



DEFINING TOMORROW'S ENVIRONMENTS

# Interim Results

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For the six months ended 31 December 2013

# **Paul Sheffield**

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## **Chief Executive**

# Agenda

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- Highlights of the period
- Financials
- Operational update
- Outlook

# Highlights

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- **First half results in line with expectations**
  - Operating profit £44m\*
- **Order books improved to >£6bn**
  - Particularly in UK Infrastructure
- **Successful integration of May Gurney**
  - 100% retention of customers
  - Synergy realisation on target
- **Interim dividend increased by 5% to 22.5p**

\*Excluding significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet.

# Key achievements

## Construction

### Revenue £742m

(2012: £627m)

Order book £2.5bn  
- 100% secured for 2014

#### Highlights

- Strategic frameworks account for 60% of awards
- 53% private sector; commercial improvement
- > £200m from education sector
- Strong growth in infrastructure
- £170m health frameworks awards by end of January
- RAF Lyneham j/v £121m
- Middle East opportunities >£0.5bn

## Services

### Revenue £563m

(2012: £211m)

Order book £3.6bn (incl. May Gurney) -  
97% secured for 2014

#### Highlights

- Housing maintenance award - £110m 3 year Sheffield City Council
- Utilities - £107m 5 year Western Power Distribution contract
- Leveraged position in key market sectors including >£200m contract wins across utilities, highways and FM
- AMP6 opportunities

## Property

### Revenue £127m

(2012: £138m)

Development & mixed-tenure housing pipeline held at £1.5bn

#### Highlights

- £41m CostCo development completed in January 2014
- Preferred bidder for Reading Borough city regeneration and Northampton
- Financial close on 3 PFIs; London Fire, Staffordshire and Stoke and Woking totalling c£200m
- Completed 263 homes for sale
- Mixed tenure housing order book £0.4bn

# **Haydn Mursell**

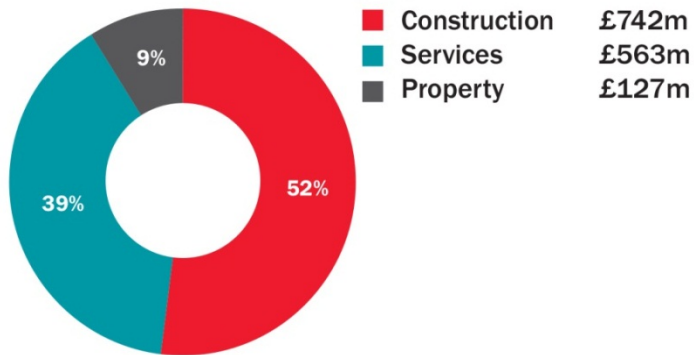
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**Group Finance Director**

# Overview: Revenue & operating profit

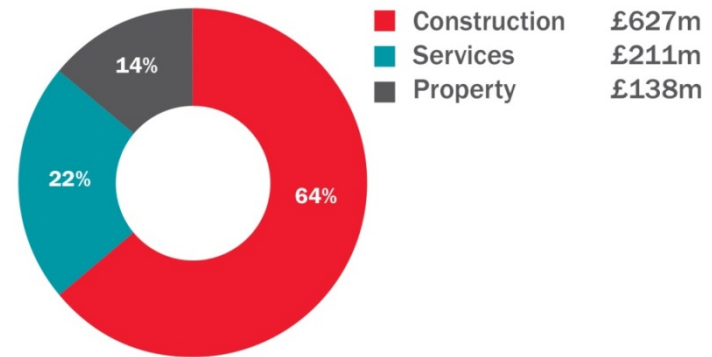
## December 2013

Revenue **£1,432m** +47%

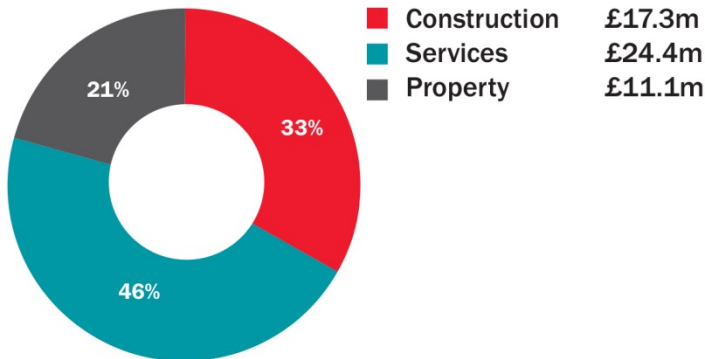


## December 2012

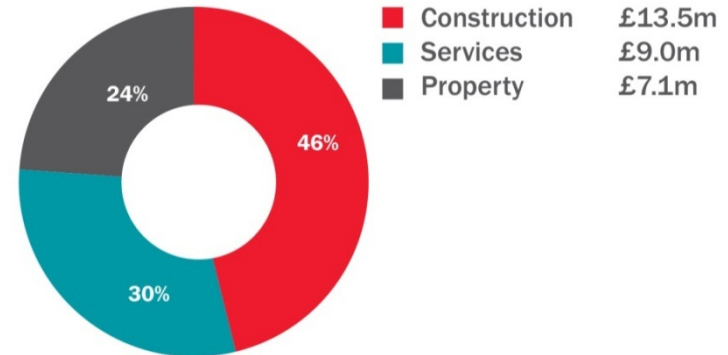
Revenue **£976m**



Operating profit\* **£52.8m** +78%



Operating profit\* **£29.6m**



\*Excluding corporate costs, significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet. Prior year comparatives have been re-presented to reflect this presentation.

# Income statement

		Six months to 31 December		Change
		2013* £m	2012*† £m	%
Operating profit:	Group	41.9	16.7	
	Joint ventures (JVs)	0.4	0.7	
	Profit on disposal of PFI investments	2.1	5.3	
<b>Total operating profit</b>		<b>44.4</b>	<b>22.7</b>	<b>+96</b>
Net finance cost		(7.6)	(3.3)	
<b>Profit before tax</b>		<b>36.8</b>	<b>19.4</b>	<b>+90</b>
Underlying earnings per share		54.6p	38.6p	+41
Dividend per share		22.5p	21.5p	+5

\*Excluding significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition. Prior year comparatives have been re-presented to reflect this presentation.

†Restated on adoption of the amendment to IAS 19.



# Operating profit

Performance by division		Six months to 31 December		Change
		2013* £m	2012*† £m	%
Construction		17.3	13.5	+28
Services		24.4	9.0	+171
Property	Property & PFI	10.6	4.9	+56
	Homes	0.5	2.2	
Corporate		(8.4)	(6.9)	-22
<b>Total operating profit</b>		<b>44.4</b>	<b>22.7</b>	<b>+96</b>
Net finance cost		(7.6)	(3.3)	
<b>Profit before tax</b>		<b>36.8</b>	<b>19.4</b>	<b>+90</b>

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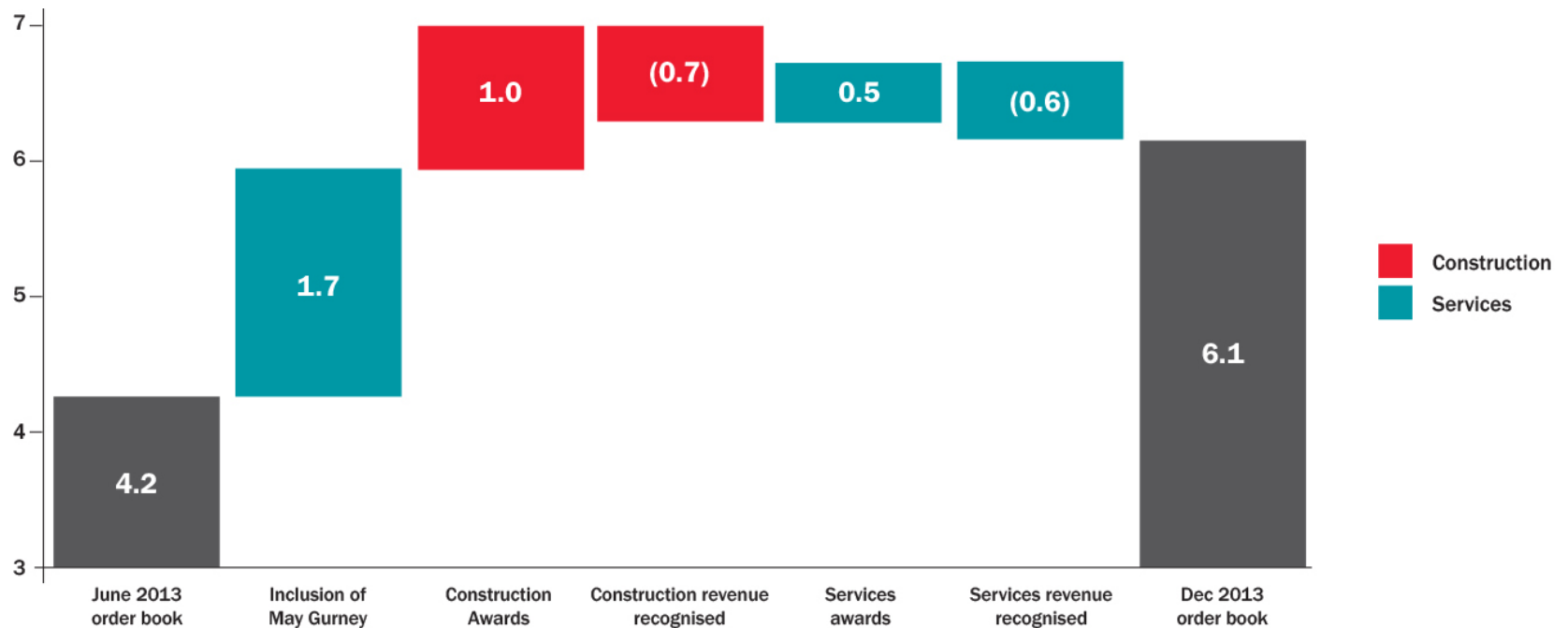
†Restated on adoption of the amendment to IAS 19.

# Exceptional items

		Six months to 31 December	
		2013 £m	2012 £m
Closure and discontinuation of scaffolding and related businesses		-	(2.1)
Restructuring programme		-	(2.3)
Costs in relation to the acquisition of May Gurney Integrated Services plc	Transaction	(7.5)	-
	Integration	(14.5)	-
<b>Total exceptional items</b>		<b>(22.0)</b>	<b>(4.4)</b>
Tax on exceptional items		3.3	1.0
<b>Exceptional items after tax</b>		<b>(18.7)</b>	<b>(3.4)</b>

# Order books

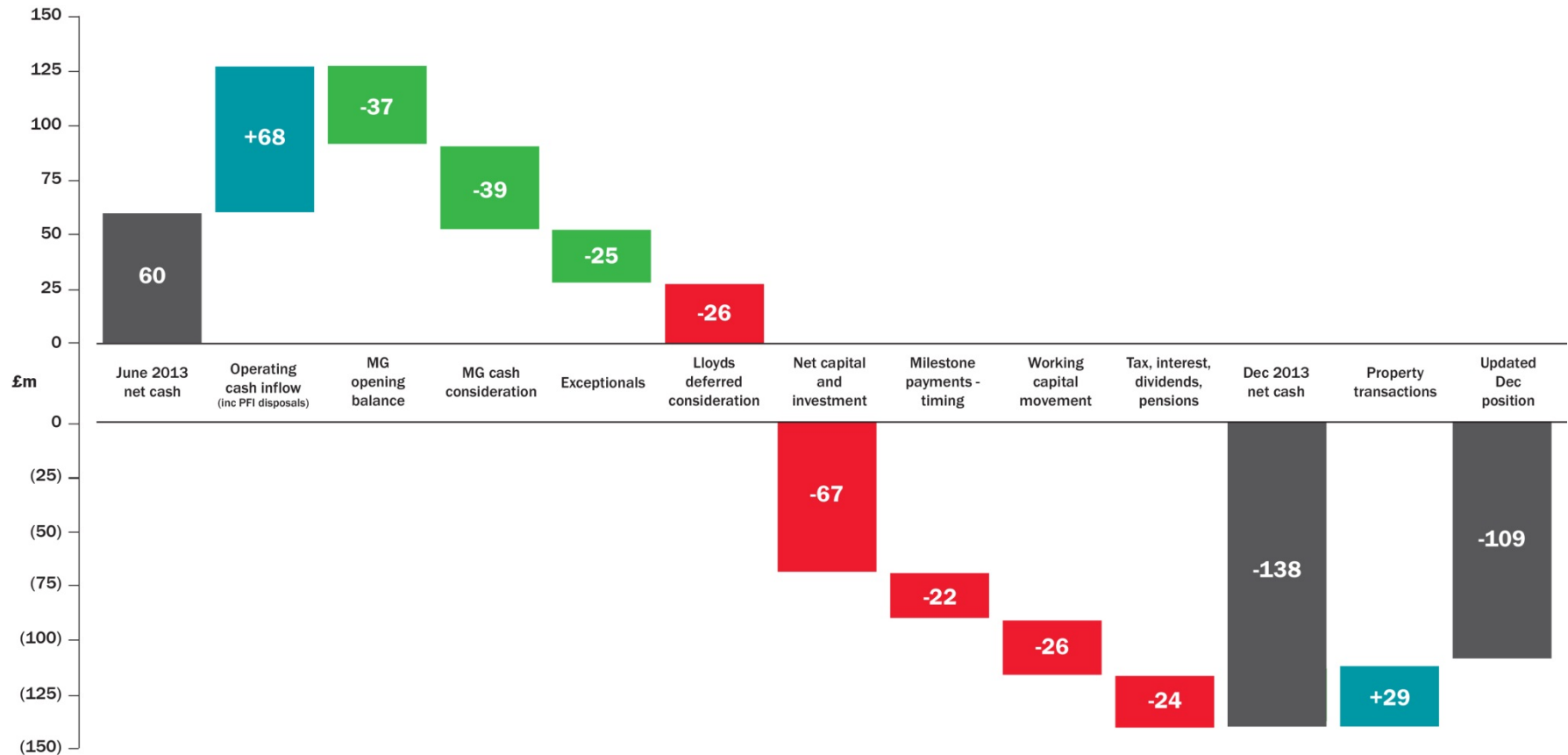
	At 31 December	At 30 June	Change	At 31 December
	2013 £bn	2013 £bn	%	2012 £bn
Construction	2.5	2.2	+15	2.1
Services	3.6	2.0	+77	2.1
<b>Total</b>	<b>6.1</b>	<b>4.2</b>	<b>+45</b>	<b>4.2</b>



# Balance sheet summary

	At 31 December	At 30 June	Change	At 31 December
	2013 £m	2013 £m	£m	2012 £m
Intangible assets	324	30	+294	27
Property, plant and equipment	192	109	+83	104
Investment in JVs	32	30	+2	21
Residential land and work in progress	260	249	+11	255
Other working capital	(130)	(232)	+102	(186)
Cash	4	152	-148	105
Borrowings	(142)	(92)	-50	(93)
Provisions	(99)	(57)	-42	(56)
Pensions (net of deferred tax)	(49)	(38)	-11	(49)
Finance lease obligations	(81)	(14)	-67	(8)
Tax and deferred tax	7	21	-14	22
<b>Net assets</b>	<b>318</b>	<b>158</b>	<b>+160</b>	<b>142</b>

# Group net debt



# Pensions

	At 31 December	At 30 June	Change	At 31 December
	2013 £m	2013 £m	£m	2012 £m
Kier Group Pension Scheme:				
Market value of assets	815	784	+31	752
Present value of liabilities	(872)	(832)	-40	(815)
Deficit in the scheme	(57)	(48)	-9	(63)
Deferred tax	12	11	+1	15
<b>Net pension liability</b>	<b>(45)</b>	<b>(37)</b>	<b>-8</b>	<b>(48)</b>
Net effect of Sheffield Pension Scheme	(3)	(1)	-2	(1)
Net effect of May Gurney and Translinc Schemes	(2)	-	-2	-
<b>Total net pension liability</b>	<b>(50)</b>	<b>(38)</b>	<b>-12</b>	<b>(49)</b>
Key assumptions: Discount rate	4.5%	4.7%		4.6%
Inflation rate – RPI	3.5%	3.5%		3.2%
Inflation rate – CPI	2.5%	2.5%		2.0%

# May Gurney update

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- **Cost savings**
  - Progressing in line with the integration plan
  - On track to deliver £5m in FY14
- **Integration costs forecast at c£28m as planned**
  - £15m incurred to 31 December 2013, shown in exceptional
  - Remainder to be spent in second half
- **Fair value exercise completed**
  - Provision of £68m recorded <sup>1</sup>
    - £52m in relation to long duration, loss-making contracts predominantly in respect of Environmental business
- **15% ROCE target**

<sup>1</sup>Excluding the impact of tax and acquired intangibles.

# Summary

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- **Operating profit in line with expectations at £44m\***
- **MG acquisition**
  - Cost savings on track and fair value exercise completed
- **Today's cash position broadly in line with guidance**
  - Tight supply chain payment terms continue
  - 'Amend and extend' of RCFs has further strengthened the capital structure

\*Excluding significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet.

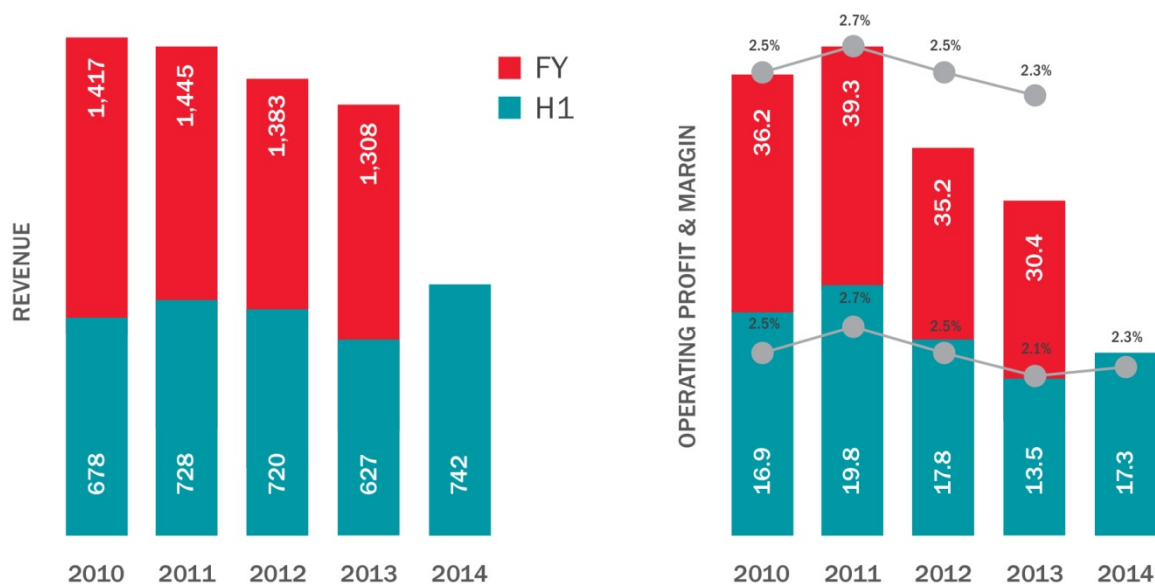


# CONSTRUCTION

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# Construction

	Six months to 31 December			Year to June 2013
	2013 £m	2012 £m	Change %	£m
Revenue	742	627	+18	1,308
Operating profit*	17.3	13.5	+28	30.4
Operating margin*	2.3%	2.1%		2.3%
Order book (secure and probable)	2,577	2,083	+23	2,229
Cash	272	313		320



\*Excluding significant one-off costs related to restructuring, acquisitions and business closures and amortisation of contract right costs held as intangibles on the balance sheet. Prior year comparatives have been re-presented to reflect this presentation.

# Construction

Sector	Revenue		
	Year to June 2012	Expectation June 2014	Future trend
Education	37%	23%	↔
Living / Residential	7%	12%	↗
Health	6%	7%	↔
Transportation	6%	7%	↔
Commercial and mixed use	11%	11%	↗
Power, industrial, utilities and waste (incl. nuclear)	7%	17%	↗
Overseas	5%	10%	↗
Defence	0%	1%	↗
Other (inc blue light/hotel/leisure/retail)	21%	10%	

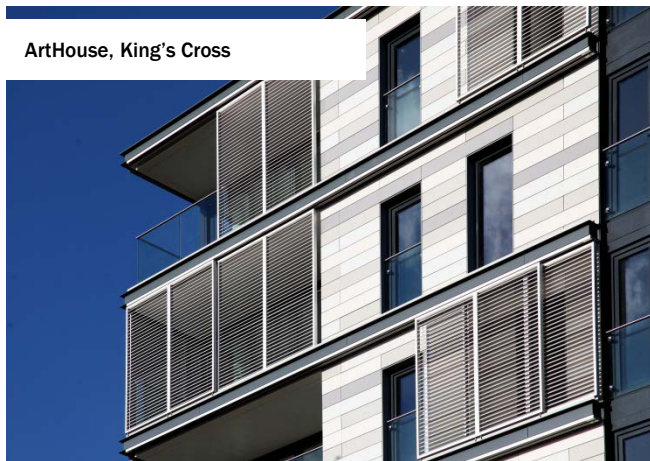
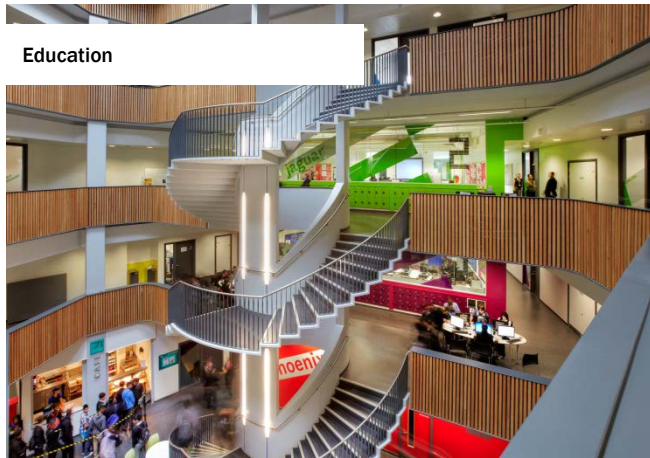
# Construction - UK building

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- Increased market share growth in health and defence sectors
  - £115m redevelopment of Broadmoor Hospital
  - £170m award from NHS frameworks
  - £121m Hercules joint venture for first phase at RAF Lyneham
  - £400m MOD National Capital Works framework
  - Strengthened presence in Scotland
    - Scottish Health framework
    - Highlands and Islands framework

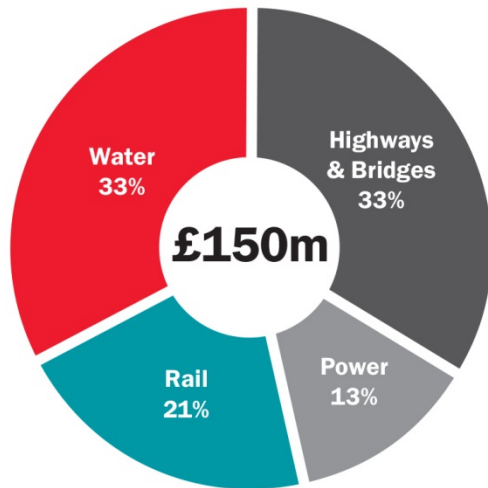
# Construction - UK building



- Continued strong contribution from education sector c£200m new work including:
  - £120m East 2 and North East 2 Priority Schools Building Programme through academies framework
- King's Cross development generating further £100m new opportunities for 2015
- Good revenue visibility

# Construction - Infrastructure

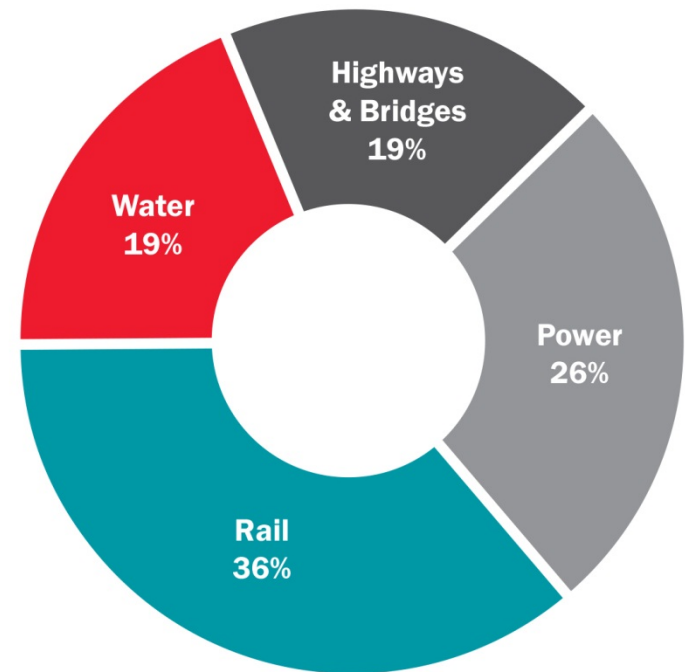
2009/10 Revenue - £6bn\*  
3% market share



2013/14 Revenue - £7bn\*  
5% market share



2017/18 Revenue - £10bn\*  
Maintain market share



- Significant potential in transport
- Energy sector growth impacted by timing on political decision making

Source: Industry / Kier data \* Addressable market

# Construction - Infrastructure

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- Increased capability providing access to larger market
  - Increased interest from joint venture partners
- Expanding business model
- 2017/18 markets underpinned by Government infrastructure investment plans

# Construction - Overseas

Hotel development in St Kitts



- **>£50m new hotel work secured in Caribbean with new opportunities**
- **Strong pipeline >£300m of new negotiated opportunities in Middle East**
  - £34m Meeras development
  - £35 Kempinsky hotel
  - £26m Dubai University – now awarded
- **On target to deliver c£150m revenue by June 2014**

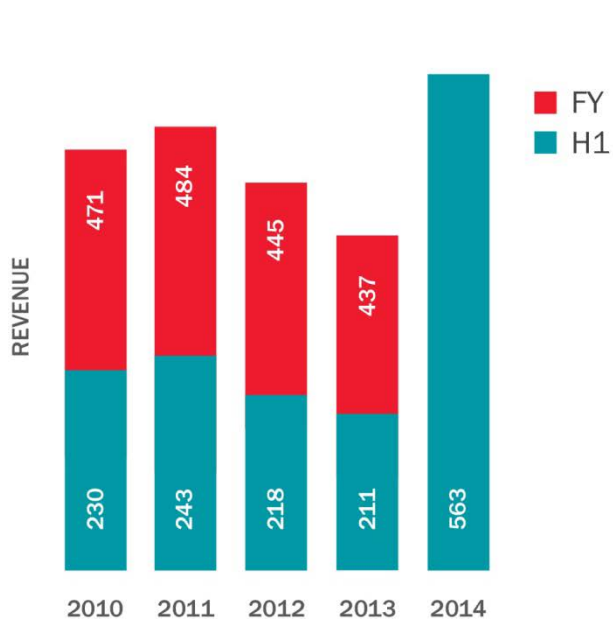


# SERVICES

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# Services

	Six months to 31 December			Year to June 2013
	2013 £m	2012 £m	Change %	£m
Revenue	563	211	+167	437
Operating profit*	24.4	9.0	+171	19.3
Operating margin*	4.3%	4.3%		4.4%
Order book (secure and probable)	3,583	2,111	+69	2,023
Cash	9	24		30



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# Services

Sector	Revenue	
	Expectation June 2014	Future trend
Highways	24%	↔
Housing maintenance - public	23%	↔
Housing maintenance - private	4%	↗
Utilities and other regulated	22%	↗
Environmental	13%	↔
Facilities Management (FM)	11%	↗
Fleet & Passenger Services (FPS)	3%	↔

# Services

Highways maintenance



Sheffield FM



- **Successful mobilisation of £200m Suffolk Highways contract– 1 October**
- **Key wins of >£450m**
  - £110m 3 year Sheffield housing maintenance
  - £20m Sheffield FM contract
  - £107m 5 year Western Power Distribution
  - FM servicing of MOD sites
- **AMP6 – key target for growth**
  - >£1bn of current tenders

# May Gurney

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Gritting and snow removal



Waterways maintenance

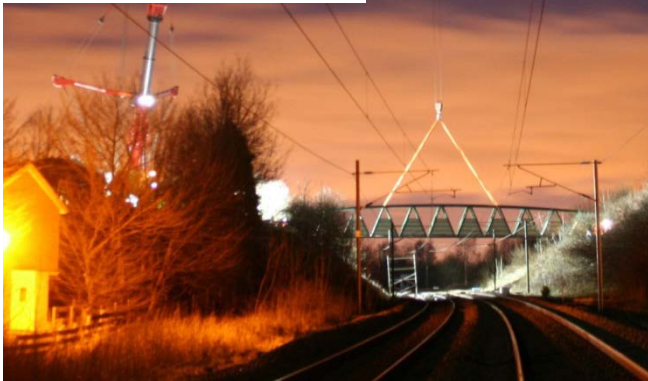


- Integration on course
- 100% customer contracts retained
- IT investment
- Cost synergies on track
- Opportunities in key sectors e.g. utilities, highways

# May Gurney & Kier

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Rail opportunities



Flood protection



- **Revenue synergies**
  - Western Power Distribution
  - Rail opportunities e.g. Wales
  - Highways Agency maintenance
  - Environment Agency flooding and coastal protection
  - Aberdeen Western Peripheral Route

# PROPERTY

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# Property

	Six months to 31 December			Year to June 2013
	2013 £m	2012 £m	Change %	£m
<b>Revenue</b>				
Property and PFI	55	68	-19	98
Homes	72	70	+3	140
<b>Operating profit*</b>				
Property and PFI	10.6	4.9	} +56	16.2
Homes	0.5	2.2		4.3
<b>Net operating assets</b>				
Property and PFI	142	113	+25	92
Homes (land bank: 4,168 units)	256	276	-7	253

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# Property achievements

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Costco



St Peter's Waterside, Northampton



- **15% return on capital achieved on development schemes**
- **£100m set aside for development property**
- **On track to deliver >500 private homes on our land**
- **Good growth in affordable housing business**

# Property - Development

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- Pipeline maintained at **£1.1bn**
- **£41m sale of Costco membership warehouse in January 2014**
- Continued focus on non speculative developments
- Preferred bidder for Reading Borough Council regeneration and Northampton development
- **Positive outlook**
  - Occupier market improving
  - Debt funding market returning

# Property - Other

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## ■ Private Housing

- Landbank at 31 December 4,168 plots (June 2013: 4,005 plots)
- Completed 263 homes
- 0.7unit sales per week /trading site

## ■ PFI

- One disposal contributed £2m profit
- Portfolio of eight projects
- Valuation: £32m at 7.5% (20 June 2013: £35m)

# Outlook

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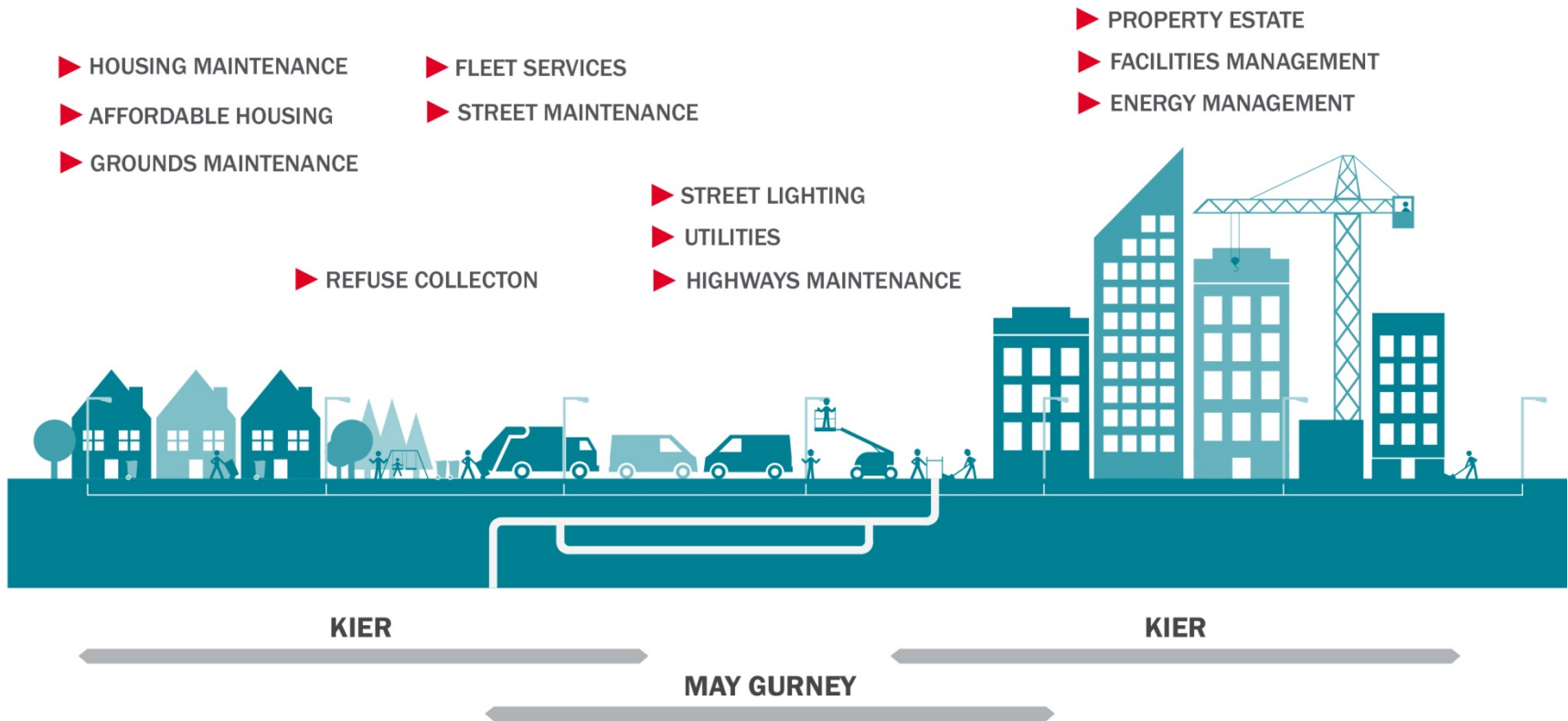
- **Construction – workloads improving**
  - Margin pressure remains
  - Cash generation constrained
- **Infrastructure and overseas markets growing**
- **Services – continued outsourcing opportunities**
- **May Gurney integration on track**
  - Good customer retention
  - Cost savings on track
  - Revenue synergies anticipated
- **Property – significant ongoing contribution**
- **Encouraging prospects for the medium term**



# APPENDICES

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# Services Division capabilities



# Property PFI portfolio

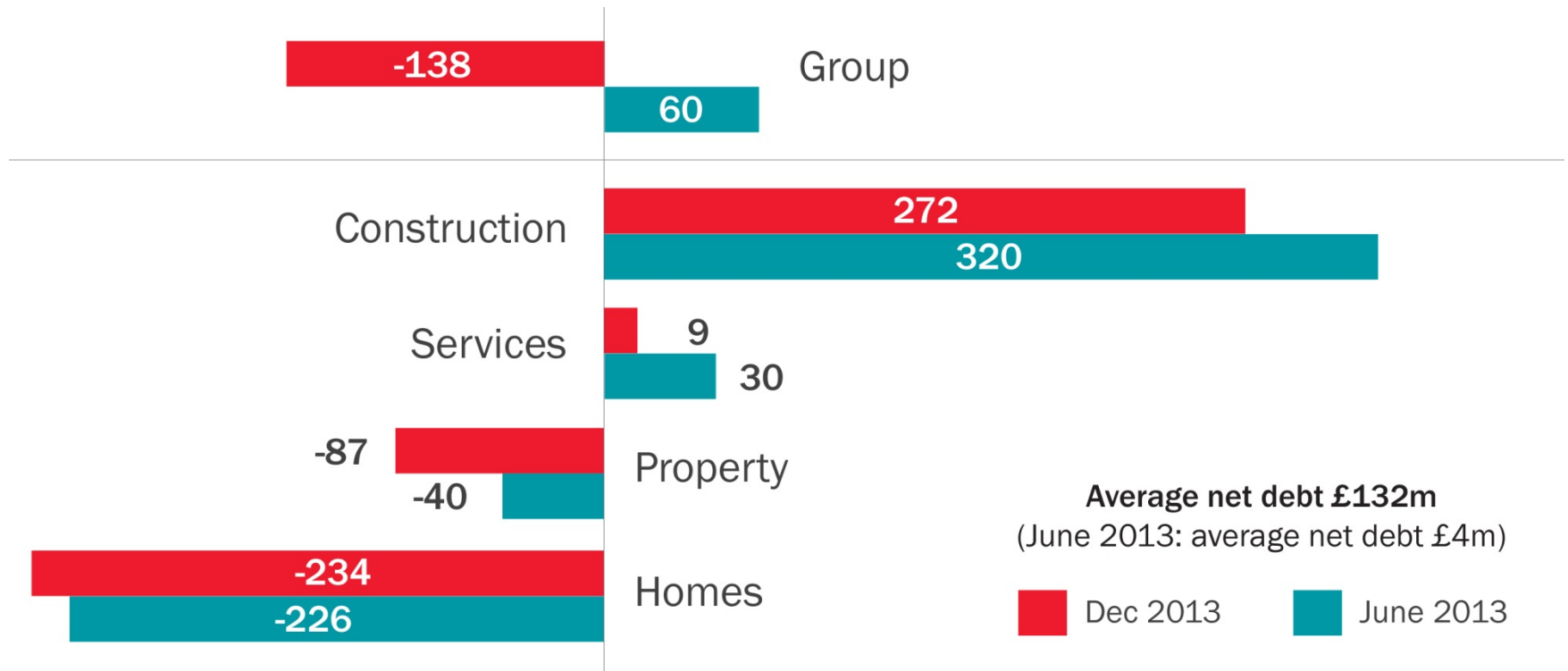
Sector	Project	Status	Capital value £m	Kier equity/loan stock £m	Equity %
Local authority	Oldham Library	Operational	14	1.0	50.0
	Woking Housing	In construction	31	2.0	50.0
Student accommodation	Salford University	In construction	64	2.1	25.0
Education	Kent BSF PFI 1	Operational	69	7.8	80.0
	North Ayrshire Schools	Preferred Bidder	30	0.8	24.0
Blue light	Police Investigation Centres	Operational	60	3.4	42.5
	London Fire Stations	In construction	44	2.1	50.0
	Stoke and Staffordshire Fire Stations	In construction	29	2.3	80.0
<b>Investment</b>				<b>£21.5m</b>	

**Green:** Kier Construction and Services    **Red:** Kier Construction    **Black:** Investment only.

Of the £21.5m committed, £14.3m has been invested to date. Directors' valuation at 7.5% - £31.8m



# Net (debt)/cash by division



# Current facilities

Facility type	Kier (£m)	Following the May Gurney acq'n (£m)	Total (£m)	Maturity
<b>Existing:</b>				
RCF	120		120	Extended to Sept 2018
Overdraft	20	25	45	
FLS loan	30		30	Jan 2017
USPP	62		62	2019, 2022
Leasing	15	90	105	
<b>New:</b>				
RCF		70	70	Extended to Sept 2018
Term loan		50	50	Sept 2016
<b>Total</b>	<b>247</b>	<b>235</b>	<b>482</b>	

