, the Group's segmental reporting will relate to these businesses, together with the Group's Property and Residential businesses as a non-core segment.

		2019 Year ended 30 June	2018 Year ended 30 June	Change %
Group revenue[1]	– Total	**£4.5bn**	£4.5bn	0
	– Excluding joint ventures	**£4.1bn**	£4.2bn	-2
Profit/(loss) from operations[1]	– Total	**£(216.7)m**	£134.4m	-261
	– Before exceptionals[2]	**£124.1m**	£187.0m	-34
Earnings/(losses) per share[1,3]	– Total	**(158.5)p**	89.3p	-277
	– Before exceptionals[2]	**58.2p**	136.8p	-57
Net debt[4]	– At 30 June	**£(167.2)m**	£(185.7)m	-10
	– Average for the year	**£(422)m**	£(375)m	+12
Order book[5]		**£9.4bn**	£9.8bn	-4

1 See consolidated income statement on page 112. Exceptional items include amortisation of acquired intangible assets.

2 Prior year re-presented to reflect the change in the Group's Alternative Performance Measure, see note 5 to the consolidated financial statements.

3 Prior year restated as a result of the rights issue, see note 11 to the consolidated financial statements.

4 See note 20 to the consolidated financial statements.

5 See Financial KPIs on page 18. Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSA Limited (Kier's Australian Highways business).

Financial performance before exceptional items

Revenue

The Group's revenues, including its share of joint ventures (JVs), was maintained at £4.5bn (2018: £4.5bn). The Group's statutory revenue of £4.1bn (2018: £4.2bn) was 2% lower than in FY2018.

Infrastructure Services turnover of £1,671m (2018: £1,733m) has benefited from increased activity in the year in respect of its Highways business, notably in respect of the capital works programmes for Highways England. Within the Utilities business, our continuing robust order book of work in the regulated utilities sectors of water, gas and power distribution compensated for volume volatility in telecoms. Infrastructure capital works, including Crossrail, Hinkley Point C and HS2, contributed to broadly stable volumes in the year. The Australian highways business, disposed of in December 2018, contributed £39m (2018: £114m) of volume in the year.

Overall revenue in the Buildings division of £1,883m (2018: £1,778m) was driven by continued strong growth in the UK Regional Building business where average project size of £8m was in line with prior years. Projects won on frameworks under lower risk standard terms and conditions continued to provide around 65% of the volume. The Group's Facilities Management (FM) business substantially reduced in scale during the year as competitive pressures in this market drove a curtailment of bidding activity and the exit of seven contracts, representing around 8% of the portfolio in the period. The Buildings business also includes the balance of the Group's international operations, principally based in Dubai, where volumes have stabilised after increased bidding disciplines were imposed in 2018.

Volumes in Developments & Housing of £940m continue to reflect the move to JV structures with £358m contributed through JVs compared to £273m in the prior year. Whilst unit completions within the Residential business of 1,926 (2018: 2,042) were down year-on-year overall volumes were supported by an increase in average selling price to £194k (2018: £183k). In the Property business, 24 projects completed in the year (2018: 32), driving overall profit of £29.7m (2018: £34m). This reflected a reduction in capital invested over the last 18 months as the Group's available funding has been significantly reduced. The Group has agreed an exit of its last material waste collection contract and will exit this sector in 2020. Housing Maintenance has seen reduced volumes as delays in the publication of new building regulations and public sector insourcing have impacted the sector.

Operating profit

Profit before exceptional items[1] decreased to £124m (2018: £187m).

Profits in Infrastructure Services were £56m (2018: £95m) representing an operating margin of 3.4% (2018: 5.5%). The operating margin decline reflected the mix effect of increased volumes in our capital works divisions combined with reduced turnover in both of the higher margin Utilities and Highways maintenance businesses. In addition to the above, material provisions have been recognised on the Group's Mining operations in Scotland which were previously reported as non-underlying.

The Buildings business reported operating profitability of £62m (2018: £55m). This was 12.7% up on the prior year reflecting the continuing strength of the Regional Building business and the return to profitability of the smaller international operation based in Dubai.

The increased workload in the Regional Building business drove an increase in the operating margin to 3.3% (2018: 3.1%). This business also encompasses the Group's FM operation which reported a small operating loss in the year (2018: £(2.7)m).

The Developments & Housing business reported an operating profit of £56m (2018: £72m) in the year. This represented a material reduction arising from decreases in the capital invested in the Property business, and consequently reduced deal completions in the period, combined with a fall in residential legal completions in Kier Living. In June, a small number of property and land-led transactions did not complete at the year-end reflecting uncertainty from our partners around the future ownership of the Property and Residential businesses. This impacted the operating result adversely.

Corporate Group overhead costs of £50m (2018: £35m) increased as the Group's increased spend on its back-of-office functions was not mitigated by cost savings in the year. These cost savings were realised later in the financial year or after the year end and as a result the Group's overhead base reported an increase of 43% in the period.

Group profit before exceptional items of £124m (2018: £187m) was materially lower than in the prior year reflecting the volume and operational issues noted above and an overhead base not yet fully reflecting the benefits of the Future Proofing Kier programme in the year.

Timing differences in respect of profit recognition under IFRS 15 increased the Group's operating profit margin by 0.6% to 2.8%.

Order book

The Group's order book at 30 June 2019 was c.£9.4bn (2018: £9.8bn). Excluding HS2, the order book was £7.9bn (2018: £8.7bn). FY2018 has been re-presented to exclude the Group's £0.4bn share of the order book of KHSA Limited (Kier's Australian Highways business), which was disposed of in December 2018. The Buildings order book of £4.1bn reflects the number of positions on frameworks in Regional Building. The decline in the Infrastructure Services' order book to £5.1bn (2018: £5.5bn) reflects the volume pressures experienced within this market segment in FY2019.

Net finance costs

Net finance costs before exceptional items were £26.5m (2018: £23.1m) including £21.5m in respect of the Group's finance facilities. This increased by 15%, principally as a result of the increase in the Group's average month-end net debt from £375m to £422m in FY2019. Other interest charges included £2.3m in respect of charges relating to the unwinding of discounted onerous provisions and deferred consideration.

Earnings per share

Earnings per share before exceptional items (EPS) from continuing operations was 58.2p (2018: 136.8p) and on a statutory basis, after the impact of exceptional items, was (158.5)p loss per share (2018: EPS 89.3p). The weighted average number of shares in issue for the period of 132.2m reflects the shares issued in connection with the rights issue in December 2018. EPS for prior periods has been restated to reflect the application of the adjustment factor of 1.0176, being the bonus element of the new shares issued in connection with the rights issue.

[1] Profit before exceptional items and amortisation of acquired intangible assets – the Group's Alternative Performance Measure.

Exceptional charges (including amortisation of acquired intangible assets)

In FY2019, the Group has reported charges of £341m as follows:

Amortisation of acquired intangible assets (£24.8m)

The amortisation of acquired contract rights primarily relating to the acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017. These charges have no future cash impact.

Costs relating to the preparation of businesses for sale (£172m)

- The total impairment associated with the Group's decision to sell or exit Residential, Property, Environmental Services and Facilities Management is £48m;
- The Group has reviewed the carrying value of certain sites not to be included in the sale of the Residential business and recognised a non-cash charge of £50m;
- Previously capitalised software assets totalling £7m will no longer be utilised and have been disposed;
- The Group has agreed to exit a series of contracts in Facilities Management at a cost of £23m. Within Environmental Services, a provision of £27m has been made on the Cheshire West and Chester (CWaC) contract, representing the value of future payments to be paid to the client from FY2020 to FY2026; and
- A cost of £8m has been incurred in relation to the disposal of certain businesses and a fair value charge of £8m has also been recognised. The businesses sold in the year generated a cash inflow of £28m. These included the Group's share of its Australian Highways joint venture (KHSA Limited) to Downer Group, the pensions administration business and the joint venture with Oldham Council, each of which was acquired in 2015 with the Mouchel group.

Restructuring costs (£56.4m)

The Group has incurred restructuring costs in the year totalling £56.4m (2018: nil). This total includes £20m in respect of employee exit costs associated with FPK. In addition, as a result of a decrease in the Group's volumes in certain businesses (including Highways and Utilities), c.£19m of charges were incurred in reducing headcount in these businesses. Fees and internal costs of £18m have been incurred in undertaking and implementing the conclusions of the strategic review announced in June 2019 and the cost reductions described above. Of this total, £26m was committed but accrued at 30 June 2019 and will represent a cash outflow in FY2020.

Costs associated with previous acquisitions (£29.3m)

The Group has recognised a £29.3m charge in FY2019 in respect of the 2017 acquisition of McNicholas, £21.5m of which represents the impairment of assets in existence at 30 June 2019 which have now been impaired, with a further £11.8m of costs of restructuring and integration being incurred in FY2019. The Group has released £4m of contingent consideration which is not payable. £1m of these costs are accrued at 30 June 2019 and will be expended in FY2020.

Exceptional contract losses (£49.9m)

The Group has recognised a £43.5m exceptional provision relating to the Broadmoor Hospital redevelopment in respect of future recoveries from the client and other third parties. The Group has also incurred charges of £6.4m in relation to the Mersey Gateway project. The cash flows were fully reflected in FY2019, with no future cash outflows associated with these items.

Other (£8.7m)

The Group incurred a non-cash charge of £16m in FY2019 following a review of certain receivable balances in its procurement function.

Following a court ruling relating to the Guaranteed Minimum Pension in October 2018, the Group's actuaries recommended the recognition of a £6.1m equalisation charge in respect of the Group's final salary pension schemes. In addition, the Group has undertaken a pension increase exchange exercise which has generated a gain of £16.1m. Against this, fees of £1.5m were incurred. Any future cash impact in respect of these items will be incorporated within the future deficit recovery contributions.

Balance sheet

Net assets

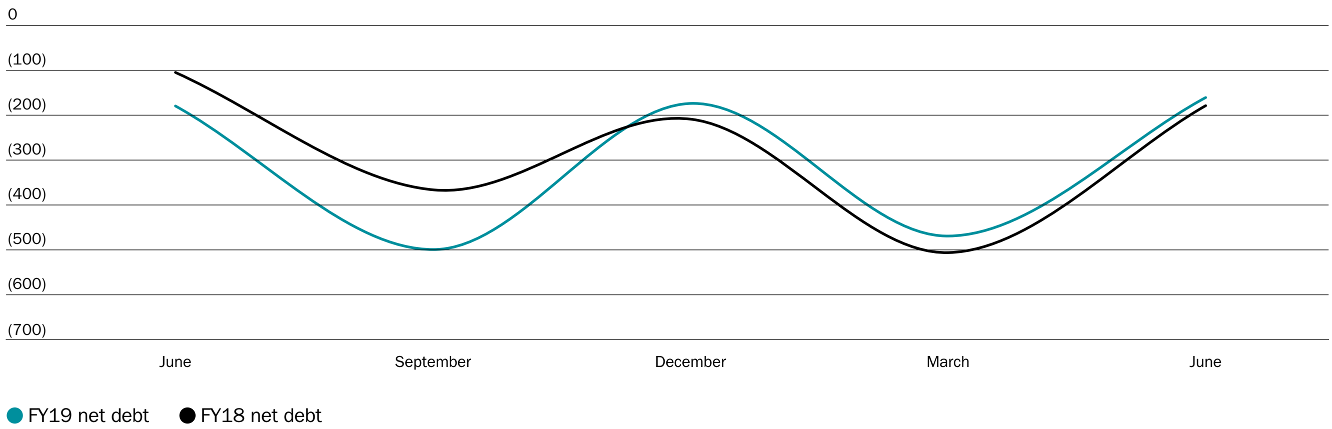
The Group has net assets of £520m at 30 June 2019 (2018: £601m).

Net debt

The Group's net debt at 30 June 2019 was £167m (2018: £186m). The Group's average month-end net debt increased to £422m (2018: £375m). Net debt was at its highest between September 2018 and November 2018, at an average of c.£560m, but reduced following the rights issue in December 2018 and the average in the second half of the year was c.£376m. The suspension of the dividend, disposals and savings achieved from FPK have further made positive contributions to the Group's net debt position.

The Group places significant value on relationships with its supply chain and, during FY2019, reduced its average payment days from 57 days to 41 days.

Group net debt (£m)



Working capital

Working capital movements resulted in an outflow for the year of £182m (2018: outflow of £17m). We anticipate that the re-shaped Group, following the implementation of the strategic actions, will have an improved working capital profile in the medium term.

Goodwill

The Group held intangible assets of £767m (2018: £862m) at 30 June 2019, of which goodwill represented £537m (2018: £560m). Disposals of businesses during FY2019 resulted in a reduction in goodwill of £11m.

The Group has reviewed goodwill as at 30 June 2019, assuming a pre-tax weighted average cost of capital of 10.1%, which is higher than in previous years and reflects an increasing risk weighting. The Group has impaired £8m of goodwill in respect of Developments & Housing, principally reflecting the impact of the Group's intention to dispose of the Residential business.

Retirement benefit obligation

Kier operates a number of defined benefit pension schemes. At the year end, the reported surplus, which is the difference between the aggregate value of the schemes' assets and the present value of their future liabilities, was £19.5m (2018: £7.9m) before accounting for deferred tax.

Accounting policies

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). Two new accounting standards were adopted by Kier during the year ended 30 June 2019: IFRS 15 (Revenue from Contracts with Customers) and IFRS 9 (Financial Instruments). Other than these two new standards, there have been no significant changes to the Group's accounting policies during FY2019.

The Group is currently concluding its project to assess the impact of IFRS 16 (Leases), which the Group will adopt in FY2020. The principal impact of IFRS 16 will be to move the Group's larger, longer term operating leases, primarily in respect of property, onto the balance sheet, with a consequential increase in non-current assets and finance lease obligations. Operating lease charges included in administrative expenses will be replaced by depreciation and interest costs.

IFRS 16 introduces a new category of non-current assets for 'right of use assets' associated with leases. At the date of initial application of IFRS 16, the carrying value of the Group's right of use assets is expected to be less than the additional lease borrowings that will be coming on to the balance sheet. The Group is therefore anticipating an adjustment to reserves on transition.

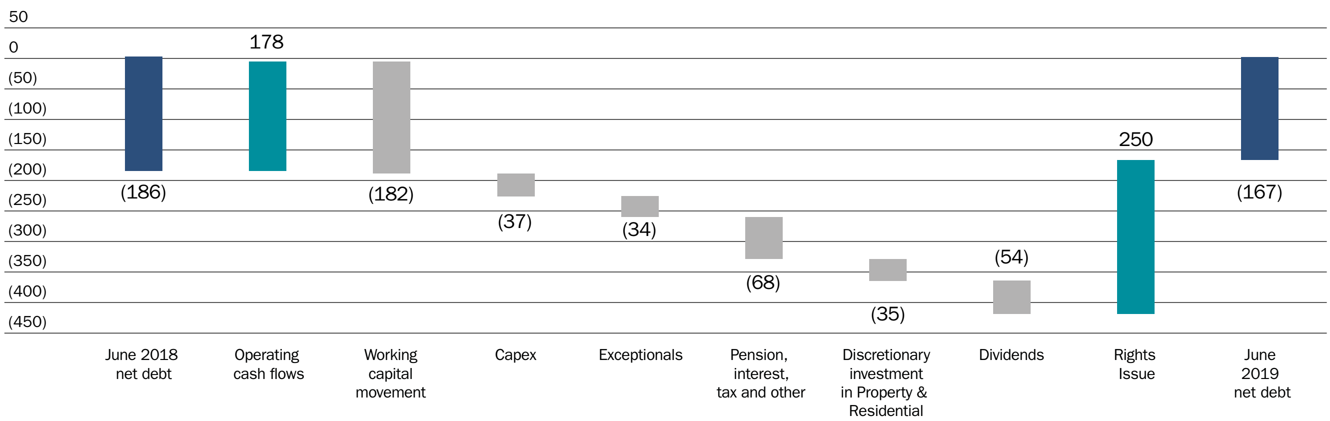
Impact of IFRS 15

The Group has elected to use the cumulative catch-up method of transition, wherein the results of FY2018 are not restated but the initial impact of adopting the standard is taken to opening reserves. The Group has made an adjustment to opening reserves of £60.6m, net of tax, as a result of the transition to IFRS 15. Whilst the replacement of IAS 11 and IAS 18 by IFRS 15 can impact on the timing of revenue and profit recognition on individual contracts in a particular accounting period, it does not change the overall revenue, profit or cash generated over the life of the contract. The areas where the new standard gave rise to a transitional adjustment on adoption were as follows:

- The change from revenue recognition based on external progress valuation to an input measure of progress, to better reflect the pattern of transfer of control to the customer (£28.1m);
- Following the withdrawal of IAS 11, certain claims receivable from non-customer third parties now fall under IAS 37 and require recovery to be 'virtually certain' before an asset may be recognised (£26.0m);
- Disaggregation of performance criteria relating to a single IT service contract (£3.4m);
- Derecognition of certain variable revenue items in determining forecast project outcome on a contract in the Middle East (£9.7m);
- New guidance on which pre-contract costs can be capitalised (£5.8m); and
- A deferred tax credit has been recognised in respect of the above adjustments (-£12.4m).

Due to the above timing differences on the reporting of revenue and profits arising from the above adjustments, the Group's profit reported under IFRS 15 for FY2019 is £20.6m higher, net of tax, than it would have been under previous accounting standards.

Cash performance (£m)



Impact of IFRS 9

The adoption of IFRS 9 has had no material impact on the Group's financial statements.

The Group has implemented an expected credit loss impairment model with respect to trade receivables and contract assets using the simplified approach. Trade receivables and contract assets have been grouped on the basis of their shared risk characteristics and a provision matrix has been developed and applied to these balances to generate the loss allowance. The majority of the Group's receivables are with utility companies, transport agencies, government agencies and local authorities and the incidence of credit loss is low. There has therefore been no material adjustment as a result of transition from the previous bad debt provision under IAS 39 to the loss allowance under IFRS 9.

As permitted by IFRS 9, the Group has chosen to delay the adoption of the standard for hedge accounting and therefore the Group's hedge accounting continues to be performed in accordance with IAS 39 for FY2019.

FRC Corporate Reporting Review

On 30 July 2018, the Company received a letter from the FRC's Corporate Reporting Review Team raising a number of points on the Company's 2017 Annual Report. Details regarding the FRC's enquiry were disclosed on page 78 of the 2018 Annual Report.

During the year, the Company has continued to engage with the FRC, principally in relation to: (i) the Company's accounting treatment of certain joint ventures and (ii) the basis of revenue recognition of certain contract claims.

The FRC has considered the accounting treatment of certain joint ventures in the Property and Residential businesses and, in particular, the effect of certain pre-emption rights which could enable Kier to take control in the event of a deadlock situation arising between Kier and its joint venture partners. The Company does not believe that these pre-emption rights are substantive rights and, consequently, these investments have historically been accounted for as joint ventures under the equity accounting method and not consolidated into the Group's financial statements. The Company acknowledges, however, that this is an area of significant accounting judgement and, in agreement with its joint venture partners, has amended the relevant agreements to remove these pre-emption rights.

Further details relating to the engagement with the FRC and the impact on the Group's balance sheet and income statement, had the relevant joint ventures been consolidated at 30 June 2017, 30 June 2018 and 30 June 2019 respectively, is disclosed in note 1 to the 2019 financial statements ('Significant accounting policies') on page 118.

Treasury facilities

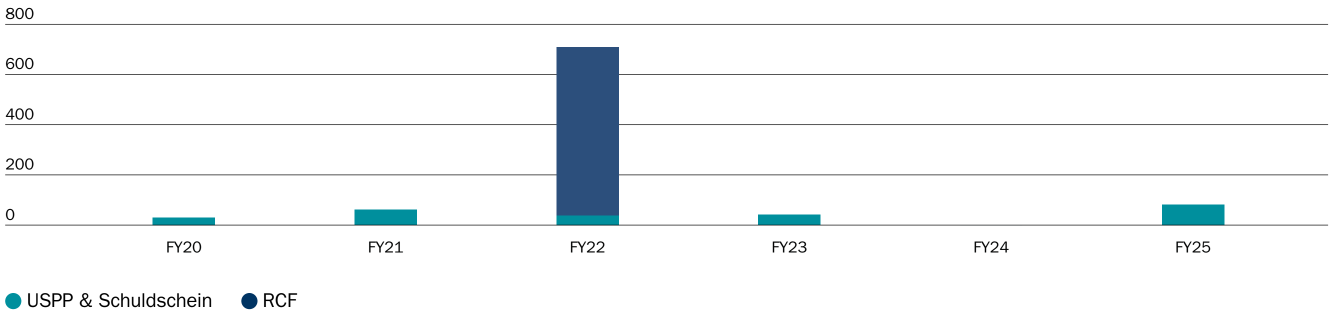
Bank finance

The Group has committed debt facilities of £922m with a further £20m of uncommitted overdrafts (see note 28 on page 174). Bank debt will mature in June 2022 and US private placement (USPP) notes mature between 2019 and 2024. The Group has repaid debt of £12m during the year. Debts of £25m and $8m are due to be repaid in December 2019.

Supply chain finance

The Group offers its supply chain in the Construction and Residential businesses the opportunity to participate in the Kier Early Payment Scheme (KEPS). The balance owed on this facility is included in trade creditors. The balance at 30 June 2019 was £170m (2018: £185m) (see note 23 on page 164). The Company plans to reduce further its use of KEPS during FY2020.

Maturity of committed facilities (£m)



Leasing

At 30 June 2019, the Group had £3.1m (2018: £7.1m) of finance lease obligations.

Financial instruments

The Group's financial instruments comprise cash and liquid investments. The Group, largely through its PFI and Property joint ventures, enters into derivative transactions (principally interest rate swaps) to manage interest rate risks arising from its operations and its sources of finance. The US dollar denominated USPP notes have been hedged with fixed cross-currency swaps at inception to mitigate the foreign exchange risk. The Group does not enter into speculative transactions. There are minor foreign currency risks arising from the Group's operations.

The Group has a limited number of international operations in different currencies. Currency exposure to international assets is hedged through inter-company balances and borrowings, so that assets denominated in foreign currencies are matched, as far as possible, by liabilities. Where there may be further exposure to currency fluctuations, forward exchange contracts are completed to buy and sell foreign currency.

Going concern

The Directors continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

The Group announced the conclusions of its strategic review in June 2019, which set out the Group's plans to focus on its core businesses of Regional Building, Highways, Utilities and Infrastructure; to simplify the Group by selling or substantially exiting non-core activities, including Kier Living, Property, Facilities Management and Environmental Services; to restructure the Group by reducing headcount by c.1,200 and deliver annual cost savings of c.£55m from FY2021; and to embed a culture of Performance Excellence with a particular focus on cash generation to deliver a reduction in average month-end net debt.

As at 26 September 2019, the Group has received a number of offers for its Residential business and has taken cost reduction actions to realise significant annualised benefits. The results of these actions will result in reduced leverage and reduced costs over the next 12 months.

At 30 June 2019, the Group had £922m of unsecured committed facilities, £20m of uncommitted overdrafts and £195m of uncommitted supply chain financing facilities.

Noting that the Group has £(121.8)m net current liabilities as at 30 June 2019, the Group has at the balance sheet date undrawn committed banking facilities of £440.7m that could be called upon as cash to increase its net current assets.

The Directors have reviewed the Group's short-term cash flow forecasts to 31 December 2020 which are included in the Group's three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios. These included consideration of the risks to the Group relating to pension funding, working capital, supply chain finance, volume reductions, margin erosion, project specific risks, delivery of the cost reduction plans, delivery of the business disposal programme and the recoverability of work-in-progress and debtor balances. This stress-testing also considered a combination of the individual downside profit and cash flow scenarios.

The Board undertook this assessment in the context of macro-economic and political risks affecting the UK economy, including Brexit. Brexit has the potential to disrupt the Group's operations, particularly in relation to materials, people and the supply chain.

The Group has established a 'Brexit task force' and has in place business continuity plans to mitigate the risks associated with Brexit. The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities which are considered to be more insulated from macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability. However, in light of the current macro-economic and political risks affecting the UK economy, and other risks to business performance, the Board has also planned further mitigating actions which could be taken and are within its control to ensure that the Group remains in compliance with its debt facilities and covenant requirements in severe but plausible downside business scenarios over the forecast period.

As a result, the Directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing the Group's 2019 financial statements. The going concern statement is set out on page 50. Further details of the review process undertaken to support the going concern statement are set out on page 67.

Viability statement

Assessment period

Consistent with the practice of previous years, the Directors have assessed the prospects of the Group over a period of three years from 30 June 2019, taking account of its current position and the potential impact of the Group's principal risks and uncertainties (the PRUs) set out on pages 32 to 37 (inclusive) and certain other risks referred to below. The Directors have identified a three-year period as being a period over which they believe they are able to forecast the Group's performance with reasonable certainty, principally because:

- the tender process and delivery programme for a number of the Group's projects can, together, take a period of up to approximately three years;
- the visibility of the Group's secured work and bidding opportunities can reasonably be assessed over a three-year period; and
- the Group's internal forecasting covers a three-year period.

Assessment process

The work required to support the viability statement was undertaken by management, who appointed external advisers to assist with respect to certain elements of that work. The Board noted the following key elements of the assessment process:

- the key assumptions in the model used as the basis of the assessment (please see 'Key assumptions' on page 47);
- the consideration of the Group's current financial position and future prospects, the Group's strategy, the PRUs and the mitigation of the PRUs;
- a review of certain other risks relating to the Group, including macro-economic and political risks affecting the UK economy, including Brexit, and risks relating to sectoral trading, pension, banking facilities, systemic margin erosion, strategy execution, the supply chain and certain project-specific risks; and
- the outcome of the stress-testing of the model (please see 'Stress-testing' on page 47).

Key assumptions

The key assumptions within the model used to support the viability statement include:

- the implementation of the conclusions of the strategic review announced in June 2019, including the sale of the Residential business and the reduction in capital associated with, or sale of, the Property business;
- organic revenue movements supported by market trends, known public expenditure programmes, such as HS2 in Infrastructure, RIS2 in Highways and AMP7 in Utilities, and increased cross-selling into the Group's customer base;
- margin improvement driven by the FPK programme;
- no payment of dividends over the three-year period;
- following the scheduled repayment of certain tranches of the Schuldschein and the US private placements of notes, no replacement for such financing.

Stress-testing

Management reassessed the financial impact of a number of severe but plausible 'downside' scenarios, including:

- a failure to sell the Residential business;
- loss-making contracts having a significant impact on the Group's reported profit and cash over the three-year period;
- a significant reduction in the Group's turnover as a result of, for example, Buildings' turnover decreasing due to a reduction in market confidence or reduced bonding facilities and a delay in or withdrawals of certain major programmes, such as HS2;
- payment terms across the Group tightening over the 2020, 2021 and 2022 financial years; and
- a significant reduction in the Group's supply chain finance scheme.

The impact of Brexit was included within the scenarios modelled above.

These scenarios reflect the PRUs which are considered likely to have a direct impact on the Group's operations if not managed or mitigated effectively, including the failure to execute the Group's strategy, the failure to manage contracts effectively, including as a result of failing to maintain effective relationships with the supply chain, a decline in the Group's markets and a decrease in the Group's access to funding. The results of the stress-testing, including a combination of the individual scenarios, demonstrated that, due to the Group's forecast cash generation and access to committed funds, it would be able to meet its debt facility covenant requirements in each scenario.

The key mitigating actions which are considered to be available in the downside scenarios include:

- overhead and cost reduction programmes delivering additional savings over the three-year period;
- capital expenditure being reduced significantly over the three-year period;
- the sale of other non-core businesses; and
- further reducing investment in Property and Residential.

Viability statement

The viability statement, which is made on the basis of the work which is summarised above, is set out on page 50.

Bev Dew
FINANCE DIRECTOR

26 September 2019

This Strategic Report on pages 1 to 47 (inclusive) was approved by the Board and signed on its behalf by:

Andrew Davies
Chief Executive

Bev Dew
Finance Director

26 September 2019

Chairman's introduction to governance

Governance

"Good governance is important to the day-to-day running of our business."

Dear shareholder

Corporate governance plays an important role in the running of the business. In this part of the Annual Report, we describe governance at Kier, the principal activities of the Board and its committees during the 2019 financial year and how Kier has applied the principles of, and complied with the provisions of, the UK Corporate Governance Code (April 2016 edition) (the Code). The new version of the Code has applied to Kier since 1 July 2019.

Leadership – Board composition

There were a number of changes to the Board during the year. Nigel Brook and Nigel Turner stood down from the Board on 1 August 2018 and, at the same time, Claudio Veritiero was appointed to the role of Chief Operating Officer.

Nick Winser retired from the Board following the conclusion of the November 2018 AGM and was succeeded as the Chair of the Safety, Health and Environment Committee by Kirsty Bashforth.

In January 2019, Haydn Mursell stood down as Chief Executive. Andrew Davies was appointed as Chief Executive with effect from 15 April 2019. Bev Dew will stand down from the Board by 30 September 2019 and Simon Kesterton will then assume the role of Chief Financial Officer.

Earlier in September 2019, I announced that I would retire as Chairman and step down from the Board once a successor has been appointed. The search process for a new Chairman has begun.

Effectiveness – Board evaluation

This year, the Board undertook an internally-facilitated evaluation, a summary of the results of which is set out on page 58. Whilst the evaluation focused on the significant challenges faced by the Board during the year – in particular, the rights issue and its impact on the business and its key stakeholders – it also identified a number of areas for the Board to focus on in 2020 as it oversees the implementation of the conclusions of the strategic review which were announced in June.

Remuneration

Our remuneration policy was last approved by shareholders at the 2017 AGM. Details of how we implemented the policy in the 2019 financial year (including with respect to the changes to the Board made during the year) can be found in the Directors' Remuneration Report on pages 78 to 97 (inclusive). We will be reviewing the policy in 2020 and will ask shareholders to approve the new policy at the 2020 AGM.

Relations with shareholders

The Board recognises the responsibility it has to a wide range of stakeholders, including our shareholders, clients, workforce, subcontractors, suppliers and the communities in which we operate.

During the year, I and other members of the Board held a series of meetings with a number of shareholders about a range of matters, including the rights issue and, subsequently, the Group's performance and strategic objectives. Members of the Board conducted a number of visible leadership tours to the Group's sites during the year, providing an opportunity to understand the views of the workforce, our clients and the supply chain. During the 2020 financial year, the Board will formalise its approach to engagement with the workforce and will report on how it has done so in the 2020 Annual Report.

Further details about the Board's engagement with key stakeholders during the year are set out on pages 75 to 77 (inclusive).

I look forward to meeting shareholders at the AGM on 15 November 2019.

Philip Cox CBE
CHAIRMAN

26 September 2019

Governance in action

The Group's strategic actions are set out on page 11. A summary of the steps taken by the Board to support the delivery of these imperatives is as follows:

Strategic action	The Board's governance role	What we did in 2019	Outcomes of our actions
Simplify and focus	To review the Group's portfolio of businesses and its operating model	› Undertook a strategic review of the Group › Announced the disposal of Kier Living and other non-core assets › Oversaw the introduction of a new organisational structure	› Greater clarity of purpose for the Group › Simplified the Group's investment proposition › Simplified the Group's organisational structure
Improved cash generation	To oversee effective working capital management	› Oversaw changes in the Group's cash management processes › Accelerated the Future Proofing Kier (FPK) programme › Focused on commercial controls and contract management	› A reduction in the number of supply-chain payment days › Increased the 2019 annual run rate savings › Introduced a new contract risk governance framework
Strengthened balance sheet	To identify ways of reducing the Group's net debt	› Announced the disposal programme – see above › Reduced investment in the Property business › Announced the suspension of the dividend	› See 'Simplify and focus' for further information › Improved the Group's liquidity and cash flows › Retained the earnings and cash to reduce net debt

Explanation of non-compliance with the Code

The Company is subject to the UK Corporate Governance Code (April 2016 edition) (the Code). A full version of the Code can be found on the Financial Reporting Council's website: www.frc.org.uk.

The Company complies with all provisions of the Code other than Code provision B.2.3, which requires Non-Executive Directors to be appointed for specified terms. Whilst Philip Cox, Constance Baroudel and Adam Walker were each appointed for an initial term of three years, Kirsty Bashforth and Justin Atkinson were not.

Each Non-Executive Director's letter of appointment contains a notice period of one month (either way), or six months (either way) in the case of the Chairman, and his/her appointment is subject to annual re-election and to statutory provisions relating to the removal of directors. The Company's current policy is that all Directors, including the Non-Executive Directors, are subject to annual re-election at the Company's AGM and that, in the future, all Non-Executive Directors will be appointed for an initial three-year term.

Board statements

Under the Code, the Board is required to make a number of statements. These statements are set out in the following table:

Requirement	Board statement	Where to find further information
Compliance with the Code	The Directors confirm that, throughout the 2019 financial year, the Company complied with the provisions of the Code, except as described below, and continued to apply the main principles of the Code.	'Explanation of non-compliance with the Code' below. 'Application of the main principles of the Code' on page 51.
Going concern basis	The Directors are satisfied that the Group has sufficient financial resources to continue operating in the foreseeable future and, therefore, have adopted the going concern basis in preparing the Group's 2019 financial statements.	Financial review on pages 41 to 47 (inclusive). Strategic Report on pages 2 to 47 (inclusive). Principal risks and uncertainties on pages 32 to 37 (inclusive). 'Board statements – Going concern' in the Risk Management and Audit Committee report on page 67.
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 30 June 2022, taking into account the Group's current position and the principal risks and uncertainties set out on pages 32 to 37 (inclusive). Following this assessment, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over this period.	Principal risks and uncertainties on pages 32 to 37 (inclusive). 'Viability statement' in the Strategic Report on pages 46 and 47.
Assessment of the principal risks facing the Group	The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Directors also assessed their appetite with respect to these risks and, via the Risk Management and Audit Committee (the RMAC), monitored the systems required to mitigate and manage them.	Principal risks and uncertainties on pages 32 to 37 (inclusive). 'Assessment of principal risks and risk appetite' in Accountability on page 62.
Annual review of systems of risk management and internal control	During the 2019 financial year, the Board monitored the Group's systems of risk management and internal control, via the RMAC, and carried out a review of their effectiveness. The conclusion was that, overall, these systems were effective.	'Systems of risk management and internal control – Risk management and internal control effectiveness review' in the Risk Management and Audit Committee report on page 66.
Fair, balanced and understandable	The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.	'Board statements – Fair, balanced and understandable review' in the Risk Management and Audit Committee report on page 66.

Application of the main principles of the Code

During the 2019 financial year, the Company continued to apply the main principles of the Code, as follows:

A. Leadership

A1 The Board's role The Board met on a number of occasions during the year: please see page 53 for further details. There is a schedule of matters reserved for the Board (please see page 52 for a summary), together with delegated authorities which apply throughout the Group.

A2 A clear division of responsibilities The roles of the Chairman and Chief Executive are clearly defined. The Chairman is responsible for the leadership and effectiveness of the Board. The Chief Executive is responsible for leading the day-to-day management of the Group within the strategy set by the Board.

A3 Role of the Chairman In conjunction with the Company Secretary, the Chairman sets the agendas for and manages Board meetings.

A4 Role of the Non-Executive Directors The Chairman promotes an open and constructive discussion during meetings of the Board. The Non-Executive Directors provide objective, rigorous and constructive challenge to management.

B. Effectiveness

B1 The Board's composition The Nomination Committee is responsible for regularly reviewing the composition of the Board. In recommending appointments to the Board, the Nomination Committee considers the range of skills, knowledge and experience required, taking into account the benefits of diversity on the Board.

B2 Board appointments The appointment of new Directors is led by the Nomination Committee. Further details of the activities of the Nomination Committee can be found on pages 59 to 61 (inclusive).

B3 Time commitments On appointment, Directors are notified of the time commitment expected from them which, in practice, goes beyond that set out in their letter of appointment. External directorships, which may affect existing time commitments, must be agreed in advance with the Chairman. During the 2019 financial year, there were no changes to the Chairman's other directorships.

B4 Induction, training and development All Directors receive an induction on joining the Board. Training is made available to members of the Board in accordance with their requirements. Please see page 56 for details of Andrew Davies' induction.

B5 Provision of information and support The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information.

B6 Board and committee performance evaluation During the 2019 financial year, the Board undertook an evaluation of its own performance. Details of the evaluation can be found on page 58.

B7 Re-election of Directors All Directors in office at the date of this Annual Report, other than Bev Dew, will be subject to re-election by shareholders at the 2019 AGM.

C. Accountability

C1 Financial and business reporting The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report, set out on pages 2 to 47 (inclusive), provides information about the performance of the Group, the business model, the Group's strategy and the risks and uncertainties relating to the Group's future prospects.

C2 Risk management and internal control systems The Board sets the Group's risk appetite and, via the RMAC, monitors and annually reviews the effectiveness of the Group's systems of risk management and internal control.

C3 Role and responsibilities of the Risk Management and Audit Committee The Board has delegated a number of responsibilities to the RMAC. The principal activities of the RMAC are summarised in the Risk Management and Audit Committee report on pages 64 to 72 (inclusive).

D. Remuneration

D1 Levels and elements of remuneration The Remuneration Committee sets levels of remuneration which are designed to promote the long-term success of the Group and structures remuneration so as to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.

D2 Development of remuneration policy and packages Details of the activities of the Remuneration Committee can be found in the Directors' Remuneration Report on pages 78 to 97 (inclusive).

E. Relations with shareholders

E1 Shareholder engagement and dialogue The Board takes an active role in engaging with shareholders. The Board particularly values opportunities to meet with shareholders and other stakeholders and their views are discussed at Board meetings. Please see 'Relations with shareholders and other stakeholders' on pages 75 to 77 (inclusive).

E2 Constructive use of the AGM The AGM provides the Board with an important opportunity to meet with shareholders, who are invited to meet the Board following the formal business of the meeting.

Highlights

- Announcement of Andrew Davies as Chief Executive in March 2019
- Announcement of the strategic review in April 2019 and its conclusions in June 2019
- Decisive action announced to simplify the Group and reduce its net debt

FOR FURTHER INFORMATION ON KIER'S STRATEGY AND PERFORMANCE, PLEASE TURN TO PAGES 2 TO 47 (INCLUSIVE)

The Board

The Board is responsible for the effective leadership and the long-term success of the Group.

The Board has delegated certain of its responsibilities to the Board committees. The principal activities of each of these committees during the year are set out in their respective reports in this Annual Report*. The decisions which can only be made by the Board are clearly defined in the schedule of matters reserved for the Board. The full schedule of matters reserved for the Board is available on the Company's website at www.kier.co.uk/corporategovernance.

* The paragraphs under the heading 'The Remuneration Committee' on page 91 are incorporated by reference into this Corporate Governance Statement.

The matters requiring Board approval include, amongst others:

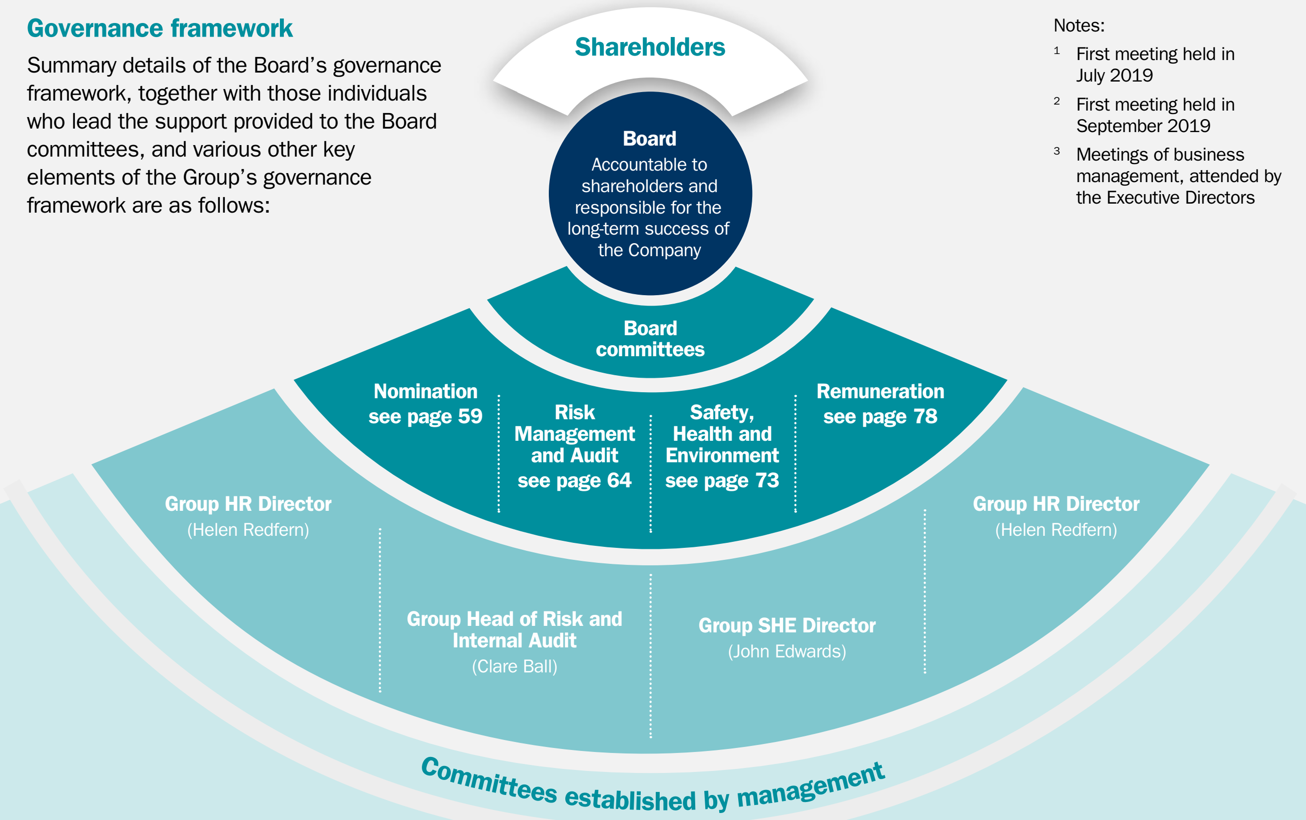
- the Group's strategy;
- mergers, acquisitions and disposals of a material size and nature;
- material changes to the Group's structure and capital;
- the payment of dividends;
- the approval of material Group policies; and
- material contract tenders and material investments.

The Executive Directors have significant commercial, financial and operational experience of the markets and sectors within which the Group operates. The diverse range of skills and leadership experience of the Non-Executive Directors enables them to monitor the performance of the Executive Directors and provide constructive challenge and support to them.

BIOGRAPHICAL DETAILS OF EACH OF THE DIRECTORS ARE SET OUT ON PAGES 54 AND 55

Governance framework

Summary details of the Board's governance framework, together with those individuals who lead the support provided to the Board committees, and various other key elements of the Group's governance framework are as follows:



Notes:
1 First meeting held in July 2019
2 First meeting held in September 2019
3 Meetings of business management, attended by the Executive Directors

Executive Committee[1]
- Reviews progress against strategy
- Decides significant HR matters
- Reviews material operational matters

Group Risk Committee[2]
- Reviews the management of operational risk
- Identifies areas for Internal Audit's review
- Provides a link between the business and the RMAC

Investment Committee
- Approves material investments made by the Group
- Reviews returns on capital for investments
- Reviews risks associated with investments

Group Tender Risk Committee
- Reviews material opportunities
- Reviews material tenders
- Advises on risks associated with tenders and opportunities

Quarterly Reviews[3]
- Assess the financial and operational performance of the business
- Consider material risks faced by the business
- Review engagement with key stakeholders

Board and committee meeting attendance

Board and Board committee meetings are typically held at the Group's London office in Foley Street. Board meetings were held in each month of the 2019 financial year, other than July, October, January and April.

Details of attendance by each Director at the principal Board and Board committee meetings during the 2019 financial year are as follows:

Director	Board (maximum 8)	Nomination Committee (maximum 8)	Remuneration Committee (maximum 4)	Risk Management and Audit Committee (maximum 4)	Safety, Health and Environment Committee (maximum 4)
Philip Cox	8	8	4	–	–
Justin Atkinson[1]	8	7	3	4	4
Constance Baroudel	8	8	4	4	4
Kirsty Bashforth	8	8	4	4	4
Nigel Brook[2]	–	–	–	–	–
Andrew Davies[3]	2	–	–	–	–
Bev Dew	8	–	–	–	–
Haydn Mursell[4]	4	–	–	–	–
Nigel Turner[2]	–	–	–	–	–
Claudio Veritiero	8	–	–	–	–
Adam Walker[5]	8	7	4	4	–
Nick Winser[6]	2	2	2	1	1

Notes:

1 Justin Atkinson did not attend the Nomination Committee and Remuneration Committee meetings in March 2019 due to prior business commitments. Mr. Atkinson provided any comments on the business considered at these meetings to the Chairs of the relevant committee.

2 Nigel Brook and Nigel Turner stood down from the Board on 1 August 2018. There was no Board meeting in July 2018.

3 Andrew Davies was appointed to the Board with effect from 15 April 2019. Mr. Davies attended all Board meetings since that date.

4 Haydn Mursell stood down from the Board on 22 January 2019. Mr. Mursell attended all Board meetings prior to that date.

5 Adam Walker did not attend the Nomination Committee meeting in February 2019 due to prior business commitments. Mr. Walker provided any comments on the business considered at that meeting to the Chair of the Nomination Committee.

6 Nick Winser stood down from the Board with effect from the conclusion of the AGM on 17 November 2018. Mr. Winser attended all Board and Board committee meetings prior to that date.

Since 1 July 2018, the Board and the Board committees held a number of other meetings (including via telephone) to discuss a number of other matters, including:

- July 2018: Nigel Brook and Nigel Turner leaving the Board and Claudio Veritiero's appointment as Chief Operating Officer;
- October – December 2018: the Company's rights issue;
- January 2019: Haydn Mursell leaving the Board and the appointment of Philip Cox as Executive Chairman;
- March 2019: the Group's revised net debt announcement and the appointment of Andrew Davies as Chief Executive;
- May and June 2019: Bev Dew leaving the Board, the conclusions of the strategic review of the Group and the announcements made in June 2019;
- July 2019: the appointment of Simon Kesterton as Chief Financial Officer Designate; and
- September 2019: the Chairman's succession.

Certain Executive Directors attended certain Board committee meetings during the year; please see the respective committee reports in this Corporate Governance Statement for further details.

The Board's role in the Group's culture

The Board recognises the important role that it plays in overseeing the Group's culture and members of the Board actively engaged with a number of the Group's key stakeholders during the year. A summary of how the Board engages with shareholders and other stakeholders is set out on pages 75 to 77 (inclusive).

The HR, SHE and internal audit functions play important roles in promoting and embedding the Group's culture; representatives from each of these functions attended meetings of the Board or its committees to provide updates on the steps they have taken to do so.

Since joining the Group, Andrew Davies has introduced a number of new ways of working, which are designed to create a culture of Performance Excellence. For example, Mr Davies has established an Executive Committee to consider key matters of Group-wide relevance and a Group Risk Committee to oversee the management of risk across the Group.

During the year, the Board has considered how it engages with its workforce. The Board agreed that the Chairman, the Chair of the Remuneration Committee and the Senior Independent Director would each be appointed as a 'designated Non-Executive Director' to facilitate meaningful, regular engagement with the workforce in accordance with a programme of engagement developed with the Group HR Director. Further information on the Board's engagement with the workforce during the 2019 financial year is set out on pages 21 to 25 (inclusive).

Members of the Board regularly undertake visible leadership tours of the Group's sites. These provide additional opportunities for the Board to engage with the workforce, our clients and the supply chain.

Board of Directors

1


2


1 – Philip Cox CBE (67)

Chairman

Tenure on Board: 2 years, 2 months

Independent: Yes (on appointment)

Committee memberships: N R

Relevant skills and experience:

- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- Substantial financial, operational and strategic experience
- Formerly Chief Executive of International Power (from 2003 to 2013), Non-Executive Director and Senior Independent Director of Wm Morrison Supermarkets (from 2009 to 2015) and Chairman of Global Power Generation (from 2015 to 2017)

Principal current external appointments:

- Chairman, Drax Group since April 2015

2 – Andrew Davies (55)

Chief Executive

Tenure on Board: 5 months

Independent: No

Committee memberships: None

Relevant skills and experience:

- Strong track record of business leadership across a number of sectors
- Significant experience of mergers and acquisitions and strategy development and implementation
- Significant operational and corporate experience through senior roles and over 28 years with BAE Systems
- Formerly Chief Executive Officer of Wates Group Limited from 2014 to 2018

Principal current external appointments:

- Non-Executive Director and Chairman of the Remuneration Committee of Chemring

3


4


3 – Bev Dew (48)

Finance Director

Tenure on Board: 4 years, 8 months

Independent: No

Committee memberships: None

Relevant skills and experience:

- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- 20 years' experience in the construction industry, with previous senior finance roles at Balfour Beatty, Lendlease, Redrow and Invensys Rail
- Significant experience in finance and capital structures
- Experience of ERP and other financial systems implementation programmes

Principal current external appointments:

- None

4 – Claudio Veritiero (46)

Chief Operating Officer

Tenure on Board: 4 years, 6 months

Independent: No

Committee memberships: None

Relevant skills and experience:

- Significant experience of a wide variety of corporate transactions during early part of career in investment banking at Rothschild
- Previous listed company board experience at Speedy Hire from 2007 to 2010
- Operational experience through previous role as managing director of the Services division
- Significant M&A experience, including as Kier's former Strategy and Corporate Development Director

Principal current external appointments:

- None

5


5 – Simon Kesterton (45)

Chief Financial Officer

Tenure on Board: since 26 August 2019

Independent: No

Committee memberships: None

Relevant skills and experience:

- A member of the Chartered Institute of Management Accountants
- Broad range of financial leadership experience in his former senior roles in the engineering and manufacturing industries
- Formerly Chief Financial Officer, Europe and Chief Strategic Officer at IAC Group and Group Finance Director of RPC Group plc from 2013 to 2019
- Significant experience of the implementation of cost reduction programmes

Principal current external appointments:

- None

6 – Justin Atkinson (58)

Senior Independent Director

Tenure on Board: 3 years, 11 months

Independent: Yes

Committee memberships: N R RA S

Relevant skills and experience:

- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- Formerly Chief Executive of Keller Group from 2004 to 2015, where he previously held the roles of Group Finance Director and Chief Operating Officer
- Significant operational and financial experience through his previous and current roles
- In-depth knowledge of the construction sector, both in the UK and internationally

Principal current external appointments:

- Chairman of Forterra since May 2019 (formerly the Senior Independent Director and Chair of the Audit Committee of Forterra from April 2016)
- Non-Executive Director of Sirius Real Estate since March 2017 and James Fisher since May 2018
- Member of the Audit Committee of the National Trust since June 2015

7 – Constance Baroudel (45)

Non-Executive Director

Tenure on Board: 3 years, 2 months

Independent: Yes

Committee memberships: N R RA S

Relevant skills and experience:

- Significant experience of accounting and financial matters
- In-depth knowledge of operational performance and delivery matters
- Experience of developing corporate strategy through her former role as Group Director of Strategy at First Group
- Previous experience as Chair of the Remuneration Committee at Synergy Health

Principal current external appointments:

- Divisional Chief Executive, Medical & Environmental Sector of Halma since September 2018

8 – Kirsty Bashforth (49)

Non-Executive Director

Tenure on Board: 5 years

Independent: Yes

Committee memberships: N R RA S

Relevant skills and experience:

- In-depth global, commercial, safety and risk management and operational experience, following 24 years at BP
- Strong track record in change management and organisational effectiveness
- Founder and CEO of Quayfive, advising on organisational dynamics
- Wide range of experience in a variety of human capital areas, including engagement, diversity and ethical working practices

Principal current external appointments:

- Non-Executive Director of Serco since September 2017 and Chair of the Corporate Responsibility Committee
- Non-Executive Director and Chair of the Remuneration Committee of Diaverum AB since March 2019

9 – Adam Walker (51)

Non-Executive Director

Tenure on Board: 3 years, 8 months

Independent: Yes

Committee memberships: N R RA

Relevant skills and experience:

- A chartered accountant, having trained and qualified at a predecessor firm of Deloitte
- Formerly Group Finance Director of GKN from 2014 to 2017 and Chief Executive of GKN Land Systems
- Wealth of experience in financial matters, through his current role at IHS Holding and previous roles as finance director at three listed companies
- Detailed knowledge of systems of risk management and internal control

Principal current external appointments:

- Executive Vice President and Chief Financial Officer of IHS Holding Limited since November 2017

Board committees key

- N Nomination Committee
- R Remuneration Committee
- RA Risk Management and Audit Committee
- S Safety, Health and Environment Committee
- Chair of the Committee

Changes to the Board of Directors

- Nigel Brook and Nigel Turner stood down from the Board on 1 August 2018;
- Claudio Veritiero was appointed as Chief Operating Officer on 1 August 2018;
- Nick Winser did not stand for re-election at the 2018 AGM;
- Kirsty Bashforth became Chair of the SHE Committee with effect from the conclusion of the 2018 AGM;
- Haydn Mursell stood down from the Board on 22 January 2019;
- Andrew Davies was appointed as Chief Executive with effect from 15 April 2019;
- Simon Kesterton was appointed as Chief Financial Officer Designate with effect from 26 August 2019;
- Bev Dew will stand down from the Board by 30 September 2019; and
- Phil Cox will stand down from the Board once a successor to him as Chairman has been appointed.

Highlights

- Completion of Andrew Davies' induction
- 2018 Board effectiveness review actions implemented
- A number of other changes made to the Board

FOR FURTHER INFORMATION ON HOW THE NOMINATION COMMITTEE OPERATES, PLEASE TURN TO PAGES 59 TO 61 (INCLUSIVE)

Director induction

On joining the Board, Directors undertake a comprehensive and tailored induction programme, the purpose of which is to provide them with an in-depth understanding of the business and how it operates. By way of example, a summary of the induction undertaken by Andrew Davies following his appointment to the Board is as follows:

Meetings with the Chairman, other members of the Board and the Company Secretary

Meetings with major shareholders

Briefings from the Company's advisers, including its financial advisers, corporate brokers and external and internal auditors

Meetings with Bain, the lead advisers on the Future Proofing Kier (FPK) programme

A number of visible leadership tours across the business

Meetings with heads of corporate functions and business management

Introductory meetings with a number of clients, including the Cabinet Office, Highways England, Homes England and HS2

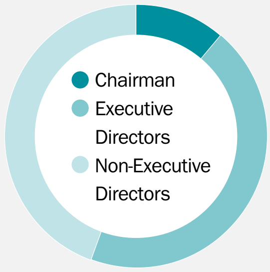
Introductory meetings with the pension trustees, lending banks and other credit institutions

Board composition

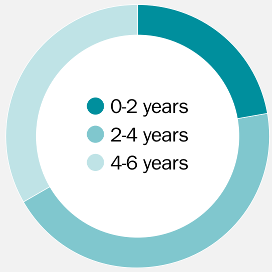
As at the date of this Annual Report, the Board comprises nine Directors, of which five are Non-Executive Directors (including the Chairman) and four are Executive Directors.

Please see page 55 for the changes to the Board which have been announced since 1 July 2018.

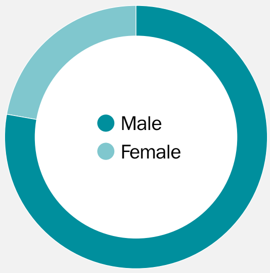
Board composition



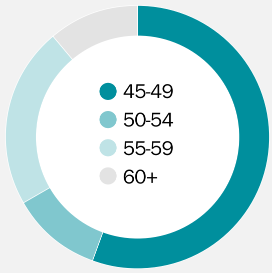
Board tenure



Board balance



Board age



2018 Board evaluation – progress against feedback

The 2018 Board evaluation highlighted a number of areas of focus for the Board in 2019. A summary of progress against these areas is as follows:

Area of focus	Specific areas of focus	What did the Board do in 2019?
Reporting / financial matters	› Continue to ensure the timely reporting of key risk issues	› Reviewed the key risks relating to the Group in the context of the November 2018 rights issue prospectus › Announced key risks – for example, the Broadmoor contract provision and the volume pressures in Highways, Utilities and Housing Maintenance
	› Continue to challenge the effective management of net debt and working capital	› Announced a reduction in the Group's net debt as being a key element of the new Chief Executive's strategic review in April 2019 › Announced the sale of Kier Living and reduction in the level of capital invested in Property
Risk	› Continue to review the Board's risk appetite	› Reviewed key risks relating to the Group (for example, relating to SHE matters and contract management) at Board meetings during the year › Reviewed and agreed the Group's 'Principal risks and uncertainties': please see pages 32 to 37 (inclusive)
	› Following the review of the Group's key commercial controls, oversee the implementation of the actions	› Oversaw and challenged management's implementation of the action plan during the year › Oversaw the introduction of a revised contract governance framework and the appointment of a Group Commercial Director
Succession planning	› Challenge management to develop the pipeline of future Board members and increase diversity in the business	› Via the Nomination Committee, oversaw management's development of the succession plan › Via the Nomination Committee, oversaw management's initiatives to increase diversity within the business
	› Increase the Board's engagement with individuals identified on the Board's succession plan	› Individual meetings held between Non-Executive Directors and members of the succession plan › Members of the senior succession plan attended Board or Board committee meetings during the year
Strategy	› Identify (i) the Group's core and non-core assets and (ii) the strategy with respect to each set of assets	› Identified the Group's non-core businesses in the Company's announcement of 17 June 2019 › Announced its strategy to dispose of the non-core businesses at the same time

2019 Board evaluation

The process

The 2019 Board evaluation was led by the Chairman, with the assistance of the Company Secretary. The evaluation focused on a number of areas, including:

The Board's decision-making during the financial year	Areas of focus for the Board during 2020	The interaction between members of the Board	The operation of the Board committees

April

Completion of questionnaire

Each Board member was sent a questionnaire to complete

May

Evaluation of responses and feedback relating to the Chairman

The Company Secretary compiled a report based on the feedback received from Board members and discussed the draft conclusions with the Chairman

The Senior Independent Director met the Executive Directors, the other Non-Executive Directors and the Company Secretary to obtain feedback relating to the Chairman

The Chairman and the Senior Independent Director met to discuss feedback relating to the Chairman

June

Board discussion

The Board reviewed the feedback and discussed the principal areas of focus for 2020

July – September

Annual Report disclosure

Drafting of the Annual Report disclosure relating to the evaluation

Conclusions

The responses to the questionnaire acknowledged that the 2019 financial year had been very challenging for the Group and the Board. In particular, the feedback provided the Directors' views on the 2018 rights issue, the changes in the executive team announced during the year and the announcement relating to the Group's net debt position in March 2019. The Board agreed that the announcement of the conclusions of the strategic review on 17 June 2019 set out clear priorities for the Group and the Board and, in light of this announcement and the feedback from the evaluation, agreed the following areas of focus for the 2020 financial year:

Area of feedback	Specific areas of focus for 2020	Why?
Implement conclusions of strategic review	› Reduce the Group's net debt › Dispose of non-core businesses	› Strengthen the Group's balance sheet › Simplify the Group
Maximise benefits of FPK programme	› Deliver the targeted headcount reductions › Deliver the cost reduction targets	› Reduce the Group's overheads › Increase the Group's efficiency
Appoint new Chief Financial Officer	› Appoint the new Chief Financial Officer in a timely fashion	› Strengthen the oversight of the Group's finance function
Engagement with the Group's workforce	› Designated Non-Executive Directors to engage with the workforce	› Understand the views of the Group's workforce

Nomination Committee report

"During 2019, the Committee has overseen a number of changes to the Board's composition."

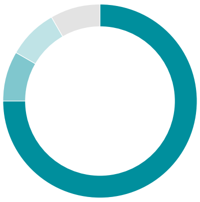
Chair

Philip Cox CBE

Other Committee members

Justin Atkinson
Constance Baroudel
Kirsty Bashforth
Adam Walker

Allocation of time



Dear shareholder

I am pleased to present the Nomination Committee report, which provides a summary of the Committee's activities during 2019.

Role

The role of the Committee includes:

- reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes;
- reviewing the succession plan for the Board and senior management, promoting diversity and taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future; and
- taking an active role in setting diversity objectives and strategies for the Group.

THE TERMS OF REFERENCE FOR THE COMMITTEE CAN BE VIEWED ON THE COMPANY'S WEBSITE AT WWW.KIER.CO.UK/CORPORATEGOVERNANCE

Committee composition and meeting attendance

The names of the members of the Committee are set out above.

At the invitation of the Committee, any other Director may attend meetings of the Committee. During the year, the Chief Executive and the Group HR Director attended meetings to discuss Executive Director succession planning.

The secretary of the Committee is the Company Secretary, Hugh Raven.

Details of the Committee's meetings during the year, and attendance at those meetings, are set out on page 53.

Committee performance evaluation

The 2018 Board evaluation identified the need for the Committee to:

- challenge management to develop the pipeline of future Board members and increase diversity in the business; and
- increase the Board's engagement with individuals identified on the Board succession plan.

During the year, there were a number of changes to the Board. Following the appointment of a new Chief Executive and a new Group HR Director, the Committee expects to refresh the Group's approach to succession planning in the 2020 financial year.

Although the Board had met a number of senior members of staff (for example, by inviting them to attend Board or committee meetings and when undertaking visible leadership tours), it will continue to identify further opportunities to interact with those on the succession plan.

Principal activities – 2019 financial year

A summary of the principal matters considered by the Committee during the year is as follows:

Board changes

On page 70 of the 2018 Annual Report, we summarised the changes to the Board which took place early in the 2019 financial year.

On 22 January 2019, we announced that Haydn Mursell would stand down as Chief Executive and from the Board and that, pending the appointment of his successor, I would take on the role of Executive Chairman.

Nomination Committee report / continued

The Committee appointed Lygon Group (Lygon) to conduct a search for candidates for the role of the new Chief Executive. As an initial step, the Committee agreed a role profile with Lygon, which referred to the following key characteristics and experience:

- previous experience of the plc environment;
- experience of operating within the construction or related sectors; and
- a reputation for delivering shareholder value.

The Committee reviewed the list of candidates put forward by Lygon and then interviewed selected candidates. Following this process, Andrew Davies was identified as the preferred candidate, the Committee noting, in particular, Andrew's:

- 28 years of experience with BAE Systems plc, across a range of senior corporate and operational roles;
- strong track record of business leadership and operational experience across a number of sectors; and
- strategic approach.

The Committee therefore agreed to recommend Andrew's appointment as Chief Executive to the Board.

On 19 March 2019, we announced that Andrew had been appointed as Chief Executive with effect from 15 April 2019 and that I would stand down from the role of Executive Chairman on that date.

On 7 May 2019, we announced that Bev Dew would stand down as Finance Director and from the Board by 30 September 2019.

The Committee again appointed Lygon to conduct the search for potential Chief Financial Officer candidates. The role profile included the following key characteristics and experience:

- previous experience as a Chief Financial Officer of a listed company;
- experience in investor relations; and
- strong experience in managing cash and engaging with credit institutions.

The process for selecting a preferred candidate was similar to that used in relation to the new Chief Executive. At the conclusion of this process, Simon Kesterton was identified as the preferred candidate, the Committee noting, in particular, Simon's:

- previous experience as Group Finance Director of RPC Group plc;
- role in implementing programmes which focus on the disposal of non-core assets; and
- experience in cost reduction programmes.

The Committee therefore agreed to recommend Simon's appointment as Chief Financial Officer to the Board.

On 1 August 2019, we announced that Simon had been appointed as Chief Financial Officer Designate with effect from 26 August 2019 and Chief Financial Officer from the date on which Bev Dew stands down from the Board.

On 19 September 2019, I announced that I would retire as Chairman and step down from the Board once a successor has been appointed. The Committee has again engaged Lygon to conduct the search, further details of which will be included in the 2020 Annual Report.

Executive Director/senior management succession planning

On page 70 of the 2018 Annual Report, we summarised some of the key elements of the programme which management had implemented to identify a pipeline of future Board members. During the 2019 financial year, management has continued to monitor and develop this pipeline, reporting on progress to the Committee. A summary of some of the key actions by management taken during the year is as follows:

Action	Why?	Next steps
Reviewed senior management team's bench strength	To identify high performers and weaknesses in the succession plan	Continue to monitor individuals' performance and develop their skills
Swapped members of the succession plan into new roles	To provide a greater breadth of experience	Consider swapping others and monitor those in new roles
Reviewed senior level talent and succession matrix	To assess the progress of identified high performers	Continue to review to understand progress of key individuals
Engagement with the Group's workforce	Designated Non-Executive Directors to engage with the workforce	To understand better the views of the workforce

Diversity

Board diversity policy

The Board recognises the benefits of diversity as an important element in its effectiveness.

The Board approved a diversity policy for the Board in March 2018. A summary of the principal commitments set out in the policy and progress against them in the 2019 financial year is as follows:

Commitment	Progress in 2019
Candidate lists to reflect the benefits of diversity and priority to be given to search firms which have signed up to the Voluntary Code of Conduct for Executive Search Firms	Lygon, a signatory to the code, was instructed to identify a diverse list of potential candidates for the roles of Chief Executive and Chief Financial Officer
Candidates for Non-Executive Directors to be considered from a wide pool of individuals	No Non-Executive Directors appointed during the 2019 financial year
Develop and implement policies, programmes and initiatives designed to promote diversity and inclusion	Please see 'Action taken during 2019' below for steps taken by management during the 2019 financial year
Increase the number of female members of the Board and senior management, in light of the FTSE 350 target of 33% representation on boards and leadership teams by 2020	No change to the number of female members of the Board. No material change to the number of female members of senior management

In light of the challenges relating to increasing the number of female members of the Board and senior management, management has introduced a number of initiatives and programmes which are designed to increase the number of women at all levels of the organisation and identify, develop and retain female talent and senior leaders.

Action taken during 2019

Examples of the initiatives and programmes introduced by management during the 2019 financial year in relation to increasing female diversity within the Group include:

- the development of diversity action plans by the Group's principal businesses;
- a centrally-operated talent mapping exercise to identify potential external female candidates;
- conducting a survey into female expectations about the workplace, designed to develop the Group's female talent retention and career acceleration; and
- working with Women in Science and Engineering to encourage women in their careers in the built environment.

During the 2020 financial year, management will continue to monitor the effectiveness of these and other initiatives which are designed to increase the diversity of the Group's workforce.

Re-election of Non-Executive Directors

The tenures of the Non-Executive Directors are set out on pages 54 and 55. The Board is satisfied that each of the Non-Executive Directors is able to commit sufficient time to the Company. Accordingly, resolutions to re-elect each of the Non-Executive Directors will be proposed at the forthcoming AGM.

Conclusion

I will be available to answer any questions about the Committee, its work and how it operates at the AGM on 15 November 2019.

Philip Cox CBE
CHAIR OF THE NOMINATION COMMITTEE

26 September 2019

Highlights

- Renewed focus on the Group's management of contract risk
- Introduction of revised contract governance framework
- Introduction of Group Risk Committee

Systems of risk management and internal control

General

The Board has ultimate responsibility for the Group's systems of risk management and internal control, including those established to identify, manage and monitor risk. The Board has delegated the responsibility for overseeing management's implementation of those systems to the RMAC.

The Group Head of Risk and Internal Audit, who has direct access to the RMAC and its Chair, reports to the RMAC on strategic risk issues and oversees the Group's risk management framework. In 2018, the RMAC appointed Grant Thornton LLP as the co-sourced internal auditor to work alongside the Group's internal resource in conducting audits of risks relating to the Group's operations. For further information, please see 'Internal audit' on pages 67 and 68. The Group Risk Committee, which met for the first time in September 2019, has been formed to provide executive management leadership and oversight of the Group's risk management framework and to act as a link between the RMAC and the business in relation to the management of risk.

Working with the Group Head of Risk and Internal Audit, management is responsible for the identification and evaluation of the risks that apply to the Group's business and operations, together with the design and implementation of systems and controls which are designed to manage those risks. The Board, the RMAC and the Group Risk Committee oversee the steps taken by management in this respect.

A summary of the key elements of the Group's risk management framework is set out on pages 30 and 31.

Effectiveness review

The Code requires that the Board conducts an annual review of the Group's systems of risk management and internal control. The steps taken by the RMAC, on behalf of the Board, in reviewing these systems are described under 'Systems of risk management and internal control – Effectiveness review' in the Risk Management and Audit Committee report on page 66.

Assessment of principal risks and risk appetite

During the year, the Board conducted a review of the Group's principal risks and uncertainties, together with its appetite with respect to each such risk. A summary of the various stages of the review process undertaken in 2019 is as follows:

January – June 2019
Meetings with the Executive Directors to discuss the Group's principal risks and uncertainties and their appetite with respect to such risks

June 2019
Executive Directors' assessment of the principal risks and uncertainties, together with their risk appetite, sent to the Board for review and comment

July – September 2019
Drafting of the 'Principal risks and uncertainties' section of this Annual Report

September 2019
RMAC and Board approval of the sections of this Annual Report relating to risk management

Financial reporting

The Group has clear policies and procedures which are designed to ensure the reliability and accuracy of financial reporting, including the process for preparing the Group's interim and annual financial statements. The Group's financial reporting policies and procedures cover financial planning and reporting, preparation of financial information and the monitoring and control of capital expenditure. The Group's financial statements preparation process includes reviews at business and Group levels.

Over the past few years, the Group has introduced:

- the Oracle ERP and Hyperion Financial Management systems; and
- the Finance Shared Service Centre, based in Manchester, which manages the core information on which the Group's financial statements are produced (via the Oracle ERP system).

The business continues to make progress in embedding the Oracle ERP and Hyperion Financial Management systems to improve financial reporting and the consolidation of financial results within the Group.

Each business is responsible for monitoring its financial performance. Following the conclusion of each quarter of the financial year, each business conducts a formal 'quarterly review', the results of which, in turn, are reported to the Board. The Board then oversees the production of the Group's interim and full-year financial results, reporting them in March and September, respectively, each year.

By way of example, a summary of the process for preparing the full-year 2019 results is:

July and August

The business produces year-end packs for central review

August

Central consolidation process and drafting the Group's financial statements

August and September

Audit close-out meetings, RMAC review and Board approval

Board statements

The Board delegated the responsibility for conducting the work required for it to provide the 'fair, balanced and understandable', 'going concern' and 'viability' statements to the RMAC. In conducting this work, the RMAC acts on behalf of the Board and its activities remain the responsibility of the Board.

Further details of the work carried out in support of these statements is set out in the Risk Management and Audit Committee report on pages 66 and 67 and/or, in the case of the going concern and the viability statements, on pages 46 and 47.

These statements and the Board's statement relating to its assessment of the Group's principal risks and uncertainties are set out on page 50.

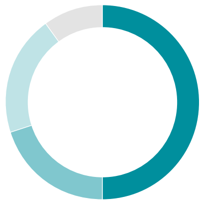
Risk Management and Audit Committee report

"During the year, the Committee has focused on the overall management of risk at Kier and the internal control environment."

Chair
Adam Walker

Other Committee members
Justin Atkinson
Constance Baroudel
Kirsty Bashforth

Allocation of time



Dear shareholder

I am pleased to present the Risk Management and Audit Committee report, which provides a summary of the Committee's activities during what has been a very challenging year for Kier.

As highlighted last year, the construction, infrastructure and support services sectors are inherently risky, with a high level of judgement applied to financial outcomes. There has been a change in the sentiment of key stakeholders, including banks, lenders, insurers and trade credit providers, towards these sectors following a number of high profile corporate failures in recent years. As a result, the Board and the Committee have together increased the focus on the management of risk at Kier, the internal control environment and the level of disclosure on financial matters in this Annual Report. The new executive team understands the importance of risk management and is committed to working with the Committee to implement improvements where they are required. The Committee continues to work closely with both the internal and external auditors to develop the overall effectiveness of the Group's internal controls and financial reporting processes.

Committee composition and meeting attendance

Role

The role of the Committee includes:

- monitoring the Group's financial reporting procedures and the external audit;
- examining the integrity of the Group's financial statements and challenging significant financial and other judgements;
- reviewing the adequacy and effectiveness of the Group's risk management and internal control systems;
- reviewing the effectiveness of the Group's Internal Audit function, agreeing the list of audits to be conducted each year and reviewing the results of those audits; and
- testing the independence and objectivity of the external auditor, assessing its effectiveness and approving the provision of non-audit services.

THE TERMS OF REFERENCE FOR THE COMMITTEE CAN BE VIEWED ON THE COMPANY'S WEBSITE AT WWW.KIER.CO.UK/CORPORATEGOVERNANCE

The names of the members of the Committee are set out above.

As a chartered accountant, and having formerly been the Chief Financial Officer of three UK listed companies and now the Chief Financial Officer of IHS Holding Limited, I am considered by the Board to have recent and relevant financial experience and competence in accounting and auditing. The Committee as a whole has competence relevant to the sectors in which the Group operates, for example:

- Justin Atkinson: a qualified accountant, has previous executive experience in the contracting sector through his former roles with Keller;
- Constance Baroudel: has experience of the risks associated with strategy implementation; and
- Kirsty Bashforth: has commercial, safety, risk management and operational experience through her former role at BP and her other non-executive roles.

During the year, the following individuals also attended Committee meetings:

- the Finance Director;
- the Chief Executive attended the June 2019 meeting, following his appointment to the Board in April 2019;
- the Chairman attended the September 2018 and March 2019 meetings, to consider the Group's results, and the June 2019 meeting;
- the Chief Operating Officer to discuss key accounting judgements on contracts;
- the Group Financial Controller and representatives from PwC for external audit matters; and
- the Group Head of Risk and Internal Audit and representatives from Grant Thornton LLP (Grant Thornton) for internal audit matters.

Outside the formal meetings, I met members of management (including the Finance Director), PwC and Grant Thornton to discuss a number of matters relating to the operation of the Committee, including judgements on material contracts, the results of internal audits, the status of the engagement with the FRC (please see 'Engagement with the FRC' on page 68) and the status of the external audit.

The secretary of the Committee is the Company Secretary, Hugh Raven.

The Committee met four times during the year; details of attendance at those meetings are set out on page 53. Following those meetings, I provided the Board with an update on the principal matters arising.

Committee performance evaluation

2019 – progress against 2018 evaluation

The 2018 Board effectiveness review identified the following as key areas of focus for the Committee in the 2019 financial year:

- the timely reporting of key risk issues (in particular, the performance of any underperforming contracts); and
- the implementation of the actions arising from the key commercial controls review undertaken by KPMG in the 2018 financial year.

During the year, the Company introduced a revised contract risk governance framework, by way of response to KPMG's review of the Group's key commercial controls. The framework sets out the policies and procedures to be followed at each stage of a contract, from tendering, to administration of the contract (including reporting on its performance), to concluding final accounts and/or claims. The revised framework is designed to facilitate the effective reporting of any underperforming contracts to the Board and the RMAC. The Company also appointed a new Group Commercial Director, whose responsibilities include the oversight of the Group's revised contract risk governance framework.

2020 – principal areas of focus

Following the 2019 Board evaluation, the Committee's principal areas of focus for the 2020 financial year include:

- overseeing the continued development of the Group's risk management framework;
- in conjunction with PwC, continuing to consider significant accounting judgements; and
- reviewing ways to optimise the use of the Internal Audit function.

In addition, the Committee will oversee the implementation of any recommendations which the Financial Reporting Council (the FRC) may make in relation to its review of the Company's 2017 Annual Report. Further information on the FRC review can be found on page 68 under 'Engagement with the FRC'.

Principal activities – 2019 financial year

The principal agenda items of the Committee meetings held during the year were as follows:

September 2018

Review of the Group's 2018 results (and ancillary matters)

The 2018 final dividend

December 2018

Evaluation of the effectiveness of the internal and external auditors

Progress against the FY19 internal audit plan

Risk management

March 2019

Review of the Group's 2019 interim results (and ancillary matters)

The 2019 interim dividend

June 2019

A preliminary review of certain contract judgements

The 2020 internal audit plan

Approving the non-audit fee policy for 2020

Risk management

Certain other matters were considered regularly by the Committee during the year. These include:

- the status of the engagement with the FRC;
- non-audit fees incurred by the external auditor;
- whistleblowing and compliance updates; and
- corporate reporting and governance developments.

Further information about the Committee's discussions with respect to the 2019 audit is set out under 'External audit' on pages 69 to 72 (inclusive).

Systems of risk management and internal control

General

Information on how the Group manages risk, including a description of the principal aspects of the Group's systems of risk management and internal control, is set out on pages 30 and 31.

Effectiveness review

The Code requires the Board, at least annually, to conduct a review of the effectiveness of the Group's systems of risk management and internal control.

Management conducted an assessment of the key elements of these systems, taking into account the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Business Reporting (September 2014). The Board's statement with respect to the effectiveness of the Group's systems of risk management and internal control, following this review, is set out on page 50.

Whistleblowing helpline

The Group makes available an externally-hosted, confidential whistleblowing helpline. During the year, the Group Compliance function continued to take steps to raise awareness of the facility. At each Committee meeting during the year, the Committee reviewed reports which provided details of the issues reported to the helpline and how management had investigated them. No issues which were material in the context of the Group were reported to the helpline or via other means during the year.

Board statements

Introduction

Under the Code, the Board is required to provide a number of statements. These statements are set out on page 50.

For information on the work to support the Board's statement on the Group's systems of risk management and internal control, please see 'Systems of risk management and internal control – Effectiveness review' above. For information on the Committee's work to support the viability statement, please see 'Viability statement' on pages 46 and 47.

Fair, balanced and understandable review

At its meetings in September 2019, the Board and the Committee discussed the 'fair, balanced and understandable' statement and the work undertaken to support it, which included:

Who?	How assurance was provided
Annual Report working group	› The working group comprised individuals involved in the drafting of the Annual Report › The group held regular meetings to discuss material disclosure items › The working group members reviewed the sections drafted by them in light of the 'fair, balanced and understandable' requirement
Key contributors to the Annual Report	› Certain key contributors to sections of the Annual Report (for example, Managing Directors and Finance Directors within the business) were asked to confirm the accuracy of the information provided
External support	› Provided by PwC, FutureValue, a corporate reporting consultancy, and Deloitte, who reviewed the Directors' Remuneration Report
The Committee and the Board	› Drafts of the Annual Report were circulated to individual members of the Board, the Committee and the full Board for review › Material disclosure items were discussed at the Committee's meeting in September 2019

Going concern

At its meetings in September 2019, the Board and the Committee discussed the going concern statement and the principal aspects of the review process conducted to support it, which included:

Going concern element	How assurance was provided
Sources of funding	› Reviewing the Group's available sources of funding and, in particular, testing the covenants and assessing the available headroom using a range of assumptions
Cash flow	› Reviewing the Group's short-term cash flow forecasts and the cash flows in the Group's three-year strategic plan, including in stressed but plausible downside scenarios
Current and forecast activities	› Assessing the Group's current and forecast activities, including its expected principal drivers of profitability and those factors considered likely to affect its future performance and financial position
Bonding facilities	› Assessing the level of available bonding facilities, which are considered necessary to support the Group's ability to tender and operate effectively
Downside scenarios	› Reviewing a series of stressed, but plausible, downside scenarios

Further details of the review process undertaken to support the going concern statement are set out on page 46.

Internal audit

Internal audits – 2019 financial year

During the year, the Committee monitored progress against the 2019 internal audit plan, which was approved by the Committee at its June 2018 meeting. Results from these audits were discussed by the Committee, together with the follow-up actions taken by management.

During the year, 15 internal audits were completed using the services of Grant Thornton, the co-sourced internal auditor, and the Group's Internal Audit function. These audits covered a range of areas, including IT, procurement and other elements of the Group's internal control environment and were selected so as to assess the Group's potential exposure to its principal risks and uncertainties and/or to develop ways to remedy any identified weaknesses in the Group's systems of risk management and internal control. A summary of the findings of four of these audits is as follows:

Audit	Summary of work	Summary of findings
Contract governance framework	Review of the application of the Group's delegated authorities and commercial standards	Increased levels of compliance throughout the Group, with instances of non-compliance
Anti-bribery and corruption (ABAC) policy and procedures	Review of the application of the Group's ABAC policy and procedures	Policy and procedures in place, with a need to focus on training records
HR administrative processes	Review of certain processes – for example, absence management, exits and succession planning	Certain processes require increased focus following the introduction of the Oracle ERP system
Information security – Middle East business	Review of the application of the Group's information security requirements	Identified the need to continue to develop the information security measures

Before each audit, the scope of review, timetable and resources required were agreed with management. Updates were provided to management and members of the Committee on the status of ongoing audits at Committee meetings during the year.

Internal audits – 2020 financial year

During the 2020 financial year, internal audits are expected to be conducted in relation to the following areas:

- procurement;
- health and safety;
- HR services; and
- the commercial reporting of selected projects.

The internal audit plan for the 2020 financial year is designed to assist management, the Committee and the Board to manage the principal risks and uncertainties relating to the Group. Further details of the audits conducted during the 2020 financial year will be included in the 2020 Annual Report.

Internal audit function effectiveness

To assess the effectiveness of the internal audit function, members of the Committee and senior management completed a questionnaire addressing various aspects of both the internal audit function's and Grant Thornton's performance. The feedback was reviewed by the Committee at its meeting in December 2018.

The Committee concluded that, overall, the Internal Audit function was operating effectively within its remit. A summary of the results of the review is as follows:

Strengths

- Effective communication with the business and action-tracking
- Risk-based approach focuses on the Group's primary risks
- Internal audit plan is structured so that internal audits are delivered within the agreed timetable

Future areas of focus

- Improve sector-specific knowledge to enhance analysis of issues raised during audits
- Increase visibility of the Internal Audit team within the business
- Consider ways of better communicating final audit reports

Engagement with the FRC

As referred to on page 78 of the 2018 Annual Report and on page 33 of the Company's 2018 rights issue prospectus, the Company received a letter from the FRC's Corporate Reporting Review Team raising a number of points on the Company's 2017 Annual Report.

During the year, the Company engaged with the FRC on these points, which have now been resolved to the satisfaction of both parties. The two principal points raised by the FRC related to the treatment of joint venture investments which contained pre-emption rights in favour of the Company and the basis of revenue recognition of certain contract claims. The resolution of these matters is explained in note 1 of the 2019 financial statements ('Significant accounting policies') on page 118, together with the impact of treating the investments as joint ventures, rather than consolidating them within the accounts as subsidiaries.
The Committee wishes to thank the FRC for its constructive engagement with the Company.

External audit

2019 audit

The following table summarises the key steps taken by the Board and/or the Committee in overseeing the 2019 external audit by PwC:

Meeting	Issue	Actions taken by the Board/the Committee
March Committee meeting	Provisional 2019 audit fee and terms of engagement	Reviewed the provisional fee and engagement terms
May Board meeting	PwC's 2019 audit plan	Discussed the plan, including the scope of the audit
	PwC's resources	Reviewed, so as to ensure that the audit was adequately resourced
	Preliminary review of certain contracts	Discussed the scope of PwC's review of a sample of the Group's material contracts
	PwC's audit risk assessment	Reviewed and discussed PwC's approach to risks identified during its audit planning
	Materiality level for the 2019 audit	Agreed at substantially the same level as for the 2018 audit
	2019 audit fee	Noted the proposed audit fee, in light of the draft scope of the work to be undertaken by PwC
June Committee meeting	Preliminary review of certain contracts	Discussed PwC's review of a sample of the Group's material contracts – please see 'May Board meeting'
	PwC's 2019 audit plan	Further discussion, following changes proposed by PWC
September Board and Committee meetings	Review of 2019 audit plan	Reviewed progress against the plan discussed in May and June
	2019 audit fee	Agreed the core audit fee
	Going concern and viability statement	Discussed these with PwC and management
	Audit findings, significant issues and other accounting judgements	Discussed these with PwC and management
	Management representation letter	Discussed the letter, following a review by management

Risk Management and Audit Committee report / continued

2019 financial statements – significant issues and other accounting judgements

The Committee is responsible for reviewing the appropriateness of management's judgements, assumptions and estimates in preparing the financial statements. Following discussions with management and PwC, the Committee and the Board determined that the significant issues and other accounting judgements relating to the 2019 financial statements are as shown in the table below.

Significant issues and/or accounting judgements	Action undertaken by the Committee/the Board
Going concern	In conjunction with PwC and the Company's other external advisers, the Committee and the Board reviewed and assessed the work undertaken to support the adoption of the going concern basis for the 2019 financial statements. In particular, the Committee and the Board reviewed the Group's short-term cash flow forecasts, the cash flow forecasts for the period ending 31 December 2020 which are included in the Group's three-year strategic plan, the assumptions relating to the profitability and cash generation of the business and the achievement of cost saving measures. The forecasts were stress-tested for severe but plausible downside scenarios that could have an impact on the Group, including Brexit. For further information on the work undertaken by the Committee, the Board and management in relation to the going concern basis of preparation for the 2019 financial statements, please see 'Going concern' on page 67 and 'Going concern' on page 46. The Directors' going concern statement is set out on page 50.
Contract accounting	The Group has significant long-term contracts in the Infrastructure Services and Buildings businesses. Accounting for long-term contracts was therefore identified as a key area of focus for the 2019 audit. Recoverability of work-in-progress on long-term services contracts involves significant estimates, including an estimate of the end-of-life outcome of the projects. An assessment of the likely profit on long-term contracts requires significant judgement because of the uncertainty inherent in preparing suitable estimates of the forecast costs and revenue. In the year, the Group transitioned to the new accounting standard IFRS 15 (Revenue from Contracts with Customers). Under the Group's accounting policies, claims from third parties (other than customers) are now only recognised once they are determined to be 'virtually certain' of recoverability. The Committee reviewed the adjustments resulting from the transition to IFRS 15 (please see 'IFRS 15 transition adjustments' on page 71). During the year: › the Committee and the Board reviewed and challenged management's latest assessment of the forecast costs of, and revenues from, certain of the Group's long-term contracts; › in particular, the Committee and the Board discussed PwC's review of management's assessment of the performance of certain of the Group's contracts when considering the interim and year-end financial statements in March and September 2019, respectively; › the Committee recommended to the Board the inclusion of an exceptional charge relating to the Broadmoor Hospital redevelopment project in the Group's interim financial statements in March 2019; and › the Committee recommended to the Board the inclusion of exceptional charges relating to the Broadmoor Hospital redevelopment project and the Mersey Gateway project in the Group's 2019 financial statements and, together with the Board, agreed the disclosure in this Annual Report relating to the judgements and estimates made in relation to the Group's long-term contracts (please see 'Critical accounting estimates and judgements on pages 124 and 125').
Presentation of the Group's financial performance	The Group has updated its alternative performance measure to 'profit before exceptional items and amortisation of acquired intangible assets' to improve the transparency and clarity of the Group's financial performance. The Committee and the Board (i) discussed the reasons for adopting the revised presentation of the financial statements with PwC and (ii) agreed the classification of, and disclosures relating to, the exceptional items with PwC.

Significant issues and/or accounting judgements	Action undertaken by the Committee/Board
Impairment of goodwill and other intangibles	The review of the carrying value of goodwill and other intangibles was identified as a key area of focus for the 2019 audit, in light of the significant decrease in the Group's market capitalisation during the year, the reduction in volumes of certain of the Group's core businesses and the announcement of the proposed sale of Residential and the reduction in investment in Property. Having discussed the review of goodwill and other intangibles with PwC, the Committee recommended that the Board included impairment charges against the Developments & Housing division in the 2019 financial statements.
IFRS 15 transition adjustments	Since IFRS 15 applied to the Group for the first time in the 2019 financial year, the adjustments to the Group's 2019 financial statements upon the transition of IFRS 15 were identified as a key area of focus for the 2019 audit. In particular, the Committee and the Board, having discussed these matters with PwC, (i) assessed whether recoveries which were previously assessed as meeting the recognition criteria under IAS 11 would, following the adoption of IFRS 15, not be considered to be recoverable and (ii) approved the disclosures relating to the impact of IFRS 15 on earnings in the 2019 financial statements.
Carrying value of land and development inventory	As part of the 2019 audit, PwC reviewed and evaluated management's assessment of the net realisable value of inventory in the Developments & Housing division at 30 June 2019. In particular, PwC focused its work on 10 residential sites previously held at a carrying value of £60.2m. Following the announcement in June 2019 of the intention to sell the Residential business, the Company intends to take steps to sell these sites, rather than hold them for future development. The Committee and the Board discussed PwC's review of management's revised assessment of the recoverable value of the sites (£10.2m) and, having done so, agreed that an impairment charge of £50.0m would be included in the 2019 financial statements.
Carrying value of investment in Kier Limited	In light of the size of the Company's investment in its principal operating subsidiary, Kier Limited, relative to the Company's market capitalisation, the carrying value of this investment was identified as a key area of focus for the 2019 audit. Following PwC's review, the Committee concluded that no impairment was required against the carrying value of the investment held by the Company.
Accounting for joint venture investments	The Group has a number of investments in which it has joint control, whilst holding a majority equity interest in such investments. These interests have historically been accounted for as joint ventures under the equity accounting method and not consolidated into the Group's financial statements. This is considered to be an issue requiring significant accounting judgement. In July 2018, the FRC wrote to the Company in relation to this accounting treatment, noting in particular the Group's pre-emption rights in such investments. The Committee has reviewed the correspondence with the FRC and received updates from PwC, the Finance Director and the Group Financial Controller on the engagement with the FRC during the year. As explained in note 1 to the 2019 financial statements ('Significant accounting policies') on page 118, the Company has amended certain pre-emption rights within these investments and accordingly believes that their ongoing treatment as joint ventures is appropriate and in accordance with applicable accounting standards.

External auditor effectiveness

During the year, the Committee conducted an evaluation of PwC's performance (with respect to the 2018 audit). A questionnaire was issued to key stakeholders, including members of the Committee and those involved in the 2018 audit. Feedback from the evaluation was discussed by the Committee at its meeting in December 2018.

A summary of the results of the evaluation is as follows:

Strengths

- Technical ability of the audit team remains strong
- Good engagement between the audit team and the business
- Audit team demonstrates a good knowledge of the industry

Future areas of focus

- Continue to improve the planning of the audit to ensure that the agreed timetable is met
- Ensure that the audit team is sufficiently resourced
- Maintain the continuity of the audit team

The Committee will formally assess PwC's performance in relation to the 2019 audit following its completion. A resolution to re-appoint PwC as the external auditor will be proposed at the 2019 AGM.

External auditor independence and non-audit services

During the year, PwC provided certain non-audit services to the Group. The Committee monitors the level and scope of these services to ensure that the associated fees are not of a level that would affect PwC's independence and objectivity. The limits of authority within the policy are:

Fees	Approval required
Up to £10,000	May be authorised by the Group Finance Director on individual assignments (not exceeding £50,000 in any financial year)
Above £10,000	Must be approved in advance by the Committee Where approval is urgently required, this may be provided by the Chair of the Committee (subject to the subsequent reporting of the approval to the Committee)

The Company has a non-audit fee policy which reflects the FRC's revised Ethical Standards for Auditors. The policy, which was last reviewed in June 2019, provides that the Committee expects that the level of non-audit fees in any one financial year will not exceed 15% of the audit fee payable in relation to the previous year.

Non-audit fees incurred during the 2019 financial year increased significantly due to the work undertaken by PwC as reporting accountants in relation to the 2018 rights issue. The total non-audit fees paid to PwC in FY2019 were £1,077,000, which is approximately 73% of the 2018 audit fee of £1,475,000. The non-audit fees related to work in support of the 2018 rights issue (£975,000), the review of the 2019 interim financial statements (£100,000), access to PwC's online knowhow system (£1,000) and financial verification work to support a 'Queen's Award for Enterprise' nomination for one of the Group's contracts (£1,000). PwC was engaged to provide support in each case due to its prior knowledge of the Group and its reporting systems and, in relation to the interim financial statements, because the review would enable it to conduct preparatory work in advance of the year-end audit. The Committee concluded that PwC's independence and objectivity were not compromised by it providing these services.

PwC first audited the Group's financial statements in the 2015 financial year. Andrew Paynter replaced Jonathan Hook as the lead audit partner in January 2019. PwC requires the lead audit partner to change after five years. As part of the 2019 audit, PwC confirmed that it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account, and having considered the steps taken by PwC to preserve its independence, the Committee concluded that PwC continues to demonstrate appropriate independence and objectivity.

The Company complied with the Statutory Audit Services Order for the 2019 financial year.

Conclusion

I will be available to answer any questions about the Committee, our work and how we operate at the AGM on 15 November 2019.

Adam Walker
CHAIR OF THE RISK MANAGEMENT AND AUDIT COMMITTEE

26 September 2019

Safety, Health and Environment Committee report

"It is vital both to consolidate the Group's SHE performance and to seek ways to further improve it; each will require focusing on doing the basics well."

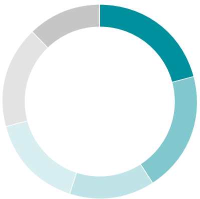
Chair

Kirsty Bashforth

Other Committee members

Justin Atkinson
Constance Baroudel

Allocation of time



Dear shareholder

I am pleased to present the Safety, Health and Environment Committee report for the 2019 financial year. This report summarises the activities of the Committee during the year.

As a Committee, we support and challenge management to consolidate and continuously improve the management of safety, health and environment (SHE) risk throughout the business. The past year has been a challenging one for the Company; it was therefore important to maintain focus on the basics of SHE risk management, including, in particular, its behavioural aspects.

Members of the Committee and the Board regularly visit sites across the Group to gain an insight into operating practices, meet those working on site and further build their understanding of, and gain assurance about, the Group's SHE practices and culture. In the last year, Board members have made over 70 such visits, including to the Dubai Harbour, Thames Water and HS2 projects.

Culture supports the effective operation of SHE policies and the Committee continues to oversee the progress of the Group's behavioural change programme, which aims to embed good safety behaviours and further improve the safety culture within the Group.

The Group's overall safety performance has improved year-on-year, continuing the trend of the last few years, although the rate of improvement has slowed recently.

The health of our employees, both physical and mental, is integral to this culture and of the utmost importance. During the year, the Committee has overseen the development and implementation of a health strategy for the Group. Since January 2018, the Group has trained over 550 mental health first aiders and mobile health kiosks have visited the Group's sites, allowing colleagues to access basic health checks. We were therefore disappointed to see an increase in the cost of sickness absence in 2019. During the year, we published a revised, three-year health and wellbeing strategy, which focuses on key issues such as depression, anxiety, mental health and muscular skeletal disorders in the workforce, which are some of the primary causes of sickness absence across the business. We have targeted a 10% per annum reduction in the cost of sickness absence over the next three years.

During the year, the Group has continued to make good progress with respect to reducing both its carbon emissions and the amount of waste removed from site.

Role

The role of the Committee includes:

- reviewing the Group's strategy with respect to SHE matters and challenging management to implement it;
- encouraging management's commitment and accountability with respect to managing the Group's SHE risks;
- reviewing and, as necessary, approving material Group-wide SHE initiatives, policies and procedures; and
- reviewing the Group's exposure to SHE risks and monitoring performance against SHE targets.

THE TERMS OF REFERENCE FOR THE COMMITTEE CAN BE VIEWED ON THE COMPANY'S WEBSITE AT WWW.KIER.CO.UK/CORPORATEGOVERNANCE

The Committee recognises that consolidating the Group's SHE performance requires significant oversight – as does seeking continuous improvement. The Committee will continue to work with management to oversee ways of consolidating the Group's SHE performance, seeking to improve it and continuing to focus on the basics.

Committee composition and meeting attendance

The names of the members of the Committee are set out above. The Chairman, the Chief Executive, the Chief Operating Officer and the Group SHE Director also attended the Committee's meetings during the year.

The secretary of the Committee is the Company Secretary, Hugh Raven.

The Committee met four times during the year; details of attendance at those meetings are set out on page 53.

Safety, Health and Environment Committee report / continued

Committee effectiveness review

The 2018 Board effectiveness review identified a need for the Committee to:

- continue its focus on the management of the health and wellbeing of the Group's employees and environmental issues relevant to the Group; and
- continue to drive the development of the Group's safety culture, with a particular focus on developing its behavioural safety practices.

The Committee agreed that, whilst good progress on these matters had been made during the year, they would remain key areas of focus for the Committee in the 2020 financial year.

Principal activities – 2019 financial year

The following matters were considered by the Committee at each meeting during the year:

Matters	Consideration
Key incidents	The Committee reviewed reports about material safety or environmental incidents which occurred during the year. Senior management attended Committee meetings to present their reports on material incidents which had occurred within their business, the lessons learned from the incidents and the implementation of improvements. These included reports relating to the fire at the Glasgow School of Art site, a fatality which occurred on a utilities contract near Lakenheath, overhead cable strikes on the M6 smart motorways site and a significant fall from height at a regional business site at Horsham. In July 2018, the Group received fines for two historic incidents: a fine of £0.6m for a fall from height at Maerdy Bridge and a fine of £0.2m for a fall from height at Downsell School.
SHE performance	The Committee reviewed the Group's SHE performance against a number of KPIs. These KPIs related to the AIR and the AAIR, visible leadership tours undertaken by management, construction waste, carbon emissions, sickness absence and drugs and alcohol testing.
Visible leadership tours	The Committee discussed feedback from Committee members' visible leadership tours.

During the year, the Committee's other activities included:

Matters	Consideration
Health and wellbeing	Overseeing the progress of Group health and wellbeing campaigns, including those relating to: › Mental health › Hand arm vibration and carpal tunnel syndrome management › Fitness for work assessments.
Environmental	› Overseeing progress against the Group's environmental strategy › Overseeing management's implementation of certain environmental campaigns › Reviewing the Group's environmental strategy beyond 2020.
Safety	Inviting members of management to present at Committee meetings on a range of safety issues, including: › The Managing Director, Utilities & Rail: the Lakenheath incident › The Managing Director, Highways: the M6 overhead cable strikes › The Managing Director, Building UK: the Horsham regional business incident Reviewing the safety-related campaigns implemented by management during the year.
SHE Strategy	› Reviewing the Group's strategy for the future management of SHE risks › Monitoring progress against the Group's behavioural change programme.

Conclusion

I will be available to answer any questions about the Committee, its work and how it operates at the AGM on 15 November 2019.

Kirsty Bashforth
CHAIR OF THE SAFETY, HEALTH AND ENVIRONMENT COMMITTEE

26 September 2019

Relations with shareholders and other stakeholders

Highlights

- A comprehensive programme of engagement with shareholders and other stakeholders
- Engagement with shareholders during and after the 2018 rights issue
- Briefings to stakeholders following the strategic review announcement in June 2019

FOR FURTHER INFORMATION ON HOW WE ENGAGE WITH SHAREHOLDERS AND OTHER STAKEHOLDERS, PLEASE SEE PAGES 20 TO 29 (INCLUSIVE)

Shareholder engagement

Introduction

The following table sets out details of the engagement with shareholders during the year:

2018[1]

July

Trading statement

September

2018 year-end results released

Investor roadshows

November – December

AGM trading update

Annual General Meeting

Engagement with key stakeholders about the rights issue

2019[1]

January

Trading update

March

Revised net debt guidance announcement

2019 interim results released

Investor roadshows

Announcement of appointment of Andrew Davies

June

Update on trading, FPK programme and strategic review

Update on strategic review conclusions and net debt

August

Trading update

Announcement of the appointment of Simon Kesterton

Key shareholder engagement issues

During the year, the Board's engagement with shareholders was led by the Chief Executive, the Finance Director, the Chairman (including whilst acting as the Executive Chairman) and the Senior Independent Director. Feedback from this engagement was communicated to other Board members by a number of methods, including via Board calls, at Board meetings and via email.

Examples of this engagement are as follows:

- **2018 results and 2019 interim results announcements:** the Chief Executive and Finance Director met shareholders following the 2018 results announcement and the Executive Chairman and the Finance Director held similar meetings following the 2019 interim results announcement. Following these announcements, analysts' notes were circulated to the Board;
- **Rights issue:** the Chairman, the Senior Independent Director, the Chief Executive and the Finance Director met shareholders and other stakeholders during the 2018 rights issue to understand their views about the Group and the capital raise. This feedback was then discussed by the Board when considering the rights issue;
- **Chief Executive:** following his appointment as Chief Executive, Andrew Davies met a number of shareholders. This engagement provided Andrew with a clear indication of shareholders' strategic priorities for the Group. Shareholders raised concerns about the level of the Group's net debt; on 17 June 2019, the Board announced the conclusions of the strategic review, which included a number of actions which are designed to accelerate a reduction in the Group's net debt; and
- **March and June 2019 announcements:** the Chief Executive and the Finance Director briefed key shareholders, analysts and other key stakeholders following these announcements.

Annual general meeting

The Board uses the AGM as an opportunity to communicate with shareholders, who are invited to attend, ask questions and meet Directors prior to, and after, the formal proceedings. The Chairs of the Board committees are present at the AGM to answer questions on the work of their committees.

The results of the voting at the 2018 AGM can be viewed online at www.kier.co.uk.

[1] The Company also issued a number of other announcements relating to the 2018 rights issue and Board changes made during the year.

Relations with shareholders and other stakeholders / continued

Stakeholder engagement

The following table provides examples of how the Board engages with certain of its key stakeholders and how it takes into account this engagement when making its decisions:

Key stakeholder	Examples of Board engagement in the 2019 financial year	How was the engagement reflected in the Board's decision-making?
Institutional and retail investors and analysts	› Roadshows held with investors following the release of the results announcements in September 2018 and March 2019 › Members of the Board engaged with institutional investors following the announcements in March and June 2019	› Feedback from these meetings reflected in the scoping of the strategic review of the Group › Confirmed the principal areas of focus in 2020 – a reduction in debt and the disposal of non-core businesses
Banks, lenders, sureties and insurers	› The Chief Executive and Finance Director engaged with the banks and lenders, following the 2018 rights issue › The Finance Director led an engagement programme with credit institutions following the June 2019 announcements	› Feedback taken into account when developing the Group's strategic focus for 2019 and 2020 › Confirmed the need to focus on reducing the Group's net debt and increasing its cash flows
Clients	› The Chief Executive met key clients as part of his induction › The Board received regular feedback on key client relationships via Board reports	› Feedback taken into account when conducting the strategic review › Informed the approach to clients on key strategic issues
Government	› The Chief Executive met representatives of the Cabinet Office during his induction › The Chief Executive and the Chief Operating Officer engaged with the Cabinet Office via its Strategic Supplier programme	› Assisted the Chief Executive to develop important relationships › Informed the Board about the strategic priorities of one of the Group's principal clients

Key stakeholder	Examples of Board engagement in the 2019 financial year	How was the engagement reflected in the Board's decision-making?
Employees	› Members of the Board undertook visible leadership tours to the Group's sites › The Executive Directors and senior management conducted employee roadshows in autumn 2018	› Assisted the SHE Committee to oversee the management of SHE risks › Q&A sessions covered a range of topics and provided an insight into the workforce's views
Joint venture partners	› The new Chief Executive developed relationships with Eiffage, the Group's joint venture partner on the HS2 project › The Chief Operating Officer oversaw the relationship with the Group's joint venture partners on the Mersey Gateway project	› Assisted in the development of the plan to mitigate the risks associated with the project › Feedback taken into account when assessing the operational and financial performance of the project
Supply chain	› The Executive Directors engaged with members of the supply chain, in particular in relation to payment terms › The Finance Director met trade credit insurers following the strategic review announcement in June 2019	› Assisted management to drive a reduction in the number of supply-chain payment days › Enabled the Board to develop its engagement strategy with respect to such institutions
Pension trustees	› The Finance Director met trustees of the Group's pension schemes to discuss the Group's performance › The Finance Director briefed the trustees in relation to the conclusions of the strategic review	› Assisted the discussions between the parties in relation to the funding of the schemes › Enabled the Board to assess the risks associated with the execution of the conclusions of the review

Annual statement of the Chair of the Remuneration Committee

"The Committee takes into account a number of factors when setting executive remuneration, including pay throughout the Group and general market conditions."

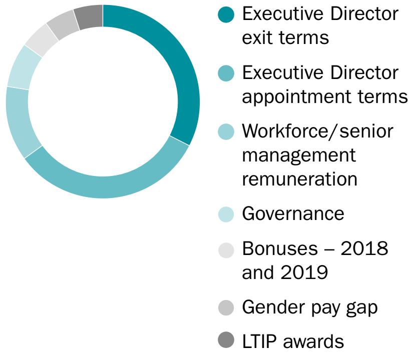
Chair

Constance Baroudel

Other Committee members

Justin Atkinson
Kirsty Bashforth
Philip Cox CBE
Adam Walker

Allocation of time



Dear shareholder

The Directors' Remuneration Report for 2019 is divided into three sections:

- this annual statement from the Committee Chair, which provides a review of the Committee's activities and decisions taken during the year;
- the annual report on remuneration, which provides details of the remuneration paid to the Board during the year; and
- a summary of the remuneration policy which was adopted at the 2017 Annual General Meeting.

Role

The role of the Committee includes:

- setting the remuneration policy relating to the Executive Directors and the Non-Executive Directors;
- setting the remuneration of the Chairman, the Executive Directors and senior management;
- reviewing workforce remuneration and related policies;
- approving the design of, and determining targets for, any annual bonus schemes applicable to the Executive Directors and senior management;
- approving annual bonus payments made to the Executive Directors and senior management;
- approving the design of, and determining the performance measures for, all share or share-based plans applicable to the Executive Directors and senior management;
- reviewing the vesting of all share or share-based plans applicable to the Executive Directors and senior management;
- considering payments to former Directors to ensure that they are within the terms of the remuneration policy;
- engaging with institutional investors on remuneration matters; and
- appointing remuneration consultants and setting their terms of reference.

THE TERMS OF REFERENCE FOR THE COMMITTEE CAN BE VIEWED ON THE COMPANY'S WEBSITE AT WWW.KIER.CO.UK/CORPORATEGOVERNANCE

2019 – review of the year

The 2019 financial year was a challenging year for the Group and, following the 2018 rights issue, it has experienced significant management and operational change.

The announcement of the conclusions of the strategic review clearly sets out the Group's areas of focus over the short and medium-term. Since his arrival as Chief Executive in April 2019, Andrew Davies has accelerated the Future Proofing Kier (FPK) programme, as a result of which 1,200 employees are expected to leave the Group over the 2019 and 2020 financial years. Across the Group, base salary increases for the 2020 financial year were limited to the lower-paid members of the workforce (please see 'Remuneration across the Group' below) and bonuses for the 2019 financial year will be paid to a small number of employees. No Executive Director or member of senior management received either an increase in base salary for 2020 or a bonus in respect of 2019.

Remuneration across the Group

In determining the remuneration of the Executive Directors and senior management, the Committee reviews the workforce's remuneration and takes into account the approach to remuneration across the Group as a whole.

During the year, the Committee:

- reviewed salary information relating to the workforce, noting that management proposed an increase of up to 2% for the Group's lower-paid members of staff with effect from 1 July 2019;
- reviewed the Group's latest gender pay gap statistics, which were published in April 2019 and related to the period ended 5 April 2018. The Committee noted that both the salary and bonus gaps had decreased as compared to the period ended 5 April 2017; and
- revised its terms of reference, effective from 1 July 2019, to include a requirement for the Committee formally to approve the remuneration of senior management.

Appointment of Chief Executive and Chief Financial Officer

The principal elements of Andrew Davies' and Simon Kesterton's remuneration on appointment are set out on page 81. During their respective recruitment processes, the Committee took advice to ensure that their respective terms reflected the size and complexity of the Group, the challenges facing the Group, their skills and experience, their remuneration packages as a whole, internal relativities and affordability.

2019 outcomes

Annual bonus
The Group did not meet its earnings per share (EPS) or average month-end cash/net debt targets for the 2019 financial year. The Committee decided that there would be no bonus payment for the SHE element of the bonus or for the personal objectives element. Accordingly, no bonus will be paid to the Executive Directors or senior management in respect of the 2019 financial year.

FURTHER INFORMATION ABOUT THE ANNUAL BONUS IS SET OUT ON PAGE 84

Vesting of LTIP awards
The performance conditions for the LTIP awards granted in October 2016 related to cumulative EPS growth, TSR outperformance and net debt : EBITDA, in each case over the three-year period ended 30 June 2019. Performance against each of the conditions was not sufficient to result in a vesting of the awards.

FURTHER INFORMATION ABOUT THE VESTING OF LTIP AWARDS IS SET OUT ON PAGE 85

Payments to former Directors
During the 2019 financial year, the Company made payments to Nigel Brook and Nigel Turner, each of whom stood down from the Board and left the business on 1 August 2018. These payments are described on pages 96 and 97 of the 2018 Annual Report.

In addition, during the 2019 financial year, the Company made payments to Haydn Mursell during his garden leave which began on 22 January 2019, when he stood down from the Board. Details of these payments, and the payments made and to be made to Mr. Mursell during the 2020 financial year, are summarised on page 86.

Bev Dew will stand down from the Board by 30 September 2019 and will remain on garden leave until the conclusion of his notice period in May 2020 or, if earlier, the date on which he obtains alternative employment. Details of the payments made to Mr. Dew in the 2020 financial year will be disclosed in the 2020 Annual Report.

Looking forward – 2020 financial year

General
In the 2020 financial year, there will be no changes to the structure of the Executive Directors' remuneration. Please see 'Executive Directors' remuneration – 2020' on page 81 for further information.

The 2018 edition of the UK Corporate Governance Code (the Code) applies to Kier from 1 July 2019. The Committee took into account the Code with respect to the appointments of Andrew Davies and Simon Kesterton as Chief Executive and Chief Financial Officer Designate, respectively, by introducing (i) a lower level of pension contributions from the Company (as compared to the contributions previously paid on behalf of Executive Directors), having considered the contributions paid on behalf of the Group's wider workforce, and (ii) a post-termination shareholding requirement. The Committee will also take into account the Code, insofar as it relates to executive remuneration, when reviewing the remuneration policy in 2020.

Base salaries
The Committee decided that no increases in base salary would be awarded to the Executive Directors or senior management with effect from 1 July 2019.

Annual bonus
The maximum bonus opportunity for each of the Chief Executive and the Chief Financial Officer will be 125% of base salary. The maximum bonus opportunity for the Chief Operating Officer will be 115% of base salary. Neither Haydn Mursell nor Bev Dew will receive a bonus in respect of the 2020 financial year.

The 2020 bonus targets are expected to relate to profit (40%), average month-end net debt/cash (40%), the Group's safety performance (10%) and personal objectives (10%). The actual targets and performance against them will be disclosed in the 2020 Annual Report.

LTIP awards
In the 2020 financial year, Andrew Davies will receive an LTIP award of 200% of base salary, Simon Kesterton will receive an LTIP award of 175% of base salary and Claudio Veritiero will receive an LTIP award of 150% of base salary. Neither Haydn Mursell nor Bev Dew will receive an LTIP award in the 2020 financial year.

The awards to be granted to Mr. Davies and Mr. Kesterton are set at a level which is designed to promote an immediate alignment of interests with shareholders. Mr. Davies' award reflects the fact that he did not receive an award on appointment; future awards to Mr. Davies will be at 175% of base salary.

The performance conditions for the LTIP awards are expected to relate to EPS growth (50%), TSR outperformance (25%) and the Group's average month-end net debt/cash : EBITDA performance (25%) over the three-year period ending 30 June 2022. The actual performance conditions will be disclosed in the 2020 Annual Report.

Revised remuneration policy
The Company's remuneration policy will be revised during the 2020 financial year and shareholders will be asked to vote on the new policy at the 2020 AGM.

The Committee will engage with shareholders to ensure that the revised policy aligns their interests with those of management by incentivising sustainable, long-term performance and will take into account wider workforce remuneration and related policies when reviewing the policy.

Conclusion
The Committee recognises that executive remuneration continues to be an area of focus for shareholders and other stakeholders. The Committee will continue to monitor developments in executive remuneration and engage with shareholders and the proxy voting agencies to ensure that Kier's leadership team is appropriately incentivised.

I will be available to answer any questions you may have about the Committee, its work and how it operates at the AGM on 15 November 2019.

Constance Baroudel
CHAIR OF THE REMUNERATION COMMITTEE

26 September 2019

Remuneration at a glance

Contents

In this section:

Background information

Approach to remuneration at Kier

Our remuneration policy aims to:

- align with strategy and incentivise and reward performance: over two-thirds of the Executive Directors' maximum remuneration opportunity is variable and relates to the Group's performance against its strategic priorities (as set out on page 11);
- align Executive Directors' interests with those of shareholders: approximately half of the Executive Directors' maximum remuneration opportunity is satisfied in shares and the Executive Directors are encouraged to build up shareholdings in the Company of at least two years' base salary over a period of up to five years; and
- attract and retain talent: the Committee considers practices in comparable businesses so as to ensure that remuneration at Kier remains competitive, enabling it to attract and retain talented individuals, but without paying more than is necessary.

Remuneration framework

There are three elements to the framework for the Executive Directors' remuneration:

- fixed element: comprises base salary, taxable benefits (private health insurance and a company car or car allowance) and a pension;
- short-term element: an annual bonus, which incentivises and rewards the delivery of a balanced selection of financial and non-financial targets in a financial year, with payments being satisfied in cash (2/3), which are subject to clawback, and shares (1/3), which are deferred for three years; and
- long-term element: the LTIP incentivises financial performance over a three-year period, promoting long-term sustainable value creation for shareholders. Vested shares are subject to a two-year holding period.

Remuneration policy

The remuneration policy, a summary of which is set out on pages 92 to 97 (inclusive), was approved by shareholders at the Annual General Meeting on 17 November 2017. The policy is subject to shareholder approval every three years.

Compliance statement

This Directors' Remuneration Report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority and applies the main principles relating to remuneration which are set out in the UK Corporate Governance Code (April 2016 edition).

Summary of the Executive Directors' remuneration in 2019 and 2020

The tables and charts below:

- summarise the Executive Directors' remuneration in 2019;
- summarise the principal elements of the Executive Directors' remuneration in 2020; and
- provide an illustration of the remuneration that the Executive Directors may receive under different performance scenarios in 2020.

Executive Directors' remuneration – 2019

The following table summarises the key elements of the Executive Directors' remuneration in 2019:

Director	Role	Fixed remuneration[1,2]	Variable remuneration[1,3]	Total remuneration[1]
Andrew Davies	Chief Executive	£140,000		£140,000
Bev Dew	Finance Director	£494,000	£1,000	£495,000
Haydn Mursell[4]	Chief Executive	£422,000	£1,000	£423,000
Claudio Veritiero	Chief Operating Officer	£492,000	£1,000	£493,000

1 All amounts expressed before deductions for income tax and national insurance contributions and rounded to the nearest £1,000.

2 Comprises base salary, taxable benefits and pension contributions. See page 83 for further details.

3 Comprises bonus, LTIP and share schemes. See page 83 for further details.

4 See note 1 on page 83.

Executive Directors' remuneration – 2020

The following table summarises the key elements of the Executive Directors' remuneration in 2020:

Element	Chief Executive	Chief Financial Officer[1]	Chief Operating Officer
Base salary	£595,000	£475,000	£401,700
Pension	7.5% of salary	7.5% of salary	20% of salary
Bonus	Maximum: 125% of salary	Maximum: 125% of salary	Maximum: 115% of salary
Bonus targets[2]	› Financial (80%): profit (40%) and average month-end net debt/cash (40%) › Non-financial (20%): health and safety (10%) and personal objectives (10%)		
Deferred shares	One-third of any net bonus annual payment to be satisfied by an allocation of shares (legal ownership deferred for three years)		
LTIP	200% of salary[3]	175% of salary	150% of salary
LTIP performance conditions[4]	Awards will be subject to the Group's performance over a three-year period ending 30 June 2022: › EPS growth (50%) › TSR outperformance (25%) › Average month-end net debt/cash: EBITDA performance (25%)		
Holding period	Any vested LTIP shares must be held for two years after vesting (after payment of tax)		
Malus and clawback	› Clawback will apply to any cash bonuses paid and to the post-vesting holding period for any LTIP shares › Malus will apply to any deferred shares (in the three-year deferral period) and LTIP awards (prior to vesting)		
Shareholding guidelines[5]	200% of salary[5]		

1 Simon Kesterton joined the Board with effect from 26 August 2019.

2 Expected targets. Actual targets will be disclosed in the 2020 Annual Report.

3 Future LTIP awards to Mr. Davies will be at 175% of base salary.

4 Expected performance conditions. Actual performance conditions will be disclosed in the 2020 Annual Report.

5 Each of Mr. Davies and Mr. Kesterton is required to retain shares equal in value to 100% of base salary for a period of two years from the date on which his employment is terminated (or if the number of shares owned by the individual at such date is less than such value, the shares then owned by the relevant individual).

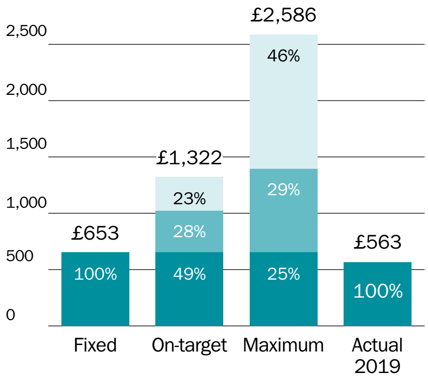
Remuneration at a glance / continued

Bev Dew will stand down from the Board by 30 September 2019 and will remain on garden leave until the conclusion of his notice period in May 2020 or, if earlier, the date on which he obtains alternative employment. During this period, Mr. Dew will remain entitled to his contractual pay and benefits, comprising a base salary of £401,700, a pension contribution of 20% of base salary and a car or car allowance. Mr. Dew will not receive a bonus in respect of the 2020 financial year and will not be granted an LTIP award in the 2020 financial year. The LTIP awards granted to Mr. Dew in 2017 and 2018 will lapse upon the commencement of his garden leave. Details of the payments made to Mr. Dew in the 2020 financial year will be disclosed in the 2020 Annual Report.

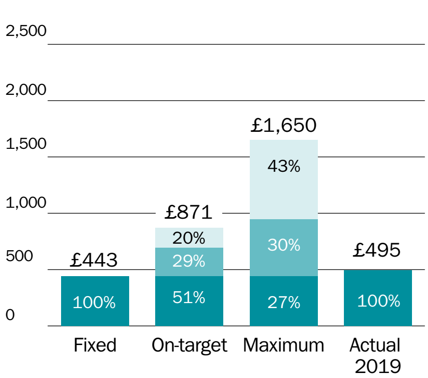
Executive Directors' remuneration – scenarios

The following charts illustrate the remuneration that the Executive Directors may receive under different performance scenarios for the year ending 30 June 2020, together with the actual amounts received in the year ended 30 June 2019:

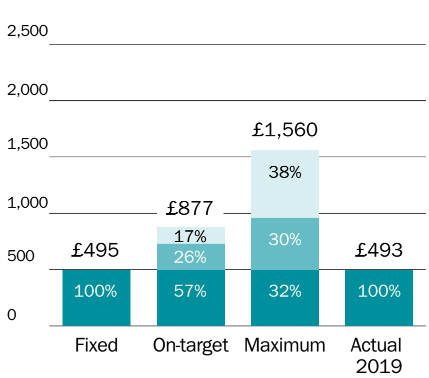
Chief Executive (£'000s)[1]



Chief Financial Officer (£'000s)[2]



Chief Operating Officer (£'000s)



● Fixed ● Annual bonus ● LTIP

[1] Actual 2019 remuneration relates to the aggregate of Haydn Mursell's and Andrew Davies' remuneration. It does not include the fee paid to Philip Cox as Executive Chairman between 22 January 2019 and 15 April 2019.

[2] Fixed, on-target and maximum remuneration relates to Simon Kesterton's remuneration (pro rated to reflect that he joined the Board on 26 August 2019). Actual 2019 remuneration relates to Bev Dew's remuneration.

The scenarios set out in the above charts reflect or assume the following:

- 'Fixed' remuneration comprises:
  - base salary;
  - the estimated value of taxable benefits to be provided in 2020, based on the actual value of such benefits provided in 2019; and
  - a pension contribution/cash allowance;
- The 'on-target' remuneration assumes an annual bonus payment of 50% of the maximum opportunity and a 'threshold' LTIP vesting (25% of the maximum opportunity);
- The 'maximum' remuneration assumes maximum performance is achieved and therefore awards under the annual bonus and the LTIP pay out or vest at their maximum levels;
- No value is assumed for share schemes (other than in the 'Actual 2019' figures);
- No share price appreciation is assumed for LTIP awards; and
- 'Actual 2019' refers to the figures set out in the table on page 83.

Annual report on remuneration

Introduction

This section of the report sets out the annual report on remuneration for the 2019 financial year.

The following information contained in this section of the report has been audited: the table containing the total single figure of remuneration for Directors and accompanying notes on this page, the pension entitlements referred to on this page, the incentive awards made during the 2019 financial year referred to on page 85, the payments for loss of office referred to on page 86, the payments to past Directors referred to on page 86 and the statement of Directors' shareholdings and share interests set out on page 87.

Directors' remuneration for the 2019 financial year

The following table provides details of the Directors' remuneration for the 2019 financial year, together with their remuneration for the 2018 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

	Salary/fee (£000)		Taxable benefits[1] (£000)		Bonus (£000)		LTIP vesting (£000)		Share schemes (£000)		Pension[5] (£000)		Total (£000)	
	2018/2019	2017/2018	2018/2019	2017/2018	2018/2019	2017/2018	2018/2019	2017/2018[2]	2018/2019[3]	2017/2018[4]	2018/2019	2017/2018	2018/2019	2017/2018
Executive Directors														
Nigel Brook[6]	31	375	1	13	–	323	–	80	1	1	6	75	39	867
Andrew Davies[7]	126	–	5	–	–	–	–	–	–	–	9	–	140	–
Bev Dew	402	402	12	11	–	350	–	86	1	1	80	80	495	930
Haydn Mursell[8]	346	620	7	13	–	580	–	121	1	1	69	124	423	1,459
Nigel Turner[6]	31	375	1	13	–	323	–	80	1	1	6	74	39	866
Claudio Veritiero	399	375	13	13	–	327	–	80	1	1	80	75	493	871
Non-Executive Directors														
Justin Atkinson	62	62	–	–	–	–	–	–	–	–	–	–	62	62
Constance Baroudel	62	62	–	–	–	–	–	–	–	–	–	–	62	62
Kirsty Bashforth	58	52	–	–	–	–	–	–	–	–	–	–	58	52
Philip Cox[9]	235	204	–	–	–	–	–	–	–	–	–	–	235	204
Adam Walker	62	62	–	–	–	–	–	–	–	–	–	–	62	62
Nick Winser[10]	23	62	–	–	–	–	–	–	–	–	–	–	23	62
Total	1,837	2,651	39	63	–	1,903	–	447	5	5	250	428	2,131	5,497

1 Comprises private health insurance and a company car or a car allowance and, for Haydn Mursell, the cost of broadband subscription for his personal residence for the period from 22 January 2019 (being the date on which he stood down from the Board) to 30 June 2019. Prior to 22 January 2019, the cost of this subscription was a business expense. In addition to the amounts referred to in the table, the Board and members of senior management had access to a driver until approximately 1 February 2019. The total annual cost to the Company was approximately £40,000, of which Haydn Mursell's home-to-work usage from 1 July 2018 to 22 January 2019 was approximately 53%. Haydn Mursell had no further access to the driver following 22 January 2019.

2 The figures in this column have been restated, as compared to those included in the 2018 Annual Report, to reflect the Company's share price on the vesting date for the LTIP awards of £8.86. The figures in the column headed '2017/2018' under 'Total' also reflect this restatement.

3 The value of the matching shares purchased during the 2019 financial year under the Share Incentive Plan (the SIP), using an average share price for matching shares purchased during the 2019 financial year of £6.19.

4 The value of the matching shares purchased during the 2018 financial year under the SIP, using an average share price for matching share purchases during the 2018 financial year of £10.91.

5 Comprises the payment of employer pension contributions and/or a cash allowance.

6 Nigel Brook and Nigel Turner left the Board on 1 August 2018. The amounts in the above table are those paid to Mr. Brook and Mr. Turner in respect of the period from 1 July 2018 to 1 August 2018. Details of the other payments made to them during the 2019 financial year are summarised on pages 96 and 97 of the 2018 Annual Report.

7 Andrew Davies joined the Board on 15 April 2019.

8 Haydn Mursell left the Board on 22 January 2019. The amounts in the above table are those paid to Mr. Mursell in respect of the period from 1 July 2018 to 22 January 2019. Details of the other payments made to Mr. Mursell during the 2019 financial year, and made and to be made to Mr. Mursell during the 2020 financial year, are summarised under 'Payments to past Directors' on page 86.

9 Philip Cox did not receive an additional fee when acting as Executive Chairman between 22 January and 15 April 2019.

10 Nick Winser left the Board with effect from 17 November 2018.

All figures in the above table have been rounded to the nearest £1,000.

Pension entitlements

The Executive Directors are eligible to participate in the Kier Retirement Savings Plan, a defined contribution plan. In respect of the 2019 financial year, each Director, other than Andrew Davies, received a pension contribution from the Company of 20% of base salary. Mr. Davies received a pension contribution of 7.5% of his base salary. The contributions payable to the Executive Directors are subject to the annual allowance, with the balance being payable as a cash allowance. Cash allowances are subject to tax and national insurance deductions and are excluded when determining annual bonus and long-term incentive arrangements.

The pension contributions paid on behalf of, and cash allowances paid to, the Executive Directors in respect of the 2019 financial year were:

Director	Pension contribution	Cash allowance	Total
Nigel Brook[1]	–	£6,250	£6,250
Andrew Davies[2]	–	£9,466	£9,466
Bev Dew	£10,000	£69,980	£79,980
Haydn Mursell[3]	–	£69,188	£69,188
Nigel Turner[1]	£833	£5,417	£6,250
Claudio Veritiero	£10,000	£69,895	£79,895

1 For the period from 1 July 2018 to 1 August 2018.

2 For the period from 15 April 2019 to 30 June 2019.

3 For the period from 1 July 2018 to 22 January 2019.

Annual bonus – 2019 financial year

Performance against the 2019 bonus targets was as follows:

Financial performance (aggregate weighting: 80%)

Target	Opportunity	Threshold target	On target	Stretch target	Actual performance	Actual performance as a % of opportunity
Earnings per share	50%	121p	128p	135p	58.2p	–
Average month-end net debt	30%	£(394)m	£(375)m	£(356)m	£(422)m	–

Non-financial performance (aggregate weighting: 20%)

Health and safety (maximum opportunity 10%)

Target	Opportunity	Range	Actual performance	Actual performance as a % of opportunity
Reduction in the Group's average AIR[1]	5%	5-10% reduction	11%	100%
Reduction in the Group's average AAIR[2]	5%	10-20% reduction	18%	90%

1 The target related to a reduction in the Group's AIR over the six-month period from 1 January to 30 June 2019, as compared to the equivalent period in the 2018 financial year.

2 The target related to a reduction in the Group's AAIR over the six-month period from 1 January to 30 June 2019, as compared to the equivalent period in the 2018 financial year.

Although both targets were met, the Committee decided that no payment would be made in respect of the safety element of the 2019 bonus.

Personal objectives (maximum opportunity 10%)

The Committee agreed that the personal objectives for the Executive Directors would relate to, amongst other matters, the Future Proofing Kier programme, the results of the latest employee engagement survey and the implementation of the Group's revised contract governance framework. The Committee decided that no payment would be made in respect of the personal objectives element of the 2019 bonus.

LTIP awards – performance period ended 30 June 2019

The three-year performance period of the LTIP awards granted in the 2017 financial year ended on 30 June 2019 and will not vest. Performance against the performance conditions of those awards was as follows:

Performance condition	Weighting	Targets	Actual performance	Level of vesting[1]
Compound EPS growth[2]	50%	0% vesting for below 5% p.a. 25% vesting for 5% p.a. 100% vesting for 15% p.a. Straight-line vesting between these points	- 16.4% p.a.	–
TSR outperformance[3]	25%	0% vesting for below index 25% vesting for performance in line with index 100% vesting for performance in line with index +12% p.a. Straight-line vesting between these points	- 63% p.a.	–
Net debt : EBITDA performance[4]	25%	0% vesting for above 1.05:1 25% vesting for 1.05:1 62.5% vesting for 1:1 100% vesting for 0.95:1 Straight-line vesting between these points	1.42:1	–
Total				–

1 Expressed as a percentage of the maximum opportunity.

2 The number of shares used for the purposes of calculating EPS growth was adjusted to reflect the sale of Mouchel Consulting in October 2016 and the 2018 rights issue.

3 Against a revenue-weighted index based 50% on the FTSE All Share Construction & Materials Index and 50% on the FTSE All Share Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

4 After adjusting for the effects of the 2018 rights issue. Measured by taking the average (mean) of (i) the Group's net debt/cash position as at 30 June 2017, 2018 and 2019 and (ii) the Group's EBITDA for each of the 2017, 2018 and 2019 financial years.

Incentive awards made during the 2019 financial year

The following incentive awards were made to each of the Executive Directors during the 2019 financial year:

Award	Basis of award	Director[1]	Face value[2]	Potential award for threshold performance	End of performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP	150% of base salary for the year ended 30 June 2019	Bev Dew Haydn Mursell Claudio Veritiero	– – £613,147	25% of face value	30 June 2021	22 October 2021	n/a	Awards are based 50% on three-year compound EPS growth, 25% on TSR performance against a comparator group and 25% on net debt : EBITDA
Deferred shares	1/3 of the net bonus for the year ended 30 June 2018	Nigel Brook Bev Dew Haydn Mursell Nigel Turner Claudio Veritiero	£57,132 £61,916 £102,577 £57,132 £57,794	n/a	n/a	1 October 2021	n/a	n/a (subject to malus)
SIP	Matching shares purchased in accordance with the SIP rules	Nigel Brook Bev Dew Haydn Mursell Nigel Turner Claudio Veritiero	£50 £1,337 £384 £50 £1,331	n/a	n/a	n/a	n/a	Continued service condition

1 The LTIP award granted to Haydn Mursell has lapsed. The LTIP award granted to Bev Dew will lapse upon the commencement of his garden leave. Andrew Davies did not receive an LTIP award on appointment.

2 For the LTIP awards, 'face value' is calculated using the market price of a share in the capital of the Company on 19 October 2018 of £8.95. For the deferred share awards, 'face value' is calculated using the market price of a share in the capital of the Company on 28 September 2018 of £9.06. For the SIP, 'face value' is calculated using the total number of shares bought on behalf of the relevant individuals during the 2019 financial year and an average share price for matching share purchases during the year of £6.19.

The performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2019 financial year are set out in the table below. The awards will, subject to the satisfaction of the performance conditions, vest on the third anniversary of the grant date (22 October 2021).

Performance condition	Weighting	Targets
Compound EPS growth[1]	50%	0% vesting for below 5% p.a. 25% vesting for 5% p.a. 100% vesting for 13% p.a. Straight-line vesting between all points
TSR outperformance[2]	25%	0% vesting for performance below median constituent of comparator group 25% vesting for performance in line with median constituent of comparator group 100% vesting for performance 10% above the median constituent of comparator group Straight-line vesting between all points
Net debt : EBITDA performance[3]	25%	0% vesting for above 1.05:1 25% vesting for 1.05:1 62.5% vesting for 1:1 100% vesting for 0.95:1 Straight-line vesting between all points

1 The number of shares used for the purposes of calculating EPS growth was adjusted to reflect the sale of Mouchel Consulting in October 2016 and the 2018 rights issue.

1 The peer group comprises a basket of 11 sector comparators: Balfour Beatty, Costain, Galliford Try, Henry Boot, Interserve, Mears, Mitie, MJ Gleeson, Morgan Sindall, Renew Holdings and SEGRO. Interserve has been retained in the peer group following its administration and the Committee will review the level of vesting of TSR performance condition at the end of the performance period (30 June 2021) to ensure that it reflects the Group's relative TSR performance.

2 Measured by taking the average (mean) of (i) the Group's net debt/cash position as at 30 June 2019, 2020 and 2021 and (ii) the Group's EBITDA for each of the 2019, 2020 and 2021 financial years.

Payments for loss of office

No payments were made for loss of office during the 2019 financial year.

Payments to past Directors

The payments made during the 2019 financial year to Nigel Brook and Nigel Turner, each of whom left the Board on 1 August 2018, are summarised on pages 96 and 97 of the 2018 Annual Report.

On 22 January 2019, Haydn Mursell ceased to be a Director of the Company, following which notice of termination of his employment was served by the Company to expire on 23 January 2020. Mr. Mursell was on garden leave from the date on which notice was served and received his monthly salary and contractual remuneration from that date. Mr. Mursell agreed with the Company that his employment would terminate on 8 August 2019 (the Termination Date).

Pursuant to his service agreement, and in accordance with the Company's remuneration policy, following the Termination Date, Mr. Mursell has received, and will continue to receive, monthly payments in lieu of notice (PILON), comprising payments in respect of his base salary, pension contribution and car allowance, for the period from the Termination Date to (and including) 23 January 2020 (the PILON Period). Mr. Mursell and his family continue, and will continue, to be covered by the Company's private medical insurance until 23 January 2020 or, if earlier, the date on which he commences new employment which provides a similar benefit. The monthly payments in lieu of notice, after deducting the cost to Mr. Mursell of private medical cover for his family, are £62,904.29 in August 2019 to December 2019 (inclusive) and £46,471.68 in January 2020. These payments will be reduced by any income obtained by Mr. Mursell from any new employment or engagement in the PILON Period.

In accordance with its remuneration policy, the Company contributed towards (i) the cost of outplacement services for Mr. Mursell (subject to a cap of £5,000, excluding VAT) and (ii) his legal fees in connection with entering into a settlement agreement governing the termination of his employment (subject to a cap of £12,500, excluding VAT).

Mr. Mursell will not receive an annual bonus for the financial years ended 30 June 2019 and 30 June 2020. His allocations of deferred shares with respect to bonuses in 2016, 2017 and 2018 will be released at the expiry of the respective three-year holding periods in 2019, 2020 and 2021 (subject, if appropriate, to any reduction for malus).

Mr. Mursell's 2016, 2017 and 2018 LTIP awards have lapsed.

All payments are subject to deductions for tax and national insurance contributions.

The payments made during the 2020 financial year to Bev Dew following the commencement of his garden leave will be summarised in the 2020 Annual Report.

Directors' shareholdings and share interests

The Committee encourages the Executive Directors to build up a shareholding in the Company of at least two years' base salary, to be accumulated over a period of up to five years. Executive Directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and upon the vesting of LTIP awards until this shareholding has been reached. The following table sets out details, as at 30 June 2019 (or the date on which the relevant individual left the Board, as the case may be), of the shareholdings and share interests of those persons (together with, where relevant, the shareholdings and share interests of their connected persons) who, during the 2019 financial year, served as a Director:

	Shares held				Options held				
Director	Owned outright or vested[1]	Vested but subject to a holding period[2]	Unvested and subject to performance conditions[3]	Unvested and subject to continued employment[4]	Vested but not exercised	Unvested and subject to continued employment[5]	Shareholding guideline (% of salary)	Current shareholding (% of salary)[6]	Guideline met?
Justin Atkinson	4,920	–	–	–	–	–	n/a	n/a	n/a
Constance Baroudel	4,640	–	–	–	–	–	n/a	n/a	n/a
Kirsty Bashforth	3,351	–	–	–	–	–	n/a	n/a	n/a
Philip Cox	8,300	–	–	–	–	–	–	–	n/a
Andrew Davies	–	–	–	–	–	–	–	–	No
Bev Dew	36,427	13,872	–	368	–	–	200	13.3	No
Claudio Veritiero	58,122	13,172	162,170	367	–	–	200	18.8	No
Adam Walker	7,567	–	–	–	–	–	n/a	n/a	n/a
Nigel Brook	20,247[7]	13,099	47,359	–	–	–	n/a	n/a	No
Haydn Mursell	121,383[7]	21,898	–	214	–	–	n/a	n/a	No
Nigel Turner	32,093[7]	13,099	47,359	–	–	–	n/a	n/a	No
Nick Winser	5,999[7]	–	–	–	–	–	n/a	n/a	n/a

1 Comprising shares held legally or beneficially by the relevant Director or their connected persons (including partnership shares, dividend shares and matching shares purchased before 30 June 2016 under the SIP – see 'Share Incentive Plan' on page 88.

2 Comprising deferred shares allocated to the relevant Director in connection with annual bonuses. See 'Deferred shares' below.

3 Comprising unvested LTIP awards. The LTIP awards granted to Nigel Brook and Nigel Turner in October 2016 and October 2017 were pro rated to reflect their active service with the Group during the performance periods for the awards. All unvested LTIP awards granted to Haydn Mursell have lapsed. All unvested LTIP awards granted to Bev Dew will lapse upon the commencement of his garden leave.

4 Comprising matching shares purchased after 30 June 2016 under the SIP. See 'Share Incentive Plan' on page 88.

5 Comprising options under the SAYE schemes. See 'Save As You Earn schemes' on page 89.

6 Calculated by reference to (i) shares owned outright by the Director or his/her connected persons and (ii) deferred shares allocated in connection with annual bonuses, using the market price of a share in the capital of the Company on 28 June 2019 of £1.06 and (iii) gross base salaries for the year ended 30 June 2019.

7 At the date of leaving the Board.

Since 30 June 2019, the Executive Directors have acquired beneficial interests in ordinary shares in the capital of the Company under the SIP, as referred to on page 88.

Deferred shares

Those persons who, during the 2019 financial year, served as a Director beneficially owned, at 30 June 2019, the following numbers of shares in the capital of the Company as a result of awards of deferred shares made (in part satisfaction of annual bonus payments) in each of the years indicated:

Director	2017 award	2018 award	2019 award	Cumulative total 30 June 2019
Nigel Brook	4,107	2,686	6,306	13,099
Andrew Davies	–	–	–	–
Bev Dew	4,400	2,638	6,834	13,872
Haydn Mursell	6,222	4,354	11,322	21,898
Nigel Turner	4,107	2,686	6,306	13,099
Claudio Veritiero	4,107	2,686	6,379	13,172
Date of award	29 September 2016	29 September 2017	1 October 2018	–
Share price used for award[1]	1,355 pence	1,149 pence	906 pence	–
End of holding period	29 September 2019	29 September 2020	1 October 2021	–

1 The market price of a share in the capital of the Company from the business day immediately prior to the date of the award, being 28 September 2016, 28 September 2017 and 28 September 2019, respectively.

LTIP awards

Those persons who, during the year ended 30 June 2019, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2019:

Director	2017 award[1]	2018 award[1]	2019 award[1]	Cumulative total 30 June 2018	Cumulative total 30 June 2019[1]
Nigel Brook[2]	28,203	19,156	–	84,161	47,359
Andrew Davies	–	–	–	–	–
Bev Dew[3]	–	–	–	138,914	–
Haydn Mursell[3]	–	–	–	207,877	–
Nigel Turner[2]	28,203[3]	19,156[3]	–	84,161	47,359
Claudio Veritiero	40,614	53,048	68,508	129,663	162,170
Date of award	21 October 2016	23 October 2017	22 October 2018	–	–
Share price used for award[4]	1,368 pence	1,079 pence	895 pence	–	–
End of performance period	30 June 2019	30 June 2020	30 June 2021	–	–

1 The maximum number of shares under each award has been adjusted for the effects of the 2018 rights issue, using an HMRC formula.

2 Each LTIP award granted to Nigel Brook and Nigel Turner was pro rated to reflect the individual's active service during the relevant performance period.

3 Each LTIP award granted to Haydn Mursell has lapsed. Each LTIP award granted to Bev Dew will lapse on commencement of garden leave.

4 The market price of a share from the business day immediately prior to the date of the award.

The performance conditions for the 2017 and 2018 awards are set out in the Annual Reports in respect of the years in which the awards were made. The performance conditions for the 2019 award are set out on page 86.

Share Incentive Plan

Those persons who, during the year ended 30 June 2019, served as a Director beneficially owned the following numbers of shares as a result of purchases under the SIP at 30 June 2019:

Director	Unrestricted shares	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Cumulative total 30 June 2019
Nigel Brook[1]	–	–	–	–	–	–
Andrew Davies	–	–	–	–	–	–
Bev Dew	5	893	163	368	79	1,508
Haydn Mursell[2]	751	651	180	214	112	1,908
Nigel Turner[1]	–	–	–	–	–	–
Claudio Veritiero	656	1,010	380	367	138	2,551

1 All shares were released to Nigel Brook and Nigel Turner during the 2019 financial year.

2 Mr Mursell's shares have not been released at the date of this Annual Report.

Under the SIP, any amount saved by a participant will be applied by the trustee of the SIP to make monthly purchases of shares on his/her behalf – 'partnership shares'. The Company matches purchases through the SIP (currently at the rate of one free share for every two shares purchased) – 'matching shares' and the trustee reinvests cash dividends to acquire further shares on behalf of the participants – 'dividend shares'.

Matching shares which have been purchased within three years of the termination of an individual's employment may, depending on the circumstances of such termination, be forfeited. 'Unrestricted shares' are partnership, dividend and matching shares which were purchased more than five years from the relevant date and can be withdrawn from the SIP trust by the participants without incurring income tax or national insurance liability. Details of the number of matching shares purchased during the year are set out in the table in the paragraph headed 'Incentive awards made during the 2019 financial year' on page 85.

At 25 September 2019, the Company had been notified that Bev Dew and Claudio Veritiero had acquired beneficial interests in 640 shares and 641 shares, respectively, under the SIP since 30 June 2019. There have been no other changes in the interests of the Directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2019.

Save As You Earn schemes

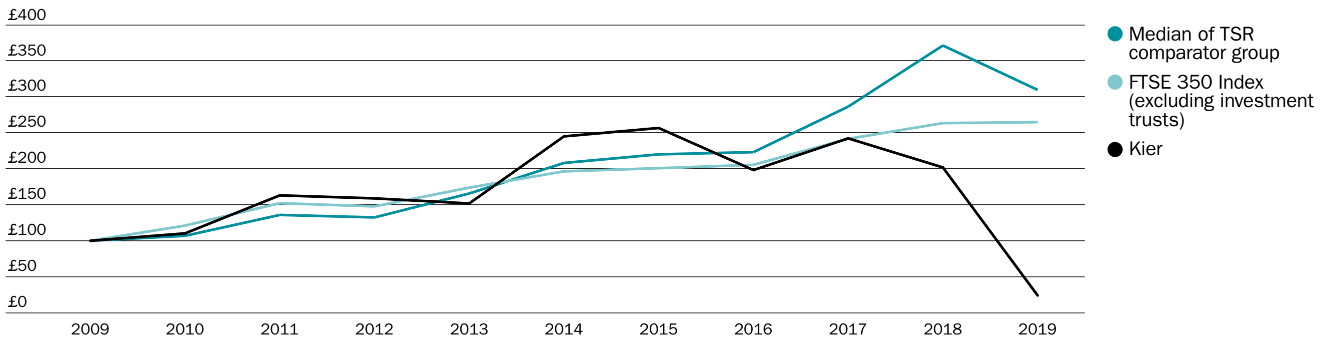
Those persons who, during the 2019 financial year, served as a Director had the following options under the Kier Group plc 2006 Sharesave Scheme and/or the Kier Group plc Sharesave Scheme 2016 at 30 June 2019:

Director	Date granted	Maximum number of shares receivable at 1 July 2018[1]	Awarded during the year	Exercised during the year	Lapsed during the year[1]	Maximum number of shares receivable at 30 June 2019	Exercise price[1]	Exercise period
Nigel Brook	30 October 2015	797	–	–	797	–	1,127 pence	1 December 2018 – 31 May 2019
	1 November 2017	931	–	–	931	–	966 pence	1 December 2020 – 31 May 2021
Bev Dew	30 October 2015	1,596	–	–	1,596	–	1,127 pence	1 December 2018 – 31 May 2019
Nigel Turner	1 November 2017	931	–	–	931	–	966 pence	1 December 2020 – 31 May 2021
Claudio Veritiero	1 November 2017	1,836	–	–	1,836	–	966 pence	1 December 2020 – 31 May 2021

1 The maximum number of shares and the exercise price under all awards were adjusted for the effects of the 2018 rights issue, using an HMRC formula.

Total shareholder return

The graph below shows the value, at 30 June 2019, of £100 invested in shares in the capital of the Company on 30 June 2009, compared with the value of £100 invested in (i) an index comprising those companies selected as the comparator group for the 2019 LTIP award (see page 86) and (ii) the FTSE 350 (excluding investment trusts). The LTIP comparator group was chosen because it comprises companies with which the Group competes across the range of services that it provides and the FTSE 350 was chosen to illustrate the Group's performance against a broad equity market index of the UK's leading companies. The other points plotted are the values at 30 June during the 10-year period.



Chief Executive's remuneration

The table below sets out the total remuneration of the Chief Executive paid with respect to each financial year indicated:

Chief Executive	Year	Chief Executive single figure of remuneration (£000)[1]	Annual bonus payout against maximum opportunity (%)	LTIP vesting against maximum opportunity (%)
John Dodds/Paul Sheffield	2010	£938[2]	51%	–
Paul Sheffield	2011	£753	69%	–
	2012	£1,273	75%	100%
	2013	£987	49%	31%
	2014	£1,099	68%	33%
Haydn Mursell	2015	£1,079	92%	–
	2016	£1,311	90%	34%
	2017	£1,199	48%	29%
	2018	£1,459	75%	24%
	2019[3]	£423	–	–
Andrew Davies	2019[3]	£140	–	–

1 All figures are rounded to the nearest £1,000.

2 Comprising £700,000 for John Dodds and £238,000 for Paul Sheffield (as Chief Executive). Mr. Dodds retired from the Board on 31 March 2010 and, during the 2010 financial year, was also paid £387,000 in respect of the remainder of his notice period under his service agreement.

3 Haydn Mursell stood down as Chief Executive on 22 January 2019 and Andrew Davies was appointed with effect from 15 April 2019.

Percentage change in the Chief Executive's remuneration

The table below shows the percentage changes in base salary, taxable benefits and annual bonus of the Chief Executive in the 2019 financial year, as compared to the 2018 financial year, together with the approximate comparative average figures for those employees who were eligible for salary reviews on 1 July of each year and who were not subject to collective agreements. This section of the employee population (comprising approximately 9,000 individuals across a number of levels) is considered to be the most appropriate group for comparison purposes, as its remuneration is controlled by the Group and is subject to similar external market forces as those that relate to the Chief Executive's remuneration. Approximately 850 employees are eligible to receive a bonus.

Element of remuneration	Chief Executive change	Other employees change
Base salary[1]	- 23.9%	2.85%
Taxable benefits[1]	- 7.7%	7.0%
Annual bonus	- 100%	- 100%

1 Calculated by reference to Haydn Mursell's base salary and taxable benefits from 1 July 2018 to 22 January 2019 and Andrew Davies' base salary and taxable benefits from 15 April 2019 to 30 June 2019. Does not include the fee paid to Philip Cox as Executive Chairman between 22 January 2019 and 15 April 2019.

Relative importance of spend on pay

The graph below shows the percentage changes in the total employee remuneration and dividends paid between the 2018 and 2019 financial years:

Total employee remuneration (£m)

Dividend (£m)

Employee remuneration is remuneration paid to or receivable by all employees of the Group and is explained in note 7 to the 2019 consolidated financial statements on page 134.

The dividend figures in the chart comprise the dividends paid in the 2018 and 2019 financial years (as stated in note 10 to the 2019 consolidated financial statements on page 143), being, respectively, (i) the final dividend for the 2017 financial year and the interim dividend for the 2018 financial year; and (ii) the final dividend for the 2018 financial year and the interim dividend for the 2019 financial year.

Implementation of the remuneration policy in 2020

Executive Directors' base salary

The base salaries of the Executive Directors for the 2020 financial year are as follows:

Director	From 1 July 2018	From 1 July 2019	Percentage increase
Andrew Davies	£595,000[1]	£595,000	–
Bev Dew	£401,700	£401,700	–
Simon Kesterton	–	£475,000[2]	n/a
Claudio Veritiero	£401,700[3]	£401,700	–

1 Payable with effect from his appointment on 15 April 2019.

2 Payable with effect from his appointment on 26 August 2019.

3 Payable with effect from his appointment as Chief Operating Officer on 1 August 2018. His previous base salary was £375,000.

Annual bonus

In the 2020 financial year, the maximum annual bonus opportunity for each of the Chief Executive and the Chief Financial Officer will be 125% of base salary and 115% of base salary for the Chief Operating Officer. Neither Haydn Mursell nor Bev Dew will receive a bonus award for the 2020 financial year.

The bonus targets are expected to relate to profit (40%), average month-end net debt/cash position (40%), the Group's safety performance (10%) and personal objectives (10%). The actual targets and performance against them will be disclosed in the 2020 Annual Report. One-third of the net bonus will be satisfied by an allocation of shares, deferred for three years. Clawback provisions will apply for a three-year period following any bonus payment.

LTIP awards

In the 2020 financial year, the Chief Executive will be granted an LTIP award of 200% of base salary, the Chief Financial Officer will be granted an LTIP award of 175% of base salary and the Chief Operating Officer will be granted an LTIP award of 150% of base salary. Neither Haydn Mursell nor Bev Dew will receive an LTIP award in the 2020 financial year.

The performance conditions for these awards are expected to relate to EPS growth (50%), TSR outperformance (25%) and the Group's average month-end net debt/cash position : EBITDA performance (25%) over the three-year period ending 30 June 2022. The actual performance conditions will be disclosed in the 2020 Annual Report. A two-year holding period will apply to any vested awards.

Pension and taxable benefits

The pension contributions or cash allowances payable on behalf of or to the Executive Directors in the 2020 financial year are:

Andrew Davies	7.5%
Bev Dew	20%
Simon Kesterton	7.5%
Claudio Veritiero	20%

The Executive Directors will also continue to receive private health insurance and either a company car or a car allowance of £11,900 per annum (unchanged from the 2019 financial year).

Non-Executive Directors' fees

There will be no increase in the fees payable to the Non-Executive Directors for the 2020 financial year. The total fees payable to the Non-Executive Directors with effect from 1 July 2019 are as follows:

Director	Base fee from 1 July 2019	Chair of Board committee fee from 1 July 2019	Senior Independent Director fee from 1 July 2019	Total from 1 July 2019
Justin Atkinson	£51,500	–	£10,000	£61,500
Constance Baroudel	£51,500	£10,000	–	£61,500
Kirsty Bashforth	£51,500	£10,000	–	£61,500
Philip Cox[1]	£235,000	–	–	£235,000
Adam Walker	£51,500	£10,000	–	£61,500

1 Philip Cox did not receive an additional fee when acting as the Executive Chairman between 22 January and 15 April 2019 and does not receive a fee for his work as the Chair of the Nomination Committee.

The Remuneration Committee

Membership and meeting attendance

The names of the members of the Committee are set out on page 78, together with an indication of the Committee's principal activities during the 2019 financial year. The Chief Executive, the Group HR Director and the Group Reward and Pensions Director are invited to attend Committee meetings. No individuals are involved in decisions relating to their own remuneration. Details of the Committee's meetings during the year are set out on page 53. The secretary of the Committee is the Company Secretary. The Committee's terms of reference can be viewed on the Company's website at www.kier.co.uk/corporategovernance.

Principal activities – 2019 financial year

The annual statement of the Chair of the Remuneration Committee on pages 78 and 79 provides a summary of the Committee's principal activities during the year.

Committee performance evaluation

During the 2019 Board evaluation, members of the Committee identified the following areas of focus for the 2020 financial year:

- aligning remuneration with the Group's revised strategy;
- as part of the policy review, considering ways to reduce any complexity in the Group's remuneration arrangements; and
- continuing to link payment practices within the wider Group to executive remuneration.

Advisers

During the 2019 financial year, the Committee received advice from Mercer (Jenny Martin and Stuart Harrison) and Deloitte (Juliet Halfhead and Ed Evans). Fees of £11,435 (excluding VAT) were payable in respect of Mercer's services as remuneration advisers during the year and fees of £27,900 (excluding VAT) were payable in respect of Deloitte's services as remuneration advisers during the year. Both Mercer and Deloitte are signatories to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group. During the year, Deloitte also provided financial advisory services and employment taxes advice. The Committee was satisfied that the advice it receives from Mercer and Deloitte is objective and independent. The Committee also receives support from the Company Secretary (Hugh Raven), the Group HR Director (Helen Redfern) and the Group Reward and Pensions Director (Mark Bradshaw).

Shareholder voting

The Directors' Remuneration Report was subject to a shareholder vote at the 2018 AGM. The results of the vote on the resolution approving the report were:

Votes for[1]	Percentage votes for	Votes against[2]	Percentage votes against	Votes withheld
51,472,277	99.01%	512,853	0.99%	840,500

The remuneration policy was subject to a shareholder vote at the 2017 AGM. The results of the vote on the resolution approving the policy were:

Votes for[1]	Percentage votes for	Votes against[2]	Percentage votes against	Votes withheld
45,132,928	90.28%	4,860,934	9.72%	7,311,115

1 Includes those votes for which discretion was given to the Chairman.

2 Does not include votes withheld.

Directors' remuneration policy – summary

Introduction

The Company's remuneration policy, which was approved at the AGM on 17 November 2017, will continue to apply in the 2020 financial year. The Committee has included the policy table and certain other extracts from the policy in this year's report for ease of reference and so as to provide context for the decisions taken by the Committee during the 2019 financial year. Where relevant, references to opportunities, targets and performance conditions in the policy have been updated to refer to 2019 or 2020 opportunities, targets and performance conditions. Certain other non-material changes to the description of the operation of the policy have also been made. The full policy is set out on pages 86 to 93 (inclusive) of the 2017 Annual Report, which can be found on Kier's website at www.kier.co.uk/investor-relations/2017-annual-report.

Future policy table

The Group's policy for each element of an Executive Director's remuneration is set out in the table below:

Element and link to strategy	Operation
Base salary To attract and retain Executive Directors of the calibre required to deliver the Group's strategy	Salaries are reviewed annually by reference to a number of factors, including an individual's experience, performance and role within the Group, the external market (including FTSE companies of a similar size and sector peers) and any increase awarded to the wider employee population. Any increase is typically effective from 1 July.
Benefits To provide benefits which are competitive with the market	Benefits are reviewed from time to time and typically include, but are not limited to, a company car or car allowance, private health insurance and life assurance. Business-related expenses which are deemed to be taxable form part of the benefits provided. In certain circumstances, the Committee may also approve the provision of additional benefits or allowances – for example, the relocation of an Executive Director to perform his or her role.
SAYE scheme To encourage ownership of the Company's shares	One or more HMRC-approved schemes allowing all employees, including Executive Directors, to save up to the maximum limit specified by HMRC rules. Options are granted at up to a 20% discount.
Share Incentive Plan To encourage ownership of the Company's shares	An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate. The plan allows employees to purchase shares out of pre-tax income. The Company may match shares purchased with an award of free shares. Matching shares may be forfeited if employees leave within three years of their award, in accordance with the SIP rules. The plan trustees can reinvest cash dividends to acquire further shares on behalf of participants.
Pension To provide a retirement benefit which is competitive with the market	Executive Directors participate in a defined contribution scheme.
Annual bonus To reward the delivery of near-term performance targets and business strategy	The Company operates a discretionary bonus scheme. Performance measures and targets are set by the Committee at the start of the year. Payments are based on an assessment of performance at the end of the year. Clawback will apply to any cash bonus paid in respect of the financial year ended 30 June 2018 and future years. One-third of any net payment is satisfied by an allocation of Kier Group plc shares, which is deferred for three years (subject to early release for 'good leavers' and upon a takeover) and is subject to a malus provision. Dividend payments accrue on deferred bonus shares over the deferral period. See 'Malus and clawback' on page 94.
LTIP To reward the sustained strong performance by the Group over three years	Awards are made annually and vest, subject to the achievement of performance conditions, at the end of a three-year performance period. At the start of each performance period, the Committee sets performance targets which it considers to be appropriately stretching. Awards are satisfied in the form of a deferred, contingent right to acquire shares in the Company, at no cost to the individual. A two-year post-vesting holding period will apply to awards granted in 2017 and future years. Dividend equivalents (in respect of vested shares) will apply to those awards granted after shareholder approval of this policy and, subject to approval of (i) this policy and (ii) any necessary changes to the LTIP rules, to those awards granted shortly prior to the 2017 AGM. A malus provision applies to awards pre-vesting and a clawback provision applies to the post-vesting holding period. See 'Malus and clawback' on page 94. If an event or series of events occurs as a result of which the Committee deems it fair and reasonable that the performance conditions should be modified, the Committee has discretion during the vesting period to modify them. Any modified performance conditions must be no more difficult to satisfy than the original performance conditions were when first set. Any use of Committee discretion with respect to modifying performance conditions will be disclosed in the relevant Annual Report. The awards are subject to the terms of the LTIP and the Committee may adjust or amend the awards only in accordance with the LTIP rules.

Opportunity	Performance measures
Any increase will typically be in line with those awarded to the wider employee population. The Committee has discretion to award higher increases in circumstances that it considers appropriate, such as a material change in the complexity of the business or an individual's responsibility. Details of salary changes will be disclosed in the Annual Report.	Continued strong performance.
Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.
The maximum amount that may be saved is the limit prescribed by HMRC (or such other lower limit as determined by the Committee) at the time employees are invited to participate in a scheme. Typically, employees are invited to participate on an annual basis.	None.
Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Committee) at the time they are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased.	None.
For current Executive Directors, the maximum employer contribution is 20% of pensionable salary. Executive Directors may elect to receive all or part of the employer contribution as a taxable cash supplement.	None.
The maximum potential bonus for the financial year ended 30 June 2019 was 125% of base salary for the Chief Executive and 115% of base salary for other Executive Directors. The maximum potential bonus for the financial year ending 30 June 2020 will be 125% of base salary for the Chief Executive and Chief Financial Officer and 115% for the Chief Operating Officer. 'Threshold' performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee at the start of each financial year. The level of bonus for achieving threshold performance varies by performance measure, and may vary for a measure from year to year, to ensure that it is aligned with the Committee's assessment of the degree of difficulty (or 'stretch') in achieving it.	The Committee has discretion to determine the performance measures and their relative weightings each year. The weighting towards non-financial measures will be no higher than 25% of the maximum potential bonus. The Committee has discretion to adjust bonus payments to ensure that they accurately reflect business and safety performance over the performance period and are fair to shareholders as well as recipients. Actual targets for each performance measure (and performance against each of these targets), and any use by the Committee of its discretion with respect to bonus payments, will be disclosed in the Annual Report immediately following the end of the performance period.
The maximum award under the rules of the plan is 200% of base salary. The Committee may grant awards of up to the maximum permitted under the LTIP rules when it considers it appropriate to do so. The reasons for an award in excess of 150% of salary will be disclosed in the relevant Annual Report. Each Executive Director received an LTIP award of 150% of base salary in the financial year ended 30 June 2019. In the financial year ending 30 June 2020, the Chief Executive will receive an LTIP award of 200% of base salary, the Chief Financial Officer will receive an LTIP award of 175% of base salary and the Chief Operating Officer will receive an LTIP award of 150% of base salary. On achieving the threshold performance level for each element of the award, 25% of the relevant element of the award will vest. Vesting is on a straight-line basis between threshold and maximum levels of performance.	The performance conditions for the LTIP awards to be granted in the 2020 financial year are expected to relate to EPS growth (50%), TSR outperformance (25%) and the Group's average month-end net/cash: EBITDA performance (25%) over the three-year period ending 30 June 2022. Further information on these awards will be included in the 2020 Annual Report.

Directors' remuneration policy – summary / continued

Payments from outstanding awards

The Company will honour any commitment entered into, and the Executive Directors will be eligible to receive payment from any award or arrangement made, (i) before this policy came into effect, provided that the terms of the commitment or payment are consistent with this policy or preceded it, or (ii) at a time when the relevant individual was not a Director and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director. For these purposes, 'payment' includes the satisfaction of awards of variable remuneration and, in relation to awards of shares, upon the terms which were agreed when the award was granted.

Notes to the policy table

Malus and clawback

Allocations of shares in part satisfaction of annual bonus payments and unvested LTIP awards will be subject to a 'malus' provision during the deferral period and the period prior to vesting, respectively.

This allows the Committee to determine, in its absolute discretion, that (i) the level of an unvested LTIP award (or part of an award) is reduced (including to nil) and/or (ii) the number of deferred shares is reduced (including to nil) in certain circumstances. Examples of such circumstances include, but are not limited to:

- a material misstatement of the Group's financial statements;
- a material error in determining the level of satisfaction of a performance condition or target;
- a participant's action/omission resulting in material reputational damage to the Group;
- a participant deliberately misleading the Company, the market and/or shareholders in relation to the financial performance of the Group;
- a participant's employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal; and
- other circumstances similar in nature to those listed above which the Committee considers justifies the application of malus.

The Committee has the right to apply the malus provision to an individual or on a collective basis.

Clawback applies to (i) the cash element of the annual bonus for the 2018 financial year and future years (and may be applied up to three years following payment of the bonus) and (ii) the two-year post-vesting holding period which applies to LTIP awards granted from the 2018 financial year and future years. The Committee expects that the circumstances in which clawback will apply will be the same (or substantially the same) as for malus. The clawback may be effected by a reduction in: the number of deferred bonus shares previously allocated, the number of vested or unvested LTIP awards or salary or by repayment from an individual's own funds or by any combination of these.

Executive Director shareholding guidelines

The Committee encourages Executive Directors to accumulate a shareholding in the Company of at least two years' base salary over a period of up to five years. Executive Directors are encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until they reach this level of shareholding.

Selection of performance measures and approach to setting targets

The annual bonus targets are determined annually. The Committee believes that using a number of targets provides a balanced incentive. The targets are aligned to, and are designed to support the delivery of, the Group's strategy.

In relation to the LTIP awards, the Committee selects performance conditions which are designed to align performance to shareholders' interests and the Group's long-term strategy.

Annual bonus targets and performance conditions for LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points. The Committee intends that targets and performance conditions will be stretching but achievable and will align management's interests with those of shareholders.

Approach to setting the remuneration of other employees

Kier's approach to setting annual remuneration is broadly consistent across the Group. Consideration is given to the experience, performance and responsibilities of individuals as well as to publicly available external benchmarking data, to the extent considered necessary or appropriate. Certain grades of senior employees are eligible to participate in an annual bonus scheme with similar performance measures to those used for the Executive Directors. Maximum opportunities and specific performance measures vary by seniority, with business-specific measures applied where appropriate. Senior managers (currently, approximately 320 individuals) are also eligible to participate in a long-term share incentive plan under which awards will normally vest after three years, subject to continued employment. Award sizes vary according to seniority and responsibility.

Approach to remuneration on recruitment

External appointment

When recruiting a new Executive Director from outside the Group, the Committee may make use of all the existing components of remuneration. In addition, the Committee may consider it appropriate to grant an award under an alternative scheme or arrangement in order to facilitate recruitment of an individual, subject to the policy set out below:

Component	Approach
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, the experience and skills of the individual, internal relativities and the appointee's current base salary. Where a new appointee has an initial base salary set below the market median, any subsequent adjustment will be managed by the Committee, using (where appropriate) phased increases and subject to the individual's development in the role.
Benefits	New appointees will be eligible to receive benefits in line with the remuneration policy, which may also include (but are not limited to) any necessary expenses relating to expatriation or relocation on recruitment.
SAYE schemes	New appointees will be eligible to participate on the same terms as all other employees.
SIP	New appointees will be eligible to participate on the same terms as all other employees.
Pension	New appointees will receive pension contributions of up to 20% of pensionable salary into a defined contribution pension arrangement or an equivalent taxable cash supplement or a combination of both.
Annual bonus	The annual bonus structure described in the remuneration policy will apply to new appointees (including the maximum opportunity), pro rated in the year of joining to reflect the proportion of that year employed. One-third of any bonus earned will be deferred into shares.
LTIP	New appointees may be granted awards under the LTIP of up to 200% of salary.
'Buy-out' awards	The Committee may consider it appropriate to grant a 'buy-out' award (with respect to either a bonus or a share-based incentive scheme) under an alternative scheme or arrangement in order to facilitate recruitment. When doing so, the Committee may, to the extent required, exercise the discretion available under Listing Rule 9.4.2. Any such 'buy-out' award would have a fair value no higher than that of the award forfeited. In granting any such award, the Committee will consider relevant factors, including any performance conditions attached to the forfeited awards, the likelihood of those conditions being met and the proportion of the vesting period remaining.

When considering any performance conditions, the Committee will, where appropriate, take into account those used in the Company's own incentive arrangements. Where appropriate, the Committee will also consider whether it is necessary to introduce further retention measures for an individual – for example, extended deferral periods.

In determining an appropriate remuneration package, the Committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of the Company's shareholders.

Internal promotion

When recruiting a new Executive Director through internal promotion, the Committee will set remuneration in a manner consistent with the policy for external appointments set out above (other than with respect to 'buy-out' awards). Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these commitments.

The remuneration of individuals below the Board is typically not greater than for Executive Directors.

Directors' remuneration policy – summary / continued

Service contracts

A summary of the key elements of the Executive Directors' service agreements (insofar as they relate to remuneration) is as follows:

Term of contract	Summary of provisions
Notice period	12 months' notice (both to and from the Executive Director).
Payment in lieu of notice (PILON)	Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, accrued (but untaken) holiday entitlement, pension contributions or allowance, car allowance and private medical insurance. The Company is entitled to make the PILON on a phased basis, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.
Change of control	There are no payments due upon a change of control, although deferred bonus shares would be released.
Other entitlements on termination	There is no contractual entitlement to notice, or any other payments in respect of the period after cessation of employment, if the individual is summarily dismissed. If not required to take any remaining holiday entitlement during his/her notice period, the Executive Director will receive a payment for any accrued (but untaken) holiday entitlement. Please see 'Payments for loss of office' below for a summary of other entitlements which may be due upon termination (and which relate to remuneration).

Payments for loss of office

The Company's policy on payments for loss of office is as follows:

Component	Approach
Annual bonus	Individuals who are considered to be 'good leavers' may be considered for a bonus in relation to the year in which their active employment ceases. Any payment will normally be pro rated for length of service and performance during the year. However, the Committee retains the discretion to review the performance of the individual and the Group in general and, having done so, determine that a different level of bonus payment would be appropriate. Clawback will continue to apply to the cash element of any annual bonus payment from 2018 (until the end of the three-year clawback period). Deferred shares allocated in part satisfaction of annual bonuses may be released upon cessation of employment if an individual is a 'good leaver'. Otherwise, they will be released at the end of the three-year holding period (unless they are forfeited in the case of gross misconduct and/or circumstances justifying summary dismissal).
LTIP	If an Executive Director's employment ceases for reasons of death, ill-health, injury, disability, retirement with the agreement of the Company or his/her employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding awards are retained. The Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis or alternatively be retained until the vesting date. Unvested LTIP awards will, subject to Committee discretion, normally be pro rated for length of service during the performance period and will, subject to performance, normally vest at the same time as all other awards in the LTIP award cycle. Vested shares relating to awards made from 2017 are subject to the two-year post-vesting holding period, irrespective of the date on which they vest. For all other leavers, outstanding LTIP awards automatically lapse, unless the Committee exercises its discretion otherwise (taking into account the factors detailed immediately following this table).
SIP and SAYE schemes	The Executive Directors are subject to the same 'leaver' provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.
Other	If the Company terminates an Executive Director's employment by reason of redundancy, the Company will make a redundancy payment to the Executive Director in line with his/her service agreement, any applicable collective bargaining agreement and applicable law and regulation. The Company may make a contribution towards an Executive Director's legal fees for advice relating to a compromise or settlement agreement and may also make other payments connected to the departure – for example, for outplacement services. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.
Change of control	Deferred bonus shares will be released and any outstanding LTIP awards may vest early (subject to the Committee's discretion, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant) and the holding period for vested LTIP awards will cease. Clawback will no longer apply to any vested LTIP awards or prior payments of cash bonuses. The rules of the SIP and the SAYE schemes will apply. No payments are due under the Executive Directors' service agreements upon a change of control.

Where appropriate, the Committee will oblige the individual to mitigate his/her losses and either offset any alternative remuneration received by the individual against any payments made by the Company for loss of office or reduce any payments to be made by the Company for loss of office to take account of any failure to mitigate when, in the reasonable opinion of the Committee, the individual has failed actively to do so.

In exercising discretion in respect of any of the elements referred to above, the Committee will take into account all factors, which it considers to be appropriate at the relevant time. These include, but are not limited to: the duration of the Executive Director's service; the Committee's assessment of the Executive Director's contribution to the success of the Group; whether the Executive Director has worked any notice period or whether a PILON is being made; the need to ensure an orderly handover of duties; and the need to compromise any claims which the Executive Director may have. Any use of Committee discretion will be disclosed in the relevant annual report on remuneration.

Consideration of employment conditions elsewhere in the Group

Employees are not formally consulted on the Executive Directors' remuneration and were not consulted during the preparation of the remuneration policy set out above. However, the Group's employee engagement survey provides an opportunity for employees to provide their opinion on their own remuneration arrangements.

The Committee takes into account the overall pay and employment conditions of employees within the Group when making decisions on the Executive Directors' remuneration. In addition, the Committee is provided with information about the proposed annual Group-wide pay review when setting the Executive Directors' salaries and is made aware of the approximate outcomes of annual bonuses within the wider workforce.

Consideration of shareholders' views

The views of shareholders, and guidance from shareholder representative bodies, are important to the Committee and provide the context for setting the remuneration of the Executive Directors. The Chair of the Committee consulted with a number of significant shareholders during the year and their views have been taken into account when preparing the remuneration policy.

The Committee will keep the remuneration policy under regular review so as to ensure that it continues to relate to the Company's long-term strategy and aligns the interests of the Executive Directors with those of the shareholders. In addition, the Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

Non-Executive Director remuneration policy

General

The Non-Executive Directors' remuneration (including that of the Chairman) reflects the anticipated time commitment to fulfil their duties. Non-Executive Directors do not receive bonuses, long-term incentive awards, a pension or compensation on termination of their appointments. The policy on Non-Executive Directors' remuneration is as follows:

Element and link to strategy	Operation	Opportunity	Performance measures
Fees To attract and retain Non-Executive Directors of the calibre required and with appropriate skills and experience	Fee levels are reviewed annually with reference to individual experience, the external market and the expected time commitment required of the Director. Additional fees are payable to the Chairs of the Board's committees and to the Senior Independent Director.	Fees may be increased in line with the outcome of the annual review and will not normally exceed the increase awarded to the wider employee population. Higher increases may be awarded should there be a material change to the requirements of the role, such as additional time commitment. Any changes to fees will be disclosed in the annual report on remuneration for the relevant year.	Continued strong performance.
Benefits To reimburse Non-Executive Directors for expenses	Reasonable and necessary expenses are reimbursed, together with any tax due on them.	Expenses (including, without limitation, travel and subsistence) incurred in connection with Kier business.	Not applicable.

Recruiting Non-Executive Directors

When recruiting a new Non-Executive Director, the Committee will follow the policy set out in the table above.

Non-Executive Director letters of appointment

The Non-Executive Directors do not have service contracts but have entered into letters of appointment with the Company. The letters of appointment do not include any provisions for the payment of pre-determined compensation upon termination of appointment.

Directors' Report

Introduction

This Directors' Report and the Strategic Report on pages 2 to 47 (inclusive) together comprise the 'management report' for the purposes of Disclosure and Transparency Rule 4.1.5R.

Information incorporated by reference

The following information is provided in other appropriate sections of this Annual Report and the financial statements and is incorporated into this Directors' Report by reference:

Information	Reported in	Pages
Corporate governance	Corporate Governance Statement	48 to 77 (inclusive)
	Statement of Directors' responsibilities	100
Directors	Board of Directors	54 and 55
	Directors' Remuneration Report – Directors' shareholdings and share interests	87
Employees	Sustainability	21 to 25 (inclusive)
Financial instruments	Financial statements – note 28	170 to 174 (inclusive)
Going concern	Board statements	50
Greenhouse gas emissions	Sustainability	27 and 28
Important events since the end of the financial year	Chief Executive's review	n/a
Likely future developments	Chief Executive's review	10
Results and dividends	Chairman's statement	5

Disclosures required under Listing Rule 9.8.4R

The table below sets out the location of information required to be disclosed under Listing Rule 9.8.4R, where applicable.

Information required to be disclosed	Page(s)
(1) Amount of interest capitalised	n/a
(2) Publication of unaudited financial information	n/a[1]
(4) Long-term incentive schemes	n/a
(5) – (11) Miscellaneous	n/a
(12) – (13) Waiver of dividends	98 and 99
(14) Agreement with controlling shareholders	n/a

1 A profit forecast was set out in the Company's rights issue prospectus dated 30 November 2018 in respect of the expected underlying operating profit for the financial year ending 20 June 2020. Pursuant to subsequent announcements made by the Company (including on 3 June 2019, 17 June 2019, 1 August 2019 and 19 September 2019), such profit forecast is no longer valid and, accordingly, has not been reproduced in this Annual Report and will not be reproduced in the Company's 2020 Annual Report.

Political donations

The Company made no political donations during the year (2018: nil).

Research and development

The Group undertakes research and development activities when providing services to its clients. The total amount of the direct expenditure incurred by the Group when undertaking such activities is not readily identifiable, as the investment is typically included in the relevant project.

Share capital

As at 30 June 2019, the issued share capital of the Company consisted of 162,115,870 ordinary shares of 1 pence each. Details of changes to the ordinary shares issued and of options and awards granted during the year are set out in notes 25 and 26 to the consolidated financial statements.

Subject to the provisions of the articles of association of the Company (the Articles) and prevailing legislation, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the Directors may decide.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, other than those that are set out in the Articles or apply as a result of the operation of law or regulation. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the Company.

Substantial holdings

As at 25 September 2019, the Company had been notified of the following interests in the share capital of the Company (being voting rights over such share capital), pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Shareholder	Interest[1]
Standard Life Aberdeen plc	14.9%
Woodford Investment Management Ltd	14.12%
Prudential plc group of companies	10.80%
BlackRock, Inc	5.85%
Brewin Dolphin Limited	5.01%
Charles Stanley Group plc	5.00%
Rathbone Investment Management Ltd	4.93%
Schroders plc	4.80%
Norges Bank	3.03%

1 Subject to rounding.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Rights under employee share schemes

As at 30 June 2019, RBC cees Trustee Limited (RBC), as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 67,513 shares (approximately 0.04% of the Company's issued share capital at that date). These shares are made available to satisfy share-based awards granted to senior management under the Group's remuneration arrangements.

As at 30 June 2019, Yorkshire Building Society (YBS) held 1,998,174 shares (approximately 1.23% of the Company's issued share capital at that date) on trust for the benefit of members of the SIP. At the same date, YBS also held 8,295 shares (approximately 0.01% of the issued share capital at that date) on trust for the benefit of members of the legacy May Gurney Share Incentive Plan. YBS does not exercise any voting rights in respect of the shares held by the trust. YBS distributes dividends received to beneficiaries under the trust (although beneficiaries may authorise YBS to vote in accordance with their instructions).

As at 30 June 2019, the trustee of the May Gurney Limited Employee Share Ownership Trust and the trustee of the May Gurney Integrated Services PLC Employee Benefit Trust held, respectively, 219,759 and 19,045 shares (in aggregate, approximately 0.15% of the Company's issued share capital at that date). These shares are made available to satisfy awards of shares under the Group's remuneration arrangements. Neither of the trustees exercises any voting rights in respect of shares held by its respective trust and each waives dividends payable with respect to such shares.

Restrictions on voting rights

No shareholder will, unless the Board otherwise determines, be entitled to vote at any general meeting unless all calls or other sums then payable by the shareholder in respect of that share have been paid or if that shareholder has been served with a disenfranchisement notice.

The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights.

Appointment and replacement of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office until the next AGM of the Company after his/her appointment and is then eligible to stand for election.

Each of the Directors, other than Bev Dew, will stand for either election or re-election by members at the 2019 AGM. Further information about the Directors' skills and experience can be found on pages 54 and 55.

The Company may by ordinary resolution, of which special notice has been given, remove any Director before the expiry of the Director's period of office.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Articles and the Company maintains directors' and officers' liability insurance for the benefit of the Directors and the Company's officers. The Company and Kier Limited have also entered into qualifying third party indemnity arrangements with each of their directors in a form and scope which comply with the Companies Act 2006. Each of these arrangements remain in force as at the date of this Annual Report.

Amendment of Articles

The Articles may be amended by a special resolution of the Company's shareholders.

Powers of the Directors

Subject to the Articles, applicable law and any directions given by shareholders, the Company's business is managed by the Board, which may exercise all the powers of the Company.

Powers in relation to the Company issuing its shares

The Directors were granted authority at the AGM on 16 November 2018 to allot shares in the Company (i) up to an aggregate nominal amount of £325,533 and (ii) up to an aggregate nominal amount of £651,066 in connection with a rights issue. The Directors were also granted authority to allot shares (i) non-pre-emptively and wholly for cash up to an aggregate nominal amount of £48,830 and (ii) for the purposes of financing an acquisition or other capital investment up to a further nominal amount of £48,830.

Powers in relation to the Company buying back its shares

The Company may only buy back shares if the Articles do not prohibit it from doing so and it has received the requisite authority from shareholders in general meeting. Although the Articles do not contain any such prohibition, the Company did not request any such authority at the 2018 AGM and does not propose to do so at the forthcoming AGM.

Change of control

The Group's loan facility agreements with its UK lending banks, the note purchase agreements entered into in 2012 and 2014 in connection with the Group's US private placements of notes and the Schuldschein loan agreements entered into in May and June 2016 each contain provisions under which, in the event of a change of control of the Company, the Company may be required to repay all outstanding amounts borrowed.

Certain of the Group's commercial arrangements, including certain of its joint venture agreements, contract bond agreements and other commercial agreements entered into in the ordinary course of business, include change of control provisions.

Certain of the Group's employee share schemes or remuneration arrangements contain provisions relating to a change of control of the Company. Outstanding awards or options may become exercisable or vest upon a change of control.

There are no agreements between the Company and the Directors providing for compensation for loss of office that occurs as a result of a takeover bid (other than those referred to above).

Branches

The branches through which the Group operates are listed in note 32 to the consolidated financial statements.

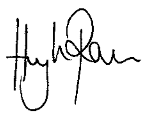
Auditor

The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditor for the financial year ending 30 June 2020. A resolution relating to this re-appointment will be proposed at the forthcoming AGM.

AGM

The Company's 2019 AGM will be held at 10 a.m. on 15 November 2019 at Linklaters LLP, One Silk Street, London EC2Y 8HQ.

This Directors' Report was approved by the Board and signed on its behalf by:



Hugh Raven
COMPANY SECRETARY

26 September 2019

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Statement of Directors' responsibilities

Compliance with applicable law and regulations

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare the Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). 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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, with respect to the Group financial statements, Article 4 of the IAS Regulation.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the Corporate Governance Statement and for ensuring that these comply with applicable laws and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This Annual Report

Each of the Directors, whose names and functions are set out on pages 54 and 55, confirms that to the best of his or her knowledge:

- the financial statements contained in this Annual Report, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- the management report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure to auditors

Each Director who holds office at the date of approval of this Directors' Report confirms that, so far as each such Director is aware, there is no relevant audit information of which the auditor is unaware; and the Directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Signed on behalf of the Board by:

Andrew Davies
CHIEF EXECUTIVE

Bev Dew
FINANCE DIRECTOR

26 September 2019

Financial Statements

Independent auditor's report to the members of Kier Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Kier Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2019 and of the Group's loss and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements, included within the Annual Report and Accounts 2019 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 30 June 2019; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Risk Management and Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in the Risk Management and Audit Committee report and note 4 within the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 July 2018 to 30 June 2019.

Our audit approach

Overview

- Overall Group materiality: £6.2 million (2018: £6.8 million), based on 5% of the Group's profit from operations, before exceptional items and amortisation of acquired intangibles, of £124.1 million.
- Overall Company materiality: £4.9 million (2018: £4.9 million), based on the lower of component materiality and 1% of total assets.

- We have conducted audit work across all three of the Group's divisions and achieved coverage over 94% (2018: 90%) of Group revenues.

- Going concern (Group).
- Presentation of the Group's financial performance (Group).
- Contract accounting (Group).
- Impairment of goodwill and other intangibles (Group).
- IFRS 15 transition adjustments (Group).
- Carrying value of land and development inventory (Group).
- Carrying value of investment in Kier Limited (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to acts by the Group which were contrary to applicable laws and regulations, including fraud. We considered those laws and regulations that have a direct impact on the preparation of the financial statements, including, but not limited to the Companies Act 2006, the Listing Rules, UK pensions and tax legislation, the Health and Safety Executive legislation and equivalent local laws and regulations applicable to overseas operations. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent financial reporting. Audit procedures performed by the Group engagement team and/or component auditors included, but were not limited to, discussion of compliance with internal legal counsel, review of correspondence with external legal advisors, review of external press releases and inquiries of management. We also addressed the risk of management override of internal controls, including testing of journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Group **Going concern** Refer to page 67 (Risk Management and Audit Committee Report) and page 117 (accounting policy). The Group's forecast cash flows for the period to 31 December 2020, included within the Group's three-year strategic plan, contain assumptions over the revenue, profitability and cash generation of existing businesses. These forecasts have been stress-tested for severe but plausible scenarios that could impact the Group, including the possible impact of Brexit. The Group's £922 million of committed facilities are subject to covenant testing at 31 December 2019, 30 June 2020 and 31 December 2020. We considered the risk of going concern to have significantly increased this year in the context of the deterioration in the Group's results over this financial year (including an increase in average net debt) and current market sentiment.	We evaluated the Directors' going concern assessment and in particular, with the support of internal industry experts in this area, performed the following procedures: › We assessed the appropriateness of the cash flow forecasts in the context of the Group's 2019 financial position, the planned sales of, and/or exit from, a number of non-core businesses and evaluated the Directors' downside sensitivities against these forecasts; › We evaluated the key assumptions in the forecasts and considered whether these appeared reasonable, for example by comparing forecast sales growth to levels of future revenue that has been secured; › We obtained and evaluated the Directors' Brexit impact assessment and considered whether this was appropriately reflected in the going concern model; › We examined the minimum committed facility headroom under the base case cash flow forecasts and sensitised cases and evaluated whether the Directors' conclusion that liquidity headroom remained in all events was reasonable; › We obtained and reperformed the Group's June 2019 and forecast covenant compliance calculations, including sensitising the profits and cash flows as applicable for each covenant to assess the potential impact of downside sensitivities on covenant compliance; › We considered the impact of the Group's financial performance, and specifically its presentation of profit before exceptional items and amortisation of acquired intangibles, on its covenant calculations; › We considered the risk to the Group's cash flows and covenant compliance in the event that the planned sales and exits of certain businesses either did not take place or were significantly delayed; and › We evaluated the extent to which the cost savings articulated in the Directors' forecasts were based on controllable activities, or whether they simply represented possible future upside, including inspecting plans prepared by the Group's advisors in respect of its restructuring programme. We also reviewed the disclosures provided relating to the going concern basis of preparation, and found that these provided an explanation of the Directors' assessment that was consistent with the evidence we obtained. Our conclusions on going concern are set out in the "Going concern" section below.

Key audit matter	How our audit addressed the key audit matter
Group **Contract accounting** Refer to page 70 (Risk Management and Audit Committee Report) and page 119 (accounting policy). The Group has significant long-term contracts in its Infrastructure Services and Buildings businesses. The recognition of revenue in respect of construction contracts in accordance with IFRS 15 is now based on the stage of completion of contract activity. The Group's accounting policy is also now to recognise claims receivable from third parties other than its customers once they are determined to be 'virtually certain' of recoverability. Profit on contracts is a significant risk for our audit because of the uncertainty inherent in preparing suitable estimates of the forecast costs and revenue on contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period. The Group operates in an industry in which contracts allow a route to recovery that may be disputed or become subject to contract resolution procedures. The settlement process can be time-consuming and can result in an outcome that varies from the amount claimed. These contract issues may exist in the supply chain, or with customers. In addition, recoverability of work in progress on long-term services contracts involves significant estimates, including an assessment of the end of life outcome of the projects. These estimates include the expected recovery of costs arising from the following: variations to the contract requested by the customer, compensation events, and claims made both by and against the Group for delays or other additional costs arising or projected to arise. The inclusion of these estimated amounts in the contract forecast at an inappropriate level could result in a material error in the level of profit or loss recognised by the Group.	We focused our work on those contracts with the greatest estimation uncertainty over the final contract values and therefore profit outcome. These in particular included the forecast end of life positions on a number of projects which have experienced significant change and therefore cost growth. Our work included the following procedures: › We challenged management's forecasts, in particular the key assumptions, which included the expected recovery of variations, claims and compensation events from clients, to determine the basis on which the associated revenue was considered to be 'highly probable of not reversing'; › We also challenged those assumptions in respect of estimated recoveries from subcontractors, designers, and insurers included in the forecast, to determine whether these could be considered 'virtually certain' of recoverability; › We attended contract review meetings, and inspected value cost reconciliations ('VCRs') to obtain evidence regarding the controls in place; › We substantively tested costs incurred to date to check that these had been recorded accurately; › We performed a margin analysis on the end of life forecasts ('ELFs') to assess the performance of the contract portfolios year on year; › We inspected correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtained third-party assessments of these from legal or technical experts contracted by the Group, if applicable, to assess whether this information was consistent with the estimates made; › We discussed the status of certain claims with external solicitors and, where relevant, external experts, and assessed the objectivity and independence of these third parties; › We inspected correspondence with insurers relating to recognised insurance claims as well as assessments of these undertaken by the insurers and Group's legal experts, where applicable, to assess whether this information supported the position taken on the contract; and › We considered the adequacy of the disclosures in the financial statements in relation to specific contracts and also the disclosures in respect of significant judgements and estimates. Overall based on these procedures, we are satisfied that the work in progress relating to the Group's contracts is appropriately stated and that revenue and profits have been recorded appropriately.

Key audit matter	How our audit addressed the key audit matter
Group **Presentation of the Group's financial performance** Refer to page 70 (Risk Management and Audit Committee Report) and page 121 (accounting policy). The Group has updated the Group's Alternative Performance Measure to 'Profit before exceptional items and amortisation of acquired intangible assets' to improve the transparency and clarity of the Group's financial performance. The Group's profit before tax before exceptional items and amortisation of acquired intangibles of £97.6 million is stated before charging £24.8 million of amortisation of acquired intangibles, and charging £317.7 million of exceptional items as follows: › £29.3 million of costs associated with previous acquisitions; › £56.4 million of restructuring charges; › £171.7 million of costs associated with the preparation for business divestment or sale; › £49.9 million of exceptional contract losses; › £10.4 million of other exceptional charges including a net £10.0 million credit in respect of one-off pension remeasurements, and a £16.1 million charge in respect of procurement write-offs. The change in presentation has also resulted in £27.0 million of contract losses reported within the Group's underlying profit before tax in 2018 now being classified as exceptional, and the results of the Group's Mining business, previously presented as non-underlying, are now reported within the Group's headline profit before tax. The determination of which items are classified as exceptional is subject to judgement and therefore users of the consolidated financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistently with the Group's accounting policy.	We considered whether the presentation of profit before exceptional items and amortisation of intangibles is appropriate. In doing this we performed the following procedures: › We reviewed the Directors' definition and classification of exceptional items, including the sub-categorisation of these items. In particular, we challenged whether it was appropriate to present a contract loss as exceptional, on the basis that significant losses may occur from time to time in contracting businesses. We accepted this judgement on the basis of the size of the losses in respect of two specific contracts - Broadmoor (in 2019) and Mersey (in 2018 and therefore in 2019 for consistency) and the unusual nature of these contracts entered into by the respective businesses; › We audited the accuracy and completeness of exceptional items, including assessing the impact on amounts previously reported within underlying profits and the resulting adjustments to the 2018 Mersey contract loss of £27.0 million and the result of the Mining business. We found that these adjustments were appropriate and consistent with the Group's policy on exceptional items; and › We reviewed management's disclosures on the change in the primary measure for adjusted profit and ensured that the updated measure was not given undue prominence in the Annual Report. We also ensured that sufficient disclosure was provided to justify why individual items were treated as exceptional. We did not identify any material issues in our work over those items presented as exceptional, although we identified a small number of individually immaterial items that were subsequently reclassified outside of exceptional. Overall based on these procedures we were satisfied with the presentation of the Group's profit before exceptional items and amortisation of acquired intangibles, and that the reason for its use has been properly disclosed.

Key audit matter	How our audit addressed the key audit matter
Group **Impairment of goodwill and other intangibles** Refer to page 71 (Risk Management and Audit Committee Report) and page 121 (accounting policy). The Group carried £536.7 million of goodwill and £230.0 million of other intangibles at 30 June 2019 (2018: £560.2 million of goodwill and £302.0 million of other intangibles), following impairment charges of £37.7 million recorded against Developments and Housing that included fully writing off the £8.0 million of goodwill allocated to that cash generating unit ('CGU'). £516.3 million of the Group's £536.7 million goodwill relates to Infrastructure Services and £20.4m relates to Buildings. The other intangibles includes £81.6 million (after impairment charges of £29.5 million) of software assets, largely associated with the Group's recently implemented ERP, which have been allocated across the Group's CGUs. The audit of goodwill and other intangibles was a focus area given the value of these assets when compared to a market capitalisation of under £250 million, the publically announced reduction in volumes in the Group's core businesses and deterioration in micro and macro trading conditions during the financial year. Furthermore, we considered specific risks associated with the goodwill and other intangible assets allocated to Developments and Housing in light of the Group's announcement of its plans to sell Kier Living and reduce its investment in (or sell) Kier Property. We considered the risk that the carrying value of goodwill and other intangible assets allocated to Infrastructure Services and Developments and Housing may not be supportable when compared to their respective recoverable amounts.	In evaluating the Directors' annual impairment assessment for goodwill and other intangibles, we performed the following procedures: › We assessed the allocation of goodwill and acquired intangibles to CGUs, following the change in year reflecting the reorganisation of the Group from 1 July 2018, and supported the Directors' conclusion that the significant majority relates to Infrastructure Services; › We evaluated the allocation of the ERP asset to the CGUs based on the relative headcount of each business and concluded this was a reasonable basis for allocation; › We obtained the Board-approved three year cash flow forecasts which formed the basis of the model used in the Directors' impairment calculation. We considered whether the planned growth rates and expected operating margins in the impairment model were consistent with the Board-approved cash flows; › We tested the discount rate applied with the support of our internal valuation experts; › We challenged management's forecasts and compared future cash flow performance to historic levels to ensure that the planned performance was considered achievable; › In respect of Infrastructure Services we sensitised the short term and long term growth rates applied to revenue and operating profit and established what reasonably possible changes in these assumptions would lead to an impairment; we then ensured that these changes were appropriately disclosed in accordance with IAS 36; and › We reperformed the calculations in the impairment model for Developments and Housing to check that the impairments recorded against goodwill and other intangibles were reasonable, and concluded that these charges were recognised appropriately. Based on the procedures performed, we were satisfied with the carrying value of goodwill and other intangibles following the impairments recorded against Developments and Housing, and with the associated disclosures included in the financial statements.

Key audit matter

Group

IFRS 15 transition adjustments

Refer to page 71 (Risk Management and Audit Committee Report) and page 118 (accounting policy).

IFRS 15 "Revenue from Contracts with Customers" became effective for the Group for the first time during this financial year.

In applying this standard to the Group's financial statements for the first time, the Directors identified three material areas of transition within a total pre-tax adjustment to opening retained earnings of £73.0 million:

i) £28.0 million – moving to a percentage of cost completed revenue recognition basis rather than recognising revenue based on external certification;

ii) £26.0 million – derecognising certain downstream claims on the basis that such claims are outside the scope of IFRS 15 (which only addresses revenue from the customer), resulting in the Group now assessing recoverability of such claims under IAS 37 instead of IAS 11 (i.e. they must be 'virtually certain' of recovery); and

iii) £9.7 million – derecognising certain variable revenue items which did not meet the IFRS 15 criteria of 'highly probable of not reversing' but had satisfied the recognition criteria of IAS 11 previously.

The basis for recording these transition adjustments involved significant judgements to be made, particularly in determining whether an asset that was determined to be recoverable under IAS 11 would, following the adoption of IFRS 15, not be considered recoverable.

The unwind of these adjustments in the 2019 financial statements resulted in a £24.8 million beneficial impact to the Group's profit before tax.

We considered the risk that items may be treated as transition adjustments which did not meet the criteria noted above.

How our audit addressed the key audit matter

We assessed management's transition exercise and evaluated the existence, valuation and completeness of adjustments identified. In particular, we performed the following procedures:

- We challenged the extent to which customer contract variations that were previously deemed to meet the IAS 11 recognition criteria could not be characterised as 'highly probable of not reversing' under IFRS 15. We were satisfied that for certain contracts this was reasonable;
- We considered the recognition policy for downstream claims not captured under IFRS 15 and therefore now assessed under IAS 37, and evaluated management's judgement in derecognising these claims on transition to the new standard given that these now needed to be 'virtually certain' of recoverability, as compared to the previous requirements under IAS 11;
- We checked the mathematical accuracy of the calculation to derecognise certain contract receivables by moving to a percentage of cost completed basis of accounting, and agreed the transition adjustment to work performed on contracts at 30 June 2018;
- We ensured that the principles established on adoption of IFRS 15 were applied consistently in the 2019 financial year; and
- We ensured that the disclosures addressing the requirements of IFRS 15 and its impact on the 2019 financial statements have been properly included. We also considered these disclosures in the context of the Group's covenants, which are measured on a constant GAAP basis.

We obtained sufficient evidence to satisfy ourselves that the Directors have assessed and disclosed the impact of adopting IFRS 15 in the financial statements.

Key audit matter	How our audit addressed the key audit matter
Group **Carrying value of land and development inventory** Refer to page 71 (Risk Management and Audit Committee report), page 122 (accounting policy). Inventory in the Developments and Housing division is stated at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell). An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon management's estimate of forecast selling prices and build / development costs (by reference to current prices), which may require significant judgement. In particular, we focused our work on ten residential sites previously held at a carrying value of £60.2 million, for which there had previously been no immediate intention of development. The carrying value was previously supportable by the value in use that would be achieved once the sites were developed at a future point in time. Following the Group's announcement in June 2019 of its intention to sell its Residential business, the Directors determined that these sites would be sold rather than held for future development. The recoverable amount of the sites, determined by their respective fair values less costs to sell, was calculated to be £10.2 million, resulting in an impairment charge of £50.0 million. This has been recorded in the Group's Income Statement as an exceptional charge.	We obtained the Directors' assessment of the valuation of the ten sites, and performed the following procedures: › We compared the valuations in the Directors' assessment to external valuations of each site, and evaluated the independence and competence of the external valuers; › We assessed the methodology and key assumptions in these valuations with the support of our internal real estate valuation experts, and considered the independence and competence of those experts; and › We considered whether the Directors' estimate of forecast selling costs associated with the sites appeared reasonable. Based on the evidence obtained, we were satisfied with the calculation of the impairment charge of £50.0 million.
Company **Carrying value of investment in Kier Limited** Refer to page 71 (Risk Management and Audit Committee Report) and page 197 (Company notes to the financial statements). The Company holds investments in subsidiaries of £486.2 million (2018: £479.0 million), the largest of which is an investment in Kier Limited of £400.2 million (2018: £400.2 million). We focused on this area due to the size of the investment balance in the context of the Group's recent market capitalisation which remains below £250 million. The Directors' assessment of the carrying value of this investment was that no impairment was required.	We reviewed the Directors' impairment assessment of the carrying value of the investment in Kier Limited. We agreed the cash flows used in the assessment to the forecasts used in the assessment of impairment of goodwill and other intangible assets. Following the conclusion of our procedures above, we were satisfied with the Directors' conclusion that no impairment was required against the carrying value of the investment held by the Company.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's operations and reporting process is structured into three divisions represented by Infrastructure Services, Development and Housing and Buildings. The Group audit partner, supported by other UK engagement leaders, led UK based teams responsible for the audit of each of these divisions. The three divisions include a number of reporting units in the Group's consolidation, each of which is considered to be a financial component.

The vast majority of the Group's operations are concentrated in the UK and account for 98% of the Group revenue, with the remaining 2% generated from overseas businesses. We instructed a component team in Dubai to perform full scope audit procedures on the Group's Middle East construction business. Our audit approach was designed to obtain coverage over 94% of the Group's revenue which included UK and overseas operations. We are satisfied that we obtained appropriate audit coverage over the Group's Income statement, Balance sheet and cash flows through our audit work on the UK and overseas operations.

During the course of the audit, we have visited a number of projects and operations located across the UK and held meetings with local management. These included a property development site acquired in the year, a residential housebuilding site and six construction contract projects.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£6.2 million (2018: £6.8 million).	£4.9 million (2018: £4.9 million).
How we determined it	5% profit from operations before exceptional items and amortisation of acquired intangibles.	1% of total assets limited by the allocation of component materiality.
Rationale for benchmark applied	Based on the benchmarks used in the annual report, we consider that profit from operations before exceptional items and amortisation of acquired intangibles is the primary measure used by the shareholders in assessing the performance of the Group.	We believe that calculating statutory materiality based on 1% of total assets is appropriate as total assets is a typical primary measure for shareholders of the financial statements of holding companies, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.3 million and £4.9 million. This range reflected certain components being audited to a local statutory audit materiality.

We agreed with the Risk Management and Audit Committee that we would report to them misstatements identified during our audit above £250,000 (Group audit) (2018: £300,000) and £250,000 (Company audit) (2018: £300,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Independent auditor's report to the members of Kier Group plc / continued

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. *(CA06)*

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. *(CA06)*

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 62 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 46 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. *(Listing Rules)*

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 50, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 70 describing the work of the Risk Management and Audit Committee does not appropriately address matters communicated by us to the Risk Management and Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Report set out on page 98, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Risk Management and Audit Committee, we were appointed by the Directors on 24 September 2014 to audit the financial statements for the year ended 30 June 2015 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 30 June 2015 to 30 June 2019.

Andrew Paynter
SENIOR STATUTORY AUDITOR

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 September 2019

Consolidated income statement

For the year ended 30 June 2019

	Notes	2019 Before exceptional items £m	2019 Exceptional items (note 5)[1] £m	2019 Total £m	2018 Before exceptional items[3] £m	2018 Exceptional items (note 5)[1,3] £m	2018 Total £m
Continuing operations							
Revenue	2						
Group and share of joint ventures	3	**4,494.4**	**(15.0)**	**4,479.4**	4,512.8	–	4,512.8
Less share of joint ventures	3	**(357.7)**	**–**	**(357.7)**	(273.2)	–	(273.2)
Group revenue		**4,136.7**	**(15.0)**	**4,121.7**	4,239.6	–	4,239.6
Cost of sales		**(3,753.5)**	**(111.2)**	**(3,864.7)**	(3,810.7)	(27.0)	(3,837.7)
Gross profit/(loss)		**383.2**	**(126.2)**	**257.0**	428.9	(27.0)	401.9
Administrative expenses		**(289.8)**	**(214.2)**	**(504.0)**	(288.1)	(25.6)	(313.7)
Share of post-tax results of joint ventures	14	**30.7**	**–**	**30.7**	42.7	–	42.7
(Loss)/profit on disposal of joint ventures and subsidiaries	31	**–**	**(0.4)**	**(0.4)**	3.5	–	3.5
Profit/(loss) from operations	3,4	**124.1**	**(340.8)**	**(216.7)**	187.0	(52.6)	134.4
Finance income	6	**0.2**	**–**	**0.2**	0.9	–	0.9
Finance costs	6	**(26.7)**	**(1.7)**	**(28.4)**	(24.0)	(5.1)	(29.1)
Profit/(loss) before tax	3	**97.6**	**(342.5)**	**(244.9)**	163.9	(57.7)	106.2
Taxation	9a	**(20.2)**	**55.9**	**35.7**	(28.4)	10.7	(17.7)
Profit/(loss) for the year from continuing operations		**77.4**	**(286.6)**	**(209.2)**	135.5	(47.0)	88.5
Discontinued operations							
Loss for the year from discontinued operations (attributable to equity holders of the parent)	21b	**–**	**–**	**–**	(1.0)	–	(1.0)
Profit/(loss) for the year		**77.4**	**(286.6)**	**(209.2)**	134.5	(47.0)	87.5
Attributable to:							
Owners of the parent		**77.0**	**(286.6)**	**(209.6)**	134.3	(47.0)	87.3
Non-controlling interests		**0.4**	**–**	**0.4**	0.2	–	0.2
		77.4	**(286.6)**	**(209.2)**	134.5	(47.0)	87.5
Basic earnings/(loss) per share[2]							
– From continuing operations	11	**58.2p**	**(216.7)p**	**(158.5)p**	136.8p	(47.5)p	89.3p
– From discontinued operations	11	**–**	**–**	**–**	(1.0)p	–	(1.0)p
Total		**58.2p**	**(216.7)p**	**(158.5)p**	135.8p	(47.5)p	88.3p
Diluted earnings/(loss) per share							
– From continuing operations	11	**58.2p**	**(216.7)p**	**(158.5)p**	135.3p	(47.0)p	88.3p
– From discontinued operations	11	**–**	**–**	**–**	(1.0)p	–	(1.0)p
Total		**58.2p**	**(216.7)p**	**(158.5)p**	134.3p	(47.0)p	87.3p

1 Reference to 'exceptional items' includes exceptional items of £316.0m (2018: £27.0m) and amortisation of acquired intangible assets of £24.8m (2018: £25.6m), see note 1, page 121, and note 5.
2 Earnings per share for the year to 30 June 2018 restated as a result of the rights issue which completed on 20 December 2018, see note 11 to the financial statements.
3 The prior year comparative information for profit before exceptional items and exceptional items has been re-presented to reflect the change in the Group's Alternative Performance Measure, see note 5. This has had no impact on the statutory reported results for the year ended 30 June 2018.

Consolidated statement of comprehensive income

For the year ended 30 June 2019

	Notes	2019 £m	2018 £m
(Loss)/profit for the year		**(209.2)**	87.5
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements on cash flow hedging instruments	14	**0.2**	0.4
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments	9c	**–**	(0.1)
Share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement	14	**–**	2.3
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement	14	**–**	(0.4)
Fair value gain/(loss) on cash flow hedging instruments		**8.6**	(3.4)
Fair value movements on cash flow hedging instruments recycled to the income statement	6	**(4.3)**	1.6
Deferred tax (charge)/credit on fair value movements on cash flow hedging instruments	9c	**(0.7)**	0.3
Foreign exchange gains/(losses) on long-term funding of foreign operations		**0.9**	(0.2)
Foreign exchange translation differences		**–**	(0.3)
Foreign exchange movements recycled to the income statement		**(0.7)**	(0.9)
Total items that may be reclassified subsequently to the income statement		**4.0**	(0.7)
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit liabilities	8	**(22.9)**	79.8
Deferred tax credit/(charge) on actuarial (losses)/gains on defined benefit liabilities	9c	**3.9**	(13.6)
Total items that will not be reclassified to the income statement		**(19.0)**	66.2
Other comprehensive (loss)/income for the year		**(15.0)**	65.5
Total comprehensive (loss)/income for the year		**(224.2)**	153.0
Attributable to:			
Equity holders of the parent		**(224.6)**	152.8
Non-controlling interests – continuing operations		**0.4**	0.2
		(224.2)	153.0
Total comprehensive (loss)/income attributable to equity shareholders arises from:			
Continuing operations		**(224.6)**	153.8
Discontinued operations		**–**	(1.0)
		(224.6)	152.8

Consolidated statement of changes in equity

For the year ended 30 June 2019

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 July 2017		1.0	434.8	2.7	(63.9)	(5.7)	4.7	134.8	508.4	3.0	511.4
Profit for the year		–	–	–	87.3	–	–	–	87.3	0.2	87.5
Other comprehensive income/(loss)		–	–	–	66.2	0.7	(1.4)	–	65.5	–	65.5
Dividends paid	10	–	–	–	(66.1)	–	–	–	(66.1)	(1.5)	(67.6)
Issue of own shares	25	–	0.2	–	–	–	–	–	0.2	–	0.2
Share-based payments	26	–	–	–	5.4	–	–	–	5.4	–	5.4
Purchase of own shares	26	–	–	–	(1.3)	–	–	–	(1.3)	–	(1.3)
At 30 June 2018		**1.0**	**435.0**	**2.7**	**27.6**	**(5.0)**	**3.3**	**134.8**	**599.4**	**1.7**	**601.1**
Impact of adopting IFRS 15	34	–	–	–	(60.8)	–	0.2	–	**(60.6)**	–	**(60.6)**
At 1 July 2018		**1.0**	**435.0**	**2.7**	**(33.2)**	**(5.0)**	**3.5**	**134.8**	**538.8**	**1.7**	**540.5**
(Loss)/profit for the year		–	–	–	(209.6)	–	–	–	**(209.6)**	0.4	**(209.2)**
Other comprehensive (loss)/income		–	–	–	(19.0)	3.8	0.2	–	**(15.0)**	–	**(15.0)**
Dividends paid	10	–	–	–	(52.6)	–	–	–	**(52.6)**	(1.6)	**(54.2)**
Issue of own shares	25	0.6	249.3	–	–	–	–	–	**249.9**	–	**249.9**
Share-based payments	26	–	–	–	7.2	–	–	–	**7.2**	–	**7.2**
Sale of own shares	26	–	–	–	0.4	–	–	–	**0.4**	–	**0.4**
At 30 June 2019		**1.6**	**684.3**	**2.7**	**(306.8)**	**(1.2)**	**3.7**	**134.8**	**519.1**	**0.5**	**519.6**

The numbers in the table above are shown net of tax as applicable.

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. The new shares were fully subscribed on 20 December 2018, resulting in proceeds on issue of £249.9m, net of expenses of £13.7m, that were charged against the share premium account.

Consolidated balance sheet

At 30 June 2019

	Notes	2019 £m	2018[1] £m
Non-current assets			
Intangible assets	12	**766.7**	862.2
Property, plant and equipment	13	**57.3**	91.6
Investments in and loans to joint ventures	14	**237.9**	226.1
Capitalised mobilisation costs	15	**3.3**	–
Deferred tax assets	16	**47.7**	–
Contract assets	17	**25.2**	–
Trade and other receivables	18	**29.0**	49.2
Retirement benefit assets	8	**58.4**	39.5
Other financial assets	28	**22.1**	15.2
Non-current assets		**1,247.6**	1,283.8
Current assets			
Inventories	19	**217.9**	575.0
Contract assets	17	**466.0**	–
Trade and other receivables	18	**372.9**	603.0
Corporation tax receivable		**9.1**	15.4
Other financial assets	28	**2.0**	–
Cash and cash equivalents	20	**311.7**	330.9
Current assets		**1,379.6**	1,524.3
Assets held for sale as part of a disposal group	21	**14.6**	1.3
Total assets		**2,641.8**	2,809.4
Current liabilities			
Borrowings	20	**(30.3)**	(12.0)
Finance lease obligations	22	**(1.1)**	(4.0)
Trade and other payables	23	**(1,311.0)**	(1,526.8)
Contract liabilities	17	**(134.0)**	–
Provisions	24	**(25.0)**	(15.4)
Current liabilities		**(1,501.4)**	(1,558.2)
Liabilities held for sale as part of a disposal group	21	**(1.5)**	(3.4)
Non-current liabilities			
Borrowings	20	**(473.6)**	(524.9)
Finance lease obligations	22	**(2.0)**	(3.1)
Trade and other payables	23	**(39.5)**	(24.2)
Retirement benefit obligations	8	**(38.9)**	(31.6)
Provisions	24	**(65.3)**	(52.1)
Deferred tax liability	16	**–**	(10.8)
Non-current liabilities		**(619.3)**	(646.7)
Total liabilities		**(2,122.2)**	(2,208.3)
Net assets	3	**519.6**	601.1
Equity			
Share capital	25	**1.6**	1.0
Share premium		**684.3**	435.0
Capital redemption reserve		**2.7**	2.7
Retained earnings		**(306.8)**	27.6
Cash flow hedge reserve		**(1.2)**	(5.0)
Translation reserve		**3.7**	3.3
Merger reserve		**134.8**	134.8
Equity attributable to owners of the parent		**519.1**	599.4
Non-controlling interests		**0.5**	1.7
Total equity		**519.6**	601.1

[1] 2018 balance sheet reclassed to move £15.2m of 'Other financial assets' from current assets to non-current assets.

The financial statements of Kier Group plc, company registration number 2708030, on pages 112 to 192 were approved by the Board of Directors on 26 September 2019 and were signed on its behalf by:

Andrew Davies, CHIEF EXECUTIVE

Bev Dew, FINANCE DIRECTOR

Consolidated cash flow statement

For the year ended 30 June 2019

		Notes	2019 £m	2018 £m
Cash flows from operating activities				
(Loss)/profit before tax	– continuing operations		**(244.9)**	106.2
	– discontinued operations	21	**–**	(1.0)
Exceptional items excluding impairment, amortisation and finance costs			**268.8**	–
Net finance cost		6	**28.2**	28.2
Share of post-tax trading results of joint ventures		14	**(30.7)**	(42.7)
Normal cash contributions to pension fund in excess of pension charge			**0.3**	0.8
Equity settled share-based payments charge		26	**7.2**	5.4
Amortisation of intangible assets less negative goodwill recognised			**38.7**	37.7
Impairment of goodwill and intangible assets		12	**47.8**	–
Research and development expenditure credit		4	**(7.8)**	(8.6)
Depreciation charges		13	**15.5**	19.1
Loss/(profit) on disposal of joint ventures and subsidiaries		31	**0.4**	(3.5)
Profit on disposal of property, plant and equipment and intangible assets			**(0.2)**	(0.8)
Operating cash flows before movements in working capital			**123.3**	140.8
Deficit contributions to pension funds			**(24.2)**	(26.6)
Decrease in inventories		20	**8.8**	33.4
Decrease/(increase) in receivables		20	**94.1**	(29.4)
Increase in contract assets			**(97.2)**	–
(Decrease)/increase in payables		20	**(103.8)**	32.5
Decrease in contract liabilities		17	**(61.4)**	–
Decrease in provisions		20	**(3.2)**	(9.9)
Cash (outflow)/inflow from operating activities before exceptional items			**(63.6)**	140.8
Cash outflow from operating activities (exceptional items)			**(60.8)**	(32.0)
Cash (outflow)/ inflow from operating activities			**(124.4)**	108.8
Dividends received from joint ventures		14	**31.4**	30.5
Interest received		6	**0.2**	0.9
Income tax received/(paid)		9	**10.1**	(9.9)
Net cash (outflow)/inflow from operating activities			**(82.7)**	130.3
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment			**–**	3.6
Proceeds from sale of subsidiaries and joint ventures, net of cash disposed			**18.7**	5.0
Purchase of property, plant and equipment		13	**(11.6)**	(22.1)
Purchase of intangible assets		12	**(19.8)**	(41.2)
Purchase of capitalised mobilisation costs			**(0.9)**	–
Acquisition of subsidiaries, net of cash acquired			**(29.0)**	(16.7)
Investment in joint ventures		14	**(52.0)**	(77.6)
Return of equity from joint ventures		14	**25.2**	40.6
Loan repayment from joint ventures			**6.1**	–
Classification (from)/to assets held for resale			**(2.2)**	2.1
Net cash used in investing activities			**(65.5)**	(106.3)
Cash flows from financing activities				
Issue of shares		25	**249.9**	0.2
Sale/(purchase) of own shares		26	**0.4**	(1.3)
Interest paid			**(24.3)**	(21.7)
Cash outflow incurred from raising finance			**–**	(2.0)
Inflow from finance leases on property, plant and equipment		22	**–**	2.5
Finance lease repayments		22	**(4.5)**	(10.2)
Repayment of borrowings			**(39.2)**	(91.3)
Dividends paid to equity holders of the parent		10	**(52.6)**	(66.1)
Dividends paid to non-controlling interests			**(1.6)**	(1.5)
Net cash from/(used in) financing activities			**128.1**	(191.4)
Decrease in cash, cash equivalents and overdraft			**(20.1)**	(167.4)
Effect of change in foreign exchange rates			**0.9**	(1.5)
Opening cash, cash equivalents and overdraft			**330.9**	499.8
Closing cash, cash equivalents and overdraft		20	**311.7**	330.9

Notes to the consolidated financial statements

For the year ended 30 June 2019

1 Significant accounting policies

Kier Group plc (the Company) is a public limited company domiciled in the United Kingdom (UK), incorporated in England and Wales and listed on the London Stock Exchange. The Company's registered number is 2708030. The consolidated financial statements of the Company for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint arrangements.

The consolidated financial statements were approved by the Directors on 26 September 2019.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards issued by the International Accounting Standards Board ('IASB') and interpretations issued by the IFRS Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 July 2018.

The Company has elected to prepare its parent company financial statements in accordance with the FRS 101 'Reduced Disclosure Framework'. These are presented on pages 193 to 198.

Basis of preparation

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value and the IFRS 2 share-based payments charge which is based on fair value movements of the Group's share price.

The following amendments to standards are effective for the financial year ended 30 June 2019 onwards:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- Amendments to IFRS 2 'Share-based Payments'
- Amendments to IFRS 4 'Insurance Contracts'
- Amendments to IAS 40 'Investment Property'
- Annual Improvements to 2014-2016 cycle
- IFRS 1 and IAS 28 amendments
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

Other than the impact of IFRS 9 and IFRS 15 as noted below, none of the above amendments to standards or interpretations has had a material effect on the Group's financial statements.

The following new standards and amendments to standards have been issued but were not yet effective and therefore have not been applied in these financial statements:

IFRS 16	'Leases'
IFRS 17	'Insurance Contracts'
IFRS 3 (amendments)	'Business Combinations'
IAS 1 (amendments)	'Presentation of Financial Statements'
IAS 8 (amendments)	'Accounting Policies, Changes in Accounting Estimates and Errors'
IAS 19 (amendments)	'Employee Benefits'
IAS 28 (amendments)	'Investments in Associates'
IFRIC 23	'Uncertainty over Income Tax Treatments'
Annual Improvements	2015-2017 cycle

Other than the impact of IFRS 16 as noted below, no significant net impact from the adoption of these new standards, amendments or interpretations is expected. The Group has chosen not to adopt any of the above standards, amendments and interpretations earlier than required.

Going concern

The Directors continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

The Group announced the conclusions of its strategic review in June 2019, which set out the Group's plans to focus on its core businesses of Regional Building, Infrastructure, Utilities and Highways; to simplify the Group by selling or substantially exiting non-core activities, including Kier Living, Property, Facilities Management and Environmental Services; to restructure the Group by reducing headcount by c.1,200 and deliver annual cost savings of c.£55m from FY2021; and to embed a culture of performance excellence with a particular focus on cash generation to deliver a reduction in average month-end net debt.

As at 19 September 2019, the Group has received a number of offers for its Residential business and has taken cost reduction actions to realise significant annualised benefits. The results of these actions will result in reduced leverage and reduced costs over the next 12 months.

At 30 June 2019, the Group had £922m of unsecured committed facilities, £20m of uncommitted overdrafts and £195m of uncommitted supply chain financing facilities.

Noting that the Group has £(121.8)m net current liabilities as at 30 June 2019, the Group has at the balance sheet date undrawn committed banking facilities of £440.7m that could be called upon as cash to increase its net current assets.

The Directors have reviewed the Group's short-term cash flow forecasts to 31 December 2020 which are included in the Group's three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios. These included consideration of the risks to the Group relating to pension funding, working capital, supply chain finance, volume reductions, margin erosion, project specific risks, delivery of the cost reduction plans, delivery of the business disposal programme and the recoverability of work in progress and debtor balances. This stress-testing also considered a combination of the individual downside profit and cashflow scenarios.

The Board undertook this assessment in the context of macro-economic and political risks affecting the UK economy, including Brexit. Brexit has the potential to disrupt the Group's operations, particularly in relation to materials, people and the supply-chain. The Group has established a 'Brexit task force' and has in place business continuity plans to mitigate the risks associated with Brexit. The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered to be more insulated from macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability. However, in light of the current macro-economic and political risks affecting the UK economy, and other risks to business performance, the Board has also planned further mitigating actions which could be taken and are within its control to ensure that the Group remains in compliance with its debt facilities and covenant requirements in severe but plausible downside business scenarios over the forecast period.

1 Significant accounting policies continued

As a result, the Directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

FRC Corporate Reporting Review

On 30 July 2018, the Company received a letter from the FRC's Corporate Reporting Review Team (CRRT) raising a number of points on the Group's 2017 Annual Report. Details regarding the CRRT's enquiry were disclosed on page 78 of the 2018 Annual Report.

During the year, the Company has continued to engage with the FRC, principally in relation to: (i) the Group's accounting treatment of certain joint ventures; and (ii) the basis of revenue recognition of certain contract claims.

The CRRT has considered the accounting treatment of certain joint ventures in the Property and Residential businesses. In particular, the CRRT challenged whether contractual provisions giving Kier pre-emption rights to buy out its joint venture partners in the event of a dispute that leads to a deadlock result in an 'asymmetry' between the parties' rights and could in substance mean that Kier controls these investments. The Company does not believe that these are substantive rights and, consequently, these investments have historically been accounted for as joint ventures under the equity accounting method and not consolidated into the Group's financial statements. The Group received an unqualified audit opinion on its financial statements for the years ended 30 June 2017 and 2018.

As at 30 June 2017, the Group's joint venture investments containing such pre-emptive rights were Kier Cross Keys within the Residential division as well as Kier Foley Street, Kier Reading and Kier Trade City within the Property division. During the year ended 30 June 2018, the Residential division also established Kier Community Living and the Property division established Kier Cornwall Street.

The Company acknowledges that this is an area of significant accounting judgement. However, in order to address the concerns raised by the FRC and demonstrate that the pre-emption provisions were never intended to be substantive, the relevant agreements have been amended to remove these rights. The Kier Cross Keys and Kier Community Living Members' Agreements were amended prior to 30 June 2019. The Members' Agreements for Kier Trade City and Kier Cornwall Street have been amended in September 2019. Kier Foley Street and Kier Reading sold their remaining property assets in June 2017 and December 2017 respectively. Following these amendments, Kier has no pre-emption rights to buy-out its joint venture partners.

The Group's accounts continue to be presented on a consistent basis and have not been restated. However, had each of these investments containing pre-emption rights been consolidated as subsidiaries, rather than being equity accounted for as joint ventures, as at 30 June 2017, 30 June 2018 and 30 June 2019 respectively in accordance with IFRS 10 'Consolidated Financial Statements', the effect on the Group's balance sheet and income statement has been shown in note 14(g).

The Directors concluded that the Group's 2019 financial statements, including its 2018 comparative, include a fair reflection of the net assets, net results and cash flows of these joint ventures.

The FRC also questioned whether the amounts receivable relating to certain contract claims on which significant losses were recognised in subsequent accounting periods were in accordance with the requirements of IAS 11 'Construction Contracts'. Although it is recognised that the recovery on these particular items was subsequently lower than expected, the recoverability of the claims recognised were considered by management to be supported by the facts, and in accordance with IAS 11 at the time of approving the accounts.

The Group has revised its process for assessing the recoverability of such claims and IFRS15 'Revenue from Contracts with Customers' has been adopted, replacing IAS 11, which has raised the threshold for recognition of certain claims, as explained in note 34.

Impact of IFRS 15

The Group adopted IFRS 15 during the year using the cumulative catch-up method of transition, wherein the results of the prior year are not restated. Instead, the initial impact of adopting the standard has been taken to reserves on the date of initial application (1 July 2018). The Group has recognised a debit adjustment to reserves of £60.6m (net of the associated tax effect) in respect of the transitional adjustments.

Greater detail on the transitional adjustment has been provided in note 34.

Under the Group's chosen method of adoption, comparative figures for the preceding financial period have not been restated and are still presented under the previous revenue standards (IAS 11 & IAS 18). In order to provide some comparability, the current year figures have been presented under both old and new standards in note 34.

Following adoption of IFRS 15 the Group has revised its revenue and profit recognition accounting policies, below, to ensure compliance with the standard.

Impact of IFRS 9

From 1 July 2018, Kier Group plc retrospectively adopted IFRS 9 'Financial Instruments'. The adoption of IFRS 9 has had no material impact on the Group's financial statements for the financial year ended 30 June 2019.

The Group has implemented an expected credit loss impairment model with respect to trade receivables and contract assets using the simplified approach. Trade receivables and contract assets have been grouped on the basis of their shared risk characteristics and a provision matrix has been developed and applied to these balances to generate the loss allowance. The majority of the Group's receivables are with utility companies, transport agencies, government agencies and local authorities and the incidence of credit loss is low. Therefore, only an immaterial adjustment was generated as a result of transition from the previous bad debt provision under IAS 39 to the loss allowance under IFRS 9.

The Group does not hold complex financial instruments and the impact of IFRS 9 on the Group's hedge accounting is not material. As permitted by the standard, the Group has chosen to delay the adoption of IFRS 9 for hedge accounting and therefore the Group's hedge accounting continues to be performed in accordance with IAS 39 for the year ended 30 June 2019.

Impact of IFRS 16

The Group continues to work on assessing the impact of IFRS 16 'Leases'. As previously disclosed, the main impact of IFRS 16 will be to move the Group's larger, longer-term operating leases, primarily in respect of property, onto the balance sheet, with a consequential increase in non-current assets and finance lease obligations. Operating lease charges included in administrative expenses will be replaced by depreciation and interest costs.

The Group will transition to IFRS 16 using the modified retrospective approach whereby the cumulative impact of applying the standard is accounted for as an adjustment to equity at the start of the accounting period in which it is first applied (i.e. 1 July 2019).

IFRS 16 introduces a new category of non-current assets for 'right of use assets' associated with leases. At the date of initial application of IFRS 16, the carrying value of the Group's right of use assets is expected to be less than the additional lease borrowings that will be coming on to the balance sheet.

Whilst work on the impact of IFRS 16 is ongoing, lease liabilities of between £190m and £200m are expected to be brought onto the balance sheet along with associated right-of-use assets of between £170m and £180m. In addition, prepaid rental amounts will be removed from the balance sheet. The net impact of these adjustments is expected to result in a material debit to opening reserves at 1 July 2019 of around £15m to £25m.

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2019. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurements are recognised in profit or loss.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the result is negative, a 'bargain purchase' gain is recognised immediately in the income statement.

Provisional fair values allocated at a reporting date are finalised within 12 months of the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement unless the contingent consideration is classified as equity, in which case settlement is accounted for within reserves.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(b) Joint arrangements

A joint arrangement is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties.

The Group's interests in joint ventures are accounted for using the equity method. Under this method the Group's share of the profits less losses of joint ventures is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil, following which no further losses are recognised. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

From time to time the Group undertakes contracts jointly with other parties. These fall under the category of joint operations as defined by IFRS 11. In accordance with IFRS 11, the Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from foreign currency transactions are reflected in the income statement.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The consolidated financial statements are presented in GBP, which is the Group's presentation currency.

The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Trading profits or losses are translated at average rates prevailing during the accounting period. Differences on exchange arising from the retranslation of net investments in overseas subsidiary undertakings at the year-end rates are recognised in other comprehensive income. All other translation differences are reflected in the income statement.

Revenue and profit recognition

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts and after eliminating sales within the Group. It also includes the Group's proportion of work carried out under jointly controlled operations.

Where revenue that has been recognised is subsequently determined not to be recoverable due to a dispute with the customer, these amounts are accounted for as a reduction in revenue. Where non-recovery is as a result of inability of a customer to meet its obligations, these amounts are charged to administrative expenses as a credit loss.

The general principles for revenue and profit recognition across the Group are as follows:

1 Significant accounting policies continued

- Provision is made for any unavoidable future net losses arising from contract obligations, as soon as they become apparent;
- Additional consideration for contract modifications (variations) is only included in revenue (or the forecast contract out-turn) if the scope of the modification has been approved by the customer. If the scope of the modification has been approved but the parties have not yet determined the corresponding change in the contract price, an estimate of the change to the transaction price is made and included in calculating revenue to the extent that any increase in price is highly probable not to reverse;
- Contract modifications are treated as separate contracts if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract;
- Variable consideration amounts (gain-share amounts, KPI bonuses, milestone bonuses, compensation event claims, etc.) are included in revenue (or forecasts to completion) only to the extent that it is highly probable that a significant reversal of the amount in cumulative revenue recognised will not occur;
- Refund liabilities (liquidated damages, pain-share amounts, KPI penalties, etc.) are accounted for as a reduction in revenue (or in forecasting contract out-turns) as soon as it is expected that the Group will be required to refund some or all of the consideration it has received from the customer;
- Claims against third-parties (such as insurance recoveries and claims for cost reimbursements) outside of normal supplier price adjustments are recognised only when the realisation of income is virtually certain. The associated income is accounted for as reduction in costs rather than revenue; and
- Contract mobilisation is not considered to be a separate performance obligation in most situations, as the customer receives little or no benefit from mobilisation activities. Any consideration received from the customer in relation to the mobilisation phase of a contract is deferred and recognised as additional revenue relating to the performance obligations in the contract that benefit the customer.

If the timing of payments agreed with the customer provides the Group or the customer with a significant benefit of financing the transfer of goods or services, the amount of consideration is adjusted for the effects of the time value of money. The Group does not make an adjustment for the time value of money in the following circumstances:

- When the Group expects, at contract inception, that the period between the entity transferring a good or service and the customer paying for it will be one year or less; or
- Where the timing of the payments is for commercial rather than financing reasons, e.g. construction contract retentions.

Revenue and profit recognition policies applied to specific businesses are as follows:

(a) Construction contracts
Revenue is recognised on construction services over time as the benefit is transferred to the customer. The Group uses an input method to measure progress. The percentage of completion is measured using cost incurred to date as a proportion of the estimated full costs of completing the contract and is applied to the total expected contract revenue to determine the revenue to be recognised to date.

The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Consistent contract review procedures are in place in respect of contract forecasting.

(b) Services
Revenue and profit from services rendered, which include facilities management, highways maintenance, utilities maintenance, street cleaning and recycling, are recognised over time as the service is performed.

Progress on capital works and infrastructure renewal projects in the highways and utilities businesses is measured using costs incurred as a percentage of the estimated full costs of completing the performance obligation.

Where the contract includes bundled services, the transaction price is allocated to each performance obligation identified in the contract based on the relative stand-alone selling prices of each of the performance obligations. Revenue is then recognised independently when each of the performance obligations is satisfied.

Any variable consideration (e.g. performance bonus) attributable to a single performance obligation is allocated entirely to that performance obligation. Where variable consideration is attributable to the entire contract and is not specific to part of the contract, the consideration is allocated based on the stand-alone selling prices of each of the performance obligations within the contract.

Service contracts are reviewed monthly to assess their future operational performance and profitability.

(c) Private housing and land sales
Revenue from housing sales is recognised at the fair value of the consideration received or receivable on legal completion, being the point that control is deemed to pass to the customer.

Profit is recognised on the sale of each housing plot by reference to the estimated cost of that plot based on an allocation from the expected overall cost out-turn for the development site. The principal estimation technique used by the Group in attributing profit on sites to a particular period is the preparation of forecasts of costs to complete on a site-by-site basis. Consistent review procedures are in place in respect of site forecasting.

Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts.

Where plots are sold part-way through construction (e.g. affordable housing plots acquired by a housing association), subsequent revenue is recognised over time based on the stage of completion reflecting the transfer of benefit to the customer. If it is not possible to establish an accurate allocation of cost from the overall site costs and therefore not possible to establish the stage of completion based on actual costs, external valuations are used to estimate the percentage of completion.

(d) Property development
Revenue in respect of property developments is recorded on unconditional exchange of contracts on disposal of finished developments. Profit taken is subject to any amounts necessary to cover residual commitments relating to development performance.

Where developments are sold in advance of construction being completed, revenue and profit are recognised at the point of sale, reflecting the transfer of control to the customer in its current stage of completion. Thereafter, revenue for construction services provided to the customer to complete the property is recognised over time in line with the percentage of completion, consistent with the Group's accounting policy on recognising revenue on construction contracts (see page 120).

(e) Private Finance Initiative (PFI) service concession agreements
Revenue relating to construction or upgrade services under a service concession agreement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see page 120).

Operation or service revenue is recognised in the period in which the services were provided by the Group. When the Group provides more than one service in a service concession agreement, the consideration received is allocated by reference to the relative stand-alone selling prices of the services delivered.

Pre-contract and contract mobilisation costs
Pre-contract costs to obtain a contract that would have been incurred irrespective of whether the contract was obtained are recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer irrespective of whether the contract is obtained.

Mobilisation costs incurred in respect of a specific contract that has been won or an anticipated contract that is expected to be won (e.g. when the Group has secured preferred bidder status), are carried forward in the balance sheet as capitalised mobilisation costs if: the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and the costs are expected to be recovered (i.e. the contract is expected to be sufficiently profitable to cover the mobilisation costs).

The vast majority of contracts incurring significant mobilisation costs are contracts that exceed 12 months in duration. The Group's policy is therefore to show its capitalised mobilisation costs as a non-current asset, amortised over the expected contract duration.

Warranties and rectification costs
The Group does not offer extended insurance-type warranties at an additional cost to the customer (which would represent separate performance obligations). Standard industry assurance-type warranties are provided and are accounted for as rectification cost provisions based on the estimated costs of making good any latent defects.

Exceptional items and amortisation of acquired intangible assets
During the year, the Directors have reviewed the previous accounting presentation for disclosed non-underlying items. As part of this review, the Directors have changed the Group's Alternative Performance Measure to 'Profit before exceptional items and amortisation of acquired intangible assets' to improve the transparency and clarity of the Group's financial performance.

Items which are significant by virtue of their size and/or nature are now presented as exceptional items within their relevant consolidated income statement category.

Exceptional items are items of financial performance which the Group believes should be separately identified on the face of the Income Statement to provide additional useful information and to assist in understanding the financial performance achieved by the Group and are highlighted separately in the notes to the consolidated financial statements.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the year and the extent to which results are influenced by material unusual and/or non-recurring items.

The Directors exercise judgement in determining the classification of certain items as exceptional using quantitative and qualitative factors. In assessing whether an item is exceptional, the Directors give consideration, both individually and collectively, as to whether the item is unusual by virtue of its size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items. No single criteria alone classifies an item as exceptional and management must therefore exercise judgement as to whether, on balance, classifying as such will help users of the financial statements understand the Group's business performance.

Amortisation of acquired intangible assets and certain financing costs are also included alongside exceptional items on the basis of being ongoing non-cash items generated from acquisition related activity.

As a result of the Group's change in its Alternative Performance Measure, a review of the comparative year has been conducted to align to the revised presentation. A material charge of £27.0m in relation to the Mersey Gateway project within the Infrastructure division has been identified as meeting the revised exceptional classification. The results for the year ended 30 June 2018 have been re-presented accordingly. The results from the Mining operations, which were previously disclosed as non-underlying, do not meet the definition for exceptional items and therefore have been re-presented within profit before exceptional items and amortisation of acquired intangible assets.

A reconciliation from the reported results in the 30 June 2018 Annual Report to the revised comparative amounts is included in note 5.

Finance income and costs
Interest receivable and payable on bank balances is credited or charged to the income statement as incurred using the effective interest rate method.

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

Borrowing costs incurred within the Group's jointly controlled entities relating to the construction of assets in PFI and PPP projects are capitalised until the relevant assets are brought into operational use.

Notional interest payable, representing the unwinding of the discount on long-term liabilities, is charged to finance costs.

Taxation
Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on 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.

1 Significant accounting policies continued

Deferred tax is provided using the balance sheet 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 deferred tax provision 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.

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Negative goodwill is recognised in the income statement immediately. On disposal of a subsidiary or jointly controlled entity, the attributable carrying amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets which comprise contract rights and computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to administrative expenses in the income statement on a straight-line basis over the expected useful lives of the assets, which are principally as follows:

Contract rights	Over the remaining contract life
Computer software	3–10 years

Amortisation of the ERP computer software was initially set at a 7-year useful life but has now been extended to 10 years as the Directors now anticipate the asset will be in use for longer than initially expected. The impact was a £4.0m reduction in the amortisation charge for the year.

Internally generated intangible assets developed by the Group are recognised only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

Property, plant and equipment and depreciation

Depreciation is based on historical or deemed cost, including expenditure that is directly attributable to the acquisition of the items, less the estimated residual value, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated to residual values in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold land and buildings	25–50 years
Leasehold buildings and improvements	Period of lease
Plant and equipment (including vehicles)	3–12 years

Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the asset.

Leases

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases, and the rental charges are charged to the income statement on a straight-line basis over the life of each lease.

Mining assets

Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the 'coaling life' of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within finance costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset.

Where there is a subsequent change to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

Inventories

Inventories, including land held for and in the course of development, are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Cost in certain circumstances also includes notional interest as explained in the accounting policy for finance income and costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventories are valued on a first in, first out (FIFO) basis.

Land inventory is recognised at the time a liability is recognised, generally after exchange of unconditional contracts.

Property inventory, which represents all development land and work in progress, is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the income statement.

Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the assets are available for sale in their present condition.

Share capital
The ordinary share capital of the Company is recorded as the proceeds received, net of directly attributable incremental issue costs.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities
The Group discloses a contingent liability in circumstances where it has a possible obligation depending on whether some uncertain future event occurs, or has a present obligation but payment is not probable, or the amount cannot be measured reliably.

Government grants
Government grant income is recognised at the point that there is reasonable assurance that the Group will comply with the conditions attached to it, and that the grant will be received.

Employee benefits
(a) Retirement benefit obligations
For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

The Group accounts for defined benefit obligations in accordance with IAS 19. Obligations are measured at discounted present value while plan assets are measured at fair value. The operating and financing costs of such plans are recognised separately in the income statement; current service costs are spread systematically over the lives of employees and financing costs are recognised in full in the period in which they arise. Remeasurements of the net defined pension liability, including actuarial gains and losses, are recognised immediately in other comprehensive income.

The net finance cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance costs in the income statement.

Where the calculations result in a surplus to the Group, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

(b) Share-based payments
Share-based payments granted but not vested are valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long Term Incentive Plan (LTIP) schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a Stochastic model.

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

Shares purchased and held in trust in connection with the Group's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. An assessment of whether a financial asset is impaired is made at least at each reporting date. The principal financial assets and liabilities of the Group are as follows:

(a) Trade receivables and trade payables
Given the varied activities of the Group it is not practicable to identify a common operating cycle. The Group has therefore allocated receivables and payables due within 12 months of the balance sheet date to current with the remainder included in non-current.

A trade receivable is recognised when the Group has a right to consideration that is unconditional (subject only to the passage of time before payment is due). Trade receivables do not carry interest and are stated at their initial cost reduced by appropriate allowances for expected credit losses.

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land purchases, are discounted and recorded at their present value.

Amounts owing under supply chain finance arrangements are included within trade payables rather than bank debt. The purpose of supply chain finance is purely to grant subcontractors and suppliers access to credit and improve their cashflows. There have been no changes to the underlying terms of the supply chain finance arrangements.

The designation in trade payables is due to the assignment of invoice rather than a novation, Kier acting as an agent with fees related to supply chain finance being borne by the supplier and the final payment date to the bank being set by Kier with interest accrued for any late payments.

(b) Contract assets and liabilities
When the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, the amount of revenue associated with the transfer of goods or services is accrued and presented as a contract asset in the balance sheet (excluding any amounts presented as a receivable). A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.

If a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Group transfers a good or service to the customer, the amount is presented as a contract liability on the balance sheet. A contract liability represents the Group's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

(c) Cash and cash equivalents
Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand, including bank deposits with original maturities of three months or less, net of bank overdrafts where legal right of set off exists. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(d) Bank and other borrowings
Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

1 Significant accounting policies continued

(e) Private Finance Initiative (PFI) assets
Under the terms of a PFI or similar project, where the risks and rewards of ownership remain largely with the purchaser of the associated services, the Group's interest in the asset is classified as a financial asset and included at its amortised cost within investment in joint ventures.

(f) Derivative financial instruments
As permitted by IFRS 9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Critical accounting estimates and judgements
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Revenue and profit recognition
The estimation techniques used for revenue and profit recognition in respect of property development, housing sales, construction contracts and services contracts require forecasts to be made of the outcome of long-term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

There are 10 contracts that the Group considers require significant accounting estimates and, as at 30 June 2019, the Group has included estimated recoveries from customers with a combined value of £29.3m. These recoveries are recognised on the basis that they are considered highly probable not to reverse, however, there is clearly a range of factors affecting potential outcomes once these contracts are finalised and the Group estimates the values on these contracts could collectively range from an upside of £12.9m to a downside of £7.4m. One of these contracts is a significant ongoing rebuild project that is covered by a fixed insurance recovery, for which there are no balances with customers however there is risk associated with the future costs of rebuild.

Over 500 construction contracts (2018: over 500) were income generating during the year within the Group's Buildings and Infrastructure Services operating divisions. Of these, five (2018: three) individually had a material impact on operating profit.

The key judgements and estimates relating to determining the revenue and profit of these material contracts are:

- costs to complete
- achieving the planned build programme
- recoverability of claims and variations in accordance with IFRS 15
- each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract, determined by a combination of management judgement and external professional assistance, backed up by judgements papers for the contracts that have a material impact on the income statement.

The level of estimation uncertainty in our Construction business is reduced by the effect of its substantial portfolio and significant experience of the division's management team. The level of estimation is further reduced by the combination of the modest scale and short contract durations of our projects. Nevertheless, the profit recognition in our Construction business is a key estimate, due to the inherent uncertainties in any construction project over revenues and costs.

The level of estimation and uncertainty differs between our construction businesses, particularly between Regional Building, Major Projects – Building and Infrastructure. UK Building operates around 400 sites each year with an average project size of £8m. These projects typically operate under framework contracts where costs are known with a greater degree of certainty. Infrastructure manages around 30 sites with projects ranging from a relatively small number of higher value major Infrastructure Civil Engineering projects to a larger number of more modest minor signalling upgrades and replacements.

The major Infrastructure Civil Engineering projects typically include Design and Build, Construct only and Lump Sum contracts. The nature and length of these contracts means there can be a greater level of estimation and uncertainty. The blended portfolio risk of the overall construction businesses is mitigated by the relative sizes of the Regional Building, Major Projects – Building and Infrastructure businesses.

Our construction revenue for the year is £1.9bn (2018: £2.0bn) with an associated margin of 2.7% (2018: 3.4%). The historic profit margins in our construction businesses typically range from 1.8% to 3.4%. We therefore determined that a potential downside risk in margin would be 0.9% (2018: 1.6%). Given the short-term average duration (approximately 12 months) of our construction portfolio, the impact of such a decrease in margin across our projects in delivery at the year end would be a decrease in operating profit of £8.6m (2018: £16.0m). The FY2018 comparatives have been re-presented to reflect the move to reporting profit before exceptional items (see note 5).

(b) Valuation of land and work in progress
The inventory balance brought forward from the prior year end included £60m relating to 10 land sites acquired for development as residential sites, on which development had been temporarily suspended. Historically, these assets were accounted for as work in progress in the balance sheet and are carried at net book value, representing the lower of cost and net realisable value in accordance with IAS 2 'Inventories', para 9.

The net realisable value of the land is a key estimate.

Following the Group's decision to dispose of the Residential division, these assets have been written down to their fair value. A material exceptional charge has been recorded in the year totalling £50m (see note 5).

(c) Life cycle assets

The Group has a number of ongoing contracts where life cycle funds are established to meet contractual obligations. The key sensitivity in our calculation is the percentage of the funds build-up required for future maintenance. A reasonably likely change would be an increase or decrease of 10% in the percentage of funds build-up required. Such a change would result in a profit impact of approximately £1m in any one year.

(d) Defined benefit pension scheme valuations

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

- Expected return on plan assets;
- Inflation rate;
- Mortality;
- Discount rate; and
- Salary and pension increases.

Details of the assumptions used and sensitivity to changes in these assumptions are included in note 8.

(e) Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units (CGUs) to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the CGU and the application of a suitable discount rate in order to calculate the net present value. Cash flow forecasts for the next three years are based on the Group's budgets and forecasts. Other key inputs in assessing each CGU are revenue growth, operating margin and discount rate. The assumptions are set out in note 12 together with an assessment of the impact of reasonably possible sensitivities.

(f) Joint ventures

In accordance with IFRS 11 para 7, joint ventures are identified where the control of an arrangement is shared and decisions around activities require unanimous consent if the action significantly affects the investee's return. The key judgement involved in determining joint control is that the board structure and the mechanisms, including deadlock mechanisms, in the reserved matters do not give any one party majority control over relevant activities, regardless of the economic split between partners.

Further detail on the nature of this judgement, in the context of the FRC review, is given on page 118.

(g) Exceptional items

The Group changed the presentation of its financial statements for FY2019 to profit before exceptional items and amortisation of acquired intangible assets. In prior years, the Group has reported underlying profit. The principal reason for the change is to improve the transparency and clarity of the Group's financial performance.

Exceptional items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the financial performance achieved by the Group in accordance with the accounting policy set out on page 121. Determining whether an item is classified as an exceptional item requires significant judgement.

A total net exceptional cost of £286.6m after tax was charged to the income statement for the year ended 30 June 2019 (2018: £47.0m). The items that comprise this are set out in note 5 together with an explanation of their nature and consideration points as to why the Directors believe these to be exceptional.

(h) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the overall provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised.

2 Revenue

Revenue is entirely derived from contracts with customers.

Infrastructure services

The Group derives revenue from capital infrastructure projects as well as the maintenance of infrastructure assets across various sectors including highways, rail, water, gas and domestic fibre installation.

Capital projects can range from the construction of power stations, roads, bridges and tunnels over a period of several years (e.g. Hinkley Point C, Mersey Gateway bridge, Crossrail and HS2), to small schemes completed in a matter of days. Revenue is recognised over time as the construction services are rendered to the customer. Each capital project is typically a single performance obligation.

The Group also provides maintenance services for the UK road, rail and utilities infrastructure through both routine, preventative maintenance as well as reactive repairs. These services are generally delivered under framework contracts of between 5 to 8 years, however, individual performance obligations under the framework are normally determined on an annual, monthly or ad hoc basis. Revenue is recognised over time as the maintenance services are rendered to the customer.

Where multiple services are supplied under a single contract they are treated as separate performance obligations and revenue is recognised separately as each performance obligation is satisfied.

Services are normally invoiced monthly in arrears under normal commercial credit terms. Under some contracts, amounts are held back as a retention for periods that can exceed 12 months. However, as the purpose of the retentions is to ensure that the performance obligations on the contract are carried out to a satisfactory standard, the Group does not deem there to be a significant financing component in the timing of the cash flows on these amounts.

The Group's obligation to make good faulty workmanship under standard industry warranty terms is recognised as a provision (see note 24).

Buildings

The Group undertakes over 400 building projects each year, providing construction services in the private, education and health sectors and on public sector frameworks. Projects range from extensions costing £0.3m to the construction of major strategic assets costing hundreds of millions of pounds. The construction of a building, including any associated design work, is normally accounted for as a single performance obligation as the services provided are normally highly interrelated. Revenue is recognised over time as the performance obligation is satisfied.

Invoices are typically raised monthly, based on valuations of the work completed, and have normal commercial payment terms. It is common in the construction industry for an amount to be held back as a retention for periods that can exceed 12 months. However, as the purpose of the retentions is to ensure that the performance obligations on the contract are carried out to a satisfactory standard, the Group does not deem there to be a significant financing component in the timing of the cash flows on these amounts.

Whilst the bulk of consideration associated with construction contracts is fixed, variable consideration elements can exist (milestone bonuses, gain share, event claims, etc.). The Group only recognises revenue for these amounts if they are highly probable not to reverse.

Liquidated and ascertained damages ('LADs') clauses are often present in construction contracts. Where it is anticipated that a LADs clause will be triggered (e.g. through overrunning works), revenue is constrained to reflect the highly probable amount of the deduction.

Modifications to the scope of construction work are agreed in principle with the customer before additional work is carried out. However, the price is not always determined until the final account stage. In these circumstances the Group treats the revenue associated with the modification as variable consideration and only recognises amounts that are highly probable not to reverse.

The Group's obligation to repair building faults under standard industry warranty terms is recognised as a provision (see note 24).

For the Group's construction activities in the Middle East, in some circumstances, customers pay upfront amounts to protect the Group against payment default. Payments on account are not normally made more than 12 months in advance of the service delivery.

The Group also provides facilities management and maintenance services. Revenue for these services is recognised over time as the services are rendered. Invoices for services rendered are typically raised monthly. Typically, normal commercial payment terms apply, with the exception of the PFI lifecycle contracts, as noted below.

The Group has a number of long-term PFI lifecycle contracts to maintain properties over periods of 25-30 years. A fund is established at the start of the contract and amounts are drawn down by the Group as maintenance work is performed. The Group is also entitled to share in any surplus left in the fund at the end of the contract. Revenue is recognised over time to reflect the rendering of the service including an assessment of the appropriate proportion of the likely surplus in the fund, subject to being highly probable not to reverse. As the surplus amount will not be paid until the end of the contracts, the contract asset associated with the surplus recognised to date is shown as a non-current asset in the balance sheet. The surplus is payable at the end of the contract to ensure that the property is maintained to a satisfactory standard over the full term of the contract and to promote efficiencies. As such the Group does not deem there to be a significant financing component.

Developments & Housing

The Group undertakes property development and house building on its own sites as well as a service for customers. The Group also provides maintenance services to local authorities and private landlords with large housing portfolios, and waste and recycling collection services for local authority and commercial customers.

Revenue in respect of property developments is recorded on unconditional exchange of contracts. In most cases payment is received on legal completion.

Where developments are sold in advance of construction being completed, revenue and profit are recognised at the point of sale, reflecting the transfer of control to the customer in its current stage of completion. Thereafter, revenue for construction services provided to the customer to complete the property development is recognised over time as the construction services are rendered. Construction services are normally invoiced monthly based on valuations under normal commercial payment terms.

Revenue from house sales is recognised on legal completion, being the point that control is deemed to pass to the customer. Payment is also received at the point of legal completion.

Where housing plots are sold part-way through construction (e.g. affordable housing plots acquired by a housing association), subsequent revenue is recognised over time based on the stage of completion of the build reflecting the transfer of benefit to the customer.

Occasionally the Group will sell land that it has previously acquired for potential commercial property or housing developments. Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts.

Revenue for maintenance services is recognised over time as the services are rendered. Services are either invoiced monthly or shortly after completion of individual performance obligations. Normal commercial payment terms apply.

Environmental services contracts with local authorities, for domestic waste and recyclate collections and operation of household waste and recycling centre, have a typical duration of between 7 and 10 years. Contract with commercial customers are typically for 12 months. Revenue from environmental services contracts is recognised over time as the services are performed. Invoices are raised monthly in arrears and normal commercial payment terms apply.

Transaction price allocated to remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	2020 £m	2021 £m	2022 onwards £m
Infrastructure Services	369.5	98.5	32.0
Buildings	1,184.9	355.6	10.3
Developments & Housing	137.8	15.9	23.5
Total transaction price allocated to remaining performance obligations	**1,692.2**	**470.0**	**65.8**

The above transaction prices only include variable consideration if it is highly probable not to reverse and exclude any estimate of revenue from framework contracts for which a firm commitment or order has not been received at the reporting date.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

3 Segmental reporting

From 1 July 2018, the Group changed its reporting format to focus on three market positions to comprise Infrastructure Services, Buildings and Developments & Housing. This is the basis on which the Group reports its primary segmental information for the year ended 30 June 2019. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

The change in reporting structure has also resulted in a change to the Group's previously reported cash generating units ('CGU'). In accordance with IAS 36 'Impairment of Assets' the Group has reallocated the carrying value of the Group's goodwill as at 1 July 2018 to each of the Group's new CGUs as follows:

	£m
Infrastructure Services	527.0
Buildings	20.4
Developments & Housing	12.8
	560.2

Segment information is based on the information provided to the Chief Executive, together with the Board, who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the Business Review on pages 38 to 40.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 117 to 125. The Group evaluates segmental information on the basis of profit or loss from operations before exceptional items, amortisation of intangible contract rights, interest and income tax expense. The segmental results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Year to 30 June 2019

Continuing operations	**Infrastructure Services £m**	**Buildings £m**	**Developments & Housing £m**	**Corporate £m**	**Group £m**
Revenue[1]					
Group and share of joint ventures	1,670.7	1,882.7	939.8	1.2	**4,494.4**
Less share of joint ventures	–	–	(357.7)	–	**(357.7)**
Group revenue	**1,670.7**	**1,882.7**	**582.1**	**1.2**	**4,136.7**
Timing of revenue[1]					
Products and services transferred at a point in time	4.0	–	319.3	–	**323.3**
Products and services transferred over time	1,666.7	1,882.7	620.5	1.2	**4,171.1**
Group and share of joint ventures	**1,670.7**	**1,882.7**	**939.8**	**1.2**	**4,494.4**
Profit					
Group operating profit/(loss)	56.4	62.4	24.8	(50.2)	**93.4**
Share of post-tax results of joint ventures	–	–	30.7	–	**30.7**
Operating profit/(loss) before exceptional items	**56.4**	**62.4**	**55.5**	**(50.2)**	**124.1**
Net finance (costs)/income before exceptional items[2]	(5.7)	4.4	(18.3)	(6.9)	**(26.5)**
Profit/(loss) before tax and exceptional items	**50.7**	**66.8**	**37.2**	**(57.1)**	**97.6**
Exceptional items					
Revenue	–	(15.0)	–	–	**(15.0)**
Amortisation of acquired intangible assets relating to contract rights	(20.9)	–	(3.9)	–	**(24.8)**
Net finance costs	–	–	(1.1)	(0.6)	**(1.7)**
Other exceptional items	(39.9)	(47.2)	(103.8)	(110.1)	**(301.0)**
(Loss)/profit before tax from continuing operations	**(10.1)**	**4.6**	**(71.6)**	**(167.8)**	**(244.9)**

Year to 30 June 2019

Continuing operations	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
Balance sheet					
Operating assets[3]	985.8	551.9	568.9	184.8	**2,291.4**
Operating liabilities[3]	(359.5)	(756.7)	(307.1)	(193.5)	**(1,616.8)**
Net operating assets/(liabilities)[3]	**626.3**	**(204.8)**	**261.8**	**(8.7)**	**674.6**
Cash, cash equivalents and borrowings	139.1	298.2	(308.7)	(320.8)	**(192.2)**
Net financial assets	–	–	–	24.1	**24.1**
Net assets/(liabilities) excluding net assets held for sale	**765.4**	**93.4**	**(46.9)**	**(305.4)**	**506.5**
Net assets held for sale	–	–	13.1	–	**13.1**
Net assets/(liabilities)	**765.4**	**93.4**	**(33.8)**	**(305.4)**	**519.6**
Other information					
Inter-segmental revenue	67.2	2.2	2.5	0.5	**72.4**
Capital expenditure on property, plant, equipment and intangible assets	2.1	5.5	5.3	18.5	**31.4**
Depreciation of property, plant and equipment	(1.9)	(0.8)	(6.6)	(6.2)	**(15.5)**
Amortisation of computer software	(1.5)	(1.9)	(1.9)	(10.0)	**(15.3)**

Year to 30 June 2018[4]

Continuing operations	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,733.4	1,777.5	1,001.9	–	**4,512.8**
Less share of joint ventures	–	–	(273.2)	–	**(273.2)**
Group revenue	**1,733.4**	**1,777.5**	**728.7**	**–**	**4,239.6**
Timing of revenue[1]					
Products and services transferred at a point in time	5.2	–	421.2	–	**426.4**
Products and services transferred over time	1,728.2	1,777.5	580.7	–	**4,086.4**
Group and share of joint ventures	**1,733.4**	**1,777.5**	**1,001.9**	**–**	**4,512.8**
Profit					
Group operating profit/(loss)	95.3	54.7	25.9	(35.1)	**140.8**
Share of post-tax results of joint ventures	–	–	42.7	–	**42.7**
Profit on disposal of joint ventures and subsidiaries	–	–	3.5	–	**3.5**
Operating profit/(loss) before exceptional items	**95.3**	**54.7**	**72.1**	**(35.1)**	**187.0**
Net finance (costs)/income before exceptional items[2]	(3.8)	7.0	(17.0)	(9.3)	**(23.1)**
Profit/(loss) before tax and exceptional items	**91.5**	**61.7**	**55.1**	**(44.4)**	**163.9**
Exceptional items					
Exceptional contract losses	(27.0)	–	–	–	**(27.0)**
Amortisation of acquired intangible assets relating to contract rights	(25.0)	–	(0.6)	–	**(25.6)**
Net finance costs	(1.4)	–	(3.7)	–	**(5.1)**
Profit/(loss) before tax from continuing operations	**38.1**	**61.7**	**50.8**	**(44.4)**	**106.2**

3 Segmental reporting continued

Year to 30 June 2018[4]

Continuing operations	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
Balance sheet					
Operating assets[3]	1,142.8	504.3	715.8	99.1	**2,462.0**
Operating liabilities[3]	(522.9)	(752.9)	(310.7)	(81.5)	**(1,668.0)**
Net operating assets/(liabilities)[3]	**619.9**	**(248.6)**	**405.1**	**17.6**	**794.0**
Cash, cash equivalents and borrowings	141.1	340.0	(343.7)	(343.4)	**(206.0)**
Net financial assets	–	–	–	15.2	**15.2**
Net assets/(liabilities) excluding net assets held for sale	**761.0**	**91.4**	**61.4**	**(310.6)**	**603.2**
Net liabilities held for sale	–	–	(2.1)	–	**(2.1)**
Net assets/(liabilities)	**761.0**	**91.4**	**59.3**	**(310.6)**	**601.1**
Other information					
Inter-segmental revenue	71.3	2.2	1.4	10.1	**85.0**
Capital expenditure on property, plant, equipment and intangible assets	4.5	4.6	3.0	51.2	**63.3**
Depreciation of property, plant and equipment	(8.3)	(0.8)	(4.8)	(5.2)	**(19.1)**
Amortisation of computer software	(0.5)	(0.9)	(0.3)	(12.2)	**(13.9)**

1 Revenue is stated after the exclusion of inter-segmental revenue and before exceptional items. Over 90% of the Group's revenue is derived from UK based customers.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.0%.
3 Net operating assets/(liabilities) represent assets excluding cash, cash equivalents, bank overdrafts, borrowings, financial assets and liabilities, assets and liabilities classified as held for sale and interest-bearing inter-company loans.
4 Prior year re-presented to show the new reporting segments focused on the Group's three market positions of Infrastructure Services, Buildings and Developments & Housing and to reflect the change in the Group's Alternative Performance Measure. This has had no impact on the statutory reported results for the year ended 30 June 2018.

4 Profit/(loss) for the year

Profit/(loss) from operations is stated after charging/(crediting):

	Note	2019 £m	2018 £m
Auditor's remuneration:			
Fees payable for the audit of the parent company and consolidated financial statements		**0.4**	0.2
Fees payable to the Company's auditor for other services[1]:			
Audit of the Company's subsidiaries, pursuant to legislation		**1.2**	1.2
Other services		**0.2**	0.1
Amortisation of intangible assets	12	**40.3**	39.5
Impairment of intangible assets	12	**37.8**	–
Loss on disposal of computer software	12	**12.8**	–
Depreciation of property, plant and equipment:			
Owned	13	**12.0**	14.9
Finance leases	13	**3.5**	4.2
Profit on sale of property, plant and equipment		**(0.2)**	(0.8)
Impairment of property, plant and equipment	13	**10.0**	0.6
Amortisation of capitalised mobilisation cost	15	**1.4**	–
Negative goodwill recognised	31	**(0.8)**	(2.6)
Hire of plant and machinery		**120.2**	111.3
Operating lease rentals:			
Land and buildings		**16.4**	15.0
Plant and machinery		**21.8**	29.4
Research and Development Expenditure Credit receivable		**(7.8)**	(8.8)
Net loss from operations related to mining		**(4.3)**	–

1 The Auditor's remuneration relate to amounts paid to PricewaterhouseCoopers LLP. A summary of other services provided by PricewaterhouseCoopers LLP during the year is provided on page 72. An additional £1.0m was paid to PricewaterhouseCoopers LLP in respect of reporting accountant services associated with the rights issue which have been charged to the share premium account.

5 Exceptional items and amortisation of acquired intangible assets

The Directors consider that alternative performance measures referred to in these results provide useful information for readers of the accounts on the Group's financial performance. The adjustments made to statutory loss/profit are to exclude exceptional items, which may be part of trading of the Group but are significant in size and/or nature and meet the criteria as set out on page 121, and the amortisation of acquired intangible assets.

(Loss)/profit before taxation is stated after (charging)/crediting exceptional items and amortisation of acquired intangible assets:

Continuing operations	Amortisation of acquired intangible assets £m	Costs associated with previous acquisitions £m	Restructuring charges £m	Preparation for business divestment or closure	Exceptional contract losses	Other	2019 Total £m	2018 Total £m
Revenue								
Group and share of joint ventures	–	–	–	–	(15.0)	–	**(15.0)**	–
Less share of joint ventures	–	–	–	–	–	–	**–**	–
Group revenue	**–**	**–**	**–**	**–**	**(15.0)**	**–**	**(15.0)**	–
Cost of sales	–	–	–	(76.9)	(34.3)	–	**(111.2)**	(27.0)
Gross loss	**–**	**–**	**–**	**(76.9)**	**(49.3)**	**–**	**(126.2)**	(27.0)
Administrative expenses	(24.8)	(29.3)	(56.4)	(94.4)	(0.6)	(8.7)	**(214.2)**	(25.6)
Loss on disposal of joint ventures and subsidiaries	–	–	–	(0.4)	–	–	**(0.4)**	–
Loss from operations	**(24.8)**	**(29.3)**	**(56.4)**	**(171.7)**	**(49.9)**	**(8.7)**	**(340.8)**	(52.6)
Net finance charges	–	–	–	–	–	(1.7)	**(1.7)**	(5.1)
Loss before tax	**(24.8)**	**(29.3)**	**(56.4)**	**(171.7)**	**(49.9)**	**(10.4)**	**(342.5)**	(57.7)
Associated tax credit	4.1	4.8	9.2	28.0	8.2	1.6	**55.9**	10.7
Charged against profit for the year	**(20.7)**	**(24.5)**	**(47.2)**	**(143.7)**	**(41.7)**	**(8.8)**	**(286.6)**	(47.0)

Amortisation of acquired intangible assets

Amortisation of intangible assets before tax is £24.8m (2018: £25.6m).

Costs associated with previous acquisitions

	2019 £m	2018 £m
Impairment of McNicholas assets included at acquisition[1]	**(21.5)**	–
Integration costs relating to the McNicholas acquisition[2]	**(11.8)**	–
Release of deferred and contingent consideration[3]	**4.0**	–
Total charge before tax	**(29.3)**	–

1 A provision against WIP acquired with McNicholas in respect of a major customer contract. The charge is considered to be exceptional on the basis of its size and the fact that these assets were acquired, as a result of which the associated income has never been recorded by the Group.
2 Costs incurred to integrate the McNicholas acquisition into the Utilities business including significant double-running of people and lease costs. These are considered to be exceptional on the basis of their size, the fact that they relate to a recent major acquisition and that the integration is now substantially complete.
3 The Group has released contingent consideration relating to the McNicholas acquisition which is not payable.

Restructuring charges

The Group has incurred significant restructuring charges relating to costs of organisational change associated with the Group's Future Proofing Kier project and, latterly, the Group's Strategic Review programme announced following the appointment of Andrew Davies as CEO. These are discussed further in the Financial Review. These are considered to be exceptional on the basis of their size and the fact that they relate to major restructuring activities.

	2019 £m	2018 £m
Future Proofing Kier redundancies[1]	**(20.0)**	–
Strategic headcount reductions[2]	**(18.7)**	–
Professional advisor fees associated with restructuring programme	**(9.7)**	
Costs incurred implementing non-people initiatives[3]	**(8.0)**	–
Total charge before tax	**(56.4)**	–

1 Costs in respect of roles made redundant as a result of the Future Proofing Kier project.
2 Redundancy costs arising from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions following the announcement of the strategic review.
3 The Group incurred various costs in running the restructuring activities during the year. These include the incremental costs of teams involved in the management of the restructuring activities, costs incurred implementing non-people initiatives and certain external fees.

Due to the substantial nature of the project and the fact that, as previously communicated, a further 550 heads are expected to leave the business by the end of FY2020, the Group expects to incur further redundancy costs in the coming financial year.

5 Exceptional items and amortisation of acquired intangible assets continued

Costs incurred in the disposal of operations or in preparation for business divestment or closure

The Group has incurred various charges driven by the change in strategic direction of the Group and the decision to exit certain divisions deemed non-core to its ongoing operations. Most of these charges are non-cash and are considered to be exceptional on the basis that they relate to a major restructuring of the Group following the Strategic Review that took place earlier this year.

	2019 £m	2018 £m
Impairment of residential development sites[1]	**(50.0)**	–
Impairment of Developments & Housing goodwill and other assets[2]	**(47.8)**	–
Environmental Waste contract termination provision[3]	**(26.8)**	–
Facilities Management exit costs, abandonment of software and onerous contracts[4]	**(23.1)**	–
Abandonment of ERP computer software[5]	**(7.3)**	–
Fair value adjustment of disposal group – note 21	**(8.4)**	–
Loss on disposal of subsidiaries, joint-ventures and other assets, with associated fees[6]	**(8.3)**	–
Total charge before tax	**(171.7)**	–

1 This impairment charge has been triggered by the Group's decision to dispose of its Residential division and the subsequent decision to sell certain mothballed land banks. Previously the Group had intended to develop these sites and had therefore maintained a carrying value of these assets above their market valuations at £60.0m, on a development value basis.
2 During the year, the Directors assessed the recoverability of assets within the Developments & Housing CGU. A non-cash impairment of goodwill (£8.0m) and other assets (£39.8m) has been triggered by the impairment of the Developments & Housing CGU following the decision to dispose of various non-core divisions. See notes 12 and 13.
3 In securing the termination of its largest loss-making environmental waste contract, the Group has agreed to pay the local authority £27.3m over a period of six years. The Group agreed to this payment to help it exit the Environmental business by reducing a significant future central overhead that would have otherwise still been needed to service the loss-making contract.
4 Following the announcement of the Group's intention to exit the Facilities Management division, a number of charges have been recognised. These include costs incurred in exiting contracts (£9.6m) and contract exit charges (£3.6m). In addition, a disposal of software (£5.5m) has also been incurred as a result of the decision to abandon some functionality of certain assets following the announcement of the intention to exit the division and an onerous contract (£4.4m) has been recognised in respect of a vacated property.
5 £7.3m net book value has been disposed of due to software functionality which will no longer be utilised within the Group.
6 Comprises advisers fees associated with divestments along with the loss on disposal of Unity (£1.9m), gain on disposal of the Group's pension administration business (£2.5m), loss on disposal of KHSA Limited (£1.4m) and loss on disposal of Living's shared equity portfolio (£1.3m).

Exceptional contract loss

The Group has incurred significant losses of £43.5m relating to the Broadmoor Hospital development project in respect of future recoveries of costs from the client and other third parties. The loss is split between revenue (£15.0m) and cost of sales (£28.5m).

The Group has incurred significant charges in relation to the completion of the Mersey Gateway project, for which an exceptional charge of £27.0m was incurred in the year ended 30 June 2018, with further costs of £6.4m incurred in the current year.

The charges in relation to Broadmoor and Mersey Gateway have been classified as exceptional items on the basis of the highly material size of the charges incurred in the current and prior years. In the view of the Directors, both of these contract losses are also considered exceptional on the basis that they arose from contractual arrangements that would not typically be agreed to by the respective businesses.

Other exceptional items

Other exceptional items are analysed below:

	2019 £m	2018 £m
Procurement charge[1]	**(16.1)**	–
PIE pension gain – note 8	**16.1**	–
GMP Pension charge – note 8	**(6.1)**	–
External fees[2]	**(2.6)**	–
Net financing costs[3]	**(1.7)**	(5.1)
Total charge before tax	**(10.4)**	(5.1)

1 The Group has incurred a charge in relation to certain aged procurement recoveries that have been written off as a result of changes in the Group's commercial landscape over the course of the financial year. The charge is deemed exceptional on the basis of its size. None of the associated income was recognised during this financial year.
2 External fees include £1.5m in relation to the pension increase exchange gain and £1.1m of other fees.
3 Net financial costs relate to discount unwinding of acquired intangible assets and other exceptional provisions.

As a result of the Group's change in its Alternative Performance Measure, a review of the comparative year has been conducted to align to the revised presentation. A reconciliation from the reported results in the 30 June 2018 Annual Report to the revised comparative amounts is as follows:

Continuing Operations	Previously reported underlying £m	Mining[1] £m	Mersey Gateway[2] £m	Profit before exceptional items £m	Previously reported non-underlying £m	Mining[1] £m	Mersey Gateway[2] £m	Exceptional items £m
Revenue								
Group and share of joint ventures	4,493.3	19.5	–	**4,512.8**	19.5	(19.5)	–	**–**
Less share of joint ventures	(273.2)	–	–	**(273.2)**	–	–	–	**–**
Group revenue	**4,220.1**	**19.5**	**–**	**4,239.6**	**19.5**	**(19.5)**	**–**	**–**
Cost of sales	(3,818.2)	(19.5)	27.0	**(3,810.7)**	(19.5)	19.5	(27.0)	**(27.0)**
Gross profit/(loss)	**401.9**	**–**	**27.0**	**428.9**	**–**	**–**	**(27.0)**	**(27.0)**
Administrative expenses	(288.1)	–	–	**(288.1)**	(25.6)	–	–	**(25.6)**
Share of post-tax results of joint ventures	42.7	–	–	**42.7**	–	–	–	**–**
(Loss)/profit on disposal of joint ventures and subsidiaries	3.5	–	–	**3.5**	–	–	–	**–**
Profit/(loss) from operations	**160.0**	**–**	**27.0**	**187.0**	**(25.6)**	**–**	**(27.0)**	**(52.6)**
Finance income	0.9	–	–	**0.9**	–	–	–	**–**
Finance cost	(24.0)	–	–	**(24.0)**	(5.1)	–	–	**(5.1)**
Profit/(loss) before tax	**136.9**	**–**	**27.0**	**163.9**	**(30.7)**	**–**	**(27.0)**	**(57.7)**
Taxation	(23.3)	–	(5.1)	**(28.4)**	5.6	–	5.1	**10.7**
Profit/(loss) for the year from continuing operations	**113.6**	**–**	**21.9**	**135.5**	**(25.1)**	**–**	**(21.9)**	**(47.0)**

1 The results from the mining operations were previously disclosed as non-underlying. They do not meet the definition for exceptional items and therefore have been re-presented within profit before exceptional items and amortisation of acquired intangible assets.
2 A material charge of £27.0m in relation to the Mersey Gateway project within the Infrastructure division has been identified as meeting the revised exceptional classification.

6 Finance income and costs

	2019 Before exceptional items £m	2019 Exceptional items[1] £m	2019 Total £m	2018 Before exceptional items £m	2018 Exceptional items[1] £m	2018 Total £m
Finance income						
Interest receivable on bank deposits	**0.1**	**–**	**0.1**	0.2	–	0.2
Interest receivable on loans to joint ventures	**–**	**–**	**–**	0.7	–	0.7
Interest receivable on corporation tax	**0.1**	**–**	**0.1**	–	–	–
	0.2	**–**	**0.2**	0.9	–	0.9
Finance costs						
Interest payable and fees on bank overdrafts and loans	**(3.3)**	**–**	**(3.3)**	(2.5)	–	(2.5)
Interest payable on borrowings	**(21.5)**	**–**	**(21.5)**	(17.4)	(1.4)	(18.8)
Interest payable on finance leases	**(0.2)**	**–**	**(0.2)**	(0.4)	–	(0.4)
Discount unwind	**(2.3)**	**(1.7)**	**(4.0)**	(1.5)	(3.7)	(5.2)
Net interest on net defined benefit obligation	**0.6**	**–**	**0.6**	(2.2)	–	(2.2)
Foreign exchange (losses)/gains on foreign denominated borrowings	**(4.3)**	**–**	**(4.3)**	1.6	–	1.6
Fair value gains/(losses) on cash flow hedges recycled from Other Comprehensive Income	**4.3**	**–**	**4.3**	(1.6)	–	(1.6)
	(26.7)	**(1.7)**	**(28.4)**	(24.0)	(5.1)	(29.1)
Net finance costs	**(26.5)**	**(1.7)**	**(28.2)**	(23.1)	(5.1)	(28.2)

[1] Unwind of discount in respect of deferred consideration.

7 Information relating to Directors and employees

	Note	2019 No.	2018 No.
Monthly average number of people employed during the year including Executive Directors was:			
United Kingdom		**17,092**	18,064
Rest of world		**1,686**	2,000
		18,778	20,064

	Note	£m	£m
Group staff costs are as follows:			
United Kingdom		**850.7**	873.3
Rest of world		**1.2**	53.1
		851.9	926.4
Comprising:			
Wages and salaries		**750.8**	795.9
Social security costs		**73.4**	76.3
Defined benefit pension scheme net (gains)/costs (2019 includes an exceptional net gain of £10.1m; 2018 includes curtailment gain of £0.3m)	8	**(10.3)**	3.0
Contributions to defined contribution pension schemes	8	**30.8**	45.8
Share-based payments charge	26	**7.2**	5.4
		851.9	926.4

Information relating to Directors' emoluments, pension entitlements, share options and LTIP interests appears in the Directors' Remuneration Report on pages 78 to 97. Redundancy costs incurred during the year of £38.7m have been classed as exceptional, see note 5.

8 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as described below.

For the defined benefit schemes, the assets of all schemes are held in trust separate from the assets of the Group. The Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers. The schemes are established under UK trust law and have a corporate trustee that is required to run the schemes in accordance with the schemes' Trust Deed and Rules and to comply with all relevant legislation. Responsibility for the governance of the schemes lies with the Trustees.

The Group has agreed deficit recovery plans with the trustees of each of its defined benefit schemes which constitute minimum funding requirements for the purposes of IFRIC 14. These minimum funding requirements do not give rise to any additional liabilities on the Group's balance sheet as the Group has determined that it has a right to benefit from any surplus created by overpaid contributions, through either a reduction in future contributions or refunds of the surpluses on winding up of the schemes. Details of the contributions agreed for each of the schemes are provided in the individual scheme information sections below. The majority of these deficit payment plans include lump sum contributions payable on 1 July 2020 that have been guaranteed by surety bonds.

The pension obligations of the Group are valued separately for accounting and funding purposes. The accounting valuations under IAS 19 require 'best estimate' assumptions to be used whereas the funding valuations use more prudent assumptions. A further difference arises from the differing dates of the valuations. The accounting pension deficit or surplus is calculated at the balance sheet date (30 June) each year, whereas the actuarial valuations are carried out on a triennial basis at 31 March. The differing bases and timings of the valuations can result in materially different pension deficit amounts. The date of the latest triennial funding valuation for each scheme is noted in the individual scheme information sections below.

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that pension schemes must equalise Guaranteed Minimum Pensions ('GMP') between male and female members. As a result of this ruling, amounts charged to the income statement for the year ended 30 June 2019 include a one-off exceptional charge of £6.1m in respect of GMP equalisation.

During the year, the Group launched a member options exercise, offering a Pension Increase Exchange ('PIE') to members of the Kier Group Pension Scheme and the Mouchel Business Services Limited Pension Scheme. The initiative was carried out with support from the Trustees of the pension schemes, in order to provide more flexibility and choice for members, reduce risk, and reduce cost in the Group's defined benefit pension schemes. The PIE offering was introduced as follows:

- A bulk PIE exercise, offering members who are already drawing a pension a one-off increase in pension in lieu of future annual increases on part of their pension, supported with independent financial advice paid for by Kier. The terms are such that the IAS 19 pension liabilities are reduced if pensioners take this option, with the gain of £6.8m recognised as a one-off income credit recognised during the year to 30 June 2019.
- PIE option at the point of retirement as 'business as usual' on the same terms as the bulk exercise. Kier will pay for members to take financial advice at point of retirement, including on the PIE at retirement option. A reduction in IAS 19 pension liabilities can be recognised based on an assumed rate of future take-up. The PIE at retirement option has resulted in a further income credit of £9.3m recognised during the year to 30 June 2019.

A combined gain, for both the bulk PIE exercise and the introduction of the at retirement option, of £16.1m has been recognised as an exceptional gain in the year to 30 June 2019.

Kier is directly meeting the costs of implementing the PIE exercises and has incurred an exceptional cost of £1.5m in the year to 30 June 2019.

Kier Group scheme

This is the principal scheme and includes a defined benefit section and a defined contribution section. The defined benefit section of the scheme was closed to new entrants on 1 January 2002; existing members continued to accrue benefits for service until the scheme was closed to future accrual on 28 February 2015.

The most recent triennial valuation of the Kier Group scheme was carried out by the trustees' independent actuaries as at 31 March 2016. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit. The triennial valuation as at 31 March 2019 has not yet been finalised.

The contributions paid during the year were £12.2m (2018: £13.4m) which included contributions of £12.2m (2018: £13.1m) to fund the past service deficit. In July 2017, the Group agreed a revised deficit recovery plan with the scheme's trustees. Based on this payment plan the Group expects to make the following contributions over the next five years:

	2020 £m	2021[1] £m	2022 £m	2023 £m	2024 £m
Deficit contributions	12.4	29.2	16.5	6.9	–

1. The contributions for the year ended 30 June 2021 include a one-off lump sum payment of £13.4m, which is guaranteed by a third-party surety bond.

In addition to the above contributions, the Group has agreed to meet the scheme's expenses including the Pension Protection Fund levy.

As at 30 June 2019 the scheme had 381 employed deferred members (2018: 443), 2,199 deferred members (2018: 2,271) and 2,836 retirees (2018: 2,805).

The IAS 19 accounting valuation of the Kier Group scheme at 30 June 2019 indicated that the scheme's assets exceeded its liabilities. The Group has recognised the surplus as a retirement benefit pension asset on its balance sheet under IAS 19 and IFRIC 14, as the Group has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surplus on winding up of the scheme.

8 Retirement benefit obligations continued

Other defined benefit schemes

Acquired with the May Gurney Group

The May Gurney defined benefit scheme was acquired with May Gurney in the year to 30 June 2014 and is closed to future accrual. The most recent triennial valuation of the May Gurney scheme was carried out by the trustees' independent actuaries as at 31 March 2017. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit.

The deficit contributions payable in the year ended 30 June 2019 amounted to £1.8m (2018: £2.4m). In June 2018, the Group agreed a revised deficit recovery plan with the trustees of the May Gurney scheme. Based on this payment plan the Group expects to make the following contributions over the next five years:

	2020 £m	2021[1] £m	2022 £m	2023 £m	2024 £m
Deficit contributions	2.0	11.8	–	–	–

1 The contributions for the year ended 30 June 2021 include a one-off lump sum payment of £3.0m, which is guaranteed by a third-party surety bond.

In addition to the above contributions, the Group has agreed to meet the scheme's expenses including the Pension Protection Fund levy.

As at 30 June 2019, the scheme had 316 deferred members (2018: 340) and 280 retirees (2018: 278).

The IAS 19 accounting valuation of the May Gurney scheme at 30 June 2019 indicated that the scheme's assets exceeded its liabilities. The Group has recognised the surplus as a retirement benefit pension asset on its balance sheet under IAS 19 and IFRIC 14, as the Group has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surplus on winding up of the scheme.

Acquired with the Mouchel Group

The Group acquired four defined benefit pension schemes with the Mouchel Group. The Mouchel figures comprise four individual pension schemes, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme, which have been grouped together because they were purchased as part of the Mouchel Group. The composition of these schemes has not changed since the prior year.

These schemes were closed to new entrants in 2001 and were closed to future accrual between 2010 and 2017, with the exception of a single 'public sector comparable' scheme which remains open to future accrual.

The EM Highways Prudential Platinum Scheme is a multi-employer scheme, however, Kier's share is separately identifiable. Therefore, the charge for the period is determined by reference to the change in valuation of this separate section.

The Mouchel schemes were formally valued by the trustees' independent actuaries as at 31 March 2016. At the valuation date the assets of each of the pension schemes were less than the respective technical provisions for each scheme and therefore the schemes were in deficit. The triennial valuation as at 31 March 2019 has not yet been finalised.

The contributions payable in the year ended 30 June 2019 amounted to £9.0m (2018: £9.2m) which included contributions of £8.6m (2018: £8.3m) to fund the past service deficit. In September 2017, the Group agreed a revised deficit recovery plan with the trustees of the Mouchel schemes. Based on this payment plan the Group expects to make the following combined contributions over the next five years:

	2020 £m	2021[1] £m	2022 £m	2023 £m	2024 £m
Deficit contributions	9.3	22.5	15.7	17.1	16.1

1 The contributions for the year ended 30 June 2021 include one-off lump sum payments for each of the three principal Mouchel schemes totalling £9.6m, which are guaranteed by third-party surety bonds.

In addition to the above contributions, the Group has agreed to meet the scheme's expenses including the Pension Protection Fund levy.

As at 30 June 2019, the schemes had a total of 13 active members (2018: 18), 69 employed deferred members (2018: 82), 1,770 deferred members (2018: 1,837) and 1,546 retirees (2018: 1,491).

The IAS 19 accounting valuation at 30 June 2018 of the Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme indicated that the assets of each of these schemes exceeded their respective scheme liabilities. The Group has recognised these surpluses as retirement benefit assets on its balance sheet under IAS 19 and IFRIC 14, as the Group has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surpluses on winding up of the schemes.

Acquired with the McNicholas Group

The McNicholas defined benefit pension scheme was acquired with the McNicholas Group in the year ended 30 June 2018. The scheme is closed to new entrants and no benefits have accrued since 30 April 2012.

The most recent triennial valuation of the McNicholas scheme was carried out by the trustees' independent actuaries as at 31 March 2017.

The deficit contributions payable in the year ended 30 June 2019 amounted to £1.2m (2018: £1.6m). In June 2018, the Group agreed a revised deficit recovery plan with the trustees of the McNicholas scheme. Based on this payment plan the Group expects to make the following contributions over the next five years:

	2020 £m	2021 £m	2022 £m	2023 £m	2024 £m
Deficit contributions	1.2	1.2	1.0	–	–

In addition to the above contributions, all of the scheme's expenses including the Pension Protection Fund levy are met by the Group.

As at 30 June 2019, the scheme had a total of 62 deferred members (2018: 65) and 79 retirees (2018: 78).

Other defined contribution schemes

Contributions are also made to a number of other defined contribution arrangements. The Group paid contributions of £30.8m (2018: £45.8m) during the year to these arrangements.

The Group also makes contributions to local government defined benefit pension schemes in respect of certain employees who have transferred to the Group under TUPE transfer arrangements. The Group is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and consequently the pension costs for these schemes are treated as if they were defined contribution schemes.

IAS 19 'Employee Benefits' disclosures

The Group recognises any actuarial gains or losses through the statement of comprehensive income as required under IAS 19.

The average weighted duration of the schemes' liabilities is 20 years (2018: 20 years).

The principal assumptions used by the independent qualified actuaries are shown below. This set of assumptions was used to value all of the defined benefit schemes.

	2019 **%**	2018 %
Rate of increase in pensions payments liable for Limited Price Indexation:		
– RPI subject to a minimum of 0% and a maximum of 5%	**3.0**	3.0
– RPI subject to a minimum of 0% and a maximum of 2.5%	**2.2**	2.1
Rate of general increases in pensionable salaries	**3.1**	3.0
Discount rate	**2.3**	2.8
Inflation rate (Retail Price Index (RPI))	**3.1**	3.0
Inflation rate (Consumer Price Index (CPI))	**2.0**	1.9

The mortality assumptions used were as follows:

	2019 **years**	2018 years
Life expectancy for a male / female currently aged 60		
– Kier Group scheme	**26.8 / 28.4**	27.4 / 29.0
– May Gurney scheme	**26.6 / 28.6**	27.1 / 29.2
– Mouchel schemes	**26.1 / 27.9**	26.5 / 28.3
– McNicholas scheme	**26.0 / 28.0**	26.2 / 28.6
Life expectancy for a male / female member aged 60, in twenty years' time		
– Kier Group scheme	**28.1 / 30.3**	28.8 / 30.9
– May Gurney scheme	**28.1 / 30.2**	28.7 / 30.8
– Mouchel schemes	**27.5 / 29.5**	28.0 / 30.0
– McNicholas scheme	**27.5 / 29.6**	28.1 / 30.2

8 Retirement benefit obligations continued

The assets, liabilities and net pension liabilities for the defined benefit arrangements are shown below. The assets are invested with professional investment managers and are measured based on quoted market valuations at the balance sheet date, except for land and property investments that are not held in unitised funds, which are valued based on the latest available professional valuation in accordance with RICS standards.

	2019					2018				
	Kier Group £m	**May Gurney £m**	**Mouchel £m**	**McNicholas £m**	**Total £m**	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Equities	**472.9**	**18.1**	**91.8**	**–**	**582.8**	442.6	18.4	127.8	–	588.8
Corporate bonds	**369.2**	**–**	**38.6**	**7.9**	**415.7**	345.6	–	36.3	8.5	390.4
Cash	**64.0**	**3.1**	**113.4**	**0.1**	**180.6**	56.5	0.8	30.7	0.1	88.1
Land and property	**–**	**–**	**5.1**	**0.1**	**5.2**	9.8	5.3	18.7	0.1	33.9
Absolute return	**283.7**	**13.4**	**40.6**	**–**	**337.7**	265.5	6.4	75.5	–	347.4
Annuity policies	**–**	**1.5**	**–**	**–**	**1.5**	–	1.4	–	–	1.4
Multi-asset	**–**	**8.0**	**42.3**	**17.9**	**68.2**	–	17.9	–	14.0	31.9
Liability-driven investments	**–**	**36.9**	**160.8**	**–**	**197.7**	–	24.9	174.4	–	199.3
Total market value of assets	**1,189.8**	**81.0**	**492.6**	**26.0**	**1,789.4**	1,120.0	75.1	463.4	22.7	1,681.2
Present value of liabilities	**(1,150.4)**	**(79.6)**	**(507.2)**	**(32.7)**	**(1,769.9)**	(1,094.8)	(76.2)	(472.2)	(30.1)	(1,673.3)
Surplus/(deficit)	**39.4**	**1.4**	**(14.6)**	**(6.7)**	**19.5**	25.2	(1.1)	(8.8)	(7.4)	7.9
Related deferred tax (liability)/asset	**(6.7)**	**(0.2)**	**2.5**	**1.1**	**(3.3)**	(4.3)	0.2	1.5	1.3	(1.3)
Net pension asset/(liability)	**32.7**	**1.2**	**(12.1)**	**(5.6)**	**16.2**	20.9	(0.9)	(7.3)	(6.1)	6.6

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2019					2018				
	Kier Group £m	**May Gurney £m**	**Mouchel £m**	**McNicholas £m**	**Total £m**	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
(Charged)/credited to operating profit in the income statement										
Current service cost	**–**	**–**	**(0.3)**	**–**	**(0.3)**	–	–	(0.3)	–	(0.3)
Administration expenses	**–**	**–**	**–**	**–**	**–**	(0.3)	(0.1)	(0.4)	–	(0.8)
Past service gain/(cost)	**10.8**	**(0.5)**	**(0.2)**	**(0.1)**	**10.0**	–	–	0.3	–	0.3
Net interest on net defined benefit obligation	**0.9**	**–**	**(0.1)**	**(0.2)**	**0.6**	(0.7)	(0.1)	(1.2)	(0.2)	(2.2)
Pension (expense)/income recognised in the income statement	**11.7**	**(0.5)**	**(0.6)**	**(0.3)**	**10.3**	(1.0)	(0.2)	(1.6)	(0.2)	(3.0)
Remeasurement in comprehensive income										
Actual return in excess of that recognised in net interest	**76.2**	**7.6**	**28.0**	**2.1**	**113.9**	15.1	(0.8)	5.0	(0.1)	19.2
Actuarial (losses)/gains due to changes in financial assumptions	**(104.9)**	**(7.7)**	**(50.2)**	**(3.0)**	**(165.8)**	56.8	4.0	22.6	1.6	85.0
Actuarial (losses)/gains due to changes in demographic assumptions	**22.3**	**1.6**	**10.0**	**0.7**	**34.6**	(26.2)	0.4	1.7	0.4	(23.7)
Actuarial (losses)/gains due to liability experience	**(3.3)**	**(0.3)**	**(2.0)**	**–**	**(5.6)**	(1.8)	(1.0)	1.9	0.2	(0.7)
Total amount recognised in full	**(9.7)**	**1.2**	**(14.2)**	**(0.2)**	**(22.9)**	43.9	2.6	31.2	2.1	79.8
Changes in the fair value of scheme assets										
Fair value at 1 July	**1,120.0**	**75.1**	**463.4**	**22.7**	**1,681.2**	1,108.4	76.9	451.5	–	1,636.8
Acquired in the year	**–**	**–**	**–**	**–**	**–**	–	–	–	21.3	21.3
Annuity policies included	**–**	**–**	**–**	**–**	**–**	–	1.4	–	–	1.4
Interest income on scheme assets	**30.8**	**2.0**	**12.9**	**0.6**	**46.3**	28.9	2.0	11.9	0.6	43.4
Remeasurement gains/(losses) on scheme assets	**76.2**	**7.6**	**28.0**	**2.1**	**113.9**	15.1	(0.8)	5.0	(0.1)	19.2
Contributions by the employer	**12.2**	**1.8**	**9.0**	**1.2**	**24.2**	13.4	2.4	9.2	1.6	26.6
Net benefits paid out	**(49.4)**	**(5.5)**	**(20.7)**	**(0.6)**	**(76.2)**	(45.5)	(6.7)	(13.8)	(0.7)	(66.7)
Administration expenses	**–**	**–**	**–**	**–**	**–**	(0.3)	(0.1)	(0.4)	–	(0.8)
Fair value at 30 June	**1,189.8**	**81.0**	**492.6**	**26.0**	**1,789.4**	1,120.0	75.1	463.4	22.7	1,681.2
Changes in the present value of the defined benefit obligation										
Fair value at 1 July	**(1,094.8)**	**(76.2)**	**(472.2)**	**(30.1)**	**(1,673.3)**	(1,139.5)	(82.8)	(499.1)	–	(1,721.4)
Acquired in the year	**–**	**–**	**–**	**–**	**–**	–	–	–	(32.2)	(32.2)
Annuity policies included	**–**	**–**	**–**	**–**	**–**	–	(1.4)	–	–	(1.4)
Current service cost	**–**	**–**	**(0.3)**	**–**	**(0.3)**	–	–	(0.3)	–	(0.3)
Interest expense on scheme liabilities	**(29.9)**	**(2.0)**	**(13.0)**	**(0.8)**	**(45.7)**	(29.6)	(2.1)	(13.1)	(0.8)	(45.6)
Past service cost (including curtailment gain)	**10.8**	**(0.5)**	**(0.2)**	**(0.1)**	**10.0**	–	–	0.3	–	0.3
Actuarial gains/(losses) due to changes in financial assumptions	**(104.9)**	**(7.7)**	**(50.2)**	**(3.0)**	**(165.8)**	56.8	4.0	22.6	1.6	85.0
Actuarial (losses)/gains due to changes in demographic assumptions	**22.3**	**1.6**	**10.0**	**0.7**	**34.6**	(26.2)	0.4	1.7	0.4	(23.7)
Actuarial (losses)/gains due to liability experience	**(3.3)**	**(0.3)**	**(2.0)**	**–**	**(5.6)**	(1.8)	(1.0)	1.9	0.2	(0.7)
Net benefits paid out	**49.4**	**5.5**	**20.7**	**0.6**	**76.2**	45.5	6.7	13.8	0.7	66.7
Fair value at 30 June	**(1,150.4)**	**(79.6)**	**(507.2)**	**(32.7)**	**(1,769.9)**	(1,094.8)	(76.2)	(472.2)	(30.1)	(1,673.3)
Amounts included in the balance sheet										
Fair value of scheme assets	**1,189.8**	**81.0**	**492.6**	**26.0**	**1,789.4**	1,120.0	75.1	463.4	22.7	1,681.2
Net present value of the defined benefit obligation	**(1,150.4)**	**(79.6)**	**(507.2)**	**(32.7)**	**(1,769.9)**	(1,094.8)	(76.2)	(472.2)	(30.1)	(1,673.3)
Net surplus/(deficit)	**39.4**	**1.4**	**(14.6)**	**(6.7)**	**19.5**	25.2	(1.1)	(8.8)	(7.4)	7.9
Related deferred tax (liability)/asset	**(6.7)**	**(0.2)**	**2.5**	**1.1**	**(3.3)**	(4.3)	0.2	1.5	1.3	(1.3)
Net pension asset/(liability)	**32.7**	**1.2**	**(12.1)**	**(5.6)**	**16.2**	20.9	(0.9)	(7.3)	(6.1)	6.6

8 Retirement benefit obligations continued

The net surplus/(deficit) above is split between retirement benefit assets and obligations in the statement of financial position as follows:

	2019					2018				
	Kier Group £m	**May Gurney £m**	**Mouchel £m**	**McNicholas £m**	**Total £m**	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Retirement benefit assets	**39.4**	**1.4**	**17.6**	**–**	**58.4**	25.2	–	14.3	–	39.5
Retirement benefit obligation	**–**	**–**	**(32.2)**	**(6.7)**	**(38.9)**	–	(1.1)	(23.1)	(7.4)	(31.6)
Net surplus/(deficit)	**39.4**	**1.4**	**(14.6)**	**(6.7)**	**19.5**	25.2	(1.1)	(8.8)	(7.4)	7.9

The movements in the net retirement benefit surplus/(deficit) are summarised as follows:

	2019					2018				
	Kier Group £m	**May Gurney £m**	**Mouchel £m**	**McNicholas £m**	**Total £m**	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Opening net surplus/(deficit)	**25.2**	**(1.1)**	**(8.8)**	**(7.4)**	**7.9**	(31.1)	(5.9)	(47.6)	–	(84.6)
Acquired deficit	**–**	**–**	**–**	**–**	**–**	–	–	–	(10.9)	(10.9)
Current service cost	**–**	**–**	**(0.3)**	**–**	**(0.3)**	–	–	(0.3)	–	(0.3)
Administration expenses	**–**	**–**	**–**	**–**	**–**	(0.3)	(0.1)	(0.4)	–	(0.8)
Past service gain/(cost)	**10.8**	**(0.5)**	**(0.2)**	**(0.1)**	**10.0**	–	–	0.3	–	0.3
Net interest on net defined benefit obligation	**0.9**	**–**	**(0.1)**	**(0.2)**	**0.6**	(0.7)	(0.1)	(1.2)	(0.2)	(2.2)
Contributions by the employer	**12.2**	**1.8**	**9.0**	**1.2**	**24.2**	13.4	2.4	9.2	1.6	26.6
Actual return in excess of that recognised in net interest	**76.2**	**7.6**	**28.0**	**2.1**	**113.9**	15.1	(0.8)	5.0	(0.1)	19.2
Actuarial gains/(losses) due to changes in financial assumptions	**(104.9)**	**(7.7)**	**(50.2)**	**(3.0)**	**(165.8)**	56.8	4.0	22.6	1.6	85.0
Actuarial (losses)/gains due to changes in demographic assumptions	**22.3**	**1.6**	**10.0**	**0.7**	**34.6**	(26.2)	0.4	1.7	0.4	(23.7)
Actuarial (losses)/gains due to liability experience	**(3.3)**	**(0.3)**	**(2.0)**	**–**	**(5.6)**	(1.8)	(1.0)	1.9	0.2	(0.7)
Net surplus/(deficit)	**39.4**	**1.4**	**(14.6)**	**(6.7)**	**19.5**	25.2	(1.1)	(8.8)	(7.4)	7.9

History of experience gains and losses for defined benefit schemes in aggregate:

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Fair value of scheme assets	**1,789.4**	1,681.2	1,636.8	1,560.6	1,342.1
Net present value of the defined benefit obligation	**(1,769.9)**	(1,673.3)	(1,721.4)	(1,648.4)	(1,495.7)
Net surplus/(deficit)	**19.5**	7.9	(84.6)	(87.8)	(153.6)
Related deferred tax (liability)/asset	**(3.3)**	(1.3)	14.4	15.8	30.7
Net pension asset/(liability)	**16.2**	6.6	(70.2)	(72.0)	(122.9)
Difference between expected and actual return on scheme assets	**113.9**	19.2	71.9	210.2	66.3
Experience (losses)/gains on scheme liabilities	**(5.6)**	(0.7)	0.1	–	4.9

Risk exposure

As IAS 19 actual assumptions are driven by market conditions, there is a risk that significant changes in financial market conditions could lead to volatility in the defined benefit obligation disclosed in the balance sheet from year to year. In addition, the asset position may also be volatile as it will be influenced by changes in market conditions. However, the risk of significant changes to the overall balance sheet position has been mitigated to an extent due to the asset hedging strategies in place for the schemes as described below.

The following schemes, Kier Group Pension Scheme, May Gurney Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section), Mouchel Superannuation Fund and Mouchel Staff Pension Scheme (the “Schemes”), have aligned their investments so that the liability hedging instruments are managed by BMO including cash, physical gilts, gilt repurchase agreements as well as interest and inflation swaps. In combination, this portfolio is designed to hedge the Schemes’ sensitivity to changes in interest rate and inflation by reference to 100% of the value of the technical provisions liabilities. The Kier Group Pension Scheme also has a currency hedging strategy in place with SSGA. As at 31 March 2019 (the scheme’s year end date), this hedges 50% of the Kier Group Pension Scheme’s exposure to US dollars, euros, yen and Canadian dollars for two equity managers. In addition, the scheme hedges 100% exposure to two global property and one hedge fund allocation, all denominated in US dollars.

Pension sensitivity

The following tables show the change in the net surplus or deficit arising from a change in the significant actuarial assumptions used to determine the retirement benefit obligations:

Kier Group scheme:

	2019 +0.25%/+1 year £m	2019 -0.25%/-1 year £m	2018 +0.25%/+1 year £m	2018 -0.25%/-1 year £m
Discount rate (+/-0.25%)	**46.7**	**(49.6)**	44.1	(46.9)
Inflation rate (+/-0.25%)	**(45.1)**	**42.5**	(42.9)	40.4
Members assumed to be one year older/younger in age (+/-1 year)	**41.2**	**(41.6)**	36.0	(36.2)

May Gurney defined benefit scheme:

	2019 +0.25%/+1 year £m	2019 -0.25%/-1 year £m	2018 +0.25%/+1 year £m	2018 -0.25%/-1 year £m
Discount rate (+/-0.25%)	**3.4**	**(3.6)**	3.3	(3.5)
Inflation rate (+/-0.25%)	**(3.3)**	**3.1**	(3.2)	3.1
Members assumed to be one year older/younger in age (+/-1 year)	**2.8**	**(2.8)**	2.1	(2.5)

Mouchel defined benefit schemes:

	2019 +0.25%/+1 year £m	2019 -0.25%/-1 year £m	2018 +0.25%/+1 year £m	2018 -0.25%/-1 year £m
Discount rate (+/-0.25%)	**22.2**	**(23.6)**	21.6	(23.0)
Inflation rate (+/-0.25%)	**(22.7)**	**21.3**	(22.1)	20.8
Members assumed to be one year older/younger in age (+/-1 year)	**17.5**	**(17.6)**	15.2	(15.2)

McNicholas defined benefit scheme:

	2019 +0.25%/+1 year £m	2019 -0.25%/-1 year £m	2018 +0.25%/+1 year £m	2018 -0.25%/-1 year £m
Discount rate (+/-0.25%)	**1.4**	**(1.5)**	1.3	(1.4)
Inflation rate (+/-0.25%)	**(0.8)**	**0.8**	(0.7)	0.7
Members assumed to be one year older/younger in age (+/-1 year)	**1.3**	**(1.3)**	1.1	(1.1)

The sensitivity analyses above have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period and may not be representative of the actual change, which is based on a change in a key assumption while holding all other assumptions constant. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous year.

9 Taxation

(a) Recognised in the income statement

	2019 Before exceptional items £m	2019 Exceptional items (note 5)[1] £m	2019 Total £m	2018 Before exceptional items[2] £m	2018 Exceptional items (note 5)[1,2] £m	2018 Total £m
Current tax expense/(credit)						
UK corporation tax	**2.7**	**–**	**2.7**	10.5	(6.3)	4.2
Adjustments in respect of prior years	**2.9**	**–**	**2.9**	0.1	–	0.1
Foreign tax relief	**(0.3)**	**–**	**(0.3)**	(1.6)	–	(1.6)
	5.3	**–**	**5.3**	9.0	(6.3)	2.7
Foreign tax suffered	**2.4**	**–**	**2.4**	2.6	–	2.6
Total current tax	**7.7**	**–**	**7.7**	11.6	(6.3)	5.3
Deferred tax expense/(credit)						
Origination and reversal of temporary differences	**17.5**	**(62.5)**	**(45.0)**	21.6	(4.4)	17.2
Adjustments in respect of prior years	**(2.3)**	**–**	**(2.3)**	(3.0)	–	(3.0)
Rate change effect on deferred tax	**(2.7)**	**6.6**	**3.9**	(1.8)	–	(1.8)
Total deferred tax	**12.5**	**(55.9)**	**(43.4)**	16.8	(4.4)	12.4
Total tax charge/(credit) in the income statement	**20.2**	**(55.9)**	**(35.7)**	28.4	(10.7)	17.7
Reconciliation of effective tax rate						
Profit/(loss) before tax	**97.6**	**(342.5)**	**(244.9)**	163.9	(57.7)	106.2
Add: tax on joint ventures included above	**–**	**–**	**–**	0.1	–	0.1
Adjusted profit/(loss) before tax	**97.6**	**(342.5)**	**(244.9)**	164.0	(57.7)	106.3
Income tax at UK corporation tax rate of 19.00% (2018: 19.00%)	**18.5**	**(65.1)**	**(46.6)**	31.1	(10.9)	20.2
Non-deductible expenses and unusable tax losses	**1.7**	**3.2**	**4.9**	0.7	0.1	0.8
Income not taxable	**(1.1)**	**(0.7)**	**(1.8)**	(0.3)	–	(0.3)
Effect of tax rates in foreign jurisdictions	**1.3**	**–**	**1.3**	1.1	–	1.1
Effect of change in UK corporation tax rate	**(2.6)**	**6.6**	**4.0**	(1.9)	0.1	(1.8)
Share-based payment deduction	**1.4**	**–**	**1.4**	1.5	–	1.5
Capital gains not taxed	**–**	**0.1**	**0.1**	(0.5)	–	(0.5)
Utilisation of tax losses	**0.4**	**–**	**0.4**	(0.3)	–	(0.3)
Adjustments in respect of prior years	**0.6**	**–**	**0.6**	(2.9)	–	(2.9)
Total tax (including joint ventures)	**20.2**	**(55.9)**	**(35.7)**	28.5	(10.7)	17.8
Tax on joint ventures	**–**	**–**	**–**	(0.1)	–	(0.1)
Group tax charge/(credit)	**20.2**	**(55.9)**	**(35.7)**	28.4	(10.7)	17.7

1 Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see page 121.
2 The prior year comparative information has been re-presented to reflect the change in the Group's Alternative Performance Measure. This has had no impact on the statutory reported results for the year ended 30 June 2018.

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. However, the Group does operate and pay taxes in jurisdictions where the tax rate is higher than the UK's statutory rate. The Group does not have an aggressive tax policy and since 1 July 2012 Kier has not entered into any tax avoidance schemes which were or should have been notified under the Disclosure of Tax Avoidance Scheme (DOTAS) rules.

The Group tax charge before exceptional items and amortisation of acquired intangible assets of £20.2m (2018: £28.4m) shown in the table above equates to an effective tax rate of 20.6% (2018: 17.3%) on adjusted profit before tax of £97.6m (2018: £164.0m). This effective rate is higher than the standard rate of corporation tax of 19.0% (2018: 19.0%) due to items shown in the table above. The non-deductible expenses included before exceptional items and amortisation of acquired intangible assets mainly relate to depreciation on non-qualifying assets.

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn Scheme and Long Term Incentive Plan.

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposure. At the balance sheet date, a deferred tax liability of £3.4m (2018: £5.5m) has been recognised in respect of uncertain tax positions.

The net charge of £0.6m (2018: £2.9m credit) in respect of prior years' results arises from differences between the estimates of taxation included in the previous years' financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

(b) Recognised in the cash flow statement

The cash flow statement shows cash received of £10.1m during the year (2018: £9.9m paid).

(c) Recognised in the statement of comprehensive income

	2019 £m	2018 £m
Deferred tax charge/(credit) (including effect of change in tax rate)		
Share of fair value movements on joint venture cash flow hedging instruments	**–**	0.1
Fair value movements on cash flow hedging instruments	**0.7**	(0.3)
Actuarial (losses)/gains on defined benefit pension schemes	**(3.9)**	13.6
Total tax (credit)/charge in the statement of comprehensive income	**(3.2)**	13.4

(d) Factors that may affect future tax charges

The deferred tax balance as at the year end has been recognised at 17.0%, which is the enacted corporation tax rate that will be effective from 1 April 2020.

(e) Tax losses

At the balance sheet date, the Group has unused tax losses of £514.6m (2018: £217.4m) available for offset against future profits. A deferred tax asset has been recognised on £348.5m (2018: £39.4m) of these losses.

No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 Dividends

Amounts recognised as distributions to owners of the parent in the year:

	2019 £m	2018 £m
Final dividend for the year ended 30 June 2018 of 46.0 pence (2017: 45.0 pence)	**44.7**	43.7
Interim dividend for the year ended 30 June 2019 of 4.9 pence (2018: 23.0 pence)	**7.9**	22.4
	52.6	66.1

The Group's focus on cash generation and reducing net debt has required a suspension in dividend payments for the second half of FY2019 and the whole of FY2020. The last dividend declared was the FY2019 interim dividend of 4.9 pence per share (2018: 23.0 pence). The total dividend for the year is therefore 4.9 pence (2018: 69.0 pence). This was approved and paid before the balance sheet date.

The parent company of the Group, Kier Group plc, is a non-trading holding company which derives its distributable reserves in part from dividends received from its subsidiaries. In determining the level of dividend payable in any year, in addition to the stated policy, the Board considers a number of other factors, including the following:

- the level of distributable reserves in the parent company, Kier Group plc;
- the level of distributable reserves in Kier Group plc's subsidiaries that are available to be distributed to Kier Group plc;
- the availability of cash resources;
- the Group's borrowing covenants;
- future cash commitments and investment plans to support the long-term growth of the Group; and
- potential strategic opportunities under consideration.

The Board reviews the level of distributable reserves in the parent company at least twice a year ahead of announcing proposed interim and final dividends. The dividends paid out during the year total 4.9 pence per share (2018: 69.0 pence) on an earnings per share before exceptional items and amortisation of acquired intangible assets of 58.2 pence (2018: 136.8 pence), giving a dividend cover before exceptional items and amortisation of acquired intangible assets of 11.9x (2018: 2.0x).

Distributable reserves can be significantly impacted by movements in pension liabilities. The reserves of Kier Group plc are not directly affected by these movements as the pension surpluses and liabilities are on the balance sheets of a certain number of the Company's subsidiaries. However, movements in the pension liabilities do have an effect on the level of distributable reserves in Kier Group plc's subsidiaries that are available to be paid up to the parent. Actuarial gains only increase the distributable reserves to the extent that they represent reversals of previous actuarial losses, otherwise they are treated as unrealised and are not distributable.

11 Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to profit and earnings per share before exceptional items and amortisation of acquired intangible assets is set out below. The adjustments are made to illustrate the impact of exceptional items and amortisation of acquired intangible assets.

(Loss)/earnings	2019 Basic £m	2019 Diluted £m	2018[2] Basic £m	2018[2] Diluted[3] £m
Continuing operations				
(Loss)/earnings (after tax and minority interests), being net (losses)/profits attributable to equity holders of the parent	**(209.6)**	**(209.6)**	88.3	88.3
Impact of exceptional items net of tax[1]:				
Amortisation of intangible assets – net of tax credit of £4.2m (2018: £4.7m)	**20.5**	**20.5**	20.9	20.9
Acquisition discount unwind – net of tax credit of £0.3m (2018: £0.9m)[4]	**1.4**	**1.4**	2.8	2.8
Other exceptional items – net of tax credit of £51.4m (2018: £3.4m)	**264.7**	**264.7**	23.3	23.3
Earnings from continuing operations	**77.0**	**77.0**	135.3	135.3
Discontinued operations				
Loss (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	**–**	**–**	(1.0)	(1.0)
Loss from discontinued operations	**–**	**–**	(1.0)	(1.0)
	Million	**Million**	Million	Million
Weighted average number of shares used for earnings per share	**132.2**	**132.2**	98.9	100.0

(Loss)/earnings per share	2019 Basic pence	2019 Diluted pence	2018[1] Basic pence	2018[1] Diluted pence
Continuing operations				
Loss/(earnings) (after tax and minority interests), being net (losses)/ profits attributable to equity holders of the parent	**(158.5)**	**(158.5)**	89.3	88.3
Impact of exceptional items net of tax[1]:				
Amortisation of intangible assets	**15.5**	**15.5**	21.1	20.9
Acquisition discount unwind[4]	**1.0**	**1.0**	2.8	2.8
Other exceptional items	**200.2**	**200.2**	23.6	23.3
(Loss)/earnings from continuing operations	**58.2**	**58.2**	136.8	135.3
Discontinued operations				
Loss (after tax and minority interests), being net profits attributable to equity holders of the parent	**–**	**–**	(1.0)	(1.0)
(Loss)/earnings from discontinued operations	**–**	**–**	(1.0)	(1.0)
Total (loss)/earnings per share				
Statutory	**(158.5)**	**(158.5)**	88.3	87.3
Before exceptional items[1]	**58.2**	**58.2**	135.8	134.3

1 Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see page 121.
2 Restated as a result of the rights issue which completed on 20 December 2018 and the re-presentation of the Group's revised Alternative Performance Measure.
3 In calculating the diluted earnings per share for 2018, the weighted average number of ordinary shares used as the denominator in calculating the basic earnings per share was adjusted by 1.1 million shares in relation to share options. No dilution was required in 2019 due to the net loss position.
4 Unwind of discount in respect of deferred consideration.

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. The new shares were fully subscribed on 20 December 2018, resulting in proceeds on issue of £249.9m, net of expenses of £13.7m that were charged against the share premium account.

In calculating the diluted earnings per share, the weighted average number of ordinary shares used as the denominator in calculating the basic earnings per share has been adjusted by 1.1 million shares in 2018 in relation to share options. Options granted to employees under the Sharesave, CSAP and LTIP schemes are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required performance obligations would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the share option schemes are set out in note 26.

12 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software[1,3] £m	Total £m
Cost				
At 1 July 2017	517.4	283.4	112.2	**913.0**
Additions	–	1.6	39.6	**41.2**
Acquired	42.8	15.0	–	**57.8**
Disposals	–	(25.5)	–	**(25.5)**
Transfers to assets held for sale	–	–	(0.2)	**(0.2)**
At 30 June 2018	**560.2**	**274.5**	**151.6**	986.3
Additions	–	–	19.8	**19.8**
Disposals[2]	(10.7)	(15.1)	(15.6)	**(41.4)**
Transfers to assets held for sale	(4.8)	–	(0.8)	**(5.6)**
At 30 June 2019	**544.7**	**259.4**	**155.0**	**959.1**
Accumulated amortisation and impairment				
At 1 July 2017	–	(92.7)	(17.5)	**(110.2)**
Charge for the year	–	(25.6)	(13.9)	**(39.5)**
Disposals	–	25.5	–	**25.5**
Transfers to assets held for sale	–	–	0.1	**0.1**
At 30 June 2018	–	**(92.8)**	**(31.3)**	(124.1)
Charge for the year	–	(25.0)	(15.3)	**(40.3)**
Disposals[2]	–	7.0	2.8	**9.8**
Impairment	(8.0)	(0.2)	(29.6)	**(37.8)**
At 30 June 2019	**(8.0)**	**(111.0)**	**(73.4)**	**(192.4)**
Net book value				
At 30 June 2019	**536.7**	**148.4**	**81.6**	**766.7**
At 30 June 2018	560.2	181.7	120.3	862.2

1 Computer software mainly relates to the Group's ERP implementation which is now complete and being amortised.
2 Included within disposals is the abandonment of software no longer utilised. The Directors have concluded that some functionality built in the ERP will not be utilised and derecognised £7.3m of net book value in the year. A further £5.5m of Facilities Management software has been derecognised following the announcement of the intention to exit the division.
3 Included within computer software is £3.9m of assets under construction which have not started to be amortised (2018: £10.2m).

12 Intangible assets continued

Goodwill largely relates to the Infrastructure Services cash generating unit ("CGU") and has been built up through acquisitions, primarily MRBL Limited (Mouchel Group) (£299.2m), May Gurney Integrated Services PLC (£194.7m) and McNicholas Construction Holdings Limited (£42.8m). These balances have been subject to an annual impairment review based upon the projected profits of each CGU. The disposal in the year relates wholly to the sale of KHSA Limited (note 31). Goodwill to the value of £4.8m in relation to Pure Recycling Warwick Limited has been transferred to assets held for sale and subsequently impaired (note 21).

The cost of contract rights relates to the acquisition of:

- North Tyneside Council – Cost £7.2m. Net book value £nil.
- Stewart Milne – Cost £1.0m. Net book value £0.3m.
- May Gurney Integrated Services plc – Cost £106.7m. Net book value £60.8m.
- MRBL Limited (Mouchel Group) – Cost £127.1m. Net book value £79.6m.
- McNicholas Construction (Holdings) Limited – Cost £12.1m. Net book value £5.2m.
- Kier Education Services Limited – Cost £2.8m. Net book value £1.1m.
- Certain business and assets of Babcock Civil Infrastructure Limited – Cost £1.6m. Net book value £1.5m.
- Solum Regeneration LLP joint venture – Cost £0.4m. Net book value £nil
- Watford Health Campus LLP joint venture – Cost £0.4m. Net book value £0.1m

The disposal of contract rights in the year relates to KHSA Limited £7.8m (note 31) and Wealden District Council £0.3m.

Contract rights on May Gurney and Mouchel are amortised on a straight-line basis over the expected total contract duration. All other contract rights are amortised on a straight-line basis over the remaining contract life.

Carrying amounts of goodwill and intangible contract rights by CGU

			2019			2018
	Goodwill £m	**Intangible contract rights £m**	**Total £m**	Goodwill £m	Intangible contract rights £m	Total £m
Infrastructure Services	**516.3**	**146.6**	**662.9**	527.0	178.6	705.6
Buildings	**20.4**	**1.7**	**22.1**	20.4	1.8	22.2
Developments & Housing	**–**	**0.1**	**0.1**	12.8	1.3	14.1
	536.7	**148.4**	**685.1**	560.2	181.7	741.9

For impairment testing purposes, the goodwill has been allocated to the above three CGUs, being the lowest level at which management monitor goodwill. Following a change in reporting structure, the Group has reallocated the carrying value of goodwill to these CGUs as disclosed in note 3. The recoverable amount of the goodwill and intangibles has been determined based on value in use calculations, which use cash flow projections based on the Group's forecasts approved by management, covering a five-year period.

The resulting cash flows are discounted to present value, with the discount rate used in the value in use calculations based on the Group's weighted average cost of capital, adjusted as necessary to reflect the risk associated with the assets being tested. We have applied pre-tax discount rates to the cash flows for each CGU that are derived from the Group's weighted average cost of capital of 10.1% (2018: 8.0%).

The key assumptions in the value in use calculations are the forecast revenues and operating margins, the discount rates applied to future cash flows, the value and timing of disposal proceeds for the Living and Property businesses and the terminal growth rate assumptions applied.

Following the Strategic Review, the Directors reassessed the recoverability of the goodwill allocated to the Development & Housing CGU in light of the decision to dispose of the Living and Property businesses and concluded an impairment of £8.0m was required. A further £39.8m impairment was required to reduce a portion of the remaining assets allocated to this CGU. This resulted in additional impairments of intangible assets totalling £29.8m and of property, plant and equipment totalling £10m. These impairments have been recorded as an exceptional item.

Infrastructure Services CGU

Forecast revenue growth rates and operating profit margins are based on historical experience, adjusted for the impact of expected changes to contract portfolio and profitability and committed cost-saving initiatives. Revenue growth rates from year 4 onwards are considered reasonable in line with long term inflation expectations for the UK. Based on the value in use calculation, these assumptions detailed below derived a recoverable amount for the Infrastructure Services CGU that is £89.3m above the carrying value of CGU assets.

The Infrastructure Services CGU impairment review is sensitive to changes in the following key assumptions: discount rate, revenue growth rate, operating margin and perpetual growth rates. Management considers that a reasonably possible change in any single assumption could give rise to an impairment of the carrying value of goodwill and intangibles.

Forecast revenue growth rate ranges from 2% to 17% with higher growth noted in earlier years. A reduction of 3.8% (not reducing the growth rate below 0%) in the growth rate per year would be required for headroom to be eliminated. A 0.5% reduction in growth rate in each year would reduce headroom by £17.0m.

A terminal revenue growth rate of 2.0% has been applied into perpetuity. This would need to reduce by 1.8% to 0.2% to eliminate headroom. A 0.5% reduction in growth rate would lead to a £27.8m reduction in headroom.

Forecast operating margins range from 3.3% to 4.1%. A reduction of 1.1% in operating margins across the board would be required to eliminate headroom. A 0.5% reduction in margins would reduce headroom by £40.1m.

A fixed operating margin of 4.1% has been applied into perpetuity. A reduction of 0.7% in margin to 3.4% would be required to eliminate headroom. A 0.5% reduction in operating margin would reduce headroom by £67.8m.

The pre-tax discount rate used is 10.7%. An increase in discount rate from 10.7% to 11.6% would eliminate headroom. A 0.5% increase in discount rate would reduce headroom by £53.0m.

Buildings CGU

A revenue growth rate of 2.0% and a fixed operating margin of 3.0% have been applied to the Buildings CGU cash flows into perpetuity. These assumptions are in line with current trading and current forecasts of UK GDP growth rate. The pre-tax discount rate used is 10.4%.

Based on the value in use calculation, these assumptions derived a recoverable amount for the Buildings CGU that is £446.2m above the carrying value of CGU assets.

The Buildings CGU impairment review is not sensitive to changes in any key assumption and management does not consider that any reasonably possible change in any single assumption would give rise to an impairment of the carrying value of goodwill and intangibles.

Developments & Housing CGU

A revenue growth rate of 2.0% and a fixed operating margin of 2.0% have been applied to the Developments & Housing CGU cash flows into perpetuity. These assumptions are in line with current trading assumptions adjusted to reflect the impact of the divestment of the Living and Property businesses. The pre-tax discount rate used is 11.0%.

Based on the value in use calculation, these assumptions derived a recoverable amount for the Development & Housing CGU that is £47.8m below the carrying value of CGU assets and as a result an impairment has been booked against the assets of this CGU. All intangible assets directly held by the CGU have been impaired with the exception of £0.1m of intangible contract rights. Any further impairment would reduce the remaining intangible contract rights to nil and then be applied to the other assets within the CGU.

The Development & Housing CGU impairment review is sensitive to changes in the following key assumptions: discount rate, revenue growth rate, operating margin as well as to any change in the anticipated sale proceeds from or timing of the disposal of the Living and Property businesses.

In years 1 to 3 the key assumption relates to the expected timing and net sale proceeds of the Living and Property businesses, both of which are assumed to be sold in FY2020. Any change in the expected net sale proceeds from those assumed would have a pound for pound impact on the impairment value.

Forecast revenue growth rate in years 3 to 5 range from 2.0% to 9.5% and a 0.5% reduction in these growth rates each year would result in further impairment of £0.4m. A 0.5% reduction in the revenue terminal growth rate assumptions would lead to a £1.5m increase in impairment.

Operating margin in years 3 to 5 ranges from -0.2% to 2% and a 0.5% reduction in margin in each year would lead to a further £1.9m impairment. A 0.5% reduction, from 2.0% to 1.5%, in the operating margin assumed into perpetuity would result in a £6.6m increase in impairment.

A 0.5% increase in discount rate from 11.0% to 11.6% would result in a further impairment of £1.6m.

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment[4] £m	Mining asset[5] £m	Total £m
Cost				
At 1 July 2017	66.0	85.1	4.8	**155.9**
Additions	9.1	13.0	–	**22.1**
Acquired	0.5	4.5	–	**5.0**
Disposals	(1.1)	(7.6)	–	**(8.7)**
Currency realignment	–	(0.1)	–	**(0.1)**
At 30 June 2018	**74.5**	**94.9**	**4.8**	**174.2**
Impact of adopting IFRS 15 (note 34)	–	(3.4)	–	**(3.4)**
At 1 July 2018	**74.5**	**91.5**	**4.8**	**170.8**
Additions	4.5	7.1	–	**11.6**
Disposals	(12.9)	(10.8)	–	**(23.7)**
Transfers[3]	(3.9)	(8.0)	–	**(11.9)**
Currency realignment	–	0.3	–	**0.3**
At 30 June 2019	**62.2**	**80.1**	**4.8**	**147.1**
Accumulated depreciation				
At 1 July 2017	(16.7)	(48.8)	–	**(65.5)**
Charge for the year	(1.3)	(13.2)	(4.6)	**(19.1)**
Impairment[1]	(0.6)	–	–	**(0.6)**
Acquired	(0.3)	(3.0)	–	**(3.3)**
Disposals	1.1	4.8	–	**5.9**
At 30 June 2018	**(17.8)**	**(60.2)**	**(4.6)**	**(82.6)**
Impact of adopting IFRS 15 (note 34)	–	0.6	–	**0.6**
At 1 July 2018	**(17.8)**	**(59.6)**	**(4.6)**	**(82.0)**
Charge for the year	(2.2)	(13.1)	(0.2)	**(15.5)**
Impairment[2]	(4.1)	(5.9)	–	**(10.0)**
Disposals	7.3	5.9	–	**13.2**
Transfers[3]	(2.1)	6.8	–	**4.7**
Currency realignment	–	(0.2)	–	**(0.2)**
At 30 June 2019	**(18.9)**	**(66.1)**	**(4.8)**	**(89.8)**
Net book value				
At 30 June 2019	**43.3**	**14.0**	**–**	**57.3**
At 30 June 2018	56.7	34.7	0.2	91.6

1 The £0.6m land impairment is in relation to UK Mining operations.
2 During the year, the Directors assessed the recoverability assets within the Developments & Housing CGU. An impairment of £10.0m has been triggered by the impairment of the Developments & Housing CGU following the decision to dispose of various non-core divisions.
3 Transfers include transfers between asset classes and to assets held for sale. Total net book value of property, plant and equipment transferred to assets held for sale was £7.2m which has subsequently been impaired to £4.8m as a fair value adjustment to the anticipated sales proceeds.
4 The net book value of plant and equipment includes an amount of £7.6m (2018: £9.7m) in respect of assets held under finance leases (see note 22).
5 The mining asset represents the stripping activity at the UK Mining operations site. The asset is depreciated over the expected useful life of the coal that becomes more accessible as a result of the stripping activity.

14 Investments in and loans to joint ventures

(a) Movements in year

	2019 £m	2018 £m
Investment in joint ventures		
At 1 July	**226.1**	184.4
Additions	**52.0**	71.5
Loan repayments	**(6.1)**	–
Disposals	**–**	(3.6)
Transferred to assets held for sale	**(8.4)**	–
Share of:		
Operating profit	**37.1**	47.8
Finance costs	**(6.9)**	(5.0)
Taxation	**0.5**	(0.1)
Post-tax results of joint ventures	**30.7**	42.7
Dividends received	**(31.4)**	(30.5)
Return of equity	**(25.2)**	(40.6)
Items recognised directly in other comprehensive income:		
Fair value movements in cash flow hedging instruments[1]	**0.2**	2.7
Deferred tax on fair value movements in cash flow hedging instruments[1]	**–**	(0.5)
At 30 June	**237.9**	226.1

(b) Analysis of investment in and loans to joint ventures

	2019 £m	2018[2] £m
Non-current assets		
Property, plant and equipment	**66.7**	86.1
Other non-current assets	**7.5**	8.7
Non-current assets	**74.2**	94.8
Current assets		
Cash and trade receivables	**430.3**	366.4
Current assets	**430.3**	366.4
Total assets	**504.5**	461.2
Current liabilities		
Trade and other payables – current	**(61.1)**	(35.5)
Borrowings – current	**(63.6)**	(16.6)
Current liabilities	**(124.7)**	(52.1)
Non-current liabilities		
Borrowings	**(335.0)**	(352.6)
Financial instruments	**–**	(0.2)
Deferred tax liabilities	**(0.5)**	(0.5)
Non-current liabilities	**(335.5)**	(353.3)
Total liabilities	**(460.2)**	(405.4)
Net external assets	**44.3**	55.8
Loans provided to joint ventures	**193.6**	170.3
Total investments in and loans to joint ventures	**237.9**	226.1

1 £nil of fair value movements in cash flow hedging instruments (2018: £2.3m) and £nil of deferred tax on fair value movements in cash flow hedging instruments (2018: £0.4m) have been recycled to the income statement.

2 The comparative figures have been restated to include £68.1m of loans to joint ventures not previously disclosed within non-current borrowings and loans provided to joint ventures.

14 Investments in and loans to joint ventures continued

(c) Interests in joint ventures

Set out below are the joint ventures of the Group as at 30 June 2019 which, in the opinion of the Directors, are material to the Group. All of the entities are private entities and therefore do not have a quoted fair value. The country of incorporation or registration is also their principal place of business. All are measured under the equity method.

Name of entity	Place of business / country of incorporation	% of ownership interest / voting rights 2019	% of ownership interest / voting rights 2018[1]	Nature of relationship	Carrying amount 2019 £m	Carrying amount 2018 £m
Kier Hammersmith[2]	England and Wales	**50% / 50%**	50% / 50%	Property division	**–**	8.5
Kier Reading[3]	England and Wales	**90% / 50%**	90% / 50%	Property division	**0.9**	14.7
Kier Trade City[4]	England and Wales	**90% / 50%**	90% / 50%	Property division	**13.1**	4.3
Kier Sydenham[5]	England and Wales	**50% / 50%**	50% / 50%	Property division	**0.3**	11.3
Solum Regeneration[6]	England and Wales	**50% / 50%**	50% / 50%	Property division	**38.2**	30.3
Kier Cornwall Street[7]	England and Wales	**90% / 50%**	90% / 50%	Property division	**14.3**	13.5
Lysander Student Properties[8]	England and Wales	**75% / 50%**	75% / 50%	Property division	**0.3**	6.6
50 Bothwell Street[9]	England and Wales	**50% / 50%**	50% / 50%	Property division	**5.8**	5.4
Kier (Newcastle)[10]	England and Wales	**75% / 50%**	75% / 50%	Property division	**7.0**	9.8
Kier (Southampton)[11]	England and Wales	**75% / 50%**	75% / 50%	Property division	**11.1**	9.3
Watford Health Campus[12]	England and Wales	**50% / 50%**	50% / 50%	Property division	**10.2**	2.0
Strawberry Percy[13]	England and Wales	**50% / 50%**	50% / 50%	Property division	**3.6**	3.4
Kier Richmond[14]	England and Wales	**90% / 50%**	90% / 50%	Property division	**10.2**	10.0
Dragon Lane[15]	England and Wales	**50% / 50%**	50% / 50%	Property division	**1.3**	0.5
Kier Cross Keys[16]	England and Wales	**90% / 50%**	90% / 50%	Residential division	**61.4**	59.7
KCK Peterborough[17]	England and Wales	**90% / 50%**	90% / 50%	Residential division	**6.0**	6.6
Kier Sovereign LLP	England and Wales	**50% / 50%**	50% / 50%	Residential division	**2.2**	5.5
Notaro Kier LLP	England and Wales	**50% / 50%**	50% / 50%	Residential division	**1.8**	2.9
Kier Community Living[18]	England and Wales	**69% / 50%**	69% / 50%	Residential division	**37.2**	10.5
Immaterial joint ventures					**13.0**	11.3
					237.9	226.1

1 Restated to correct the % of ownership interest of Kier Community Living to 69% from 50%.
2 Kier Hammersmith consists of Kier Hammersmith Holdco Limited and Kier Hammersmith Limited.
3 Kier Reading consists of Kier Reading Holdco 1 LLP, Kier Reading Holdco 2 LLP and Kier Reading LLP.
4 Kier Trade City consists of Kier Trade City Holdco 1 LLP, Kier Trade City Holdco 2 LLP and Kier Trade City LLP.
5 Kier Sydenham consists of Kier Sydenham GP Holdco Limited, Kier Sydenham GP Limited, Kier Sydenham LP and Kier Sydenham Nominee Limited.
6 Solum Regeneration consists of Solum Regeneration Bishops LLP, Solum Regeneration (Epsom) Limited Partnership, Solum Regeneration (Guildford) LLP, Solum Regeneration (Haywards) LLP, Solum Regeneration (Kingswood) LLP, Solum Regeneration (Maidstone) LLP, Solum Regeneration (Redhill) LLP, Solum Regeneration (Surbiton) LLP, Solum Regeneration (Twickenham) LLP, Solum Regeneration (Walthamstow) LLP, Solum Regeneration Epsom (GP Subsidiary) Limited, Solum Regeneration Epsom (GP) Limited, Solum Regeneration Epsom (Residential) LLP, Solum Regeneration Holding 1 LLP and Solum Regeneration Holding 2 LLP.
7 Kier Cornwall Street consists of Kier Cornwall Street Holdings 1 LLP, Kier Cornwall Street Holdings 2 LLP and Kier Cornwall Street LLP.
8 Lysander Student Properties consists of Lysander Student Properties Investments Limited, Lysander Student Properties Limited and Lysander Student Properties Operations Limited.
9 50 Bothwell Street consists of 50 Bothwell Street Holdco 1 LLP, 50 Bothwell Street Holdco 2 LLP and 50 Bothwell Street LLP.
10 Kier (Newcastle) consists of Kier (Newcastle) Investment Limited, Kier (Newcastle) Operation Limited and Magnetic Limited.
11 Kier (Southampton) consists of Kier (Southampton) Development Limited, Kier (Southampton) Investment Limited and Kier (Southampton) Operations Limited.
12 Watford Health Campus consists of Watford Health Campus Limited, Watford Health Campus Partnership LLP, Watford Waterside 1 LLP and Watford Woodlands LLP.
13 Strawberry Percy consists of Strawberry Percy Holdings 1 LLP, Strawberry Percy Holdings 2 LLP and Strawberry Percy LLP.
14 Kier Richmond consists of Kier Richmond Holdings Limited and Kier Richmond Limited.
15 Dragon Lane consists of Dragon Lane Holdings 1 LLP, Dragon Lane Holdings 2 LLP and Dragon Lane LLP.
16 Kier Cross Keys consists of Kier Cross Keys Holdco 1 LLP, Kier Cross Keys Holdco 2 LLP and Kier Cross Keys Dev LLP.
17 KCK Peterborough consists of KCK Peterborough Devco LLP, KCK Peterborough Holdco 1 LLP and KCK Peterborough Holdco 2 LLP.
18 Kier Community Living consists of Kier Community Living Holdco 1 LLP, Kier Community Living Holdco 2 LLP, Kier Community Living LLP, Kier Community Living Topco 1 LLP and Kier Community Living Topco 2 LLP.

(d) Borrowing facilities and guarantees to joint ventures

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	2019 Borrowing facility £m	2019 Guarantees £m	2019 Drawn at 30 June £m	2018 Borrowing facility £m	2018 Guarantees £m	2018 Drawn at 30 June £m
Kier Sydenham LP	**–**	**–**	**–**	43.2	7.5	43.2
Kier Hammersmith Limited	**24.5**	**1.0**	**24.5**	24.1	24.1	24.1
Kier Trade City LLP	**32.5**	**6.3**	**16.6**	12.2	3.6	3.6
Tri-Link 140 LLP	**5.5**	**4.7**	**4.7**	5.5	5.5	4.7
50 Bothwell Street LLP	**16.5**	**16.5**	**16.5**	16.5	16.5	16.5
Solum Regeneration (Walthamstow) LLP	**–**	**–**	**–**	20.9	3.8	5.0
Solum Regeneration (Twickenham) LLP	**38.2**	**9.5**	**23.6**	38.2	4.8	3.7
Watford Woodlands LLP	**13.7**	**1.5**	**3.3**	13.7	1.5	0.4
Black Rock Devco LLP	**–**	**–**	**–**	4.6	3.4	0.9
KCK Peterborough Devco LLP	**–**	**–**	**–**	6.7	2.0	1.2
	130.9	**39.5**	**89.2**	185.6	72.7	103.3

Other than as disclosed above the liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given in note 32.

14 Investments in and loans to joint ventures continued

(e) Summarised financial information for joint ventures

The tables below provide summarised financial information for those joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	Kier Hammersmith		Kier Reading		Kier Trade City		Kier Sydenham	
Summarised balance sheet	**2019[1] £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Current assets								
Cash and cash equivalents	**–**	0.4	**–**	1.2	**–**	0.4	**–**	1.2
Other current assets	**–**	–	**2.5**	15.4	**33.1**	9.2	**0.9**	0.8
Current assets	**–**	0.4	**2.5**	16.6	**33.1**	9.6	**0.9**	2.0
Non-current assets	**–**	42.3	**–**	–	**–**	–	**–**	66.2
Current liabilities								
Financial liabilities (excluding trade payables)	**–**	(23.8)	**–**	–	**(16.6)**	(3.6)	**–**	(0.9)
Other current liabilities	**–**	(2.0)	**(1.5)**	(0.3)	**(1.7)**	(1.2)	**(0.3)**	(2.4)
Total current liabilities	**–**	(25.8)	**(1.5)**	(0.3)	**(18.3)**	(4.8)	**(0.3)**	(3.3)
Non-current liabilities								
Financial liabilities (excluding trade payables)	**–**	–	**–**	–	**–**	–	**–**	(42.3)
Other non-current liabilities	**–**	–	**–**	–	**(0.2)**	–	**–**	–
Total non-current liabilities	**–**	–	**–**	–	**(0.2)**	–	**–**	(42.3)
Net assets	**–**	16.9	**1.0**	16.3	**14.6**	4.8	**0.6**	22.6
Reconciliation to carrying amounts:								
Net assets at 1 July	**16.9**	18.0	**16.3**	20.9	**4.8**	13.7	**22.6**	20.9
Capital introduced	**–**	–	**–**	–	**9.3**	4.8	**–**	–
(Loss)/profit for the year	**(0.1)**	(1.1)	**6.5**	1.9	**0.5**	11.2	**(1.4)**	2.4
Other comprehensive income	**–**	–	**–**	–	**–**	–	**0.4**	0.5
Return of equity	**–**	–	**(11.7)**	(5.0)	**–**	(11.7)	**(14.0)**	–
Dividends paid	**–**	–	**(10.1)**	(1.5)	**–**	(13.2)	**(7.0)**	(1.2)
Transferred to assets held for sale	**(16.8)**	–	**–**	–	**–**	–	**–**	–
Net assets at 30 June	**–**	16.9	**1.0**	16.3	**14.6**	4.8	**0.6**	22.6
Group's share (%)	**50%**	50%	**90%**	90%	**90%**	90%	**50%**	50%
Group's share	**–**	8.5	**0.9**	14.7	**13.1**	4.3	**0.3**	11.3
Fair value adjustment	**–**	–	**–**	–	**–**	–	**–**	–
Investment in joint venture	**–**	8.5	**0.9**	14.7	**13.1**	4.3	**0.3**	11.3
Summarised income statement								
Revenue	**0.4**	0.3	**26.1**	30.3	**–**	29.6	**67.3**	3.6
Finance income	**–**	–	**–**	–	**–**	–	**–**	–
Depreciation and amortisation	**–**	–	**–**	–	**–**	–	**–**	–
Finance costs	**(0.4)**	(0.8)	**–**	–	**–**	–	**(1.0)**	(1.9)
Taxation	**–**	–	**–**	–	**–**	–	**–**	–
(Loss)/profit for the year from continuing operations	**(0.1)**	(1.1)	**6.5**	1.9	**0.5**	11.2	**(1.4)**	2.4
Profit/(loss) for the year from discontinued operations	**–**	–	**–**	–	**–**	–	**–**	–
(Loss)/profit for the year	**(0.1)**	(1.1)	**6.5**	1.9	**0.5**	11.2	**(1.4)**	2.4
Other comprehensive income	**–**	–	**–**	–	**–**	–	**0.4**	0.5
Total comprehensive (expense)/income	**(0.1)**	(1.1)	**6.5**	1.9	**0.5**	11.2	**(1.0)**	2.9
Dividends received from joint ventures	**–**	–	**9.1**	1.4	**–**	11.9	**3.5**	0.6

1. The Group's investment in its joint venture interest in Kier Hammersmith has been classified as held for sale.

	Solum Regeneration		Kier Cornwall Street		Lysander Student Properties		50 Bothwell Street	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Current assets								
Cash and cash equivalents	**4.5**	0.2	**3.1**	1.2	**0.3**	0.6	**1.0**	2.0
Other current assets	**112.6**	71.1	**39.1**	40.4	**0.9**	–	**3.6**	0.9
Current assets	**117.1**	71.3	**42.2**	41.6	**1.2**	0.6	**4.6**	2.9
Non-current assets	**–**	–	**–**	–	**–**	22.8	**24.5**	24.7
Current liabilities								
Financial liabilities (excluding trade payables)	**–**	–	**–**	–	**–**	–	**–**	–
Other current liabilities	**(18.8)**	(5.3)	**(1.3)**	(1.6)	**(0.6)**	(0.9)	**(0.3)**	(0.1)
Total current liabilities	**(18.8)**	(5.3)	**(1.3)**	(1.6)	**(0.6)**	(0.9)	**(0.3)**	(0.1)
Non-current liabilities								
Financial liabilities (excluding trade payables)	**(21.8)**	(5.3)	**(25.0)**	(25.0)	**–**	(13.7)	**(17.2)**	(16.7)
Other non-current liabilities	**–**	–	**–**	–	**(0.2)**	–	**–**	–
Total non-current liabilities	**(21.8)**	(5.3)	**(25.0)**	(25.0)	**(0.2)**	(13.7)	**(17.2)**	(16.7)
Net assets	**76.5**	60.7	**15.9**	15.0	**0.4**	8.8	**11.6**	10.8
Reconciliation to carrying amounts:								
Net assets at 1 July	**60.7**	30.1	**15.0**	–	**8.8**	8.4	**10.8**	10.0
Capital introduced	**16.7**	26.6	**–**	14.5	**–**	–	**0.7**	0.3
Profit/(loss) for the year	**4.8**	4.0	**1.0**	0.5	**(0.2)**	0.7	**(0.1)**	0.5
Other comprehensive (loss)/income	**–**	–	**(0.1)**	–	**–**	–	**0.2**	–
Return of equity	**(5.7)**	–	**–**	–	**(5.1)**	–	**–**	–
Dividends paid	**–**	–	**–**	–	**(3.1)**	(0.3)	**–**	–
Transferred to assets held for sale	**–**	–	**–**	–	**–**	–	**–**	–
Net assets at 30 June	**76.5**	60.7	**15.9**	15.0	**0.4**	8.8	**11.6**	10.8
Group's share (%)	**50%**	50%	**90%**	90%	**75%**	75%	**50%**	50%
Group's share	**38.2**	30.3	**14.3**	13.5	**0.3**	6.6	**5.8**	5.4
Fair value adjustment	**–**	–	**–**	–	**–**	–	**–**	–
Investment in joint venture	**38.2**	30.3	**14.3**	13.5	**0.3**	6.6	**5.8**	5.4
Summarised income statement								
Revenue	**33.9**	12.1	**2.9**	1.5	**24.2**	1.8	**–**	1.0
Finance income	**–**	–	**–**	–	**–**	–	**–**	–
Depreciation and amortisation	**–**	–	**–**	–	**–**	–	**–**	–
Finance costs	**–**	–	**(1.6)**	(0.9)	**(0.4)**	(0.5)	**–**	(0.6)
Taxation	**–**	–	**–**	–	**–**	(0.1)	**–**	–
Profit/(loss) for the year from continuing operations	**4.8**	4.0	**1.0**	0.5	**(0.2)**	0.7	**(0.1)**	0.5
Profit/(loss) for the year from discontinued operations	**–**	–	**–**	–	**–**	–	**–**	–
Profit/(loss) for the year	**4.8**	4.0	**1.0**	0.5	**(0.2)**	0.7	**(0.1)**	0.5
Other comprehensive (loss)/income	**–**	–	**(0.1)**	–	**–**	–	**0.2**	–
Total comprehensive income/(expense)	**4.8**	4.0	**0.9**	0.5	**(0.2)**	0.7	**0.1**	0.5
Dividends received from joint ventures	**–**	–	**–**	–	**2.3**	0.2	**–**	–

14 Investments in and loans to joint ventures continued

	Kier (Newcastle)		Kier (Southampton)		Watford Health Campus		Strawberry Percy	
	2019 £m	2018[1] £m	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Current assets								
Cash and cash equivalents	**0.1**	0.2	**0.7**	0.2	**1.7**	1.4	**1.0**	0.6
Other current assets	**0.5**	30.4	**0.6**	27.3	**32.5**	25.8	**0.4**	13.3
Current assets	**0.6**	30.6	**1.3**	27.5	**34.2**	27.2	**1.4**	13.9
Non-current assets	**26.3**	–	**36.4**	–	**–**	–	**13.0**	–
Current liabilities								
Financial liabilities (excluding trade payables)	**–**	–	**–**	–	**–**	–	**–**	–
Other current liabilities	**(0.1)**	(0.7)	**(2.3)**	(1.0)	**(4.8)**	(16.7)	**(0.7)**	(0.5)
Total current liabilities	**(0.1)**	(0.7)	**(2.3)**	(1.0)	**(4.8)**	(16.7)	**(0.7)**	(0.5)
Non-current liabilities								
Financial liabilities (excluding trade payables)	**(17.0)**	(16.9)	**(20.5)**	(14.0)	**(8.2)**	(6.4)	**(6.5)**	(6.5)
Other non-current liabilities	**(0.5)**	–	**–**	–	**(0.7)**	–	**–**	–
Total non-current liabilities	**(17.5)**	(16.9)	**(20.5)**	(14.0)	**(8.9)**	(6.4)	**(6.5)**	(6.5)
Net assets	**9.3**	13.0	**14.9**	12.5	**20.5**	4.1	**7.2**	6.9
Reconciliation to carrying amounts:								
Net assets at 1 July	**13.0**	12.5	**12.5**	9.3	**4.1**	10.9	**6.9**	–
Capital introduced	**0.6**	0.3	**1.0**	3.2	**12.8**	9.5	**–**	6.6
(Loss)/profit for the year	**(4.3)**	0.2	**1.4**	–	**3.6**	14.5	**0.3**	0.3
Other comprehensive income	**–**	–	**–**	–	**–**	–	**–**	–
Return of equity	**–**	–	**–**	–	**–**	(9.4)	**–**	–
Dividends paid	**–**	–	**–**	–	**–**	(21.4)	**–**	–
Transferred to assets held for sale	**–**	–	**–**	–	**–**	–	**–**	–
Net assets at 30 June	**9.3**	13.0	**14.9**	12.5	**20.5**	4.1	**7.2**	6.9
Group's share (%)	**75%**	75%	**75%**	75%	**50%**	50%	**50%**	50%
Group's share	**7.0**	9.8	**11.1**	9.3	**10.2**	2.0	**3.6**	3.4
Fair value adjustment	**–**	–	**–**	–	**–**	–	**–**	–
Investment in joint venture	**7.0**	9.8	**11.1**	9.3	**10.2**	2.0	**3.6**	3.4
Summarised income statement								
Revenue	**1.5**	31.5	**37.4**	–	**12.0**	38.3	**0.8**	0.7
Finance income	**–**	–	**–**	–	**–**	–	**–**	–
Depreciation and amortisation	**–**	–	**–**	–	**–**	–	**–**	–
Finance costs	**(0.9)**	(0.7)	**–**	–	**–**	–	**–**	(0.1)
Taxation	**1.0**	–	**(0.3)**	–	**–**	–	**–**	–
(Loss)/profit for the year from continuing operations	**(4.3)**	0.2	**1.4**	–	**3.6**	14.5	**0.3**	0.3
Profit/(loss) for the year from discontinued operations	**–**	–	**–**	–	**–**	–	**–**	–
(Loss)/profit for the year	**(4.3)**	0.2	**1.4**	–	**3.6**	14.5	**0.3**	0.3
Other comprehensive income	**–**	–	**–**	–	**–**	–	**–**	–
Total comprehensive (expense)/income	**(4.3)**	0.2	**1.4**	–	**3.6**	14.5	**0.3**	0.3
Dividends received from joint ventures	**–**	–	**–**	–	**–**	10.7	**–**	–

[1] Restated financial liabilities to reflect the correct allocation between current and non-current.

	Kier Richmond		Dragon Lane		Kier Cross Keys		KCK Peterborough	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018[1] £m	**2019 £m**	2018 £m
Current assets								
Cash and cash equivalents	**0.3**	–	**0.9**	–	**9.6**	5.3	**–**	1.6
Other current assets	**22.8**	22.0	**2.6**	1.9	**130.4**	160.2	**6.9**	5.7
Current assets	**23.1**	22.0	**3.5**	1.9	**140.0**	165.5	**6.9**	7.3
Non-current assets	**–**	–	**–**	–	**–**	–	**–**	–
Current liabilities								
Financial liabilities (excluding trade payables)	**–**	–	**–**	–	**(68.0)**	(63.5)	**–**	–
Other current liabilities	**(1.0)**	(0.6)	**(0.8)**	(0.9)	**(9.0)**	(44.0)	**(0.3)**	–
Total current liabilities	**(1.0)**	(0.6)	**(0.8)**	(0.9)	**(77.0)**	(107.5)	**(0.3)**	–
Non-current liabilities								
Financial liabilities (excluding trade payables)	**(10.8)**	(10.3)	**–**	–	**–**	–	**–**	–
Other non-current liabilities	**–**	–	**–**	–	**–**	–	**–**	–
Total non-current liabilities	**(10.8)**	(10.3)	**–**	–	**–**	–	**–**	–
Net assets	**11.3**	11.1	**2.7**	1.0	**63.0**	58.0	**6.6**	7.3
Reconciliation to carrying amounts:								
Net assets at 1 July	**11.1**	–	**1.0**	–	**58.0**	43.3	**7.3**	5.4
Capital introduced	**–**	10.9	**–**	–	**–**	–	**–**	–
Profit for the year	**0.3**	0.2	**1.7**	1.0	**18.5**	18.0	**2.9**	1.9
Other comprehensive income	**–**	–	**–**	–	**–**	–	**–**	–
Return of equity	**–**	–	**–**	–	**–**	–	**–**	–
Dividends paid	**(0.1)**	–	**–**	–	**(13.5)**	(3.3)	**(3.6)**	–
Transferred to assets held for sale	**–**	–	**–**	–	**–**	–	**–**	–
Net assets at 30 June	**11.3**	11.1	**2.7**	1.0	**63.0**	58.0	**6.6**	7.3
Group's share (%)	**90%**	90%	**50%**	50%	**90%**	90%	**90%**	90%
Group's share	**10.2**	10.0	**1.3**	0.5	**56.7**	52.2	**6.0**	6.6
Fair value adjustment	**–**	–	**–**	–	**4.7**	7.5	**–**	–
Investment in joint venture	**10.2**	10.0	**1.3**	0.5	**61.4**	59.7	**6.0**	6.6
Summarised income statement								
Revenue	**1.1**	0.3	**8.5**	4.2	**151.3**	121.1	**15.2**	9.8
Finance income	**–**	–	**–**	–	**–**	–	**–**	–
Depreciation and amortisation	**–**	–	**–**	–	**–**	–	**–**	–
Finance costs	**–**	(0.1)	**–**	–	**(2.6)**	(1.8)	**–**	(0.1)
Taxation	**(0.1)**	–	**–**	–	**–**	–	**–**	–
Profit for the year from continuing operations	**0.3**	0.2	**1.7**	1.0	**18.5**	18.0	**2.9**	1.9
Profit for the year from discontinued operations	**–**	–	**–**	–	**–**	–	**–**	–
Profit for the year	**0.3**	0.2	**1.7**	1.0	**18.5**	18.0	**2.9**	1.9
Other comprehensive income	**–**	–	**–**	–	**–**	–	**–**	–
Total comprehensive income	**0.3**	0.2	**1.7**	1.0	**18.5**	18.0	**2.9**	1.9
Dividends received from joint ventures	**0.1**	–	**–**	–	**12.1**	3.0	**3.2**	–

1 Restated to reflect final prior year figures for Kier Cross Keys which were not available at the time of publishing the Group's prior year financial statements and a fair value adjustment not previously disclosed.

14 Investments in and loans to joint ventures continued

	Kier Sovereign		Notaro Kier		Kier Community Living	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018[1] £m
Current assets						
Cash and cash equivalents	**1.1**	1.3	**0.2**	–	**14.6**	7.3
Other current assets	**4.9**	11.9	**4.4**	5.9	**113.9**	29.1
Current assets	**6.0**	13.2	**4.6**	5.9	**128.5**	36.4
Non-current assets	**–**	–	**–**	–	**–**	–
Current liabilities						
Financial liabilities (excluding trade payables)	**–**	–	**–**	–	**–**	–
Other current liabilities	**(0.5)**	(2.2)	**(0.5)**	(0.1)	**(35.8)**	(5.8)
Total current liabilities	**(0.5)**	(2.2)	**(0.5)**	(0.1)	**(35.8)**	(5.8)
Non-current liabilities						
Financial liabilities (excluding trade payables)	**–**	–	**–**	–	**(35.0)**	(17.2)
Other non-current liabilities	**(1.1)**	–	**(0.4)**	–	**(7.8)**	–
Total non-current liabilities	**(1.1)**	–	**(0.4)**	–	**(42.8)**	(17.2)
Net assets	**4.4**	11.0	**3.7**	5.8	**49.9**	13.4
Reconciliation to carrying amounts:						
Net assets at 1 July	**11.0**	–	**5.8**	–	**13.4**	–
Capital introduced	**0.4**	9.6	**0.4**	5.7	**36.2**	12.8
Profit for the year	**2.9**	1.4	**1.1**	0.1	**0.3**	0.6
Other comprehensive income	**–**	–	**–**	–	**–**	–
Return of equity	**(8.5)**	–	**(3.6)**	–	**–**	–
Dividends paid	**(1.4)**	–	**–**	–	**–**	–
Transferred to assets held for sale	**–**	–	**–**	–	**–**	–
Net assets at 30 June	**4.4**	11.0	**3.7**	5.8	**49.9**	13.4
Group's share (%)	**50%**	50%	**50%**	50%	**69%**	69%
Group's share	**2.2**	5.5	**1.8**	2.9	**34.4**	9.3
Fair value adjustment	**–**	–	**–**	–	**2.8**	1.2
Investment in joint venture	**2.2**	5.5	**1.8**	2.9	**37.2**	10.5
Summarised income statement						
Revenue	**19.7**	8.8	**6.5**	0.4	**44.2**	5.5
Finance income	**–**	–	**–**	–	**–**	–
Depreciation and amortisation	**–**	–	**–**	–	**–**	–
Finance costs	**–**	–	**–**	–	**(0.4)**	(0.1)
Taxation	**–**	–	**–**	–	**–**	–
Profit for the year from continuing operations	**2.9**	1.4	**1.1**	0.1	**0.3**	0.6
Profit for the year from discontinued operations	**–**	–	**–**	–	**–**	–
Profit for the year	**2.9**	1.4	**1.1**	0.1	**0.3**	0.6
Other comprehensive income	**–**	–	**–**	–	**–**	–
Total comprehensive income	**2.9**	1.4	**1.1**	0.1	**0.3**	0.6
Dividends received from joint ventures	**0.7**	–	**–**	–	**–**	–

[1] Restated to reflect final prior year figures for Kier Community Living which were not available at the time of publishing the Group's prior year financial statements and a fair value adjustment not previously disclosed.

(f) Individually immaterial joint ventures

In addition to the interests in joint ventures disclosed above, the Group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

	2019 £m	2018[1] £m
Aggregate carrying amount of individually immaterial joint ventures	**13.0**	11.3
Aggregate amounts of the Group's share of:		
Profit from continuing operations	**(0.3)**	(1.3)
Post-tax profit or loss from discontinued operations	**–**	–
Other comprehensive income	**–**	1.9
Total comprehensive income	**(0.3)**	0.6

1 Restated to remove those joint ventures which are considered material to the Group in the current year but were not in the prior year.

(g) Impact of investments in joint ventures containing pre-emption rights

In accordance with the FRC's queries with the Group regarding its joint ventures (see note 1, page 118), the impact on the Group's balance sheet and income statement had investments in joint ventures containing pre-emption rights been consolidated as subsidiaries, rather than being equity accounted for as joint ventures, is disclosed as follows:

	2019			2018			2017		
	As presented £m	Impact £m	Proforma £m	As presented £m	Impact £m	Proforma £m	As presented £m	Impact £m	Proforma £m
Balance sheet									
Net debt	**(167.2)**	**(107.2)**	**(274.4)**	(185.7)	(83.7)	(269.4)	(110.0)	(100.6)	(210.6)
Net assets	**519.6**	**26.8**	**546.4**	601.1	14.6	615.7	511.4	10.3	521.7
Total assets	**2,673.5**	**234.9**	**2,908.4**	2,809.4	177.9	2,987.3	2,776.6	139.4	2,916.0
Total liabilities	**(2,153.9)**	**(208.1)**	**(2,362.0)**	(2,208.3)	(163.2)	(2,371.5)	(2,265.2)	(129.1)	(2,394.3)
Non-controlling interests	**0.5**	**26.8**	**27.3**	1.7	14.8	16.5	3.0	10.3	13.3
Income statement									
Group revenue[2]	**4,136.7**	**224.5**	**4,361.2**	4,239.6	220.0	4,459.6	4,111.7	135.2	4,246.9
Gross profit[2]	**383.2**	**40.7**	**423.9**	428.9	42.9	471.8	383.4	20.2	403.6
Profit from operations[2]	**124.1**	**7.6**	**131.7**	187.0	6.2	193.2	145.6	2.3	147.9
Finance costs[2]	**(26.7)**	**(4.6)**	**(31.3)**	(24.0)	(2.8)	(26.8)	(21.3)	(0.4)	(21.7)
Profit for the year – parent	**(209.6)**	**–**	**(209.6)**	87.3	–	87.3	10.7	–	10.7
Profit for the year – non-controlling interests	**0.4**	**3.0**	**3.4**	0.2	3.4	3.6	1.1	1.9	3.0
Cash flow statement									
(Decrease)/increase in cash, cash equivalents and overdraft	**(20.1)**	**11.6**	**(8.5)**	(167.4)	4.3	(163.1)	314.0	7.4	321.4

1 For 2019 and 2018 the figures presented are for continuing operations before exceptional items. For 2017 the figures presented are for continuing operations before non-underlying items.

15 Capitalised mobilisation costs

	2019 £m	2018 £m
At 1 July (recognised on initial application of IFRS 15)	**2.4**	–
Additions	**2.3**	–
Amortisation	**(1.4)**	–
At 30 June	**3.3**	–

16 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year:

	Intangible assets £m	Property, plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2017	(32.5)	25.5	2.4	14.4	1.8	**11.6**
Credited/(charged) to income statement	4.4	(5.8)	(7.9)	(3.9)	0.8	**(12.4)**
Transfers	(2.7)	1.0	(0.7)	1.8	4.0	**3.4**
Credited/(charged) directly to comprehensive income	–	–	0.2	(13.6)	–	**(13.4)**
At 30 June 2018	**(30.8)**	**20.7**	**(6.0)**	**(1.3)**	**6.6**	**(10.8)**
Credited/(charged) to income statement	4.9	(1.7)	5.9	(5.9)	40.2	**43.4**
Acquisitions and disposals	1.3	–	(1.9)	–	–	**(0.6)**
Reserves	–	–	–	–	12.5	**12.5**
Credited/(charged) directly to comprehensive income	–	–	(0.7)	3.9	–	**3.2**
At 30 June 2019	**(24.6)**	**19.0**	**(2.7)**	**(3.3)**	**59.3**	**47.7**

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2019 £m	2018 £m	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Property, plant and equipment	**19.0**	20.7	**–**	–	**19.0**	20.7
Intangible assets	**–**	–	**(24.6)**	(30.8)	**(24.6)**	(30.8)
Retirement benefit obligations	**–**	–	**(3.3)**	(1.3)	**(3.3)**	(1.3)
Share-based payments	**–**	0.4	**–**	–	**–**	0.4
Other short-term timing differences	**–**	–	**(2.6)**	(6.4)	**(2.6)**	(6.4)
Tax losses	**59.2**	6.6	**–**	–	**59.2**	6.6
Total	**78.2**	27.7	**(30.5)**	(38.5)	**47.7**	(10.8)
Set-off tax	**(30.5)**	(27.7)	**30.5**	27.7	**–**	–
Net tax assets/(liabilities)	**47.7**	–	**–**	(10.8)	**47.7**	(10.8)

17 Contract assets and liabilities

(a) Current contract assets

	2019 £m	2018 £m
At 1 July	**409.6**	–
Revenue recognised in the period for performance obligations satisfied in previous periods due to changes in the transaction price arising from changes in estimates of variable revenue	**(42.3)**	–
Transfered to receivables	**(344.3)**	–
Balances removed due to business disposals	**(10.3)**	–
Balance remaining in relation to contract assets at the start of the year	**12.7**	–
Changes due to business combinations	**9.3**	–
Increase related to services provided in the year	**444.0**	–
At 30 June	**466.0**	–

(b) Non-current contract assets

	2019 £m	2018 £m
At 1 July	**21.1**	–
Increase related to services provided in the year	**4.1**	–
At 30 June	**25.2**	–

(c) Current contract liabilities

	2019 £m	2018 £m
At 1 July	**(195.4)**	–
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	**180.2**	–
Contract liabilities repaid	**0.2**	–
Balances removed due to business disposals	**2.5**	–
Balance remaining in relation to contract liabilities at the start of the year	**(12.5)**	–
Increase due to cash received or invoices raised in the year for performance obligations not recognised in revenue	**(121.5)**	–
At 30 June	**(134.0)**	–

18 Trade and other receivables

	2019 £m	2018 £m
Current:		
Trade receivables	**153.2**	198.9
Construction contract retentions	**81.5**	92.9
Amounts receivable from joint ventures	**18.7**	5.4
Other receivables	**28.0**	49.7
Prepayments	**74.6**	52.0
Accrued income	**16.6**	204.1
Other taxation and social security	**0.3**	–
	372.9	603.0
Non-current:		
Construction contract retentions	**28.9**	23.1
Other receivables	**0.1**	26.1
	29.0	49.2

19 Inventories

	2019 £m	2018 £m
Raw materials and consumables	**18.8**	17.5
Construction contracts in progress (note 34)	**–**	105.9
Land and work in progress held for development	**190.0**	214.4
Other work in progress	**9.1**	237.2
	217.9	575.0

Ten residential development sites held in land and work in progress held for development have been impaired by £50m during the year. The impairment has been classified as an exceptional charge, see note 5.

20 Cash, cash equivalents, overdrafts and borrowings

	2019 £m	2018 £m
Cash and cash equivalents – bank balances and cash in hand	**311.7**	330.9
Borrowings due within one year	**(30.3)**	(12.0)
Borrowings due after one year	**(473.6)**	(524.9)
Impact of cross-currency hedging	**25.0**	20.3
Net debt	**(167.2)**	(185.7)

Average net debt on a monthly basis was £422m (2018: £375m).

Cash and cash equivalents are subject to Group-wide cash pooling arrangements. On a gross basis, cash and cash equivalents were £1,891.6m (2018: £1,393.2m) and overdrafts were £1,579.9m (2018: £1,062.3m).

Cash and cash equivalents include £57.3m (2018: £66.2m) being the Group's share of cash and cash equivalents held by joint operations and £43.2m (2018: £75.7m) of bank balances that are not part of the Group-wide cash pooling arrangement.

Information on borrowings is detailed in note 28.

(a) Reconciliation of working capital between the consolidated balance sheet and consolidated cash flow statement

	2019 Inventories £m	2019 Trade and other receivables £m	2019 Trade and other payables £m	2019 Provisions £m	2018 Inventories £m	2018 Trade and other receivables £m	2018 Trade and other payables £m	2018 Provisions £m
30 June balance sheet	**575.0**	**652.2**	**(1,551.0)**	**(67.5)**	593.9	569.3	(1,450.3)	(79.3)
IFRS 15 adjustments	**(322.9)**	**(171.1)**	**187.1**	**–**	–	–	–	–
1 July balance sheet	**252.1**	**481.1**	**(1,363.9)**	**(67.5)**	593.9	569.3	(1,450.3)	(79.3)
30 June balance sheet	**217.9**	**401.9**	**(1,350.5)**	**(90.3)**	575.0	652.2	(1,551.0)	(67.5)
Movement per balance sheet	**(34.2)**	**(79.2)**	**13.4**	**(22.8)**	(18.9)	82.9	(100.7)	11.8
Transfers to and from assets held for sale	**–**	**(0.1)**	**(0.3)**	**–**	0.5	0.8	(1.3)	–
Impact of exceptional items	**50.0**	**16.1**	**61.4**	**26.0**	(15.0)	–	–	(17.6)
Disposal of subsidiary	**–**	**(19.2)**	**21.5**	**–**	–	–	–	–
Acquisition of subsidiary	**(24.6)**	**(11.0)**	**3.4**	**–**	–	(54.3)	70.4	11.0
Discount unwind[1]	**–**	**–**	**4.0**	**–**	–	–	–	4.7
Other	**–**	**(0.7)**	**0.4**	**–**	–	–	(0.9)	–
Movement per cash flow statement	**(8.8)**	**(94.1)**	**103.8**	**3.2**	(33.4)	29.4	(32.5)	9.9

1 Discount unwind primarily relates to onerous loss-making contracts and deferred consideration.

(b) Reconciliation of movements in net borrowings

	Cash and cash equivalents £m	Borrowings due within one year £m	Borrowings due after one year £m	Impact of cross-currency hedging £m	Total £m
Net borrowings as at 1 July 2017	499.8	(50.0)	(581.8)	21.9	**(110.1)**
Cash flows	(167.4)	50.0	43.3	–	**(74.1)**
Transfers	–	(12.0)	12.0	–	**–**
Foreign exchange movements	(1.5)	–	1.6	(1.6)	**(1.5)**
Net borrowings as at 30 June 2018	330.9	(12.0)	(524.9)	20.3	**(185.7)**
Cash flows	(20.1)	12.0	25.7	–	**17.6**
Transfers	–	(30.3)	30.3	–	**–**
Foreign exchange movements	0.9	–	(4.7)	4.7	**0.9**
Net borrowings as at 30 June 2019	311.7	(30.3)	(473.6)	25.0	**(167.2)**

(c) Free cash flow

The Group generated free cash flow in the year to 30 June 2019 of £137.3m (2018: £72.9m) representing a reduction/(increase) in net debt of £18.5m (2018: (£75.6m)) before acquisitions and disposals of £12.6m (2018: £14.4m), dividends of £54.2m (2018: £67.6m) and net investment in joint ventures and subsidiaries of £52.0m (2018: £66.5m).

21 Non-current assets held for sale and discontinued operations

(a) Assets held for sale

In December 2018, the Group began a formal sales process to dispose of its interest in Pure Recycling Warwick Limited ('Pure'). Heads of terms were signed in June 2019 with a view to completing the sale before the end of the next financial year. After the balance sheet date, an interested buyer was identified, and the assets were impaired to their realisable fair value, including goodwill of £4.8m – see note 33. The remaining value classified as held for sale as at 30 June 2019 is £6.2m of assets and £1.5m of liabilities.

The Group's investment in its joint venture interest in Kier Hammersmith Limited ('KHL') of £8.4m has been classified as held for sale. The Group's interest in this joint venture is being actively marketed and discussions are well advanced as at 30 June 2019. The transaction is expected to complete in the first half of the next financial year.

The Group's investment in its joint venture interest in Strawberry Percy LLP ('SPL') had previously been classified as held for sale at 31 December 2018. However, the sale is no longer expected to take place therefore the assets and liabilities of SPL have not been classified as held for sale as at 30 June 2019.

During the prior year the pensions administration business was deemed non-core to the Kier Group portfolio. The Group exchanged contracts to dispose of the business on 17 September 2018 and therefore its assets and liabilities were classified as held for sale as at 30 June 2018. The disposal was completed on 31 October 2018. See note 31 to the consolidated financial statements for further details.

	2019 £m	2018 £m
Assets of disposal group classified as held for sale		
Intangible assets – computer software	**0.5**	0.1
Property, plant and equipment	**4.8**	–
Investments in and loans to joint ventures	**8.4**	–
Contract assets	**0.5**	–
Trade and other receivables	**0.1**	1.2
Corporation tax receivable	**0.3**	–
Total	**14.6**	1.3
Liabilities of disposal group classified as held for sale		
Overdrafts	**–**	(2.2)
Trade and other payables	**(1.5)**	(1.2)
Total	**(1.5)**	(3.4)

(b) Results of discontinued operations
Wheldon's (subsidiary)

On 29 June 2018 the Group, through its subsidiary McNicholas Construction (Holdings) Limited, disposed of its investment in Wheldon Contracts & Services Limited ("Wheldon's"). No gain or loss has been made regarding this disposal. Wheldon's was acquired as part of the McNicholas acquisition and was identified as a non-core activity for disposal at that point.

The results are as follows:

	2019 £m	2018 £m
Results of discontinued operations		Wheldon's
Revenue	**–**	7.3
Operating costs	**–**	(8.3)
Operating loss	**–**	(1.0)
Finance costs	**–**	–
Loss before tax	**–**	(1.0)
Tax	**–**	–
Loss for the period from discontinued operations after tax	**–**	(1.0)
Gain on sale of the subsidiary (see note 31)	**–**	–
Income tax credit on gain on sale of the subsidiary	**–**	–
Loss from discontinued operations	**–**	(1.0)

	2019 £m	2018 £m
Cash flows from discontinued operations		Wheldon's
Operating cash flows	**–**	(1.0)
Investing cash flows – exceptional	**–**	0.1
Financing cash flows	**–**	–
Total cash flows	**–**	(0.9)

For the year ended 30 June 2019

22 Finance lease obligations

	2019 Future minimum lease payments £m	2019 Interest £m	2019 Present value of minimum lease payments £m	2018 Future minimum lease payments £m	2018 Interest £m	2018 Present value of minimum lease payments £m
At 1 July	**7.9**	**(0.8)**	**7.1**	15.2	(0.9)	14.3
New obligations	**0.5**	**–**	**0.5**	2.7	(0.2)	2.5
Acquired	**–**	**–**	**–**	0.6	(0.1)	0.5
Repayments	**(5.2)**	**0.7**	**(4.5)**	(10.6)	0.4	(10.2)
At 30 June	**3.2**	**(0.1)**	**3.1**	7.9	(0.8)	7.1

Finance lease liabilities are payable as follows:

	2019 Future minimum lease payments £m	2019 Interest £m	2019 Present value of minimum lease payments £m	2018 Future minimum lease payments £m	2018 Interest £m	2018 Present value of minimum lease payments £m
Less than one year	**1.2**	**(0.1)**	**1.1**	4.4	(0.4)	4.0
Between two and five years	**2.0**	**–**	**2.0**	2.9	(0.3)	2.6
Over five years	**–**	**–**	**–**	0.6	(0.1)	0.5
At 30 June	**3.2**	**(0.1)**	**3.1**	7.9	(0.8)	7.1

23 Trade and other payables

	2019 £m	2018 £m
Current:		
Trade payables	**545.9**	620.5
Sub-contract retentions	**45.0**	61.7
Construction contract balances (note 34)	**–**	406.8
Other taxation and social security	**74.6**	85.6
Deferred consideration	**5.0**	4.0
Other payables	**98.2**	39.4
Accruals	**540.0**	280.9
Deferred income	**2.3**	11.8
Payments received on account	**–**	16.1
	1,311.0	1,526.8
Non-current:		
Trade payables	**–**	1.6
Sub-contract retentions	**39.5**	15.6
Deferred consideration	**–**	7.0
	39.5	24.2

Included within the trade and other payables balance is £170.2m (2018: £184.8m) relating to payments due to suppliers who are on bank-supported supply chain finance arrangements.

24 Provisions

	Insurance claims £m	Restoration of mining sites £m	HSE regulatory £m	Onerous contracts £m	Redundancy, site closure & dilapidations £m	Warranty, rectification and other contractual obligations £m	Total £m
At 1 July 2017	20.9	5.5	5.1	27.5	10.1	10.2	79.3
Charged/(credited) to income statement	12.8	1.7	(1.6)	1.0	(1.2)	1.8	14.5
Acquired	–	–	–	–	1.5	9.7	11.2
Utilised	(13.3)	(2.9)	(2.5)	(13.8)	(6.5)	(3.2)	(42.2)
Unwinding of discount	–	–	–	3.2	–	1.5	4.7
At 30 June 2018	**20.4**	**4.3**	**1.0**	**17.9**	**3.9**	**20.0**	**67.5**
Charged/(credited) to income statement	(0.7)	(0.9)	0.4	19.9	39.5	4.5	**62.7**
Acquired	–	–	–	–	–	–	**–**
Utilised	–	–	–	(3.0)	(35.2)	(2.8)	**(41.0)**
Unwinding of discount	–	–	–	1.1	–	–	**1.1**
At 30 June 2019	**19.7**	**3.4**	**1.4**	**35.9**	**8.2**	**21.7**	**90.3**

Insurance provisions are in respect of legal and other disputes in various Group companies.

Mining provisions of £3.4m (2018: £4.3m) represent the cost of restoration of opencast mining sites.

HSE regulatory provisions are in respect of potential fines arising from changes to safety, health and environmental legislation and regulation.

Onerous contracts provisions are for loss-making contracts that the Group is legally obligated to complete.

Redundancy and dilapidations provisions are in respect of office closure, and site closure provisions relate to adoption costs payable to local authorities on completion of development sites.

Warranty and rectification provisions are for potential claims against work completed by the Group, and other contractual obligations are primarily end of service costs associated with the Group's overseas workforce and potential costs associated with purchases of land held for development.

It is anticipated that the amounts provided will be utilised as follows:

	2019 £m	2018 £m
Due within one year	**25.0**	15.4
Due after one year	**65.3**	52.1
	90.3	67.5

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain as such they are classified as due after one year.

Future outflows in respect of other provisions are expected to occur over the next 10 years.

For the year ended 30 June 2019

25 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2019		2018	
	Number	**£m**	Number	£m
Issued and fully paid ordinary shares of 1 pence each	**162,115,870**	**1.6**	97,460,163	1.0

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. The new shares were fully subscribed on 20 December 2018, resulting in proceeds on issue of £249.9m, net of expenses of £13.7m, that were charged against the share premium account.

No (2018: 17,128) shares were issued under the Sharesave Scheme (2018: premium of £0.2m).

200,000 ordinary shares were issued to the Kier Group 1999 Employee Benefit Trust – to be used to satisfy future obligations of the Company under the Kier Group plc 2010 Long Term Incentive Plan. The shares were issued at the nominal value of £0.01.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedge reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred, net of any related deferred tax.

Translation reserve

This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS 1, this reserve was set to nil at 1 July 2004.

Merger reserve

The merger reserve arose on the shares issued at a premium to acquire May Gurney on 8 July 2013.

26 Share-based payments

Sharesave Scheme

Options over the Company's ordinary shares at 30 June 2019 were as follows:

Date of grant	Sharesave Scheme 31 Oct 2015	Sharesave Scheme 31 Oct 2016	Sharesave Scheme 1 Nov 2017	Sharesave Scheme 1 Nov 2018	Total
Awards outstanding at 30 June 2019					
– Directors	–	–	–	–	**–**
– Employees[1]	20,156	195,172	401,888	1,362,147	**1,979,363**
	20,156	**195,172**	**401,888**	**1,362,147**	**1,979,363**
Exercise price (pence)[1]	1,127	1,135	966	757	

1 Adjusted as a result of the rights issue which completed on 20 December 2018.

Options to acquire shares in the capital of Kier Group plc have been granted to eligible employees who enter into a Sharesave contract. The number of options granted to each participating employee are the number of shares which have an aggregate option price not exceeding the projected proceeds of the employee's Sharesave contract. Participation in the Kier Sharesave scheme is offered to all employees of the Group who have been employed for a continuous period determined by the Board. Under the Sharesave contract, participating employees save a regular sum each month for three years up to a maximum of £500 per month.

2,205,158 options were granted in the year (2018: 1,306,453) under the Sharesave Scheme, which will all be equity settled. The number of options in all schemes was adjusted as a result of the rights issue which completed on 20 December 2018.

No Sharesave Scheme options were exercised during the year. The weighted average market price of Kier Group plc shares at the date of exercise of Sharesave Scheme options during the prior year was 1,238 pence.

Conditional Share Award Plan

Awards over the Company's ordinary shares at 30 June 2019 were as follows:

Date of grant	CSAP award 23 Oct 2017	CSAP award 22 Oct 2018	Total
Awards outstanding at 30 June 2019			
– Directors	–	–	**–**
– Employees[1]	645,219	876,019	**1,521,238**
	645,219	**876,019**	**1,521,238**
Exercise price (pence)	nil	nil	

[1] Adjusted as a result of the rights issue which completed on 20 December 2018.

In 2018, the Group established a conditional share award plan (CSAP) under which senior employees receive awards of shares subject only to service conditions, i.e. the requirement for participants to remain in employment with the Group over the vesting period. Participants are entitled to receive dividend equivalents on these awards. Awards under the CSAP are all equity settled. No shares have yet vested under the CSAP.

948,287 awards were granted in the year (2018: 810,637) under the CSAP. The number of awards in all schemes was adjusted as a result of the rights issue which completed on 20 December 2018.

Long Term Incentive Plan

Awards over the Company's ordinary shares at 30 June 2019 were as follows:

Date of grant	LTIP award 21 Oct 2016	LTIP award 17 Nov 2017	LTIP award 22 Oct 2018	Total
Awards outstanding at 30 June 2019				
– Directors[1]	206,365	235,891	242,754	**685,010**
– Employees[1]	963,787	–	–	**963,787**
	1,170,152	**235,891**	**242,754**	**1,648,797**
Exercise price (pence)	nil	nil	nil	

[1] Adjusted as a result of the rights issue which completed on 20 December 2018.

The Group has established a Long Term Incentive Plan (LTIP) under which Directors can receive awards of shares. Senior employees also participate in LTIP awards granted before the introduction of the CSAP, which replaced the LTIP awards for senior employees who were not main board Directors. Awards made under the scheme are normally able to vest following the third anniversary of the date of the grant. Vesting may be in full or in part (with the balance of the award lapsing) and is subject to the Group achieving specific performance targets. Participants in the 2017 and 2018 schemes are entitled to receive dividend equivalents on these awards. Awards under the LTIP are all equity settled. The market price of Kier Group plc shares at the date of exercise of LTIP options during the year was 886 pence (2018: 1,078 pence).

238,558 options were granted in the year (2018: 298,426) under the LTIP. The number of awards in all schemes was adjusted as a result of the rights issue which completed on 20 December 2018.

The awards, which are taken as shares, are intended to be satisfied from shares held by the Kier Group 1999 Employee Benefit Trust and May Gurney Group Trustees Ltd Employee Share Ownership Plan Trust or from the issue of new shares. The shares held by the trusts are accounted for as a deduction from equity within retained earnings. The movements in the number and historical cost value of shares held by the trusts are as follows:

	2019 Number of shares	**2019** Value £m	2018 Number of shares	2018 Value £m
At 1 July	**251,701**	**2.5**	368,067	4.0
Acquired during the year	**385,721**	**1.0**	153,340	1.6
Issued in satisfaction of awards and other schemes	**(269,307)**	**(1.0)**	(239,514)	(2.8)
Issued in satisfaction of deferred bonus schemes	**(61,798)**	**(0.2)**	(30,192)	(0.3)
At 30 June	**306,317**	**2.3**	251,701	2.5

26 Share-based payments continued

The market value of these shares at 30 June 2019 was £0.3m (2018: £2.4m). The dividends on these shares have been waived.

The shares acquired by the trusts in the year at a cost of nil (2018: £1.6m), net of the cash received by the trusts in respect of the deferred bonus schemes of £0.4m (2018: £0.3m), is reflected in the statement of changes in equity as a net sale of own shares of £0.4m (2018: net purchase of (£1.3m)).

Further description of the above share schemes and the terms and conditions of each scheme are included in the Directors' Remuneration Report on pages 78 to 97.

Value of share schemes

The fair value per option granted has been calculated using the following assumptions. These calculations are based on the Black-Scholes model for all options apart from the total shareholder return (TSR) element of the LTIP which is based on a Stochastic model.

Sharesave Scheme

Date of grant	31 October 2015	31 October 2016	1 November 2017	1 November 2018
Share price at grant (pence)	1,377	1,329	1,055	924
Exercise price (pence) – at grant	1,147	1,155	983	770
Exercise price (pence) – rights adjusted	1,127	1,135	966	757
Option life (years)	3.0	3.0	3.0	3.0
Expected volatility	22.0%	25.5%	24.9%	28.1%
Dividend yield	4.7%	4.7%	6.4%	7.3%
Risk-free interest rate	0.9%	0.3%	0.6%	0.8%
Value per option (pence) – at grant	222.6	205.8	113.1	137.0
Value per option (pence) – rights adjusted	218.8	202.2	111.1	134.6

Conditional Share Award Plan

Date of grant	23 October 2017	22 October 2018
Share price at grant (pence)	1,063	886
Exercise price (pence)	nil	nil
Option life (years)	3.0	3.0
Value per option (pence) – at grant	1,063.0	886.0
Value per option (pence) – rights adjusted	1,044.6	870.7

Long Term Incentive Plan

Date of grant	21 October 2016 (EPS & Net Debt:EBITDA element)	21 October 2016 (TSR element)	17 November 2017 (EPS & Net Debt:EBITDA element)	17 November 2017 (TSR element)	22 October 2018 (EPS & Net Debt:EBITDA element)	22 October 2018 (TSR element)
Share price at grant (pence)	1,360	1,360	1,049	1,049	886	886
Exercise price	nil	nil	nil	nil	nil	nil
Option life (years)	3.0	3.0	2.9	2.9	3.0	3.0
Expected volatility	n/a	26.5%	n/a	27.5%	n/a	25.8%
Dividend yield	4.7%	4.7%	n/a	n/a	n/a	n/a
Risk-free interest rate	n/a	0.2%	n/a	0.5%	n/a	1.1%
Value per option (pence) – at grant	1,182.3	609.1	968.2	345.4	825.0	455.0
Value per option (pence) – rights adjusted	1,161.9	598.6	951.4	339.5	810.7	447.1

The value per option represents the fair value of the option less the consideration payable.

The fair value of the TSR element incorporates an assessment of the number of shares that will vest, as the performance conditions are market conditions under IFRS 2 'Share-based Payments'.

The performance conditions of the EPS and the net debt to earnings before interest, tax, depreciation and amortisation ratio (Net Debt: EBITDA) elements are non-market conditions under IFRS 2. The fair value therefore does not include an assessment of the number of shares that will vest. Instead the amount charged for this element is based on the fair value factored by a 'true-up' for the number of awards that are expected to vest.

The expected volatility is based on historical volatility over the last three years. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

The dividend yield does not have an impact on the fair value of the 2017 LTIP as participants are entitled to receive dividend equivalents on these awards.

An amount of £7.2m relating to share-based payments has been recognised in the income statement as employee costs (2018: £5.4m). Included in other payables is an amount of £0.1m (2018: £0.3m) relating to provisions for employer's national insurance.

A reconciliation of option movements is shown below:

	2019 Number of options	**2019** Weighted average exercise price	2018 Number of options	2018 Weighted average exercise price
Outstanding at 1 July	**5,734,414**	**414.1p**	5,411,912	443.7p
Granted	**3,392,003**	**500.6p**	2,415,516	531.7p
Lapsed or forfeited	**(3,820,997)**	**630.0p**	(1,813,933)	697.7p
Exercised	**(268,307)**	**0.0p**	(279,081)	161.8p
Adjustment for rights issue[1]	**112,285**	**–**	–	–
Outstanding at 30 June	**5,149,398**	**323.0p**	5,734,414	414.1p
Exercisable at 30 June	**20,156**	**1,127.2p**	1,860	1,159.0p

1 The number of options awarded to each scheme participant was adjusted as a result of the rights issue which completed on 20 December 2018.

The options outstanding at 30 June 2019 have a weighted average remaining contractual life of 1.57 years (2018: 1.45 years).

27 Guarantees, contingent liabilities and contingent assets

The Company has given guarantees and entered into counter-indemnities in respect of bonds relating to certain of the Group's own contracts. The Company has also given guarantees in respect of certain contractual obligations of its subsidiaries and joint ventures, which were entered into in the normal course of business, as well as certain of the Group's other obligations (for example, in respect of the Group's finance facilities and its pension schemes). Financial guarantees over the obligations of the Company's subsidiaries and joint ventures are measured at fair value. The fair value measurement is based on the premium received from the joint venture or the differential in the interest rate of the borrowing including and excluding the guarantee. Performance guarantees are treated as a contingent liability until such time as it becomes probable that payment will be required under its terms.

Provisions are made for the Directors' best estimate of known legal claims, investigations and legal actions relating to the Group which are considered more likely than not to result in an outflow of economic benefit. If the Directors consider that a claim, investigation or action relating to the Group is unlikely to succeed, no provision is made. If the Directors cannot make a reliable estimate of a potential, material obligation, no provision is made but details of the claim are disclosed.

At 30 June 2019 the Group had contingent assets of £18.7m (on transition to IFRS 15 at 1 July 2018: £24.3m) in relation to claims against third-parties for the reimbursement of costs on construction contracts. Under IAS 37 these amounts may only be recognised when the economic benefit arising from the claims is virtually certain. It is probable that these amounts will be recognised in future periods when the uncertainty over their recoverability has been removed.

28 Financial instruments

The following table summarises the Group's financial instruments as at 30 June 2019:

	2019			2018		
	Loans and receivables at amortised cost, cash and cash equivalents £m	**Financial liabilities at amortised cost £m**	**Derivatives £m**	Loans and receivables at amortised cost, cash and cash equivalents £m	Financial liabilities at amortised cost £m	Derivatives £m
Financial assets						
Trade and other receivables (less prepayments)[1]	**327.3**	**–**	**–**	600.3	–	–
Cash and cash equivalents	**311.7**	**–**	**–**	330.9	–	–
Loans provided to joint ventures[2]	**193.6**	**–**	**–**	170.3	–	–
Other financial assets	**–**	**–**	**24.1**	–	–	15.2
Total	**832.6**	**–**	**24.1**	1,101.5	–	15.2
Financial liabilities						
Borrowings	**–**	**(503.9)**	**–**	–	(536.9)	–
Finance lease obligations	**–**	**(3.1)**	**–**	–	(7.1)	–
Trade and other payables[3]	**–**	**(1,273.6)**	**–**	–	(1,437.5)	–
Other financial liabilities	**–**	**–**	**–**	–	–	–
Total	**–**	**(1,780.6)**	**–**	–	(1,981.5)	–
Net	**832.6**	**(1,780.6)**	**24.1**	1,101.5	(1,981.5)	15.2

1 The comparative figures have been restated to include £204.1m of accrued income which was previously not reported under trade and other receivables.
2 The comparative figures have been restated to include £68.1m of loans to joint ventures not previously disclosed.
3 Trade and other payables exclude other taxes and social security, deferred income and payments on account.

Capital risk management

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to optimise the capital structure in order to minimise the cost of capital whilst maintaining a strong balance sheet to support business development and tender qualification. The Group's capital management strategy is to use a blend of capital types with different risk, return and maturity profiles to support the operating divisions and deliver the Group's capital management objectives. The Group's overall capital risk management strategy remains unchanged from 2018. The Group announced its strategic objective for the disposal of the Developments & Housing division and this will have the impact in line with its targeting objective of reducing the capital indebtedness of the Group.

The capital structure of the Group comprises: equity, consisting of share capital, share premium, retained earnings and other reserves as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 20 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions are made with regard to the Group's weighted average cost of capital and typically a pre-tax annualised return of at least 15.0% is required to ensure such investments are value enhancing for shareholders.

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to credit risk, market risk and liquidity risk. The overall aim of the Group's financial risk management policies is to minimise any potential adverse effects on financial performance and net assets.

The Group's treasury team manages the principal financial risks within policies and operating limits approved by the Board. The treasury function is not a profit centre and does not enter into speculative transactions. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates and some commodity prices.

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and interest rate and currency hedges.

Policies and procedures exist to ensure that customers have an appropriate credit history. The Group's most significant clients are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the client.

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within acceptable limits. At the balance sheet date there were no significant concentrations of credit risk.

Trade and other receivables and contract assets included in the balance sheet are stated net of expected credit loss (ECL) provisions which have been calculated using a provision matrix grouping trade receivables and contract assets on the basis of their shared credit risk characteristics.

An analysis of the provision held against trade receivables is set out below:

	2019 £m	2018 £m
Provision as at 1 July	**2.0**	8.2
Credited to the income statement	**(0.9)**	(0.6)
Utilised in the year	**–**	(5.7)
Acquired in the year	**–**	0.6
Divested in the year	**–**	(0.5)
Provision as at 30 June	**1.1**	2.0

There were £80.8m (2018: £73.8m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £34.4m (2018: £29.5m) had been received by the end of August 2019. There are no indications as at 30 June 2019 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and unprovided. The proportion of trade receivables at 30 June 2019 that were overdue for payment was 47% (2018: 37.1%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Infrastructure Services	9 days (2018: 10 days)
Buildings	12 days (2018: 15 days)
Developments & Housing	13 days (2018: 20 days)

Overall, the Group considers that it is not exposed to significant credit risk.

Market risk

Interest rate risk

The Group has borrowing facilities to finance short-term working capital requirements and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over LIBOR. The Group's borrowings, excluding the effect of derivatives, can be analysed as follows:

	2019 £m	2018 £m
Fixed rate	**275.1**	285.6
Variable rate	**229.2**	255.8
Cost of raising finance	**(2.6)**	(4.5)
	501.7	536.9

In addition, one of the Group's joint ventures has entered into interest rate swaps in order to mitigate significant interest rate risk.

Interest rate risk also arises on the Group's borrowings where they are not at fixed interest rates. A 50 basis point increase/decrease in the interest rate would lead to a £2.2m increase (2018: £2.2m)/£2.2m decrease (2018: £1.9m) in the Group's net finance cost.

28 Financial instruments continued

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant. Where significant foreign currency exposures are identified, these are hedged using forward foreign exchange contracts or swaps.

Changes in foreign exchange rates affect the carrying amount of the liability relating to foreign currency denominated debt on the Group's balance sheet. The utilisation of derivatives ensures that the movement is recognised in other comprehensive income rather than profit and loss. A 5% increase/decrease in the US dollar to sterling exchange rate combined with a 5% increase/decrease in the Euro to sterling exchange rate would lead to a £6.0m decrease (2018: £6.0m)/£6.3m increase (2018: £6.3m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a syndicate of relationship banks and established investors, and in the case of a number of our Loan Notes, in the form of unsecured committed borrowing facilities. The amount of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Derivative financial instruments

During 2013 the Group entered into three cross-currency swaps to hedge the currency risk on US dollar-denominated loan, nominal value US$28.0m. During 2014 the Group entered into four cross-currency swaps to hedge the currency risk on a US dollar-denominated loan, nominal value US$116.0m. During 2016 the Group entered into two cross-currency swaps to hedge the currency risk on a Euro-denominated loan, nominal value €20.0m, and three interest rate swaps to hedge the interest rate risk on GBP-denominated loans, nominal value £65.5m. During 2019 the Group reduced the value on one of the interest rate swaps by £12.0m, reducing the value of these swaps held from £65.5m to the total value of £53.5m. The Group has assessed the effectiveness of these swaps and concluded that they are 100% effective. Therefore, no amount in relation to hedge ineffectiveness has been charged or credited to the income statement in relation to any cross currency or interest rate swap.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instruments:

					Expected cash flows	
Continuing operations	**Fair value £m**	**Total £m**	**0–1 years £m**	**1–2 years £m**	**2–5 years £m**	**More than 5 years £m**
Cross-currency swaps: asset						
Gross settled inflows		155.8	11.7	14.2	53.4	76.5
Gross settled outflows		(126.5)	(9.6)	(12.3)	(43.5)	(61.1)
	24.2	**29.3**	**2.1**	**1.9**	**9.9**	**15.4**
Interest rate swaps: asset						
Net settled	**(0.1)**	(0.2)	(0.1)	(0.1)	–	–

In addition to the above, two of the Group's property joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 2 and 4 years and are without recourse to the Group. At 30 June 2019, the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £31.5m (2018: £46.9m). The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2019 amounted to £0.3m (2018: £0.3m) which, together with the related deferred tax asset of £0.1m (2018: £nil), have met the criteria for hedge accounting.

Financial assets

Loans and receivables at amortised cost, cash and cash equivalents:	**2019 £m**	2018 £m
Cash and cash equivalents	**311.7**	330.9
Trade and other receivables (including £29.0m due after more than one year (2018: £49.2m) – excluding prepayments	**327.3**	600.3
Loans to joint ventures	**193.6**	170.3
	832.6	1,101.5

Financial liabilities – analysis of maturity dates

At 30 June 2019, the Group had the following financial liabilities at amortised cost together with the maturity profile of their contractual cash flows:

	Continuing operations			
30 June 2019	**Trade and other payables[1] £m**	**Borrowings £m**	**Finance lease obligations £m**	**Total £m**
Carrying value	**1,273.6**	**503.9**	**3.1**	**1,780.6**
Contractual cash flows				
Less than one year	1,234.1	26.9	1.1	1,262.1
One to two years	39.5	38.5	0.6	78.6
Two to three years	–	62.8	0.6	63.4
Three to four years	–	32.3	0.6	32.9
Four to five years	–	278.7	0.6	279.3
Over five years	–	88.0	–	88.0
	1,273.6	527.2	3.5	1,804.3
30 June 2018				
Carrying value	1,437.5	536.9	7.1	1,981.5
Contractual cash flows				
Less than one year	1,413.3	28.7	4.4	1,446.4
One to two years	24.7	39.2	1.1	65.0
Two to three years	–	65.8	0.6	66.4
Three to four years	–	34.3	0.6	34.9
Four to five years	–	301.1	0.6	301.7
Over five years	–	87.2	0.6	87.8
	1,438.0	556.3	7.9	2,002.2

[1] Trade and other payables exclude other taxes and social security, deferred income and payments on account.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses cross-currency and interest rate swaps for hedging. These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the bank counterparties using mid-market mark to market valuations for trades at the close of business on 30 June 2019.

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2019:

	Level 1 £m	Level 2 £m	Level 3 £m	**Total £m**
Assets				
Derivatives used for hedging – Cross-currency swaps	–	24.1	–	**24.1**
Derivatives used for hedging – Interest rate swaps	–	–	–	**–**

28 Financial instruments continued

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2018:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	15.0	–	**15.0**
Derivatives used for hedging – Interest rate swaps	–	0.2	–	**0.2**

There were no transfers between Levels 1 and 2 during the year.

Borrowings and borrowing facilities

As at 30 June 2019, the Group had the following unsecured committed facilities after the effect of derivatives:

- Revolving credit facility of £670.0m, at a margin over LIBOR, due for renewal in July 2022, £229.2m drawn at 30 June 2019 (2018: £255.8m);
- Four loan notes, principal amounts of £45.0m, US$28.0m, £47.0m and US$116.0m, with fixed coupons of between 4.1% and 4.9%, repayable in four repayments, December 2019, December 2022, November 2021 and November 2024, fully drawn at 30 June 2019, totalling £182.7m at hedged rates (2018: £182.7m);
- Two loan notes, principal amounts of €10.0m and €10.0m, with fixed coupons of between 1.5% and 2.1%, repayable in May 2021 and May 2023, fully drawn at 30 June 2019 totalling £15.7m at hedged rates (2018: £15.7m); and
- One loan note, principal amount of £53.5m at a margin over LIBOR with a maturity date of May 2021, fully drawn at 30 June 2019, totalling £53.5m (2018: £53.5m).
- One loan note, principal amount £12.0m, that was fully drawn as at 30 June 2018 was repaid during the year.

In addition, the Group has unsecured overdraft facilities of £20.0m (2018: £52.5m), at a margin over LIBOR, repayable on demand, undrawn at 30 June 2019 and 2018, and a bank loan of £0.5m (2018: £1.4m).

The committed facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to EBITDA, interest cover, and consolidated net worth. The Group has complied with these covenants throughout the period.

Included within borrowings are capitalised loan fees of £2.6m (2018: £4.5m).

29 Financial and capital commitment

	2019 £m	2018 £m
Commitments for capital expenditure	**0.8**	–
Commitments for equity and subordinate debt in joint ventures	**0.6**	1.0
	1.4	1.0

The total of future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	2019		2018	
	Property £m	**Plant and machinery £m**	Property £m	Plant and machinery £m
Within one year	**11.9**	**22.5**	13.0	37.7
Between one and five years	**41.3**	**24.5**	39.6	53.2
Over five years	**114.3**	**5.1**	117.5	0.4
	167.5	**52.1**	170.1	91.3

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period beyond 30 June 2019 of 25 years. Vehicle leases typically run for a period of four years. No leases include contingent rentals.

30 Related parties

Identity of related parties

The Group has a related party relationship with its joint ventures, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel

The Group's key management personnel are the Executive and Non-Executive Directors as identified in the Directors' Remuneration Report on pages 78 to 97.

In addition to their salaries, the Group also provides non-cash benefits to Directors and contributes to their pension arrangements as disclosed on page 83. Key management personnel also participate in the Group's share option programme (see note 26).

Key management personnel compensation comprised:

	2019 £m	2018 £m
Emoluments as analysed in the Directors' Remuneration Report	**5.2**	5.6
Employer's national insurance contributions	**0.6**	0.8
Total short-term employment benefits	**5.8**	6.4
Share-based payment charge	**0.7**	0.7
	6.5	7.1

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

30 Related parties continued

Transactions with joint ventures

	2019 £m	2018 £m
Construction services and materials	**278.2**	116.9
Staff and associated costs	**10.0**	8.9
Management services	**16.0**	4.4
Interest on loans to joint ventures	**0.6**	0.7
Plant hire	**1.3**	0.8
	306.1	131.7

Equity loans due from joint ventures are analysed below:

	2019 £m	2018[1] £m
Kier Cross Keys Holdco 1 LLP	**38.9**	35.0
Kier Community Living Topco 1 LLP	**32.1**	8.9
Solum Regeneration (Twickenham LLP)	**14.2**	12.2
Kier Trade City Holdco 1 LLP	**12.7**	4.3
Kier (Newcastle) Investment Ltd	**10.1**	9.7
Kier (Southampton) Investment Limited	**10.0**	9.3
Kier Richmond Holdings Limited	**9.9**	9.9
Watford Health Campus Partnership LLP	**7.0**	7.7
Kier Cornwall Street Holdings 1 LLP	**6.5**	6.5
Kier Cornwall Street Holdings 2 LLP	**6.5**	6.5
Solum Regeneration (Epsom) LP	**5.3**	5.3
50 Bothwell Street Holdco 1 LLP	**5.2**	4.8
Solum Regeneration (Bishops) LLP	**5.0**	1.1
KCK Peterborough Holdco 1 LLP	**4.8**	4.8
Solum Regeneration (Guildford) LLP	**3.4**	1.9
Easingwold Holdco 1 LLP	**2.9**	2.9
Stokesley Holdco 1 LLP	**2.7**	2.7
Driffield Holdco 1 LLP	**2.5**	0.8
Solum Regeneration (Walthamstow) LLP	**2.0**	3.8
Strawberry Percy Holdings 1 LLP	**1.6**	1.6
Strawberry Percy Holdings 2 LLP	**1.6**	1.6
Tri-link 140 Holdings 1 LLP	**1.4**	1.4
Notaro Kier LLP	**1.3**	2.9
Black Rock Holdco 1 LLP	**1.2**	1.2
Solum Regeneration (Redhill) LLP	**1.2**	1.2
Winsford Holdings 1 LLP	**1.2**	1.1
Kier Sovereign LLP	**0.8**	5.2
Solum Regeneration (Maidstone) LLP	**0.6**	0.6
Solum Regeneration (Haywards) LLP	**0.4**	0.4
Solum Regeneration Holding 1 LLP	**0.2**	0.2
Solum Regeneration Holding 2 LLP	**0.2**	0.2
Solum Regeneration (Kingswood) LLP	**0.1**	0.1
Solum Regeneration (Surbiton) LLP	**0.1**	0.1
Kier Reading Holdco 1 LLP	**–**	10.5
Lysander Student Properties Investments Limited	**–**	3.9
	193.6	170.3

[1] The comparative figures have been restated to include £68.1m of loans to joint ventures not previously disclosed.

Trading balances due from joint ventures are analysed below:

	2019 £m	2018 £m
Kier Cross Keys Dev LLP	**6.0**	–
Kier Community Living LLP	**4.2**	0.2
Tri-Link 140 LLP	**3.8**	–
Stokesley Devco LLP	**3.3**	0.5
Hackney Schools for the Future Limited	**1.4**	2.7
Winsford Devco LLP	**0.8**	–
Easingwold Devco LLP	**0.5**	–
Driffield Devco LLP	**0.4**	1.4
Kier Richmond Limited	**0.3**	–
Team Van Oord Limited	**0.1**	0.1
KCK Peterborough Devco LLP	**0.1**	–
Solum Regeneration (Guildford) LLP	**–**	0.9
Kier (Southampton) Investment Limited	**–**	0.3
Watford Health Campus Partnership LLP	**–**	0.2
Kier Sydenham LP	**–**	0.1
Kier Trade City LLP	**–**	0.1
	20.9	6.5

31 Acquisitions and disposals

The Group has completed a number of acquisitions and disposals during the year, in chronological order:

(a) Prior year acquisition of McNicholas

On 12 July 2017, the Group acquired the entire share capital of McNicholas Construction (Holdings) Limited ('McNicholas'). Included in the acquisition consideration payable was £14.0m of deferred contingent consideration. £4.0m of the deferred consideration has been released to the Income statement as an exceptional item, see note 5.

(b) Disposal of Unity

On 2 July 2018, the Group, through its subsidiary MPHBS Limited ('MPHBS'), disposed of its interest in The Unity Partnership Limited ('Unity') for a total consideration of £1.5m. Unity was a partnership between MPHBS and Oldham Metropolitan Borough Council ('OMBC') and delivered property, highways, transactional services, information and communication technology and business services.

	2019 £m
Consideration	**1.5**
Costs of disposal	**(0.4)**
Book value of net assets sold	**(3.0)**
Loss on disposal	**(1.9)**

The costs of disposal comprise £0.3m of internal costs, including redundancy, and £0.1m of legal fees.

31 Acquisitions and disposals continued

(c) Disposal of the Group's pension administration business

On 31 October 2018, the Group disposed of its pension administration business, which was deemed non-core to the Kier Group portfolio, for a total consideration of £3.7m. The business was classified as held for sale as at 30 June 2018.

	2019 £m
Consideration	**3.7**
Costs of disposal	**(0.9)**
Book value of net assets sold	**(0.3)**
Gain on disposal	**2.5**

The costs of disposal comprise £0.5m of legal and professional fees, a £0.1m provision for bad debts and pension costs, £0.1m of IT separation costs and £0.2m of internal staff costs.

(d) Disposal of KHSA Limited

On 21 December 2018, the Group, through its subsidiary Kier Holdings Limited, disposed of its interest in KHSA Limited ('KHSA') for a total consideration of AUS$43.7m (£24.5m), of which AUS$41.7m (£23.4m) was received on completion, and the balance of AUS$2.0m (£1.1m) is deferred subject to satisfaction of future contractual commitments. KHSA, which was acquired as part of the Mouchel group of companies in 2015, was a joint operation providing road asset management and maintenance services in Australia.

	2019 £m
Cash consideration	**24.5**
Costs of disposal	**(1.7)**
Book value of assets sold excluding goodwill and intangible contract rights	**(6.9)**
Profit on disposal excluding goodwill and intangible contract rights	**15.9**
Goodwill disposed	**(10.7)**
Intangible contract rights disposed (net of related deferred tax liability of £1.3m)	**(6.6)**
Loss on disposal	**(1.4)**

The costs of disposal comprise £0.3m legal and professional fees, £0.7m stranded management fees, £0.5m software licences, £0.1m closure expenses and £0.1m of IT separation costs.

(e) Acquisition of Arena Central

On 22 February 2019, the Group acquired control of Arena Central Developments LLP ('Arena Central') through two of its subsidiary companies, Kier Property Developments Limited and Kier Ventures Limited, who each acquired a 50% share. Arena Central is a 9.2 acre mixed-use city centre development in Birmingham, providing office space, retail, leisure and residential buildings. The Group has the rights to develop three further phases of the site's existing master plan. The development includes three office buildings totalling 526,009 square foot, phased over five to seven years, known as 5 Centenary Square, 4 Arena Central and 5 Arena Central.

The total consideration paid was £29.7m of cash paid on acquisition. £0.9m of acquisition costs were incurred in the year and expensed to the income statement.

The fair values attributable to the transaction are set out below:

	2019 £m
Inventories	24.6
Trade and other receivables	11.0
Cash and cash equivalents	0.7
Trade and other payables	(3.3)
Deferred tax liabilities	(2.5)
	30.5
Negative goodwill	(0.8)
Total assets acquired	**29.7**

Satisfied by:	
Cash consideration	29.7
Total consideration	**29.7**

The Arena Central business contributed £17.9m to Group revenue and £1.1m to profit before exceptional items and amortisation of acquired intangible assets for the year to 30 June 2019. If the business was part of the Group for the full year, then £21.1m of revenue and £1.1m of profit before exceptional items and amortisation of acquired intangible assets for the year ended 30 June 2019 would have been recognised.

(f) Disposal of Social Power (Harlow) Holdings Limited

On 14 June 2019, the Group, through its subsidiary Kier Project Investment Limited, disposed of its investment in Social Power (Harlow) Holdings Limited for proceeds of £1.0m.

	2019 £m
Sale proceeds	**1.0**
Costs of disposal	**(0.1)**
Carrying value of assets	**(0.7)**
Gain on disposal	**0.2**

The costs of disposal comprise legal and professional fees.

(g) Prior year disposal of other investments in joint ventures

During the prior year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interest in Evolution (Woking) Holdings Limited, for a total consideration of £4.9m. In the profit before exceptional items and amortisation of acquired intangible assets of the property segment the profit on disposal recognised in the prior year was £2.7m.

The total disposal proceeds of all investments in joint ventures during the year can be reconciled to total profit and loss as follows:

	2018 £m
Sale proceeds	4.9
Book value of net assets	(1.9)
Sale costs	(0.3)
Profit on disposal	2.7
Deemed disposal	0.8
Total profit on disposal	3.5

32 Subsidiaries and other undertakings

A full list of subsidiaries, branches, associated undertakings, and joint arrangements as at 30 June 2019 is detailed below. Unless stated otherwise, all undertakings are wholly owned and held indirectly by Kier Group plc.

Subsidiaries

Company name	Registered office[1]	Share class(es) held	% held by Group
2020 Liverpool Limited	1	Ordinary	100%
A C Chesters & Son Limited	1	Ordinary	100%
AK Student Living Limited	1	A Ordinary B Ordinary	100% 100%
Allison Homes Eastern Limited	1	Ordinary	100%
Arena Central Developments LLP	1	-	100%
Arena Central Management Limited	1	A Ordinary	100% 25%[3]
Balaam Wood Management Company Limited	2	Ordinary	100%
Bellwinch Homes (Western) Limited	1	Ordinary	100%
Bellwinch Homes Limited	1	Ordinary	100%
Bellwinch Limited	1	Ordinary	100%
Caribbean Construction Company Limited	3	Ordinary	100%
Caxton Integrated Services Holdings Limited	1	Ordinary	100%
ClearBOX Limited	1	Ordinary	75%
Connect 21 Community Limited	4	Ordinary	100%
Constantine Place (Longstanton) Management Company Limited	5	Ordinary	100%
Dudley Coles Limited	1	Ordinary	100%
Elsea Park Bourne Management Company Limited	5	Ordinary	100%
Engage Lambeth Limited (in liquidation)	6	C Ordinary	100% 52%[3]
Engineered Products Limited (in liquidation)	6	Ordinary	100%
FDT (Holdings) Ltd	1	Ordinary	100%
FDT Associates Ltd	1	Ordinary A	100%
Heart of Wales Property Services Limited	7	Ordinary	50%
Heatherwood (Thetford) Management Company Limited	5	Ordinary	100%
Hugh Bourn Developments (Wragby) Limited (in liquidation)	8	Ordinary	100%
I E I Limited[5]	6	Ordinary	100%
J L Kier & Company (London) Limited	1	Ordinary	100%
J L Kier & Company Limited	1	Ordinary	100%
Javelin Construction Company Limited (in liquidation)	6	Ordinary	100%
Kier (Catterick) Limited	1	A Ordinary B Ordinary	100% 100%
Kier (Kent) PSP Limited	1	A Ordinary B Ordinary	100% 100%
Kier (Malaysia) SDN. BHD.	9	Ordinary	100%
Kier (NR) Limited	1	Ordinary	100%
Kier Asset Partnership Services Limited	1	Ordinary	100%
Kier Benefits Limited	1	Ordinary	100%
Kier Build Limited	1	Ordinary	100%
Kier Building Limited (in liquidation)	6	Ordinary	100%
Kier Business Services Limited	1	Ordinary	100%
Kier Caribbean and Industrial Limited	1	Ordinary	100%
Kier CB Limited	1	Ordinary	100%
Kier Commercial Investments Limited	1	Ordinary	100%
Kier Commercial UKSC Limited	1	Ordinary	100%
Kier Construction Limited	1	Ordinary	100%
Kier Construction Limited	10	Ordinary	100%
Kier Construction LLC	11	Ordinary	49%
Kier Construction SA	12	Ordinary	100%
Kier Developments Limited	1	A Ordinary B Ordinary C Ordinary	100% 100% 100%
Kier Dormant Holdings Limited	1	Ordinary	100%
Kier Dubai LLC	13	Ordinary	49%
Kier Education Investments Limited	1	B Ordinary M Ordinary	100% 100%
Kier Education Services Limited	1	B Ordinary M Ordinary	100% 100%
Kier Energy Solutions Limited	1	Ordinary A Ordinary	100% 100%

Subsidiaries continued

Company name	Registered office[1]	Share class(es) held	% held by Group
Kier Ewan Limited	1	Ordinary	100%
Kier Facilities Services Limited	1	Ordinary	100%
Kier Finance & Treasury Holdings Limited	1	Ordinary	100%
Kier Finance Limited	1	Ordinary	100%
Kier Fleet Services Limited	1	Ordinary	100%
Kier Group Trustees Limited[2]	1	Ordinary	100%
Kier Harlow Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier Highways Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier Holdco 2 Limited	1	Ordinary	100%
Kier Holdings Limited	1	Ordinary	100%
		Irredeemable preference	100%
Kier Homes Caledonia Limited	1	Ordinary	100%
Kier Homes Northern Limited	1	Ordinary	100%
Kier Infrastructure and Overseas Limited	1	Ordinary	100%
Kier Infrastructure and Overseas Limited – Hong Kong Branch			100%
Kier Infrastructure and Overseas Limited – Jamaica Branch			100%
Kier Infrastructure and Overseas Limited – Trinidad Branch			100%
Kier Infrastructure Pty Ltd	14	Ordinary	100%
Kier Insurance Limited	15	Ordinary	100%
Kier Insurance Management Services Limited	1	Ordinary	100%
Kier Integrated Services (Estates) Limited	1	Ordinary	100%
Kier Integrated Services (Holdings) Limited	1	Ordinary	100%
		Deferred	100%
Kier Integrated Services (Trustees) Limited	1	Ordinary	100%
Kier Integrated Services Group Limited	1	Ordinary	100%
Kier Integrated Services Limited	1	Ordinary	100%
Kier International (Investments) Limited	1	Ordinary	100%
Kier International Limited	1	Ordinary	100%
Kier International Limited – India Branch			
Kier International Limited – Jamaica Branch			
Kier International Limited	16	Ordinary	100%
Kier Islington Limited	1	Ordinary	100%
		Islington	100%
Kier Jamaica Development Limited	1	Ordinary	100%
Kier Land Limited	1	Ordinary	100%
Kier Limited[2]	1	Ordinary	100%
Kier Living Limited[2]	1	Ordinary	100%
Kier Management Consulting Limited	1	Ordinary	100%
		A Ordinary	100%
		B Ordinary	100%
Kier MBS Limited	1	Ordinary	100%
Kier Midlands Limited	1	Ordinary	100%
Kier Minerals Limited	1	Ordinary	100%
Kier Mining Investments Limited	1	Ordinary	100%
Kier Mortimer Limited[6]	6	Ordinary	100%
Kier National Limited	1	Ordinary	100%
Kier North Tyneside Limited[7]	1	B Ordinary	100%
			80%[3]
Kier Overseas (Four) Limited	1	Ordinary	100%
Kier Overseas (Nine) Limited	1	Ordinary	100%
Kier Overseas (Seventeen) Limited	1	Ordinary	100%
Kier Overseas (Twenty-Three) Limited	1	Ordinary	100%
Kier Parkman Ewan Associates Limited	1	Ordinary A	100%
Kier Parkman GB Limited	1	Ordinary	100%
Kier Parkman ServiGroup Limited	1	Ordinary	100%
Kier Parkman Two (NI) Limited (in liquidation)	17	Ordinary	100%
Kier Partnership Homes Limited	1	Ordinary	100%

32 Subsidiaries and other undertakings continued

Company name	Registered office[1]	Share class(es) held	% held by Group
Kier Plant Limited	1	Ordinary	100%
Kier Professional Services Limited	1	Ordinary	100%
Kier Project Investment Limited	1	Ordinary	100%
Kier Property Developments Limited	1	Ordinary	100%
Kier Property Limited	1	Ordinary	100%
Kier Property Management Company Limited	1	Ordinary	100%
Kier Rail Limited	1	Ordinary	100%
Kier Rail No.2 Limited (in liquidation)	6	Ordinary	100%
Kier Recycling CIC	1	Ordinary	100%
Kier Scotland Limited[7]	18	Ordinary	100%
Kier Services Limited	1	Ordinary	100%
Kier Sheffield LLP	1	–	80.1%
Kier South East Limited	1	Ordinary	100%
Kier Southern Limited	1	Ordinary	100%
Kier Stoke Limited	1	A Ordinary	100% 80.1%[3]
Kier Sydenham Limited	1	Ordinary	100%
Kier Thurrock Limited	1	Ordinary	100%
Kier Traffic Support Limited	1	Ordinary	100%
Kier UKSC LLP	1	–	100%
Kier Ventures Limited	1	Ordinary	100%
Kier Ventures UKSC Limited	1	Ordinary	100%
Kier York Street LLP	1	–	100%
Lambeth Learning Partnership (PSP) Limited (in liquidation)	6	Ordinary	65%
Leyden Transport Limited (in liquidation)	6	Ordinary	100%
Liferange Limited	1	Ordinary	100%
Marriott Limited[6]	6	Ordinary	100%
McNicholas Communications Limited[5]	6	Ordinary	100%
McNicholas Construction (Holdings) Limited	1	Ordinary	100%
McNicholas Construction Services Limited	1	Ordinary	100%
Moss Construction Northern Limited (in liquidation)	6	Ordinary	100%
MPHBS Limited	1	Ordinary	100%
MRBL Limited	1	Ordinary A Ordinary B Deferred B	100% 100% 100%

Subsidiaries continued

Company name	Registered office[1]	Share class(es) held	% held by Group
Parkman Consultants Limited	1	Ordinary	100%
Parkman Consultants Limited – Abu Dhabi Branch			
Parkman Holdings Limited	1	Ordinary	100%
Parkman Kenya Limited	19	Ordinary	100%
Parkman Nigeria Limited	20	Ordinary	100%
Pure Buildings Limited	1	Ordinary	100%
Pure Recycling Warwick Limited	1	Ordinary A	100%
		Ordinary B	100%
Robert Marriott Group Limited (in liquidation)	6	Ordinary	100%
Saudi Kier Construction Limited	21	Ordinary	100%
T Cartledge Limited	1	Ordinary	100%
T H Construction Limited	1	Ordinary	100%
T J Brent Limited	1	Ordinary	100%
		Ordinary B	100%
		Ordinary C	100%
Tempsford Cedars Limited	1	Ordinary	100%
Tempsford Insurance Company Limited[2]	15	Ordinary	100%
The Impact Partnership (Rochdale Borough) Limited	1	Ordinary	80.1%
Tor2 Limited	1	PSP Shares	100%
			80.01%[3]
TradeDirect Logistics Limited	1	Ordinary	100%
Turriff Contractors Limited	22	Ordinary	100%
Turriff Group Limited	22	Ordinary	100%
		Ordinary A	100%
		Ordinary B	100%
Turriff Smart Services Limited[7]	18	Ordinary	100%
Twigden Homes Limited	1	Ordinary	100%
Twigden Homes Southern Limited	1	Ordinary	100%
Underground Moling Services Limited (in liquidation)	18	Ordinary	100%
Usherlink Limited	1	Ordinary	100%
W. & C. French (Construction) Limited	1	Ordinary	100%
Wallis Builders Limited[6]	6	Ordinary	100%
Wallis Limited	1	Ordinary	100%
Wallis Western Limited	1	Ordinary	100%
William Moss Group Limited (The)	1	Ordinary	100%

[1] See list of registered office details and explanatory notes on page 186.

32 Subsidiaries and other undertakings continued

Joint ventures

Company name	Registered office[1]	Interest held		Registered office[1]	Interest held
Property					
3 Sovereign Square Holdings 1 LLP	1	50%	Kier Sovereign LLP	1	50%
3 Sovereign Square Holdings 2 LLP	1	50%	Kier Sydenham GP Holdco Limited	1	50%
3 Sovereign Square LLP	1	50%	Kier Sydenham GP Limited	1	50%
50 Bothwell Street Holdco 1 LLP	23	50%	Kier Sydenham LP	1	50%
50 Bothwell Street Holdco 2 LLP	23	50%	Kier Sydenham Nominee Limited	1	50%
50 Bothwell Street LLP	23	50%	Kier Trade City Holdco 1 LLP	1	90%
Alliance Community Partnership Limited	24	10%	Kier Trade City Holdco 2 LLP	1	90%
Black Rock Devco LLP	1	50%	Kier Trade City LLP	1	90%
Black Rock Holdco 1 LLP	1	50%	Kier Warth Limited	1	50%
Black Rock Holdco 2 LLP	1	50%	Kingswood Devco Holdings 1 LLP	1	50%
Dragon Lane Holdings 1 LLP	1	50%	Kingswood Devco Holdings 2 LLP	1	50%
Dragon Lane Holdings 2 LLP	1	50%	Kingswood Devco LLP	1	50%
Dragon Lane LLP	1	50%	Lysander Student Properties Investments	1	75%
Driffield Devco LLP	1	50%	Lysander Student Properties Limited	1	75%
Driffield Holdco 1 LLP	1	50%	Lysander Student Properties Operations Limited	1	75%
Driffield Holdco 2 LLP	1	50%	Magnetic Limited	1	75%
Easingwold Devco LLP	1	50%	Notaro Kier LLP	1	50%
Easingwold Holdco 1 LLP	1	50%	Penda Limited	1	50%
Easingwold Holdco 2 LLP	1	50%	Premier Inn Kier Limited	1	50%
Farington Moss Devco LLP	1	10%	Solum Regeneration (Bishops) LLP	1	50%
Farington Moss Holdco 1 LLP	1	10%	Solum Regeneration (Epsom) Limited Partnership	1	50%
Farington Moss Holdco 2 LLP	1	10%	Solum Regeneration (Guildford) LLP	1	50%
KCK Peterborough Devco LLP	1	90%	Solum Regeneration (Haywards) LLP	1	50%
KCK Peterborough Holdco 1 LLP	1	90%	Solum Regeneration (Kingswood) LLP	1	50%
KCK Peterborough Holdco 2 LLP	1	90%	Solum Regeneration (Maidstone) LLP	1	50%
Kent LEP 1 Limited	1	80%	Solum Regeneration (Redhill) LLP	1	50%
Kier (Newcastle) Investment Ltd	1	75%	Solum Regeneration (Surbiton) LLP	1	50%
Kier (Newcastle) Operation Limited	1	75%	Solum Regeneration (Twickenham) LLP	1	50%
Kier (Southampton) Development Limited	1	75%	Solum Regeneration (Walthamstow) LLP	1	50%
Kier (Southampton) Investment Limited	1	75%	Solum Regeneration Epsom (GP Subsidiary)	1	50%
Kier (Southampton) Operations Limited	1	75%	Solum Regeneration Epsom (GP) Limited	1	50%
Kier Community Living Holdco 1 LLP	1	69%	Solum Regeneration Epsom (Residential) LLP	1	50%
Kier Community Living Holdco 2 LLP	1	69%	Solum Regeneration Holding 1 LLP	1	50%
Kier Community Living LLP	1	69%	Solum Regeneration Holding 2 LLP	1	50%
Kier Community Living Topco 1 LLP	1	69%	Stokesley Devco LLP	1	50%
Kier Community Living Topco 2 LLP	1	69%	Stokesley Holdco 1 LLP	1	50%
Kier Cornwall Street Holdings 1 LLP	1	90%	Stokesley Holdco 2 LLP	1	50%
Kier Cornwall Street Holdings 2 LLP	1	90%	Strawberry Percy Holdings 1 LLP	1	50%
Kier Cornwall Street LLP	1	90%	Strawberry Percy Holdings 2 LLP	1	50%
Kier Cross Keys Dev LLP	1	90%	Strawberry Percy LLP	1	50%
Kier Cross Keys Holdco 1 LLP	1	90%	Transcend Property Limited	26	50%
Kier Cross Keys Holdco 2 LLP	1	90%	Tri-Link 140 Holdings 1 LLP	1	50%
Kier Foley Street Holdco 1 LLP	1	90%	Tri-Link 140 Holdings 2 LLP	1	50%
Kier Foley Street Holdco 2 LLP	1	90%	Tri-Link 140 LLP	1	50%
Kier Foley Street LLP	1	90%	Watford Health Campus Limited	1	50%
Kier Hammersmith Holdco Limited	1	50%	Watford Health Campus Partnership LLP	1	50%
Kier Hammersmith Limited	1	50%	Watford Waterside 1 LLP	1	50%
Kier Reading Holdco 1 LLP	1	90%	Watford Woodlands LLP	1	50%
Kier Reading Holdco 2 LLP	1	90%	Winsford Devco LLP	1	50%
Kier Reading LLP	1	90%	Winsford Holdings 1 LLP	1	50%
Kier Richmond Holdings Limited	1	90%	Winsford Holdings 2 LLP	1	50%
Kier Richmond Limited	1	90%			
			Services		
Construction			2020 Knowsley Limited	1	80.1%
Kier Graham Defence Limited	1	50%	Hackney Schools for the Future Limited	1	80%
			Team Van Oord Limited	25	25%

[1] See list of registered office details and explanatory notes on page 186.

Joint operations

Joint operation name	Description	Trading address
UK		
Crossrail Contracts 300/410/435	a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited	Farringdon Road, London ECIM 3HN
Deephams	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, and Aecom Limited	Deephams Sewage Treatment Wales, Pickett's Lock Lane, Edmonton, N9 0BA
Hercules	a joint arrangement between Kier Construction Limited, Kier Living Limited and Balfour Beatty	Hercules Site Offices, The Wessex Building, MOD Lyneham, Calne Road, Lyneham, Chippenham, SN15 4PZ
Hinkley Point C	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited	Hinkley Point C Construction Site, Wick Moor Drove, Bridgwater, Somerset, TA5 1UD
KCD	a joint arrangement between Kier Integrated Services Limited and Clancy Docwra Limited	Thames Water Offices, Clear Water Court, Vastern Rd, Reading, RG1 8DB
KMI Plus	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Limited	Tempsford Hall, Sandy, Bedfordshire, SG19 2BD
KMI Water	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited	Tempsford Hall, Sandy, Bedfordshire, SG19 2BD
Mersey Gateway	a joint arrangement between Kier Infrastructure and Overseas Limited, Samsung C&T ECUK Limited and FCC Construccion S.A.	Forward Point, Tan House Lane, Widnes, WA8 0SL
Luton People Mover	a joint arrangement between Kier Infrastructure and Overseas Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
HS2	a joint arrangement between Kier Infrastructure and Overseas Limited and Eiffage Génie Civil	19 Cornwall Street, Birmingham, B3 2DT
RAF Lakenheath	a joint arrangement between Kier Construction Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
Kier WSP	a joint arrangement between Kier Integrated Services Limited and WSP UK Limited	Northamptonshire Highways, Highways Depot, Harborough Rd, Brixworth, Northants NN6 9BX
International		
	The following joint operations, in which the Group participation is between 30% and 65%, operate overseas in the territory indicated:	
DPDP-6003 Residential Project (Bluewaters)	a joint arrangement between Kier Infrastructure and Overseas Limited and Al Shafar General Contracting Co LLC	Bluewaters Island, Dubai
MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited and Kaden Construction Limited	Area 3.6, Tai Kong Po Tsuen, Kam Tin, Yuen Long, N.T., Hong Kong
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited	Admiralty Station, Hong Kong Island
Saadiyat Rotana Hotel and Resort Complex	a joint arrangement between Kier Construction LLC and Ali and Sons Contracting Co LLC	Saadiyat Island, Abu Dhabi
Kier ACC	a joint arrangement between Kier Dubai LLC and Arabian Construction Co.SAL	AL Qudra Road, Dubai

32 Subsidiaries and other undertakings continued

Registered office addresses

Number	Address
1	Tempsford Hall, Sandy, Bedfordshire, SG19 2BD, UK
2	154-155, Great Charles Street, Queensway, Birmingham, B3 3LP, UK
3	Harbour Head, Harbour View, Kingston 17, Jamaica
4	The Maltings, Sandon, Buntingford, SG9 0RU, UK
5	82, The Maltings, Roydon Road, Stanstead Abbotts, Hertfordshire, SG12 8HG, UK
6	1 More London Place, London, SE1 2AF, UK
7	Unit 31, Ddole Road Industrial Estate, Llandrindod Wells, Powys, LD1 6DF, UK
8	KPMG LLP, 15 Canada Square, Canary Wharf, London, E14 5GL, UK
9	9-5 & 7-5, Jalan 8/146, Bandar Tasik Selatan, Kuala Lumpur, 57000, Malaysia
10	Grant Thornton, C/O Cnr Bank Street and West Independence Sq Street, Basseterre, Saint Kitts and Nevis
11	Unit 869, PO Box: 61967 Level 08, Aya Business Center, Al Gaith Tower, Hamdan Street, Abu Dhabi, United Arab Emirates
12	151 Angle Avenue, Jean Paul II et Impasse Duverger, Turgeau, Port-au-Prince, Haiti
13	Unit 1501, P.O. Box 2, Thuraya Tower, Plot No C-008-001, TECOM, Dubai, United Arab Emirates
14	181 Adelaide Terrace, East Perth, WA 6004, Australia
15	PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey
16	6th Floor, Emperor Commercial Centre, 39 Des Voeux Road Central, Hong Kong
17	Shorefield House, Kinnegar Drive, Holywood, Co. Down, BT18 9JQ, UK
18	Atria One, 144 Morrison Street, Edinburgh, EH3 8EB, UK
19	5th Floor, Agip House, P.O. Box 41425, Nairobi, Kenya
20	9, N/Azikiwe St., Lagos, Nigeria
21	PO Box 667, 4th Floor, ATCO Building, King Khaled Road, Dammam-31421, KSA, United Arab Emirates
22	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, G33 6HZ, UK
23	18 Savile Row, London, W1S 3PW, UK
24	Avondale House, Suites 1l – 1o Phoenix Crescent, Strathclyde Business Park, Bellshill, Lanarkshire, ML4 3NJ, UK
25	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ, UK
26	1 Kingsway, London, WC2B 6AN, UK

Explanatory notes

[1] The share capital of all entities is wholly owned and held indirectly by Kier Group plc unless indicated otherwise.
[2] Shares held directly by Kier Group plc.
[3] Total interest in entity held by the Group as there are other share class(es) held by a third party.
[4] In some jurisdictions in which the Group operates, share classes are not defined and in these instances, for the purposes of disclosure, these holdings have been classified as ordinary shares.
[5] Members voluntary liquidation completed on 6 July 2019.
[6] Members voluntary liquidation completed on 14 August 2019.
[7] Members voluntary liquidation completed on 23 August 2019.
[8] The Group has entered into a partnership arrangement with North Tyneside Council whereby the Council has a participating ownership interest and receives a minority share of the profits of Kier North Tyneside Limited.
[9] Joint operations are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.
[10] Interests in the above joint ventures are held by subsidiary undertakings.
[11] The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group has joint control.
[12] Where companies are shown as being in liquidation, in all cases this is a members voluntary liquidation.

33 Events after the reporting period

In December 2018, the Group began a formal sales process to dispose of its interest in Pure Recycling Warwick Limited ('Pure') – see note 21. The net assets for Pure are held on the balance sheet as an asset held for sale. Indicative bids from buyers were lower than the net asset value. As a result, a fair value impairment of £8.4m was completed to lower the asset value to the anticipated net sales proceeds. This has been classified as an exceptional item in note 5. At the date of signing the financial statements, the sale had not completed.

34 Changes in accounting policies

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 July 2018 using the cumulative effect method, and as such comparative information has not been restated.

IFRS 9 'Financial Instruments'

IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement'. All financial instruments classified as trade and other receivables under IAS 39, as well as contract assets recognised in accordance with IFRS 15, have been classified and measured at amortised cost under IFRS 9.

IFRS 9 requires the Group to recognise expected credit losses ('ECL') whereby expected losses as well as incurred losses are provided for. The Group applies the simplified approach when determining ECL provisions for contract assets and trade receivables. In making the assessment of credit risk and estimating ECL provisions, the Group uses reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions.

The adoption of IFRS 9 has had no material impact on the Group's interim financial statements.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and introduces a 5-step model to account for revenue, with new guidance provided in areas on which previous IFRSs were silent.

It is important to note that, whilst the change from the old revenue recognition standards to IFRS 15 can impact on the timing of revenue and profit recognition on individual contracts in a particular accounting period, it does not change the overall revenue, profit or cash generated over the life of the contract.

The adoption of IFRS 15 has resulted in additional line items being disclosed on the Group's Consolidated balance sheet and Consolidated cash flow statement as follows:

- Consolidated balance sheet: Capitalised mobilisation costs and contract assets have been included within non-current assets; contract assets have been included within current assets; and contract liabilities have been included within current liabilities.
- Consolidated cash flow statement: Increase in contract assets and decrease in contract liabilities have been included within cash flow from operating activities; and purchase of capitalised mobilisation costs have been included within cash flows from investing activities.

34 Changes in accounting policies continued

Transition adjustments

The table below summarises the impact of the adoption of IFRS 15 at the date of first application:

Consolidated balance sheet

	Adjustment reference	30 June 2018[1] £m	Impact of adopting IFRS 15 £m	1 July 2018 £m
Non-current assets				
Intangible assets	E	862.2	(0.9)	**861.3**
Property, plant and equipment	E	91.6	(2.8)	**88.8**
Capitalised mobilisation costs	E	–	2.4	**2.4**
Deferred tax asset	A-E	–	1.6	**1.6**
Contract assets	F	–	21.1	**21.1**
Trade and other receivables	F	49.2	(21.1)	**28.1**
Other non-current assets		280.8	–	**280.8**
Non-current assets		**1,283.8**	**0.3**	**1,284.1**
Current assets				
Inventories	A,E,F	575.0	(322.9)	**252.1**
Contract assets	A,F	–	409.6	**409.6**
Trade and other receivables	F	603.0	(150.0)	**453.0**
Other current assets		346.3	–	**346.3**
Current assets		**1,524.3**	**(63.3)**	**1,461.0**
Assets held for sale as part of a disposal group		1.3	–	**1.3**
Total assets		**2,809.4**	**(63.0)**	**2,746.4**
Current liabilities				
Trade and other payables	A,F	(1,526.8)	187.0	**(1,339.8)**
Contract liabilities	F	–	(195.4)	**(195.4)**
Other current liabilities		(31.4)	–	**(31.4)**
Current liabilities		**(1,558.2)**	**(8.4)**	**(1,566.6)**
Liabilities held for sale as part of a disposal group		(3.4)	–	**(3.4)**
Non-current liabilities				
Deferred tax liability	A-E	(10.8)	10.8	**–**
Other non-current liabilities		(635.9)	–	**(635.9)**
Non-current liabilities		**(646.7)**	**10.8**	**(635.9)**
Total liabilities		**(2,208.3)**	**2.4**	**(2,205.9)**
Net assets		**601.1**	**(60.6)**	**540.5**
Equity				
Retained earnings	A-E	27.6	(60.8)	**(33.2)**
Other equity	A,C	571.8	0.2	**572.0**
Equity attributable to owners of the parent		**599.4**	**(60.6)**	**538.8**
Non-controlling interests		1.7	–	**1.7**
Total equity		**601.1**	**(60.6)**	**540.5**

[1] 2018 balance sheet reclassed to move £15.2m 'Other financial assets' from current assets to non-current assets.

The table below provides a breakdown of the movement in the opening retained earnings by each of the principal adjustments. Explanatory notes for each of the adjustments are provided below the table.

Impact on reserves

Adjustment		Impact of adopting IFRS 15 £m
A	Change in method of calculating the percentage of completion on construction contracts	(28.1)
B	Third party claims	(26.0)
C	Derecognition of certain variable revenue items	(9.7)
D	Disaggregation of performance obligations	(3.4)
E	Capitalised mobilisation costs	(5.8)
		(73.0)
Deferred tax credit on the above (at 17.0%)		12.4
Total adjustment to reserves		**(60.6)**

A - Change in the method of calculating the percentage of completion on construction contracts

IFRS 15 requires a consistent revenue recognition method for contracts and performance obligations with similar characteristics. Previously, the Group used an output measure of progress (based on external valuations) in its construction businesses and input methods in its services businesses. For its construction businesses, the Group has chosen to move to using the percentage of completion method, using cost incurred to date as a proportion of the estimated full costs of completing the contract, applied to the total expected contract revenue. The Group believes that moving to this input measure of progress better reflects the pattern of transfer of control to the customer and achieves consistency with other businesses within the Group. Contracts were found, on average, to have a lower percentage of completion when compared to the previous measure.

B - Third-party claims

IAS 11 'Construction Contracts' permitted the recognition of expected cost reimbursements resulting from claims against a third party (as well as the customer) if it was probable that the claim would be accepted. Certain third-party claims (such as insurance recoveries and claims for cost reimbursements) are not covered by similar provisions in IFRS 15, which only deals with claims against the customer. Following the withdrawal of IAS 11, in order to recognise an asset for these third-party claims the Group will need to comply with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The requirements of IAS 37 are more stringent than IAS 11, requiring recovery to be virtually certain before an asset can be recognised. Whilst the Group still expects to recover the amounts claimed from third parties that the Group had recognised at the 30 June 2018 balance sheet date, certain claims do not meet the virtually certain criteria of IAS 37. These claims have therefore been de-recognised at the transition date and will be accounted for in future periods, when the uncertainty over their recovery has been removed.

C - Derecognition of certain variable revenue items

IFRS 15 introduces a requirement for recognition of variable consideration (for example pain/gain shares and milestone payments) that is "highly probable not to reverse". The Group has therefore reviewed its construction contracts and concluded that recognition of some of these items will occur later in the projects.

D - Disaggregation of performance obligations

IFRS 15 introduces a clear link between the value provided to the customer and the timing of revenue recognition. One of the principles of the new standard is that individual performance obligations within contracts should be identified and accounted for separately. In the majority of cases, the Group's previous accounting treatment was consistent with the principles of IFRS 15. However, on some contracts in the IT business support area, it has been necessary to disaggregate contracts and performance obligations and account for them separately. This gives rise to changes in the timing of revenue recognition. The Group will potentially recognise lower profits in the early years of these contracts, where there are higher operating costs compared to the level of service delivered to the customer, with a compensating increase in profits in later years. The impact on the Group on transition to IFRS 15 reflects the fact that these contracts are in the later stages of their contract life cycles at the transition date.

E - Capitalised mobilisation costs

IFRS 15 contains new guidance on which pre-contract costs can and can't be capitalised. Some costs that the Group had previously capitalised can no longer be carried forward on the balance sheet and therefore an adjustment has been made to remove these assets. In addition, under IFRS 15 a specific category has been introduced in non-current assets for capitalised mobilisation costs. There have therefore been presentational changes as the amounts that can continue to be capitalised have been reallocated to the new category.

F - Other balance sheet adjustments

The introduction of IFRS 15 does not only affect the timing of revenues and profit recognition in the income statement. The new standard introduces 'contract assets' and 'contract liabilities' as new balance sheet categories. There are therefore a number of presentational changes as accrued revenue amounts for work undertaken, but not yet certified/invoiced, have been reclassified as contract assets and amounts received or certified in advance of completing performance obligations have been reclassified as contract liabilities.

34 Changes in accounting policies continued

Conversely, balances within the IAS 11 related balance sheet headings of 'amounts recoverable on contracts' within inventories and 'construction contract balances' within trade and other payables have been eliminated either through the adoption of the new method of calculating the percentage of completion on construction contracts (which no longer necessitates adjustments to cost of sales) or else by reclassification to more appropriate balance sheet categories, including contract assets and contract liabilities.

Impact on the results for the year ended 30 June 2019

The tables below summarise the impact of the adoption of IFRS 15 on the Group's interim consolidated income statement for the year ended 30 June 2019, and the consolidated balance sheet for the year then ended. With the exception of the impact of changes to the income statement, there was no material impact on the Group's interim consolidated other comprehensive income. There was no material impact on the Group's net cash flows from operating activities, investing activities and financing activities.

Consolidated income statement – year to 30 June 2019

		Amounts without adoption of IFRS 15			Impact of adopting IFRS 15			As reported		
Continuing operations	Adjustment ref	Before exceptional items[1] £m	Exceptional items[1] (note 5) £m	Total £m	Before exceptional items[1] £m	Exceptional items[1] £m	Total £m	Before exceptional items[1] £m	Exceptional items[1] (note 5) £m	Total £m
Group revenue	A,C,D	4,034.3	(15.0)	**4,019.3**	102.4	–	**102.4**	4,136.7	(15.0)	**4,121.7**
Cost of sales	A,B,E	(3,675.9)	(111.2)	**(3,787.1)**	(77.6)	–	**(77.6)**	(3,753.5)	(111.2)	**(3,864.7)**
Gross profit/(loss)		358.4	(126.2)	**232.2**	24.8	–	**24.8**	383.2	(126.2)	**257.0**
Administrative expenses		(289.8)	(214.2)	**(504.0)**	–	–	**–**	(289.8)	(214.2)	**(504.0)**
Share of post-tax results of joint ventures	A	30.7	–	**30.7**	–	–	**–**	30.7	–	**30.7**
Loss on disposal of joint ventures and subsidiaries		–	(0.4)	**(0.4)**	–	–	**–**	–	(0.4)	**(0.4)**
Profit/(loss) from operations		99.3	(340.8)	**(241.5)**	24.8	–	**24.8**	124.1	(340.8)	**(216.7)**
Finance income		0.2	–	**0.2**	–	–	**–**	0.2	–	**0.2**
Finance cost		(26.7)	(1.7)	**(28.4)**	–	–	**–**	(26.7)	(1.7)	**(28.4)**
Profit/(loss) before tax		72.8	(342.5)	**(269.7)**	24.8	–	**24.8**	97.6	(342.5)	**(244.9)**
Taxation	A-E	(16.0)	55.9	**39.9**	(4.2)	–	**(4.2)**	(20.2)	55.9	**35.7**
Profit/(loss) for the year from continuing operations		56.8	(286.6)	**(229.8)**	20.6	–	**20.6**	77.4	(286.6)	**(209.2)**
Discontinued operations										
Profit for the year from discontinued operations		–	–	**–**	–	–	**–**	–	–	**–**
Profit/(loss) for the year		56.8	(286.6)	**(229.8)**	20.6	–	**20.6**	77.4	(286.6)	**(209.2)**
Attributable to:										
Owners of the parent		56.4	(286.6)	**(230.2)**	20.6	–	**20.6**	77.0	(286.6)	**(209.6)**
Non-controlling interests		0.4	–	**0.4**	–	–	**–**	0.4	–	**0.4**
		56.8	(286.6)	**(229.8)**	20.6	–	**20.6**	77.4	(286.6)	**(209.2)**
Basic earnings/(losses) per share										
From continuing operations		42.6p	(216.7)p	**(174.1)p**	15.6p	–	**15.6p**	58.2p	(216.7)p	**(158.5)p**
From discontinued operations		–	–	**–**	–	–	**–**	–	–	**–**
Total		42.6p	(216.7)p	**(174.1)p**	15.6p	–	**15.6p**	58.2p	(216.7)p	**(158.5)p**
Diluted earnings/(losses) per share										
From continuing operations		42.6p	(216.7)p	**(174.1)p**	15.6p	–	**15.6p**	58.2p	(216.7)p	**(158.5)p**
From discontinued operations		–	–	**–**	–	–	**–**	–	–	**–**
Total		42.6p	(216.7)p	**(174.1)p**	15.6p	–	**15.6p**	58.2p	(216.7)p	**(158.5)p**

1 Reference to 'exceptional items' includes exceptional items and the amortisation of acquired intangible assets, see note 5.

Impact on profit for the year

Adjustment		Impact of IFRS 15 £m
A	Change in method of calculating the percentage of completion on construction contracts	12.2
B	Third party claims	7.3
C	Derecognition of certain variable revenue items	4.6
D	Disaggregation of performance obligations	3.4
E	Capitalised mobilisation costs	(2.7)
		24.8
Tax charge on the above		(4.2)
Total impact on profit for the year		**20.6**

A – Change in the method of calculating the percentage of completion on construction contracts

Additional profit has been recognised in relation to the relative percentage of completion of construction jobs, under the old and new calculation methods, at 30 June 2019 compared with 30 June 2018. The additional profit recognised in the year reflects the fact that the cumulative impact of IFRS 15 compared to the old percentage of completion measurement basis is, on average, less marked at 30 June 2019, than at 30 June 2018, i.e. there has been an acceleration of work when measured on a cost basis compared to the previous, external valuation, basis.

B - Third-party claims

Some of the third-party claims that were derecognised as an IFRS 15 transitional adjustment at 1 July 2018, were settled or became virtually certain of recovery in the year to 30 June 2019. This has resulted in a difference in the timing of the accounting for the income associated with the claims.

C - Derecognition of certain variable revenue items

The credit to the income statement is a result of the timing difference in relation to when certain claims (accounted for as variable consideration) should be recognised under IFRS 15 compared to the previous standards.

D - Disaggregation of performance obligations

As described in the transitional adjustments section above, it has been necessary to disaggregate contracts and performance obligations in relation to some contracts in the IT business support area, and account for them separately. This gives rise to changes in the timing of revenue recognition. On these contracts a transitional adjustment has been made to reflect the fact that less revenue and profit would have been recognised in the earlier years of these contracts. Conversely, more profit is recognised in the later years under IFRS 15. The impact on the income statement for the year to 30 June 2019 reflects the fact that these contracts are in the later stages of their contract life cycles.

E – Capitalised mobilisation costs

Some costs that would have been capitalised in the year under the Group’s old accounting policy, have been expensed to the Income Statement. The adjustment is net of amortisation charges that would have been charged under the previous policy.

34 Changes in accounting policies continued

Consolidated balance sheet – as at 30 June 2019

	Adjustment reference	Amounts without adoption of IFRS 15 £m	Impact of adopting IFRS 15 £m	As reported £m
Non-current assets				
Intangible assets	E	766.9	(0.2)	**766.7**
Property, plant and equipment	E	64.5	(7.2)	**57.3**
Capitalised mobilisation costs	E	–	3.3	**3.3**
Deferred tax asset	A-E	39.5	8.2	**47.7**
Contract assets	F	–	25.2	**25.2**
Trade and other receivables	F	54.2	(25.2)	**29.0**
Other non-current assets		318.4	–	**318.4**
Non-current assets		**1,243.5**	**4.1**	**1,247.6**
Current assets				
Inventories	A,E,F	634.5	(416.6)	**217.9**
Contract assets	A,F	–	466.0	**466.0**
Trade and other receivables	F	397.9	(25.0)	**372.9**
Other current assets		322.8	–	**322.8**
Current assets		**1,355.2**	**24.4**	**1,379.6**
Assets held for sale as part of a disposal group		14.6	–	**14.6**
Total assets		**2,613.3**	**28.5**	**2,641.8**
Current liabilities				
Trade and other payables	A,F	(1,376.3)	65.3	**(1,311.0)**
Contract liabilities	F	–	(134.0)	**(134.0)**
Other current liabilities		(56.4)	–	**(56.4)**
Current liabilities		**(1,432.7)**	**(68.7)**	**(1,501.4)**
Liabilities held for sale as part of a disposal group		(1.5)	–	**(1.5)**
Non-current liabilities		**(619.3)**	**–**	**(619.3)**
Total liabilities		**(2,053.5)**	**(68.7)**	**(2,122.2)**
Net assets		**559.8**	**(40.2)**	**519.6**
Equity				
Retained earnings	A-E	(266.6)	(40.2)	**(306.8)**
Other equity		825.9	–	**825.9**
Equity attributable to owners of the parent		**559.3**	**(40.2)**	**519.1**
Non-controlling interests		0.5	–	**0.5**
Total equity		**559.8**	**(40.2)**	**519.6**

The areas of the balance sheet impacted by the adoption of IFRS 15 and the nature of the adjustments are consistent with the transitional adjustments noted above.

Company balance sheet

As at 30 June 2019

	Notes	**2019 £m**	2018[1] £m
Fixed assets			
Investments	5	**486.2**	479.0
Amounts due from subsidiary undertakings		**871.8**	705.9
Other financial assets	8	**22.1**	15.2
		1,380.1	1,200.1
Current assets			
Debtors	6	**2.6**	0.4
Other financial assets	8	**2.0**	–
Cash and cash equivalents		**165.2**	97.7
		169.9	98.1
Current liabilities			
Creditors – amounts falling due within one year	7	**(41.6)**	(21.8)
		(41.6)	(21.8)
Net current assets		**128.3**	76.3
Total assets less current liabilities		**1,508.5**	1,276.4
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	**(473.4)**	(523.5)
Net assets		**1,035.1**	752.9
Shareholders' funds			
Called up share capital	9	**1.6**	1.0
Share premium account		**684.3**	435.0
Merger reserve		**134.8**	134.8
Capital redemption reserve		**2.7**	2.7
Cash flow hedge reserve		**(0.7)**	(4.3)
Profit and loss account		**212.4**	183.7
Total shareholders' funds		**1,035.1**	752.9

[1] 2018 balance sheet reclassed to move £15.2m 'Other financial assets' from current assets to non-current assets.

The profit for the year was £74.6m (2018: £132.8m).

The financial statements of Kier plc, company registration number 2708030, on pages 193 to 198 were approved by the Board of Directors on 26 September 2019 and were signed on its behalf by:

Andrew Davies
CHIEF EXECUTIVE

Bev Dew
FINANCE DIRECTOR

Company statement of changes in equity

For the year ended 30 June 2019

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Cash flow hedge reserve £m	Total equity £m
At 1 July 2017	1.0	434.8	134.8	2.7	112.9	(2.8)	**683.4**
Profit for the year	–	–	–	–	132.8	–	**132.8**
Other comprehensive loss	–	–	–	–	–	(1.5)	**(1.5)**
Dividends paid	–	–	–	–	(66.1)	–	**(66.1)**
Issue of own shares	–	0.2	–	–	–	–	**0.2**
Share-based payments	–	–	–	–	5.4	–	**5.4**
Purchase of own shares	–	–	–	–	(1.3)	–	**(1.3)**
At 30 June 2018	**1.0**	**435.0**	**134.8**	**2.7**	**183.7**	**(4.3)**	**752.9**
Profit for the year	–	–	–	–	74.6	–	**74.6**
Other comprehensive loss	–	–	–	–	–	3.6	**3.6**
Dividends paid	–	–	–	–	(52.6)	–	**(52.6)**
Issue of own shares	0.6	249.3	–	–	–	–	**249.9**
Share-based payments	–	–	–	–	7.2	–	**7.2**
Purchase of own shares	–	–	–	–	(0.5)	–	**(0.5)**
At 30 June 2019	**1.6**	**684.3**	**134.8**	**2.7**	**212.4**	**(0.7)**	**1,035.1**

Included in the profit and loss account is the balance on the share scheme reserve which comprises the investment in own shares of £nil (2018: £0.1m) and a credit balance on the share scheme reserve of £6.7m (2018: £8.1m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment scheme are included in note 26 to the consolidated financial statements.

Notes to the Company financial statements

For the year ended 30 June 2019

1 Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Kier Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 200.

The Company's financial statements are included in the Kier Group plc consolidated financial statements for the year ended 30 June 2019. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

None of the standards, interpretations or amendments effective for the first time from 1 July 2018 (including IFRS 15 and IFRS 9) have had a material effect on the Company's financial statements.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101.

- The requirement of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share Based Payment'
- The requirements of IFRS 7 'Financial Instruments: Disclosures'
- The requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement'
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1
- The requirements of paragraphs 10(d), 10a(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 'Presentation of Financial Statements'
- The requirements of paragraphs 134 to 136 of IAS 1 'Presentation of Financial Statements'
- The requirements of IAS 7 'Statement of Cash Flows'
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- The requirements of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures'
- The requirements in IAS 24 'Related party disclosures' to disclose related party transaction entered into between two or more members of a group
- The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements because these are included in the Annual Report and Financial Statements of the Group.

Where required, equivalent disclosures are given in the Annual Report and Financial Statements of the Group as shown in notes 1 to 9.

Going concern

The Directors have made enquiries and have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. For this reason, they adopt the going concern basis in preparing the financial statements. See also page 46.

Fixed asset investments

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for impairment.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on 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 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 deferred tax provision 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.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Company are as follows:

(a) Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less, net of bank overdrafts where legal right of set-off exists. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(b) Bank and other borrowings
Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

1 Accounting policies continued

(c) Amounts due from subsidiary undertakings
Amounts due from subsidiaries are initially recorded at their fair value. Subsequent to initial recognition, the loans are measured at amortised cost. In accordance with IFRS 9, the Company has undertaken an exercise of calculating the expected credit losses on the amounts due from subsidiaries. The Directors regard the relevant subsidiaries as having a relatively low probability of default on the loans and do not consider that there has been a significant increase in credit risk since the loan was first recognised. By virtue of their participation in Group bank pooling arrangements, the subsidiaries had access to sufficient facilities to enable them to repay the loans, if demanded, at the reporting date. Only immaterial amounts of expected credit losses were calculated and, therefore, the Company has chosen not to adjust the value of the loans for any expected credit loss provisions.

(d) Derivative financial instruments
As permitted by IFRS 9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Company would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Company enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Share-based payments
Share-based payments granted but not vested are valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long Term Incentive Plan ('LTIP') schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a Stochastic model.

The cost to the Company of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

Shares purchased and held in trust in connection with the Company's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Company accounting policies which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and the factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

There are no critical judgements, apart from those involving estimates, that the Directors have made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognised in the financial statements.

Valuation of investments
The Company tests annually whether its investments have suffered any impairment. The recoverable amounts of subsidiaries are determined based on value-in-use calculations or fair value less cost to sell, if held for sale. These calculations require the use of estimates.

Whilst the recoverable amount exceeds the carrying value of the investments and amounts due from subsidiary undertakings, the value-in-use calculation is sensitive to reasonably possible changes in key assumptions that could result in an impairment. The future cash flows that underpin the value-in-use calculations are consistent with those used in the Group's goodwill impairment assessment. Further details of these assumptions are disclosed in note 12 of the consolidated accounts.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The profit for the year was £74.6m (2018: £132.8m).

The auditor's remuneration for audit services to the Company was £0.1m (2018: £0.1m).

3 Information relating to Directors and employees

Information relating to Directors' emoluments, pension entitlements, share options and LTIP interests appears in the Directors' Remuneration Report on pages 78 to 97. The Company has no employees other than the Directors.

4 Dividends

Details of the dividends paid by the Company are included in note 10 to the consolidated financial statements.

5 Fixed assets – investments

	2019 £m	2018 £m
At 1 July	**479.0**	173.6
Capital contributions	**7.2**	305.4
At 30 June	**486.2**	479.0

Capital contributions of £7.2m were made during the year ended 30 June 2019 in relation to share based payments on behalf of subsidiaries (2018: £5.4m). In the prior year, the Company made a lump sum capital contribution of £300m to Kier Limited.

Details of the Company's subsidiaries at 30 June 2019 are provided in note 32 to the consolidated financial statements.

6 Debtors

	2019 £m	2018 £m
Other debtors	**1.9**	–
Deferred tax	**0.7**	0.4
	2.6	0.4

7 Creditors

	2019 £m	2018 £m
Amounts falling due within one year:		
Borrowings	**30.0**	12.0
Corporation tax	**9.1**	7.0
Other creditors	**2.5**	2.8
	41.6	21.8
Amounts falling due after more than one year:		
Borrowings	**473.4**	523.5

Further details on borrowings are included in note 20 to the consolidated financial statements.

8 Derivative financial instruments

The Company has the following cross-currency swaps:

- Three cross-currency swaps taken out in 2013 to hedge the currency risk on a US dollar-denominated loan, nominal value US$28.0m.
- Four cross-currency swaps taken out in 2014 to hedge the currency risk on a US dollar-denominated loan, nominal value US$116.0m.
- Two cross-currency swaps taken out in 2016 to hedge the currency risk on a Euro-denominated loan, nominal value €20.0m

The Company has three interest rate swaps taken out in 2016 to hedge the interest rate risk on a sterling-denominated loan, nominal value £58.5m. During 2017 the Group reduced the value on one of the interest rate swaps from £15.0m to £10.0m and entered into an additional swap of £12.0m bringing the total value to £65.5m.

The Company has assessed the effectiveness of these swaps and concluded that they are 100% effective. Therefore, no amount in relation to hedge ineffectiveness has been charged or credited to the income statement in relation to any cross-currency or interest rate swap.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instruments:

		Expected cash flows				
	Fair value £m	Total £m	0–1 year £m	1–2 years £m	2–5 years £m	More than 5 years £m
Cross-currency swaps: asset						
Gross settled inflows	–	150.3	11.2	13.9	51.6	73.6
Gross settled outflows	–	(126.5)	(9.6)	(12.3)	(43.5)	(61.1)
	24.2	23.8	1.6	1.6	8.1	12.5
Interest rate swaps: asset						
Net settled	(0.1)	(0.2)	(0.1)	(0.1)	–	–

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses cross currency and interest rate swaps for hedging. These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the bank counterparties using mid-market mark to market valuations for trades at the close of business on 30 June 2019.

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2019.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	24.2	–	24.2
Liabilities				
Derivatives used for hedging – Interest rate swaps	–	(0.1)	–	(0.1)

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2018:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	15.0	–	**15.0**
Derivatives used for hedging – Interest rate swaps	–	0.2	–	**0.2**
Liabilities				
Derivatives used for hedging – Interest rate swaps	–	–	–	**–**

There were no transfers between Levels 1 and 2 during the year.

9 Called up share capital

Details of the share capital of the Company are included in note 25 to the consolidated financial statements.

Financial Record

(unaudited)

Continuing operations

Year ended 30 June	**2019 £m**	2018[1] £m	2017 £m	2016 £m	2015 £m
Revenue: Group and share of joint ventures	**4,494.4**	4,512.8	4,265.2	4,078.7	3,322.5
Less share of joint ventures	**(357.7)**	(273.2)	(153.5)	(90.9)	(67.9)
Group revenue	**4,136.7**	4,239.6	4,111.7	3,987.8	3,254.6
Profit					
Group operating profit[2]	**93.4**	140.8	115.2	124.3	81.7
Share of post-tax results of joint ventures	**30.7**	42.7	25.0	14.2	9.1
Profit on disposal of joint ventures	**–**	3.5	5.4	2.6	14.8
Operating profit before exceptional items[2]	**124.1**	187.0	145.6	141.1	105.6
Net finance costs before exceptional items[2]	**(26.5)**	(23.1)	(19.5)	(24.7)	(15.8)
Profit before exceptional items and tax[2]	**97.6**	163.9	126.1	116.4	89.8
Amortisation of acquired intangible assets relating to contract rights	**(24.8)**	(25.6)	(22.3)	(21.5)	(11.2)
Exceptional finance costs	**(1.7)**	(5.1)	(2.9)	(2.8)	(3.6)
Other exceptional items	**(316.0)**	(27.0)	(115.1)	(127.0)	(55.1)
Profit/(loss) before tax	**(244.9)**	106.2	(14.2)	(34.9)	19.9
Basic earnings per share before exceptional items[2, 3]	**58.2p**	136.8p	106.8p	99.5p	101.6p
Dividend per share	**4.9p**	69.0p	67.5p	64.5p	55.2p
At 30 June					
Shareholders' funds (£m)	**519.6**	601.1	511.4	576.1	585.4
Net assets per share	**320.5p**	616.8p	524.8p	600.0p	615.2p

1 The prior year comparative information has been re-presented to reflect the change in the Group's Alternative Performance Measure. This has had no impact on the statutory reported results for the year ended 30 June 2018.

2 Stated before Exceptional items. Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see note 1, page 121, and note 5.

3 Earnings per share for the year to 30 June 2018 restated as a result of the rights issue which completed on 20 December 2018, see note 11 to the financial statements.

Corporate information

Board of Directors

P G Cox CBE
A O B Davies
B E J Dew
S J Kesterton
C Veritiero
J R Atkinson
C F Baroudel
A K Bashforth
A C Walker

Secretary

H E Raven

Headquarters and registered office

Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Registered number

England and Wales 2708030

Financial calendar

15 November 2019
Annual general meeting

March 2020
Announcement of half-year results for the six months ending 31 December 2019

September 2020
Announcement of preliminary full-year results for the year ending 30 June 2020

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www.kier.co.uk

Our corporate website has key information covering our capabilities, markets, corporate responsibility and investor relations.

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